michael hill®

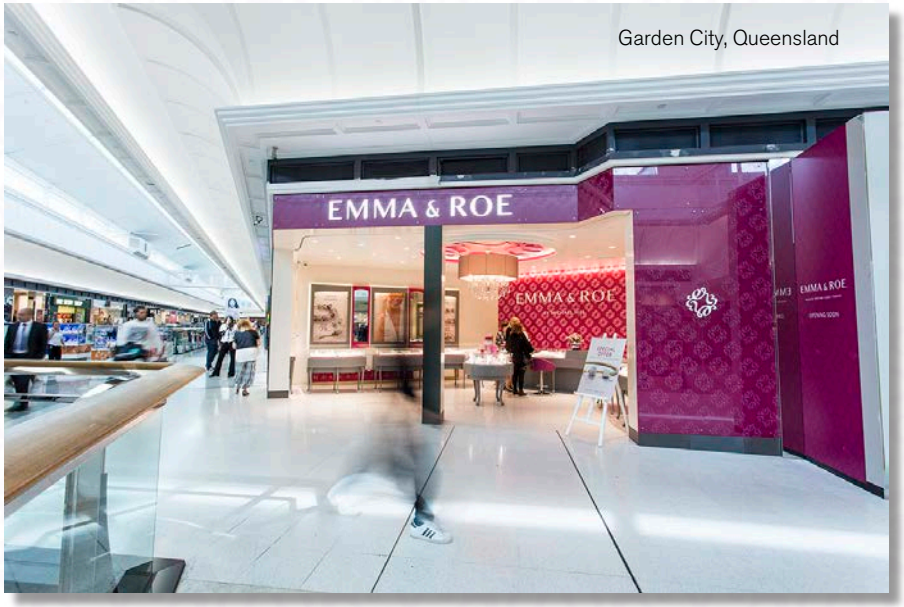
INTERNATIONAL LIMITED

ANNUAL RESULTS 30 JUNE 2016

DISCLAIMER

This annual results presentation dated 18 August 2016 provides additional comment on the annual year results announcement released to ASX and NZX on the same date. As such, it should be read in conjunction with, and subject to, the explanations and views provided in those documents.

Yorkdale, Toronto



Garden City, Queensland

HIGHLIGHTS

- Revenue up 9.5% to a record $551.1m
- Same store sales up 5.2%
- Gross profit lifted to 64.0%
- EBIT of $47.1m up 11.9%
  (incl $2.6m of ASX project costs)
- NPAT of $19.6m includes IR tax settlement provision and tax consolidation cost base adjustments arising as a consequence of the ASX listing. NPAT adjusted for these 2 items was $29.0m
- Professional Care Plan sales of $39.3m for the 12 months up 10.6%. $71.6m now held on Balance Sheet as deferred revenue
- Final dividend of AU 2.5c
- Net debt of $32.0m down 16.4% as a result of $47.8m of operating net cash inflows
- Equity ratio 48.5%
- 11 Michael Hill and 8 Emma & Roe stores opened in period
- Total of 313 stores at year end
- Settlement IR tax dispute

OPERATIONAL REVIEW

MICHAEL HILL AUSTRALIA RETAIL SEGMENT (AUD)

For the year ending	2016	2015	move
Revenue	307.3m	294.4m	4.4%
Same store sales	299.6m	288.7m	3.8%
Gross profit %	62.7%	62.3%	+0.4%
Total expenses	142.5m	137.9m	3.3%
EBIT	50.3m	45.9m	9.6%
EBIT as a % of revenue	16.4%	15.6%	+0.8%
Net stores opened/(closed)	1	3	
Total stores open	168	167	+1

- Australian segment experienced solid top line growth and a pleasing EBIT result. This was achieved through a focus on improved productivity of the teams and cost control.
- Management's emphasis will remain on improving productivity through consistent use of our proven retail management systems. With the store foot print in this market maturing there is scope to lift performance with a focus on getting the best from our people and improvements to store locations.
- Three new stores are planned for in the Australian market for the 2016/17 year.

MICHAEL HILL NEW ZEALAND RETAIL SEGMENT (NZD)

For the year ending	2016	2015	move
Revenue	122.2m	114.0m	7.2%
Same store sales	122.2m	114.0m	7.2%
Gross profit %	61.7%	61.8%	-0.1%
Total expenses	48.1m	46.7m	3.1%
EBIT	27.3m	23.5m	15.9%
EBIT as a % of revenue	22.3%	20.7%	+1.6%
Net stores opened/(closed)	0	0	
Total stores open	52	52	

- Continued strong growth in this market as a result of management's focus on productivity and from leveraging the strong consumer demand in and around the Auckland region.
- Increased sales from a stable store network helped drive a pleasing 1.6% increase in EBIT margin
- The segment is benefiting from a stable and experienced leadership team.
- Flagship store opened in Vulcan Lane, Auckland replaced existing Queen Street store in August 2015.

MICHAEL HILL CANADA RETAIL SEGMENT (CAD)

For the year ending	2016	2015	move
Revenue	94.1m	79.1m	18.9%
Same store sales	77.5m	73.6m	5.3%
Gross profit %	62.1%	61.6%	+0.5%
Total expenses	49.0m	42.7m	14.8%
EBIT	9.5m	6.0m	56.5%
EBIT as a % of revenue	10.0%	7.6%	+2.4%
Net stores opened/(closed)	7	6	
Total stores open	67	60	+7

- Solid same store sales growth of 5.3%.
- Gross margin continues to lift as the brand gains acceptance across the country and branded collections provide a premium on margin.
- Strong EBIT growth due to increased market share being gained from competition, stronger margins and improved economy of scale on marketing costs.
- 110 store locations have been identified, with ten new stores planned for 2016/17.

MICHAEL HILL USA RETAIL SEGMENT (USD)

For the year ending	2016	2015	move
Revenue	14.0m	11.3m	24.4%
Same store sales	10.7m	10.4m	3.5%
Gross profit %	58.7%	57.9%	+0.8%
Total expenses	10.5m	8.5m	24.3%
EBIT	(2.3m)	(1.9m)	(18.4%)
EBIT as a % of revenue	(16.2%)	(17.0%)	+0.8%
Net stores opened/(closed)	1	1	
Total stores open	10	9	+1

- Same store sales were up 3.5% for the 12 months which was short of our expectations and budgets. A renewed focus on growing top line sales is needed to bring this test group of stores to a level that would justify further store openings. Woodfield Mall store closed for 3 months for centre redevelopment.
- EBIT loss higher than last year due to planned cost increases not being met by modest top line growth.
- Our second New York store opened in October 2015 in Roosevelt Fields bringing total stores to ten.
- Branded collections made up 30% of total sales.
- Credit sales represented 40% of all sales

EMMA & ROE RETAIL SEGMENT (AUD)

For the year ending	2016	2015	move
Revenue	9.3m	4.9m	91.6%
Same store sales	5.6m	4.2m	34.6%
Gross profit %	69.9%	69.2%	+0.7%
Total expenses	9.0m	6.3m	43.2%
EBIT	(2.4m)	(2.9m)	(15.8%)
EBIT as a % of revenue	(26.0%)	(59.1%)	+33.1%
Net stores opened/(closed)	8	2	
Total stores open	16	8	+8

- A solid lift in same store sales in the first full year of operation of the Emma & Roe brand.
- Average annualised store revenue of around $0.9m was achieved with expectations of this growing to $1.0m in the 2016/17 year.
- Strong gross margins achieved for the period.
- Eight new stores were opened in Australia during the year with another ten planned for 2016/17 and two for the New Zealand market.
- Up to 200 store locations have been identified as possible locations for the Emma & Roe brand throughout Australasia and up to 100 for the Canadian market.

E-COMMERCE TRENDS

- e-commerce stores operating in each of our 4 markets
- There were 10.9m visits to our web sites over the 12 months up from 8.8m
- CRM capability is progressing well, with early deliverables successfully embedded. A new POS is being deployed in the company over the next 2 years which will deliver new CRM capabilities
- Continuing strong customer engagement via social media channels
- Ongoing collaboration across the channels to deliver frictionless customer experience
- Strong revenue growth in non-bridal product categories, including the Emma & Roe range

24%
Increase in visits

42%
Increase in mobile visits

47%
Increase in revenue

52%
Increase in transactions

IN HOUSE CREDIT NORTH AMERICA

- Loan book has grown to $13.9m, up 12.6% on prior year
- Represents 25% of sales in Canada and 40% in the US
- Interest and other income grew 29.8% to $1.4m
- Bad debts run at approximately 5% of credit sales made
- Presents a strategic advantage to increase our bridal sales market share within North America and offers an opportunity to own a comprehensive customer database which allows for direct targeted marketing
- Provides flexibility for the Group to align the lending risk with our sales margin and maximise the sales opportunities

PROFESSIONAL CARE PLANS (PCP)

- Total PCP sales grew 10.6% to $39.3m
- Revenue recognised of $30.8m, up 22.0% caused by more stores selling the product, an accumulation of recognition of prior years revenue and another year incremented to the recognition pattern.
- Deferred revenue of $71.6m held on balance sheet
- Provides a competitive advantage by establishing an ongoing relationship with customers

INVENTORY MANAGEMENT

- Total inventory on hand was $200.0m up from $182.2m
- Stock turn across the Group is 1.06 for the 12 months up from 0.92. Stock turn is calculated on average monthly inventory holding.
- Gross margin ROI was1.39 for the year
- Gross margin grew from 63.9% to 64.0%

BRANDED COLLECTIONS

- Objective of these Collections is to drive consumer preference and to demand a margin premium
- We estimate that the margin premium is in the region of 5%
- Global branded product sales reached 14.9% of total sales compared to 13.2% prior year
- Goal is to have 20% of global sales coming from branded collections

FINANCIAL REVIEW

FINANCIAL REVIEW (AUD)

For the year ending	2016	2015	move
Group revenue	551.1m	503.4m	9.5%
Same store sales	512.7m	487.3m	5.2%
Gross profit %	64.0%	63.9%	+0.1%
Marketing	30.2m	31.9m	(5.5%)
Retail wage costs	109.2m	99.1m	10.1%
Occupancy costs	54.2m	50.6m	7.1%
Foreign exchange (gains)/losses	0.4m	(1.8m)	
EBITDA	65.8m	57.8m	13.9%
EBITDA %	11.9%	11.5%	+0.4%
Depreciation and amortisation	18.8m	15.7m	19.2%

FINANCIAL REVIEW (AUD)

For the year ending	2016	2015	% move
EBIT	47.1m	42.1m	11.9%
EBIT % of sales	8.5%	8.4%	+0.1%
Net interest expense	5.5m	4.7m	18.6%
NPBT	41.5m	37.4m	11.0%
NPAT *	19.6m	27.8m	(29.5%)
NPAT adjusted for tax impacts	28.9m	27.8m	4.2%
Earnings per share *	AU 5.11c	AU 7.24c	
Final dividend per share	AU 2.5c	NZ 2.5c	
Net operating cash flows	47.8m	54.6m	(12.4%)
Capital expenditure	24.5m	22.1m	11.0%

* Please note that several key measures have been materially affected by the separate booking of the IR tax settlement of (AU$28.8m) and the income tax consolidation cost base adjustments of AU$19.4m as a consequence of the ASX listing.

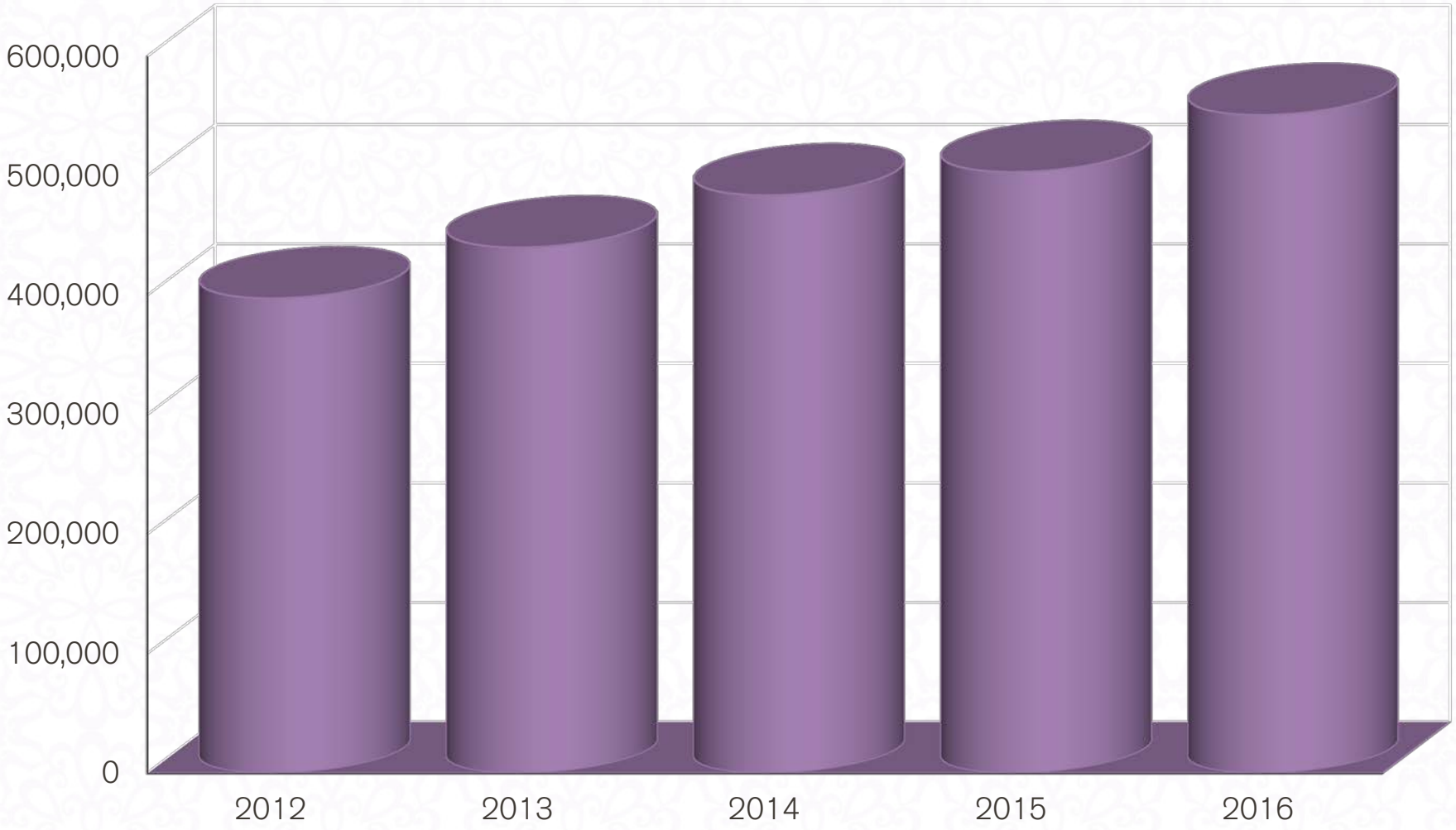
FINANCIAL REVIEW (AUD)

For the year ending	2016	2015	% Move
Trade and other receivables	26.6m	21.0m	26.6%
Includes in-house receivables	*14.3m*	*12.3m*	*15.6%*
Inventories	200.0m	182.2m	9.7%
Working capital	139.1m	158.5m	(12.2%)
Deferred tax asset	64.1m	48.4m	32.4%
Total deferred revenue	75.4m	65.7m	14.9%
Borrowings	40.9m	45.1m	(9.4%)
Net debt	32.0m	38.3m	(16.4%)
Equity ratio *	48.5%	53.5%	

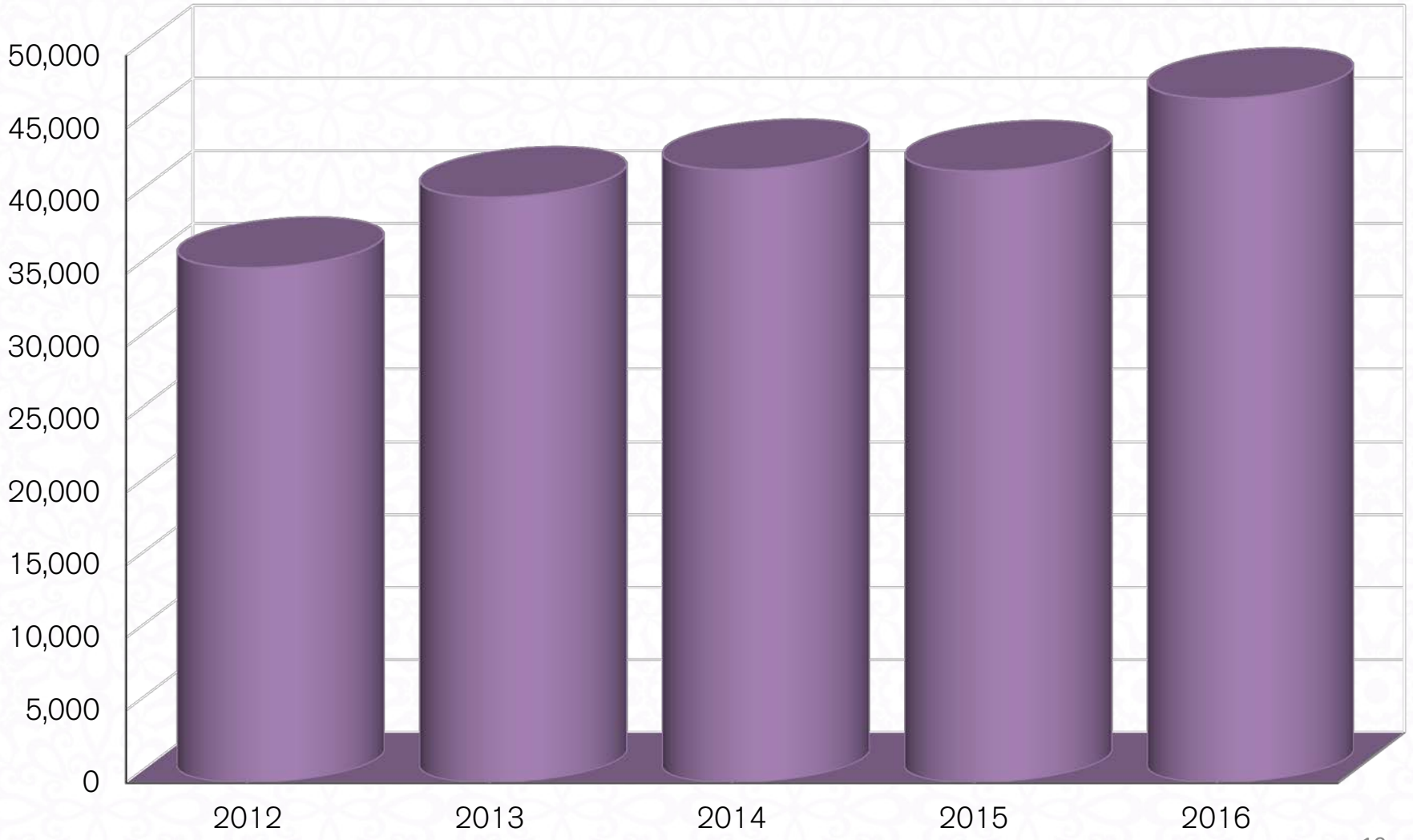
* Please note that several key measures have been materially affected by the separate booking of the IR tax settlement of (AU$28.8m) and the income tax consolidation cost base adjustments of AU$19.4m as a consequence of the ASX listing.

SUPPORTING INFORMATION & TRENDS

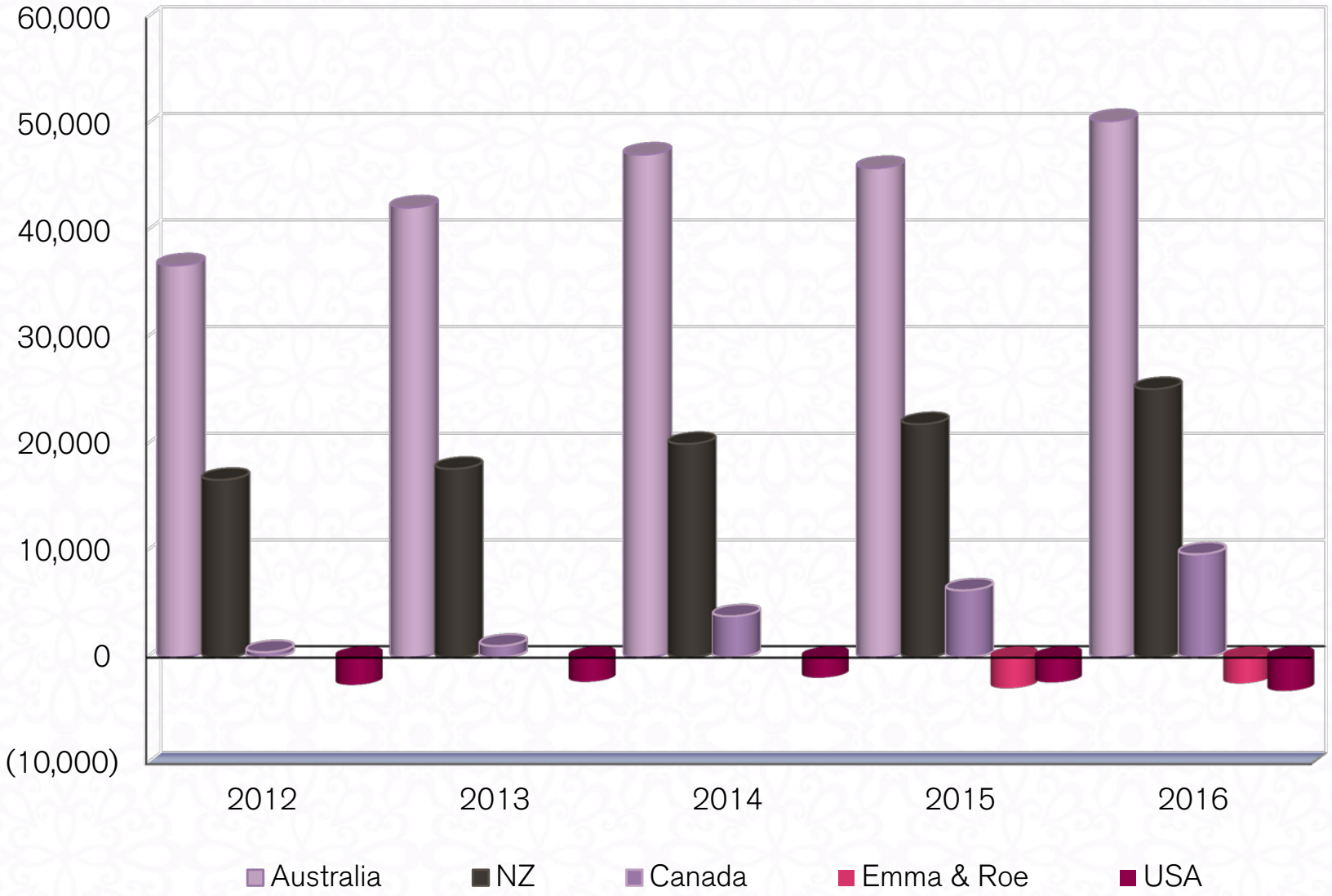
GROUP REVENUE TO 30 JUNE (AU$000's)



EARNINGS BEFORE INTEREST & TAX TO 30 JUNE (AU$000's)

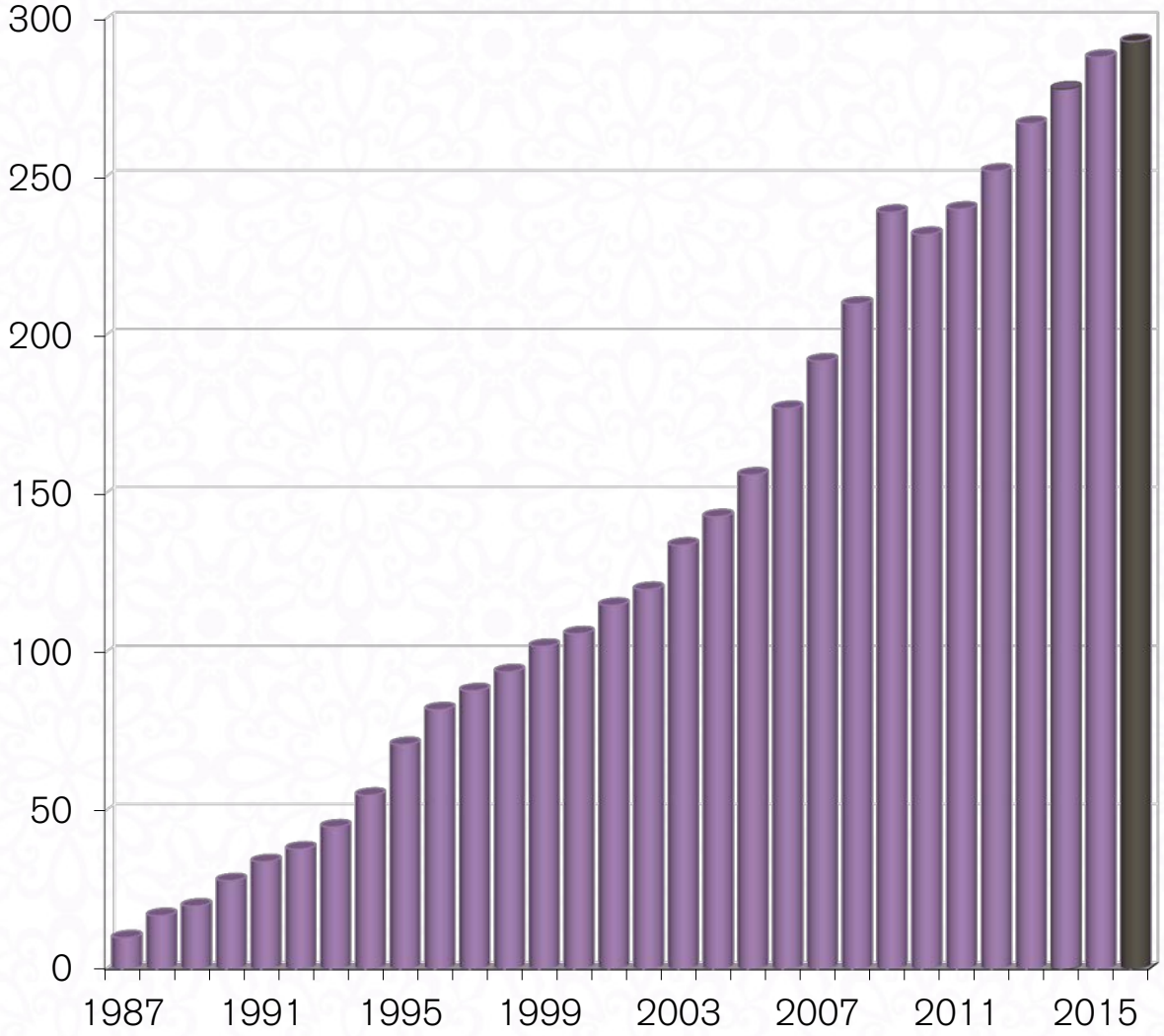


EBIT CONTRIBUTIONS BY COUNTRY TO 30 JUNE (AU$000's)



STORE EXPANSION

TOTAL MICHAEL HILL STORES OPERATING



Store Numbers at 30 June

- 2000 – 106 +4
- 2001 – 115 +9
- 2002 – 120 +5
- 2003 – 134 +14
- 2004 – 143 +9
- 2005 – 156 +13
- 2006 – 177 +21
- 2007 – 192 +15
- 2008 – 210 +18
- 2009 – 239 +29
- 2010 – 232 - 7
- 2011 – 240 +8
- 2012 – 252 +12
- 2013 – 267 +15
- 2014 – 278 +11
- 2015 – 288 +10
- 2016 – 297 + 9

AUSTRALASIAN EXPANSION

AUSTRALIA

Stores Open 30/6/16		168
Planned for 16/17	3 stores	171
Planned for 17/18	3 stores	174
Planned for 18/19	1 store	175

175 store locations have been identified as suitable locations

NEW ZEALAND

Stores Open 30/6/16		52
Planned for 16/17	1 store	53
Planned for 17/18	0 stores	53
Planned for 18/19	0 stores	53

NORTH AMERICAN EXPANSION

CANADA

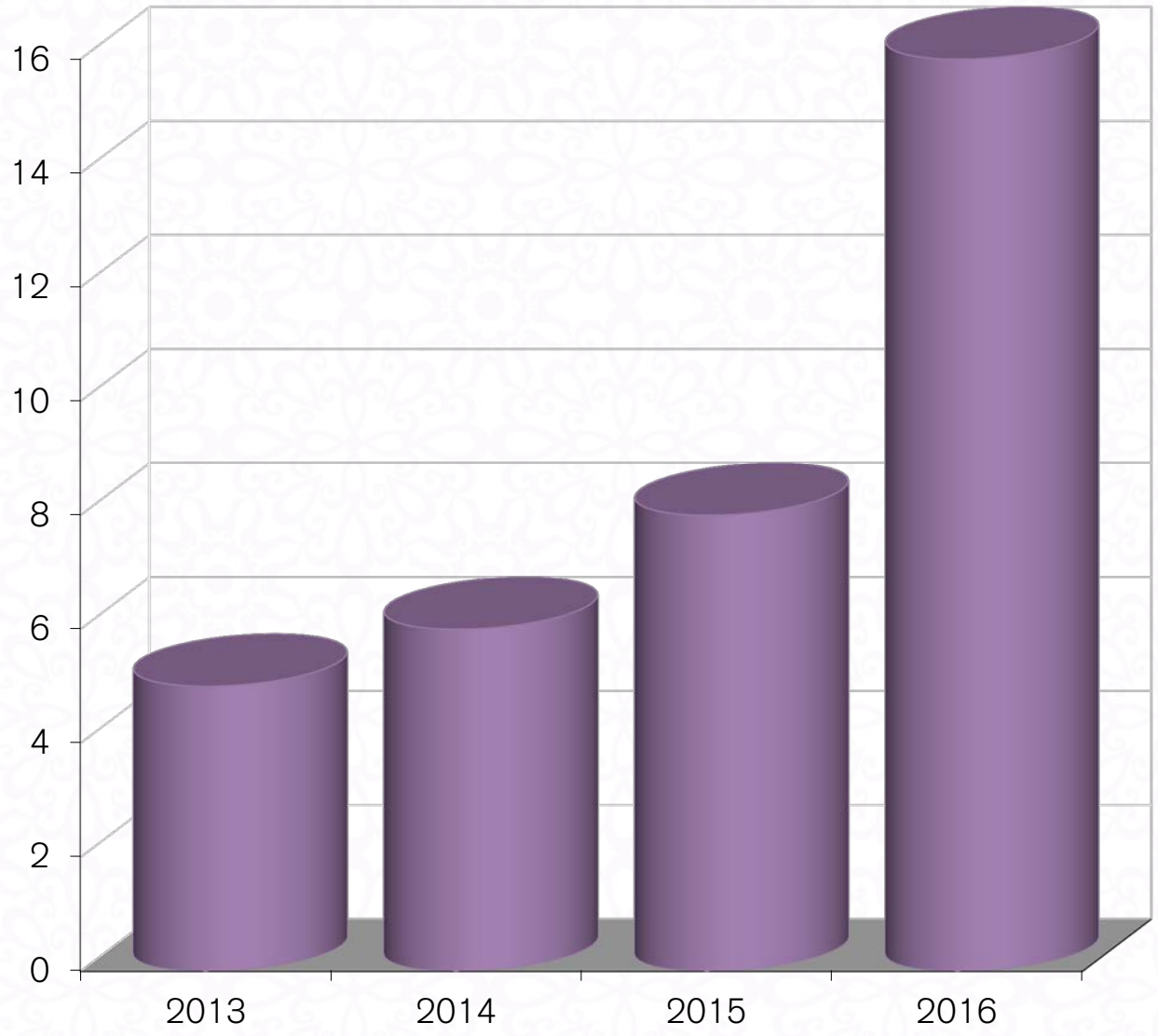
Stores Open 30/6/16		67
Planned for 16/17	10 stores	77
Planned for 17/18	10 stores	87
Planned for 18/19	10 stores	97

110 store locations have been identified as suitable locations

UNITED STATES

Stores Open 30/6/16		10
Planned for 16/17	0 stores	10
Planned for 17/18	3 stores	13
Planned for 18/19	5 stores	18

TOTAL EMMA & ROE STORES OPERATING



Store Numbers at 30 June

- 2013 – 5 +5
- 2014 – 6 +1
- 2015 – 8 +2
- 2016 – 16 +8

EMMA & ROE EXPANSION

AUSTRALIA

Stores Open 30/6/16		15
Planned for 16/17	10 stores	25
Planned for 17/18	10 stores	35
Planned for 18/19	10 stores	45

NEW ZEALAND

Stores Open 30/6/16		1
Planned for 16/17	2 stores	3
Planned for 17/18	5 stores	8
Planned for 18/19	5 stores	13

STORE PHOTOS

Wetherill Park, New South Wales

Vulcan Lane, Auckland

Garden City, Queensland

We're for love™

michael hill®

INTERNATIONAL LIMITED