

# Michael Hill International Limited 2022 Annual General Meeting

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## CHAIR'S ADDRESS

Today I'd like to give you an overview of how we view the year that's closed. Following that, Daniel will give more detail on our 2022 results, our current and future strategic focus and a current trading update.

Our financial year ending June 26, 2022 has been another remarkable year at Michael Hill as we delivered record results. I am extremely proud of the commitment, resilience and creativity of Daniel and the entire team as they continued to drive business performance, strategically transform operations, and progressively elevate the brand to expand our addressable market. All this has been achieved whilst navigating through the evolving Covid pandemic and complex economic and trading conditions. Our results over the last two years, despite these challenges, demonstrate the resilience of our business, strength of our brand, loyalty of our customers and the agility and determination of our team. We continue to have confidence in the momentum of the business and our ability to adapt and thrive in the face of ongoing uncertainties.

As the business continues its journey to evolve and elevate our brand, the legacy of our creative founders remains extremely relevant as we showcase our artisanal craftsmanship, quality products and innovative designs. These core elements along with Sir Michael Hill and Lady Christine Hill's values, insightful vision and infectious passion continue to be infused throughout every facet of the business and are fundamental to the continued success of our business.

At Michael Hill, we recognise that our business is our people. We continually strive to be a workplace where all team members feel valued, appreciated, and encouraged to be their brilliant self. Our values: *We care*, *We create outstanding experiences*, *We are professional*, and *We are inclusive and diverse* – are truly embraced by all areas of the business and are key to attracting and retaining our high-performance team. Our employee engagement survey is a key source of insights into our cultural wellbeing and employees' connection with our purpose and ambition at Michael Hill. Impressively, once again, Michael Hill recorded another exceptionally high global engagement score of 83%, which is a credit to the strong leadership that has inspired a collaborative and energetic culture.

We are passionate about identifying opportunities to make Michael Hill more sustainable and I am proud of the progress we are making. In August, we published our new 2030 Environmental, Social and Governance (ESG) vision centered around three key pillars: People, Product and Planet. We are committed to bringing about change in how we operate in order to drive more sustainable practices that benefit our customers, our planet and future generations. We also want to demonstrate and share these practices with the wider jewellery industry to help all participants move toward a more sustainable, innovative and responsible future.

As part of launching our new 2030 ESG vision, we have created a short video which I'll now share with you.

Reflecting the strength of the balance sheet and strong underlying operating results, the business undertook a detailed capital management review during FY22. One of the outputs was the release of a new Dividend Distribution Policy which sets a target dividend payout range of 50% to 75% of adjusted NPAT.

We were pleased to declare a final dividend of AU4.0 cents per share, bringing our total dividend for FY22 to AU7.5 cents per share, representing ~67% of adjusted annual NPAT, at the higher end of the target range. Subject to the Company's ongoing trading performance and growth plans, the Board's intention is for dividends to remain at the higher end of the target range.

Furthermore, we announced the launch of an on-market share buy-back of up to 5% of the Company's issued capital, funded from existing cash reserves. The buy-back commenced on 19 September 2022 and we are happy with the progress to date. As noted by daily updates on both the ASX and NZX, the Company has bought back approximately 6.1 million shares to date, representing approximately 1.5% of issued capital.

In addition to the above, the Company still retains sufficient balance sheet strength and cash reserves for deployment into new earnings accretive organic growth initiatives and to also pursue acquisition opportunities in the jewellery sector, which meet our strict strategic and investment criteria.

As I reflect on FY22 and my first full year as Chair, I am honoured to be surrounded by a very high calibre, stable Board of Directors and Executive team who are all aligned on the strategic direction for Michael Hill. We look forward to continuing the positive momentum of the business, and focusing on growth initiatives that will strengthen our market position and financial performance.

I would like to close my address by acknowledging and thanking all our shareholders for their ongoing support.

I now invite Managing Director & CEO, Daniel Bracken to address the meeting and discuss the 2022 operational performance, provide an update on the Company's strategy and a current trading performance update.

## MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER'S ADDRESS

Thank you, Rob.

Good morning and thank you for joining us today. I will now take you through a review of the 2022 financial results and strategic and operational achievements. We will also provide you with some insights into key strategic initiatives for the year ahead, and an update on our current trading performance.

I'm absolutely delighted by our outstanding results, delivering record sales, gross margin, and profit, especially with the considerable disruptions we faced across Australia and New Zealand in the first half. For the year, our revenue was up 7%, gross profit up 10% and comparable EBIT up 11%.

A key highlight was our ability to grow profit faster than sales, underpinned by continued gross margin expansion. All facets of the business came together to drive this result, but I would particularly like to highlight the evolution of our product, the outstanding performance from our stores, the continued acceleration of our digital channels and the key role that our loyalty program now plays in driving sales and margin growth.

These results demonstrate that we have successfully shifted the emphasis from transformation to growth, as we continue to elevate and modernise the Michael Hill brand.

I am particularly proud of our people and the culture that we continue to build at Michael Hill – a high performance team across all levels, with an energy and passion that underpins our growth agenda. This culture is best evidenced by the sensational performance from our Canadian team delivering huge lifts in productivity, sales and margin.

The Group reported comparable EBIT of \$62.9m for the year ended 26 June 2022 against \$56.6m for the prior year, an increase of \$6.3m year on year, driven by a combination of strong sales growth and margin expansion.

For the year, the Company delivered same store sales growth of 8.0% and gross margin increased by 200 bps to 64.7% for the group. Since FY19Q3, the Company has achieved twelve quarters of same store sales growth. These continued strong results demonstrate the success of the Company's strategic transformation and the increasing strength of the brand during more than two years of significant global disruption.

During the year, the Michael Hill global store network suffered 10,020 lost store trading days against 10,447 days in the prior year, due to a combination of government mandated lockdowns and COVID impacting store teams.

Despite these disruptions to trading conditions and to the global store network, total revenue grew by 7.0% to \$595m as the Company continues to elevate the brand and transform the customer journey.

Prior to the key Christmas trading period, the business opened its Canadian 3PL distribution centre in Ontario, creating a cost-efficient flow of inventory from vendors, improving speed of delivery to customers and stores, and ensuring reliable continuity of supply and optimal stock levels.

Supporting the Company's ongoing growth agenda, our strategic increase in ATV and elevated product offerings, saw the Company make considered investments in core inventory, which saw year-end stock holdings of \$181.5m.

The Company's balance sheet has benefited from strong operating cashflows, delivering a year end cash position of \$95.8m and nil debt. During the year, the Company successfully sold its in-house Canadian credit book, delivering cash proceeds of \$14.2m, while also launching a long-term partnership with Flexiti Financial Inc, to provide a new enhanced consumer credit proposition.

During the year, the Company opened one new store in Australia and closed six under-performing stores across the network, resulting in 280 stores at year end.

In terms of key performance insights, it is noted that both revenue and gross margin have lifted significantly following initial 2020 COVID disrupted trade.

Even with approximately the same lost store trading days in FY21 and FY22, comparable EBIT has lifted in FY22 against FY21, and is significantly up on pre-COVID FY19.

As shown on the bottom left of the slide, pleasingly, the strong lift in both revenue and EBIT has been underpinned by increased store productivity which is borne out by the lift in average revenue per store.

The Company's digital businesses delivered another record year with sales of \$42m, now representing 7.1% of total sales.

Much of the Company's strong performance can be attributed to the strategic transformation and elevation of the brand, along with an overarching emphasis on sales and margin growth. The strategic framework underpins the future growth of the business, is customer-led and continually evolving, which is best demonstrated by the introduction of a new strategy pillar dedicated to "Sustainability".

The strategy to elevate and modernise the Michael Hill brand underpins the overarching vision for the business. Highly engaging and emotive marketing campaigns with an emphasis on product, quality and craft, are leading the transition away from price and promotion, towards emotional long-term customer relationships. The success of this strategy is best evidenced by the continued expansion of average transaction value, up 15% over the last three years.

A great example of a brand-led campaign is our recently launched Christmas campaign, which we will play for you now.

Simultaneously, the *Brilliance by Michael Hill* loyalty program is proving to be a key lever for growth and customer engagement. The program has increased by more than 600,000 members in the year, and provides the business with essential data to drive more frequent and more profitable customer interactions. Pleasingly, 80% of our sales are now made by members of the Brilliance by Michael Hill loyalty program. Both brand and loyalty are key to driving medium to long term sustainable growth in both sales and margin for the group.

Michael Hill's digital transformation continues to gather pace delivering another record year in FY22. Strong performances on the Company's direct to consumer websites were driven by improved customer experience, higher traffic and increased conversion rates. Digital now represents over 7% of Company sales and is our highest margin channel. The successful

deployment of “click and collect” and “ship-from-store”, now available in all stores globally, enhanced our omni-channel capabilities as the Company continues its customer-led digital journey.

Bricks and mortar retail is at the core of the Michael Hill business, driving more than 90% of Company sales. Elevating the in-store experience across visual presentation and customer engagement have delivered considerable increases in gross margins, conversion rates and ATV. An unwavering focus on people and performance, operational excellence, and effective labour management underpin our retail productivity which has seen significant lifts in all markets. A new senior leadership structure is now firmly in place across all countries and delivering strong results. Additionally, the Company has now ramped up its capex program across the store network, to ensure stores are aligned to the elevated brand journey.

Product evolution is at the centre of a customer-led retail strategy, and is critical to achieve sales and margin growth and maintaining our leading market position as the house of diamonds. Laboratory grown diamonds are gaining momentum in the business, delivering increased quality and higher margins while providing customers with a certified Sustainable and Climate Neutral choice. Elevated quality and craftsmanship are essential to our aspirational brand journey, and this will be delivered through the evolution of our supply chain, and further investment in the artisanal capabilities of our Australian manufacturing facility. During the year, the business commenced a phased deployment of a new comprehensive merchandise planning platform to improve buying processes, margin optimisation, product ranging and inventory management. The Company's ongoing focus on product mix continues to be a key enabler for sustained margin expansion.

As the Company pivots from transformation to growth, the opportunity to stretch the brand into new territories and services is a key focus. Through the course of the year, the Company has executed its marketplace strategy across its three core segments, partnering with The Iconic in Australia and New Zealand, Westfield Direct in Australia and The Bay in Canada. Additionally, the Company is now focused on extending its Canadian website to the currently untapped Quebec market, and in the near future launching international shipping to all countries globally from our websites. The business is also well underway in developing a digital eco-system with a number of new revenue driving service offerings across bespoke design, sustainability, and financial services.

Before moving on to our current trading update, I'd like to share with you, our year in review film.

And now moving on to our current trading update.

Pleasingly, the business has delivered strong early performance for the first 16 weeks of FY23, with Group all store sales up 27.5% against FY22.

As this period in FY22 was impacted by store closures in Australia and New Zealand, a more meaningful reflection of the FY23 performance is that we have increased sales by 15.8% against the same period in FY21, even with 8 less stores.

In addition, gross margin has also remained strong, in line with FY22 and significantly up on FY21.

These results demonstrate the continuing momentum in the business and an improvement on the results previously announced for the first eight weeks of the financial year.

I will now hand back to the Chair to conduct the formal business of the meeting.