

The image features a repeating pattern of stylized, light-colored floral or mandala designs on a light purple background. The pattern consists of intricate, symmetrical shapes with teardrop and circular motifs. In the center, the company name 'michael hill' is written in a bold, lowercase, sans-serif font. Below it, 'INTERNATIONAL LIMITED' is written in a smaller, all-caps, sans-serif font.

**michael hill**<sup>®</sup>  
INTERNATIONAL LIMITED

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**INTERIM RESULTS 31 DECEMBER 2016**

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# **DISCLAIMER**

This interim results presentation dated 16 February 2017 provides additional comment on the half 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.

## **REVIEW OF OPERATIONS AND RESULTS**

Michael Hill International Limited (ASX/NZX: MHJ) today announced an after tax profit of \$25.8m for the six months ended 31 December 2016, an increase of 3.4% on last year.

The first half result was pleasing, especially given the difficult trading period in the lead up to December and the critical Christmas trading period. Same store sales were slightly up for the Group and gross margin was slightly down while costs were managed well, culminating in a record half-year EBIT for the Group of \$40.0m. Particularly pleasing was the performance of our Canadian market which experienced same store growth of 6.8% while opening 5 new stores during the half.



## HIGHLIGHTS

- Revenue up 5.4% to \$327.5m
- Same store sales up 0.8%
- Gross profit marginally down at 63.8%
- EBIT of \$40.0m up 13.5%
- NPAT of \$25.8m up 3.4%
- Professional Care Plan sales of \$23.0m for the 6 months up 6.1%. \$78.9m now held on Balance Sheet as PCP deferred revenue
- Interim dividend of AU 2.5c
- Net debt of \$36.6m
- Equity ratio 48.9%
- 8 Michael Hill and 8 Emma & Roe stores opened during the period
- Total of 329 stores trading at December

# OPERATIONAL REVIEW

# MICHAEL HILL AUSTRALIA RETAIL SEGMENT

(AUD)

For the half year ending	2016	2015	Move
Revenue	182.0m	176.8m	2.9%
Same store sales	176.2m	175.8m	0.2%
Gross profit %	62.4%	62.3%	+0.1%
Total expenses	79.9m	77.2m	3.5%
EBIT	33.7m	32.6m	3.1%
EBIT as a % of revenue	18.5%	18.5%	0.0%
Net stores opened/(closed)	2	-1	
Total stores open	170	166	+4

- Australian segment achieved modest top line growth but, when combined with some gross margin growth and better cost control, was able to deliver a record EBIT result.
- Management's focus will remain on improving productivity through consistent use of our proven retail selling system.
- One further new store is planned for the Australian market in the second half.

# MICHAEL HILL NEW ZEALAND RETAIL SEGMENT

(NZD)

For the half year ending	2016	2015	Move
Revenue	66.9m	67.9m	(1.5%)
Same store sales	66.5m	67.4m	(1.4%)
Gross profit %	62.0%	61.5%	+0.5%
Total expenses	24.7m	26.5m	(6.6%)
EBIT	16.5m	15.3m	7.7%
EBIT as a % of revenue	24.7%	22.6%	+2.1%
Net stores opened	1	0	
Total stores open	53	52	+1

- The New Zealand segment recorded a record first half EBIT result of \$16.5m despite a difficult trading period in the lead up to the all important Christmas trading period.
- Expenses were managed well during the half which helped deliver the excellent result.
- One new store opened during the half in Christchurch to bring the total to 53 stores.

# MICHAEL HILL CANADA RETAIL SEGMENT

(CAD)

For the half year ending	2016	2015	Move
Revenue	62.7m	53.8m	16.7%
Same store sales	53.2m	49.8m	6.8%
Gross profit %	61.1%	62.3%	(1.2%)
Total expenses	29.1m	26.7m	9.3%
EBIT	8.8m	7.0m	26.0%
EBIT as a % of revenue	14.1%	13.0%	+1.1%
Net stores opened/(closed)	5	5	
Total stores open	72	65	+7

- Solid same store sales growth of 6.8% for the half driven by a combination of increasing brand awareness in newer markets and also improved execution of our world class sales management system.
- Gross profit fell by 1.2% as we combated the closing down sale activity of a major competitor prior to Christmas. Their closure provides potential now for increased market share in those centres and increased availability of sites in centres we weren't already in.
- 26% EBIT growth was achieved during the half primarily driven by revenue growth and cost control.
- Five new stores were opened bringing the total number to 72 at the end of the half.



# MICHAEL HILL USA RETAIL SEGMENT

(USD)

For the half year ending	2016	2015	Move
Revenue	7.0m	7.5m	(6.3%)
Same store sales	6.5m	7.1m	(9.3%)
Gross profit %	60.0%	58.7%	+1.3%
Total expenses	5.3m	6.0m	(11.8%)
EBIT	(1.1m)	(1.6m)	29.8%
EBIT as a % of revenue	(15.8%)	(21.1%)	+5.3%
Net stores opened/(closed)	0	1	
Total stores open	10	10	-

- Same store sales were down 9.3% for the half after a difficult trading period especially in the key December quarter. Some of this decline can be attributed to a reorganisation of the management structure in the US during the period which is now settling in well.
- Brett Halliday, our well proven Canadian General Manager, was appointed as our North American President to oversee both markets.
- A lift in gross margin and the reduction in costs has reduced the US losses for the half to \$1.1m.

## EMMA & ROE RETAIL SEGMENT

(AUD)

For the half year ending	2016	2015	Move
Revenue	8.7m	5.1m	72.0%
Same store sales	4.3m	4.3m	1.0%
Gross profit %	66.0%	70.1%	-4.1%
Total expenses	8.0m	4.6m	73.7%
EBIT	(2.2m)	(1.0m)	(114.0%)
EBIT as a % of revenue	(25.4%)	(20.4%)	-5.0%
Net stores opened/(closed)	8	2	
Total stores open	24	11	+13

- Same store sales were relatively flat for the half. The shift into growth mode last June has resulted in some dilution of talent across this young brand putting pressure on sales during the half, however an increase in resource for the Emma & Roe brand has positioned this business well for the future, with talent recruited and trained to better accommodate new store growth.
- Eight new stores were opened in Australia during the half with another six scheduled for the second half.

## E-COMMERCE TRENDS

- E-commerce for the Michael Hill brand operating in each of our 4 markets
- E-commerce for the Emma & Roe brand operates in the Australian market only
- There were 7.1m visits to our web sites during the 6 months up from 5.7m
- Ongoing collaboration across the channels to deliver frictionless customer experience



**25%**

Increase  
in visits



**32%**

Increase in  
mobile visits



**37%**

Increase in  
revenue



**41%**

Increase in  
transactions

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## IN-HOUSE CREDIT NORTH AMERICA

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- Loan book has grown to \$18.6m, up 22.6% on prior year
- Represents 29% of sales in Canada and 35% in the US
- Interest and other income grew 14.9% to \$1.0m
- 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 allows us to own a comprehensive customer database which facilitates a better understanding of our credit customer and a direct marketing opportunity
- Provides flexibility for the Group to align the lending risk with our sales and margin opportunity

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## INVENTORY MANAGEMENT

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- Total inventory on hand was \$231.8m up from \$200.0m at June 2016 and \$215.7m at December 2015 largely due to the increase in store numbers.
- Stock turn across the Group is 1.08 for the 12 months, in line with prior year. Stock turn is calculated on average monthly inventory holding
- Gross margin ROI was 1.39 for the year
- Gross margin fell from 64.2% to 63.8%



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# FINANCIAL REVIEW

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# FINANCIAL REVIEW

(AUD)

For the half year ending	2016	2015	Move
Group revenue	327.5m	310.8m	5.4%
Same store sales	306.0m	303.5m	0.8%
Gross profit %	63.8%	64.2%	-0.4%
Marketing	17.8m	19.2m	(7.2%)
Retail wage costs	62.6m	59.1m	5.9%
Occupancy costs	29.1 m	26.6m	9.6%
Foreign exchange (gains)/losses	(0.6m)	1.3m	
EBITDA	49.7m	43.9m	13.0%
EBITDA %	15.2%	14.1%	+1.1%
Depreciation and amortisation	9.7m	8.7m	10.9%

# FINANCIAL REVIEW

(AUD)

For the half year ending	2016	2015	% Move
EBIT	40.0m	35.2m	13.5%
EBIT % of sales	12.2%	11.3%	+0.9%
Net interest expense	1.8m	2.1m	(14.0%)
NPBT	38.2m	33.2m	15.3%
NPAT	25.8m	24.9m	3.4%
Earnings per share	AU 6.7c	AU 6.5c	
Interim dividend per share	AU 2.5c	NZ 2.5c	
Net operating cash flows	15.9m	32.5m	(51.0%)
Capital expenditure	16.0m	12.4m	29.3%

# FINANCIAL REVIEW

(AUD)

As at	31 Dec 2016	31 Dec 2015	% Move
Trade and other receivables	32.7m	26.1m	25.1%
<i>Includes in-house receivables</i>	<i>18.6m</i>	<i>15.2m</i>	<i>22.6%</i>
Inventories	231.8m	215.7m	7.5%
Working capital	171.2m	164.7m	4.0%
Deferred tax asset	59.1m	50.6m	16.8%
Total deferred revenue	83.5m	73.7m	13.3%
Borrowings	48.3m	33.9m	42.3%
Net debt	36.6m	26.3m	39.0%
Equity ratio	48.9%	52.6%	



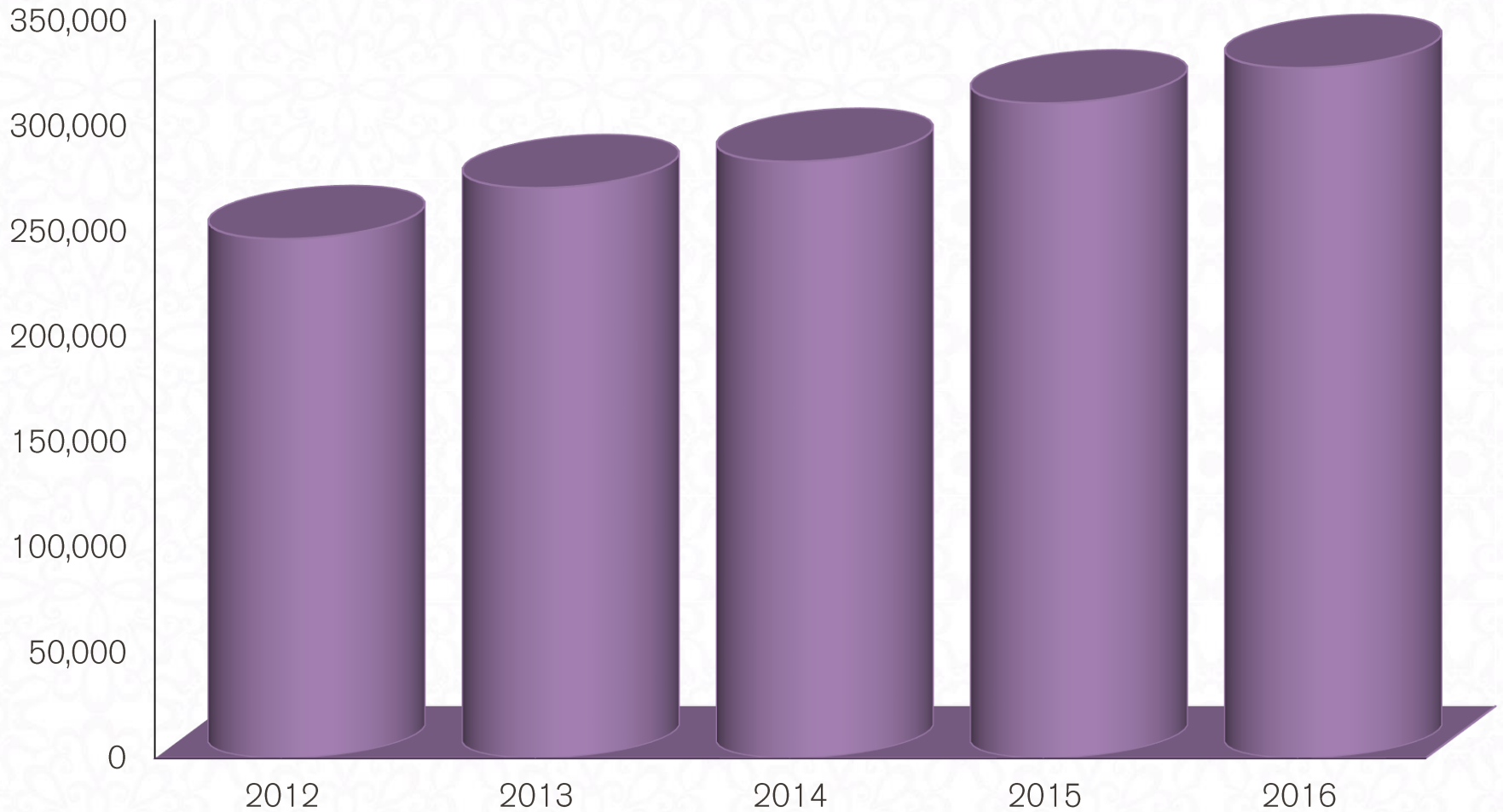
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# SUPPORTING INFORMATION & TRENDS

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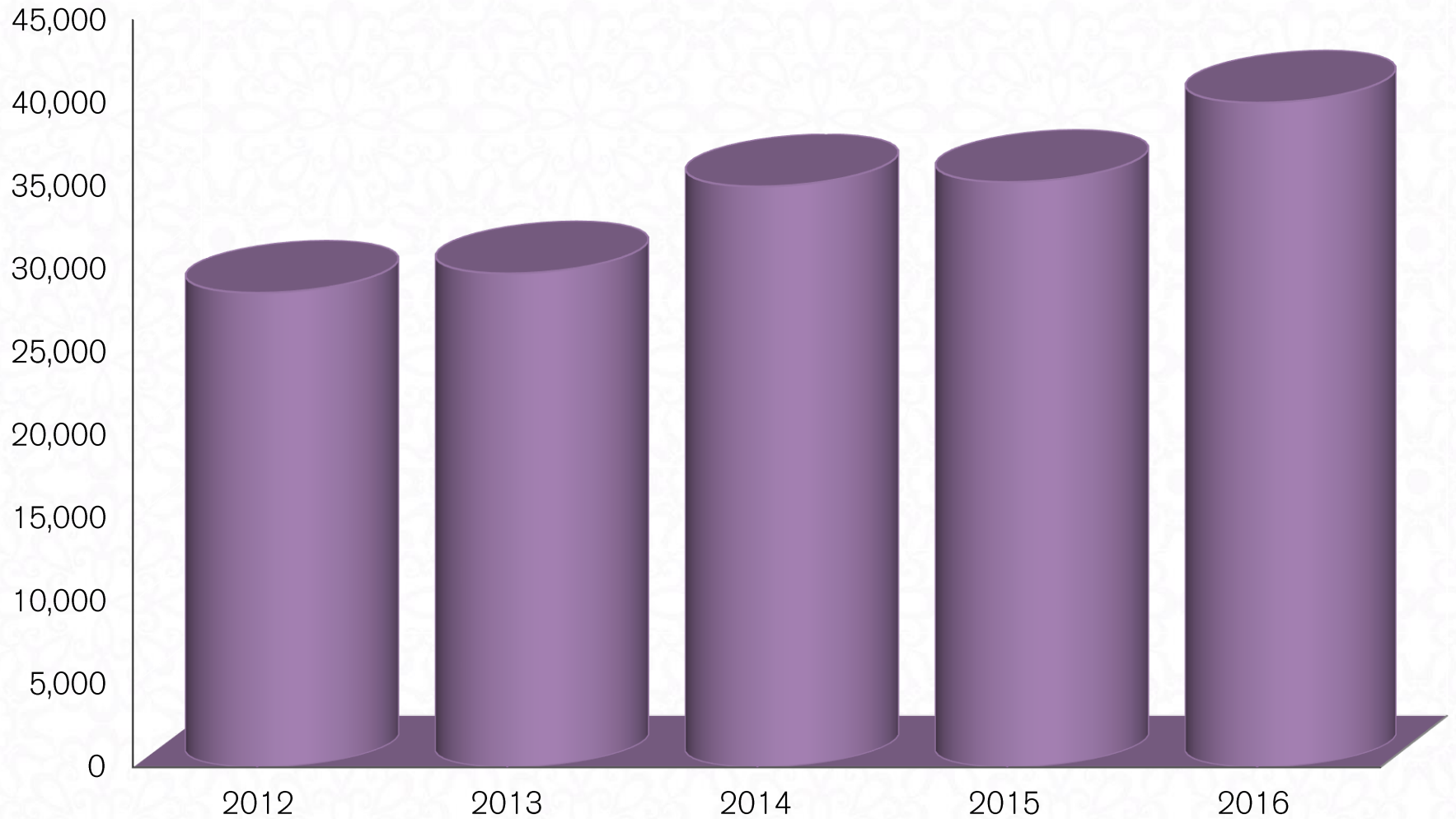
# GROUP REVENUE TO 31 DECEMBER

(AU\$000's)



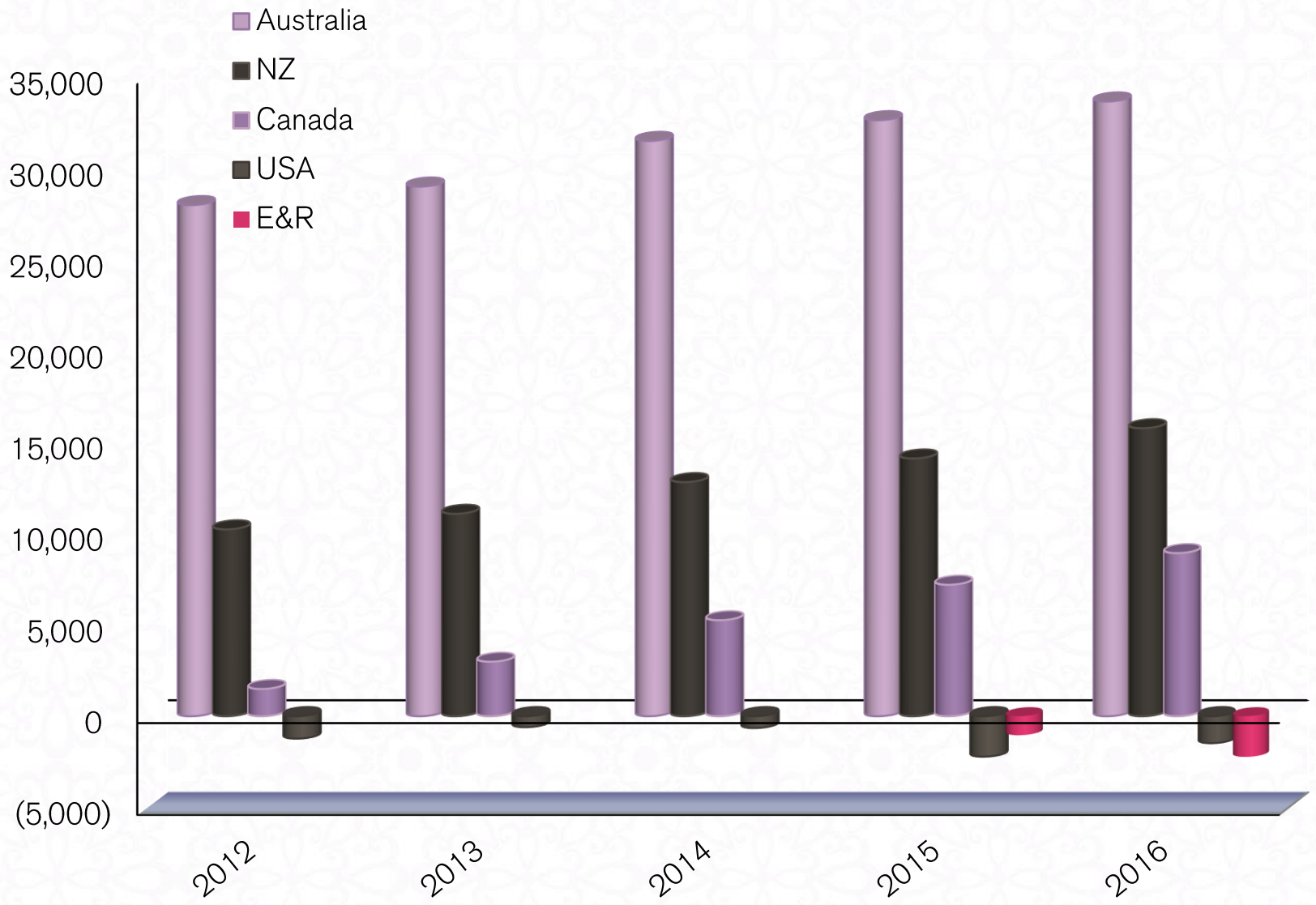
# EBIT TO 31 DECEMBER

(AU\$000's)



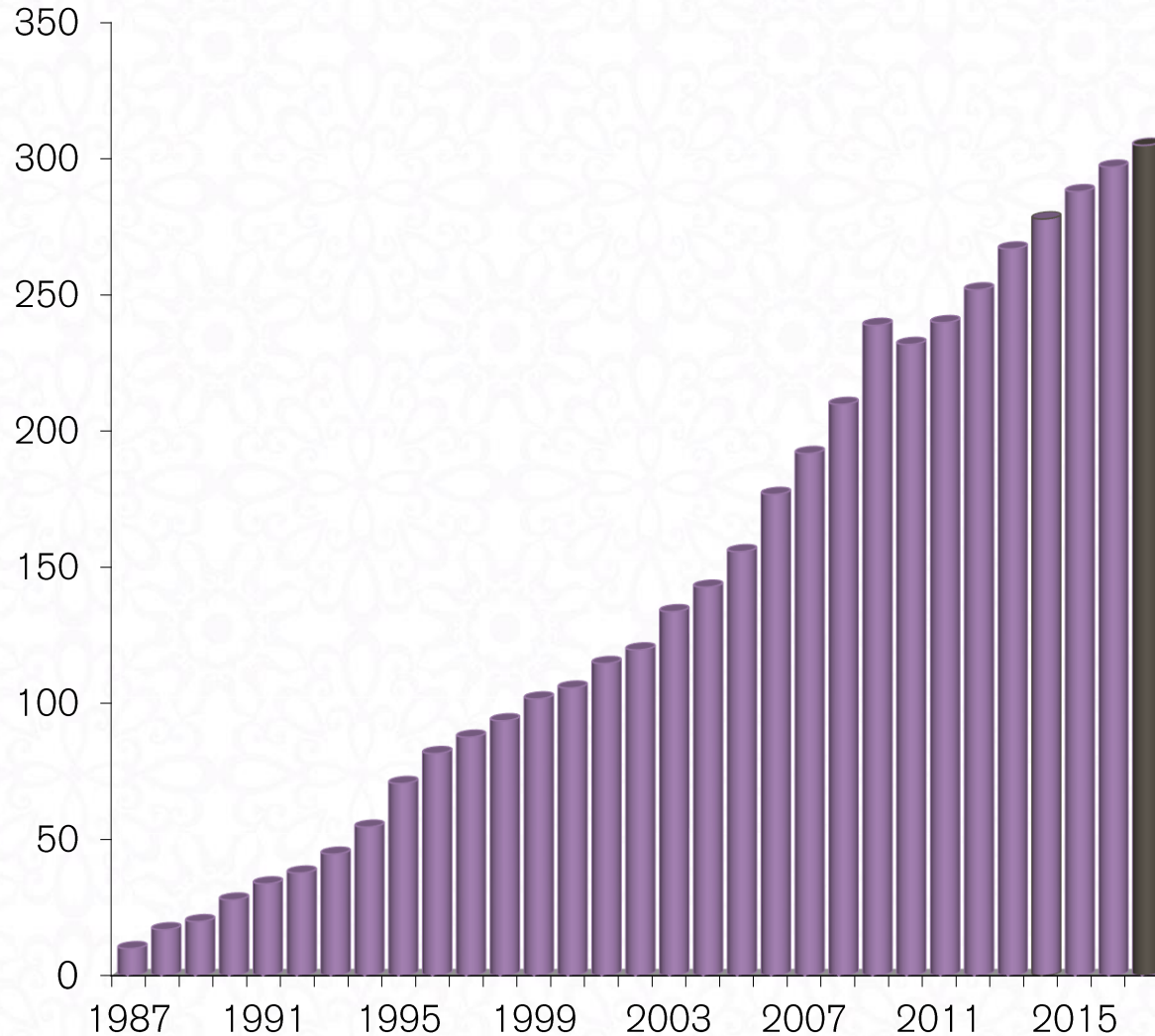
# EBIT CONTRIBUTIONS BY COUNTRY TO 31 DEC

(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
- Dec16 : 305 +8

# MICHAEL HILL AUSTRALASIAN EXPANSION

## AUSTRALIA

Stores Open 31/12/16		170
Planned for H2 16/17	1 store	171
Planned for 17/18	3 stores	174
Planned for 18/19	1 store	175

## NEW ZEALAND

Stores Open 31/12/16		53
Planned for H2 16/17	1 store	54
Planned for 17/18	0 stores	54
Planned for 18/19	0 stores	54

# MICHAEL HILL NORTH AMERICAN EXPANSION

## CANADA

Stores Open 31/12/16		72
Planned for H2 16/17	8 stores	80
Planned for 17/18	10 stores	90
Planned for 18/19	10 stores	100

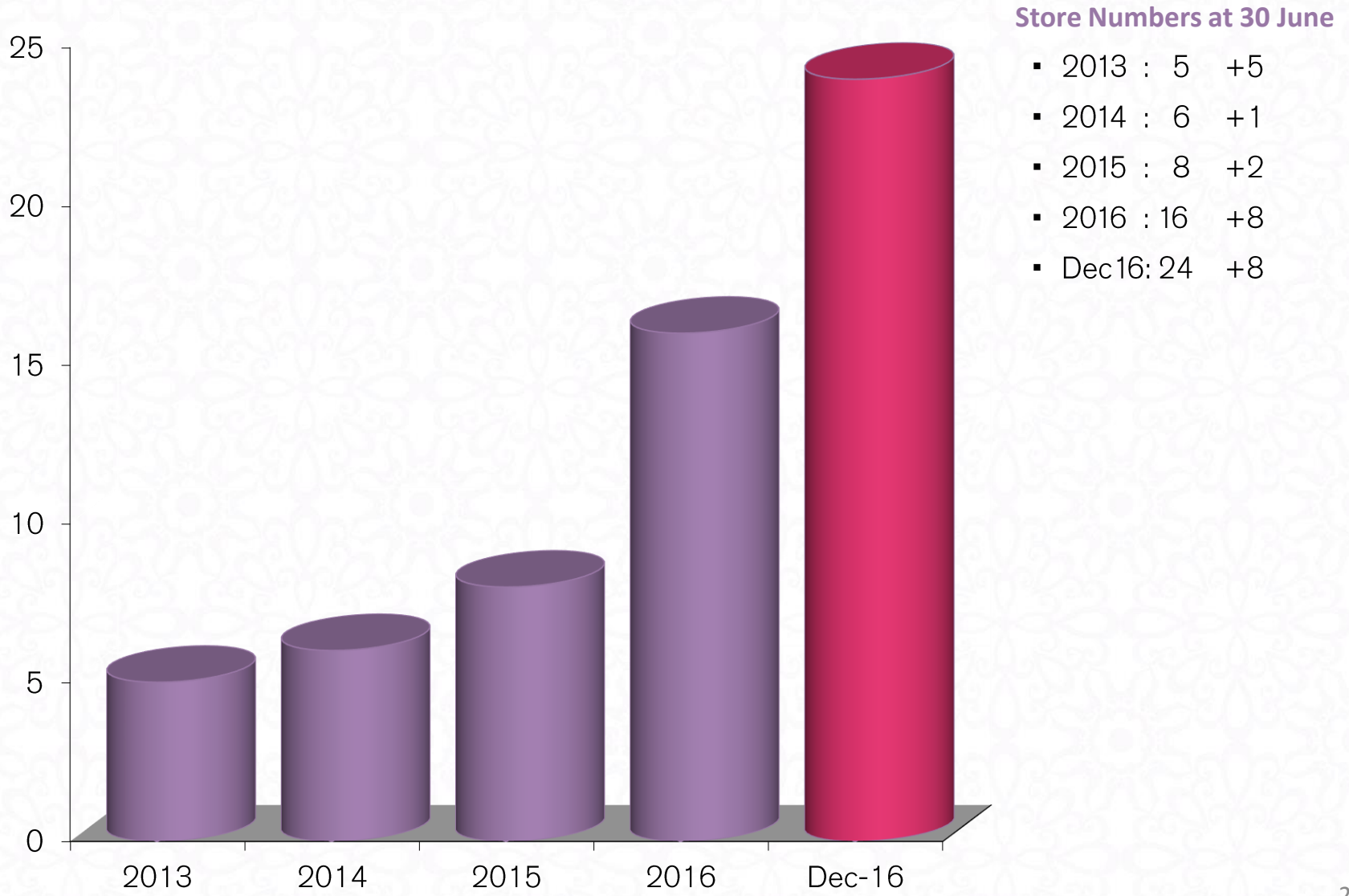
110 store locations have been identified as suitable locations

## UNITED STATES

Stores Open 31/12/16		10
Planned for H2 16/17	0 stores	10
Planned for 17/18	0 stores	10
Planned for 18/19	1 store	11



# TOTAL EMMA & ROE STORES OPERATING



# EMMA & ROE EXPANSION

## AUSTRALIA

Stores Open 31/12/16		23
Planned for H2 16/17	5 stores	28
Planned for 17/18	10 stores	38
Planned for 18/19	10 stores	48

## NEW ZEALAND

Stores Open 31/12/16		1
Planned for H2 16/17	1 stores	2
Planned for 17/18	5 stores	7
Planned for 18/19	5 stores	12

# STORE PHOTOS



Wetherill Park, New South Wales



Vulcan Lane, Auckland



Garden City, Queensland



The logo for Michael Hill International Limited is centered on the page. It features the brand name "michael hill" in a bold, lowercase, sans-serif font, with a registered trademark symbol (®) at the end. Below this, the words "INTERNATIONAL LIMITED" are written in a smaller, all-caps, sans-serif font. The background of the slide is a light purple color with a repeating pattern of intricate, white, floral or mandala-like designs.

**michael hill**®  
INTERNATIONAL LIMITED