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INTERNATIONAL LIMITED

ANNUAL RESULTS UPDATE

30 June 2019



## *DISCLAIMER*

Certain statements in this announcement constitute forward-looking statements. Forward-looking statements are statements (other than statements of historical fact) relating to future events and the anticipated or planned financial and operational performance of Michael Hill International Limited and its related bodies corporate (the Company). The words “targets,” “believes,” “expects,” “aims,” “intends,” “plans,” “seeks,” “will,” “may,” “might,” “anticipates,” “would,” “could,” “should,” “continues,” “estimates” or similar expressions or the negatives thereof, identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements include, among other things, statements addressing matters such as the Company’s future results of operations; financial condition; working capital, cash flows and capital expenditures; and business strategy, plans and objectives for future operations and events, including those relating to ongoing operational and strategic reviews, expansion into new markets, future product launches, points of sale and production facilities.

Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the Company’s actual results, performance, operations or achievements or industry results, to differ materially from any future results, performance, operations or achievements expressed or implied by such forward-looking statements.

Such risks, uncertainties and other important factors include, among others: global and local economic conditions; changes in market trends and end-consumer preferences; fluctuations in the prices of raw materials, currency exchange rates, and interest rates; the Company’s plans or objectives for future operations or products, including the ability to introduce new jewellery and non-jewellery products; the ability to expand in existing and new markets and risks associated with doing business globally and, in particular, in emerging markets; competition from local, national and international companies in the markets in which the Company operates; the protection and strengthening of the Company’s intellectual property rights, including patents and trademarks; the future adequacy of the Company’s current warehousing, logistics and information technology operations; changes in laws and regulations or any interpretation thereof, applicable to the Company’s business; increases to the Company’s effective tax rate or other harm to the Company’s business as a result of governmental review of the Company’s transfer pricing policies, conflicting taxation claims or changes in tax laws; and other factors referenced to in this presentation.

Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove to be incorrect, the Company’s actual financial condition, cash flows or results of operations could differ materially from that described herein as anticipated, believed, estimated or expected. Accordingly, you are cautioned not to place undue reliance on any forward-looking statements.

The Company does not intend, and do not assume any obligation, to update any forward-looking statements contained herein, except as may be required by law. All subsequent written and oral forward-looking statements attributable to us or to persons acting on the Company’s behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this presentation.

# Michael Hill International Limited

## CEO and CFO Update

- FY19 Business Overview
- Financial Summary
- Group Results
- FY20
- Q & A



# FY19 Business Overview

FY19 was a transitional year as the Company appointed a new CEO and strengthened the management team

- **Strong heritage brand**  
Founded in 1979, the Company is focused on evolving from a traditional retailer to a relevant, modern and differentiated jewellery brand
- **Sales performance recovery**  
Following a disappointing FY19Q1 sales result, the business demonstrated quarter on quarter same store sales recovery
- **Strengthened executive team**  
Appointment of new CEO, Daniel Bracken, new Chief Operating Officer, Andrea Slingsby, and Chief People Officer, Joanne Matthews
- **End to end business and strategy re-affirmed**  
With a further overlay of specific initiatives for FY20
- **Modernisation of our business and a focus on retail fundamentals**  
To increase customer relevancy, a new retail operating model, increased branded collections, and refreshed and modernised marketing
- **Stronger fiscal discipline**  
With a focus on supplier relationships, working capital, inventory management and reducing the costs of doing business



# FY19 Financial Snapshot

- Despite a challenging Q1, sales performance momentum recovered throughout the subsequent quarters, with FY19Q4 +0.7%
- All segments suffered compressed margin during FY19H2 in order to stabilise sales performance
- Delivered a cost out program for annualised cost savings of \$5m
- Deliberate focus to reduce inventory through an active inventory management program
- Statutory NPAT of \$16.5m, impacted by one-off employee remediation provision of \$4.5m, aged inventory impairment of \$6.0m and other one-off items
- EBIT of \$21.1m and underlying EBIT of \$34.6m

	<b>FY19</b>	<b>FY18*</b>
<i>Revenues</i>	\$569.5m	\$575.5m
<i>Statutory NPAT</i>	\$16.5m	\$1.6m
<i>EBIT</i>	\$21.1m	\$8.9m
<i>Full Year Dividend</i>	4.0c	5.0c
<i>Cash Flow</i>	\$39.0m	\$54.9m
<i>Net Debt</i>	\$24.8m	\$28.0m
<i>Inventory</i>	\$179.5m	\$192.1m



\* FY18 statutory earnings restated for employee remediation

# Key Financial Results

**\$569.5m**

GROUP OPERATING REVENUE  
2018: \$575.5m\*



**\$34.6m**

UNDERLYING EBIT  
2018: 40.1m

**4.0c**

DIVIDEND  
2018: 5.0c

**\$39.0m**

OPERATING NET CASHFLOW  
2018: \$54.9m

**62.0%**

GROSS MARGIN  
2018: 63.7%

**\$24.8m**

NET DEBT  
2018: \$28.0m

**-3.3%**

SAME STORE  
SALES

**46.8%**

EQUITY RATIO  
2018: 45.9%\*

**\$16.5m**

NET PROFIT  
AFTER TAX  
2018: \$1.6m \*\*



**\$179.5m**

INVENTORY  
2018: \$192.1m



\* Continuing operations only

\*\* FY18 restated for employee remediation

# Operational Performance

**\$16.0m\***  
E-COMMERCE SALES  
2018: \$11.1m\*

**32.5%**  
BRANDED COLLECTION SALES



**10**  
NEW STORES  
OPENED

**11**  
STORES  
CLOSED

**\$5m CODB**  
ANNUALISED SAVINGS

**-3.7%**  
AUSTRALIA  
RETAIL SEGMENT REVENUE\*\*

**-4.1%**  
NEW ZEALAND  
RETAIL SEGMENT REVENUE\*\*

**+1.8%**  
CANADA  
RETAIL SEGMENT REVENUE\*\*



\* Includes Emma & Roe e-commerce sales

\*\* Local currency

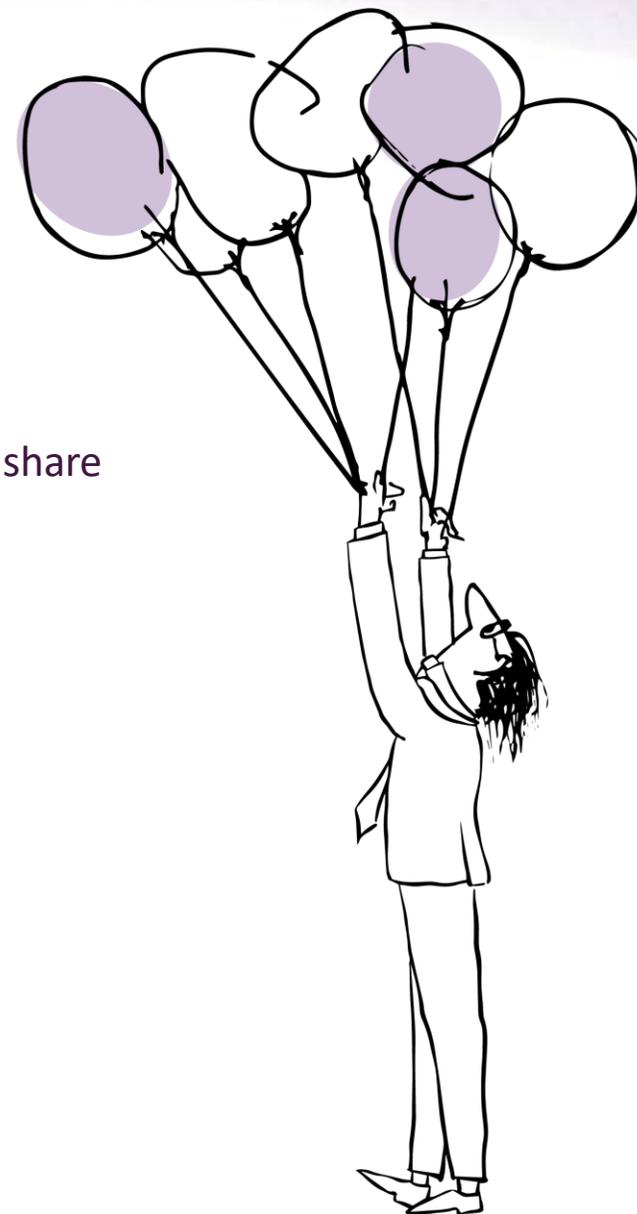
# Group Results

- Group revenue declined by 1.1%, with same store sales up 0.7% for FY19Q4
- Statutory EBIT of \$21.1m, up from FY18 of \$8.9m\*\*
- Underlying EBIT of \$34.6m, down from \$40.1m
- Gross margin for the Group was down from prior year to 62.0%
- Final dividend of AU 1.5 cents per share, giving a full year dividend of AU 4.0 cents per share

For the year ended	AUD	Jun-19	Jun-18*	change
Revenue		569.5m	575.5m	-1.1%
Gross profit		353.0m	366.9m	-3.8%
Gross profit as a % of revenue		62.0%	63.7%	-170ppts
Underlying EBIT		34.6m	40.1m	-13.7%
Underlying EBIT – as a % of revenue		6.1%	7.0%	-90ppts
Statutory EBIT		21.1m	8.9m**	+138.6%
Statutory EBIT as a % of revenue		3.7%	1.5%	+220ppts
Total stores open		306	312	-6

\* Jun-18 figures for revenue and gross profit reflects only continuing operations (excluding Emma & Roe and US). Jun-19 includes all operations.

\*\* Jun-18 statutory EBIT restated for employee remediation



# Michael Hill Australia



# Michael Hill Australia

## RETAIL SEGMENT

- Revenue declined by 3.7%
- Gross margin of 61.9%, down from 63.3% in prior year
- EBIT of \$32.9m down from \$48.6m
- Four new stores opened and eight underperforming stores closed, along with five Emma & Roe stores, resulting in a total of 168 stores trading at year end (including one Emma & Roe store)



For the year ended	AUD	Jun-19	Jun-18*	change
Revenue		313.6m	325.7m	-3.7%
Gross profit		194.1m	206.3m	-5.9%
Gross profit as a % of revenue		61.9%	63.3%	-140ppts
EBIT		32.9m	48.6m	-32.3%
EBIT as a % of revenue		10.5%	14.9%	-440ppts
Total stores open		168	171	

\* Jun-18 figures for revenue and gross profit reflects only continuing operations (excluding Emma & Roe and US). Jun-19 includes all operations.

# *Michael Hill New Zealand*



mark hill  
COLLECTION

# Michael Hill New Zealand

## RETAIL SEGMENT

- Revenue reduced for the year by 4.1% to NZ\$120.1m, with all store sales up in FY19Q4
- Same store sales declined by 4.5% for the year, with same store sales up 0.6% in FY19Q4
- EBIT of NZ\$24.1m, a reduction of NZ\$3.7m
- The New Zealand business will benefit from continued refinement of the property portfolio and improved cost efficiencies
- Two stores opened and two stores closed giving a total of 52 stores trading at 30 June 2019



For the year ended	NZD	Jun-19	Jun-18	change
Revenue		120.1m	125.2m	-4.1%
Gross profit		73.0m	77.7m	-6.0%
Gross profit as a % of revenue		60.8%	62.0%	-120ppts
EBIT		24.1m	27.8m	-13.2%
EBIT as a % of revenue		20.1%	22.2%	-210ppts
Total stores open		52	52	

# *Michael Hill Canada*



# Michael Hill Canada

## RETAIL SEGMENT

- Revenue grew by 1.8% to CA\$133.1m
- Same store sales decreased by 1.7%
- Canada still presents a significant opportunity from a productivity perspective
- EBIT of CA\$9.8m, down due to higher labour costs
- Four stores were opened and one store was closed, resulting in a total of 86 stores trading at 30 June 2019



For the year ended	CAD	Jun-19	Jun-18	change
Revenue		133.1m	130.8m	+1.8%
Gross profit		80.7m	81.6m	-1.0%
Gross profit as a % of revenue		60.6%	62.4%	-180ppts
EBIT		9.8m	14.6m	-32.9%
EBIT as a % of revenue		7.4%	11.2%	-380ppts
Total stores open		86	83	

*FY20*



# Key Initiatives for FY20

Building on the Strategic Priorities with Seven Key Initiatives

## 1. Continued focus on costs of doing business

- Delivered the FY19 cost out program – annualised benefits of \$5m
- A further \$5m savings identified that will fully annualise in FY21
- Continued disciplined fiscal approach

## 2. Retail Operating Model

- Continued implementation of a more sophisticated and integrated customer-focused retail operating model
- Driving regular product newness to our stores, a structured and consistent marketing platform, and exciting changes within stores for our customers

## 3. Retail Fundamentals

- Deliberate emphasis on our core disciplines presents a significant opportunity
- Intense focus on retail execution and visual merchandising, enhancing our brand, inventory management, and cost control



# Key Initiatives for FY20

## 4. Acceleration of the Branded Collections strategy

- Clear pathway to drive exclusive Branded Collection sales to 50% over the coming years
- To assist with sales growth and margin opportunity with existing customers
- Avenue to attract new customers to the Michael Hill brand

## 5. New Merchandise Rhythm

- “Newness” - implementing new processes and a new critical path to ensure that new product is brought to market on a regular basis
- A focus on margin mix and margin outcomes

## 6. Canadian Productivity

- Plans to drive increased sales per square metre have been developed and will be implemented

## 7. Online as a core focus

- Strong focus on improving our existing online customer experience and expanding our digital platform for the future



# *Celebration of 40 Years*



# *New Brisbane City Flagship Store*





*Thank you*  
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