

The logo for Michael Hill International Limited. It features the company name in a bold, lowercase, sans-serif font. The word "michael" is followed by "hill" with a registered trademark symbol (®) to its upper right. Below the company name, the words "INTERNATIONAL LIMITED" are written in a smaller, uppercase, sans-serif font.

michael hill®
INTERNATIONAL LIMITED

ANNUAL RESULTS 30 JUNE 2017

DISCLAIMER

This annual results presentation dated 18 August 2017 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.



HIGHLIGHTS

- Revenue increased 5.8% to \$583.0m
- Same store sales up 1.6%
- Canadian segment continues to take market share with same store sales increase of 8.8%
- Branded Collection sales represented 14.2% of total product sales
- Gross profit of 63.5%
- Write-down of assets and a provision for an onerous lease relating to two US stores of US\$1.3m during the year
- Record EBIT of \$48.1m up 2.3%
- Net profit after tax of \$32.6m up from \$19.6m
- Sale of Professional Care Plans (PCP) amounted to \$39.7m lifting deferred revenue from PCP sales to \$77.1m
- Dividend of 5.0 cents for the year up from 4.75 cents
- Net operating cash inflow was \$39.8m
- Payment of the NZ Inland Revenue settlement balance of NZ\$22.6m during the year
- Increase in deferred tax asset of \$4.4m resulting from tax consolidation cost base adjustment booked in 2015-16
- Net debt of \$39.4m up from \$32.0m
- Equity ratio of 52.0% up from 48.5% last year
- 13 Michael Hill stores opened and seven under performing stores closed, 13 Emma & Roe stores opened
- 332 stores trading at year end, including 29 Emma & Roe stores



OPERATIONAL REVIEW

MICHAEL HILL AUSTRALIA RETAIL SEGMENT_(AUD)

| For the year ending | 2017 | 2016 | move |
|----------------------------|--------|--------|-------|
| Revenue | 322.0m | 309.5m | 4.0% |
| Same store sales | 306.1m | 302.5m | 1.2% |
| Gross profit % | 62.6% | 62.7% | -0.1% |
| Total expenses | 149.4m | 143.6m | 4.0% |
| EBIT | 52.4m | 50.7m | 3.4% |
| EBIT as a % of revenue | 16.3% | 16.4% | -0.1% |
| Net stores opened/(closed) | (2) | 1 | |
| Total stores open | 166 | 168 | -2 |

- The Australian retail segment revenue increased by 4.0% to \$322.0m and same store sales lifted 1.2% contributing to a record EBIT result for the segment of \$52.4m, an increase of 3.4%.
- EBIT as a percentage of revenue was 16.3% (16.4% last year). This result is particularly pleasing against a backdrop of a challenging retail environment.
- Three stores were opened in Australia during the period, including a flagship store at Bourke Street, Melbourne, a key site in Chadstone Shopping Centre, Melbourne, and a clearance store at DFO Brisbane, Queensland.
- Five uneconomic stores closed during the period. There were 166 stores trading at 30 June 2017.

MICHAEL HILL NEW ZEALAND RETAIL SEGMENT_(NZD)

| For the year ending | 2017 | 2016 | move |
|----------------------------|--------|--------|--------|
| Revenue | 122.0m | 122.9m | (0.8%) |
| Same store sales | 121.1m | 122.0m | (0.8%) |
| Gross profit % | 61.7% | 61.7% | - |
| Total expenses | 47.2m | 48.6m | (2.9%) |
| EBIT | 28.0m | 27.3m | 2.6% |
| EBIT as a % of revenue | 23.0% | 22.2% | +0.8% |
| Net stores opened/(closed) | 0 | 0 | |
| Total stores open | 52 | 52 | |

- The New Zealand retail segment revenue decreased 0.8% to NZ\$122.0m for the twelve months, however the segment still achieved a record EBIT result of NZ\$28.0m, up 2.6% on the corresponding period last year.
- EBIT as a percentage of revenue was 23.0% (22.2% last year). The improved result was achieved with an improved focus on variable expenses such as advertising, wages and credit costs.
- One store opened at Christchurch and one store closed during the year.

MICHAEL HILL CANADA RETAIL SEGMENT (CAD)

| For the year ending | 2017 | 2016 | move |
|----------------------------|--------|-------|-------|
| Revenue | 112.7m | 95.4m | 18.1% |
| Same store sales | 94.2m | 86.6m | 8.8% |
| Gross profit % | 61.3% | 62.1% | -0.8% |
| Total expenses | 93.6m | 86.1m | 8.7% |
| EBIT | 12.6m | 9.1m | 38.1% |
| EBIT as a % of revenue | 11.1% | 9.5% | +1.6% |
| Net stores opened/(closed) | 9 | 7 | |
| Total stores open | 76 | 67 | +9 |

- Revenue increased by 18.1% to CA\$112.7m, with record EBIT of CA\$12.6m.
- The Canadian segment continues to show strong growth as we achieve scale and market share across the country.
- The Company is confident this trend will continue in the coming year as we open more stores and gain further brand recognition in existing markets.
- 100 store locations have been identified, with seven new stores planned for 2017/18.

MICHAEL HILL USA RETAIL SEGMENT (USD)

| For the year ending | 2017 | 2016 | move |
|----------------------------|---------|---------|---------|
| Revenue | 12.5m | 14.2m | (12.0%) |
| Same store sales | 11.3m | 12.3m | (8.5%) |
| Gross profit % | 60.5% | 58.9% | 1.6% |
| Total expenses | 11.2m | 10.9m | 2.3% |
| EBIT | (3.8m) | (2.6m) | (47.2%) |
| EBIT as a % of revenue | (30.3%) | (18.1%) | -12.2% |
| Net stores opened/(closed) | (1) | 1 | |
| Total stores open | 9 | 10 | -1 |

- Our US business underwent a lot of change during the year, including a leadership change and a marketing redirection, and as a result struggled to gain traction, finishing the year 8.5% down in revenue for the same stores.
- The Easton Centre store in Columbus, Ohio, closed due to continued poor performance. Costs to terminate this site early amounted to US\$650,000 for asset write offs and lease termination costs. Similarly, the substandard location of our Roosevelt Fields store in New York resulted in a decision to impair this store, resulting in a US\$667,000 write down of impaired assets and onerous lease provision.
- In September 2016, the US was put under the leadership of Brett Halliday, our North American President who has delivered consistently outstanding results in Canada. The Board and executive team continue to closely monitor the US business as this is potentially a lucrative market for the Group if we can develop a viable model.

EMMA & ROE RETAIL SEGMENT (AUD)

| For the year ending | 2017 | 2016 | move |
|----------------------------|---------|---------|----------|
| Revenue | 15.1m | 9.3m | 61.7% |
| Same store sales | 7.2m | 7.3m | (2.1%) |
| Gross profit % | 66.1% | 69.9% | -3.8% |
| Total expenses | 16.9m | 9.0m | 89.0% |
| EBIT | (6.9m) | (2.4m) | (186.0%) |
| EBIT as a % of revenue | (45.9%) | (26.0%) | -19.9% |
| Net stores opened/(closed) | 13 | 8 | |
| Total stores open | 29 | 16 | +13 |

- Emma & Roe experienced sales growth of 61.7% with same store sales declining 2.1% for the period. While the drop in same store sales is disappointing, the brand is new and evolving. We are continuing to refine the Emma & Roe model based on customer responses and insights, with a view to making adjustments to the brand during 2017-18.

E-COMMERCE TRENDS

- Strong revenue growth of 68% was achieved with growth coming from all jewellery categories. Online sales now exceed 1% of total revenue for the Group
- A 28% lift in visits to our websites for the year to 13.9m, up from 10.9m the previous year
- Continued and growing collaboration across the channels, with a stronger focus on customer experience will continue to see e-commerce revenue grow as a % of our total revenue



28%

Increase in
visits



68%

Increase in
revenue



65%

Increase in
transactions

IN HOUSE CREDIT NORTH AMERICA

- Loan book has grown to \$17.7m, up 24.1% on prior year
- Represents 25.6% of sales in Canada and 35.2% in the US
- Interest and other income dropped 31.2% to \$1.0m due to reduced use of interest bearing plans
- Bad debts run at approximately 4.2% 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 our appetite for lending risk with our product margins to maximise the sales opportunities

PROFESSIONAL CARE PLANS (PCP)

- Total PCP sales grew 1.0% to \$39.7m
- Revenue recognised of \$33.7m, up 9.5% reflecting another year of selling of the plans, increased store numbers and another year incremented to the recognition pattern
- Deferred revenue of \$77.1m held on balance sheet
- Provides a competitive advantage by establishing an ongoing relationship with customers and maintaining their jewellery in pristine condition

INVENTORY MANAGEMENT

- Total inventory on hand was \$203.9m up from \$200.0m
- Stock turn across the Group was 1.11 for the 12 months up from 1.06
- Gross margin return on investment was 1.42 for the year, up from 1.39
- Gross profit dropped from 64.0% to 63.5%

BRANDED COLLECTIONS

- The development of branded collections is a strategy that will allow the Michael Hill brand to differentiate itself in a highly competitive mid-market. Proprietary collections provide the brand with a unique point of difference and they offer a margin premium
- Global branded product sales reached 14.2% of total sales compared to 13.0% prior year
- The long term goal is to move increasingly towards proprietary branded collections

FINANCIAL REVIEW

FINANCIAL REVIEW (AUD)

| For the year ending | 2017 | 2016 | move |
|---------------------------------|--------|--------|-------|
| Group revenue | 583.0m | 551.1m | 5.8% |
| Same store sales | 537.3m | 528.6m | 1.6% |
| Gross profit % | 63.5% | 64.0% | -0.5% |
| Marketing | 30.8m | 30.2m | 2.2% |
| Retail wage costs | 116.3m | 109.2m | 6.5% |
| Occupancy costs | 59.9m | 54.2m | 10.4% |
| Foreign exchange (gains)/losses | (0.9m) | 0.4m | |
| EBITDA | 68.1m | 65.8m | 3.5% |
| EBITDA % | 11.7% | 11.9% | -0.2% |
| Depreciation and amortisation | 20.0m | 18.8m | 6.7% |

FINANCIAL REVIEW (AUD)

| For the year ending | 2017 | 2016 | % move |
|----------------------------|----------|----------|---------|
| EBIT | 48.1m | 47.1m | 2.3% |
| EBIT % of sales | 8.3% | 8.5% | -0.2% |
| Net interest expense | 3.2m | 5.5m | (42.8%) |
| NPBT | 45.0m | 41.5m | 8.2% |
| NPAT * | 32.6m | 19.6m | 66.8% |
| Earnings per share * | AU 8.46c | AU 5.11c | |
| Final dividend per share | AU 2.5c | AU 2.5c | |
| Net operating cash flows * | 39.8m | 47.8m | (16.8%) |
| Capital expenditure | 33.1m | 24.5m | 35.0% |

* Please note that several key measures have been materially affected by the separate booking of the IR tax settlement of (AU\$28.8m) in 2016, the subsequent payment of NZ\$22.6m in 2017 and the income tax consolidation cost base adjustments of AU\$19.4m in 2016 and AU\$4.4m in 2017 as a consequence of the July 2016 ASX listing.

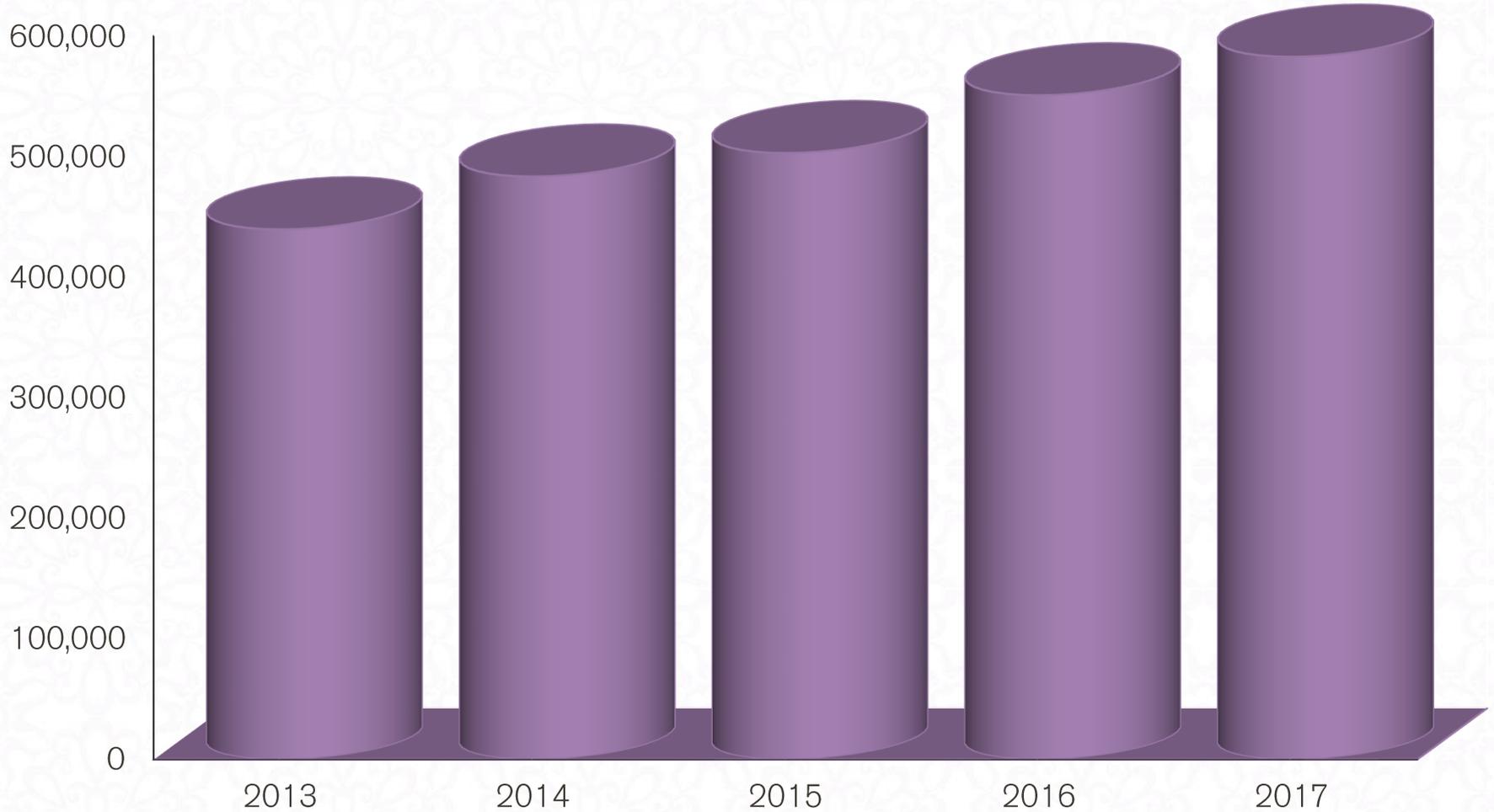
FINANCIAL REVIEW (AUD)

| For the year ending | 2017 | 2016 | % Move |
|--------------------------------------|--------------|--------------|--------------|
| Trade and other receivables | 26.6m | 26.1m | 1.7% |
| <i>Includes in-house receivables</i> | <i>17.7m</i> | <i>14.3m</i> | <i>24.1%</i> |
| Inventories | 203.9m | 200.0m | 1.9% |
| Working capital | 158.9m | 139.1m | 14.2% |
| Deferred tax asset | 57.9m | 64.1m | (9.6%) |
| Total deferred revenue | 81.9m | 75.4m | 8.7% |
| Borrowings | 45.0m | 40.9m | 10.1% |
| Net debt | 39.4m | 32.0m | 22.9% |
| Equity ratio * | 52.0% | 48.5% | 3.5% |

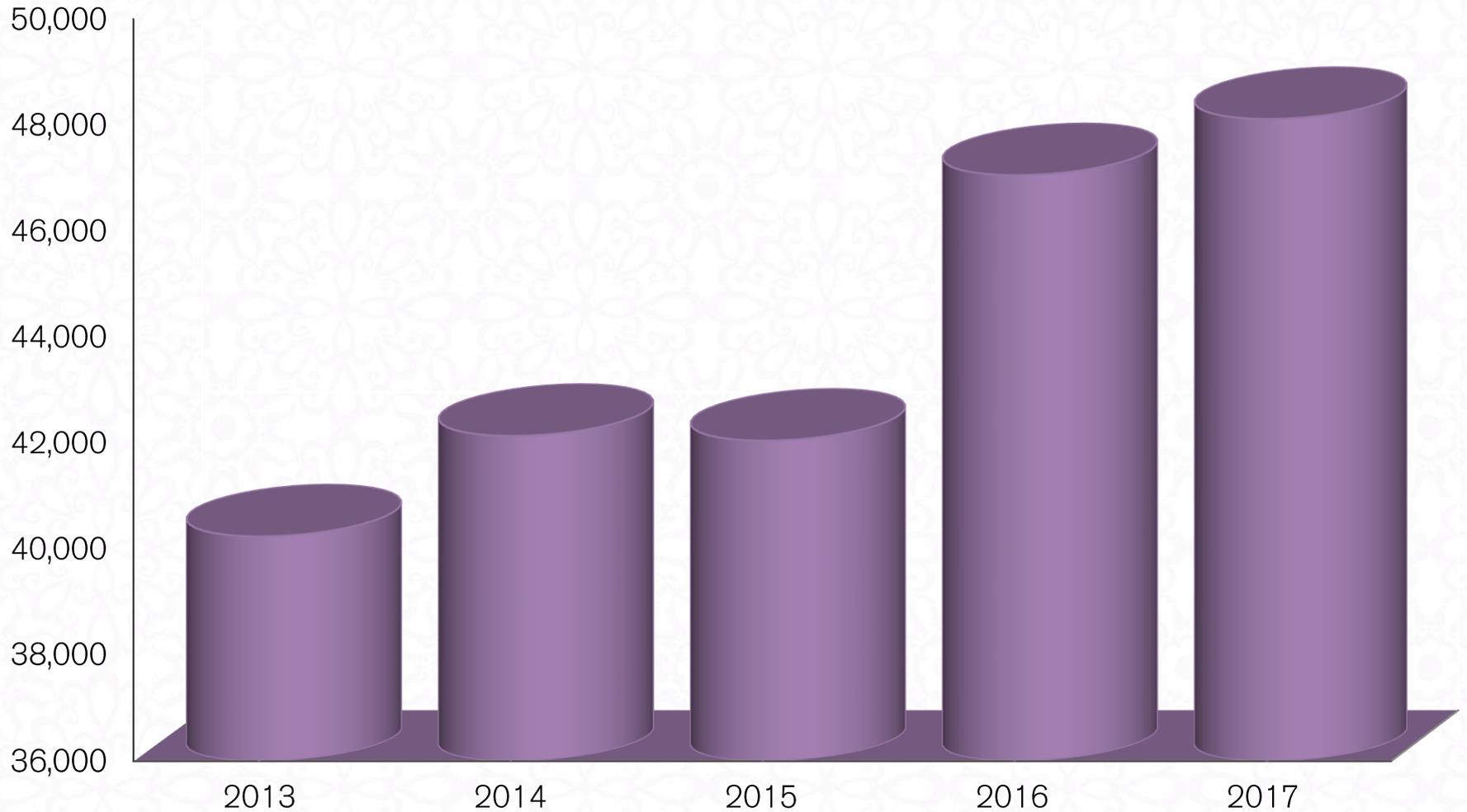
* Please note that several key measures have been materially affected by the separate booking of the IR tax settlement of (AU\$28.8m) in 2016, the subsequent payment of NZ\$22.6m in 2017 and the income tax consolidation cost base adjustments of AU\$19.4m in 2016 and AU\$4.4m in 2017 as a consequence of the July 2016 ASX listing.

SUPPORTING INFORMATION & TRENDS

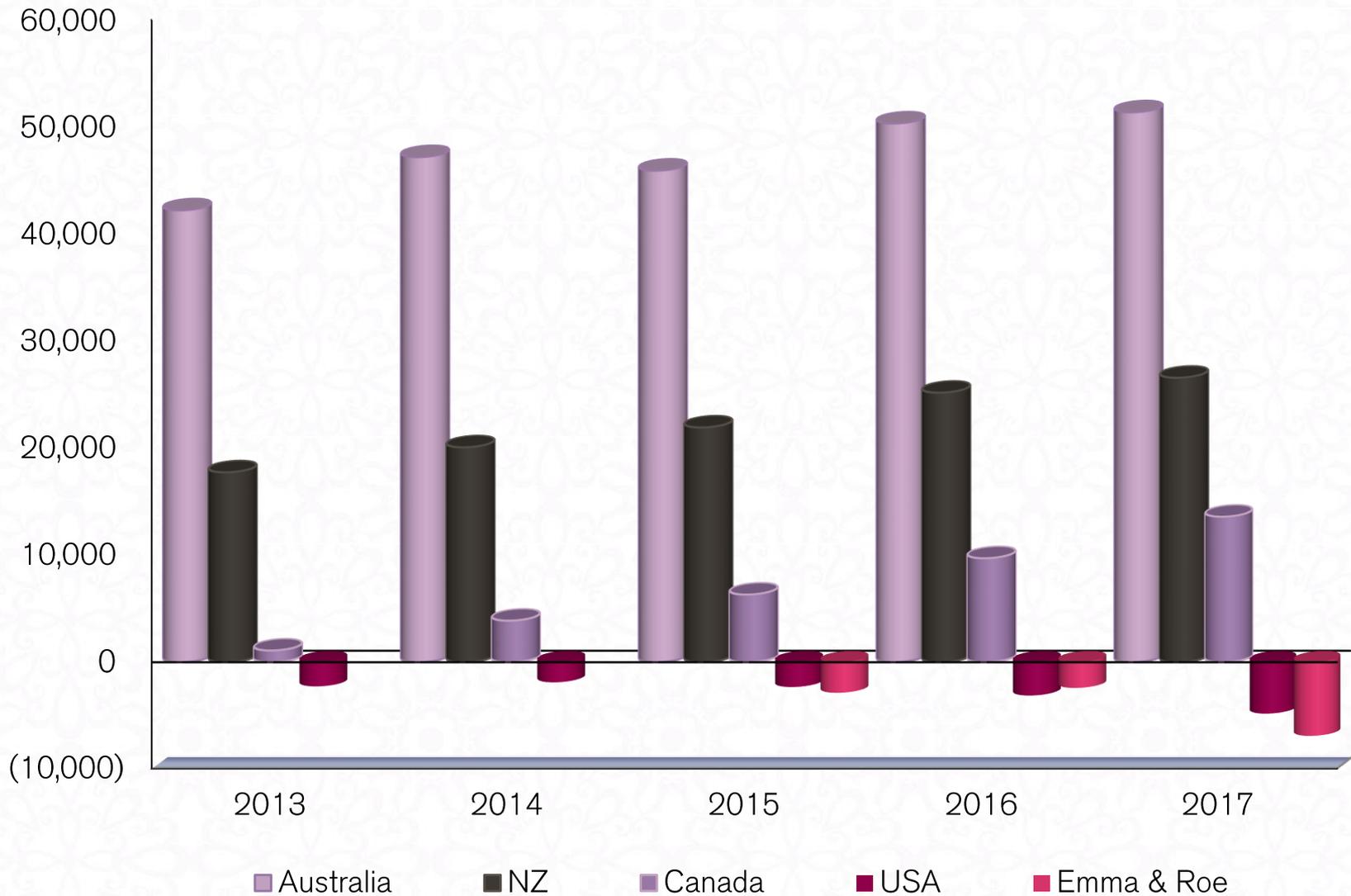
GROUP REVENUE TO 30 JUNE (AU\$000's)



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

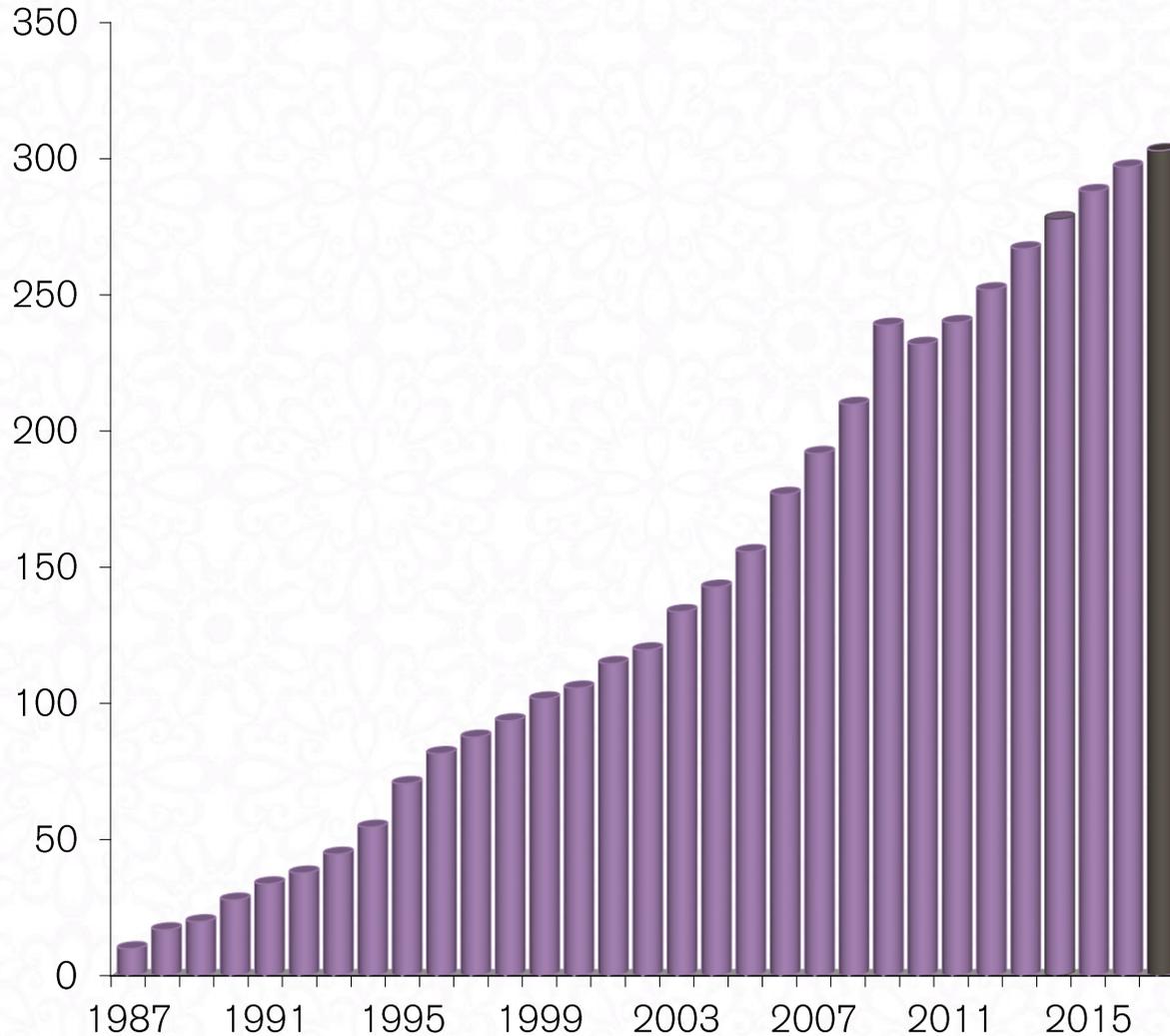


EBIT CONTRIBUTIONS BY SEGMENT TO 30 JUNE (AU\$000's)



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
- 2017 – 303 +6

AUSTRALASIAN EXPANSION

AUSTRALIA

| | | |
|---------------------|----------|-----|
| Stores Open 30/6/17 | | 166 |
| Planned for 17/18 | 2 stores | 168 |
| Planned for 18/19 | 2 stores | 170 |
| Planned for 19/20 | 0 store | 170 |

170 store locations have been identified as suitable locations

NEW ZEALAND

| | | |
|---------------------|----------|----|
| Stores Open 30/6/17 | | 52 |
| Planned for 17/18 | 1 store | 53 |
| Planned for 18/19 | 0 stores | 53 |
| Planned for 19/20 | 1 store | 54 |

NORTH AMERICAN EXPANSION

CANADA

| | | |
|---------------------|----------|----|
| Stores Open 30/6/17 | | 76 |
| Planned for 17/18 | 7 stores | 83 |
| Planned for 18/19 | 7 stores | 90 |
| Planned for 19/20 | 4 stores | 94 |

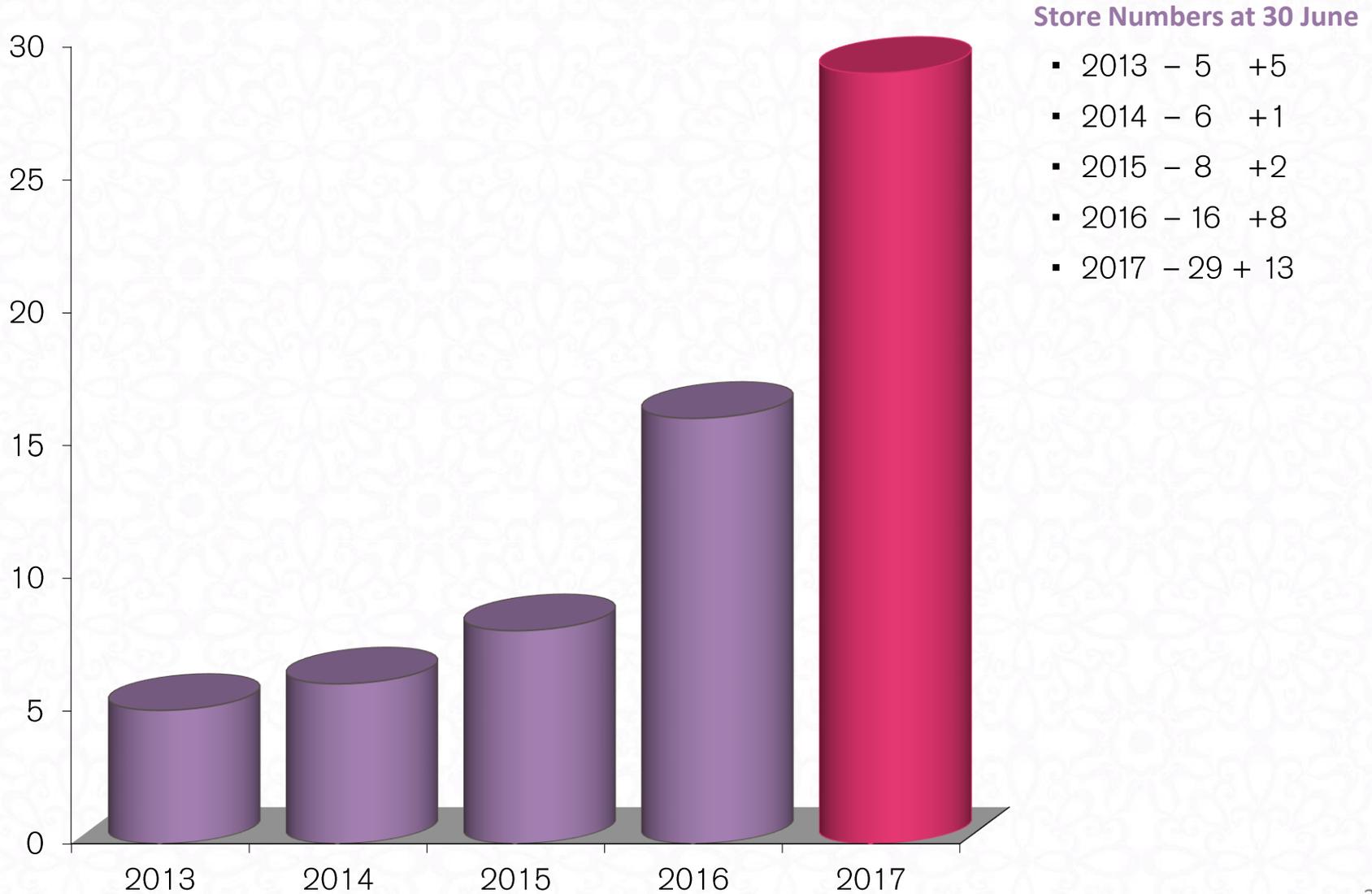
100 store locations have been identified as suitable locations

UNITED STATES

| | | |
|---------------------|----------|----|
| Stores Open 30/6/17 | | 9 |
| Planned for 17/18 | 0 stores | 9 |
| Planned for 18/19* | 1 store | 10 |
| Planned for 19/20* | 4 stores | 14 |

* subject to continued improvement of current business

TOTAL EMMA & ROE STORES OPERATING



EMMA & ROE EXPANSION

AUSTRALIA

| | | |
|---------------------|----------|----|
| Stores Open 30/6/17 | | 28 |
| Planned for 17/18* | 5 stores | 33 |
| Planned for 18/19* | 6 stores | 39 |
| Planned for 19/20* | 6 stores | 45 |

NEW ZEALAND

| | | |
|---------------------|----------|----|
| Stores Open 30/6/17 | | 1 |
| Planned for 17/18* | 0 stores | 1 |
| Planned for 18/19* | 3 stores | 4 |
| Planned for 19/20* | 6 stores | 10 |

* subject to continued improvement of current business

STORE PHOTOS



Chadstone, Victoria



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