

**michael hill**

INTERNATIONAL LIMITED

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**HALF YEAR RESULTS**  
**31 DECEMBER 2015**

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# DISCLAIMER

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This interim results presentation dated 11 February 2016 provides additional comment on the half year results announcement released to 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.

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# HIGHLIGHTS

- Group revenue up 9.7% to a record \$310.8m
- Same store sales up 5.4% to \$291.8m
- Gross margin increased to 64.2% despite challenges from strength of US dollar
- EBIT of \$35.2m up 0.8%
- EBIT excluding FX gain/loss of \$36.5m up 0.6%
- NPAT of \$24.9m up 5.1%
- Earnings per share of AU 6.50c
- Interim dividend of NZ 2.5c in line with prior year
- Net debt of \$26.3m down 22.1%
- Equity ratio 52.6% up on prior year 50.3%
- 6 Michael Hill and 3 Emma & Roe stores opened
- Total of 304 stores at year end



Yorkdale, Toronto



Garden City, Queensland

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# OPERATIONAL REVIEW

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## MICHAEL HILL AUSTRALIA RETAIL SEGMENT (AUD)

For the half year ending	2015	2014	% move
Revenue	175.6m	168.5m	4.2%
Same store sales	172.2m	166.6m	3.4%
Gross profit %	62.3%	62.5%	
Total expenses	77.0m	73.9m	4.1%
EBIT	32.4m	31.5m	2.9%
EBIT as a % of revenue	18.5%	18.7%	
Net stores opened/(closed)	(1)	2	
Total stores open	166	166	

- Australian segment improved despite the retail market continuing to be a challenging environment
- Management focus is on improving productivity through consistent use of our proven retail management systems
- Branded collections represented 9.6% of total sales, up from 9.1% last year
- 175 store locations have been identified as suitable locations, with three new stores to open over the next six months

## MICHAEL HILL NEW ZEALAND RETAIL SEGMENT (NZD)

For the half year ending	2015	2014	% move
Revenue	67.5m	63.2m	6.7%
Same store sales	67.5m	63.2m	6.7%
Gross profit %	61.5%	61.5%	
Total expenses	26.2m	24.8m	5.5%
EBIT	15.3m	13.9m	10.3%
EBIT as a % of revenue	22.7%	22.0%	
Net stores opened/(closed)	0	0	
Total stores open	52	52	

- Strong growth driven in part to the vibrant Auckland market
- The segment is benefiting from a stable and experienced leadership team
- EBIT up 10.3% to \$15.3m
- Branded collections represented 8.4% of total sales, slightly down from 8.6% last year
- Flagship store Vulcan Lane, Auckland opened in September 2015

## MICHAEL HILL CANADA RETAIL SEGMENT (CAD)

For the half year ending	2015	2014	% move
Revenue	53.3m	44.9m	18.8%
Same store sales	44.5m	42.2m	5.6%
Gross profit %	62.5%	61.8%	
Total expenses	25.9m	22.7m	14.2%
EBIT	7.4m	5.1m	46.7%
EBIT as a % of revenue	13.9%	11.3%	
Net stores opened/(closed)	5	5	
Total stores open	65	59	

- Strong same store sales growth of 5.6%
- EBIT increased by 46.7% for the six months, lifting the EBIT margin to 13.9%
- Gross margins continue to lift as the brand builds, with the segment reaching an economy of scale for advertising and overheads
- Branded collection sales represented 18.3% of total sales, up from 16.0% last year
- 110 store locations have been identified as suitable locations, with three new stores to open over the next six months

## MICHAEL HILL USA RETAIL SEGMENT (USD)

For the half year ending	2015	2014	% move
Revenue	7.4m	5.9m	24.7%
Same store sales	5.8m	5.9m	(3.6%)
Gross profit %	58.5%	57.1%	
Total expenses	5.8m	4.0m	45.3%
EBIT	(1.5m)	(0.6m)	(146.1%)
EBIT as a % of revenue	(19.6%)	(9.9%)	
Net stores opened/(closed)	1	0	
Total stores open	10	8	

- Same store sales down 3.6% includes the lost sales from a forced 3 month closure of our Woodfield store due to a centre redevelopment. Same stores are up 0.5% excluding Woodfield
- Rolling 12 month average sales have reached \$1.4m
- EBIT loss higher than last year due to increased marketing spend and the impact of the Woodfield closure
- Our second New York store opened in September at the Triple A Mall Roosevelt Fields
- The Group aims to grow all Triple A store locations to an annualised turnover of \$2m. Currently this group of stores are annualising at an average of \$1.8m
- Branded collections represented 32.9% of total sales, up on 30.2% last year

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## EMMA & ROE RETAIL SEGMENT (AUD)

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For the half year ending	2015	2014	% move
Revenue	5.0m	2.5m	97.6%
Same store sales growth	3.4m	2.2m	49.4%
Net stores opened/(closed)	3	2	
Total stores open	11	8	

- Emma & Roe test continues with three more store openings, bringing total stores to eleven
- As part of the ongoing test, five new stores will be opening over the next six months
- Average annualised store revenue approaching \$1m in the current year
- Gross margins higher than the Michael Hill brand
- Capital requirements are roughly half of that required for Michael Hill stores
- 190 store locations have been identified as suitable locations once the test has been proven up

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## E-COMMERCE TRENDS

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- e-commerce platform across 4 markets
- Revenue up 66%
- Website visits for the six months reached 5.6 million
- Continuing positive momentum of sales revenue growth across all markets and both brands
- Progressing our CRM capability to deliver better customer experiences
- Strong customer engagement via our social media channels
- Supports our bricks and mortar model through integrated cross channel customer experience



33%

Increase in visits



51%

Increase in mobile visits



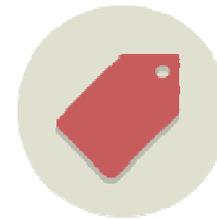
66%

Increase in revenue



45%

Increase in mobile revenue



81%

Increase in transactions

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## IN HOUSE CREDIT NORTH AMERICA

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- Loan book has grown to \$15.2m, up 8.6% on prior year
- Represents 25% of sales in Canada and 42% in the US
- Interest and other income grew 4.6% to \$900k
- Bad debts run at approximately 5% of credit sales made
- Presents a strategic advantage to increase our bridal sales market share within North America
- 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

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## PROFESSIONAL CARE PLANS

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- Total sales grew 8.9% to \$21.7m
- Revenue recognised of \$13.8m, up 21.7%
- Deferred revenue of \$70.3m held on balance sheet
- Provides a competitive advantage by establishing an ongoing relationship with customers

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## **INVENTORY MANAGEMENT**

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- Stock turn across the Group is 0.92 for the 12 months to December, up on prior year's 0.88
- GMROI is 1.73, up from 1.65 for prior year
- Average inventory holding per store is \$660,000, flat on prior year
- Gross margin grew from 63.9% to 64.2%

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## **BRANDED COLLECTIONS**

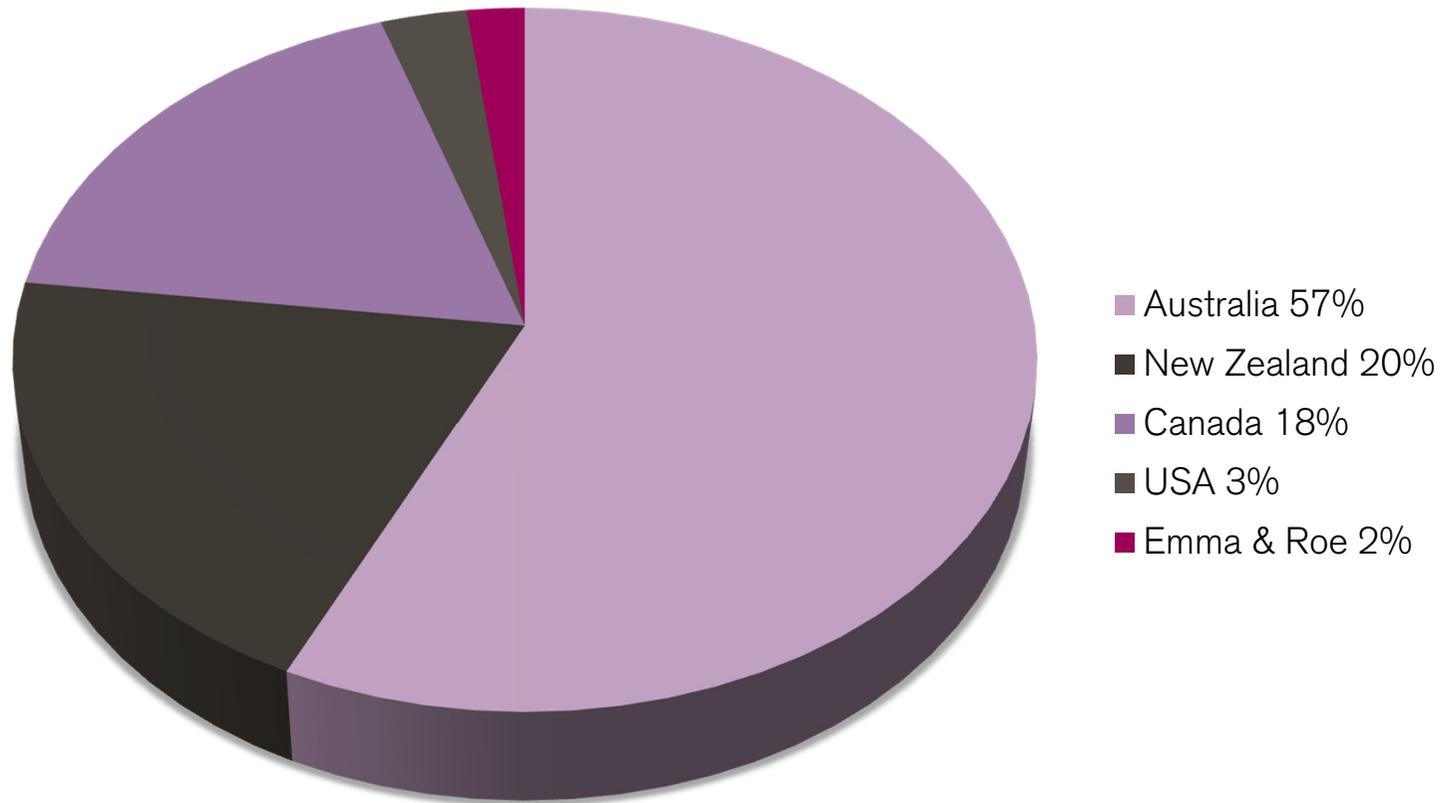
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- Testing and development of the ten proprietary brands across the Group which are currently in various stages of the testing process
- Objective is to drive consumer preference and command margin premium
- Global branded product sales reach 14.8% of total sales compared to 12.8% prior year
- Goal is to have 20% of global sales coming from branded collections
- Proprietary brands provide the Group with incremental margin growth

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## SALES BY COUNTRY

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# FINANCIAL REVIEW

## FINANCIAL REVIEW (AUD)

For the half year ending	2015	2014	% Move
Group revenue	310.8m	283.2m	9.7%
Same store sales	276.4m	291.8m	5.4%
Gross profit	198.9m	180.5m	10.2%
Gross profit %	64.2%	63.9%	
Marketing	19.2m	17.7m	8.8%
Retail wage costs	59.1m	53.2m	11.1%
Occupancy costs	26.6m	24.9m	6.8%
Foreign exchange (gains)/losses	1.3m	(2.0m)	
EBITDA	43.9m	42.6m	3.3%
Depreciation	8.7m	7.6m	14.9%

## FINANCIAL REVIEW (AUD)

For the half year ending	2015	2014	% Move
EBIT *	35.2m	35.0m	0.8%
EBIT % of sales	11.3%	12.4%	
Interest expense	2.2m	2.6m	(13.7%)
NPBT	33.2m	32.4m	2.3%
NPAT	24.9m	23.7m	5.1%
Earnings per share	AU 6.50c	AU 6.19c	
Interim dividend per share	NZ 2.5c	NZ 2.5c	
Net operating cash flows	32.5m	39.9m	(18.7%)
Capital expenditure	12.4m	12.4m	
* EBIT excluding FX gain/(loss)	36.5m	33.0m	10.6%

## FINANCIAL REVIEW (AUD)

For the half year ending	2015	2014	% Move
Trade and other receivables	31.6m	31.1m	1.4%
<i>Includes in-house receivables</i>	<i>15.2m</i>	<i>14.0m</i>	<i>8.6%</i>
Inventories	215.7m	207.8m	3.8%
Working capital	164.7m	146.7m	12.3%
Deferred tax asset	50.6m	65.0m	(22.2%)
Total deferred revenue	73.7m	64.4m	14.5%
Borrowings	33.9m	45.6m	(25.6%)
Net debt	26.3m	33.8m	(22.1%)
Equity ratio	52.6%	50.3%	



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# SUPPORTING INFORMATION & TRENDS

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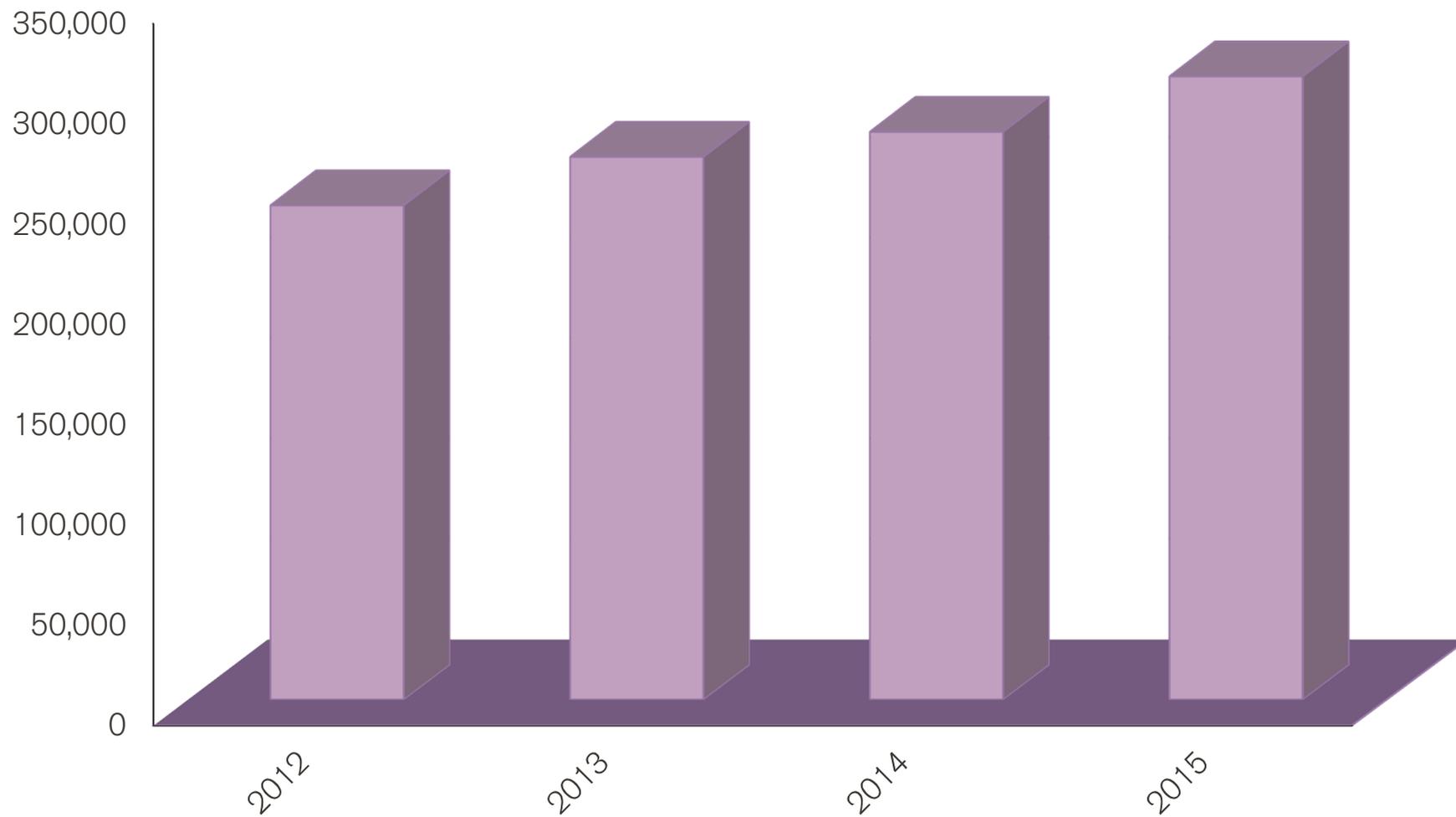
# **SALES TO 31 DECEMBER 2015**

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## GROUP REVENUE TO 31 DECEMBER (AU\$000's)

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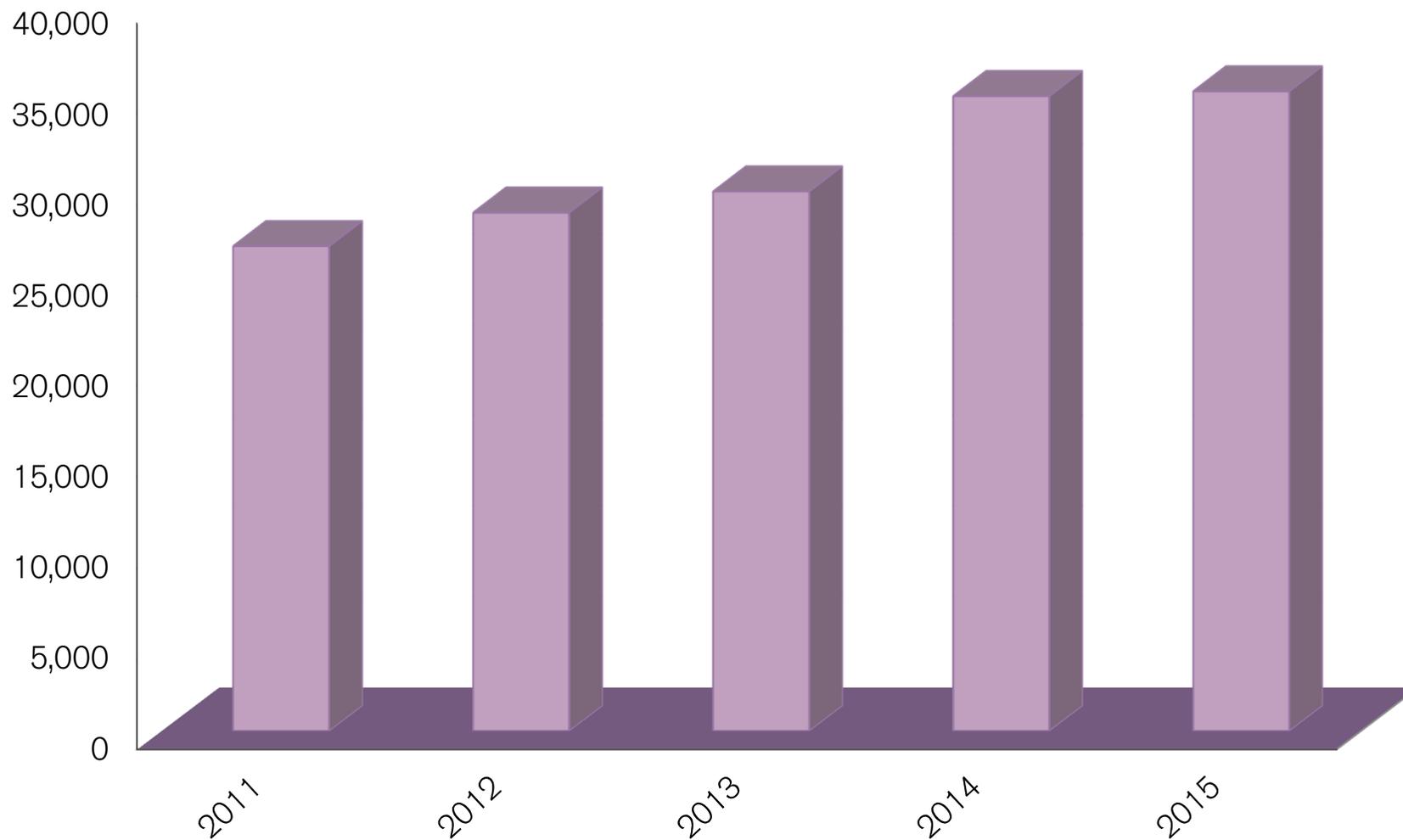


# EBIT CONTRIBUTIONS

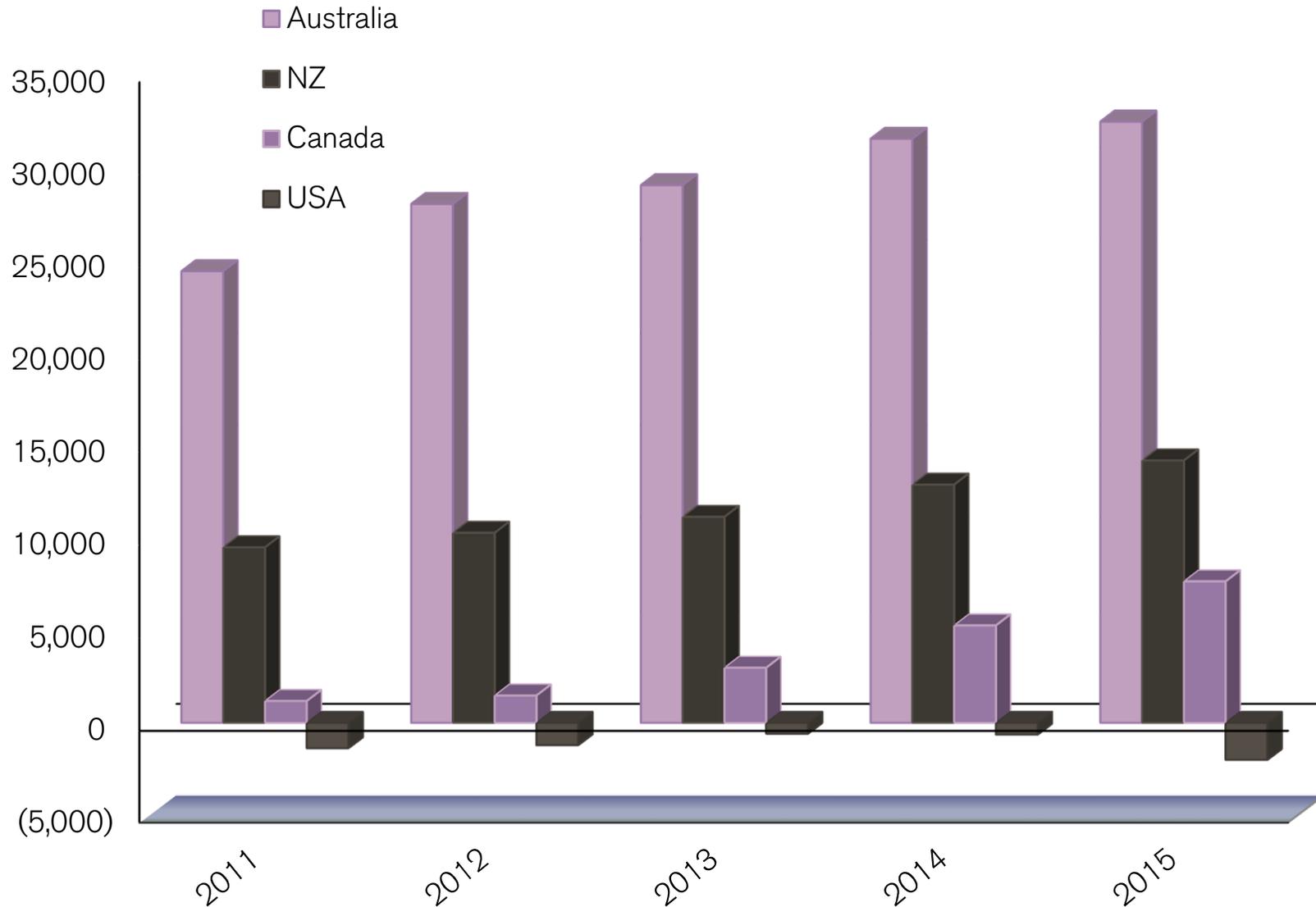
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## EARNINGS BEFORE INTEREST & TAX TO 31 DECEMBER (AU\$000's)

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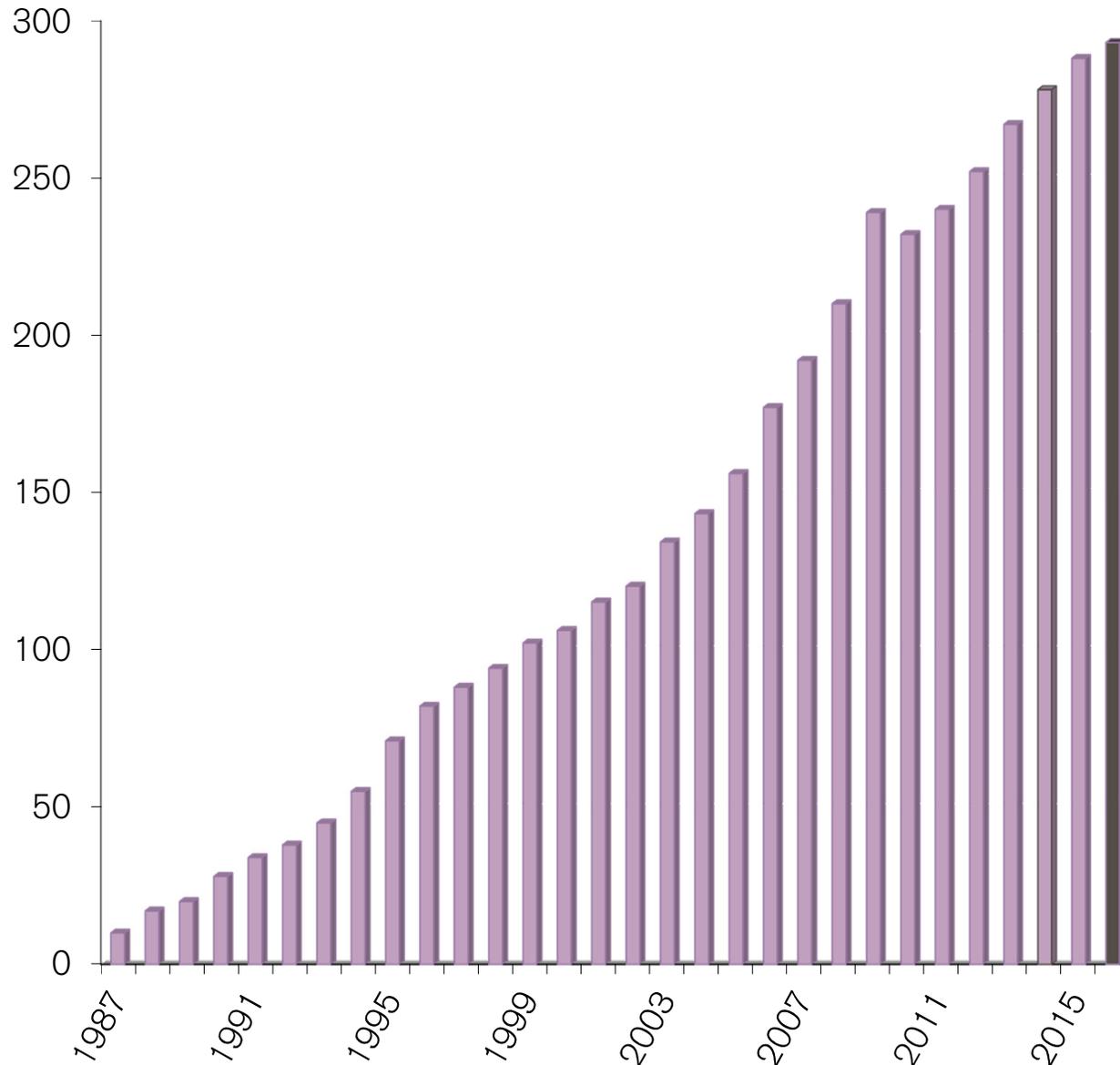


# EBIT CONTRIBUTIONS BY COUNTRY TO 31 DECEMBER (AU\$000's)



# 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
- Dec 15 – 293 + 5

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## AUSTRALASIAN EXPANSION

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### AUSTRALIA

Stores Open 31/12/15		166
Planned for H2 15/16	3 stores	169
Planned for 16/17	3 stores	172
Planned for 17/18	3 stores	175

175 store locations have been identified as suitable locations

### NEW ZEALAND

Stores Open 31/12/15		52
Planned for H2 15/16	0 stores	52
Planned for 16/17	1 store	53
Planned for 17/18	0 stores	53

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## NORTH AMERICAN EXPANSION

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### CANADA

Stores Open 31/12/15		65
Planned for H2 15/16	3 stores	68
Planned for 16/17	6 stores	74
Planned for 17/18	6 stores	80

110 store locations have been identified as suitable locations

### UNITED STATES

Stores Open 31/12/15		10
Planned for H2 15/16	0 stores	10
Planned for 16/17	3 stores	13
Planned for 17/18	5 stores	18

# STORE PHOTOS



Wetherill Park, New South Wales



Vulcan Lane, Auckland



Garden City, Queensland





**michael hill**

INTERNATIONAL LIMITED