michael hill
INTERNATIONAL LIMITED

ASX AND NZX ANNOUNCEMENT
FY2020 FULL YEAR RESULTS
RESILIENT BUSINESS WELL POSITIONED FOR GROWTH

18 August 2020

Michael Hill International Limited (ASX/NZX: MHJ) today announced its full year financial results for the 52-week period ended 28 June 2020.

Key Financial Results

- Statutory net profit after tax of $3.1m (FY19: $16.5m), noting new AASB 16 *Leases* applies for FY20 only.
- Earnings before interest and tax (EBIT) of $14.1m (FY19: $21.1m).
- **Underlying trading[1] EBIT of $25.7m** (FY19: $34.6m).
- Group operating revenues of $492.1m (FY19: $569.5m), largely attributable to COVID-19 store closures.
- **Group adjusted[2] same store sales were up 2.7% at $469.3m** (FY19: $457.1m).
- Group gross margin 60.6% (FY19: 62.0%), predominantly impacted by FX.
- Controlled inventory management, resulting in stock holdings of $178.7m (FY19: $179.5m).
- Strong working capital management.
- No final dividend declared. Interim dividend payment of AU 1.5 cents per share is deferred.

Operational Performance

- **Digital sales increased by 54.7% to a record $24.7m** (FY19: $16.0m), representing 5.0% of total sales (FY19: 2.8%).
- Branded collection sales represented 37.3% of total sales for the full year (FY19: 32.5%).
- Delivery of cloud enabled ERP platform in June 2020, to optimise inventory allocation and store profiling.
- Decisive cash preservation and cost management throughout the year.
- **Loyalty program *Brilliance* launched online and in-store during the year, with over 200,000 members to date.**
- Stores were temporarily closed due to COVID-19 for a period of five to thirteen weeks, opening progressively in accordance with Government health guidelines.
- One new store opened and seventeen under-performing stores were closed during the year, giving a network total of 290 stores across all markets (FY19: 306).

Commenting on the announcement of the Company's full year results, CEO Daniel Bracken, said:

"As I reflect on FY20, it was certainly a year of two halves. Following on from the positive sales momentum achieved across FY19, the business delivered consecutive quarters of sales growth in all markets to finish the first half with +6.3% comp sales. As we entered the second half, we started to see the benefits of our strategies gaining traction as the business shifted its focus to a balance of both sales and margin. Prior to the COVID-19 store closures at the end of March, the business was successfully delivering both sales and margin growth, and was tracking to achieve increased year-on-year EBIT.

"While the COVID-19 closures had a severe impact on headline sales and profit, I was particularly proud of the determination, resilience, and agility of our team across the business through the shutdown and temporary closure periods. As we progressively reopened stores in all markets, we implemented robust safety protocols to protect both our team and customers, and I can confidently say that Michael Hill was best in class in this regard.

"The reopening of our store network saw pleasing sales recovery despite lower foot traffic, and a return to strong margin performance against prior year. This reflected the importance of the strategic progress we have made over the last 12 months and the dedication of our team members and loyal customers.

"As we complete what can only be described as an extraordinary year, we have emerged as a stronger, leaner and more professional business. The strategic progress we have made across loyalty, digital, retail fundamentals and company culture, have Michael Hill well positioned to navigate both the opportunities, and the potential market disruptions ahead."

FY20 – Group Business Performance

The Group reported statutory earnings before interest and tax (EBIT) of $14.1m for the year ended 28 June 2020 (FY19: $21.1m). Underlying trading[1] EBIT for the year decreased to $25.7m (FY19: $34.6m).

Prior to COVID-19, the Company had been gaining positive momentum with increasing same store sales growth and margin improvement. Adjusted[2] same store sales were up 2.7% for the full year to $469.3m (FY19: $457.1m), as the Company focused on enhancing the retail fundamentals and implemented the new retail operating model. This was particularly evident in the first half, when same store sales returned to positive growth with an increase of 6.3%.

The second half erosion of EBIT was a result of the temporary closure of all stores for a period between five to thirteen weeks, due to the COVID-19 pandemic. The Company reduced the financial impact by implementing a lean operating model, ceasing all discretionary spend, and seeking rent abatements from landlords. In addition, wage subsidies were received in each market which partially offset the employee benefits paid out during this period.

The surge in the Company's online business resulted in record digital sales of $24.7m for the full year (up 54.7% on FY19). The online business delivered some of the highest weeks in the Company's history during the COVID-19 period as customers embraced online purchasing whilst stores were closed. Digital sales now represent 5.0% of total sales. During the year, the Company accelerated the delivery of a number of digital first initiatives including enhanced website and user experience, direct selling from social media platforms and digital catalogues, virtual selling, along with the successful launch of our loyalty program *(Brilliance)* which has now reached over 200,000 members globally.

A continued focus on re-imagining our branded collections saw them represent 37.3% of total product sales for the year (FY19: 32.5%). A key milestone was reached with the delivery and go-live of the cloud enabled ERP platform. This platform will optimise inventory management, enhance store profiling and stock allocation, and facilitate multiple initiatives to deliver a true omni-channel customer experience.

During the second half of the year (COVID-19 lockdown period), the Company took decisive action to preserve cash, reduce expenditure, and actively monitor inventory. Cash management initiatives included the cancellation or deferral of capital expenditure, renegotiation of vendor payment terms, engaging with landlords to obtain rental assistance packages including deferrals, and a reduction in the cost of doing business through leaner labour models.

Furthermore, during the COVID-19 temporary store closure period, the Company worked closely with its long standing lending partner ANZ. Given a nil net debt position at year end, the existing $70m facility limit is considered appropriate to meet the Company's inventory and working capital requirements.

The Company opened one new store in Canada and closed seventeen under-performing stores, resulting in 290 stores at 28 June 2020.

Dividends

On 23 March 2020, the Company announced that its FY20 interim dividend had been deferred until 30 September 2020 and was subject to review again before that date. Given the impact of COVID-19 and the uncertain economic environment, in order to protect the Company's balance sheet and liquidity in the interests of shareholders, the Board has decided to further defer payment of the FY20 interim dividend until 30 September 2021. The Board will continue to monitor economic conditions and the Company's performance and may revisit and change the date for payment of the FY20 interim dividend if considered necessary or desirable in the circumstances. The Board has also decided not to declare a final dividend for FY20. The Company's objective is to restore a regular pattern of dividend payments as performance improves and earnings stabilise. Decisions on future dividends will continue to be made in line with the Company's financial framework and dividend policy.

Australian Retail Performance

In Australia, adjusted[2] same store sales marginally improved by 0.1%, and all stores revenue declined by 15.0% to $266.6m (FY19: $313.6m) for the year. Gross margin for the year was 60.4% (FY19: 61.9%), largely due to FX impacts on cost of goods. While the majority of the revenue decline is attributable to the COVID-19 temporary store closure period, a portion is also due to the closure of thirteen underperforming stores during the year. Due to COVID-19 health restrictions, all stores in Australia were closed on 24 March 2020 and progressively reopened from May 2020, and as such stores were closed for a period of between five and ten weeks.

[1] Underlying Trading EBIT (non-IFRS and unaudited) is statutory EBIT adjusted for employee restructure costs, direct incremental expenses relating to COVID-19, and certain non-cash items on a pre-AASB 16 *Leases* basis. Please refer to page 8 of the Directors' Report for a detailed explanation.
[2] Adjusted same store sales reflect sales through store and online channels on a comparable trading day basis and are non-IFRS and unaudited.
[3] Amounts are in local currency.

New Zealand Retail Performance[3]

In New Zealand, adjusted[2] same store sales increased by 2.4% to $103.9m (FY19: $101.4m) and all store revenue declined by 11.1% to $106.7m (FY19: $120.1m) for the year. Gross margin for the year was 59.6% (FY19: 60.8%). The decline in revenue was attributable to the COVID-19 temporary store closure period. The New Zealand Government mandated store closures from 24 March 2020, with stores reopening on either 16 May 2020 or 23 May 2020. Stores were closed for a period of eight to nine weeks.

Canadian Retail Performance[3]

In Canada, adjusted[2] same store sales increased by 2.3% to $102.8m (FY19: $100.5m) and all store revenue declined by 16.8% to $110.8m (FY19: $133.1m) for the year. Gross margin declined to 57.8% (FY19: 60.6%), largely due to FX impacts. The decline in revenue was mainly attributable to the COVID-19 temporary store closure period. All stores in Canada were temporarily closed on 20 March 2020 and progressively reopened across the provinces from June 2020, and as such stores were closed for a period of between ten and thirteen weeks.

Key initiatives for FY21 - Emphasis on Growth and Margin

Strong retail fundamentals embedded within a disciplined framework providing a robust platform to enable a true omni-channel customer experience and maximise growth opportunities:

1. **Omni-Channel** – leveraging the recent investment in our new ERP platform, the business will embark on multiple digital and physical initiatives to meet the demands of a modern-day customer, including “click and collect/reserve”, “ship from store”, as well as “drop ship” and marketplace opportunities

2. **Digital** – building on the successes of FY20 including positive launches of virtual try-on and virtual selling, further enhancements will be delivered across loyalty, new sales platforms and customer communication channels. August 2020 launch of a pure play digital brand - medleyjewellery.com.au - an aspirational and attainable on-trend jewellery offering

3. **Retail Fundamentals** – continue to deliver improved gross profit and sales performance by embedding multiple initiatives and reinvigorating the retail store culture and customer experience. Additionally, an increased focus on space planning to optimise store productivity and efficiencies

4. **Canadian Opportunities** – maintaining focus on increased productivity targets while delivering a new supply chain solution, exploring new growth channels, and maximising commercial opportunities of the in-house credit program, including a potential divestment of the credit book

5. **Product Evolution** – undertake range and assortment rationalisation strategy, aligned to refreshed product newness calendar and higher inventory turns. A focus on optimising margin through product mix and continuing to enhance higher margin product offerings (eg laboratory created diamonds) and branded collections

6. **Cost Conscious Culture** – embedding an absolute focus on cost disciplines, inventory and capital management across all aspects of the Company

Outlook for FY21

Michael Hill International CEO Daniel Bracken said:

“While Michael Hill navigates the impacts of the global pandemic, and the ongoing potential of store closures, as currently mandated in Victoria and Auckland, the business has started FY21 positively. Pleasingly, gross margin improvement has continued as our investments in strategic initiatives gather momentum. Additionally, the Company has identified a number of growth and margin opportunities to strengthen our business, across product, digital and a true omni-channel offering. I am also very excited about the launch of our new pure play digital brand – Medley. This offers us a real opportunity to expand into the high margin demi-fine category, attracting a new customer demographic in an agile and capital light manner.”

Important Note

The above represents the current decisions and intentions of the Company. Further information will be provided if the company's decisions or intentions change or the company has new information, in accordance with the company's disclosure obligations.

Analyst and investor call

An analyst briefing on the results will be held on Wednesday 19 August 2020 at 10:15am (AEST). Webcast and dial in details may be found in the Company's announcement dated 18 August 2020.

This announcement is authorised for release by the Board.

– ENDS –

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ABOUT MICHAEL HILL INTERNATIONAL

Michael Hill International was founded by Sir Michael Hill in 1979 when he opened his first jewellery store in Whangarei, New Zealand. The Group currently has 290 stores globally across Australia, New Zealand and Canada. The Group's global headquarters, including its wholesale and manufacturing divisions, are located in Brisbane, Australia. The Company is listed on the ASX (ASX:MHJ) and the NZX (NZX:MHJ).

For more information:
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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, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the COVID-19 pandemic.

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 announcement.

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