

ASX AND NZX ANNOUNCEMENT

MICHAEL HILL DELIVERS STRONG START TO FY21

First Quarter Trading Update

13 October 2020

KEY POINTS

- **Strong same store sales growth in all markets and channels** – Same store sales for the quarter were up 7.3% against FY20Q1, maintaining the focus on growth strategies to support both sales and margin.
- **Increased margin and gross profit** – Margin growth in all markets and channels of 100 to 200 bps for the quarter, against FY20Q1, with gross profit growth outpacing sales.
- **Sustained growth in digital sales** – For the quarter, online sales were up 129% against FY20Q1, with digital initiatives delivering increased sales and margin across all markets and providing a favourable impact on group margin mix. For the quarter, digital channels now represent 5.3% of total sales.
- **Branded collection sales growth** – Branded collections represented 43.3% of total product sales for the quarter (FY20Q1: 37.9%), reinforcing our strategy to emphasise uniquely Michael Hill product.
- **Brilliance by Michael Hill loyalty program** – Membership now exceeds 260,000, representing an 80.9% lift from June 2020 year end.
- **Robust balance sheet and disciplined cost focus** – Diligent management of capital expenditure, working capital, inventory levels and a sustained, deliberate focus on CODB helped to maintain a healthy net cash position at quarter end.
- **Impact of store closures** – Reflecting a combination of COVID-19 impacted store closures (44) and a deliberate reduction of 15 under-performing stores compared to FY20Q1, all store sales were down by 3.6% for the quarter.
- **Store portfolio management** – One under-performing store (in Australia) was permanently closed, with a network total of 289 stores across all markets at the end of FY21Q1 (FY20Q1: 304). In accordance with COVID-19 government directives, 44 stores were temporarily closed for extended periods during the quarter across Melbourne (28) and Auckland (16).

Commenting on the result, Michael Hill International Limited, CEO Daniel Bracken said:

"I am particularly pleased with our first quarter results from both a sales and margin perspective. Although experiencing double digit foot traffic decline at a store level, we achieved a significant lift in same store sales, largely attributable to a number of key initiatives delivering material improvements in conversion and ATV."

"As previously reported, our emphasis has shifted from a focus on top line sales and market share recovery, to a balance of both margin and sales growth, underpinned by our strategic initiatives. It is encouraging to see so many of these strategies now flowing through to our results."

"Undoubtedly, the business has been and will continue to be impacted by the COVID-19 pandemic, with uncontrollable impacts on our store network, as seen in Melbourne and Auckland, and ongoing lower foot traffic. To navigate the impacts of the pandemic, the Company has put in place a number of measures - strong health and safety protocols, accelerating virtual selling and try-ons and rolling out multiple digital initiatives."

"I would like to make special mention of our teams in Auckland and especially Melbourne, who have endured sustained impacts of the pandemic, affecting the well-being of our team members and their families. To that end, I am particularly proud that Michael Hill was able to deliver on our values in supporting its impacted team members during these challenging times."

"As highlighted in our year end presentation, we continue to focus on new and exciting opportunities that will gather pace through the coming quarter and over the balance of the year. The recent deployment of our cloud enabled ERP platform provides the foundation for growth with the delivery of digital, marketplace and omni-channel initiatives. A continued disciplined fiscal mindset has seen a cost conscious culture now truly embedded as a key pillar of business performance."

"The Company is well-positioned as we enter our all-important Christmas trading period with a healthy balance sheet and reinvigorated teams in all markets. A well-managed supply chain, an exciting merchandise offer, and our best ever Christmas marketing campaign provide confidence that we can maintain strong momentum across the most significant quarter of the year."

SEGMENT BREAKDOWN

- The Australian segment same store sales were up by 12.5% for the quarter. Due to Government mandatory COVID-19 closure requirements, 28 Melbourne stores were temporarily closed for virtually the entire quarter and remain closed. Of our 154 stores (FY20Q1: 165), 126 stores were trading at the end of FY21Q1.
- The New Zealand segment same store sales were up by 4.7% for the quarter. Due to Government mandatory COVID-19 closure requirements, 16 Auckland stores were temporarily closed for nearly three weeks. There were 49 stores trading at the end of FY21Q1 (FY20Q1: 52).
- The Canadian segment same store sales were up by 5.9% for the quarter. There were 85 of the 86 stores trading at the end of FY21Q1 (FY20Q1: 87). One Canadian store was temporarily closed for the entire quarter.
- Group same store sales were up by 7.3% for the quarter and this follows growth of 11.9% in FY20Q1.

Revenue for retail operations for **FY21Q1** (thirteen week trading period ended 27 September 2020):

		\$m	\$m	
		Last Year	This Year	% Var
The following figures are in Australian dollars				
Total same stores	AUD	108.8	116.7	7.3%
Total all stores	AUD	123.7	119.3	-3.6%
Same store figures in local currency				
Australia same stores	AUD	57.1	64.2	12.5%
New Zealand same stores	NZD	23.3	24.4	4.7%
Canada same stores	CAD	26.6	28.2	5.9%
All stores figures in local currency				
Australia all stores	AUD	68.2	64.8	-5.0%
New Zealand all stores	NZD	26.1	25.4	-2.6%
Canada all stores	CAD	27.8	29.4	5.7%
Exchange rates used for FY21Q1:				
New Zealand		1.05	1.08	
Canada		0.90	0.95	

Same store sales reflect sales through store and online channels on a comparable trading day basis and a proportional allocation of Professional Care Plan (PCP) revenue and accounting adjustments, and are unaudited.

The above figures for all store sales represents two months sales results with accounting adjustments plus September preliminary sales figures prior to final accounting adjustments, and are unaudited. All stores figures stated above include the PCP revenue recognised during the period and sales through our store and online channels. The PCP income recognition pattern is based on existing estimates and is subject to ongoing management review and adjusted at half-year/year-end as required.

This announcement is authorised for release by the Board.

ENDS

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ABOUT MICHAEL HILL INTERNATIONAL LIMITED

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 289 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).

www.investor.michaelhill.com

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.