

ASX AND NZX ANNOUNCEMENT

FY24H1 RESULTS

26 February 2024

Michael Hill International Limited (ASX/NZX: MHJ) today announced its financial results for the half year ended 31 December 2023¹.

Following three years of record results at Michael Hill, retail conditions for the fine jewellery sector were challenging throughout 2023. The macroeconomic environment impacting consumer sentiment resulted in difficult trading conditions across the first half of FY24.

Key Financial Results

- **Comparable earnings before interest and tax (EBIT) of \$31.3m**, in line with previous guidance.
- **Group revenue was up 4%** on a 26-week basis (including Bevilles) at \$362.7m, and flat on a statutory basis (FY23H1: 27 weeks). The sales trend for the core Michael Hill brand improved through the half, however was still negative to the record first half of FY23.
- **Group gross margin was under pressure at 61.5%** in line with previous guidance, due to higher input costs for gold and diamonds and increased promotional activity in response to more aggressive retail trading conditions.
- Inventory levels are in line with management's expectations at \$219.8m, with the increase attributable to the Bevilles acquisition.
- Closing net debt position of \$11.6m, having deployed cash to support ongoing investment in the core business and the Bevilles acquisition.
- Interim dividend of AU1.75 cents per share declared.

Operational Performance

- During the last 12 months, a major review of our product offering was undertaken, with product newness being released into stores across the final quarter delivering early positive results.
- Digital sales have continued to return to growth delivering \$29.6m and representing 8.2% of total Group sales for the half, supported by positive contributions from new digital channels.
- New high-end bespoke brand TenSevenSeven was soft launched digitally prior to Christmas.
- Medley delivered 22% sales growth in the half, and successfully trialled its first ever pop-up kiosk in Chadstone.
- The recently acquired Bevilles brand expanded into Qld with two new stores, and two further stores were added to the portfolio in NSW, taking the network to 30. Additionally, four new sites have been secured for opening in the second half.

Current Trading Update

- For the first seven weeks of FY24H2, Group sales (including Bevilles) are up 9.5% on prior year, with the Michael Hill Australia retail business driving the improvement in performance.

Commenting on the announcement of the Company's half year results, Managing Director & CEO Daniel Bracken, said:

"There is no doubt that the first half was a challenging period for much of the discretionary retail sector. That being said, we were encouraged by our performance against market data within our category."

"Clearly margin was under pressure from both input costs and promotional activity, and inflationary forces saw elevated costs across many aspects of the business, which together, impacted EBIT for the half."

"Notwithstanding market conditions, the business remains committed to its multi-brand group strategy, with a focus on elevating the Michael Hill brand and expanding the Bevilles network, to continue to take market share."

¹ FY24H1: 26 weeks, FY23H1: 27 weeks

FY24H1 – Group Business Performance

The first half of FY24 was a challenging period for the business cycling record performance in FY23, and tough retail trading conditions driven by low consumer confidence and macro-economic pressures. Notwithstanding the difficult conditions, external third-party transactional data demonstrates that Michael Hill is performing better than the broader jewellery market.

Given this environment, the Group reported a decline in performance, with comparable earnings before interest and tax of \$31.3m for the half year ended 31 December 2023. This result was driven by a combination of lower gross margins and inflationary cost pressures.

For the half, the Company delivered revenue of \$362.7m, up 4% on a 26-week basis including Bevilles, and flat on a statutory basis (FY23H1: 27 weeks). Gross margin was under pressure at 61.5%, due to higher input costs for gold and diamonds, along with the Company responding to heightened competitor promotional activity across the key Christmas trading period. Inflationary pressures impacted the majority of costs across the business, most notably store labour and occupancy, the two largest cost categories. With this in mind, the Company took action in the half, removing a number of leadership roles across the organisation, with annualised cost savings of \$3m-\$4m.

To support the continued evolution of the brand and the strategic lift in average transaction value, the Company undertook an extensive review of the entire product offering. This saw a significant product refresh with innovation and newness delivered to stores in time for the all-important peak Christmas trading period, with strong early results and positive customer feedback. Stock holdings closed for the half at \$219.8m, with the increase attributable to the Bevilles acquisition.

Having deployed cash for a number of strategic initiatives, including the acquisition of Bevilles, the development of TenSevenSeven, along with digital and data investments, the Company delivered a closing net debt position of \$11.6m.

During the half, four new Bevilles AU stores opened taking the network to 30. For Michael Hill, six under-performing stores were permanently closed (AU: 5, CA: 1) taking the network to 272 (AU: 141, NZ: 46, CA: 85). The total Group network was 302 stores at the end of the half across all markets.

Segment Performance

Australia

Retail segment revenue increased by 10.2% to \$202.3m for the half on a 26-week basis (including Bevilles), and up 6.1% on a statutory basis (FY23H1: 27 weeks).

Gross margin for the half was 60.6%.

During the half, four new Bevilles stores opened, and five Michael Hill stores closed, resulting in 171 stores (including 30 Bevilles stores) at the end of the half.

New Zealand

Retail segment revenue decreased by 10.3% to NZ\$65.4m for the half on a 26-week basis, and down 14.2% on a statutory basis (FY23H1: 27 weeks).

Gross margin for the half was 59.9%.

Given the ongoing security incidents experienced in New Zealand and in order to protect our customers, teams and stores, significant investment in security measures continue to have a direct impact on earnings of ~\$3m.

During the half year, no stores were opened or closed, resulting in 46 stores at the end of the half.

Canada

Retail segment revenue increased by 0.5% to CA\$88.6m for the half on a 26-week basis, and down 3.8% on a statutory basis (FY23H1: 27 weeks). This result is a credit to the segment considering last year was another record performance.

Gross margin for the half was 61.0%.

During the half, one under-performing store was closed, resulting in 85 stores at the end of the half.

Capital Management

While recent record results funded a share buy-back and the acquisition of BeVilles, the first half of FY24 was a challenging period for the business in tough retail trading conditions.

Given compressed earnings in FY24H1 and a commitment to prudent investment in operating and capital expenditure, the Board has decided to declare an interim dividend of AU1.75 cents per share, unfranked for Australian purposes, with nil New Zealand imputation credits and with conduit foreign income. The record date for the dividend will be Friday 8 March 2024 with payment on Friday 22 March 2024.

Group Strategy – Emphasis on Growth

While market conditions continue to be challenging, the business remains committed to its multi-brand group strategy with an emphasis on sales and margin growth.



Reposition Michael Hill Brand, 2020 - 2023

Much of the Company's strong performance over the last three years can be attributed to the strategic transformation of Michael Hill – the strategy to elevate and modernise the brand has underpinned the overarching vision for the business. The aspirational brand journey to a more premium market positioning continues, with consistent customer-led business imperatives:

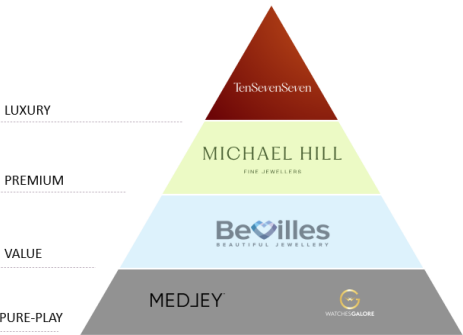
- **Brand & Loyalty** – Contemporary premium jewellery brand, leveraging best-in-class loyalty program
- **Retail Fundamentals** – Elevated customer experience, unwavering focus on productivity
- **Digital & Omni-channel** – Omni-first, channel agnostic, digitally-led new markets
- **Product Evolution** – Premium yet accessible, with diamonds at our core
- **Sustainability** – “the jeweller that cares”, global category leader

The Company has demonstrated the success of the aspirational brand journey strategy, firstly through an increasing average transaction value of ~30% over this period, validating our focus on elevated customer experience, higher quality product and attraction of a new modern customer. Secondly, retail productivity has lifted considerably across all markets delivering increased revenues from an optimised store network.

Establish Portfolio of Brands, 2023 - 2024

As the Michael Hill brand continues its aspirational brand journey to a more premium position, the acquisition of the Bevilles business provides a vehicle to take market share at the value end of the fine jewellery category. Additionally, in the first half of FY24, the Company soft launched its new bespoke brand *TenSevenSeven*, focused on servicing the high-end of the market with its unique personalised diamond ring proposition.

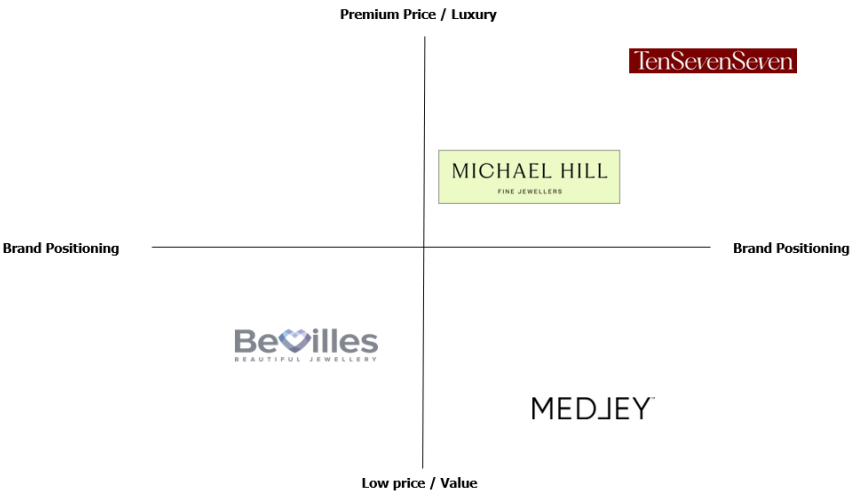
With these additional brands, the Michael Hill Group now services all significant customer segments of the fine jewellery category, and delivers multiple new growth pipelines.



In addition to our core fine jewellery brands, Medley continues to establish itself as an emerging brand in the fashion demi-fine/fine jewellery category. Watches Galore joined the group as part of the Bevilles acquisition, and remains an untapped opportunity for the business.

Product & Brand Proposition, 2024 - 2025

With the Michael Hill Group multi-brand strategy now in place, each brand is uniquely positioned for different segments and price propositions, and its own strategic priorities:



TenSevenSeven	<i>Uniquely modern, high-end bespoke</i>
Michael Hill	<i>Premium contemporary classics, milestone moments</i>
Bevilles	<i>Everyday essentials, great value</i>
Medley	<i>Fashion forward, accessible style</i>

Michael Hill

- April 2024 will see a complete brand refresh of Michael Hill delivering a new elevated aesthetic across the brand assets, colour palette and logos. This will be gradually brought to life across digital platforms, new stores, and packaging.
- This will soon be followed by the exciting milestone of the brand's first "store of the future". In May 2024, a new global flagship store will come to life in Chadstone, the most premium centre in the Australian market. The new store will incorporate all aspects of the new brand product and proposition, with a new high value product offering, elevated in-store experience, and private selling spaces.
- Product evolution continues with a focus on quality, innovation and sustainability. Simultaneously, the development of key signature ranges embody the premium brand positioning.
- Launch of the Michael Hill Foundation in late February represents our ongoing commitment to meaningful change, and our dedication to a better world. The Foundation encompasses two key areas of focus: Empowering Women and Nature Restoration.

Bevilles

- An increased focus on enhancing the brand's differentiated proposition to increase disruption in the value segment.
- Rebalancing the product offering and visual presentation to take advantage of clearly identified market opportunities and in turn, maximising sales and margin.
- Re-establishing the brand's dominance in its core and everyday value product offering with a more productive and streamlined product range
- In support of the clearly defined network expansion plan, building a cost-effective marketing strategy that resonates with both existing and new customers.

TenSevenSeven

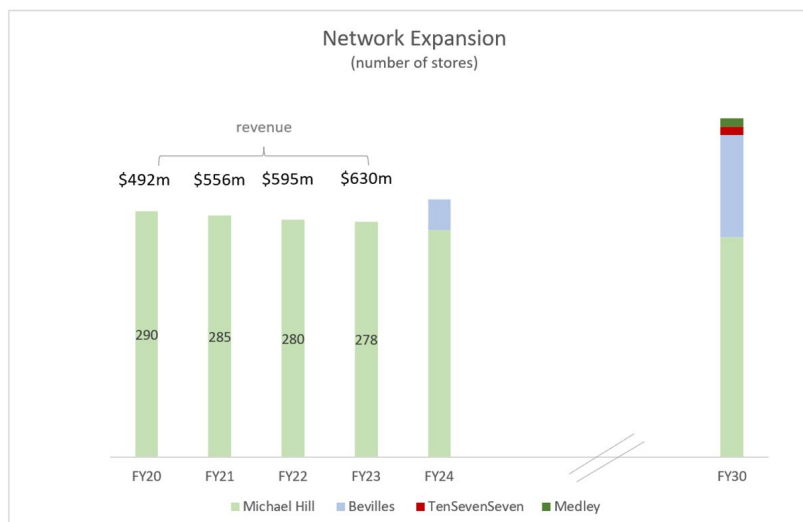
- New start-up brand within a unique and elevated proposition, capturing an entirely new high-end customer.
- Continued enhancements of the digital customer experience, with product extensions and an increased unique diamond offering.
- Staged investment to attract both connected and new clients.

Medley

- Building on fashion positioning across both demi-fine and fine jewellery to a younger demographic.
- Optimise digital multi-channel investments.
- Continue to explore new channels, both physical and digital.

Network Expansion & Productivity, 2025 - 2030

With each brand uniquely positioned for their target customer segments, and with both product and brand propositions established, the group will be well-placed to grow revenue and profits through a more productive and expanded distribution network.



Michael Hill

- Store productivity has proven to be a key lever of growth over the prior three years and as the brand continues to elevate and attract new target customers, it is anticipated that this will continue.
- As the network aligns over time to the elevated product proposition, and with the continued focus on brand evolution, it is expected that average transaction values will continue to increase and support revenue growth.
- The brand refresh of our direct-to-consumer digital platforms will deliver improved customer experience and conversion rates, which in conjunction with investments in data and insights, will increase productivity across all channels.
- Beyond the brand's leading position in bridal, promoting other key milestone moments presents significant revenue opportunities for the business.
- Data insights from the *Brilliance* loyalty program have identified further opportunities in targeting the self-purchasing customer, providing additional revenue.

Bevilles

- Even with the challenging trading conditions in the jewellery sector, the business has held firm on its strategic intent to grow the footprint and strengthen its position in the market.
- The business will have grown the Bevilles network from 26 to 36 stores in the first year of ownership.
- Based on Michael Hill experience, data insights and competitor analysis, the opportunity to grow the network to over 100 stores in Australia remains firmly in place.
- As the Michael Hill brand elevates to a more premium position, this presents opportunities with select stores to transition to the Bevilles brand in a cost-efficient model.
- A streamlined product offering will enable a step-change in visual presentation and customer experience, leading to a more efficient store footprint and an increase in productivity.

TenSevenSeven

- Deliver customer acquisition strategy to further drive brand recognition, and leverage group customer data to drive increased website productivity.
- In order to realise the brand's revenue potential, it is essential to identify and deploy a small number of flagship showrooms in key capital city destinations. Insights from US competitor brands demonstrate that a physical presence significantly increases both the conversion rate and the productivity in this segment.

Medley

- Continue to optimise core digital platform, through customer acquisition and increased purchase frequency.
- Enhancing the marketplace and new channel strategy.
- Following the success of the Chadstone pop-up, further test and trial kiosk opportunities will be established.

Leveraging Group Capabilities

The multi-brand strategy is underpinned by a philosophy of leveraging group capabilities to drive productivity across all brands:

- Group technology investments and capabilities
- Customer data and insights
- Distribution and logistics synergies to optimise the cost of doing business
- Portfolio vendor management to support product quality and margins
- Digital capabilities to drive efficiency and growth
- Property management to optimise real estate network
- Core support and specialist functions across Human Resources, Finance and Legal

Current Trading Update

For the first seven weeks of FY24H2, Group sales (including Bevilles) are up 9.5% on prior year, with the Michael Hill Australia retail business driving the improvement in performance against FY24H1:

- Australian segment sales (including Bevilles) +19.6% on prior year
- New Zealand segment sales -9.2% on prior year
- Canada segment sales -0.9% on prior year

Managing Director & CEO of Michael Hill International Limited, Daniel Bracken said:

"While the economic conditions and retail environment remain challenging in all markets, we are encouraged by our ongoing performance in Canada as a lead indicator, and early green shoots in Australia in the second half."

Analyst and investor call

An investor briefing on the results will be held on Monday 26 February 2024 at 9:00am (AEST). Please note that the webcast page will not be available until 8:30am (Brisbane, Qld time) and it is advised that you join at least 5 minutes before the meeting commences.

Webcast link:

The webcast link for the briefing call on Monday 26 February 2024:

<https://web.lumiconnect.com/300830885>

If prompted, please enter the meeting ID: 300-830-885

Important Notes

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.

Comparable EBIT is unaudited, excludes the impact of AASB16 *Leases* and IFRIC SaaS guidance, and with normalisations.

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 302 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:
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.

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