

michael hill[®]
INTERNATIONAL LIMITED

ANNUAL RESULTS

30 JUNE 2018



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.

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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.



CEO and CFO REVIEW

- OVERVIEW AND STRATEGIC SNAPSHOT
- FINANCIAL HIGHLIGHTS
- GROUP RESULTS
- STRATEGIC SHIFTS
- PRIORITIES FOR 2018-19



OVERVIEW AND STRATEGIC SNAPSHOT

Revenues \$575.5m



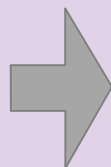
NPAT continuing operations \$34.8m



EBIT from continuing operations \$50.1m



Full year dividend 5c



Cash Flow



Net Debt



- FY18 was a year of recalibration and repositioning, with the closure of the US stores and Emma & Roe brand and a refocus on the three core markets of Australia, New Zealand and Canada.
- Revenue from continuing operations of \$575.5m was up 4.4%.
- Statutory NPAT of \$4.6m, impacted by one-off closure costs and deterioration in performance for Emma & Roe and the US. NPAT from continuing operations of \$34.8m.
- EBIT from continuing operations of \$50.1m and normalised EBIT of \$40.1m.
- EBIT from continuing retail segments (Australia, New Zealand, Canada) of \$89.1m, down 1.6% from prior year of \$90.5m.
- Canadian segment continues to gain market share with a record EBIT for the year of CA\$14.6m.

OVERVIEW AND STRATEGIC SNAPSHOT

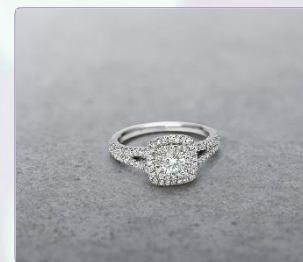
- The Group has identified five strategic shifts that are designed to reposition Michael Hill from a traditional retailer to a differentiated omni-channel brand:
 - **Omni-channel:** *Building capability to deliver a seamless customer experience*
 - **Customer loyalty:** *Building data capability to better service customers*
 - **Unique branded collections:** *Escalate our growth of branded collections*
 - **Brand position:** *Strengthen and grow brand loyalty*
 - **Operational excellence:** *Enhance execution capability and agility*
- To deliver against this ambition, investment will be made in capability and infrastructure.
- FY19 will be a foundational year, with the benefits from these investments to be progressively realised.
- Incremental planned opex of \$3m includes: COO, CPO and additional roles in data and digital.
- Planned capex of \$25m for FY19 is in line with prior years: investment programme across new and refurbished stores, IT systems, tools and infrastructure.

FINANCIAL HIGHLIGHTS

\$575.5 MILLION
CONTINUING
OPERATIONS REVENUE

↑ 4.4%

63.7%
GROSS MARGIN

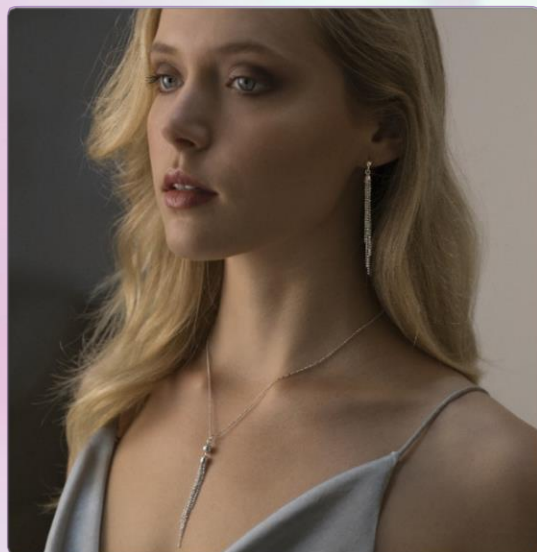


\$54.9 MILLION
OPERATING NET CASH INFLOW

↑ 37.8%

↑ **0.4%**
SAME STORE
SALES

5.0c
DIVIDEND
2017: 5.0 C



\$28 MILLION
↓ NET DEBT
2017: \$39.4m

\$50.1 MILLION
↓ EBIT
CONTINUING
OPERATIONS

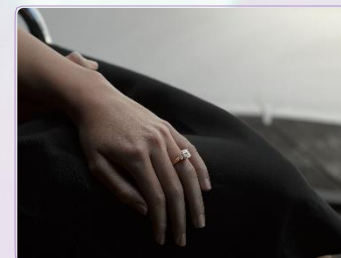
↓ **\$4.6 MILLION**
NET PROFIT
AFTER TAX

17
NEW STORES
OPENED

FINANCIAL HIGHLIGHTS

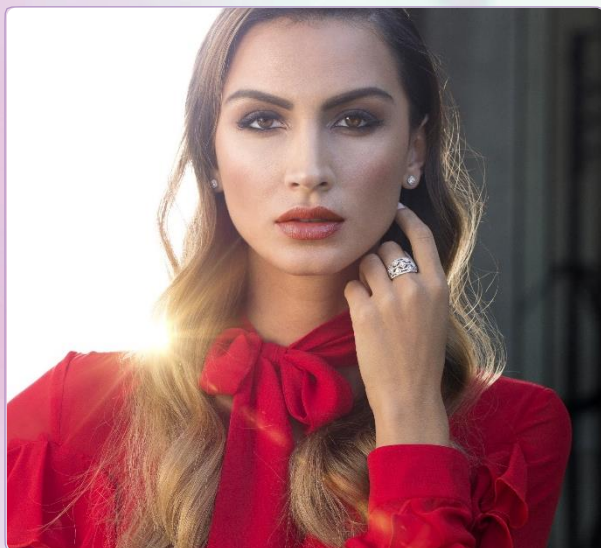
↓ **50.4%**
EQUITY RATIO
2017: 52.0%

\$10.3 MILLION
E-COMMERCE SALES
GROWTH
↑ **57.4%**



\$89.1 MILLION
EBIT FROM CONTINUING RETAIL SEGMENTS
↓ **1.6%**

↑ **3.8%**
CANADA
SAME STORE SALES
GROWTH



\$35.7 MILLION
PCP SALES
(CONTINUING
OPERATIONS)

↑ **2.3%**
NEW ZEALAND
SAME STORE SALES
GROWTH

18.0%
BRANDED COLLECTION
SALES
↑ 2017: 14.2%

↓ **-0.9%**
AUSTRALIA
SAME STORE SALES
GROWTH

GROUP RESULTS

- Revenue from continuing operations grew 4.4%, with same store sales up 0.4%
- Gross margin for the Group was flat on prior year at 63.7% of revenue
- Normalised EBIT before one-off items of \$40.1m, down from \$48.1m
- EBIT from continuing operations of \$50.1m
- Full year dividend of 5.0 cents per share in line with prior year, unfranked and fully imputed

For the year ending	AUD	Jun-18	Jun-17	move
Revenue		575.5m	551.1m	4.4%
Gross profit		366.9m	351.0m	4.5%
Gross profit as a % of revenue		63.7%	63.7%	-
EBIT – continuing operations		50.1m	62.3m	-19.5%
EBIT – continuing operations as a % of revenue		8.7%	11.3%	-2.6%
Normalised EBIT		40.1m	48.1m	-16.6%
Normalised EBIT – as a % of revenue		6.6%	8.3%	-1.7%
Statutory EBIT		13.2m	48.1m	-72.5%
Statutory EBIT as a % of revenue		2.3%	8.7%	-6.4%
Total stores open		312	332	-20

MICHAEL HILL AUSTRALIA

RETAIL SEGMENT

- Revenue grew by 1.2% in a tough retail market
- Gross margin of 63.3%, up from 62.6% in prior year
- Rising costs and a challenging retail environment impacted EBIT of \$48.6m
- 7 new stores opened during the year and 2 closed, giving a total of 171 trading at the end of the period
- Potential exists to deliver superior results over time which will be assisted by splitting the large Australian segment into two businesses each led by a Retail General Manager

For the year ending	AUD	Jun-18	Jun-17	move
Revenue		325.7m	322.0m	1.2%
Gross profit		206.3m	201.7m	2.3%
Gross profit as a % of revenue		63.3%	62.6%	0.7%
EBIT		48.6m	51.7m	-5.9%
EBIT as a % of revenue		14.9%	16.1%	-1.2%
Total stores open		171	166	5



MICHAEL HILL NEW ZEALAND

RETAIL SEGMENT

- Revenue grew by 2.7% to NZ\$125.2m
- Same store sales growth of 2.3% in a mature market
- EBIT of NZ\$27.8m, in line with the prior year
- The focus in this mature market is on improving store locations and building average store sales through broadening our product offer and improving our online sales channel
- Total of 52 stores trading at 30 June 2018

For the year ending	NZD	Jun-18	Jun-17	move
Revenue		125.2m	122.0m	2.7%
Gross profit		77.7m	75.2m	3.3%
Gross profit as a % of revenue		62.0%	61.7%	0.3%
EBIT		27.8m	27.8m	-
EBIT as a % of revenue		22.2%	22.8%	-0.6%
Total stores open		52	52	-



MICHAEL HILL CANADA

RETAIL SEGMENT

- Revenue grew by 16.0% to CA\$130.8m
- Same store sales grew 3.8%
- EBIT increased 17.9% to a record CA\$14.6m
- This segment continues to show good growth as it achieves scale and increases market share
- 8 new stores opened during the year and 1 closed, giving a total of 83 stores operating

For the year ending	CAD	Jun-18	Jun-17	move
Revenue		130.8m	112.7m	16.0%
Gross profit		81.6m	69.1m	18.1%
Gross profit as a % of revenue		62.4%	61.3%	1.1%
EBIT		14.6m	12.4m	17.9%
EBIT as a % of revenue		11.2%	11.0%	0.2%
Total stores open		83	76	7



STRATEGIC SHIFTS

OMNI-CHANNEL: BUILDING CAPABILITY TO DELIVER A SEAMLESS CUSTOMER EXPERIENCE

Evolving our online experience, including integration of digital and social channels with our store network, to enable a seamless experience for customers where and when they engage with us.

- **Target growth in e-commerce** – e-commerce revenues increased by 57.4% in FY18, driven by an uplift in online activity to now represent over 1.8% of the Group's total revenue. We will target continued e-commerce growth.
- **Continue to focus on online experiences** – investment being made in better online capabilities to evolve our online offering and to capitalise on growing levels of customer interest, including on social media channels.
- **Increase market share** – seeking to achieve through improved customer engagement across all channels and increased frequency of visit.
- **Long-term vision** – e-commerce revenues are expected to grow in coming years as we refine our offer and optimise our online channels. Our planned investment in our e-commerce capability will take full advantage of this growth opportunity.
- **A global e-commerce presence** – the Group operates Michael Hill e-commerce sites in all of our markets and an Emma & Roe e-commerce site in Australia, which will operate for part of next financial year to facilitate stock clearance for that brand.

CUSTOMER LOYALTY: BUILDING DATA CAPABILITY TO BETTER SERVICE CUSTOMERS

Using data driven customer insights to deliver tailored customer experiences to drive brand loyalty and advocacy.

- **A focus on customer data and insights** – Build our data and insights capability to be better informed and service our multi customer groups to deliver tailored customer experience and grow brand loyalty.
- **An immersive cross-channel experience** – additional resources for our e-commerce strategy, especially in relation to digital and data, which will be the foundation of the Group's omni-channel and customer engagement strategies.

UNIQUE BRANDED COLLECTIONS: ESCALATE OUR GROWTH OF BRANDED COLLECTIONS

Through enhanced designer capability, create unique branded collections to meet growing customer demand for differentiated products.

- **Growth through proprietary branded collections** – planning to grow revenue by increasing investment in these ranges. Branded collections provide a unique product offering to our customers and in doing so, builds strong brand equity in the markets we operate in.
- **Increased consumer demand** – branded collection sales increased to 18.0% of total product sales in FY18, up from 14.2% on the prior year. We are planning for continued growth.
- **Sustained revenue growth** – branded collection sales targeted for further growth as a percentage of total sales.

BRAND POSITION: STRENGTHEN AND GROW BRAND LOYALTY

Based on recent brand review, we will reposition our brand in market to meet the changing consumer landscape.

- **Better engagement with our customers** – differentiate the brand from our competitors to create a point of difference and acquire market share.
- **Focus on gross margins** – gross margins grew across all continuing retail segments as a result of our proprietary collection strategy commanding a premium.
 - Australia +0.7% to 63.3%
 - New Zealand +0.3% to 62.0%
 - Canada +1.1% to 62.4%

OPERATIONAL EXCELLENCE: ENHANCE EXECUTION CAPABILITY AND AGILITY

Build capability and agility throughout the organisation to adapt quickly to a fast changing retail environment.

- **Improve IT infrastructure and systems** – investment in our finance, HR, customer experience and inventory management systems and supporting cloud based infrastructure.
- **Increase our presence in local markets** – committed to expanding the Michael Hill brand in Australia, Canada and New Zealand with plans to open a minimum of 10 new stores this year across these three markets, subject to site availability.
- **Implement our new Point of Sale system** – the Group introduced a new Point of Sale system across all 171 Australian stores in FY18. New Zealand and Canadian stores are set to be completed in the first quarter of FY19.
- **Continued focus of GMROI (gross margin return on investment)** – improved to 1.48 in FY18 through a combination of inventory range refinement and improved margin management. We will target further improvement in GMROI in FY19.
- **Disciplined financial management** – continued strong operational cash flows will enable further debt reduction and capital investment levels to be maintained, while also leaving the Group well placed to explore opportunities aligned with the five strategic shifts.

PRIORITIES FOR 2018-19

- Open at least 10 new Michael Hill stores across all markets.
- Reposition Michael Hill from a traditional retailer to a unique omni-channel retailer.
- Branded collection sales to grow as a percentage of total revenue.
- Continued improvement in inventory management to deliver further improvement in GMROI (gross margin return on investment).
- Continue to invest and develop the e-commerce business.



spirits bay

BY CHRISTINE HILL

THANK YOU

michael hill.
INTERNATIONAL LIMITED