

# ASX AND NZX ANNOUNCEMENT

## FY21H1 RESULTS

### TRANSFORMATION DELIVERS STRONG SALES AND PROFIT GROWTH

23 February 2021

Michael Hill International Limited (ASX/NZX: MHJ) today announced its half year financial results for the 26-week period ended 27 December 2020.

#### Key Financial Results

- **Statutory net profit after tax increased by 82.1% to \$39.0m** (FY20H1: \$21.4m).
- Statutory earnings before interest and tax (EBIT) increased by 66.9% to \$58.9m (FY20H1: \$35.3m).
- Comparable EBIT<sup>1</sup> of \$44.6m against \$31.6m for FY20H1.
- **Group same store sales were up 6.3% to \$312.1m** (FY20H1: \$293.6m).
- The COVID-19 impact of 3,709 lost store trading days, equating to lost sales of ~\$23m, and the closure of 15 under-performing stores, led to group operating revenues reducing by 2.9% to \$319.9m for the half (FY20H1: \$329.5m).
- Group gross margin increased to 62.7% (FY20H1: 61.7%) while absorbing the impact of the increasing gold price.
- Decisive working capital management resulted in a significant improvement in net cash position.
- Focused inventory management, resulting in a reduction of ~\$30m to \$170.6m (FY20H1: \$200.1m).
- Interim dividend payment of AU 1.5 cents per share, unfranked and fully imputed with conduit foreign income.

#### Operational Performance

- **Digital sales increased by 102% to \$18.5m**, representing 5.8% of total sales (FY20H1: 2.8%).
- Loyalty program **Brilliance by Michael Hill reached over 480,000 members**, an increase of over 200% for the half.
- Branded collection sales represented 38.4% of total sales for the half year (FY20H1: 35.4%).
- Deliberate cash preservation and unwavering cost management throughout the half.
- 3,709 lost store trading days across all markets for the half, due to government mandated store closures.
- One under-performing store (in Australia) permanently closed during the half, giving a network total of 289 stores across all markets, a reduction of 15 from FY20H1.

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

*"I'm particularly pleased with our results given the challenging environment for our business - continuous store closures throughout the half, significant decline in foot traffic in all markets, the material impact of 3,709 lost trading days, and not a single day of all stores open. In spite of all these obstacles, to deliver this significant performance improvement is truly outstanding. Our comparable profits increased by 41%, due to the focus and energy of our team and the transformational change agenda at Michael Hill."*

*"I am very proud of our company metrics - same stores sales at +6.3%, digital growth of over 100%, retail margins up 200bps, costs down, inventory way down and an outstanding cash position at the close of the half. The digitisation and elevation of our brand is clearly resonating with our customers, as are our key strategic initiatives across loyalty, retail fundamentals and product newness."*

*"Michael Hill is a business that has been focused on transformation, and while the global challenges have significantly impacted operations, and continue to do so on a daily basis, the performance across ALL metrics proves we have built strong foundations for growth."*

<sup>1</sup> Comparable EBIT is pre-AASB16 and excludes wage subsidies

## FY21H1 – Group Business Performance

The Group reported statutory earnings before interest and tax (EBIT) increased by 66.9% to \$58.9m for the half year ended 27 December 2020 (FY20H1: \$35.3m), with a comparable EBIT up 41.2% to \$44.6m (FY20H1: \$31.6m).

As a result of Government mandated lockdowns, the Michael Hill global store network suffered 3,709 lost store trading days, representing lost sales of ~\$23m. Despite the significant ongoing impacts of the global pandemic, the Company experienced solid growth of 6.3% in same store sales – \$312.1m for the half (FY20H1: \$293.6m). This strong performance was achieved through an ongoing focus on strategic initiatives to modernise and transform the Michael Hill business. Furthermore, the impact of disrupted trading conditions and the lost store trading days, in conjunction with the permanent closure of 15 underperforming stores, only saw a drop in total revenue of 2.9% to \$319.9m (FY20H1: \$329.5m).

Group margin grew to 62.7%, as the Company continued its focus on balancing both margin and sales growth. Margin growth was underpinned by an increased penetration of online, the impact of the rapidly growing loyalty program, improved intake margin, product mix and our new retail incentive scheme.

During the half, the business continued to optimise the merchandise offer leading to a material reduction in inventory. Our strong and long-standing vendor relationships, together with our in-house Australian manufacturing facility, ensured reliable continuity of supply, delivering optimal stock levels through the peak Christmas trading period.

At the end of the half, the Company had nil bank debt and a cash position of \$90.3m (FY20H1: \$0.4m), reflecting a deliberate focus on costs and strong working capital management, with an inventory reduction of ~\$30m against prior year. Since half year end, cash has been deployed to meet Christmas inventory supplier payment obligations, payment of the deferred dividend debt obligation and recommencement of the wage remediation program.

The Company closed one under-performing store in Australia in the half, resulting in 289 stores at 27 December 2020.

### Dividends

After taking into consideration the Company's comparable EBIT of \$44.6m for the half (FY20H1: \$31.6m), encouraging sales performance from stores since half year end and the strength of the balance sheet, the Board has decided to declare an interim dividend of AU 1.5 cents per share (FY20H1: AU 1.5 cents per share) unfranked, fully imputed with conduit foreign income. The decision to hold the interim dividend flat against prior year reflects the risk of ongoing trading disruption, and demonstrates the Board's intention to restore dividend payments to historic levels as the pandemic recovery becomes more certain.

### Australian Retail Performance

In Australia, same store sales increased by 12.0% to \$174.2m (FY20H1: \$155.5m), and retail segment revenue rose by 0.5% for the half. The revenue performance is a credit to the segment, as it saw 2,567 lost store trading days due to government mandated store closures across Victoria, South Australia and New South Wales. Additionally, 11 underperforming stores have been permanently closed, when compared to the first half of the prior year.

Gross margin for the half increased by 150 bps to 61.4% (FY20H1: 59.9%).

### New Zealand Retail Performance<sup>2</sup>

In New Zealand, same store sales increased by 2.8% to \$68.4m (FY20H1: \$66.5m) and retail segment revenue declined by 0.9% for the half. During the period, 16 Auckland stores were required to temporarily close for nearly three weeks (304 lost store trading days), due to government mandated COVID-19 restrictions and with three underperforming stores having been permanently closed, when compared to the first half of the prior year.

Gross margin for the half increased by 230 bps to 61.1% (FY20H1: 58.8%).

### Canadian Retail Performance<sup>2</sup>

In Canada, same store sales increased by 3.6% to \$70.3m (FY20H1: \$67.8m) and retail segment revenue declined by 5.9% for the half. The decline in retail segment revenue was directly attributable to temporary store closures due to COVID-19 government directives. Of the 86 stores, 21 stores gradually closed through November and December, and a further 25 stores closed from Boxing Day, leaving only 40 of 86 stores trading at the end of the half. This resulted in

<sup>2</sup> Amounts are in local currency.

838 lost store trading days for the half. It is noted that temporarily closed stores have been progressively reopening from February 2021.

Gross margin for the half increased by 330 bps to 61.5% (FY20H1: 58.2%).

#### Update on Key Initiatives for FY21 - Emphasis on Growth and Margin

During the half, the Company demonstrated the benefits of the transformation agenda with the proven strength of its retail metrics, as it continues a disciplined approach to maximising growth opportunities while focusing on a true omni-channel customer experience. The Company's strategies are centred around delivering both sales and margin growth, and driving efficiencies across every aspect of the business.

1. Our **Omni-channel** strategies continued to gather pace in the half and drive incremental sales, with the implementation of "click and reserve", test and trial of "ship from store" and "virtual selling". Over the coming months, more digital and physical initiatives will be rolled out to meet the demands of a modern-day customer.
2. Our **Digital** businesses delivered another strong performance and represents nearly 6% of total company sales. Our FY20 focus was on customer experience, content, navigation and frictionless checkout. In FY21, the digital priorities include traffic driving initiatives, conversion rate optimisation, new payment platforms and marketplace integration.
3. The *Brilliance by Michael Hill* **Loyalty Program** is becoming embedded into the culture of the retail business, with membership growing to over 480,000 members (+237% in the half). The associated Member Pricing is delivering margin benefits to the business and customer engagement. As we now embark on the next stage of loyalty, the company will focus on initiatives to drive increased customer activation, resulting in sales and margin growth.
4. The ongoing focus on **Retail Fundamentals** is at the core of our transformation agenda, and is critical to driving increased sales, higher margins, lower costs, and overall improvement in customer experience. The business will continue to focus on optimising store productivity and efficiencies, while elevating customer engagement as a key priority.
5. **Product Evolution** is at the core of a customer-led retail strategy, and is critical to achieve sales and margin growth. Range and assortment rationalisation has continued in the half, with a refreshed product newness calendar driving higher inventory turn. The business will maintain its focus on branded collections penetration, stronger vendor relationships, and launch a key initiative to deliver a comprehensive merchandise planning system over the next 12 months.
6. The **Cost Conscious Culture** continues to deliver benefits across the organisation. This embedded unwavering focus on costs is best evidenced by lower inventory levels and a healthy cash balance. Furthermore, the business has made significant progress in optimising the global supply chain, improving the global store network and leasing arrangements, and streamlining the Canadian credit proposition.
7. The elevation of the Michael Hill **Brand** is key to our success as we continue to evolve into a modern, differentiated, omni-channel jewellery brand. Implementing fully integrated brand and promotional campaigns, consistent across every customer touchpoint is now embedded in the rhythm of the business and this was most evident in the company's highly successful Christmas campaign.

#### Outlook for FY21H2

##### Michael Hill International CEO Daniel Bracken said:

*"The business entered the second half with clear strategic initiatives, strong retail execution and a robust financial position. I'm encouraged by the strong start to H2 with same store sales for the group of +11% for the first eight weeks. The business continues to prioritise the health and safety of our team members and customers as we navigate an unpredictable retail landscape.*

*With two new executives joining the Michael Hill leadership team, the company is well placed to continue the transformation and drive the growth agenda."*

## 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 24 February 2021 at 10:00am (Brisbane, Qld time). Webcast and dial in details may be found in the Company's announcement dated 18 January 2021.

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 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).

For more information:

[investor.michaelhill.com](http://investor.michaelhill.com)

[michaelhill.com.au](http://michaelhill.com.au)

[michaelhill.com.nz](http://michaelhill.com.nz)

[michaelhill.com.ca](http://michaelhill.com.ca)

### 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.