

ASX AND NZX ANNOUNCEMENT

FY23H1

RECORD RESULTS

27 February 2023

Michael Hill International Limited (ASX/NZX: MHJ) today announced its financial results for the half year ended 1 January 2023¹.

Key Financial Results

- **Group operating revenue increased by 11% to \$363.4m** (FY22H1: \$327.1m).
- **Comparable earnings before interest and tax (EBIT) increased by 6% to \$54.5m** (FY22H1: \$51.6m).
- Group gross margin remained steady at 65.2% (FY22H1: 65.1%), underpinned by strategic initiatives.
- Strong working capital management resulted in a closing cash position of \$78.7m (FY22H1: \$99.1m), having deployed cash to support higher dividends, share buy-back and inventory investment.
- Interim dividend of AU4.0 cents per share declared (FY22H1: AU3.5 cents per share).

Operational Performance

- Loyalty strategy continues to deliver with 82% of sales from members – **Brilliance by Michael Hill now over 1.7m members** (FY22H1: 1.0m).
- **Rebasing of digital sales** – Following last year's surge in digital sales from closed stores and with a strong consumer return to physical retail, digital sales declined by 9% on LY, however were up 30% on FY21H1.
- Strategic investment in inventory levels in core ranges to support elevated sales.
- **Successful transition to new Global HQ** – The new state of the art building is home to the Company's global leadership team and functions, high tech distribution centre and reimagined artisanal jewellery workshop.
- New pure-play brand **Medley** delivers 53% sales growth in the half.
- Three new stores opened and one under-performing store was closed during the half, giving a network total of 282 stores at half year end (FY22: 280).

Outlook

- On the basis that retail trading conditions do not materially deteriorate, it is anticipated the Company's full year comparable EBIT will be ahead of prior year.

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

"To deliver record results across sales, gross profit and comparable EBIT for the first half, is a testament to all facets of the business having aligned to produce these results, demonstrating the traction of our strategic growth initiatives and reaffirms the success of our brand elevation journey."

"With the impacts from Covid behind us, significant productivity gains on pre-pandemic trade have been delivered across an optimised store network in all markets. I'm particularly pleased elevated gross margins have been sustained, supported by the further evolution of our loyalty program, reimagined digital experience, enhanced product offering and yet another beautifully executed Christmas campaign that truly resonated with our customers."

¹ FY23H1: 27 weeks, FY22H1: 26 weeks

FY23H1 – Group Business Performance

The Group reported comparable earnings before interest and tax (EBIT) of \$54.5m for the half year ended 1 January 2023 (FY22H1: \$51.6m) an increase of ~\$3m (+6%) year-on-year, driven by a combination of strong sales growth and continued elevated margin.

For the half, the Company delivered record revenue of \$363.4m, up ~\$30m on the previous best first half in FY20, with 22 fewer stores. The Group year-on-year FY23H1 revenue growth of +11% was off the back of particularly strong performances from Australia and New Zealand. Strategic initiatives supported elevated group gross margins in-line with prior year, despite higher input costs.

Throughout COVID we saw an increase in customers embracing our digital channels and delivering significant growth. In FY23H1 retailers saw consumers return to physical retail where they could engage with team and product directly. While our digital sales results for the half declined by 9% on last year, they were up 30% on FY21H1 and up 148% on FY20H1 (pre-COVID). During the half, further progress was also made on our international digital strategy including the launch of international shipping, and further leveraging of our third party marketplace partnerships in all three countries. Our digital pure-play Medley delivered 53% growth, as it continues to progress through its start-up phase.

In August, the Company successfully relocated to a new global headquarters housing our upgraded artisanal manufacturing workshop and support functions. These new premises further enhanced employee engagement and our ability to attract and retain best-in-class talent. The new HQ also houses new state of the art distribution technology which delivers greater supply chain accuracy and efficiency for Australian and New Zealand operations. Across the key Christmas trade period, this facility supported flawless execution of store and e-commerce fulfilment.

In order to support the continued evolution of the brand, further strategic lift in ATV and record sales for the half, the Company made considered investments in inventory. This investment strategy followed supply chain disruption in the prior year, and was focused on core ongoing product ranges. Stock holdings closed for the half at \$198.2m.

Having invested in core inventory and deployed cash to support capital management initiatives, including higher dividends and the share buy-back program, the Company delivered a healthy closing cash position of \$78.7m and nil debt.

During the half, the Company opened three new stores (AU:2, CA:1) and closed one under-performing store in Australia, resulting in 282 stores at half year end (FY22: 280).

Segment Performance

The half delivered strong performance in each of the markets, producing a record group H1 revenue result.

Australia

Retail segment revenue increased by 18.0% to \$190.6m for the half. For a more meaningful comparison, due to store closures in the prior year, revenue was up 8.8% on FY21H1.

As well as a strong sales performance, the segment maintained an elevated gross margin for the half of 64.4% (FY22H1: 64.7%), and 450bps growth on pre-pandemic levels.

During the half, two new stores opened, and one under-performing store closed, resulting in 148 stores at the end of the half (FY22: 147).

New Zealand

Retail segment revenue increased by 13.8% to NZ\$76.3m for the half. For a more meaningful comparison, due to store closures in the prior year, revenue was up 10.0% on FY21H1.

Gross margin for the half was 62.6% (FY22H1: 63.5%), with 380bps growth on pre-pandemic levels. Given the uplift in the security incidents experienced by Auckland retailers through the half, additional investment in security was required to protect our team and stores, which had a direct impact on earnings.

At half year end, there were 48 stores (FY22: 48).

Canada

For the half, retail segment revenue was CA\$92.1m, flat on last year and up 22.4% on FY21H1. This result is a credit to the segment considering last year was a record performance, driven by significant pent-up demand following seven months of store closures in Eastern Canada.

In addition to strong sales performance, the segment maintained an elevated gross margin for the half of 64.3% (FY22H1: 64.6%), with an impressive 610bps growth on pre-pandemic levels, validating that the strategic changes made are driving the results.

During the half, one new store was opened, resulting in 86 stores at the end of the half (FY22: 85).

Capital Management

Taking into consideration the Company's performance and strength of the balance sheet, the Board has decided to declare an increased interim dividend of AU4.0 cents per share (FY22H1: AU3.5cps), unfranked, fully imputed with conduit foreign income. The record date for the dividend will be Friday 10 March 2023 with payment on Friday 24 March 2023.

In addition to the above, the Company retains sufficient balance sheet strength and cash reserves for deployment into new earnings accretive growth initiatives. These cash reserves and an undrawn debt facility reaffirm the Company's ability to pursue acquisition opportunities in the fine jewellery sector in our existing markets, which meet our strategic and investment criteria.

The on-market share buy-back commenced during the half, with the Company acquiring 8.6m shares at a cost of \$10.2m, representing 2.2% of share capital. The Board retains the discretion to resume buy-back activity.

Strategy Update – Framework underpinned by growth initiatives

The Company's strategic transformation and further elevation of the brand have continued, with an overarching emphasis on sales and margin growth. The strategic framework underpins the future growth of the business, is customer-led and continually evolving and adapting to meet consumer demands:

Brand & Loyalty	Modern, differentiated, omni-channel jewellery brand with loyal customers
Retail Fundamentals	Elevated productivity & customer experience
Digital & Omni-channel	Omni-first, digital-led & channel agnostic
Product Evolution	Elevated yet accessible, with diamonds at our core
New Territories & Services	New markets, new channels & new service propositions
Cost Conscious Culture	Unwavering focus on costs
Sustainability	<i>"the jeweller that cares"</i>

The strategic framework encompasses a number of growth initiatives covering both short and long-term horizons:

Organic Growth Initiatives

- Brand and product elevation, driving ATV growth
- Leveraging of loyalty program through advanced data insights and tailored communications
- Retail productivity and investment in refreshing the store network across all markets

Digital Growth Initiatives

- Expansion of core direct-to-consumer channels and ramping up our virtual selling capabilities
- Marketplaces – growth in existing & new geographies
- International shipping
- Digital expansion into Quebec
- Pure-play Medley growth

New Revenue Streams

- Launching a circular economy offering, encompassing:
 - digitally-enabled recycling platform
 - launching a diamond upgrade program
 - reimagining and expansion of jewellery repair business
- Development of a new digitally-led bespoke diamond jewellery brand
- Introducing third-party jewellery insurance and replacement solutions for customers

Outlook

Putting aside New Zealand's severe weather events over the last few weeks, FY23H2 sales to date are in line with our expectations. On the basis that retail trading conditions do not materially deteriorate, the Company anticipates full year comparable EBIT will be ahead of prior year.

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

"Our thoughts are with those impacted by the sustained and severe weather events across the North Island of New Zealand over the past few weeks. Based on current trading performance, we anticipate comparable EBIT for FY23 will be ahead of prior year, as we maintain a watching brief on the macroeconomic environment across all markets. I'm excited by the pipeline of brand and growth initiatives that will be progressively delivered to market in the coming months."

Analyst and investor call

An investor briefing on the results will be held on Monday 27 February 2023 at 9:30am (AEST). Please note that the webcast page will not be available until 9:00am (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 27 February 2023:

<https://web.lumiconnect.com/386435838>

If prompted, please enter the meeting ID: 386-435-838

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 282 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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