

## ASX AND NZX ANNOUNCEMENT

### MICHAEL HILL ACQUIRES HIGHLY COMPLEMENTARY JEWELLERY AND WATCH RETAILER, BEVILLES

**Brisbane, 19 April 2023**

Michael Hill International Limited (ASX/NZX:MHJ “Michael Hill” or the “Company”) is pleased to announce it has entered into a binding agreement, subject to conditions precedent (outlined below), to acquire the business of Bevilles, a family owned Australian jewellery and watch retailer with broad appeal and strong growth potential.

#### Highlights

- Acquisition of the business and selected assets<sup>1</sup> of Bevilles
- ~\$45 million Net Enterprise Value<sup>2</sup>, representing 5.6x expected adjusted FY23E underlying EBITDA<sup>3</sup>
- Complementary strategic fit for Michael Hill
- Expected to be immediately EPS accretive
- Meaningful EBITDA enhancement and growth opportunities readily achievable
- Substantial store roll-out opportunity in short and medium term

**Investor briefing to be held at 9:30am AEST on 20 April 2023 (details below).**

#### Robert Fyfe, Michael Hill’s Chair said:

*“The entire Board are extremely pleased with the strategic acquisition of Bevilles. As Michael Hill continues on its brand elevation journey, this transaction provides the perfect complementary brand to expand our addressable market. It ticks so many boxes especially in the current economic environment as customers seek out value for money. The Bevilles store network is under-penetrated and ready for growth, and the Michael Hill team will partner with Bevilles to provide expertise to grow the store portfolio, and unlock synergies.”*

#### Daniel Bracken, Michael Hill’s Chief Executive Officer and Managing Director said:

*“I am absolutely delighted to announce the acquisition of Bevilles; it is a highly complementary strategic fit for Michael Hill, and executes upon our well-flagged acquisition strategy. We see meaningful growth potential and EBITDA enhancement opportunities embedded within the business, which we will unlock in the short to medium term, and the transaction is expected to be immediately EPS accretive.*

*“Bevilles is a highly profitable business, with clearly defined market positioning and a talented and highly capable team. Expanding the store network in Australia represents an extremely exciting opportunity for the group, as the Michael Hill brand continues its journey to elevate into a more premium positioning. I’m looking forward to our two teams working together to deliver the group strategy.”*

<sup>1</sup> Select Assets includes underlying business, inventory, fixtures and fittings, intellectual property, contracts, brand and certain other non-current assets and liabilities.

<sup>2</sup> Includes upfront consideration, net of working capital adjustments, and minimum \$1m earn-out payment.

<sup>3</sup> Multiple presented on a pre-AASB16 basis and assumes Bevilles FY23 EBITDA of \$8m, which is the mid-point for \$7.5m - \$8.5m (unaudited, pre-AASB16, pre-IFRIC SaaS-related adjustments, and with normalisations).

## Acquisition overview

Michael Hill has agreed to acquire the business and Selected Assets<sup>1</sup> of Bevilles for a Net Enterprise Value<sup>2</sup> of \$45.1 million, representing ~5.6x expected adjusted FY23E underlying EBITDA (pre-AABS16).<sup>3</sup>

Consideration will consist of cash upfront, after adjusting for a near term working capital benefit from certain liabilities being carved out of the transaction, and earn-out payments over two years with a minimum payment floor of \$1 million.

Separately, a two-year ambassadorial arrangement has been agreed with Michelle Stanton, Bevilles' CEO, for her ongoing contribution to the Bevilles business, and Bevilles employees will be offered new employment contracts with Michael Hill.

The transaction is expected to be immediately EPS accretive and is anticipated to complete in the current quarter, subject to the satisfaction of certain conditions precedent (receipt of regulatory approvals from ACCC and Fair Work Commission, counterparty consent to the transfer of leases and key contracts, acceptance of offers of employment by a sufficient number of current Bevilles team members together with certain key employees, and release of guarantee/security arrangements).

## Bevilles overview

Bevilles is a family-owned jewellery and watch retailer known for creating and selling quality products at accessible prices. Since a material restructure of the business in 2014, Bevilles has achieved notable growth and profitability, underpinned by the opening of nine new brick-and-mortar stores over the last five years (bringing the total to 26 Australia wide) and investment in its omni-channel distribution strategy including the launch of a pure-play watch retail business, Watches Galore.

Bevilles has a clearly defined market position, focusing on a core range of items that are consistently in demand and suitable for a wide range of customers. It also has a loyal customer base, with 88% of sales over the last twelve months coming from loyalty members (currently over 1.1 million loyalty members).

Bevilles is expected to generate \$60 – 65 million in sales and adjusted underlying EBITDA (pre-AASB16) of \$7.5 – 8.5 million for FY23.

## Strategic rationale

In recent years, Michael Hill's strategy has been focused on elevating and modernising the Michael Hill brand into the 'premium' segment. Accordingly, the acquisition of Bevilles, which is a fast growing and profitable Australian jewellery retailer that centres its brand and products around 'value', is highly complementary and provides a number of benefits:

- **Complementary brand positioning and products allows Michael Hill to continue to capture a broader, full spectrum customer base with minimal sales cannibalisation**
  - The brands operate with significantly differentiated ATV based on their distinct brand positioning and customer segment
  - The majority of Bevilles' sales are from their gold and silver jewellery categories, whereas the majority of Michael Hill's sales are from products within the diamond jewellery category

- **Material store roll-out opportunity in the short to medium term**
  - Bevilles has 26 Australian stores across VIC, NSW and SA compared to Michael Hill's 148 across all Australian states and territories, providing significant runway to achieve 80 to 100 Bevilles stores by FY28
  - Further expansion opportunities in New Zealand and Canada, where Michael Hill already has the expertise and infrastructure in place
- **Complementary strategic sales channels**
  - Real opportunity to 'flip' selected Michael Hill stores into Bevilles network where the location is no longer suited for Michael Hill's elevated brand and product offering
  - Stores located in high traffic areas
  - No overlap in online marketplaces
- **Meaningful EBITDA enhancement opportunities**
  - Ability to use Michael Hill's expertise, supply chain scale and state-of-the-art distribution technology to improve margins, deliver efficiencies, reduce costs and drive sales growth
- **Expected to be immediately EPS accretive**
  - Transaction expected to be funded via existing cash balances and undrawn debt facility

Michael Hill is a leading Australian jewellery retailer and, post-acquisition, will have a suite of brands that cater to multiple market segments, online and instore. The acquisition will result in 174 stores in Australia, 47 in New Zealand and 86 in Canada, in addition to the fast-growing online sales channel and online pure-play brands (Medley and Watches Galore) within the Michael Hill portfolio. Michael Hill will leverage its deep retail knowledge, investment in technology and high calibre team to drive substantial growth across its portfolio of brands.

#### **Funding overview**

The upfront cash consideration and acquisition costs, together with any future earn-out payments, will be funded from existing cash reserves of Michael Hill and its undrawn debt facility.

#### **Overview of cash earn-out payable**

Earn-out payments will be paid in two tranches – tranche 1 paid following the first anniversary post completion, tranche 2 following the second anniversary.

The quantum of each cash earn-out payment will be determined by multiplying the 30-day MHJ ASX Volume Weighted Average Price ("VWAP") in the lead up to the respective anniversary by a pre-agreed number (which is itself determined by reference to the VWAP).<sup>4</sup>

If the total of the two cash earn-out payments does not reach the \$1 million earn-out floor, a top up payment will be made following the second anniversary post completion.

<sup>4</sup> Pre-agreed number of shares detailed in the table on slide 13 of the Investor Presentation released on the ASX on 19 April 2023

## Investor briefing

Michael Hill will hold an investor briefing with Chief Executive Officer and Managing Director, Daniel Bracken, and Chief Financial Officer, Andrew Lowe, at 9:30am AEST on 20 April 2023.

Investors and interested parties can attend the briefing via the following link:

<https://web.lumiagm.com/309111427>

A copy of the presentation slides to be used in the briefing has been released to the ASX.

## 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.

Adjusted underlying EBITDA 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 LIMITED

Michael Hill International Limited was founded by Sir Michael Hill in 1979 when he opened his first jewellery store in Whangarei, New Zealand. The Group currently has 281 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](https://investor.michaelhill.com)  
[michaelhill.com.au](https://michaelhill.com.au)  
[michaelhill.co.nz](https://michaelhill.co.nz)  
[michaelhill.ca](https://michaelhill.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.

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