

# MICHAEL HILL

INTERNATIONAL LIMITED

## 2024 ANNUAL GENERAL MEETING

### CHAIR'S ADDRESS

Today I'd like to give you an overview of how we view the year that's closed. Following that, Daniel will give more detail on our 2024 operating performance, and an update on our strategic initiatives and current trading performance.

Undoubtedly, our financial year ending 30 June 2024 has been the most challenging year I've experienced since joining the Board in 2014. We cycled record sales performance while faced with significant headwinds of low consumer confidence, a tough macro-economic environment impacting retail trading conditions and inflationary forces placing pressure on operating costs across the business.

Pleasingly, we have now seen interest rate reductions in both Canada and New Zealand, and are seeing some early signs of improved trading performance, albeit we expect the recovery will be gradual over the remainder of the financial year.

Given the difficult trading environment, the business made some tough yet prudent decisions to navigate the Group through one of the worst retail cycles for some decades. We exited several senior leadership roles, reduced unit operating costs, reduced capital expenditure, and executed an inventory optimisation strategy.

On a positive note, we are seeing the benefits from the geographic and demographic diversity of our business and remain committed to our group multi-brand strategy, with each brand uniquely positioned to target a differentiated customer segment and price proposition.

The gradual elevation of the Michael Hill brand to a more aspirational position is key to this multi-brand strategy. The refresh of the Michael Hill brand across digital platforms, new brand logos and colour palette, together with Miranda Kerr as our brand ambassador is resonating well across all geographies.

Retention and development of our team is an important Board and Management priority, and we see a strong correlation between staff retention, sales performance and customer satisfaction.

Our people are the heart of our business, with our values of "We care", "We are inclusive and diverse", "We are professional", and "We create outstanding experiences" truly embedded across the entire Company.

Pleasingly, our engagement survey was completed by 85% of our workforce and resulted in an engagement score of 80%. Our results continue to outperform the global retail averages demonstrating how hard we continue to work to ensure that Michael Hill remains an employer of choice and is a great place to work.

The challenging retail conditions have not dimmed our focus on sustainability which is embraced across the organisation as we pursue new initiatives and seek greater transparency across the Group and throughout our supply chains.

I'm particularly proud of the launch of The Michael Hill Foundation in late February 2024 representing our ongoing commitment to meaningful change, and our dedication to a better world. The Michael Hill Foundation encompasses two key areas of focus: Empowering Women and Nature Restoration.

Since the launch of the Foundation, we have planted over 50,000 trees across Australia, New Zealand and Canada, and we have established a long-term partnership with the Collective Good Foundation in India, with a focus on driving projects to empower local women.

In addition, we expanded our **Re:new** sustainable jewellery ecosystem by extending our **re:cycle** offering to Canada and New Zealand, launching our diamond trade up program, **re:imagine** in New Zealand, and investing in our repairs network to grow our **re:store** (repairs) capability and service offering.

As a proactive capital management measure, the Board and Management have been focused on strengthening the balance sheet and underpinning the earnings performance by securing an uplift to our existing debt facility to support seasonal working capital requirements for the Christmas trade period.

In addition, Management has taken action to reduce capital expenditure across both technology and stores throughout FY25, as well as taken steps to improve inventory productivity and reduce costs.

Given compressed earnings in FY24, and in conjunction with a commitment to prudent investment in operating and capital expenditure in FY25, the Board determined that no final dividend would be declared for FY24, resulting in a total dividend for the year of 1.75 Australian cents per share.

The FY24 results were deeply disappointing, but please be assured that your Board and the entire Michael Hill team are resolutely focused on driving sales, refreshing the Michael Hill brand, embedding and expanding the new Bevilles business and restoring the financial performance of the Group.

I am extremely proud and grateful for the resilience, perseverance and commitment of Daniel and the entire team.

I would like to close my address by acknowledging and thanking all our shareholders for their ongoing support.

I now invite Managing Director & CEO, Daniel Bracken to address the meeting and discuss the 2024 operational performance, a current trading update and our strategic focus.

## MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER'S ADDRESS

Good morning and thank you for joining us today. I will now take you through a review of the 2024 financial results and operational achievements. We will also provide you with our current trading performance and some further insights on the Group strategy.

There is no doubt that FY24 was a challenging period for the business, as we cycled record performance, and tough retail trading conditions, driven by low consumer confidence and macro-economic pressures.

Notwithstanding the difficult conditions, it is pleasing to see external third-party transactional data demonstrating that Michael Hill is performing better than the broader jewellery market, and taking market share.

Clearly margin was under pressure from both input costs and promotional activity due to market conditions, with inflationary forces driving elevated costs across many aspects of the business, which together, impacted EBIT.

Omni-channel continues to be a key strategic focus for the Group with further advancements across ship from store, click & collect, and virtual selling, all contributing to annual growth in digital sales of 16% to 48 million dollars.

Critical to the Michael Hill Group strategy was to establish a clearly defined portfolio of brands, on which we made significant progress throughout the year, with the:

- Complete refresh of the Michael Hill brand, across digital platforms, new brand logos, colour palette, instore visual merchandising and packaging
- Partnering with our first ever global Brand Ambassador, Miranda Kerr, who perfectly embodies our brand values and sustainable business practices
- Aligned with the brand relaunch, Michael Hill opened its first true global flagship store, at Chadstone, Australia's #1 fashion destination

These key milestones have been years in the making, the meticulous planning that took place is a credit to the team as all elements came together seamlessly.

In what was already a busy year, the group also expanded the store network and integrated the operational systems of the newly acquired Bevilles brand.

Additionally, in the year, the business further demonstrated its commitment to sustainability with the launch of its **re:new** ecosystem, including gold recycling and jewellery repairs, and the creation of the Michael Hill Foundation.

Furthermore, we soft launched our new digital start-up brand, TenSevenSeven, which is designed to deliver a completely unique and elevated proposition, capturing an entirely new high-end customer.

And Medley trialled its first ever pop-up kiosk in Chadstone.

With our new and existing brands in place, the business remains committed to its group multi-brand strategy, and I will speak to this later in the presentation.

In what was both a challenging and busy year, I could not be prouder of how the teams came together across all functions and geographies, embracing change and prioritising customer experience.

### FY24 Group Results

Disappointingly, the Group reported a decline in performance, with comparable earnings before interest and tax of 15.9 million dollars for the year ended 30 June 2024. This result was driven by a combination of lower gross margins and inflationary cost pressures.

The Group delivered revenue of 645 million dollars, up 4% on a 52-week basis including Bevilles, and up 2% on a statutory basis where FY23 was 53 weeks. Pleasingly, average transaction value grew by 6% during the year, further demonstrating the traction of the Michael Hill aspirational brand journey.

Higher input costs for both gold and mined diamonds continued through the year and, combined with heightened competitor activity, resulted in a gross margin of 60.6%. During May and June, there was a deliberate focus on clearing inventory to make way for newness and higher margin product in FY25. In addition, to reflect inflated gold raw material pricing, the group has periodically lifted retail prices accordingly.

Inflationary cost pressures impacted the majority of operating expenses across the business, the most significant being store labour and occupancy.

With this in mind, throughout the year Management took action to reduce discretionary spend, corporate roles and overheads, reflecting the underperformance of the business, with many of these savings annualising through FY25.

Active management of inventory saw year-end holdings reduced by 7 million dollars to 196 million dollars, as the Group took deliberate steps to ensure the right product mix, newness and higher margin profile.

During the year, the business deployed cash for a number of strategic initiatives, including refresh of the Michael Hill brand, the Chadstone global flagship store, development of TenSevenSeven, along with digital and data investments, resulting in a closing net debt position of 39 million dollars.

In line with our store network strategy, the core Michael Hill brand has continued to optimise its store network throughout the year, while at the same time expanding the Bevilles' store network. The group finished the year with 300 stores.

### FY25 Trading Update

And now moving on to our current trading update. We are encouraged by the first fourteen weeks of FY25.

Group same store sales were up 4.0% on prior year, with same store sales for the:

- Australian segment up 6.3%;
- Canadian segment up 4.7%; and
- the New Zealand segment down 4.2%.

With total sales for the Group up 4.3%.

Furthermore, as previously signaled, product and brand initiatives are delivering group gross margin recovery, resulting in meaningful improvement since FY24H2.

And as always, the group remains focused on inventory management, capital and operational cost control, along with optimisation of store rostering.

As we prepare for the all-important Christmas Trading period, the positive momentum we have seen in the first 14 weeks of FY25 is very encouraging.

Our two largest markets of Australia and Canada have shown good and consistent growth, and our digital channels are performing well, driving strong omni-channel adoption from our customers.

While New Zealand is still under-performing, the recent economic improvements, are encouraging, and we are seeing some green shoots in performance.

In the all-important world of product:

- we have successfully launched our new Pendant Bar concept, with a focus on both build-your-own and ready-to-wear gifting. This provides a unique gifting proposition in our markets.
- we have introduced a range of higher margin gifting products to drive transaction volumes for the key Christmas period.
- AND we are elevating our sustainable Lab Grown Diamonds to the highest quality, introducing E colour and VVS clarity into this high growth category, so that Michael Hill represents the very best in market.

## Strategy Update

For the rest of the presentation, I will provide you with an overview of our group strategy which is divided into four phases.

Starting with the **Repositioning of the Michael Hill Brand** which has been progressively taking place since 2020, with brand-led emotive campaigns and the successful launch of our loyalty program, achieving higher ATV and gross margin and increased retail productivity.

As the Michael Hill brand successfully elevated, we then moved to **establish a Portfolio of Brands**, which saw the acquisition of Bevilles and launch of TenSevenSeven, which significantly expands our addressable market.

The acquisition of the **Bevilles** business provides a vehicle to take market share at the value end of the fine jewellery category.

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 jewellery category.

And now in the current phase, which is focused on clearly defining and articulating each brand's market proposition.

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

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

April 2024 saw a complete brand refresh of Michael Hill delivering a new elevated aesthetic across the brand assets, colour palette and logos. These assets combine to bring both a contemporary and feminine personality to the brand.

Over the months that followed, elements of the new brand assets were progressively brought to life across digital platforms, stores and brand packaging.

This was soon followed by the exciting milestone of the brand's first "store of the future". In late April 2024, a new global flagship store came to life in Chadstone, the most premium centre in the Australian market. The new store incorporated all aspects of the new brand, product and proposition, with a new high value product offering, elevated in-store experience, and private selling spaces.

To coincide with the brand refresh, and our first flagship store of the future, Michael Hill partnered with its first ever global Brand Ambassador, Miranda Kerr.

Miranda Kerr's timeless elegance resonates in all our markets, she embodies our brand values, is aspirational and yet accessible.

Michael Hill has the ambition to be one of the most sustainable jewellery brands in the world and this aligns perfectly with the sustainable business practices that Miranda follows.

Product evolution continues with a focus on quality, innovation and sustainability and simultaneously, the development of key signature ranges that embody the premium brand positioning. These are best demonstrated by the new signature lock range and the exclusive proprietary-cut 101 facet diamond collection.

And leading into the final phase, Network Expansion & Productivity, and the over-arching growth ambitions for the Group out to 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.

For Michael Hill, store productivity has proven to be a key lever of growth over recent years and as the brand continues to attract new target customers, it is anticipated that this will continue. This will be further supported by incorporating elements of the “store of the future” design in new store fitouts and refurbishments.

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 remain high to 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.

Gross margin recovery will be a key focus, underpinned by product evolution, increased penetration of higher margin product, category mix and leveraging the Brilliance by Michael Hill loyalty program.

Beyond the brand’s leading position in bridal, promoting other key milestone moments like birthdays and anniversaries, provides significant revenue opportunities for the business. While leveraging the data in our loyalty program and growing the opportunities with self-purchasing customers.

Even with the challenging trading conditions in the fine jewellery sector, the business has held firm on its strategic intent to grow the footprint and strengthen Bevilles’ position in the market.

During the first year of ownership, the Bevilles network grew from 26 to 36 stores. With the expansion of the network into Queensland, the business will focus on optimising the store layout, product range, and building brand presence prior to rolling out further stores.

Leveraging Michael Hill experience, data insights and competitor analysis, the opportunity to grow the network to over 100 stores in Australia remains 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, as shown in these images. Four trial conversion stores are already underway as a test & learn, with further conversion stores subject to performance.

Furthermore, 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.

In addition, the business will invest in its people with training to upskill leadership, lift performance, and drive productivity.

I’m very excited by the opportunities for the Bevilles brand and I’m extremely enthused by our group multi-brand strategy that I have just taken you through.

I will now hand back to the Chair to conduct the formal business of the meeting.