

## ASX AND NZX ANNOUNCEMENT FY 2021 FULL YEAR RESULTS TRANSFORMATION AGENDA ON TRACK

23 August 2021

Michael Hill International Limited (ASX/NZX: MHJ) today announced its full year financial results for the 52-week period ended 27 June 2021.

### Key Financial Results

- **Statutory net profit after tax increased to \$45.3m** (FY20: \$3.1m).
- **Earnings before interest and tax (EBIT) increased to \$72.4m** (FY20: \$14.1m).
- **Group operating revenues increased 13.1% to \$556.5m** (FY20: \$492.1m), with 10,447 lost store trading days.
- Group same store sales were up 8.6% for the year, with H1 +6.3% and H2 +13.2%.
- Group gross margin increased by 210bps to 62.7% (FY20: 60.6%), underpinned by our strategic initiatives.
- Maintained target inventory levels at \$171.2m (FY20: \$178.7m).
- Strong balance sheet with a healthy net cash position of \$72.4m (FY20: \$0.5m).
- Final dividend of AU3.0 cents per share declared, resulting in total dividends for the year of AU4.5 cents per share.

### Operational Performance

- **Digital sales increased by 53.4%** to a record \$34.8m, representing 6.3% of total sales, up from 5.0% last year.
- Loyalty strategy continues to deliver – **Brilliance by Michael Hill now over 800,000 members** (FY20: ~200,000).
- Product enhancements saw our unique to Michael Hill branded collection sales climb to 42.1% of total sales for the full year (FY20: 37.3%).
- Re-engineering our global supply chain – Canadian 3PL distribution centre to open in advance of Christmas trading.
- Extensive temporary store closures in Eastern Canada, together with sporadic closures across Australia, culminating in 10,447 lost trading days for the year.
- One new store opened and six under-performing stores were closed during the year, giving a network total of 285 stores across all markets (FY20: 290).

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

*"I am particularly proud of our results, underpinned by strategy execution and the resilience of our team. The transformation agenda touches every single part of our business, working together to deliver common goals – the results speak for themselves, and I couldn't be happier. Setting aside the global store network closure in 2020, the Company has now delivered eight consecutive quarters of positive same store sales growth together with sustained margin expansion.*

*"Throughout the year, we successfully navigated the complexity of the global pandemic, with half our Canadian stores closed for many months, and sporadic temporary closures across our global network. While it was an incredibly challenging year, the strength of our brand and the determination of our team delivered record results and further validates the transformation is on track."*

### FY21 – Group Business Performance

The Group reported earnings before interest and tax (EBIT) of \$72.4m for the year ended 27 June 2021 (FY20: \$14.1m) an increase of \$58.3m, largely driven by a lift in gross profit of \$50.7m to \$348.9m (FY20: \$298.2m).

Following the FY20 global store network shutdown, the Company delivered significant same store sales growth across all four quarters of FY21. For the year, the Company delivered same store sales growth of +8.6% and gross margin increased by 210 bps to 62.7% for the group. These results demonstrate the growth initiatives underpinning the seven strategic pillars are firmly embedded in the Company. These initiatives have created a sustainable platform for sales growth and margin expansion through the success of our loyalty program, continued penetration of our online business, acceleration of retail fundamentals, and product evolution.

As a result of Government mandated lockdowns, the Michael Hill global store network suffered 10,447 lost store trading days. Despite the impact of disrupted trading conditions and the reduced global store network, total revenue grew by 13.1% to \$556.5m (FY20: \$492.1m) as the Company continues to elevate and modernise the brand, and transform the customer journey.

The Company's online business exceeded expectations in outperforming FY20, resulting in another year of record digital sales of \$34.8m and now represents 6.3% of total sales. Website traffic increased by 35.3% against prior year, with customers continuing to utilise our enhanced online platform. During the year, the Company launched "ship from store", "click and reserve" and in-store appointment capabilities, and enhanced its "virtual selling" offering to expand the Company's omni-channel ecosystem.

The Company continues to prioritise product evolution and creating uniquely Michael Hill jewellery, with branded collections now representing 42.1% of total sales for the year (FY20: 37.3%). Our merchandise team have been refining and improving our product offering, ranging and assortment whilst ensuring our inventory levels are maintained. This saw delivery of the targeted inventory range, with a holding of \$171.2m (FY20: \$178.7m) at year end.

The Company has strengthened its balance sheet, with a year-end net cash position of \$72.4m (FY20: \$0.5m) and nil debt. During the year, the Company also entered into a new financing facility, jointly funded by ANZ and HSBC. This new \$70m facility is currently undrawn, with a term to February 2024. Furthermore, the Company has strategically reviewed its in-house Canadian credit program to de-risk the balance sheet – the sale of the credit book and partnering with a new credit provider is nearing conclusion.

During the year, the Company opened one new store in Canada and closed six under-performing stores, resulting in 285 stores at 27 June 2021 (FY20: 290).

### ***Dividends***

The Board has previously stated its intention to restore dividend payments to historic levels as the pandemic recovery becomes more certain.

After taking into consideration sales and margin performance, the strength of the balance sheet, and while also recognising the risk of ongoing trading disruption, the Board has decided to declare a final dividend of AU3.0 cents per share unfranked, fully imputed with conduit foreign income.

This represents total dividends for the year of AU4.5 cents per share and lays the foundation for a sustainable dividend profile going forward, subject to the impacts of ongoing trading disruptions.

### ***Retail Performance***

The year saw strong performance in each of the markets in our global portfolio:

#### **Australia**

In Australia, all store revenue increased by 17.1% to \$312.3m (FY20: \$266.6m) and same store sales increased by 13.0% for the year. This result is a credit to the segment, as it saw 3,458 lost store trading days due to various government mandated store closures across the country.

Gross margin for the year was 62.2% (FY20: 60.4%), a significant improvement on both FY19 and FY20.

At year end, of the 150 Australian stores (FY20: 155), 30 NSW and 2 NT stores were temporarily closed. Currently, 46 NSW, 34 VIC and 4 ACT stores are temporarily closed, due to government mandated lockdowns.

#### **New Zealand**

In New Zealand, all store revenue increased by 19.1% to NZ\$127.1m (FY20: NZ\$106.7m) and same store sales increased by 7.1% for the year. This result represents significant outperformance against FY17, FY18 and FY19. It should also be noted that during the year, 16 Auckland stores were required to temporarily close on three separate occasions resulting in 464 lost store trading days.

Gross margin for the year was 62.0% (FY20: 59.6%), resulting in the strongest margin in the last five years.

At year end, there were 49 stores trading (FY20:49). Currently, all New Zealand stores are temporarily closed, due to government mandated lockdowns.

## Canada

In Canada, all store revenue increased by 6.9% to CA\$118.4m (FY20: CA\$110.8m) and same store sales increased by 6.8% for the year. This segment was heavily impacted by temporary store closures in Eastern Canada, with 6,525 lost store trading days for the year. By early July, all 86 stores were open and have remained trading, with our strategic focus now returning to the productivity opportunity in the market.

Gross margin for the year was 61.3% (FY20: 57.8%), a significant improvement on both FY19 and FY20.

### **Strategic Update – Emphasis on Growth and Margin**

The seven strategic pillars are underpinned by initiatives that continue to deliver a transformation agenda focused on sales growth and margin expansion, driving efficiencies within the business, elevating the Michael Hill brand and enabling a true omni-channel customer experience:

1. The elevation of the Michael Hill **Brand** is gaining traction, as it continues to evolve into a modern, differentiated, omni-channel jewellery brand. Transitioning our brand messaging from discount-led promotions to quality and aspirational brand-led campaigns is key to enticing a deeper customer base, generating higher ATV and margin growth.
2. **Digital** is at the forefront of our transformation with an emphasis on customer experience, product offering, and fulfilment. Following another year of exceptional growth, investment in our highest profit margin channel continues to focus on incremental traffic, higher conversion rates, and increased transaction value. Our early foray into 3<sup>rd</sup> party digital channels has provided the confidence to develop an integrated marketplace solution that will be rolled out in the first half of FY22. Looking further afield, we have identified opportunities to explore new digital channels and markets.
3. With a portfolio of 285 stores across three countries, bricks and mortar retail is at the core of the Michael Hill business. Our **Retail Fundamentals** strategy is focused on driving increased sales, higher margins, lower costs, and a modern, differentiated customer experience, all underpinned by our new retail incentive scheme. The key retail metrics of ATV, IPS and conversion all increased in all markets in FY21 and will continue to be a key area of focus.
4. The roll out of our new ERP platform in early FY21 was the enabler for **Omni-channel** at Michael Hill. Across the year, we successfully tested and trialled “virtual selling”, “click and reserve”, and “ship from store”. These initiatives will now be progressively rolled out across our global network. Further connecting our physical and digital businesses, we will be launching “click and collect” for Christmas 2021, delivering incremental sales and enhanced customer experience.
5. While the *Brilliance by Michael Hill* **Loyalty** program is only 18 months old, membership has already grown to over 800,000. Acquisition has been our priority and while this will continue to be a key focus, the business is now turning its attention to the opportunities of activation and retention. Our early insights already provide confidence that the program is resonating with our customers, delivering increased frequency, larger baskets, and higher margins. Predictive analytics and increased personalisation are being enabled by investment in data analytics capability and artificial intelligence to deliver further growth in the business.
6. **Product Evolution** is the foundation of a customer-led retail strategy, and is critical to continued sales and margin growth. The business will maintain its focus on uniquely Michael Hill branded product as a key differentiator in the categories and markets in which we operate. The business now delivers regular product newness to excite our customers and increase sales, with significantly lower inventory and higher margins. Our Australian manufacturing division has been reinvigorated delivering new bridal collections and increased speed to market, underpinned by a focus on craftsmanship, quality and local artisans while still achieving improved margins.
7. The **Cost Conscious Culture** exists across every aspect of the Company. We continue to optimise the global supply chain, improve the global store network, and enhance our credit propositions globally. The new Canadian 3PL facility will be fully operational for peak Christmas trade – servicing both online customers and stores, optimising inventory, reducing logistics costs, and enhancing overall Canadian productivity and customer experience.

## Outlook for FY22

While the Company has experienced significant lost sales in the first seven weeks of FY22 due to lockdowns in Australia, strong early performance in Canada and New Zealand contributed to +17% group same store sales for the period (+20% against FY20). These early results further demonstrate the progress and traction of the brand, however the increased disruptions in Australia and now New Zealand, are significant. The Company has already lost 2,755 store trading days during the first seven weeks, resulting in -2% total store sales for the period, with an estimated impact on earnings of ~\$5m compared to management expectations prior to the lockdowns.

On a positive note, to support our strategic roadmap and to further advance our digital transformation, the Company is pleased to announce the appointment of Keith Louie, to the newly created role of Chief Digital Officer. Keith brings a wealth of retail experience, eCommerce leadership and digital strategy to the Michael Hill business.

### Michael Hill International CEO Daniel Bracken said:

*“While I’m delighted to see incredibly strong results from Canada following its full reopening, and the resilience of our New Zealand business, the impact of extensive disruptions in Australia and now New Zealand are very concerning.*

*“That being said, our strong financial position provides us with a stable platform to continue our transformation journey, elevate the brand and further explore new opportunities across all channels and markets.*

*“With our strategic agenda progressing, we are placing a greater emphasis on digital, with the appointment of Keith Louie, as our first Chief Digital Officer. His appointment, alongside the recent arrivals of Amy Sznicer, Chief Retail Officer, and Jo Feeney, Chief Marketing Officer, adds significant expertise to our already high calibre leadership team.”*

### 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 Monday 23 August 2021 at 10:00am (AEST). Webcast and dial in details may be found in the Company’s announcement dated 4 August 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 285 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.

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