

ASX AND NZX ANNOUNCEMENT FY2023 FULL YEAR RESULTS

25 August 2023

Michael Hill International Limited (ASX/NZX: MHJ) today announced its full year financial results for the 53-week year ended 2 July 2023.

Key Financial Results

- **Group operating revenue increased by 5.8% to \$629.6m** (FY22: \$595.2m, FY21: \$556.5m).
- **Comparable earnings before interest and tax (EBIT) decreased by 6.3% to \$58.9m** (FY22: \$62.9m), given inflationary cost pressures and substantial investments in New Zealand security measures. This compares favourably to FY21 by 4% (FY21: \$56.6m).
- Group gross margin decreased by 50bps to 64.2% (FY22: 64.7%), yet 150bps ahead of FY21 (62.7%).
- Statutory net profit after tax decreased to \$35.2m (FY22: \$46.7m), with the variance to comparable EBIT performance largely driven by AASB16 *Leases* & SaaS.
- Healthy inventory position to support elevated sales at \$203.3m (FY22: \$181.5m), with the increase mainly attributable to the Bevilles acquisition.
- Deployment of cash on share buy-back, dividends, the Bevilles acquisition and reinvestment in the business, resulted in a net cash position of \$8.4m (FY22: \$95.8m).
- A three year \$90m banking facility was finalised on favourable terms in June, to support strategic growth initiatives.
- Final dividend of AU3.5 cents per share declared, delivering total dividends for the year of AU7.5 cents per share (FY22: AU7.5 cps).

Operational Performance

- **Group revenue was up 5.8%** for the year, with Australia +9.1%, New Zealand +5.8% and Canada flat.
- **Digital sales** were largely flat at \$41.3m (FY22: \$41.9m, FY21: \$34.0m) for the year, demonstrating a strong second half recovery from -9% at the end of the first half.
- **Brilliance by Michael Hill membership now over 2 million** (FY22: ~1.4m), driving repeat customers and higher ATV.
- **Key initial focus for Bevilles** is on integration and store roll outs, with three sites secured and another three sites close to finalisation for pre-Christmas opening, with a further tranche of sites already identified for the second half. The newly acquired Bevilles business contributed four weeks of sales to the FY23 Group result.
- For Michael Hill, three new stores opened (AU:2, CA:1) and five under-performing stores permanently closed (AU:3, NZ:2) during the year. With the inclusion of 26 acquired Bevilles stores, the store network totals 304 across all markets at the end of the year (FY22: 280).

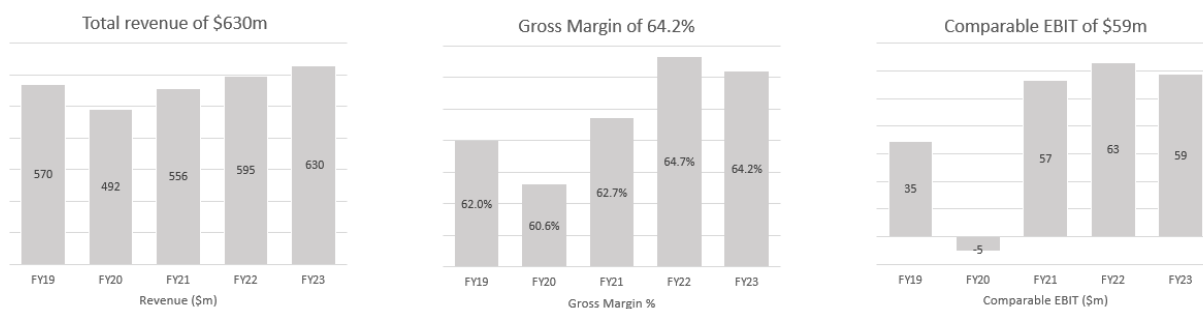
Commenting on the announcement of the Company's full year results, Managing Director & CEO Daniel Bracken, said:

"While we finished the year with comparable EBIT slightly below prior year, we still delivered the second highest profit year in the Company's history, even with the significant increase in security investment to protect our NZ customers and team members.

"Trading in the second half proved to be much harder, with economic headwinds impacting consumer confidence, and in turn sales. Considering the pressures we have experienced on input costs across both diamond and gold pricing, our gross margins held up well.

"The Michael Hill business is built on the foundations of a great culture and a fantastic team, and I'd like to both acknowledge and thank the team for their unwavering focus and energy throughout the year."

FY23 – Group Business Performance



The Group has reported operating revenue of \$629.6m (FY22: \$595.2m) for the 2023 financial year (53-week retail financial year ended 2 July 2023). Comparable earnings before interest and tax (EBIT) for the Group was \$58.9m for the year (FY22: \$62.9m), a decline of 6.3% year on year, due to higher COGS pressure, wage inflation and elevated New Zealand security costs.

While the Company delivered record revenue for the year, this was driven by a particularly strong first half performance, followed by a more challenging second half as macroeconomic conditions deteriorated and consumer confidence declined.

Notwithstanding the impact of sustained elevated raw material input costs (diamonds and gold), and while slightly down on prior year, the Company still delivered strong gross margins. This performance was underpinned by the aspirational brand strategy and the ability to elevate ATV even in a challenging retail environment.

Whilst the Company's digital channels declined in the first half as it cycled the pandemic digital surge, there was a strong return to growth in the second half driven by improved customer experience, traffic and conversion. Throughout the year, the Company has continued to make good progress in its various omni-channel offerings, with 50% of digital sales now being fulfilled via a store.

In August 2022, the Company executed a seamless relocation of its global headquarters to new purpose-built leased premises housing the global support functions, reimagined artisanal jewellery workshop and a state-of-the-art Australasian distribution centre. These new premises provide a contemporary, dynamic and productive environment, strategically aligned to Michael Hill's aspirational brand journey.

On 1 June 2023, the Company completed the Bevilles acquisition, successfully transitioning all team members, stores and inventory to the Group. Accordingly, four weeks of Bevilles trade are reflected in the Group and Australian segment results.

Inventory year-end holdings were \$203.3m (FY22: \$181.5m), with Michael Hill on target and broadly in line with prior year. The lift in stock holdings was largely driven by the inventory acquired in the Bevilles transaction.

During the year, the Company benefited from strong operating cashflows, successfully acquired Bevilles, returned capital to shareholders through a buy-back and dividends, continued investment in both the core business and growth initiatives, which resulted in a year end net cash position of \$8.4m (FY22: \$95.8m). Furthermore, the Company refinanced a three year \$90m bank facility on favourable terms, which will support future strategic growth initiatives.

Michael Hill opened three new stores (AU:2, CA:1) and closed five under-performing stores across the network (AU:3, NZ:2) during the year. With the inclusion of 26 acquired Bevilles stores, the store network totals 304 across all markets at the end of the year (FY22: 280).

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Retail Segment Performance

FY23 delivered strong results in all markets, despite cycling record results in FY22 and facing challenging economic market conditions during FY23H2.

Australia

Retail segment revenue increased by 9.1% to \$331.0m for the year.

In addition to a record sales performance, the segment also delivered a strong gross margin for the year of 64.0%, slightly down on prior year (FY22: 64.9%), yet up 210 bps on pre-pandemic levels (FY19: 61.9%).

During the year, two stores opened, and three under-performing stores closed, resulting in 172 stores (including 26 Bevilles stores) at year end (FY22: 147).

New Zealand

Retail segment revenue increased by 5.8% to NZ\$132.4m for the year.

Gross margin for the year was 61.9% (FY22: 63.4%), largely attributable to the higher penetration of diamond sales in this market. This result was still 110 bps above pre-pandemic levels (FY19: 60.8%).

New Zealand earnings were directly and adversely impacted by a ~\$5m investment required to be made for uplifted and ongoing security measures to protect our team, customers and stores. Additionally, impacted stores experienced softer sales in the period immediately following an incident.

During the year, two under-performing stores closed, resulting in 46 stores at year end (FY22:48).

Canada

Retail segment revenue was CA\$158.9m for the year, largely flat to prior year.

Gross margin declined to 63.3% for the year, as the segment cycled a record gross margin in FY22 (64.9%). This result was still 270 bps ahead of pre-pandemic levels (FY19: 60.6%).

The overall performance of this segment is a credit to the strategic focus placed on Canada in recent years. With strong and refreshed leadership, brand awareness continues to increase, and productivity metrics have lifted significantly.

During the year, one store opened, resulting in 86 stores at year end (FY22: 85).

Capital Management – Dividends and Share Buy-back

Taking into consideration the Company's performance and strength of the balance sheet, the Board has decided to declare a final dividend of AU3.5 cents per share, unfranked for Australian purposes, with nil New Zealand imputation credits and with conduit foreign income.

This delivers a total dividend for the year of AU7.5 cents per share, representing ~70% of adjusted annual NPAT, and at the higher end of the Company's Dividend Distribution Policy target range of 50% to 75%. Subject to the Company's ongoing trading performance and growth plans, the Board's intention is for dividends to remain at the higher end of the target range.

The Company commenced its on-market share buy-back on 19 September 2022, which was paused on 21 November 2022. The directors have decided to discontinue the buy-back. Under the buy-back, the Company acquired 8,631,237 shares (ASX 4,350,875; NZX 4,280,362), being 2.2% of the Company's shares on issue at the commencement of the buy-back, at a total cash cost of A\$10,206,543. The total number of shares on issue following the completion of the on-market share buy-back is 379,688,884.

Group Strategy – emphasis on growth

As the Michael Hill brand continues its aspirational brand journey to a more premium position, the acquisition of the Bevilles business in late FY23 provides a vehicle to take market share at the value end of the fine jewellery category. Additionally, in the first half of FY24, the Company will launch 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.



- The **Bevilles** brand will deliver both sales and profit growth through a significant real estate expansion strategy, coupled with digital growth and an optimised business model. For FY24, three sites have been secured and another three sites are close to finalisation for pre-Christmas opening, with a further tranche of sites already identified for the second half. Leveraging group capabilities and partnerships, Bevilles will benefit from optimisation of both supply chain and vendor relationships, delivering margin and cost benefits to the business. With system integration planned for the second half of FY24, this will drive further opportunities in both productivity and efficiencies by leveraging a common technology platform.
- **TenSevenSeven** is a new start-up brand designed to test a completely unique and elevated proposition, capturing an entirely new high-end customer. The brand will be brought to life through an immersive digital experience supported by the gradual roll-out of a limited number of showrooms in key capital cities. Customers will be invited to select from thousands of unique diamonds, paired with a ring design of their choice and ultimate handcrafting in our artisanal Australian workshop.

The **Michael Hill** brand continues to deliver growth through its elevated brand strategy driving higher productivity and strong margins across all channels.

1. Brand & Loyalty

The strategy to elevate and modernise the Michael Hill brand underpins the overarching vision for the business. Highly engaging and emotive marketing campaigns focusing on key life moments, with an emphasis on product, quality and craft, are leading the transition away from price and promotion, towards emotional long-term customer relationships. The **Brilliance by Michael Hill** loyalty program underpins customer engagement and has now grown to over two million members.

2. Digital & Omni-channel

Michael Hill's digital transformation continues with a shift to a new headless website architecture, providing greater flexibility, productivity and improved customer experience. The role of our digital platforms is not only to serve as a transactional channel but also to provide product education, and brand messaging to drive traffic to our physical stores. More than half of our online transactions are now fulfilled from stores, and data insights show a large proportion of our instore sales originate from online and digital marketing, demonstrating the success of Michael Hill's omni-channel strategy.

3. Retail Fundamentals

Bricks and mortar retail is at the core of the Michael Hill business, driving more than 90% of sales. The retail fundamentals strategy has delivered a 21% lift in productivity per store over the last four years. During FY23, the business invested in refreshing a significant portion of our store network as we elevate the instore experience to align with the brand strategy. The retail team continues to focus on productivity as the key performance metric for stores, in conjunction with a deliberate emphasis on lifting average transaction value.

4. Product Evolution

Product evolution is at the centre of a customer-led retail strategy, and is critical to achieve sales growth and support elevated margin. The laboratory grown diamond category continues to expand, with higher sales growth and margins, helping to offset high input costs for both mined diamonds and gold. During the course of the year, the business invested in new talent and capability across product, buying, sourcing and procurement, as well as technology investments in merchandise planning. The Michael Hill artisanal Australian manufacturing facility was upgraded as part of the move to new global headquarters, optimising both production and costs.

5. New Territories & Services

As the business shifts from transformation to growth, the opportunity to stretch the brand into new territories and services is a key focus. The Michael Hill marketplace strategy has continued, building on partnerships in all three core markets, and now available in both Singapore and Malaysia through a new partnership with Zalora. Following strong early insights from The Bay in Canada, michaelhill.ca now has a dual language offering to engage with French speaking customers in both Quebec and across the country, and early signs are very promising. The pure-play Medley business, while still relatively small, delivered sales growth of 31% on last year, and continues to test and trial new products in the demi-fine jewellery category.

During the year, the Group developed a number of new digitally-led services offerings: the new bespoke brand, *TenSevenSeven*; the new gold recycling platform, *Re:cycle*; and the ability to introduce jewellery insurance to customers in Australia. Furthermore, the Company is in the process of reinventing its repair service offering, initially with the creation of an app to modernise and improve customer experience, with the end goal of creating a seamless repair business to drive incremental revenue.

6. Cost Conscious Culture

During the year, the Michael Hill business successfully relocated its global headquarters including its Australasian distribution centre. This new state-of-the-art distribution centre is technology enabled and has generated significant efficiencies in processing stock, fulfilment to stores and delivery to customers. The embedded cost conscious culture continues, with an absolute focus on cost discipline, inventory and working capital management. In particular, the business has invested in technology to support labour optimisation and rostering to ensure targeted productivity levels can be achieved.

7. Sustainability

In August 2022, Michael Hill announced its ESG manifesto for 2030, centered around three key pillars – People, Product and Planet, with more detail in the Annual Report. An integral part of this strategy is the launch of a circular jewellery ecosystem, *Re:new*. During the year, the first phase was launched via *Re:cycle*, a digitally enabled gold recycling program, that encourages customers to give “new life to their old loves”, by recycling gold jewellery pieces in exchange for a Michael Hill gift card. The second phase, *Re:store*, will focus on jewellery repairs, and the third phase, *Re:imagine*, a diamond upgrade program.

FY24 Trading Update

For the first seven weeks of FY24, Group sales are up 1.2% on prior year, while for the core Michael Hill brand, sales have continued the recent trend and are down on the record start to FY23. However, when compared to both FY21 and FY22, Group sales are up 14.6% and 17.2% respectively, and for the core Michael Hill brand, sales are up mid-single digits for both years. External transactional sales data demonstrates that both the Group and the Michael Hill brand continue to take market share.

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

“There is no doubt that retail conditions have continued to be very challenging in all markets, with sales growth moderating as the Group cycles record Q1 sales in the prior year. While inflation and rising interest rates have impacted consumer spending, I am confident that the Group strategy has us well-placed to continue to take market share.”

“The Michael Hill brand demonstrates its strength and resilience with a focus on key milestone moments in the lives of our customers. Couple this with the launch of our new TenSevenSeven brand, the Bevilles store expansion, and exciting product innovation for Christmas, the Group is well-positioned for the year ahead.”

Analyst and investor call

An investor briefing on the results is scheduled for **9:30am (AEST) on Friday 25 August 2023**.

Please note that the webcast page will not be available until 9:00am (AEST) and it is advised that you join at least 5 minutes before the meeting commences. Participants are encouraged to register online in advance. Once registered you will be able to download a calendar invite link.

The webcast link for the briefing call and to register for Friday 25 August 2023:

<https://web.lumiconnect.com/375287778>

If prompted, please enter the meeting ID: 375-287-778

The webcast link to the briefing will also be available on the ‘events’ section of the website at:

<https://investor.michaelhill.com/events/event-details/fy23-results-release>

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.

FY23 is a 53-week period (27 June 2022 to 2 July 2023) compared to FY22 a 52-week period (28 June 2021 to 26 June 2022). Comparable EBIT is unaudited, excludes the impact of AASB16 *Leases* and IFRIC SaaS guidance, and with normalisations. Further information on the reconciliation of comparable to the statutory result is contained in the Directors’ report and investor presentation.

This announcement is authorised for release by the Board.

– ENDS –

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ABOUT MICHAEL HILL INTERNATIONAL LIMITED

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 304 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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