

# ASX AND NZX ANNOUNCEMENT FY22H1 RESULTS

# PIVOTING FROM TRANSFORMATION TO GROWTH

#### 22 February 2022

Michael Hill International Limited (ASX/NZX: MHJ) today announced its half year financial results for the 26-week period ended 26 December 2021.

# **Key Financial Results**

- Group comparable EBIT increased by 15.5% to \$51.6m (FY21H1: \$44.6m, FY20H1: \$31.6m).
- Statutory net profit after tax was \$37.1m (FY21H1: \$37.6m).
- Group same store sales were up 11.4% to \$306.5m (FY21H1: \$275.0m).
- Operating revenues increased by 2.3% to \$327.1m (FY21H1: \$319.9m), despite losing ~20% of store trading days.
- Gross margin increased by 240 bps to 65.1% (FY21H1: 62.7%, FY20H1: 61.7%).
- Strong working capital management resulted in a closing net cash position of \$99.1m (FY21H1: \$90.3m).
- Agile inventory management with stable and reliable supply chain arrangements delivered a healthy closing balance of \$175.8m (FY21H1: \$170.6m).
- Interim dividend payment of AU3.5 cents per share, unfranked and fully imputed with conduit foreign income.

#### **Operational Performance**

- Digital sales increased 37% to \$26.7m, representing 8.2% of revenue for the half (FY21H1: 5.8%, FY20H1: 2.8%).
- Click & collect went live for Christmas in all markets as part of the Group's customer-led digital strategy.
- Loyalty program Brilliance by Michael Hill exceeded 1 million members.
- New Canadian 3PL distribution centre opened, further demonstrating the focus on supply chain excellence.
- 9,777 lost store trading days across all markets for the half, due to government mandated store closures (FY21H1: 3,709).
- Stable store network of 285 stores across all markets with no stores opened or closed for the half.

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

"While we experienced significant disruption across Australia and New Zealand throughout the half, the resilience and commitment of our team was exceptional. Our resulting performance demonstrates the strong culture, engagement and values underpinning all that we do at Michael Hill.

"I'm particularly proud of the successful planning and execution of Christmas trade which delivered Michael Hill's best Q2 in the Company's history, and was the tenth quarter of positive same store sales growth since FY19Q3. In addition to our strong sales performance, pleasingly, gross margin expansion also continued. All aspects of our business contributed to this result, ranging from the highly engaging and emotive marketing campaign, to the deployment of new digital initiatives, excellence in supply chain and inventory management and our Christmas recruitment strategy.

"Our transformation agenda and strategic initiatives are truly gaining traction – the elevation of our brand across all facets of the business; the Brilliance loyalty program now exceeds more than 1 million members; deployment of digital-first initiatives including click & collect; and continued focus on retail fundamentals best evidenced by strong lifts in average transaction value, conversion and gross margins."

## FY22H1 - Group Business Performance

The Group reported statutory earnings before interest and tax (EBIT) of \$55.8m for the half year ended 26 December 2021. Comparable EBIT was up 15.5% to \$51.6m for the half (FY21H1: \$44.6m), and up 63.1% over the two year period, resulting from both sales and margin expansion.

As a result of Government mandated lockdowns, the Michael Hill global store network suffered 9,777 lost store trading days (FY21H1: 3,709), representing ~20% of store trading days for the half. Despite the ongoing impacts of the global pandemic, the Company experienced strong growth of 11.4% in same store sales and an increase of 2.3% of group revenue to \$327.1m for the half (FY21H1: \$319.9m). This performance was a credit to our teams and the culmination of our ongoing focus on retail fundamentals, digital initiatives, and a strong brand-led marketing Christmas campaign as the elevation of the Michael Hill brand continues.

Gross margin grew by 240 bps to 65.1% for the half (FY21H1: 62.7%, FY20H1: 61.7%) and by 340 bps over the two year period, proving the Company's brand elevation strategy and ongoing focus on margin expansion continues to deliver.

Pleasingly, the Company's omni-channel strategy saw the launch of click & collect in all markets for the all-important Christmas trading period. In the last eighteen months, the Company has rolled out a number of customer-led omni-channel offerings comprising click & reserve; digital appointments; virtual selling; ship from store; and most recently click & collect.

During the half, the business opened its Canadian 3PL distribution centre in Ontario, creating a cost-efficient flow of inventory from vendors, improving speed of delivery to customers and ensuring reliable continuity of supply and optimal stock levels. The opening of this facility has reinforced our already stable and reliable global supply chain which is built on a strong foundation of long-standing vendor relationships, together with our in-house Australian manufacturing facility.

At the end of the half, the Company had nil bank debt and a cash position of \$99.1m (FY21H1: \$90.3m), reflecting a continued focus on costs and strong working capital management.

The global store network remained stable for the half, with 285 stores at 26 December 2021.

# **Dividends**

The Board has updated and released to market the Company's Dividend Distribution Policy, which establishes a target range for dividends of 50% to 75% of adjusted annual NPAT. In updating the Policy, the Board has also introduced greater flexibility on weightings between interim and final dividends, given the seasonal nature of the Company's earnings.

After taking into consideration first half earnings, current sales performance trend and the strength of the balance sheet, the Board has declared an interim dividend of AU3.5 cents per share (FY21H1: AU1.5 cents per share) unfranked, fully imputed with conduit foreign income.

# **Retail Performance**

#### **Australia**

In Australia, same store sales increased by 6.4%, but government mandated lockdowns saw the retail segment revenue decline by 7.8% to \$161.5m for the half. During the half, temporary store closures across Victoria, South Australia, Australian Capital Territory and New South Wales resulted in the Australian segment losing 7,505 store trading days (FY21H1: 2,567), ~27% of the store trading days for the half. Additionally, four under-performing stores have been permanently closed, when compared to the first half of the prior year.

Gross margin for the half increased significantly by 330 bps to 64.7% (FY21H1: 61.4%), as the business benefited from investments in loyalty, digital and personalised marketing.

At half year end, there were 150 stores trading (FY21H1: 154).

#### **New Zealand**

In New Zealand, same store sales increased by 14.8%. However, due to government mandated lockdowns, the retail segment revenue declined by 3.3% to NZ\$67.0m for the half. During the period, lockdowns resulted in 2,138 lost store trading days (FY21H1: 304), ~24% of the store trading days for the half. The lift in sales productivity was driven by a significant focus on increasing average transaction value and conversion rates in the period.

Gross margin for the half increased by 240 bps to 63.5% (FY20H1: 61.1%), as the business continued to elevate the brand and reduce the focus on promotions.

At half year end, there were 49 stores trading (FY21H1: 49).

#### Canada

In Canada, same store sales increased by 13.8% and retail segment revenue increased by 23.6% to CA\$93.0m for the half, a record first half revenue for Michael Hill Canada. These stellar results were underpinned by the Company's strategies across brand, digital, loyalty, product and operational excellence, as well as a heightened focus on productivity, leadership and retail fundamentals within the Canadian segment, which has seen Canadian profitability levels lift to Australian and New Zealand standards. During the period, lockdowns resulted in 134 lost store trading days (FY21H1: 838), ~1% of the store trading days for the half.

Gross margin for the half increased by 310 bps to 64.6% (FY21H1: 61.5%).

At half year end, there were 86 stores trading (FY21H1: 86).

#### Strategy Update - Emphasis on Growth and Margin

Much of the Company's strong first half performance can be attributed to the strategic transformation of the brand, with an emphasis on sales and margin growth. The strategic framework has evolved and continues to underpin future growth for the business.

#### 1. Brand & Loyalty

The Company's increased focus on the Michael Hill brand and *Brilliance by Michael Hill* loyalty program are resonating with customers, delivering results and gaining traction in the market. This is best evidenced by increasing average transaction value, margin expansion, increasing frequency of loyalty member purchasing and larger basket sizes. Both brand and loyalty are key to driving medium to long term sustainable growth in both sales and margin for the group.

# 2. Digital & Omni-channel

Michael Hill digital platforms delivered another strong performance with increased traffic and higher conversion, and now represent over 8% of total Company sales. The successful deployment of click & collect enhanced our omni-channel capabilities as the Company continues its customer-led digital transformation journey. Customers embraced these new service offerings in the key Christmas trading period, driving incremental sales and meeting the needs of our purposeful modern-day consumer. Additionally, the Company is continuing to evolve its marketplace strategy across its three core markets and is introducing new payment platforms to suit the needs of our customers.

#### 3. Retail Fundamentals

With more than 90% of Company sales from the store network, our focus on retail fundamentals sits at the core of the Michael Hill transformation strategy. An unwavering focus on people and performance, operational excellence, visual presentation, and effective labour management underpin our retail initiatives. Elevating the customer experience in our stores will continue to be a priority for the business, the success of which is best evidenced by continued improvement in productivity, comparative store sales and margin expansion. A new senior leadership structure is now firmly in place across all markets and delivering strong results.

#### 4. Product Evolution

Product evolution is at the centre of a customer-led retail strategy, and is critical to achieve sales and margin growth. Laboratory grown diamonds are gaining momentum in the business, delivering increased quality and higher margins while providing customers with a certified Sustainable and Climate Neutral choice. Elevated quality and craftmanship are essential to our aspirational brand journey, and this will be delivered through the evolution of our supply chain, and further investment in the artisanal capabilities of our Australian manufacturing facility. The Company's ongoing focus on product mix continues to be a key enabler for sustained margin expansion. Product newness is critical to achieve higher inventory turn and frequency of purchase, which most recently has seen the successful relaunch of our Sir Michael Hill Designer Bridal collection, our most premium range.

#### 5. New Territories & Services

With the transformation program now well established in the business, the opportunity to stretch the brand into new territories, markets and services is now being explored. The Company is conducting the appropriate market analysis to evaluate new territories that are most suitable for the Michael Hill brand to enter via marketplace and dot.com channels. To drive incremental revenue streams, new service offerings with a focus on sustainability, underpinned by a new digital eco-system are under consideration.

#### 6. Cost Conscious Culture

Our cost conscious culture is relevant to every facet of our business and has been critical to the success of the Company navigating the global pandemic. Our new Canadian 3PL distribution centre is delivering an improved customer experience and incremental financial benefits for the business. Strong landlord partnerships have always been important to our business but never more so than during a global pandemic. Significant improvements have been made in our consumer credit offerings in all markets and we will continue to access new customers, in new channels, on a lower cost base, in what is increasingly a highly competitive segment undergoing significant structural disruption, which presents additional opportunities going forward.

#### 7. Capital Management

Given the current strength of the balance sheet, the Company has undertaken a capital management review. This review incorporates the release of a new dividend policy, with a view to providing a consistent dividend that aligns with the Company's growth profile. In addition, consideration has been given to the Group's capital requirements for organic growth and investment opportunities. It is noted the Company is actively exploring a number of investment opportunities across the jewellery sector.

#### Outlook

In January, Australia and Canada were impacted by Omicron, with significantly lower foot traffic, challenging rostering and reduced store trading hours. Potentially, similar impacts may arise in New Zealand in the coming weeks.

In the first eight weeks of FY22H2:

- Group same store sales were flat
- Group all store sales were up +14%
- · Gross margin remains strong.

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

"While both Australia and Canada were impacted in January by the Omicron variant, the Michael Hill brand demonstrated its strength and resilience, responding remarkably well to the challenging conditions. As we entered February, with a focus on Valentine's Day, the business regained positive trading momentum.

"Looking beyond the first two months of the half, whilst still navigating uncertain trading conditions, the business will continue to pivot from transformation to growth."

#### Analyst and investor call

An analyst briefing on the results will be held on Wednesday 23 February 2022 at 9:00am (Brisbane, Qld time). Webcast and dial in details may be found in the Company's announcement dated 10 February 2022.

#### For more information, please contact:

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#### **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. Comparable EBIT is unaudited, excludes the impact of AASB16 *Leases* and IFRIC SaaS guidance, and normalisations for wage subsidies.

This announcement is authorised for release by the Board.

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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:

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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.