

Nick Scali Limited (NCK)
Results Presentation – Y/E 30 June 2016 (FY16)
11th August 2016

nickscali
L I M I T E D



Key Highlights – FY16

Sales

Sales increased 30% to \$203.0m (FY15: \$155.7m)
- like for like sales growth of 11.1%
- increase assisted by full year of sales from 7 stores opened in H2-FY15

Profit

NPAT increased 53% to \$26.2m (FY15: \$17.1m)

Expenses

Operating expenses decreased to 41.3% of sales (FY15: 44.3%)

Dividend

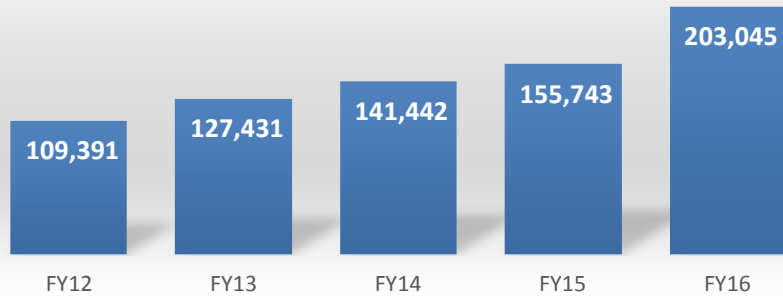
- Final ordinary dividend of 14 cps (FY15: 8.0 cps)
- Total ordinary dividend for the year of 23 cps (FY15: 15.0 cps)
- Full year payout ratio (for ordinary dividend) of 71% (FY15: 71%)
- Special dividend of 3 cps (FY15: nil)

New Stores

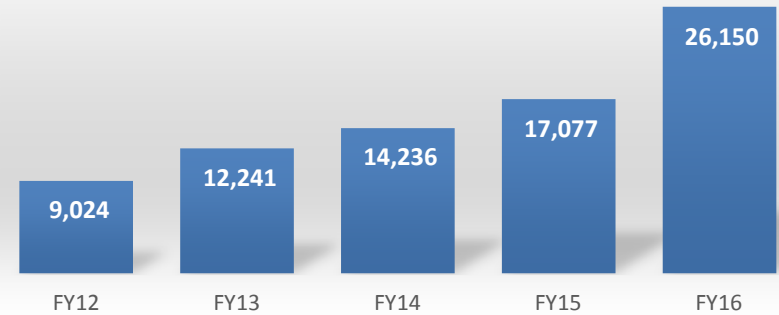
- Successfully entered the WA market with 4 current stores
- 2 new Nick Scali Furniture stores opened during the year

Historic Performance

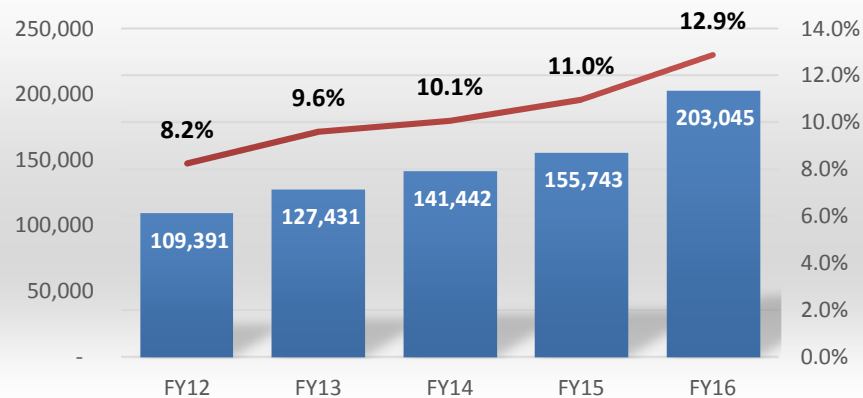
Revenue



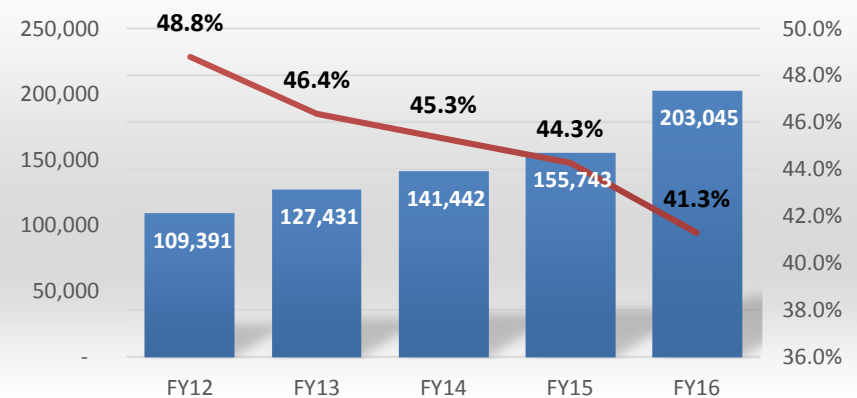
NPAT



NPAT TO SALES



CODB TO SALES



NOTE : Underlying NPAT has been used in FY13 by adjusting for the once off net gain on the surrender of lease of \$5.4m (post tax \$3.8m)

Earnings Summary – FY16

Year Ended 30 June	FY16 \$M	FY15 \$M	Change %
Sales Revenue	203.0	155.7	+ 30%
Cost of sales	(79.7)	(61.3)	
Gross Profit	123.4	94.5	+ 31%
Other income	0.6	0.4	
Operating expenses	(83.8)	(69.0)	+ 22%
EBITDA	40.2	25.9	+ 55%
Depreciation	(3.1)	(2.1)	
EBIT	37.1	23.8	+ 56%
Net interest income	0.4	0.6	
Profit before tax	37.5	24.4	+ 53%
Taxation	(11.3)	(7.3)	
Net profit after tax	26.2	17.1	+ 53%
Gross margin	60.8%	60.7%	
Operating expenses to sales	41.3%	44.3%	
EBITDA margin	19.8%	16.6%	
Effective tax rate	30%	30%	
Earnings per share	32.3	21.1	
Ordinary dividends per share	23.0	15.0	

- Sales increase of 30.4% from comparable store growth of +11.1%, 7 stores opened during FY15 and now trading for the full year FY16, some contribution from the 2 new stores opened in early FY16 and supported by an increased investment in marketing
- Sales orders for the year were up 27.3% and +9.6% on a comparable store basis
- EBITDA of \$40.2m up 55.1% for the year (FY15: \$25.9m)
- NPAT of \$26.2m up 53.1% for the year (FY15: \$17.1m)
- The Western Australia business which was launched in FY15 with 3 stores and a further store added in FY16, has made a significant contribution to the Group sales and profit growth for FY16
- Margin held solid at 60.8% (FY15: 60.7%) despite a lower average AUD as compared to the prior comparable period
- Operating expenses decreased as a percentage of sales to 41.3% (FY15: 44.3%) due to continued cost efficiency, especially in the property category

Balance Sheet – FY16

Year Ended 30 June	FY16 \$M	FY15 \$M
Cash and term deposit	37.0	33.7
Receivables	0.2	0.2
Inventories	25.8	24.2
Fixed assets	55.5	35.1
Intangibles	2.4	2.4
Other	0.5	0.7
Total Assets	121.5	96.3
Payables	37.3	33.2
Current tax liabilities	1.8	1.1
Provisions	3.5	3.2
Borrowings	21.2	12.1
Other	-	0.5
Total Liabilities	63.7	50.1
Net Assets	57.8	46.2
Net cash (cash less borrowings)	15.8	21.6

- Strong cash position maintained
- Total inventory of \$25.8m made up of \$10.3m display stock in showrooms, \$11.4m warehouse stock and \$4.1m goods in transit
- Efficient management and increased inventory turnover resulted in a \$1.6m or 6.8% increase in inventory as compared to sales growth of 30.4%
- Payables have increased due to a higher balance of customer deposits and other accruals
- Fixed assets up \$20.4m as properties in Nunawading (VIC) and Macgregor (QLD) were purchased in October 2015 for Nick Scali stores and a new store was built in Caringbah (NSW) on a Company owned property
- Borrowings up \$9.1m in relation to partial debt funding of property purchases



Cash Flow – FY16

Year Ended 30 June	FY16 \$M	FY15 \$M
Receipts from customers	223.4	171.2
Payments to suppliers/employees	(181.1)	(144.9)
Interest received	0.8	1.1
Income tax paid	(11.1)	(8.6)
Operating Cash Flow	32.0	18.8
Capital expenditure	(23.6)	(14.6)
Investing Cash Flow	(23.6)	(14.6)
Dividends	(13.8)	(11.3)
Borrowings	9.1	5.3
Interest paid	(0.4)	(0.4)
Financing Cash Flow	(5.1)	(6.5)
Net Cash Flow	3.4	(2.2)

- Operating cash flow increased year on year by 70.1% as a result of the sales increase in FY16, gross margin maintenance, relative cost savings and working capital efficiencies
- Capital expenditure of \$23.6m included the purchase of Macgregor (QLD) and Nunawading (VIC) properties, the build of a new Caringbah (NSW) store on a company owned property, new store fitouts for Casula (NSW) and Midland (WA) and various store refurbishments
- A corresponding increase in borrowings of \$9.1m to part finance these property acquisitions and building works
- A very sound cash position maintained despite a record capital expenditure
- Dividends paid during FY16 include the FY15 final dividend of 8.0 cps paid in October 2015 (FY14: 7.0 cps) and FY16 interim dividend of 9.0 cps paid in March 2016 (FY15: 7.0 cps)



Store Network

Nick Scali Furniture

- 2 new stores opened during H1-FY16 at Casula (NSW) and Midland (WA) and 1 store closed at Mildura (SA) in H2-FY16
- 42 stores trading at 2016 fiscal year end
- A total of 5-6 new stores are planned for FY17
 - ❖ Stores in Hobart (TAS) and Geelong (VIC) will open in August 2016 (H1-FY17)
 - ❖ A further 3-4 stores are expected to open during FY17
- The Company still has considerable store network expansion opportunities. The network target remains at ~75 stores over time in Australia/New Zealand

Sofas2Go

- Store network includes a total of 5 stores as at 30 June 2016



Store Numbers at 30 June 2016			
	Nick Scali	Sofas2Go	Total
NSW	16	3	19
VIC	10	1	11
QLD	8		8
SA	3		3
ACT	1	1	2
WA	4		4
	42	5	47

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FURNITURE

sofas
2go 

Outlook

- The market conditions and sales order growth achieved in FY16 have continued into July
- The Company expects modest sales growth in FY17 compared to FY16
- The exceptional profit growth achieved in FY16, driven by the large number of store openings and strong comparable store growth, is unlikely to be replicated in FY17
- Further store network expansion continues - the network target remains at ~75 stores in Australia/New Zealand
- A custom built replacement warehouse facility for NSW is expected to open in June 2017 to support the growth of the business and improve efficiency
- The Company's hedge book together with careful management of product mix and promotions is expected to assist in securing a stable margin of ~60% into FY17
- Launch of the brand into New Zealand is planned in FY18
- Continuing to review possible strategic growth opportunities



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- This document should be read in conjunction with the FY16 Results Announcement and FY16 Appendix 4E.