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Nick Scali Limited | NCK.ASX

FY17 Results Presentation

10th August 2017



Key Highlights



Sales

- Sales increased 14.7% to \$232.9m (FY16: \$203.0m)
- Like for like sales growth of 10%
- Increase assisted by full year of sales from 2 stores opened in FY16 and 4 stores opened in FY17

Profit

- Margin increased by 170 bps to 62.5%

Profit

- NPAT increased 42.4% to \$37.2m (FY16: \$26.2m)

Expenses

- Operating expenses decreased to 38.9% of sales (FY16: 41.3%)

Dividend

- Final ordinary dividend of 20.0 cps (FY16: 14.0 cps)
- Total ordinary dividend for the year of 34.0 cps (FY16: 23.0 cps)
- Full year payout ratio (for ordinary dividend) of 74% (FY16: 71%)

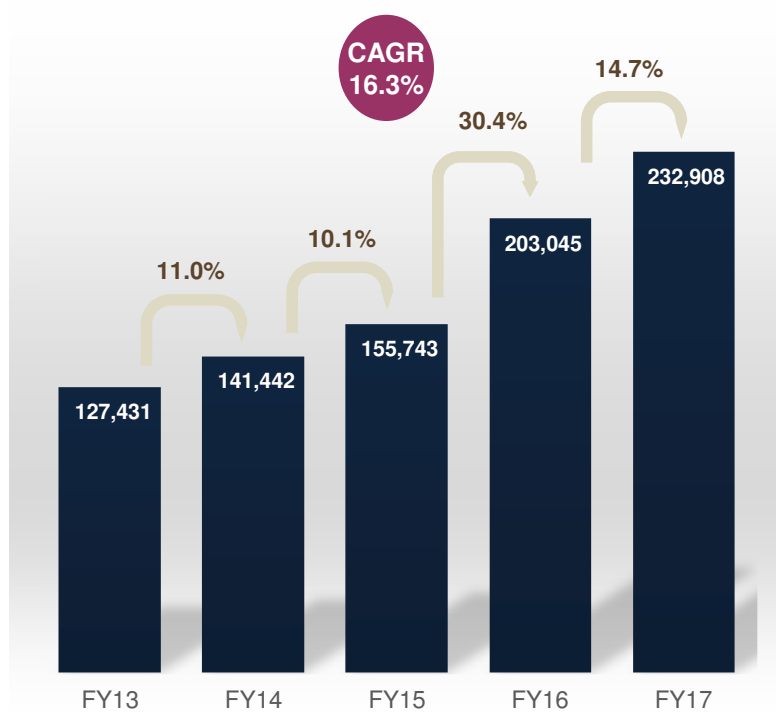
New Stores

- Four new stores opened during the year in Geelong (VIC), Hobart (TAS), Preston (VIC) and Jandakot (WA)
- The first New Zealand store trading under a newly incorporated subsidiary, Nick Scali (New Zealand) Limited, is expected to open in Auckland in December 2017

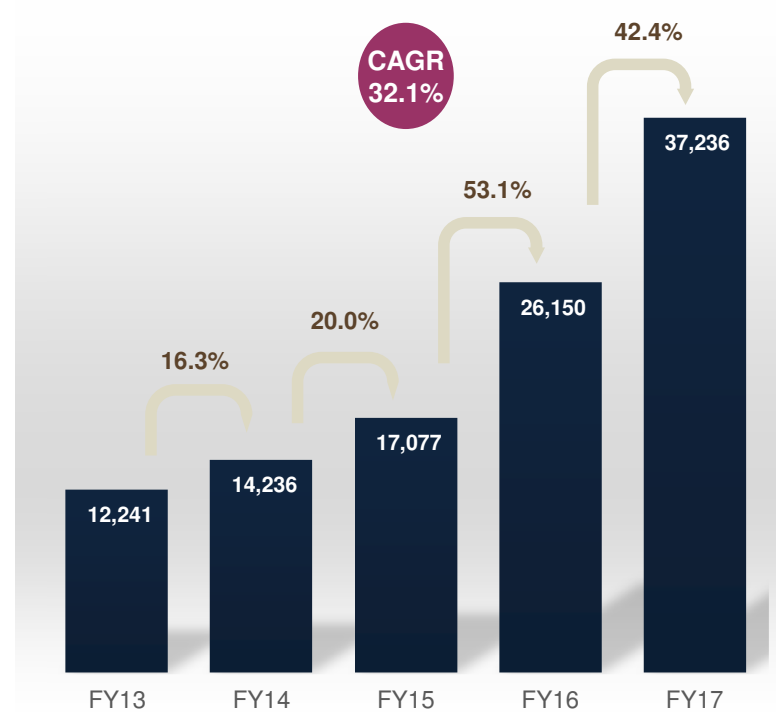
Sales and NPAT growth

Sales up 14.7% from comp store growth of +10%, with NPAT benefiting from scale

Revenue (A\$000)



NPAT (A\$000)



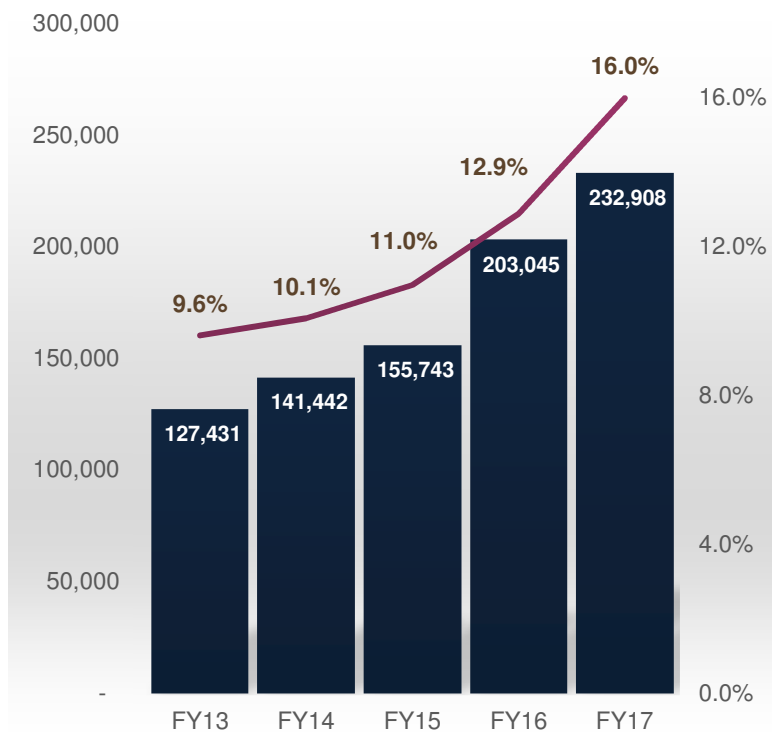
Note : Underlying NPAT has been used in FY13 by adjusting for the once off net gain on the surrender of lease of \$5.4m (post tax \$3.8m)

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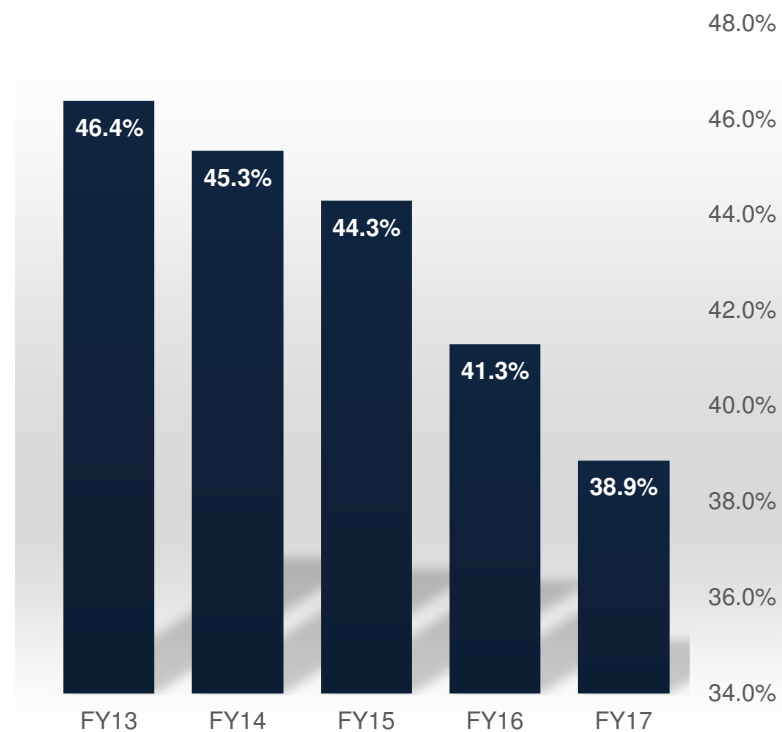
Profit margin and cost of business

Profitability and cost of doing business continue to trend favourably

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)

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Earnings Summary



+10% comp store growth supported by focus on product, price and successful marketing

Profit and loss statement

Year Ended 30 June (\$m)	FY17	FY16	Change (%)
Sales Revenue	232.9	203.0	+ 14.7%
Cost of sales	(87.3)	(79.7)	
Gross Profit	145.6	123.4	+ 18.0%
Other income	1.6	1.4	
Operating expenses	(90.5)	(83.8)	+ 8.0%
EBITDA	55.7	40.2	+ 38.7%
Depreciation	(2.8)	(3.1)	
EBIT	52.9	37.1	+ 42.7%
Net interest income	0.3	0.4	
Profit before tax	53.2	37.5	+ 42.0%
Taxation	(16.0)	(11.3)	
Net profit after tax	37.2	26.2	+ 42.4%
Key metrics			
Gross margin	62.5%	60.8%	
Operating expenses to sales	38.9%	41.3%	
EBITDA margin	23.9%	19.8%	
Effective tax rate	30.0%	30.0%	
Earnings per share	46.0 cents	32.3 cents	+ 42.4%
Dividends per share	34.0 cents	23.0 cents*	+ 47.8%

* Excl 3.0 cps special dividend

Summary

- Sales up 14.7% from comp store growth of +10.0%
 - 2 stores opened during FY16 and now trading for the full year
 - Some contribution from 4 new stores opened in FY17
 - Sales orders for the year up 16.8% and 11.9% on a comp store basis
 - Supported by an increased investment in marketing
- EBITDA of \$55.7m up 38.7% for the year
- NPAT of \$37.2m up 42.4% for the year
- Gross margin increased to 62.5% (FY16: 60.8%) as a result of volume growth in specific product categories
- Operating expenses decreased as a percentage to sales to 38.9% (FY16: 41.3%) due to continued tight cost control and ability to derive revenue growth off existing infrastructure

Balance Sheet



Significant fixed asset base and efficient inventory management

Balance sheet statement

As at 30 June (\$m)	FY17	FY16
Cash and term deposits	39.9	37.0
Receivables	0.2	0.2
Inventories	29.0	25.8
Fixed assets	66.8	55.5
Intangibles	2.4	2.4
Other	0.7	0.5
Total Assets	139.1	121.5
Payables	42.8	37.3
Current tax liabilities	1.1	1.8
Provisions	3.7	3.5
Borrowings	21.2	21.2
Total liabilities	68.7	63.7
Net Assets	70.4	57.8
Net cash (cash less borrowings)	18.8	15.9

Summary

- Strong cash position maintained
- Total inventory of \$29.0m
 - \$10.0m display stock in showrooms
 - \$14.9m warehouse stock
 - \$4.1m goods in transit
- Efficient management and increased inventory turnover
 - Resulted in \$3.2m increase in inventory as compared to sales growth of 14.7%
- Payables have increased due to a higher balance of customer deposits derived from growth in sales order bank
- Fixed assets up \$11.3m
 - Property purchased in Manly Vale (NSW) in February 2017
 - Building works at owned property in Nunawading (Vic) that was completed during the period
- Borrowings of \$21.2m remain unchanged in relation to partial debt funding of property purchases (NBV is ~\$55m included in Fixed Assets)

Cash Flow



Strong operating cash flow supporting capex (+34.0% yoy) and dividends (+81.8% yoy)

Cash flow statement

Year Ended 30 June (\$m)	FY17	FY16
Receipts from customers	256.2	223.4
Payments to suppliers/employees	(197.6)	(181.1)
Interest received	0.9	0.8
Income tax paid	(16.6)	(11.1)
Operating Cash Flow	42.9	32.0
Capital expenditure	(14.3)	(23.6)
Investing Cash Flow	(14.3)	(23.6)
Dividends	(25.1)	(13.8)
Borrowings	-	9.1
Interest Paid	(0.6)	(0.4)
Financing Cash Flow	(25.7)	(5.1)
Net Cash Flow	2.9	3.4

Summary

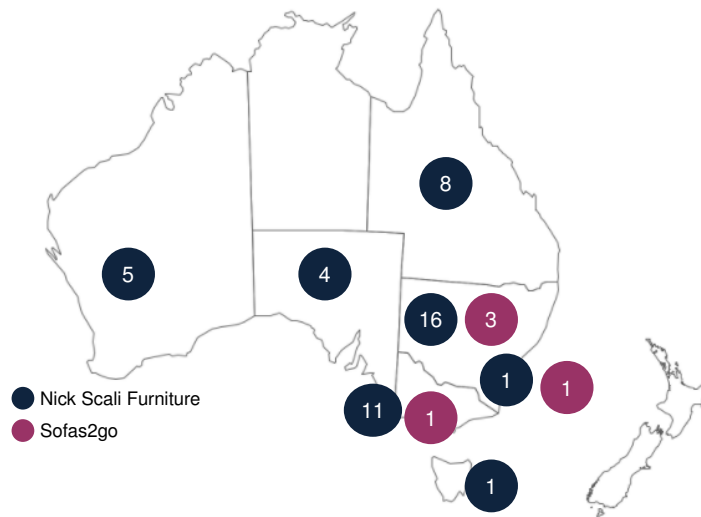
- Operating cash flow increased \$10.9m yoy
 - Result of sales increase in FY17
 - Relative cost savings
 - Working capital efficiencies
- Capital expenditure of \$14.3m included:
 - Property purchased in Manly Vale (NSW) in February 2017
 - Building works at owned property in Nunawading (Vic) that was completed during the period
- Dividends paid during FY17 include
 - FY16 final dividend of 14.0 cps and special dividend of 3.0 cps paid in October 2016 (FY15: 8.0 cps)
 - FY17 interim dividend of 14.0 cps paid in March 2017 (FY16: 9.0 cps)

Store network



Consistent growth in the store network including commencement of NZ strategy in FY18

Store network



Store Numbers as at 30 June 2017

State	Nick Scali	Sofas2go	Total
NSW	16	3	19
VIC	11	1	12
QLD	8	-	8
SA	4	-	4
ACT	1	1	2
WA	5	-	5
TAS	1	-	1
Total	46	5	51

Nick Scali Furniture

- 4 new Nick Scali Furniture stores in Geelong (VIC), Hobart (TAS), Jandakot (WA) and Preston (VIC)
- 46 stores trading at 2017 fiscal year end
- Target 8-10 new stores in FY18
- First New Zealand store to open in December 2017
- Store Network Long Term (Australia & New Zealand) is 75 stores

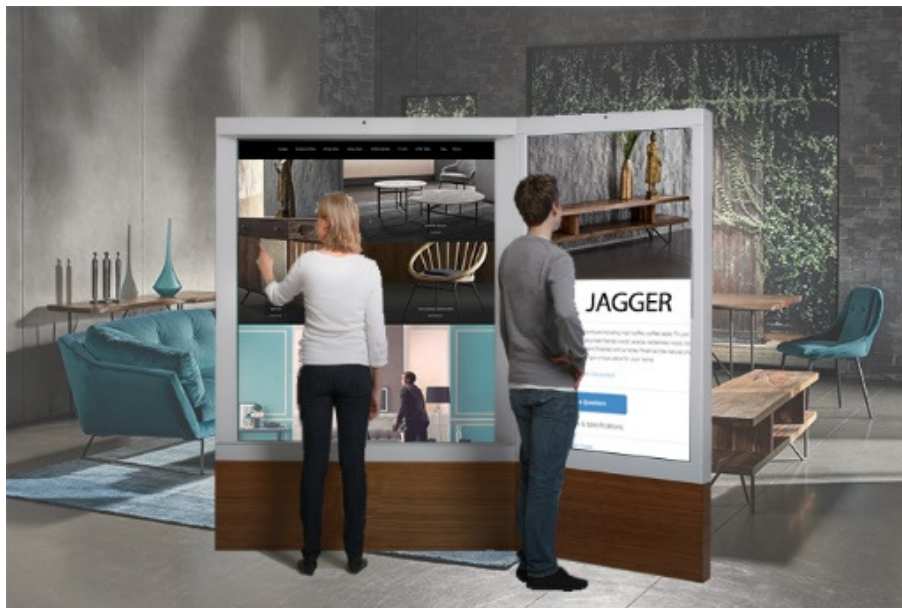
Sofas2Go

- Store network includes a total of 5 stores as at 30 June 2017



Digital Foundation

Coordinating the relationship between the online and offline customer journey for a seamless brand experience



These foundations will include these pillars:

- An Enhanced Online Experience (Website)
- In-showroom Digital Experience (Interactive Screens)
- Intelligent Marketing Systems to increase Customer Engagement (EDMs)
- An Integrated Sales Experience (tablet-based ordering system integrated online)

Outlook

- ✓ **Furniture market directly influenced by consumer confidence, interest rates, unemployment levels and the volume of home renovations and housing sales**
 - **Same store sales order growth continued in Q4 FY17 at +10% with June being particularly strong**
 - **Total sales orders in July were flat in comparison to the previous year**
 - **Given the expected slowdown in housing sales, same store sales order growth will be challenging in FY18**
- ✓ **Directors currently expect sales and profit growth to continue in the long term as the Company expands its store network**
 - **Significant new store rollout for FY18 will benefit earnings in FY19**
- ✓ **Strong balance sheet, supported by a healthy net cash position enabling the Company to continue its growth strategy**

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Thank you



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This document should be read in conjunction with the FY17 Results Announcement and FY17 Appendix 4E.