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Nick Scali Limited | NCK.ASX

HY18 Results Presentation

7th February 2018

Key Highlights



Sales

- Sales increased 8.1% to \$128.0m (HY17: \$118.4m)
- Like for like sales growth of +2.6% for Nick Scali Furniture stores
- Increase assisted by sales from new stores opened in FY17 and HY18

Profit

- Gross margin increased by 90 bps to 62.6%

Profit

- NPAT increased 15.0% to \$23.5m (HY17: \$20.5m)

Expenses

- Operating expenses decreased by 90 bps to 35.2% of sales (HY17: 36.1%)

Dividend

- FY17 final ordinary dividend of 20.0 cps (FY16: 14.0 cps) paid during the period
- HY18 interim ordinary dividend of 16.0 cps declared (HY17: 14.0 cps)

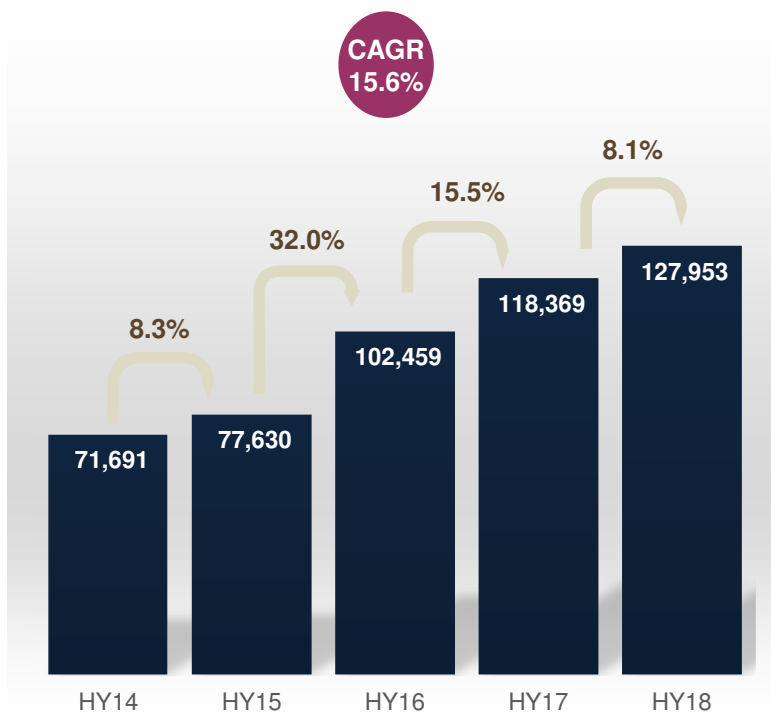
New Stores

- Six new stores opened during the period in Cannington (WA), Robina (QLD), North Lakes (QLD), Toowoomba (QLD), Marsden Park (NSW) and the first New Zealand store in Mt Wellington (Auckland)

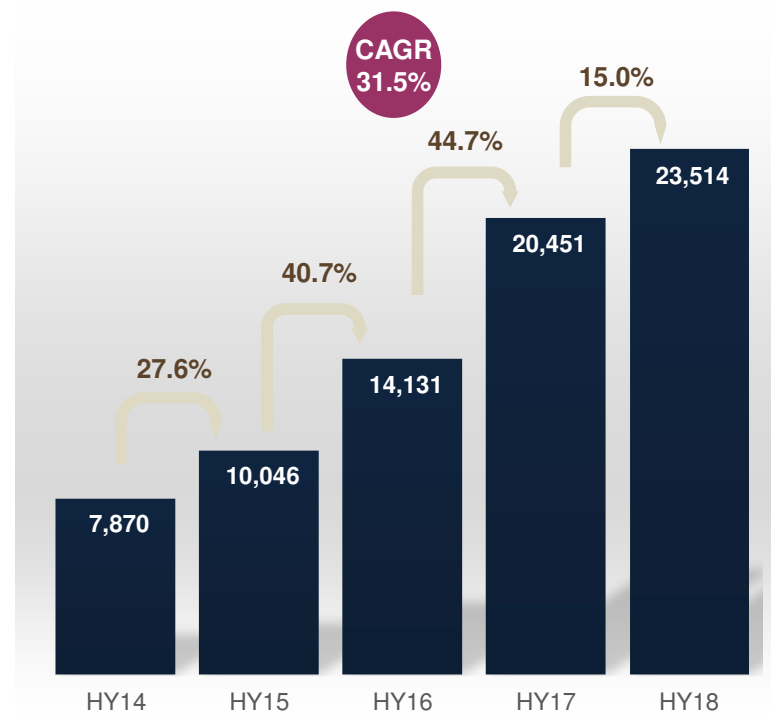
Sales and NPAT growth

Sales up 8.1% from comp store growth of +2.6%, with NPAT continuing to benefit from scale

Revenue (A\$000)



NPAT (A\$000)

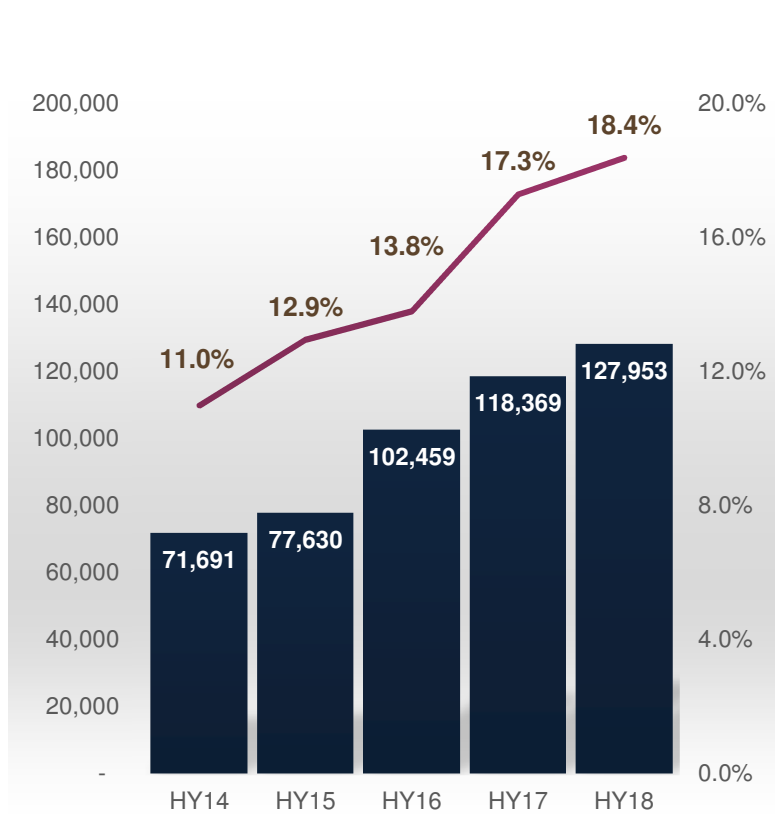


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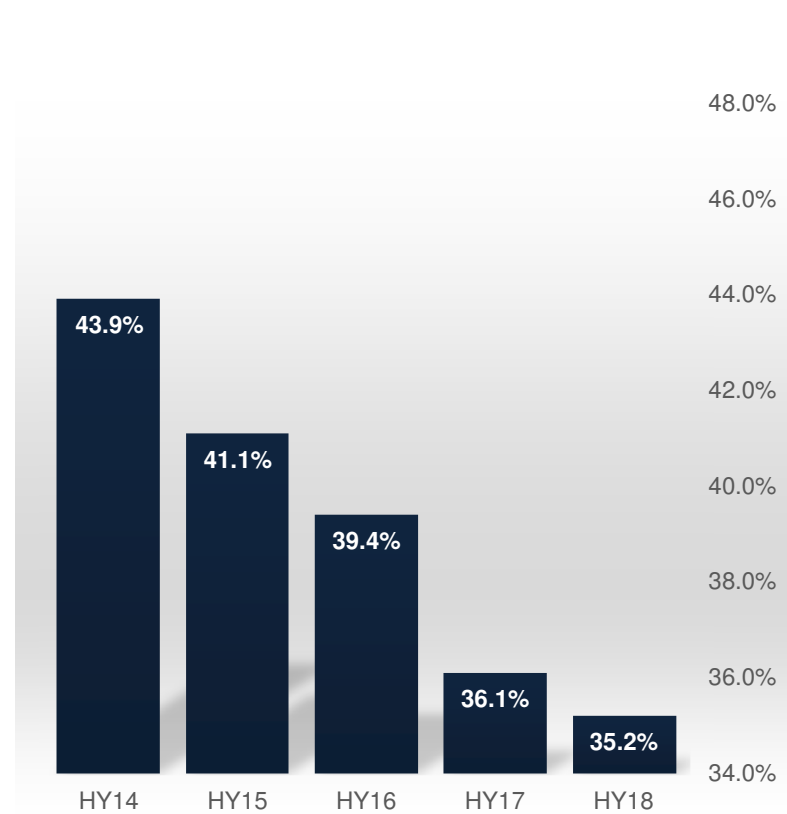
Profit margin and cost of business

Profitability and cost of doing business continue to trend favourably

NPAT to Sales



CODB to Sales



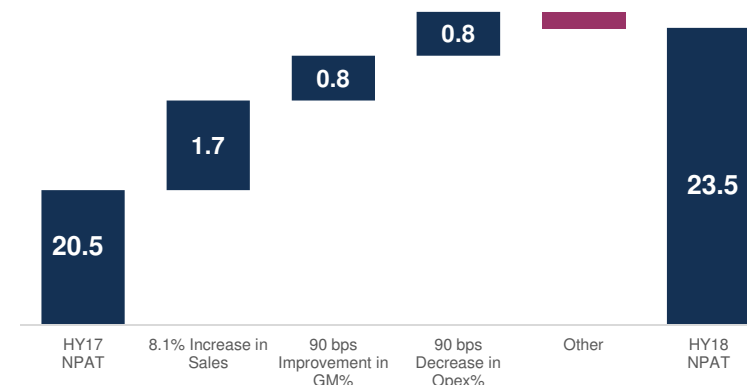
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Earnings Summary

Profit and loss statement

Half-Year Ended 31 December (\$m)	HY18	HY17	Change (%)
Sales Revenue	128.0	118.4	+ 8.1%
Cost of sales	(47.9)	(45.4)	
Gross Profit	80.1	73.0	+ 9.7%
Other income	0.5	0.2	
Operating expenses	(45.0)	(42.7)	+ 5.3%
EBITDA	35.6	30.5	+ 16.7%
Depreciation	(1.9)	(1.5)	
EBIT	33.6	29.0	+ 15.9%
Net interest income	0.1	0.2	
Profit before tax	33.7	29.2	+ 15.4%
Taxation	(10.2)	(8.8)	
Net profit after tax	23.5	20.5	+ 15.0%
Key metrics			
Gross margin	62.6%	61.7%	
Operating expenses to sales	35.2%	36.1%	
EBITDA margin	27.8%	25.7%	
Effective tax rate	30.2%	30.0%	
Earnings per share	29.0 cents	25.2 cents	+ 15.0%
Dividends per share	16.0 cents	14.0 cents	+ 14.3%

Summary



- Sales up 8.1% from comp store growth of +2.6%
 - 4 stores opened during FY17 and now trading for the full year
 - Some contribution from new stores opened in HY18
 - Strong order bank leading into FY18
 - Supported by an increased investment in marketing
- EBITDA of \$35.6m up 16.7% for the half year
- NPAT of \$23.5m up 15.0% for the half year
- Gross margin increased to 62.6% (HY17: 61.7%)
- Operating expenses decreased as a percentage to sales to 35.2% (HY17: 36.1%) due to the continued ability to derive revenue growth off existing infrastructure

Balance Sheet



Growing fixed asset base and efficient inventory management

Balance sheet

Half-Year Ended 31 December (\$m)	HY18	FY17
Cash and term deposits	28.2	39.9
Receivables	0.6	0.2
Inventories	31.2	29.2
Fixed assets	91.3	66.8
Intangibles	2.4	2.4
Other	1.8	0.7
Total Assets	155.5	139.3
Payables	38.5	43.0
Current tax liabilities	2.6	1.1
Provisions	4.4	3.7
Borrowings	32.2	21.2
Total liabilities	77.7	68.9
Net Assets	77.8	70.4

Summary

- Strong cash position maintained
- Total inventory of \$31.2m due to new store openings and corresponding increase in stock in transit
 - Display: \$12.4m (June 17: \$10.2)
 - Warehouse: \$11.6m (June 17: \$14.9m)
 - In Transit: \$7.2m (June 17: \$4.1m)
- Payables down \$4.5m from lower customer deposits compared with June 2017
- Net cash, borrowings and fixed assets impacted by \$23m purchase of Auburn (NSW) store in December 2017
- All borrowings relate to owned properties and increased by \$11m from the Auburn property purchase
- Fixed assets includes \$78m land and buildings at cost for eight Company owned retail properties

Cash Flow

Strong operating cash flow (+10.9% yoy) supporting capex and dividend payments (+17.6% yoy)

Cash flow statement

Half-Year Ended 31 December (\$m)	HY18	HY17
Receipts from customers	140.4	129.8
Payments to suppliers/employees	(111.7)	(104.5)
Interest received	0.4	0.5
Income tax paid	(9.0)	(7.5)
Operating Cash Flow	20.2	18.2
Capital expenditure	(26.4)	(4.1)
Investing Cash Flow	(26.4)	(4.1)
Dividends	(16.2)	(13.8)
Borrowings	11.0	-
Interest Paid	(0.4)	(0.3)
Financing Cash Flow	(5.6)	(14.1)
Net Cash Flow	(11.8)	0.0

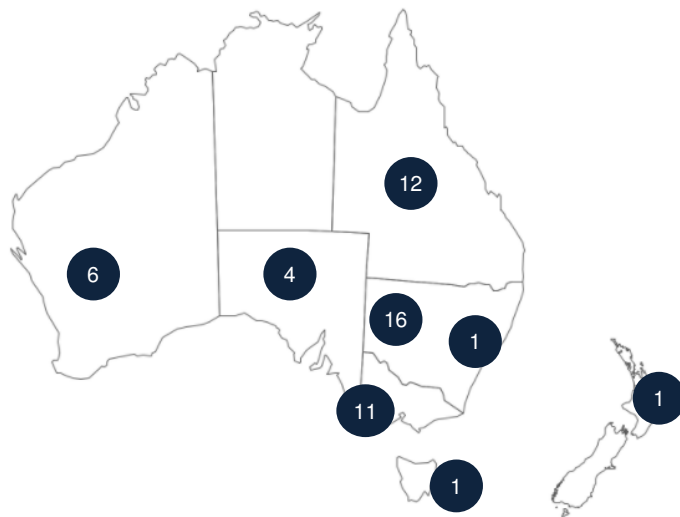
Summary

- Operating cash flow increased \$2.0m yoy
 - Result of sales increase in HY18
 - Relative cost savings
- Capital expenditure of \$26.4m included:
 - Property purchased in Auburn (NSW) in December 2017
- Dividends paid during HY18 include
 - FY17 final dividend of 20.0 cps paid in October 2017 (FY16: 14.0 cps and special dividend of 3.0 cps)

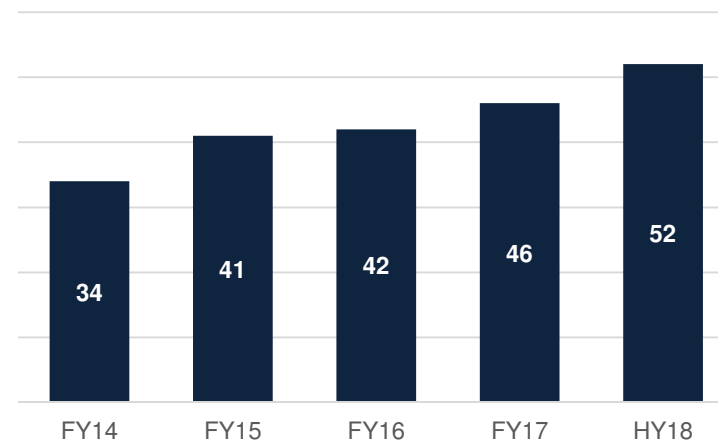
Store network

Consistent growth in the store network including the first store in New Zealand

Current store network



Nick Scali brand store network growth



- Six new Nick Scali Furniture stores - five in Australia in Cannington (WA), Robina (Qld), North Lakes (Qld), Toowoomba (Qld), and Marsden Park (NSW) and the first New Zealand store in Mt Wellington (Auckland)
- Target further 2 new stores in second half of FY18
- Long term store network target of 75 stores (Australia & New Zealand)

Outlook

New stores

- The six new stores opened in first half FY18 have performed above expectations.
- Three of the new stores are located in the "Home-Co" centres previously occupied by Masters.
- The "Home-Co" centres are generating excellent traffic and we expect to open a number of new stores in more "Home-Co" centres.
- For FY18, two of the six new stores will contribute to second half profit and the other four will provide only a small contribution due to start-up costs.

New Zealand

- Our Auckland store was the best performing new store for January in respect of sales orders.
- Positive feedback from consumers is encouraging and suggests that, as expected, the Nick Scali brand will fill a void in the NZ furniture industry segment.
- Additional stores in NZ will be opened towards the end of second half FY18 and early in the first half FY19.

Sales

- Recent trading from our existing stores has been volatile with December providing positive same store sales order growth whilst January was negative.
- Same store sales growth has been challenging - cycling off two consecutive years of double digit growth.

Profit growth

- The current expectation is for net profit after tax for the full year to June 2018 to be 5-10% higher than the previous corresponding period.
- FY19 is expected to benefit from the substantial increase in the store network being established during FY18.

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This document should be read in conjunction with the HY18 Results Announcement and HY18 Appendix 4D.