

3 February 2022

Results announcement – half-year ended 31 December 2021 (H1 FY22)

Underlying Result

A\$m	HY22 ¹	HY21 ¹	% Change
Revenue (\$m)	180.3	171.1	+5.4%
Net profit after tax (NPAT, \$m)	35.6	38.1	-6.6%
Earnings before interest, tax, depreciation and amortisation (EBITDA, \$m)	73.0	72.7	+0.4%
Earnings before interest and tax (EBIT, \$m)	55.1	57.2	-3.7%
Gross margin	63.2%	64.0%	-80bps
Cost of doing business (CODB, expenses including depreciation and finance costs, % to sales)	35.2%	32.8%	+240bps
EBIT margin (% to revenue)	30.6%	33.4%	-280bps
Basic earnings per share (EPS, cents)	44.0	47.0	-6.4%
Interim dividend per share (cents)	35.0	40.0	-12.5%

Overview

Furniture retailer Nick Scali Limited ("the Group") (ASX: NCK) today reported its results for the half-year ended 31 December 2021, with underlying EBIT of \$55.1m and an underlying net profit after tax of \$35.6m¹. After a turbulent six months during which the Group had to close over 55% of the store network whilst managing widespread disruption to its supply chain, profit fell by 6.6% compared to the prior corresponding period in FY21. Net profit after tax was up 75% when compared to H1 FY20.

During the period, the Group acquired Plush-Think Sofas Pty Ltd ("Plush") for \$101.4m, on an adjusted cash-free, debt-free basis, from Greenlit Brands Household Goods Pty Ltd. The acquisition was funded through a combination of debt and existing cash reserves, and was completed on 1 November 2021. The Plush brand contributed NPAT of \$1.8m to the Group for the two months post-acquisition.

Overall, total written sales orders for the Group for the period were \$203.4m, representing growth of 6.4% on the prior corresponding period. In Q2, written sales orders were up 44% with all Nick Scali stores reopened by mid-November and the Plush stores contributing significantly in November and December.

On a same-store basis, and excluding periods of temporary store closures, written sales orders for Nick Scali stores increased by 4.9%².

¹ The underlying results exclude the impact of one-off items relating to (a) the acquisition of Plush-Think Sofas Pty Ltd, which totalled \$2.9m in H1 FY22, and (b) the JobKeeper wage subsidy of \$3.6m received in H1 FY21, and subsequently repaid in H2 FY21

² Same-store sales order growth is calculated on a monthly store-by-store basis, and excludes the results of stores for complete months that included periods of temporary closure in either the current or comparative reporting period

Whilst total revenue for the Group grew by 5.4% during H1 FY22, revenue for Nick Scali was down due to the closure of more than half of the store network during the first quarter and production delays, particularly in Vietnam which was in lockdown for a period of three months. Despite the lockdowns in Australia and New Zealand, written sales orders still exceeded sales revenue as supply chain disruptions peaked during the first quarter, fuelling continued growth in the outstanding order bank. At the end of December 2021, the outstanding order bank was 70% higher than at the same time in the previous year.

The gross profit margin for Nick Scali was up 30 basis point to 64.3%. The gross profit margin for Plush was 54.8%, resulting in a combined margin for the Group of 63.2%.

Commenting on the result, the Managing Director, Anthony Scali, said "Despite over half of our stores being closed between July and October, and the impact of international lockdowns on our key suppliers, we were still able to deliver a strong earnings result, which was 75% up on H1 FY20. We are very excited about the recent Plush acquisition which is on track to provide significant sales and profit growth for the Company as we expand the store network and benefit from the synergies of a fully integrated business."

Dividends

This morning, the directors declared a fully franked interim dividend of 35.0 cents per share, with a record date of the 7 March 2022 and a payment date of 28 March 2022. This represents a payout ratio of 85% (H1 FY21: 80%).

Store Growth

The Plush acquisition added 46 showrooms to the Group's network, and during the period a further new Nick Scali store was opened in Hastings, the Group's first store in regional New Zealand.

The company maintains its long-term target of at least 85 Nick Scali stores and 90-100 Plush stores.

Online

The Group continued to experience growth in its online sales channel in the half year ended 31 December 2021 with over \$19.0m of written sales orders, including \$2.4m for Plush. Revenue for Nick Scali Online reached \$13.7m, generating an incremental \$8.0m EBIT contribution.

Outlook

January trading has provided a strong foundation for revenue growth in the second half with total written sales orders for the Group up 31% on the previous year and 92% compared to H1 FY20.

Trading during January in Nick Scali stores was down 6% due to a 25% decline in store traffic and difficulties caused by the Omicron variant, particularly at the beginning of the outbreak. However, the

Group saw a marked improvement in traffic and sales orders towards the end of the month as consumers adjusted to managing the pandemic.

Plush delivered sales orders in January in line with the previous year, benefitting from a redirection in media spend resulting in increased brand awareness and marketing synergies across the Group.

Overall, the outstanding order bank at the end of January 2022 was 70% higher than in the previous year.

The Group's suppliers have recently reinstated normal lead times, and this should facilitate revenue growth over the coming months. However, shipping costs and the availability of containers remains uncertain, and will be a major obstacle in the delivery of the outstanding order bank. Whilst the Group continues to expect revenue to increase materially during the second half, the costs of shipping could well impact profitability during the period.

Mr Scali said, "Given the challenges incurred during the half, I am pleased with the result that we have been able to deliver. In particular, the Plush sales team has delivered a strong performance since acquisition and this is a very positive sign for the future. The Company has a strong financial base and is well positioned to deliver continuing returns for shareholders in the future."

Results Presentation

Anthony Scali will be presenting the H1 FY22 results by teleconference at 10h00 AEDT on Thursday 3 February 2022.

Attendees are required to pre-register for the conference using the following link, and will receive dial-in details upon completion of the brief pre-registration process.

Registration Link <https://s1.c-conf.com/diamondpass/10019018-jr64df.html>

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