Nick Scali Limited | NCK.ASX

Macquarie Conference

2nd May 2018

Key H1-18 Highlights

nickscali LIMITED

Sales	• Sales increased 8.1% to $128.0m (HY17: $118.4m) • 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)

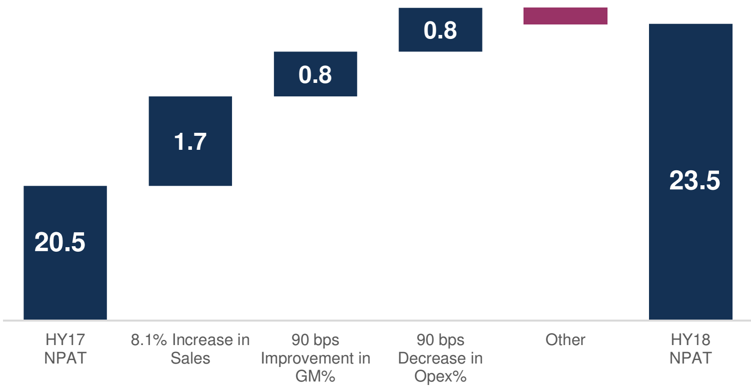
Earnings Summary

nickscali LIMITED

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%
  - 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

nickscali LIMITED

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
- Increase in inventory corresponds with new store openings and sales order growth
- Payables down $4.5m from lower customer deposits compared with June 2017
- Net cash, borrowings and fixed asset movements due to $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

nickscali LIMITED

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**

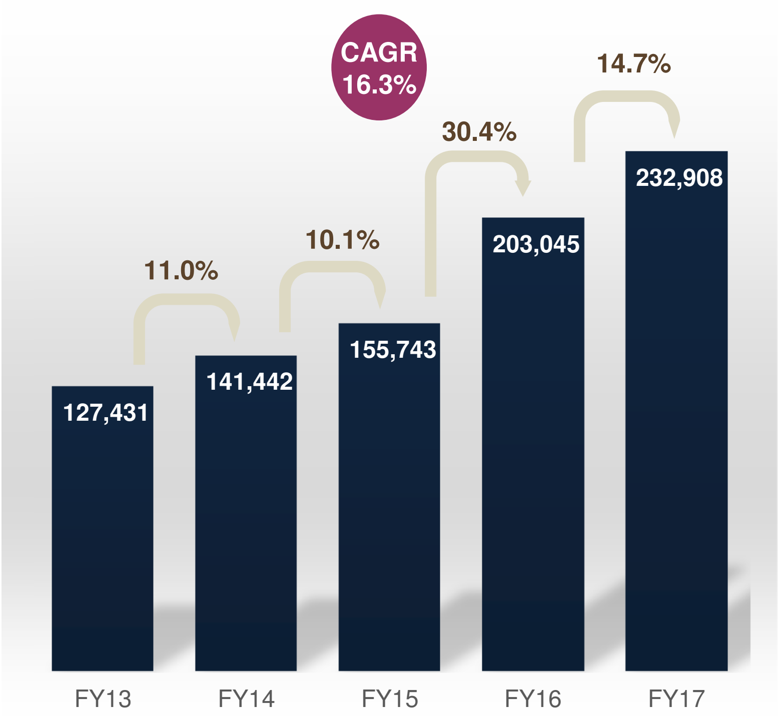
Summary

- 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)

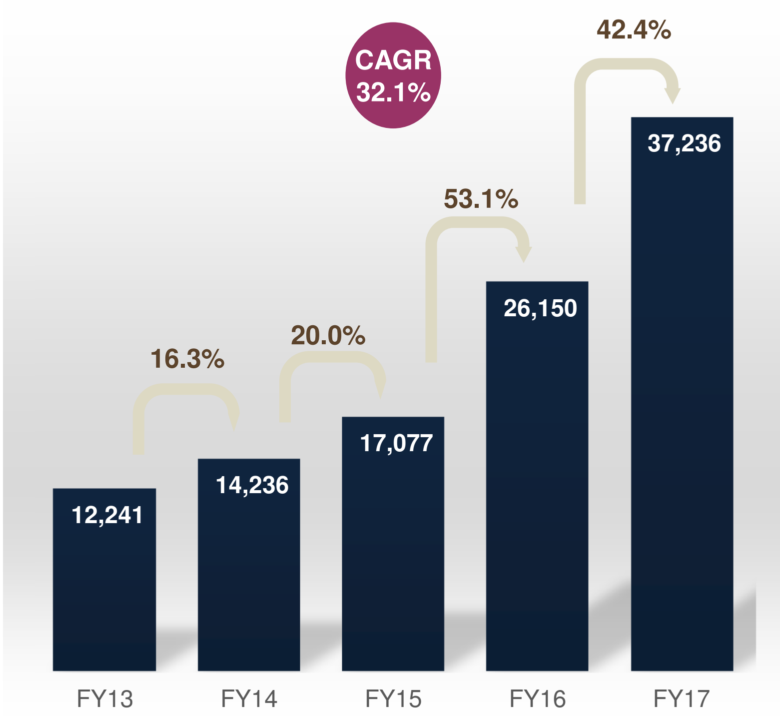
Sales and NPAT growth

nickscali LIMITED

Revenue (A$000)



NPAT (A$000)

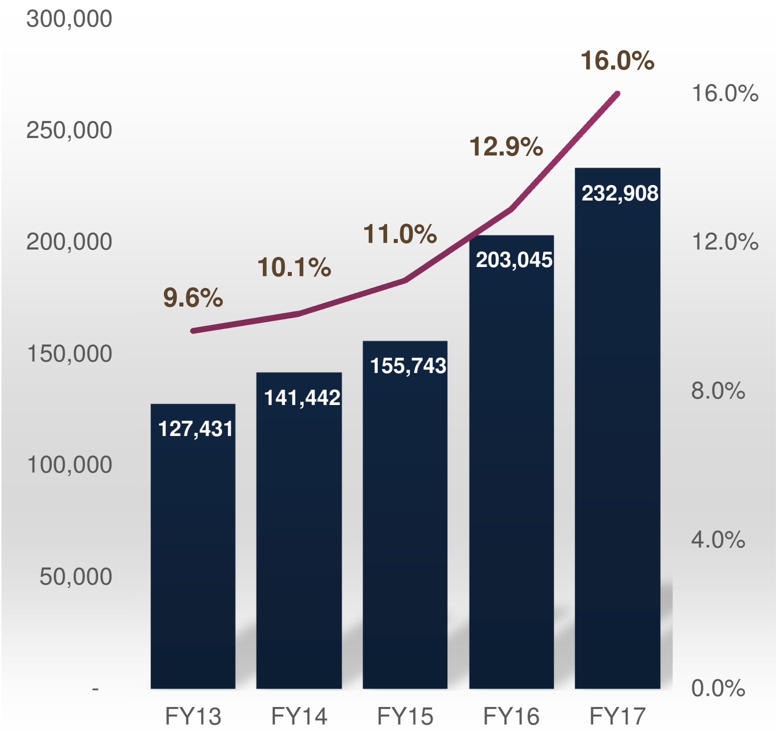


Profit margin and cost of business

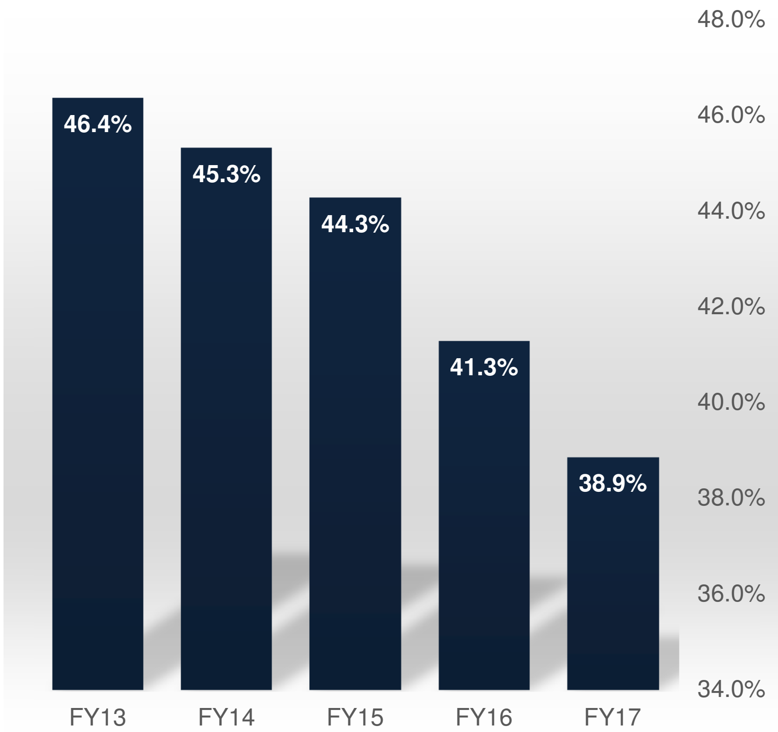
nickscali LIMITED

Profitability and cost of doing business continue to trend favourably

NPAT to Sales



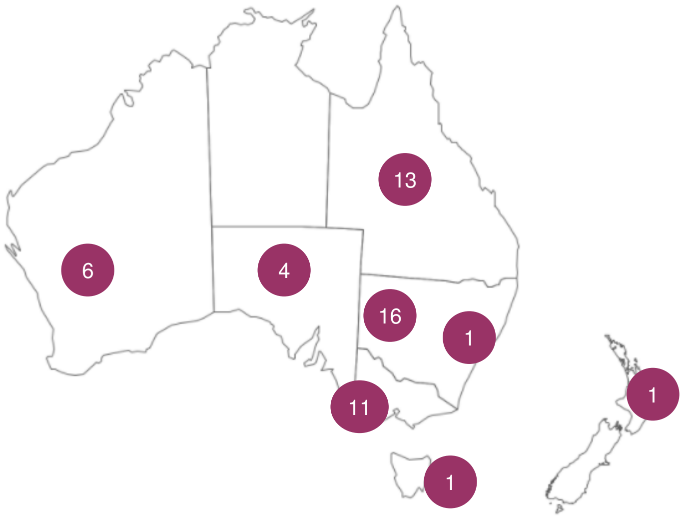
CODB to Sales



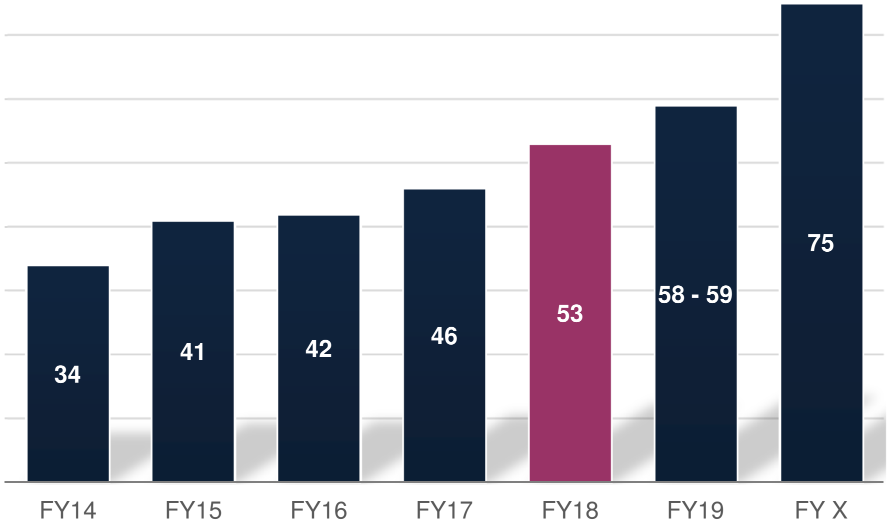
Long term store network target of 75 stores (Australia and New Zealand)

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

FY18 store network



Nick Scali brand store network growth



- **H1-18**: Six new Nick Scali Furniture stores - five in Australia in Cannington (WA), Robina (Qld), North Lakes (Qld), Toowoomba (Qld), and Marsden Park (NSW), one relocation into larger site (Penrith) and the first New Zealand store in Mt Wellington (Auckland)
- **H2-18**: One new Nick Scali Furniture Store in Morayfield (QLD), one relocation into larger site (Bundall) and one enlargement in existing site (Springvale)
- **FY19**: forecast to open 5-6 new Nick Scali Furniture stores including 1-2 in New Zealand

New Store Phasing

New stores are loss making during the initial opening phase and typically reach breakeven after 6 months

Opening phase

	P1	P2	P3	P4	P5	P6	TOT
Sales Orders	400	400	400	400	400	400	2,400
Sales Deliveries	30	50	150	300	400	400	1,330
Operating Profit	(150)	(100)	(40)	50	120	120	-

New store assumptions:

- Based on store average annual sales orders of $4.8m
- Sales deliveries for custom orders starts approximately 8-12 weeks after store opening
- Expenses including employment, training and marketing start pre/from store opening date

Mature phase

	P1	P2	P3	P4	P5	P6	TOT
Sales Orders	400	400	400	400	400	400	2,400
Sales Deliveries	400	400	400	400	400	400	2,400
Operating Profit	120	120	120	120	120	120	720

Mature store assumption:

- Based on store average annual sales orders of $4.8m
- Store operating profit : sales deliveries of ~30%

Note:
- The above figures are for illustrative purposes only
- Sales orders are orders placed by customers in-store
- Sales deliveries are orders delivered to customers at which point they are recognised as revenue in the financial statements

nickscali FURNITURE

Thank you

Important notice and disclaimer

Nick Scali Limited (the "Company") advises that the information in this presentation contains general background information about the Company's activities as at the date of the presentation. It is information given in summary form and is based on information available to the Company that has not been independently verified.

The information in the presentation contains forward looking statements which may be subject to uncertainties outside the Company's control and therefore no representation or warranty, express or implied, is made or given as to the accuracy, reliability or completeness of the information, opinions and conclusions expressed.

The Company disclaims any obligation or undertaking to disseminate updates or revisions to any forward looking statements in this document to reflect any change in expectations in relation to any forward looking statements or any change in events, conditions or circumstances on which any such statement is based.

This presentation should not be relied upon as a recommendation or forecast by the Company.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figure.

This document should be read in conjunction with the HY18 and FY17 Results Announcement and HY18 Appendix 4D and FY17 Appendix 4E.