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Nick Scali Limited | NCK.ASX

FY18 Results Presentation

16th August 2018

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Key Highlights

Sales

- Sales increased 7.7% to \$250.8m (FY17: \$232.9m)
- Increase assisted by full year of sales from 4 stores opened in FY17 and part contribution of 6 stores opened in FY18

Profit

- Gross margin increased by 20 bps to 62.7%

Profit

- NPAT increased 10.1% to \$41.0m (FY17: \$37.2m)

Expenses

- Operating expenses decreased to 38.1% of sales (FY17: 38.9%)

Dividend

- Final dividend of 24.0 cps (FY17: 20.0 cps), up 20.0% on last year
- Total dividend for the year of 40.0 cps (FY17: 34.0 cps), up 17.6% on last year
- Full year payout ratio of 79% (FY17: 74%)

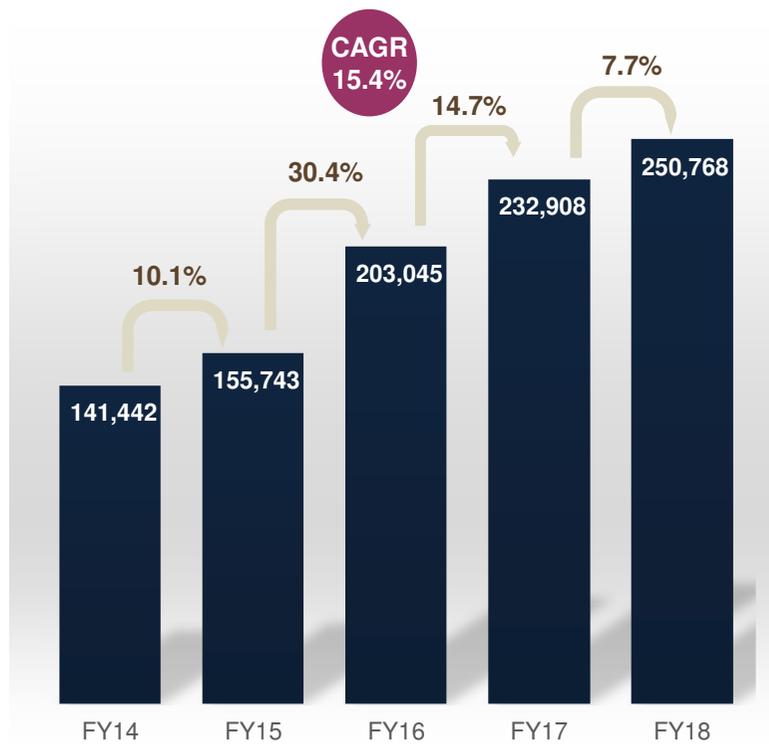
New Stores

- Six new stores were opened during the year, 5 in Australia and our first store in New Zealand.

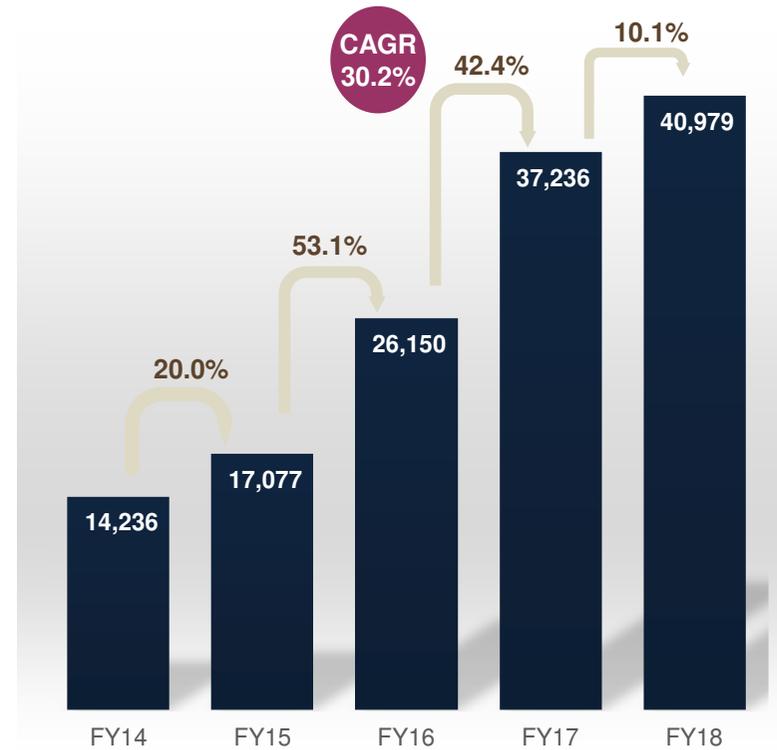
Sales and NPAT growth

Sales up 7.7% with NPAT up 10.1% benefiting from new store openings

Revenue (A\$000)



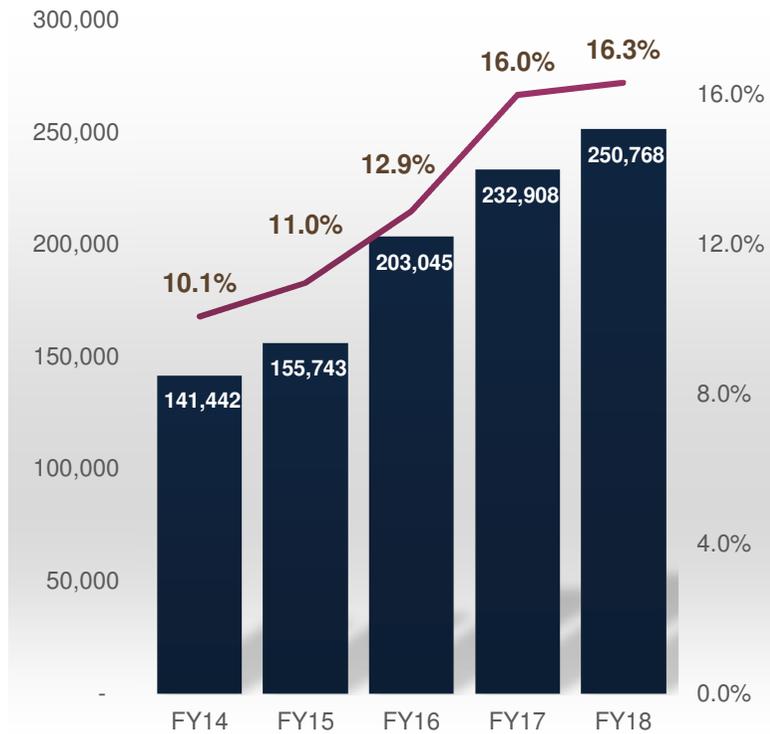
NPAT (A\$000)



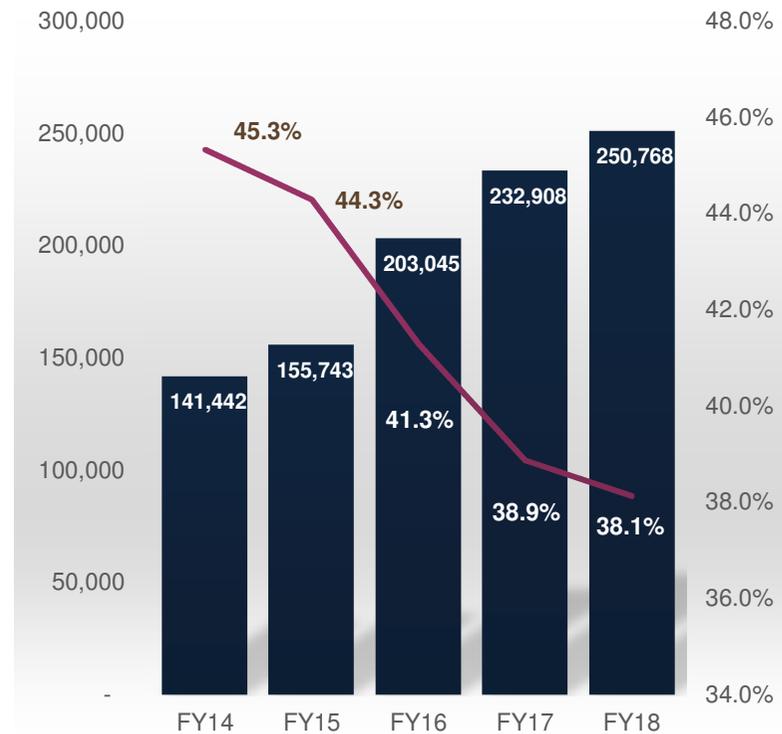
Profit margin and cost of business

Profitability and cost of doing business continue to trend favourably

NPAT to Sales



COBD to Sales



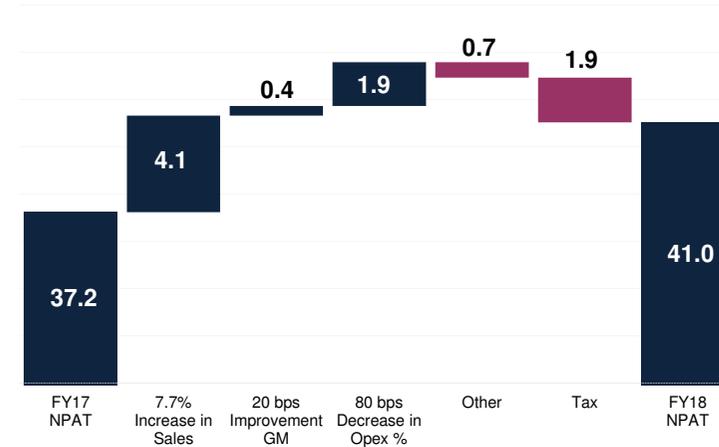
Earnings Summary



Profit and loss statement

YE 30 June (\$m)	FY18	FY17	Change (%)
Sales Revenue	250.8	232.9	+ 7.7%
Cost of sales	(93.6)	(87.3)	
Gross Profit	157.2	145.6	+ 8.3%
Other income	1.9	1.6	
Operating expenses	(95.6)	(90.5)	+ 6.1%
EBITDA	62.8	55.7	+ 12.7%
Depreciation	(3.8)	(2.8)	
EBIT	59.0	52.9	+ 11.6%
Net interest (expense)/income	(0.2)	0.3	
Profit before tax	58.9	53.2	+ 10.6%
Taxation	(17.9)	(16.0)	
Net profit after tax	41.0	37.2	+ 10.1%
Key metrics			
Gross margin	62.7%	62.5%	
Operating expenses to sales	38.1%	38.9%	
EBITDA margin	25.0%	23.9%	
Effective tax rate	30.4%	30.0%	
Earnings per share	50.6 cents	46.0 cents	
Dividends per share	40.0 cents	34.0 cents	

Summary



- Sales deliveries up 7.7% and sales orders up 5.8%
 - 4 stores opened during FY17 and now trading for the full year
 - Part contribution from 6 new stores opened in FY18
 - Same store sales flat
- EBITDA of \$62.8m up 12.7% for the year
- NPAT of \$41.0m up 10.1% for the year
- Gross margin increased to 62.7% (FY17: 62.5%)
- Operating expenses decreased as a percentage to sales to 38.1% (FY17: 38.9%) due to continued tight cost control and ability to derive revenue growth off existing infrastructure

Balance Sheet



Balance sheet statement

YE 30 June (\$m)	FY18	FY17
Cash and term deposits	36.6	39.9
Receivables	1.9	0.2
Inventories	36.2	29.2
Fixed assets	91.9	66.8
Intangibles	2.4	2.4
Other	2.4	0.7
Total Assets	171.3	139.3
Payables	44.1	40.7
Current tax liabilities	1.3	1.1
Provisions	7.8	5.9
Borrowings	33.7	21.2
Other	0.8	-
Total liabilities	87.7	68.9
Net Assets	83.7	70.4
Net cash (cash less borrowings)	2.9	18.8

Summary

- Strong cash position maintained
- Total inventory of \$36.2m up \$7.0m due to new showrooms, NZ warehouse, stock in transit and improved availability of non custom stock.
 - \$11.8m display stock in showrooms
 - \$19.2m warehouse stock
 - \$5.2m goods in transit
- Payables have increased due to a higher balance of customer deposits derived from growth in sales order bank
- Fixed assets up \$25.1m includes
 - Property purchased in Auburn (NSW) in December 2017 ~\$23m
 - Six new store fitouts
- Borrowings increased by \$12.5m to \$33.7m in relation to partial debt funding of property purchases (net book value is ~\$77m included in Fixed Assets)

Cash Flow

Strong operating cash flow supporting capex investment and dividend payout

Cash flow statement

YE 30 June (\$m)	FY18	FY17
Receipts from customers	274.2	256.2
Payments to suppliers/employees	(214.6)	(197.6)
Interest received	0.8	0.9
Income tax paid	(17.3)	(16.6)
Operating Cash Flow	43.1	42.9
Capital expenditure	(28.8)	(14.3)
Investing Cash Flow	(28.8)	(14.3)
Dividends	(29.2)	(25.1)
Borrowings	12.5	-
Interest Paid	(0.9)	(0.6)
Financing Cash Flow	(17.6)	(25.7)
Net Cash Flow	(3.4)	2.9



Summary

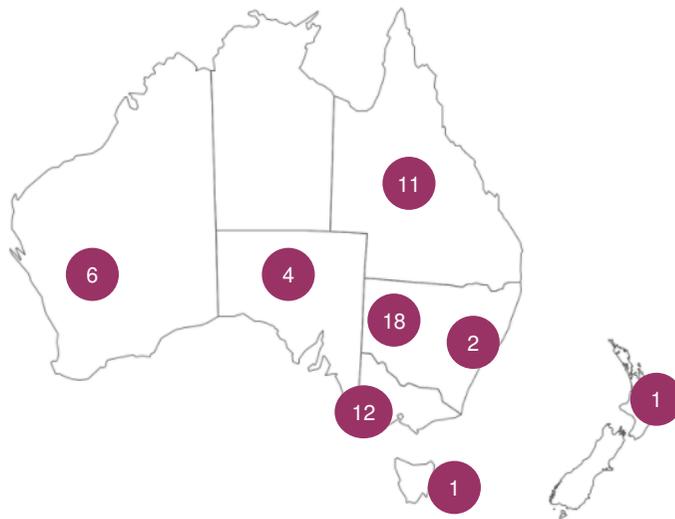
- Operating cash flow increased \$0.2m year on year
 - Result of sales increase in FY18
 - Relative cost savings
 - Working capital investment
- Dividends paid during FY18 include
 - FY17 final dividend of 20.0 cps (FY16: 17.0 cps)
 - FY18 interim dividend of 16.0 cps paid in March 2018 (FY17: 14.0 cps)

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

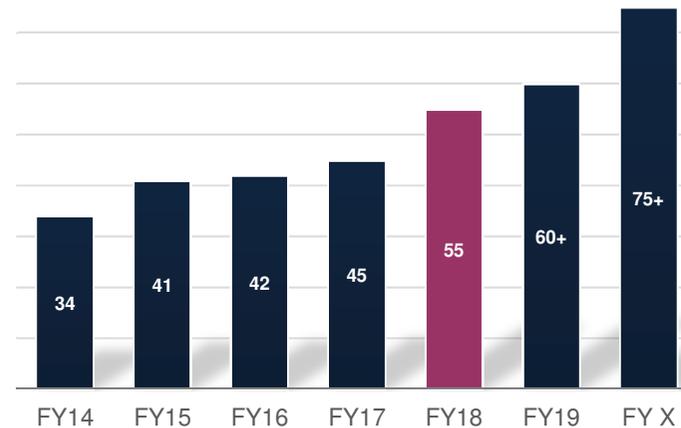


Consistent growth in the store network including the first store in New Zealand

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:** Enlargement of existing Springvale (VIC) site and the conversion of four Sofas2Go sites to Nick Scali clearance stores
- **FY19:** Morayfield (QLD) opened July 2018 and forecast to open a further 6+ new Nick Scali Furniture stores including 1+ in New Zealand



New stores

- Six new stores confirmed to open in FY19, five store will open in first half.
- The six new stores opened in FY18 have performed above expectations.

New Zealand

- Hamilton store, our second store will open in October FY19.
- Our Auckland store performing above expectations.
- Will provide a significant contribution towards future profit growth.

Sales

- Recent sales orders from our existing stores has been positive in June and July.

Product

- New bedroom and bedding product category to be launched in January.
- Initial rollout in 28 larger stores.

Profit growth

- FY19 is expected to benefit from the increase in the store network established during FY18 and to a lesser extent those stores to be opened in FY19.

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Thank you

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This document should be read in conjunction with the FY18 Results Announcement and FY18 Appendix 4E.