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L I M I T E D

NICK SCALI LIMITED

ANNUAL GENERAL MEETING

23rd OCTOBER 2018
12h00

CHAIRMAN'S AND MANAGING DIRECTOR'S ADDRESSES

Chairman's Address

The following is a transcript of the address to shareholders by the Chairman of Nick Scali Limited, Mr John Ingram

It has been an excellent year for Nick Scali Limited, delivering another year of revenue and profit growth and with earnings per share increasing 10.1% to 50.6 cents per share. This result was primarily driven by our continued new store rollout program, which saw six new stores open during the year, including the first store in New Zealand.

Other notable achievements during the year included the relocation of our head office from Lidcombe to more suitable premises at North Ryde, the acquisition of our store property in Auburn (NSW), the rollout of a new website and the transfer of our NSW distribution operations to a new purpose built facility in Horseley Park.

A fully franked final dividend of 24 cents per share, which will be paid tomorrow, on 24th October, brings the total dividend for the 2018 financial year to 40 cents, fully franked. The Directors consider that the dividend payout ratio for the full year of 79%.

With positive operating cash flow generation and a strong balance sheet together with effective working capital management, the Group is well placed to continue to grow the existing business and take advantage of any investment opportunity that might arise.

In February 2018, we announced the appointment of Stephen Goddard as an independent non-executive director with effect from 1 March 2018. Stephen is an experienced retailer having previously held a broad range of senior executive positions and currently serves as a non-executive Director for three other listed companies.

We are delighted to welcome Stephen to the Board and to the Nick Scali team – his appointment will add a wealth of experience to the Board in guiding the operations of the Company.

The Board formally expresses its thanks to Anthony Scali, our Managing Director, his management team and all employees of the Group, whose passion and determination has resulted in another year of record profits and has thereby delivered value to our shareholders and other stakeholders.

As Chairman, I would also like to express my thanks to my fellow Directors for their continued support and contribution to the success of the Company.

Finally, the Board would also like to take this opportunity to thank our shareholders, customers and suppliers, whose continuing support and encouragement underpins the ongoing success of the Company.

To those here today, thank you also for your attendance and we look forward to having a chat with you at the conclusion of the meeting.

I will now invite Mr Scali to address the meeting to give us an overview of the operations of the Company and an update of current trading.

Managing Director's Address

The following is a transcript of the address to shareholders by the Managing Director of Nick Scali Limited, Mr Anthony Scali

Thank you John and good morning ladies and gentleman.

As John mentioned, FY18 was another record year for Nick Scali Limited. This was in fact our sixth consecutive year of double-digit profit growth for the company.

During FY18, sales grew 8% to \$250m. Given same store sales were flat, the sales growth was solely attributable to the sales generated from the new stores opened during FY17 and FY18.

The company's gross profit margin during FY18 increased by 20 bps to 62.7%, whilst operating expenses as a percentage of sales decreased from 38.9% to 38.1%. This was achieved by continuing our focus on controlling costs and being able to leverage sales growth off our existing distribution network.

Net profit after tax in FY18 was up 10% from \$37.2m to \$41m and earnings per share increased from 46.0 cents to 50.6 cents.

During FY18 we opened six new stores, five in Australia and our first store in Auckland, New Zealand. Our New Zealand store has been trading very well and we are very confident the Nick Scali brand will continue to do well in New Zealand as we expand the store network.

For FY19, our plan is to open six new stores, of which four are now open and trading, including our second store in New Zealand.

Whilst Nick Scali is well known for our lounge and dining products, we intend to launch in January our new bedroom and bedding range. This project has been in the making for some time and we expect this new category will certainly help boost sales. We are confident and excited to be able to sell quality bedroom furniture at an affordable price yet very different in design to what is currently in the marketplace.

In providing a trading update for the current fiscal year, for the first quarter our written sales orders have grown by 12% with comparable sales orders up 2%. Whilst we continue to generate positive sales growth through the expansion of our store network, same store sales growth will be challenging in this volatile trading environment, particularly given the significant slow-down in residential sales, a key driver and catalyst for furniture sales.

In addition to the fall in housing sales, we now have a lower dollar which may cause a reduction in our gross margin in the short term as market forces generally take time to make the price adjustments in line with a lower dollar.

As of today, we have a store network of 55 stores compared to our long-term target of 80 stores for Australia and New Zealand, not to mention the possibility of further off-shore expansion.

Compared to our peers, our margins, cash flow and profitability are superior. This is only possible due to the high standards we strive for everyday in every part of our business including most importantly our products and customer service.

I would like to take this opportunity to thank all of my work colleagues and our Board of Directors for their contribution in continuing to make Nick Scali a successful company.