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Nick Scali Limited | NCK.ASX

HY19 Results Presentation

6th February 2019

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Key Highlights

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Sales

- Sales increased 10.3% to \$141.1m (HY18: \$128.0m)
- Flat like for like sales growth

Gross Profit

- Gross margin increased by 20 bps to 62.8% (HY18: 62.6%)

Net Profit

- NPAT increased 8.0% to \$25.4m (HY18: \$23.5m)

Expenses

- Operating expenses increased by 90bps to 36.1% of sales (HY18: 35.2%)

Dividend

- HY19 interim ordinary dividend of 25.0 cps declared (HY18: 16.0 cps) representing 80% payout ratio

New Stores

- Four new stores opened during the period

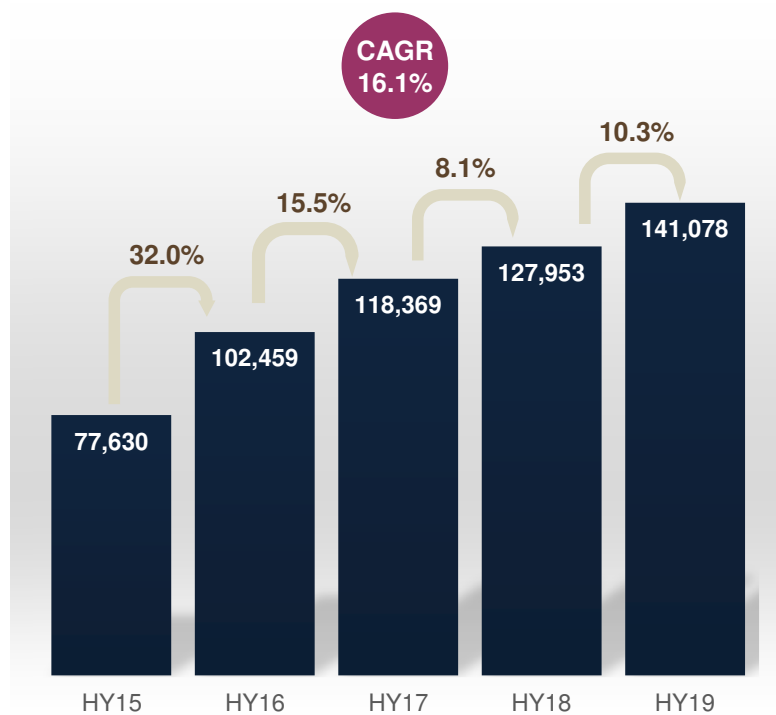
Product Range

- Bedroom and bedding category successfully launched on 26th December 2018 in 24 stores

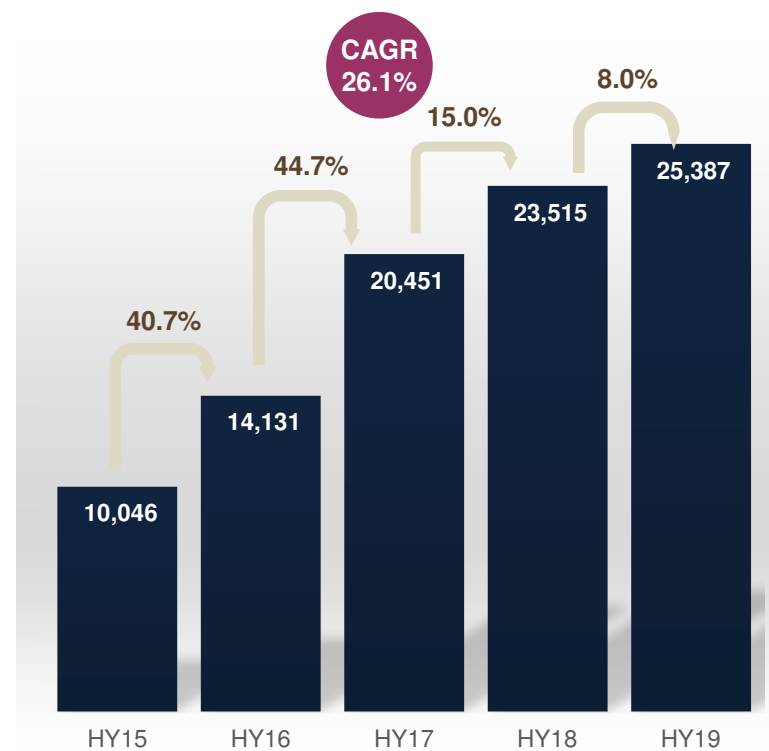
Sales and NPAT growth

Sales up 10.3% due to new stores opened in FY18 and HY19

Revenue (A\$000)



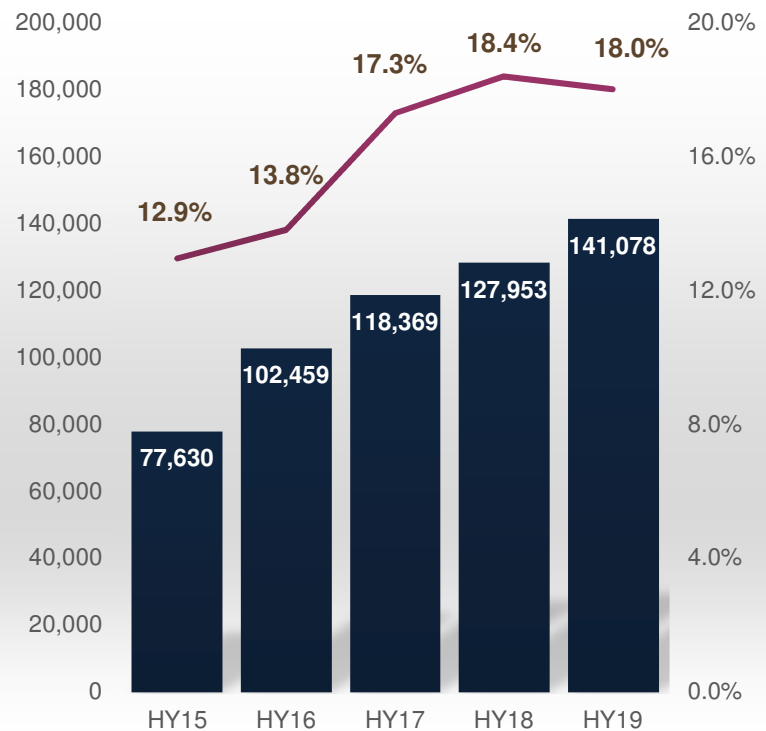
NPAT (A\$000)



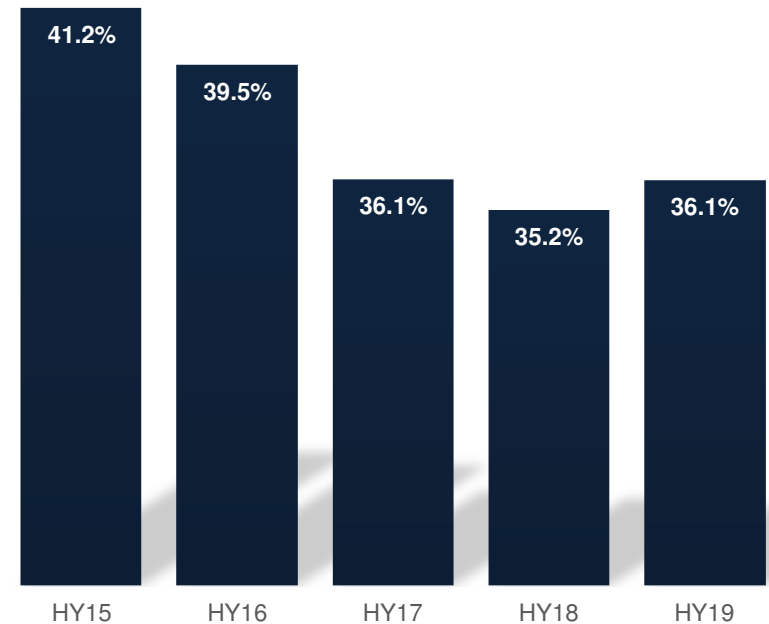
Profit margin and cost of business

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Sales and NPAT %



CODB (as % of Sales)



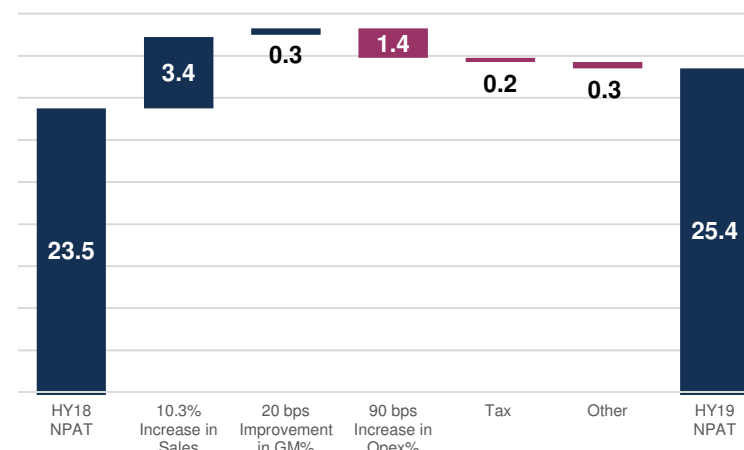
Earnings Summary



Profit and loss statement

Half-Year Ended 31 December (\$m)	HY19	HY18	Change (%)
Sales Revenue	141.1	128.0	+ 10.3%
Cost of sales	(52.5)	(47.9)	
Gross Profit	88.6	80.1	+ 10.6%
Other income	0.6	0.5	
Operating expenses	(51.0)	(45.0)	+ 13.3%
EBITDA	38.2	35.6	+ 7.5%
Depreciation	(2.4)	(1.9)	
EBIT	35.8	33.6	+ 6.5%
Net interest income / (expense)	(0.1)	0.1	
Profit before tax	35.8	33.7	+ 6.1%
Taxation	(10.4)	(10.2)	
Net profit after tax	25.4	23.5	+ 8.0%
Key metrics			
Gross margin	62.8%	62.6%	
Operating expenses to sales	36.1%	35.2%	
EBITDA margin	27.1%	27.8%	
Effective tax rate	29.0%	30.2%	
Earnings per share	31.3	29.0 cents	+ 8.0%
Dividends per share	25.0 cents	16.0 cents	+ 56.3%

Summary



- Sales up 10.3% from new Nick Scali Furniture store openings in Australia and New Zealand, with flat same store sales growth
 - 6 stores opened in FY18, trading for full HY19
 - Small contribution from 4 new stores opened in HY19
- EBITDA of \$38.2m up 7.5% for the half year
- NPAT of \$25.4m up 8.0% for the half year
- Gross margin increased to 62.8% (HY18: 62.6%)
- Operating expenses increased as a percentage to sales to 36.1% (HY18: 35.2%) due to the timing of new store openings and inflationary cost increases in stores with flat sales growth

Balance Sheet



Stable asset base and working capital requirements provide solid base for future growth

Balance sheet

Half-Year Ended 31 December (\$m)	HY19	FY18	HY18
Cash and term deposits	38.2	36.6	28.2
Receivables	1.0	1.9	0.6
Inventories	37.1	36.2	31.2
Fixed assets	91.6	91.9	91.3
Intangibles	2.4	2.4	2.4
Other	2.7	2.4	1.8
Total Assets	173.0	171.3	155.5
Payables	39.6	44.1	36.5
Current tax liabilities	2.2	1.3	2.6
Provisions	8.6	7.8	6.4
Borrowings	33.7	33.7	32.2
Other	-	0.8	-
Total liabilities	84.1	87.7	77.7
Net Assets	88.9	83.7	77.8
Net cash (cash less borrowings)	4.5	2.9	(4.0)

Summary

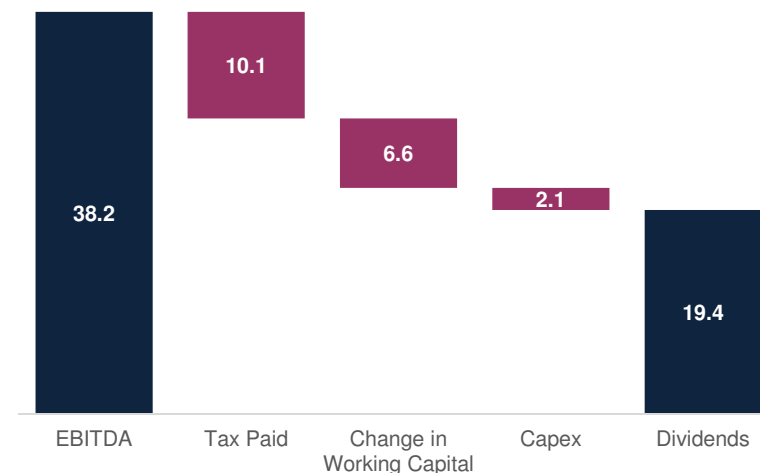
- Strong cash position maintained
- Total inventory of \$37.1m, up \$0.9m due to new store openings and corresponding increase in stock in transit
 - Stock on display: \$13.2m (FY18: \$11.8m / HY18: \$12.4m)
 - Stock in warehouse: \$16.2m (FY18: \$19.2m / HY18: \$11.6m)
 - Stock in transit: \$7.7m (FY18: \$5.2m / HY18: \$7.2m)
- Payables down \$4.5m, but in line with HY18, due to customer deposits balance
- Net cash increased by \$1.6m to \$4.5m (FY18: \$2.9m)
- All borrowings relate to owned properties
- Fixed assets includes ~\$80m land and buildings at cost for eight Company owned retail properties

Cash Flow

Strong operating cash flow (+17.2% YOY)

Cash flow statement

Half-Year Ended 31 December (\$m)	HY19	HY18
Receipts from customers	156.0	140.4
Payments to suppliers/employees	(122.8)	(111.7)
Interest received	0.5	0.4
Income tax paid	(10.1)	(9.0)
Operating Cash Flow	23.7	20.2
Capital expenditure	(2.1)	(26.4)
Investing Cash Flow	(2.1)	(26.4)
Dividends	(19.4)	(16.2)
Borrowings	-	11.0
Interest Paid	(0.5)	(0.4)
Financing Cash Flow	(20.0)	(5.6)
Net Cash Flow	1.6	(11.8)



Summary

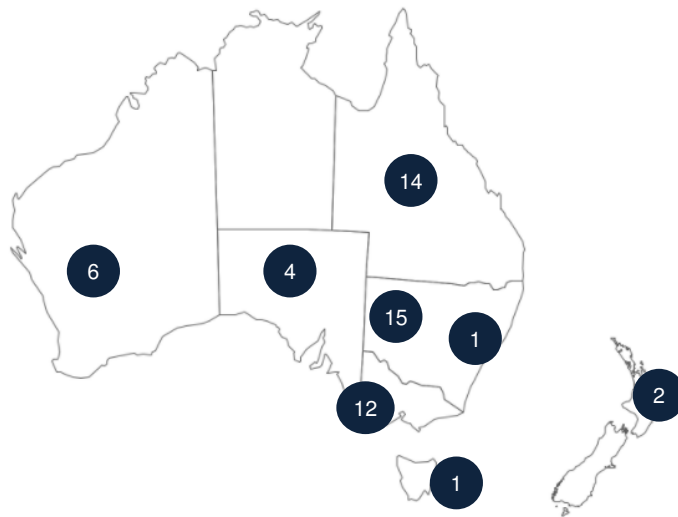
- Operating cash flow increased as a result of sales and profit increases with no major increase to working capital outflows
- Capital expenditure of \$2.1m included:
 - Fit out of four new stores
 - Bundall store relocation
 - Insertion of bedroom furniture in 24 stores
 - Maintenance capex at owned stores and DCs
- FY18 final dividend of 24.0 cps paid in October 2018 (HY19)

Store network

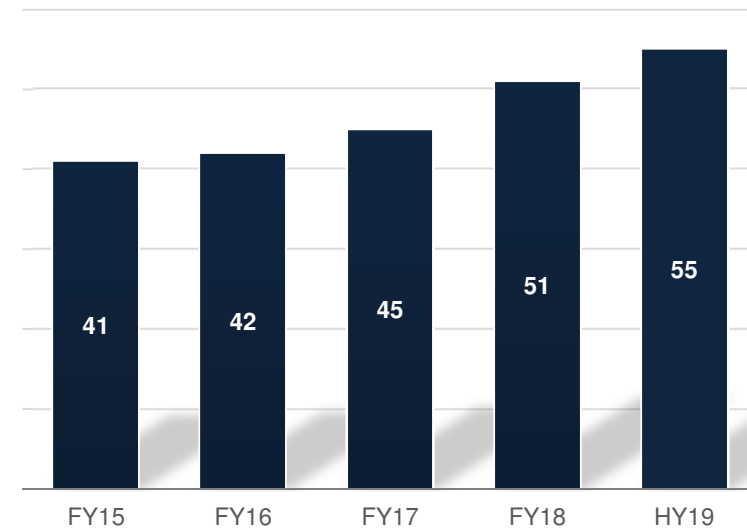
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Consistent growth in the store network in both Australia and New Zealand

Current store network



Nick Scali Furniture store network growth



- Four new Nick Scali Furniture stores opened, three in Queensland (Mackay, Morayfield and Brisbane Airport) and the second New Zealand store in Hamilton
- Two further store openings targeted in second half of FY19
- Long term store network target of over 80 stores across Australia and New Zealand

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Outlook

Capital management

- An interim dividend of 25.0 cents per share will be paid, representing an increase in the payout ratio to 80%
- The Board's intention is to increase the full year payout ratio from the previous year's, so as to deliver superior returns to shareholders in FY19

New stores

- Four stores opened in the first half of FY19, including our second store in New Zealand
- Two further stores will open toward the end of the second half of FY19
- We will continue to expand our store network, with a current roll-out plan for more than 80 stores across Australia and New Zealand

Sales

- Over 10% sales growth due to new stores opened in FY18 and FY19
- Successful launch of bedroom and bedding category into 24 stores, establishing platform for future category growth
- HY19 same store sales growth was flat in a period which saw very different results on a month to month basis
- Recent trading has been unpredictable, with same store sales order growth being positive in December, but negative in January
- It is anticipated that in the current year, total sales growth will continue to be underwritten by store network expansion

Profit growth

- As evidenced by H1, the company can achieve profit growth in periods of flat comparable sales, through the expansion of the store network
- However, given the volatility in recent sales and global uncertainty, it is difficult to provide guidance around profitability for full year to June 2019

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Thank you

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This document should be read in conjunction with the HY19 Results Announcement and HY19 Appendix 4D.