



Nick Scali Limited | NCK.ASX

HY20 Results Presentation

6 February 2020

HY20 Highlights

Sales	<ul style="list-style-type: none">• Sales down 2.5% to \$137.5m (HY19: \$141.1m)• Negative same store sales growth of 7.5%
Margin	<ul style="list-style-type: none">• Gross margin 62.2% (HY19 : 62.8%)
NPAT	<ul style="list-style-type: none">• Underlying¹ NPAT \$20.3m above guidance of \$17 -19m (HY19 : 25.4m)
Cashflow	<ul style="list-style-type: none">• Net increase in cash of \$7.4m• Operating cashflow of \$16.6m (HY19 : \$23.7m)
Dividends	<ul style="list-style-type: none">• Interim dividend of 25.0 cps (HY19: 25.0 cps)• Half year payout ratio of 94.7% (HY19: 79.8%)
Store network	<ul style="list-style-type: none">• One new store opened during the half-year, our third store in New Zealand

¹Underlying NPAT excludes the impact of the gain on sale of property, and the impact of the adoption of AASB 16.

Sales Revenue \$'m



Sales Commentary

- Negative sales growth with full period contribution of stores opened in FY19 insufficient to off-set LFL sales decline
- LFL sales down 7.5% with store traffic significantly reduced due to difficult trading conditions highlighted in October Trading Update.
- Written orders down 5.0% on a LFL basis, with growth of 3.5% in the second quarter, a significant improvement on Q1

	HY20	HY19	Change
Sales revenue	137.5	141.1	- 3.6
Cost of sales	(51.9)	(52.5)	+ 0.6
Gross profit	85.6	88.6	- 3.0
Other income	0.7	0.6	+ 0.1
Operating expenses	(55.3)	(51.0)	- 4.3
EBITDA	31.0	38.2	- 7.2
Depreciation	(2.2)	(2.4)	+ 0.2
EBIT	28.8	35.8	- 7.0
Net interest expense	(0.1)	(0.1)	-
Profit before tax	28.7	35.8	- 7.0
Taxation	(8.4)	(10.4)	+ 2.0
Net profit after tax, before sale of property	20.3	25.4	- 5.1
Net profit on sale of property	1.3	-	+ 1.3
Net profit after tax	21.6	25.4	- 3.8

Net Profit

- Gross profit margin 62.2% - 60 bps reduction due to product mix and competitive pressure
- Operating expense increase of \$4.3m. Majority of increase from new stores opened in FY19 and FY20.
- Operating expense (as % sales) up 400bps at 40.2%, primarily due to LFL sales decline.
- Other costs (ie. depreciation and interest) maintained at HY19 levels
- Effective tax rate unchanged
- \$1.3m post-tax gain on sale of Manly Vale property
- Net profit \$21.6m (excluding impact of AASB16)
- \$0.2m impact of AASB16 reduces reported profit to \$21.4m

The results reported in Appendix 4D for HY20 reflect the adoption of AASB 16 under the modified retrospective approach, and consequently, HY19 comparatives have not been restated to reflect AASB16 in Appendix 4D.

To enable a more effective comparison of results versus HY19, HY20 results shown above have been adjusted to exclude the impact of the adoption of AASB 16. The reported results for HY20 are shown in Appendix 1, along with a reconciliation of the impact of the adoption of AASB 16.

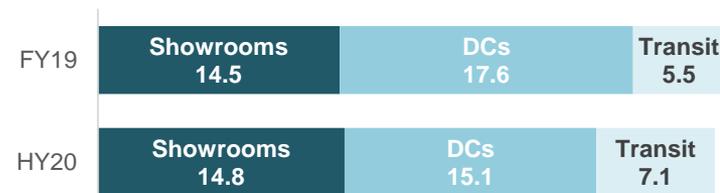
	HY20	FY19	Change
Cash	43.7	36.3	+ 7.4
Receivables	0.6	1.1	- 0.5
Inventory	37.0	37.6	- 0.6
Fixed assets – Owned	86.0	92.7	- 6.7
Fixed assets - Leased	175.4	-	+ 175.4
Intangibles	2.4	2.4	-
Deferred tax	6.1	(0.2)	+ 6.3
Other	1.9	2.5	- 0.6
Total assets	352.9	172.4	+ 180.5
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Borrowings	33.7	33.7	-
Lease Liabilities	196.6	-	+ 196.6
Payables	16.3	17.5	- 1.2
Deferred revenue	22.1	26.5	- 4.4
Current tax liabilities	1.0	0.4	+ 0.6
Provisions	4.3	9.2	- 4.9
Other	0.9	-	+ 0.9
Total liabilities	274.9	87.2	187.7
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Net assets	78.0	85.2	- 7.2

Leases (AASB16)

- Balance sheet reflects adoption of AASB16. Impact at implementation:
 - \$194.8m lease liability
 - \$174.3m right-of-use assets (Fixed Assets – Leased)
 - \$5.0m reversal of provision for deferred lease incentives
 - \$6.4m deferred tax asset
- Net impact (\$10.8m) recorded in equity

Inventory

- Minimal changes to inventory holdings



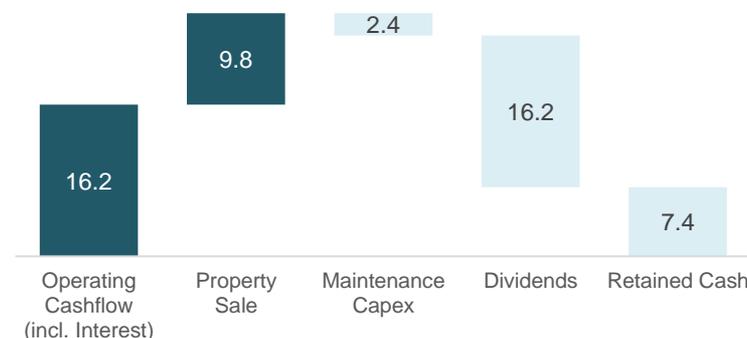
Fixed Assets

- Fixed assets includes \$70.0m of owned and occupied retail properties recorded at historical cost

	HY20	HY19	Change
Receipts from customers	147.8	156.0	- 8.2
Payments to suppliers/employees	(122.1)	(122.8)	+ 0.7
Operating cashflow before interest and tax	25.7	33.2	- 7.5
Interest received	0.3	0.5	- 0.2
Income tax paid	(9.4)	(10.1)	+ 0.7
Operating cash flow	16.6	23.7	- 7.0
Capital expenditure	(2.4)	(2.1)	- 0.3
Proceeds from disposals	9.8	-	+ 9.8
Investing cash flow	7.4	(2.1)	+ 9.5
Dividends	(16.2)	(19.4)	+ 3.2
Interest paid	(0.4)	(0.5)	+ 0.1
Financing cash flow	(16.6)	(20.0)	- 11.5
Net cash flow	7.4	1.6	+ 5.8

Cashflow Commentary

- \$7.4m increase in cash on hand
- Operating cash flow \$16.6m
- Modest capex during HY20, primarily related to relocation of NZ Distribution Centre, purchase of additional property in Auburn and store refurbishments.
- Total proceeds of \$9.8.m received for sale of Manly Vale, including GST – net proceeds of \$8.8m.
- \$0.20 dividend paid in October 2019



The results reported in Appendix 4D for HY20 reflect the adoption of AASB 16 under the modified retrospective approach, and consequently, HY19 comparatives have not been restated to reflect AASB16 in Appendix 4D.

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Store Network

One store was opened during the half year ended 31 December 2019 in Auckland, New Zealand.

The Company now has a total network of 58 stores, and expects to open a further three new stores in the second half of the financial year, of which two are in Victoria and one in New Zealand.

The Company's long-term store network target remains 80-85 stores across Australia and New Zealand.

Trading and Profitability

During the first quarter the Company experienced difficult trading conditions with a significant drop in store traffic and negative comparable store sales growth of 8.3%. During the second quarter trading improved with written orders up 3.5% on a comparable store basis. Most of the written orders during the second quarter will translate to sales (deliveries to customers) in the second half.

For the month of January 2020, written orders were down 1.7% on a comparable store basis and store traffic was down 6%.

Whilst the Company gave guidance in October 2019 that NPAT would be in the range of \$17-19m, given the improvement in sales in the second quarter, the Company was actually able to achieve a higher underlying NPAT of \$20.1m.

Despite seeing a recent improvement in sales and store traffic, there is still uncertainty around the current level of consumer confidence, which has been exacerbated by the coronavirus outbreak and other factors, and consequently it is very difficult to provide guidance as to the profitability for the full year to June 2020.

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.

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

This document should be read in conjunction with the HY20 Results Announcement and HY20 Appendix 4D.

Appendix 1

AASB16: P&L Impact

	HY20 Comparable	Reversal of Operating Lease Expense	Recognition of AASB 16 Depreciation and Interest	HY20 Reported
Sales revenue	137.5			137.5
Cost of sales	(51.9)			(51.9)
Gross profit	85.6			85.6
Other income	0.7			0.7
Operating expenses	(55.3)	15.5		(39.8)
EBITDA	31.0	15.5		46.5
Depreciation	(2.2)		(12.4)	(14.6)
EBIT	28.8	15.5	(12.4)	31.9
Net interest expense	(0.1)		(3.3)	(3.4)
Profit before tax	28.7	15.5	(15.7)	28.5
Taxation	(8.4)	(4.7)	4.7	(8.4)
Net profit after tax, before sale of property	20.3	10.8	(11.0)	20.1
Net profit on sale of property	1.3			1.3
Net profit after tax	21.6	10.8	(11.0)	21.4

The results reported in Appendix 4D for HY20 reflect the adoption of AASB 16 under the modified retrospective approach, and consequently, HY19 comparatives have not been restated to reflect AASB16 in Appendix 4D.

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Appendix 1 (continued)

AASB16: Cashflow Impact

	HY20 Comparable	Reclassification of Lease Payments as Financing	HY20 Reported
Receipts from customers	147.9		147.9
Payments to suppliers/employees	(122.2)	14.8	(107.4)
Operating cashflow before interest and tax	25.7	14.8	40.5
Interest received	0.3		0.3
Income tax paid	(9.4)		(9.4)
Operating cash flow	16.7	14.8	31.5
Capital expenditure	(2.4)		(2.4)
Proceeds from disposals	9.8		9.8
Investing cash flow	7.4	-	7.4
Dividends	(16.2)		(16.2)
Repayment of lease liabilities	-	(11.5)	(11.5)
Interest paid	(0.4)	(3.3)	(3.7)
Financing cash flow	(16.6)	(14.8)	(31.5)
Net cash flow	7.4	-	7.4

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Appendix 2

Store network

NSF store network, at 31 December 2019



Network changes, HY20

	Jun 19	Opened	Closed	Dec 19
Nick Scali Furniture				
Australia	55	-	-	55
New Zealand	2	1	-	3
Total	57	1	-	58

	Jun 19	Opened	Closed	Dec 19
Nick Scali Clearance	5	1	-	6

One new NSF stores opened in HY20:

- St. Lukes (New Zealand)

Appendix 3

Historical Performance

	HY16	HY17	HY18	HY19	HY20
Sales revenue	102.5	118.4	128.0	141.1	137.5
Cost of sales	(41.0)	(45.4)	(47.9)	(52.5)	(51.9)
Gross profit	61.5	73.0	80.1	88.6	85.6
Other income	0.2	0.2	0.5	0.6	2.5
Operating expenses	(40.5)	(42.7)	(45.0)	(51.0)	(39.8)
EBITDA	21.1	30.5	35.6	38.2	48.3
Depreciation	(1.1)	(1.5)	(1.9)	(2.4)	(14.6)
EBIT	20.0	29.0	33.6	35.8	33.7
Net interest (expense)/income	0.3	0.2	0.1	(0.1)	(3.4)
Profit before tax	20.2	29.2	33.7	35.8	30.3
Taxation	(6.1)	(8.8)	(10.2)	(10.4)	(8.9)
Net profit after tax	14.1	20.5	23.5	25.4	21.4
Earnings per share (Cents)	17.4	25.2	29.0	31.3	26.4
Dividends per share (Cents)	9.0	14.0	16.0	25.0	25.0
Stores (#)	41	44	51	55	58