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Chairman's Address to Annual General Meeting

The following is a transcript of the address by the Chairman of Nick Scali Limited, Mr John Ingram, to the shareholders at today's 2021 Annual General Meeting

Good morning, ladies and gentlemen.

We are pleased to report that in 2022 Nick Scali achieved record sales revenue of \$441 million, and delivered underlying profitability of \$80.2 million, a level similar to the previous year. This was despite store closures in the first half due to Covid 19 pandemic lockdown measures in New South Wales, Victoria, and New Zealand.

The Company also successfully completed its first major acquisition, purchasing 'Plush-Think Sofas', a specialist sofa retailer, for \$103 million in November 2021 and has successfully integrated it into the Nick Scali business model over the last twelve months. Following the acquisition, the Company operates with a dual brand strategy, Nick Scali and Plush, which now targets a broader customer demographic.

A fully franked final dividend of 35 cents per share, paid in October, brings the total dividend for the 2022 financial year to 70 cents, fully franked. This represents a dividend payout ratio for the 2022 year of 76%.

Due to our positive operating cash flow model and effective working capital management, the Company has maintained its strong financial position and had cash-on-hand of \$74.6 million at the year end. The Board will continue to assess strategic opportunities to grow the existing business, and consider any investment opportunities which would deliver attractive returns for shareholders.

The Board recognises that our people are key to the success of our endeavours, and I thank Mr Anthony Scali, our Managing Director for his commitment and results driven leadership of the Company. I also thank the management team and all the employees, whose dedication and commitment have enabled the Company to navigate pandemic impacts in the first half and to achieve the successful integration of Plush into Nick Scali.

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

Finally, I would like to thank you, our shareholders, for your continued support. I will now invite Mr Scali to address the meeting to give us an overview of the operations of the Company and an update on current trading.

Managing Director's Address to Annual General Meeting including Trading Update

The following is a transcript of the address by the Managing Director of Nick Scali Limited, Mr Anthony Scali, to the shareholders at today's Annual General Meeting

Thank you John, and good morning ladies and gentleman.

The impact of Covid 19 during FY22 provided many challenges to the company, particularly in respect to our supply chain and the government mandated closures of stores at different times during the year. Over 55% of our store network was closed for the first three months of the year due to government mandated Covid 19 lockdown measures. In addition, in the first half, overseas lockdown measures particularly in Vietnam, resulted in production delays for our manufacturers. In the second half we faced challenges with international freight delays disrupting our supply chain.

The store closures impacted written sales order growth, with Nick Scali brand written sales orders reducing by 6% compared to the prior year, though remaining 28% above the pre Covid FY20 year. Nick Scali Online written sales orders of \$29.3 million were up 59.9% on the prior year driven by the launch of transactional websites and the temporary store closures.

After inclusion of Plush written sales orders, total written sales orders for FY22 were a record \$474 million.

Sales revenue of \$441 million, whilst a record for the company, was \$33 million lower than written sales orders, reflecting the delays in delivery times due to the supply chain impact in the second half. We recognise sales revenue when goods are delivered to customers. As supply chain issues eased in the fourth quarter we were able to achieve record levels of deliveries and the elevated outstanding order bank of \$185.2 million at 30 June 2022 provided a platform for revenue growth in FY23.

Underlying NPAT for the year fell by 4.9% to \$80.2m compared to the prior FY21 year though it remains nearly double the pre Covid 19 FY20 year of \$42.1 million.

Against the backdrop of these external challenges, the purchase of the "Plush - Think Sofas" business was completed in November 2021 and the integration was substantially completed by the end of the financial year.

Under the Group's ownership we have achieved an improvement of 240 basis points in the gross margin of Plush to 54.8%, whilst also achieving cost synergies. Our gross margin target for Plush is 59% and we expect to reach this run rate before the end of FY23.

The acquisition of Plush expanded our store network by 46 stores and during the year a new Nick Scali store was opened in Hastings, the first regional store in New Zealand. The combined store network of 108 across Australia and New Zealand provides the company

with additional opportunity for growth. We maintain our long-term target of at least 85 Nick Scali stores and 90-100 Plush Stores.

In FY23 we intend to open a minimum of two new Nick Scali stores and four new Plush stores.

In the first half of FY23 we are opening one new Nick Scali store in Helensvale Queensland, and two new Plush stores in Capalaba Queensland and Campbelltown New South Wales.

We are continuing our strategy of owning more of our retail stores and in FY22 we acquired a multi-purpose site in Townsville to relocate our existing Nick Scali showroom and to provide a new distribution centre to support growth of both brands in regional Queensland.

In summary, we are well placed to realise further improvements in the Plush brand margin, grow our store network, open new stores under both brands, and generate further sustained growth in the online channel after adjusting for the Covid 19 related increases to online in the first half of FY22. We will continue to acquire property where suitable opportunities arise.

I will now turn your attention to recent trading.

In the four months to the end of October sales revenue was \$194 million, reflecting a continuation of the record deliveries achieved in the fourth quarter. This has been a tremendous achievement by our distribution teams which demonstrates the operational capacity in the business to support future volume growth. October year to date sales revenue is 74% above the same period in the prior year, which was before the Plush acquisition in November 2021.

Group margin for the four months improved 180 basis points to 61.3% versus the 59.5% reported for the second half of FY22, following the Plush acquisition in November 2021. We expect gross margin to continue to improve over FY23 with further realisation of the Plush synergies.

Group written sales orders for the four months were \$148 million, 55% above the prior year, with the strongest trading months being July and October. Nick Scali brand written orders were 21.7% above the first four months of the prior year and 35% above the pre Covid 19 FY20 year.

Final net profit after tax for the first half will depend on actual deliveries achieved before the end of December, including the risk of any future unknown external impacts affecting our distribution operations. Based on current delivery levels we expect net profit after tax for the first half of FY23 to be in the range of \$56 to \$59 million, 57% to 66% above the first half FY22 of \$35.6 million.

Trading to date this year has been robust, though uncertainty on future near term levels of demand remain in the current economic environment. Therefore, we are unable to provide additional guidance for the full FY23 financial year.

January is a key trading month for the second half of our business, and I look forward to providing the next trading update to shareholders in February.

Finally, I would like to take this opportunity to thank all my colleagues for their hard work and contribution to the success of the company – we have delivered record milestones in revenues and delivered orders. We also completed the successful integration of the first major acquisition in our history. Our people are key to these achievements and to our future.