JoyceGroup

ASX:JYC

27 February 2024

Interim dividend of 11 cents per share on Net Profit After Tax to Joyce Shareholders of $4.7 million

1HY24 Release

Joyce Corporation Ltd (ASX: JYC or "Joyce Group", "Group" or "Joyce") is pleased to report its financial result for the first half of FY24.

Result

	1HY24 $'000	1HY23 $'000	Variance $'000	
Revenue	73,072	68,913	4,159	6%
Contribution Margin	35,775	32,473	3,302	10%
Operating Expenditure	19,016	19,451	-435	-2%
Reported Group EBITDA	16,759	13,022	3,737	29%
Group EBITDA*	16,759	14,072	2,687	19%
Reported Group EBIT	13,290	9,649	3,641	38%
Group EBIT*	13,290	10,802	2,488	23%
Reported Group NPAT	9,413	7,814	1,599	20%
Group NPAT*	9,413	6,752	2,661	39%
Reported NPAT Attributable to JYC Shareholders	4,739	3,538	1,201	34%
NPAT Attributable to JYC Shareholders*	**4,739**	**3,504**	**1,235**	**35%**
Normalised EPS (cents per share)*	**16.6**	**12.4**	**4.3**	**34%**
Dividend per Share	11.0	8.0	3.0	38%

**** Results shown are normalised to adjust for significant one-off income and expenditure in the period (see Appendix)***

Overview

Joyce Group has recorded a strong revenue and profit result for the first half of FY24 and will pay shareholders an increased interim dividend of 11 cents per share.

Joyce Group CEO Dan Madden said the result, which includes increased revenue, EBITDA and NPAT compared to the corresponding period in FY23, was particularly pleasing given the headwinds facing the Australian retail sector.

“”The result was driven by a strong performance from KWB Group, which once again generated improved revenue and profit, and also by a robust performance from Bedshed. Both businesses delivered strong results despite challenging market conditions including cost inflation, skills shortages and tighter household budgets driven by interest rate increases and the uncertain economic outlook,” Mr Madden said.

“During the half, KWB Group continued to work through a backlog of orders, which were written at good margins and generated strong gross profit. The business delivered increased revenue and EBIT on the prior comparative period (pcp), despite being impacted by labour constraints and challenging market conditions.

“At Bedshed our franchise stores continue to perform well, generating solid revenue and enabling us to deliver consistent margins. Our company store operations were down on revenue for the period, however business written sales orders in the half were comparable to the pcp. Revenue and EBIT for the period was impacted by a combination of the timing of unfinalised orders converting to revenue (following record orders in November and December 2023), the refit of the retail store and relocation of the warehouse in Mackay and increased costs associated with acquiring Bedshed franchise stores in Castle Hill and Alexandria.”

Financial results

Joyce Group’s revenue of $73.1 million was up 6% on the pcp. From this, the Group realised normalised EBITDA of $16.8 million, a 19% increase on the same period last year.

Despite inflationary pressures, the Group’s overhead costs remained comparable to the pcp, and were lower as a percentage of revenue compared to the pcp. Although unit costs for labour faced upward pressure, constraints on labour supply meant that some parts of the business (KWB) were not at optimum staffing levels.

The Group’s normalised EBITDA margin increased to 22.9% compared to 20.4% in the pcp, reflecting revenue growth and cost control efforts.

Importantly, normalised NPAT attributable to Joyce Shareholders was $4.7 million, compared to $3.5 million in the pcp, representing a 35% improvement on pcp and supporting the payment of an increased dividend of 11 cents per share.

“Overall, we are very pleased with the performance and resilience of the Joyce Group, which has its foundation in our partners at KWB and our Bedshed franchisees, who along with our teams in Bedshed company store operations, Crave and corporate support, continue to display innovation, energy, and commitment to great customer service.” Mr Madden said.

Group Cash

	At Dec '23 $'000	At Jun '23 $'000	Variance $'000	
Consolidated Group Net Cash	33,877	46,079	-12,202	-26%

Joyce Group ended the 2023 calendar year with a strong balance sheet and a net cash position of $33.9 million at 31 December 2023, compared to $46.1 million on 30 June 2023. The reduction in the cash balance is primarily attributable to the outflow in KWB associated with $12.4 million of dividend payments and $2.2 million of income tax paid on the FY23 sale of the Queensland property previously held by KWB. Group trade payables and other liabilities also decreased by $5.6 million from 30 June 2023 to 31 December 2023.

KWB Group (Kitchen Connection and Wallspan)

KWB Group's trading brands, Kitchen Connection and Wallspan, operate a network of 25 showrooms across Queensland, New South Wales and South Australia. KWB Group is a clear leader in the kitchen & wardrobe renovation market, delivering an exceptional consumer experience for our customers (evidenced by Kitchen Connection's and Wallspan's combined 3,500 independent Five Star reviews[1]).

	1HY24 $'000	1HY23 $'000	Variance $'000	
Revenue	62,114	57,457	4,657	8%
Earnings Before Interest and Tax (EBIT)*	13,470	10,198	3,272	32%
EBIT Margin*	21.7%	17.7%		

***** *KWB 1HY23 EBIT is normalised to adjust for significant one-off income and expenditure in the period. Normalising adjustments were only relevant in the pcp (see Appendix).***

KWB Group (KWB) generated increased revenue and earnings during the first half of FY24, with revenue of $62.1 million up 8% compared to the pcp. EBIT of $13.5 million was up 32% on the pcp as a result of increased revenue and improved margins.

A significant contributing factor to KWB's performance was the completion of orders generated in FY23, which drove revenue and produced strong gross margins in the half.

Fresh orders in the period were generated against a backdrop of reduced showroom traffic and the continued tight market for skilled labour, which may have constrained KWB's ability to generate new orders. Despite these constraints, KWB improved customer conversion rates and generated $52.3 million of orders in the half, compared to $53.8 million in the pcp.

[1] https://www.productreview.com.au/listings/kitchen-connection and https://www.productreview.com.au/listings/wallspan-kitchens-wardrobes

The combination of clearing orders from FY23 and the marginal reduction in orders generated during the half meant that KWB's order book was reduced from $45 million at the start of the period to $34.5 million as at 31 December 2023. Lead times have now normalised across the business.

As previously announced, *(JYC: ASX Announcement 24 Nov: Chair's Address)* new store openings were put on hold for the first half of FY24 and growth funds were allocated to the refurbishment of existing facilities, further enhancing customer conversion, and improving productivity. The improved conversion rates partially offset the decline in showroom traffic in the period.

Labour market conditions are now starting to improve, which is expected to see KWB in a better position to optimise staff levels, which in turn will allow the business to generate more orders going forward.

KWB's cash on hand at 31 December 2023 was $18.5 million (including customer deposits of $10.2 million) compared to $30.4 million at 30 June 2023 (including customer deposits of $12.2 million).

KWB remains a resilient business, with strong customer demand for its products, and is well positioned for a strong full year result. It is expected that the business may face tougher conditions in the second half from a combination of normalising gross margins and increased staffing costs as levels recover to optimal levels. Marketing and advertising costs may also increase, if foot traffic reduces, in order to generate a pipeline of robust revenue into the remainder of the financial year and beyond. The second half, however, has started strongly with January 2024 orders up on the pcp. This highlights the resilience of the KWB business model during more difficult macroeconomic conditions, reflecting customer loyalty and market leadership. It also indicates that customers continue to invest in upgrading their kitchens and adding value to their homes.

KWB currently sells engineered stone benchtops. Safe Work Australia has recommended that engineered stone products be prohibited in Australia, to protect workers from exposure to silica, which is a component of the product. Dust containing respirable crystalline silica can be released when engineered stone is cut, and has been shown to cause silicosis when inhaled. KWB closely monitors all their suppliers to ensure they are compliant with health and safety standards in relation to engineered stone.

Following Safe Work Australia's recommendations being adopted by National and State Governments, a ban on the importation and installation of engineered crystalline silica stone benchtops will come into effect from 1 July 2024.

KWB is working with existing and new suppliers to substitute these benchtops with safer alternatives and expand their benchtop range to provide customers with more options at a range of price points. The transition to these new safer alternatives is planned to be done with minimal disruption to showrooms and sales.

Bedshed

Bedshed supplies quality bedding and bedroom furnishings across Australia and is one of the industry's most recognisable brands. Bedshed operates 37 franchise stores alongside 6 company-operated stores in strategic locations across the nation, along with its e-commerce offering that supports the franchise and company stores.

	1HY24 $'000	1HY23 $'000	Variance $'000	
Revenue	10,479	11,343	-864	-8%
Earnings Before Interest and Tax (EBIT)	2,261	2,846	-585	-21%
EBIT Margin	21.6%	25.1%		

Bedshed recorded revenue of $10.5 million (down 8% on the pcp) and EBIT of $2.3 million (down 21% on the pcp).

As previously announced, *(JYC: ASX Announcement 18 December: Bedshed Operations and Trading Update)* Bedshed business written sales[2] to the end of October 2023 were 6% below prior period comparatives, however the operation generated record business written sales from its Black Friday sales campaign, and record business written sales for the months of November and December 2023, closing the half-year with total business written sales comparable to the pcp.

The franchise network continued to perform well, generating revenue of $2.9 million and EBIT of $1.5 million, both of which were a marginal improvement on the pcp.

Bedshed company store operations had comparable business written sales to pcp but generated reduced revenue of $7.5 million, compared to $8.4 million in the pcp. The shortfall in revenue was impacted by the timing of unfinalised orders converting to revenue, notably following the strong written orders from November and December 2023 trading.

The cost base of Bedshed company store operations was slightly higher, reflecting increased labour rates, refit of the retail store and relocation of the warehouse in Mackay and establishment costs for new Sydney stores.

During the half, Bedshed acquired two franchisee stores, at Castle Hill and Alexandria in Sydney. These acquisitions, completed at a cost of $1.6 million (including stock valued at approximately $1.0 million) are critical for spearheading Bedshed's growth in the Sydney market, where the business is under-represented and where significant opportunity has been identified. The acquisitions completed at the end of December 2023 and in January 2024 respectively, and their performance will be reflected in Bedshed's full year results.

During the half-year, new Queensland franchises were established in Jindalee and Toowoomba, bringing the total network to 43 stores.

Bedshed is encouraged with the sales results to date from the new franchisees showing that Bedshed can take market share in what is a competitive environment.

[2] Business Written Sales (BWS) are written sales orders across Bedshed. Bedshed Franchising receives revenue from franchisees on BWS. Bedshed company store operations only record revenue on completion of written sales orders.

In addition to the new franchisees joining the network, there was one franchisee agreement that expired and was renewed during the half year.

Crave

Crave Home Staging integrates Joyce Group's understanding of homeowner's tastes with its ability to access stylish home furnishings to support property sellers and real estate agents by transforming houses for sale into homes to love. Crave was established as a pilot project in Perth in September 2022.

Crave continued to build its brand and presence in the Western Australian market, by increasing its penetration and repeat business with real estate business during the half. Crave generated $0.5 million of revenue and was EBITDA positive over the half-year period.

While this has been encouraging, the fundamentals of the real estate market, including an approximate 30% decrease in new listings through 2023 sales[3] resulted in a record low property availability and has restricted growth to date. Given the market conditions, it is pleasing to see that Crave has generated over $1.0 million in revenue and completed more than 300 assignments since its launch in September 2022. Crave remains as a pilot project.

Corporate and Outlook

Joyce Group remains in a strong financial position, with a healthy balance sheet and a capital-light business model that generates consistent returns and has proven to be resilient during times of challenging macro-economic conditions.

The Group will continue its primary focus on the pursuit of organic footprint growth from its large addressable markets within Australia.

It is anticipated that labour market conditions will continue to improve, and active recruitment to fill vacant positions in KWB will continue. As these operations return to normal staffing levels, KWB will be in a position to continue its store growth. Two new store openings are in planning for 1HY25 and further network growth is planned to capitalise on the significant market opportunity for KWB's unique offering which is underrepresented across Australia and in each of the States it currently operates in.

Bedshed remains positioned for growth through both the recently acquired Castle Hill and Alexandria stores and a continued focus on expanding the store network nationally.

The immediate goal for Crave is to continue to fortify its network of real estate agents and increase market penetration to support its full operating capacity within its Western Australian footprint. Any additional capital allocation for interstate expansion will be dependent on proven success of the pilot program over the next 12 months.

Whilst the Group's businesses continue to trade at levels well above pre-COVID levels, inflationary pressures and high interest rates remain as a risk to consumer spending. The Group will continue to leverage its financial strength and excellent customer relationships to ensure it remains competitive regardless of market conditions.

[3] CoreLogic® Monthly Housing Chart Pack

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Dividend

Joyce Corporation Chairman Jeremy Kirkwood said Joyce's pleasing financial performance enabled the company to maintain healthy dividends to shareholders while investing in future growth.

"The Board has resolved to distribute a fully franked interim dividend of 11 cents per share, which represents 66% of Normalised NPAT Attributable to Joyce Shareholders and is a significant but prudent increase on last year's interim 8 cents dividend.

"We maintain our stated intention of aiming for full year dividend payments to be between 60% to 80% of Normalised NPAT."

Mr Kirkwood said Joyce Corporation would remain disciplined in managing costs and capital while remaining open to growth opportunities that play to the Joyce's strengths.

"Our financial position gives us the resilience to manage volatility, and the flexibility to expand into growing markets should the market conditions create the opportunity to do so.

"Joyce Group is in a strong position, with established brands that resonate with the essence of Australian homes and have strong customer relationships. Our partners at KWB and our franchisees in Bedshed, together with the corporate support provided by Joyce Corporation, is a unique and powerful combination. We are aware of the potential challenges heading into the second half but have the business model and team to successfully manage the year ahead."

The Dividend is to be paid on 5 April 2024 to all shareholders registered as at the record date of 12 March 2024.

Joyce Corporation has an established dividend reinvestment plan (DRP). The Joyce Board has elected not to activate the DRP for the upcoming dividend.

ENDS

For further information, please contact:

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This release has been authorised by the Board of Joyce Corporation Ltd

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Appendix

This Announcement should be read in conjunction with the following documents lodged with the ASX on 27 February 2024 under the ASX ticker JYC:

- Investor Presentation - Half-Year Results 31 December 2023
- Appendix 4D and 31 December 2023 Half-Year Financial Report
- Dividend/Distribution - JYC

Note 1: Summary of Normalising Adjustments

($'000)	EBITDA	EBIT	PBT	Tax	NPAT	NPAT attributable to JYC s/holders
1HY24 Results per financial statements	16,759	13,290	13,442	(4,029)	9,413	4,739
1HY24 Normalised Results	16,759	13,290	13,442	(4,029)	9,413	4,739
1HY23 Results per financial statements	13,022	9,649	9,452	(1,638)	7,814	3,538
Crave business	756	859	859	177	1,036	1,036
Sale of KWB Property	294	294	294	(2,392)	(2,098)	(1,070)
1HY23 Normalised Results	14,072	10,802	10,605	(3,853)	6,752	3,504

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