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**nickscali**  
L I M I T E D

## **NICK SCALI LIMITED**

### **ANNUAL GENERAL MEETING**

**29<sup>th</sup> OCTOBER 2019  
12h00**

### **CHAIRMAN 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*

Good morning ladies and gentlemen

It has been another excellent result for Nick Scali Limited for the financial year 2019, with a seventh consecutive year of profit growth and record sales of \$268m – an increase of 7% on financial year 2018. In a challenging trading environment this result was driven by our continued store rollout program, allied to improvements in gross margins and our relatively low fixed cost base.

A fully franked final dividend of 20 cents per share, which was paid this morning, brings the total dividend for the 2019 financial year to 45 cents, fully franked. This represents a dividend payout ratio for the full year of 87%, which the Directors believe appropriately balances the distribution of profit to shareholders and the reinvestment of earnings for future growth.

The Group is well placed to continue the expansion of the store network in the current financial year, with four stores expected to open in financial year 2020. The growth of the store network has been supported by investment in our warehousing and distribution capability, with our Victorian operations relocated to a new purpose built DC in Keysborough in March 2019, and next month we will open a new distribution centre in Auckland.

The Company has maintained its strong financial position over the past 12 months, and with minimal debt and effective working capital management, Nick Scali has the capacity to grow its existing business and to take advantage of opportunities as they arise.

The Board formally expresses its thanks to Mr Anthony Scali, our Managing Director, his management team and all employees of the Group, whose passion and commitment are critical to the success of the business and enable us to continue to deliver value to our shareholders.

We recognise that our motivated, dedicated and experienced team is our most important asset and continue to invest in the development of our people.

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 our shareholders for their continued support. To those here today, thank you also for your attendance and we look forward to having the opportunity to meet 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 on 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, FY19 was another record year for Nick Scali with sales revenue growing by 7% to \$268m. This result was largely due to the expansion of the store network, as same store sales growth was down approximately 1%, due to lower general retail demand associated with the slowing in housing sales and renovations and a cautious consumer attitude.

Despite currency headwinds, the Company's gross profit margin strengthened by 20 bps to 62.9% driven by new product initiatives that resulted in underlying margin improvement. However, our cost of doing business increased from 38.1% of revenue to 39.4% of revenue, with increases in wages and property costs outpacing sales revenue growth.

Overall, net profit after tax for the year was \$42.1m, up 2.8%, and earnings per share increased from 50.6 cents to 52.0 cents per share. The Company continued to generate a very pleasing return on average shareholders' funds, which was 49.9% for the year.

During FY19 our store network expanded to 57 Nick Scali Furniture stores including two in New Zealand, and five Nick Scali Clearance stores. In the first quarter of the current year, we have opened a third store in New Zealand. The New Zealand stores have been trading strongly with positive same store sales growth reflecting the steady increase in brand recognition, and the New Zealand store network is expected to make a significant contribution to profit growth in the medium term.

During FY19, we launched our bedroom and bedding range into 26 stores. This new range has traded well and enabled us to better utilise floorspace in some of our bigger stores. We expect this category to grow alongside our well known lounge and dining categories as consumer awareness grows further.

Looking at the current financial year to date, same store sales orders growth has been negative, and as we announced earlier this month, the difficult trading conditions of the latter months of 2019 financial year have persisted into the 2020 year. Store traffic is down compared to the same period last year, and same store sales are down around 8%. The company currently expects that NPAT for the half-year ending 31 January 2019 will be in the range of \$17-19m compared to \$25m for the corresponding period in FY19.

Despite the slowdown in sales growth, we continue to offer our customers quality furniture at great value, and believe that we are well positioned to take advantage of an improvement in trading conditions as and when this occurs.

I would like to take this opportunity to thank all my colleagues for their hard work during the year and would also like to thank my fellow directors for their valuable guidance and support.