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**Nick Scali Limited | NCK.ASX**

**HY18 Results Presentation**

7<sup>th</sup> February 2018

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# Key Highlights

## Sales

- Sales increased 8.1% to \$128.0m (HY17: \$118.4m)
- Like for like sales growth of +2.6% for Nick Scali Furniture stores
- Increase assisted by sales from new stores opened in FY17 and HY18

## Profit

- Gross margin increased by 90 bps to 62.6%

## Profit

- NPAT increased 15.0% to \$23.5m (HY17: \$20.5m)

## Expenses

- Operating expenses decreased by 90 bps to 35.2% of sales (HY17: 36.1%)

## Dividend

- FY17 final ordinary dividend of 20.0 cps (FY16: 14.0 cps) paid during the period
- HY18 interim ordinary dividend of 16.0 cps declared (HY17: 14.0 cps)

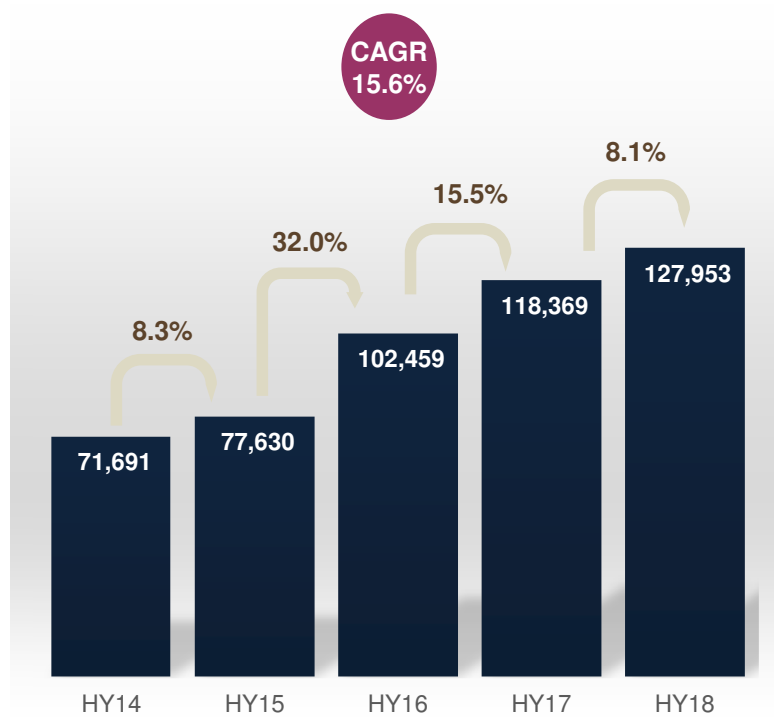
## New Stores

- Six new stores opened during the period in Cannington (WA), Robina (QLD), North Lakes (QLD), Toowoomba (QLD), Marsden Park (NSW) and the first New Zealand store in Mt Wellington (Auckland)

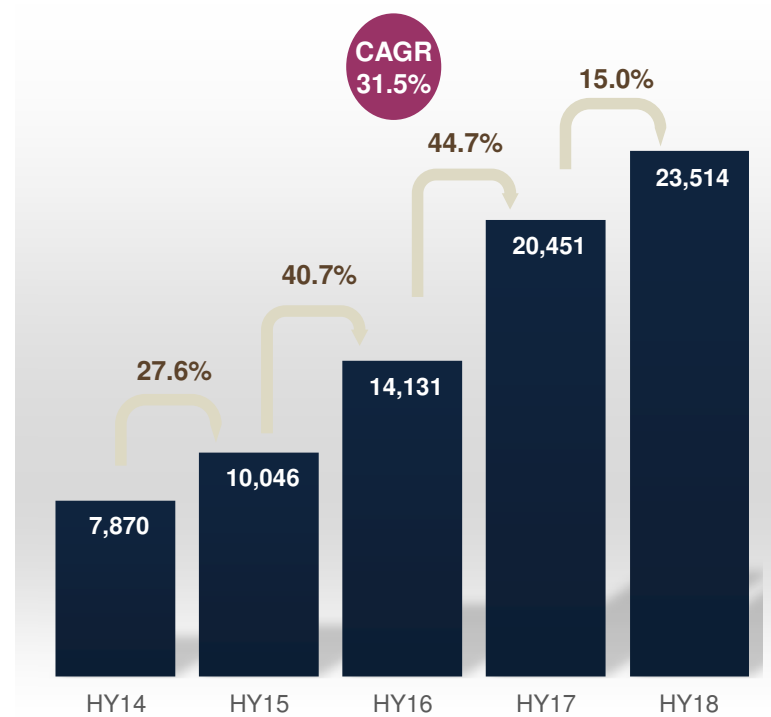
# Sales and NPAT growth

Sales up 8.1% from comp store growth of +2.6%, with NPAT continuing to benefit from scale

Revenue (A\$000)



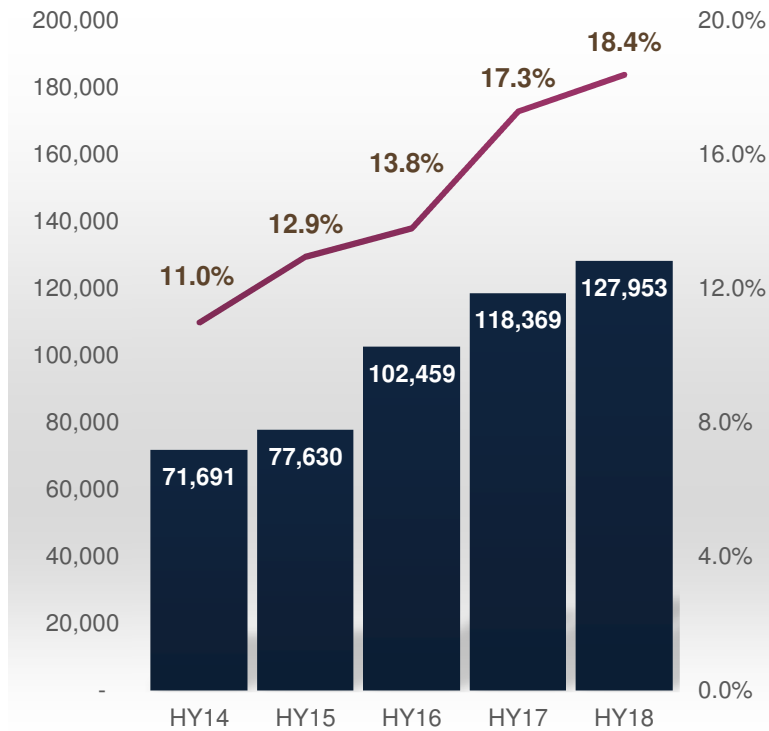
NPAT (A\$000)



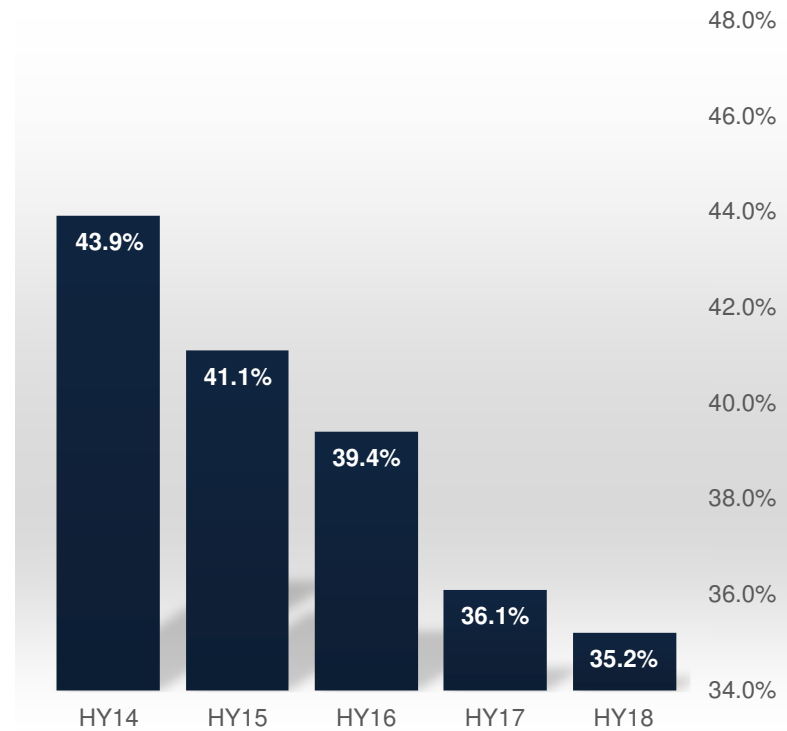
# Profit margin and cost of business

Profitability and cost of doing business continue to trend favourably

**NPAT to Sales**



**CODB to Sales**



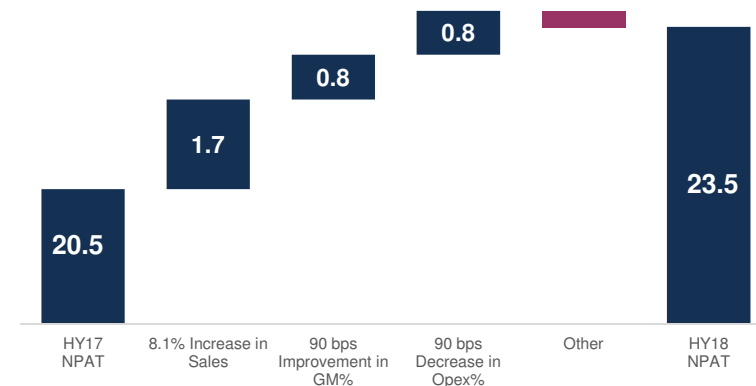
# Earnings Summary



## Profit and loss statement

Half-Year Ended 31 December (\$m)	HY18	HY17	Change (%)
<b>Sales Revenue</b>	<b>128.0</b>	<b>118.4</b>	<b>+ 8.1%</b>
Cost of sales	(47.9)	(45.4)	
<b>Gross Profit</b>	<b>80.1</b>	<b>73.0</b>	<b>+ 9.7%</b>
Other income	0.5	0.2	
Operating expenses	(45.0)	(42.7)	+ 5.3%
<b>EBITDA</b>	<b>35.6</b>	<b>30.5</b>	<b>+ 16.7%</b>
Depreciation	(1.9)	(1.5)	
<b>EBIT</b>	<b>33.6</b>	<b>29.0</b>	<b>+ 15.9%</b>
Net interest income	0.1	0.2	
<b>Profit before tax</b>	<b>33.7</b>	<b>29.2</b>	<b>+ 15.4%</b>
Taxation	(10.2)	(8.8)	
<b>Net profit after tax</b>	<b>23.5</b>	<b>20.5</b>	<b>+ 15.0%</b>
<b>Key metrics</b>			
Gross margin	62.6%	61.7%	
Operating expenses to sales	35.2%	36.1%	
EBITDA margin	27.8%	25.7%	
Effective tax rate	30.2%	30.0%	
<b>Earnings per share</b>	<b>29.0 cents</b>	<b>25.2 cents</b>	<b>+ 15.0%</b>
<b>Dividends per share</b>	<b>16.0 cents</b>	<b>14.0 cents</b>	<b>+ 14.3%</b>

## Summary



- Sales up 8.1% from comp store growth of +2.6%
  - 4 stores opened during FY17 and now trading for the full year
  - Some contribution from new stores opened in HY18
  - Strong order bank leading into FY18
  - Supported by an increased investment in marketing
- EBITDA of \$35.6m up 16.7% for the half year
- NPAT of \$23.5m up 15.0% for the half year
- Gross margin increased to 62.6% (HY17: 61.7%)
- Operating expenses decreased as a percentage to sales to 35.2% (HY17: 36.1%) due to the continued ability to derive revenue growth off existing infrastructure

# Balance Sheet



Growing fixed asset base and efficient inventory management

## Balance sheet

Half-Year Ended 31 December (\$m)	HY18	FY17
Cash and term deposits	28.2	39.9
Receivables	0.6	0.2
Inventories	31.2	29.2
Fixed assets	91.3	66.8
Intangibles	2.4	2.4
Other	1.8	0.7
<b>Total Assets</b>	<b>155.5</b>	<b>139.3</b>
Payables	38.5	43.0
Current tax liabilities	2.6	1.1
Provisions	4.4	3.7
Borrowings	32.2	21.2
<b>Total liabilities</b>	<b>77.7</b>	<b>68.9</b>
<b>Net Assets</b>	<b>77.8</b>	<b>70.4</b>

## Summary

- Strong cash position maintained
- Total inventory of \$31.2m due to new store openings and corresponding increase in stock in transit
  - Display: \$12.4m (June 17: \$10.2)
  - Warehouse: \$11.6m (June 17: \$14.9m)
  - In Transit: \$7.2m (June 17: \$4.1m)
- Payables down \$4.5m from lower customer deposits compared with June 2017
- Net cash, borrowings and fixed assets impacted by \$23m purchase of Auburn (NSW) store in December 2017
- All borrowings relate to owned properties and increased by \$11m from the Auburn property purchase
- Fixed assets includes \$78m land and buildings at cost for eight Company owned retail properties

# Cash Flow

Strong operating cash flow (+10.9% yoy) supporting capex and dividend payments (+17.6% yoy)

## Cash flow statement

Half-Year Ended 31 December (\$m)	HY18	HY17
Receipts from customers	140.4	129.8
Payments to suppliers/employees	(111.7)	(104.5)
Interest received	0.4	0.5
Income tax paid	(9.0)	(7.5)
<b>Operating Cash Flow</b>	<b>20.2</b>	<b>18.2</b>
Capital expenditure	(26.4)	(4.1)
<b>Investing Cash Flow</b>	<b>(26.4)</b>	<b>(4.1)</b>
Dividends	(16.2)	(13.8)
Borrowings	11.0	-
Interest Paid	(0.4)	(0.3)
<b>Financing Cash Flow</b>	<b>(5.6)</b>	<b>(14.1)</b>
<b>Net Cash Flow</b>	<b>(11.8)</b>	<b>0.0</b>

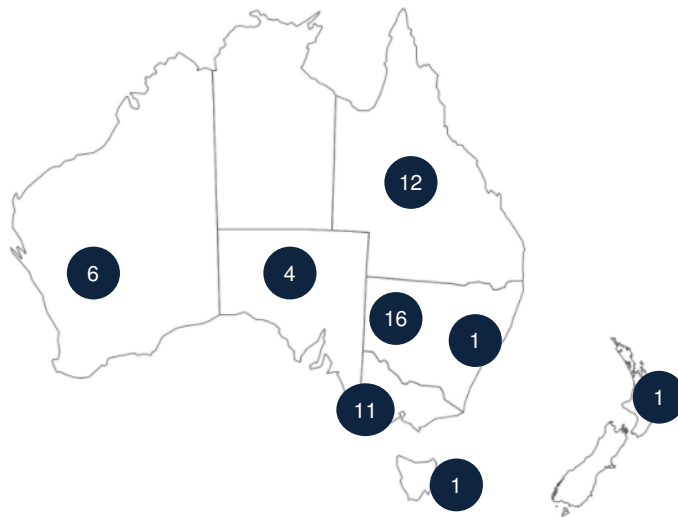
## Summary

- Operating cash flow increased \$2.0m yoy
  - Result of sales increase in HY18
  - Relative cost savings
- Capital expenditure of \$26.4m included:
  - Property purchased in Auburn (NSW) in December 2017
- Dividends paid during HY18 include
  - FY17 final dividend of 20.0 cps paid in October 2017 (FY16: 14.0 cps and special dividend of 3.0 cps )

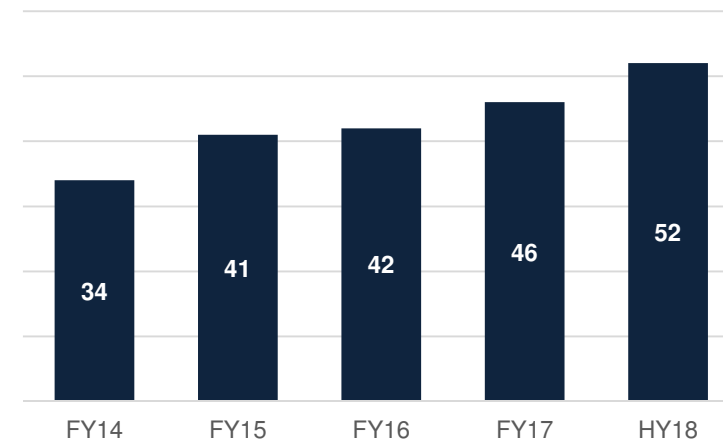
# Store network

Consistent growth in the store network including the first store in New Zealand

Current store network



Nick Scali brand store network growth



- Six new Nick Scali Furniture stores - five in Australia in Cannington (WA), Robina (Qld), North Lakes (Qld), Toowoomba (Qld), and Marsden Park (NSW) and the first New Zealand store in Mt Wellington (Auckland)
- Target further 2 new stores in second half of FY18
- Long term store network target of 75 stores (Australia & New Zealand)



## **New stores**

- The six new stores opened in first half FY18 have performed above expectations.
- Three of the new stores are located in the "Home-Co" centres previously occupied by Masters.
- The "Home-Co" centres are generating excellent traffic and we expect to open a number of new stores in more "Home-Co" centres.
- For FY18, two of the six new stores will contribute to second half profit and the other four will provide only a small contribution due to start-up costs.

## **New Zealand**

- Our Auckland store was the best performing new store for January in respect of sales orders.
- Positive feedback from consumers is encouraging and suggests that, as expected, the Nick Scali brand will fill a void in the NZ furniture industry segment.
- Additional stores in NZ will be opened towards the end of second half FY18 and early in the first half FY19.

## **Sales**

- Recent trading from our existing stores has been volatile with December providing positive same store sales order growth whilst January was negative.
- Same store sales growth has been challenging - cycling off two consecutive years of double digit growth.

## **Profit growth**

- The current expectation is for net profit after tax for the full year to June 2018 to be 5-10% higher than the previous corresponding period.
- FY19 is expected to benefit from the substantial increase in the store network being established during FY18.

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**Thank you**



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This document should be read in conjunction with the HY18 Results Announcement and HY18 Appendix 4D.