

Nick Scali Limited (NCK)
Macquarie Conference
2nd May 2017

nickscali
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Key Highlights : H1-17

Sales

Sales increased 15.5% to \$118.4m (H1-16: \$102.5m)

Net Margin

Margin increased by 200 bps to 62.0%

Profit

NPAT increased 44.7% to \$20.5m (H1-16: \$14.1m)

Expenses

Operating expenses decreased to 36.4% of sales (H1-16: 39.5%)

Dividend

Interim dividend of 14.0 cents per share fully franked (H1-16: 9.0 cps)

New Stores

Three new stores opened during the half

Earnings Summary : H1-17

Half Year Ended 31 December	H1-17 \$M	H1-16 \$M	Change %
Sales Revenue	118.4	102.5	+ 16%
Cost of sales	(45.0)	(41.0)	
Gross Profit	73.3	61.5	+ 19%
Other income	0.7	0.6	
Operating Expenses	(43.0)	(40.5)	+ 6%
EBITDA	30.5	21.1	+ 44%
Depreciation	(1.5)	(1.1)	
EBIT	29.0	20.0	+ 45%
Net Interest income	0.2	0.2	
Profit before tax	29.2	20.2	+ 44%
Taxation	(8.8)	(6.1)	
Net profit after tax	20.5	14.1	+ 45%
Gross margin	62.0%	60.0%	
Operating Expense to sales	36.4%	39.5%	
EBITDA margin	25.7%	20.6%	
Effective tax rate	30%	30%	
Earnings per share	25.2	17.4	
Dividends per share	14.0	9.0	

- Sales increase of 15.5% from same store sales growth of 10.1% and the contribution from the opening of new stores
- Gross margin strengthened to 62.0% (H1-16: 60.0%) largely as a result of economies of scale from volume growth in our specialised categories
- Operating expenses decreased as a percentage to sales to 36.4% (H1-16: 39.5%) due to continued attention to the control of costs and seeking efficiencies
- EBITDA of \$30.5m up 44% for the half year (H1-16: \$21.2m)
- NPAT of \$20.5m up 45% for the half year (H1-16: \$14.1m)
- The directors declared a fully franked interim dividend of 14.0 cps (H1-16: 9.0 cps) with a record date of 1st March 2017 and a payment date of 22nd March 2017

Balance Sheet : H1-17

Half Year Ended 31 December	Dec 16 \$M	Jun 16 \$M
Cash and term deposit	37.1	37.0
Receivables	0.6	0.2
Inventories	27.3	25.8
Fixed assets	58.0	55.5
Intangibles	2.4	2.4
Other	3.2	0.5
Total Assets	128.6	121.5
Payables	34.2	37.3
Current tax liabilities	3.0	1.8
Provisions	3.4	3.5
Borrowings	21.2	21.2
Other	0.5	-
Total Liabilities	62.2	63.7
Net Assets	66.3	57.8
Net cash (cash less borrowings)	15.9	15.8

- Strong cash position maintained
- Inventory up \$1.5m mainly due to new stores
- Payables down \$3.1m from lower balance of customer deposits
- Fixed assets up \$2.5m for building works at owned property in Nunawading (Vic) that was completed during the period as well as three new store fitouts
- All borrowings relate to owned properties, the total net book value of which is ~\$49m and is included in Fixed Assets



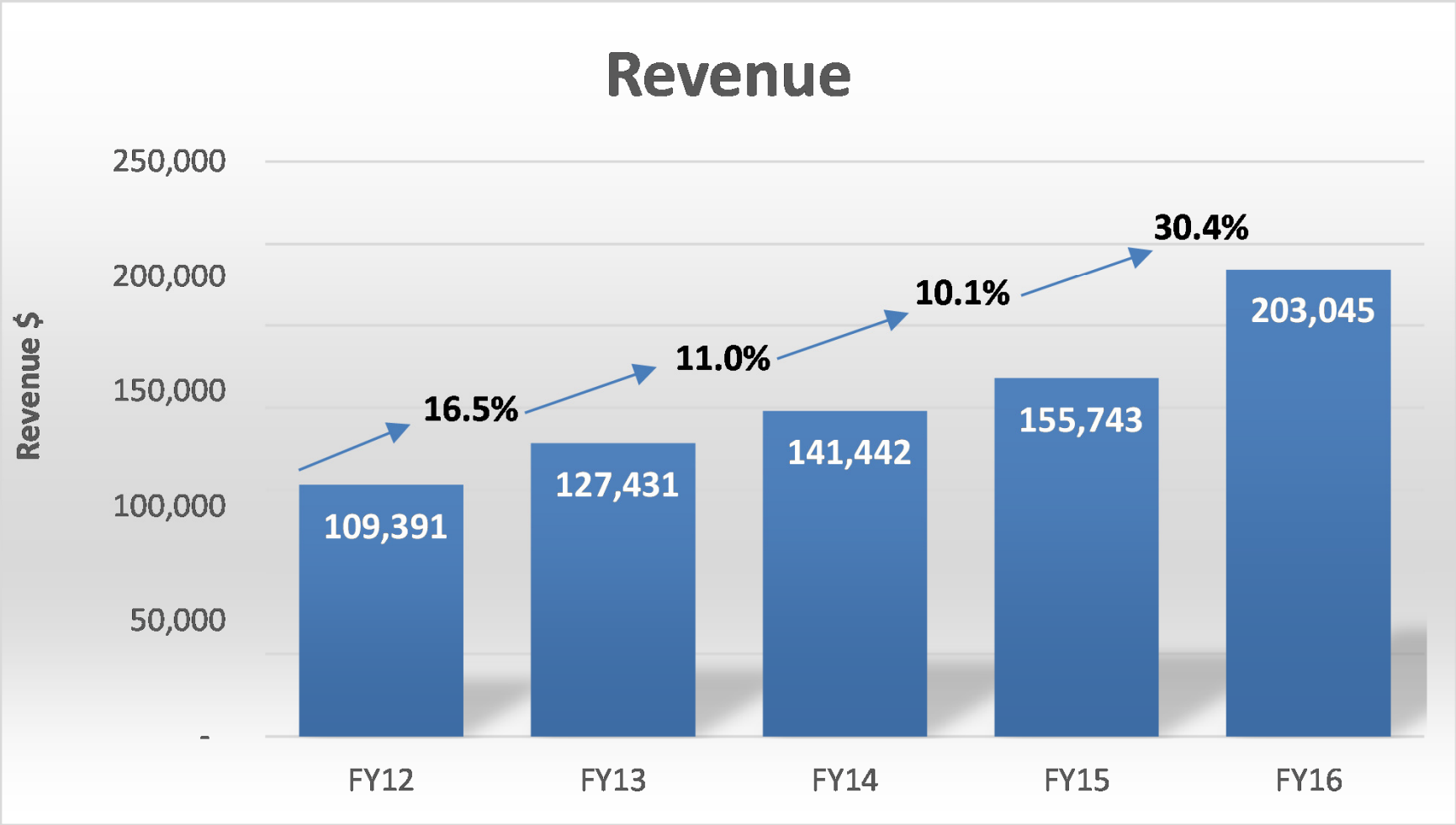
Cash Flow : H1-17

Half Year Ended 31 December	H1-17 \$M	H1-16 \$M
Receipts from customers	129.8	112.7
Payments to suppliers/employees	(104.5)	(98.1)
Interest received	0.5	0.4
Income tax paid	(7.5)	(5.7)
Operating Cash Flow	18.2	9.5
Capital expenditure	(4.1)	(18.0)
Investing Cash Flow	(4.1)	(18.0)
Dividends	(13.8)	(6.5)
Borrowings	-	6.6
Interest Paid	(0.3)	(0.2)
Financing Cash Flow	(14.1)	(0.1)
Net Cash Flow	0.0	(8.6)

- Operating Cash Flow increased by \$8.7m over the prior comparative period primarily due to the sales increase with five new stores opened over the past 12 months and combined with comparable sales growth of +10.1% in H1-17
- Capital Expenditure of \$4.1m for building works at owned property in Nunawading (Vic) that was completed during the period as well as three new store fitouts
- FY16 final dividend of 14.0 cps and special dividend of 3.0 cps totalling 17.0 cps paid in October 2016 (FY15: 8.0 cps)

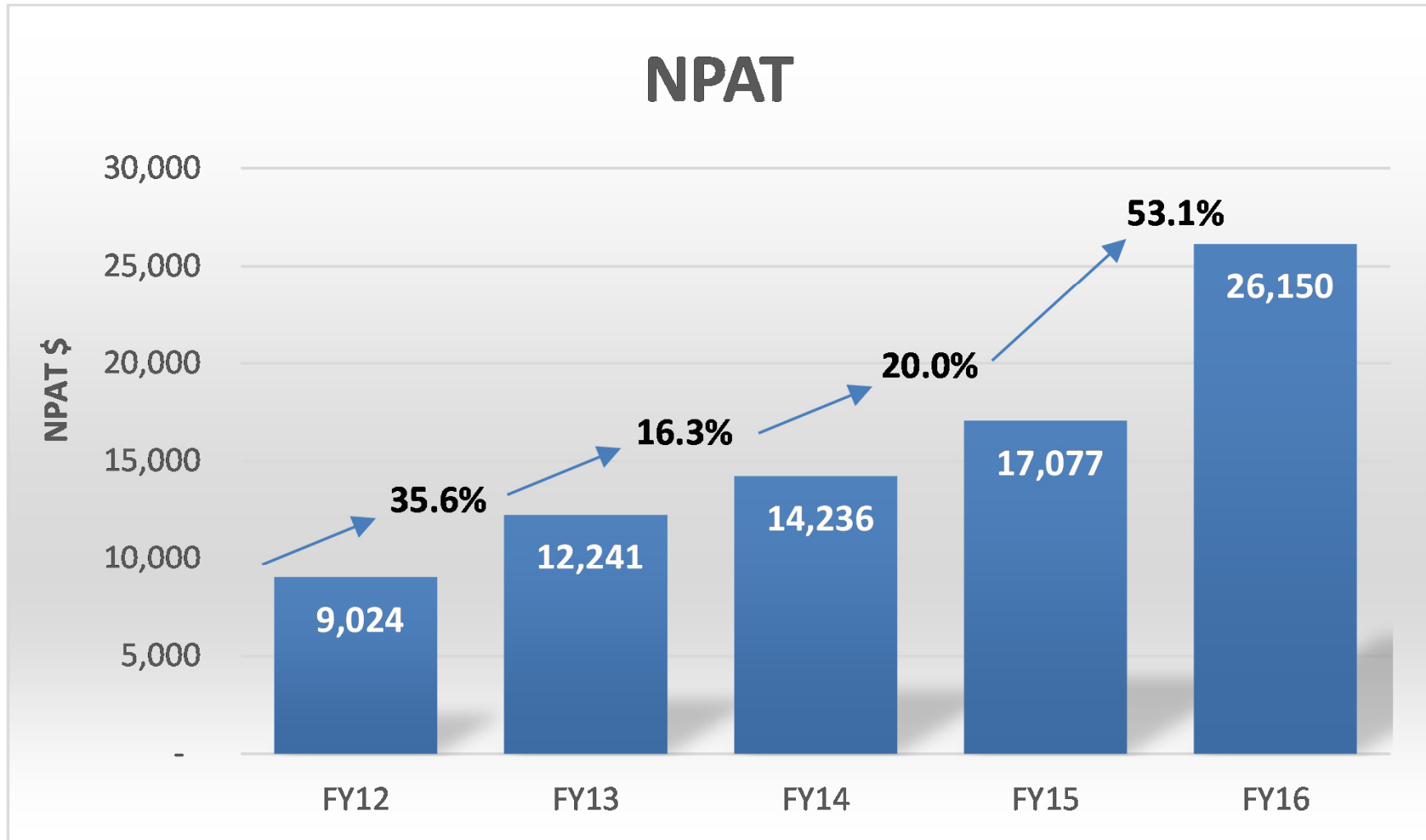


Historic Performance



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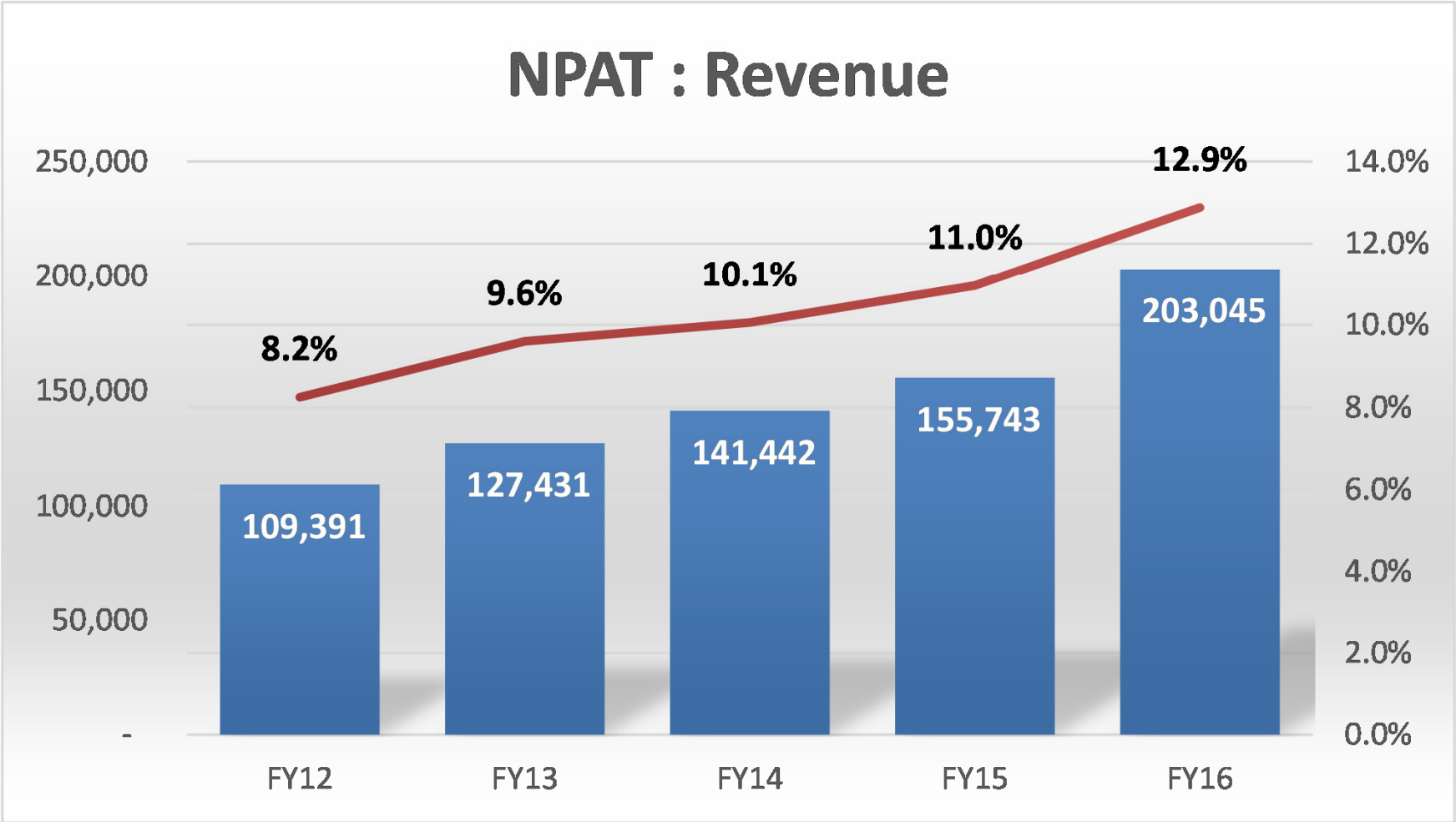
Historic Performance



Note: Underlying NPAT has been used in FY13 by adjusting the once off net gain on the surrender of lease of \$5.4m (post tax \$3.8m)

Historic Performance

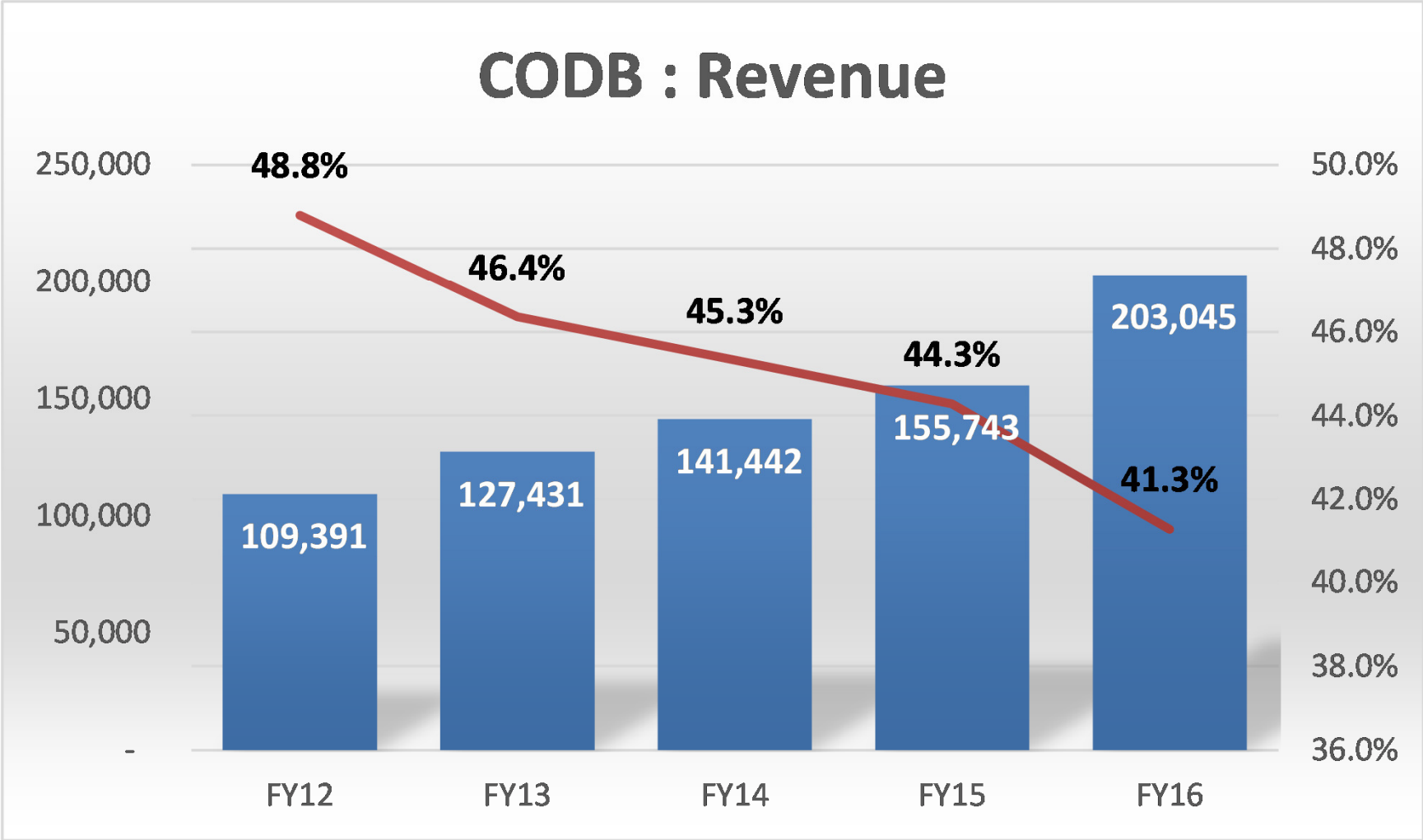
NPAT : Revenue



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Historic Performance

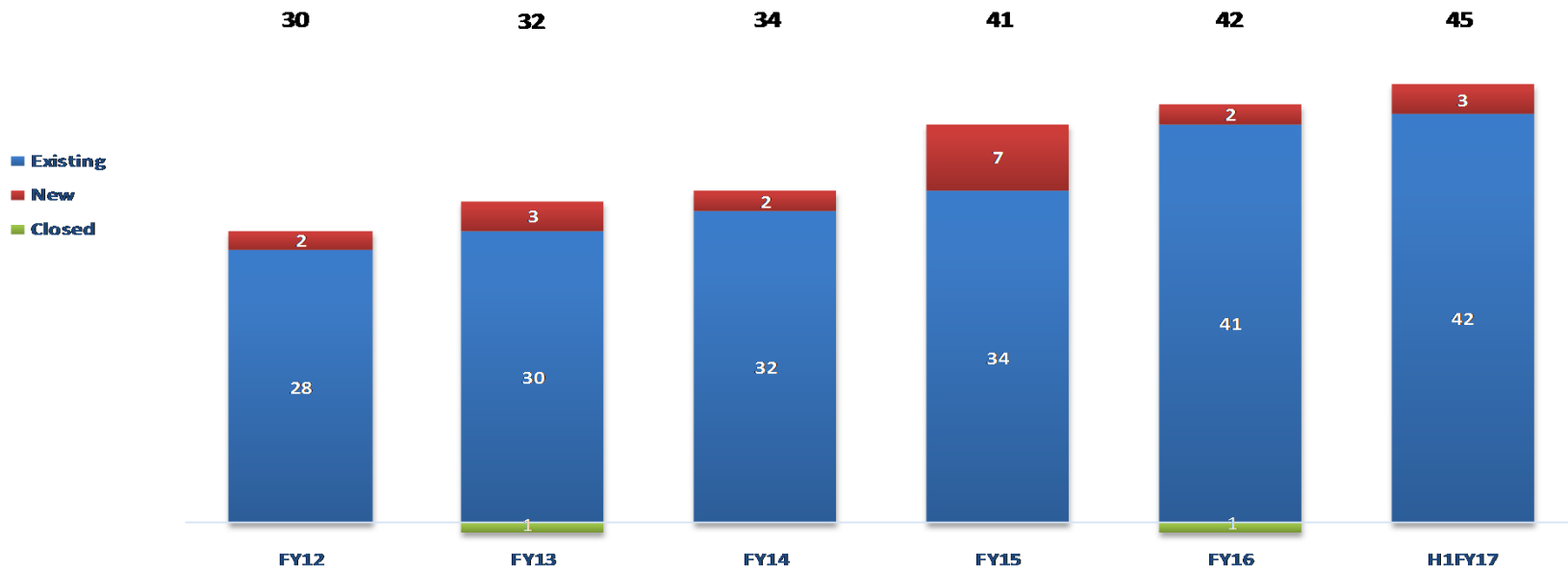
CODB : Revenue



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Store Numbers

NSF Store Growth



Existing	28	30	32	34	41	42
New	2	3	2	7	2	3
Closed		1			1	
Total	30	32	34	41	42	45

Note: Excludes Sofas2Go stores

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New Store Forecast

- Store Network Long Term (Australia & New Zealand) - 75 stores
- FY17 – 5 stores will open (3 opened in 1st half)
- FY18 – Target is to open 7 stores
- First New Zealand store to open in December 2017

Key Drivers for the Furniture Industry

- Consumer confidence
- Volume of housing sales
- Renovations
- Stable interest rates
- Wealth effect
- Population growth

Key Drivers for the Furniture Industry

“Demand for alterations and additions is expected to improve over the next five years, providing an important avenue for industry expansion over the period. Many of the industry’s small-to medium-scale builders are expected to secure renovation work on existing dwellings. A projected increase in housing prices, and solid economic growth conditions are anticipated to encourage households to spend on renovation work, particularly on projects valued over \$10,000 per contract.”

“About two-thirds of private-sector investment in the single-unit housing market is by second-, third- and fourth-time homebuyers. This segment of the market has climbed marginally as a share of industry revenue over the past five years reflecting the corresponding decline in the first home buyer component of total sales.”

Source: Anthony Kelly, IBIS World Industry Report E3011
House Construction in Australia, February 2017

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