

Nick Scali Limited (NCK)
Results Presentation - Half Year 2015 (1H FY15)
11 February 2015

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Key Highlights – H1-15

Sales

Sales increased 8% to \$77.6m (H1-14: \$71.7m)

Profit

NPAT increased 28% to \$10.0m (H1-14: \$7.9m)

Dividend

Interim dividend of 7.0 cents per share (H1-14: 6.0 cps)

New Stores

Two new stores opened during the half

Earnings Summary – H1-15

	H1-15 \$m	H1-14 \$m	Change %
Sales revenue	77.6	71.7	+8%
Cost of sales	(30.9)	(28.4)	
Gross Profit	46.8	43.3	+8%
Other income	0.2	0.0	
Operating Expenses	(32.0)	(31.5)	+2%
EBITDA	15.0	11.8	+27%
Depreciation	(1.0)	(0.9)	
EBIT	14.0	10.8	+29%
Net Interest income	0.4	0.4	
Profit before tax	14.4	11.3	+28%
Taxation	(4.3)	(3.4)	
Net profit after tax	10.0	7.9	+28%
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Gross margin	60.3%	60.3%	
Operating Expenses to sales	41.2%	43.9%	
EBITDA margin	19.3%	16.4%	
Effective tax rate	30%	30%	
Earnings per share (cps)	12.4	9.7	
Dividends per share (cps)	7.0	6.0	

- Sales increase of 8% from the new stores opened over the past 18 months, the recently launched online channel combined with comparable store growth of +1.2%
- Sales orders for the first half were up 10% and +4.2% on a comparable store basis
- Margin held solid at 60.3% the same level as prior comparative period despite a decline in \$A
- Operating expenses increased by \$0.5m to \$32.0m but decreased as a percentage to sales to 41.2% (H1-14: 43.9%) achieved from cost control, especially resource management and marketing efficiencies and the absence of new store start up costs
- NPAT result of \$10.0m up 28% for the half year (H1-14: \$7.9m)
- The directors declared a fully franked interim dividend of 7 cps (H1-14: 6 cps) with a record date of 5th March 2015 and a payment date of 26th March 2015

Balance Sheet – H1-15

	Dec '14 \$m	Jun '14 \$m
Cash and term deposits	31.6	35.9
Receivables	0.4	0.2
Inventories	19.7	19.0
Fixed assets	28.6	22.9
Intangibles	2.4	2.4
Other	1.0	0.1
Total assets	83.7	80.4
Payables	23.0	27.4
Current tax liabilities	2.4	2.4
Provisions	3.0	3.4
Borrowings	9.8	6.8
Other	0.7	0.4
Total liabilities	38.8	40.3
Net assets	44.9	40.1
Net cash	24.9	29.1
Working capital	(2.9)	(8.2)

- Strong cash position maintained
- Inventory up \$0.7m due to sales growth and two additional stores
- Payables down \$4.4m from lower balance of customer deposits
- Fixed assets up \$5.7m as a property in Caringbah was purchased in July 2014 for \$6.3m for a future Nick Scali store
- Borrowings up \$3.0m in relation to financing of the Caringbah property purchase
- All borrowings relate to property, the total value of which is ~\$21m



Cash Flow – H1-15

	H1-15 \$m	H1-14 \$m
Receipts from customers	80.0	82.0
Payments to suppliers/employees	(70.6)	(71.8)
Interest received	0.6	0.6
Income tax paid	(4.3)	(3.7)
Operating cash flow	5.8	7.1
Capital expenditure	(7.2)	(1.3)
Investing cash flow	(7.2)	(1.3)
Dividends	(5.7)	(4.9)
Borrowings	3.0	0.0
Interest paid	(0.2)	(0.2)
Financing cash flow	(2.9)	(5.0)
Net cash flow	(4.3)	0.8

- Operating Cash Flow decreased from prior comparative period primarily due to the previous period one-off compensation payment received in H1-14 in relation to government land resumption
- Capital Expenditure increased from the purchase the Caringbah property for \$6.3m with a corresponding increase in borrowings of \$3.0m to part finance this acquisition
- FY14 final dividend of 7.0 cps paid in October 2014 (FY13: 6.0 cps)



Store Network

Nick Scali Furniture

- 2 new stores opened during H1-15 at Rutherford (NSW) and Cairns (QLD) both in late December 2014 in time for end of season sale
- The Castle Hill (NSW) store which opened in November 2013 (H1-14) is now trading as a LFL store
- 5 further stores are planned in H2-15 which will bring new stores for the fiscal year to 7 and total stores at fiscal year end to 41 Nick Scali Furniture stores
- Our expansion into Western Australia is on track and 2 of the new stores will open in Feb/Mar (Joondalup and O' Connor) and 1 in Apr/May (Osborne Park)
- A purpose built distribution centre to support the network in WA is in place and operational

Sofas2Go

- Store network includes a total of 5 stores as at 31 December 2014



Store Numbers at 31 December 2014

	Nick Scali	Sofas2Go	Total
NSW	13	3	16
VIC	10	1	11
QLD	8		8
SA	4		4
ACT	1	1	2
	36	5	41

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Online and Social Media

- *Launched in December 2013*
- *Currently an exclusive collection of replica and designer furniture that is not part of the regular Nick Scali range*
- *The range is expanding to broaden the offer*
- *Products warehoused & distributed from our DC's and through our existing logistics network, as well as 3rd party carriers for out of metro sales*
- *Focus on immediate availability of products for fast fulfillment (1-3 days)*
- *Continued growth albeit at a modest pace*
- *Adopting a proactive social media policy by engaging with our customers through many social media platforms including Instagram, Facebook, Pinterest, Twitter*
- *Over 40,000 likes on Facebook*



Outlook

- January is traditionally the Company's strongest trading month of the year for customer orders and January 2015 saw a 7% growth over the prior comparative period
- Forecasting a continuation in volatility of sales orders likely into the second half
- The rollout of 5 new stores in H2 together with the 2 stores opened at the end of H1 and the start up of operations in Western Australia with a stand-alone distribution centre and additional management and staff to support the business, will result in costs being incurred before sales deliveries are generated
- A continuing decline in the Australian dollar may bring further challenges to maintain sales and margins, requiring careful management



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