

**Nick Scali Limited (NCK)**  
**Results Presentation – Y/E 30 June 2016 (FY16)**  
11<sup>th</sup> August 2016

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L I M I T E D



# Key Highlights – FY16

## Sales

Sales increased 30% to \$203.0m (FY15: \$155.7m)  
- like for like sales growth of 11.1%  
- increase assisted by full year of sales from 7 stores opened in H2-FY15

## Profit

NPAT increased 53% to \$26.2m (FY15: \$17.1m)

## Expenses

Operating expenses decreased to 41.3% of sales (FY15: 44.3%)

## Dividend

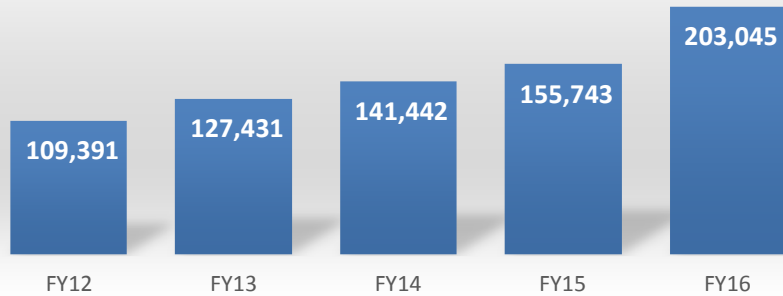
- Final ordinary dividend of 14 cps (FY15: 8.0 cps)
- Total ordinary dividend for the year of 23 cps (FY15: 15.0 cps)
- Full year payout ratio (for ordinary dividend) of 71% (FY15: 71%)
- Special dividend of 3 cps (FY15: nil)

## New Stores

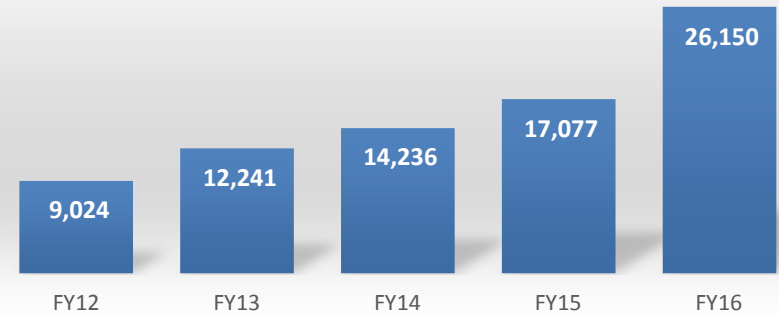
- Successfully entered the WA market with 4 current stores
- 2 new Nick Scali Furniture stores opened during the year

# Historic Performance

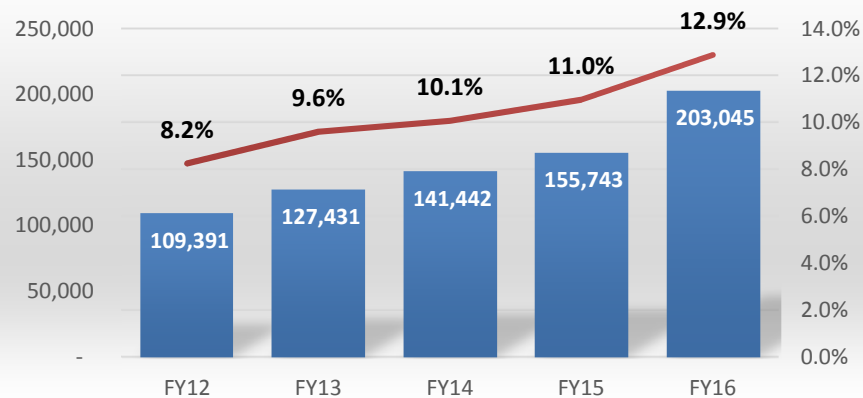
## Revenue



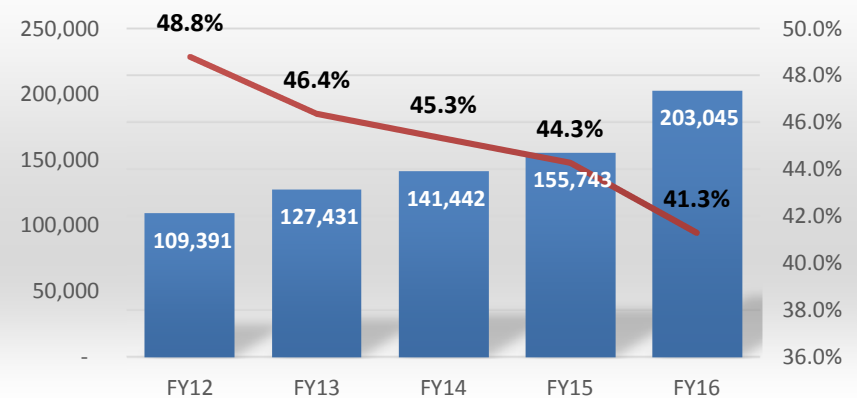
## NPAT



## NPAT TO SALES



## CODB TO SALES



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

# Earnings Summary – FY16

Year Ended 30 June	FY16 \$M	FY15 \$M	Change %
<b>Sales Revenue</b>	<b>203.0</b>	<b>155.7</b>	+ 30%
Cost of sales	(79.7)	(61.3)	
<b>Gross Profit</b>	<b>123.4</b>	<b>94.5</b>	+ 31%
Other income	0.6	0.4	
Operating expenses	(83.8)	(69.0)	+ 22%
<b>EBITDA</b>	<b>40.2</b>	<b>25.9</b>	+ 55%
Depreciation	(3.1)	(2.1)	
<b>EBIT</b>	<b>37.1</b>	<b>23.8</b>	+ 56%
Net interest income	0.4	0.6	
<b>Profit before tax</b>	<b>37.5</b>	<b>24.4</b>	+ 53%
Taxation	(11.3)	(7.3)	
<b>Net profit after tax</b>	<b>26.2</b>	<b>17.1</b>	+ 53%
Gross margin	60.8%	60.7%	
Operating expenses to sales	41.3%	44.3%	
EBITDA margin	19.8%	16.6%	
Effective tax rate	30%	30%	
<b>Earnings per share</b>	<b>32.3</b>	<b>21.1</b>	
<b>Ordinary dividends per share</b>	<b>23.0</b>	<b>15.0</b>	

- Sales increase of 30.4% from comparable store growth of +11.1%, 7 stores opened during FY15 and now trading for the full year FY16, some contribution from the 2 new stores opened in early FY16 and supported by an increased investment in marketing
- Sales orders for the year were up 27.3% and +9.6% on a comparable store basis
- EBITDA of \$40.2m up 55.1% for the year (FY15: \$25.9m)
- NPAT of \$26.2m up 53.1% for the year (FY15: \$17.1m)
- The Western Australia business which was launched in FY15 with 3 stores and a further store added in FY16, has made a significant contribution to the Group sales and profit growth for FY16
- Margin held solid at 60.8% (FY15: 60.7%) despite a lower average AUD as compared to the prior comparable period
- Operating expenses decreased as a percentage of sales to 41.3% (FY15: 44.3%) due to continued cost efficiency, especially in the property category



# Balance Sheet – FY16

Year Ended 30 June	FY16 \$M	FY15 \$M
Cash and term deposit	37.0	33.7
Receivables	0.2	0.2
Inventories	25.8	24.2
Fixed assets	55.5	35.1
Intangibles	2.4	2.4
Other	0.5	0.7
<b>Total Assets</b>	<b>121.5</b>	<b>96.3</b>
Payables	37.3	33.2
Current tax liabilities	1.8	1.1
Provisions	3.5	3.2
Borrowings	21.2	12.1
Other	-	0.5
<b>Total Liabilities</b>	<b>63.7</b>	<b>50.1</b>
<b>Net Assets</b>	<b>57.8</b>	<b>46.2</b>
<b>Net cash (cash less borrowings)</b>	<b>15.8</b>	<b>21.6</b>

- Strong cash position maintained
- Total inventory of \$25.8m made up of \$10.3m display stock in showrooms, \$11.4m warehouse stock and \$4.1m goods in transit
- Efficient management and increased inventory turnover resulted in a \$1.6m or 6.8% increase in inventory as compared to sales growth of 30.4%
- Payables have increased due to a higher balance of customer deposits and other accruals
- Fixed assets up \$20.4m as properties in Nunawading (VIC) and Macgregor (QLD) were purchased in October 2015 for Nick Scali stores and a new store was built in Caringbah (NSW) on a Company owned property
- Borrowings up \$9.1m in relation to partial debt funding of property purchases



# Cash Flow – FY16

Year Ended 30 June	FY16 \$M	FY15 \$M
Receipts from customers	223.4	171.2
Payments to suppliers/employees	(181.1)	(144.9)
Interest received	0.8	1.1
Income tax paid	(11.1)	(8.6)
<b>Operating Cash Flow</b>	<b>32.0</b>	<b>18.8</b>
Capital expenditure	(23.6)	(14.6)
<b>Investing Cash Flow</b>	<b>(23.6)</b>	<b>(14.6)</b>
Dividends	(13.8)	(11.3)
Borrowings	9.1	5.3
Interest paid	(0.4)	(0.4)
<b>Financing Cash Flow</b>	<b>(5.1)</b>	<b>(6.5)</b>
<b>Net Cash Flow</b>	<b>3.4</b>	<b>(2.2)</b>

- Operating cash flow increased year on year by 70.1% as a result of the sales increase in FY16, gross margin maintenance, relative cost savings and working capital efficiencies
- Capital expenditure of \$23.6m included the purchase of Macgregor (QLD) and Nunawading (VIC) properties, the build of a new Caringbah (NSW) store on a company owned property, new store fitouts for Casula (NSW) and Midland (WA) and various store refurbishments
- A corresponding increase in borrowings of \$9.1m to part finance these property acquisitions and building works
- A very sound cash position maintained despite a record capital expenditure
- Dividends paid during FY16 include the FY15 final dividend of 8.0 cps paid in October 2015 (FY14: 7.0 cps) and FY16 interim dividend of 9.0 cps paid in March 2016 (FY15: 7.0 cps)



# Store Network

## Nick Scali Furniture

- 2 new stores opened during H1-FY16 at Casula (NSW) and Midland (WA) and 1 store closed at Mildura (SA) in H2-FY16
- 42 stores trading at 2016 fiscal year end
- A total of 5-6 new stores are planned for FY17
  - ❖ Stores in Hobart (TAS) and Geelong (VIC) will open in August 2016 (H1-FY17)
  - ❖ A further 3-4 stores are expected to open during FY17
- The Company still has considerable store network expansion opportunities. The network target remains at ~75 stores over time in Australia/New Zealand

## Sofas2Go

- Store network includes a total of 5 stores as at 30 June 2016



Store Numbers at 30 June 2016			
	Nick Scali	Sofas2Go	Total
NSW	16	3	19
VIC	10	1	11
QLD	8		8
SA	3		3
ACT	1	1	2
WA	4		4
	<b>42</b>	<b>5</b>	<b>47</b>

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FURNITURE

**sofas**  
**2go** 

# Outlook

- The market conditions and sales order growth achieved in FY16 have continued into July
- The Company expects modest sales growth in FY17 compared to FY16
- The exceptional profit growth achieved in FY16, driven by the large number of store openings and strong comparable store growth, is unlikely to be replicated in FY17
- Further store network expansion continues - the network target remains at ~75 stores in Australia/New Zealand
- A custom built replacement warehouse facility for NSW is expected to open in June 2017 to support the growth of the business and improve efficiency
- The Company's hedge book together with careful management of product mix and promotions is expected to assist in securing a stable margin of ~60% into FY17
- Launch of the brand into New Zealand is planned in FY18
- Continuing to review possible strategic growth opportunities





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- This document should be read in conjunction with the FY16 Results Announcement and FY16 Appendix 4E.