

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

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



# 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 %
<b>Sales Revenue</b>	<b>118.4</b>	<b>102.5</b>	+ 16%
Cost of sales	(45.0)	(41.0)	
<b>Gross Profit</b>	<b>73.3</b>	<b>61.5</b>	+ 19%
Other income	0.7	0.6	
Operating Expenses	(43.0)	(40.5)	+ 6%
<b>EBITDA</b>	<b>30.5</b>	<b>21.1</b>	+ 44%
Depreciation	(1.5)	(1.1)	
<b>EBIT</b>	<b>29.0</b>	<b>20.0</b>	+ 45%
Net Interest income	0.2	0.2	
<b>Profit before tax</b>	<b>29.2</b>	<b>20.2</b>	+ 44%
Taxation	(8.8)	(6.1)	
<b>Net profit after tax</b>	<b>20.5</b>	<b>14.1</b>	+ 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%	
<b>Earnings per share</b>	<b>25.2</b>	<b>17.4</b>	
<b>Dividends per share</b>	<b>14.0</b>	<b>9.0</b>	

- 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 1<sup>st</sup> March 2017 and a payment date of 22<sup>nd</sup> 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
<b>Total Assets</b>	<b>128.6</b>	<b>121.5</b>
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	-
<b>Total Liabilities</b>	<b>62.2</b>	<b>63.7</b>
<b>Net Assets</b>	<b>66.3</b>	<b>57.8</b>
<b>Net cash (cash less borrowings)</b>	<b>15.9</b>	<b>15.8</b>

- 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



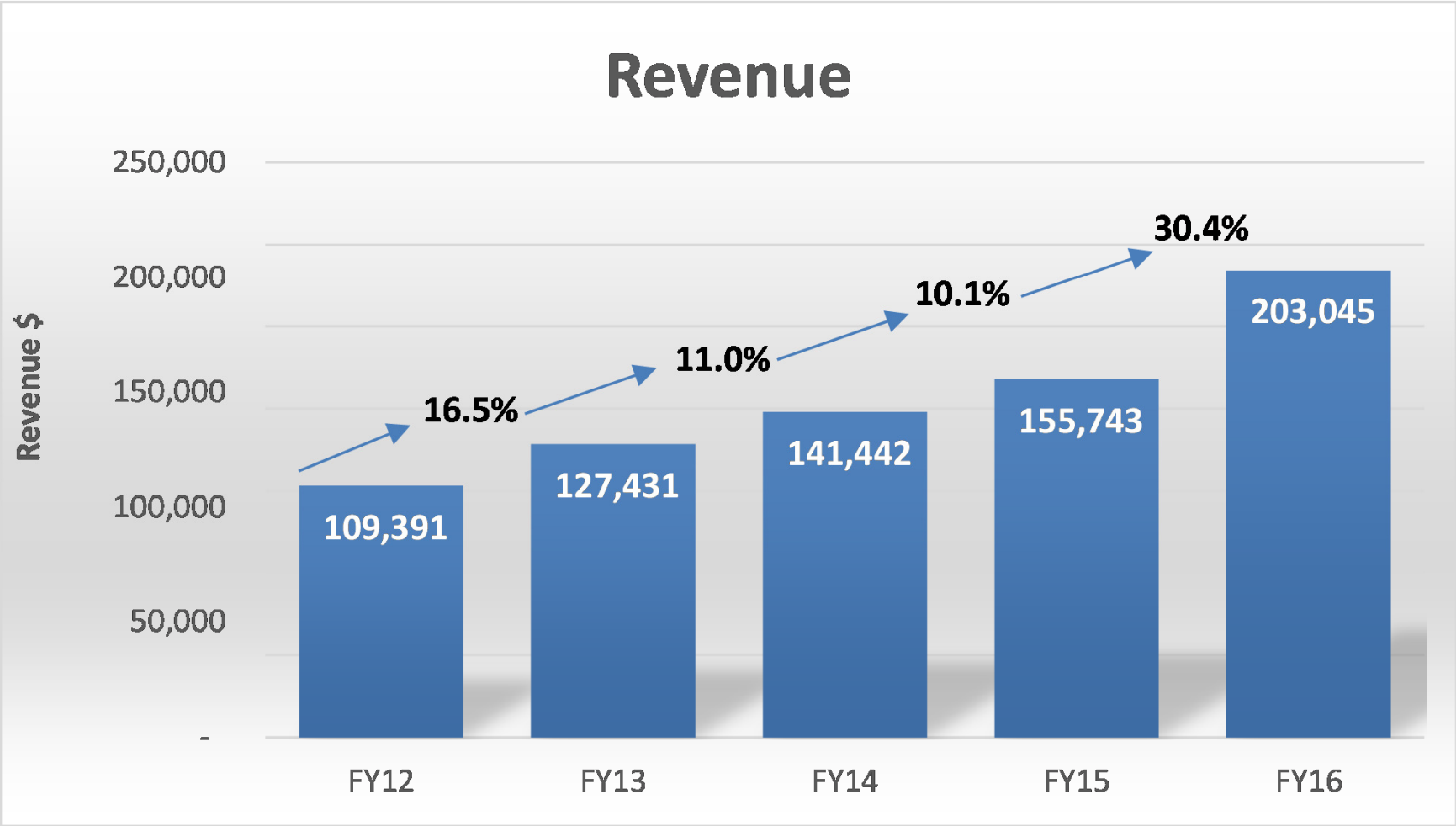
# Cash Flow : H1-17

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)
<b>Operating Cash Flow</b>	<b>18.2</b>	<b>9.5</b>
Capital expenditure	(4.1)	(18.0)
<b>Investing Cash Flow</b>	<b>(4.1)</b>	<b>(18.0)</b>
Dividends	(13.8)	(6.5)
Borrowings	-	6.6
Interest Paid	(0.3)	(0.2)
<b>Financing Cash Flow</b>	<b>(14.1)</b>	<b>(0.1)</b>
<b>Net Cash Flow</b>	<b>0.0</b>	<b>(8.6)</b>

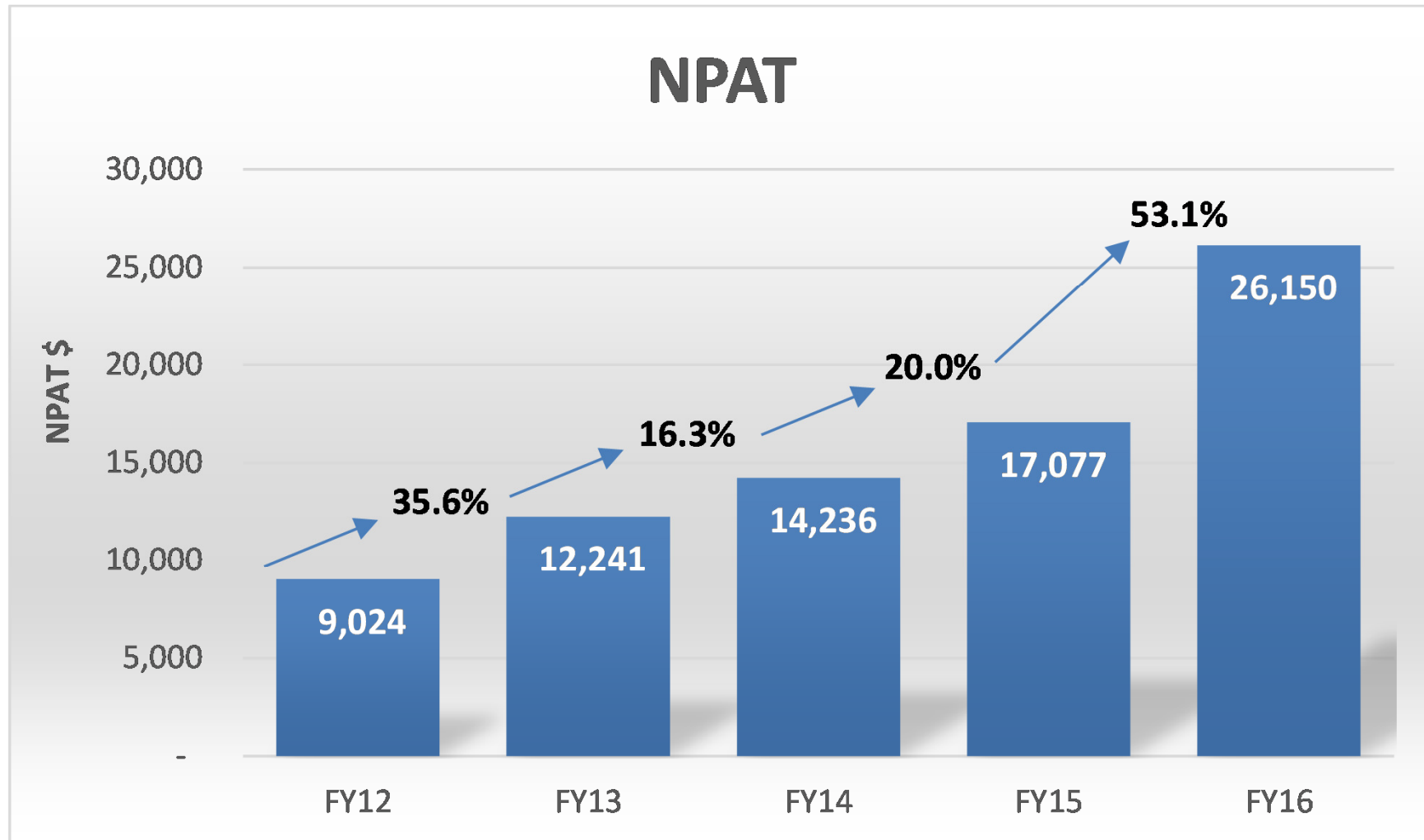
- Operating Cash Flow increased by \$8.7m over the prior comparative period primarily due to the sales increase with five new stores opened over the past 12 months and combined with comparable sales growth of +10.1% in H1-17
- Capital Expenditure of \$4.1m for building works at owned property in Nunawading (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

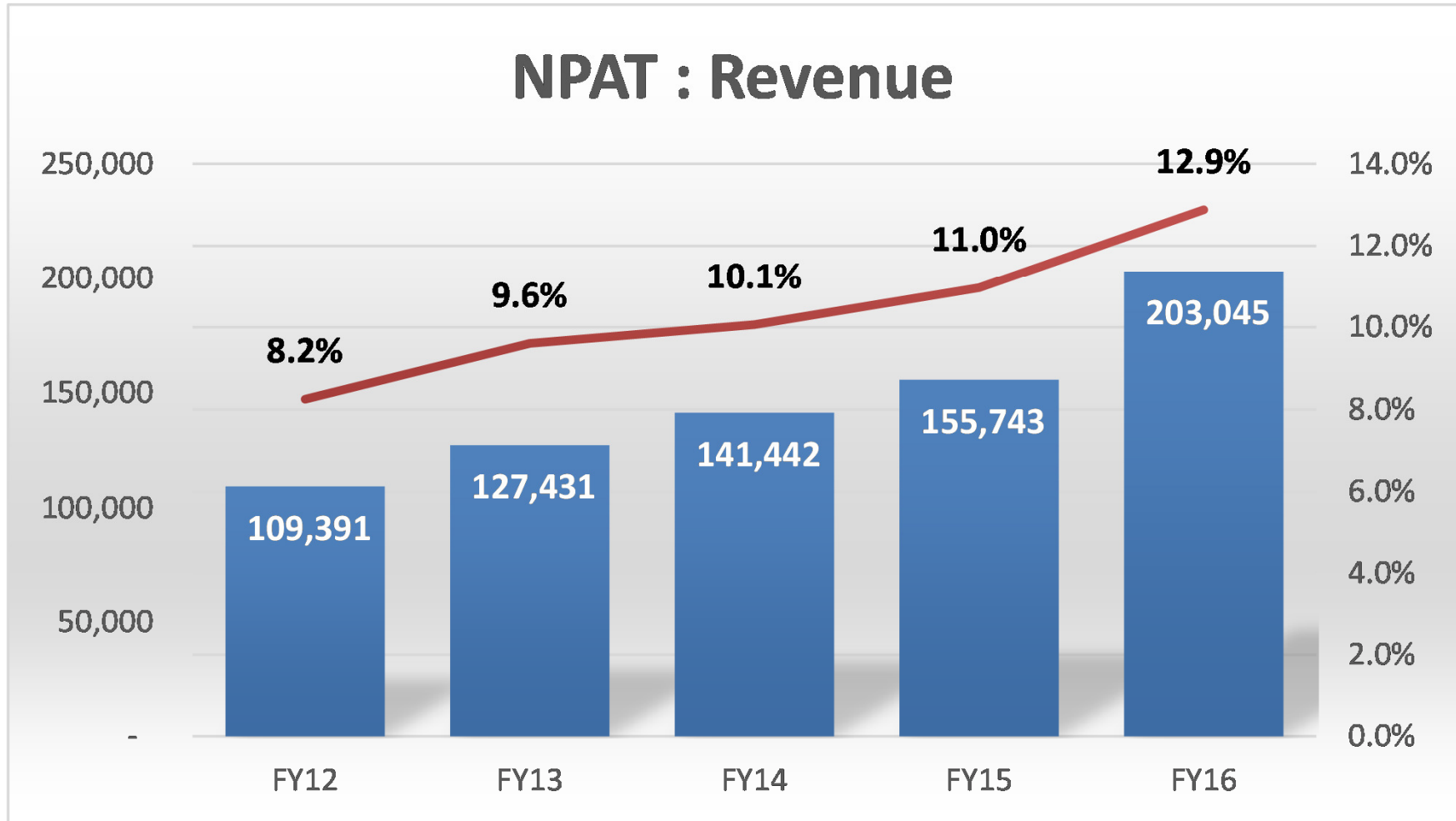


# Historic Performance



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)

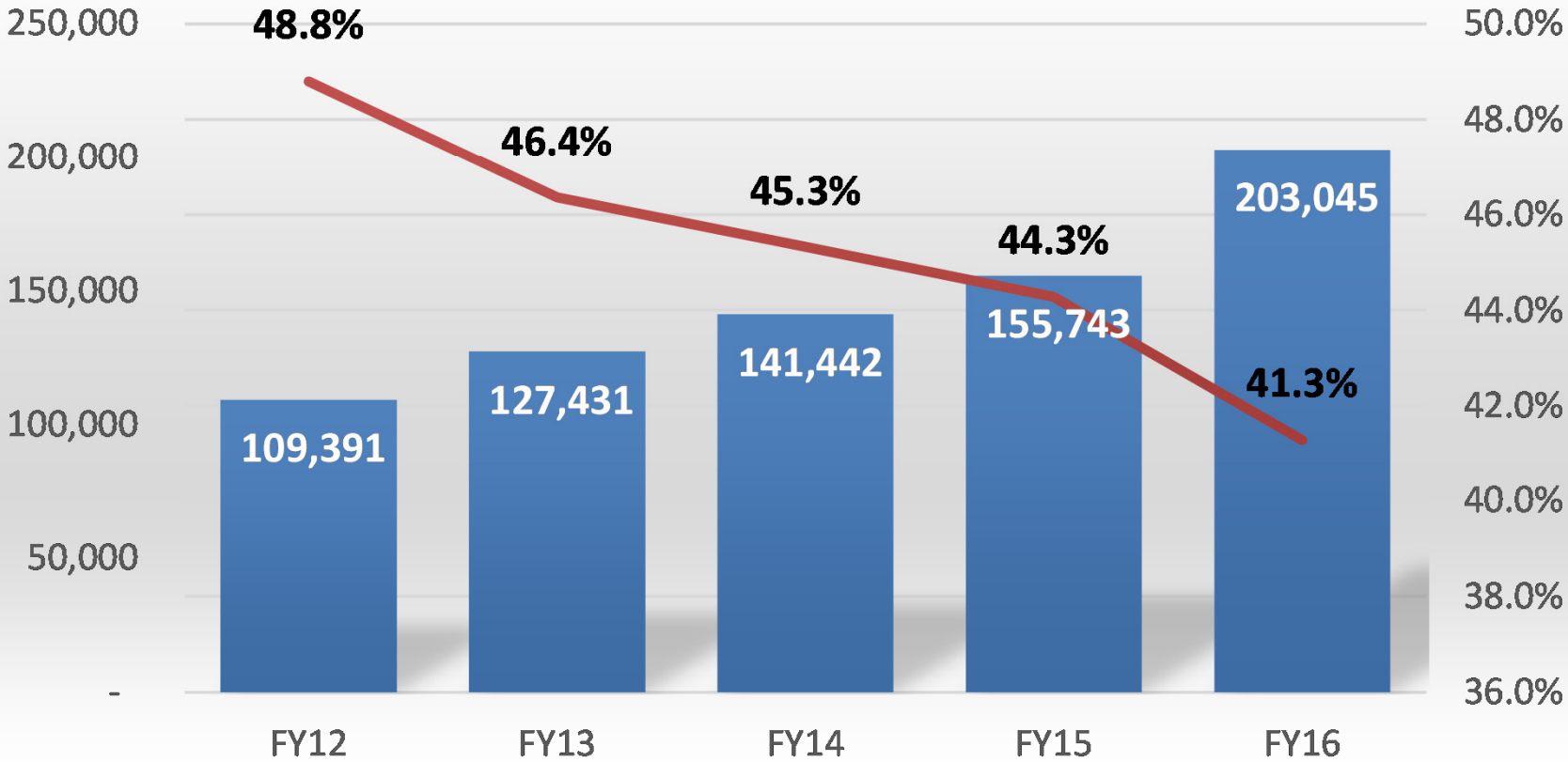
# Historic Performance





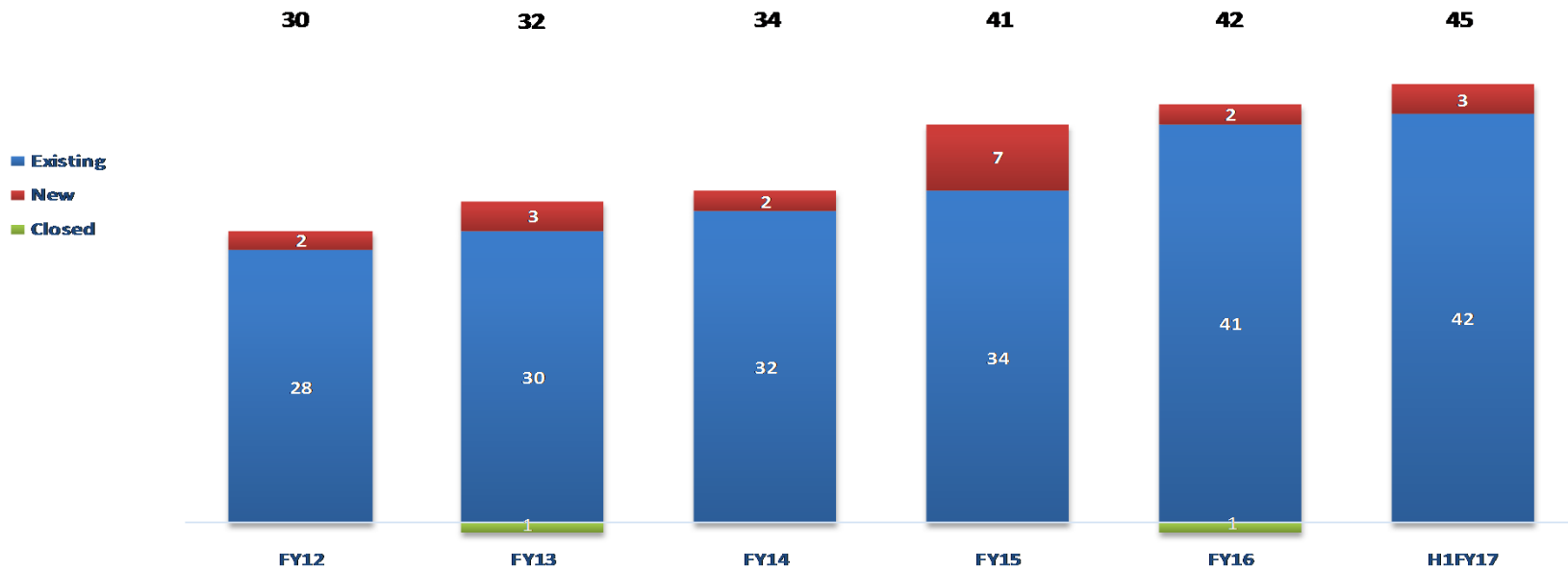
# Historic Performance

## CODB : Revenue



# Store Numbers

NSF Store Growth



<b>Existing</b>	28	30	32	34	41	42
<b>New</b>	2	3	2	7	2	3
<b>Closed</b>		1			1	
<b>Total</b>	<b>30</b>	<b>32</b>	<b>34</b>	<b>41</b>	<b>42</b>	<b>45</b>

Note: Excludes Sofas2Go stores

## New Store Forecast

- Store Network Long Term (Australia & New Zealand) - 75 stores
- FY17 – 5 stores will open (3 opened in 1<sup>st</sup> 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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