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# Nick Scali Limited | NCK.ASX

## FY17 Results Presentation

10<sup>th</sup> August 2017

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# Key Highlights

## Sales

- Sales increased 14.7% to \$232.9m (FY16: \$203.0m)
- Like for like sales growth of 10%
- Increase assisted by full year of sales from 2 stores opened in FY16 and 4 stores opened in FY17

## Profit

- Margin increased by 170 bps to 62.5%

## Profit

- NPAT increased 42.4% to \$37.2m (FY16: \$26.2m)

## Expenses

- Operating expenses decreased to 38.9% of sales (FY16: 41.3%)

## Dividend

- Final ordinary dividend of 20.0 cps (FY16: 14.0 cps)
- Total ordinary dividend for the year of 34.0 cps (FY16: 23.0 cps)
- Full year payout ratio (for ordinary dividend) of 74% (FY16: 71%)

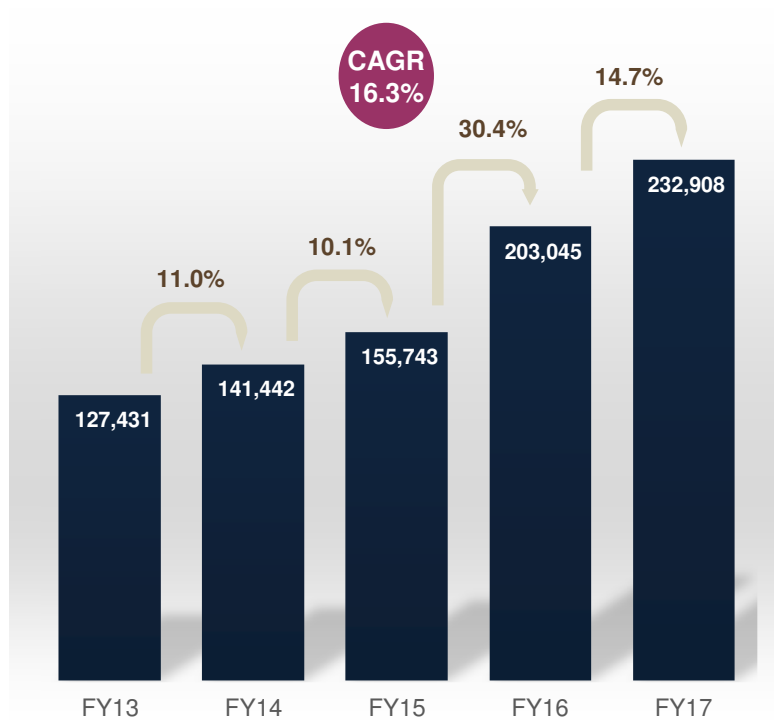
## New Stores

- Four new stores opened during the year in Geelong (VIC), Hobart (TAS), Preston (VIC) and Jandakot (WA)
- The first New Zealand store trading under a newly incorporated subsidiary, Nick Scali (New Zealand) Limited, is expected to open in Auckland in December 2017

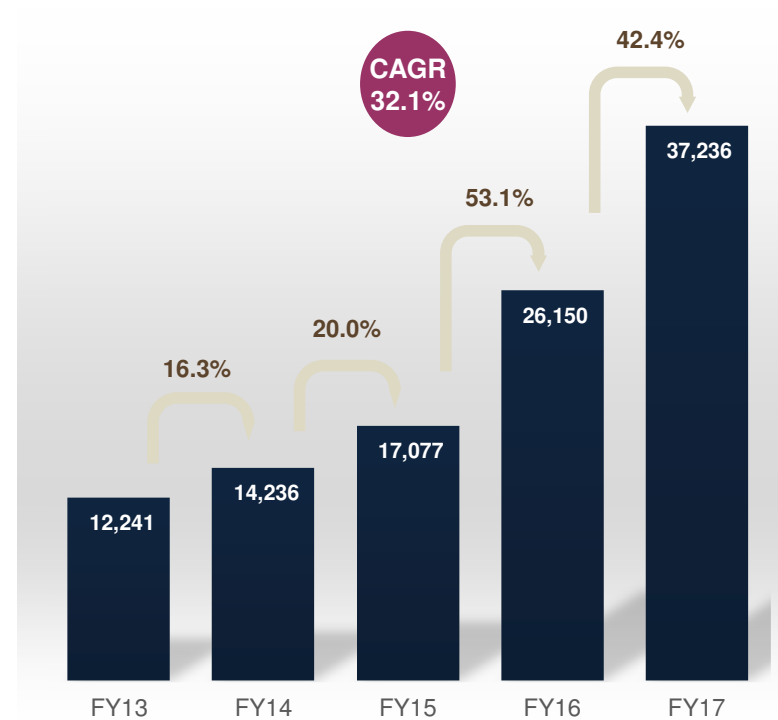
# Sales and NPAT growth

Sales up 14.7% from comp store growth of +10%, with NPAT benefiting from scale

Revenue (A\$000)



NPAT (A\$000)

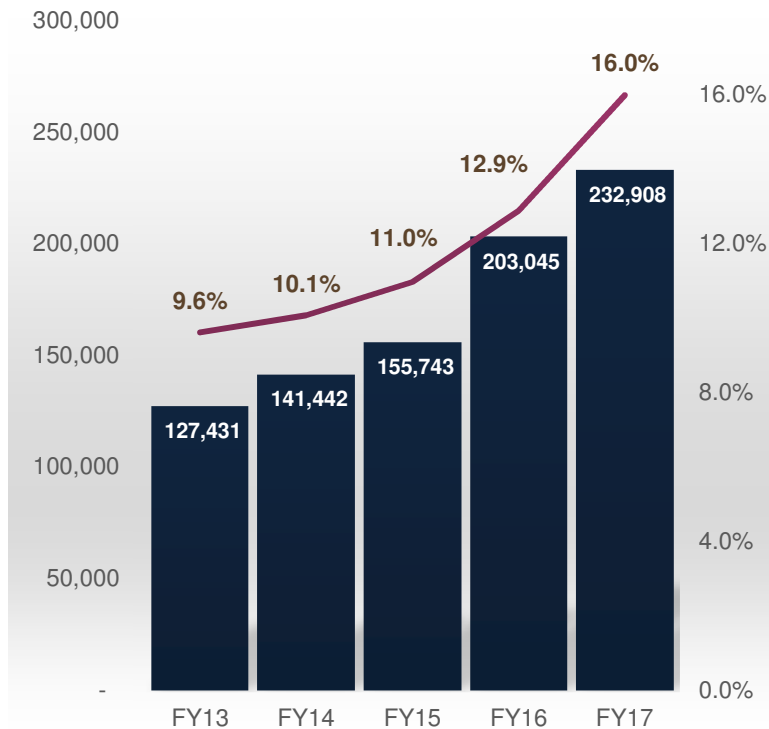


Note : Underlying NPAT has been used in FY13 by adjusting for the once off net gain on the surrender of lease of \$5.4m (post tax \$3.8m)

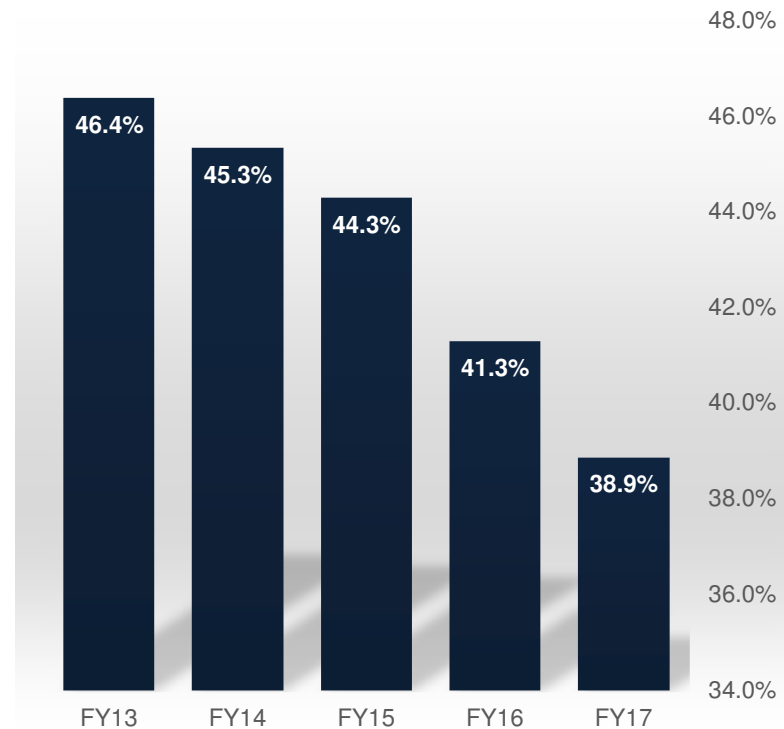
# Profit margin and cost of business

Profitability and cost of doing business continue to trend favourably

**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



+10% comp store growth supported by focus on product, price and successful marketing

## Profit and loss statement

Year Ended 30 June (\$m)	FY17	FY16	Change (%)
<b>Sales Revenue</b>	<b>232.9</b>	<b>203.0</b>	<b>+ 14.7%</b>
Cost of sales	(87.3)	(79.7)	
<b>Gross Profit</b>	<b>145.6</b>	<b>123.4</b>	<b>+ 18.0%</b>
Other income	1.6	1.4	
Operating expenses	(90.5)	(83.8)	+ 8.0%
<b>EBITDA</b>	<b>55.7</b>	<b>40.2</b>	<b>+ 38.7%</b>
Depreciation	(2.8)	(3.1)	
<b>EBIT</b>	<b>52.9</b>	<b>37.1</b>	<b>+ 42.7%</b>
Net interest income	0.3	0.4	
<b>Profit before tax</b>	<b>53.2</b>	<b>37.5</b>	<b>+ 42.0%</b>
Taxation	(16.0)	(11.3)	
<b>Net profit after tax</b>	<b>37.2</b>	<b>26.2</b>	<b>+ 42.4%</b>
<b>Key metrics</b>			
Gross margin	62.5%	60.8%	
Operating expenses to sales	38.9%	41.3%	
EBITDA margin	23.9%	19.8%	
Effective tax rate	30.0%	30.0%	
<b>Earnings per share</b>	<b>46.0 cents</b>	<b>32.3 cents</b>	<b>+ 42.4%</b>
<b>Dividends per share</b>	<b>34.0 cents</b>	<b>23.0 cents*</b>	<b>+ 47.8%</b>

\* Excl 3.0 cps special dividend

## Summary

- Sales up 14.7% from comp store growth of +10.0%
  - 2 stores opened during FY16 and now trading for the full year
  - Some contribution from 4 new stores opened in FY17
  - Sales orders for the year up 16.8% and 11.9% on a comp store basis
  - Supported by an increased investment in marketing
- EBITDA of \$55.7m up 38.7% for the year
- NPAT of \$37.2m up 42.4% for the year
- Gross margin increased to 62.5% (FY16: 60.8%) as a result of volume growth in specific product categories
- Operating expenses decreased as a percentage to sales to 38.9% (FY16: 41.3%) due to continued tight cost control and ability to derive revenue growth off existing infrastructure

# Balance Sheet



Significant fixed asset base and efficient inventory management

## Balance sheet statement

As at 30 June (\$m)	FY17	FY16
Cash and term deposits	39.9	37.0
Receivables	0.2	0.2
Inventories	29.0	25.8
Fixed assets	66.8	55.5
Intangibles	2.4	2.4
Other	0.7	0.5
<b>Total Assets</b>	<b>139.1</b>	<b>121.5</b>
Payables	42.8	37.3
Current tax liabilities	1.1	1.8
Provisions	3.7	3.5
Borrowings	21.2	21.2
<b>Total liabilities</b>	<b>68.7</b>	<b>63.7</b>
<b>Net Assets</b>	<b>70.4</b>	<b>57.8</b>
<b>Net cash (cash less borrowings)</b>	<b>18.8</b>	<b>15.9</b>

## Summary

- Strong cash position maintained
- Total inventory of \$29.0m
  - \$10.0m display stock in showrooms
  - \$14.9m warehouse stock
  - \$4.1m goods in transit
- Efficient management and increased inventory turnover
  - Resulted in \$3.2m increase in inventory as compared to sales growth of 14.7%
- Payables have increased due to a higher balance of customer deposits derived from growth in sales order bank
- Fixed assets up \$11.3m
  - Property purchased in Manly Vale (NSW) in February 2017
  - Building works at owned property in Nunawading (Vic) that was completed during the period
- Borrowings of \$21.2m remain unchanged in relation to partial debt funding of property purchases (NBV is ~\$55m included in Fixed Assets)

# Cash Flow



Strong operating cash flow supporting capex (+34.0% yoy) and dividends (+81.8% yoy)

## Cash flow statement

Year Ended 30 June (\$m)	FY17	FY16
Receipts from customers	256.2	223.4
Payments to suppliers/employees	(197.6)	(181.1)
Interest received	0.9	0.8
Income tax paid	(16.6)	(11.1)
<b>Operating Cash Flow</b>	<b>42.9</b>	<b>32.0</b>
Capital expenditure	(14.3)	(23.6)
<b>Investing Cash Flow</b>	<b>(14.3)</b>	<b>(23.6)</b>
Dividends	(25.1)	(13.8)
Borrowings	-	9.1
Interest Paid	(0.6)	(0.4)
<b>Financing Cash Flow</b>	<b>(25.7)</b>	<b>(5.1)</b>
<b>Net Cash Flow</b>	<b>2.9</b>	<b>3.4</b>

## Summary

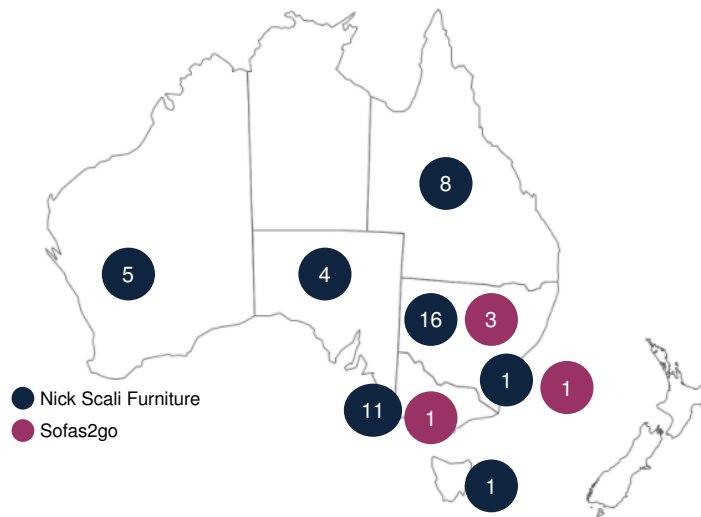
- Operating cash flow increased \$10.9m yoy
  - Result of sales increase in FY17
  - Relative cost savings
  - Working capital efficiencies
- Capital expenditure of \$14.3m included:
  - Property purchased in Manly Vale (NSW) in February 2017
  - Building works at owned property in Nunawading (Vic) that was completed during the period
- Dividends paid during FY17 include
  - FY16 final dividend of 14.0 cps and special dividend of 3.0 cps paid in October 2016 (FY15: 8.0 cps)
  - FY17 interim dividend of 14.0 cps paid in March 2017 (FY16: 9.0 cps)

# Store network



Consistent growth in the store network including commencement of NZ strategy in FY18

## Store network



Store Numbers as at 30 June 2017

State	Nick Scali	Sofas2go	Total
NSW	16	3	19
VIC	11	1	12
QLD	8	-	8
SA	4	-	4
ACT	1	1	2
WA	5	-	5
TAS	1	-	1
<b>Total</b>	<b>46</b>	<b>5</b>	<b>51</b>

## Nick Scali Furniture

- 4 new Nick Scali Furniture stores in Geelong (VIC), Hobart (TAS), Jandakot (WA) and Preston (VIC)
- 46 stores trading at 2017 fiscal year end
- Target 8-10 new stores in FY18
- First New Zealand store to open in December 2017
- Store Network Long Term (Australia & New Zealand) is 75 stores

## Sofas2Go

- Store network includes a total of 5 stores as at 30 June 2017





# Digital Foundation

Coordinating the relationship between the online and offline customer journey for a seamless brand experience



These foundations will include these pillars:

- An Enhanced Online Experience (Website)
- In-showroom Digital Experience (Interactive Screens)
- Intelligent Marketing Systems to increase Customer Engagement (EDMs)
- An Integrated Sales Experience (tablet-based ordering system integrated online)

- ✓ **Furniture market directly influenced by consumer confidence, interest rates, unemployment levels and the volume of home renovations and housing sales**
  - **Same store sales order growth continued in Q4 FY17 at +10% with June being particularly strong**
  - **Total sales orders in July were flat in comparison to the previous year**
  - **Given the expected slowdown in housing sales, same store sales order growth will be challenging in FY18**
- ✓ **Directors currently expect sales and profit growth to continue in the long term as the Company expands its store network**
  - **Significant new store rollout for FY18 will benefit earnings in FY19**
- ✓ **Strong balance sheet, supported by a healthy net cash position enabling the Company to continue its growth strategy**

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**Thank you**



# Important notice and disclaimer



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This document should be read in conjunction with the FY17 Results Announcement and FY17 Appendix 4E.