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Managing Director's Address

The following is a transcript of the address to shareholders by the Managing Director of Nick Scali Limited, Mr Anthony Scali

Thank you John, and good afternoon ladies and gentleman.

FY20 year has been a difficult and extraordinary year with a number of enormous challenges faced by the business. During the first half we had seen consumer spending on furniture fall as housing sales volumes declined. In January we endured bushfires, followed by the closure of factories across Asia, and by the end of March we made the decision to close all of our stores as COVID19 spread across Australia.

Despite delivered sales declining slightly due to the continuous disruptions to our operations, we were able to deliver flat profit growth for the year. When we reopened our stores towards the end of April, sales orders grew materially when compared to the previous year.

As outlined in the Company's full year results announcement on 6 August, store trading in the two months following the temporary store closures was very strong, with written sales orders up 70% for May and June. This led to a record order book by the end of June 2020. Given our average lead time on sales orders is 8-11 weeks, the uplift in sales orders seen in the 4th quarter of FY20 only translates to revenue growth and profit in the first quarter of FY21.

During the year the Company opened a third store in New Zealand, bringing the total store network to 58 stores. In New Zealand, Nick Scali has traded very well since inception and management will continue to expand the store network in both Australia and New Zealand.

We continue to build on our long-term strategy of owning more of our own retail stores, and in May, the Company purchased another retail property in Adelaide which is currently being renovated and is expected to open in the second half of FY21. This property will become our flagship store in South Australia and will replace our Mile End store currently in a large format retail centre. We will continue to increase the number of retail stores we own and occupy in identified growth areas as opportunities arise.

In April we launched our online / omni channel capability which continues to grow and will make a significant contribution to profit growth in FY21. I have been extremely pleased with the amount of customer activity we have seen online, as well as the size of the purchases customers are willing to make, with an average order value in excess of $1,800 since inception, signalling the strength of our product offering and the trust consumers have when engaging with us. Case good product sales such as coffee tables, dining tables, bedroom furniture, represent our higher margin products and to date, comprise approximately 80% of total sales, being the product categories that are more suitable for online transactions. This provides us considerable opportunities for further product category expansion as the platform develops.

Our industry leading transaction size and gross margin combined with existing logistical infrastructure across Australia & New Zealand enables the online business to be extremely profitable from the outset and position our e-commerce offering positively relative to the competition over the long-term. We are excited about the growth prospects for our digital offering and will continue to look at ways to enhance our product categories and customer experience.

Further to our trading update announced yesterday 26 October, for the first quarter of FY21, written sales orders continue to be materially up on the previous year despite the closure of our stores since August in Melbourne, and for four weeks during August in Auckland.

Total sales orders for the first three months of FY21 have been up 45% on the previous year, and this trend has continued through October. When excluding those stores closed in Melbourne and Auckland as a result of COVID trading restrictions, comparable store sales orders grew by 59% in the first quarter. It has become clear, given our comparable store sales growth, Nick Scali has achieved considerable market share gains across all categories since COVID. We believe this is a result of the growing strength of the brand and the increased perception of value by customers as we provided more transparency of product pricing through our digital channels.

Further, online orders have increased by 47% for the first quarter of FY21 compared to the last quarter of FY20, and the Company now expects the EBIT contribution from online in FY21 to be materially higher than the $4m previously announced in August 2020.

The continued elevated level of sales orders has led to a revision of the Net Profit after Tax ("NPAT") forecast for the first half of FY21. We had previously provided guidance in August that NPAT for the first half would be 50-60% more than the previous year. However, even allowing for delays in our supply chain caused by the current reduction of inbound shipping and the reduced availability of containers, we now anticipate that first half NPAT for FY21 will be 70-80% more than FY20. Any delays in delivering orders as a result of supply chain disruptions will flow into the second half of FY21 as revenue.

With the reopening of Melbourne and given the continued strong sales order activity in Australia & New Zealand, we are confident our profit growth for the third quarter and 2H FY21 will be in line with the first half of FY21.

The last nine months have seen the Company navigate an exceptionally turbulent environment, and I would like to take this opportunity to thank all my colleagues for their hard work and loyalty to the company. I would also like to thank my fellow directors for their invaluable guidance and support.