

nickscali

4 FEBRUARY 2021

Nick Scali Limited (NCK.ASX)

HY21 Results Presentation





Results Overview

Key performance metrics for the half-year ended 31 December 2020 presented below

1H FY21 Highlights

<ul style="list-style-type: none"> Written sales orders and revenue at record levels, with 58% growth in like-for-like sales orders and 24% sales revenue growth 	<ul style="list-style-type: none"> Sales orders: \$191.1m (PY: \$126.1m) Revenue: \$171.1m (PY: \$137.5m)
<ul style="list-style-type: none"> Gross profit margin improved by 180 basis points due to reduced SKU discounting 	<ul style="list-style-type: none"> Margin: 64.0% (PY: 62.2%)
<ul style="list-style-type: none"> Operating leverage saw sales growth lift net profit after tax by over 100% 	<ul style="list-style-type: none"> Underlying NPAT¹: \$40.5m (PY: \$20.3m)
<ul style="list-style-type: none"> Increase in profitability led to improved cashflows due to the negative working capital model 	<ul style="list-style-type: none"> Operating cashflow: \$53.5m (PY: \$16.6m) Net cashflow: \$24.6m (PY: \$7.4m)
<ul style="list-style-type: none"> \$32.4m to be paid to shareholders through 40.0 cent interim dividend on 30 March 2021 	<ul style="list-style-type: none"> Interim dividend: 40.0 cents (PY: 25.0 cents)
<ul style="list-style-type: none"> Two new stores successfully opened during bringing the Nick Scali Furniture store network to 60 	

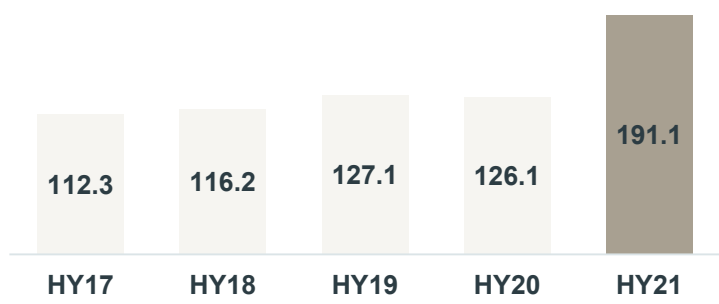
¹Underlying net profit after tax excludes the impact of accounting for leases under AASB 16 and one-off transactions such as the sale of properties and non-recurring corporate projects. The reported results for HY21 are shown in Appendix 1, along with a reconciliation to the underlying results



Trading & Sales Orders

Positive trading momentum continued in the half across Australia & New Zealand

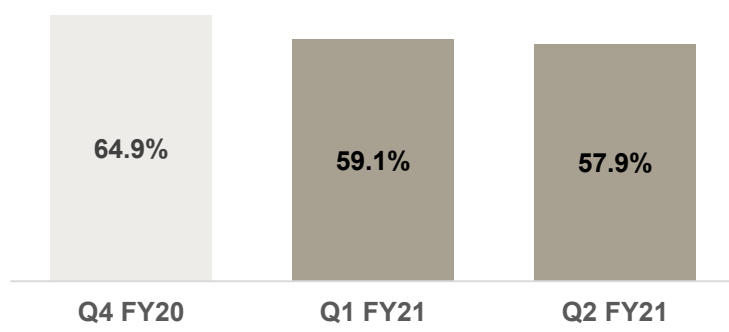
Written Sales Orders \$'m



Trading Commentary

- Sales momentum maintained throughout first half of financial year, with comparable store sales orders up 58% on H1 FY20
- Total written sales orders up 52% to \$191.1m
- Exceptional growth rates repeated across all geographies and categories
- Total sales orders for New Zealand up 85% on H1 FY20
- Online represents 9% of total written sales orders in non-lounge categories & 4.5% of total written sales orders across all categories

Comparable Sales Order Growth¹



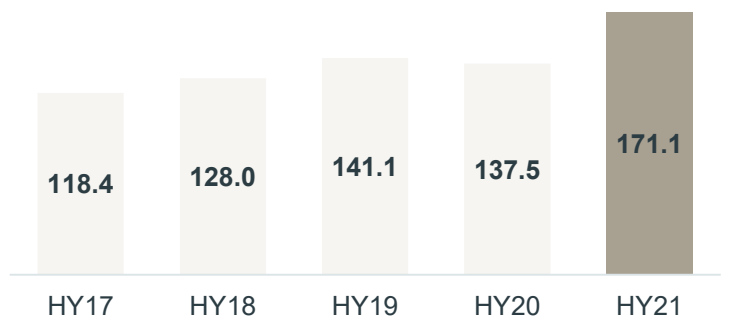
¹Adjusted for COVID-19 related closures



Sales Revenue

Total sales revenue up 24% to \$171.1m, supported by an order bank which reached an all time record high at 31 December 2020

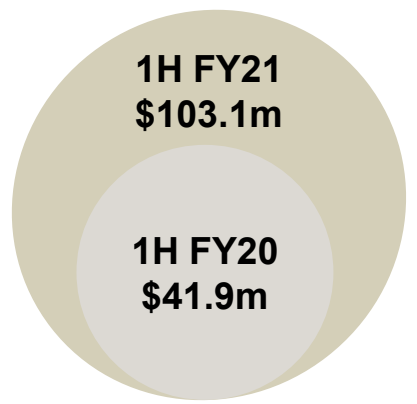
Sales Revenue \$m



Sales Commentary

- Total sales revenue up 24% to \$171.1m
- Order bank up 146% on 1H FY20. Outstanding order bank expected to convert to sales revenue in 2H FY21
 - Order bank aged days was 92 days as at 31 December 2020, up from 63 days as at 31 December 2019, primarily driven by supply chain and shipping delays.

Order Bank \$'m





Profit & Loss

1H FY21 Underlying EBITDA of \$60.2m, up 94% on 1H FY20

	1H FY21	1H FY20	Change
Sales revenue	171.1	137.5	+ 33.6
Cost of sales	(61.6)	(51.9)	- 9.7
Gross profit	109.5	85.6	+ 23.9
Other income	0.6	0.7	- 0.1
Operating expenses	(49.9)	(55.3)	+ 5.4
EBITDA	60.2	31.0	+ 29.2
Depreciation	(2.5)	(2.2)	- 0.3
EBIT	57.7	28.8	+ 28.9
Net interest expense	(0.1)	(0.1)	-
Profit before tax	57.6	28.7	+ 28.9
Taxation	(17.1)	(8.4)	- 8.7
Underlying net profit after tax¹	40.5	20.3	+ 20.2

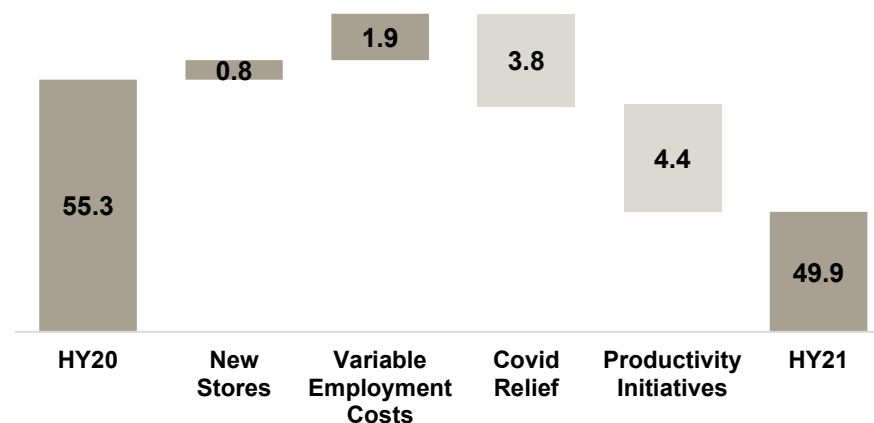
Gross profit margin	64.0%	62.2%
Operating expense %	29.2%	40.2%
EBITDA margin	35.2%	22.5%

Gross Margin

- Improvement in the groups gross margin resulting from reduced SKU discounting

Operating Expenses

- Opex reduced through wage subsidies, marketing expenses and headcount rationalisation further supported by a reduction in general administrative expenditure



¹Underlying net profit after tax excludes the impact of accounting for leases under AASB 16 and one-off transactions such as the sale of properties and non-recurring corporate projects. The reported results for HY21 are shown in Appendix 1, along with a reconciliation to the underlying results



Cashflow

Strong cashflow generation with 1H FY21 operating cashflow of \$53.5m, up 222% on 1H FY20

	H1 21	H1 20	Change
Underlying EBITDA¹	60.2	31.0	+ 29.2
Increase in working capital	8.3	(4.1)	+ 12.4
Tax payments	(15.0)	(9.9)	- 5.1
Non-cash items	0.1	-	+ 0.1
LTI share rights	(0.1)	(0.4)	+ 0.3
Operating cashflow² (including lease payments)	53.5	16.6	+ 36.9
Acquisition of property	(6.6)	-	- 6.6
Disposal of property	-	9.8	- 9.8
Other capex	(3.8)	(2.4)	- 1.4
Dividends	(18.2)	(16.2)	- 2.0
Interest payments	(0.3)	(0.4)	+ 0.1
Net cashflow	24.6	7.4	+17.2

Cashflow commentary

- Threefold increase in operating cashflow, due to increase in EBITDA, negative working capital model and phasing of tax payments
- Retail property purchased in Keswick SA for \$6.6m - new Adelaide flagship showroom (due to open February 2021)
- Other capex items focused on new store fit-outs (Castle Hill relocation, Bennetts Green & Wairau Park fit-out), minor store refurbishments (8 showrooms) and DC equipment
— Includes investment in Nick Scali's online and digital offering
- \$0.225 dividend paid in October 2020
- Net increase in cash of \$24.6m

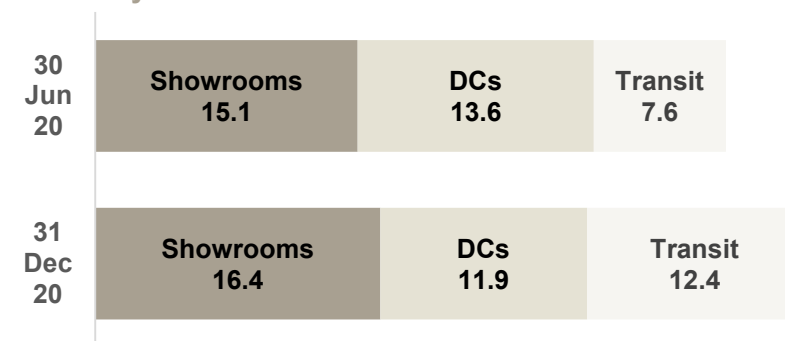


Balance Sheet

Net assets of \$110.3m at 31 December 2020, prior to adjusting for AASB16

	31 Dec 2020	30 Jun 2020	Change
Assets			
Cash	87.6	63.0	+ 24.6
Inventory- In Transit	12.4	7.6	+ 4.8
Inventory- On Hand	28.3	28.7	- 0.4
Property	80.6	74.5	+ 6.1
Plant & Equipment	15.8	15.2	+ 0.6
Other assets	14.0	14.1	- 0.1
Liabilities			
Borrowings	33.7	33.7	-
Payables	17.2	18.0	- 0.8
Deferred revenue	50.0	40.2	+ 9.8
Provisions	4.8	4.7	+ 0.1
Tax & other financial liabilities	13.2	11.6	+ 1.6
Net assets (excl. AASB16)	119.8	94.9	+ 24.9
Net lease assets/liabilities	(21.7)	(19.5)	- 2.2
Reported net assets	98.2	75.4	+ 22.8

Inventory



Fixed Assets

- Fixed assets includes \$80.6m of owned and occupied retail properties recorded at historical cost, including new store in Keswick (SA) purchased for \$6.6m in August 2020

Borrowings

- Company borrowings all relate to property acquisitions and funded on a non-recourse basis solely against the property asset, at conservative loan-to-value ratios

Deferred revenue

- In line with growth of the order bank, deferred revenue (representing deposits paid by customers) has increased by over 20% since 30 June



Property

Property portfolio of 37,000sqm which is expected to be further enhanced via expansion and redevelopment opportunities

Location	State/Territory	Date acquired	Site area (sqm)	NLA (sqm)
Auburn	NSW	December 2017	4,763	5,469
Auburn	NSW	February 2020	1,490	788
Alexandria	NSW	July 2010	1,680	1,680
Caringbah	NSW	July 2014	3,396	2,633
Fyshwick	ACT	November 2012	7,070	4,120*
Nunawading	VIC	September 2014	3,163	2,667
Macgregor	QLD	October 2015	9,701	4,839
Keswick	SA	July 2020	3,582	2,573
Joondalup	WA	March 2015	2,198	2,198
Total			37,043	26,284

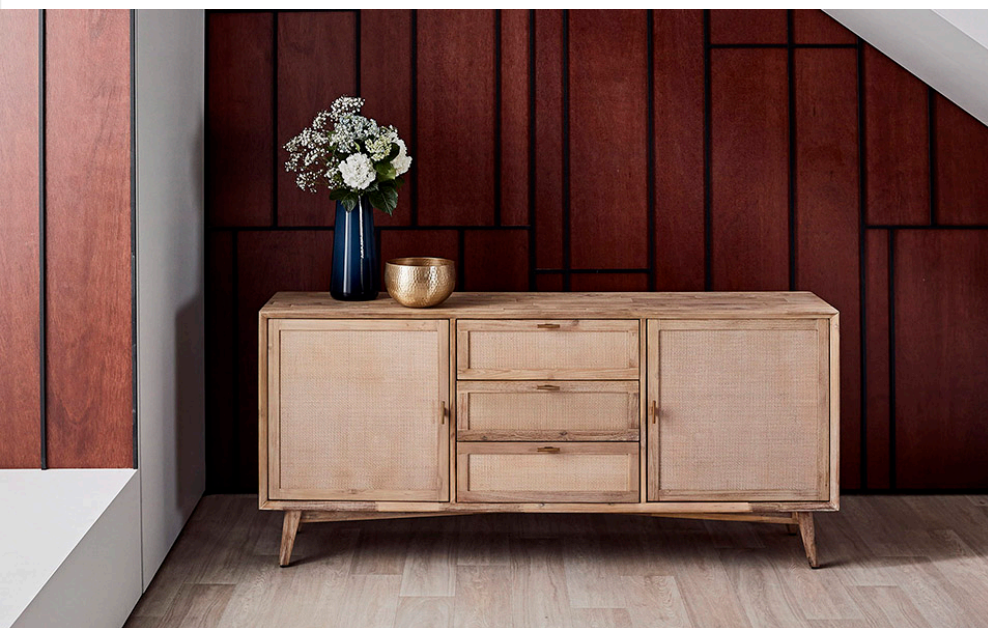
Commentary

- 37,000sqm of land held by the group, predominately adjacent to main arterial corridors
- Property held on balance sheet at initial acquisition cost despite
- Development of Fyshwick property expected to commence in H2 FY21
 - Currently in project tender phase
 - Development approval for expansion of Nick Scali showroom and adjoining tenant/s
- The Company sees scope to further increase the number freehold properties held and enhance the existing portfolio through redevelopment



Online & Digital Offering

Continued growth in the Company's online offering with \$8.8m of written sales orders in 1H FY21



Online Commentary

- Online sales orders of \$8.8m for 1H FY21
 - Casegoods continue to represent majority of sales orders
 - Average transaction value of \$1,900+
 - Attractive online gross margin of 66% driven by a shift in the product mix and realisation of efficiencies from the centralised distribution model
- EBIT contribution in excess of \$3.5m for 1H FY21¹, materially ahead of previous guidance of \$4m for the full year
- Launch of refreshed Nick Scali transactional online offering to occur in 2H FY21
 - Additional categories to launch online only
 - Online lounge configuration module to launch in September 2021

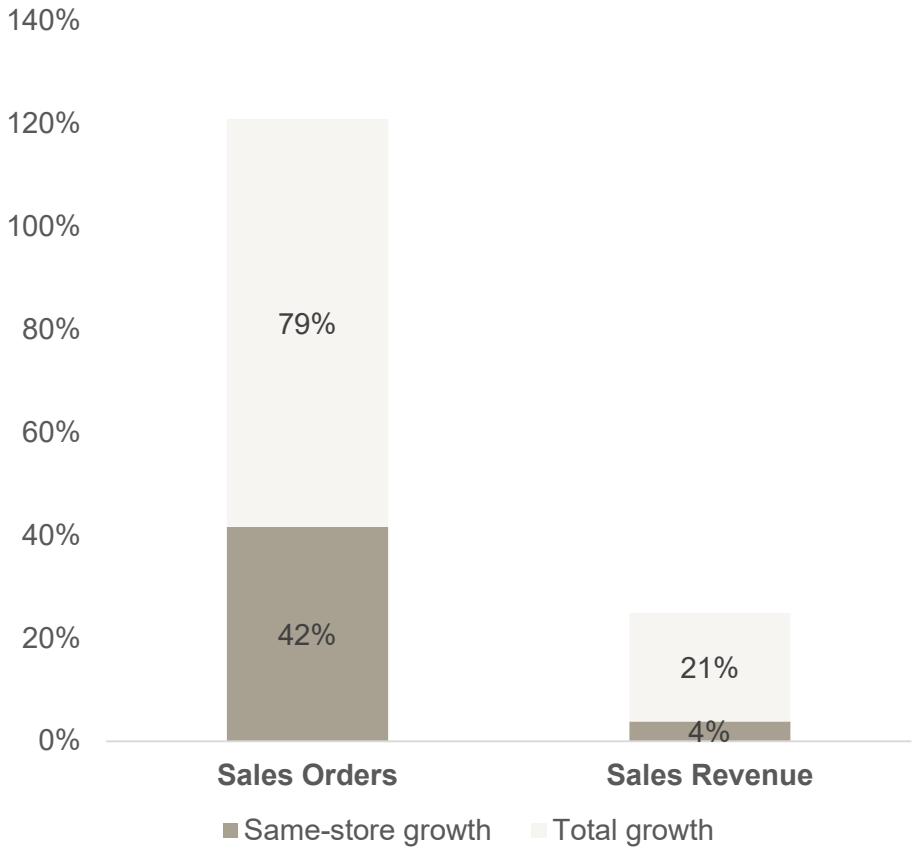
¹EBIT contribution defined as gross profit less attributable employment, marketing and general administrative expenditure



New Zealand Summary

Strong performance in New Zealand supported by the opening of a flagship showroom in Wairau Park during the half

NZ Sales Order & Sales Revenue Growth (1H FY20 vs 1H FY21)



New Zealand Commentary

- One additional store opened in Wairau Park, New Zealand during the half, taking the total store network in New Zealand to 4 stores
 - Average transaction value of \$3,000+ for our New Zealand showrooms vs \$2,500 in Australia
- New Zealand total written sales orders up 79% against the same comparable period
 - Same store sales order growth increased 42% in the 6 months to December 31 2021¹
- Sales revenue increased 21% despite the impact on deliveries resulting from the various government lockdowns experienced during the first half
 - Same store sales revenue growth impacted by government imposed lockdowns in May 2020 which translated to revenue in 1H FY21
- Total store network opportunity of up to 14 stores identified across the North and South Island, supported by Nick Scali’s centralised distribution model
- Scale benefits will be begin to be realised in 2H FY21 as sales orders convert to delivered sales at Wairau Park and contribute positively to EBIT for the Group
- January written sales orders up 130%+ when compared to January 2020




¹Adjusted for COVID19 related closures





Future Growth

Nick Scali has several levers to drive sustained revenue and earnings growth

Organic growth initiatives

-  **1** Launch adjacent categories
 - Utilise Nick Scali’s direct to consumer model to expand into adjacent product categories and increase overall value proposition customers
 - Leverage successful expansion into bedroom to drive additional category expansion
-  **2** Expand the store network
 - Expand the store network across Australia & New Zealand, targeting at least 85 showrooms across both markets
-  **3** Invest to grow the digital offering
 - Development of Nick Scali’s digital channels to compliment the existing in-store offering
 - Connect our in-store and online experiences, allowing consumers to shop via the channel of their choice

Capital led growth initiatives

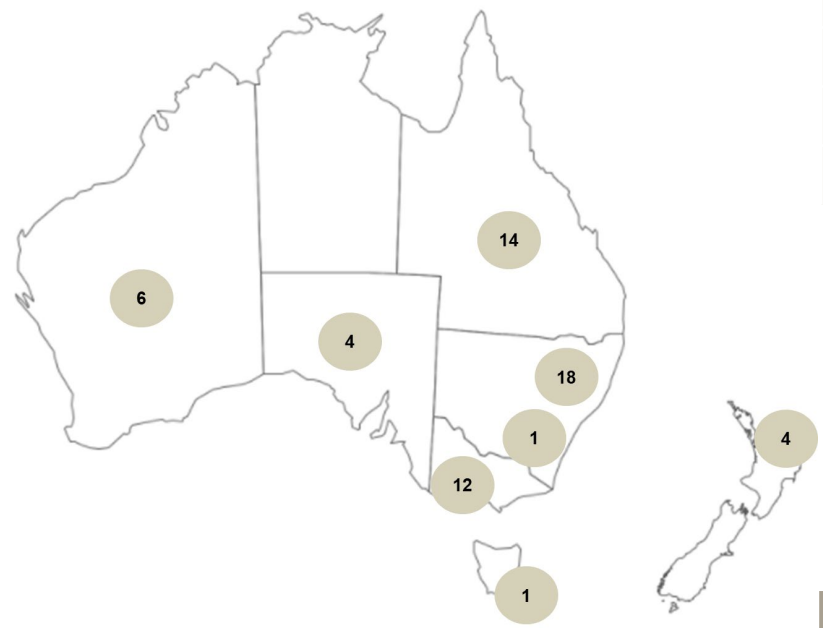
-  **4** Growth via acquisition
 - Disciplined growth via acquisition, focused on businesses where Nick Scali can add considerable value
-  **5** Increase the property portfolio
 - Improve the mix of company owned vs leased properties, particularly in key growth corridors
 - Continued expansion of already existing company owned property to build the asset base and reduce fixed costs for the Company



Store Network

Growth in the store network with further opportunities to grow targeting at least 85 showrooms across Australia and New Zealand

Store network at 31 December 2020



	Jun 20	Opened	Closed	Dec 20
Nick Scali				
Australia	55	1	-	56
New Zealand	3	1	-	4
Total	58	2	-	60

Two new NSF stores opened in HY21

- Bennetts Green (NSW)
- Wairau Park (New Zealand)

One NSF store relocated in Castle Hill (NSW)

Estimated future showroom growth (by region)

	NSW	VIC	QLD	WA	SA	TAS	NZ	Total
Showrooms	+ 4	+ 5	+ 3	+ 2	+ 1	+ 1	+ 9	+ 25

Outlook

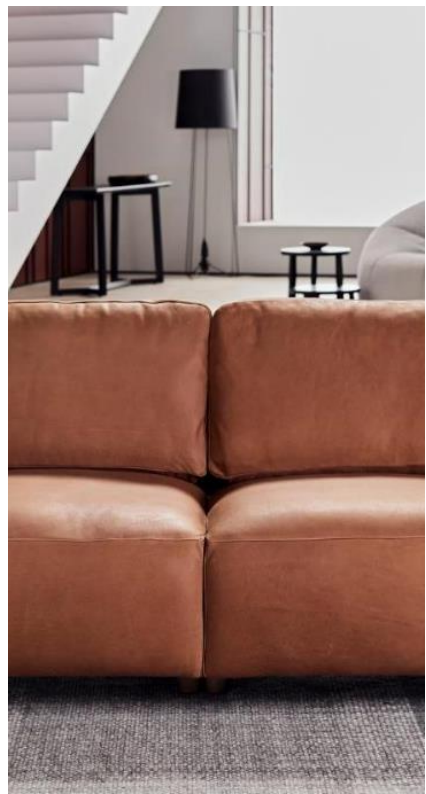
Continued trading momentum during January 2021 expected to contribute to further sales revenue growth in 2H FY21

Store Network

- The company expects to open two showrooms in the second half of the financial year, taking new store openings for FY21 to 4 stores

Trading and Profitability

- Sales order growth for the Group in January 2021 was up 47% compared to the same period last year, representing the largest month of written sales orders in the Company's history. January is traditionally the Company's largest trading month and the sales order bank at the end of January was at an all time high (further increase on December 2020).
 - New Zealand performed particularly well in January with total sales orders up 130% when compared to the prior period.
- The rate of sales revenue growth has been lower than sales orders due to the extended lead times caused by delays in raw materials to our suppliers and shipping issues which continue to be challenging. These supply chain delays make it difficult to accurately predict sales revenue growth for the second half





Important notice and Disclaimer

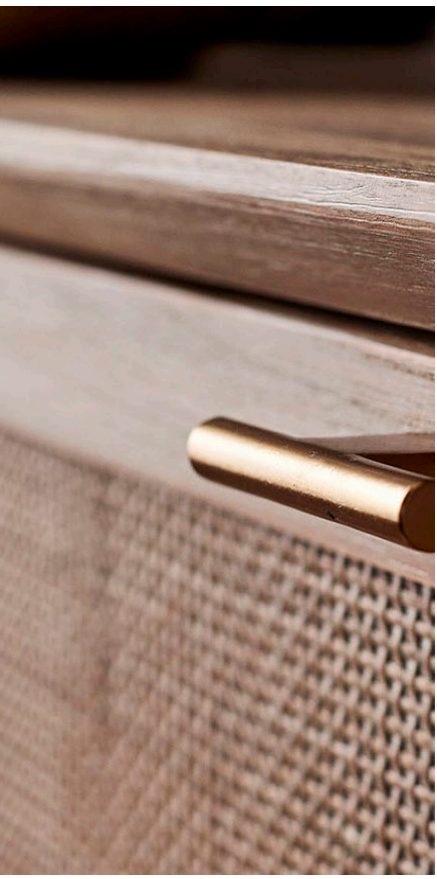
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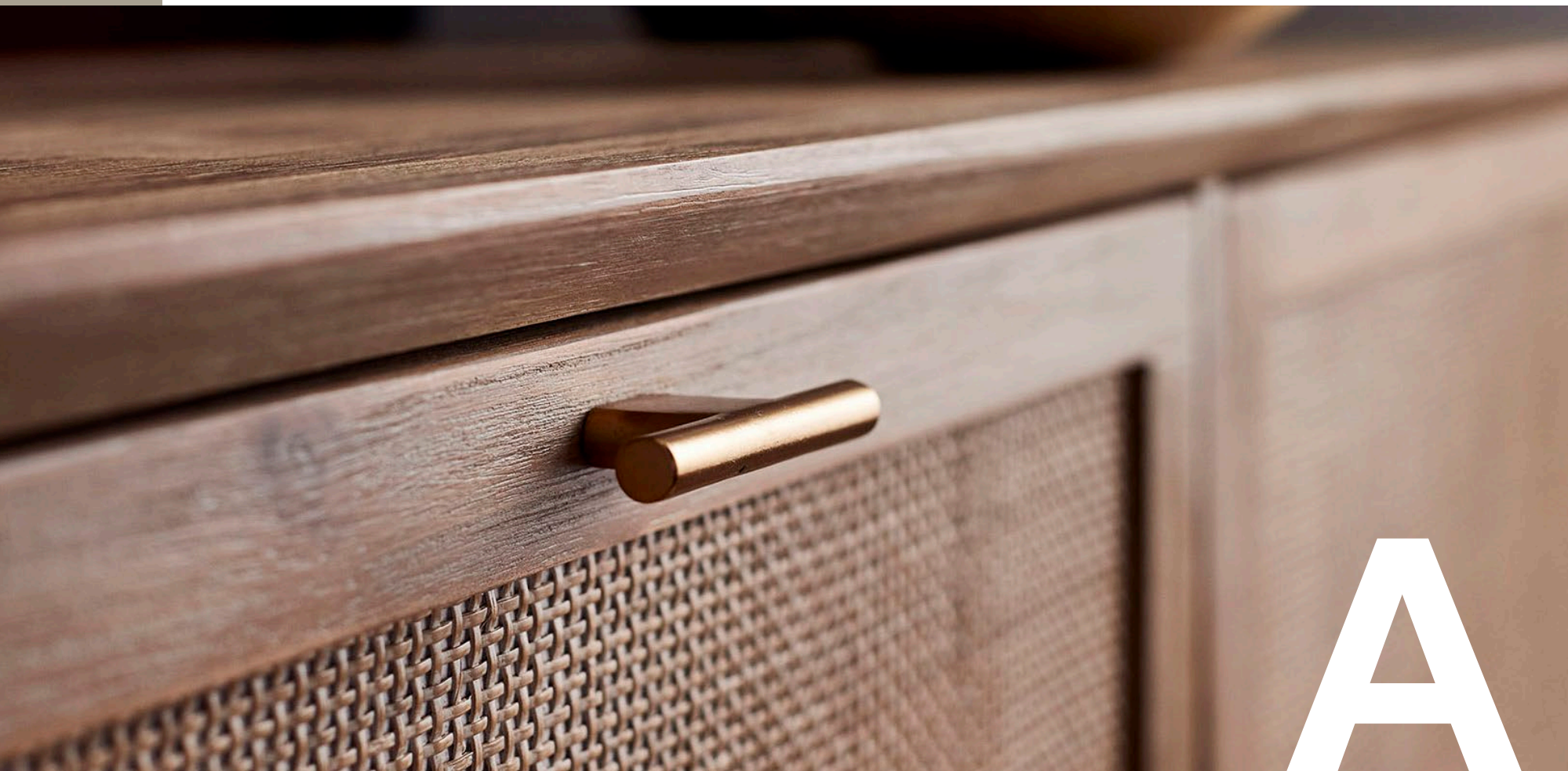
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This document should be read in conjunction with the HY21 Results Announcement and HY21 Appendix 4D.





A

APPENDIX
Supplementary Information

Appendix A

Underlying P&L Reconciliation



Reconciliation of reported to underlying results presented below

	HY21 Underlying	AASB16	HY21 Reported
Sales revenue	171.1	-	171.1
Cost of sales	(61.6)	-	(61.6)
Gross profit	109.5	-	109.5
Other income	0.6	-	0.6
Operating expenses	(49.9)	16.1	(33.8)
EBITDA	60.2	16.1	76.3
Depreciation	(2.5)	(13.0)	(15.5)
EBIT	57.7	3.1	60.8
Net interest expense	(0.1)	(2.9)	(3.0)
Profit before tax	57.6	0.2	57.8
Taxation	(17.1)	(0.1)	(17.2)
Net profit after tax	40.5	0.1	40.6

	HY20 Underlying	AASB16	One-offs	HY20 Reported
	137.5	-	-	137.5
	(51.9)	-	-	(51.9)
	85.6	-	-	85.6
	0.7	-	1.8	2.5
	(55.3)	15.5	-	(39.8)
	31.0	15.5	1.8	48.3
	(2.2)	(12.4)	-	(14.6)
	28.8	3.1	1.8	33.7
	(0.1)	(3.3)	-	(3.4)
	28.7	(0.2)	1.8	30.3
	(8.4)	-	(0.5)	(8.9)
	20.3	(0.2)	1.3	21.4

HY21 results shown in this presentation have been adjusted to exclude the impact of accounting for leases under AASB 16 and one-off transactions such as the sale of properties and non-recurring corporate projects. The reported results for HY21 are shown above, along with a reconciliation of the underlying results shown in this presentation