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Chairman's Address to Annual General Meeting

The following is a transcript of the address by the Chairman of Nick Scali Limited, Mr John Ingram, to the shareholders at today's 2021 Annual General Meeting

FY21 was an exceptional year for Nick Scali Limited.

The Company successfully navigated the operational challenges presented by the Covid pandemic to achieve a 100% increase in net profitability.

Net profit after tax for the year was \$84.2m, and EPS was 104 cents per share.

A fully franked final dividend of 25 cents per share was paid this morning, bringing the total dividend for the 2021 financial year to 65 cents per share, fully franked. This represents a dividend payout ratio for the full year of 63%, which the Directors believe appropriately balances the distribution of profit to shareholders and the reinvestment of earnings for future growth.

Due to our positive operating cash flow model and effective working capital management, the Company has maintained its strong financial position over the past 12 months, and after the payment of today's dividend has cash-on-hand of approximately \$100m.

Over the last 18 months, the Board has assessed various strategic opportunities to grow the business and, as announced earlier this month, the Company has recently entered an agreement to acquire Plush Think-Sofas – a specialist sofa retailer operating a network of 46 showrooms across Australia. The acquisition is expected to be completed in November and signals an exciting new chapter in the Company's growth, with the combination of the two businesses consolidating the Company's position as Australia's leading sofa retailer.

The Board recognises that our dedicated and experienced team is our most important asset and we continue to invest in the development of our people. I would like to take this opportunity to formally express our thanks to Mr Anthony Scali, our Managing Director, his management team and all employees of the Group, whose passion and commitment have been critical to the recent success of the business.

I would also like to express my thanks to my fellow Directors for their support and contribution to the success of the Company.

Finally, I would like to thank you, our shareholders, for your continued support. Whilst we are unable to meet personally with you today, I thank you for joining today's meeting and invite you to contact me directly if you have any comments or questions about the Company.

I will now invite Mr Scali to address the meeting to give us an overview of the operations of the Company and an update on current trading.

Managing Director's Address to Annual General Meeting

The following is a transcript of the address by the Managing Director of Nick Scali Limited, Mr Anthony Scali, to the shareholders at today's Annual General Meeting

Thank you, John and good afternoon, ladies and gentleman.

As John mentioned, FY21 was an exceptional year for Nick Scali with sales revenue growing by 42% as the Company took advantage of an environment where consumers reallocated discretionary spending toward items for the home, which resulted in unprecedented trading conditions across the whole store network.

Despite rising freight costs and widespread disruption to our supply chain, the Company increased its gross profit margin by 80 bps to 63.5% through reduced discounting and sales volume growth in higher margin product categories. Furthermore, the Company maintained its cost of doing business at the same level as FY20, leveraging its distribution network to deliver the materially elevated sales revenue without increasing underlying operating expenses.

As John mentioned, net profit after tax for the year was \$84.2m, up 100% on FY20.

Increasing the store network remains a key pillar of growth, and during the year, three new showrooms were opened at Bennetts Green, Maribyrnong and Wairau Park in Auckland. In the first quarter of FY22, we have opened a further showroom at Hastings in New Zealand, bringing the current Nick Scali Furniture store network to 62 stores – 57 in Australia, and 5 in New Zealand.

We are also continuing the strategy of owning more of our own retail stores and expect to complete the purchase of a new showroom in Townsville by the end of December. This site will also include a new distribution facility serving North Queensland, providing the infrastructure for further growth in this region.

Our online business grew exponentially throughout FY21 and we expect this channel to continue to grow alongside our showroom network as the Company develops further capability in this area.

As announced recently we have entered into a binding agreement to purchase the Plush business from Greenlit, with completion expected in the second quarter of FY22.

Plush is a quality sofa retailer, positioned mid-market with 46 stores generating sales revenue of more than \$ 120m. In recent years it has achieved good profit margins which we believe will be enhanced once we reap the benefits of the synergies achievable when the business is fully integrated. We expect the Plush acquisition will be earnings per share accretive in FY22.

Plush engages third party logistic providers for its distribution and supply chain, which we intend to incorporate into our own managed distribution centres. We expect further synergies in other areas of the business such as advertising, purchasing and management.

Additionally, like Nick Scali, there is the opportunity for material growth through the expansion of the store network. We expect to more than double the number of Plush stores in the long term across Australia and New Zealand.

The Nick Scali team is excited and committed to ensure Plush will become a more successful business and welcome all the Plush team to the Nick Scali Ltd family.

I now turn your attention to recent trading.

For the September quarter Sales revenue was in line with the previous year despite the delays caused by shipping and lockdowns in countries we source from. Whilst we incurred significant increases in freight costs, we were able to hold our margin to be in line with the previous year.

Written Sales Orders for the quarter were down due to the closure of more than 55% of our total store network as a result of the lockdowns in New South Wales, Victoria and New Zealand. Despite the lower sales orders, our sales order bank is broadly at the same level as the previous year due to delays and longer lead times.

Online sale orders grew in all states and was exceptionally strong in those states that were in lockdown.

Whilst we have a strong order bank, it is difficult to forecast sales revenue and profitability for the second quarter given the continued supply chain disruptions we are experiencing. These include the Vietnam lockdown, shipping delays, container availability and port congestion.

October trading has been buoyant since the re-opening of New South Wales on October 11th and we expect the same to occur in Victoria when it opens, however these elevated written sales orders will only convert to revenue in the second half of FY 22.

I would like to take this opportunity to thank all my colleagues for their hard work during the year and would also like to thank my fellow directors for their valuable guidance and support.