

22 August 2022

Results announcement – year ended 30 June 2022 (FY22)

Underlying Result

Excluding the impact of one-off items relating to the acquisition of Plush-Think Sofas Pty Ltd.

A\$m	FY22	FY21	% Change
Revenue (\$m)	441.0	373.0	+ 18.2%
Net profit after tax (NPAT, \$m)	80.2	84.2	- 4.9%
Earnings before interest, tax, depreciation and amortisation (EBITDA, \$m)	163.2	159.1	+ 2.6%
Earnings before interest and tax (EBIT, \$m)	124.6	128.2	- 2.8%
Gross margin	61.0%	63.5%	- 150bps
Cost of doing business (CODB, expenses including depreciation and finance costs, % to sales)	35.2%	31.3%	+ 390bps
Outstanding order bank (\$m)	185.3	110.9	+67.1%

Statutory Result

A\$m	FY22	FY21	% Change
Revenue (\$m)	441.0	373.0	+ 18.2%
Net profit after tax (NPAT, \$m)	74.9	84.2	- 11.1%
Basic earnings per share (EPS, cents)	92.5	104.0	- 11.1%
Final dividend per share (cents)	35.0	25.0	+ 40.0%
Total dividends per share (cents)	70.0	65.0	+ 6.7%

Overview

Furniture retailer Nick Scali Limited ("the Group") (ASX: NCK) today reported its results for the year ended 30 June 2022, with revenue up 18.2% on FY21 to \$441.0m and an underlying EBIT of \$124.6m. On an underlying basis, net profit after tax for the year was \$80.2m.

Over the past two years, the Group has taken advantage of increased discretionary consumer spending to deliver significant sales growth, and having recently acquired Plush-Think Sofas Pty Ltd ("Plush") is in a strong position to deliver further growth, with an elevated outstanding order bank at 30 June 2022.

Throughout FY22, the Group faced a number of significant challenges, with over 55% of its store network closed for three months in the first half of the year and widespread disruption to its supply chain in the second half of the year.

Commenting on the Group's performance, the Managing Director, Anthony Scali, said "FY22 was a particularly challenging period, with store network closures and lockdowns in sourcing countries impacting the business at various stages throughout the year. Despite these challenges, the Group was still able to deliver a strong result and end the year with a significant order bank which will translate to revenue in FY23. We continue to be pleased with the Plush acquisition and have seen increased scope for synergies as the integration of the business has progressed."

Plush Acquisition

On 1 November 2021, the Group acquired Plush for \$102.5m from Greenlit Brands Household Goods. The acquisition was funded through a combination of debt and existing cash reserves. The Plush business has been successfully integrated in to the Group, is expected to support profit growth over the coming years through store network expansion and operational synergies.

Plush contributed revenue of \$88.8m to Group revenue in the period post-acquisition.

Store Growth

The Plush acquisition added 46 showrooms to the Group's network, and during the year a new Nick Scali store was opened in Hastings, the Group's first store in regional New Zealand, bringing the total store network to 108 stores.

The company maintains its long-term target of at least 85 Nick Scali stores and 90-100 Plush stores, and anticipates opening between four and six net new stores in FY23, offsetting the recent closure of the Plush showroom in Penrith, NSW.

FY22 Performance

Written Sales Orders

Overall, total written sales orders for the Group for the year were \$473.8m, representing growth of 18.0% on the prior year, with Plush stores contributing \$98.7m to the Group total for the period post-acquisition.

Due to widespread store closures in H1, total written sales orders for Nick Scali fell by 6.6% compared to FY21. However, on a same-store basis, and excluding periods of temporary store closures, written sales orders for Nick Scali stores in Australia increased by 0.3%¹, whilst written sales orders for Nick Scali stores in New Zealand declined by 28.9%¹.

Sales Revenue

Total revenue for the Group grew by over 18% during FY22, due to the Plush acquisition. However, revenue for Nick Scali was down due to the store network closures and the China lockdowns which restricted delivery volumes in the fourth quarter.

As a result of the China lockdowns in April and May, the outstanding order bank remains elevated and totalled \$185.3m at 30 June 2022 - 67% higher than at the same time in the previous year.

Profitability

The Nick Scali gross margin declined by 100 basis points to 62.5% due to increased freight costs, whilst the overall gross margin for the Group was down a further 150 basis points to 61.0% due to the dilutive impact of the lower margin Plush business.

Similarly, Plush had an adverse impact on the cost of doing business, which increased from 31.3% to 35.2% of revenue.

The Group expects the overall gross margin and cost of doing business to improve as the synergies of Plush acquisition are realised.

As a result of reduced margin, incremental cost of doing business and the reduction in Nick Scali revenue due to the China lockdowns, underlying net profit after tax fell by 4.9% to \$80.2m.

¹ Same-store sales order growth is calculated on a monthly store-by-store basis, and excludes the results of stores for complete months that included periods of temporary closure in either the current or comparative reporting period

Dividends

The Board declared a fully franked final dividend of 35.0 cents per share, with a record date of 3 October 2022 and a payment date of 24 October 2022. On a full year basis, this represents an increase of 7.7% on the previous year, and a payout ratio of 76% (FY21: 63%).

Online

The Group continued to experience growth in its online sales channel during the year, with written sales orders of \$37.6m, up over 100% on FY21. Excluding the impact of Plush, written sales orders for Nick Scali Online were up 70% compared to FY21.

Outlook

Given the elevated order book at the end of June, and the incremental sales revenue from the Plush business, the Company expects sales revenue for H1 FY23 to be materially above the previous year.

July trading was positive, with total written sales orders for the Group of \$43.2m, up 64.1% on July 2021.

Given the current global economic environment, the business will face challenges in respect of potential rising freight costs and inflationary pressure on operating costs over the next 12-24 months.

Based on the current economic uncertainty, it is difficult to provide any additional guidance for the FY23 financial year.

Results Presentation

Anthony Scali will be presenting the FY22 results by teleconference at 10h00 AEST on Monday 22 August 2022.

Attendees are required to pre-register for the conference using the following link, and will receive dial-in details upon completion of the brief pre-registration process.

Registration Link <https://s1.c-conf.com/diamondpass/10023404-furdsaf.html>

Authorised by the Board of Nick Scali Limited