

NICK SCALI LIMITED

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L I M I T E D

21 October 2024

Chair's Address to Annual General Meeting

The following is a transcript of the address by the Chair of Nick Scali Limited, Mr John Ingram, to the shareholders at today's 2024 Annual General Meeting

I am pleased to report that Nick Scali Limited delivered underlying profits from the Australia and New Zealand business of \$83.5 million.

In May this year we acquired a UK furniture retail business. Our strategy is to align the UK business to the existing successful Nick Scali business model and then expand the UK store network.

To fund the UK acquisition and subsequent investment in the UK the company raised new equity of \$54.8 million in the year.

I am also pleased to report the performance of the business and the acquired UK growth opportunity led to a share price increase of 51% over the 2024 financial year.

A fully franked final dividend of 33 cents per share, paid in October, brings the total dividends for the 2024 financial year to 68 cents, fully franked.

During the year Stephen Goddard retired as Director of the Company and we thank Stephen for his contribution and wise counsel drawn from his deep retail experience.

The Board has engaged external advisers to identify additional Non-Executive Directors and that search is ongoing.

Today I retire by rotation in keeping with our constitution. I am presenting myself for re-election with the intent of serving one year to provide continuity while new Directors join the Board as anticipated within the next 12 months.

I thank Mr Anthony Scali, our Managing Director for his commitment and leadership of the Company. I also thank the management team and all the employees, whose hard work and commitment have enabled the Company to deliver the results achieved in 2024.

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

Finally, I would like to thank you, our shareholders, for your continued support.

Managing Director's Address to Annual General Meeting including Trading Update

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 2024 Annual General Meeting

Thank you, John, and good morning.

I am pleased to report that Nick Scali Limited performed strongly in the year, with revenue and gross profit stabilising post covid.

In May the Company completed an acquisition in the UK of Anglia Home Furnishings Limited trading as Fabb Furniture ("Fabb Furniture") which will allow it to expand the brand globally.

During the year, sales revenue decreased by 7.8% to \$468.2million, with the Company benefiting in the prior FY23 year from increased deliveries as the June 2022 order bank reduced with lead times returning to pre Covid levels. UK revenue from 8 May to 30 June 2024 was \$8.3 million.

The gross margin for Australia and New Zealand ("ANZ") increased by 250 basis points to 66.0%, due to stable freight costs and the strong execution of purchasing from suppliers.

Underlying operating expenses in the current year increased \$3.1 million. Generally operating expenses increase with inflation and due to growth in the store network. In FY24 inflation increases affected property and wages costs.

The Company incurred one off non-recurring transaction costs of \$1.5m to complete the UK acquisition.

Statutory net profit after tax for the year was \$80.6million. Underlying net profit after tax for the Australian and New Zealand operations was \$83.5 million.

Expenditure on property included \$16.6 million to build and \$2.4 million to fitout the new distribution centre in Queensland. The distribution centre was fully operational by the end of FY24 and gives us the logistics capacity to support the increased Queensland Nick Scali and Plush store networks.

During the year, a new and larger Nick Scali showroom was opened in Payneham South Australia, with the existing showroom converted to a clearance store.

Three new Plush showrooms were opened in Campbelltown NSW, Helensvale Queensland, and Payneham South Australia. We closed two Plush showrooms in the ongoing optimisation of the acquired Plush store network.

In the UK we acquired 20 showrooms.

The Company had a combined store network of 128 showrooms at the end of June 2024.

I will now comment on progress on the integration of Fabb UK since the acquisition in May.

We have commenced placing part of our Nick Scali sofa range into the UK stores and expect to add part of the dining range in November.

We have moved to the same outsourced delivery model in the UK that we operate in Australia and New Zealand. This will improve the efficiency and scalability of deliveries to customers. We will shortly be cutting the UK business over to our information systems and business controls.

We have implemented efficiency savings over multiple functions where our group scale can support the UK, for example purchasing and eCommerce. Our goal is to simplify the business and lower the cost base.

Refurbishment of the showrooms in the London region has commenced. As showrooms are refurbished and have all of the Nick Scali UK product range they will be rebranded to Nick Scali.

Nick Scali (UK) online will launch with Nick Scali sofa and dining ranges this financial year.

Our strategy is to transform the business to the Nick Scali business model and leverage group capabilities for efficiency and scale before focusing on expansion of the UK showroom network. However, should an attractive new UK showroom location opportunity present, we will consider it.

I will now turn your attention to recent trading.

I will first comment on Australia and New Zealand trading.

In our full year results announcement in August we advised written sales order growth for June and July combined was -1.2% compared to the prior year. July was impacted due to the fact there were only 4 weekends of trading compared to 5 the previous year, and June benefited from having the additional weekend. For this reason, it was necessary to combine June and July when comparing written sales orders to the previous year.

Written sales orders for the four months June to September 2024 have increased 3.0% compared to 2023, with both August and September written sales orders higher than 2023.

We currently expect delivered sales revenue for the first half to for Australia and New Zealand to be between \$217 million to \$222 million.

Materially higher unexpected freight rates are expected to impact our gross profit margin, particularly in the second quarter, and we now expect the gross profit margin for the first half for Australia and New Zealand to be down 240 basis points or more compared to FY24 gross margin of 66.0%.

Following the significant increase in freight and subject to any unforeseen shipping delays, we currently expect our NPAT for Australia and New Zealand in the first half to be in the range of \$30-33 million.

We continue to expand the store network and re-confirm our August guidance to open two Nick Scali stores and three to five Plush stores in FY25, with the majority opening in the second half.

Turning to the UK trading.

As we reported in August, written sales orders have been impacted due to the disruption caused as we transform and restructure the business.

We have seen margins on recent written sales orders improve to be 300 basis points higher than the margin on delivered revenue. We expect the gross profit margin to continue to improve as more of the Nick Scali product is rolled out to stores.

Written sales orders for the UK in first quarter are GBP 6.4 million (A\$12.5 million).

First quarter UK delivered sales of GBP 9.1 million (A\$17.8 million) benefited from an opening order bank elevated by the supply chain disruptions. We anticipate second quarter UK delivered sales to reduce to closer to the volume of written sales orders in the first quarter.

Gross margin in the first half for the UK is currently expected to be in the range of 42-44%. Gross margin improvement due to delivered sales of the new product range changes is not expected to be significant until the second half.

We expect to incur GBP 0.9 to 1.1 million (A\$1.8 – A\$2.2 million) in one off costs in the first half relating to staff restructure and system integration costs. The expected cost savings from the staff restructure is circa GBP1.0 million (A\$2.0 million) per annum commencing in the second half.

Application of AASB 16 on consolidation is expected to reduce UK statutory profit by GBP 0.6 million (A\$1.2 million) in 1H FY25. Application of AASB 16 has no cash impact for the Group.

As anticipated, we will incur losses in the first half for our UK operations which is expected to be in the range of GBP 1.7 to 1.9 million (A\$3.3million – A\$3.7 million) after application of AASB 16 but before one off integration costs, and GBP 2.6 to 3.0 million (A\$5.1 to \$5.9 million) after inclusion of the one-off integration costs.

Finally, I would like to take this opportunity to thank all my colleagues for their hard work and contribution to the success of the company.

Authorised by the Board of Nick Scali Limited

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