

**COMPANY NAME:** Nick Scali

**EXCHANGE:** ASX

**TICKER SYMBOL:** NCK

**SECTOR/INDUSTRY:** Furniture Retailing industry

**CURRENT PRICE (AS OF 23.04.2025):** \$16.95

**TARGET PRICE (% CHANGE):** \$25.60 (51% increase)

**GROUP MEMBERS:** Nick Lyle, Lily Nguyen, Srijana Bhusal, Nupurr Roy

**RECOMMENDATION:** BUY

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**Business Description**

Nick Scali Limited is a leading Australian retailer of premium furniture and homewares, established in 1962. Serving the mid-to-upper market, it operates showrooms across Australia and New Zealand and has a growing online presence. The company focuses on stylish, quality household furniture sourced from both domestic and international manufacturers, with a business model centred on company-owned showrooms and efficient supply chain management.

**Industry Overview**

The Australian furniture retail industry is valued at around \$12 billion in 2025, with revenue forecast to reach \$13 billion by 2029-30, growing at an annual rate of about 1.6%. The sector covers household furniture, blinds, awnings, and mattresses, sourcing products both locally and internationally. Key drivers include household discretionary income, consumer sentiment, and residential construction activity. Despite volatility from construction trends and economic shifts, demand has stayed resilient, supported by pay-later services and greater investment in omnichannel retailing.

The market is moderately concentrated, with low barriers to entry and rising competition from online-only and second-hand platforms. Digital transformation—such as augmented reality and RFID—is increasingly vital for competitiveness and meeting evolving consumer expectations.

Here are the key competitors of Nick Scali Limited:

**Table 1: Competitor Breakdown**

Company	Estimated Revenue (2024-25)	Market Share (%)
Harvey Norman	\$2.1 billion	17.1%
IKEA	\$1.1 billion	9.2%
Amart Furniture	\$580 million	4.8%
FF Holdco Pty Ltd	\$530 million	4.4%
Other Companies	\$7.8 billion	64.5%

Harvey Norman leads the Australian furniture retail market with a 17.1% share, followed by IKEA at 9.2%. Amart Furniture holds 4.8%, and FF HoldCo Pty Ltd 4.4%. The remaining 64.5% is divided among numerous smaller retailers and online sellers.

Nick Scali Limited competes in this environment, targeting the mid-to-upper market segment, while competitors range from mass-market to premium. The industry is mature and moderately concentrated, with competition heightened by online retailers and second-hand marketplaces.

**Competitive Positioning**

Nick Scali Limited is well-positioned in the Australian furniture retail sector, focusing on the mid-to-upper market and known for quality and design. Its strengths include:

3. **Brand Strength:** A well-established brand associated with premium quality and contemporary design.
4. **Operational Efficiency:** High revenue per employee and efficient supply chain management contribute to above-average profitability relative to many industry peers.
5. **Omnichannel Strategy:** Investment in both physical showrooms and digital platforms enables Nick Scali to capture a broader customer base and adapt to changing shopping behaviours.
6. **Product Differentiation:** Curated product offerings and exclusive designs differentiate Nick Scali from mass-market competitors and online-only retailers.

Despite its strengths, Nick Scali faces growing competition from multinationals like IKEA and online or second-hand marketplaces. Low barriers to entry and economic sensitivity mean ongoing innovation and customer engagement are essential to maintain growth and market share.

### **SWOT and PESTLE analysis:**

To comprehensively evaluate Nick Scali Limited's current position and future prospects within the Australian furniture retailing industry, it is essential to conduct both a SWOT and a PESTLE analysis.

**Table 2: SWOT Analysis**

<b>Strengths</b>	<b>Weaknesses</b>
- Strong brand in mid-to-upper market	- Low and increasing barriers to entry
- High revenue per employee	- Low profit margins vs. sector average
- Low customer class concentration	- High product/service concentration
- Low reliance on imports	- High capital requirement
<b>Opportunities</b>	<b>Threats</b>
- Projected industry revenue growth	- Dependence on residential construction
- Digital transformation & e-commerce	- Intensifying competition (online, second-hand)
- Rising consumer sentiment	- Economic volatility and high living costs
- Adoption of pay-later services	- Price discounting pressures

**Table 3: PESTLE Analysis**

Factor	Impact on Nick Scali Limited
<b>Political</b>	Moderate regulation on trading hours and employment; compliance with retail laws required.
<b>Economic</b>	Demand sensitive to household income, consumer sentiment, and construction; high interest and inflation reduce spending.
<b>Social</b>	Home ownership, interior design trends, and pay-later services boost demand.
<b>Technological</b>	E-commerce, augmented reality, and RFID investments are vital for competitiveness.
<b>Legal</b>	Moderate regulation on employment, trading hours, and product safety; legal risks manageable.
<b>Environmental</b>	Rising consumer focus on sustainability pressures eco-friendly products and operations.

Nick Scali Limited's strong brand and operational efficiency position it well in a competitive and evolving market. While the company faces challenges from economic conditions and rising competition, its focus on digital growth and industry opportunities supports a positive outlook.

The following sections will assess Nick Scali's investment potential and valuation.

## Investment Summary

### Public Trading Comparables

Nick Scali shows a \$1.6bn market cap and \$1.82bn EV, mid-tier among peers. Its P/E of 18.93 suggests a lower position in the ASX versus Temple & Webster's 279.43 and Baby Bunting Group's 178. The EV/EBITDA of 10.29 is fair, below Temple & Webster's 158.50 however, in line with Harvey Norman's 10.31. Temple & Webster appear overvalued considering the poor EBITDA margin while Nick Scali has a strong EBITDA margin at 38%.

As of 16 May  
Enterprise Value Desc

Public Trading Comparables											
ASX Code	Company Name	Share Price	Market Cap	Enterprise Value	Revenue	Gross Profit	GP Margin	EBITDA	EBITDA Margin	P/E	EV/EBITDA
HVN	Harvey Norman Holdings	5.35	6,670,000,000	8,630,000,000	3,921,859,000	1,990,843,000	51%	837,257,000	21%	19.11	10.31
TPW	Temple & Webster Group	19.49	2,320,000,000	2,200,000,000	497,841,000	166,062,000	33%	13,880,000	3%	278.43	158.50
NCK	Nick Scali	18.74	1,600,000,000	1,820,000,000	468,189,000	306,799,000	66%	176,946,000	38%	18.93	10.29
ADH	Adairs	2.71	478,970,000	733,860,000	594,356,000	286,802,000	48%	115,900,000	20%	15.06	6.33
BBN	Baby Bunting Group	1.78	240,160,000	394,820,000	498,387,000	183,654,000	37%	43,283,000	9%	178.00	9.12
JYC	Joyce Corporation	4.69	138,680,000	134,060,000	145,509,000	78,179,000	54%	29,081,000	20%	15.13	4.61

**Figure 1: Trading Comps**

## Valuation

### Discounted Cash Flow

This DCF analysis values Nick Scali, using FY20-24 financials, industry trends, and forecasting to project free cash flows (FCF) over a 5-year period, followed by a terminal value calculation. Nick Scali operates 129 stores (65 Nick Scali, 44 Plush & 20 UK stores), and in FY24 recorded revenue of \$470 and NOPAT of \$93.8M. Expansion plans (176–186 ANZ stores, UK growth

via Fabb Furniture acquisition) and E-Commerce growth (17.8%) inform the forecasted cash flows (**Figure 2**).

**Figures 3 & 4** provide a detailed breakdown of the forecasted change in NWC and capital expenditure across the forecasted year. NWC is assumed to remain consistent in relation to days payables, receivables and inventory. With store expansion set in place and rebranding of UK stores to Nick Scali, capex is forecasted to increase in FY25 and subsequent years.

**Figure 5** indicates Cost of Equity is calculated using the 5-year treasury bond as the risk-free rate, the ASX 200 L5Y annual returns and beta calculated using the same period. Cost of Debt is calculated using the interest expense from the P&L divided by the total debt from the balance sheet. A WACC figure is then derived using the weights of each.

A terminal growth rate of 2% is used following historical GDP growth and slightly amended to consider the furniture retailing industry. Cash flows are then discounted to their present value to derive a present value terminal value. Cash and debt are then subtracted to calculate the total equity value of Nick Scali. Finally, the shares outstanding is divided from total equity to arrive at an implied share value. The DCF analysis indicates Nick Scali is valued at \$25.60 or 51% undervalued compared to the price at 23<sup>rd</sup> of April (\$16.95). **Refer Figure 6.**

<b>DCF Model</b>											
<b>Notes:</b>											
Launch of UK E-Commerce platform expected to increase revenue											
Store expansions expected to increase revenue											
Potential for future acquisitions may impact revenue growth											
Refer cell comments for additional commentary/notes											
<b>Nick Scali (ASX:NCK)</b>											
<b>Assumptions</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>	<b>FY29E</b>
Revenue Growth		-0.97%	40.29%	18.21%	15.26%	-7.78%	10.80%	12.27%	12.27%	12.27%	12.27%
Gross Profit Margin		63.33%	63.58%	61.13%	63.66%	65.68%	62.20%	66.00%	66.00%	66.00%	66.00%
Expenses as a % of Revenue		16.34%	21.19%	23.60%	25.01%	28.46%	27.00%	25.00%	23.00%	21.00%	19.00%
Tax as a % of EBIT		27.76%	28.93%	28.24%	27.50%	27.63%	30.00%	30.00%	30.00%	30.00%	30.00%
<b>Unlevered Free Cash Flow</b>											
<b>Income Statement</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Total Revenue	269,383,000	266,769,000	374,255,000	442,419,000	509,924,000	470,263,000	521,051,404	584,984,411	656,761,999	737,346,696	827,819,135
Cost of Goods Sold	99,385,000	97,817,000	136,285,000	171,980,000	185,313,000	161,390,000	196,957,431	198,894,700	223,299,080	250,697,877	281,458,506
Gross Profit	169,998,000	168,952,000	237,970,000	270,439,000	324,611,000	308,873,000	324,093,973	386,089,711	433,462,919	486,648,819	546,360,629
Operating Expenses	105,869,000	43,582,000	79,296,000	104,395,000	127,553,000	133,827,000	140,683,879	146,246,103	151,055,260	154,842,806	157,285,636
EBITDA	64,129,000	125,370,000	158,674,000	166,044,000	197,058,000	175,046,000	183,410,094	239,843,609	282,407,659	331,806,013	389,074,994
D&A	4,253,000	29,987,000	30,870,000	41,555,000	42,762,000	45,410,000	51,765,600	58,478,102	61,502,895	64,684,147	68,029,950
EBIT	59,876,000	95,383,000	127,804,000	124,489,000	154,296,000	129,636,000	131,644,494	181,365,507	220,904,764	267,121,866	321,045,044
Taxes	17,534,000	26,476,000	36,972,000	35,158,000	42,431,000	35,822,000	39,493,348	54,409,652	66,271,429	80,136,560	96,313,513
NOPAT	42,342,000	68,907,000	90,832,000	89,331,000	111,865,000	93,814,000	92,151,146	126,955,855	154,633,335	186,985,306	224,731,531
(+) D&A	4,253,000	29,987,000	30,870,000	41,555,000	42,762,000	45,410,000	51,765,600	58,478,102	61,502,895	64,684,147	68,029,950
(-) Cap Expenditure		188,726,000	48,999,000	99,910,000	37,873,000	87,661,000	99,127,835	79,820,515	83,949,249	88,291,544	92,858,445
(-) Change in NWC		(24,513,000)	(10,834,000)	(14,521,000)	19,987,000	17,782,000	1,915,554	(2,107,795)	(2,366,422)	(2,656,782)	(2,982,769)
NWC	(6,995,000)	(31,508,000)	(42,342,000)	(56,863,000)	(36,876,000)	(19,094,000)	(17,178,446)	(19,286,242)	(21,652,664)	(24,309,445)	(27,292,214)
Current Assets (-) Cash	40,574,000	40,935,000	50,809,000	77,115,000	59,621,000	94,950,000	107,652,454	120,861,410	135,691,105	152,340,404	171,032,571
Current Liabilities (-) Short Term Debt	47,569,000	72,443,000	93,151,000	133,978,000	96,497,000	114,044,000	124,830,900	140,147,652	157,343,769	176,649,849	198,324,786
Unlevered Free Cash Flow		(65,319,000)	83,537,000	45,497,000	96,767,000	33,781,000	42,873,357	107,721,237	134,553,403	166,034,691	202,885,805

**Figure 2: Unlevered Cash Flow**

Nick Scali (ASX:NCK)											
Description	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Trade Debtors	1,108,000	2,571,000	1,694,000	3,550,000	1,763,000	2,102,000	2,770,480	3,110,418	3,492,066	3,920,542	4,401,593
Inventory	37,597,000	36,273,000	46,733,000	70,525,000	54,555,000	58,046,000	67,706,687	76,014,298	85,341,252	95,812,624	107,568,833
Prepayments	1,869,000	2,091,000	2,382,000	3,040,000	3,303,000	4,802,000	3,935,287	4,418,147	4,960,253	5,568,876	6,252,178
Other Current Assets	-	-	-	-	-	30,000,000	33,240,000	37,318,548	41,897,534	47,038,361	52,809,968
<b>Total</b>	<b>40,574,000</b>	<b>40,935,000</b>	<b>50,809,000</b>	<b>77,115,000</b>	<b>59,621,000</b>	<b>94,950,000</b>	<b>107,652,454</b>	<b>120,861,410</b>	<b>135,691,105</b>	<b>152,340,404</b>	<b>171,032,571</b>
Trade Creditors	17,479,000	18,020,000	22,075,000	34,979,000	22,728,000	44,356,000	35,899,298	40,304,142	45,249,460	50,801,568	57,034,921
Provisions	3,767,000	14,180,000	19,181,000	13,925,000	10,885,000	8,488,000	12,309,054	13,819,375	15,515,013	17,418,705	19,555,980
Other Current Liabilities	26,323,000	40,243,000	51,895,000	85,074,000	62,884,000	61,200,000	76,622,548	86,024,135	96,579,296	108,429,576	121,733,885
<b>Total</b>	<b>47,569,000</b>	<b>72,443,000</b>	<b>93,151,000</b>	<b>133,978,000</b>	<b>96,497,000</b>	<b>114,044,000</b>	<b>124,830,900</b>	<b>140,147,652</b>	<b>157,343,769</b>	<b>176,649,849</b>	<b>198,324,786</b>
<b>NWC</b>	<b>(6,995,000)</b>	<b>(31,508,000)</b>	<b>(42,342,000)</b>	<b>(56,863,000)</b>	<b>(36,876,000)</b>	<b>(19,094,000)</b>	<b>(17,178,446)</b>	<b>(19,286,242)</b>	<b>(21,652,664)</b>	<b>(24,309,445)</b>	<b>(27,292,214)</b>
<b>Change in NWC</b>		<b>(24,513,000)</b>	<b>(10,834,000)</b>	<b>(14,521,000)</b>	<b>19,987,000</b>	<b>17,782,000</b>	<b>1,915,554</b>	<b>(2,107,795)</b>	<b>(2,366,422)</b>	<b>(2,656,782)</b>	<b>(2,982,769)</b>
Assumptions											
	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Revenue	269,383,000	266,769,000	374,255,000	442,419,000	509,924,000	470,263,000	521,051,404	584,984,411	656,761,999	737,346,696	827,819,135
Days Sales Outstanding (DSO)	2	4	2	3	1	2	2	2	2	2	2
Days Inventory	51	50	46	58	39	45	47	47	47	47	47
Days Payable Outstanding (DPO)	24	25	22	29	16	34	25	25	25	25	25
Prepayments as a % of Revenue	0.69%	0.78%	0.64%	0.69%	0.65%	1.02%	0.76%	0.76%	0.76%	0.76%	0.76%
Other Current Assets as a % of Revenue	0.00%	0.00%	0.00%	0.00%	0.00%	6.38%	6.38%	6.38%	6.38%	6.38%	6.38%
Provisions as a % of Revenue	1.40%	5.32%	5.13%	3.15%	2.13%	1.80%	2.36%	2.36%	2.36%	2.36%	2.36%
Other Current Liabilities as a % of Revenue	9.77%	15.09%	13.87%	19.23%	12.33%	13.01%	14.71%	14.71%	14.71%	14.71%	14.71%

**Figure 3: Net Working Capital**

Fixed Asset Schedule										
	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Beginning P&E	92,664,000	251,403,000	269,532,000	327,887,000	322,998,000	365,249,000	412,611,235	433,953,648	456,400,002	480,007,399
D&A	29,987,000	30,870,000	41,555,000	42,762,000	45,410,000	51,765,600	58,478,102	61,502,895	64,684,147	68,029,950
CapEx	188,726,000	48,999,000	99,910,000	37,873,000	87,661,000	99,127,835	79,820,515	83,949,249	88,291,544	92,858,445
Ending P&E	251,403,000	269,532,000	327,887,000	322,998,000	365,249,000	412,611,235	433,953,648	456,400,002	480,007,399	504,835,894
Assumptions										
D&A as a % of Beginning P&E	32.36%	12.28%	15.42%	13.04%	14.06%	14.17%	14.17%	14.17%	14.17%	14.17%
CapEx as a % of Beginning P&E	203.67%	19.49%	37.07%	11.55%	27.14%	27.14%	19.35%	19.35%	19.35%	19.35%

**Notes:**

Assume FY25 will be higher in terms of capex

Assume D&A rate will remain constant as P&E increases

**From FY24 Annual Report:**

UK stores will be rebranded as Nick Scali as part of the Fabb Furniture acquisition

**Figure 4: Fixed Asset Analysis**

WACC	
Equity	257,779,000
Debt	320,372,000
Cost of Debt	4.71%
Tax Rate	30%
D/(D+E)	55.41%
<b>After Tax Cost of Debt</b>	<b>3.30%</b>
Risk Free Rate (5-Year Treasury Yield)	3.79%
Expected Market Return	12.44%
Market Risk Premium	8.65%
Levered Beta	1.41
E/(D+E)	44.59%
<b>Cost of Equity</b>	<b>15.99%</b>
<b>WACC</b>	<b>8.96%</b>

**Figure 5: WACC**

Unlevered Free Cash Flow										
	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Unlevered Free Cash Flow	(65,319,000)	83,537,000	45,497,000	96,767,000	33,781,000	42,873,357	107,721,237	134,553,403	166,034,691	202,885,805
Projection Year						1	2	3	4	5
<b>Present Value of Future Cash Flows</b>						<b>39,348,336</b>	<b>90,735,889</b>	<b>104,018,678</b>	<b>117,802,462</b>	<b>132,113,157</b>

Implied Share Price Calculation	
PV Sum of FCF	484,018,522
Growth Rate	2.00%
WACC	8.96%
Terminal Value	2,973,967,145
PV of Terminal Value	1,936,558,300
Enterprise Value	2,420,576,822
(+) Cash	81,331,000
(-) Debt	320,372,000
Equity Value	2,181,535,822
Diluted Shares Outstanding	85,230,700
<b>Implied Share Price</b>	<b>25.60</b>

Sensitivity Table						
WACC	25.60	Growth Rate				
		1.50%	1.75%	2.00%	2.25%	2.50%
		8.46%	26.10	27.02	28.01	29.09
		8.71%	25.00	25.85	26.76	27.74
		8.96%	23.97	24.75	25.60	26.50
		9.21%	23.01	23.74	24.51	25.35
		9.46%	22.11	22.78	23.50	24.28

**Figure 6: DCF Model**

## Relative Valuation

	AVG P/E	NCK EPS	Relative Valuation
All	87.44	0.99	86.57
Excl Anomalies	17.06	0.99	16.88
Most Similar	19.02	0.99	18.83
<b>Avg</b>	<b>41.17</b>	<b>0.99</b>	<b>40.76</b>

### Notes

Temple & Webster has extremely low margins contributing to the high P/E ration. They have no retail fronts, operating as E-Comm  
 Adairs, Baby Bunting & Joyce Corporation have lower average order value due to product mix  
 Harvey Norman appears as the most similar publicly listed company when comparing against Nick Scali  
 Baby Bunting has low margins contributing to a high P/E ratio. Too disimilar considering product range  
**Relative valuation appears inconsistent and inaccurate given current market conditions and comparison of competitors**

**Figure 7: Relative value**



## Financial Analysis

Nick Scali (ASX:NCK)						
Description	FY20	FY21	FY22	FY23	FY24	1H25
Operating Revenue	262,480,000	373,040,000	440,957,000	507,723,000	468,189,000	251,068,000
Other Revenue	4,289,000	1,215,000	1,462,000	2,201,000	2,074,000	753,000
<b>Total Revenue</b>	<b>266,769,000</b>	<b>374,255,000</b>	<b>442,419,000</b>	<b>509,924,000</b>	<b>470,263,000</b>	<b>251,821,000</b>
Operating Expenses	141,399,000	215,581,000	276,375,000	312,866,000	295,217,000	172,857,000
<b>EBITDA</b>	<b>125,370,000</b>	<b>158,674,000</b>	<b>166,044,000</b>	<b>197,058,000</b>	<b>175,046,000</b>	<b>78,964,000</b>
Depreciation	29,987,000	30,870,000	41,555,000	42,762,000	45,057,000	26,970,000
Amortisation	-	-	-	-	353,000	-
<b>EBIT</b>	<b>95,383,000</b>	<b>127,804,000</b>	<b>124,489,000</b>	<b>154,296,000</b>	<b>129,636,000</b>	<b>51,994,000</b>
Interest Revenue	501,000	367,000	92,000	2,460,000	3,400,000	2,150,000
Interest Expense	7,432,000	6,958,000	9,270,000	13,243,000	15,102,000	8,476,000
<b>Pre Tax Profit</b>	<b>88,452,000</b>	<b>121,213,000</b>	<b>115,311,000</b>	<b>143,513,000</b>	<b>117,934,000</b>	<b>45,668,000</b>
Income Tax Expense	26,476,000	36,972,000	35,158,000	42,431,000	35,822,000	14,295,000
<b>Net Profit after Tax Before Abnormal:</b>	<b>61,976,000</b>	<b>84,241,000</b>	<b>80,153,000</b>	<b>101,082,000</b>	<b>82,112,000</b>	<b>31,373,000</b>
Abnormals	28,300,000	-	7,355,000	-	1,500,000	1,337,000
Abnormals Tax	8,400,000	-	2,124,000	-	-	-
<b>Reported NPAT After Abnormals</b>	<b>42,076,000</b>	<b>84,241,000</b>	<b>74,922,000</b>	<b>101,082,000</b>	<b>80,612,000</b>	<b>30,036,000</b>

**Figure 8: Profit & Loss**

Nick Scali (ASX:NCK)						
Description	FY20	FY21	FY22	FY23	FY24	1H25
CA - Cash	108,021,000	163,739,000	74,620,000	89,251,000	81,331,000	87,597,000
CA - Receivables	2,571,000	1,694,000	3,550,000	1,763,000	2,102,000	2,802,000
CA - Prepaid Expenses	2,091,000	2,382,000	3,040,000	3,303,000	4,802,000	-
CA - Inventories	36,273,000	46,733,000	70,525,000	54,555,000	58,046,000	61,387,000
CA - Investments	-	1,565,000	3,091,000	504,000	-	4,306,000
CA - NCA Held Sale	-	-	-	-	-	-
CA - Other	-	-	-	-	30,000,000	8,469,000
<b>Total Current Assets</b>	<b>148,956,000</b>	<b>216,113,000</b>	<b>154,826,000</b>	<b>149,376,000</b>	<b>176,281,000</b>	<b>164,561,000</b>
NCA - Receivables	-	-	-	-	-	-
NCA - Inventories	-	-	-	-	-	-
NCA - Investments	-	-	-	-	-	-
NCA - PP&E	251,403,000	269,532,000	327,887,000	322,998,000	365,249,000	354,330,000
NCA - Intangibles(ExGW)	-	313,000	38,836,000	39,184,000	39,388,000	159,403,000
NCA - Goodwill	2,378,000	2,378,000	90,589,000	90,589,000	118,172,000	-
NCA - Future Tax Benefit	7,041,000	5,334,000	4,257,000	5,493,000	5,792,000	4,251,000
NCA - Other	-	-	-	-	-	-
<b>Total NCA</b>	<b>260,822,000</b>	<b>277,557,000</b>	<b>461,569,000</b>	<b>458,264,000</b>	<b>528,601,000</b>	<b>517,984,000</b>
<b>Total Assets</b>	<b>409,778,000</b>	<b>493,670,000</b>	<b>616,395,000</b>	<b>607,640,000</b>	<b>704,882,000</b>	<b>682,545,000</b>
CL - Account Payable	18,020,000	22,075,000	34,979,000	22,728,000	44,356,000	34,952,000
CL - Short-Term Debt	25,734,000	42,809,000	56,300,000	37,863,000	39,987,000	62,072,000
CL - Provisions	14,180,000	19,181,000	13,925,000	10,885,000	8,488,000	6,399,000
CL - NCL Held Sale	-	-	-	-	-	-
CL - Other	40,243,000	51,895,000	85,074,000	62,884,000	61,200,000	55,296,000
<b>Total Curr. Liabilities</b>	<b>98,177,000</b>	<b>135,960,000</b>	<b>190,278,000</b>	<b>134,360,000</b>	<b>154,031,000</b>	<b>158,719,000</b>
NCL - Account Payable	-	-	-	-	-	-
NCL - Long-Term Debt	189,131,000	184,171,000	273,298,000	280,302,000	280,385,000	244,943,000
NCL - Provisions	1,452,000	1,394,000	10,124,000	11,321,000	11,492,000	11,061,000
NCL - Other	620,000	1,272,000	1,767,000	2,274,000	1,195,000	1,028,000
<b>Total NCL</b>	<b>191,203,000</b>	<b>186,837,000</b>	<b>285,189,000</b>	<b>293,897,000</b>	<b>293,072,000</b>	<b>257,032,000</b>
<b>Total Liabilities</b>	<b>289,380,000</b>	<b>322,797,000</b>	<b>475,467,000</b>	<b>428,257,000</b>	<b>447,103,000</b>	<b>415,751,000</b>
Share Capital	3,364,000	3,364,000	3,364,000	3,364,000	58,211,000	61,997,000
Reserves	(4,038,000)	958,000	1,538,000	191,000	(702,000)	2,617,000
Retained Earnings	76,088,000	109,704,000	136,026,000	176,358,000	200,270,000	202,180,000
Other Equity	-	-	-	-	-	-
Convertible Equity	-	-	-	-	-	-
SE Held Sale	-	-	-	-	-	-
Outside Equity	-	-	-	-	-	-
<b>Total Equity</b>	<b>75,414,000</b>	<b>114,026,000</b>	<b>140,928,000</b>	<b>179,913,000</b>	<b>257,779,000</b>	<b>266,794,000</b>

**Figure 9: Balance Sheet**

## Performance

Revenue has increased YOY at a CAGR of 15.2% with EBITDA margins decreasing from 47% in FY20 to 37% in FY24. Although growth in revenue has been high, margins have decreased given the higher freight costs and increase in manufacturing expenses due to the post COVID economic landscape.

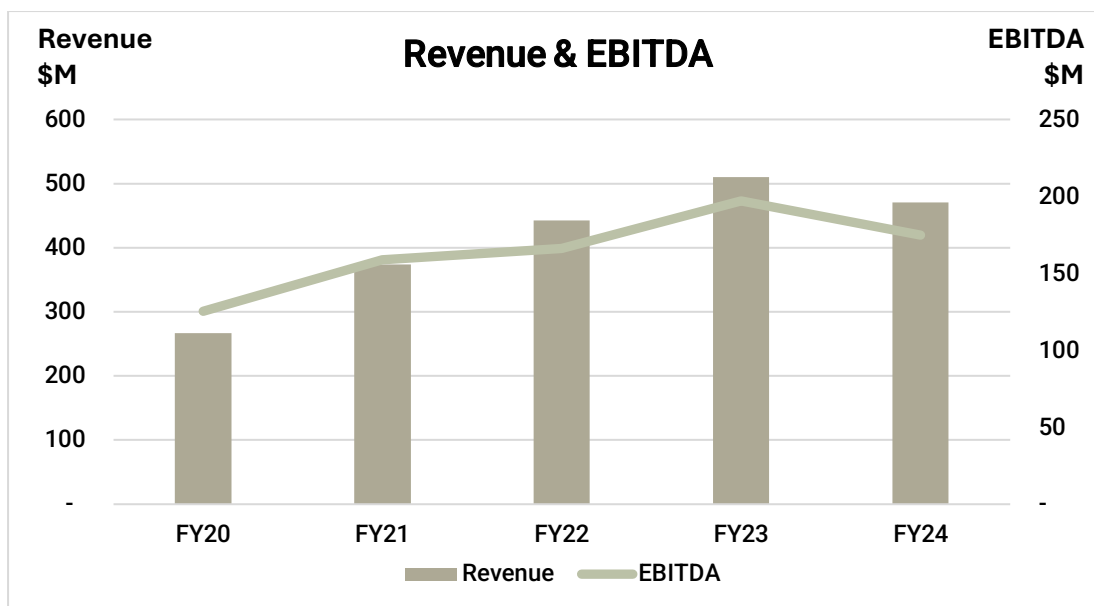


Figure 10: Trading Performance

## Investment Risks

### Systematic Risks

#### 7. High Interest Rate:

In its recent statement, the Reserve Bank of Australia (RBA) (2025) decided to keep the official cash rate unchanged at 4.10%. This high level of interest rates increases mortgage repayments and reduce household disposable income, particularly for mortgage-heavy demographics. As Nick Scali relies heavily on consumer willingness to spend on premium home goods, **high borrowing costs** remain a material short-term risk for the company.

#### 8. Slow GDP Growth:

The Australian economy has shown some signs of improvement throughout 2024, with GDP rising by 1.3% over the year and household consumption beginning to recover (Australian Bureau of Statistics [ABS], 2025). However, overall growth is still considered **below the long-term average** of 3.1% (ABS, 2023). Furthermore, after a prolonged period of decline, GDP per capita grew by only 0.1% quarter-on-quarter (ABS, 2025), indicating **subdued consumer confidence**. As both households and businesses grow more conservative in their spending, Nick Scali may continue to face headwinds for the furniture retail sector.

#### 9. Inflation Lagging:

Although headline inflation has moderated to 2.4% (within the RBA's 2–3% target range), the effects of past high inflation still linger (RBA, 2025). Elevated living costs have stretched household budgets over the past few years, and many consumers remain cautious with their

spending even as price pressures ease. As a result, Nick Scali may experience a **delayed recovery in demand** despite improving inflation metrics.

#### **10. Weak Currency:**

Adding to these challenges is the continued weakness of the Australian dollar, which remains soft with a trade-weighted index (TWI) of 59.9 and an exchange rate of 0.6416 against the USD (RBA, 2025). Given that Nick Scali sources the majority of its products from overseas manufacturers, it is highly sensitive to exchange rate fluctuations. A weaker AUD increases the cost of imported goods, which can directly impact the company's gross margins.

#### **11. Housing Market:**

Elevated interest rates and ongoing affordability pressures have caused a significant slowdown in the turnover of existing homes (National Housing Supply and Affordability Council [NHSAC], 2024). Although house prices rose modestly by 5.1% in 2024, growth stalled in the December quarter, indicating a broader cooling trend in the housing market (KPMG, 2025). This reflects a **decrease in consumer demand** for furniture, posing a risk to retailers like Nick Scali.

### **Unsystematic Risks**

#### **12. UK Expansion:**

Thanks to the acquisition of Fabb Furniture, Nick Scali has successfully entered the UK market, marking a significant step toward global expansion. However, this also introduces a key execution risk. According to the Nick Scali Limited (2024) Annual Report, the UK business was unprofitable throughout FY24 and is expected to **deteriorate in the first half of FY25** due to disruption from store refurbishments and changes in the product range. Although management expects gradual improvement, failure to stabilise UK operations could weigh on group performance, dilute margins, and delay return on investment.

#### **13. Supply Chain:**

In FY24, Nick Scali incurred increased warehousing and handling costs due to **freight delays and logistics inefficiencies**. Although the company reported some improvements, it highlighted the need for ongoing monitoring in FY25 (Nick Scali Limited, 2024). Any future disruptions, especially during high-demand periods, could result in inventory shortfalls, increased storage costs, or delayed customer deliveries, affecting operational performance.

#### **14. Dividend Policy:**

In response to the lower profit, the Board declared a fully franked final dividend of **33 cents per share** for FY24, **down from 35 cents per share** in FY23 (Nick Scali Limited, 2024). This decision reflects a more conservative approach to capital management amid market uncertainty. If profit remains under pressure in FY25 due to ongoing operational risks, further adjustments to dividend policy may occur, affecting investor income expectations.

## 15. Competitive Risk: Harvey Norman

While Nick Scali focuses on premium furniture, Harvey Norman's **diversified product** offering across furniture, bedding, electronics, and home appliances provides broader revenue streams and greater pricing flexibility. In FY24, Harvey Norman reported a consolidated revenue of A\$4.11 billion, nearly **nine times higher** than Nick Scali's A\$468.2 million (Harvey Norman Holdings Limited, 2024; Nick Scali Limited, 2024).

Moreover, Harvey Norman's significantly **larger scale** enables it to absorb tighter margins, run more promotions, and reduce costs through bulk purchasing (Harvey Norman Holdings Limited, 2024). This presents a **disadvantage to Nick Scali's market share**, particularly during periods of weaker consumer demand.

### A comparison between Nick Scali and its competitor Harvey Norman past 4 years

(2021 –2024)

Metric (A\$ million)	Nick Scali FY21	Nick Scali FY22	Nick Scali FY23	Nick Scali FY24
Revenue	373.04	440.95	507.72	468.18
Net Profit After Tax	84.24	74.92	101.08	80.61
Gross Margin (%)	62.4%	61.0%	63.5%	65.5%
Operating Expenses	105.5	122	127.5	130.6
EBITDA	120	135	150	140
EBIT	95	110	125	115
Total Assets	436,823	616,395	607,640	704,882

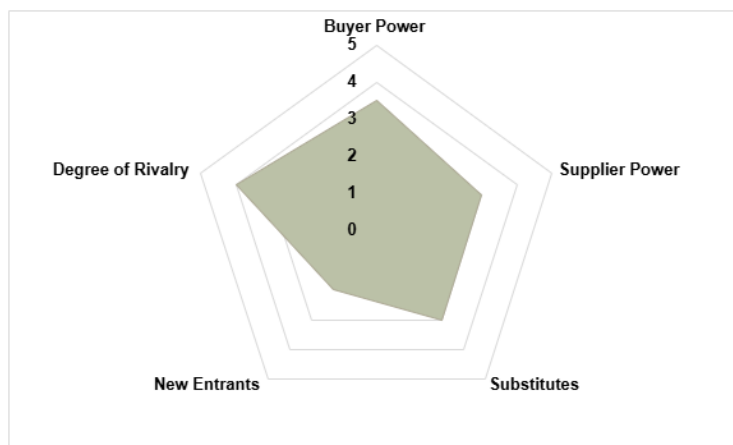
Metric (A\$ million)	Harvey FY21	Norman	Harvey FY22	Norman	Harvey FY23	Norman	Harvey FY24	Norman
System Sales Revenue	9721		9558		8853.2		8860.2	
Consolidated Revenue	4439		4506		4390		4230	
Net Profit Before Tax	1183		1140		820.5		797.8	
Net Profit After Tax	841.41		811.53		539.52		540.07	
EBITDA	1457		1437		1131		1200	
EBIT	1233		1193		867.74		1000	

Harvey Norman is significantly larger than Nick Scali, generating over A\$4 billion in revenue each year, compared to Nick Scali's peak of A\$507 million in FY23. However, Nick Scali shows stronger efficiency, with gross margins consistently above 60%, reaching 65.5% in FY24. While Harvey Norman's profit after tax dropped from A\$841 million to A\$540 million between FY21 and FY24, Nick Scali maintained stable profits despite being much smaller. Harvey Norman's EBITDA also declined, reflecting rising costs, whereas Nick Scali continued to manage its expenses well. Nick Scali's total assets grew steadily to A\$705 million, while Harvey Norman's asset base remained much larger at around A\$8 billion, largely due to its broader operations and property holdings. Overall, Nick Scali is a leaner, more focused company with higher

profitability per dollar earned, while Harvey Norman operates at a much bigger scale but with thinner margins due to its diverse and complex business model.

## Porters 5 Forces Analysis

Porters 5 Forces	Ranking (0-5)
Buyer Power	3.5
Supplier Power	3
Substitutes	3
New Entrants	2
Degree of Rivalry	4



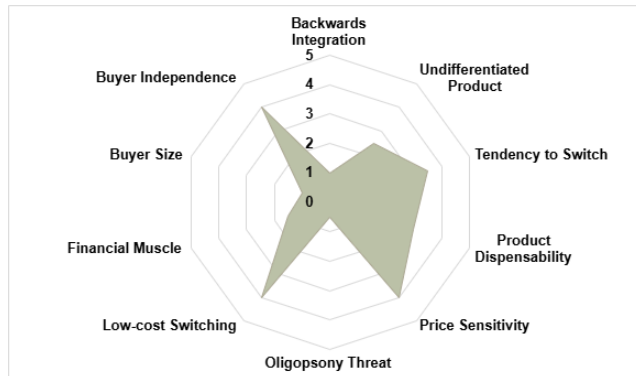
### 1. Buyer Power – High (Rating: 3.5/5)

Buyers (consumers) have strong influence because:

The furniture market is price-sensitive and buyers have many alternatives, making switching easy and buyer power strong. However, Nick Scali's premium brand and unique designs help reduce direct substitutability, balancing buyer influence.

Buyer Power	Ranking (0-5)
Backwards Integration	1
Undifferentiated Product	2.5
Tendency to Switch	3.5
Product Dispensability	3
Price Sensitivity	4
Oligopsony Threat	0.5

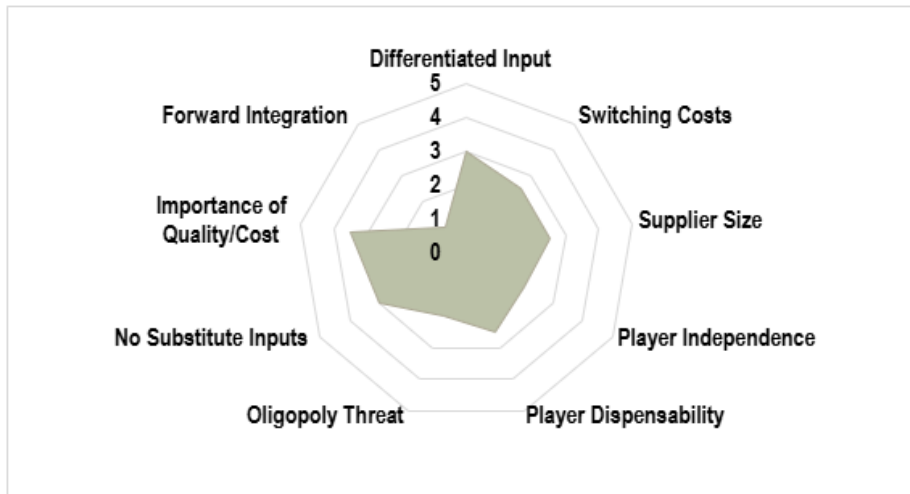
Low-cost Switching	4
Financial Muscle	1.5
Buyer Size	1
Buyer Independence	4



## 2. Supplier Power – Moderate (Rating: 3/5)

Nick Scali relies on international suppliers, mainly in Asia, but no single supplier dominates. While limited substitutes increase dependency, the company reduces risk through multiple sourcing channels. Rising input costs pose a moderate threat, but supplier diversification helps protect margins.

Supplier Power	Ranking (0-5)
Differentiated Input	3
Switching Costs	2.5
Supplier Size	2.5
Player Independence	2
Player Dispensability	2.5
Oligopoly Threat	2
No Substitute Inputs	3
Importance of Quality/Cost	3.5
Forward Integration	1



### 3. Substitutes – Moderate to High (Rating: 3.5/5)

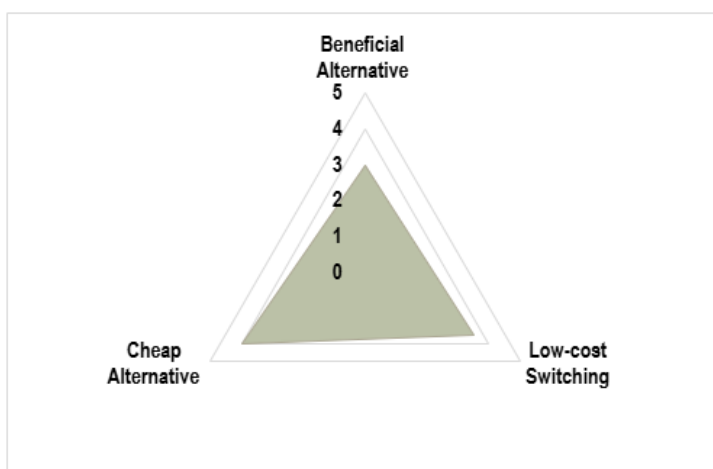
Substitute options like IKEA, Temple & Webster, or even custom furniture exist.

Many of these are cheaper and accessible online (Low-cost switching: 3.5).

However, Nick Scali's focus on showroom experience, customer service, and exclusive designs create a unique value.

Conclusion: Substitution risk exists but is moderated by brand experience and quality assurance.

Substitutes	Ranking (0-5)
Beneficial Alternative	3
Low-cost Switching	3.5
Cheap Alternative	4



### 4. Threat of New Entrants – Moderate (Rating: 2/5)



Barriers are moderate due to:

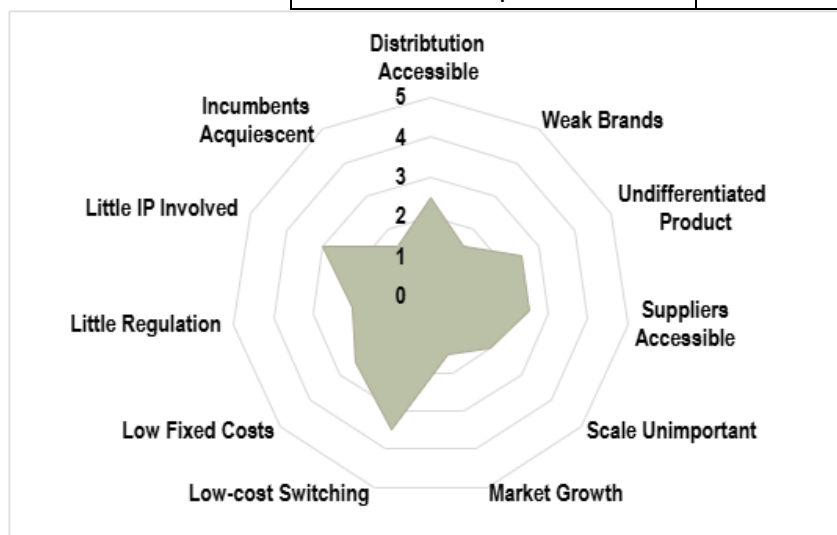
Low fixed costs (2.5)

Easy access to suppliers and online distribution

However, strong brand loyalty, store footprint, and design innovation give Nick Scali an edge.

Conclusion: While online-only startups are growing, Nick Scali's entry into the UK and brand equity create a moat.

New Entrants	Ranking (0-5)
Distribution Accessible	2.5
Weak Brands	1.5
Undifferentiated Product	2.5
Suppliers Accessible	2.5
Scale Unimportant	2
Market Growth	1.5
Low-cost Switching	3.5
Low Fixed Costs	2.5
Little Regulation	2
Little IP Involved	3
Incumbents Acquiescent	1.5



## 5. Industry Rivalry – High (Rating: 4/5)

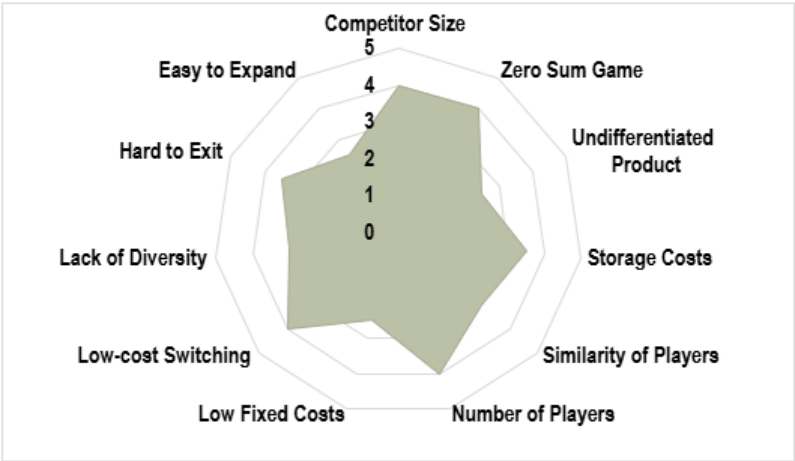
Highly competitive market with Temple & Webster, Adairs, Fantastic Furniture, etc.

Low product differentiation in mid-tier ranges adds to the rivalry.

However, Nick Scali's gross margin improved to 65.5% in FY24, showing its pricing power remains strong.

Conclusion: Competitive pressure is high, but the company outperforms through design, value, and strategic store placement.

Degree of Rivalry	Ranking (0-5)
Competitor Size	4
Zero Sum Game	4
Undifferentiated Product	2.5
Storage Costs	3.5
Similarity of Players	3
Number of Players	4
Low Fixed Costs	2.5
Low-cost Switching	4
Lack of Diversity	3
Hard to Exit	3.5
Easy to Expand	2.5



**Environmental, Social and Governance**

**Environmental**

Nick Scali protects human health and the environment by adhering to REACH (Registration, Evaluation, Authorisation and restriction of Chemicals regulation) regulations, which require manufacturers and suppliers to take responsibility for the use of chemicals across the EU. REACH mandates full transparency, risk management, and clear information on safe handling, with required details shared throughout the supply chain and to customers—often within 45 days of request (Nick Scali Limited, 2025).

Nick Scali also partners with ReLove charity to rescue quality furniture from landfills and hotels, reducing waste and lessening environmental impact.

### **Social**

Nick Scali's partnership with ReLove supports both sustainability and social impact by donating rescued and quality furniture—including their own—to people in crisis, especially victims of domestic violence, helping furnish homes and empower individuals.

Nick Scali also promotes an inclusive workplace, ensuring equal opportunity and pay regardless of background, and upholding a strict Code of Conduct. Employees are expected to act honestly, report misconduct, and treat everyone with respect, while managers work to minimize bias in recruitment and evaluation.

### **Governance**

Nick Scali's Board upholds high standards of ethics, transparency, and accountability to shareholders, stakeholders, customers, employees, and regulators. The Board ensures robust internal controls, risk management, and oversight of budgets and financial statements. Regular board reviews and surveys drive continuous improvement, and shareholders are kept informed and consulted on director elections and re-elections.

### **Recommendation**

After a comprehensive analysis, we recommend a '**Buy**' on Nick Scali (ASX: NCK).

Based on our DCF valuation, the market price as of 23 April (\$16.95) is **below its estimated intrinsic value** of \$23.60. This undervaluation suggests an opportunity to gain capital appreciation by purchasing at a discount. Given its stable earnings profile and growth potential, we believe Nick Scali presents a potential option for the investors.

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