

dfs

the sofa experts



Interim results
26 Weeks to 31 January 2015

Introduction

Richard Baker

Overview and Context

Ian Filby

First Half Highlights

FINANCIAL

+10.5% Growth in gross sales

+16.5% Growth in adjusted EBITDA

£35.2m Free cash flow

OPERATIONAL

 5 UK & ROI store openings

 First Continental European store

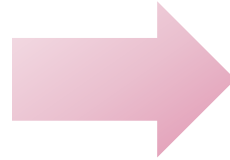
 CDC concept now in 3 regions

 Continued strong web growth

Record last twelve months sales and adjusted EBITDA performance, with all strategic growth initiatives on track




Our Growth Journey

From a Great British Business ...



... to World Class

By striving to deliver our customers:

-  Widest choice of sofas in the market
-  Best value at every price point
-  Outstanding customer experience

We have grown LTM¹ Revenue and Adjusted EBITDA to £690m and £86m² respectively, while consistently generating strong Cashflow and Shareholder Returns

Our Key Differentiators

1

Scale

- ♥ Over 3x larger than next competitor
- ♥ Sales intensity creates advantages including making vertical integration viable

2

Business Model

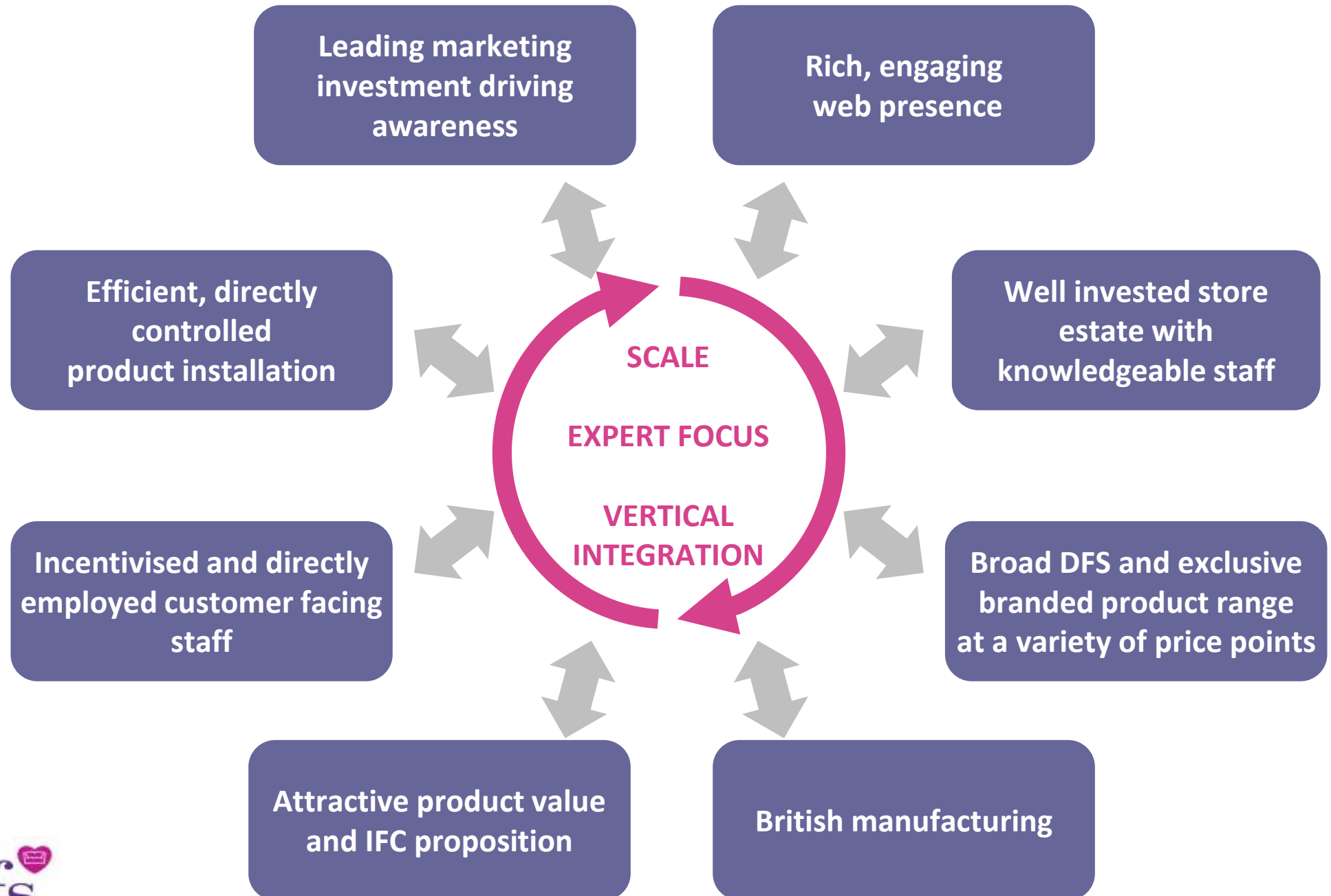
- ♥ Made to order operations – virtually stockless, negative working capital
- ♥ Flexible cost base
- ♥ Highly experienced management and operating team

3

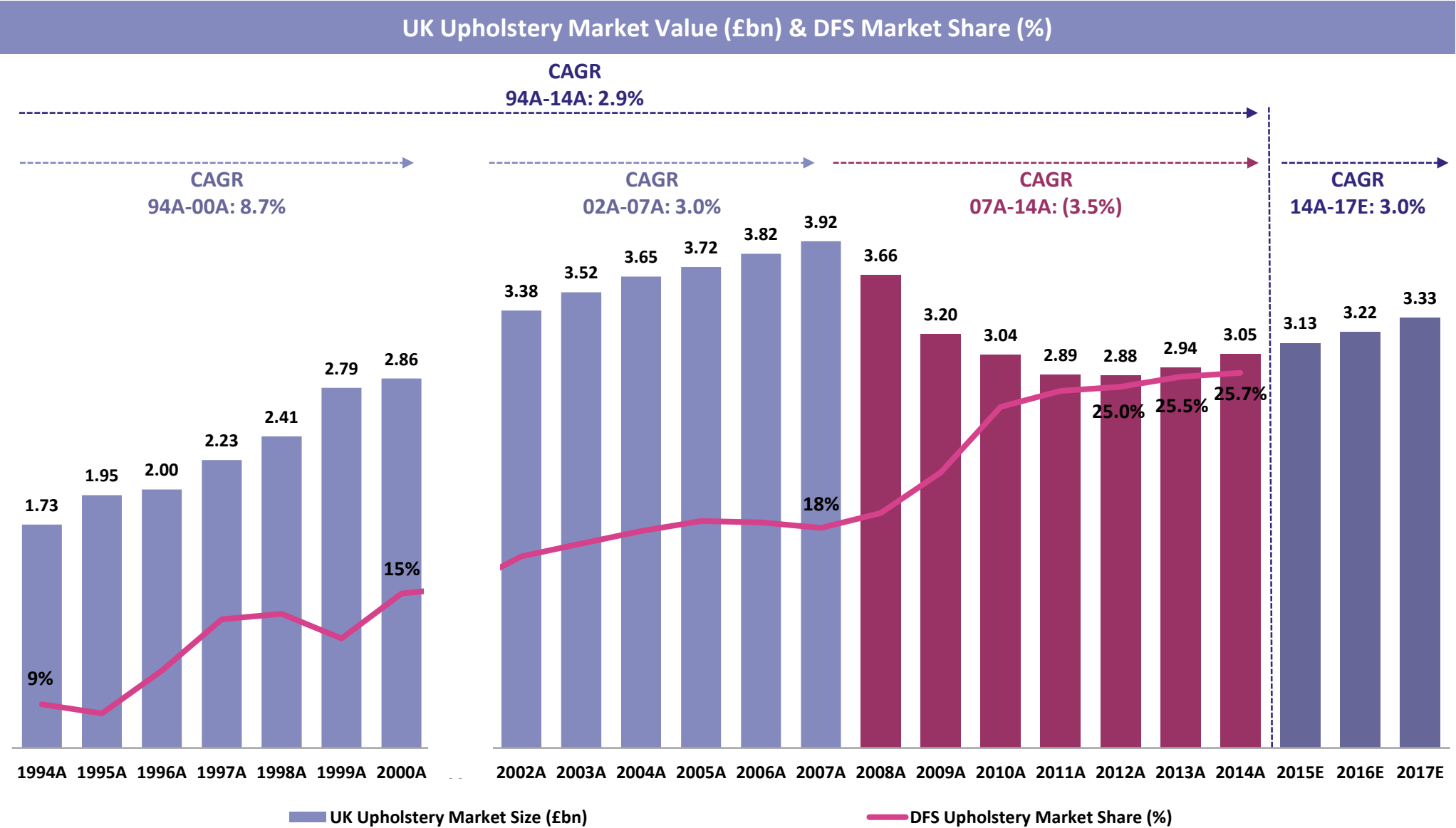
Shareholder returns

- ♥ 45 year track record of performance
- ♥ Earnings growth and cash returns

Our Customer Proposition



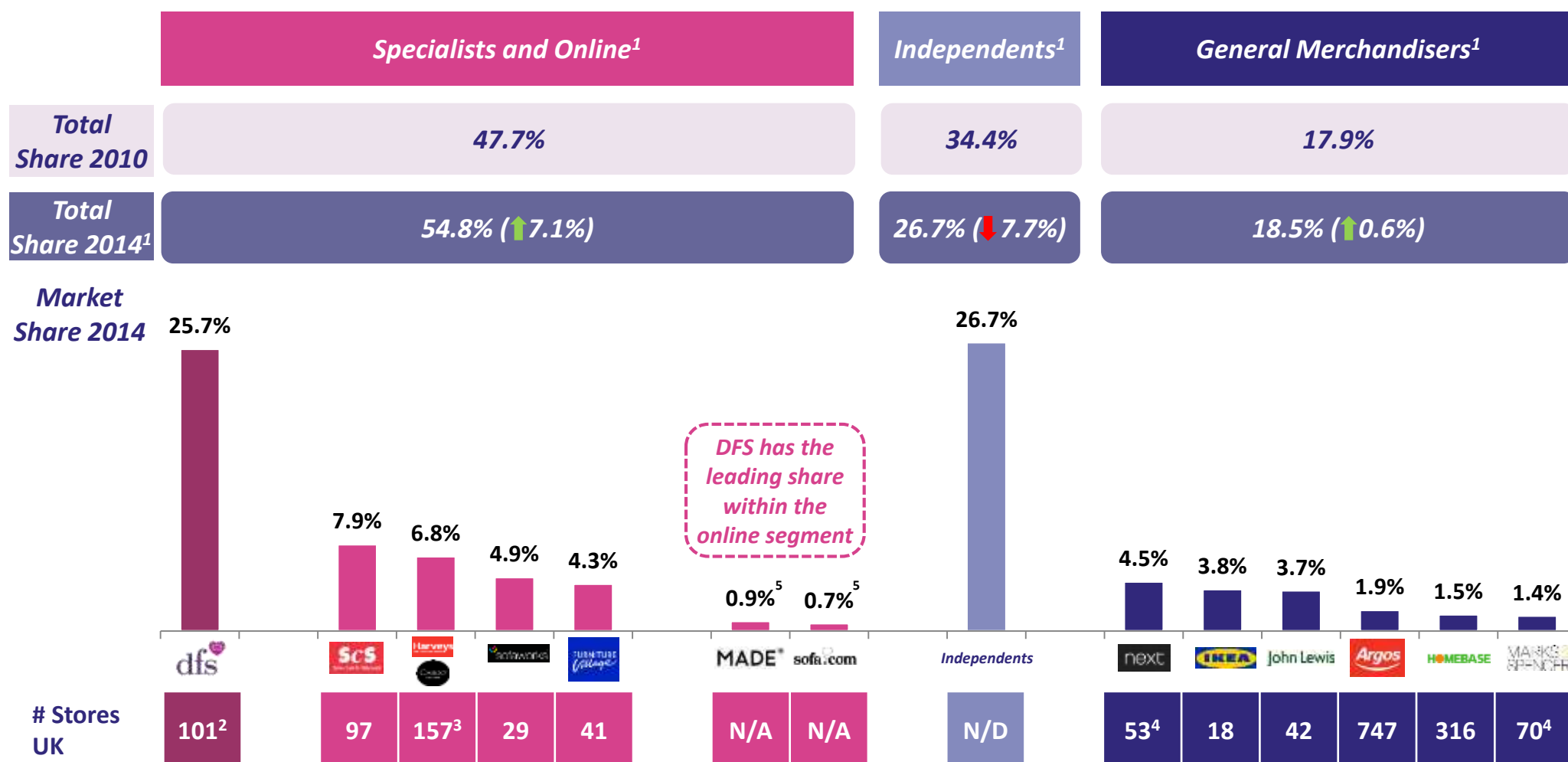
Track Record of Market Share Gain



Source: Upholstery market size and DFS market share data for 1994-2000 sourced from DFS Final Results presentation 2000. DFS Upholstery market share data for 2002-2007 has been derived by DFS management based on Verdict’s estimated market shares for DFS in Furniture and the relative size of the Upholstery market within the overall Furniture market, with both market sizes sourced from Verdict estimates. DFS Upholstery market share data for 2008-2014 sourced from Verdict. Upholstery market size data for 2002-2017E is Copyright © 2015, Verdict, extracted from the Verdict Retail Service website <https://service.verdictretail.com> on 21 January 2015, reproduced with permission of Verdict



Current Market Context



Source: Market Shares - Copyright © 2015, Verdict, extracted from the Verdict Retail Service website <https://service.verdictretail.com> on 21 January 2015, reproduced with permission of Verdict. Current number of stores from Company web sites or as at the most recent financials report. Sofa.com and Made.com revenues from Companies House

Notes:

1. DFS analysis based on data extracted from the Verdict Retail Service website <https://service.verdictretail.com> on 21 January 2015, reproduced with permission of Verdict. Copyright © 2015, Verdict. Leading retailers shown on chart only. Total share includes all retailers in category
2. Excludes RoI and Netherlands
3. Harveys stores only
4. Home stores
5. Market share has been calculated based on Sofa.com and Made.com latest fiscal year sales (incl. 20% VAT) over the total UK upholstery market size

Financials

Bill Barnes

Financial Highlights - Profit and Loss

<i>(£m)</i>	H1 2015 26 weeks ending 31-Jan-15	H1 2014 26 weeks ending 25-Jan-14	FY 2014 53 weeks ending 2-Aug-14	LTM 2015 53 weeks ending 31-Jan-15
Gross Sales	431.2	390.1	853.4	894.5
<i>Growth (%)</i>	<i>+10.5%</i>	<i>-</i>	<i>+6.1%</i>	<i>+10.2%</i>
Revenue	332.8	299.2	656.8	690.4
<i>Growth (%)</i>	<i>+11.2%</i>	<i>-</i>	<i>+6.9%</i>	<i>+11.1%</i>
Gross Profit	45.9	39.4	111.9	118.4
<i>Growth (%)</i>	<i>+16.5%</i>	<i>-</i>	<i>+0.9%</i>	<i>-</i>
<i>Margin (% of revenue)</i>	<i>13.8%</i>	<i>13.2%</i>	<i>17.0%</i>	<i>17.1%</i>
Adjusted EBITDA¹	27.6	23.7	82.3	86.2
<i>Growth (%)</i>	<i>+16.5%</i>	<i>-</i>	<i>-1.8%</i>	<i>+11.8%</i>
<i>Margin (% of revenue)</i>	<i>8.3%</i>	<i>7.9%</i>	<i>12.5%</i>	<i>12.5%</i>

Notes:

1. £7.9m of adjusted items in LTM (£6.7m in FY14) relating to (i) listing costs, (ii) acquisition costs and start-up operating losses of Dwell and Sofa Workshop and (iii) prior period bonus adjustments.

Revenue Trends – Half Year

UK

Y-o-Y REVENUE GROWTH RATE

UK Total **+11.4%**
UK LFL **+8.9%¹**

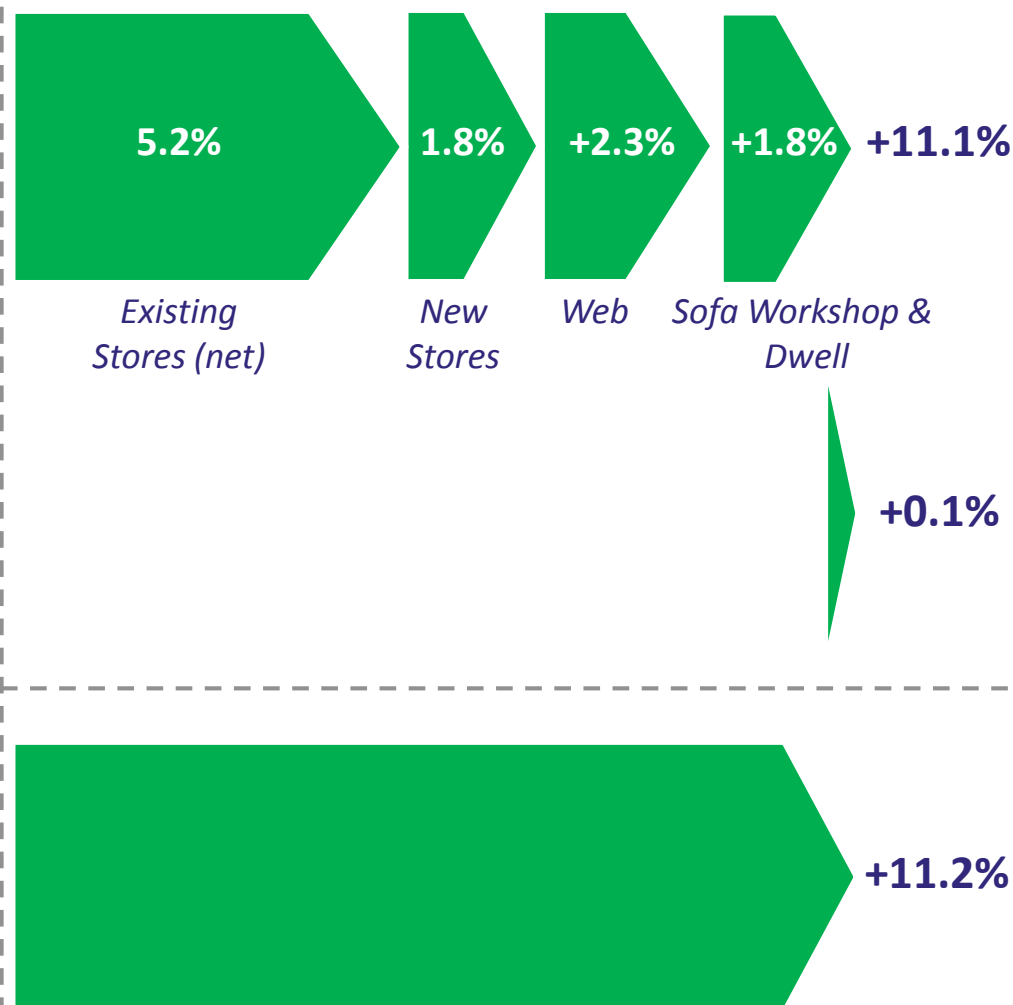
**International
(ROI & NL)**

+4.8%
(in GBP)

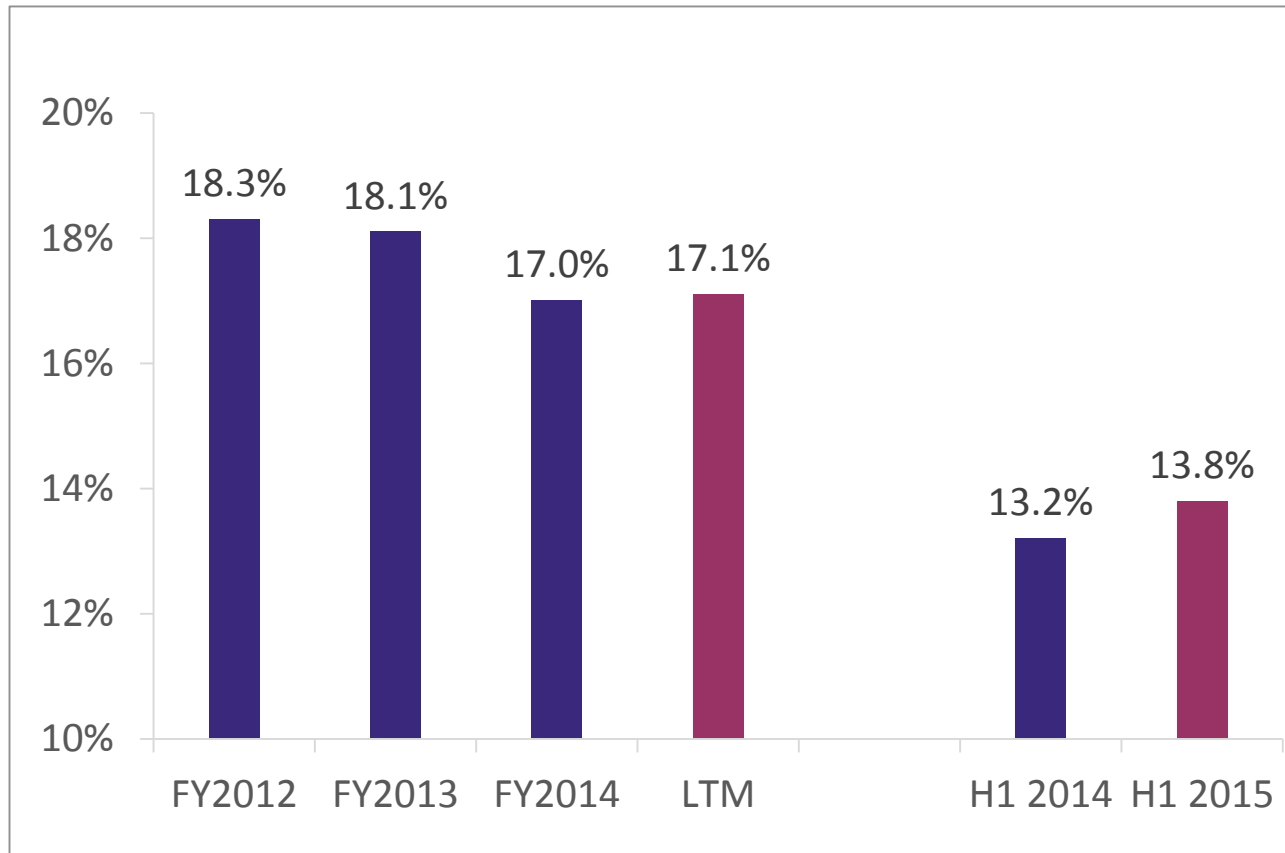
Group

CONTRIBUTION TO GROUP REVENUE GROWTH

(% of total group revenues)



Gross Margin Trends



KEY TRENDS

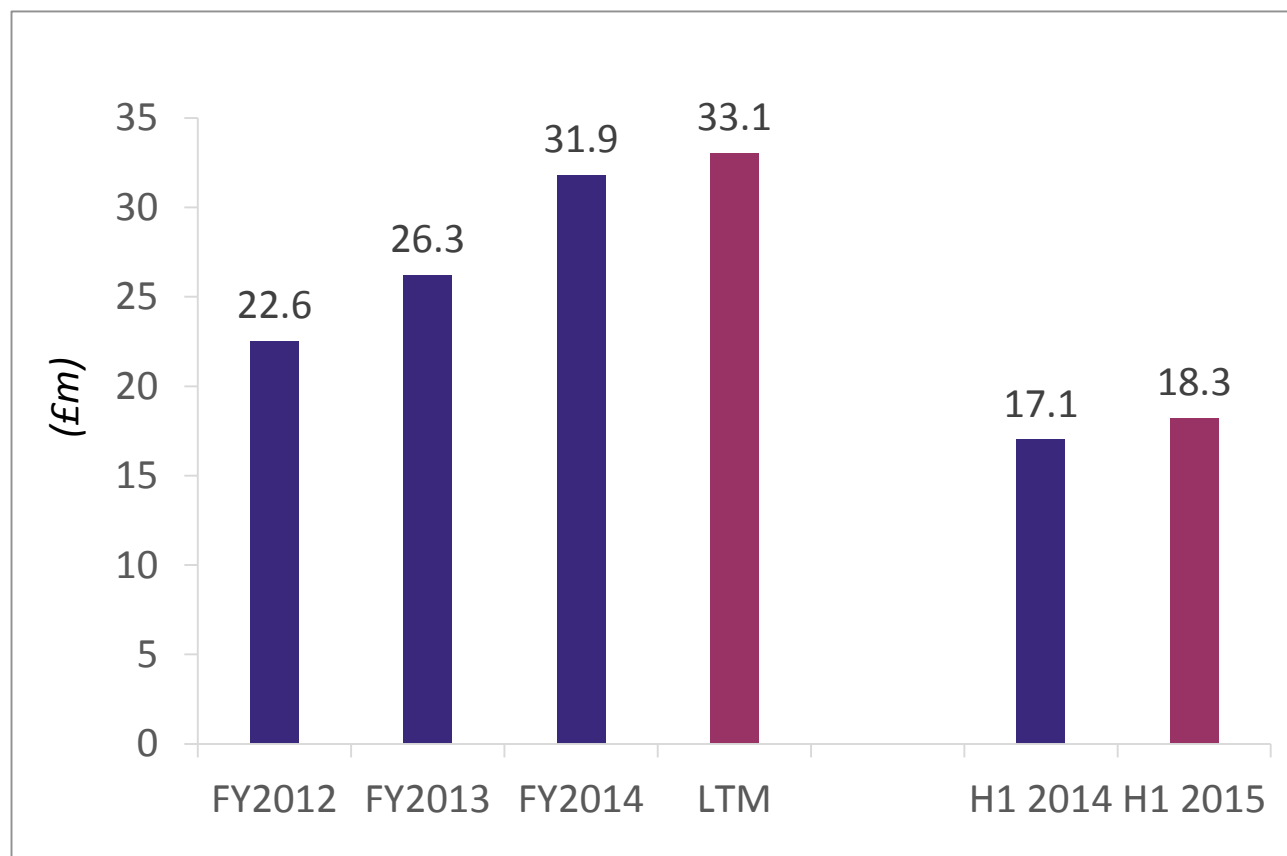
Historical price investment
and impact of acquisitions

H1 has lower deliveries and
higher marketing spend

AOV flat

Revenue growth drives cost leverage giving positive gross margin trend overall

Administrative Cost Trends



GUIDANCE

Investment in HO headcount to increase capability

Central costs of acquired businesses

Staff bonus rewards will match profit growth achievement

Additional plc costs of c. £1m to factor into H2

Significant investment in a historically extremely lean cost base over recent years is now substantially complete – annualisation impact remains

Cash Generation

<i>(£m)</i>	H1 2015	H1 2014	FY 2014	LTM
Adjusted EBITDA¹	27.6	23.7	82.3	86.2
Capex	(11.1)	(8.4)	(15.4)	(18.1)
Change in Working Capital	18.7	21.3	8.3	5.7
Free Cash Flow²	35.2	36.6	75.2	73.8
Conversion (% of EBITDA)³	127.5%	154.4%	91.4%	85.6%

GUIDANCE

Significant cash accretion likely with refinanced balance sheet post IPO

Dividend policy guidance at 40-50% of profit after tax

First dividend will be final for FY 2015 and paid post AGM

Consistently high conversion from EBITDA to cash

Notes:

1. £7.9m of adjusted items in LTM (£6.7m in FY14) relating to (i) listing costs, (ii) acquisition costs and start-up operating losses of Dwell and Sofa Workshop and (iii) prior period bonus adjustments.
2. FCF is calculated as Adjusted EBITDA – Capital Expenditure + Change in Working Capital.
3. Cash conversion is calculated as FCF / Adjusted EBITDA.

Working Capital

<i>(£m)</i>	H1 2015	H1 2014	FY 2014
<i>Inventories</i>	33.9	28.3	28.8
<i>Trade/Other Receivables</i>	18.1	15.9	23.7
<i>Trade/Other Payables</i>	(229.4)	(213.1)	(209.7)
Total Working Capital	(177.4)	(168.9)	(157.2)
<i>Other Non-Cash Adjustments</i>	1.5	(3.2)	(4.5)
Change in Working Capital	18.7	21.3	8.3

GUIDANCE

**Made to order
virtually stockless model**

**Low receivables as paid on
or before delivery**

**Payables reflect recent
deliveries, and are paid to
agreed supplier terms**

**H1 working capital reflects
seasonal factors**

Negative working capital model generating cash as growth is delivered

Capital Investment

<i>(£m)</i>	H1 2015	H1 2014	FY 2014
<i>New store investment</i>	6.1	2.3	3.8
<i>Store refurbishment</i>	0.9	1.2	2.0
<i>Web investment</i>	0.5	1.3	1.7
<i>Other (inc. vehicles)</i>	3.6	3.6	7.9
Gross capital expenditure	11.1	8.4	15.4

GUIDANCE

Low capex requirements of
c. 3% of revenues

Maintenance capex of
c.£10m p.a., includes store
refits and vehicle fleet

New store fit-out costs
c.£1m each; CDC cluster
space release c.£1m each

Well invested store estate and online presence

Financing charges

OVERVIEW

- Reported H1 2015 balance sheet and net indebtedness refers to pre-IPO financing structure
- Refinancing completed on 12 March 2015, net debt post IPO of less than £200m
- Additional £3.5m non-cash financing charges charged annually
 - c. £500k annual debt issue cost amortisation over life of facility
 - c. £3m annual fair value lease adjustment
- Significant covenant headroom

OUTLINE TERMS

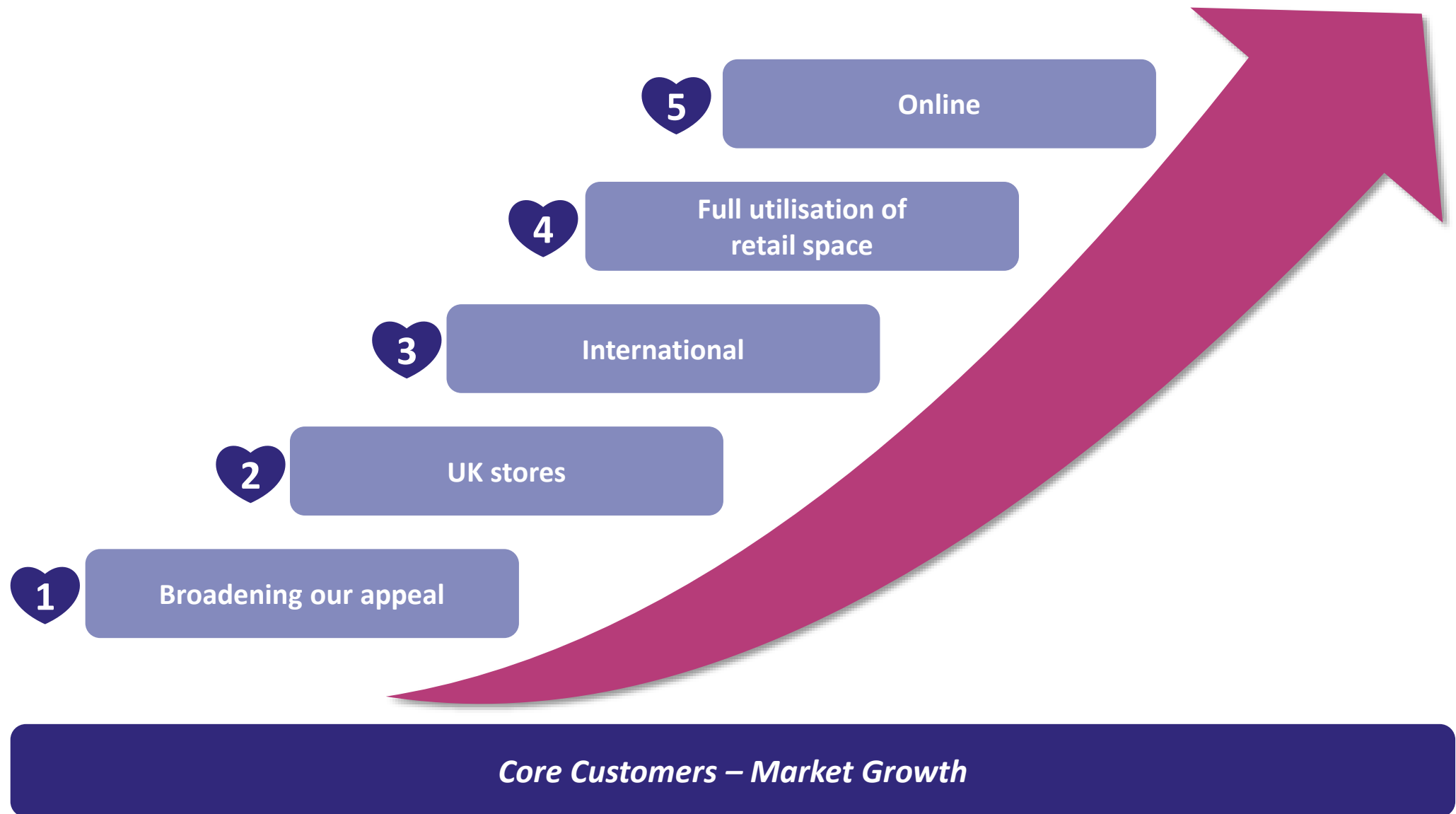
- 5 year term
- £200m senior term loan
 - No mandatory repayments of principal
- £30m RCF facility (undrawn)
- Interest rate exposure fully hedged
- Significant reduction in annualised cash interest cost to less than 5% (including fees)

Low-cost, hedged-rate bank financing with net debt now beneath £200m

Growth Strategy and Update

Ian Filby

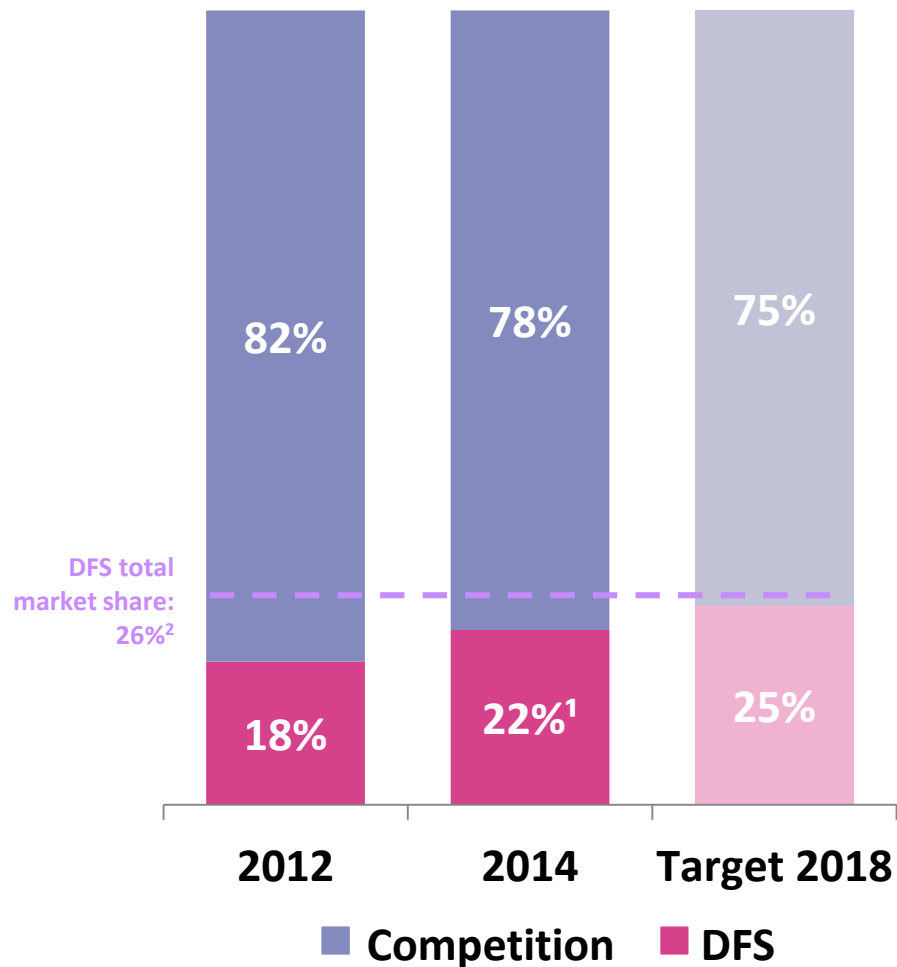
Our Proven Levers of Growth



1 Clear Progress in Broadening our Appeal

Proven

Demonstrated Momentum in Capturing Share of £1.3bn Aspirational Customer Market



First Half Update

- Significant growth in branded product gross sales order value year on year to c. £110m LTM – including Sofa Workshop and Dwell
- Commenced Sofa Workshop and Dwell sales through DFS channels

What's Next

- Continued multi-brand approach to growing market share to 25% by FY18



Source: Independent survey conducted on behalf of DFS rolled average for Jul-14, Mar-14 and Nov-13

Note:

1. Includes 1% for Sofa Workshop and Dwell

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1 Leveraging Sofa Workshop and Dwell

SOFA WORKSHOP
an edited collection at dfs

dwell at dfs

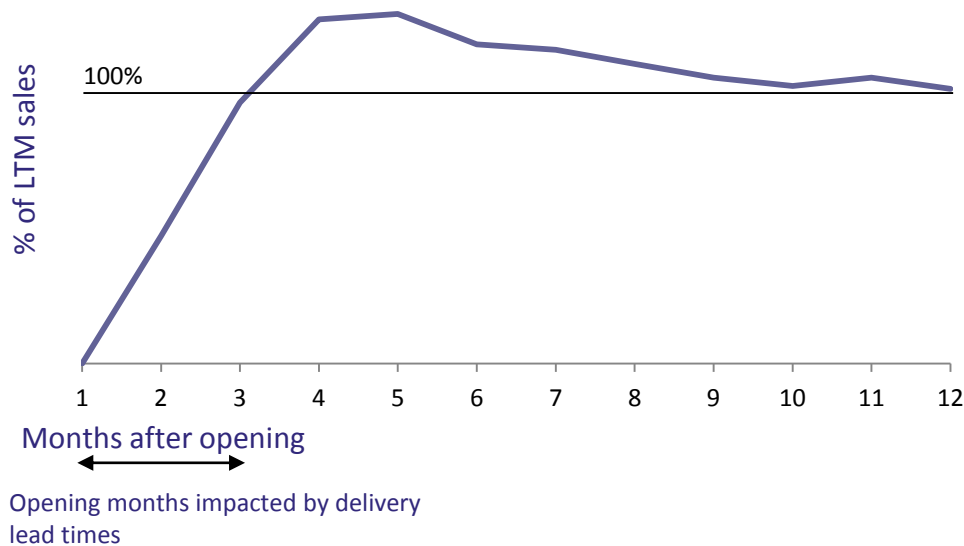


2 UK Store Roll-out Opportunities

Proven

- Successful roll-out of 27 UK stores over last 4 years
- CACI model effective in predicting returns

Demonstrated Rapid Progression to Maturity



Average payback of c.21 months¹



Source: DFS management guidance

Note:

1. Based on actual and estimated paybacks of 21 stores opened during FY11, FY12 and FY13

First Half Update

- Four traditional format UK store openings
- New stores performing well, high degree of accuracy in store appraisals

What's next

- 3-5 stores each 10-15,000 sq. ft. to be delivered per year
- New compact format trial store in Westfield Stratford

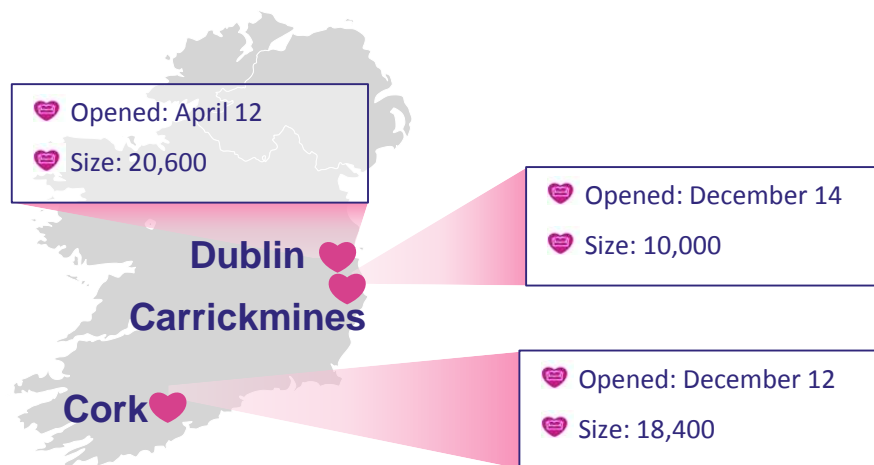
2 Westfield Stratford





International Roll-out in Rol and the Netherlands

Proven



- Entered Rol market in 2012 with Rol Euro website
- Lessons learnt help mitigate risks of further international expansion
- Positive EBITDA contribution and accretive return, strong payback**

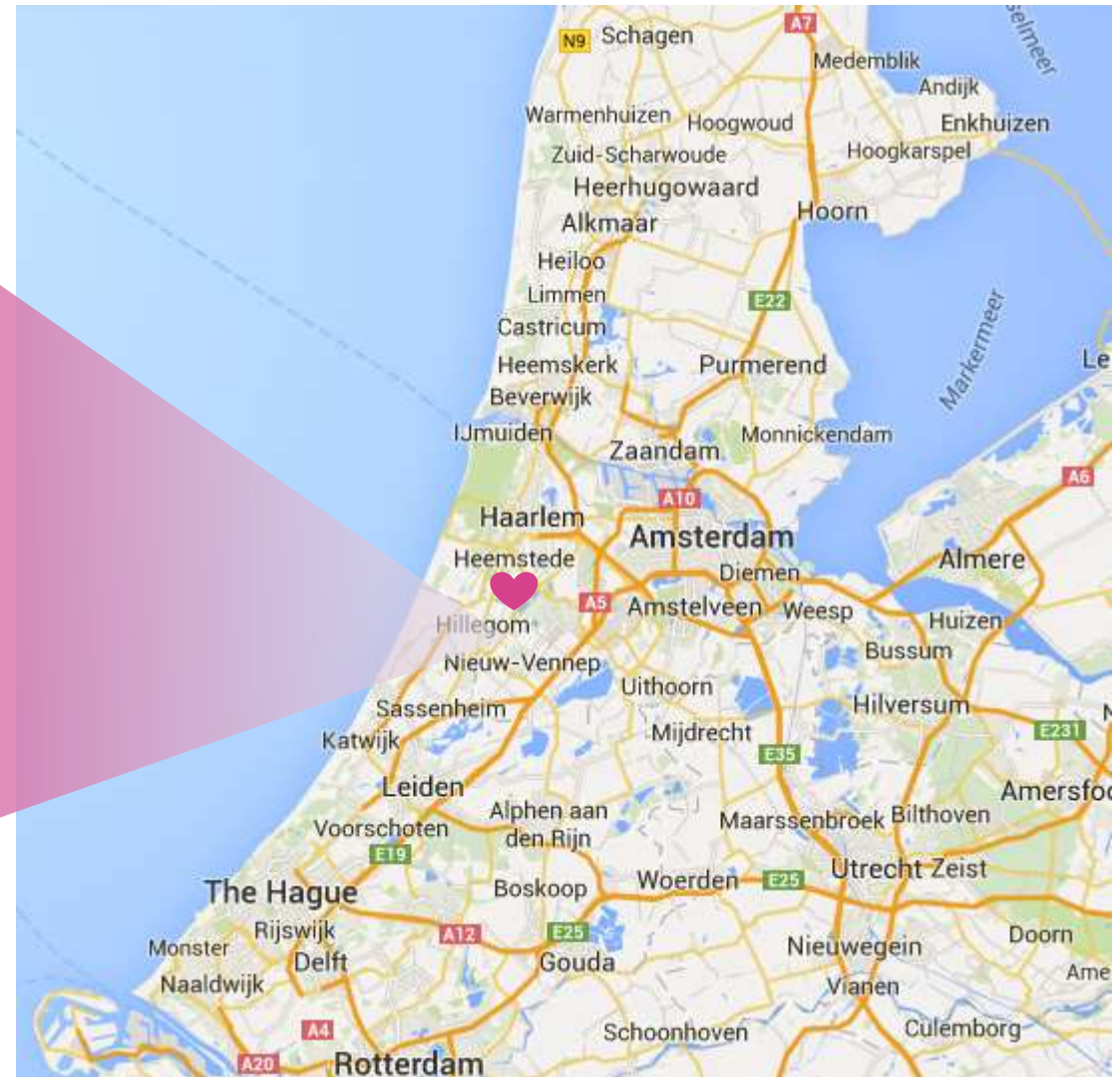
First Half Update

- Opening of Carrickmines, the third store in the Rol
- Entry into Continental Europe through Cruquius store opening (The Netherlands)

What's next

- Continued monitoring and learning from Cruquius
- Other selective, low-risk international opportunities being assessed

3 New Market Entry - Cruquius, The Netherlands



Proven



- ♥ Retail space release generates additional sales
- ♥ Significant operational efficiencies have been achieved
- ♥ **3 CDCs operating to date: 36,000 sq. ft. retail space already converted**

First Half Update

- ♥ Third CDC in Glasgow now operational
 - Retail space fit-out to commence shortly
- ♥ Leases for 2 further CDCs signed

What's next

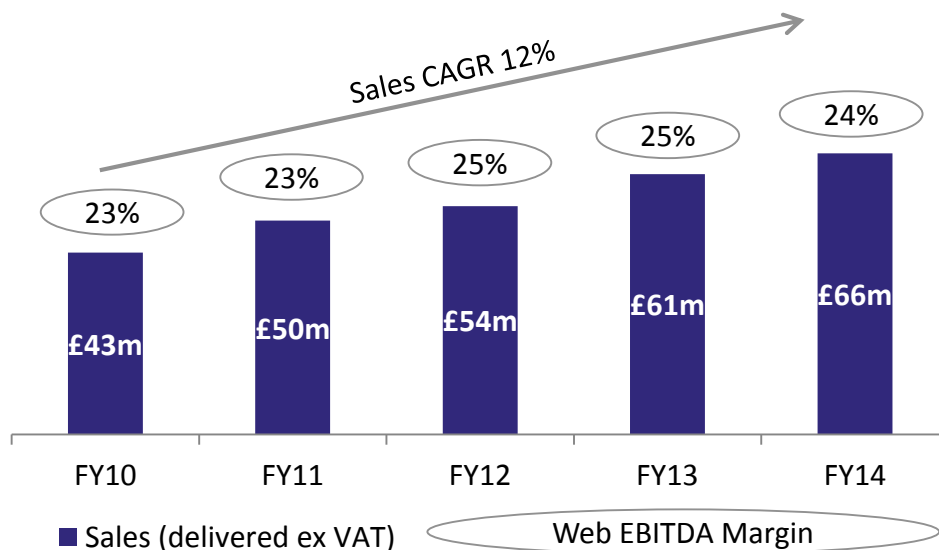
- ♥ Opportunity for roll out of the CDC concept across our estate, creating approximately three new CDCs each year
- ♥ Total potential of 17 CDCs releasing c. 400,000 square foot



Web Channel Attracting New Customers and Growing Rapidly

Proven

Web Financial Track Record



- ♥ Rapid growth of margin enhancing sales utilising own delivery infrastructure
- ♥ c.70% of DFS web sales represent incremental 'pure-play' customers¹



Note:

1. Have not visited a DFS store in the 3 months prior to purchase

First Half Update

- ♥ Web sales for the 26 weeks ended 31 January 2015 accounted for 10.9% of sales compared to (H1 2014 9.7%)
- ♥ Overall DFS has similar market share in web channel to total market – i.e. market leader

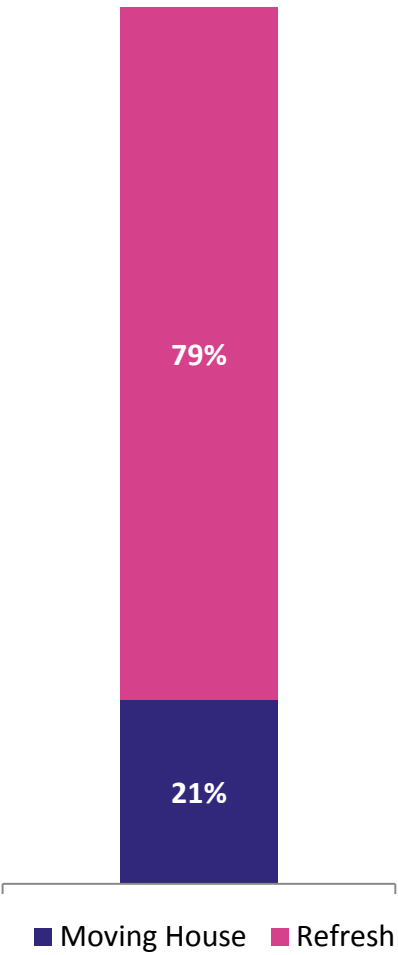
What's next

- ♥ Adding ranges in the upholstery and wider furniture markets
- ♥ Maximising the Sofa Workshop and Dwell online opportunity

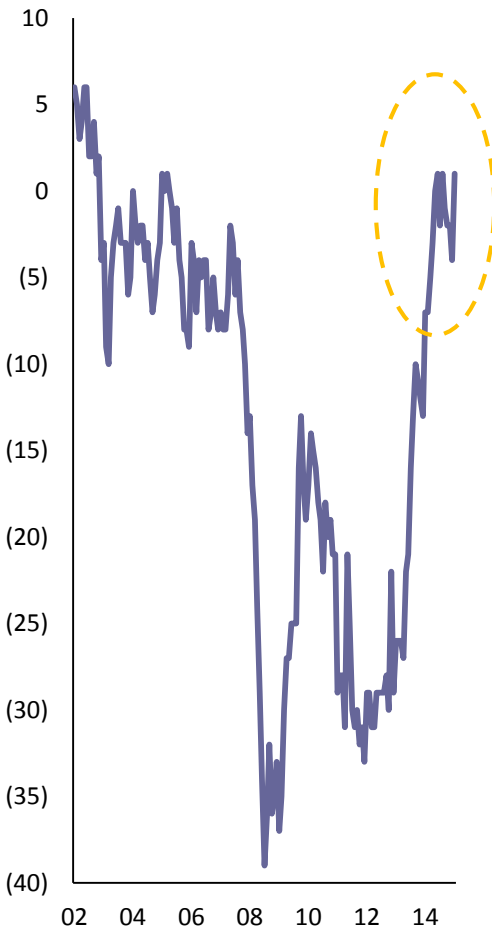


Market Growth Drivers Continue to be Positive

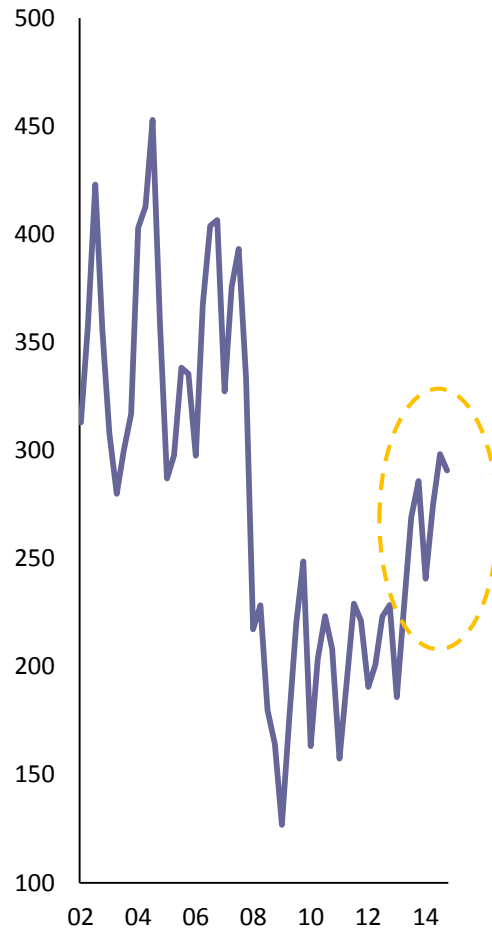
Why People Buy Upholstery



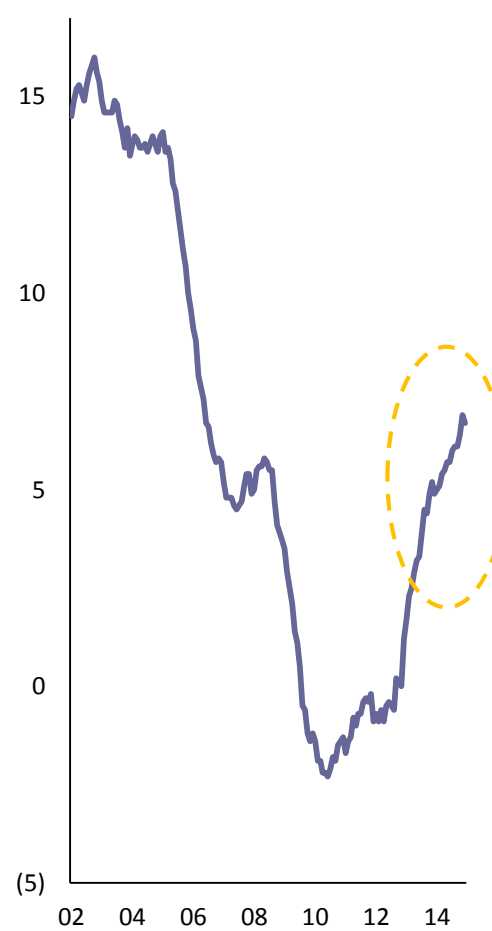
Consumer Confidence (%)¹



Housing Transactions ('000s)²



Net Unsecured Lending (% change)³



Source: Independent Survey conducted on behalf of DFS, March 2014. GfK Consumer Confidence, Overall Index for "UK Consumer Confidence", HM Revenue and Customs quarterly residential property transactions valued over £40,000 for England and Wales, Bank of England Net Unsecured Lending to Individuals Seasonally Adjusted

Notes:

1. The Consumer confidence survey measures the level of optimism that consumers have about the performance of the economy in the next 12 months. The GfK Consumer Confidence is derived from the survey of about 2,000 consumers which are ask to rate the relative level of past and future economic conditions including personal financial situation, climate for major purchases, overall economic situation and savings level - (Jan-15)
2. HMRC "Survey and Property Transactions" between 2002-2004 (not seasonally adjusted) for England and Wales. HMRC Quarterly number of residential property transactions completions with a value over £40,000 (not seasonally adjusted) for England and Wales between 2005-2014 (as of Dec-14)
3. Monthly 12 month growth rate of total (excluding the Student Loans Company) sterling net unsecured lending to individuals (in %) seasonally adjusted (as of Dec-14)



Summary and Outlook

Strong first half performance relative to prior year comparatives

All strategic growth initiatives are on track

Market environment remains positive, albeit with general election uncertainty

Second half performance is critical and comparatives are more challenging

Trading since Christmas and overall outlook remain in line with market expectations



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