

dfs  
the sofa experts



Interim results  
23 March 2016



# Introduction

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*Richard Baker*

# Highlights

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*Ian Filby*

# Performance Highlights





## LTM Financials

**£943.2m** Gross sales  
**+5.4%**

**£92.6m** Underlying EBITDA  
**+7.4%**

**£73.2m** Free cash flow  
**79.0%**  
*conversion*

## OPERATIONAL

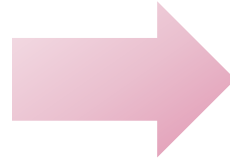
-  Strong growth in Exclusive Brand sales
-  Two new 10,000 sq. ft. UK & ROI stores opened during first half
-  Netherlands encouraging; Spain refit complete
-  Extension of trials of Sofa Workshop and Dwell within DFS
-  Continued double-digit web growth
-  Second small-format trial store to open in Bromley, Kent

Strong H1 performance leading to record last twelve months sales and underlying EBITDA, with continued strong operational performance

# Our Continuing Journey

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From a Great British Business ...



... to World Class

## DELIVERING ON OUR IPO MESSAGES

-  Above market sales growth
-  Increasing profit margins
-  Strong cash conversion
-  Investing for the future

**Our plan is wholly on-track  
delivering earnings growth and cash returns for shareholders  
while investing for the future**

# Financials

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*Bill Barnes*

# Income Statement

<i>(£m)</i>	H1 2016 26 weeks 30-Jan-2016	H1 2015 26 weeks 31-Jan-2015	FY 2015 <sup>1</sup> 52 weeks 1-Aug-15	LTM 2016 <sup>1</sup> 52 weeks 30-Jan-2016
<b>Gross Sales</b>	<b>461.3</b>	<b>431.2</b>	<b>913.1</b>	<b>943.2</b>
<i>Growth (%)</i>	<i>+7.0%</i>	<i>+10.5%</i>	<i>+7.0%</i>	<i>+5.4%</i>
<b>Revenue</b>	<b>355.8</b>	<b>332.8</b>	<b>706.1</b>	<b>729.1</b>
<i>Growth (%)</i>	<i>+6.9%</i>	<i>+11.2%</i>	<i>+7.5%</i>	<i>+5.6%</i>
<b>Gross Profit</b>	<b>51.5</b>	<b>45.9</b>	<b>122.3</b>	<b>127.9</b>
<i>Growth (%)</i>	<i>+12.2%</i>	<i>+16.5%</i>	<i>+9.3%</i>	<i>+8.0%</i>
<i>Margin (% of revenue)</i>	<i>14.5%</i>	<i>13.8%</i>	<i>17.3%</i>	<i>17.5%</i>
<b>Underlying EBITDA</b>	<b>31.0</b>	<b>27.6</b>	<b>89.2</b>	<b>92.6</b>
<i>Growth (%)</i>	<i>+12.3%</i>	<i>+16.5%</i>	<i>+8.4%</i>	<i>+7.4%</i>
<i>Margin (% of revenue)</i>	<i>8.7%</i>	<i>8.3%</i>	<i>12.6%</i>	<i>12.7%</i>

## OVERVIEW

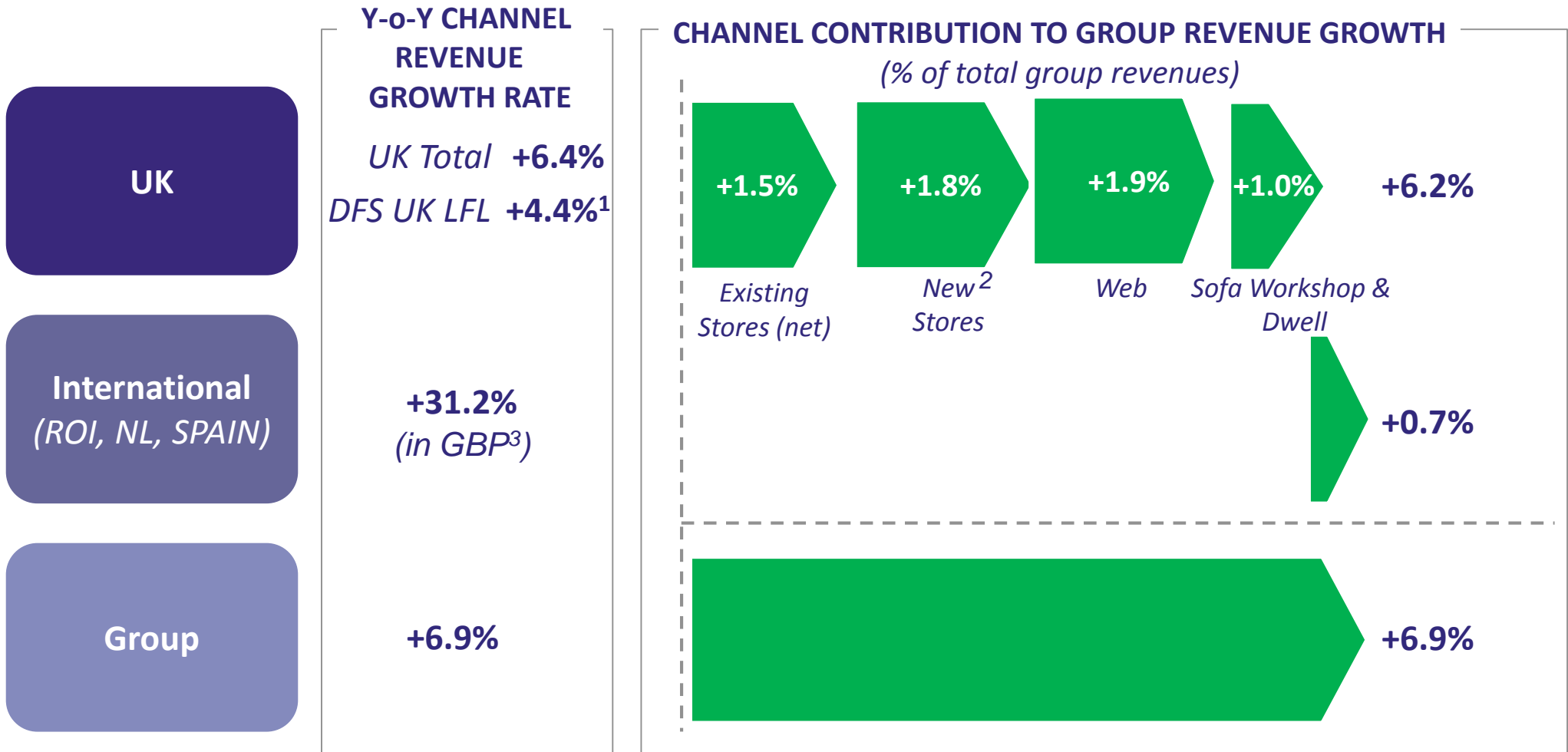
Further consistent growth  
in gross sales and revenues

Margin growth across  
period

Earnings growth ahead of  
sales reflecting operational  
leverage

Record LTM results for the Group overall

# Revenue Trends – Half Year



Consistent positive performance from all areas within the business

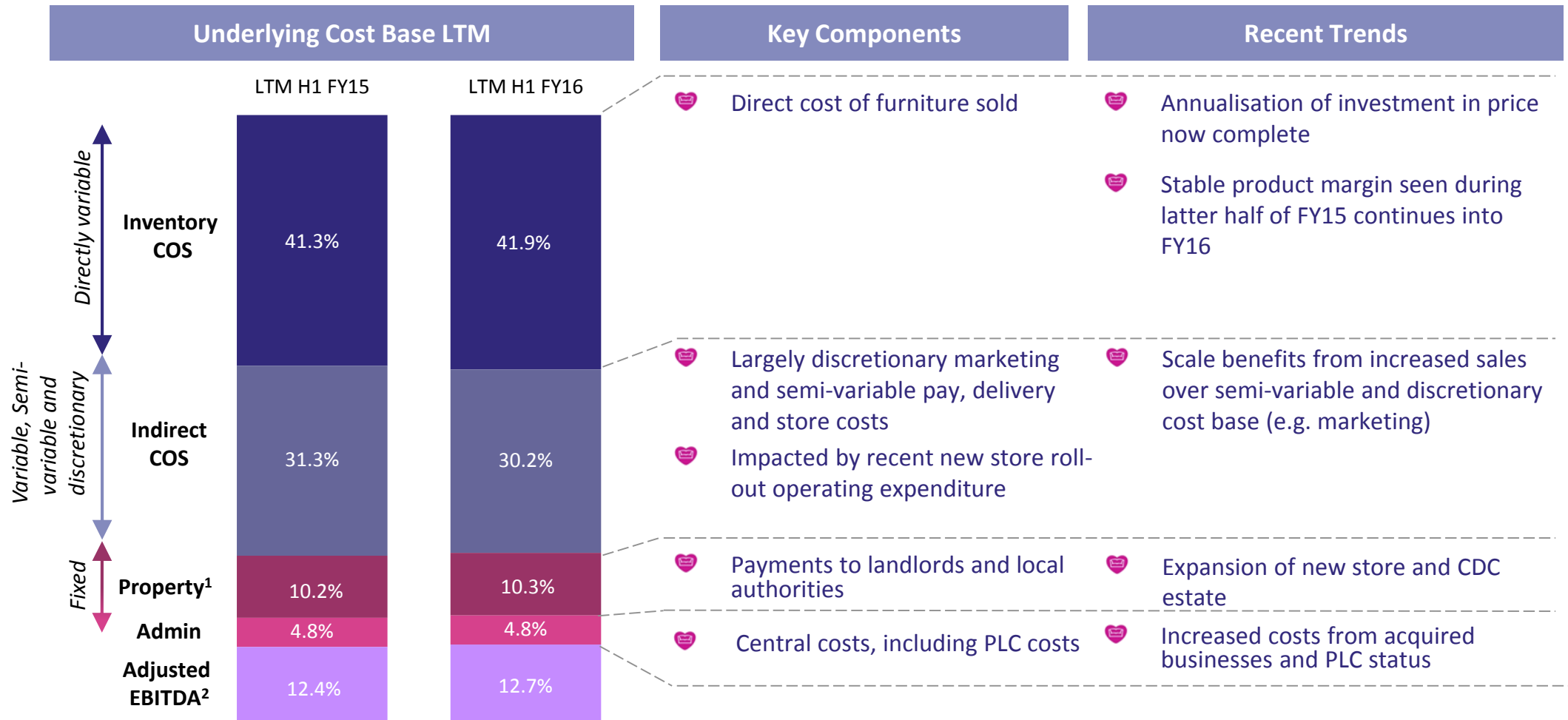


Notes:

1. 88 UK stores in like-for-like group out of 103 UK stores at period end
2. 6 stores in new stores group
3. +37.8% in local currency (EUR)



# Analysis of the Cost Base



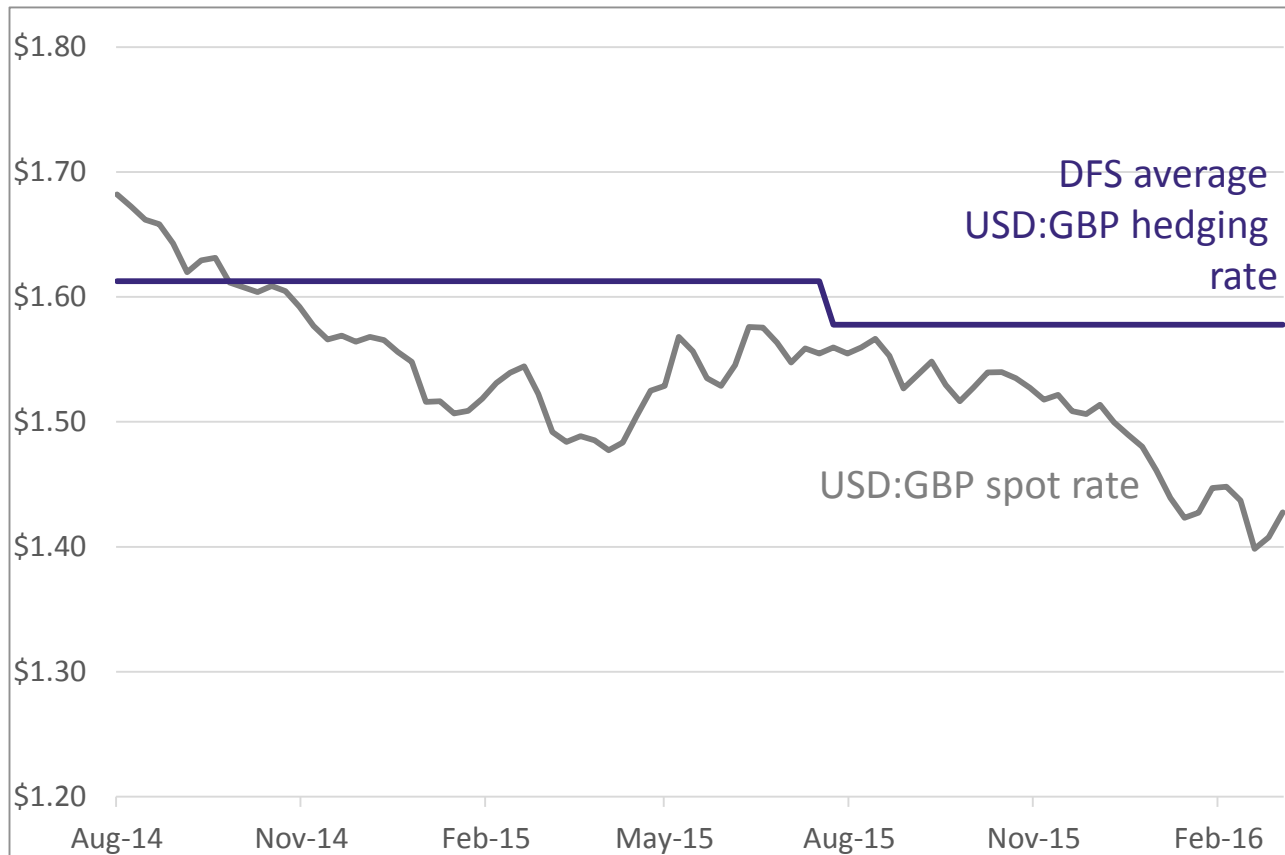
Revenue growth drives cost leverage giving positive gross margin trend overall



Notes:

1. Property comprises rent and rates
2. £0.9m of adjusted items in LTM H1 FY15 relating to start-up operating losses of acquisitions. Adjustments included in "Admin" for purposes of the chart

# Foreign Exchange Rate Exposure



## OVERVIEW

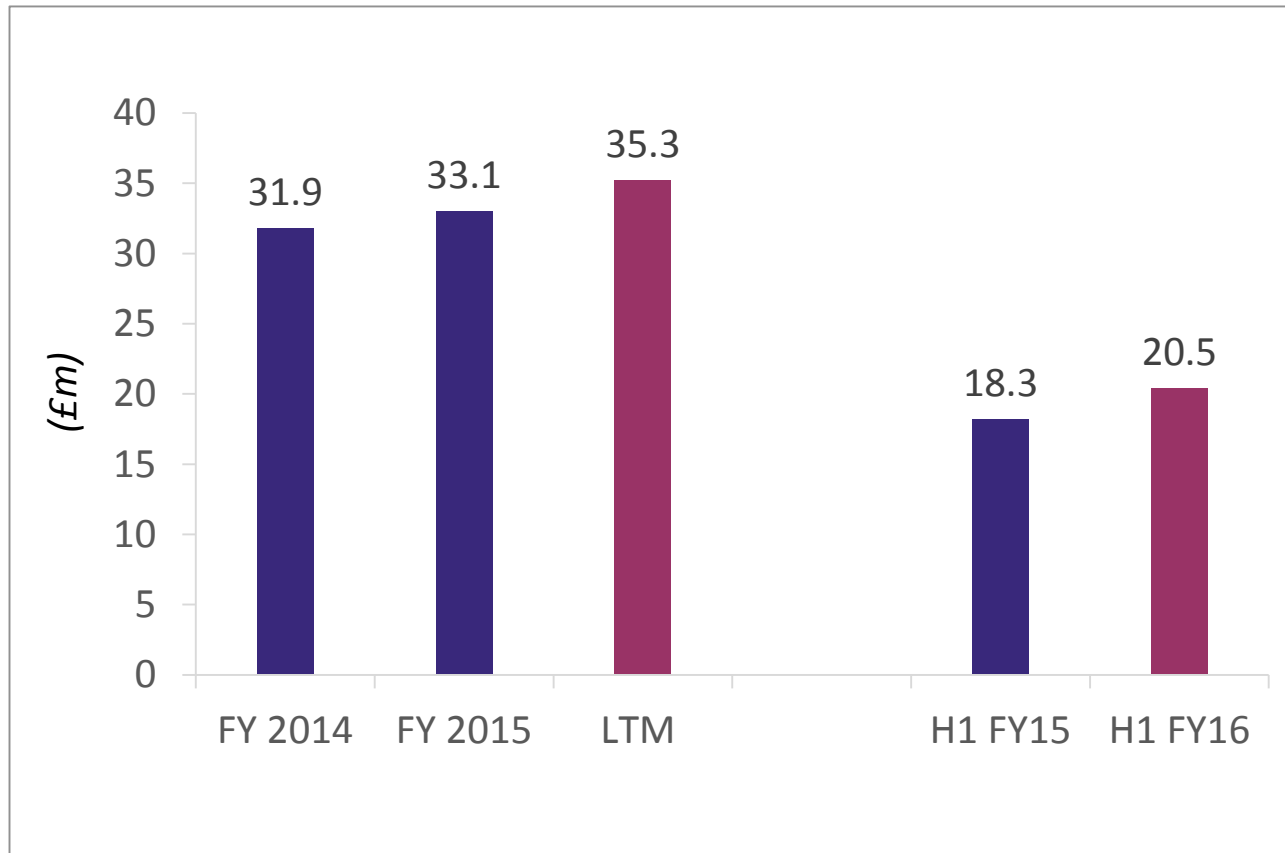
Based on current sourcing, 1¢ change in rate has £0.5m EBITDA impact

Balanced partly by positive effect from shipping and fuel costs

Commercial pressure on all retailers with US\$ sourcing

Dollar rates persisting will lead to consideration of commercial mitigation by all upholstery sector retailers in order to to maintain margins

# Administrative Cost Trends



## OVERVIEW

Share based incentive and bonus charges impact H1 2016

Additional plc costs of c. £1m to factor into each of FY16 and FY17

Investment to support scale-up of Dwell and Sofa Workshop

Increment from plc costs evident and will continue through FY16 and into FY17

## Underlying Earnings Per Share

<i>(£m)</i>	H1 FY 2016	H1 FY 2015		FY 2015	LTM FY 2016
<b>Underlying EBITDA</b>	<b>31.0</b>	<b>27.6</b>		<b>89.2</b>	<b>92.6</b>
Depreciation & amortisation	(9.0)	(8.3)		(17.0)	(17.7)
<b>Underlying operating profit</b>	<b>22.0</b>	<b>19.3</b>		<b>72.2</b>	<b>74.9</b>
Net finance expense	(5.8)	(30.0)		(38.9)	(14.7)
<b>Underlying profit / (loss) before tax</b>	<b>16.2</b>	<b>(10.7)</b>		<b>33.3</b>	<b>60.2</b>
Tax	(3.5)	(0.7)		(10.4)	(13.2)
<b>Underlying profit / (loss) after tax</b>	<b>12.7</b>	<b>(11.4)</b>		<b>22.9</b>	<b>47.0</b>
Shareholder loan interest	-	15.3		16.6	1.3
<b>Adjusted profit after tax</b>	<b>12.7</b>	<b>3.9</b>		<b>39.5</b>	<b>48.3</b>
<b>Underlying EPS on 213m shares</b>	<b>6.0p</b>	<b>1.9p</b>	+221.8%	<b>18.5p</b>	<b>22.7p</b>
<b>Dividend per share</b>	<b>3.5p</b>	<b>3.1p</b>	+12.9%	<b>9.3p</b>	<b>9.7p</b>

Interim/final dividend split not directly proportional to H1/H2 earnings but in line with 45-50% payout across the full financial year

# Cash Generation

<i>(£m)</i>	LTM H1 2016	LTM H1 2015	FY 2015
<b>Adjusted EBITDA<sup>1</sup></b>	<b>92.6</b>	<b>86.2</b>	<b>89.2</b>
Capex	(20.7)	(18.1)	(20.8)
Change in Working Capital	1.3	5.7	2.3
<b>Free Cash Flow<sup>2</sup></b>	<b>73.2</b>	<b>73.8</b>	<b>70.7</b>
<i>Conversion (% of EBITDA)<sup>3</sup></i>	<i>79.0%</i>	<i>85.6%</i>	<i>79.2%</i>
<b>Net debt</b>	<b>(158.1)</b>	<b>(261.6)</b>	<b>(162.2)</b>
<i>Multiple of adjusted EBITDA (x)</i>	<i><b>1.7x</b></i>	<i><b>3.0x</b></i>	<i><b>1.8x</b></i>

## KEY TRENDS

Significant cash generation

Net debt  
is 1.7x EBITDA

Gearing reduced despite  
full year dividend paid H1  
2016

Record earnings and strong conversion from EBITDA to cash have supported deleveraging and progressive dividend

Notes:

1. £0.9m of adjusted items in LTM H1 FY15 relating to start-up operating losses of acquisitions.
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 2016	H1 2015	FY 2015
<i>Inventories</i>	33.9	33.9	28.3
<i>Trade/Other Receivables</i>	21.5	18.1	25.3
<i>Trade/Other Payables</i>	(235.5)	(229.4)	(215.6)
<b>Total Working Capital</b>	<b>(180.1)</b>	<b>(177.4)</b>	<b>(162.0)</b>
<i>Other non-cash adjustments</i>	0.4	1.5	2.5
<b>Change in Working Capital</b>	<b>17.7</b>	<b>18.7</b>	<b>2.3</b>

## KEY TRENDS

Made to order  
virtually stockless model  
drives negative working  
capital

Cash release reflects  
growth in business

Normal seasonal trends  
H1 / H2

Negative working capital model generating cash as growth is delivered

# Capital Investment

<i>(£m)</i>	H1 2016	H1 2015	FY 2015
<i>New store investment</i>	4.4	6.1	7.6
<i>Store refurbishment</i>	2.6	0.9	2.0
<i>Web investment</i>	1.0	0.5	1.1
<i>Other (inc. vehicles)</i>	3.0	3.6	10.1
<b>Cash capital expenditure</b>	<b>11.0</b>	<b>11.1</b>	<b>20.8</b>

## KEY TRENDS

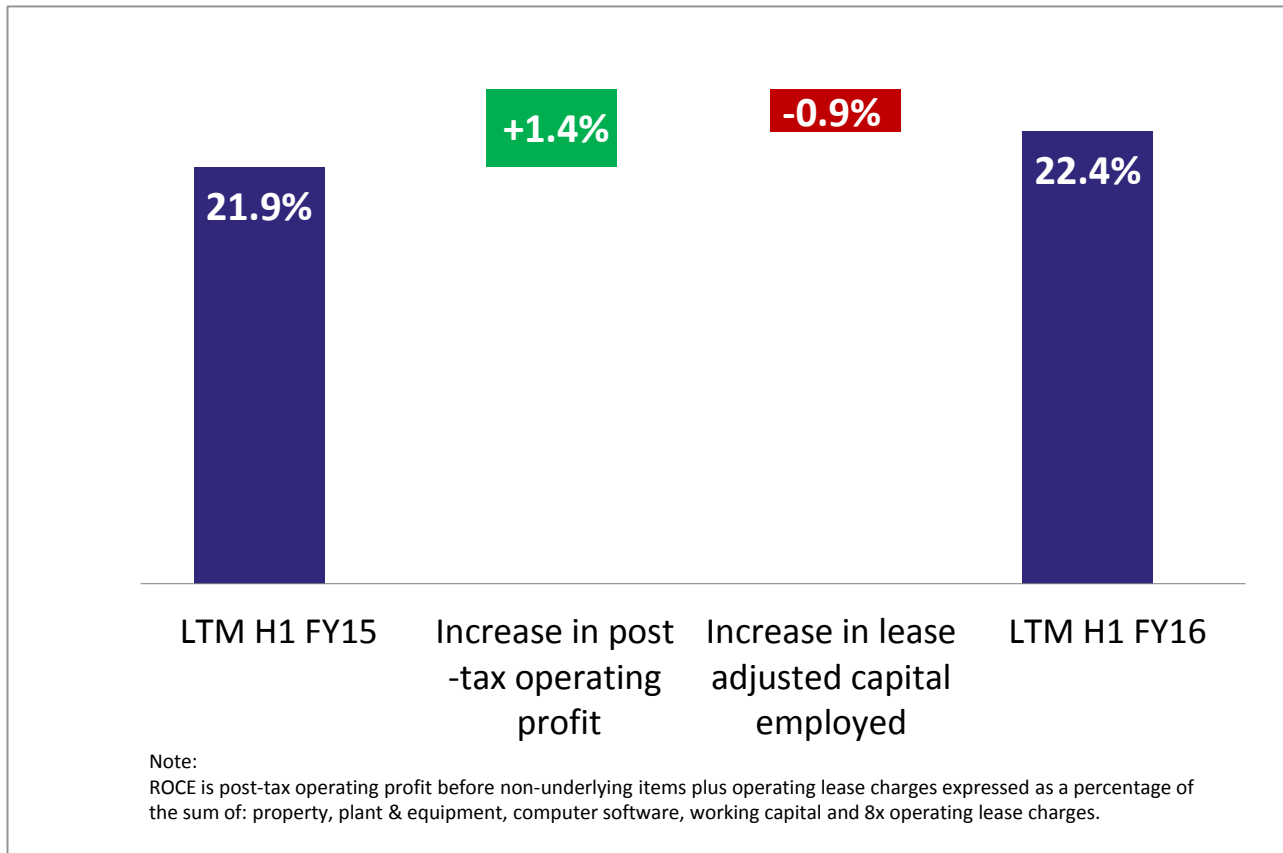
Maintenance capex of c.£10m p.a., includes store refits and vehicle fleet

Store refurbishment includes CDC cluster space release c.£1m each

Continuing investment in web and other growth initiatives

Well invested store estate and online presence, with ongoing capital expenditure expected to be £22m-£24m

# Continued Strong Returns on Capital



## KEY TRENDS

Capital efficient business model and disciplined investment approach

Significant growth in operating profit drives increasing returns

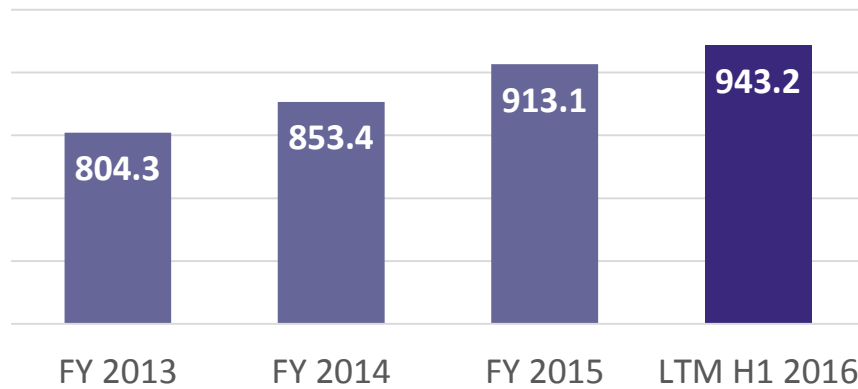
New store openings and CDCs increasing the amount of capital employed

High and growing returns on capital employed as disciplined store roll-out and CDC conversion programme is pursued

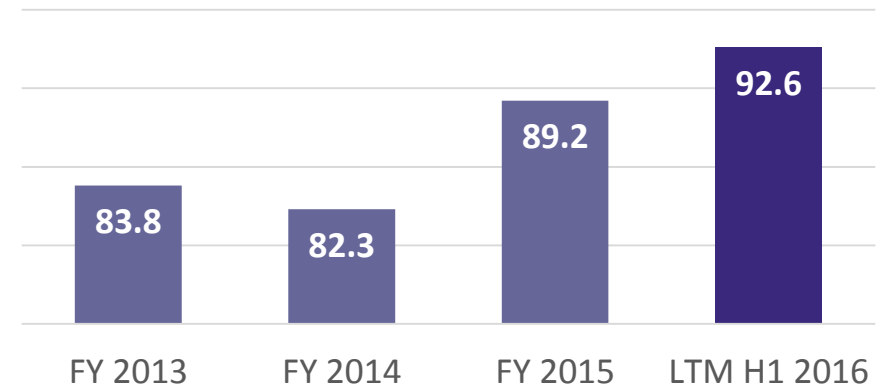


# Summary: Positive Trends in Financial KPIs

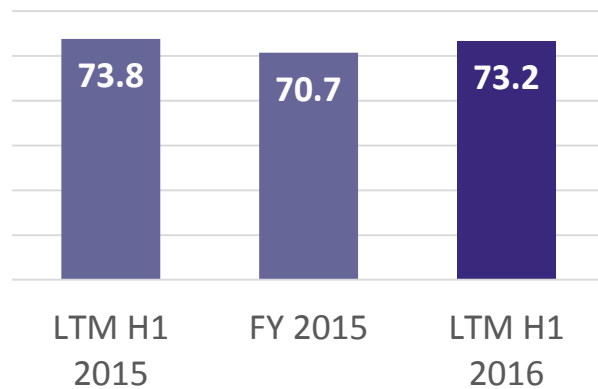
GROSS SALES (£M)



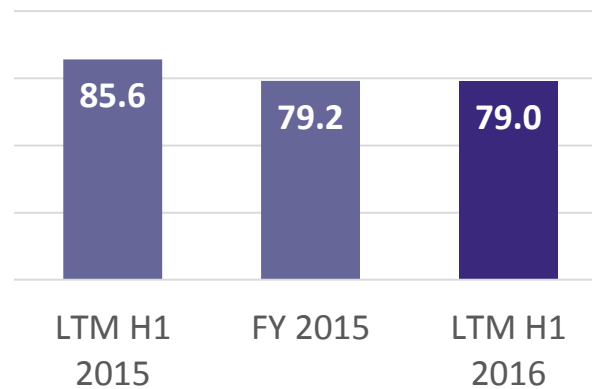
ADJUSTED EBITDA (£M)



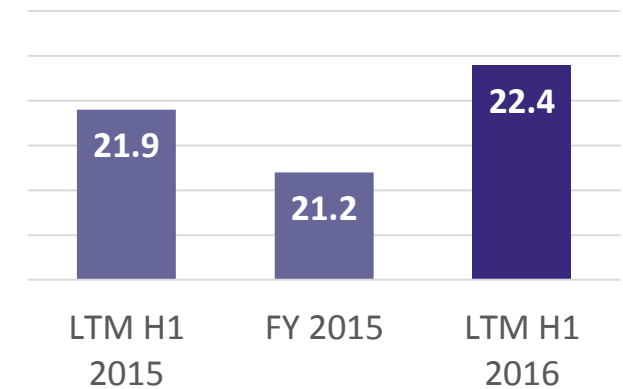
FREE CASH FLOW (£M)



CASH CONVERSION (%)



LEASE ADJUSTED ROCE (%)



Positive trends overall with sales and earnings growth, high cash conversion and an attractive, growing ROCE

# Operational Update

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*Ian Filby*

# Operational Update: DFS Stores

## OPERATIONAL UPDATE

- ♥ Strong trading alongside continued investment
- ♥ Carlisle store flooded – reopened after c. nine weeks
- ♥ “Swoosh” now in around half of stores – generating LFL growth in extended range
- ♥ Continued investment in employee development
- ♥ Executive Committee established



## “SWOOSH” ROLL-OUT



Core DFS store operations continuing to perform well with investment ongoing

# 1 Continued Progress in Broadening our Appeal

## PARTNERSHIP EXTENSIONS

FRENCH CONNECTION *sofas exclusively at dfs*

HouseBeautiful *sofas exclusively at dfs*

COUNTRY LIVING *sofas exclusively at dfs*

## SOFA WORKSHOP DILLON IN DFS STORES



## OPERATIONAL UPDATE

- ♥ Multi-year extensions to French Connection and House Beautiful/Country Living agreements
- ♥ Positive trial performance of Sofa Workshop Dillon range has led to its broader introduction into DFS stores
- ♥ Three new Dwell stores and three new Sofa Workshops opened since October
- ♥ Focus on brand-building initiatives around Team GB

Exclusive brand products continue strong growth

## 2 DFS UK Store Network Development

### OPERATIONAL UPDATE

- ♥ Opening of Christchurch in September 2015
- ♥ Kettering due to open in April 2016
- ♥ Two further small-store trial locations identified and set to open this financial year – Bromley, plus one other near the M25
- ♥ Continued overall trend of 3-5 new UK and ROI stores per annum

### INTU BROMLEY



- ♥ 5,500 sq. ft.
- ♥ 25 ranges on display across 14 bays
- ♥ 3 video screens
- ♥ Opens April 2016

Store openings exploiting “white space” with new formats under trial

# 3 International Development

## DFS SPAIN RELAUNCH



## OPERATIONAL UPDATE

- ♥ Opening of Limerick (ROI) store in December 2015
- ♥ Netherlands trading encouraging and in line with expectations following Alexandrium opening - one further store planned – ongoing £2m-£3m operational investment per annum
- ♥ Relaunch of DFS Spain store following refurbishment in January 2016 – trading in line with expectations – web opportunities being exploited

Measured international development progressing in-line with expectations

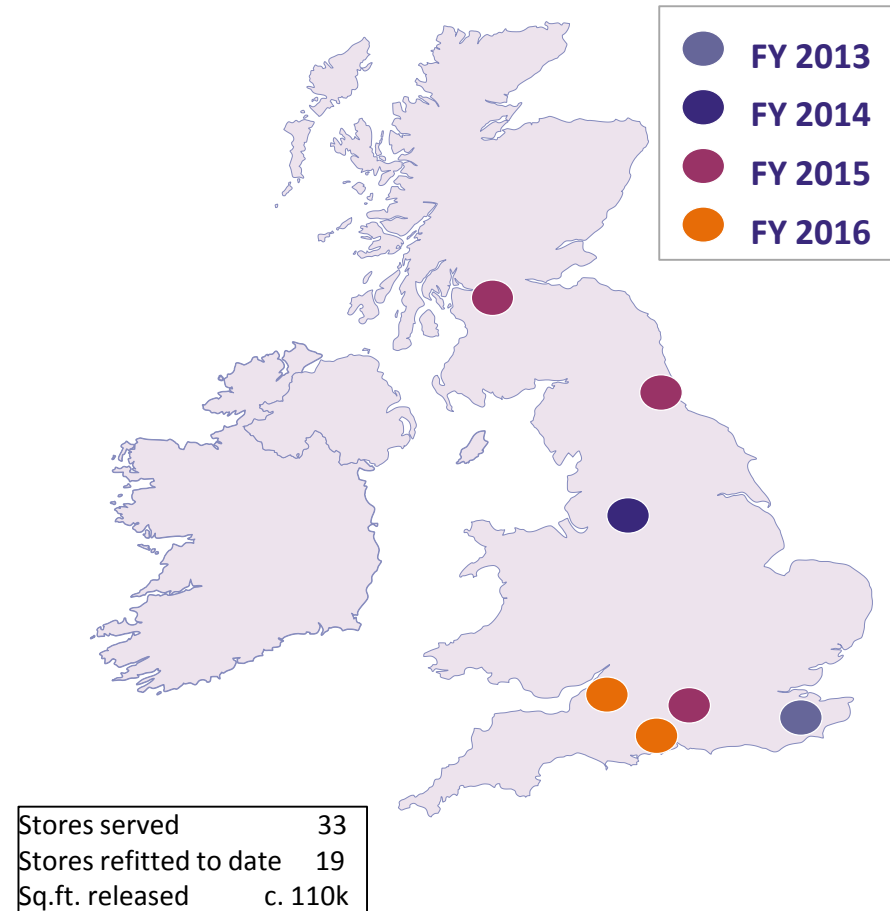
# 4

## Retail Space Release

### OPERATIONAL UPDATE

- One additional CDC opened since October and seven stores refitted
- 40,000 sq. ft. of retail space released over period
- Operational efficiencies meeting expectations
- Positive sales increment, particularly trial of co-located Dwells
- Up to five further CDCs this year, however near-term financial impact reflects pre-launch costs

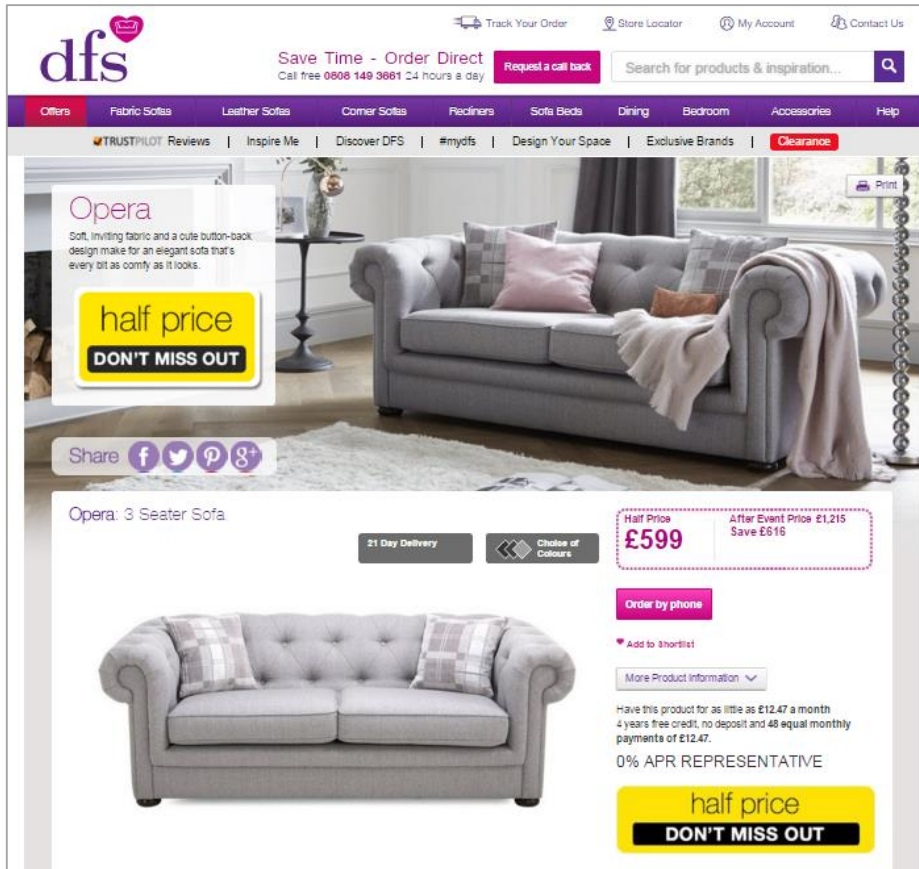
### SEVEN CDCs NOW OPEN



CDC opening programme well underway, with benefits from retail space conversion to follow

# 5 Continued Web Growth

## NEW PRODUCT VIEWER



*Image size increased by over 20%*

## OPERATIONAL UPDATE

- ♥ Continued very strong sales growth
- ♥ Investment in web platform ongoing
- ♥ Online order tracking for all orders improves customer service
- ♥ Use of online to enhance in-store experience

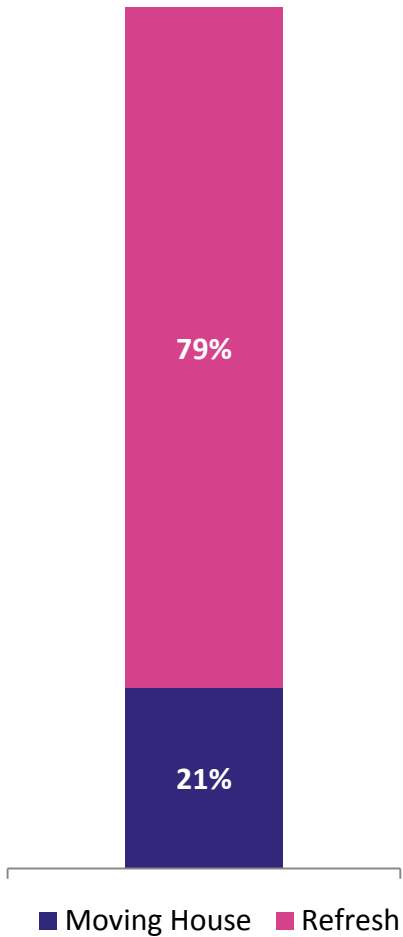
Online channel continues to be sector-leading, and growing strongly



# 6

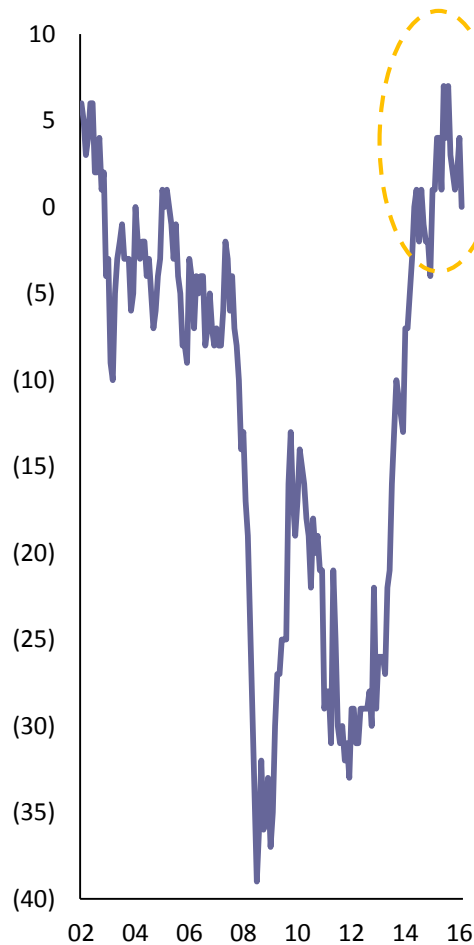
## Market Growth Drivers Remain Broadly Constant Year-on-Year

### Why People Buy Upholstery

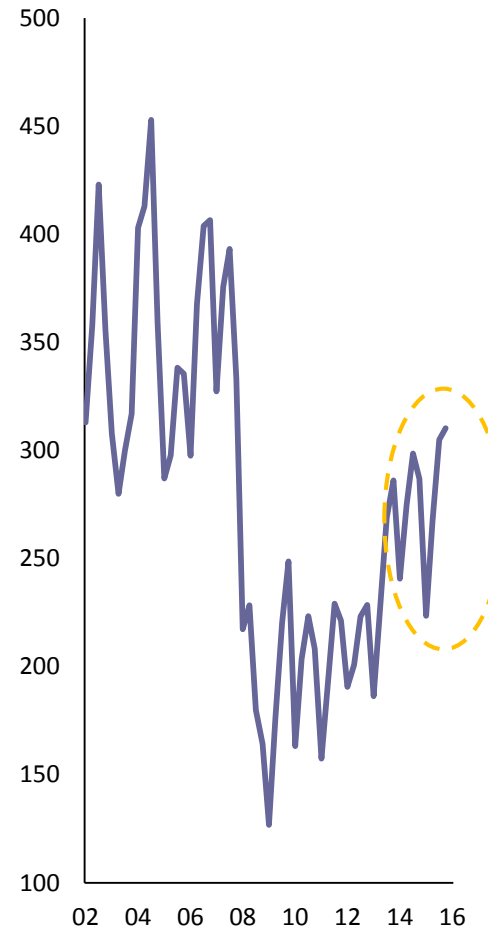


Source:  
Independent Survey conducted on behalf of DFS

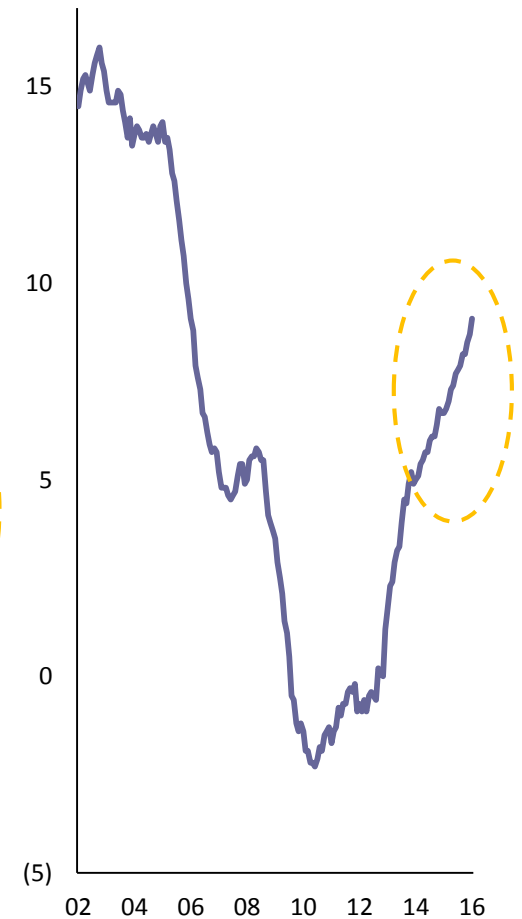
### Consumer Confidence (%)<sup>1</sup>



### Housing Transactions ('000s)<sup>2</sup>



### Net Unsecured Lending (% change)<sup>3</sup>



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
2. HMRC Quarterly number of residential property transactions completions with a value over £40,000 (not seasonally adjusted) for England and Wales
3. Monthly 12 month growth rate of total (excluding the Student Loans Company) sterling net unsecured lending to individuals (in %) seasonally adjusted

# Summary and Outlook

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## SUMMARY

- ♥ Record financial results and all strategic growth initiatives are on track
- ♥ Strong earnings growth and cash generation results in a progressive interim dividend declared

## OUTLOOK

- ♥ Uncertain potential impact of EU referendum on consumer confidence
- ♥ Current currency weakness to be managed
- ♥ Broadly stable general macro-economic trends driving current healthy furniture market
- ♥ Ongoing operating expenditure investment in Netherlands in FY16 and FY17
- ♥ Well placed to sustain our record of sales growth, market share capture and cash generation
- ♥ Our expectations for financial results for the full year therefore remain unchanged

# APPENDIX

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## Appendix – Store Profile

### AS AT 23 MARCH 2016

	UK	ROI	Holland	Spain	TOTAL
<i>Large Format (c. 15,000sq.ft.+)</i>	96	2	1	-	99
<i>Medium Format (c. 10,000sq.ft.)</i>	6	2	1	-	9
<i>Small Format (&lt;5,000sq.ft.)</i>	1	-	-	-	1
<i>Other (5,000sq.ft.)</i>	-	-	-	1	1
<b>DFS TOTAL</b>	<b>103</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>110</b>
<i>Standalone</i>	5	-	-	-	5
<i>DFS Space Conversions</i>	5	-	-	-	5
<b>Dwell</b>	<b>10</b>	-	-	-	<b>10</b>
<i>Standalone</i>	17	-	-	-	17
<i>DFS Space Conversions</i>	3	-	-	-	3
<b>Sofa Workshop</b>	<b>20</b>	-	-	-	<b>20</b>



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