

dfs 
the sofa experts



Full year results

6 October 2016



Introduction

Richard Baker

Highlights

Ian Filby

Record Financial Results and Strong Operational Progress








FINANCIAL

£980.4m Gross sales
+7.4%

£64.5m Profit before tax
+93.7%

£75.6m Free cash flow
80.1%
conversion

OPERATIONAL

-  Strong growth in Exclusive Brand sales
-  Three new 10,000 sq. ft. UK & ROI stores opened during year
-  Continuing progress internationally
-  Positive Dwell and Sofa Workshop performance using converted existing store warehouse space
-  Continued double-digit web growth
-  Small-format store trials continuing
-  Record customer NPS

We continue to successfully implement our strategy, delivering earnings growth and cash returns for shareholders while investing for the future

Financials

Nicola Bancroft

Record Financial Results Overall

<i>(£m)</i>	FY 2016 52 weeks ending 30-Jul-16	FY 2015 52 weeks ending 1-Aug-15
Gross Sales	980.4	913.1
<i>Growth (%)</i>	<i>+7.4%</i>	<i>+7.0%</i>
Revenue	756.0	706.1
<i>Growth (%)</i>	<i>+7.1%</i>	<i>+7.5%</i>
Gross Profit	134.3	122.3
<i>Growth (%)</i>	<i>+9.8%</i>	<i>+9.3%</i>
<i>Margin (% of revenue)</i>	<i>17.8%</i>	<i>17.3%</i>
Underlying EBITDA	94.4	89.2
<i>Growth (%)</i>	<i>+5.8%</i>	<i>+8.4%</i>
<i>Margin (% of revenue)</i>	<i>12.5%</i>	<i>12.6%</i>

OVERVIEW

Further consistent growth in gross sales and revenue

Gross margin strengthening through operating leverage

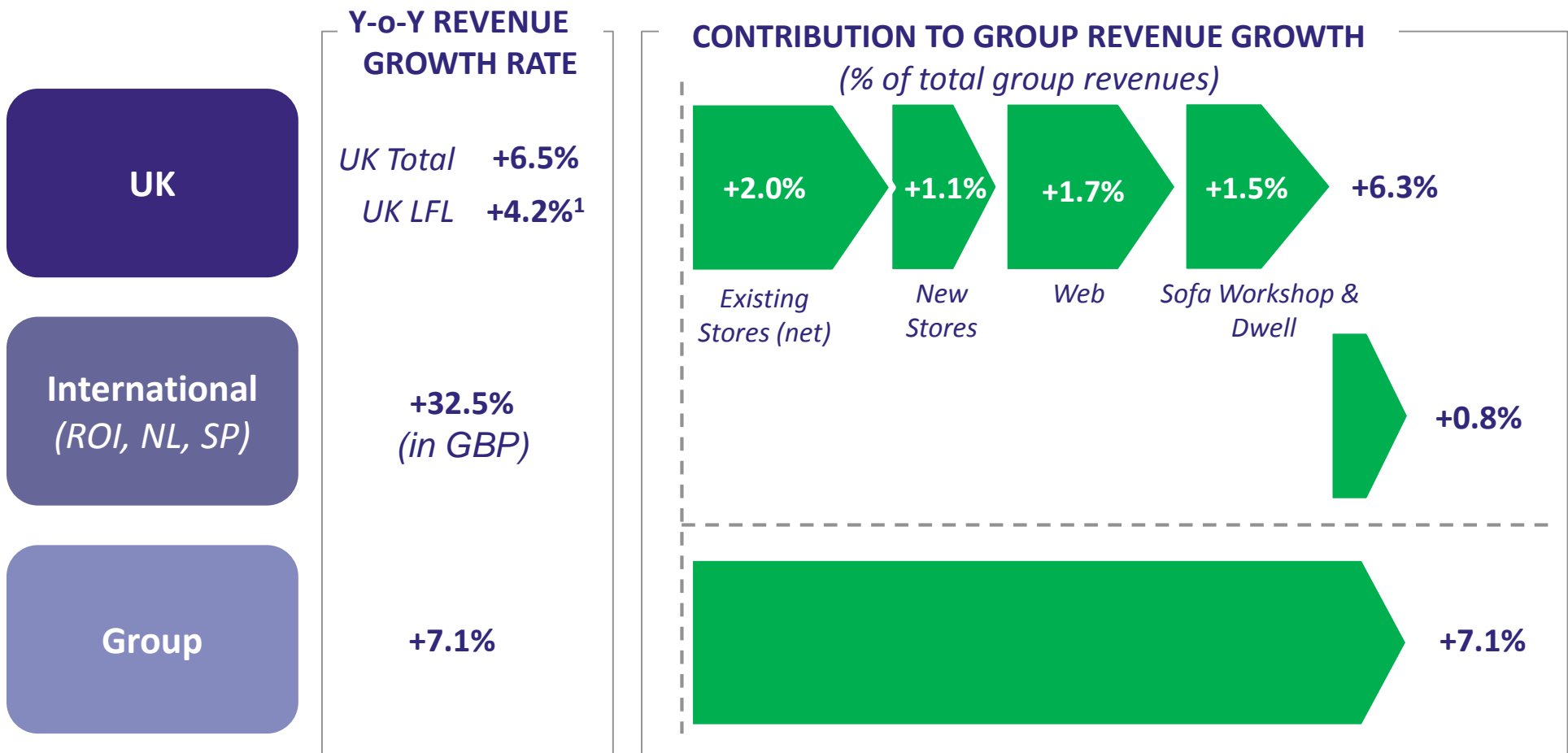
Record results for the Group overall

Consistent sales growth with stable gross margin trends

Notes:

1. £11.6m of adjusted items in FY15 relating to listing costs, and international costs / start-up operating losses of acquisitions

Positive Revenue Trends Throughout the Group

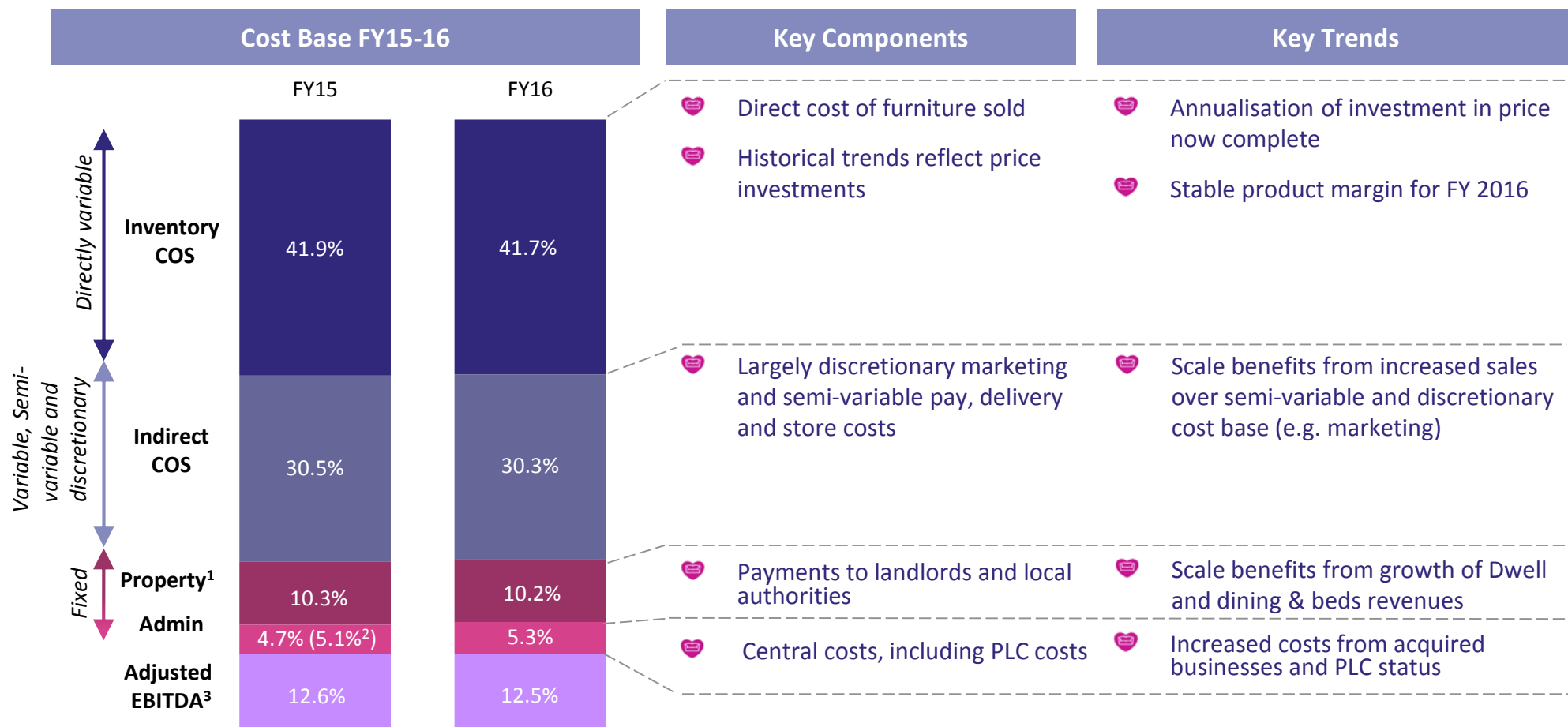


Consistent positive performance from all areas within the business

Notes:

1. 88 UK stores in like-for-like group out of 105 UK stores at period end

Highly Flexible Cost Base



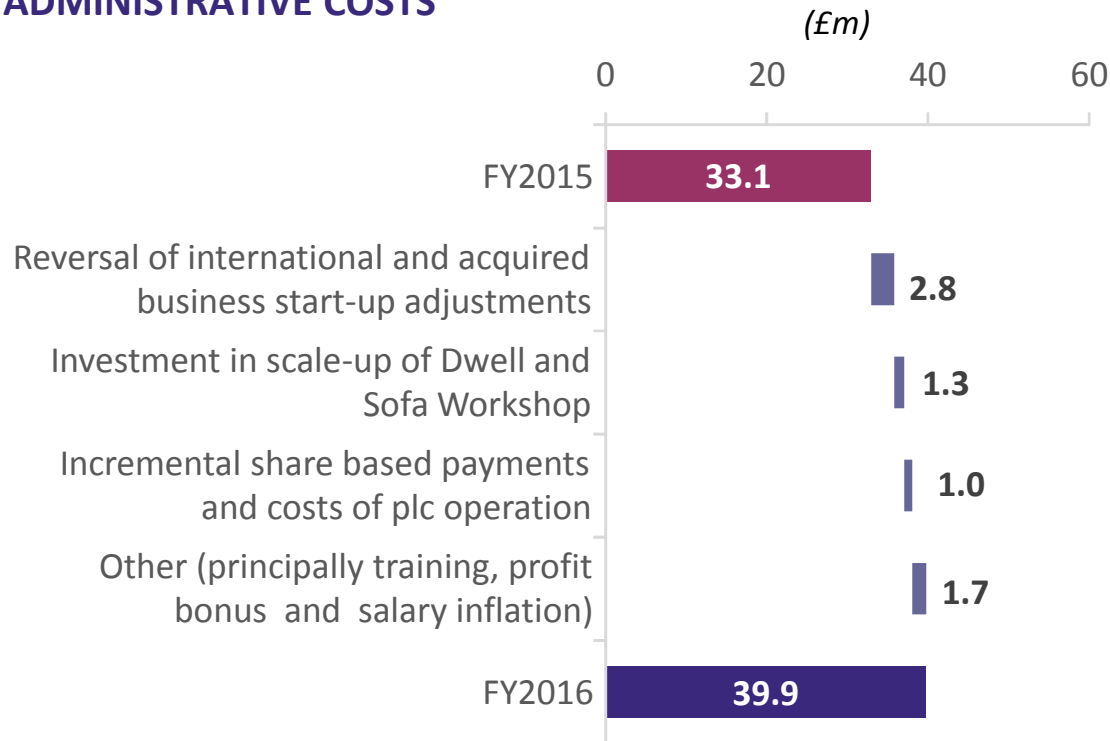
Scale benefits offset recent investment for growth and support generally stable profit margins

Notes:

- Property comprises rent and rates
- 4.7% as reported; 5.1% excluding £2.8m of non-underlying items relating to international costs / start-up operating losses of acquisitions
- £11.6m of non-underlying items in FY15 relating to listing costs, and international costs / start-up operating losses of acquisitions. Adjustments included in "Admin" for purposes of the chart

Administrative Costs Reflect Operational Progress

ADMINISTRATIVE COSTS



KEY TRENDS

Reversal of prior one-off non-underlying items

Further investment in acquired businesses given growth strategy

Remainder reflects mix of PLC operation, training, salary inflation and profit bonus

Additional investment of c. £2m to factor into FY17

Increase in administrative cost base represents investment in our infrastructure for growth and strong profit performance

Strong Growth in Underlying Earnings Per Share

<i>(£m)</i>	FY 2016	FY 2015
Underlying EBITDA	94.4	89.2
Depreciation & amortisation	(18.6)	(17.0)
Underlying operating profit	75.8	72.2
Net finance expense	(11.3)	(38.9)
Underlying profit / (loss) before tax	64.5	33.3
Underlying tax	(14.1)	(10.4)
Underlying profit / (loss) after tax	50.4	22.9
Shareholder loan interest	-	16.6
Adjusted profit after tax	50.4	39.5
Adjusted underlying EPS on 213m shares	23.7p	18.5p

KEY TRENDS

EPS growth underpinned by good operating performance

Depreciation & amortisation will continue to rise following increased level of capex

Lower / normalised financing charges with post IPO capital structure now annualised

Underlying taxation adjusted to remove one-off benefit

28.1% increase in underlying earnings per share driven by strong operating result and lower / normalised financing charges

Strong Cash Generation and Paydown of Net Debt

<i>(£m)</i>	FY 2016	FY 2015
Underlying EBITDA	94.4	89.2
Capex	(24.5)	(20.8)
Change in Working Capital	5.7	2.3
Free Cash Flow¹	75.6	70.7
<i>Conversion (% of EBITDA)²</i>	<i>80.1%</i>	<i>79.2%</i>
Net debt	(137.1)	(162.2)
<i>Multiple of adjusted EBITDA (x)</i>	<i>1.45x</i>	<i>1.82x</i>

KEY TRENDS

Significant cash generation reflecting high cash conversion

Deleveraging of balance sheet in addition to £31m of dividends and treasury share purchases

Net debt now beneath 1.5x EBITDA

Record earnings and strong cash conversion from EBITDA is a consistent feature of the business model

Notes:

1. FCF is calculated as Adjusted EBITDA – Capital Expenditure + Change in Working Capital
2. Cash conversion is calculated as FCF / Adjusted EBITDA

Progressive Final Dividend and a Potential Future Special Capital Return

FINAL DIVIDEND

<i>(£m)</i>	FY 2016	FY 2015
Adjusted Profit After Tax	50.4	39.5
<i>Pay-out ratio</i>	<i>c. 46%</i>	<i>c. 50%</i>
Dividends declared	23.3	19.8
<i>Number of shares</i>	<i>211.5</i>	<i>213.0</i>
Dividends per share (p)	11.0	9.3
<i>Interim (p)</i>	<i>3.5</i>	<i>3.1</i>
<i>Final (p)</i>	<i>7.5</i>	<i>6.2</i>

POTENTIAL FOR SPECIAL CAPITAL RETURNS

Intention to maintain net debt / EBITDA broadly between 1.0x and 1.5x

Potential to regularly announce special return of capital to shareholders

Subject to capital needs of the business

Expect to return capital to remain at c.1.5x net debt / EBITDA at the financial year end

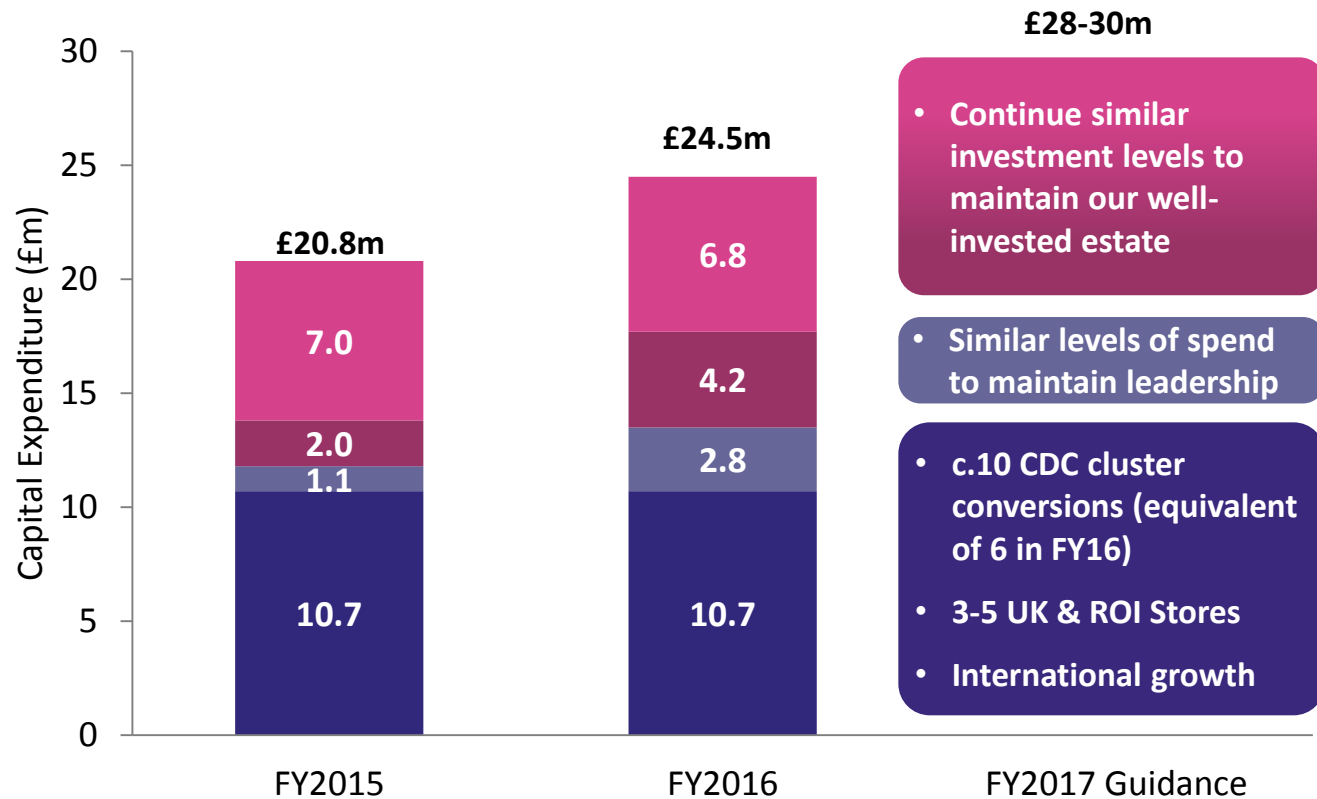
Strong profit growth and free cash generation underpins continuation of progressive dividend policy with a 18.3% rise in dividend per share.

Expected special capital return to be announced alongside interim results

Investment in Infrastructure for Future Growth

CASH CAPITAL EXPENDITURE

- Other (inc. commercial vehicles)
- Store refurbishment
- Web investment
- New store & CDC investment

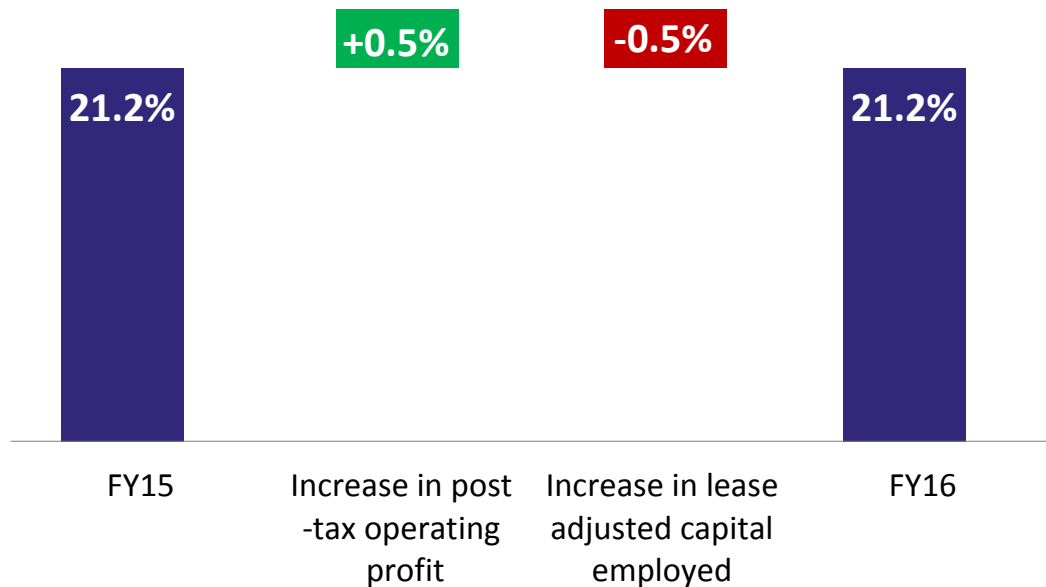


- Continue similar investment levels to maintain our well-invested estate
- Similar levels of spend to maintain leadership
- c.10 CDC cluster conversions (equivalent of 6 in FY16)
- 3-5 UK & ROI Stores
- International growth

Capex spend reflects CDC acceleration, and investment in existing and new stores. FY17 capex expected to be £28m-£30m due to further CDC acceleration. Thereafter, capex requirements for existing growth and maintenance initiatives likely to be lower than FY17

Continued Strong Returns on Capital

LEASE ADJUSTED ROCE



Note:

ROCE is post-tax operating profit before non-underlying items plus operating lease charges expressed as a percentage of the sum of: property, plant & equipment, computer software, working capital and 8x operating lease charges

KEY TRENDS

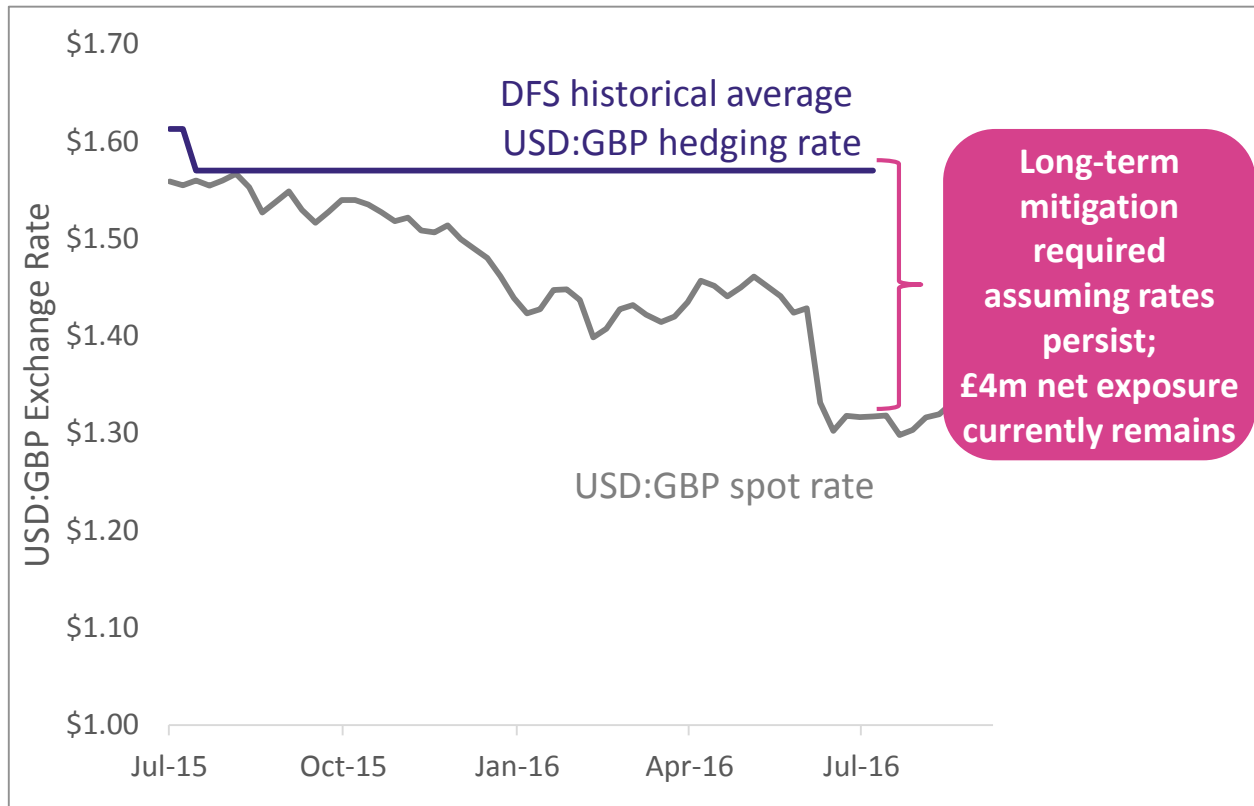
Capital efficient business model and disciplined investment approach

Growth in operating profit supports maintenance of strong returns

New store openings and CDCs increasing the amount of capital employed

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

Foreign Exchange Exposure Being Addressed



OVERVIEW

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

Near term impacts reduced by FY17 hedging programme and lower shipping costs

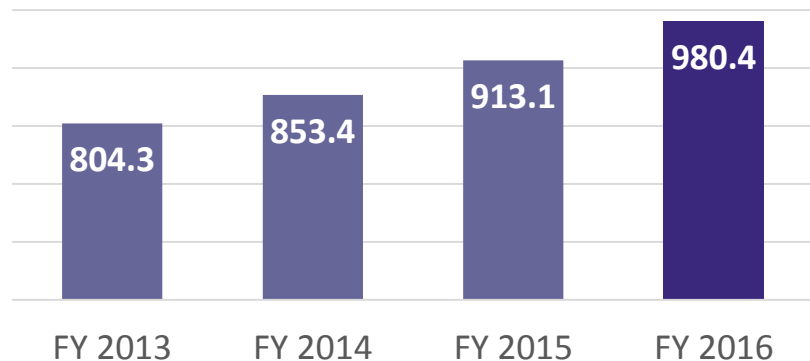
Range management and supplier negotiation key in medium term

Lower exposure than many major UK upholstery retailers given UK vertical integration

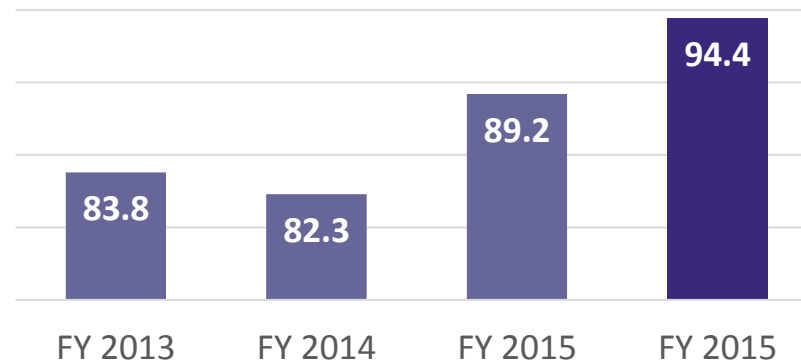
A plan is in place to address approximately two thirds of the current full-year current gross margin exposure from USD changes. Work continues to address remaining exposure and any European supplier impacts

Summary: Positive Trends in Financial KPIs

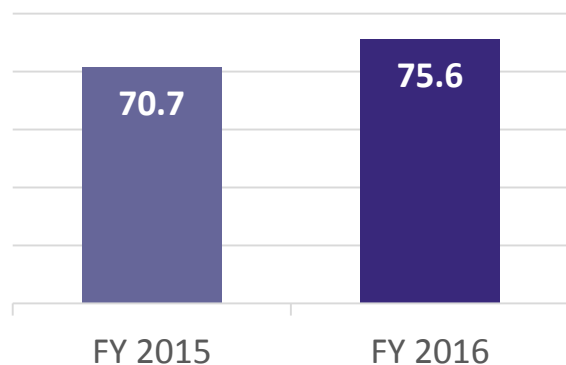
GROSS SALES (£M)



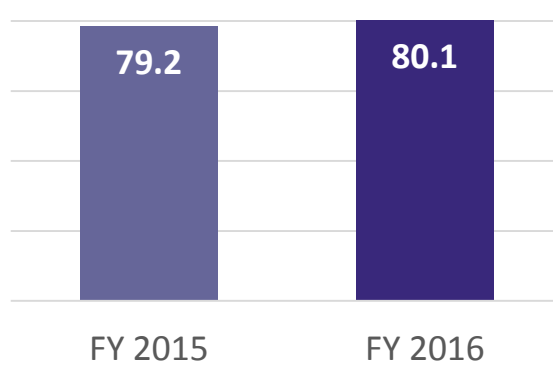
ADJUSTED EBITDA (£M)



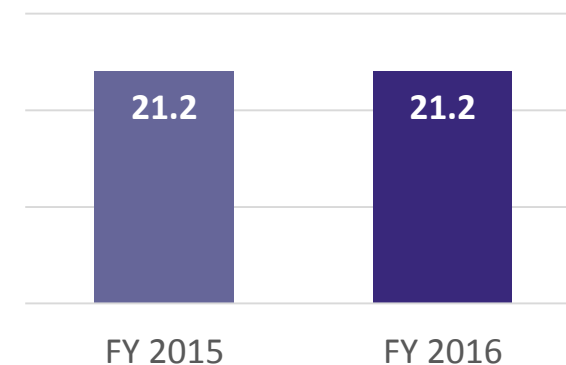
FREE CASH FLOW (£M)



CASH CONVERSION (%)



LEASE ADJUSTED ROCE (%)

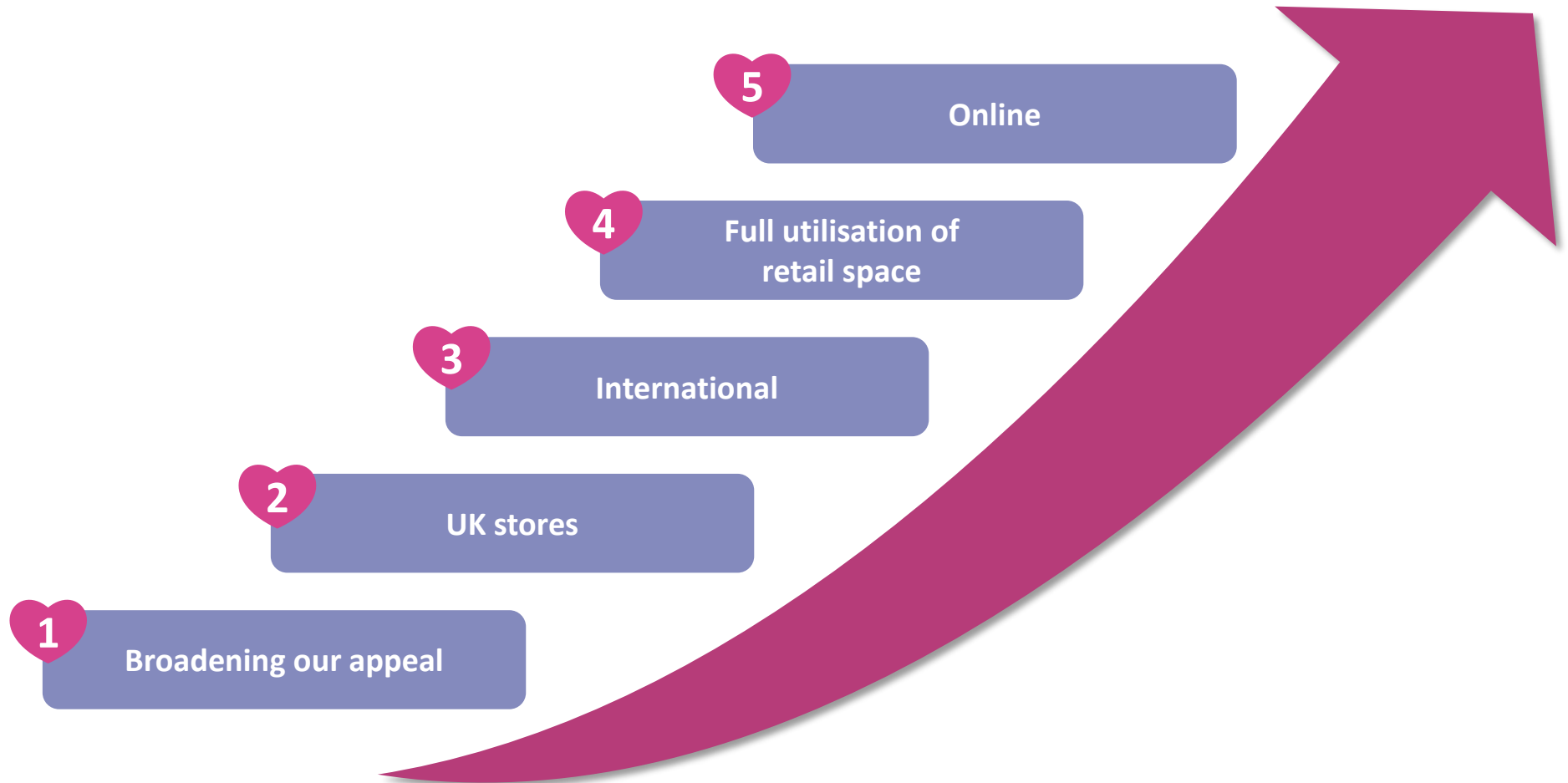


Positive trends overall with sales and earnings growth, high cash conversion and an attractive, stable ROCE

Operational Update

Ian Filby

Our Proven Levers of Growth



Strong fundamentals of Scale, Flexible Cost Base and Vertical Integration

1 Continued Progress in Broadening our Appeal

POSITIVE IMPACT OF TEAM GB PARTNERSHIP



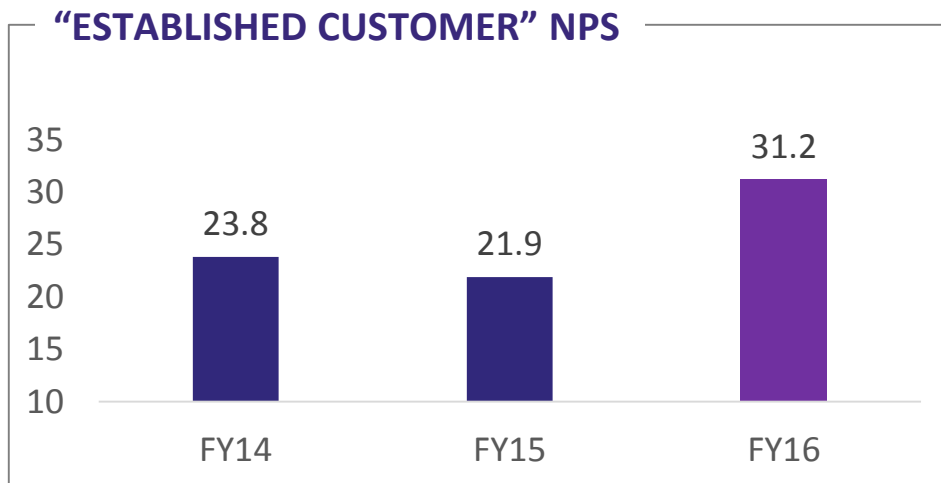
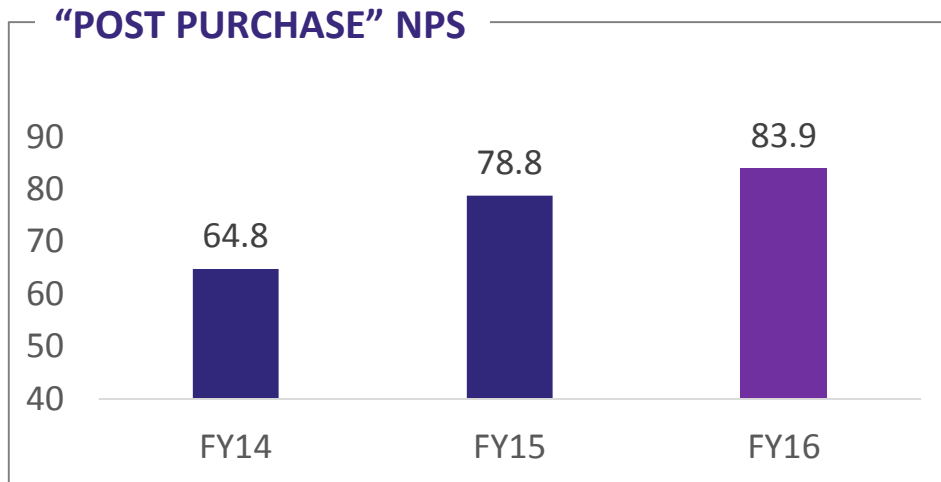
OPERATIONAL UPDATE

- ♥ Branded product gross order value increased 35% year-on-year
- ♥ Successful new product introductions
 - New House Beautiful Lydia and French Connection Marl ranges
 - Sofa Workshop ranges performing well in DFS stores
- ♥ Branded ranges being broadened with coffee tables and accessories
- ♥ Positive benefits from Team GB partnership

Exclusive brand products continue strong growth

1

Further Increases in Customer Satisfaction



INVESTMENT AND FOCUS DRIVING PROGRESS

- ♥ All front-line employees hold customer service level 2 NVQs
- ♥ Apprenticeship schemes in progress in upholstery, retail and manufacturing
- ♥ Significant investments in management information systems to reinforce closed loop and enable proactive intervention
- ♥ Customer facing employees and management all incentivised on established customer NPS

Clear evidence of positive progress both post-purchase and with established customers

2 DFS Store Network Development

OPERATIONAL UPDATE

- ♥ Kettering opening in April was third FY16 new store
- ♥ Bromley small-store trial location operating profitably
 - Operating model being refined based on learnings to date
 - Crawley to be first outside M25 trial
- ♥ Continued overall trend of 3-5 new UK and ROI traditional format stores p.a.
 - 2 stores opened in FY17 to date (Truro and Salisbury)
 - Pipeline for next two years clearly defined, subject to negotiation

NEW STORE OPENINGS



Christchurch - September 2015 - 10,000sq.ft.

Limerick - December 2015 - 10,000 sq. ft. ground floor + mezz

Kettering - April 2016 - 11,000 sq.ft.

Store openings exploiting “white space” with new formats being trialled

3 International Development – Netherlands & Spain

OPENING OF VILLA ARENA



OPERATIONAL UPDATE

- ♥ Netherlands trading in line with expectations
 - Year on year sales growth in Cruquius
 - Rotterdam store replicating Cruquius trends
- ♥ Opening of Villa Arena trial small store in August 2016
- ♥ Two further NL store openings planned in FY17
- ♥ Spain performance adversely impacted by EU Referendum result, however clear opportunity exists

Measured international development progressing in-line with our expectations

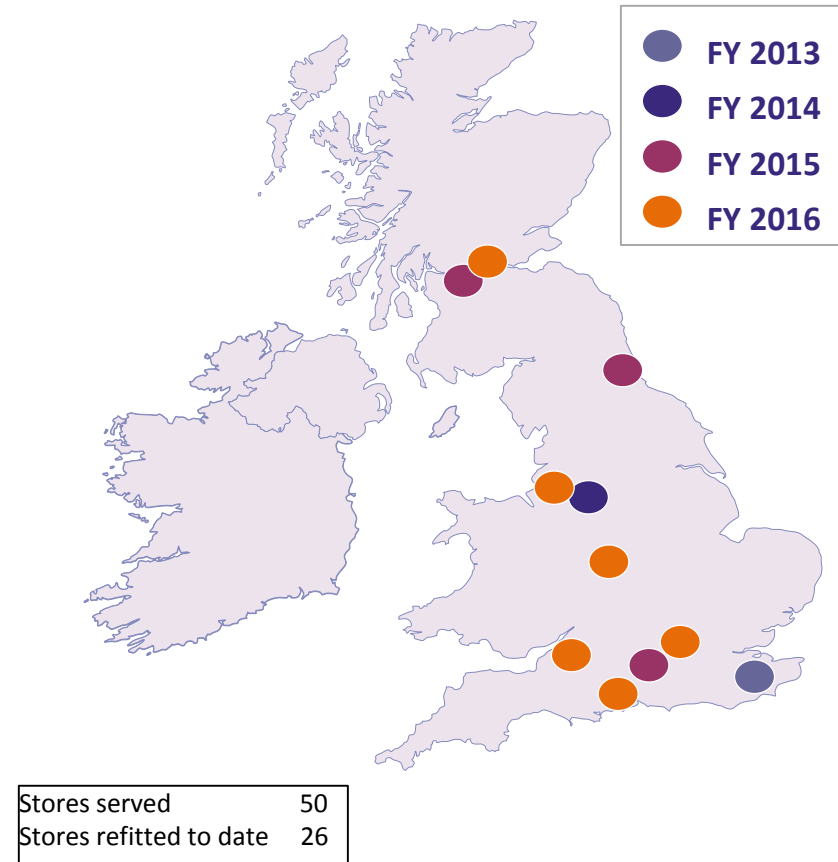
4

Retail Space Release

OPERATIONAL UPDATE

- ♥ Eleven UK CDCs operational by year end
- ♥ 26 stores converted at year end
 - 19 weighted average stores in year
- ♥ Operational efficiencies meeting expectations
 - Delivery administration being trialled through CDCs
- ♥ Final eight CDCs to open in FY17
- ♥ Retail space conversion will complete in FY18

ELEVEN UK CDCs OPEN BY FY 2016



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

4

Retail Space Release – Strong Performance From Dwell

DWELL DRIVES REVISED SHAPE OF FUTURE ESTATE

- ♥ 18 Dwell openings give confidence in likely potential from conversion programme
 - DFS LFL store performance typically increases by c. 2%⁽¹⁾ relative to estate
 - Net incremental EBITDA from converted space now between £650k-£700k per CDC cluster
- ♥ Potential in total for:
 - >40 Dwells
 - >30 DFS beds & dining
 - >5 Sofa Workshops
- ♥ Net benefit of c.5 CDC clusters reflected in FY16 results; benefit of 14 CDC clusters remains to be reflected
 - Incremental £3-4m EBITDA benefit overall to be come through across FY18 and FY19
 - Pre-opening costs / double-running costs offset FY17 incremental benefits

CREATING FURNITURE DESTINATIONS

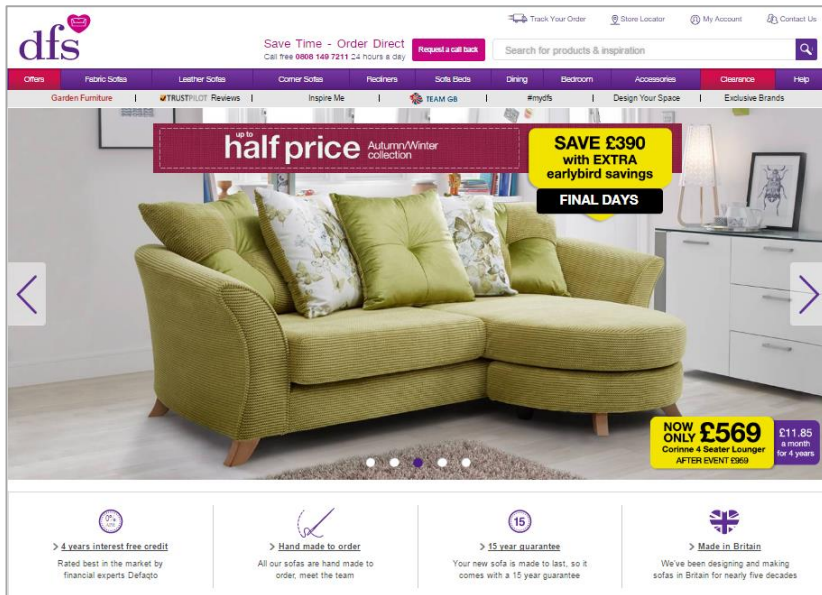


Note:

(1) Based on a weighted average of gross orders performance achieved by the first 12 DFS stores with Dwell inside, relative to the DFS LFL estate, over the 26 week period following the Dwell opening

5 Continued Web Growth

REPLATFORM OF DFS.CO.UK



- ♥ Upgrade to IBM Websphere Commerce 8
- ♥ Improved look and feel
- ♥ No disruption to business operations

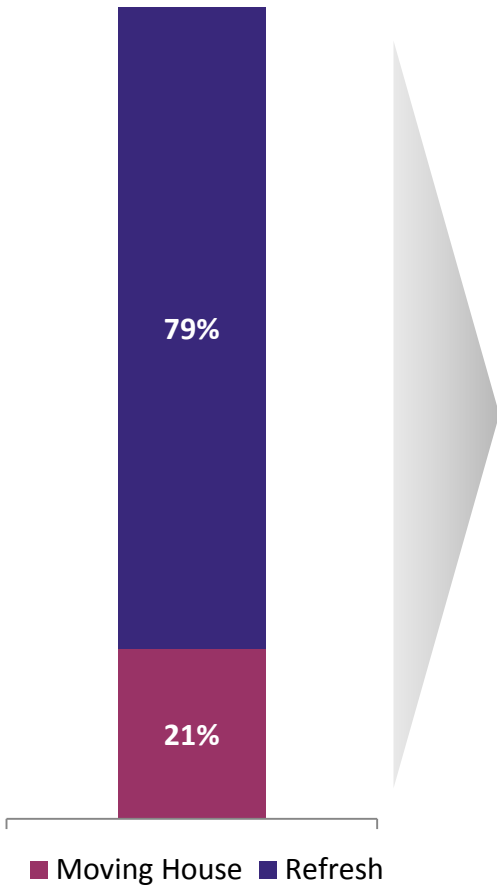
OPERATIONAL UPDATE

- ♥ Continued double-digit sales growth
- ♥ Online remains critical to whole business model including store experience
 - Increasing use of online channel for order progress tracking and payments
 - “Swoosh” in 70% of stores at financial year end; roll-out complete in 2016
- ♥ Investment in web platform maintained – replatform of dfs.co.uk completed September 2016

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

Market Growth Drivers Remain Positive Relative to Historical Lows

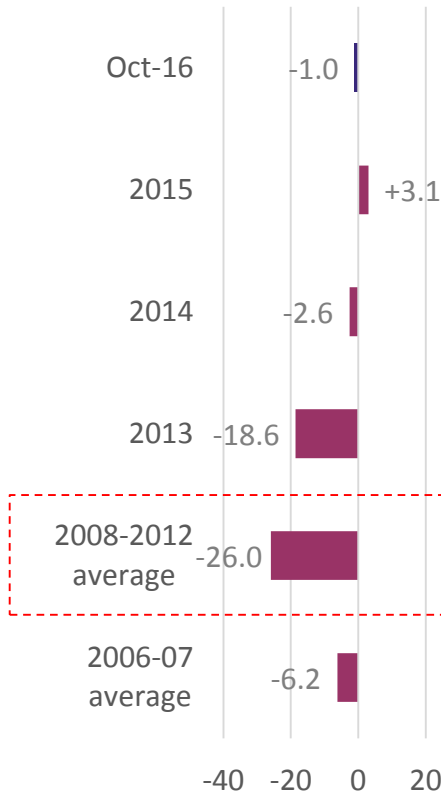
Why People Buy Upholstery



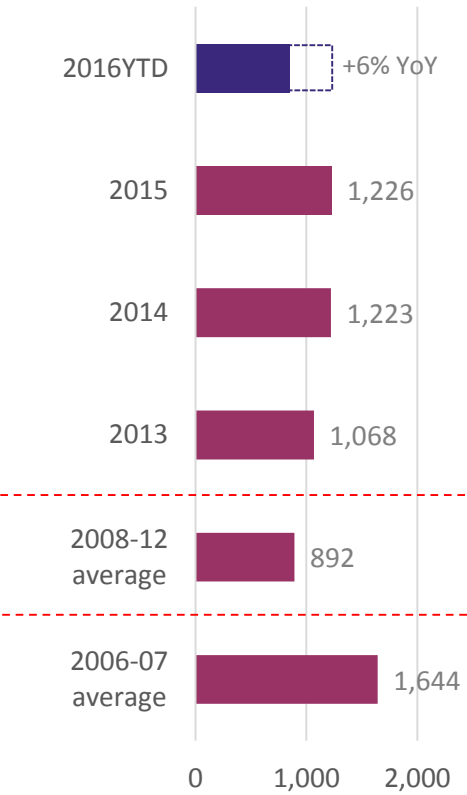
Source:
Independent Survey conducted on behalf of DFS



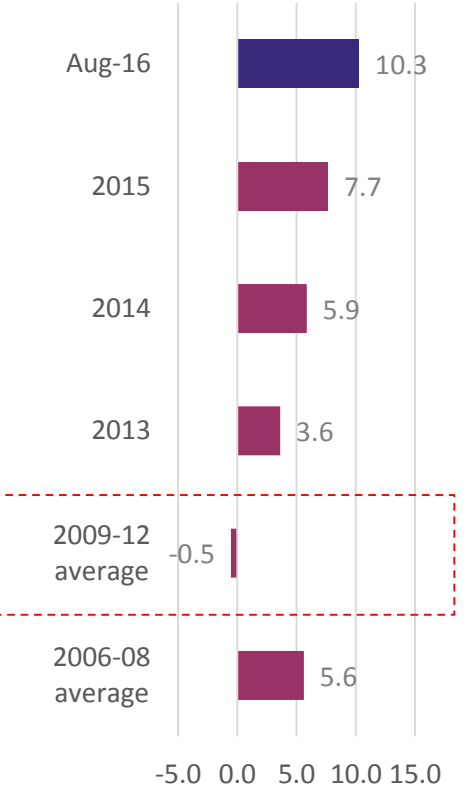
Consumer Confidence (%)¹



Housing Transactions ('000s)²



Net Unsecured Lending (% change)³



Notes:

1. GfK Consumer Confidence average of individual scores for each year
2. HMRC - number of residential property transactions completions with a value over £40,000 for England and Wales
3. Bank of England - 12 month average growth rate of total (excluding the Student Loans Company) sterling net unsecured lending to individuals (in %) seasonally adjusted

Well Positioned to Prosper in All Environments

1

Scale

- ♥ Larger than next four competitors combined
- ♥ Sales and logistics intensity allows us to consistently offer customers better value overall

2

**Flexible
Business
Model**

- ♥ Highly flexible cost base (only c. 15% fixed costs)
- ♥ Made to order operations – no stock risk, very high cash conversion

3

**Vertical
Integration**

- ♥ Operate as an additional profit centre
- ♥ UK based
- ♥ Give insight to assist in supplier negotiations

Summary and Outlook

SUMMARY

- Record financial results and all strategic growth initiatives are on track
- Strong earnings growth and cash generation results in a progressive final dividend
- Potential for special capital return to be announced alongside interim results

OUTLOOK

- Risk of impact of EU referendum on consumer confidence and economic environment in 2017
- Trading performance however remains strong to date
- Currency weakness being managed, still further progress required
- Ongoing operating expenditure investment in Netherlands
- Business model positions us to capture market share and generate cash for shareholders in all environments

APPENDIX

Financial Calendar

Annual General Meeting	– 2 December 2016
Ex-dividend share trading begins	– 8 December 2016
Dividend record date	– 9 December 2016
Dividend payment date	– 28 December 2016
Half year trading update	– 9 February 2017
Half year results	– March 2017*
Full year trading update	– August 2017*
Full year results	– October 2017*

* Denotes dates to be confirmed

Group Store Profile

AS AT 30 JULY 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>	7	2	1	-	10
<i>Small Format (<5,000sq.ft.)</i>	2	-	-	-	2
<i>Other (5,000sq.ft.)</i>	-	-	-	1	1
DFS TOTAL	105	4	2	1	112
<i>Standalone</i>	4	-	-	-	4
<i>DFS Space Conversions</i>	12	-	-	-	12
Dwell (c. 3,500-6,000sq.ft)	16	-	-	-	16
<i>Standalone</i>	17	-	-	-	17
<i>DFS Space Conversions</i>	3	-	-	-	3
Sofa Workshop (c. 2,500sq.ft)	20	-	-	-	20

Group Store Profile

AS AT 6 OCTOBER 2016

	UK	ROI	Holland	Spain	TOTAL
<i>Large Format (c. 15,000sq.ft.+)</i>	97	2	1	-	100
<i>Medium Format (c. 10,000sq.ft.)</i>	8	2	1	-	11
<i>Small Format (<5,000sq.ft.)</i>	2	-	1	-	3
<i>Other (5,000sq.ft.)</i>	-	-	-	1	1
DFS TOTAL	107	4	3	1	115
<i>Standalone</i>	3	-	-	-	3
<i>DFS Space Conversions</i>	18	-	-	-	18
Dwell (c. 3,500-6,000sq.ft)	21	-	-	-	21
<i>Standalone</i>	17	-	-	-	17
<i>DFS Space Conversions</i>	3	-	-	-	3
Sofa Workshop (c. 2,500sq.ft)	20	-	-	-	20

Note: Dwell Glasgow standalone store in Princes Square relocated to nearby DFS stores in Tollcross and Paisley



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