

dfs

the sofa experts



Full year results

5 October 2017

Highlights

Ian Filby

Operational Progress in a Challenging Year

KEY FINANCIALS

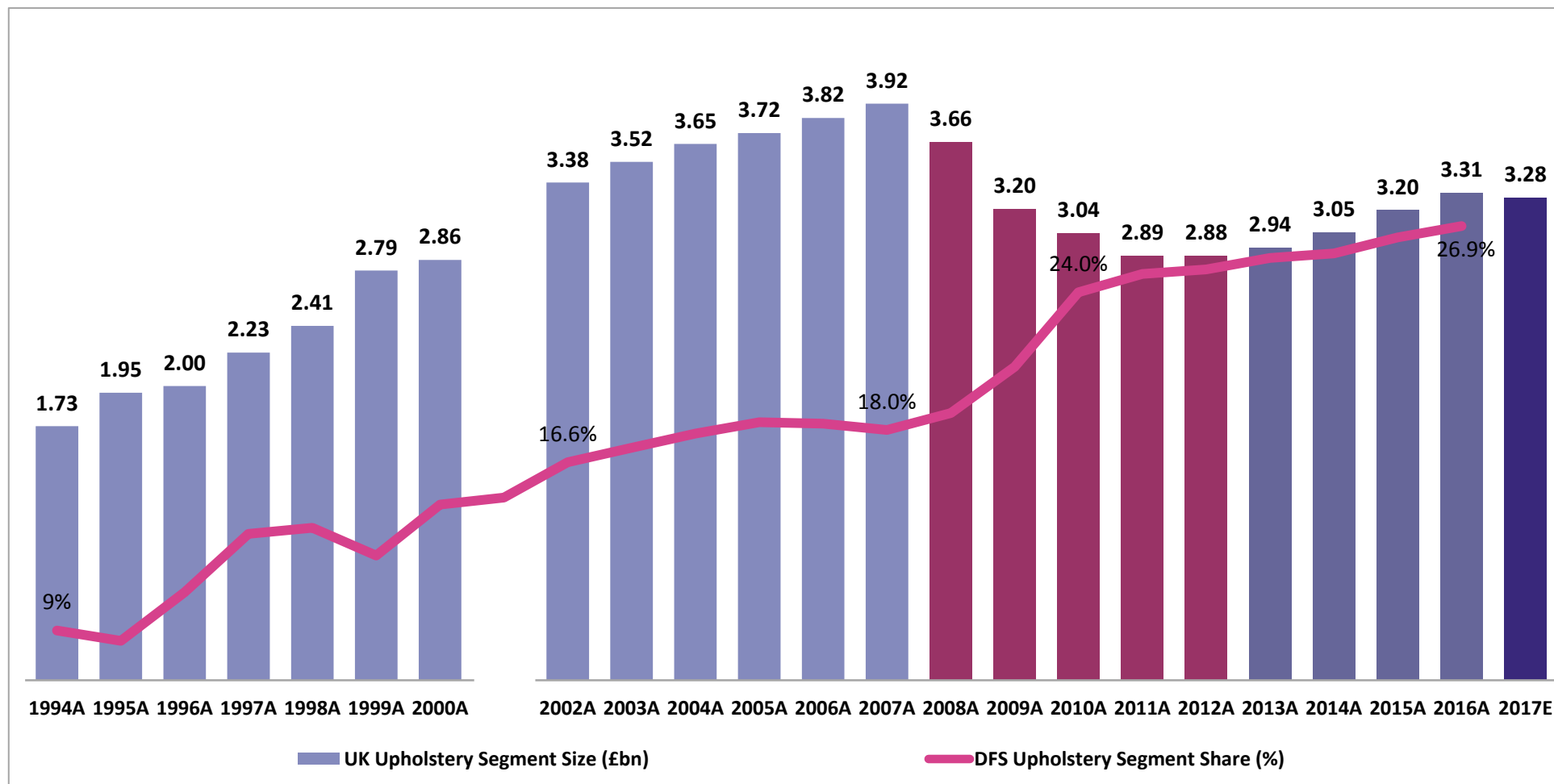
£990.8m <i>+1.1%</i>	Gross sales
£50.1m <i>-22.3%</i>	Profit before tax
£43.8m <i>20.7p per share</i>	Cash returns to shareholders

STRATEGIC AND OPERATIONAL HIGHLIGHTS

- ♥ Strategic progress maintained in very challenging trading environment
- ♥ Exclusive brands growth target passed
- ♥ Announced Sofology acquisition and new Joules exclusive brand partnership
- ♥ Continued new store openings
- ♥ Dwell and Sofa Workshop roll-out ongoing
- ♥ Double-digit web growth
- ♥ International / small-store trial progress
- ♥ Record customer satisfaction as investment in our service continues

Despite a very challenging furniture market we have continued implementation of our long-term strategy

Long-Term Progress in all Environments



We have maintained a long and consistent track record of above upholstery segment growth

Financials

Nicola Bancroft

Financial Overview

<i>(£m)</i>	FY 2016 52 weeks ending 30-Jul-16	FY 2017 52 weeks ending 29-Jul-17
Gross Sales	980.4	990.8
<i>Growth (%)</i>	<i>+7.4%</i>	<i>+1.1%</i>
Revenue	756.0	762.7
<i>Growth (%)</i>	<i>+7.1%</i>	<i>+0.9%</i>
Gross Profit	134.3	120.5
<i>Growth (%)</i>	<i>+9.8%</i>	<i>-10.3%</i>
<i>Margin (% of revenue)</i>	<i>17.8%</i>	<i>15.8%</i>
Underlying EBITDA	94.4	82.4
<i>Growth (%)</i>	<i>+5.8%</i>	<i>-12.7%</i>
<i>Margin (% of revenue)</i>	<i>12.5%</i>	<i>10.8%</i>

OVERVIEW

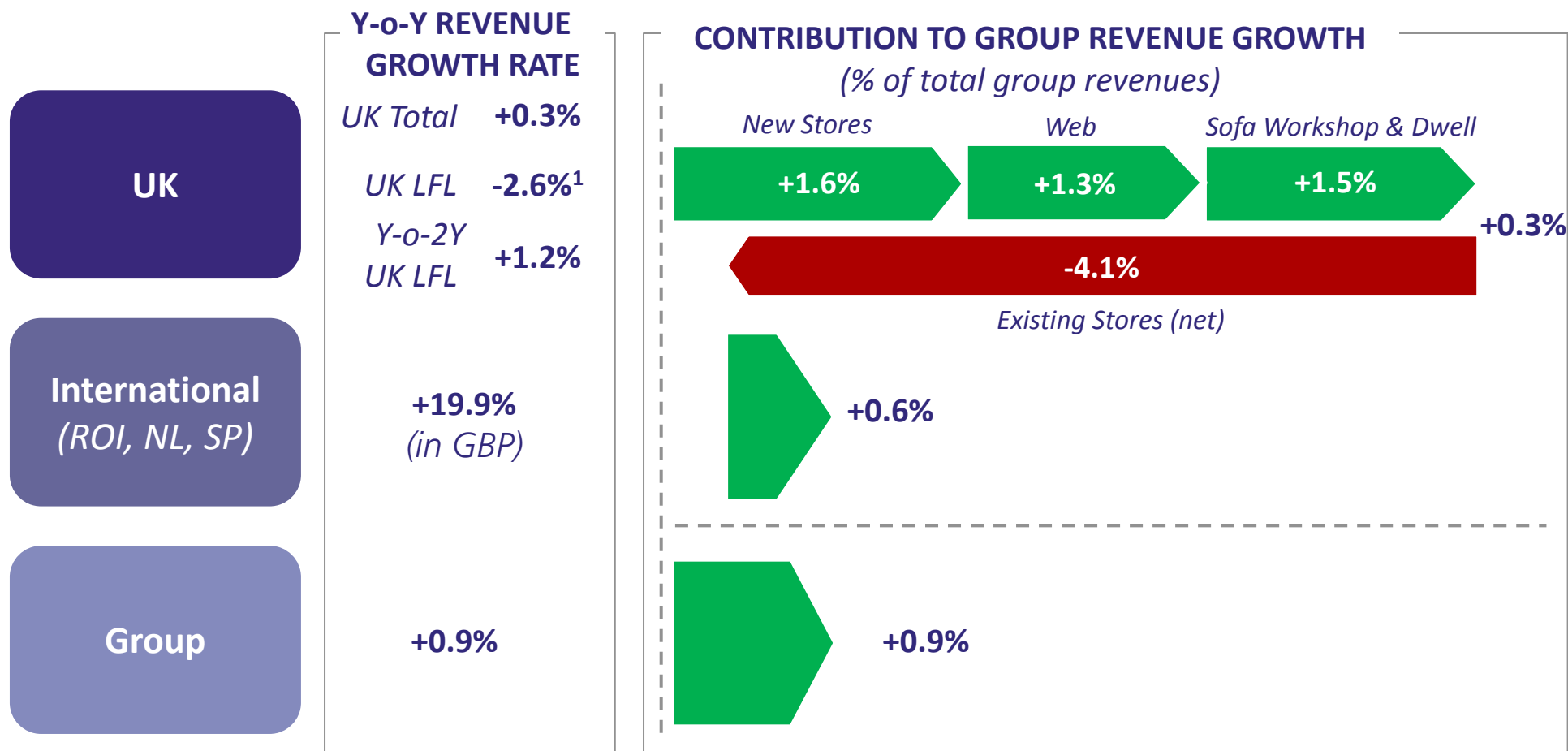
**Weaker market in H2
impacted full year revenue
and profit**

**Strategic investment
maintained to deliver longer
term growth**

**Actions taken to meet
challenges of current market**

Positive trading experienced in H1 eroded by weak market environment for four months of H2

Challenging Second Half Limits Full Year Growth

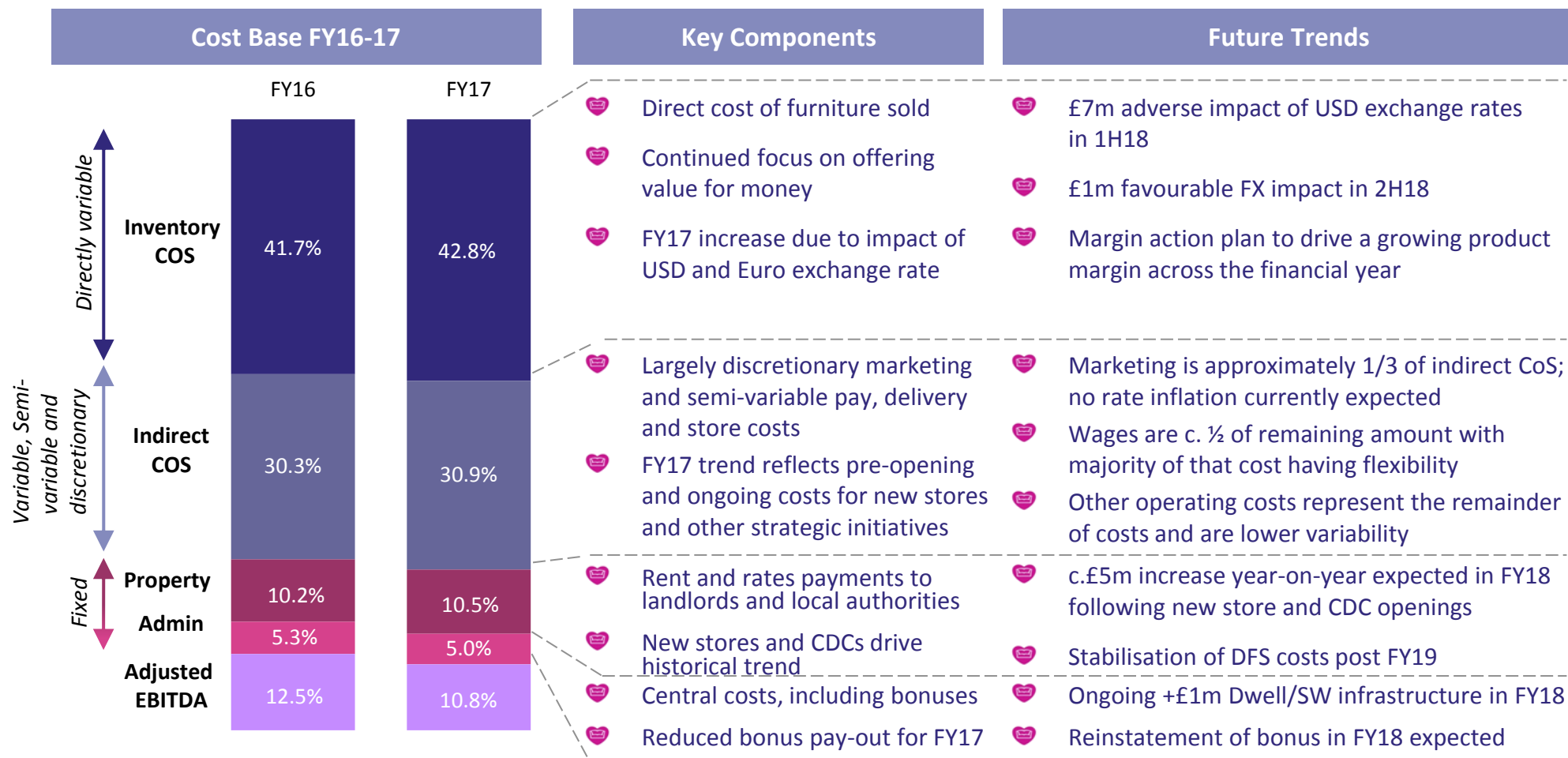


Growth from new stores, web and subsidiaries compensates for performance in existing estate. 2 year like-for-like remains positive

Notes:

1. 95 UK stores and web in like-for-like group out of 109 UK stores at period end

Highly Flexible Cost Base



Lower EBITDA margin reflects FX impact on cost of goods sold and lower revenue impacting operating leverage. Given FX Headwinds and revenue comparatives, 1H18 likely to see lower profitability than 1H17

Earnings Per Share

<i>(£m)</i>	FY 2016	FY 2017
EBITDA	94.4	82.4
Depreciation & amortisation	(18.6)	(21.9)
Operating profit	75.8	60.5
Net finance expense	(11.3)	(10.4)
Profit before tax	64.5	50.1
Underlying tax	(14.1)	(10.6)
Underlying profit after tax	50.4	39.5
Underlying EPS	23.7p	18.7p

KEY TRENDS

Rise in depreciation & amortisation reflects investment in store & warehouse estate, expected to rise to c.£25m in FY18

Financing costs in FY18 to reflect higher margin due to gearing, offset by saving from refinancing

Tax charge reflects lower profitability and marginal tax rate

Lower EPS follows as a result of the lower EBITDA overall

Continued Cash Generation

<i>(£m)</i>	FY 2016	FY 2017
Underlying EBITDA	94.4	82.4
Capex	(24.5)	(28.3)
Change in Working Capital	5.7	2.9
Free Cash Flow¹	75.6	57.0
<i>Conversion (% of EBITDA)²</i>	<i>80.1%</i>	<i>69.2%</i>
<i>Ordinary & Special Dividend</i>	<i>(27.3)</i>	<i>(43.8)</i>
Net debt	(137.1)	(144.5)
<i>Multiple of adjusted EBITDA (x)</i>	<i>1.45x</i>	<i>1.75x</i>

KEY TRENDS

Special dividend of £20.1m paid in June 2017 - £43.8m of capital returns in the year

Record levels of capital expenditure given CDC programme

Higher net debt leverage ratio primarily reflects lower EBITDA

Cash generation remains solid despite lower EBITDA and record capital expenditure

Notes:

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

Commitment to Capital Returns

FINAL DIVIDEND

<i>(£m)</i>	FY 2016	FY 2017
Underlying Profit After Tax	50.4	39.5
<i>Pay-out ratio (ordinary)</i>	<i>c. 46%</i>	<i>c. 60%</i>
Dividends paid	23.4	23.7
<i>Number of shares</i>	<i>211.5</i>	<i>211.5</i>
Ordinary dividends per share (p)	11.0	11.2
<i>Interim (p)</i>	<i>3.5</i>	<i>3.7</i>
<i>Final (p)</i>	<i>7.5</i>	<i>7.5</i>
Special dividends per share (p)	-	9.5

KEY TRENDS

Total dividend declared in the year of 20.7p per share

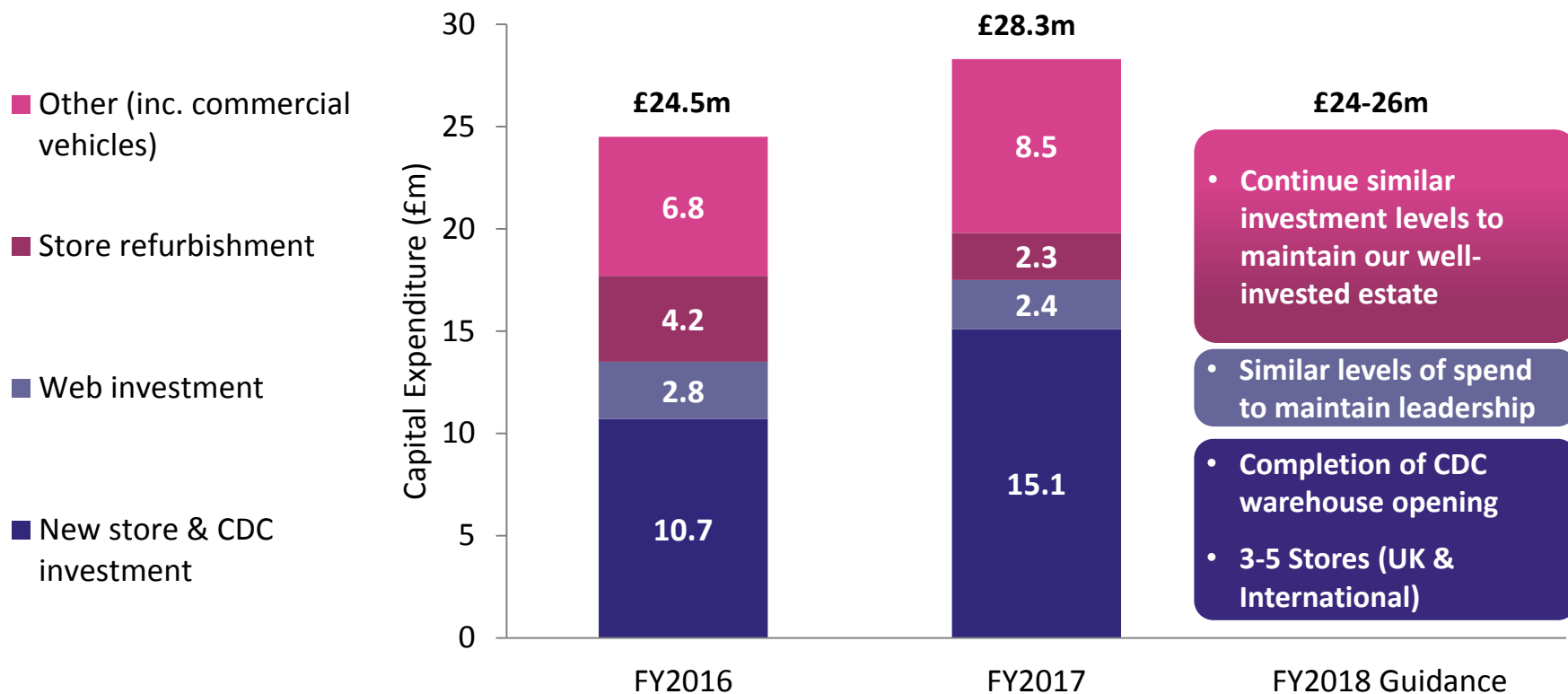
Ordinary pay-out ratio expected to return to target range of 45-50% over time

Acquisition of Sofology and reduction of gearing to target range likely to utilise excess cashflow in near term

Significant capital returns in year, reflecting our long-term emphasis on driving total shareholder return

Investment in Infrastructure for Future Growth

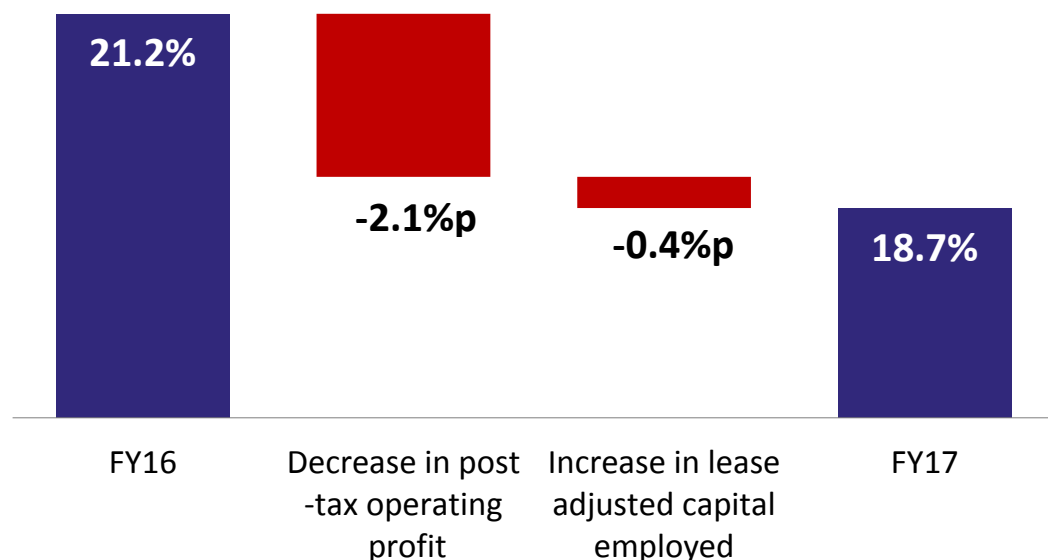
CASH CAPITAL EXPENDITURE



Capex spend in line with previous guidance reflecting CDC acceleration, and investment in existing and new stores. FY18 capex expected to reduce to £24-26m with completion of CDC warehouse openings.

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

Return on capital remains an important focus

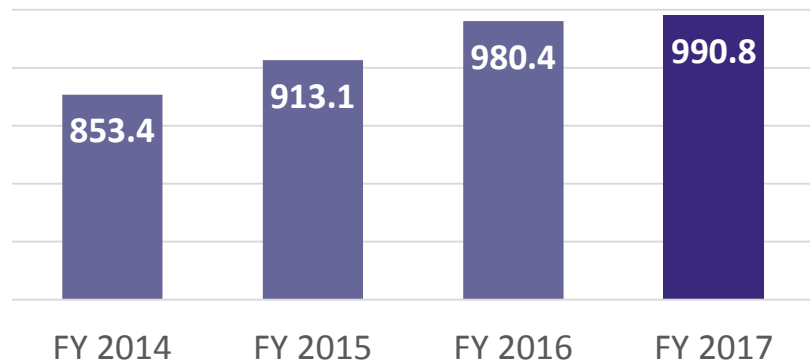
Returns in FY17 impacted by lower operating profit

Continued strategic investment in new store openings and CDCs increasing capital employed

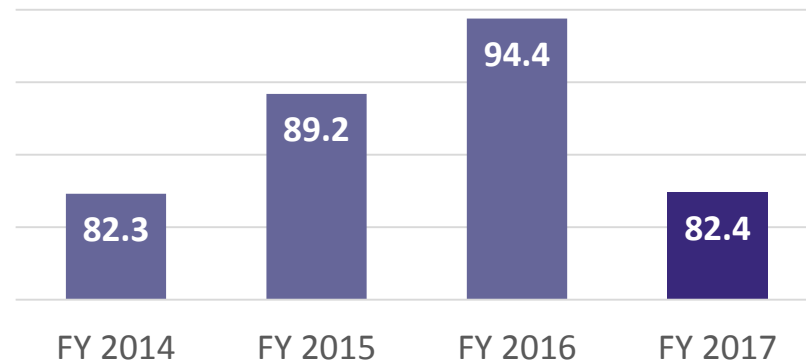
Lower return on capital reflecting investment for the long-term in a challenging environment. Return on capital remains attractive overall

Summary: Challenging Market Environment Reflected in KPIs

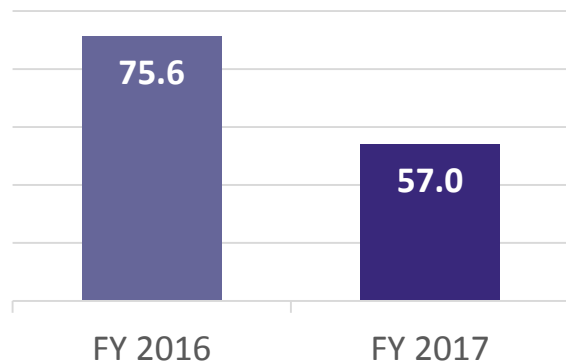
GROSS SALES (£M)



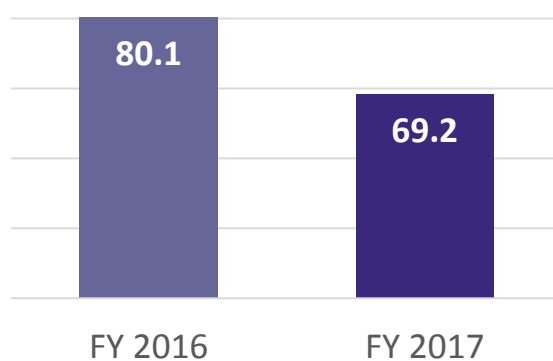
ADJUSTED EBITDA (£M)



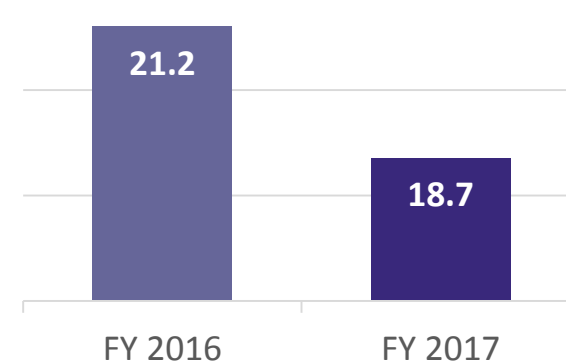
FREE CASH FLOW (£M)



CASH CONVERSION (%)



LEASE ADJUSTED ROCE (%)

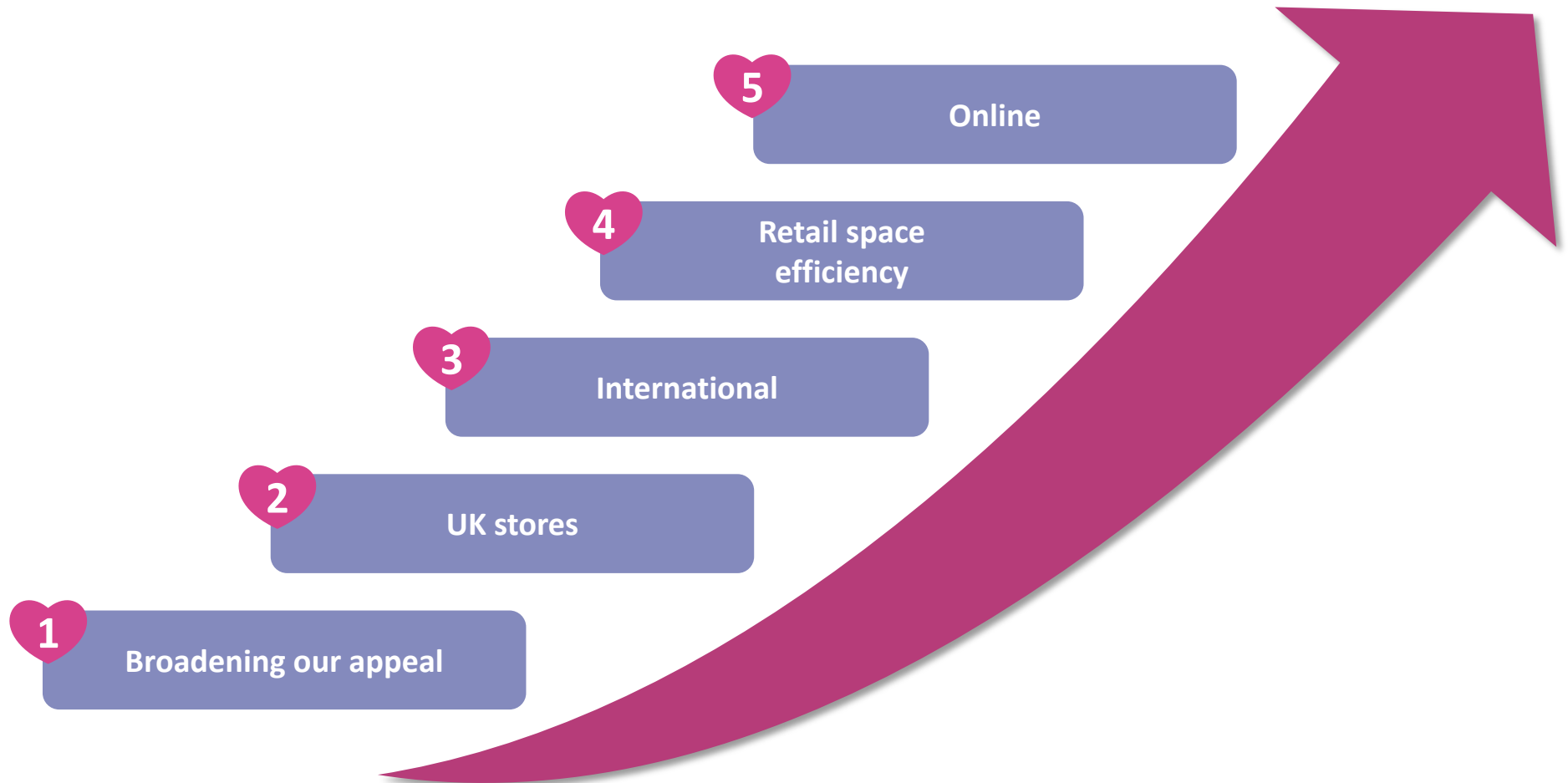


Challenging market environment has impacted profitability and hence return on capital

Operational Update

Ian Filby

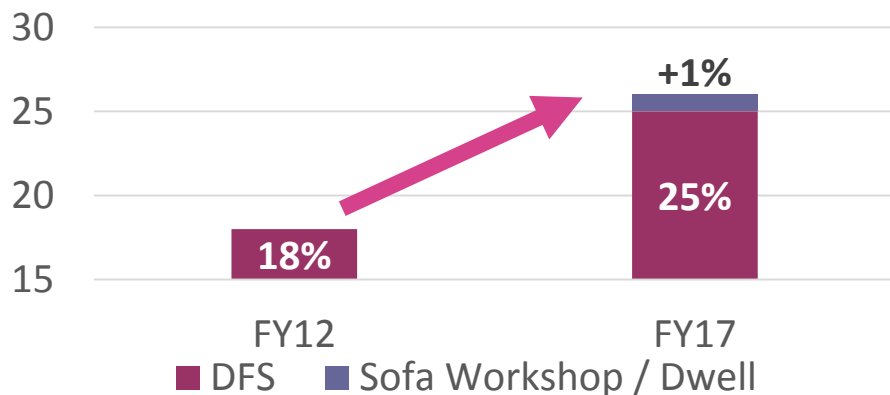
Levers of Growth, Underpinned by an Efficient Operating Platform



Strong platform benefiting from Scale, Flexible Cost Base and Vertical Integration

1 Ongoing Broadening of Appeal

"ASPIRATIONAL" CUSTOMER SEGMENT SHARE ACHIEVED ONE YEAR AHEAD OF TARGET



JOULES BRAND PARTNERSHIP



OPERATIONAL UPDATE

- ♥ Changed advertising tone continues to perform well
- ♥ 20% growth in partnership brands
- ♥ New partnership agreement with Joules
- ♥ Range development with French Connection and Country Living / House Beautiful continues
- ♥ IPO target of 25% share with 'aspirational customers' segment achieved 12 months early

Incremental LFL growth being driven through a broader appeal to customers

1 Sofology Acquisition

STRONG TRANSACTION RATIONALE

- ♥ **Established, differentiated brand**
 - Limited impact of new store openings on DFS
 - Higher AOV and differentiated brand tracking
- ♥ **Earnings growth to be enhanced through shared operating platform**
 - £4m near-term purchasing benefits in upholstery, marketing and other costs
 - Longer term sharing of systems, assets and expertise in logistics and other areas
- ♥ **New retail channel for further long-term growth**
 - Potential to roll-out further Sofology stores
 - Ability to leverage DFS insight, tools, landlord relationships

COMPLEMENTARY BRAND POSITIONING



STATUS UPDATE

- ♥ **Transaction conditional on CMA and FCA clearance**
 - CMA merger notice filed on 2 October, 40 working day phase 1 process underway completing on 27 November
 - FCA clearance received
- ♥ **Likely transaction completion alternatives are early-December 2017 or late spring 2018**

Acquisition of Sofology will release significant earnings synergies and create a new growth channel for the future

OPERATIONAL UPDATE

- ♥ Ashford opened in April, building on 1H openings in Salisbury, Truro and Crawley
- ♥ New full-size stores to open in FY18 in Wednesbury, Rugby and Haverfordwest
- ♥ Small store development to continue with a further store in Chelmsford
 - Operating model continues to be developed
- ♥ Continued overall trend of 3-5 new UK and ROI traditional format stores p.a.
 - Pipeline for next two years clearly defined, subject to negotiation
 - Substantial refit of Croydon underway with property cost reduction

NEW STORE OPENINGS



Ashford

Salisbury - August 2016 - 12,300 sq.ft.

Truro - September 2016 - 16,100sq.ft.

Crawley - November 2016 - 5,200 sq.ft.

Ashford - April 2017 - 10,000 sq.ft.

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

THE NETHERLANDS

- ♥ Operating loss in line with plan - £2m-£3m
- ♥ New store opening in Eindhoven in November
- ♥ National marketing trial planned for FY2018 within the scope of operating investment



Eindhoven

SPAIN

- ♥ Malaga store successfully established to increase access to expatriate market
- ♥ Spain expected to contribute to operating profit across the year



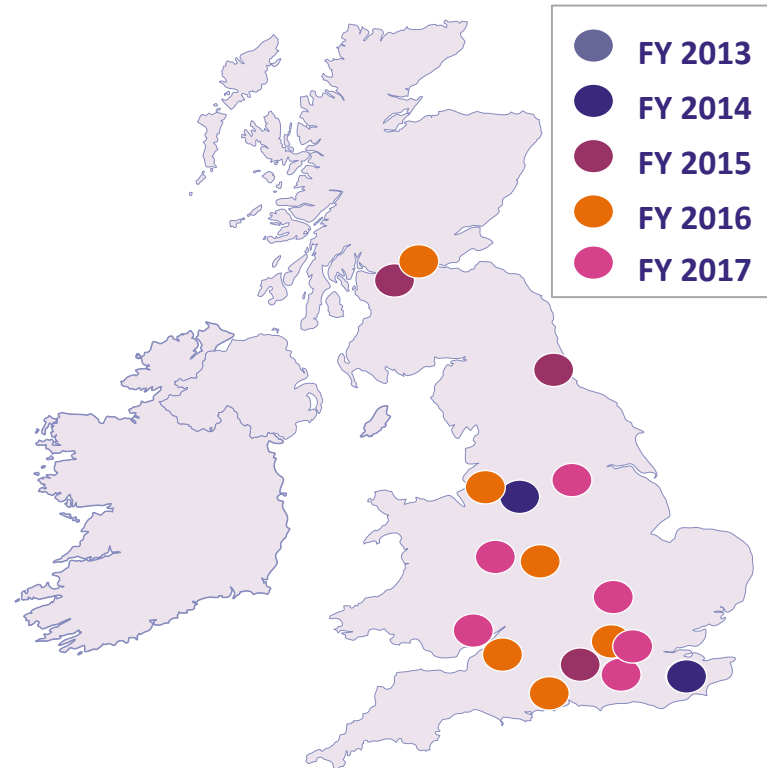
Mijas Costas (Malaga)

Measured international development progressing in-line with our expectations

OPERATIONAL UPDATE

- ♥ Seventeen UK CDCs operational by end of July
- ♥ 39 stores converted at year end
 - 36 weighted average stores in period
- ♥ Final two CDCs opening shortly
- ♥ Operating efficiencies being released with benefits to come through in FY2018 and FY2019
- ♥ Retail space conversions rephased

SEVENTEEN UK CDCs NOW OPEN



Stores served	72
Stores refitted to date	39

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



Continued Progress with Dwell and Sofa Workshop

DWELL

- ♥ 15 new co-located stores and new national warehouse opened across FY2017
- ♥ Financial results reflect pace of growth
- ♥ Six further co-locations planned for FY2018

SOFA WORKSHOP

- ♥ Continued double-digit sales growth
- ♥ Logistics and technology activities moving to DFS platform
- ♥ Five new co-located stores in FY2018

NEW WEDNESBURY “DESTINATION STORE” – BOXING DAY 2017



5 Continued Omnichannel Growth

WEBSITE ACTING AS A CRITICAL TOUCHPOINT FOR MAJORITY OF OUR CUSTOMERS

c. 1.5m unique visitors per month

DRIVING CONSIDERATION FOR STORE PURCHASES

- Leading sector web-site capturing c.40% of online sector-specialist traffic
- Continued enhancements to content and imagery

CAPTURING “PURE” ONLINE TRANSACTIONS

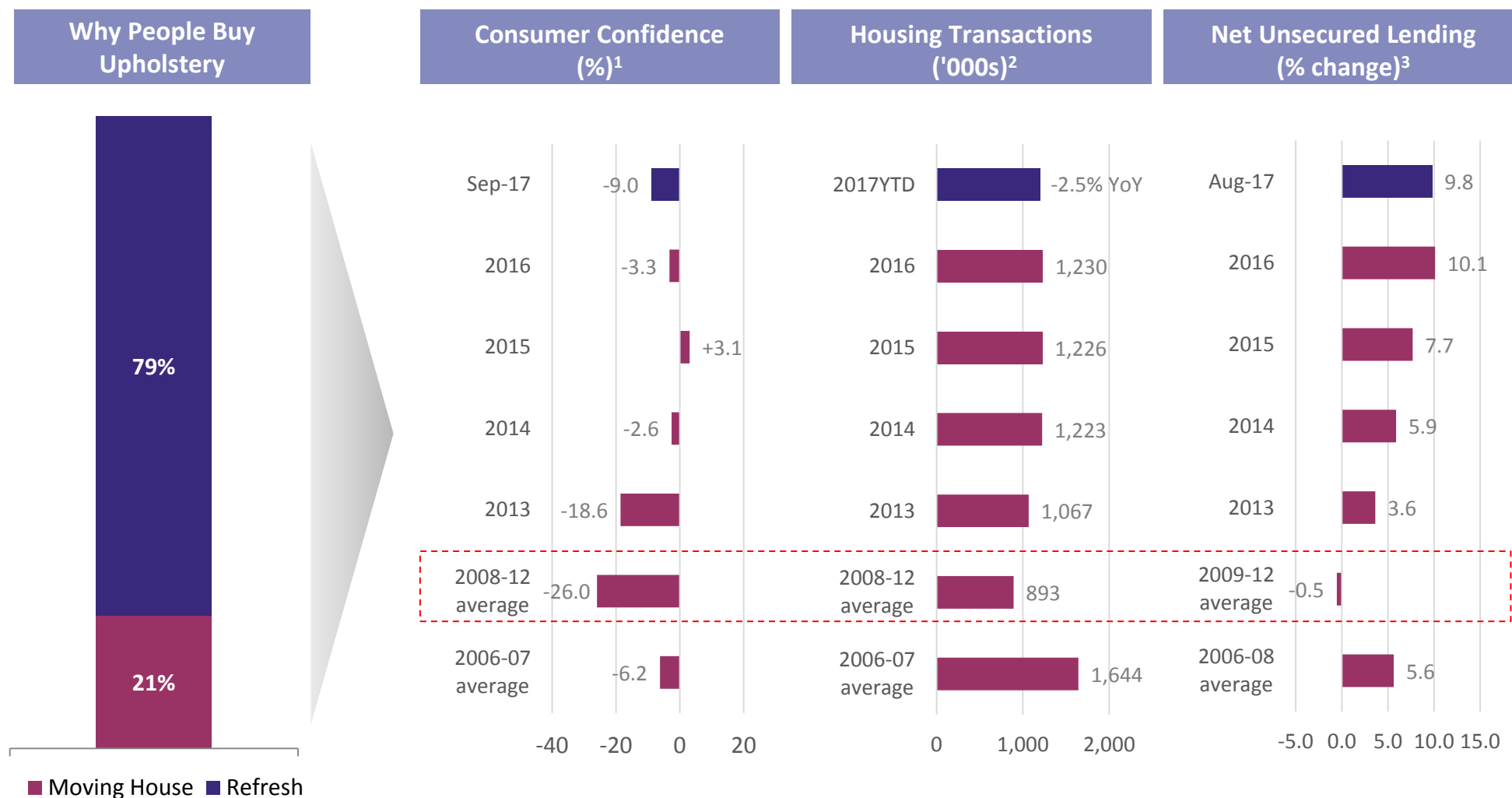
- Double digit online growth
- Increasing prevalence of “mobile” customers
- Live stock display of clearance ranges added

SIMPLIFYING OUR CUSTOMER SERVICE

- ‘Track your order’ account used by the majority of customers
- Final balance payments now all taken online or in store

dfs.co.uk is a key customer research touchpoint, an important sales channel and is improving customer service, while creating operating efficiencies

Market Drivers Are in Decline Although Above Historical Lows



Summary and Outlook

SUMMARY

- ♥ Results reflect a market that is very challenging with a sector outlook that is uncertain
- ♥ Operational investment has been maintained in order to strengthen long-term position

OUTLOOK

- ♥ Order intake since early July has been satisfactory and we believe consistent with the overall living room furniture retail market and our expectations for the full year
- ♥ Historically DFS has capitalised on a weak market environment and our investment will continue
- ♥ Acquisition of Sofology strengthens Group's position and creates further earnings growth opportunities for the future
- ♥ Operating efficiencies programme to deliver benefits and modest profit growth during FY18 overall, particularly in the second half of the financial year given comparatives
- ♥ Group continues to enjoy excellent prospects over the long term

APPENDIX

Group Store Profile

AS AT 29 JULY 2017

	UK	ROI	Holland	Spain	TOTAL
<i>Large Format (c. 15,000sq.ft.+)</i>	97	2	1	1	101
<i>Medium Format (c. 10,000sq.ft.)</i>	9	2	3	-	14
<i>Small Format (<5,000sq.ft.)</i>	3	-	1	-	4
<i>Other (5,000sq.ft.)</i>	-	-	-	1	1
DFS TOTAL	109	4	5	2	120
<i>Standalone</i>	3	-	-	-	3
<i>DFS Space Conversions</i>	27	-	-	-	27
Dwell (c. 3,500-6,000sq.ft)	30	-	-	-	30
<i>Standalone</i>	15	-	-	-	15
<i>DFS Space Conversions</i>	5	-	-	-	5
Sofa Workshop (c. 2,500sq.ft)	20	-	-	-	20

Group Store Profile

AS AT 5 OCTOBER 2017

	UK	ROI	Holland	Spain	TOTAL
<i>Large Format (c. 15,000sq.ft.+)</i>	97	2	1	1	101
<i>Medium Format (c. 10,000sq.ft.)</i>	9	2	3	-	14
<i>Small Format (<5,000sq.ft.)</i>	3	-	1	-	4
<i>Other (5,000sq.ft.)</i>	-	-	-	1	1
DFS TOTAL	109	4	5	2	120
<i>Standalone</i>	3	-	-	-	3
<i>DFS Space Conversions</i>	28	-	-	-	28
Dwell (c. 3,500-6,000sq.ft)	31	-	-	-	31
<i>Standalone</i>	15	-	-	-	15
<i>DFS Space Conversions</i>	5	-	-	-	5
Sofa Workshop (c. 2,500sq.ft)	20	-	-	-	20



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