



Half year results

28 March 2018



SOFA WORKSHOP

dwell





# Highlights

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*Ian Filby*

# Performance on Track

## KEY FINANCIALS

**£513.8m**  
*+4.1%*

**Gross sales**

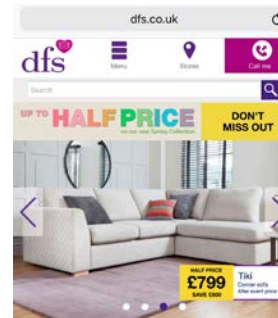
**£30.0m**  
*£80.0m*  
*over LTM*

**Underlying EBITDA**  
**before acquisitions**

**£55.3m**  
*69.6%*  
*cash conversion*

**LTM Free cashflow**  
**generation**

## STRATEGIC AND OPERATIONAL HIGHLIGHTS



**Despite a challenging furniture market our performance is on track:  
we have made good progress against our strategic priorities  
and expect strong cash generation and modest growth in EBITDA in FY18**

# Market Update

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## Market Environment

- ♥ Market is challenging, but we are well placed with our strong value offer
- ♥ Lower footfall, partly offset by a higher average order value
- ♥ No changes in use of credit
- ♥ Some evidence of competitors pulling back on advertising and promotional offers to protect profitability

## DFS Response

- ♥ Continue to focus on having sharpest prices and advertising strongly
- ♥ Gross margin expected to be up year-on-year despite £7m FX related inflation to absorb
- ♥ Cost base being managed for a challenging market environment, helped by marketing cost deflation and efficiencies being driven from prior investments
- ♥ Growing top-line momentum across half-year period

**While the environment remains challenging we believe we can strengthen our competitive position**

# Financials

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*Nicola Bancroft*



# Financial Overview

<i>(£m)</i>	H1 2017 26 weeks 28-Jan-2017	H1 2018 26 weeks 27-Jan-2018	FY 2017 52 weeks 29-Jul-17	LTM H1 2018 52 weeks 27-Jan-2018
<b>Revenue</b>	<b>379.9</b>	<b>396.1</b>	<b>762.7</b>	<b>778.9</b>
<i>Growth (%)</i>	+6.8%	+4.3%	+0.9%	-0.2%
<b>Revenue before Acquisitions</b>	<b>379.9</b>	<b>366.5</b>	<b>762.7</b>	<b>749.3</b>
<i>Growth (%)</i>	+6.8%	-3.5%	+0.9%	-3.9%
<b>Underlying EBITDA before Acquisitions</b>	<b>32.4</b>	<b>30.0</b>	<b>82.4</b>	<b>80.0</b>
<i>Growth (%)</i>	+4.5%	-7.4%	-12.7%	-16.5%
<b>Underlying PBT</b>	<b>16.7</b>	<b>11.6</b>	<b>50.1</b>	<b>45.0</b>
<i>Growth (%)</i>	+3.1%	-30.5%	-22.3%	-30.8%
<b>Underlying EPS</b>	<b>6.2p</b>	<b>4.6p</b>	<b>18.7p</b>	<b>17.1</b>
<i>Growth (%)</i>	+3.3%	-25.8%	-21.1%	-28.5%
Ordinary DPS	3.7p	3.7p	11.2p	11.2p

## OVERVIEW

Solid trading performance in challenging market

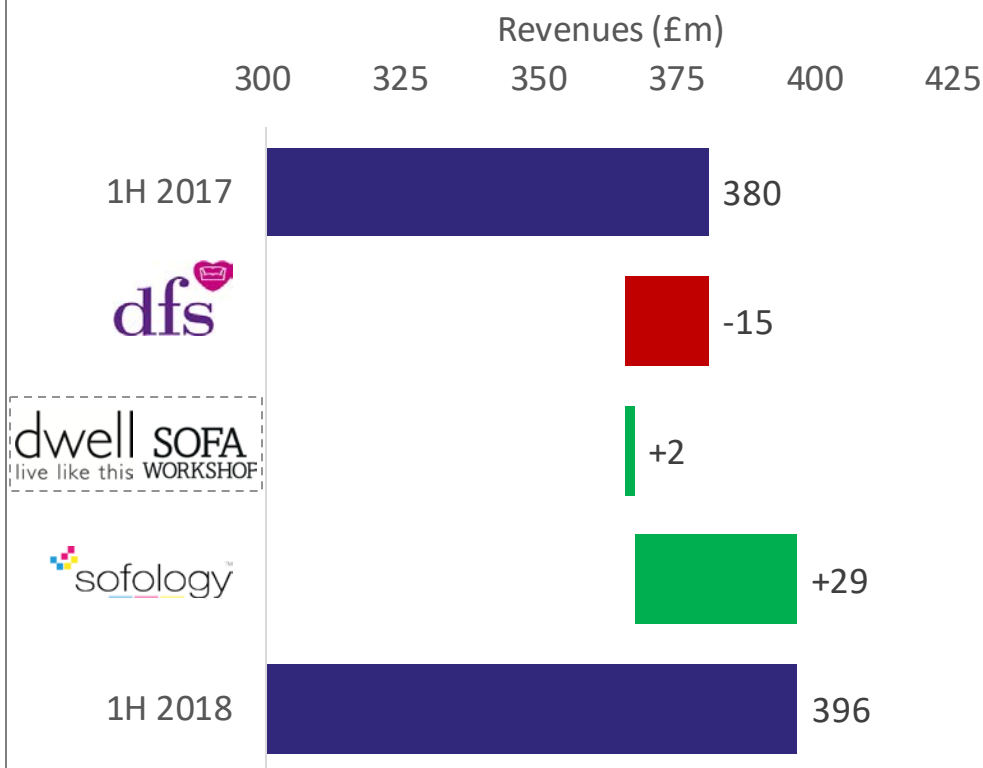
Gross margin impact of FX has been offset

Investment in strategic initiatives has been maintained

Financial performance reflects the impacts of acquisitions, challenging market environment and a disciplined operating performance to deliver a solid result overall and in line with expectations

# Drivers of Group Revenue Growth

## REVENUE CONTRIBUTION BY CHANNEL



## KEY DRIVERS

Performance of all brands affected by market environment; DFS overall LFL<sup>(1)</sup> of -5.2%, with web growth of 8.1%

Positive contribution from international following new store openings

Dwell and Sofa Workshop growth supported by 10 new stores y-o-y

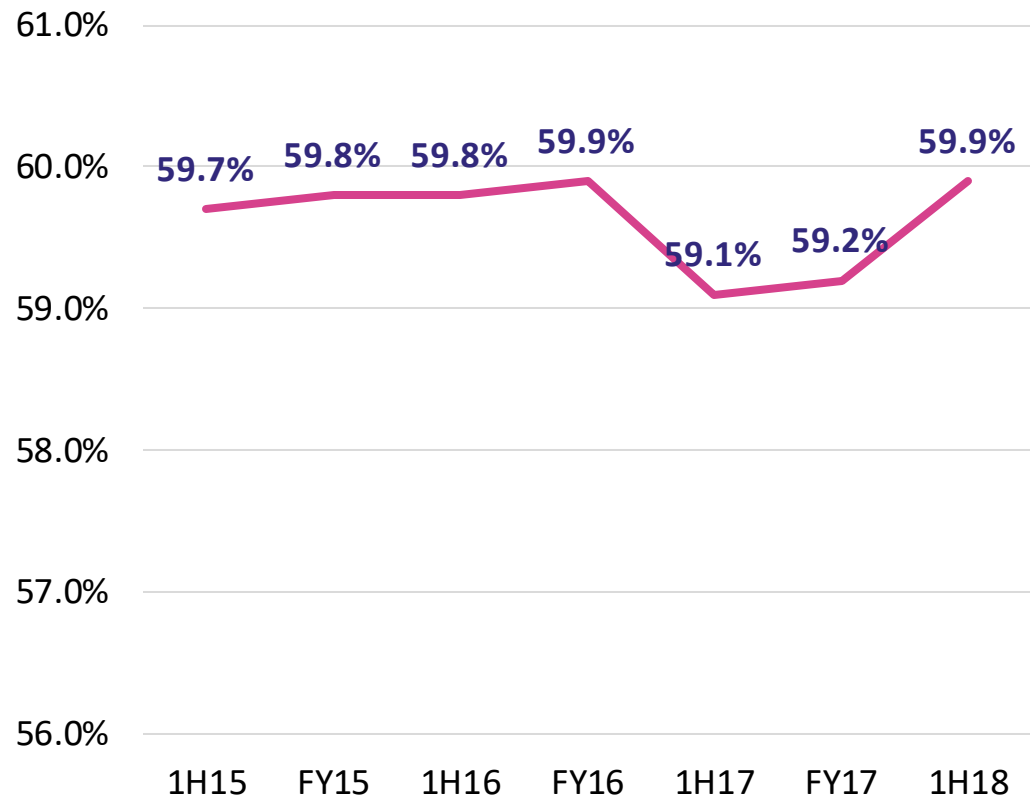
Sofology underlying revenue growth in period of 17%

Growth from DFS web, DFS new stores and non-DFS brands compensates for market-driven LFL performance in DFS existing store estate. Two year growth rate still comfortably positive

(1) 99 DFS stores and web in like-for-like group out of 125 stores at period end

# DFS Gross Margin Trends and Drivers

## DFS-ONLY GROSS MARGIN EVOLUTION



## KEY DRIVERS

Annual £21m of US Dollar related cost pressure experienced since June 2016 – impact on FY17 & 1H18

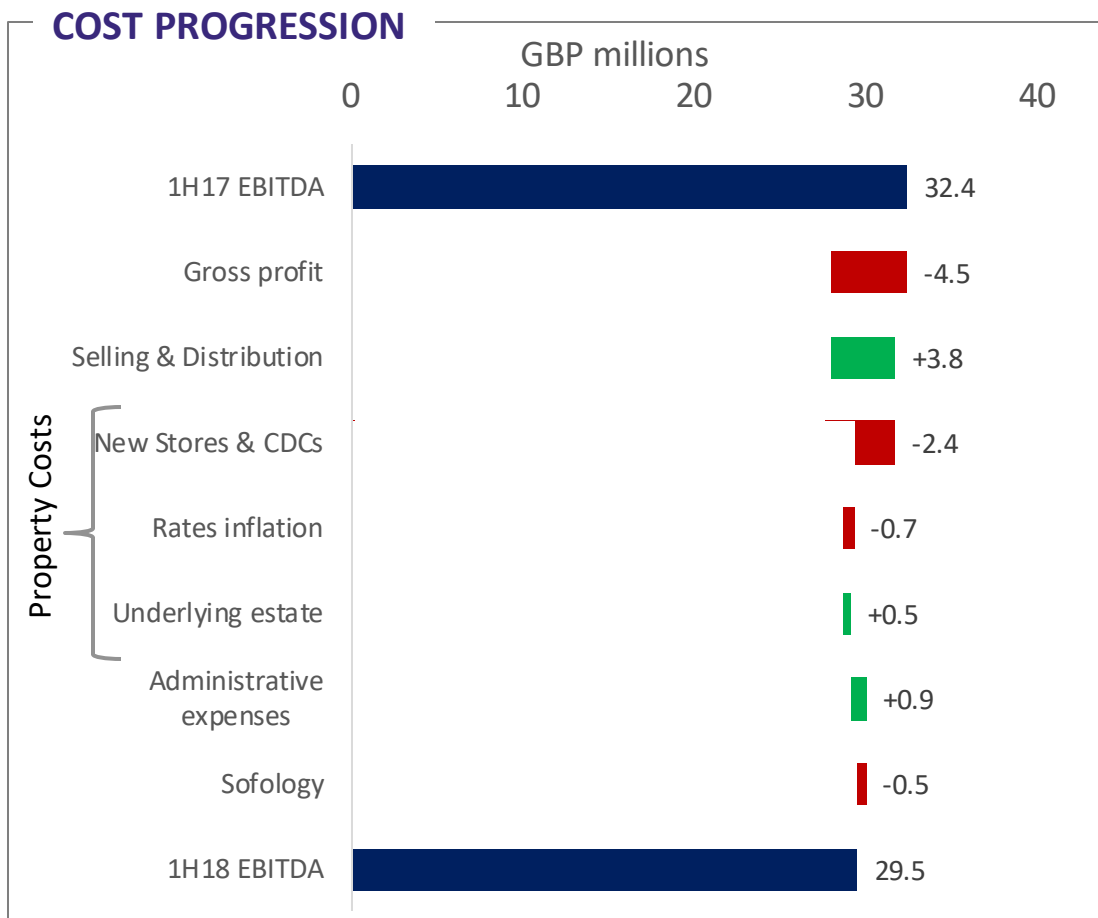
USD hedging in place for FY18 and FY19 at higher rates

FY18 margin also expected to be higher than FY17

Gross margin is now recovering to historical levels following the impact of the USD related cost inflation



# EBITDA Progression



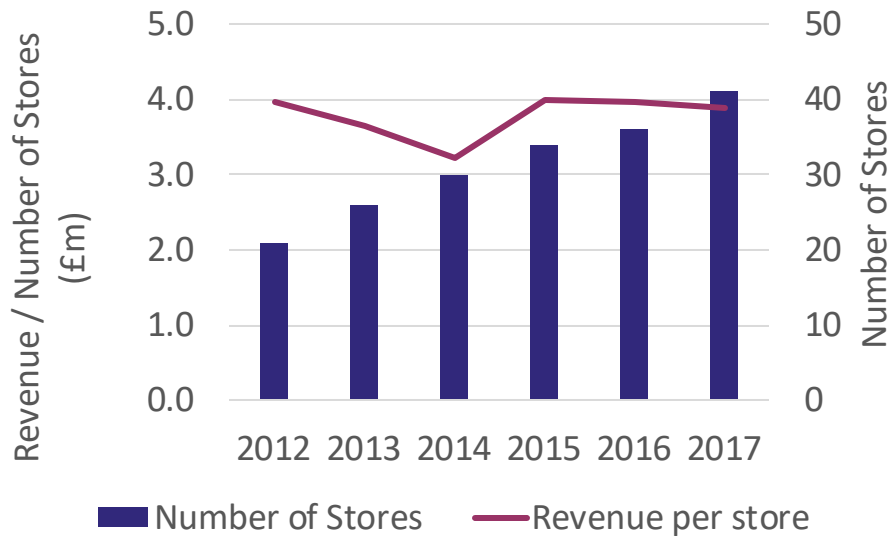
**KEY DRIVERS**

- Gross profit impacted by lower revenues
- Selling & distribution costs benefit reflects marketing deflation and other selling costs flexing
- Property cost opportunity expected in the underlying estate
- Full year administrative expense expected to increase to reflect a normal accrual for bonuses

Lower revenues have driven a variable cost saving in addition to the benefit of marketing cost deflation. New space costs are partly offset by lease renegotiations

# Sofology – Financial Drivers

## HISTORICAL REVENUE GROWTH DRIVEN LARGELY BY SUCCESSFUL STORE ROLL-OUT



**17%** 1H18 gross sales growth

**7%** 1H18 LFL gross sales growth

## GROUP OPERATING BENEFITS

Sofology has been owned for <4 months  
No co-operation / discussions possible prior to completion

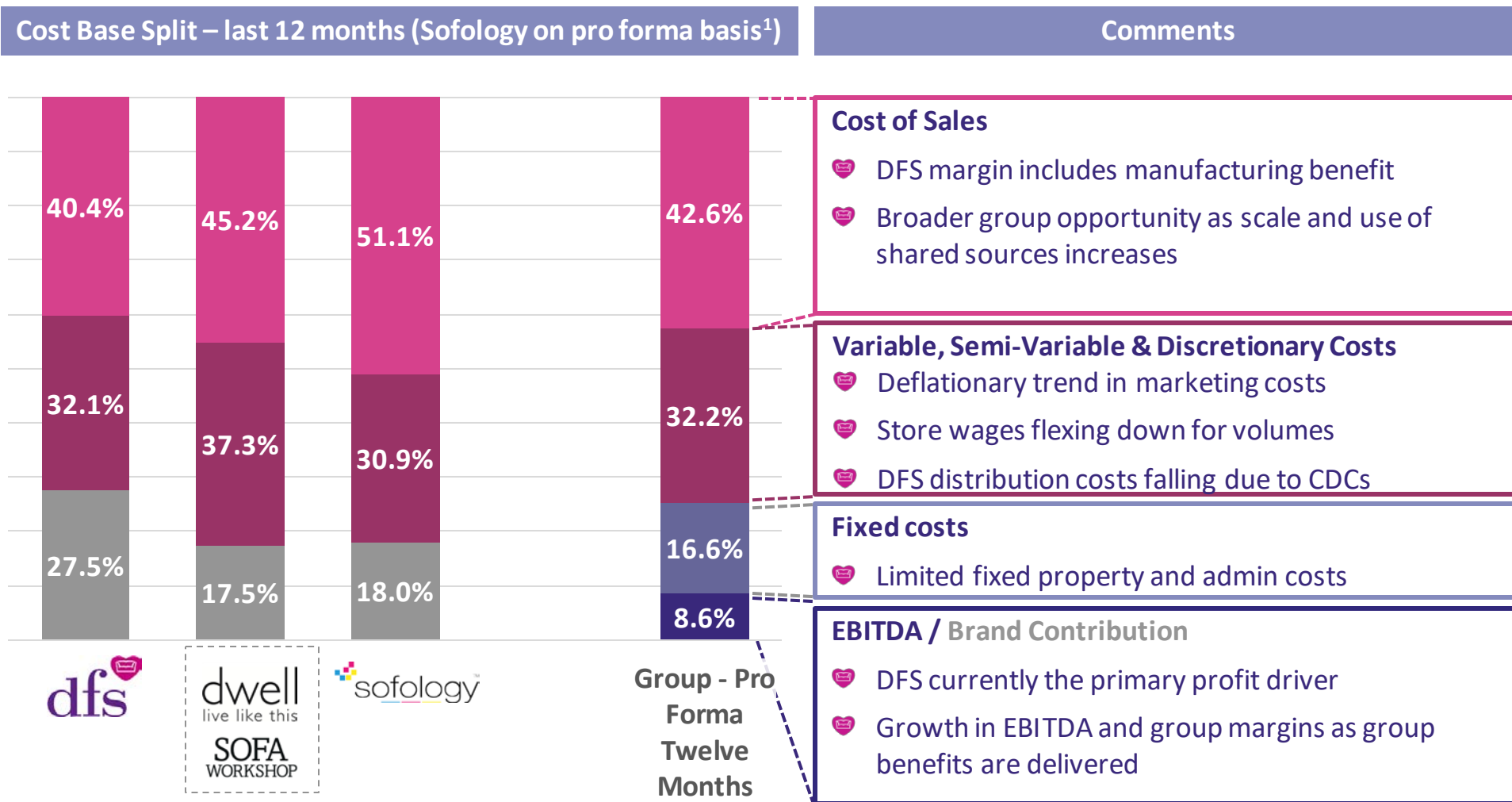
Annualised benefits of £0.4m have been secured to date

Further opportunities to a total of £4m in co-ordinated sourcing and shared procurement exist – full annualisation achieved by FY20

Medium-long term opportunity through shared approach in logistics and property utilisation

Sofology has largely driven revenue growth over the last five years through new store roll-out. 1H18 performance now also reflects good AOV growth helped by better selling. Opportunity now exists to drive profit growth through operational leverage

# Flexible, Low-Cost DFS Platform to Drive Group Opportunity



**DFS has a flexible cost base that responds to the market environment, and can be utilised to drive group operating benefits**



(1) Sofology shown as actual last twelve months, i.e. including the period before acquisition by DFS

(2) Selling & Distribution costs which include (i) marketing costs, (ii) productivity-linked wages for store teams and manufacturing teams, (iii) distribution costs and (iv) other store operating costs



# Non-Underlying Costs

## OVERVIEW

( <i>£m</i> )	H1 2018 26 weeks 27-Jan-2018
<i>Professional fees</i>	2.3
<i>Integration costs</i>	0.5
Acquisition related costs	2.8
Restructuring costs	0.3
<b>Total Non-Underlying Operating Costs</b>	<b>3.1</b>
Refinancing	1.5
<b>Total Non-Underlying costs</b>	<b>4.6</b>

## COMMENTARY

Acquisition related costs principally driven by CMA process following Sofology acquisition

Total integration costs expected to be £5 million incurred in FY18 and FY19

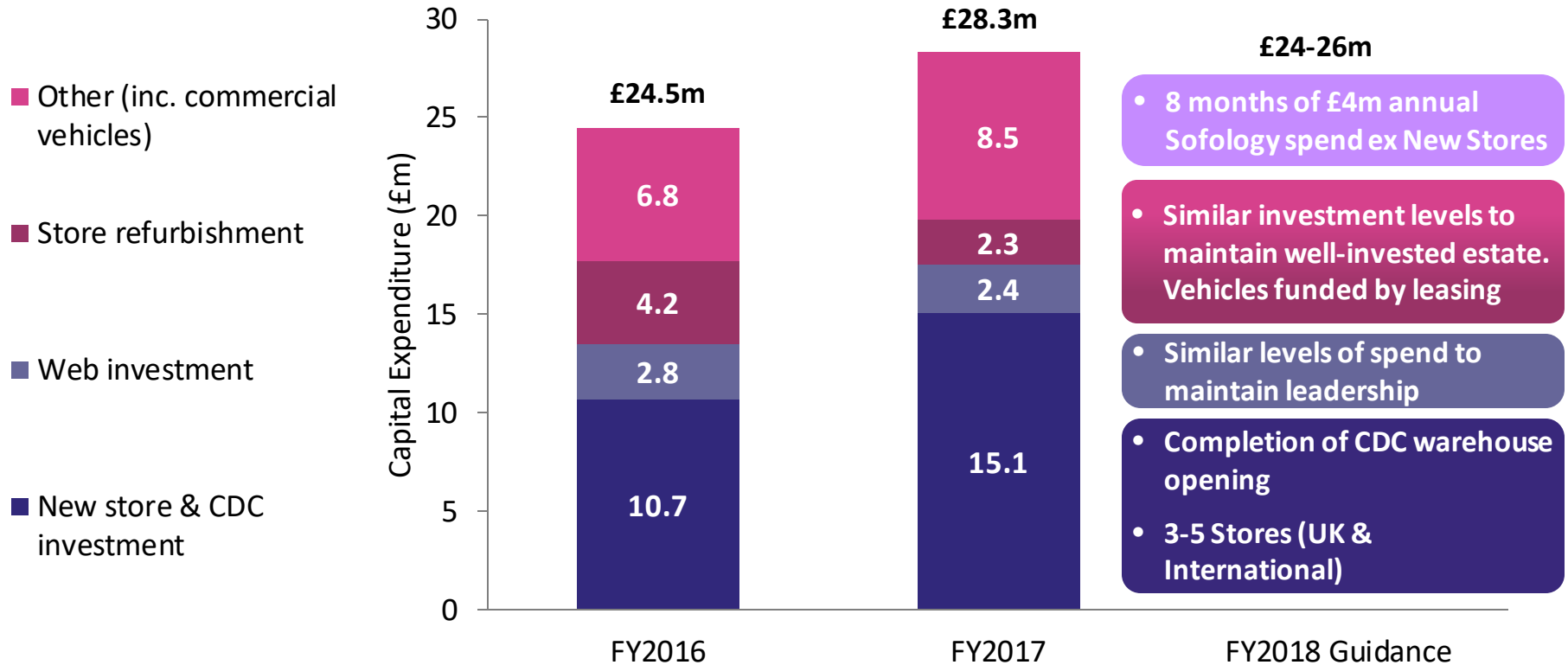
Restructuring costs relate to previously announced closure of our National Distribution Centre

Refinancing cost reflects write-down of arrangement fees on prior facility

As previously announced, we anticipate that, in order to drive the £4 million of near-term benefits anticipated, £5 million of integration costs will be incurred over FY18 and FY19

# 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 including Sofology expected to be £24-26m. Capex may grow slightly as combination with Sofology is undertaken. Annual D&A charge will follow trend in gross capex.

## Excellent Cash Generation

<i>(£m)</i>	LTM H1 2017	FY 2017	LTM H1 2018
<b>Underlying EBITDA</b>	<b>95.8</b>	<b>82.4</b>	<b>79.5</b>
Capex	(30.9)	(28.3)	(24.8)
Change in Working Capital	0.2	2.9	0.6
<b>Free Cash Flow<sup>(2)</sup></b>	<b>65.1</b>	<b>57.0</b>	<b>55.3</b>
<i>Conversion (% of EBITDA)<sup>(2)</sup></i>	<i>68.0%</i>	<i>69.2%</i>	<i>69.6%</i>
<b>Net debt</b>	<b>(135.6)</b>	<b>(144.5)</b>	<b>(172.3)</b>
<i>Multiple of underlying EBITDA (x)</i>	<i><b>1.42x</b></i>	<i><b>1.75x</b></i>	<i><b>2.17x</b></i>

### KEY TRENDS

Maintenance capital spend of £10m-15m relative to a business generating £80m of operating cashflow

Disciplined approach to growth investments with short payback periods

Net debt will be paid down over time

Cash generation continues to be strong and will be used over the near-term to pay down acquisition related debt to bring gearing back in-line with policy

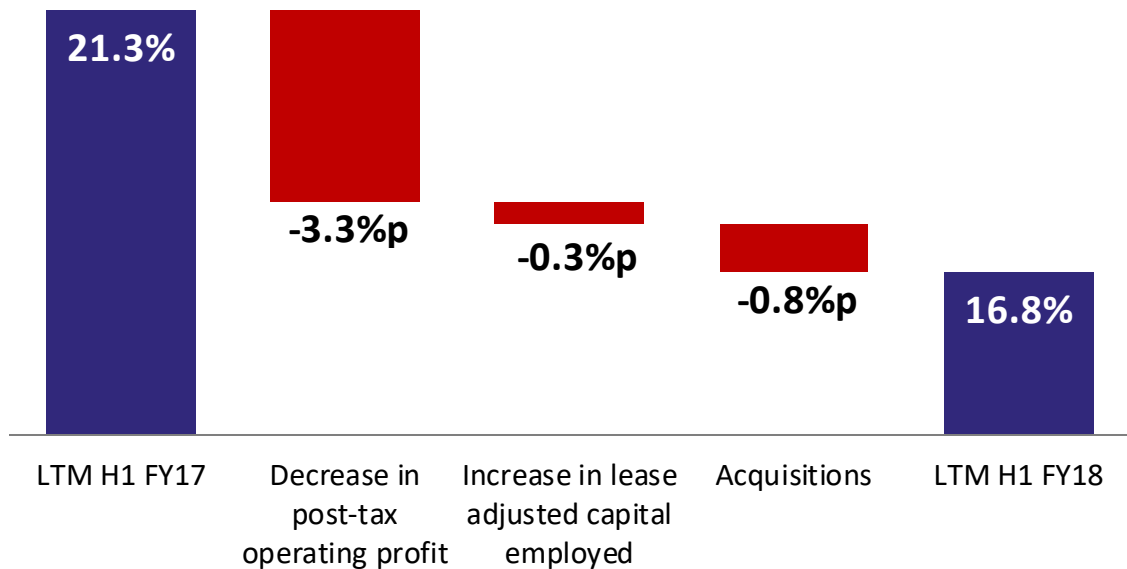
(1) FCF is calculated as Underlying EBITDA – Capital Expenditure + Change in Working Capital

(2) Cash conversion is calculated as FCF / Underlying EBITDA



# 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

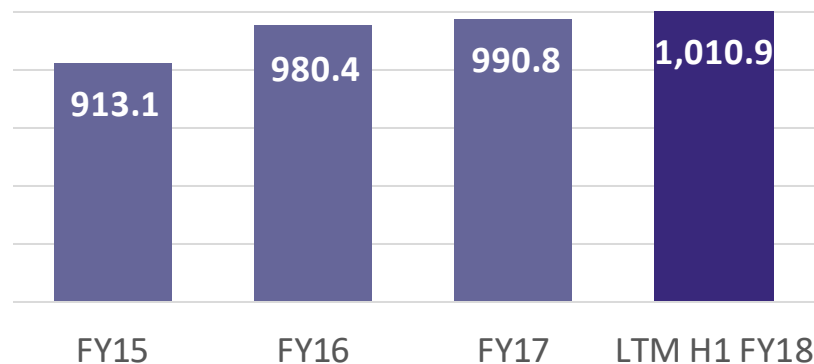
Returns impacted by lower operating profit

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

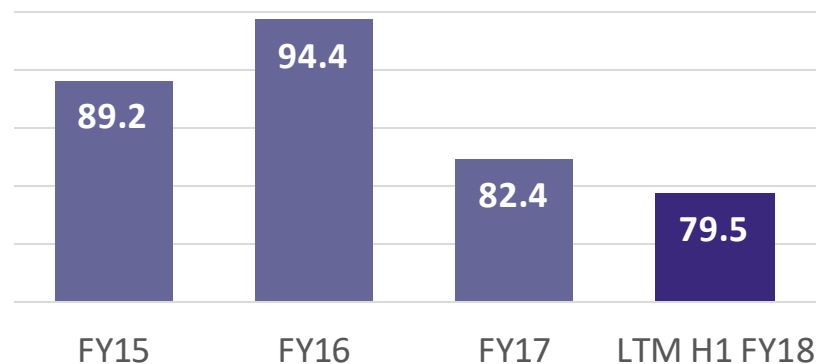
Lower return on capital reflecting investment for the long-term in a challenging environment. Return on capital remains attractive overall

## Summary: Market Environment and Acquisitions Reflected in KPIs

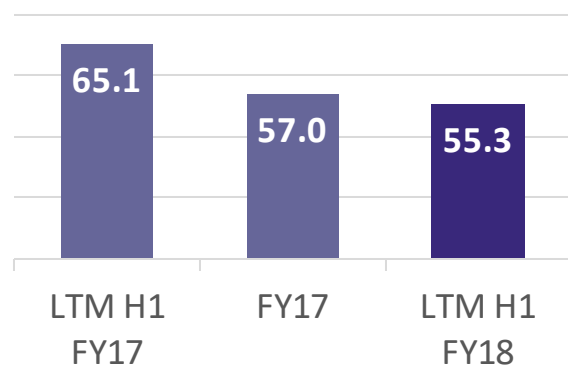
### GROSS SALES (£M)



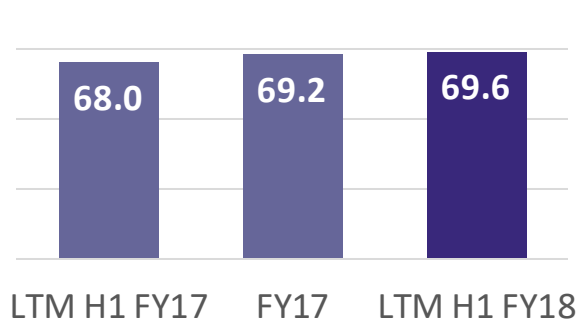
### UNDERLYING EBITDA (£M)



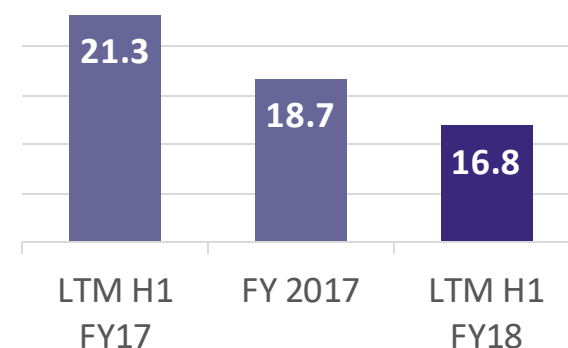
### FREE CASH FLOW (£M)



### CASH CONVERSION (%)



### LEASE ADJUSTED ROCE (%)



The market environment and the acquisitions have impacted KPIs, however these transactions will position us strongly for the future

# Operational Update

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*Ian Filby*





## Levers of Growth, Underpinned by an Efficient Operating Platform

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

# 1 Online – Continued Progress Driven by Fundamental Advantages

## KEY METRICS

<b>&gt;£160m</b>	Annual gross sales
<b>8.1%</b>	Growth in DFS gross sales
<b>10%</b>	Growth in unique visitors
<b>80%</b>	Foresee FXI mobile score (78% industry average)
<b>&gt;40%</b>	Share of specialist segment web traffic

## DRIVERS OF SUCCESS

Relentless optimisation of site / experience for upholstery shopping for over a decade

Strong innovation pipeline across DFS and Sofology, with proven partnership approach

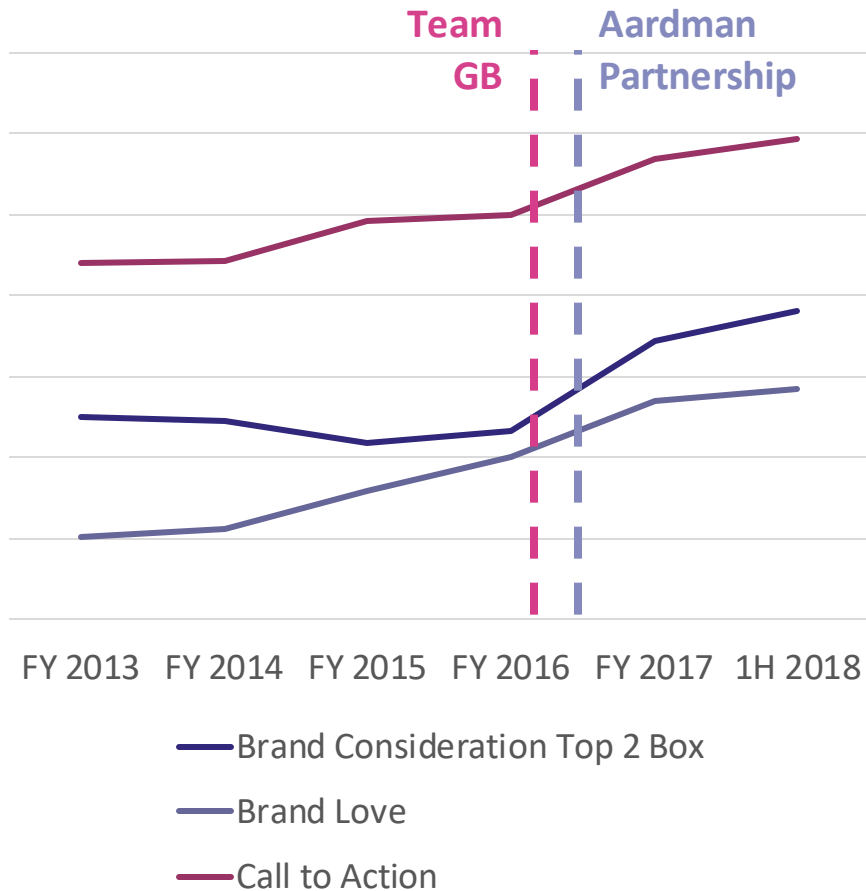
Substantial traffic, reputation and presence driving quality scores and hence reduced PPC

Curated, exclusive ranges, strong low-cost logistics and after sales support in addition to local showrooms and service

We continue to expect strong growth and maintained market leadership from our online channel, with penetration of our group business mix growing by 1%-2% per annum

## 2 Ongoing Broadening of Group Appeal

### STRONG BRAND APPEAL METRIC PERFORMANCE



### POSITIVE RESPONSE TO EARLY MAN CAMPAIGN



### JOULES RANGES ROLLING OUT TO 40 STORES



Incremental revenues being driven through a broader appeal to customers

## 2 BSI Kitemark a Unique Differentiator

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**the only sofa company  
awarded the British Standard  
Kitemark<sup>TM</sup> for quality**

**We are the first and only sofa retailer to receive the British Standards Kitemark,  
with all our ranges tested and awarded the mark**

### 3 DFS Store Network Development

#### OPERATIONAL UPDATE

DFS opening programme continues to generate sub-21 months cash payback and predictable returns

Full size store openings in Wednesbury, Rugby and Haverfordwest

Small store programme now trialing a 6,000 sq.ft. retail park format in Chelmsford

Standard store pipeline of 3-5 openings for next two years is defined

#### NEW STORE OPENINGS



Rugby

<b>Haverfordwest</b>	– December 2017 – 10,000 sq.ft.
<b>Rugby</b>	– December 2017 – 15,000 sq.ft. <sup>(1)</sup>
<b>Wednesbury</b>	– December 2017 – 15,000 sq.ft. <sup>(2)</sup>
<b>Chelmsford</b>	– November 2017 – 6,000 sq.ft.

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

(1) Includes Dwell

(2) Includes Dwell & Sofa Workshop



### 3 Sofology Store Opportunity

#### NETWORK OVERVIEW



#### DEVELOPMENT APPROACH AND RETURNS

Clear nation-wide opportunity

New Sofology store opening impact on neighbouring DFS is known and very limited

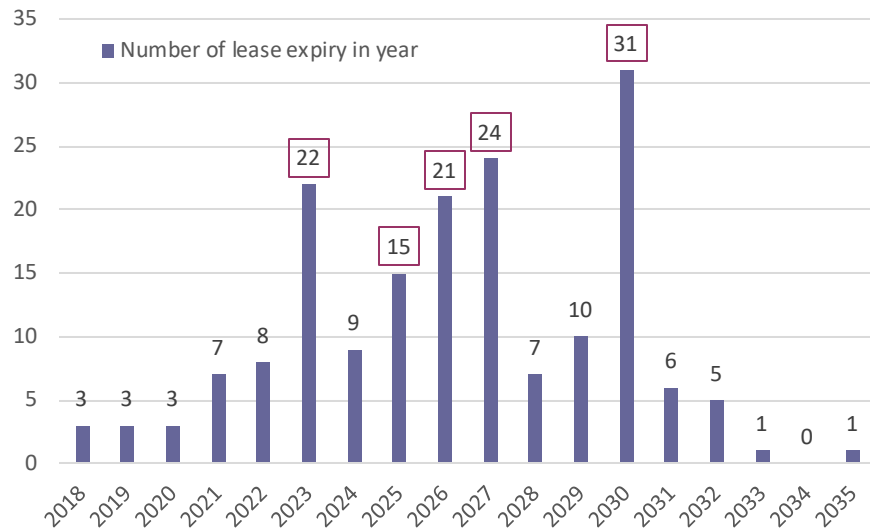
Roll-out to be carefully phased to benefit from efficient logistics platform

We believe strong lease-adjusted returns can be delivered

National opportunity for at least 70 Sofology stores is likely to be available, with measured exploitation likely to be pursued

# 3 Group Property Cost Opportunity

## GROUP STORE ESTATE LEASE EXPIRY



- ♥ Average lease life: 8.2 years
- ♥ Opportunity to offset rental inflation and to drive down store estate costs
- ♥ Between two and four DFS stores to be closed in CY 2018 depending on conversations with landlords

## DFS / DWELL CROYDON



- ♥ Footprint before: c. 32,000 sq.ft.
- ♥ Footprint after: c. 22,000 sq.ft.
- ♥ Annual rent & rates reduction: c.£300k
- ♥ Store fully refitted / double-height glazed

Through optimising store footprints and intensifying space usage, we expect to unlock opportunities to reduce the total and marginal rental cost within the store estate

# 4 Retail Space and Distribution Cost Efficiency

## DFS DELIVERY COST PER ORDER TRENDS

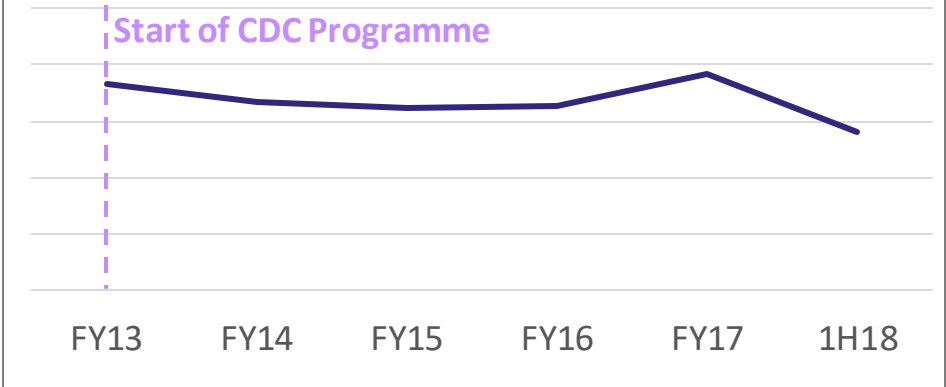
Final two UK DFS CDCs now operational – nineteen UK CDCs operating in total alongside 12 standalone warehouses

DFS standalone operating efficiencies are being released

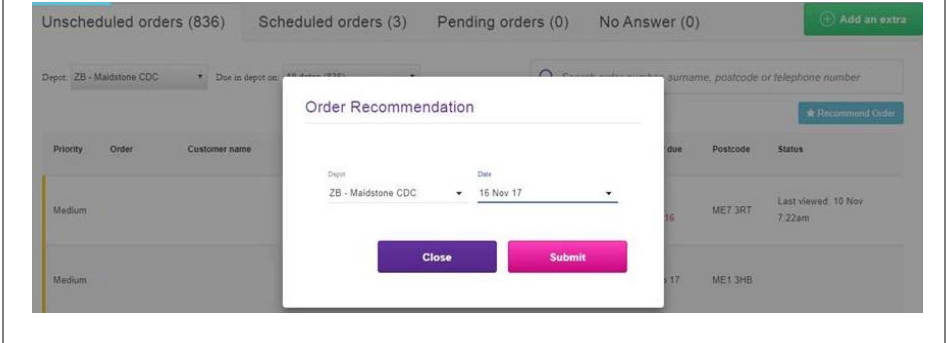
£2 cost per order benefit in FY18 relative to FY13 and FY17 despite material inflation being absorbed over long-term period

Further opportunity exists from combination of DFS and Sofology CDC networks

## DELIVERY COST PER ORDER TRENDS<sup>(1)</sup>



## OPTIMISATION THROUGH 'SMART' & BESPOKE APOLLO SOFTWARE



CDCs have reduced operational costs per order and are delivering an improved customer service

## 4 Continued Growth in Dwell and Sofa Workshop National Coverage

### DWELL



Five new store openings within DFS footprints. Typical revenue uplift from a new Dwell of £1.0m

Footfall to DFS store and DFS store performance strengthens following conversion

### SOFA WORKSHOP



Five new Sofa Workshops opened using existing leased group space typically leading to £0.9m uplift in revenues

Six further (ex-Multiyork) Sofa Workshops currently being opened

Dwell and Sofa Workshop allow us to effectively intensify our usage of existing retail space, while serving to broaden the appeal of our Group

# 5 International Development – Netherlands & Spain

## THE NETHERLANDS – TV CAMPAIGN



## THE NETHERLANDS

National TV test has now commenced within the trial's operating loss parameters (£2m-£3m p.a.)

Initial view on next steps anticipated in Autumn 2018

## SPAIN

Profitable operations, with two well-established stores

Evidence of growing appeal of both the range and credit offer to Spanish domestic market

Measured international development progressing in-line with our expectations



# Summary and Outlook

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## SUMMARY

- ♥ Profits are on track relative to our plan for the full year
- ♥ Our strategic development continues across our growth levers
- ♥ We remain excited around the long-term opportunity with Sofology and Group development

## OUTLOOK

- ♥ We have seen positive momentum in our trading across the first half of the financial year and the start of the second half despite a market that continues to be challenging, and susceptible to falls in consumer confidence
- ♥ The financial returns of strategic investments previously made are however feeding through into our results
- ♥ We continue to expect benefits from the annualisation of product margin initiatives and operating cost efficiencies over the second half of the financial year
- ♥ Our expectations for profits remain unchanged, and we continue to expect modest growth in underlying EBITDA before acquisitions and generation of strong cashflow over the 2018 financial year

# APPENDIX

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## Group Store Profile

### AS AT 26 JANUARY 2018 (VS. 29 JULY 2017)

	UK	ROI	Holland	Spain	TOTAL
<i>Large Format (c. 15,000sq.ft.+)</i>	97	2	2 (+1)	1	102
<i>Medium Format (c. 10,000sq.ft.)</i>	12 (+3)	2	3	-	17
<i>Small Format (&lt;5,000sq.ft.)</i>	4 (+1)	-	1	-	5
<i>Other (5,000sq.ft.)</i>	-	-	-	1	1
<b>DFS TOTAL</b>	<b>113</b>	<b>4</b>	<b>6</b>	<b>2</b>	<b>125</b>
<b>Sofology (10-12,000 sq.ft. &amp; 5-7,000 sq.ft. Mezzanine)</b>	<b>41 (+4)</b>	-	-	-	<b>41</b>
<i>Standalone</i>	3	-	-	-	3
<i>DFS Co-locations</i>	32 (+5)	-	-	-	32
<b>Dwell (c. 3,500-6,000sq.ft)</b>	<b>35</b>	-	-	-	<b>35</b>
<i>Standalone</i>	15	-	-	-	15
<i>DFS Co-locations</i>	10 (+5)	-	-	-	10
<b>Sofa Workshop (c. 2,500sq.ft)</b>	<b>25</b>	-	-	-	<b>25</b>





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