



dfs

Capital Markets Day

2 May 2018



SOFA WORKSHOP

dwell

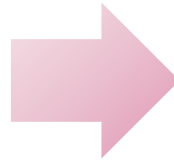


Introduction

Ian Filby - CEO




Our Journey

Growing from
DFS as Mass-Market Leader ...



... to DFS Group as the
Leading Sofa and Living Room
Furniture Specialists

By Leveraging our Efficient Operating Platform which :

-  The right brand and proposition for all major customer segments
-  Best value at every price point
-  Outstanding customer experience

Using the strength of the DFS platform we will grow our retail brands to drive incremental profit before tax and continued strong cash generation

The Management Team Here Today



Ian Filby
CEO



Nicola Bancroft
CFO



Nick Collard
*Chief Commercial
Officer*



Scott Fishburn
*Chief People
Officer*



Gill Stewart
CEO, Sofa Workshop



Tim Stacey
*Chief Operating
Officer*



Toni Wood
*Chief Marketing
Officer*



Mike Schmidt
*Corporate Finance
Director*

Our Agenda

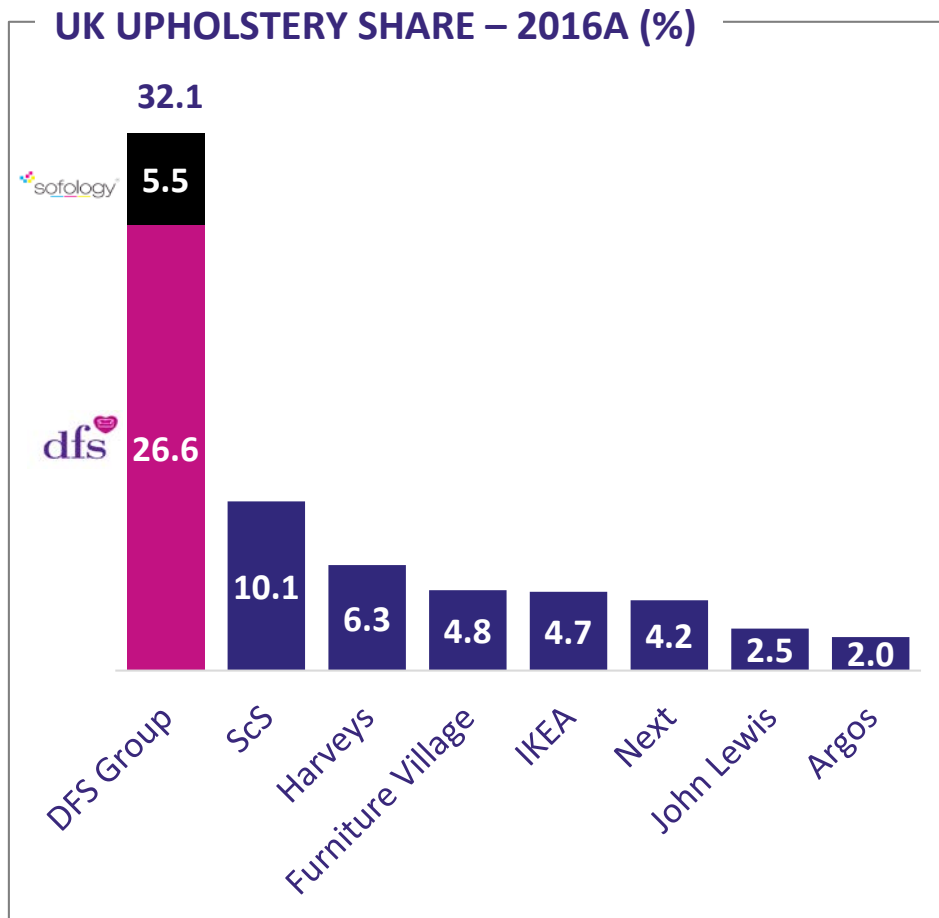
Topic	Presenter	Timing
Introduction & Context	Ian Filby	10:45 – 11:00
Marketing Strategy	Toni Wood	11:00 – 11:15
Commercial Strategy	Nick Collard	11:15 – 11:30
Sofa Workshop	Gill Stewart	11:30 – 11:40
Retail Strategy	Tim Stacey	11:40 – 11:55
Tea Break	-	11:55 – 12:15
People Strategy	Scott Fishburn	12:15 – 12:30
Sofology Opportunity	Mike Schmidt	12:30 – 12:45
Financial Model	Nicola Bancroft	12:45 – 13:00
Closing Remarks & Q&A	Ian Filby	13:00 – 13:15
Lunch + Informal Management Q&A		13:15 – 13:45
Croydon DFS, Dwell & Sofology	Regional Management	13:45 – 15:45
Arrive at East Croydon Station	-	16:00

Approach to Questions Today

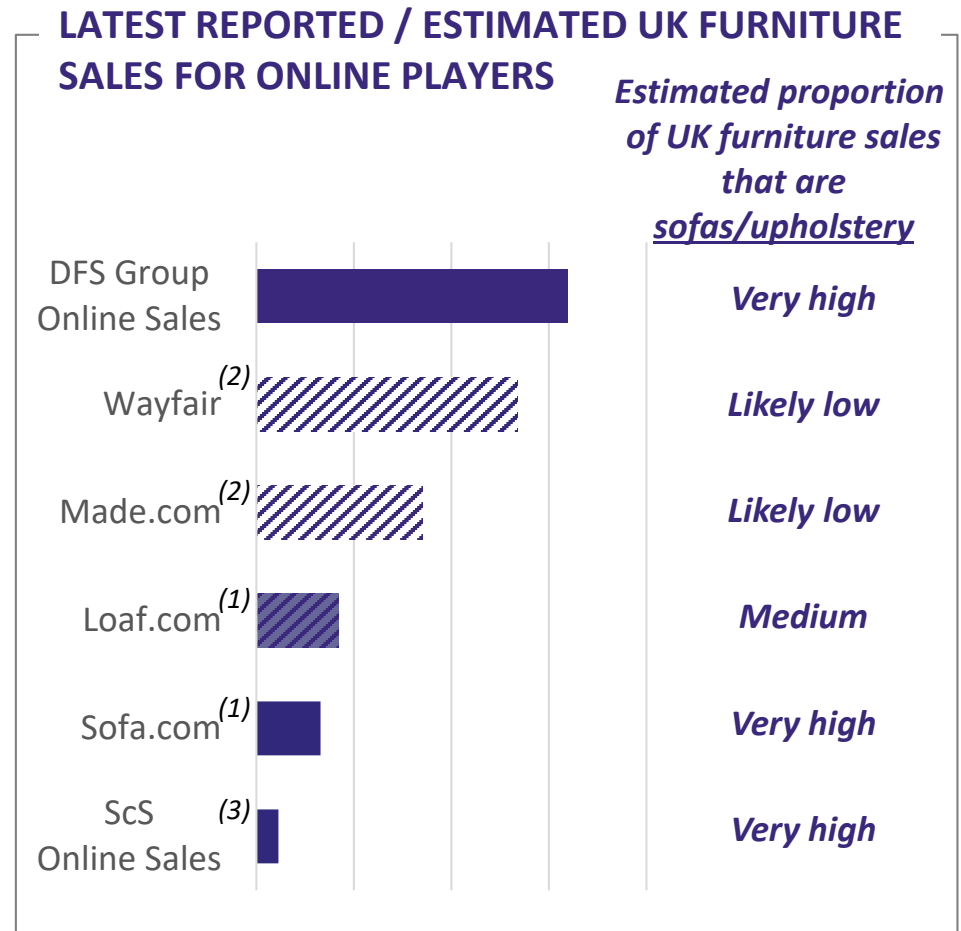
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Our Position Today



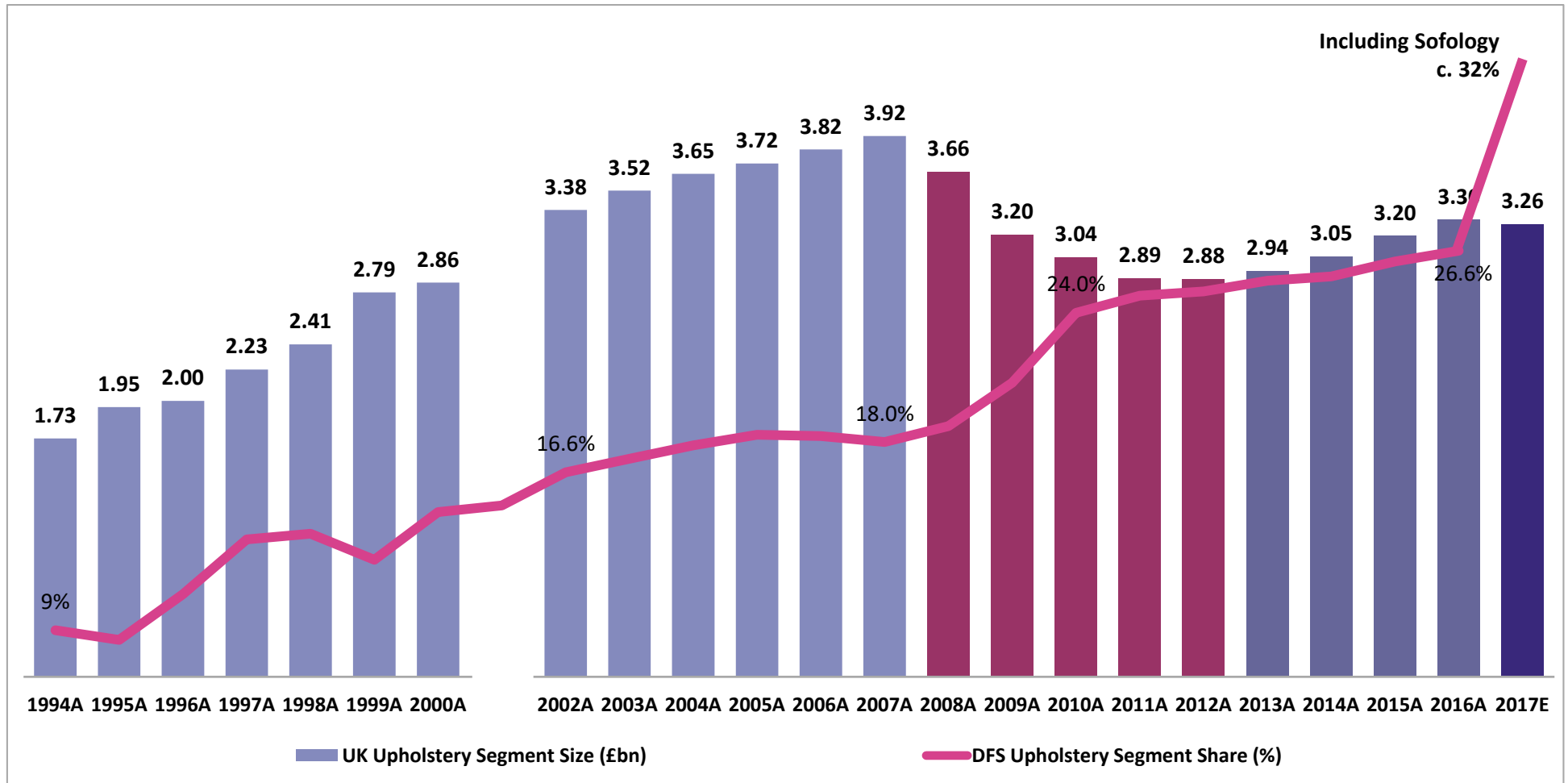
Source: GlobalData (formerly known as Verdict)



Source: (1) Companies House filings, (2) extrapolated data from GlobalData market shares and (3) Annual report disclosure

We are the clear leader in the upholstery/living room segment of the furniture market. Our leadership is as equally strong for upholstery transactions completed online

Long-Term Progress in all Environments

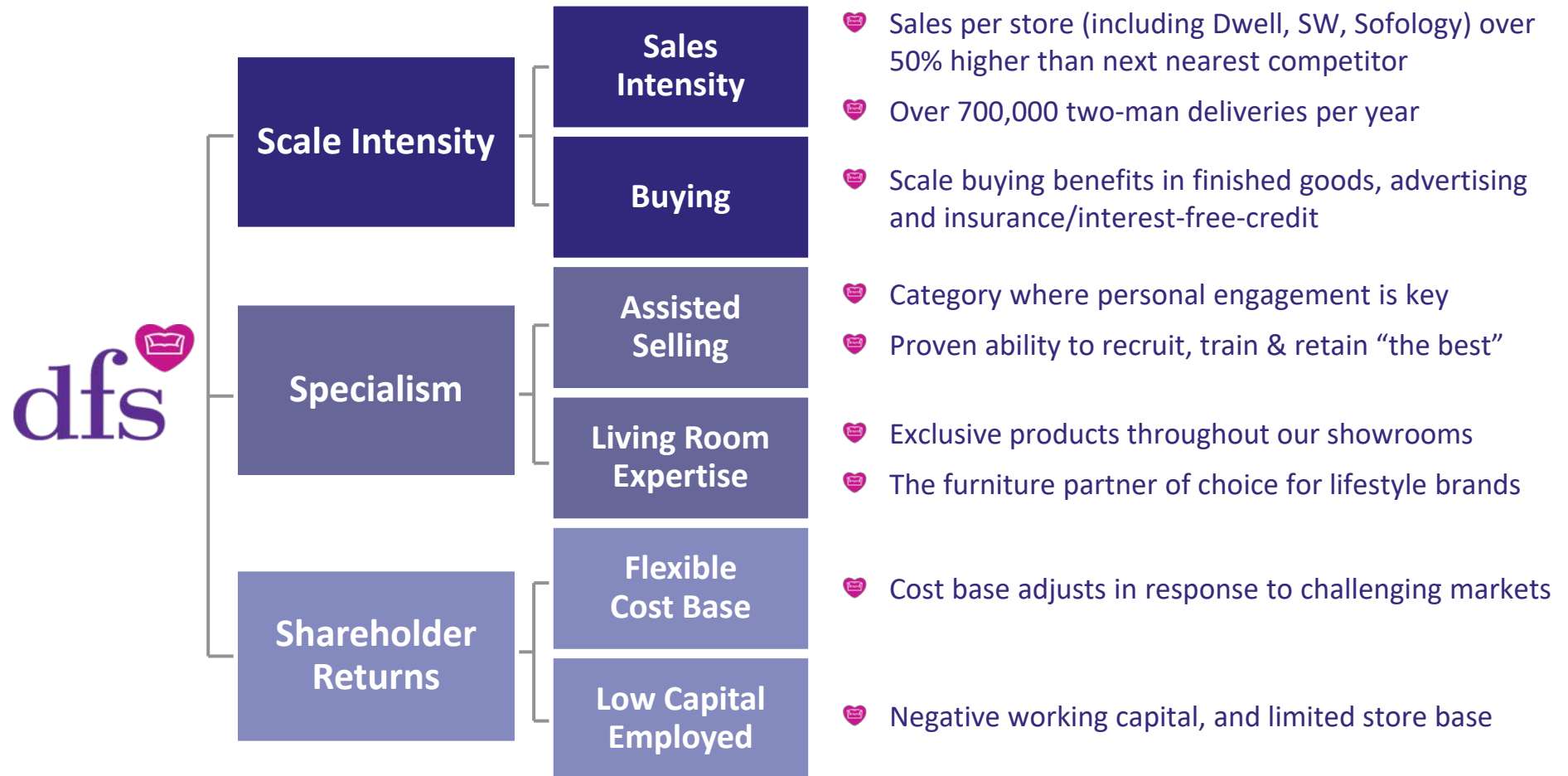


We have maintained a long and consistent track record of above upholstery segment growth

Source: Upholstery segment size and DFS segment share data for 1994-2000 sourced from DFS Final Results presentation 2000. DFS Upholstery segment share data for 2002-2007 has been derived by DFS management based on Verdict's estimated segment shares for DFS in Furniture and the relative size of the Upholstery segment within the overall Furniture segment, with both segment sizes sourced from Verdict estimates. DFS Upholstery segment share data for 2008-2016E sourced from Verdict, delivery charge inclusive. Upholstery segment size data for 2002-2017E sourced from GlocalData (formerly named as Verdict)

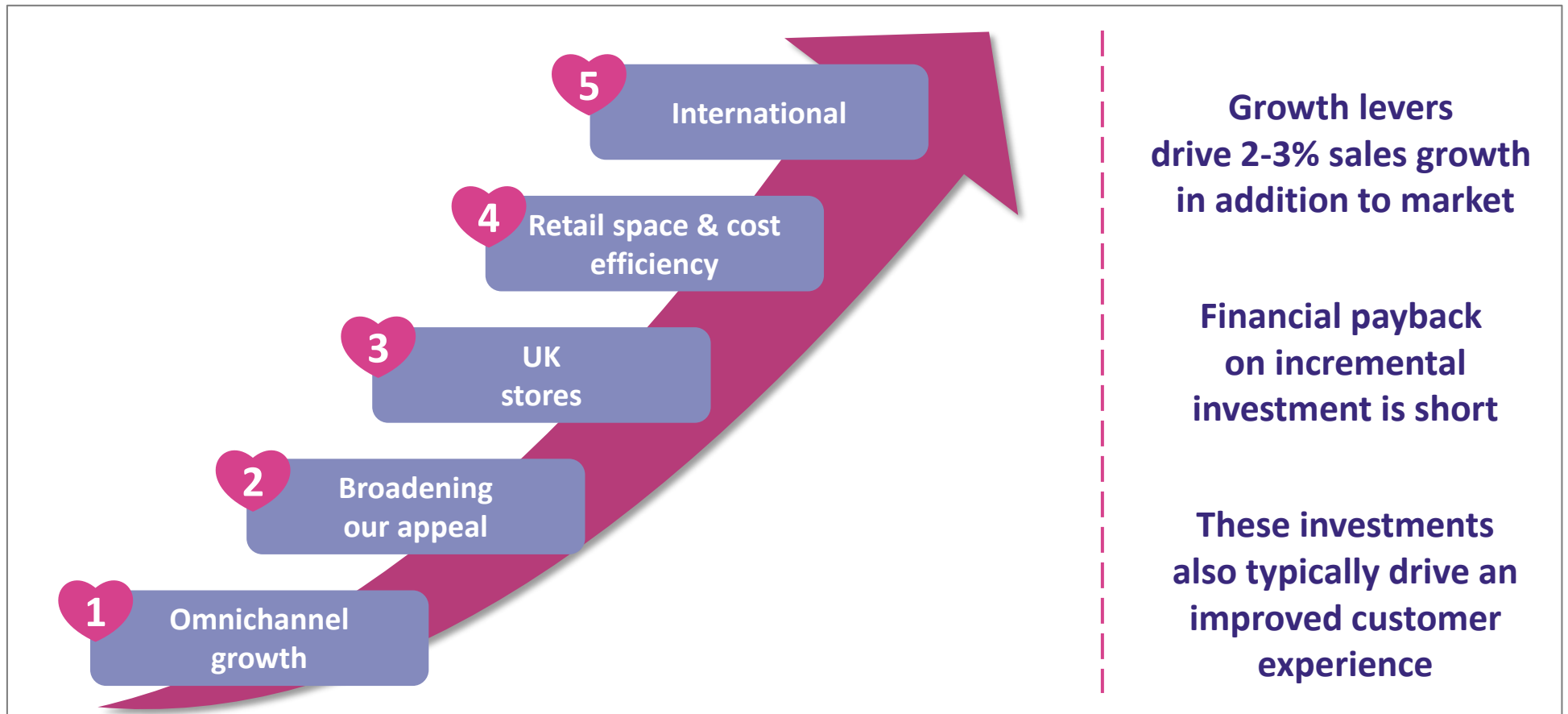


The Three “S”s That Make us Different



We have hard-to-match competitive advantages that are sustainable in the long-term

Levers of Growth Remain the Right Long-Term Choice



Despite the challenging market, we have continued to invest in our stated growth levers

Key Themes for the Day

1. WHY WE ARE BROADENING OUR APPEAL



FRENCH CONNECTION
sofas exclusively at dfs

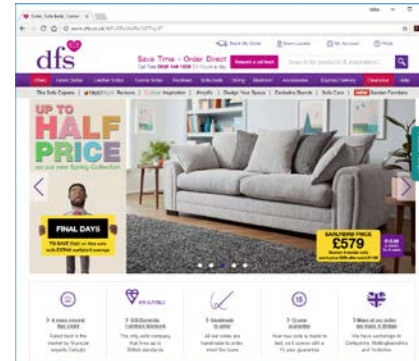


Joules

SOFA
WORKSHOP



2. STAYING AHEAD IN ONLINE



3. THE SOFOLOGY OPPORTUNITY



4. MATERIAL FINANCIAL UPSIDE AVAILABLE

£ £ £

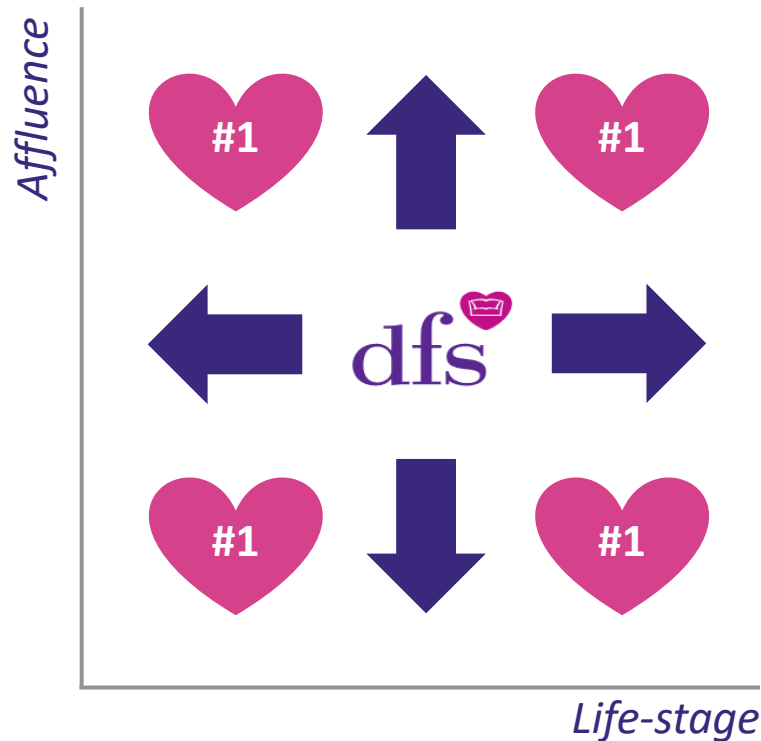
We are pleased to have this opportunity to outline the opportunity we see ahead

Marketing Strategy

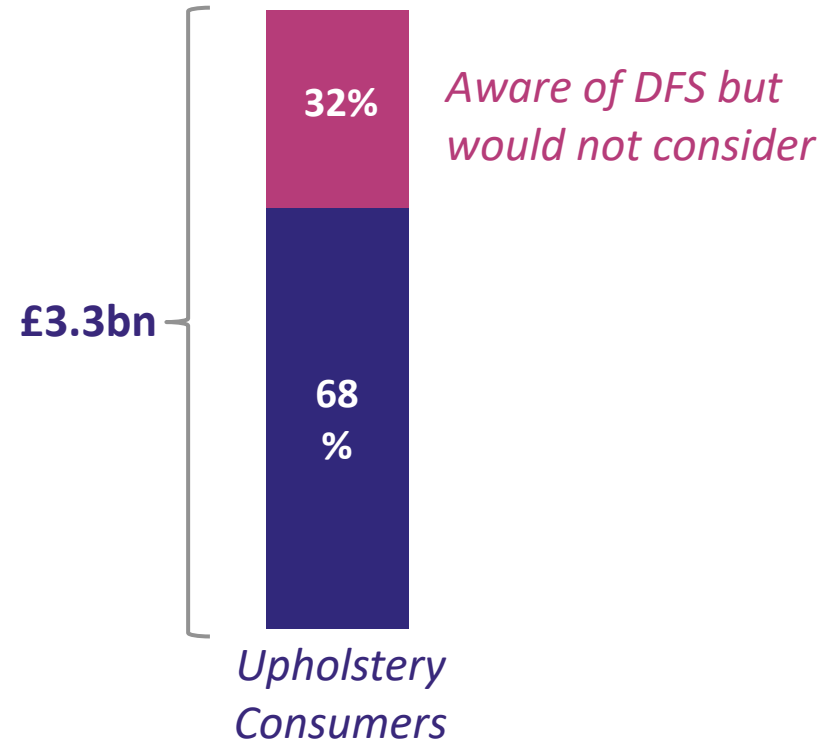
Toni Wood – Chief Marketing Officer

Our DFS Brand Appeals Strongly Across the Market

DFS LEADS WITH ALL CUSTOMER GROUPS...



...HOWEVER A SIGNIFICANT OPPORTUNITY EXISTS WITH CONSUMERS CLOSED TO DFS

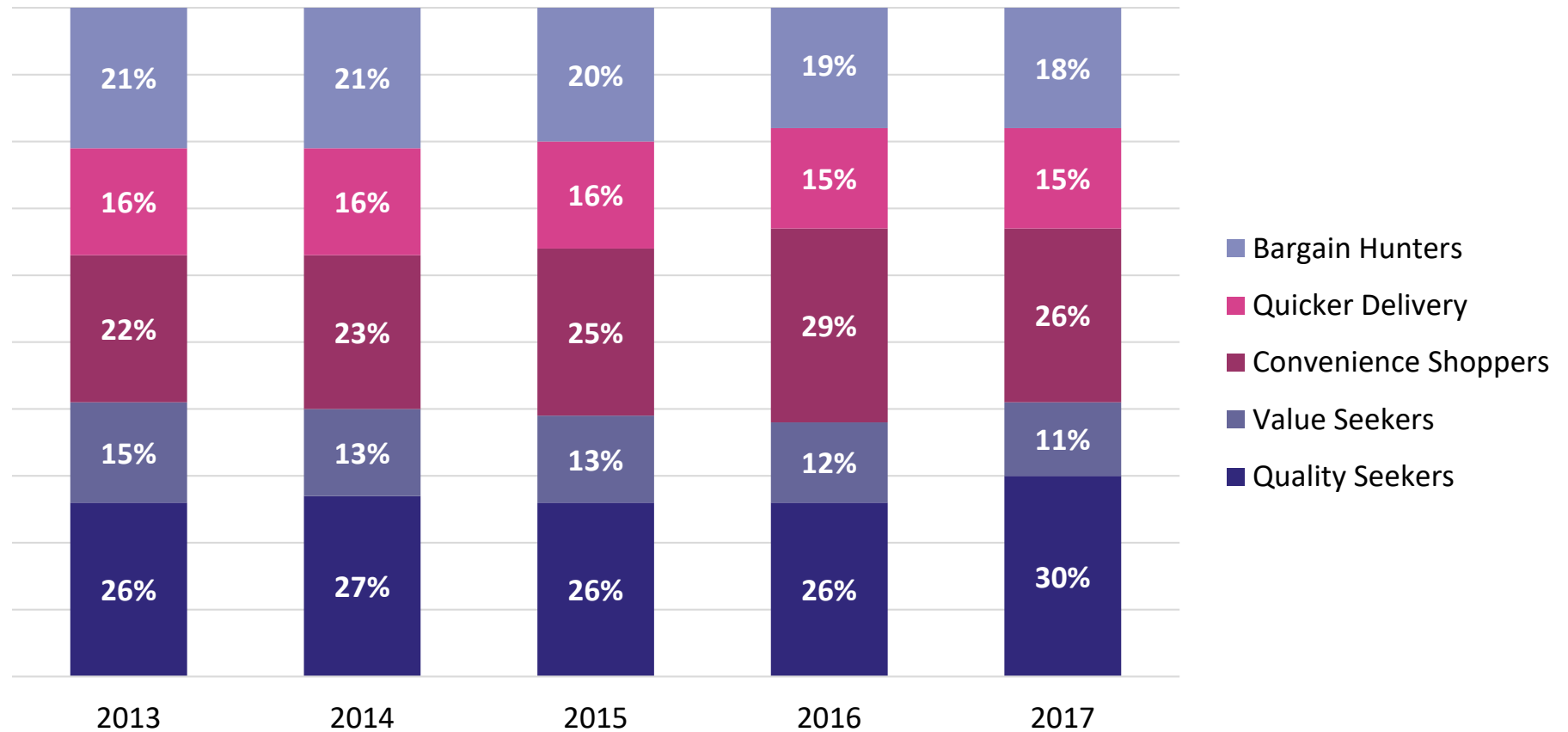


While DFS leads with all customer groups, a proportion of customers have always claimed they are closed to the DFS brand. i.e. they would not consider a purchase from us

Source: Independent survey of upholstery purchasers conducted on behalf of DFS

Evolving With the Changing Market Whilst Retaining our Core Customers

MARKET VOLUME BY SEGMENT



Our shift in marketing tone has matched the overall market shift in consumer behaviour to focus more on quality and convenience

Changing Consideration and Call to Action With Ever Stronger Advertising

DFS BRAND & PROMOTIONAL

Team GB 2016/17



GXD 2016/17



Winter Sale 2017/18

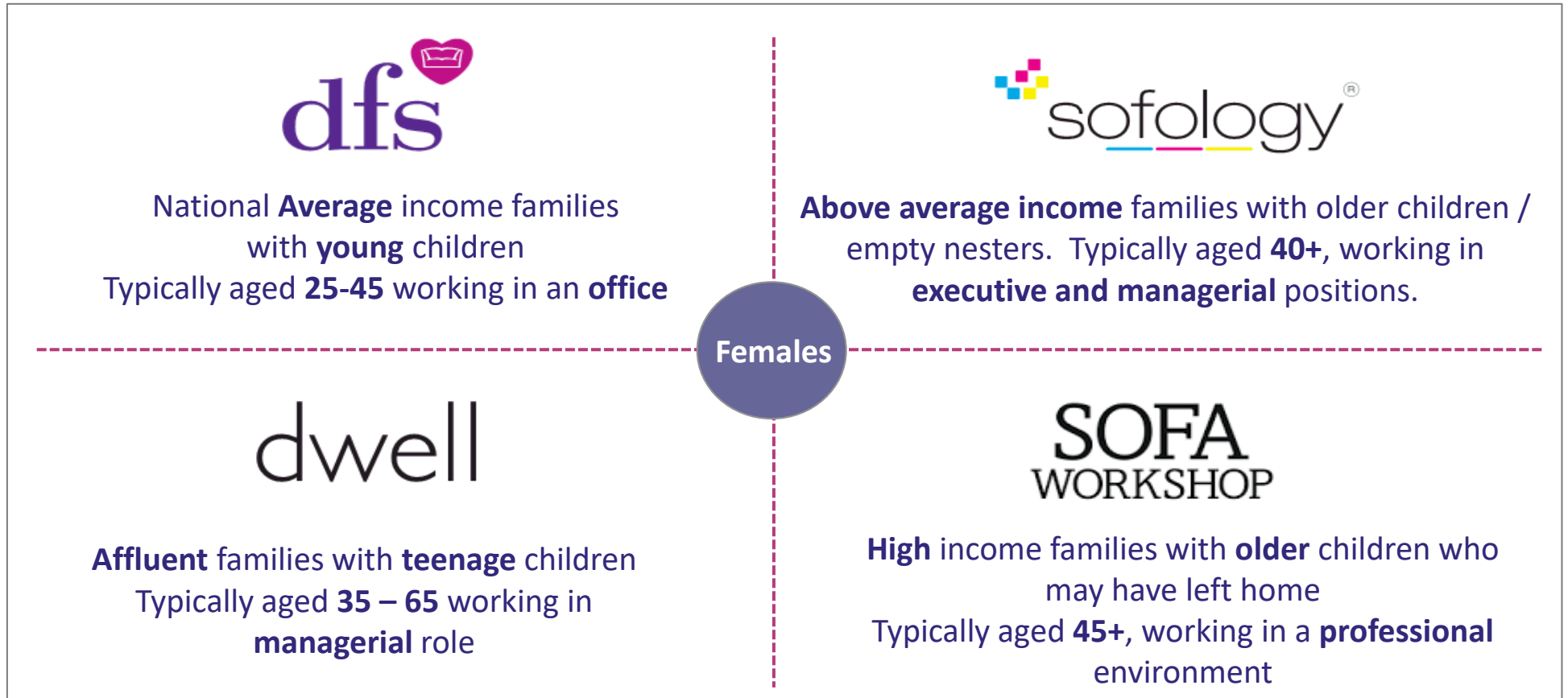


DFS BRAND TRACKING RESULTS

	2015/16	2016/17	2017/18 YTD
Brand Awareness	93%	94%	93%
Brand Consideration	29%	34%	36%
Brand Acceptability	57%	63%	65%
Brand Love	25%	29%	30%
Value	39%	40%	44%
Call to Action	56%	58%	59%

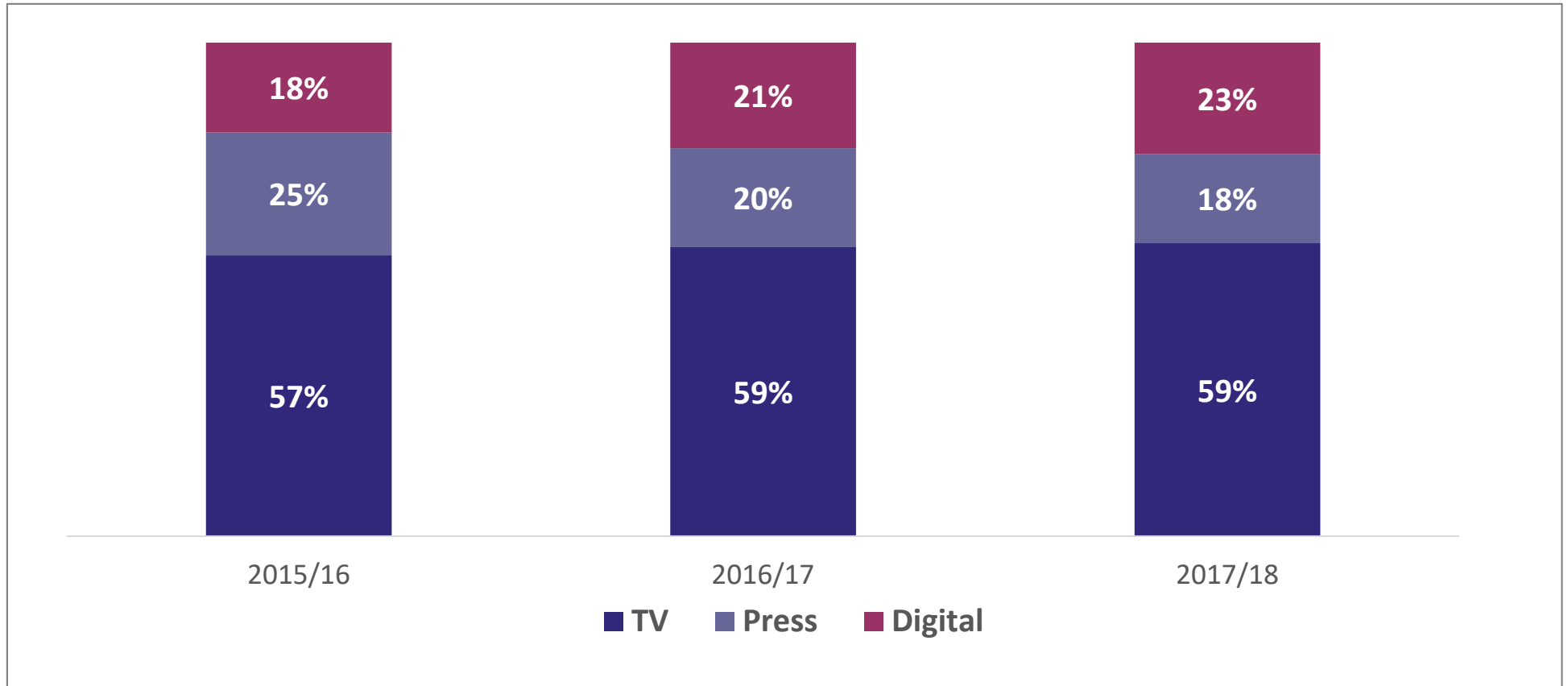
Our messaging has evolved to tell our hidden truths while we have retained 80% of our advertising having a pricing/promotional message

Our Group Brands are Complementary and Enable Even Broader Appeal



Our Group brands are positioned to appeal differently to DFS and allow us to target groups of customers that would otherwise remain closed to DFS

Shifting Marketing Investment to reflect our Customers' Omnichannel Journey



Through econometric modelling we manage our channel spend to maximise our return on investment. Digital spend has grown over time, however remains significantly smaller than TV

We are Accelerating our Digital Marketing with Customer Data at the Core

Signals & Segments Driven Marketing

1



Lead Capture & conversion programme

JAYWING

2



Beta Partner with Data Specialists

[m] PLATFORM
quantcast®

3



Innovation Partner with Tech leaders



While TV spend remains key at present, we are working to develop digital marketing approaches that are effective for the differentiated upholstery purchasing customer journey

Questions

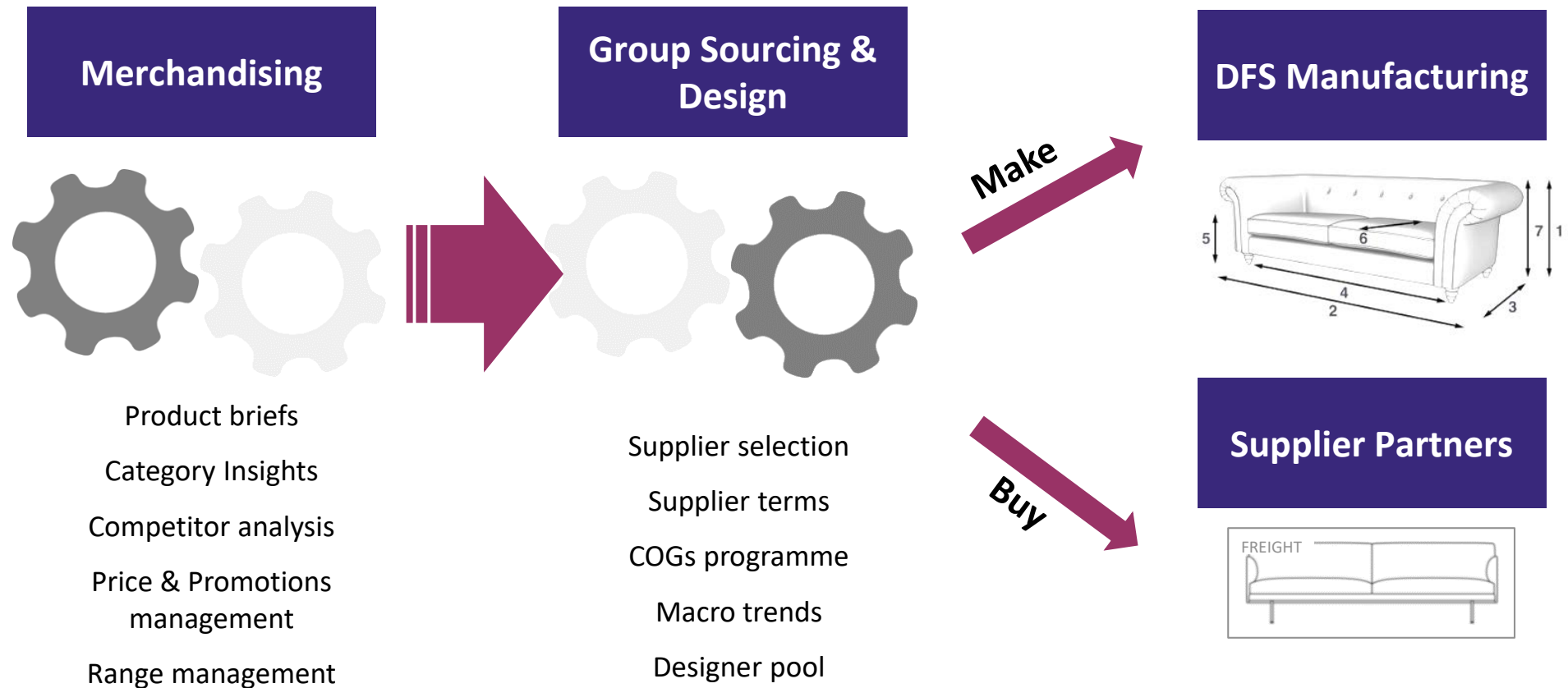
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Commercial Strategy

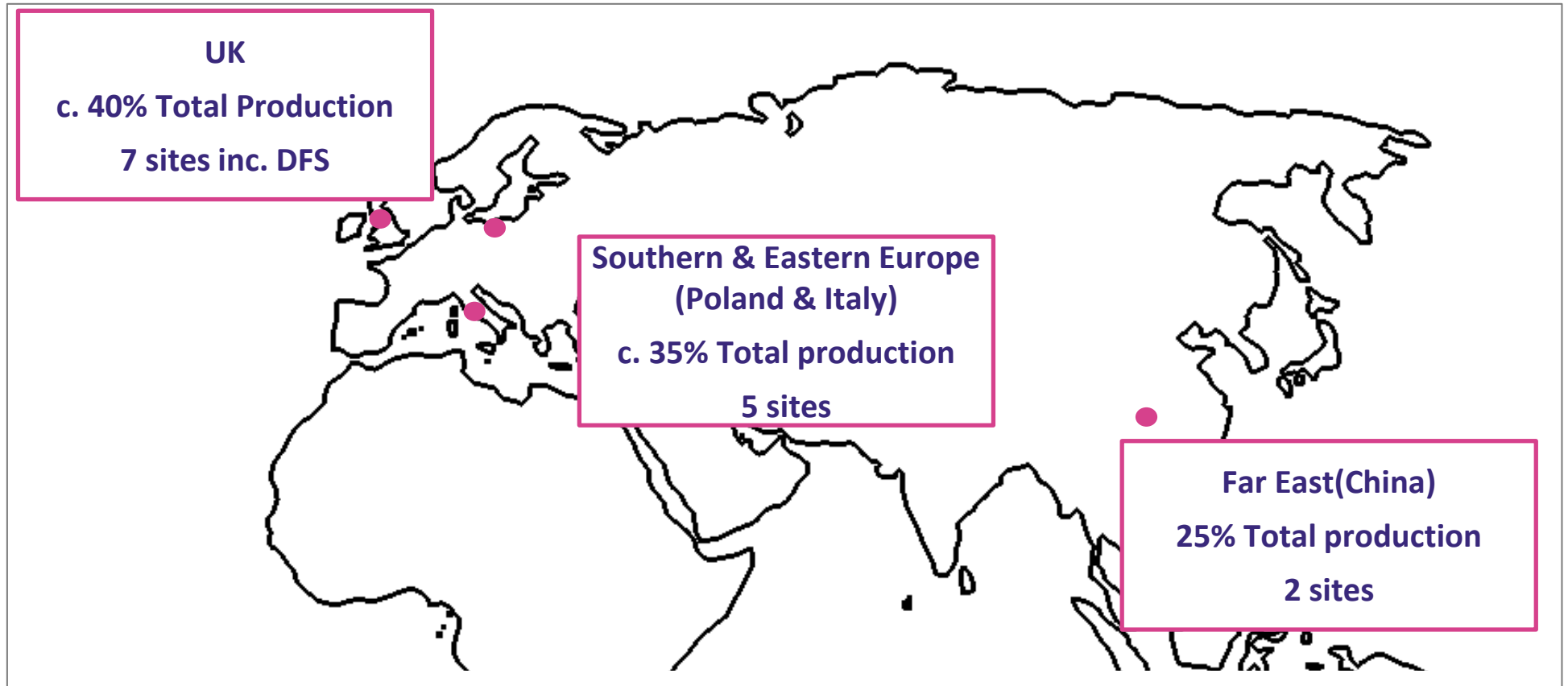
Nick Collard – Chief Commercial Officer

DFS Commercial Process



Our commercial process is driven by consumer and market insight which informs the supplier strategy and make or buy decision making process

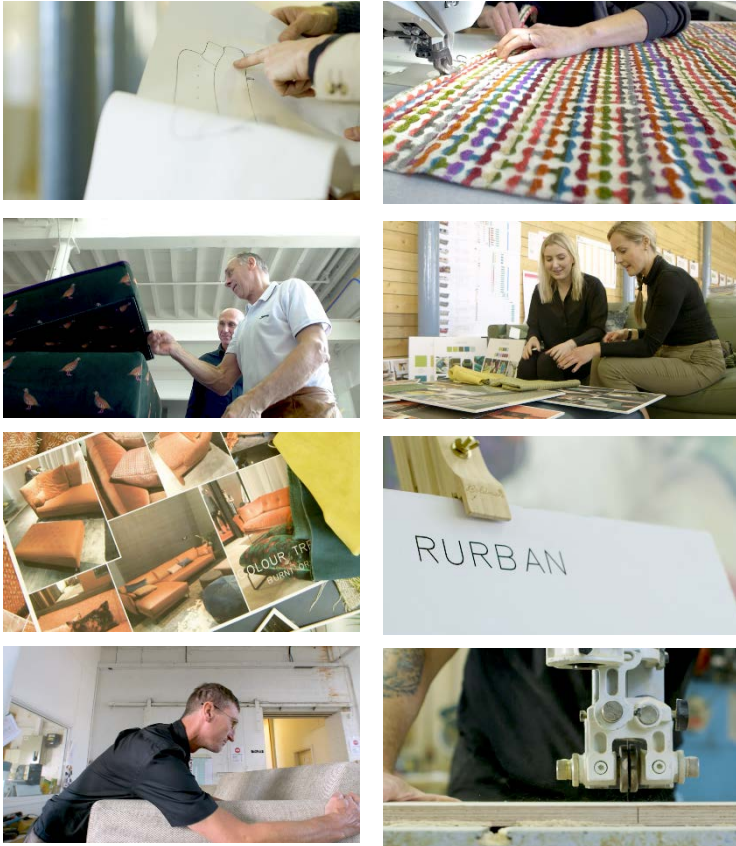
Group Sourcing Map



Our sourcing mix is designed to give an optimum balance of Cost, Quality & Lead time

Group Design Capability

'BRIDGE MILLS' NOTTINGHAM



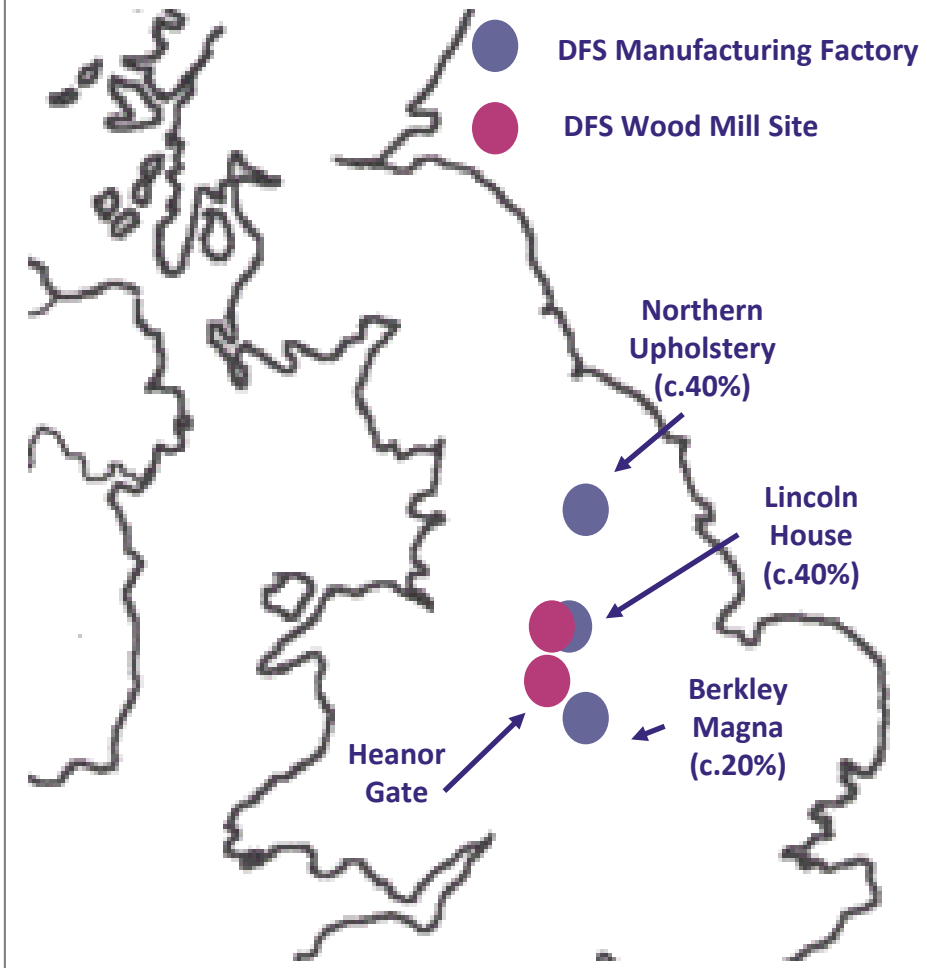
KEY FACTS

- ♥ Design centre of excellence in Nottingham
- ♥ 6 Designers – across upholstery & fabric
- ♥ 17 within the Development team (Prototypes)
- ♥ Originally developed to support DFS factory development
- ♥ Now working with partner suppliers
- ♥ Produce approx. 100 ranges per year

Our team of highly-experienced designers works with our internal manufacturing and external suppliers to rapidly refresh and evolve our range to respond to changing consumer trends

DFS UK Manufacturing

GEOGRAPHICAL PRESENCE



KEY FACTS

- ♥ 'Top 3' UK manufacturer of sofas and other upholstered furniture
- ♥ 5 sites employing c.950 colleagues across 2 shifts
- ♥ Experienced long-serving management team
- ♥ Experts in components sourcing and product composition
- ♥ Market leading two-week express lead times
- ♥ Fully integrated with design allowing rapid speed to market (quickest production – 14 days)
- ♥ Workforce largely on piece rate, allowing flexibility of production costs

We are one of the largest manufacturers of upholstery in the UK, operating through five sites located in Nottinghamshire and Yorkshire

Why is our Vertical Integration Valuable?

Shorter Lead Times

- ♥ Manufacturing to meet customer needs, not to maximise manufacturing efficiency

Trend Responsiveness

- ♥ Able to rapidly bring new ranges to market to follow key fashion trends, or respond to retail insights

Cost Insight

- ♥ Greater negotiation power with other finished goods suppliers, given live insight on costs of key inputs

Differentiated Capability for 'Brand Partners'

- ♥ Gives comfort that we have an end to end process control thereby protecting brand equity

Additional Margin

- ♥ Generates a solid manufacturing margin, with cost savings from no sales force and deep logistics integration

Vertical integration adds substantive advantages to the DFS proposition, in addition to creating 'provenance' utilised in our customer marketing

British Standards Institute Accreditation



the only sofa company awarded the British Standard Kitemark™ for quality

- ♥ Well-recognised by consumers as the endorsement for quality
- ♥ All ranges within DFS have been tested and carry the mark, following development of the standard for upholstery through a partnership approach with the BSI
- ♥ Requires annual audits of all our own factories and third party factories creating independent pressure that drives standards

The kitemark is a unique differentiator within a product category where quality can otherwise be hard for consumers to judge

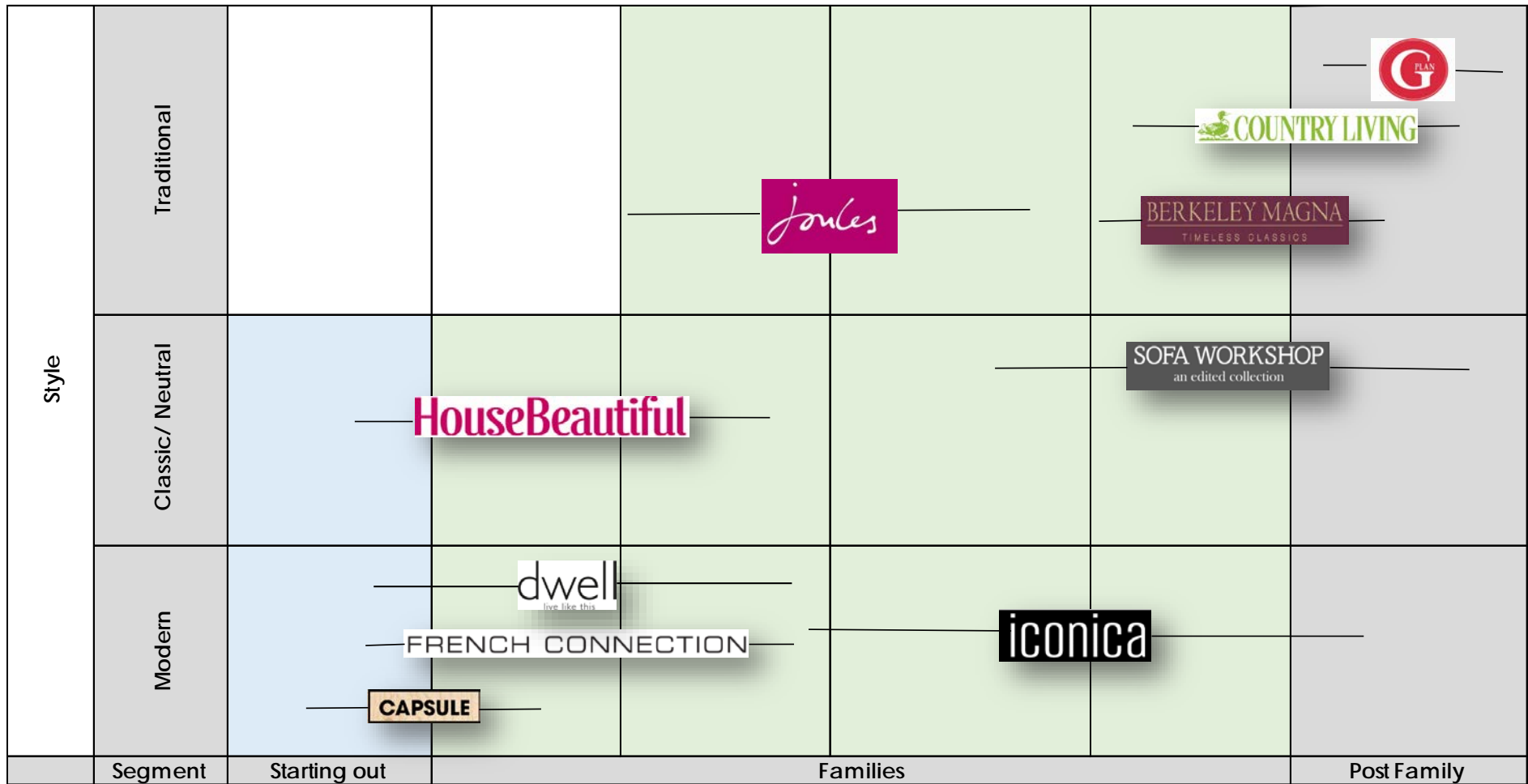
Joules



- ♥ 40 Joules stores across UK – 2 bays per store – up from an initial 11 trial stores
- ♥ Brand values – Colour, Family, Humour, Quality & British
- ♥ Well positioned in the large and growing premium lifestyle market
- ♥ Majority of Joules customers are female

Our Joules partnership has seen a successful launch, growing rapidly to now have two ranges on display in 40 stores

Exclusive Brand Relative Positioning



We have developed our exclusive and partnership brand portfolios to cover the style and consumer life-stage spectrum

Questions

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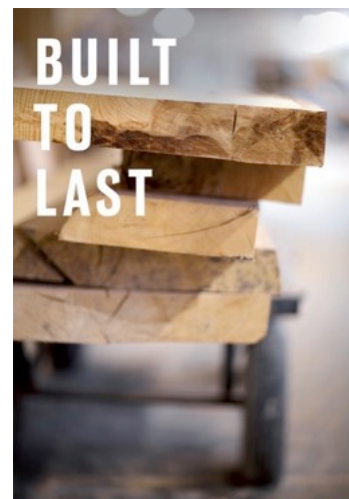


Sofa Workshop

Gill Stewart – CEO, Sofa Workshop

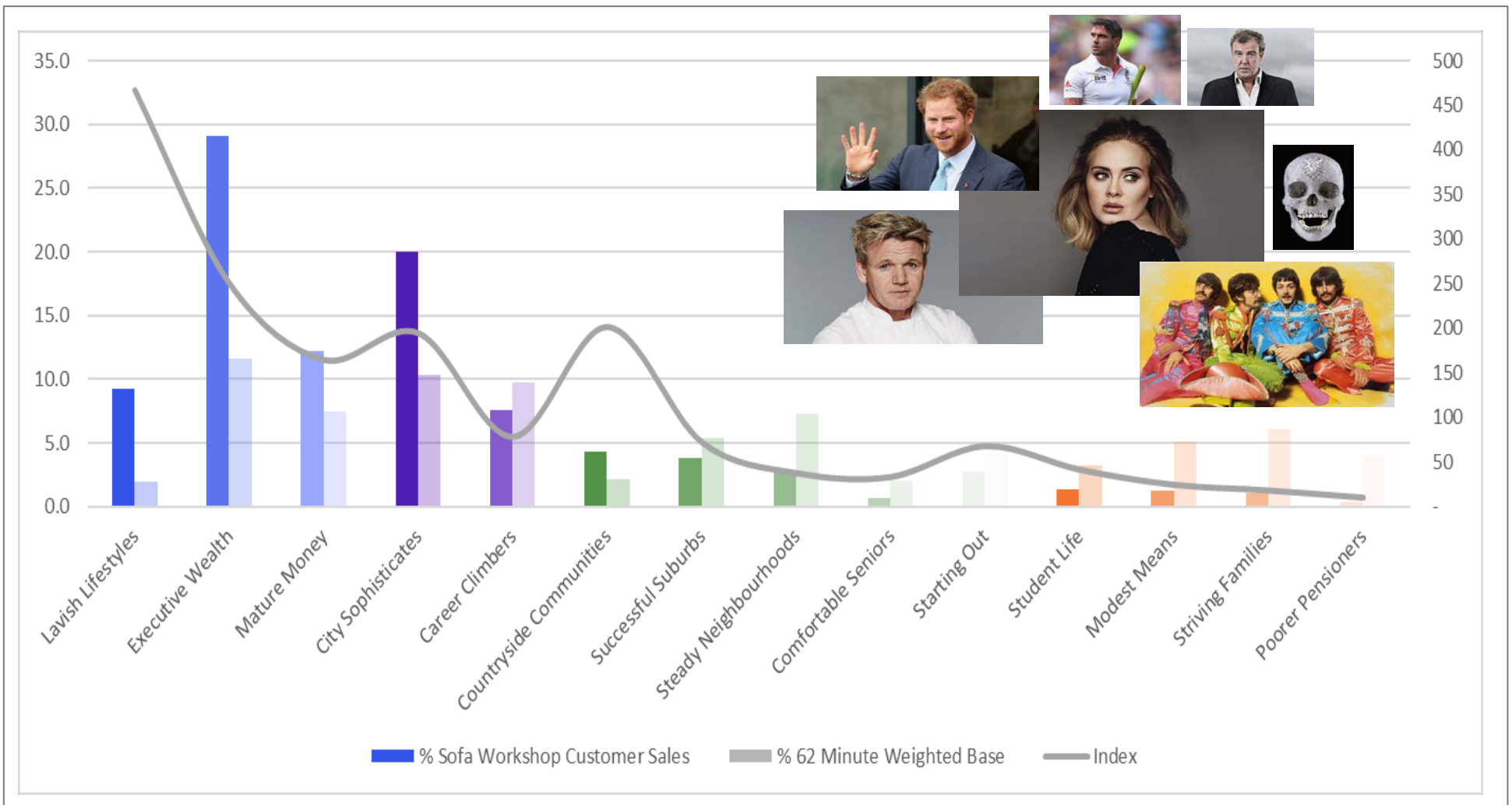
Sofa Workshop: What We Do

- ♥ We design and craft the highest quality sofas that are handmade to order in our exclusive British workshops
- ♥ Our creative expertise and upholstery knowledge ensure we can co-create your perfect sofa without overwhelming you with a bewildering catalogue of options
- ♥ We exist to “craft the ideal sofa you always wanted for your home”



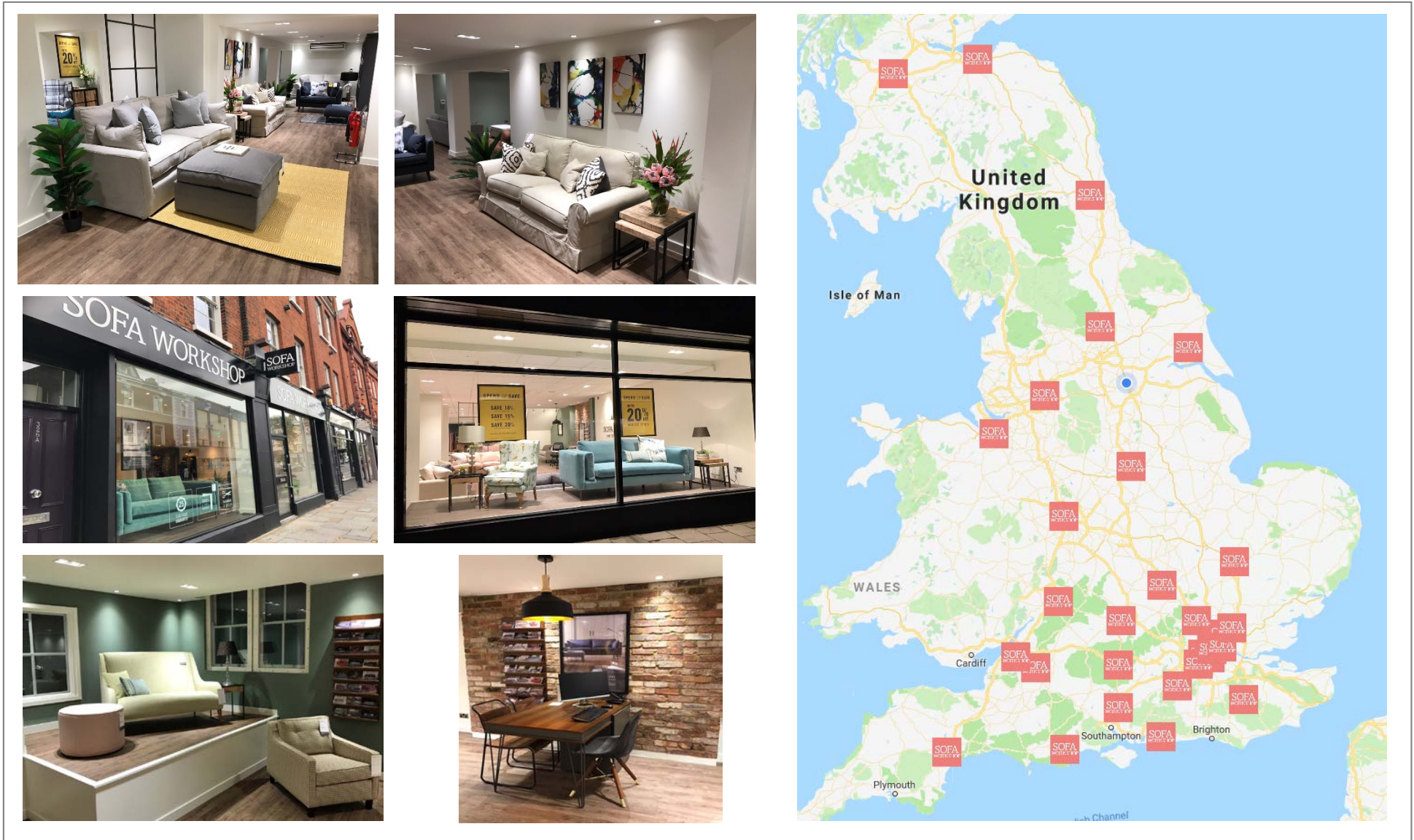
Sofa Workshop: Our Craft, Your Creation

Sofa Workshop: Our Customer

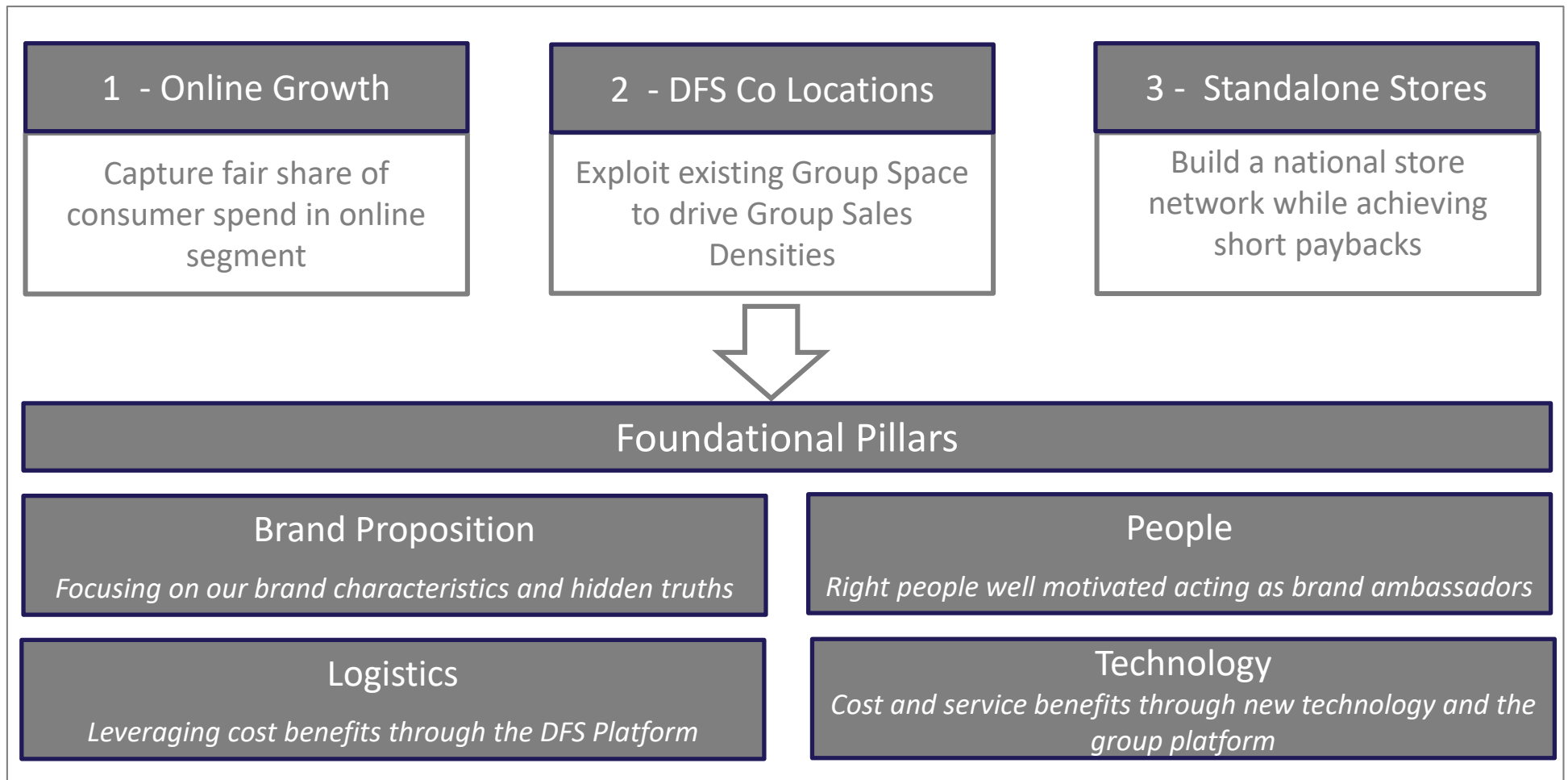


We overindex in Lavish Lifestyles, Executive Wealth, City Sophisticates and Countryside Communities. Customers typically travel up to 60 minutes to visit a store

Sofa Workshop: Our 31 Stores



Sofa Workshop: Opportunities for Growth



Opportunity for material revenue growth while leveraging operating cost benefits from group support

Questions

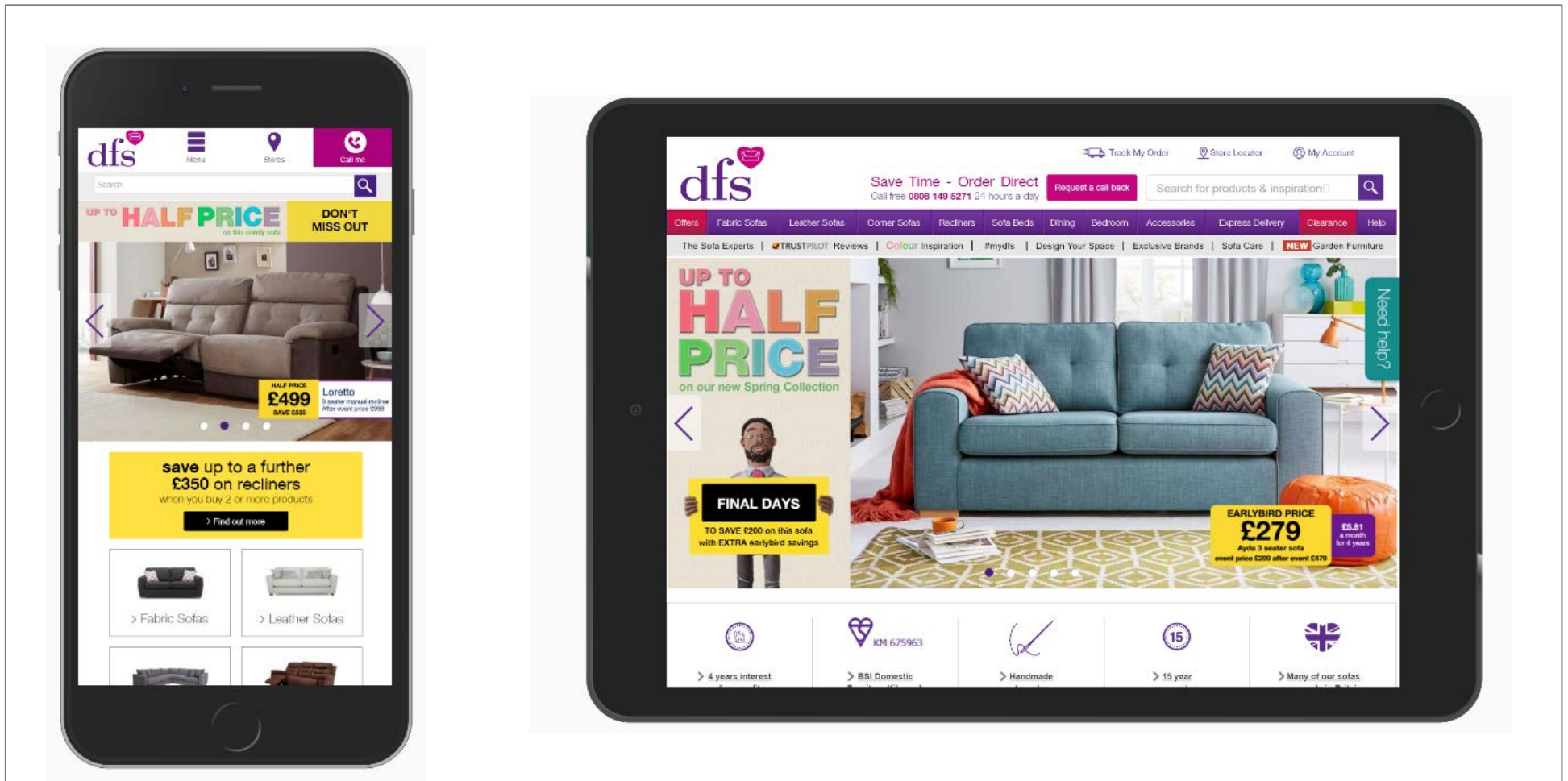
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Retail

Tim Stacey – Chief Operating Officer

Omni-Channel Customer Journey



Our customer journey now commonly starts with digital research – and continues across multiple channels through to purchase

Omni-Channel Customer Journey – Inspirational Imagery

Anika



 **life_at_primrosecottage** • Follow
New Aberdour


life_at_primrosecottage ♡MONDAY♡
I'm slowly getting the housework done before my night shift tonight... counting down the days this week as we are away on holiday for a week from Saturday!❤️

#mondayvibes #housework #sofa #mydfs #grey #cushions #stags #homesweethome #cottageinterior #homerovation #homeinterior #homeinspo #countrycottage #countryliving #cottagelife #scottishhome #interiorstyling #lifeatprimrosecottage

♡ 👁
73 likes
MARCH 19

Log in to like or comment. ...



 **nicholask88** • Follow

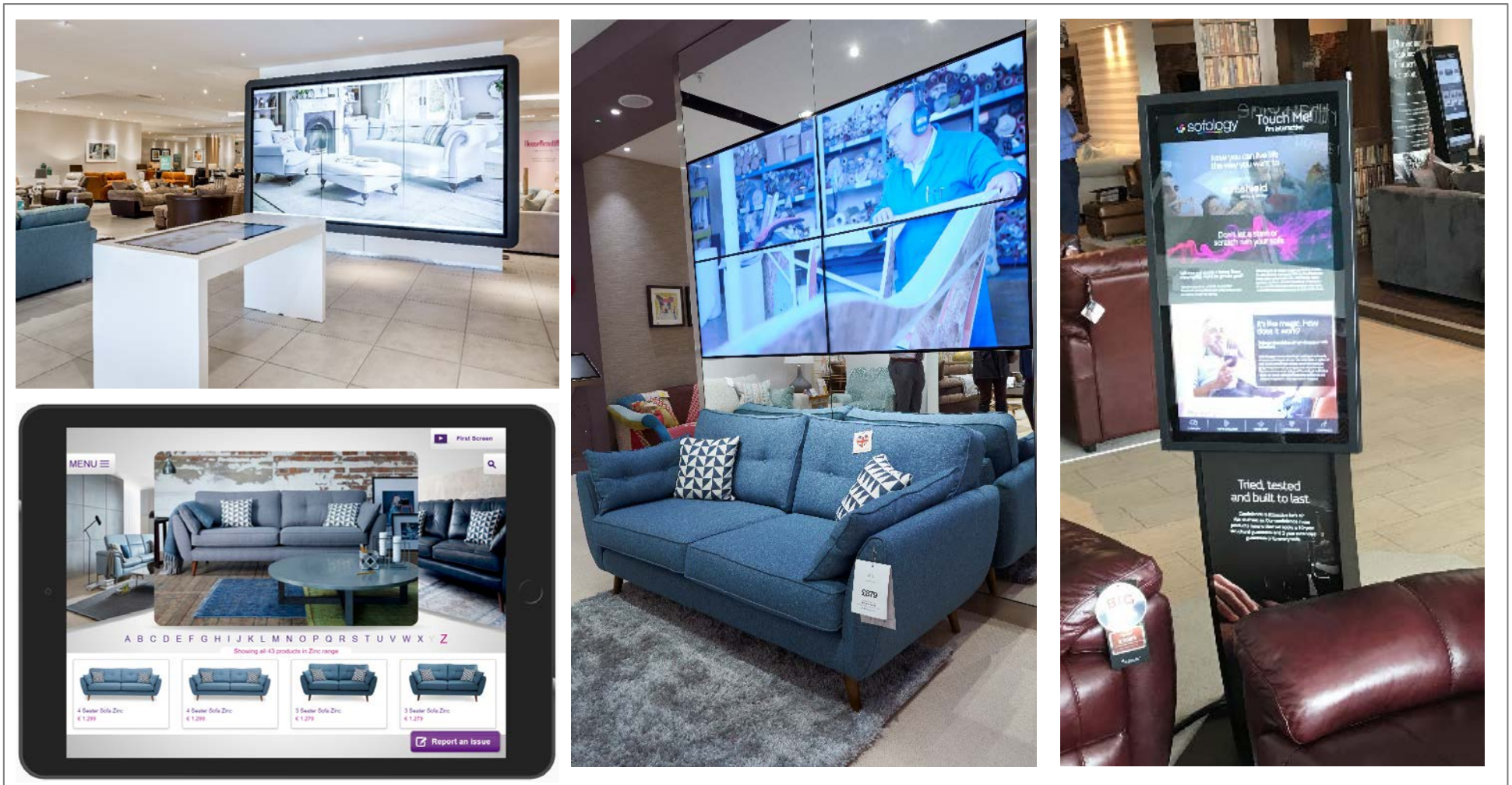
nicholask88 New sofa and coffee table day makes for an excitable Tuesday! #saddo Thanks #dfs

dfs Great picture! Can we share it to inspire other customers? To agree, please reply #yesdfs. T&C: <http://dfssof.as/4aTWYD>

nicholask88 @dfs #yesdfs

♡ 👁

Omni-Channel Customer Journey – In Store Technology



Technology is used to assist the customer journey in-store

Group Retail Formats – Evolving but Attractive Picture for all Channels

	Showrooms	View in Showroom, Complete Online	Pure Online
% of DFS Upholstery Sales Currently	84%	5%	11%
Typical Rate of Gross Sales Growth (%)	Market growth less 1-2%	Double-digit	
DFS Contribution Margin (%) ⁽¹⁾ <i>(pre promotions / admin costs)</i>	c. 24%	c. 40%	
Capital Employed (£m) ⁽¹⁾	Capitalised Leases: c. £450m ⁽²⁾	Virtually no direct property costs and limited fixed asset investments means <u>negative capital employed</u>	
Lease adjusted ROCE		Materially higher than stores given negative capital employed	

While showroom sales still represent the majority of market demand, online is an important fast-growing, strong margin, high ROCE channel

(1) FY17 data for DFS UK&ROI

(2) Calculated as 8x store operating lease charge

Group Retail Formats – Showroom Transformation



Our estate is generally well-invested and we are driving sales intensities through the introduction of group co-located formats in existing retail space

UK Showroom Network Overview



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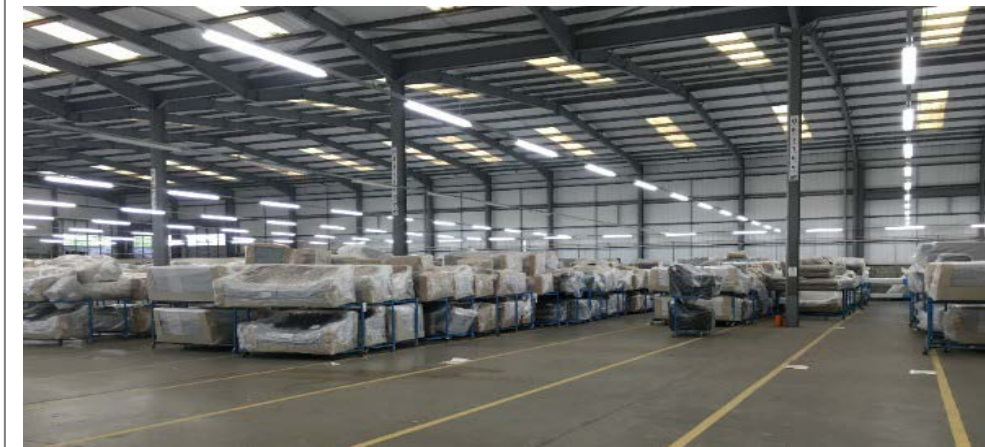


	dfs	dwell	SOFA WORKSHOP	sofology
Number of Showrooms	109 standard format 5 small format trials	34 co-located stores 3 standalone stores	21 standalone stores 10 co-located stores	41 standard format
Typical Locations	10-15k sq.ft. of ground floor retail space in retail park locations	Retail park co-locations of 4.5k sq.ft. alongside DFS	Typically 3k sq.ft. cathedral city high street locations	12k sq.ft. of ground floor and 6k sq.ft. mezz on retail parks
LTM Average Revenue per Location (£m)	£6.3m	£1m Adds 15% to individual DFS Box Sales	£0.9m	£4.3m
Returns from New Stores	Sub-21 months	Sub-24 months	Sub-24 months	TBC, but likely to be strong
Further Potential	5-10 further standard locations. Small store trial continues	At least 10 further co-locations planned	Further co-locations and city centre stores planned	At least 30 further stores to give nationwide coverage

New store openings, supported by CACI modelling, generate very short paybacks. DFS standard format stores are approaching full roll-out, but significant opportunity in co-locations and other new fascia openings remains. DFS small store trial continues

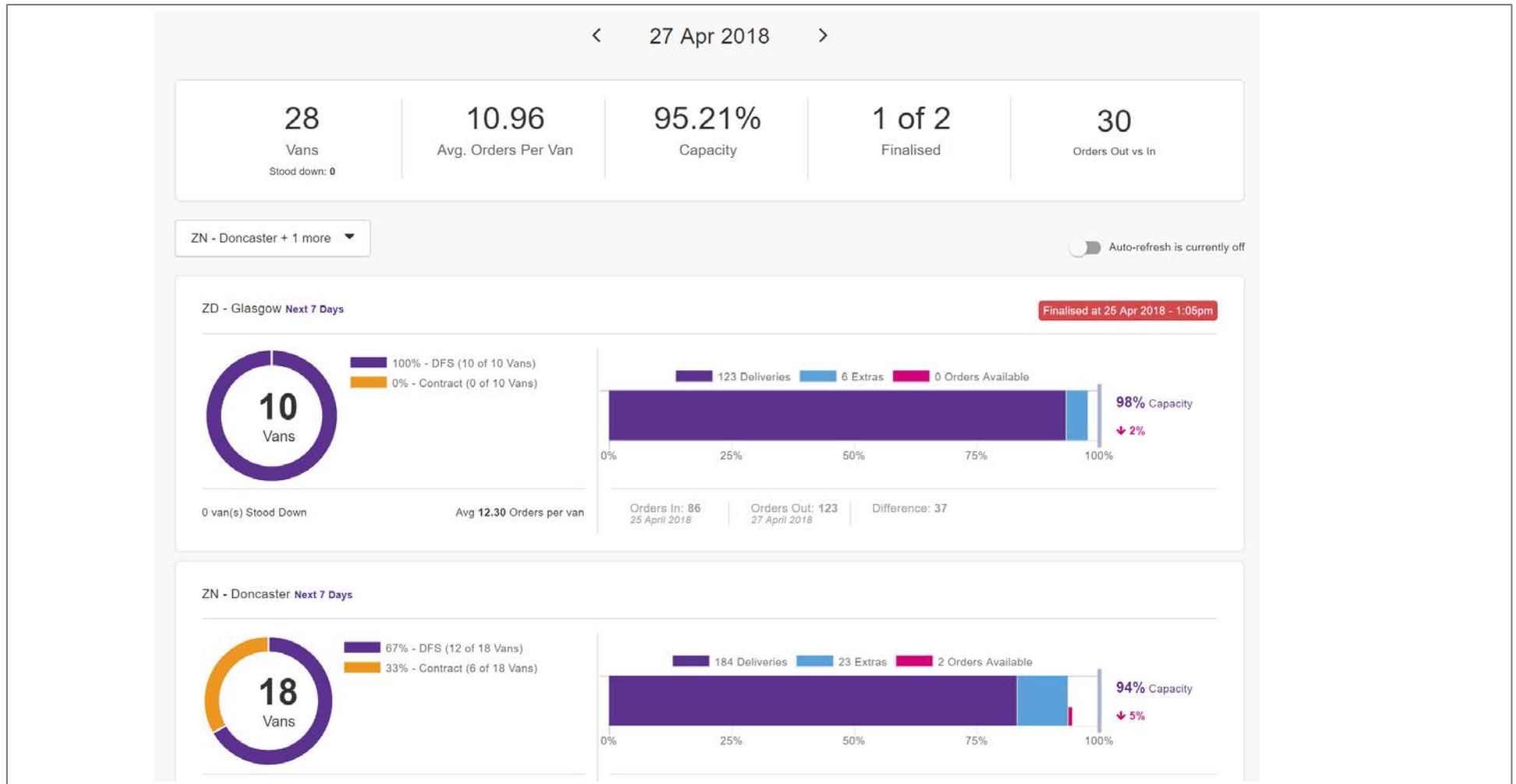


Supply Chain Transformation – CDC Network Complete



Our network of 19 UK CDCs is now complete driving operational cost and customer service advantages

Supply Chain Transformation – new AI Software Supporting Supply Chain



Our bespoke Apollo software created through a development partnership with a leading AI pioneer is driving our logistics optimisation

Retail Strategy - Summary

- 📦 Focus - Omni-channel customer journey
- 📦 Continued investment in on line channels...
- 📦 ...and in store technology
- 📦 On line channels – margin accretive and growing double digit
- 📦 Utilisation of retail space – opportunity – Dwell / Sofa Workshop
- 📦 Enabled by CDC programme – opening programme now complete
- 📦 Property deals are more available
- 📦 For example - Croydon store !

Questions

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People Strategy

Scott Fishburn – Chief People Officer

People Strategy – Linked to our Customer Experience Outcomes





1. Experienced and Skilled Teams






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Number of employees	c. 3,800	c. 400	c. 200	c. 1,100
Annual Labour Turnover	c.25%	c.29%	c. 31%	c. 52%

CONTINUALLY BUILDING CAPABILITY

-  All sales people experience 6 days of development to build sales and service skills
-  Sales and administration teams then further trained to an externally-accredited level of excellence
-  Investment in learning technology

DEVELOPING THE NEXT GENERATION

-  76 apprentices recruited over the last 3 years
-  Scheme has won UK employee experience awards 3 years running
-  Have been approved as an Employee Provider by the UK Skills Council
 - Provide & certify our own programmes

Developing and retaining a skilled team is critical to our ongoing improvement in our Customer Experience





2. Strong Leadership

Long Tenured Furniture Retail Experience and New Hires With Proven Retail Backgrounds

- ♥ Long average tenure of our top 30 management team
- ♥ Longest serving leader is Graham Mould – Operations Director with 35 years service

Four Critical New Hires in the Last Year

- ♥ Nick Smith – Retail Director DFS – previously 25 years at DSG
- ♥ Gill Stewart – CEO Sofa Workshop – previously at Carphone Warehouse
- ♥ Karl Thomas – DFS Commercial Director – previously at Boots Opticians
- ♥ Emma Long – Retail Director Dwell – previously at DSG

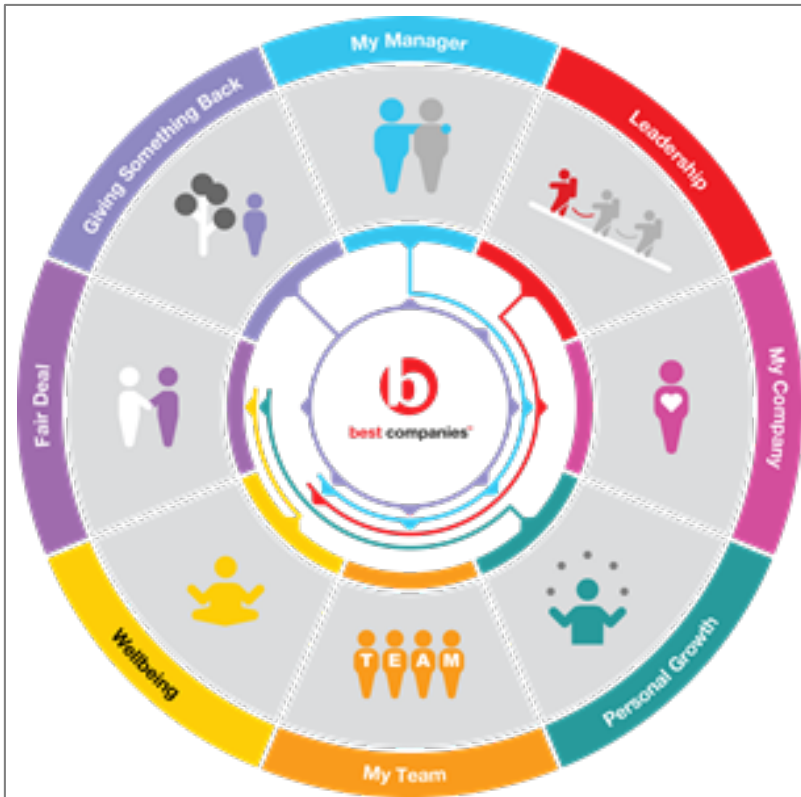
Commitment to Ongoing Management Skills Development

- ♥ All Managers receive 5 days of leadership development
- ♥ Partnership with ‘thought leader’ and renowned author Steve Radcliffe to bring the very best expertise
- ♥ We have a robust development and sign-off pathway for new Retail and Supply Chain managers

We hire externally, develop internally and retain successfully to ensure we operate with strong leadership throughout the Group

3.

Engaging Place to Work



Over 80% of our employees gave us their views in our annual employee survey. We were delighted to be externally recognized based on their feedback

4.

Giving Something Back in our Local Communities



BBC
**Children
in Need**

£1.9m raised in total &
a pledge to raise £1m this year



Supporting the
British Heart Foundation

£16m raised



Sponsoring the DoE awards
and all apprentices put
through their Gold Award



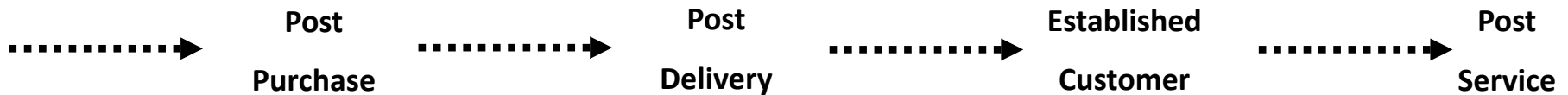
British Retail Consortium, Better Retail,
Better World initiative signee adopting
5 UN Sustainable Development Goals

Giving Something Back builds the engagement of our teams
as proven through our Engagement Survey feedback



Customer Experience

REWARD IS ALIGNED TO MEASURED CUSTOMER EXPERIENCE ACROSS THE BUSINESS



Focuses on:

The buying experience

Arranging of delivery and delivery experience

The furniture and end-to-end experience

Arranging of service and experience

Teams bonused on this survey

Salespeople

Supply chain team

Exec Board and all senior managers in the business
Manufacturing & Sales Management teams

Service Managers

Our aligned approach has driven Established Customer NPS from 21.9 in FY15 to 37.4 in 1H18



Questions

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Sofology Overview

Mike Schmidt – Corporate Finance Director

Sofology Overview

STORE NETWORK OVERVIEW



KEY FACTS

- ♥ £160m of annual revenues LTM with a made-to-order business model
- ♥ 41 stores at present, with six regional CDCs
- ♥ Large, modern stores typically displaying c. 70 ranges
- ♥ Design-led product ranging, c. 30% of models refreshed per annum
- ♥ Technology-led customer journey
 - Customer data capture / basket build in store
 - Complete at home functionality
 - Omni-channel reward approach

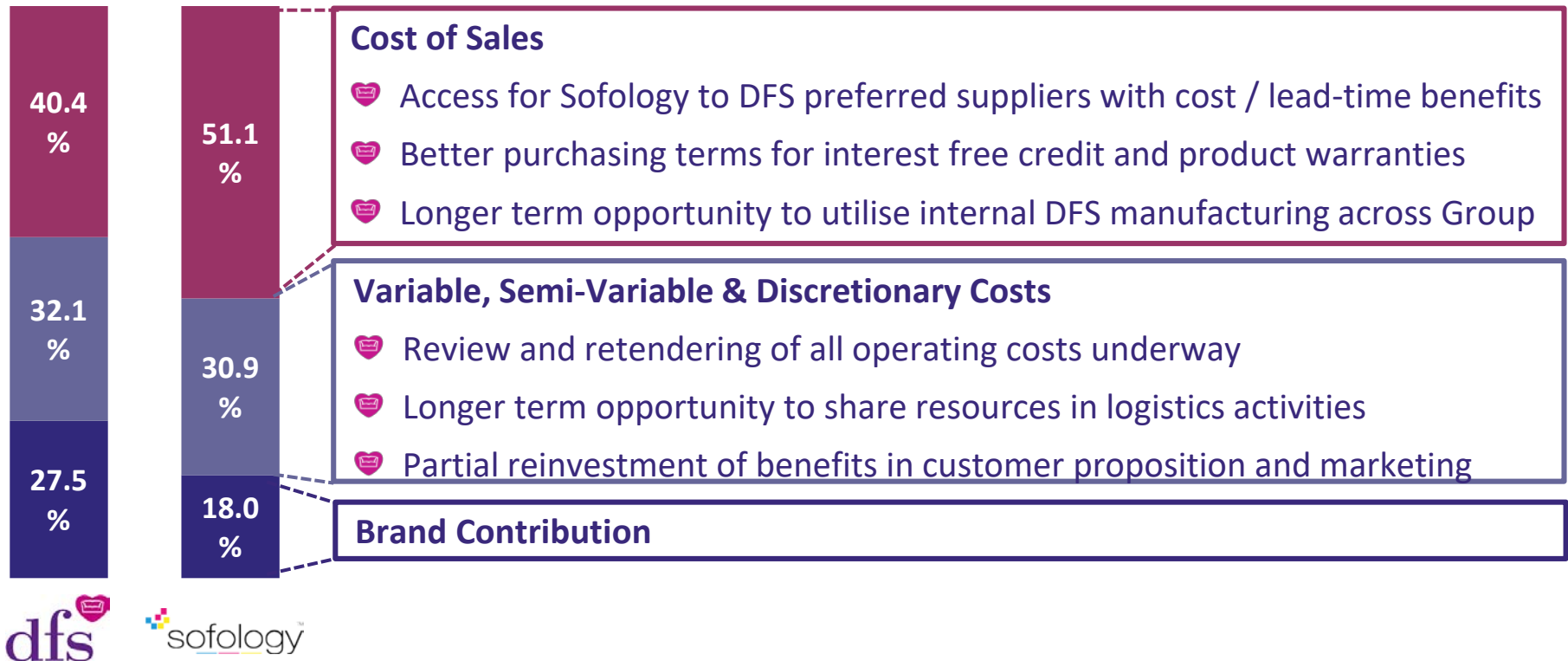
Sofology has grown rapidly to now be the third largest retail brand for upholstered furniture in the UK (according to GlobalData)

Differentiated Ranging, Advertising and Store Environment



Efficiency Opportunity

COST BASE SPLIT – LAST 12 MONTHS



£10m+ PBT opportunity to create value by moving Sofology's EBITDA margins (generated on a current LTM £160m of revenues) to at least typical industry levels of 6-8%

National Roll-out and Lease Negotiation Opportunity

DFS REVENUE BENCHMARKING



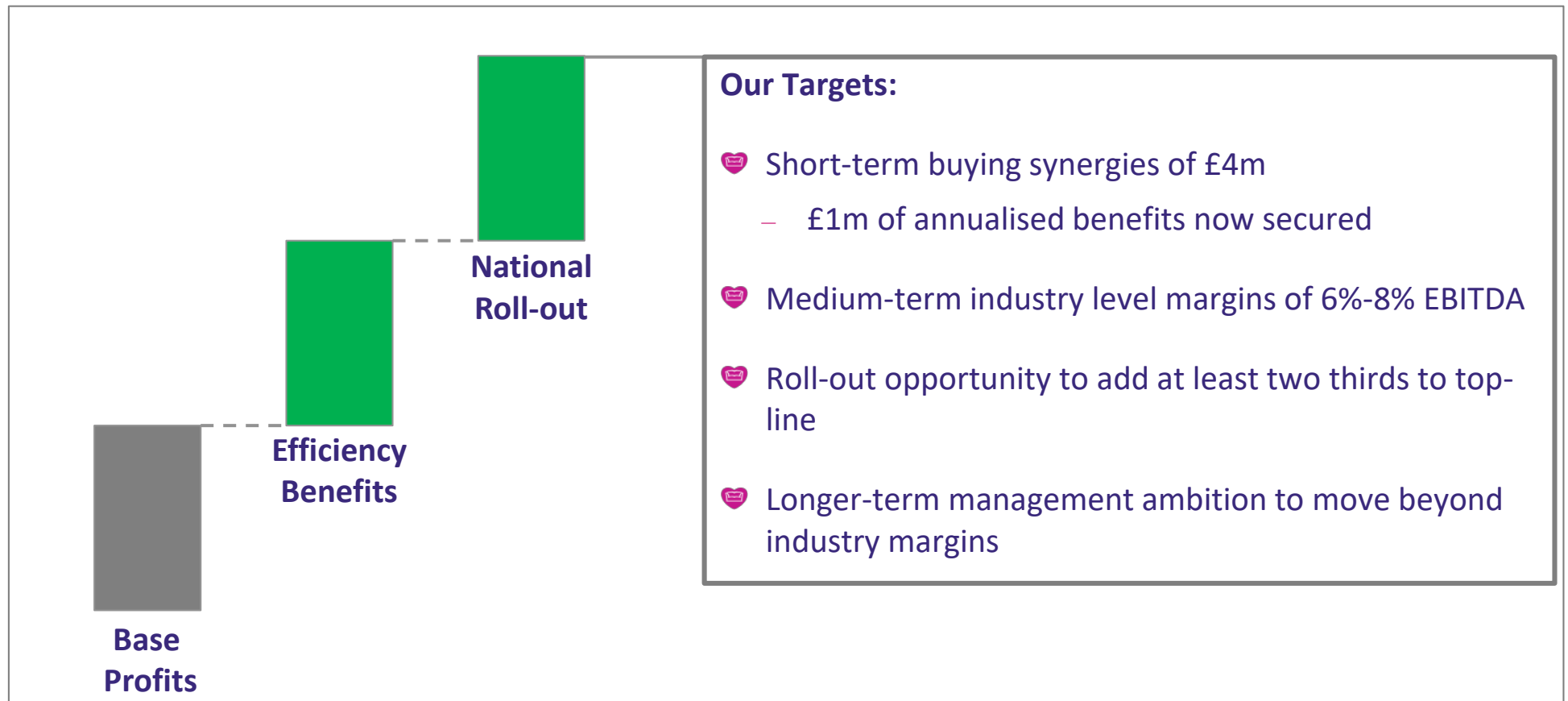
An analysis of DFS order data shows that c. 40% of DFS store revenues are generated from DFS stores that do not have a Sofology located within 20 miles

OPPORTUNITY SUMMARY

- ♥ Significant gaps within Sofology store network
- ♥ DFS CACI model currently being developed to support analysis of Sofology store catchments
- ♥ Implied opportunity of at least 70 Sofology stores in total
- ♥ Store roll-out will require appropriate logistics infrastructure to support low-cost delivery
 - May constrain pace of roll-out in FY19
- ♥ Opportunity also to drive DFS group benefits on existing leases as part of new store opening
- ♥ Sofology however have a track record of being able to add c.6 stores per annum

It is highly likely that there will be the opportunity to grow current Sofology LTM revenues of £160m by two thirds through completing a true national roll-out

Conclusion – The Sofology Opportunity



Sofology represents a significant opportunity to grow group profitability through efficiencies unlocked by synergies and also a full national roll-out

Questions

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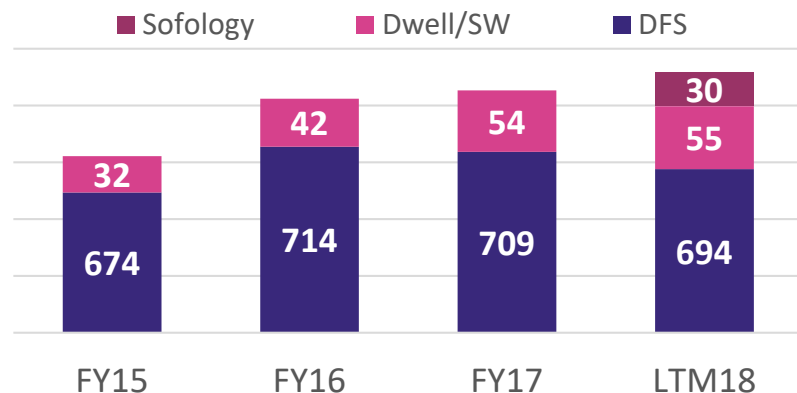


Financial Model

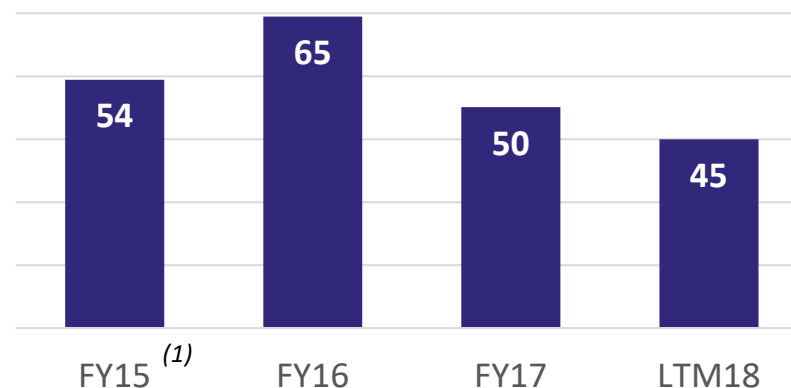
Nicola Bancroft – Chief Financial Officer

Financial Overview

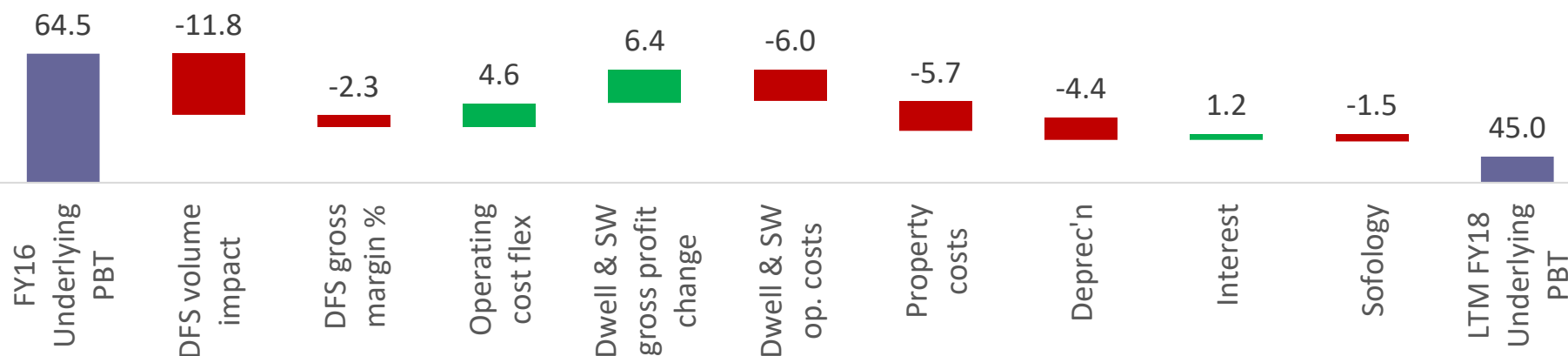
REVENUES (£M)



UNDERLYING PBT (£M)



PBT BRIDGE FY16 TO LTM18 (£M)



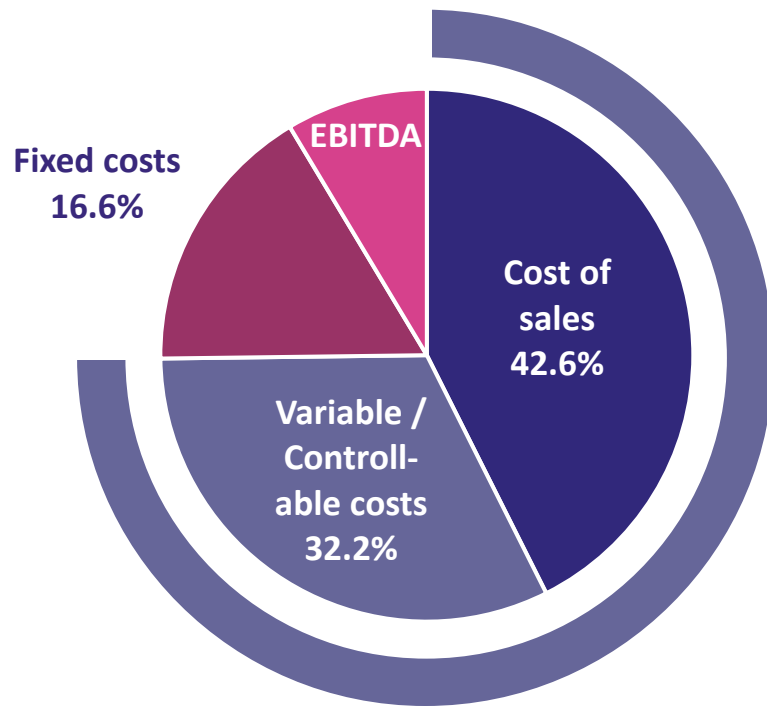
Group profits have fallen due principally to impact of cyclically-lower DFS volumes, but also due to investment in growth levers to drive long-term opportunity



(1) Includes add-back of £21m of pre-tax shareholder loan interest.

Our Flexible Cost Base Can Offset a Proportion of Market Declines

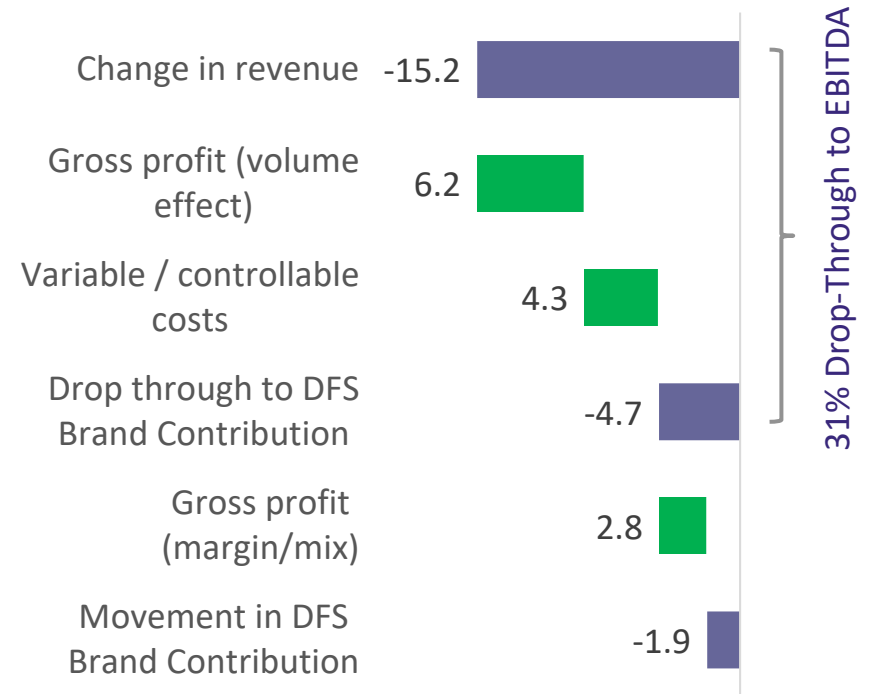
LIMITED PERCENTAGE OF FIXED COSTS DESPITE RECENT GROUP ACQUISITION



Note: data shown is presented pro-forma for Sofology

DFS BRAND CONTRIBUTION HIGHLIGHTS IMPORTANCE OF FLEXIBILITY

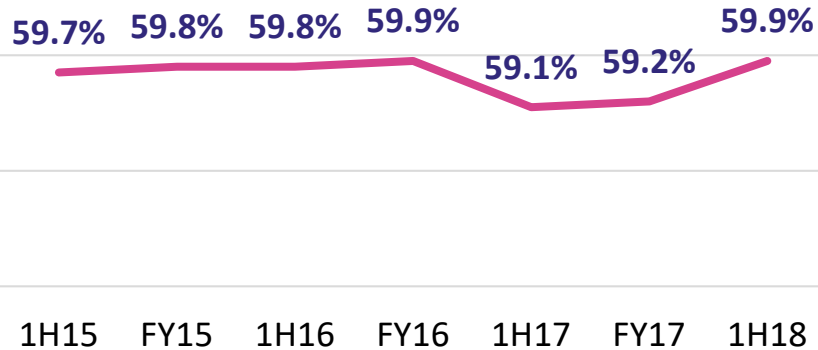
DFS Brand Only 1H18 vs. 1H17



Our cost base can be flexed relatively quickly to reflect the market environment and offset the impact of lower revenues

Structural Profit Improvements in the Near-Term

DFS GROSS MARGIN (%)



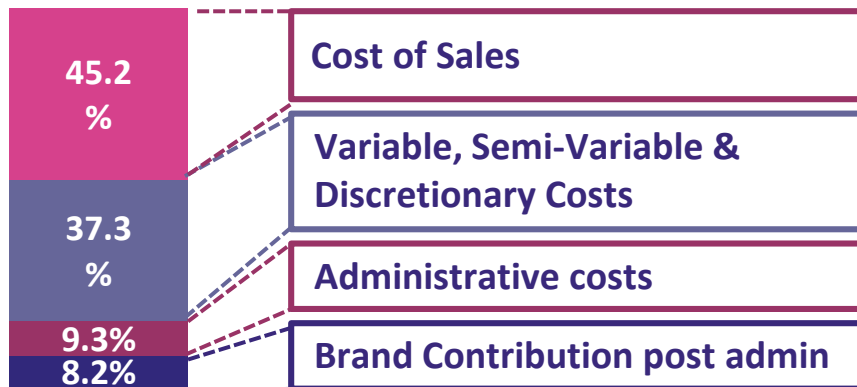
DFS DISTRIBUTION COSTS

Delivery cost per order (£)

Start of CDC Programme

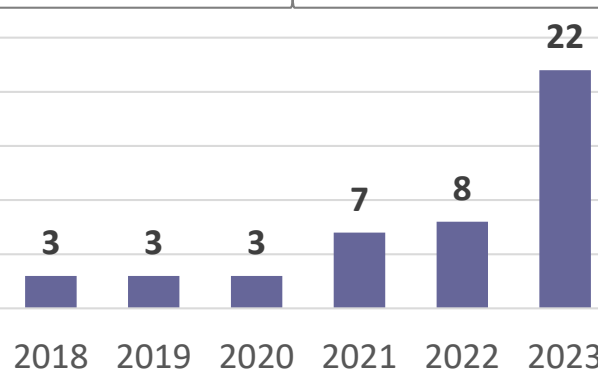


DWELL / SW OPERATING LEVERAGE



GROUP PROPERTY COSTS OPPORTUNITY

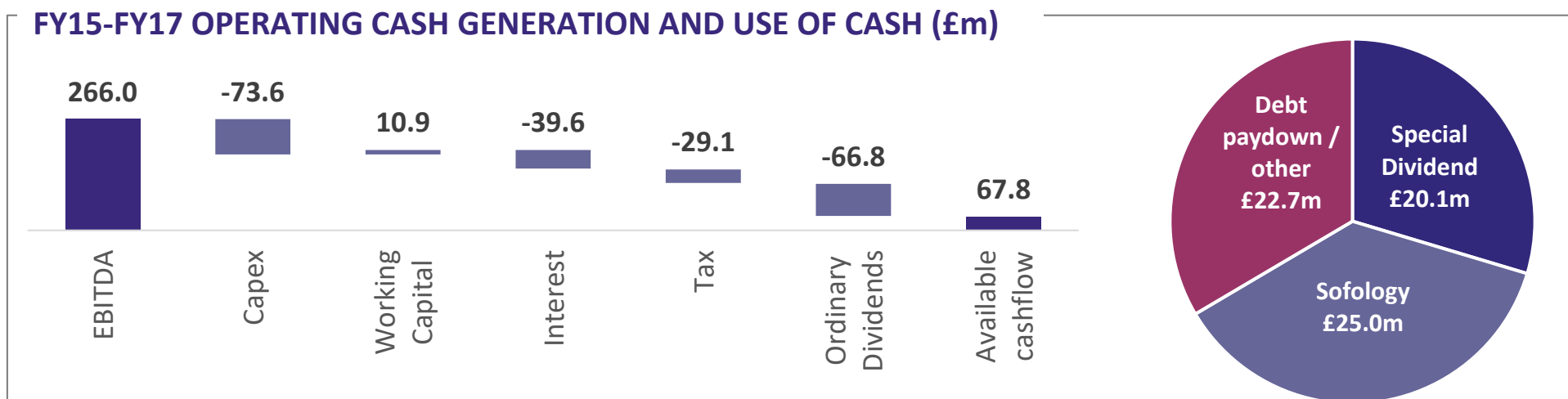
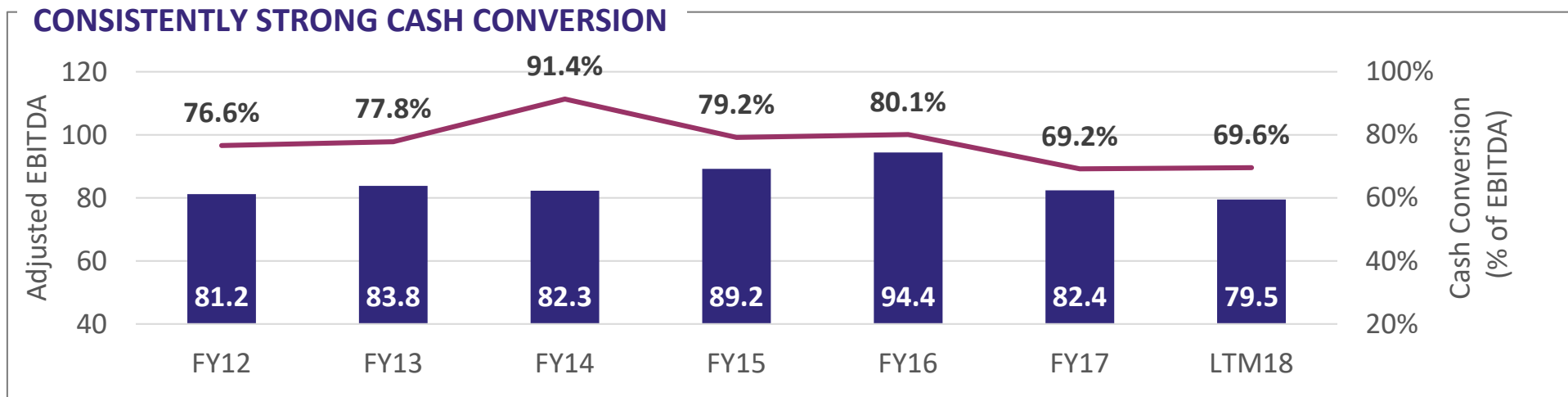
46 lease expiries within the next six years



Typical opportunity of 30% of £600k costs per site implies up to £8m total benefit

We have clear opportunities to drive profit growth through existing activities and growth investments already undertaken

Consistent Cashflow Generation



The Group has a consistent track record of cash generation. Between FY15-FY17 over £60m of available cash was generated in addition to £66.9m of ordinary dividends paid

Questions

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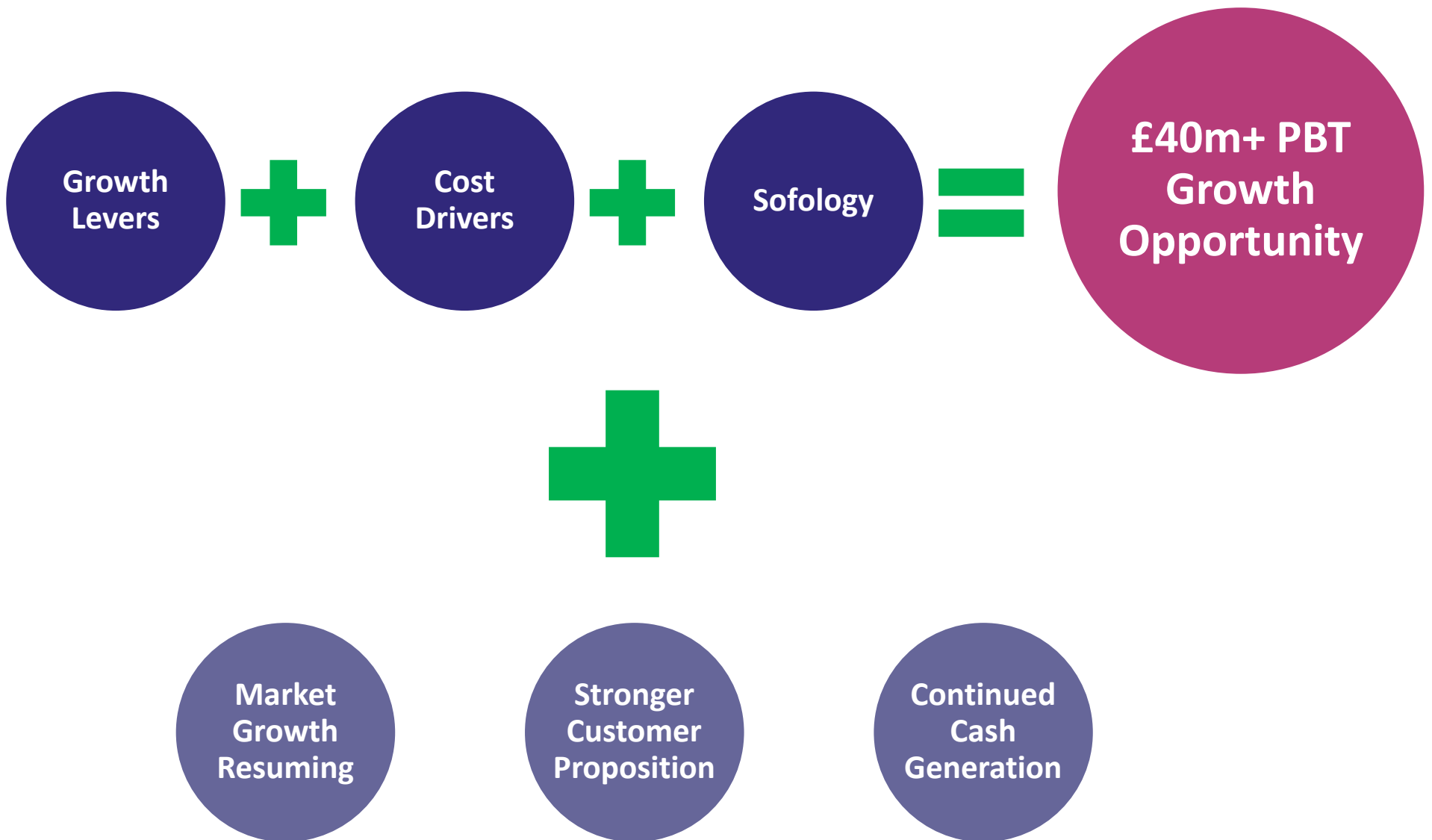
Concluding Remarks

Ian Filby - CEO

Our Key Messages

1. **We are broadening our appeal.** We are not “moving upmarket”
2. **Online is a key opportunity,** with strong margins and ROCE, and we already have developed the clear leading position to work from. However our **store estate is highly profitable and a critical asset** – we are however evolving its role for the future
3. Sofology has a strong strategic fit and creates a **new, large earnings growth opportunity**
4. Our business model can **adapt for all market environments,** aided by structural cost drivers in areas such as property costs. Meanwhile our cash generation will remain strong with above market sales growth

The Group - Our Medium-Term Potential



Questions

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