

Leading Sofa Retailing in the Digital Age

10 March 2020



dwell

SOFA WORKSHOP





Today

Introduction (Tim Stacey)

Financials (Mike Schmidt)

Strategic and Operational update (Tim Stacey)



Summary / Outlook (Tim Stacey)

Q&A (Tim Stacey / Mike Schmidt)

Good strategic progress in a challenging market environment

KEY FINANCIALS

£488.0m -5.7% <i>Pro forma Yo2Y +2.6%</i>	H1 Revenue
£41.5m -28.3%	H1 EBITDA
2.2x (+0.3x)	Leverage

STRATEGIC & OPERATIONAL HIGHLIGHTS



H1 performance as expected given strong comparative period driven by latent demand
Good strategic progress, particularly in DFS; some challenges in Sofa Workshop to address

*EBITDA is stated pre application of IFRS16, performance against comparative period measured against FY19 underlying EBITDA
Year on two year revenue growth measured against 26 weeks to December 2017 and includes Sofology revenue both pre and post acquisition*



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Financial overview

All numbers quoted are Pre application of IFRS 16

(£m)

	H1 2019 26 weeks 30-Dec- 2018	H1 2020 26 weeks 29-Dec 2019	FY 2019 ³ LTM to 30-Jun- 2019
Revenue	517.6	488.0	996.2
<i>Comparative Growth¹</i>	<i>+8.8%</i>	<i>-5.7%</i>	<i>+7.4%</i>
Underlying EBITDA	57.9	41.5	90.2
<i>Growth (%)</i>	<i>+17.6%</i>	<i>-28.3%</i>	<i>+18.5%</i>
Underlying PBT²	38.0	20.5	50.2
<i>Growth (%)</i>	<i>+18.6%</i>	<i>-45.9%</i>	<i>+31.1%</i>
Underlying EPS	13.9p	7.4p	18.4p
<i>Growth (%)</i>	<i>+16.8%</i>	<i>-46.8%</i>	<i>+31.4%</i>
Net debt	158.1	160.4	176.3
<i>Leverage</i>	<i>1.88x</i>	<i>2.17x</i>	<i>1.95x</i>
<i>Ordinary DPS</i>	<i>3.7p</i>	<i>3.7p</i>	<i>11.2p</i>

OVERVIEW

Strong revenue comparator and challenging environment driving lower profits as expected

Total Group pro forma revenue +2.6% up year on 2 years

Sofa Workshop performance weaker than anticipated

Net debt broadly flat but leverage increased due to profit decline

Interim dividend maintained at 3.7p

H1 profits down year on year as expected given the strong comparative period

Challenging market conditions and costs tightly managed

(1) Comparative growth is pro forma for acquisitions (i.e. Sofology included for the full 26 week period to Dec-17 and 52 week period to Jun-18)

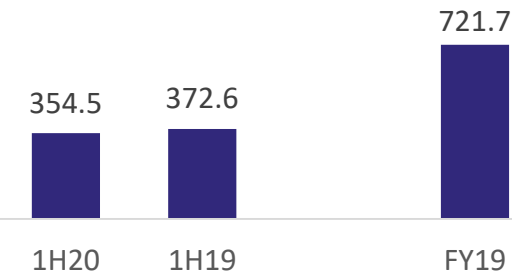
(2) Underlying PBT excludes brand amortisation charges of £0.7m (H1 FY19, H1 FY20), £1.5m (pro forma FY19)

(3) LTM growth rates reflect pro forma FY19 relative to FY18

Brand performance: DFS

Overview

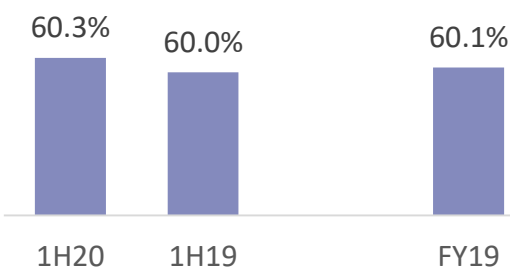
REVENUES (£M)



♥ AOV and conversion growth in showrooms and online being secured to offset reduced volumes from weak consumer confidence

♥ Encouraging order intake over the first 9 weeks of the second half

GROSS MARGIN

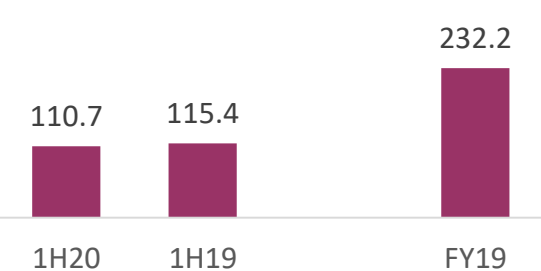


♥ Higher margin from sourcing, pricing and quality initiatives

♥ Limited FX benefit in period that reverses in the second half

♥ Continued year on year growth in gross margin in H2

OPERATING COSTS (£M)



♥ Tight control of operating costs (including marketing) given lower revenues

♥ Continued cost control to drive H2 profit

Key Trend

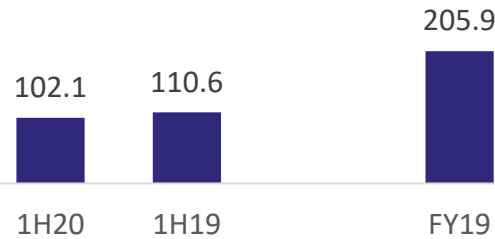
Outlook

Good performance overall, partly mitigating the challenging market environment

Brand performance: Sofology

Overview

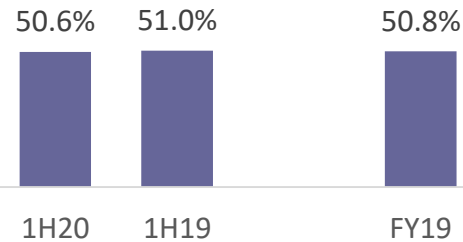
REVENUES (£M)



Marketing phasing test and learns ongoing – some impact on LFL footfall and hence revenues to date

Three new showrooms in proven locations

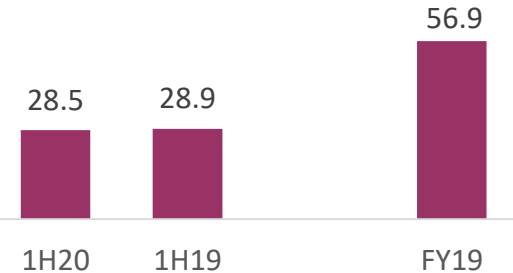
GROSS MARGIN



Underlying upholstery margin continues to grow year-on-year, but offset in H1 by clearance stock sales

Higher full year gross margin % likely

OPERATING COSTS (£M)



Investment to support increased scale of operations and growth ambition

Continued cost control to support H2 profit growth

Key Trend

Outlook

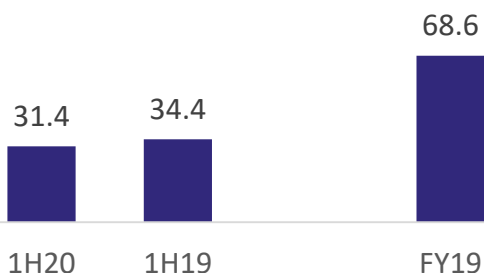
Solid performance as we develop the business in line with our growth plans

Stronger financial outlook for second half with marketing established and three new openings

Brand performance: Dwell & Sofa Workshop

Overview

REVENUES (£M)



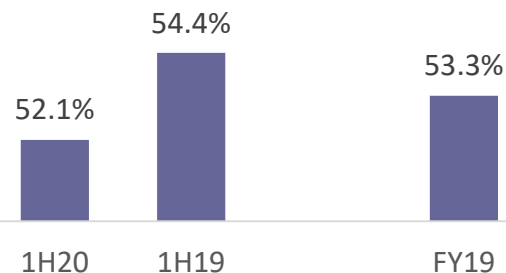
- ♥ Dwell revenue increased year on year
- ♥ Particularly challenging market environment and disruption in Sofa Workshop

Key Trend

- ♥ Competitive market environment remains

Outlook

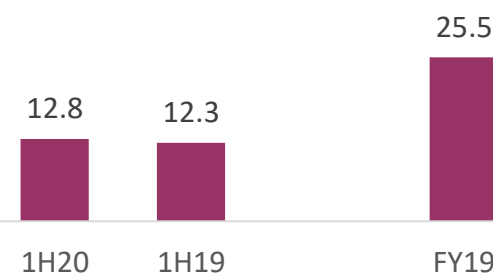
GROSS MARGIN



- ♥ Significantly impacted by promotional approach and Sofa Workshop customer care costs following operating disruption

- ♥ Gross margin opportunity (FY15-FY18 average of 55%)

OPERATING COSTS (£M)



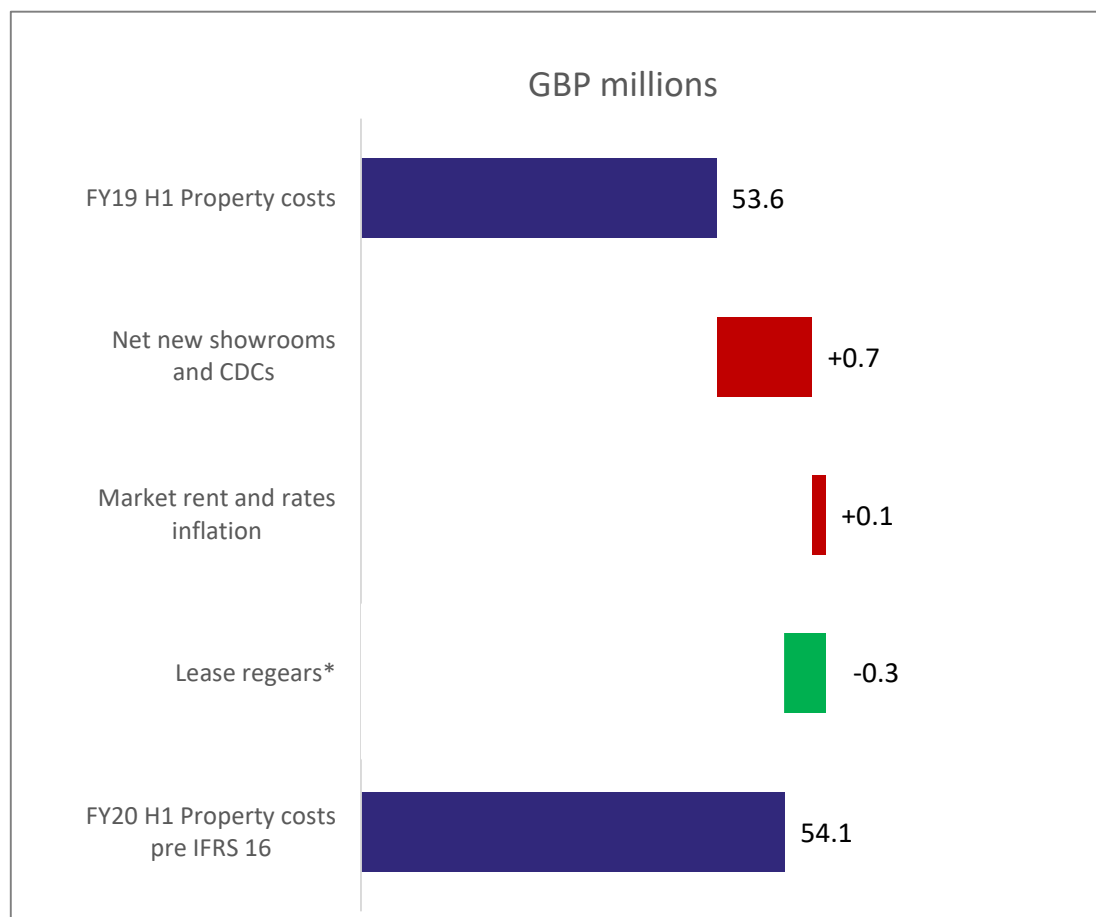
- ♥ Operating costs controlled tightly, some impact of higher delivery costs in Dwell

- ♥ Initiatives to reduce cost until revenue growth and profitability is restored

Dwell stable year on year

Disappointing performance from Sofa Workshop; £4-5m fall in year-on-year profit generation

Property cost savings on track



KEY DRIVERS

New showrooms and CDCs driven by new Sofology showrooms, new Belfast and enlarged Bristol CDCs

Market rent inflation largely offset by successful rates determinations

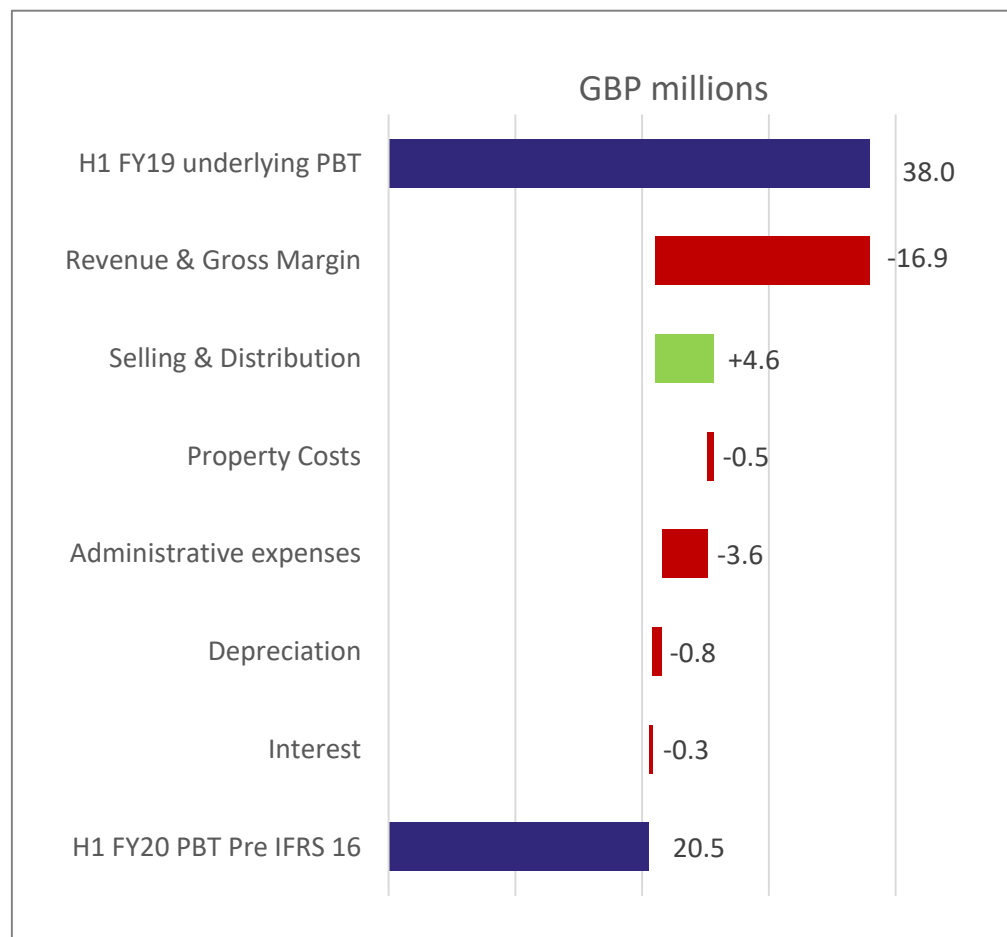
Regear savings driven by full year effect of FY19 initiatives. Further £0.4m secured but yet to benefit P&L

Cumulative annualised savings secured total £3.4m. On track for £6-8m p.a targeted savings by FY23

Leases being re-gearred when 'right' opportunities arise
Clear pipeline of savings available and on track for £6-8m target

*Savings from lease re-gears, and downsizing of some showrooms.

PBT performance



KEY DRIVERS

PBT decline driven by lower revenue

Gross margin % flat year on year overall, with potential for growth in H2

Reduced advertising expenditure reflects market conditions and competitor pull back

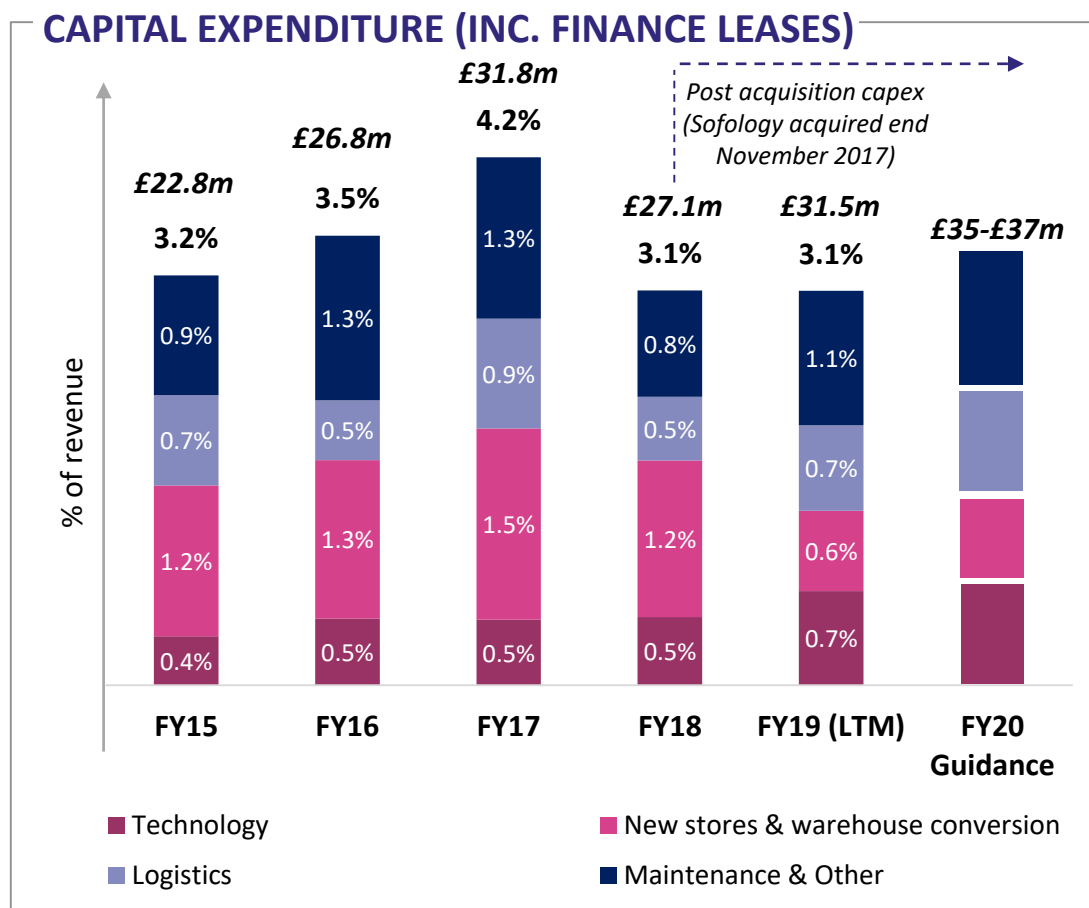
Investment in operating infrastructure (showrooms, last-mile) and one-off costs to benefit long-term performance

Administrative costs up due to normalisation of trading bonuses and investment for growth

PBT out-turn driven by revenue performance

Continued investment to further strengthen market leading status and position for the long-term

Capital expenditure



Capex guidance for FY20 of £35-37m inclusive of finance leases

Increase in absolute spend levels to drive strategy after stabilisation year following Sofology acquisition

Focus on technology to drive omnichannel proposition, supply chain efficiency and new Sofology showroom roll-out

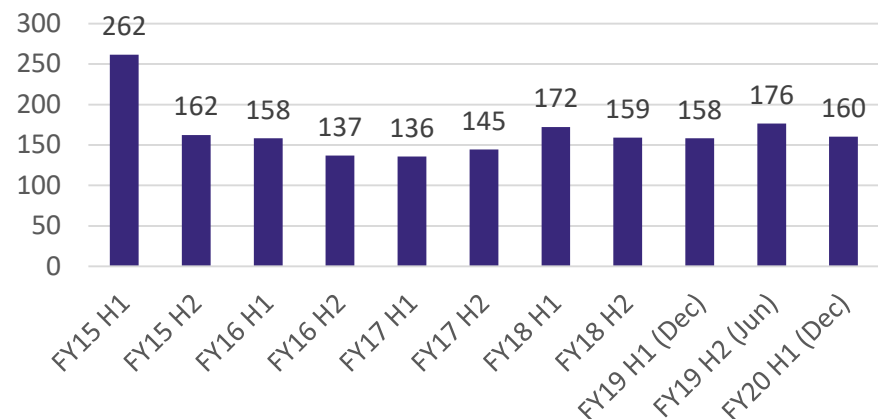
Capex mix shifting towards technology assets, operational infrastructure and growth of the Sofology business

FY19 numbers quoted are for the pro forma unaudited 52 week trading period to 30 June 2019

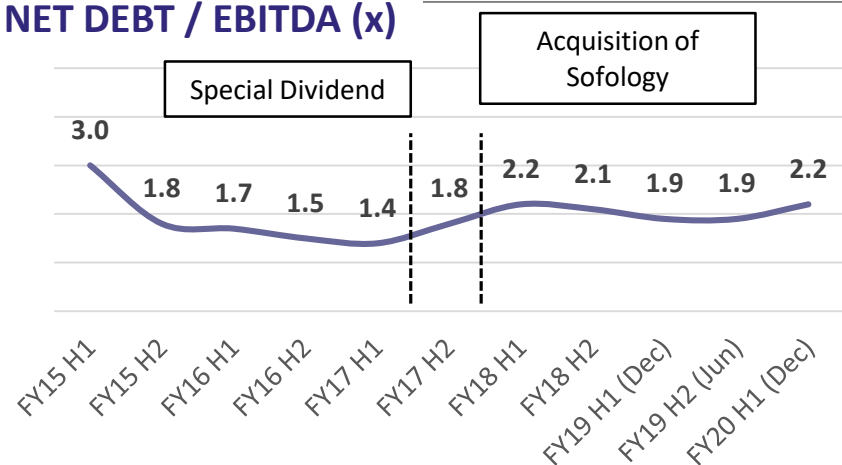
FY20 guidance includes all 'right of use assets' other than property leases which is consistent with historical data presented in this chart

Cash flow and leverage

NET DEBT (£m)



NET DEBT / EBITDA (x)



COMMENTS

Net debt in absolute terms at December 2019 broadly flat year on year

2.2x Net Debt / EBITDA reflecting profit performance

Leverage remains well beneath historical levels and significant facility and covenant headroom exists (limit 3.0x)

Target remains to reduce leverage beneath 1.5x (pre IFRS 16) over the short term

Net debt flat year on year, remaining comfortably beneath historical levels

Leverage calculated using net debt at the period end date divided by underlying EBITDA for the twelve months to that date

IFRS 16 transition

IMPACT ON REPORTED RESULTS

Income statement	H1 - IAS17	Exclude Rent*	Add Amort'n & interest	H1 IFRS 16
Revenue	488.0			488.0
Gross profit	281.8			281.8
Operating costs	(255.7)	37.9	(28.7)	(246.5)
Underlying Op. profit	26.1	37.9	(28.7)	35.3
Net finance costs	(5.6)		(13.1)	(18.7)
Underlying PBT	20.5	37.9	(41.8)	16.6

Balance Sheet	H1 - IAS17	Recognise leases	H1 IFRS 16
Total assets	767.2	395.2	1,162.4
Debt (excl cash in hand)	(207.6)	(525.0)	(732.6)
Other liabilities	(317.8)	93.3	(224.5)
Total liabilities	(525.4)	(431.7)	(957.1)
Net assets	241.8	(36.5)	205.3

COMMENTS

IFRS 16 H1 PBT impact £3.9m

Full year estimated at £7.1m¹ based on current portfolio and lease terms

Cash flows and business decisions unaffected, banking covenants calculated on pre IFRS 16 basis

£7.1m full year IFRS 16 PBT impact based on current showroom portfolio and lease terms
Bank covenants and cash flows not impacted

1. Based on current portfolio and lease terms
2. *Rent adjustment excludes hold-over rents which remain classified as an operating cost

Key financial metrics

METRIC	TARGET	LTM Dec-19
LTM Gross Sales Growth	<i>Above market growth by 1% to 2%</i>	-3.0% <i>(pro forma Yo2Y + 2.6%)</i>
LTM PBT Margin	<i>Growth from increased usage of Group assets</i>	3.4% <i>(Jun-19 5.0%)</i>
Cash Generation / Leverage	Reduce leverage to 1.5x in short term	2.17x <i>(Dec-18 1.88x)</i>
Lease Adjusted ROCE	Growth in Lease Adjusted ROCE	14.4% <i>(Jun-19 16.6%)</i>

Progress impacted by weak macroeconomic environment and phasing following deferred purchases in the first half of the comparative period



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Leading sofa retailing in the digital age

1. Drive DFS Core



1. Omnichannel:
develop seamless customer
journey across channels

2. Product innovation:
enhance our unique and
differentiated product offer

**3. Customer proposition and
service innovation:**
new services to engage
customers

2. Build the Platforms



**1. Cost effectiveness and property
cost reduction:**
reduce our relative cost base

2. Supply chain:
best in market 2 person sofa
delivery & installation

3. Marketing investment
Data & insight driven efficiency and
effectiveness across Group

3. Unlock New Growth



1. Sofology:
develop to a nationwide business

2. Dwell and Sofa Workshop:
drive contribution via online & and
“right” number of showrooms

3. International – DFS NL:
to break even & beyond on current
model & develop options for
medium-term growth

1 Drive DFS Core – Omnichannel

MARKET RESEARCH STATISTICS

85%

Percentage of customers starting their sofa buying journey online



90%

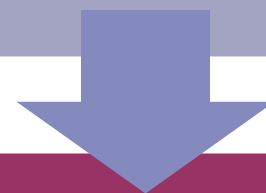
Percentage of customers that visit a showroom

Comfort

Number one consideration when buying a sofa

'BUYING' ELEMENT OF BUSINESS MODEL

Research online on our market leading website



'sit test' and advice in our well invested showrooms



Transact in showroom, over the phone, on a laptop or mobile

Our business model is well set up to meet customer needs for the future

1 Drive DFS Core – Online

ONLINE INITIATIVES

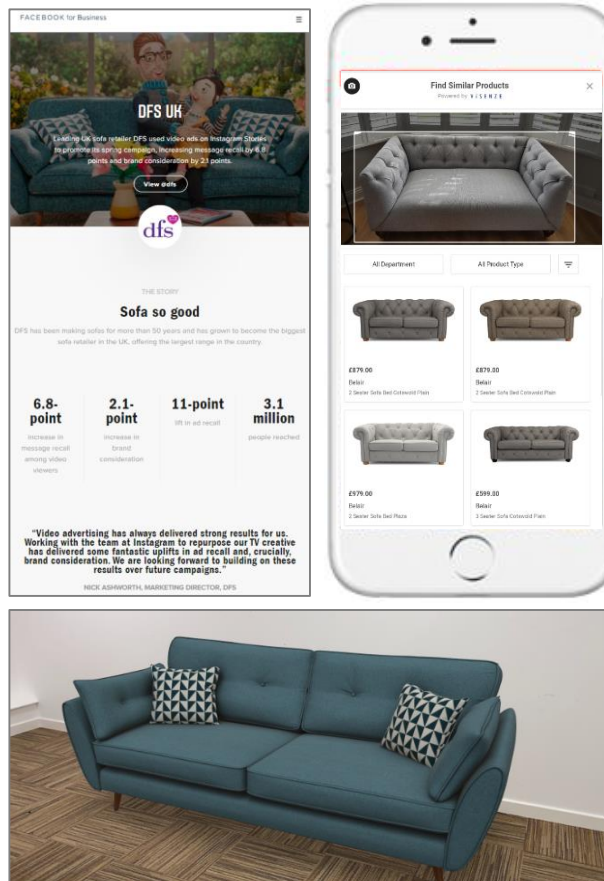
Working in successful partnership with Facebook, Instagram and Pinterest

New visual search technology launched

New augmented reality partnership

Websites re-platformed to Google Cloud – enabling scale and speed

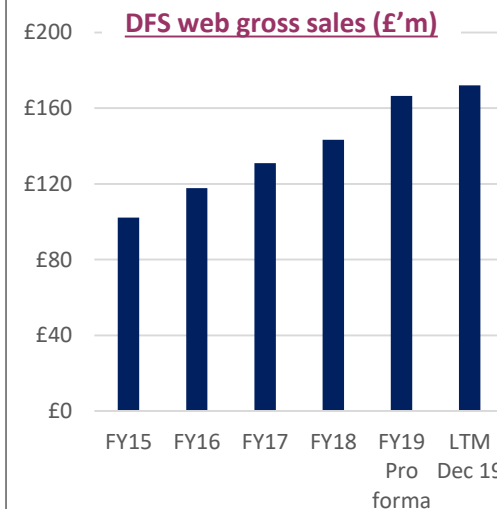
EXAMPLES



RESULTS

+4.8%
DFS web revenue growth

£172m
DFS web business size



Web channels are clear number 1 in the market and continue to grow

1 Drive DFS Core – Investment in showrooms

INITIATIVES

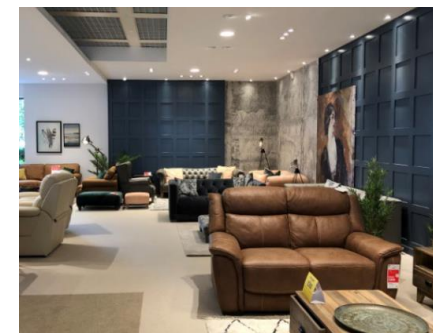
Regular investment in showrooms maintained

Colleagues equipped with 1,200 new chrome tablets

Store colleagues access to online saved baskets enabling better customer journey

Artificial intelligence solution to predict footfall and schedule workforce

RECENT SHOWROOM REFURBISHMENTS



RESULTS

🛒 Store conversion +118bps year on year

Customer experience, average order value and conversion all improving



Drive DFS Core – Customer proposition and service

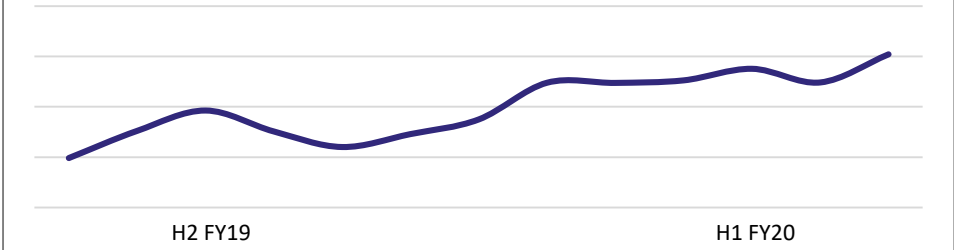
INITIATIVES

Effective use of data and root cause analysis to drive product quality standards

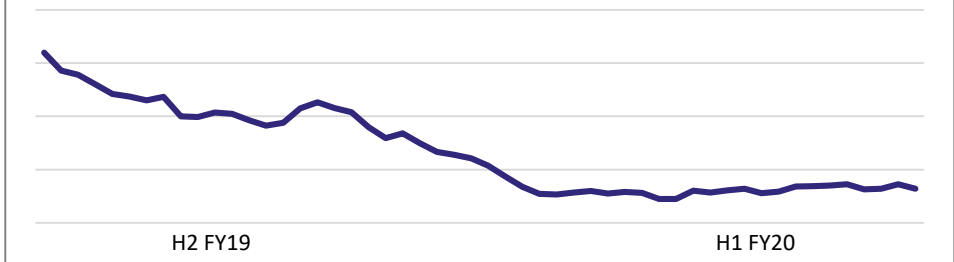
AI service repair driver routing reducing outstanding service issues

All contributing to increase established customer NPS by 24% year on year

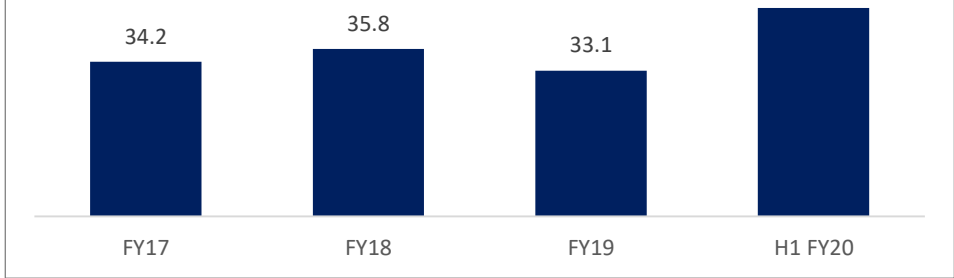
SUPPLIER NPS QUALITY SCORE



SERVICE CALLS OUTSTANDING



ESTABLISHED CUSTOMER NPS

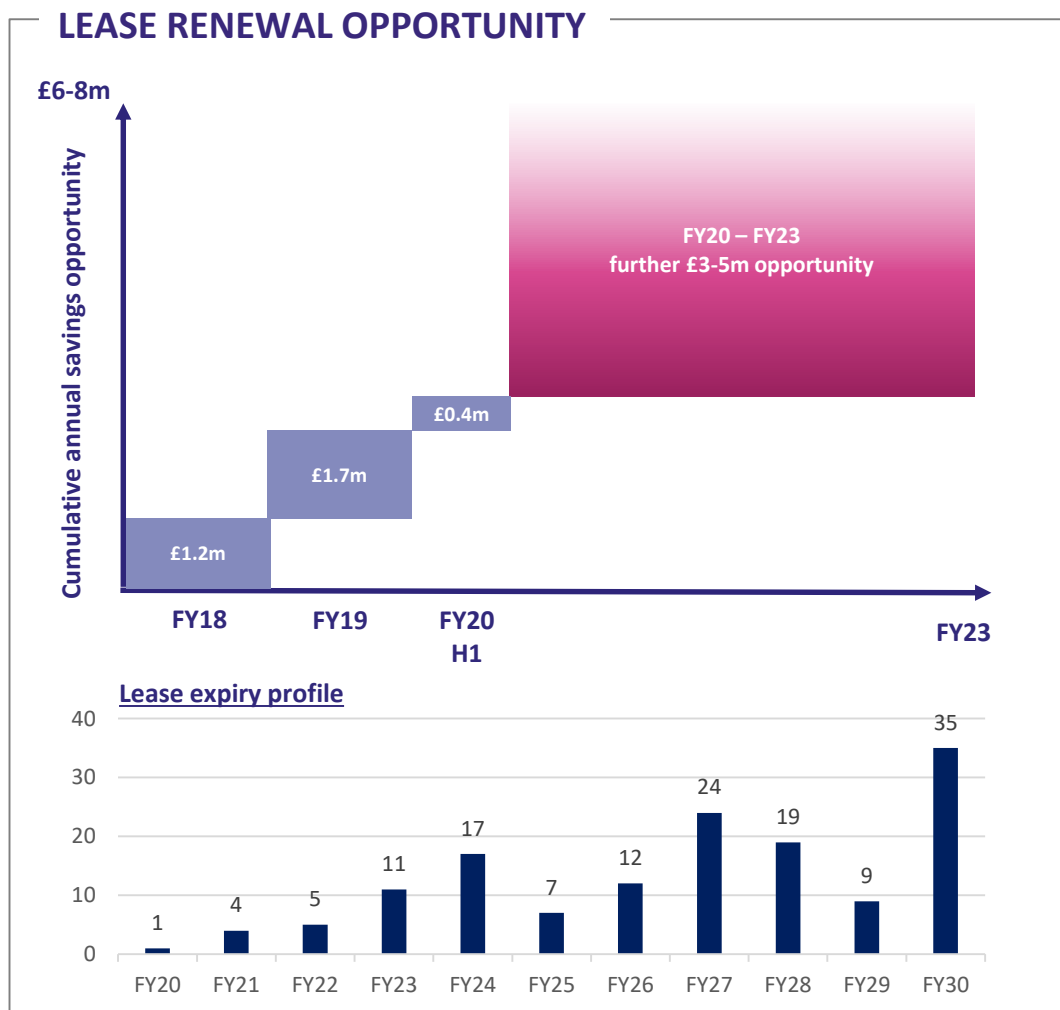


Customer service is key to our brand reputation

Our investment in this area has driven significant year on year gains

Established customer NPS based on customer surveys carried out four months after sofa delivery

2 Build the platforms – Property



£3.4m annualised property savings secured as at December 2019

Average annualised rent saving 29%

Timing of renewal for leases driven by opportunity to maximise savings

On track to deliver c.£6-8m p.a. of property cost savings by end of FY23

Current DFS Belfast showroom now open with all 4 brands

On track to deliver targeted property savings

Utilising existing DFS presence to secure attractive new Sofology showroom terms

2 Build the platforms – Final mile delivery

INITIATIVES

New Group final mile delivery solution ‘Sofa Delivery Co’ launched in Belfast

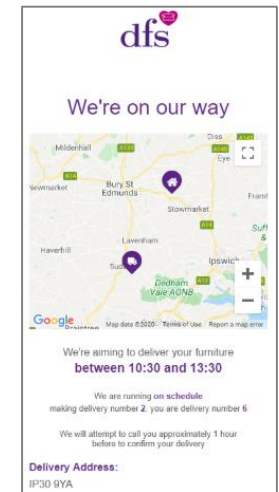
**7 day a week delivery trialled in Glasgow:
Improved post delivery NPS & fantastic
colleague feedback**

**Customer delivery slot booking launched in
November 2019 with 50%+ take-up rate**

**Customer in day order tracking launched in
February 2020**

EXAMPLES

The screenshot shows the 'dfs' logo at the top. Below it are tabs for 'Questions', 'Slot', 'Collection', and 'Confirmation'. The 'Slot' tab is active. The text 'Choose your preferred delivery slot' is displayed. Below this is a table with columns for 'Tuesday 18 Feb 2020', 'Wednesday 19 Feb 2020', and 'Saturday 22 Feb 2020'. Under the Tuesday column, there are four time slots: '7:15 AM - 1:00 PM', '7:30 AM - 1:00 PM' (with a green leaf icon), '12:00 PM - 6:00 PM', and '12:00 PM - 3:45 PM'. Below the table is a green box with a leaf icon and the text 'Do your bit for the environment'. It says 'We offer green van deliveries. This means we're already delivering in your area. Reserving one of these will help reduce the carbon footprint of your delivery.' Below this is a text box that says 'Tue, 18 Feb 2020 between 7:15 AM - 1:00 PM' and 'The day before your delivery we will send you an SMS with a 3 hour time slot.' At the bottom is a purple button that says 'Reserve Selected Slot'.



Technology deployment across our delivery operations and launch of ‘Sofa Delivery Co’ will improve customer experience and efficiency delivering over £3m of savings from FY23 onwards

3 Unlock new growth – Sofology

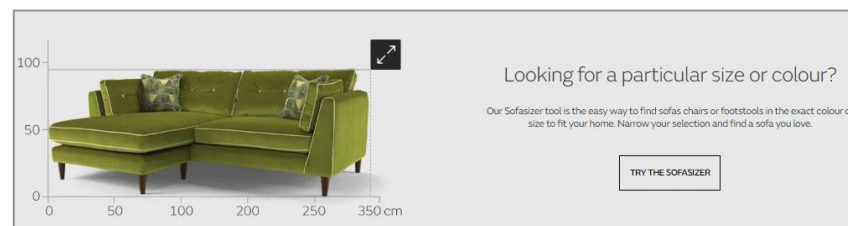
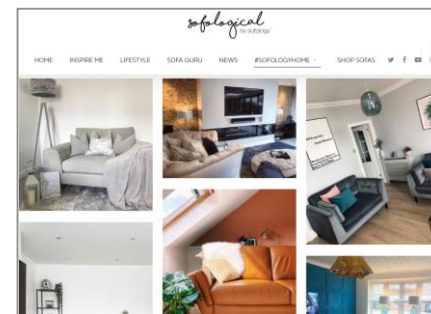
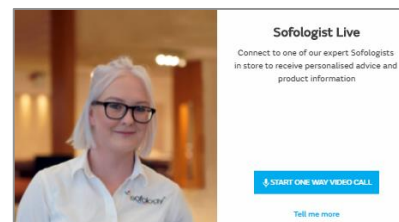
INITIATIVES

New showroom roll-out acceleration – 3 opened in late H1 FY20, 5 secured for H1 FY21

Omnichannel and digital innovation continues

Operational improvements in customer journey post purchase

EXAMPLES



Sofology well set for future growth

3 Unlock new growth – Dwell & Sofa Workshop

DWELL

Capital light opportunities to grow in Dwell
e.g. DFS & Sofology accessories, Homebase concessions

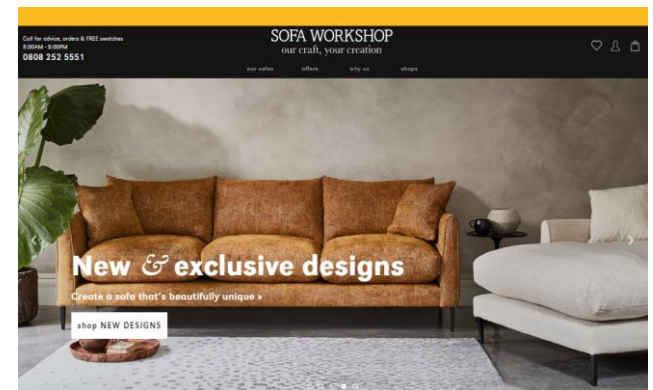
Dwell cost base reviewed including outsourcing
final mile delivery



SOFA WORKSHOP

Disruption experienced through systems and
website re-platform

Adversely impacted by market, especially
in South East



Dwell year on year performance steady
Sofa Workshop underperforming - Turnaround underway

Long term sustainability

THE SOFA CYCLE



OVERVIEW

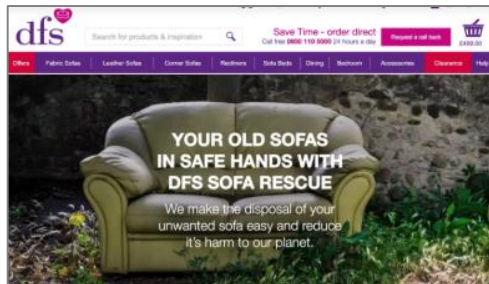
Ambition to drive a more circular economy for mass-market sofa manufacturing & retailing

Meeting consumer expectations, stakeholder demands and delivering growth

Integrating sustainability into the way we do business

Sofa rescue case study

SOFA RESCUE



OVERVIEW

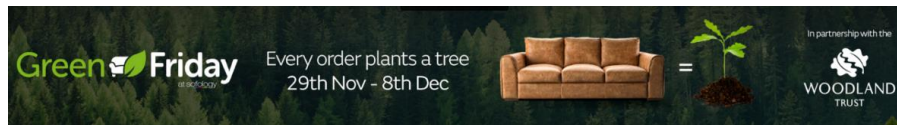
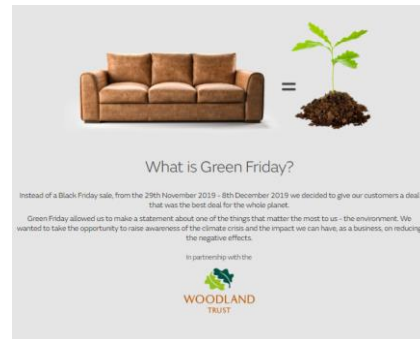
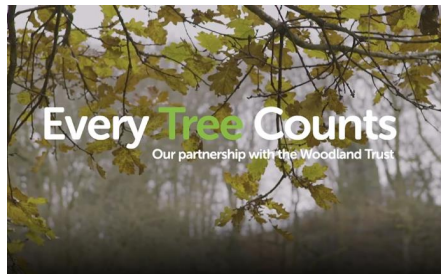
New not for profit service offered to remove customers old sofas and minimise landfill

Partnered with waste recycling experts Clearabee

Tried in 2019, with national boxing day launch in DFS. Popular service and take-up rate growing

Tree planting case study

TREE PLANTING



OVERVIEW

Sofology Green Friday trial launched in October 2019 - Tree planted for every order

Partnership with Woodland Trust

Rolling out across Sofology in March 2020 for all orders



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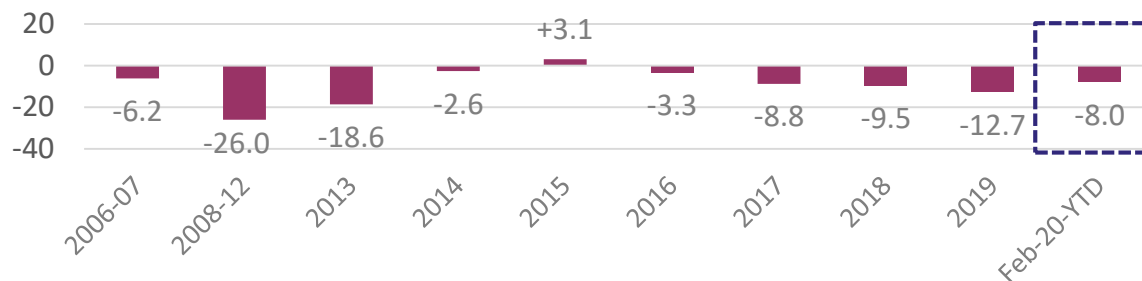
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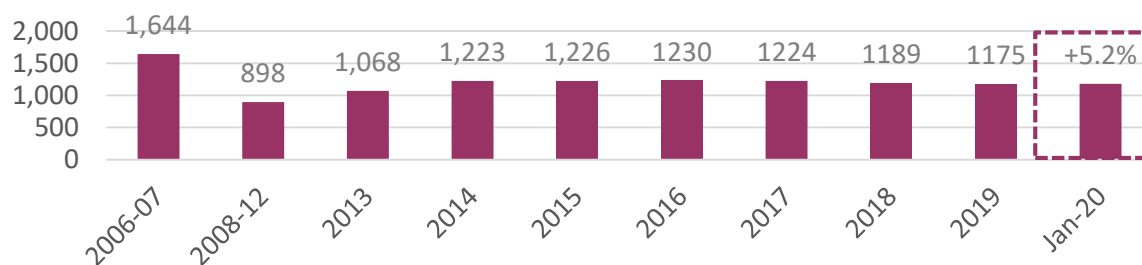
Market drivers

Consumer Confidence (%)¹



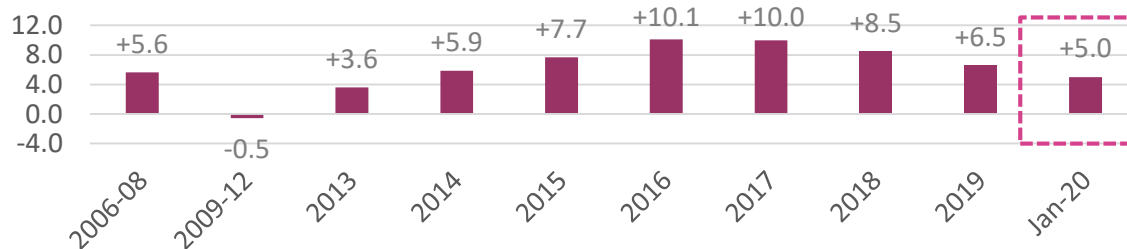
Slight uptick in consumer confidence but remains in negative territory

Housing Transactions ('000s)²



Housing transactions remain in low levels of decline but early signs of a recovery

Net Unsecured Lending (% change)³



Unsecured lending continues to grow

Early signs of macro economic indicators improving in 2020 (pre COVID-19)

Order intake momentum strengthened towards end of H1 and into H2

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 in the UK, seasonally adjusted.
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

COVID-19

Our people and customers

- ♥ Prioritising health and wellbeing of all colleagues and customers
- ♥ Clear guidance in line with latest government advice (policies, procedures inc. sick pay)

Supply chain and operations

- ♥ 2-3 week disruption in Far East supply, now getting back on track
- ♥ Increased supply chain costs of c £1m due to phasing of deliveries
- ♥ c.£10m of gross sales (Chinese sourced finished goods) delivered per week
- ♥ Business continuity plans in place across Group

Customer demand

- ♥ Difficult to predict impact and timing
- ♥ Potential for disruption given evolving situation, especially Easter and May bank holidays
- ♥ For reference: FY19 order intake from week 37-52 c.£330m, c.2/3rds delivered by financial year end
- ♥ Order intake disruption likely to be transitory and largely return on a 12 month basis

Group is in a strong position financially and is well set-up to cope with market challenges

Summary, outlook and approach

SUMMARY

- ♥ H1 performance as expected given strong comparator period
- ♥ Pro forma year on two year revenue growth +2.6%
- ♥ Good progress in implementing strategic priorities, particularly in DFS; Sofa Workshop turnaround underway

OUTLOOK

- ♥ Macro economic factors indicate an improvement in the medium term
- ♥ Satisfactory trading through H2 to date
- ♥ COVID-19: Difficult to predict impact and timing

APPROACH

- ♥ Active monitoring and contingency planning for COVID-19 impact across Group
- ♥ Execute our strategy to strengthen our market position



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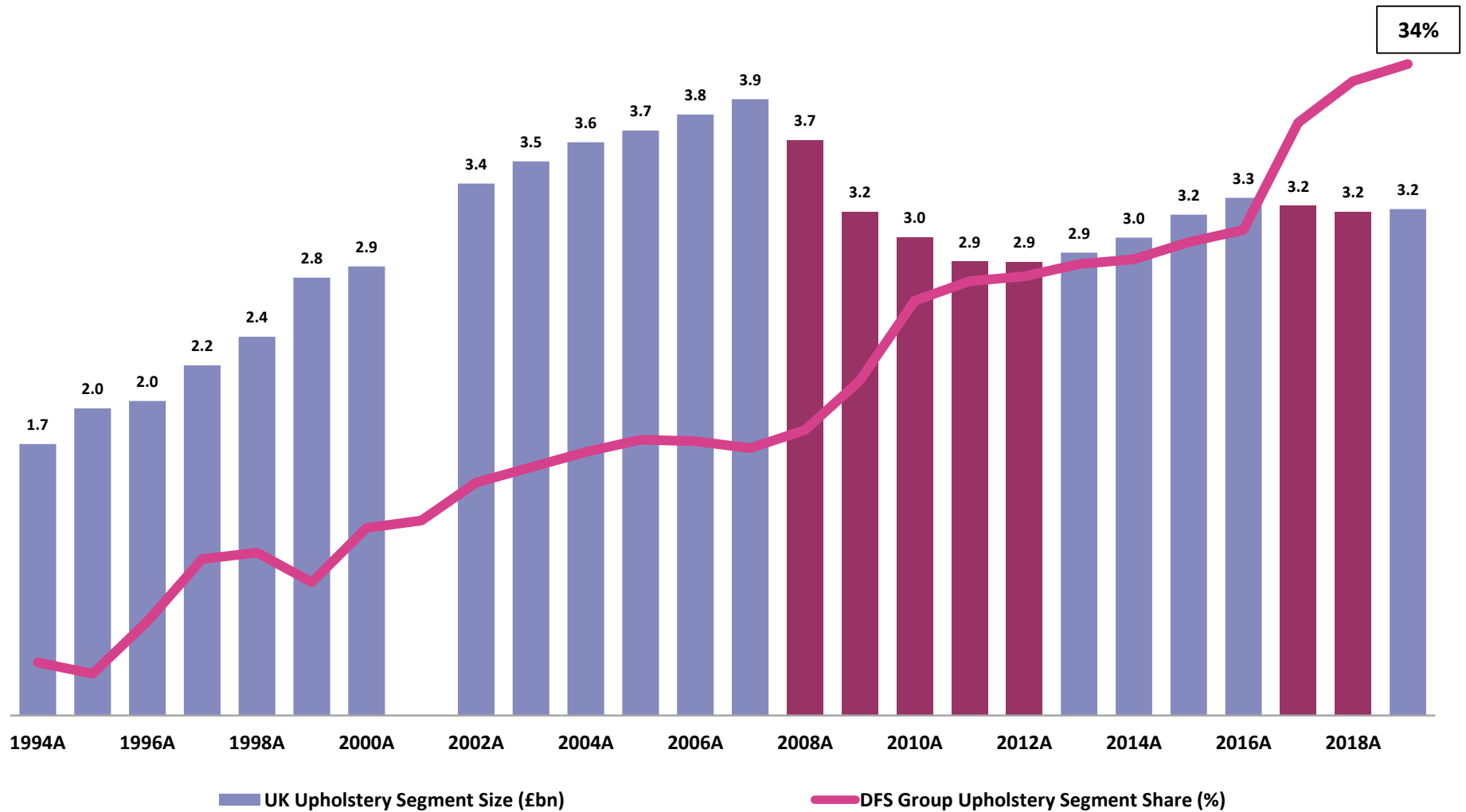
Q&A (Tim Stacey / Mike Schmidt)

APPENDICES



Segment shares - Sofas

GROUP SHARE CAPTURE



Group showroom profile

AS AT 29 DEC 2019 (VS. 30 JUN 2019)

	UK	ROI	Holland	Spain	TOTAL
<i>Large Format (c. 15,000sq.ft.+)</i>	91	3	2	1	97
<i>Medium Format (c. 10,000sq.ft.)</i>	17	2	3	-	22
<i>Small Format (c. 5,000sq.ft.)</i>	4	-	1	1	6
DFS TOTAL	112	5	6	2	125
Sofology (10-12,000 sq.ft. & 5-7,000 sq.ft. Mezzanine)	45 (+3)	-	-	-	45 (+3)
<i>Standalone</i>	3	-	-	-	3
<i>DFS Co-locations</i>	35 (+2)	-	-	-	35 (+2)
Dwell (c.3,500-6,000sq.ft)	38 (+2)	-	-	-	38 (+2)
<i>Standalone</i>	21	-	-	-	21
<i>DFS Co-locations</i>	10	-	-	-	10
Sofa Workshop (c.2,500sq.ft)	31 (-1)	-	-	-	31 (-1)

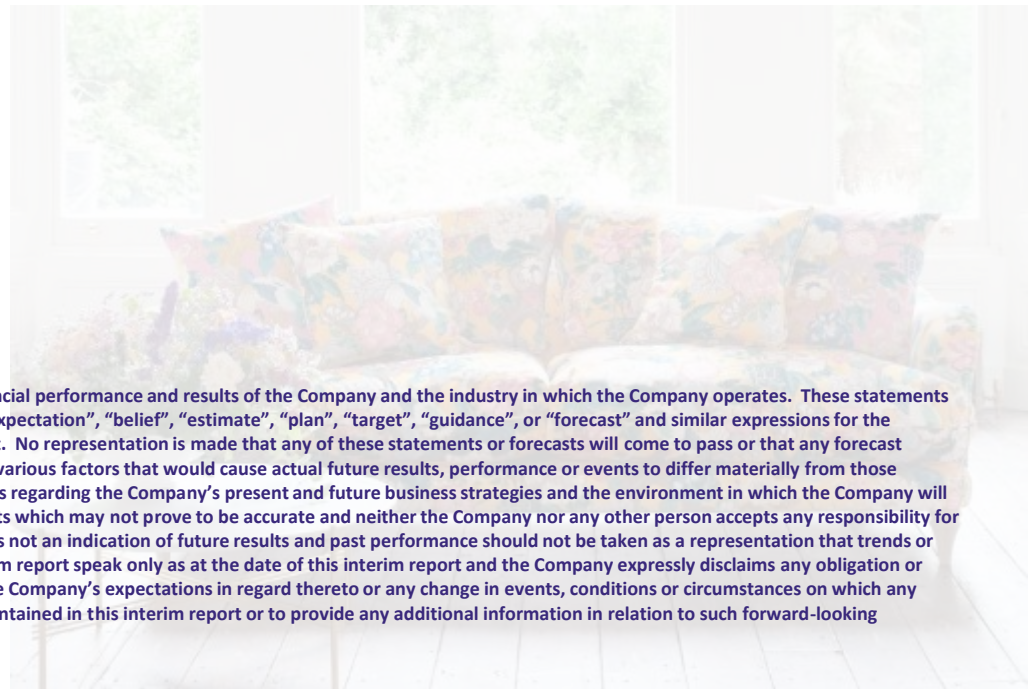
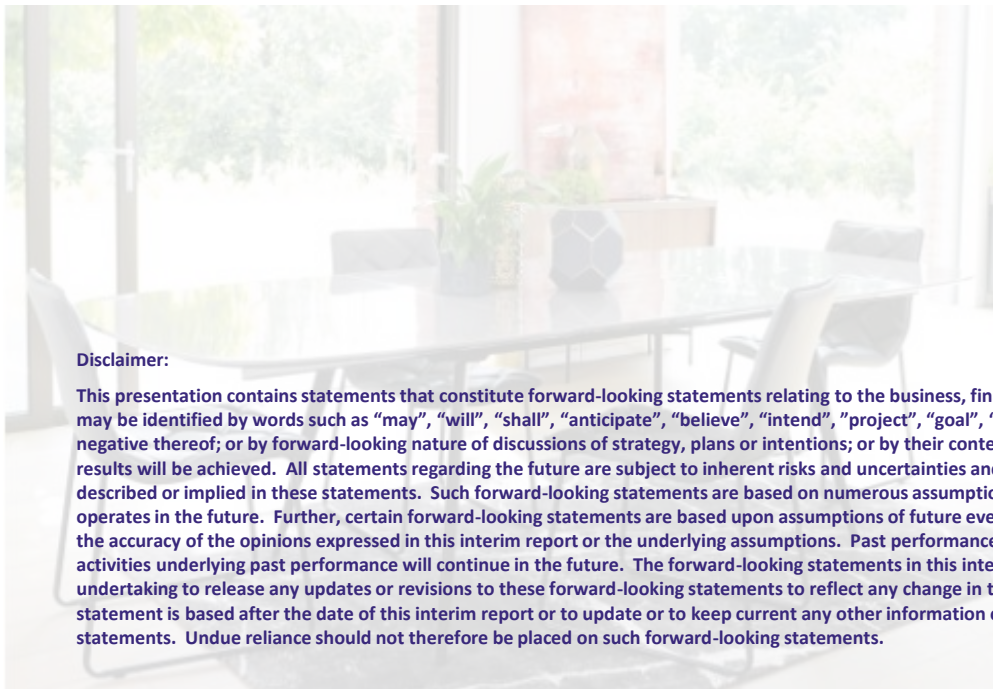
Performance for the 6 months to Dec-19 and Dec-18

6 months to 29 December 2019

	DFS	Other brands	Sofology	Total pre IFRS 16	IFRS 16 impact	Total post IFRS 16
Gross sales	462.0	38.7	129.0	629.7		629.7
Revenue	354.5	31.4	102.1	488.0		488.0
Cost of sales	(140.7)	(15.0)	(50.5)	(206.2)		(206.2)
Gross profit	213.8	16.4	51.6	281.8		281.8
Selling and distribution costs (excl. property costs)	(110.7)	(12.8)	(28.5)	(152.0)		(152.0)
Brand contribution	103.1	3.6	23.1	129.8		129.8
Property costs				(54.1)	37.9	(16.2)
Underlying administrative expenses				(34.2)		(34.2)
Underlying EBITDA				41.5	37.9	79.4
Depreciation & Amortisation excluding brand amortisation				(15.4)	(28.7)	(44.1)
Underlying Operating Profit				26.1	9.2	35.3
Interest				(5.6)	(13.1)	(18.7)
Underlying PBT before brand amortisation				20.5	(3.9)	16.6

6 months to 30 December 2018

	DFS	Other brands	Sofology	Total
Gross sales	486.4	42.5	139.9	668.8
Revenue	372.6	34.4	110.6	517.6
Cost of sales	(149.0)	(15.7)	(54.2)	(218.9)
Gross profit	223.6	18.7	56.4	298.7
Selling and distribution costs (excl. property costs)	(115.4)	(12.3)	(28.9)	(156.6)
Brand contribution	108.2	6.4	27.5	142.1
Property costs				(53.6)
Underlying administrative expenses				(30.6)
Underlying EBITDA				57.9
Depreciation & Amortisation excluding brand amortisation				(14.6)
Underlying Operating Profit				43.3
Interest				(5.3)
Underlying PBT before brand amortisation				38.0



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