



LEADING SOFA RETAILING IN THE DIGITAL AGE

DFS FURNITURE PLC

Results Presentation

24 September 2020



dwell



AGENDA



Welcome & Introduction

Tim Stacey

Financials

Mike Schmidt

Strategy Update

Tim Stacey

Q&A

Tim Stacey and Mike Schmidt



We used our values to guide our decision making through Covid-19 and emerge with **stronger** and **deeper** relationships with our people and our stakeholders

FOR OUR PEOPLE...

- Full pay for April and topped up to 80% through May & June in excess of Government salary caps
- New Covid-19 absence policy to protect colleagues health
- Mental health and wellbeing support throughout lockdown
- New Google digital tools to facilitate working from home
- Enhanced protection, PPE and safety measures on re-opening
- Volunteering and furniture donations to support the NHS



SECONDLY... CURRENT TRENDS

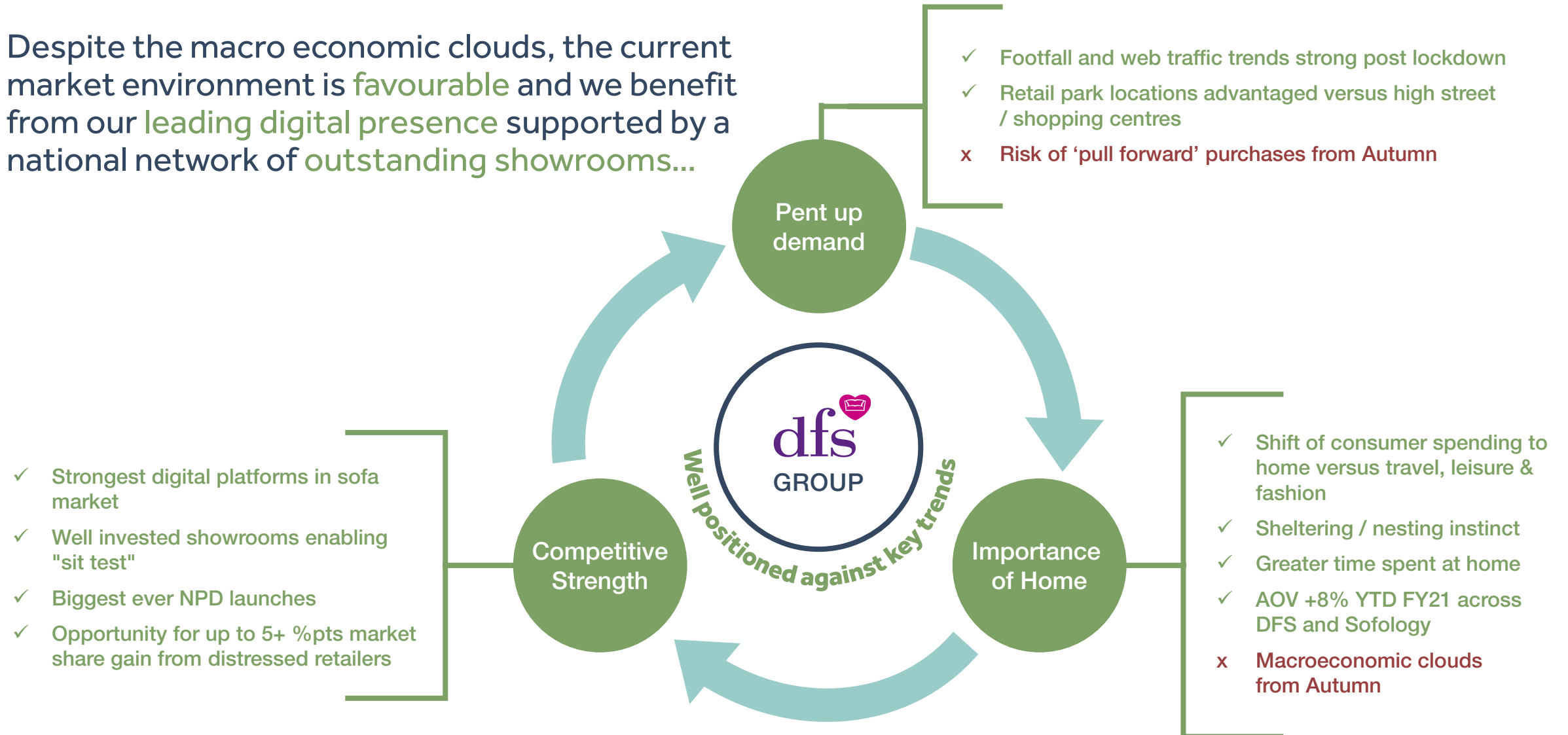


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sofology



Despite the macro economic clouds, the current market environment is **favourable** and we benefit from our **leading digital presence** supported by a national network of **outstanding showrooms...**



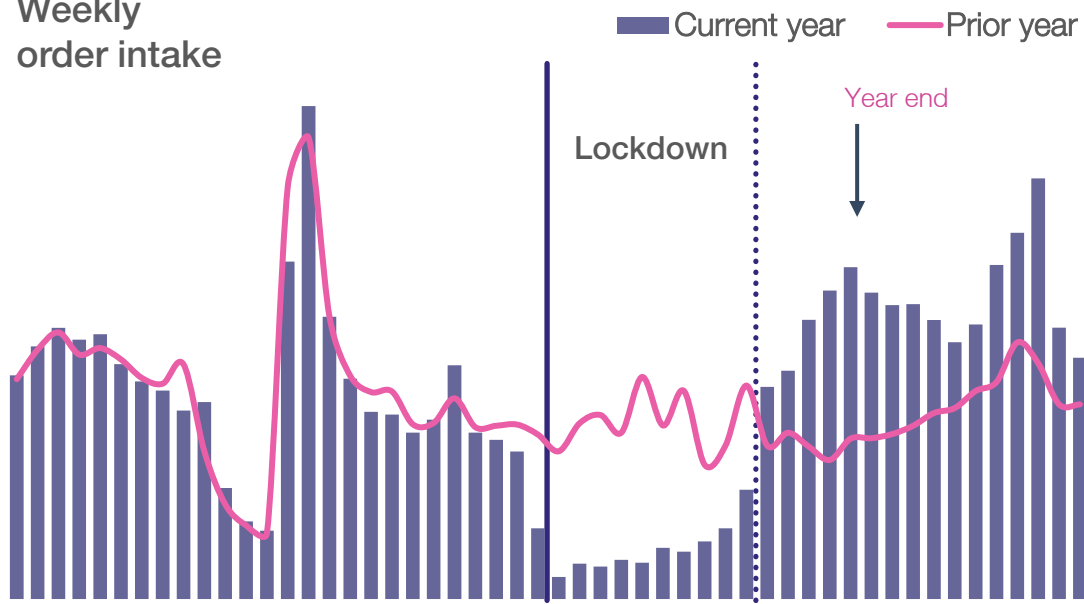
THIRDLY... ENABLES STRATEGY ACCELERATION



This intense period of learning has further **sharpened** our focus & ambitions.
We are **well positioned** to accelerate the execution of our strategy

Following re-opening, a period of
exceptional trading

Weekly
order intake



Allows acceleration
of our **clear strategy**



1 DRIVE
DFS
CORE

1. OMNI-CHANNEL:
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:
broaden reach through digital, wholesale
and right space

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

IN SUMMARY



FY20 was a **challenging year** operationally and financially given the impact of the lockdown, but we have emerged **stronger** and **more resilient**

FY20 financial performance severely impacted by suspension of deliveries in Q4 due to Covid-19 restrictions

By leading through Covid-19 with our values we now emerge with stronger resilience and stakeholder relationships

Strong trading momentum post lockdown enabling strategic acceleration

Aware of macro headwinds and importance of remaining agile

No guidance provided for FY21, a range of illustrative scenarios presented depending on market performance



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FINANCIAL OVERVIEW



£m

	IAS 17	IFRS16
	FY 2019 ² LTM to 30-Jun- 2019	FY 2020 LTM to 28-Jun- 2020
Revenue	996.2	724.5
Growth (%)	+14.4%	-27.3%
Comparative growth	+7.4%	n/a
Underlying PBT pre brand amortisation	50.2	(56.8)
Growth (%)	+31.1%	-213.1%
Reported PBT	£43.6m	(£74.9m)
Underlying EPS	18.4p	(21.5p)
Growth (%)	+31.4%	-216.8%
Net debt	176.3	169.2
Leverage	1.95x	n/a
Ordinary DPS	11.2p	-

(1) Performance against comparative period measured against FY2019 pro forma unaudited 52 week trading period to 30 June 2019

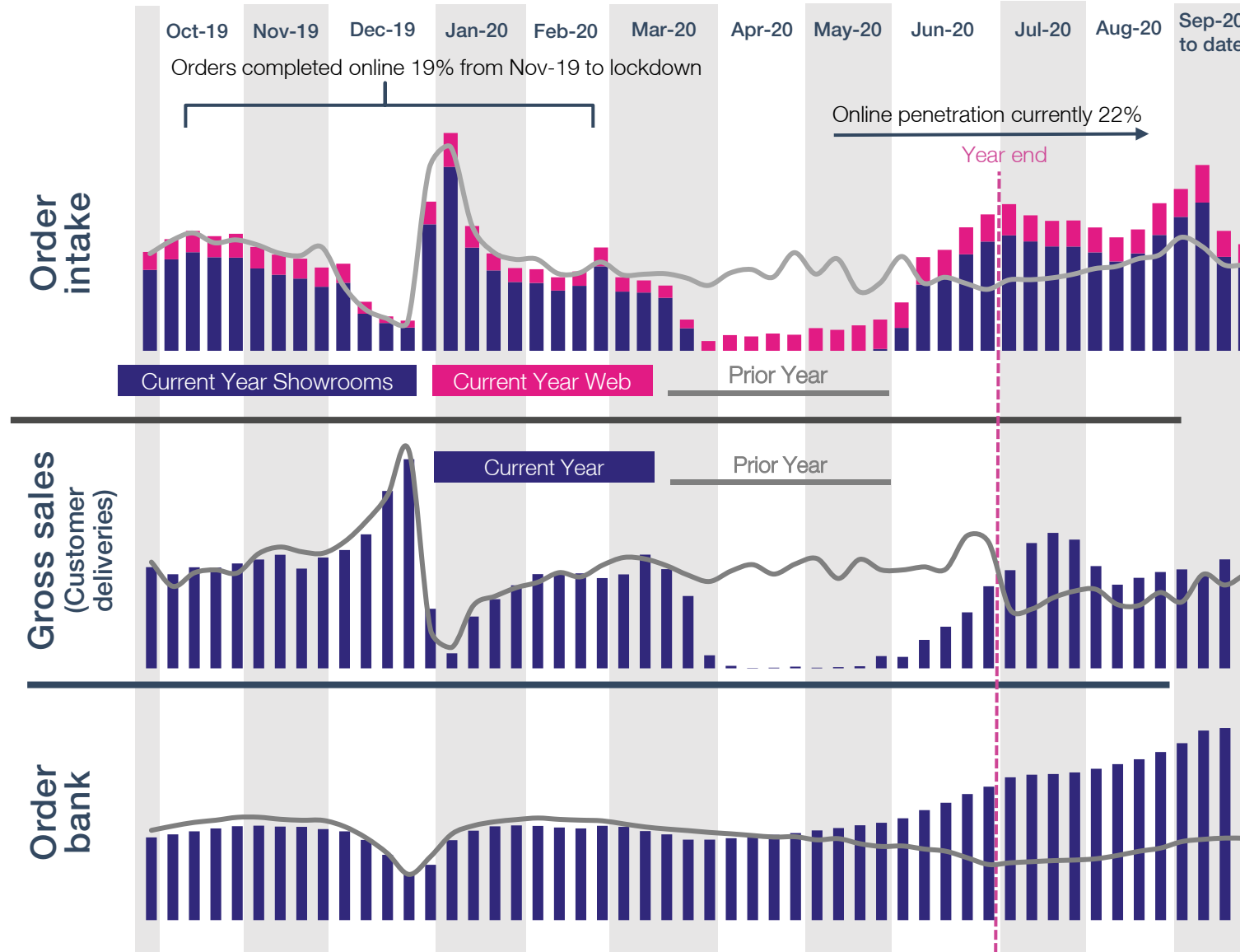
(2) FY2019 comparative growth calculated by including Sofology for the full 52 week trading period of FY18

OVERVIEW

- All operations paused from 23 March with gradual, safe restart from late May
- Losses partially mitigated through CJRS, retail rates holiday and operational cost control
- Reduction in net debt due to £64m equity placing and cash flow mitigation offsetting operating losses
- Dividends postponed, will aim to recommence when more certainty on outlook

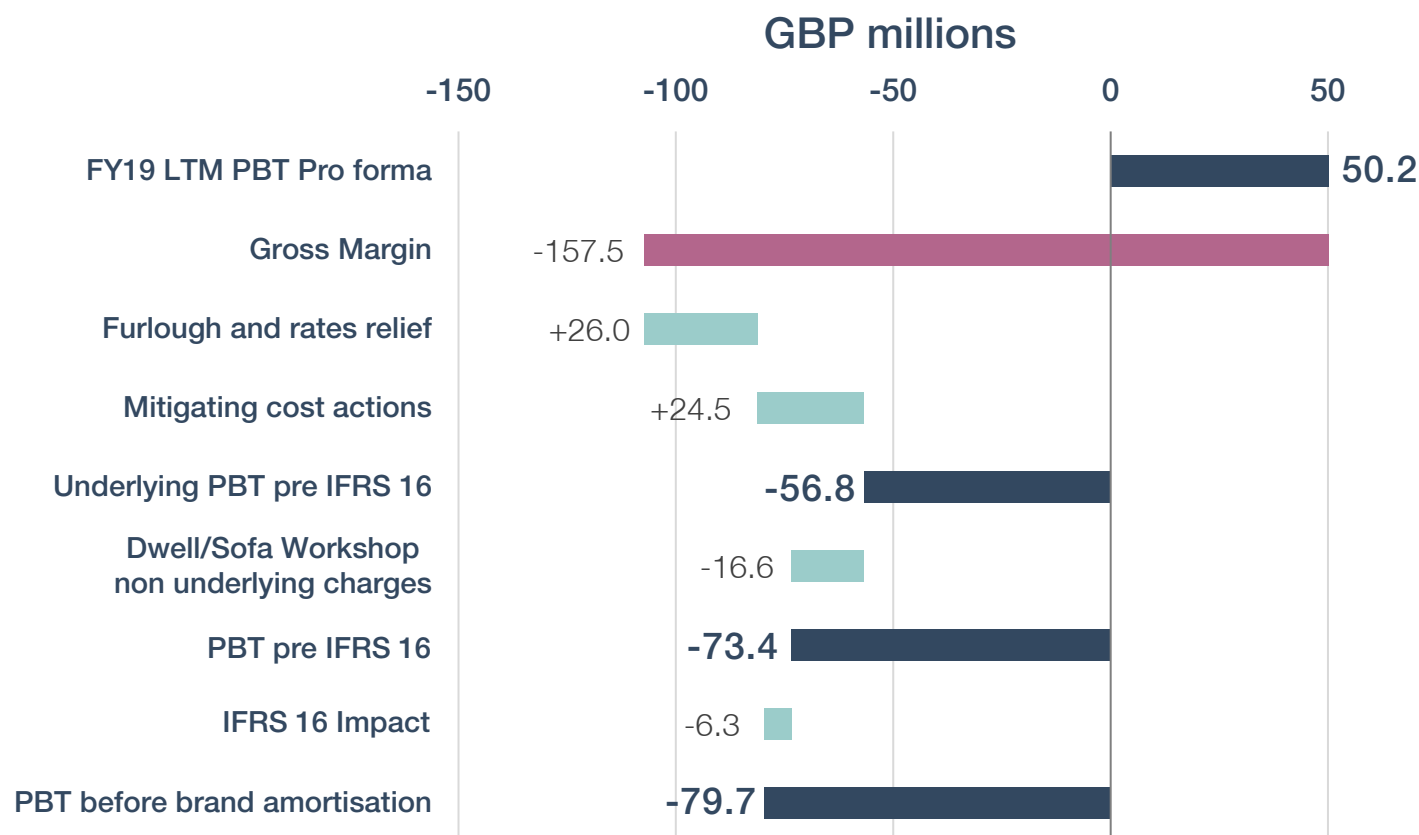
Loss incurred due to pause in deliveries

REPORTED GROSS SALES VS WEEKLY ORDERS



- Reduction in order intake whilst showrooms closed – significant majority of customers require 'sit test'
- Web order intake significantly up over the lockdown period
- Strong increases in all channels once showrooms reopened
- Order bank has grown as bookings significantly outstripped delivery volumes

PBT EVOLUTION



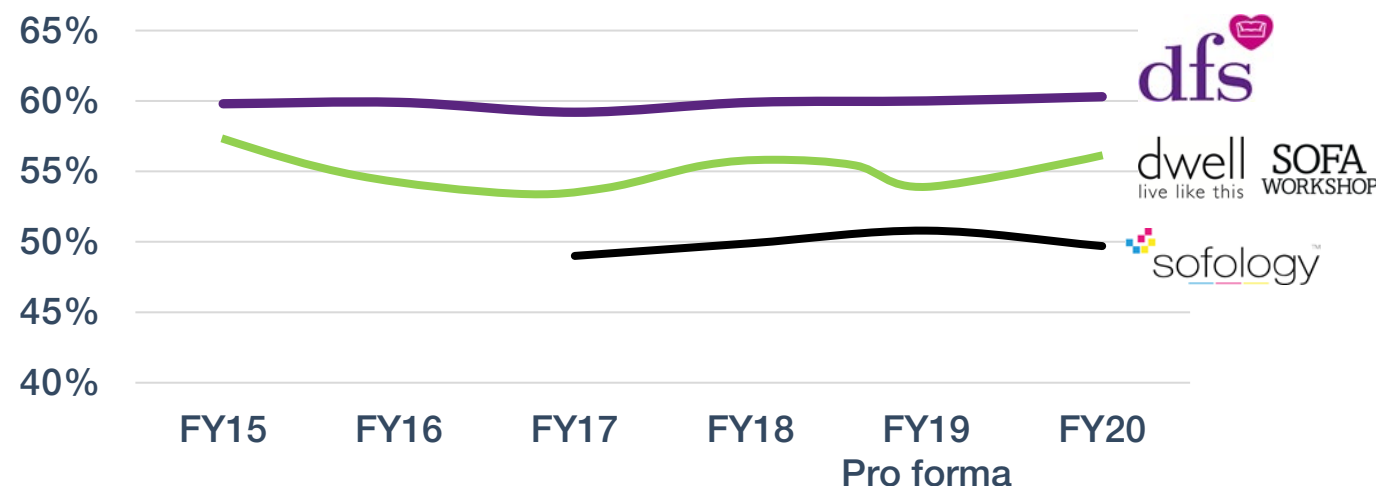
FY19 is the pro forma unaudited 52 week trading period to 30 June 2019.

KEY DRIVERS

- Gross profit reduction from £272m lower revenues
- Quick and decisive cost action to minimise discretionary expenditure
- Dwell and Sofa Workshop restructuring to give greater certainty of returns
- Sofa Workshop sale occurred post year-end

Minimal final quarter deliveries drive PBT losses, government support and cost action provide a partial offset
FY20 expectations were on track pre-Covid

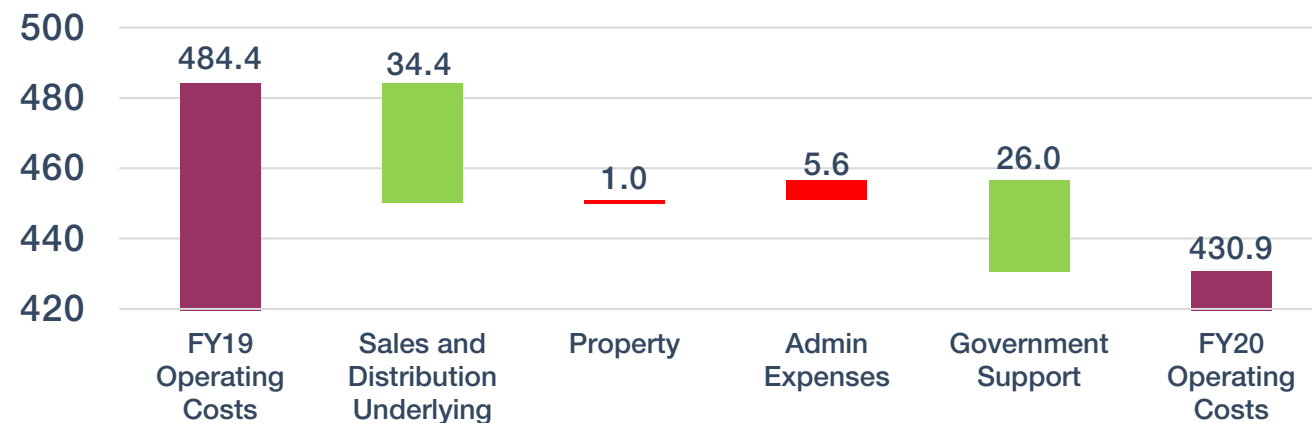
GROSS MARGIN AND OPERATING COSTS



KEY DRIVERS

- Gross margin up in DFS due to sourcing, pricing and quality improvements
- Sofology margin slightly down due to accelerated clearance stock sales - underlying trend up Y-o-Y
- Dwell & Sofa Workshop margins broadly flat

OPERATING COSTS (IAS17 FOR FY19 COMPARISON)



- Property costs reflects balance between rent renegotiation savings and growth of estate to support Sofology roll-out
- Admin expenses reflect investment in data and digital capabilities

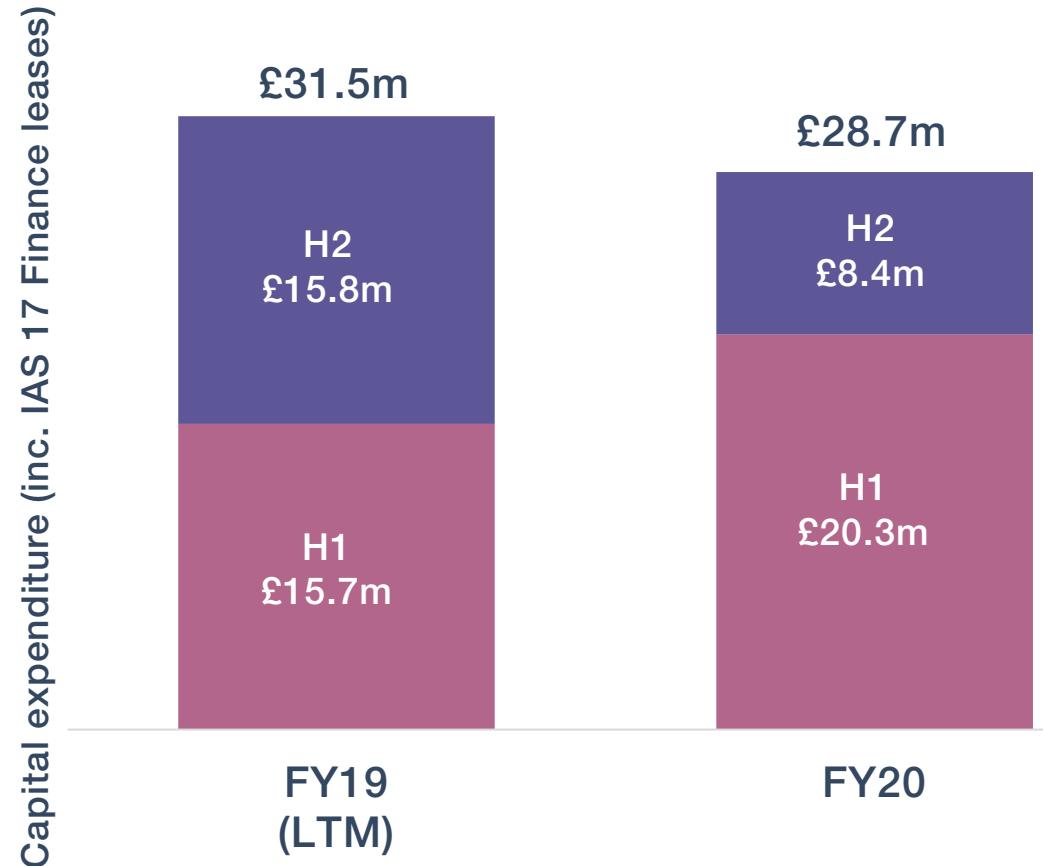
FY19 numbers quoted are for the pro forma unaudited 52 week trading period to 30 June 2019.

Sofology gross margin data not available on a consistently calculated basis pre FY17

Dwell and Sofa Workshop gross margin excluding write downs in connection with the reorganisation

Gross margins stable in largest brands
Operating costs remain controlled with self-help progress

CAPITAL EXPENDITURE

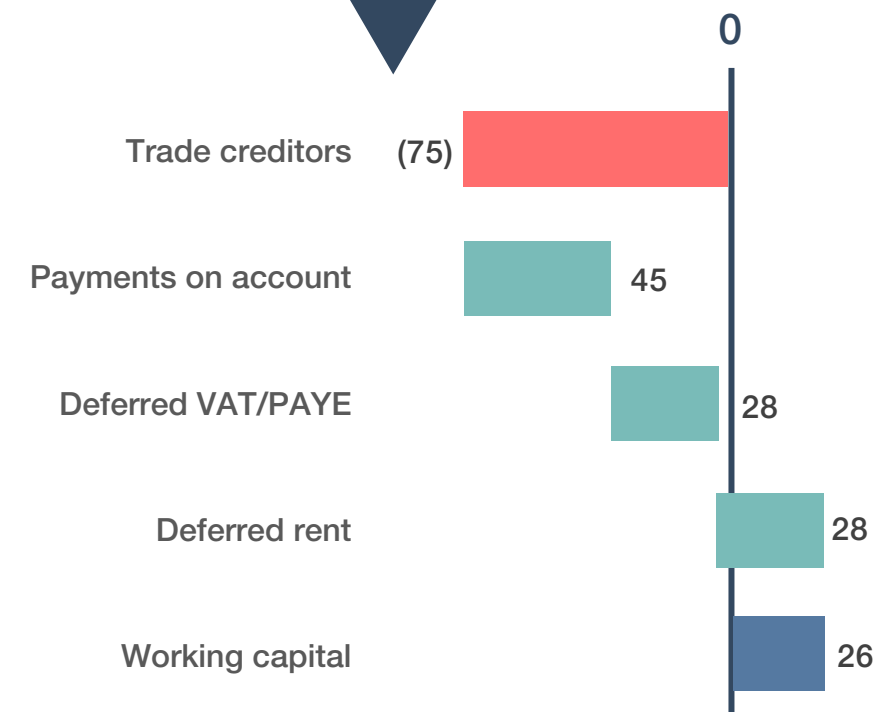
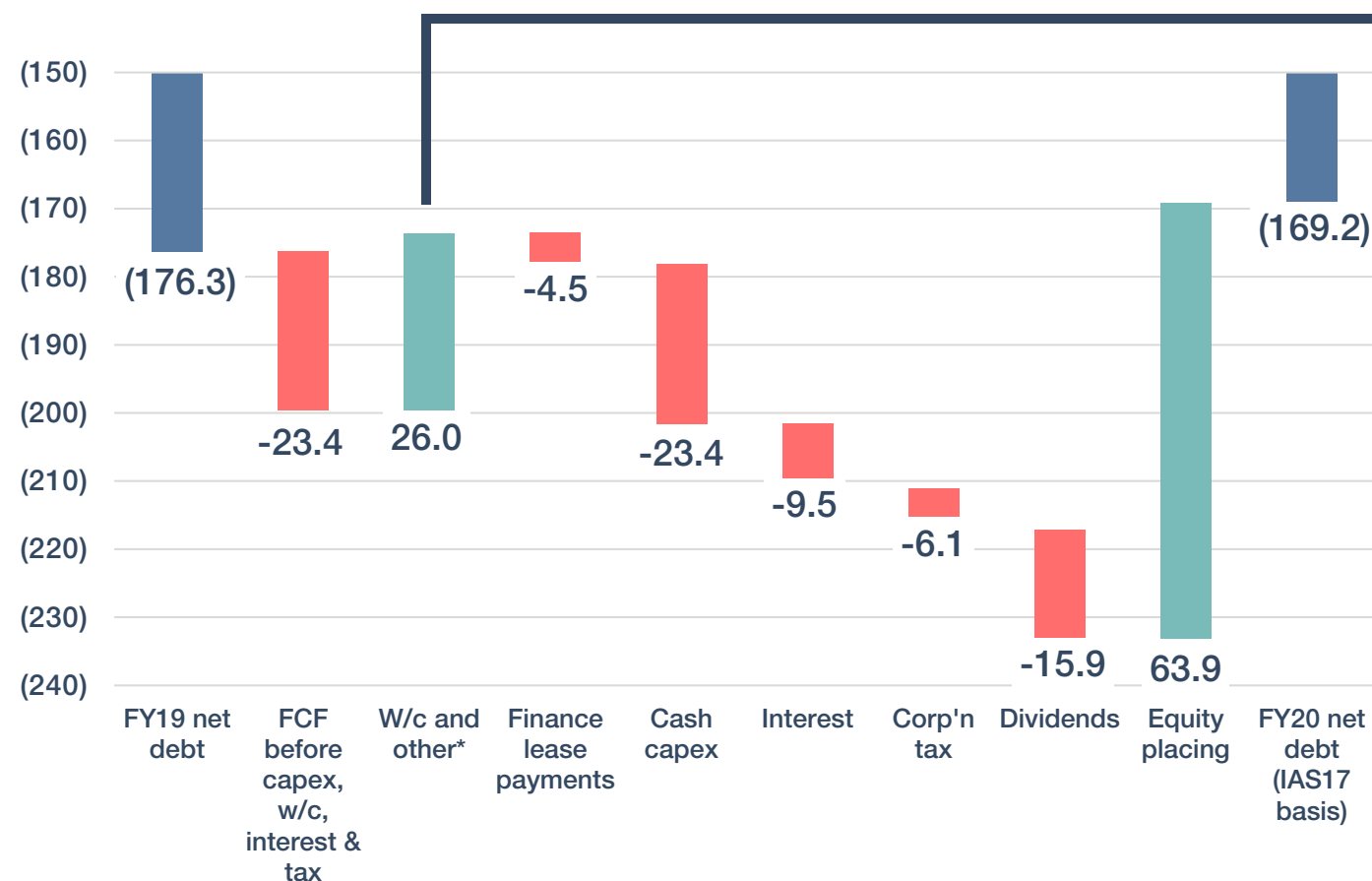


- Capital expenditure reduced in H2 FY20 to protect cash position
- FY21 focus on critical initiatives and highest returning investments
- Continued focus on technology to drive omni-channel proposition
- 6-10 further Sofology locations planned for FY21

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

Capex reduced in H2 FY20 to preserve cash at height of the pandemic
FY21 investment to focus on best returning investments: Technology and new Sofology showrooms

CASH FLOW AND NET DEBT



*Other includes changes in finance lease balances, unamortised loan issue costs, gains on sale of fixed assets net of sale proceeds and other share movements

Net debt measured as: Cash balances + drawn RCF + unamortised loan issue costs + finance leases

Solid financial position entering the new financial year (Sep 20 net debt (IAS17) c.£50m)
Anticipate working capital outflow in FY21

KEY FINANCIAL METRICS



METRIC	TARGET	FY21 FOCUS
LTM GROSS SALES GROWTH	Above market growth by 1% to 2%	Maximise market share capture from competitor exit and new showroom opportunities through our targeted product offer and customer experience
LTM PBT MARGIN	Growth from increased usage of Group assets	Dwell integration, roll-out of Sofa Delivery Company, improving marketing efficiency, reducing property costs
CASH GENERATION / LEVERAGE	Reduce leverage towards 1x in short term*	Focussed investment on high returning initiatives (Sofology new showrooms, omni-channel technology) in addition to ongoing maintenance capital
LEASE ADJUSTED ROCE	Growth in Lease Adjusted ROCE to 'high teens' over the medium term	Profitable growth from a relatively lower property cost base and incremental capital investment levels

*Net debt / EBITDA measured on an IAS 17 basis

FY20 outturn and metrics are not representative due to pause in deliveries
Well positioned entering FY21

ILLUSTRATIVE FINANCIAL SCENARIOS FOR FY21



	LOW	MEDIUM	HIGH
REVENUES*	Rest of Year: -30% £959m	Rest of Year: -15% £1,064m	Rest of Year: 0% £1,169m
GROSS PROFIT	Overall gross margin broadly flat at c.58%		
	£556m	£617m	£678m
OPERATING COSTS	Identified cost mitigation of up to £15m	Base: c.£400m	Increases by <10% of change in revenues
INTEREST & DEPRECIATION	IFRS-16 Basis: c.£123m		
IMPLIED PBT (IFRS16 BASIS)	£57m	£94m	£147m

- Dec-19 LTM revenues excl Sofa Workshop: £943m
- £226m of y-o-y revenue outperformance secured to date (inc. £100m opening order bank)
- Adverse FX impact to be mitigated
- Limited variance from lower levels of (margin accretive) internal manufacturing
- Self-help benefits coming through on property, Dwell operations and marketing
- Rates relief of £18m
- Relatively low incremental costs to operate since operations recommenced post Covid-19 national lockdown
- Broadly similar to prior years
- Some additional refinancing costs and new store leases likely
- Broad PBT range; historical levels likely exceeded
- Read-forward to FY22 requires caution given non-recurring revenue and rates benefits

*Measured against 12 months to December 2019

1. Although it is too early to offer any meaningful guidance on the new financial year, we set out broad perspectives on how different market environments may drive financial outcomes

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1 DRIVE DFS CORE

1. OMNI-CHANNEL:

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

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Data & insight driven efficiency and effectiveness across Group



3 UNLOCK NEW GROWTH

1. SOFOLOGY:

develop to a nationwide business

2. DWELL:

broaden reach through digital, wholesale and right space

3. INTERNATIONAL – DFS NL:

to break even & beyond on current model & develop options for medium-term growth

£40m PBT MEDIUM TERM BENEFIT



1 **DRIVE DFS CORE**

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1A. DFS - OMNICHANNEL



We believe that the **combination of digital and physical** is the right business model to address the sofa market. In the end **comfort** is the **number 1 reason** why a customer chooses to buy a sofa

KEY INITIATIVES

- **Re-platformed DFS website onto Google cloud**

Increased speed, capacity & agility

- **New digital engagement tools added**

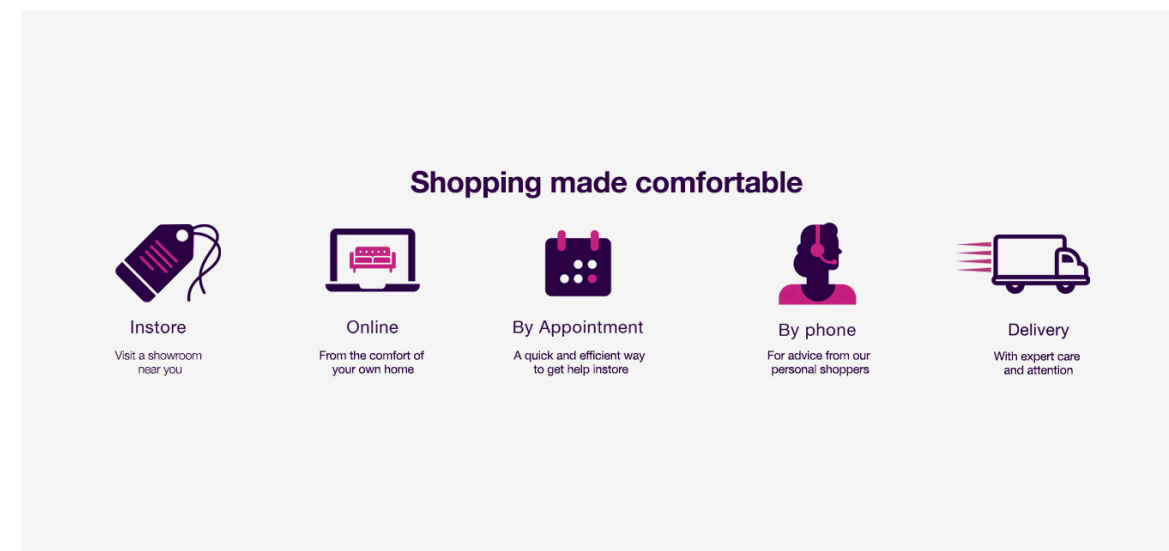
Including visual search, enhanced augmented reality, appointment booking

- **Modernising showrooms**

New look and feel across 16 locations

- **New commission model for sales colleagues**

Facilitating stronger omni-channel journey



> 85% consumers
research online
prior to buying

We engage
customers across
all digital channels

90% of customers
visit our showrooms
for the “comfort test”



1B. DFS – PRODUCT INNOVATION



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INITIATIVES

- **New exclusive brand partnership with Halo**
best leather quality, design & sustainability
- **New exclusive brand products**
with existing successful partners including Joules, French Connection and Country Living
- **Strong pipeline of new product development (NPD)**
Broadening and deepening appeal
- **Data and insight driven**
Facilitating improved margins and AOV



Using consumer insights, data and our relationships with design experts and brand partners, we launched the biggest collection of new products in DFS last year



1C. DFS - CUSTOMER SERVICE



CUSTOMER SERVICE EXAMPLES

dfs Live Assistance

Find out More

▶ What is Live Help?

✓ How do I know if Live Help is Available?

▶ How do I get help?

▶ What happens if all assistants are busy?

▶ What happens if your offices are closed?

▶ What about my privacy?

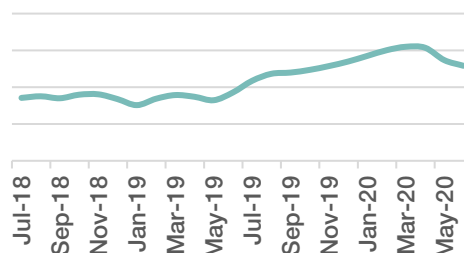
Would you like to talk to our DFS Virtual Assistant?

YES PLEASE

Privacy & Legal

Online Customer service powered by veeva24

Established customer NPS
(3 month rolling average)



INITIATIVES

- **Relentless focus on customer service**
driven by “Think Customer” value & measured by NPS
- **Step change in established customer NPS**
measures every element of the customer journey up to 5 months post delivery (up from 33.0% to 42.9%)
- **Data and insight driven**
root cause analysis based on data leading to actions
- **Improved product quality**
from design stage across all manufacturing partners

Every aspect of the customer journey is measured by NPS and all colleagues are measured and rewarded for continuous improvement. We firmly believe that great customer service is essential for continued success



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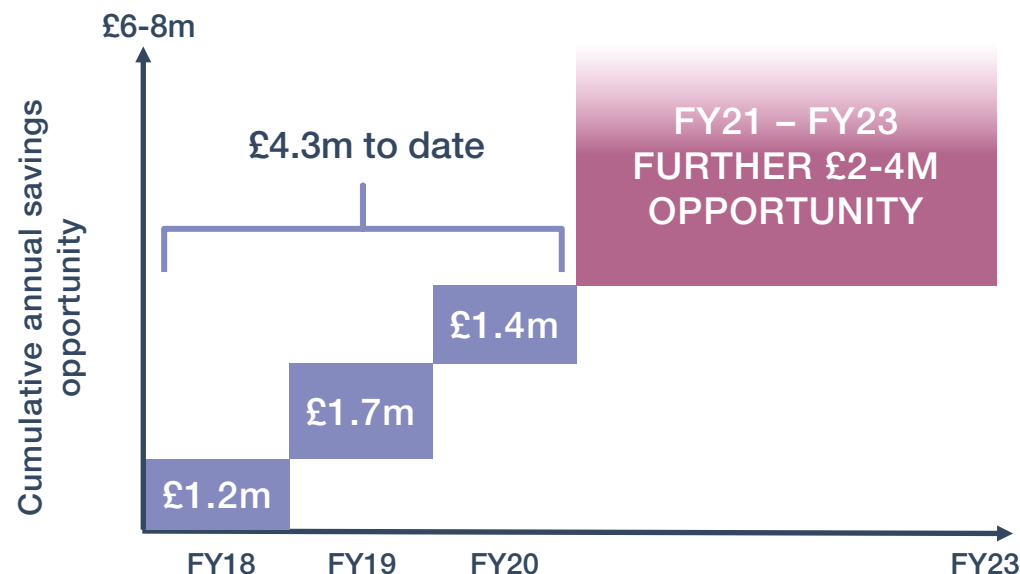
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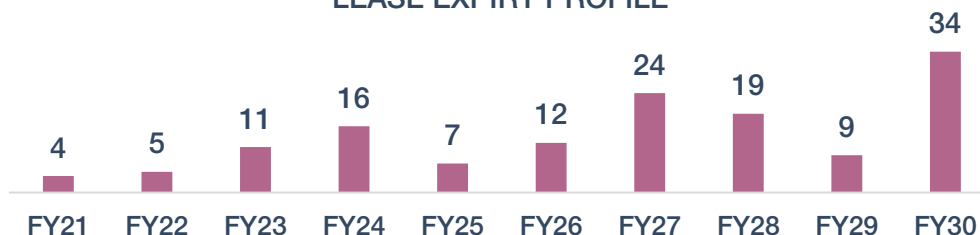
2A. PROPERTY



LEASE RENEWAL OPPORTUNITY



LEASE EXPIRY PROFILE



HIGHLIGHTS

- **£4.3m annualised property savings**
secured as at June 2020
- **Average annualised rent savings 34%**
improving trend based on our anchor tenant status, covenant and relationships
- **Flexible approach based on economics**
to right sizing estate, based on micro location, omni-channel penetration & lease terms
- **Constructive dialogue with landlords**
agreements reached for 70% of rent deferrals during & since lockdown

On track to deliver targeted property savings of £6-8m by FY23
Utilising existing DFS presence and covenant to secure attractive new Sofology showroom terms



2B. SUPPLY CHAIN

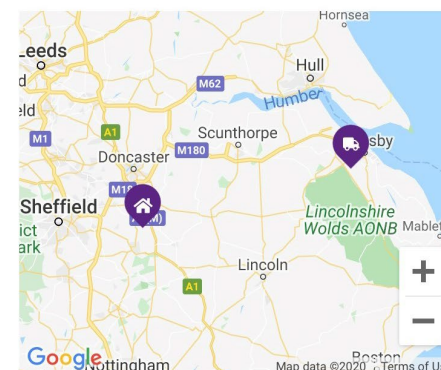


INITIATIVES

- **Sofa Delivery Co. trial launched in Belfast**
consolidates final mile delivery for all sofa brands
- **Aim to complete roll out by mid FY22**
significant reduction in variable cost per delivery and improved customer and colleague experience
- **New stock management system in roll out**
key enabler to fulfilling multi brand orders from CDCs
- **Customer in day tracking rolled out**
across DFS & Sofa Delivery Co. improving NPS
- **7 days a week deliveries trialled**
Improved post delivery NPS and fantastic colleague feedback



We're on our way



We're aiming to deliver your furniture
between 14:40 and 17:40

We are running **on schedule**
making delivery number 7, you are delivery number 10

We will attempt to call you approximately 1
hour before to confirm your delivery



Key building blocks in place as we develop best-in-class, group-wide distribution platform.
Targeted £3-4m+ savings from FY23 onwards remain on track



New Econometrics Model

...helping to drive greater efficiency, effectiveness & flexibility of spend

INSIGHTS & DATA

Customer segmentation

now leveraged throughout business, e.g. NPD

New Brand Tracking

with a renewed emphasis on Brand
'Closeness'

DIGITAL

Investing in digital skills & capabilities

Appointed new Digital Director with a clear remit to extend and develop our digital strategy, partnerships & activation

New 'Hyperlocal' Marketing

Using insights and data from our data lake, we are accelerating the transformation of our marketing investment towards digital channels to get more impact from less investment



1. SOFOLOGY:

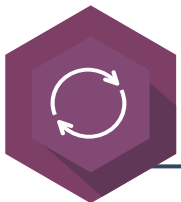
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3A. SOFOLOGY



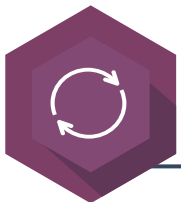
INITIATIVES

- **Biggest ever launch of new products**
increasing and broadening appeal, driving Average Order Value, improving gross margins
- **Accelerating new showroom expansion**
in addition to 3 new showrooms successfully opened in FY20, we are targeting 6-10 new showrooms in FY21, taking advantage of favourable lease terms
- **Omni-channel innovation**
sharing best practice across the Group, including introduction of “Go in store” – live video consultation from web to store teams
- **Brand awareness and appeal growing**
Owen Wilson brand ads cutting through, increased effectiveness of marketing spend, big emphasis on ESG

EXAMPLES



Sofology performance has been very encouraging post lockdown and we are accelerating the roll out of showrooms, ultimately targeting 65-70 showrooms nationally, £300m revenue @ 5-7% PBT



DWELL

- Dwell proposition moved to new wholesale model
- Dwell products set up on DFS retail systems and website
- Enabling operating cost savings of £3m per annum by integrating co-located sales teams

SOFA WORKSHOP

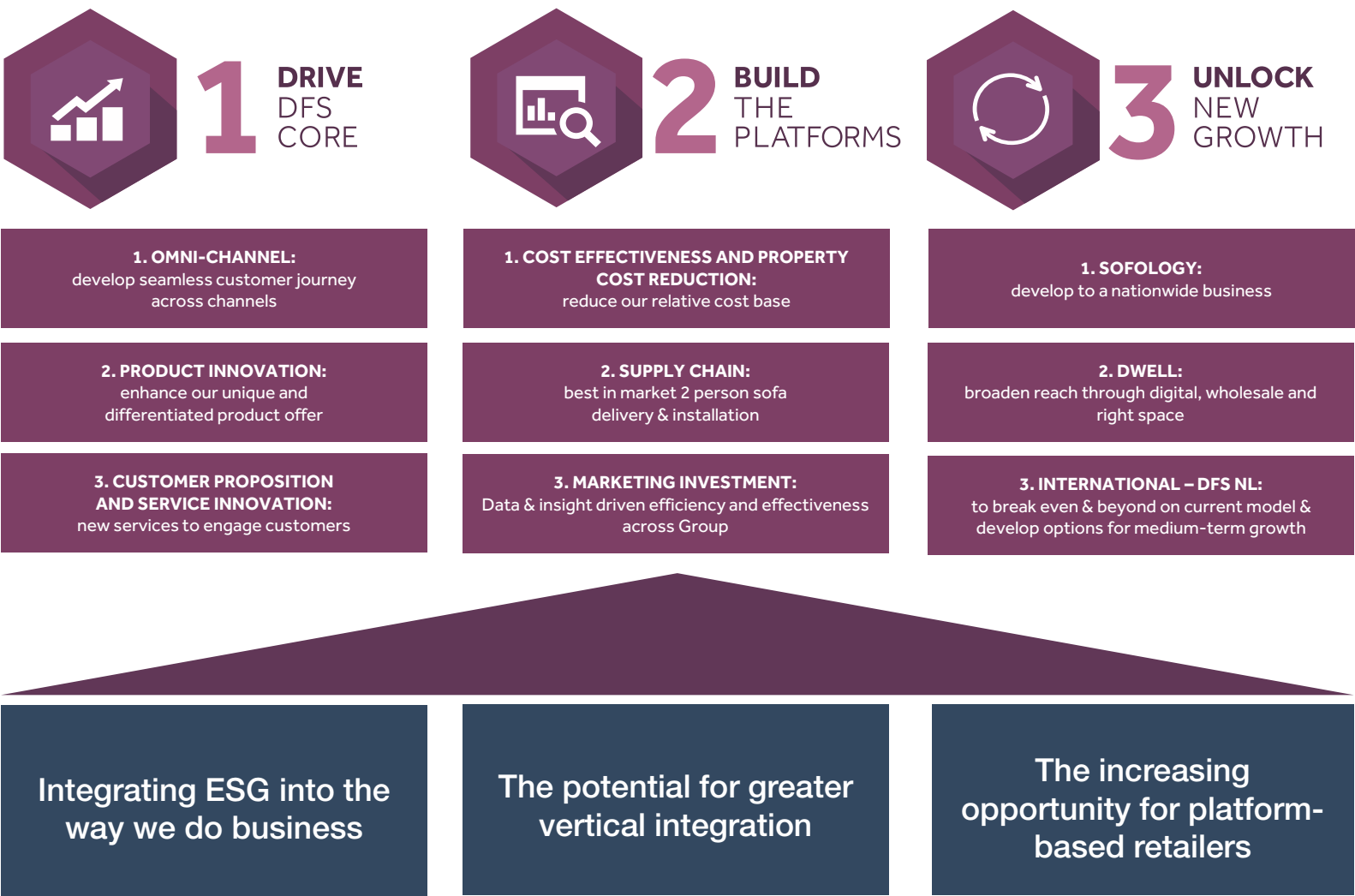
- Decision taken to sell the business
- Lessons learned from investment being incorporated into Sofology roll out
- Enables us to focus resources on core brands and platforms

INTERNATIONAL

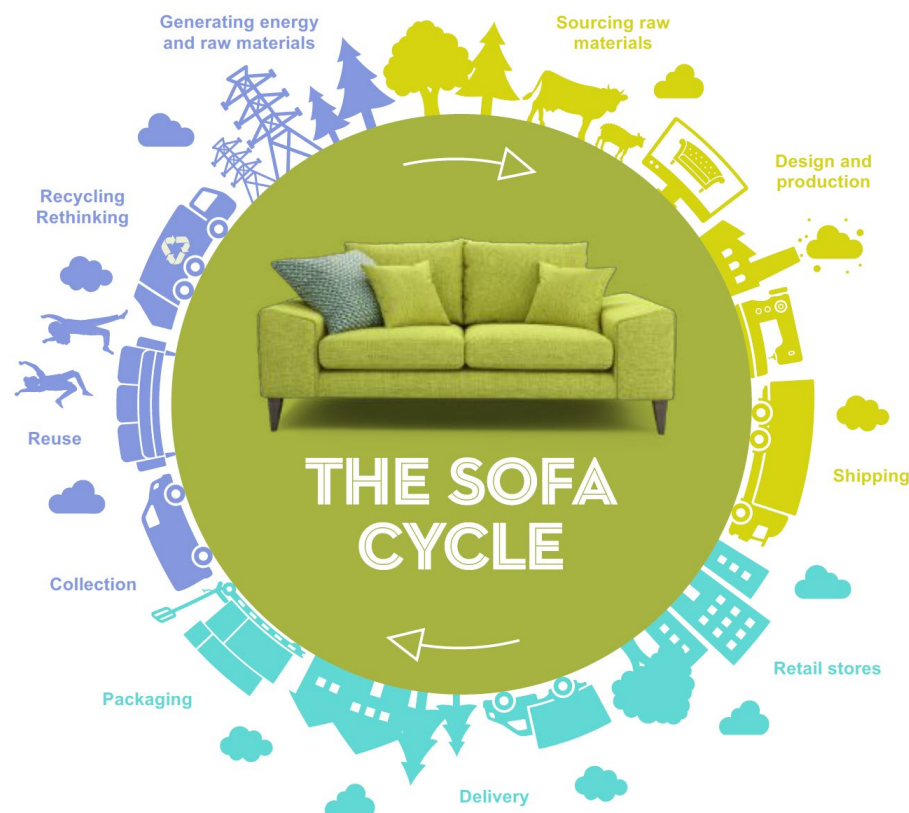
- Review of growth options to be completed in 2021
- Product and marketing offer now more targeted to local market
- Performance in line with expectations pre lockdown

Having taken action to improve the returns from Dwell by pivoting its business model, and sold Sofa Workshop, we are reviewing growth options for our international business

Additionally, three strategic reflections:



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

ESG presentation this afternoon at 2pm
hosted by Sally Hopson, Sofology CEO & Tim Stacey, Group CEO



COMMENTARY

- We already benefit from good UK manufacturing
- A stronger manufacturing capability enables improved:
 - Quality
 - Control
 - Flexibility
 - Lead Times
 - Margin
 - ESG oversight
- Given Covid-19, we also need to consider how we minimise future potential supply chain disruption

COMMENTARY

- **Strong, platform-led retailers have the following characteristics:**
 - Extended, valuable, new, customer data & insights
 - Further range optimisation & NPD
 - Strengthen partnerships with brand
 - Increased ability/speed to adapt & update
 - Scale & reach
 - Increased commercial, operational & technical resilience
- **We are investing heavily in our existing platform capabilities**
 - Property
 - Supply Chain
 - Omnichannel
 - Data & Marketing
- **...with more news to follow in 2021**
 - Manufacturing
 - Repairs & Service
 - Technology

LOOKING BACK

- Covid-19 had a significant impact on operations reducing revenues in FY20
- Due to actions taken, we have merged with stronger relationships and have a focussed strategic plan
- Very strong trading post re-opening

TODAY

- Accelerating execution of our strategy including ESG
- Growing market share, but conscious of macro-economic clouds
- Preparing for potential Covid-19 and Brexit scenarios

LOOKING AHEAD

- Opportunity to further differentiate our core propositions
- And explore further vertical integration
- As well as broadening our platform based strategic approach

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Q&A





APPENDICES



PERFORMANCE FOR THE 52 WEEKS



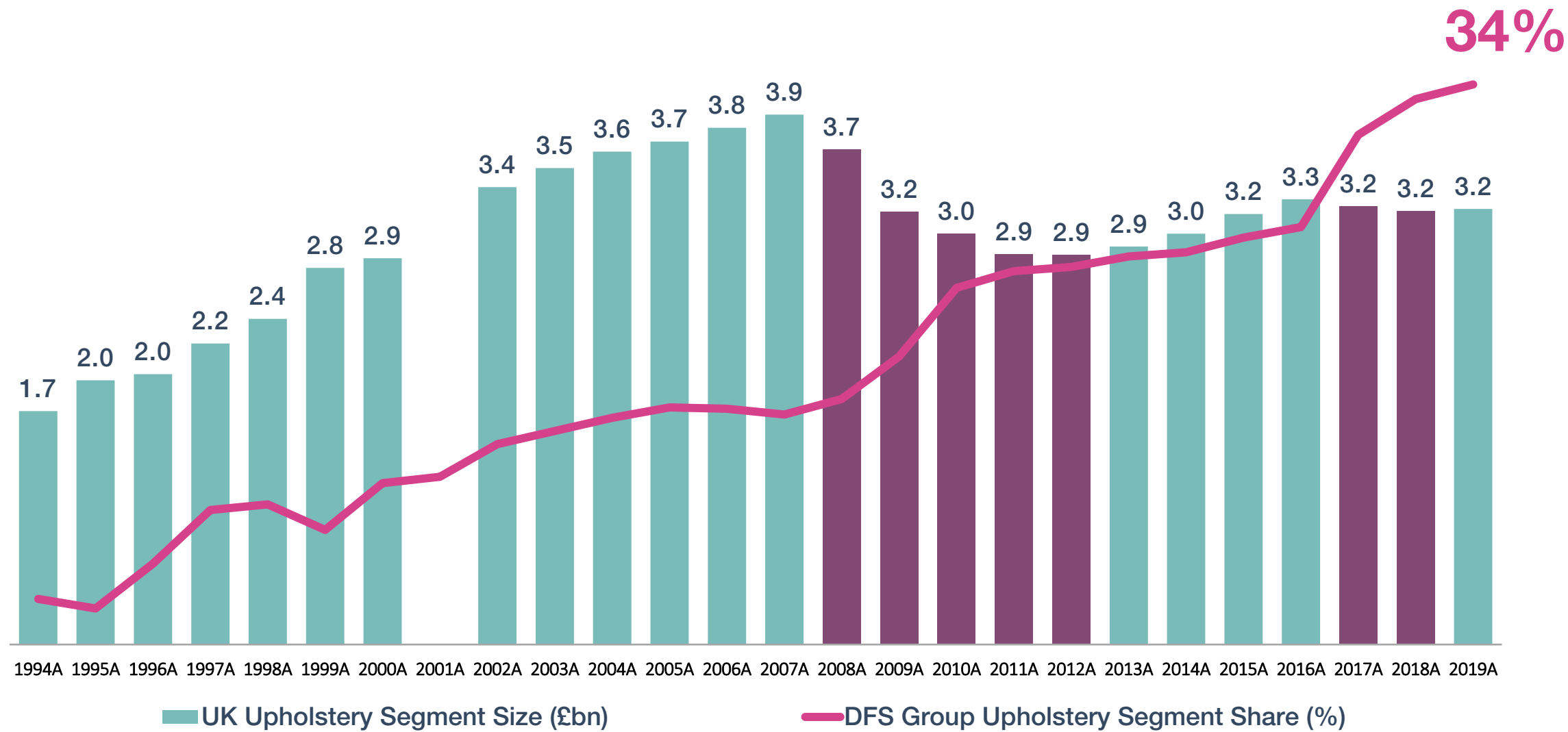
52 WEEKS TO 28 JUNE 2020

	DFS	Sofology	Other Brands	Group underlying pre IFRS 16	IFRS 16 impact	Group underlying IFRS 16	Non-underlying items	Group Reported IFRS 16
Gross sales	697.1	181.7	56.2	935.0	-	935.0	-	935.0
Revenue	535.2	143.7	45.6	724.5	-	724.5	-	724.5
Cost of sales	(212.6)	(72.3)	(22.5)	(307.4)	-	(307.4)	(3.1)	(310.5)
Gross profit	322.6	71.4	23.1	417.1	-	417.1	(3.1)	414.0
Selling and distribution costs (excl. property costs)	(191.6)	(47.8)	(20.9)	(260.3)	-	(260.3)	(2.1)	(262.4)
Brand contribution	131.0	23.6	2.2	156.8	-	156.8	(5.2)	151.6
Property costs				(102.5)	75.3	(27.2)	-	(27.2)
Administrative expenses				(68.1)	0.4	(67.7)	(0.2)	(67.9)
EBITDA				(13.8)	75.7	61.9	(5.4)	56.5
Depreciation & Amortisation excluding brand amortisation				(31.2)	(56.3)	(87.5)	(11.2)	(98.7)
Operating Profit				(45.0)	19.4	(25.6)	(16.6)	(42.2)
Interest				(11.8)	(25.7)	(37.5)	-	(37.5)
PBT before brand amortisation				(56.8)	(6.3)	(63.1)	(16.6)	(79.7)
Brand Amortisation				(1.5)	-	(1.5)	-	(1.5)
PBT after brand amortisation				(58.3)	(6.3)	(64.6)	(16.6)	(81.2)

52 WEEKS TO 30 JUNE 2019

	DFS	Sofology	Other Brands	Group underlying (IAS17)		Non-underlying items	Group Reported (IAS17)
Gross sales	942.1	260.7	84.4	1,287.2		-	1,287.2
Revenue	721.7	205.9	68.6	996.2		-	996.2
Cost of sales	(288.4)	(101.5)	(31.7)	(421.6)		-	(421.6)
Gross profit	433.3	104.4	36.9	574.6		-	574.6
Selling and distribution costs (excl. property costs)	(232.1)	(56.7)	(25.6)	(314.4)		-	(314.4)
Brand contribution	201.2	47.7	11.3	260.2		-	260.2
Property costs				(107.5)		-	(107.5)
Administrative expenses				(62.5)		(5.1)	(67.6)
EBITDA				90.2		(5.1)	85.1
Depreciation & Amortisation excluding brand amortisation				(29.3)		-	(29.3)
Operating Profit				60.9		(5.1)	55.8
Interest				(10.7)			(10.7)
PBT before brand amortisation				50.2		(5.1)	45.1
Brand Amortisation				(1.5)		-	(1.5)
PBT after brand amortisation				48.7		(5.1)	43.6

SEGMENT SHARES - SOFAS



GROUP SHOWROOM PROFILE



AS AT 28 JUNE 2020 (VS. 30 JUNE 2019)

	UK	ROI	Holland	Spain	TOTAL
Large Format (c. 15,000sq.ft.+)	91	3	2	1	97
Medium Format (c. 10,000sq.ft.)	17	2	3	-	22
Small Format (c. 5,000sq.ft.)	4	-	1	1	6
DFS TOTAL	112	5	6	2	125
.....					
Large format* (c. 15,000sq.ft.+)	44 (+2)	-	-	-	44 (+2)
Medium format (c.10,000-15,000 sq.ft)	1 (+1)	-	-	-	1 (+1)
Sofology TOTAL	45 (+3)				45 (+3)
.....					
Standalone	3	-	-	-	3
DFS Co-locations	35 (+2)	-	-	-	35 (+2)
Concessions	1 (+1)	-	-	-	1 (+1)
Dwell (c.3,500-6,000sq.ft)	39 (+3)	-	-	-	39 (+3)
.....					
Standalone	17 (-4)	-	-	-	17 (-4)
DFS Co-locations	8 (-3)	-	-	-	8 (-3)
Sofa Workshop (c.2,500sq.ft)	25 (-7)	-	-	-	25 (-7)

* Including mezzanine

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DFS FURNITURE PLC

Results Presentation

24 September 2020



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