



DFS GROUP INTERIM RESULTS

19 March 2024



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INTERIM RESULTS

Overview

Introduction

Tim Stacey

Financials

John Fallon

Strategy & Operational update

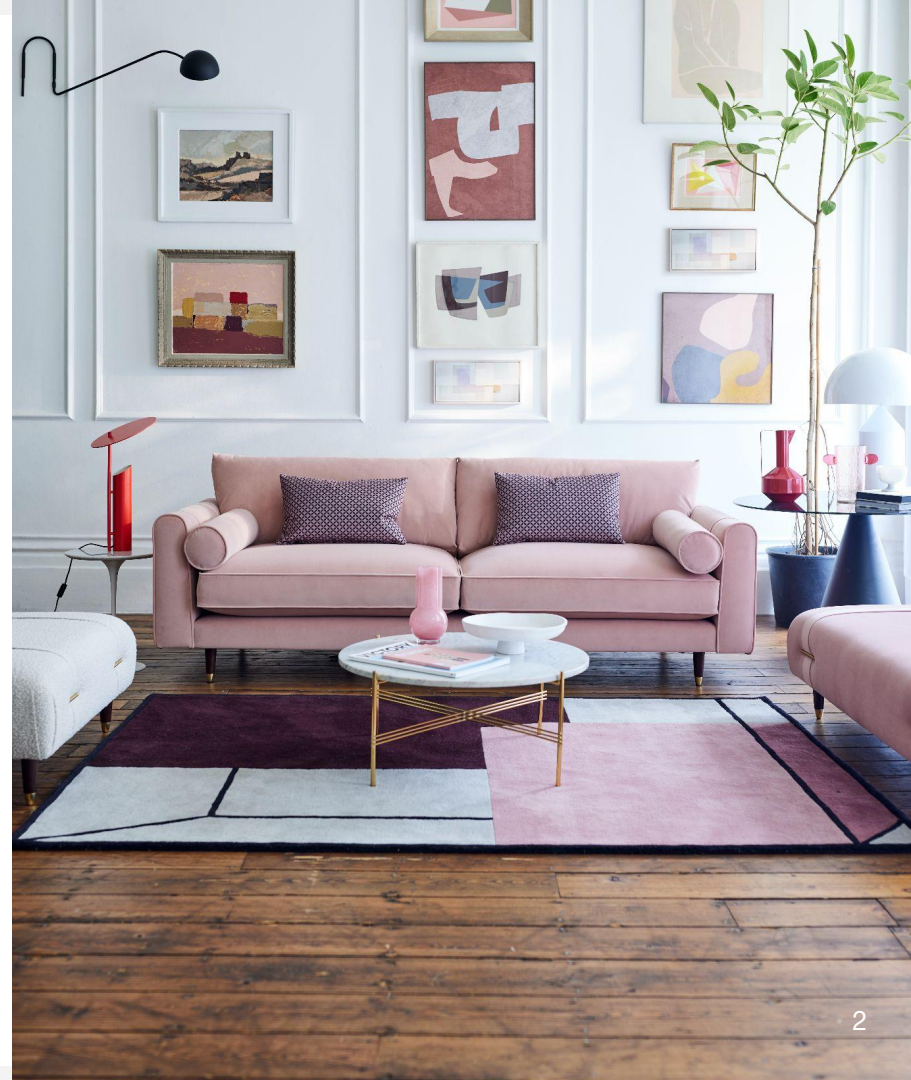
Tim Stacey

Outlook & Summary

Tim Stacey

Questions & Answers

Tim Stacey & John Fallon



Introduction

Gaining share in a volatile and weaker than expected market

Continuing to extend our market leadership position

Outperforming the market in tough trading conditions

+0.5%pts share gain to
record high of c38.5%

Operationally in the best shape ever

Good progress on Cost to Operate programme

Gross margin rate
+ 220 bps YoY &
£22m gross operating
cost reduction

Well positioned for growth

Clear path to 8% PBT margin when market recovers

Medium-term targets
remain: £1.4bn revenue &
8% PBT margin

Headlines

-1.1%

YoY order intake

-5.6%
-£39.4m

YoY Gross sales¹

+ 220 bps

YoY gross margin rate

£22m

Gross operating cost
reduction

£8.7m
+£1.6m

Adjusted PBTu¹
YoY growth

+62%

DFS YoY Established
Customer NPS

¹ Underlying PBT from continuing operations excluding brand amortisation



Market context

Well positioned for when the market recovers

	FY23 vs FY19	Sep-2023 Guidance YoY	FY24 H1 YoY
Market Value	(1%) ¹		(9%) ⁴
Market Volume ²	(15%)	(5%)	(10%)
DFS Group Market Share	38% ³ (+4%pts)		38.5% ⁴ (+0.5%pts)

- FY23 volumes exited (15%) vs pre pandemic levels
- Initial FY24 guidance assumed market contraction of -5% YoY
- Actual market volumes weaker in H1, down -c10% YoY
 - September & October weak footfall
 - Housing transactions have been a drag on demand, down -19% YoY across CY2023
- Record market share position has partly mitigated the market decline

¹ GlobalData using their 2023 estimate

² i) CACI upholstery sector transaction volumes (for the FY19 period H2 data used as data not available before then) ii) ONS data:

Calculated using furniture and lighting market value and ONS retail price inflation data for furniture sector

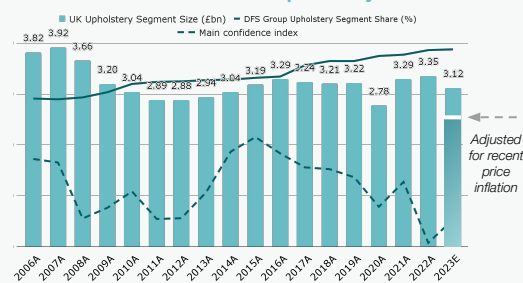
³ GlobalData (July 2023)

⁴ Proprietary Barclaycard data

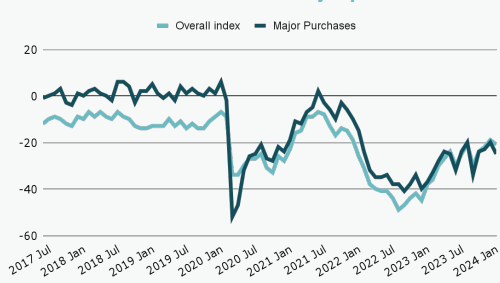
Market drivers

Strengthening indicators, potential for market to start to recover from record low

Consumer confidence / UK upholstery market size



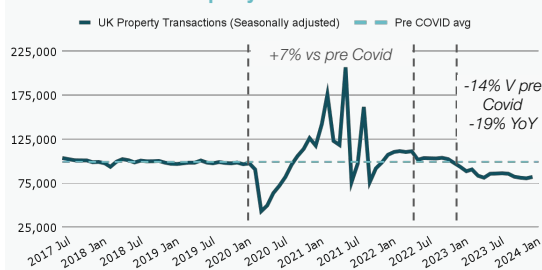
Consumer confidence - major purchases



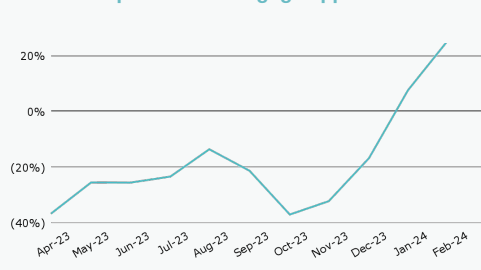
Consumer confidence:

- 80% of transactions are replacements
- Strong correlation between consumer confidence and market demand
- Signs of a recovery, albeit volatile and major purchases index 20 points below pre pandemic average

Property transactions



House purchase mortgage approvals YoY



Property transactions:

- Drive c20% of upholstery purchases
- Property transactions remain significantly below pre pandemic levels
- Recent uptick in mortgage approvals
- Savills forecasting strong growth in CY 2025 +9% YoY

Global Data forecasts upholstery market growth +2.8% CY 2025, +3% thereafter

Consumer confidence: GfK

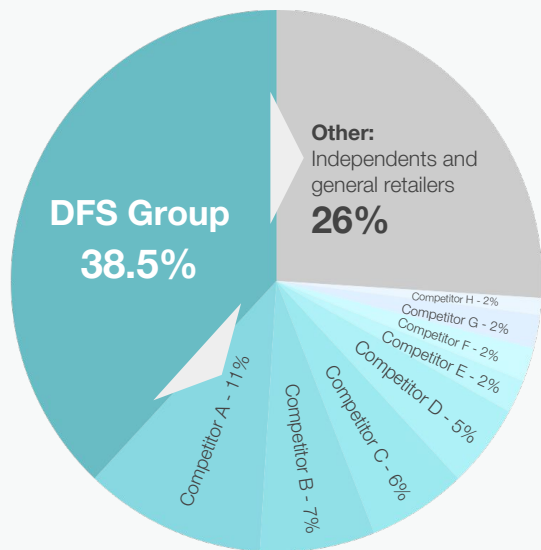
Market size and share: 2007 data and prior based on DFS management information, 2008-2016 data is as published by Verdict, 2017+ Global Data

Property transactions: ONS, Mortgage approvals: Bank of England

Savills forecast: November 2023

Market share distribution

We remain well positioned to capitalise on future market recovery



- Record Group market share
- DFS Group and general home retailers growing
- Independents decline continuing
- Over 3 x size of nearest competitor

FY24 INTERIM RESULTS

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Results overview

<i>(£m) unless stated</i>	H1 FY24	H1 FY23	YoY
Revenue ¹	505.1	544.5	-7.2%
Underlying PBT(A)¹	8.7	7.1	1.6
Reported PBT	0.9	6.8	-5.9
Underlying basic EPS ¹	2.8p	2.2p	0.6p
Net bank debt	133.9	135.6	-1.7
Leverage	1.6x	1.7x	-0.1x

- Revenue down as expected due to prior year benefit from high opening order bank
- Gross margin improvement and strong cost management supported underlying profit growth
- Good levels of headroom against our cash facilities and lending covenants

¹ Continuing operations



Revenue

Tough market & prior year order bank benefit drive decline

<i>(£m) unless stated</i>	H1 FY24	YoY
DFS upholstery	525.6	-5.7%
Sofology upholstery	140.6	-5.3%
Gross Sales	666.2	-5.6%
Revenue	505.1	-7.2%

- H1 order intake down -1.1%; market share gains partially offsetting the weaker market
- Gross sales down to a greater extent as expected, due to high opening order bank in prior year that unwound and benefitted H1 FY23
- Revenue down a further -1.6% due to impact of higher interest rates on interest free credit proposition, partially mitigated by reducing max term to 36 months



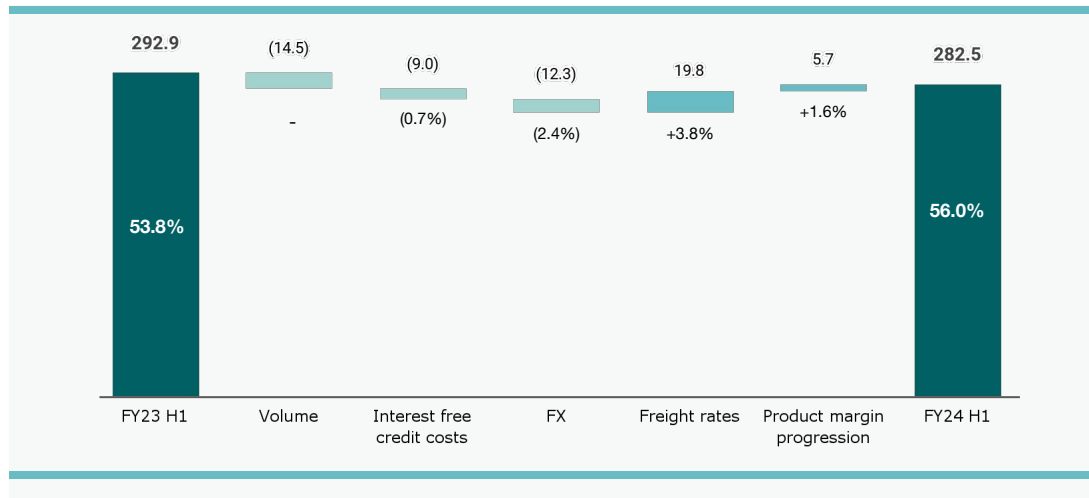
Cost to Operate Efficiencies

Targeting savings to mitigate future inflation and underpin existing 8% PBT target

c£50m annualised savings by FY26		
Product: £20m - £25m	Property: £6m - £8m	Operating Costs: £20m - £25m
On track		
<ul style="list-style-type: none"> H1 Gross margin rate improved for third consecutive period October factory closure, supplier partnerships and better group buying supports future improvement 	<ul style="list-style-type: none"> Retail lease regears and legacy distribution centre savings expected to continue Approx. 25 further retail lease renewals expected by end of FY26 	<ul style="list-style-type: none"> Starting to see more efficient operating models across Sodelco, retail and central functions New GNFR PO system live end of year, better insight & control

Gross margin

Margin rate +220bps, on track towards 58% target



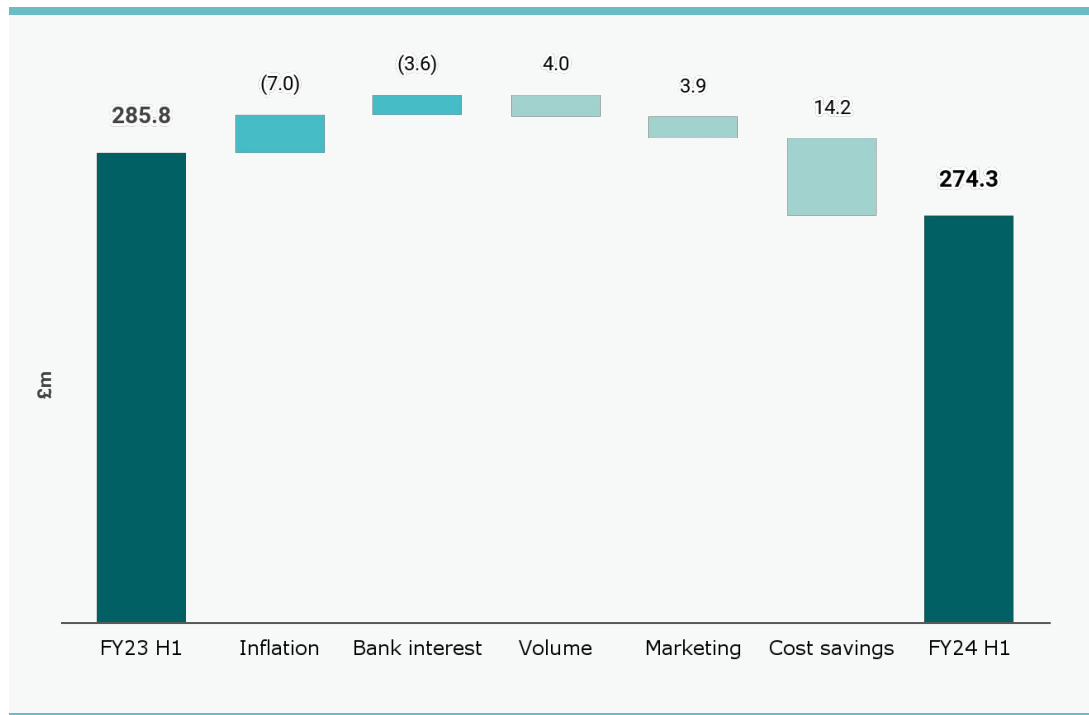
- Freight rates returned to pre-pandemic levels, which offset the impacts of higher interest free credit costs and FX hedged rates
- Underlying product margins +c160bps, partially supported by closure of one manufacturing facility and RPI increases in H2 FY23

Note gross margin rate impact of changes in interest free credit charges is lower than the impact of other changes to gross margin rate due to interest free credit costs being recognised as a deduction in arriving at revenues



Operating costs (inc dep & interest)

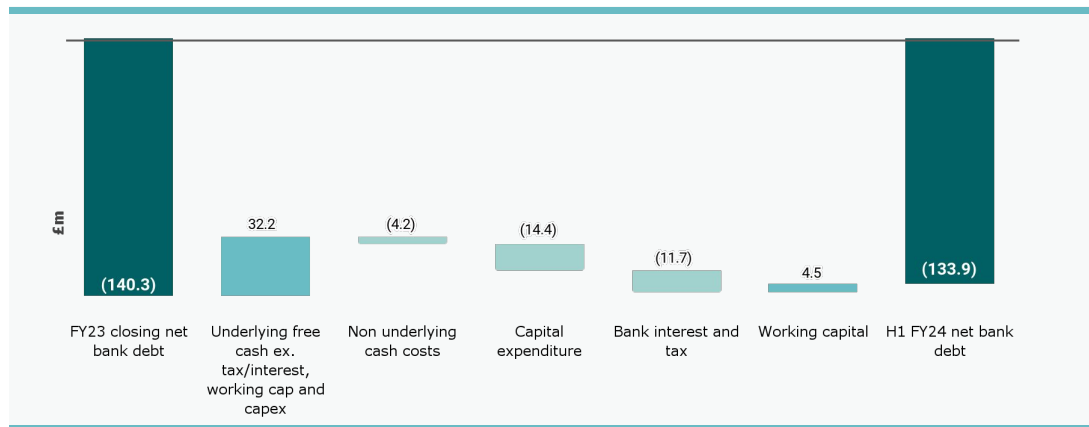
Strong cost management and operating efficiencies more than offsets inflation



- Operating cost inflation contained to c3%, £7m
- Interest costs higher as a result of higher BoE rates (£2.7m) and higher avg net debt (£0.9m)
- Marketing spend optimised in tougher market environment; continue to win market share
- Operational cost savings from:
 1. More efficient operations and better service levels, lowering costs of Sofa Delivery Company and Customer Service
 2. Cost efficiency initiatives on track, stronger cost management discipline across business
 3. Property savings continuing as expected, includes an element of one-time benefits

Cash and Net debt

£250m refinancing completed Sept 2023, leverage stable



- Net debt of £133.9m, broadly unchanged after adjusting for interim dividend of £6.9m paid in early H2 FY24
- Significant cash headroom secure for the next 3-4 years (Facility £250m: RCF £200m Sept 2027 + 14 mth option, £50m USPP notes Sep 2028/30)
- Leverage 1.6x, 1.8x adjusting for dividend timing (FY23 year end 1.9x, covenant 3.0x)
- Capital expenditure reduced in line with guidance (FY23 H1 £19.6m)
- Working capital inflow supported by improved supplier payment terms



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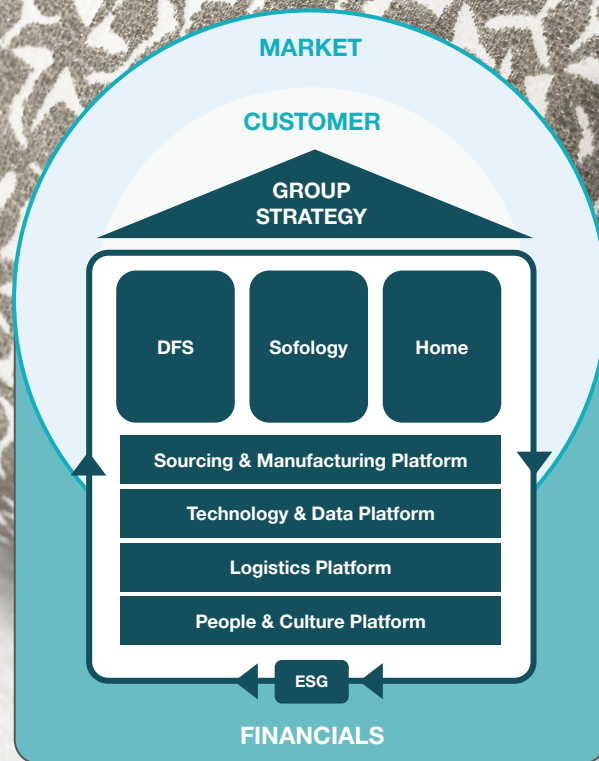
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Our Pillars

DFS gaining share, Sofology holding profit, Home foundations in place



- New product & brand development driving conversion and AOV
- Ted Baker launched; performing well
- NPS customer scores continue to strengthen, +62% year on year (FY23 +59% year on year)



- Softer order intake performance offset through cost management
- Operational performance strong - NPS continues to improve (from -5.8 to +28.0)
- Reappraising price and product proposition



- Focus on £3bn beds/mattress sector
- Stock management and drop shipment foundations put in place
- Investment to drive sales on hold until upholstery market stabilises
- Margin and cost improvement drive YoY profit improvement

Platform Highlights

Good progress in all areas

Sourcing & Manufacturing

Evolving & optimising global supplier mix

Technology & Data

Intelligent Lending Platform roll-out across Sofology
Utilising data to drive insight & decision making across the Group

Logistics

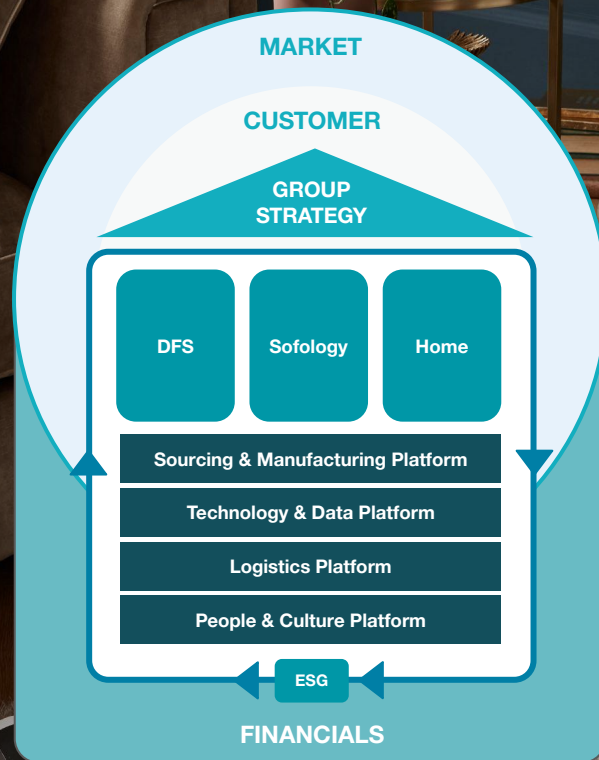
Integration completed FY23; CDC rationalisation and property savings now being realised

People & Culture

Highly engaged colleagues; colleague NPS scores up
Expansion of colleague networks

Sustainability

10% scope 1 emissions reduction target achieved
On track to submit net zero targets to SBTi by June 2024



The Sofa Delivery Company

Operations in great shape driving down costs

- Formed in May 2021 bringing DFS and Sofology logistics operations together
- UK wide distribution network of CDCs and delivery vehicles
- Smart well invested technology and integrated systems
- Powerful dashboards provide data led insight, driving productivity
- Investment in colleagues (driver school and apprenticeship programmes)



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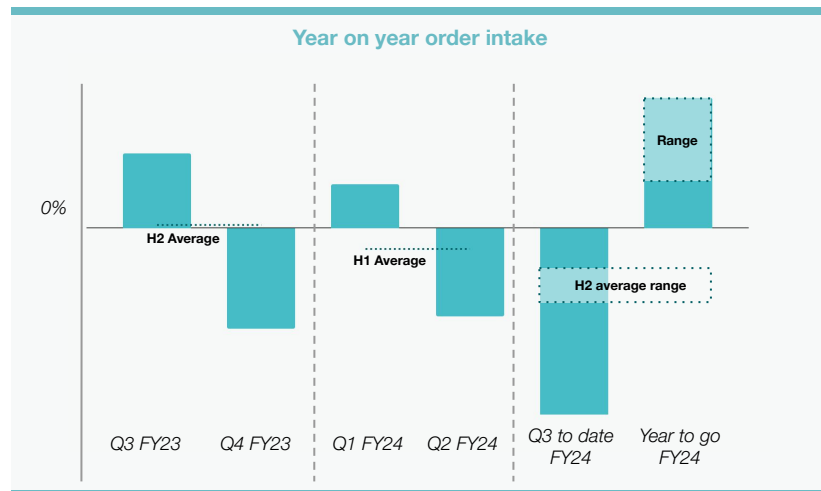
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FY24 Guidance

	Sept 2023	Today		
		← Market demand →		
Revenue	1,060 - 1,080	1,000	-	1,015
PBTu (excl Red Sea)	30-35	20		25
Cash capex	25-30	25		25
Non und'g (cash)	4-5	5		5



- Q3 market volumes have weakened; c-16% YoY Jan/Feb vs c-10% H1
- Market volatile; hard to predict
- Demand expected to improve supported by weak Q4 comps, plus potential for pent up demand post Jan/Feb
- H2 market outlook range -8% to -10%
- H2 YoY order intake range -2% to -4% (H1 -1%), supported by spring campaign
- Year end net bank debt c£150-155m (£135-140m excl. wk53 temporary working capital outflow)
- Interim dividend 1.1p / share
- If Red Sea delays continue, up to £4m profit deferred into FY25

Longer term

Market recovery and operational leverage will drive significant profit growth

- Downturn in market volumes has significantly impacted profit performance
- Market recovery back to FY19 volumes is expected
- Market drivers have been weak, but signs potential recovery to come
- Illustration opposite assumes 15% volume recovery, at least 5% below FY19 levels
- Further market recovery, Home growth, gross margin rate support confidence in medium term 8% PBT target

Impact of growing upholstery demand:	FY24*	Change	Illustrative
Market vs pre pandemic	-20%	+15%	-5%
Revenue	£1,008m	£150m	£1,158m
PBT(A)	£22.5m	£60m	£82.5m
% of revenue	2.2%	40%	c7.1%
Basic EPS	7p		27p

Conclusions

- Very tough upholstery market with market demand at record lows
- Making good progress on what we can control:
 - Continuing to gain market share
 - Cost to Operate programme; gross margin rate continues to improve, operating costs reducing
 - Home foundations in place to support growth when market starts to normalise
- Very well set to capitalise on market recovery; confident in 8% PBT(A) target



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The background of the page features a collection of decorative pillows. A large, solid green pillow is at the top. Below it, a dark blue pillow with a detailed pattern of two blue birds perched on a branch with pink peonies is visible. To the left, a portion of a light blue pillow with a tiger pattern is seen. A red fringed pillow is partially visible on the right. A large white circle is centered over the image, containing the word 'APPENDIX' in bold black text.

APPENDIX

Group Showroom Profile

AS AT 24 DECEMBER 2023 (VS. 25 DECEMBER 2022)

	UK	ROI	TOTAL
Large Format (c. 15,000sq.ft.+)	91 (+1)	3	94 (+1)
Medium Format (c. 10,000sq.ft.)	17 (-1)	2	19 (-1)
Small Format (c. 5,000sq.ft.)	2 (-1)	-	2 (-1)
Dwell standalone	1	-	1
DFS TOTAL	111 (-1)	5	116 (-1)

Large format (c. 15,000sq.ft.+)	56 (+1)	-	56 (+1)
Medium format (c.10,000-15,000 sq.ft)	2	-	2
Sofology TOTAL	58 (+1)	-	58 (+1)