

dfs  
the sofa experts



Full year results

8 October 2015





# Highlights

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*Ian Filby*

# Performance Highlights


## FINANCIAL

**£913.1m**  
**+7.0%** Gross sales

**£89.2m**  
**+8.4%** Adjusted EBITDA

**£70.7m**  
**79.2%** Free cash flow  
*conversion*

## OPERATIONAL

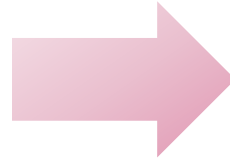
-  Strong growth in exclusive branded sales
-  Five 10,000-15,000 sq. ft. UK & ROI stores opened during financial year
-  Opening of Rotterdam store with further Netherlands opening planned
-  Trials of store-in-store concepts in newly released retail space
-  Continued double-digit web growth
-  Stratford Westfield trial positive results to date and further trials planned

Record last twelve months sales and adjusted EBITDA performance, with continued strong operational progress

# Our Continuing Journey

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**From a Great British Business ...**



**... to World Class**

## **DELIVERING ON OUR IPO MESSAGES**

-  **Above market sales growth**
-  **Increasing profit margins**
-  **Strong cash conversion**
-  **Investing for the future**

**Our plan is wholly on-track  
delivering earnings growth and cash returns for shareholders  
while investing for the future**



# Financials

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*Bill Barnes*

# Income Statement

<i>(£m)</i>	<b>FY 2015 52 weeks ending 1-Aug-15</b>	<b>FY 2014 53 weeks ending 2-Aug-14</b>
<b>Gross Sales</b>	<b>913.1</b>	<b>853.4</b>
<i>Growth (%)</i>	<i>+7.0%</i>	<i>+6.1%</i>
<b>Revenue</b>	<b>706.1</b>	<b>656.8</b>
<i>Growth (%)</i>	<i>+7.5%</i>	<i>+6.9%</i>
<b>Gross Profit</b>	<b>122.3</b>	<b>111.9</b>
<i>Growth (%)</i>	<i>+9.3%</i>	<i>+0.9%</i>
<i>Margin (% of revenue)</i>	<i>17.3%</i>	<i>17.0%</i>
<b>Adjusted EBITDA<sup>1</sup></b>	<b>89.2</b>	<b>82.3</b>
<i>Growth (%)</i>	<i>+8.4%</i>	<i>-1.8%</i>
<i>Margin (% of revenue)</i>	<i>12.6%</i>	<i>12.5%</i>

## OVERVIEW

Further consistent growth  
in gross sales and revenues

Earnings growth ahead of  
sales reflecting operational  
leverage

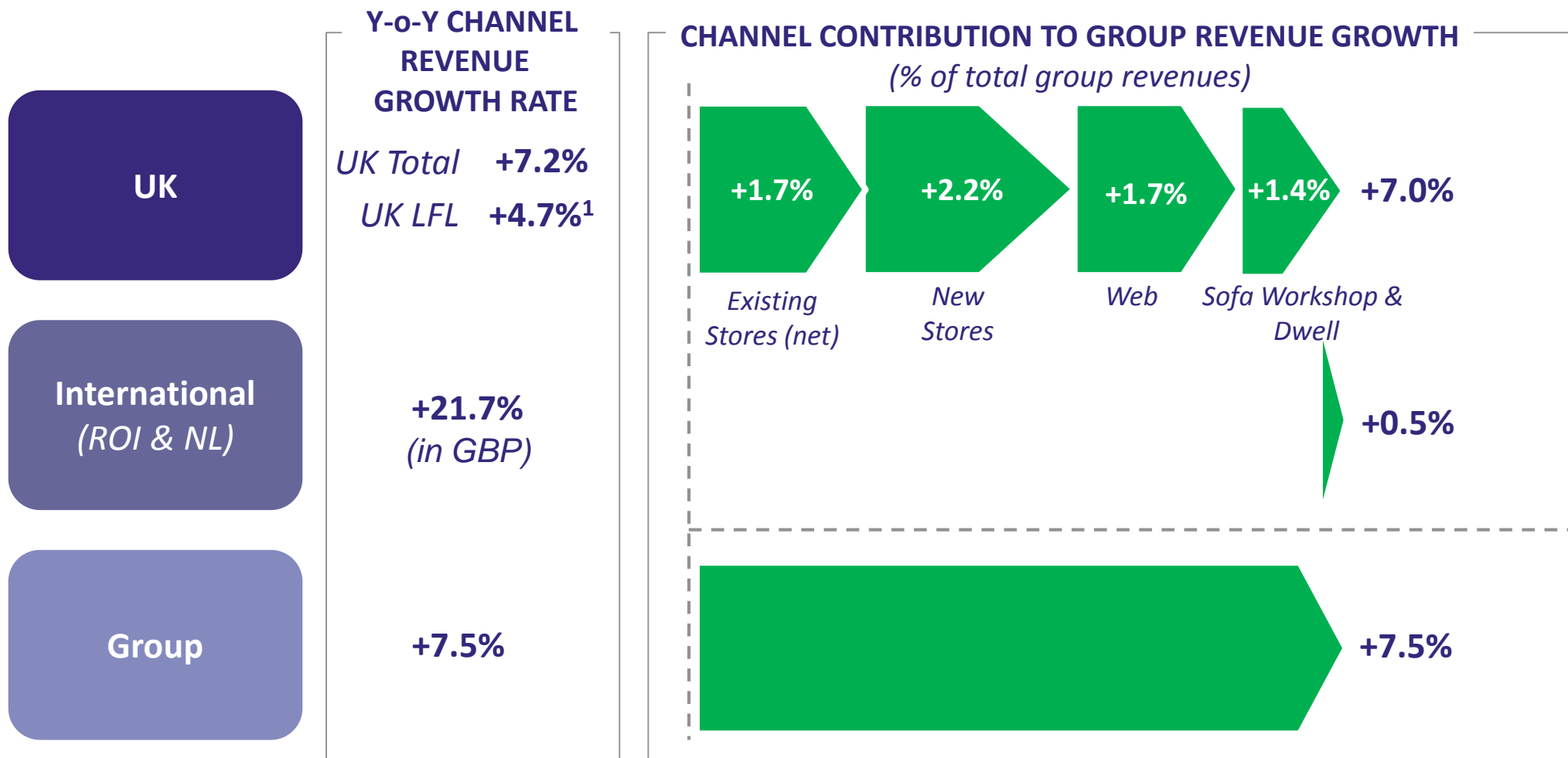
Record results for the  
Group overall

**Record operational results, despite shorter trading period and general election slowdown**

Notes:

1. £11.6m of adjusted items in FY15 (£6.7m in FY14) relating to listing costs, and international costs / start-up operating losses of acquisitions

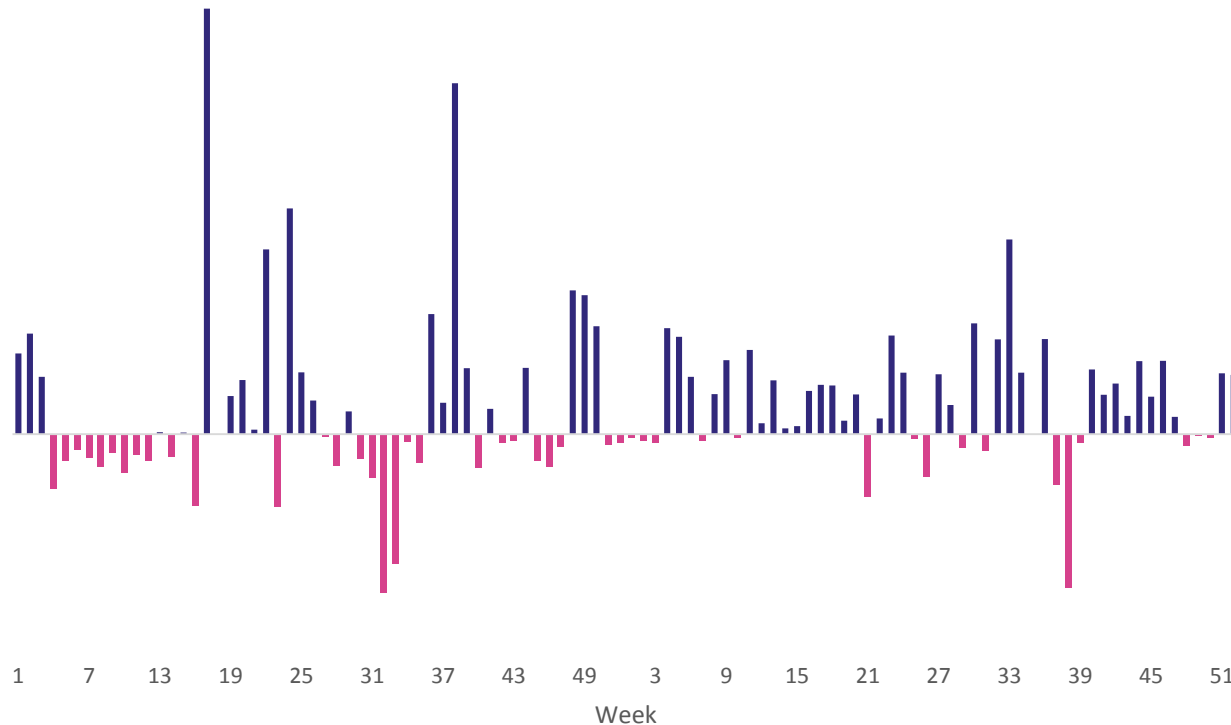
# Revenue Trends – Full Year



Consistent positive performance from all areas within the business

# Trading Pulsing

WEEKLY ORDER INTAKE OVER LAST TWO YEARS (FY2014 – FY2015)



## COMMENTS

Sales pulsing a consistent feature

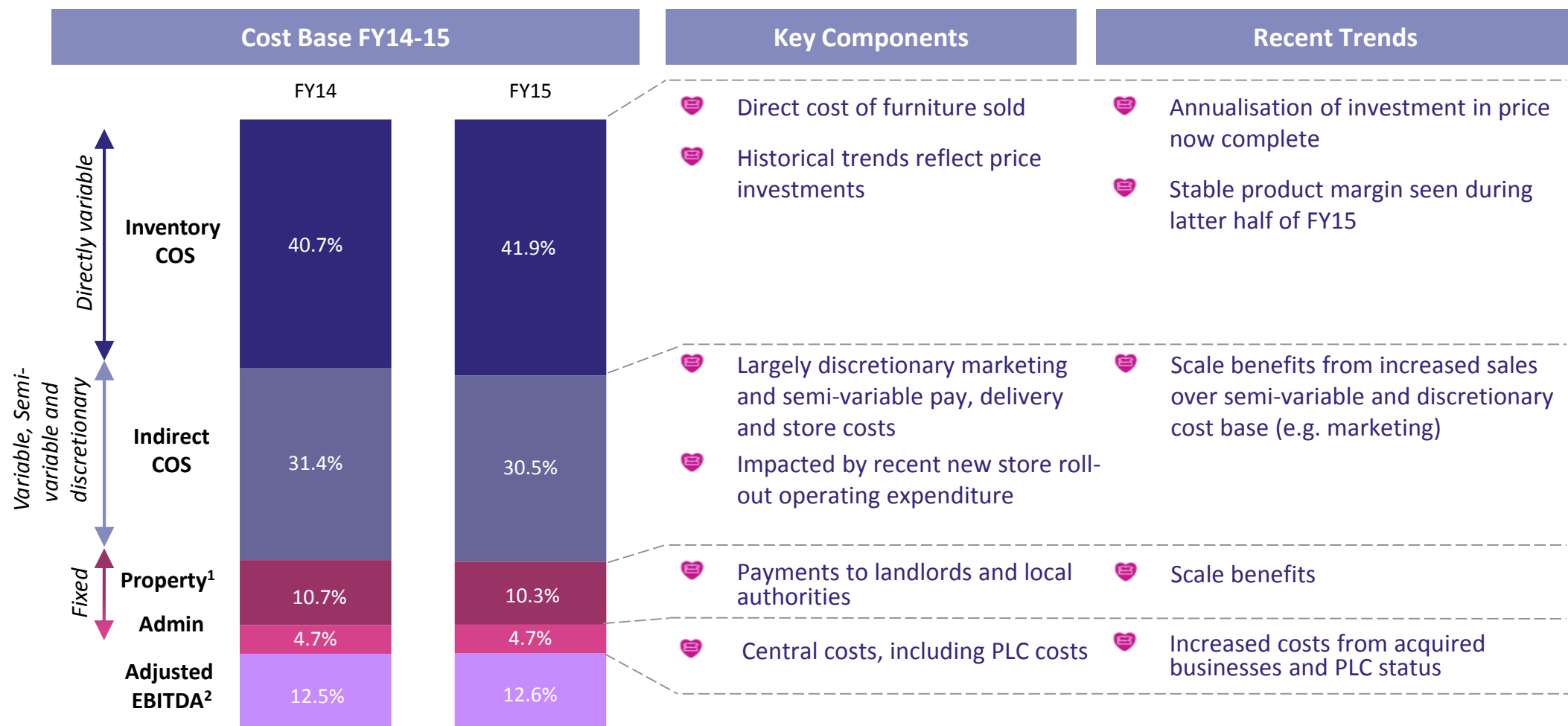
Subdued market conditions around time of Election

Challenging comparatives from prior year

As is typical, order intake fluctuated week by week, but overall trend in line with expectations

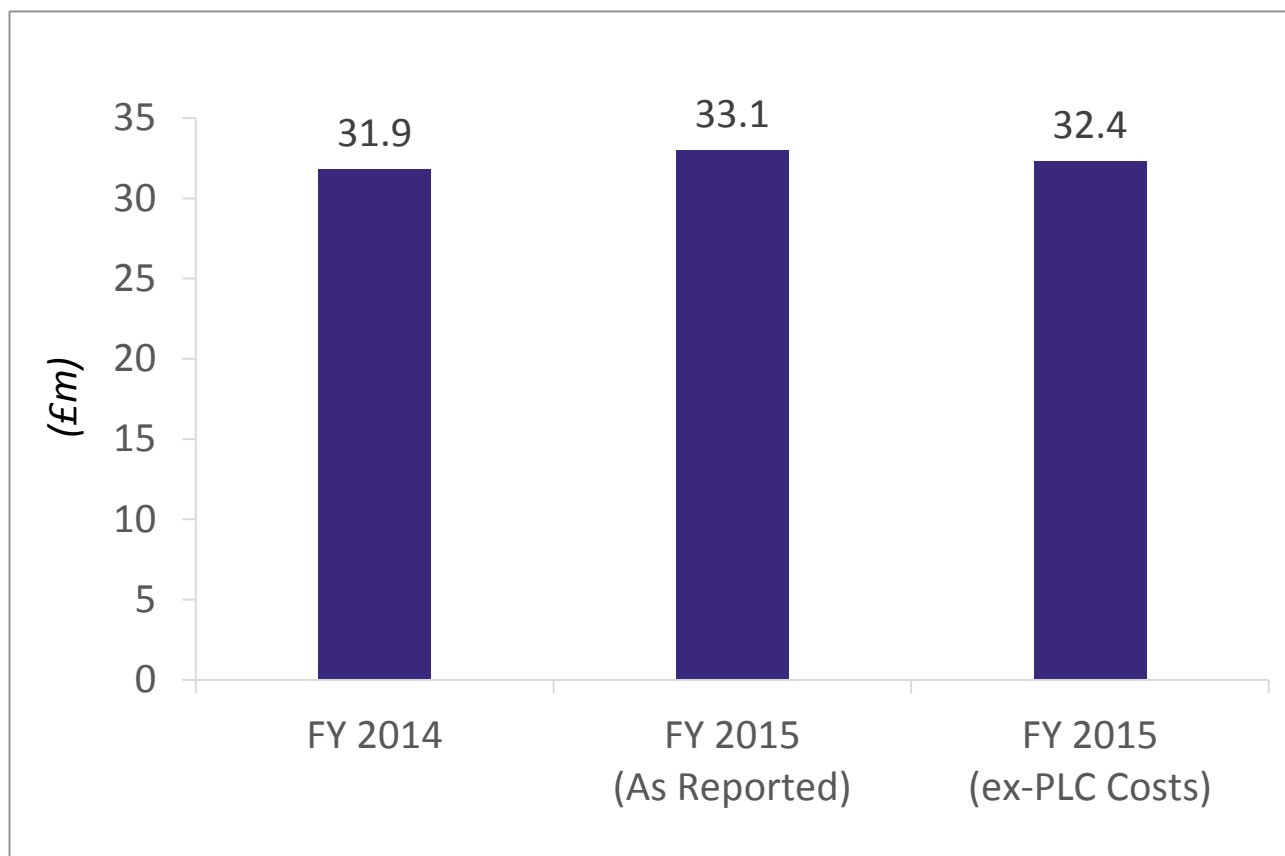


# Analysis of the Cost Base



Revenue growth drives cost leverage giving positive gross margin trend overall

## Administrative Cost Trends



### KEY TRENDS

**Annualisation of investment in HO headcount**

**Central costs of acquired businesses now scaled**

**Staff bonus rewards will match profit growth achievement**

**Additional plc costs of c. £1m to factor into each of FY16 and FY17**

**Significant investment in a historically extremely lean cost base over recent years is now substantially complete and annualised – some PLC impact remains**

## Underlying Earnings Per Share

FY 2015 52 weeks ending 1-Aug-15			
(£m)	Underlying	Non-Underlying	Total
<b>EBITDA</b>	<b>89.2</b>	<b>(11.6)</b>	<b>77.6</b>
Depreciation	(17.0)	-	(17.0)
<b>Operating profit</b>	<b>72.2</b>	<b>(11.6)</b>	<b>60.6</b>
Net finance expense	(38.9)	(11.0)	(49.9)
<b>Profit / (loss) before tax</b>	<b>33.3</b>	<b>(22.6)</b>	<b>10.7</b>
Tax	(10.4)	2.9	(7.5)
<b>Profit / (loss) after tax</b>	<b>22.9</b>	<b>(19.7)</b>	<b>3.2</b>
Shareholder loan interest	16.6		
<b>Adjusted profit after tax</b>	<b>39.5</b>		
<b>EPS on 213m shares</b>	<b>18.5p</b>		

NON-UNDERLYING COSTS – FY15	
(£m)	Non-Underlying
<b>EBITDA as reported</b>	<b>77.6</b>
IPO costs	8.5
International & acquired business start-up costs	2.8
Other	0.3
<b>Underlying EBITDA</b>	<b>89.2</b>

Adjusted EPS for FY2015 after normalising financing charge of 18.5p per share

# Cash Generation

## KEY TRENDS

Significant cash generation

Net debt  
is 1.8x EBITDA

Cash cost of financing in  
FY16 beneath 5%, all-in

<i>(£m)</i>	FY 2015	FY 2014
<b>Adjusted EBITDA<sup>1</sup></b>	<b>89.2</b>	<b>82.3</b>
Capex	(20.8)	(15.4)
Change in Working Capital	2.3	8.3
<b>Free Cash Flow<sup>2</sup></b>	<b>70.7</b>	<b>75.2</b>
<i>Conversion (% of EBITDA)<sup>3</sup></i>	<i>79.2%</i>	<i>91.4%</i>
<b>Net debt</b>	<b>(162.2)</b>	<b>(256.6)</b>
<i>Multiple of adjusted EBITDA (x)</i>	<b>1.8x</b>	<b>3.1x</b>

Record earnings and strong conversion from EBITDA to cash have supported deleveraging and declaration of an interim and full dividend

1. £11.6m of adjusted items in FY15 (£6.7m in FY14) relating to listing costs, and international costs / start-up operating losses of acquisitions.
2. FCF is calculated as Adjusted EBITDA – Capital Expenditure + Change in Working Capital.
3. Cash conversion is calculated as FCF / Adjusted EBITDA.



# Working Capital

<i>(£m)</i>	FY 2015	FY 2014
<i>Inventories</i>	28.3	28.8
<i>Trade/Other Receivables</i>	25.3	23.7
<i>Trade/Other Payables</i>	(213.1)	(209.7)
<b>Total Working Capital</b>	<b>(159.5)</b>	<b>(157.2)</b>
<b>Change in Working Capital</b>	<b>2.3</b>	<b>8.3</b>

## KEY TRENDS

**Made to order  
virtually stockless model**

**Low receivables as paid on  
or before delivery**

**Payables reflect recent  
deliveries, and are paid to  
agreed supplier terms**

**Cash release reflects growth  
in business**

**Negative working capital model generating cash as growth is delivered**

# Capital Investment

<i>(£m)</i>	FY 2015	FY 2014
<i>New store investment</i>	7.6	3.8
<i>Store refurbishment</i>	2.0	2.0
<i>Web investment</i>	1.1	1.7
<i>Other (inc. vehicles)</i>	10.1	7.9
<b>Gross capital expenditure</b>	<b>20.8</b>	<b>15.4</b>

## KEY TRENDS

Maintenance capex of c.£10m p.a., includes store refits and vehicle fleet

New store fit-out costs c.£1m each; CDC cluster space release c.£1m each

Continuing investment in web and other growth initiatives

Well invested store estate and online presence,  
with ongoing capital expenditure expected to be £3m-£5m above FY 2015 levels

# Dividends

## DIVIDEND APPROACH

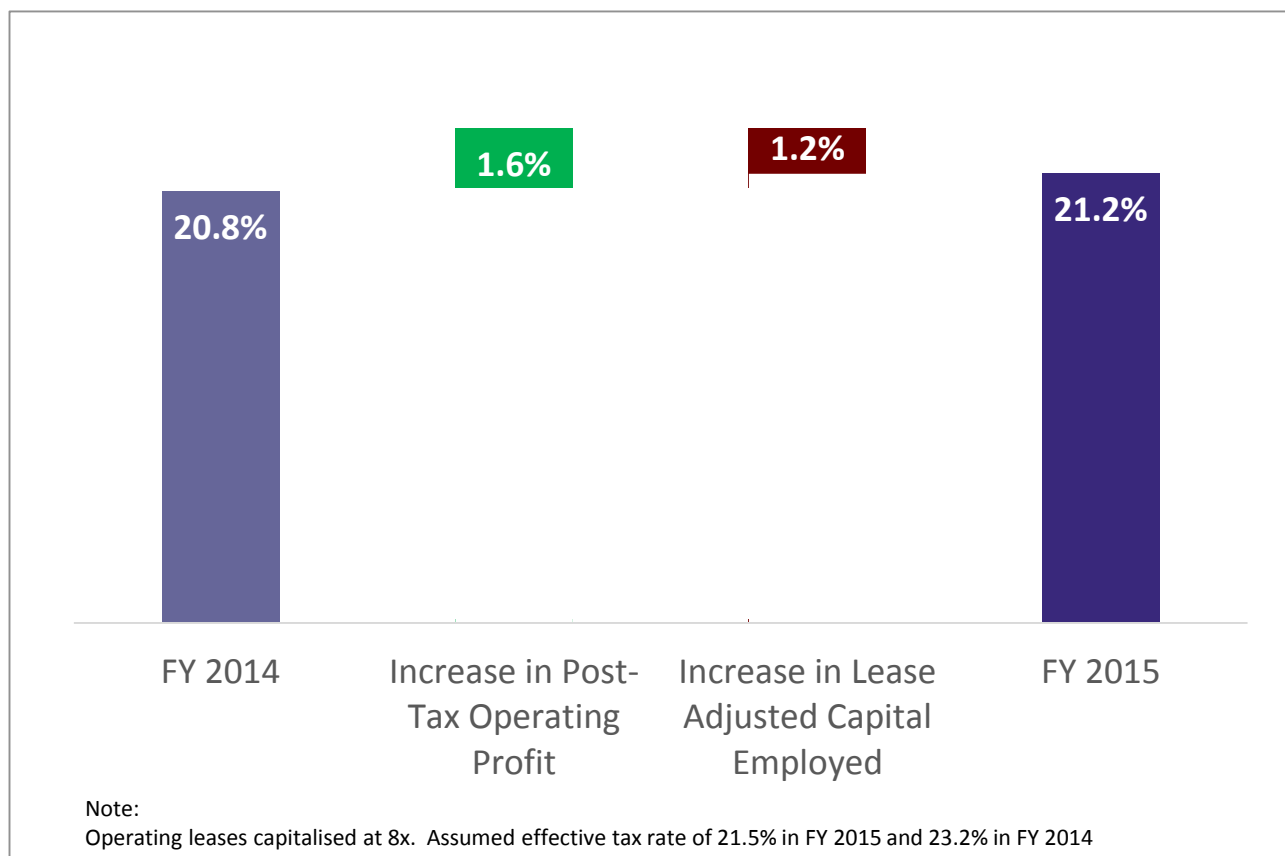
<i>(£m)</i>	FY 2015
<b>Underlying Profit After Tax</b>	<b>22.9</b>
<i>Shareholder loan interest (post-tax)</i>	16.6
<b>Adjusted Profit After Tax</b>	<b>39.5</b>
<i>Pay-out ratio</i>	c. 50%
<b>Dividends declared</b>	<b>19.8</b>
<i>Number of shares</i>	213.0
<b>Dividends per share (p)</b>	<b>9.3</b>
<i>Interim (p)</i>	3.1
<i>Final (p)</i>	6.2

## DIVIDEND COVER

<i>(£m)</i>	FY 2015
<b>Free Cash Flow</b>	<b>70.7</b>
<i>Tax paid</i>	(8.4)
<i>Interest paid (excluding shareholder loan)</i>	(23.0)
<b>Uncommitted cashflow</b>	<b>39.3</b>
<i>Proposed dividend</i>	19.8
<i>Cash dividend cover</i>	c.2x
<b><i>Cash dividend cover with a pro forma cash interest charge of &lt;5%</i></b>	<b>&gt;2x</b>

**Strong free cashflow generation underpins progressive dividend policy. Pro forma cash dividend cover of over 2x, allowing both an interim dividend of 3.1p and final dividend of 6.2p to be declared. Pay-out ratio planned to be 45-50% of Profit After Tax in future**

# Continued Strong Returns on Capital



## KEY TRENDS

Capital efficient business model and disciplined investment approach

Significant growth in operating profit drives increasing returns

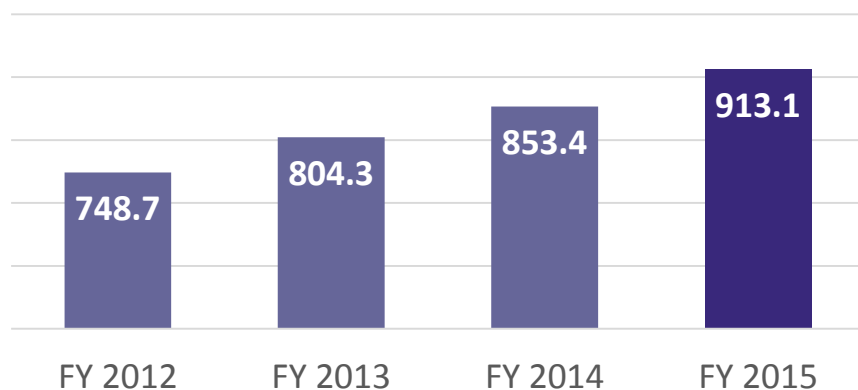
New store openings and CDCs increasing the amount of capital employed

High and growing returns on capital employed as disciplined store roll-out and CDC conversion programme is pursued

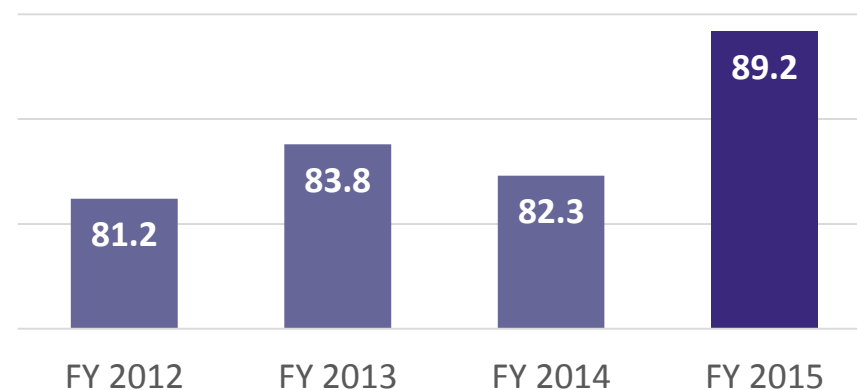


## Summary: Positive Trends in Financial KPIs

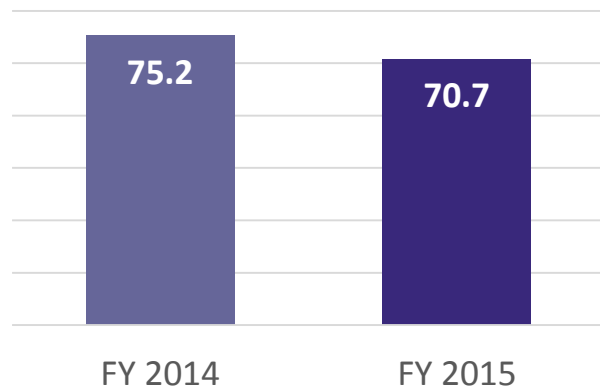
GROSS SALES (£M)



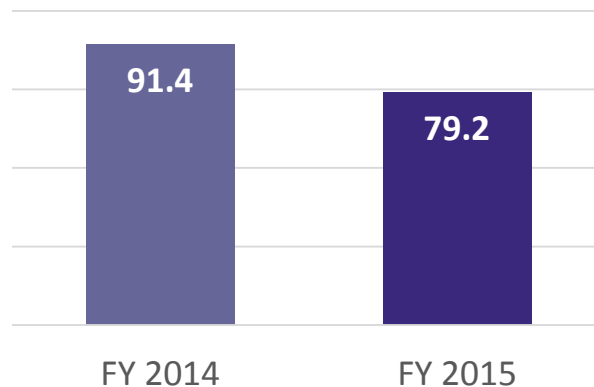
ADJUSTED EBITDA (£M)



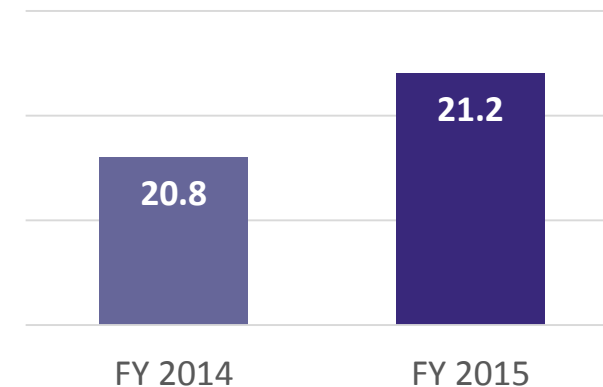
FREE CASH FLOW (£M)



CASH CONVERSION (%)



LEASE ADJUSTED ROCE (%)



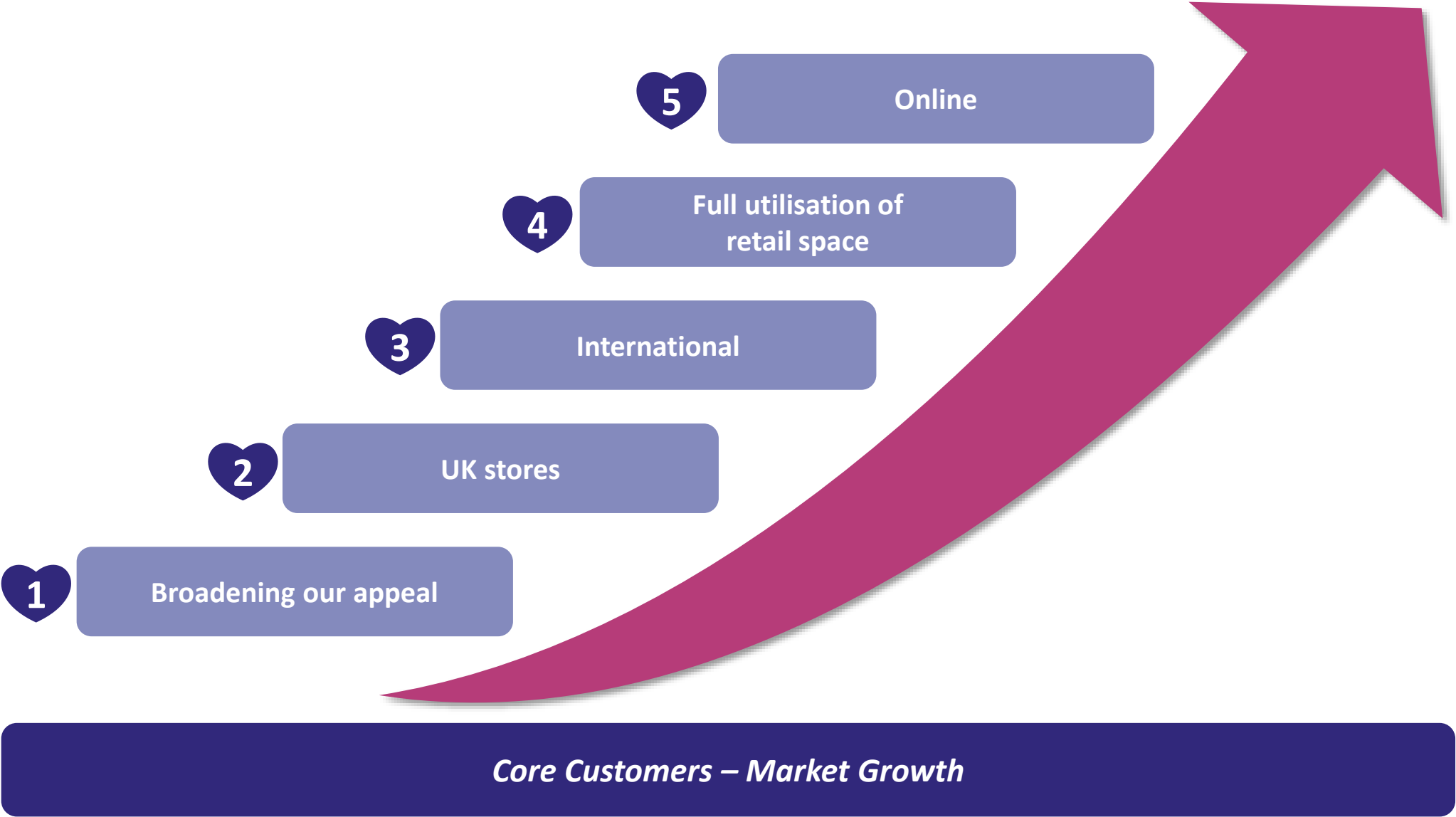
Positive trends overall with sales and earnings growth, high cash conversion and an attractive, growing ROCE

# Operational Update

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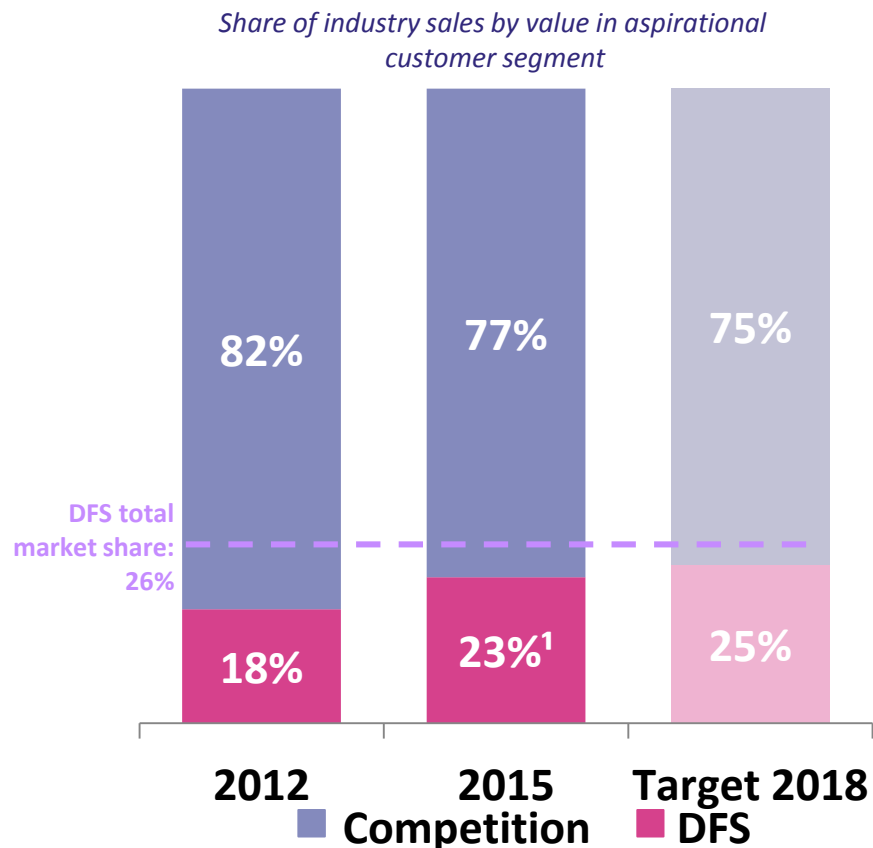
*Ian Filby*

# Our Proven Levers of Growth



# 1 Clear Progress in Broadening our Appeal

## OUR APPEAL CONTINUES TO BROADEN



Source: Independent survey conducted on behalf of DFS. Average for November 2014, March 2015 and July 2015 surveys

Note: Includes c. 1% for Sofa Workshop and Dwell

## OPERATIONAL UPDATE

- Broadening of branded ranges, while maintaining presence with core customer segments
- Branded product gross order value increased 79% year-on-year
- Four new Sofa Workshop and two new Dwell stores opened (including trial CDC conversions) plus benefits from introduction into DFS
- Team GB investment in FY 2016 to increase appeal to all customer groups

Continued emphasis on increasing appeal to all customers





# Developing our Branded ranges

## COUNTRY LIVING



Modern country looks that combine luxurious comfort and timeless design

## HouseBeautiful



Sophisticated style & ultimate comfort – perfect for versatile family living

## FRENCH CONNECTION



Streamlined and sleek – the perfect choice for a contemporary urban look

## SOFA WORKSHOP an edited collection



An eclectic handpicked collection, designed to be as individual as you

## dwell live like this



Create a modern space where design meets function without compromise



A signature collection that's renowned for comfort, luxury and enduring quality

## BERKELEY MAGNA TIMELESS CLASSICS



Timeless and elegant – a true reflection of our commitment to quality and craftsmanship

## GRAND TOUR *Inspirations*



Ultimate style from across the continent, inspired by the historical grand tour

## capsule COLLECTION



Small spaces can be amazing places with these trend led pieces

## iconica ITALIAN INSPIRED DESIGN



Ultra-modern collection inspired by contemporary Italian design

Introduction of Iconica and continued broadening of other brand ranges

# 1 Driving customer experience and satisfaction

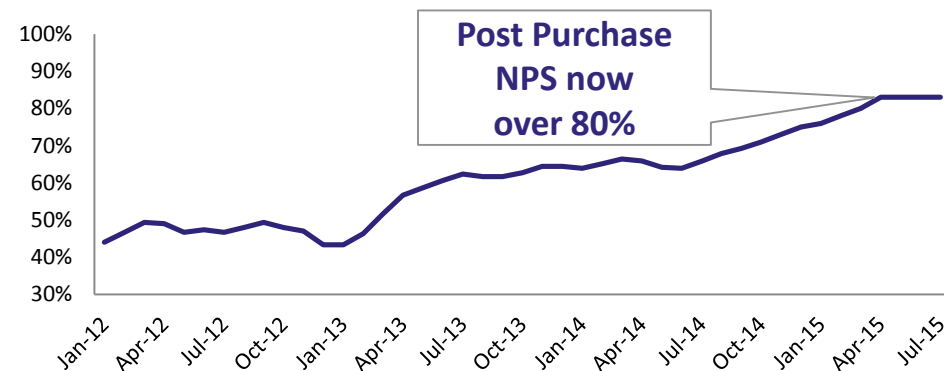
## INVESTING IN OUR TEAM'S SKILLS



- ♥ All front line employees will now hold customer service level 2 NVQ award
- ♥ Apprenticeships now launched in Upholstery, Retail and Manufacturing
- ♥ No impact from living wage

## OUR APPROACH DRIVES PROGRESS

*Post Purchase NPS at record levels*



- ♥ Closed-loop feedback system that tracks performance at an individual level
- ♥ Incentive structures aligned on performance
- ♥ Future emphasis on established customer feedback scores

**With increased training and refocused incentives our post purchase NPS scores have grown strongly**

# 1 Team GB partnership

## BROADENING CONSUMER APPEAL



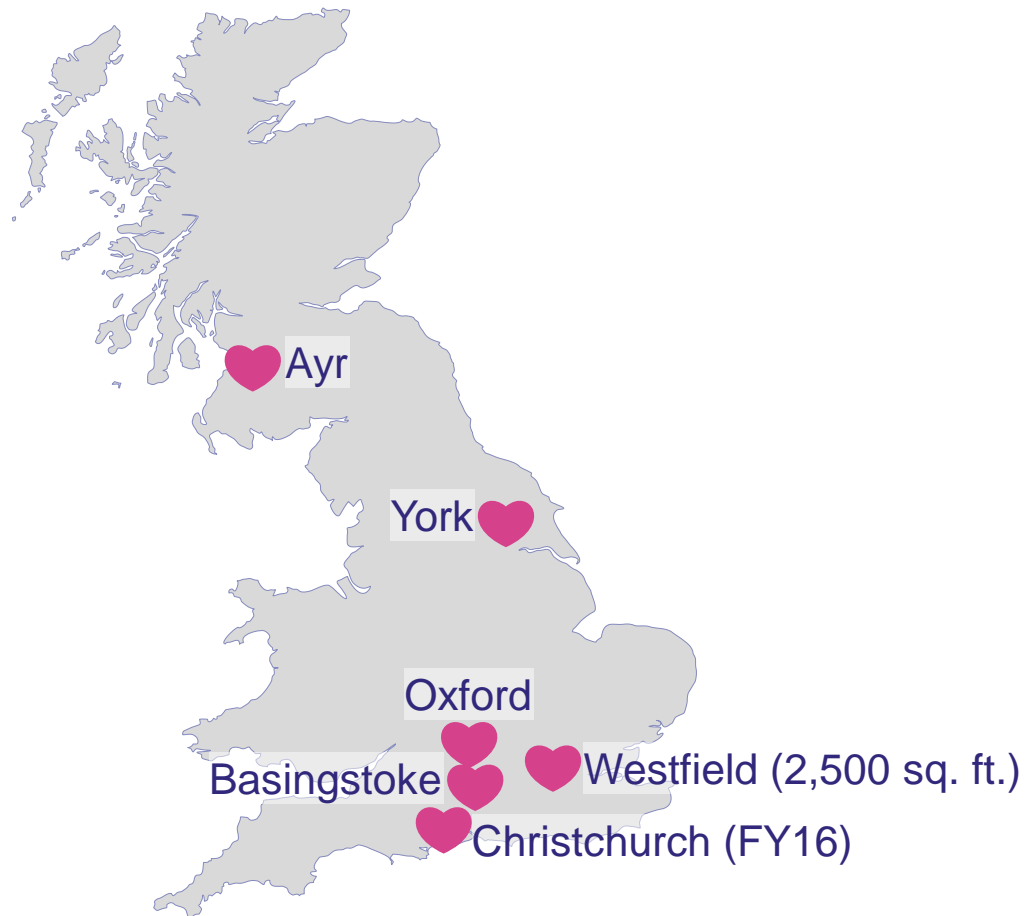
## INTERNAL BENEFITS

**MARGINAL  
GAINS  
PHILOSOPHY**

**ONE  
TEAM  
APPROACH**

Team GB sponsorship to continue to highlight brand truths and increase engagement

## Continued Development of DFS UK Store Network



- ♥ 5 new 10-15,000 sq. ft. UK DFS stores opened since start of FY 2015
  - 4 openings in FY 2015, and also Christchurch in September 2015
- ♥ Westfield (2,500 sq. ft.) also opened March 2015
- ♥ Two further stores already secured for late FY 2016 or early FY 2017
- ♥ Continued overall trend of 3-5 UK & ROI stores per annum

UK store openings continuing to exploit already identified “white space”



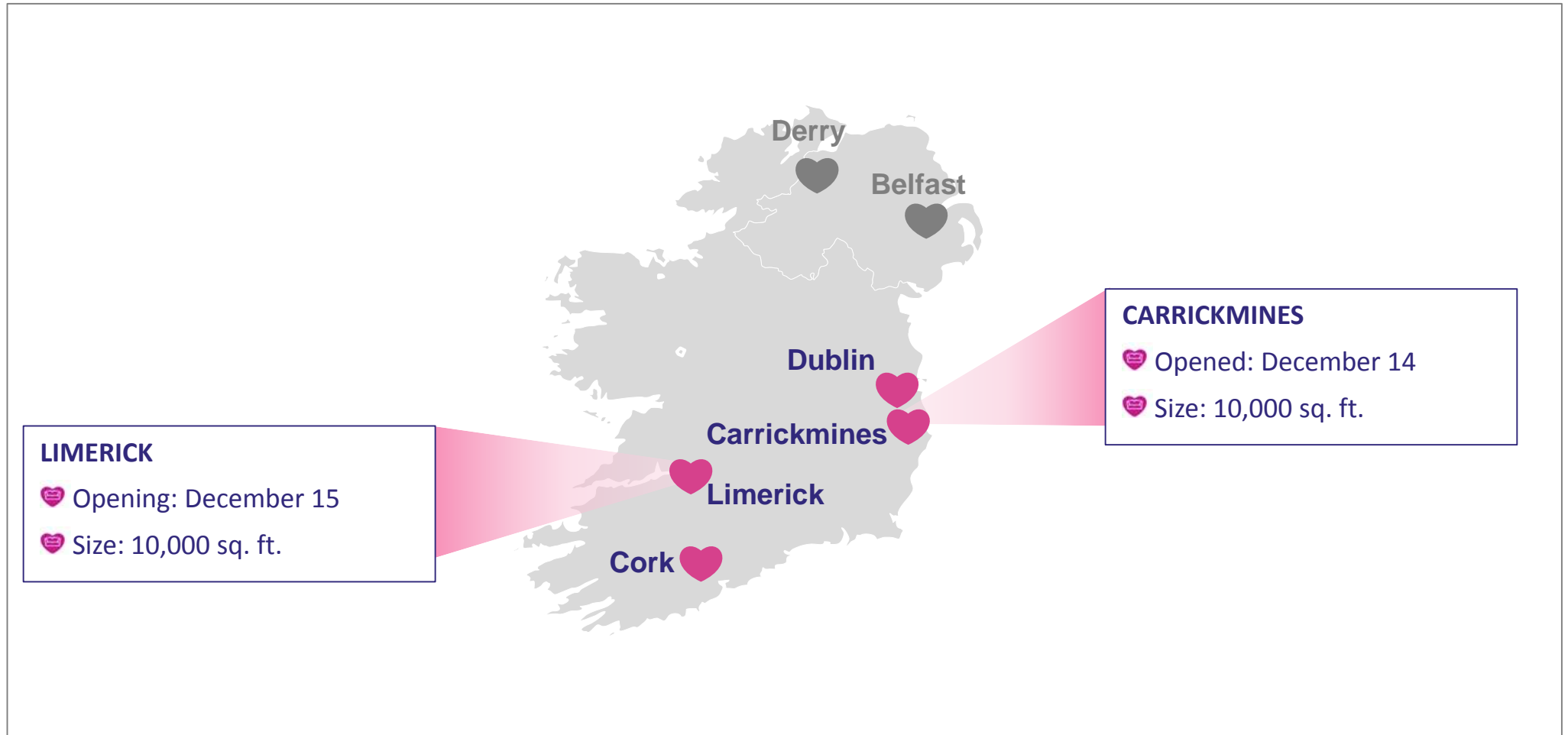
## 2 Extension of Westfield Small Format Trial



- ♥ Positive six months of trading
- ♥ Limited cannibalisation impact
- ♥ Trial to be extended – opening of up to two further trial stores in FY 2016

Early positive results encourage us to trial small format stores at two further locations

### 3 International Roll-out in RoI Continuing



Four stores now in RoI with already identified potential for up to two further locations

## 3 Netherlands Market Entry – a Second Store in Rotterdam



- 10,000 sq. ft. store in Alexandrium retail park, in Rotterdam
  - Smaller than Cruquius (c.20,000 sq.ft), reflecting range experience
- Opened 26 September 2015
- Operational investment in the Netherlands of c. £2m-£3m in FY 2016



**Netherlands progress remains encouraging, with Rotterdam recently opened, one further store planned**

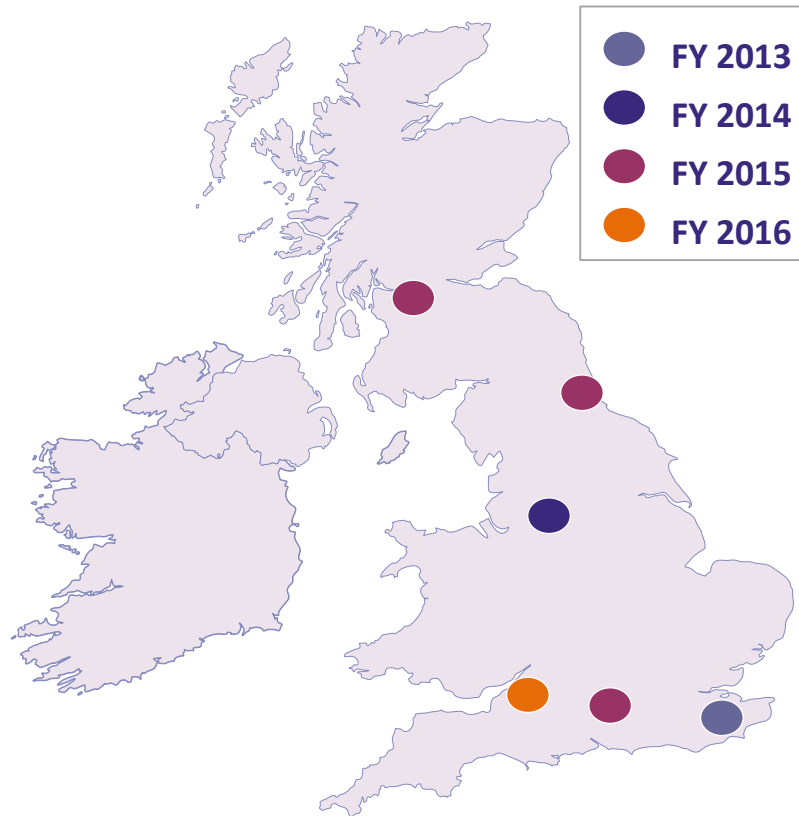


- ♥ Limited investment in 5,000 sq. ft. store in San Javier, near Murcia
  - Reacquired DFS brand rights in Spain
  - Gives local presence to access British expatriate market
  - Over 10 year operating history, with strong local reputation
- ♥ Opens up potential for targeted advertising of [dfs.co.uk](https://dfs.co.uk) and [dfsspain.com](https://dfsspain.com)
- ♥ No current plans for further expansion



**DFS Spain acquisition to enhance existing online operations and improve access to expatriates**

## SIX CDCS NOW OPEN



## OPERATIONAL UPDATE

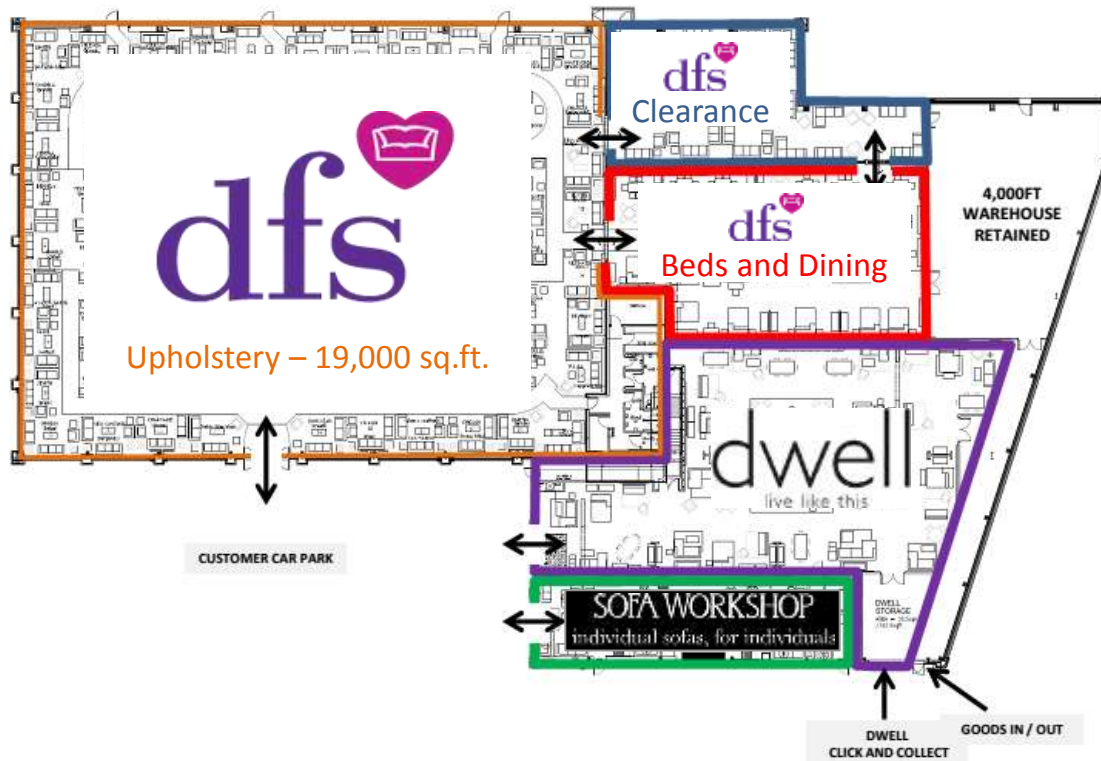
- Six CDCs with approximately 70,000 sq. ft. of retail space now converted in 12 stores
- Trial Sofa Workshop and/or Dwell store-in-stores in Glasgow, Gateshead and New Malden
- Operational efficiencies and sales uplifts being achieved continue to meet our expectations

CDC opening programme well underway, with benefits from retail space conversion to follow



## 4 Glasgow Conversion – August 2015

### SIGNIFICANT INCREASE IN PROMINENT RETAIL SPACE



### STANDALONE SOFA WORKSHOP & DWELL STORES





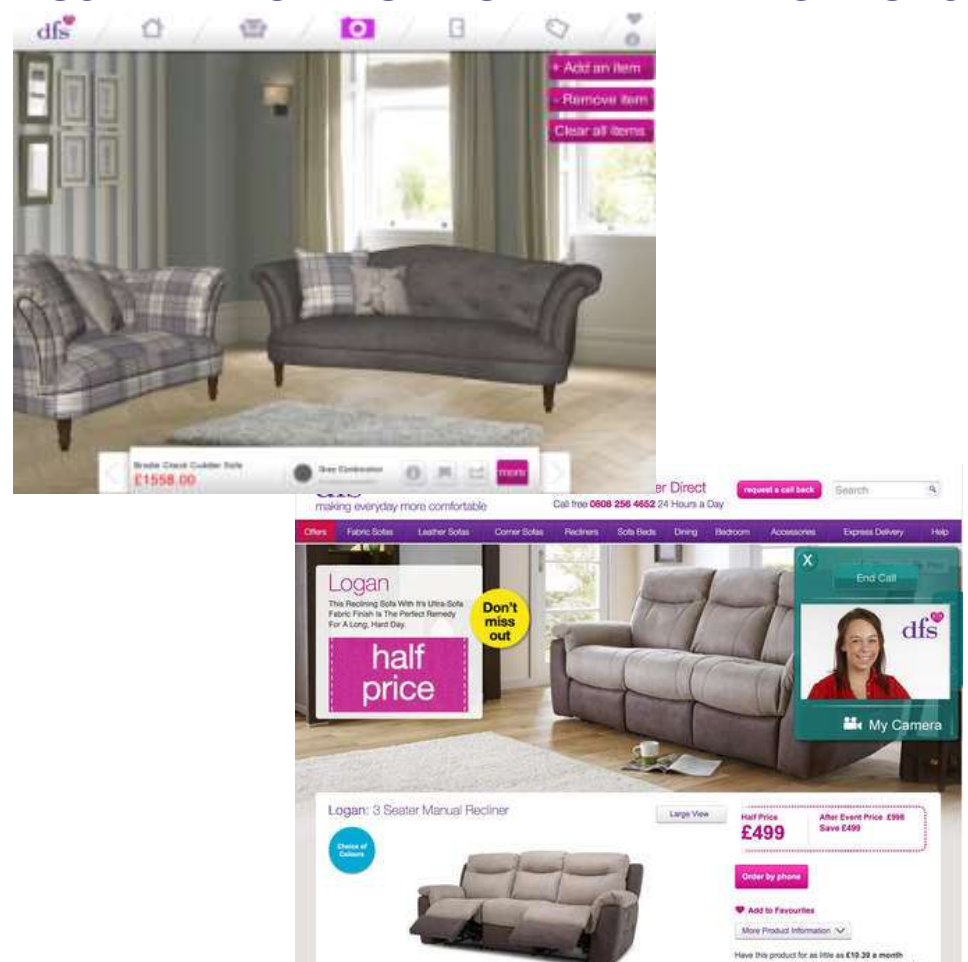


## Web Channel Attracting New Customers and Growing Rapidly

### CONTINUED SECTOR LEADERSHIP

- ♥ Strong +17% channel growth (FY14: 7%)
- ♥ Maintained 40%+ sector web traffic share
- ♥ Continued significant capital investment in web-platform and technology
- ♥ Appointment bookings rolled out nationwide
- ♥ Furniture visualisation technology (“swipe”) introduced in-store to capitalise on DFS’s digital breadth and strength of offer
- ♥ DFS Live app launched to bring video customer service to customers’ tablets
- ♥ Additional products introduced on dfs.co.uk

### POSITIVE RECEPTION TO TABLET APPLICATIONS

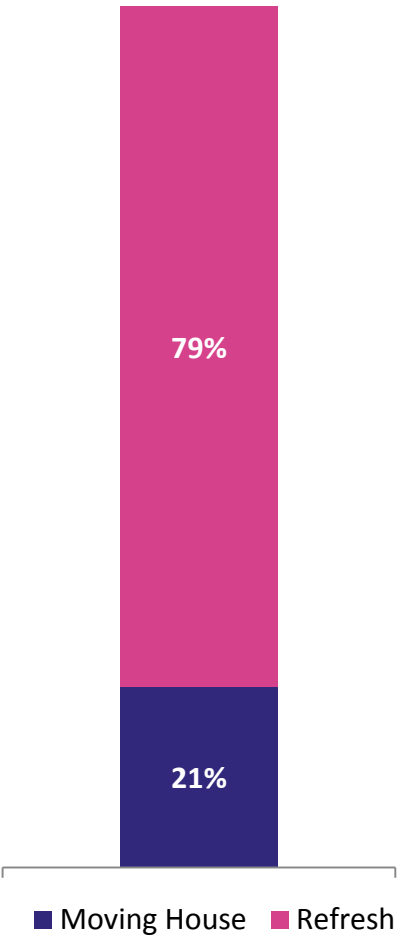


Online channel continues to be sector-leading, and growing strongly



# Market Growth Drivers Continue to be Positive

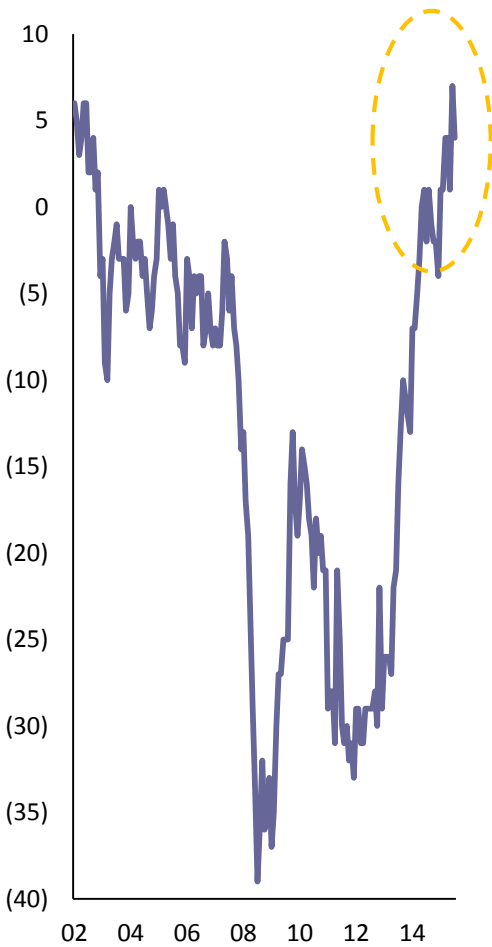
## Why People Buy Upholstery



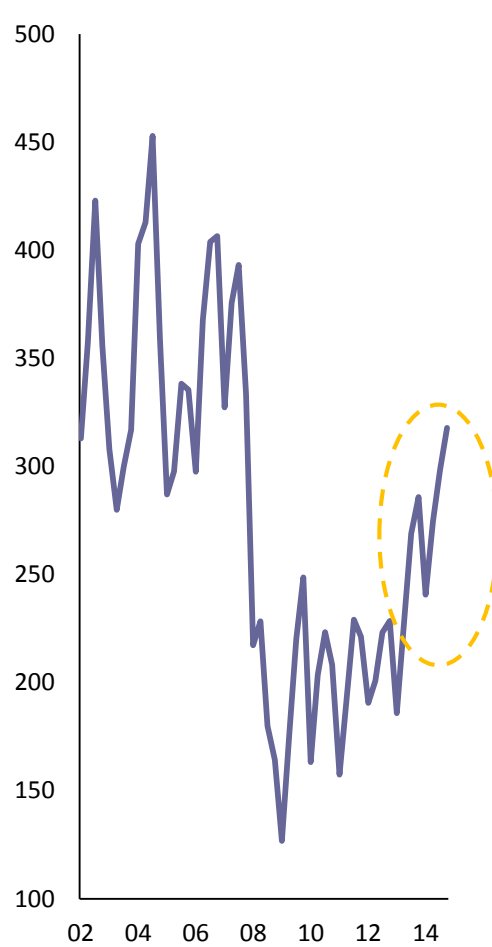
Source:  
Independent Survey conducted on behalf of DFS



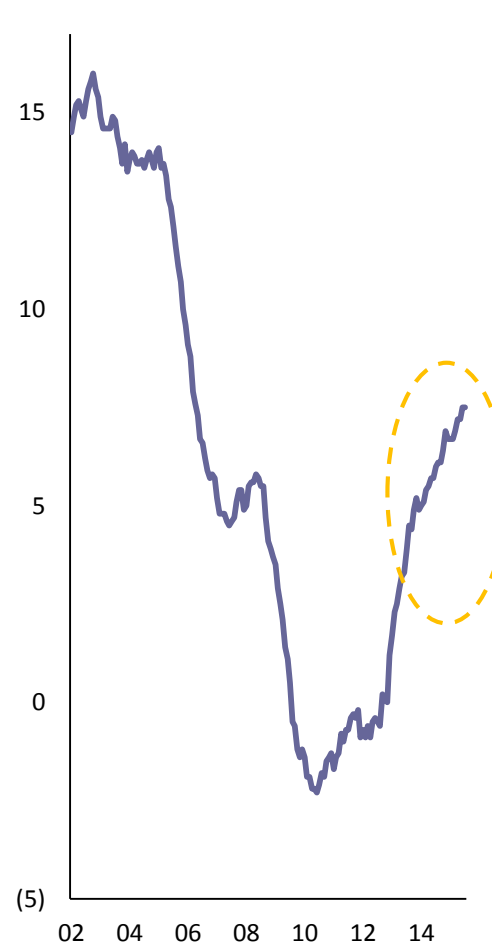
## Consumer Confidence (%)<sup>1</sup>



## Housing Transactions ('000s)<sup>2</sup>



## Net Unsecured Lending (% change)<sup>3</sup>



- Notes:
1. The Consumer confidence survey measures the level of optimism that consumers have about the performance of the economy in the next 12 months. The GfK Consumer Confidence is derived from the survey of about 2,000 consumers which are ask to rate the relative level of past and future economic conditions including personal financial situation, climate for major purchases, overall economic situation and savings level - (Jan-15)
  2. HMRC "Survey and Property Transactions" between 2002-2004 (not seasonally adjusted) for England and Wales. HMRC Quarterly number of residential property transactions completions with a value over £40,000 (not seasonally adjusted) for England and Wales between 2005-2014 (as of Dec-14)
  3. Monthly 12 month growth rate of total (excluding the Student Loans Company) sterling net unsecured lending to individuals (in %) seasonally adjusted (as of Dec-14)

# Summary and Outlook

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## SUMMARY

- ♥ Record financial results and all strategic growth initiatives are on track
- ♥ Strong earnings growth and cash performance has allowed a full dividend to be declared

## OUTLOOK

- ♥ Market environment remains positive, albeit volatility is always a risk
- ♥ Strong prior year performance for us to compare against over the coming year
- ♥ Investment in Netherlands
- ♥ Overall the business enjoys excellent prospects to deliver long-term profitable growth, strong cash generation and a progressive dividend policy

# APPENDIX

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## Appendix – Financial Calendar

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Annual General Meeting	– 4 December 2015
Ex-dividend share trading begins	– 10 December 2015
Dividend record date	– 11 December 2015
Dividend payment date	– 30 December 2015
Half year trading update	– 4 February 2016
Half year results	– March 2016*
Full year trading update	– August 2016*
Full year results	– October 2016*

*\* Denotes dates to be confirmed*

## Appendix – Store Profile

### AS AT 8 OCTOBER 2015

	UK	ROI	Holland	Spain	TOTAL
<i>Large Format (c. 15,000sq.ft.+)</i>	96	2	1	-	99
<i>Medium Format (c. 10,000sq.ft.)</i>	6	1	1	-	8
<i>Small Format (&lt;5,000sq.ft.)</i>	1	-	-	-	1
<i>Other (5,000sq.ft.)</i>	-	-	-	1	1
<b>DFS TOTAL</b>	<b>103</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>108</b>
<i>Standalone</i>	5	-	-	-	5
<i>DFS Space Conversions</i>	2	-	-	-	2
<b>Dwell</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7</b>
<i>Standalone</i>	15	-	-	-	15
<i>DFS Space Conversions</i>	2	-	-	-	2
<b>Sofa Workshop</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17</b>





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