Full Year Results

4 October 2018

dfs SOFA WORKSHOP dwell sofology

Highlights

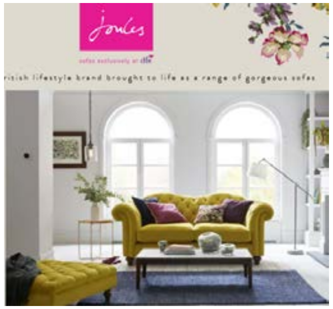
Ian Filby

Good strategic progress in a challenging market

KEY FINANCIALS

£1,125.6m *+13.6%*	**Gross sales**
£76.1m *-7.6%*	**Underlying EBITDA**
£38.3m *-23.7%*	**Underlying PBT before brand amortisation**
£60.4m *79.4% cash conversion*	**Free cashflow generation**

STRATEGIC AND OPERATIONAL HIGHLIGHTS



Good progress made against strategic and operational priorities

Full year results impacted by market slowdown in final quarter and shipping delays

Financials

Nicola Bancroft

dfs

Financial Overview

(£m)	FY 2017 52 weeks 29-Jul-17	FY 2018 Pre acquisitions	FY 2018 52 weeks 28-Jul-18
Revenue	**762.7**	**747.7**	**870.5**
Growth (%)	*+0.9%*	*-2.0%*	*+14.1%*
Underlying EBITDA	**82.4**	**72.6**	**76.1**
Growth (%)	*-12.7%*	*-11.9%*	*-7.6%*
Underlying PBT[1]	**50.2**		**38.3**
Growth (%)	*-22.3%*		*-23.7%*
Underlying EPS	**18.7p**		**14.0p**
Growth (%)	*-21.1%*		*-25.1%*
Free cash flow	**57.0**		**60.4**
Ordinary DPS	11.2p		11.2p

OVERVIEW

Weather and shipping issues impacting final quarter

Strategic investment maintained to deliver longer term growth

Actions taken to meet challenges of current market

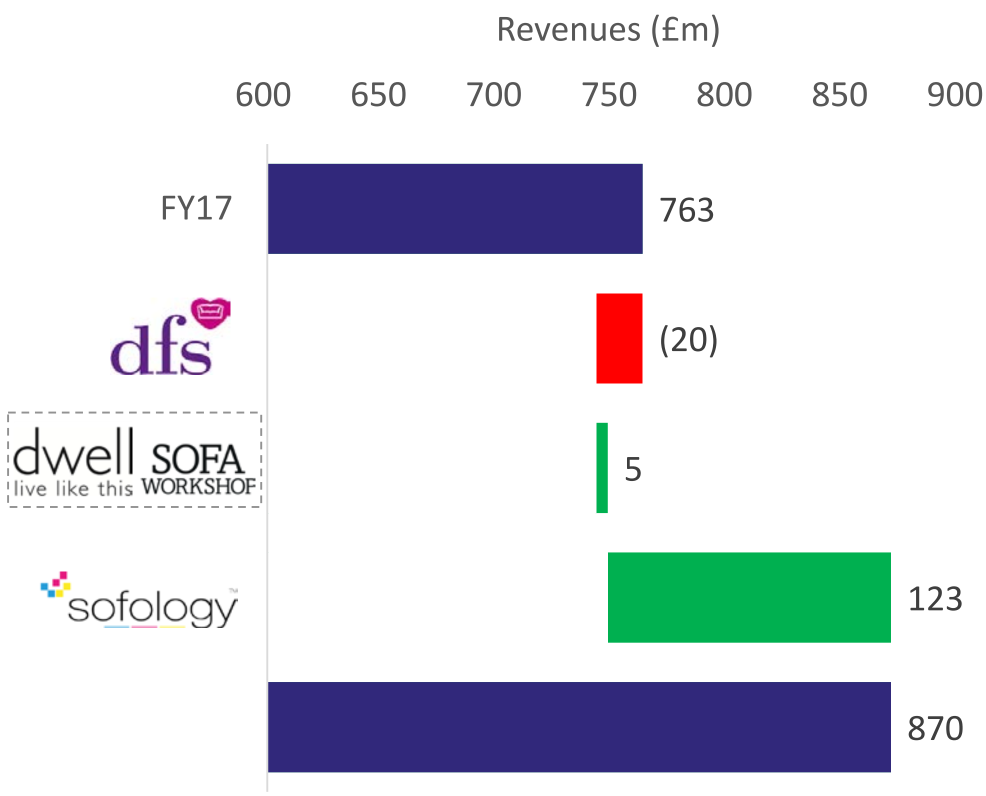
Encouraging performance from Sofology

Profit performance reflects the impact of fourth quarter market environment; Strong cash generation and dividend maintained

(1) Excluding amortisation charges for brand names FY18: £1.1m, FY17 £0.1m

Drivers of Group Revenue Growth

REVENUE CONTRIBUTION BY CHANNEL



KEY DRIVERS

Group LFL revenue decline of -2.4% reflecting market environment, with Group online growth of +15.1%

DFS LFL revenue down -3.9% due to market decline and shipping delays

Dwell and Sofa Workshop growth supported by 16 additional stores y-o-y

Sofology LFL revenue growth [1] +8.6% driven by re-introduction of TV advertising and online growth

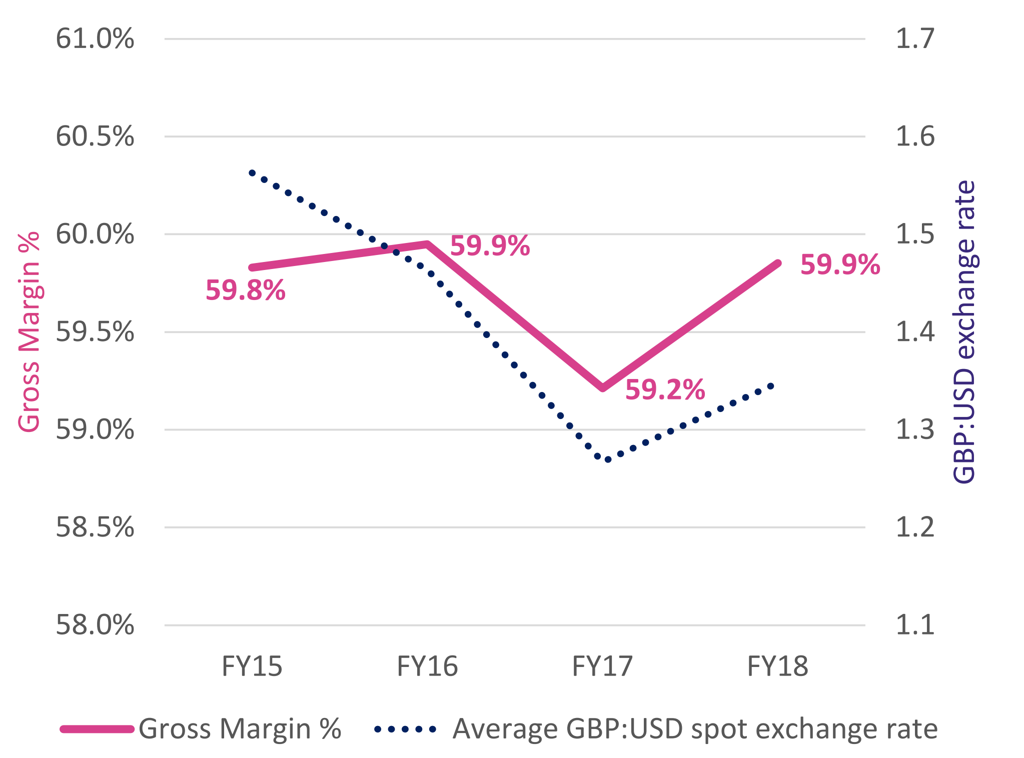
Sofology acquisition drove Group revenue growth of 14%

DFS LFL store decline partially offset by growth in online and new stores across all brands

(1) *Sofology Pro forma YoY total revenue and LFL revenue growth has been calculated for the post acquisition period (i.e. for period Dec-17 to July-18 Vs Dec-16 to July-17)*

DFS Gross Margin Trends and Drivers

DFS-ONLY GROSS MARGIN EVOLUTION



KEY DRIVERS

£6m of US Dollar related cost pressure in FY18 (relative to FY17, £21m in total) more than offset by margin initiatives

Future Group FX exposure protected via hedges placed up to 18 months in advance of purchase

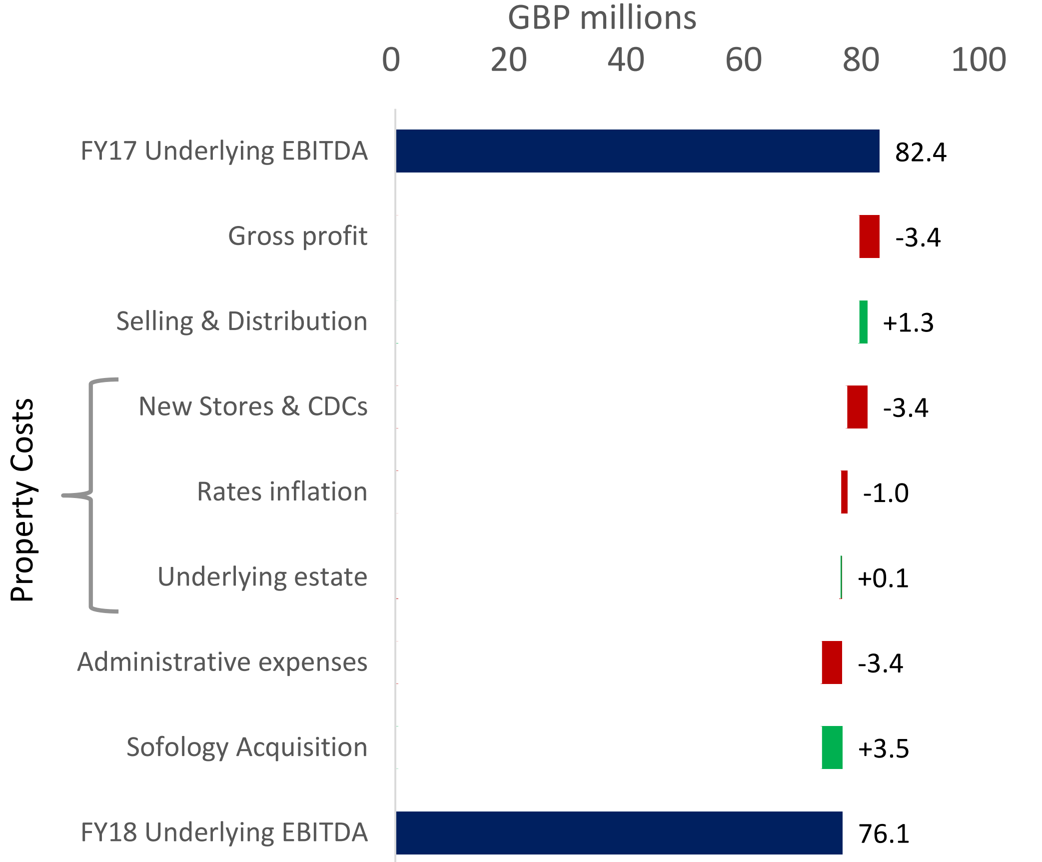
FY19 margin to benefit from hedges placed at better rates and margin initiatives however some cost inflation expected

Margin initiatives have helped to offset the impact of USD related cost inflation and gross margin has now recovered back to historic levels

Average Exchange Rates presented are inter-bank bid rates sourced from Oanda.com

EBITDA Progression

COST PROGRESSION



KEY DRIVERS

Gross profit impacted by lower revenues but partially offset by higher margin % from initiatives

Lower selling & distribution costs reflect marketing deflation and other selling costs flexing

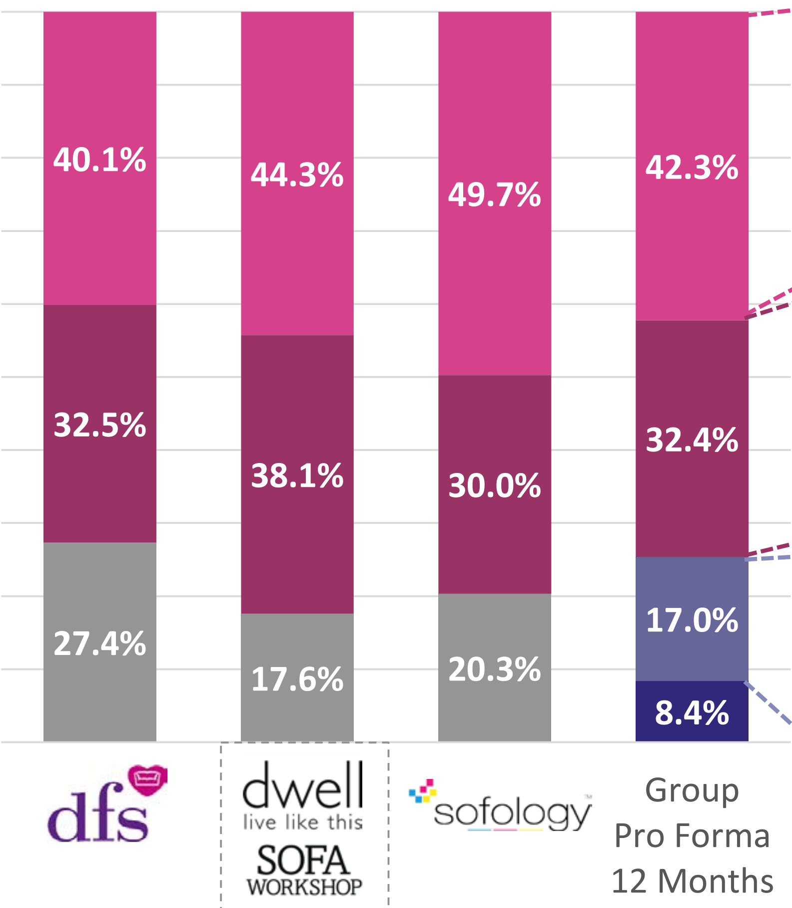
New stores, New CDCs and rates inflation drive property cost increase

Higher share based payment and pension auto-enrolment costs drive Admin expense increase

Reduction in EBITDA principally driven by lower revenues due to market environment and increased administrative expenses largely driven by legislative change

Cost Base Responsiveness

Cost Base – LTM (Sofology on pro forma basis[1])



Brand Contribution[(2)]

EBITDA

Responsiveness of costs to market environment

Cost of Sales

- Finished goods cost will move in line with revenues
- c.1/3rd of purchases in USD – hedged for 18 months
- No minimum volume commitments

Variable, Semi-Variable & Discretionary Costs

- Marketing is controllable, however TV is booked c.2 months ahead
- Wages flex semi-directly due to commission payments & piece-work
- Delivery costs contain a mix of fixed and variable costs, aim to smooth through order bank

Fixed Costs

- Rents generally trending downwards but are fixed costs
- Central costs have some limited flex from bonus payments
- Cost efficiency initiatives in progress to offset inflationary pressures

DFS has a cost base that responds to the market environment, and can be utilised to drive group operating benefits. Visible Sofology synergy opportunity

(1) Sofology shown as actual last twelve months, i.e. including the period before acquisition by DFS

(2) Brand contribution is defined as underlying EBITDA (being earnings before interest and tax excluding depreciation charges and non-underlying items) excluding property costs and central administration costs.

Non-Underlying Costs

OVERVIEW

(£m)	FY 2018
Sofology & Multiyork professional fees	2.6
Potential additional Sofology consideration recognised	5.0
Sofology integration costs	2.0
Other restructuring costs	0.3
Total Non-underlying operating costs	**9.9**

COMMENTARY

£2.6m professional fees primarily driven by Sofology CMA process

Strong trading towards end of the Sofology earn-out period may result in additional consideration

Further £3m of Sofology integration costs expected (£5m in total)

Other restructuring costs relate to previously announced closure of our National Distribution Centre

As previously announced, we anticipate that, in order to drive the £4 million of near-term benefits anticipated, £5 million of Sofology integration costs will be incurred over FY18 and FY19

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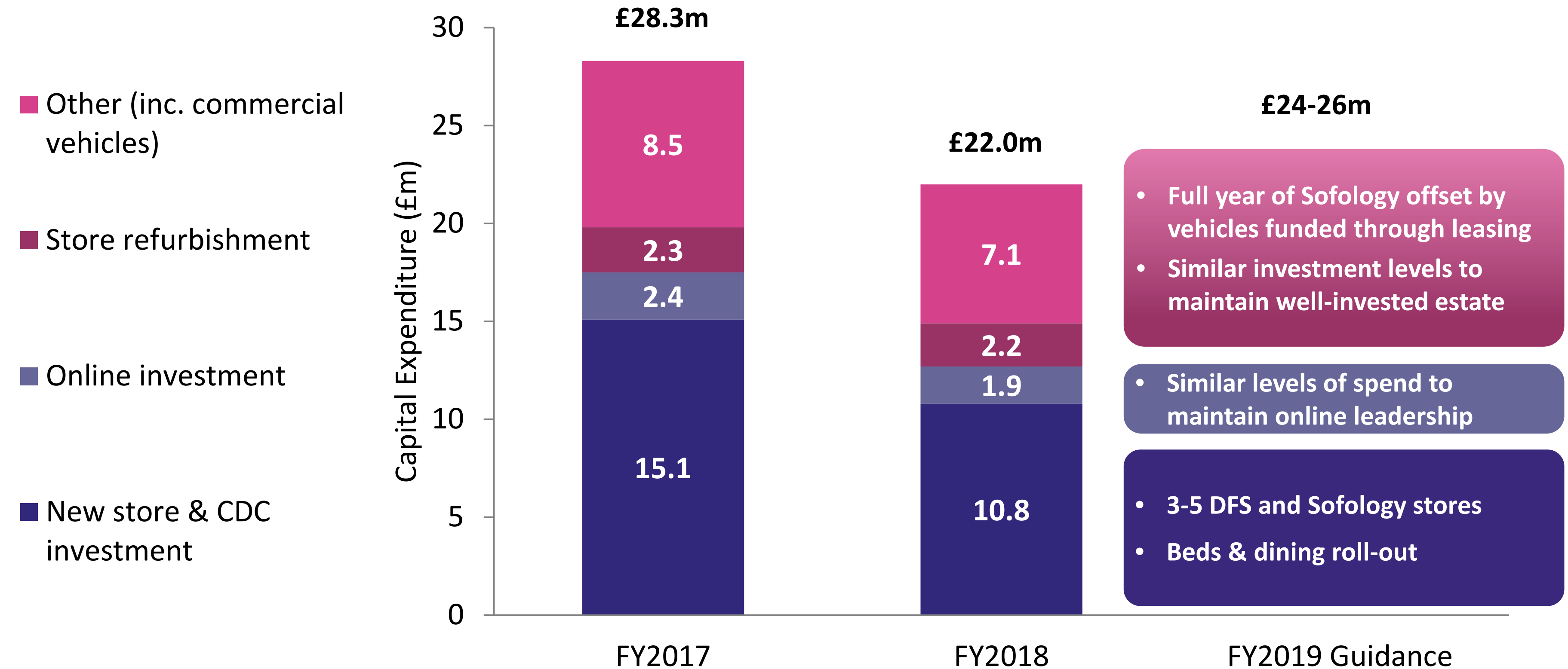
Investment in Infrastructure for Future Growth

CASH CAPITAL EXPENDITURE



Conservative capex approach given market environment, but growth investment maintained

FY19 capex will increase to c.£24-£26m reflecting full year ownership of Sofology

Excellent Cash Generation Continues

(£m)	FY 2017	FY 2018
Underlying EBITDA	**82.4**	**76.1**
Capex	(28.3)	(22.0)
Change in working capital	2.9	6.3
Free cash flow(2)	**57.0**	**60.4**
Conversion (% of EBITDA)(2)	*69.2%*	*79.4%*
Net debt	**(144.5)**	**(159.0)**
Multiple of underlying EBITDA (x)	***1.75x***	***2.09x***

COMMENTARY

Disciplined approach to growth investments with short payback periods

Stable underlying working capital trends. Sofology benefit from Group covenant

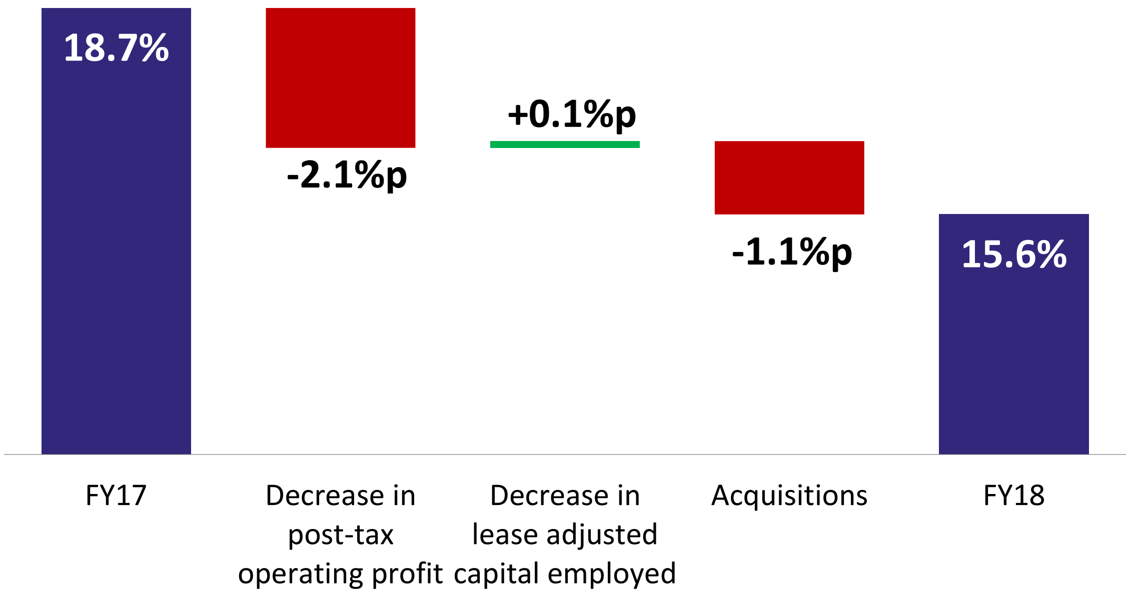
Net debt reflects impact of Sofology acquisition and will be paid down over time

Cash generation continues to be strong and will be used over the near-term to pay down acquisition related debt to bring gearing back in-line with policy of 1.5x

(1) FCF is calculated as Underlying EBITDA – Capital Expenditure + Change in Working Capital
(2) Cash conversion is calculated as FCF / Underlying EBITDA

Return on Capital

LEASE ADJUSTED ROCE



Note:
ROCE is post-tax operating profit before non-underlying items plus operating lease charges expressed as a percentage of the sum of: property, plant & equipment, computer software, working capital and 8x operating lease charges

KEY TRENDS

Return on capital remains an important focus

Returns impacted by lower operating profit and acquisition of Sofology and Multiyork

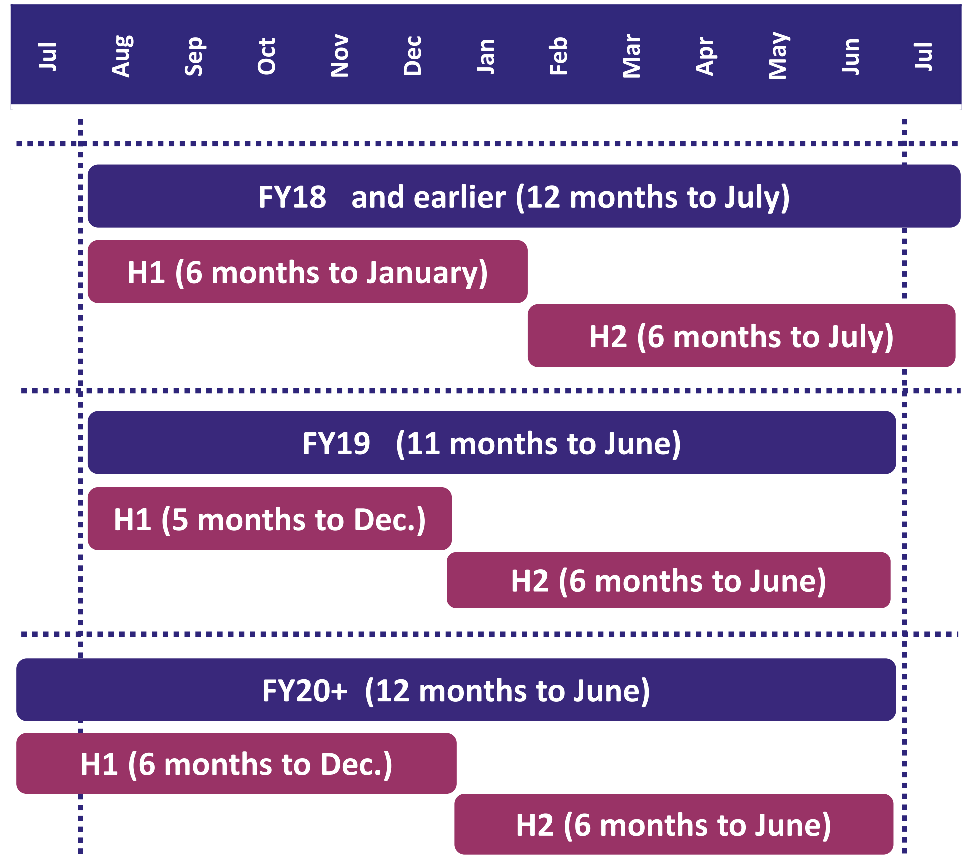
Lower return on capital reflecting challenging environment and investment in Sofology and Multiyork

Change of Year End to 30 June 2019

RATIONALE

- Manufacturing operations benefits
- Improved comparability of period ends
- Timing of new store openings costs
- Alignment of acquired business

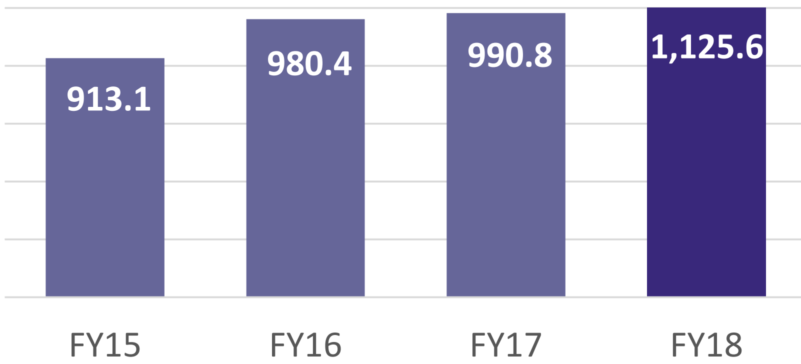
YEAR END DATES



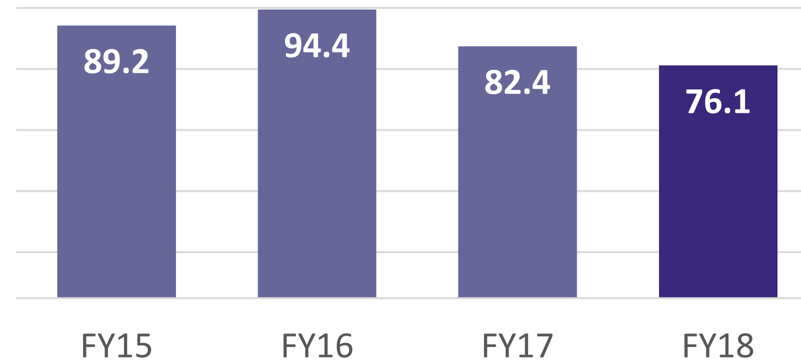
Change of year end will better align financial reporting periods with operational cycles.
We do not anticipate financial performance in the 52 weeks to July 2019 will be materially different to 52 weeks to June 2019

Summary: Market Environment and Acquisitions Reflected in KPIs

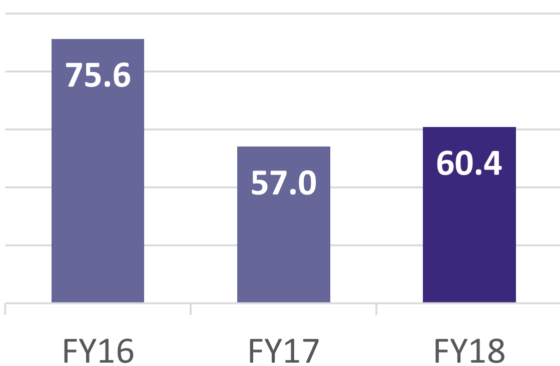
GROSS SALES (£M)



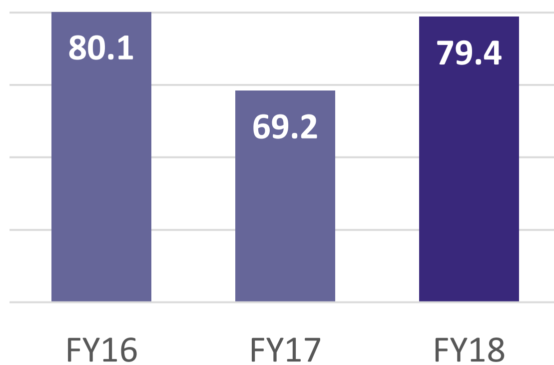
UNDERLYING EBITDA (£M)



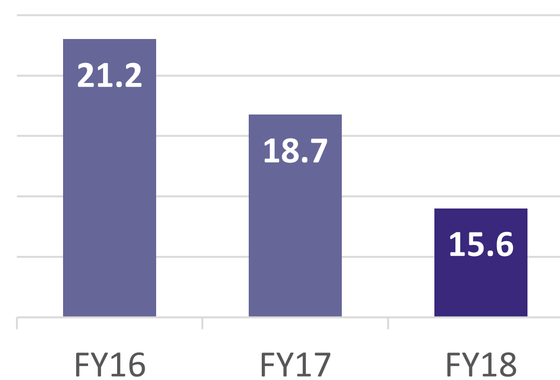
FREE CASH FLOW (£M)



CASH CONVERSION (%)



LEASE ADJUSTED ROCE (%)



The market environment has impacted short term profitability and returns – positive opportunity in future to grow profits from acquisition benefits and strategic initiative investment

Operational Update

Ian Filby

Levers of Growth, Underpinned by an Efficient Operating Platform

5. International
4. Retail space & cost efficiency
3. UK stores
2. Broadening our appeal
1. Omnichannel growth

Strong platform benefiting from Scale, Flexible Cost Base and Vertical Integration

1 Omnichannel – Continued Progress Driven by Fundamental Advantages

KEY METRICS

£184m	Group annual online gross sales[1]
+15.1%	Growth In Group online revenues
+6.8%	Growth in unique web visitors across the Group
>50%	Group share of specialist segment web traffic
56%	Mobile mix of DFS traffic

Substantial traffic, reputation and presence driving quality scores and reduced CPC

Shift in marketing investment to digital to match consumer omni-channel journey

First UK furniture retailer to launch augmented reality (AR) functionality on a mobile website

Sofology commence order in store and complete at home

Enlarged Group provides further retargeting opportunity to optimise ROI

We continue to expect strong growth and maintained market leadership from our online channel, with penetration of our Group channel mix growing by 1%-2% per annum

(1) Includes Sofology for full financial year

Omnichannel – Impact of Online Channel Shift

OVERVIEW

> 80% of customers conduct online research before making a purchase

> 90% of DFS customers visit a store prior to purchase (‘sit and feel’ test)

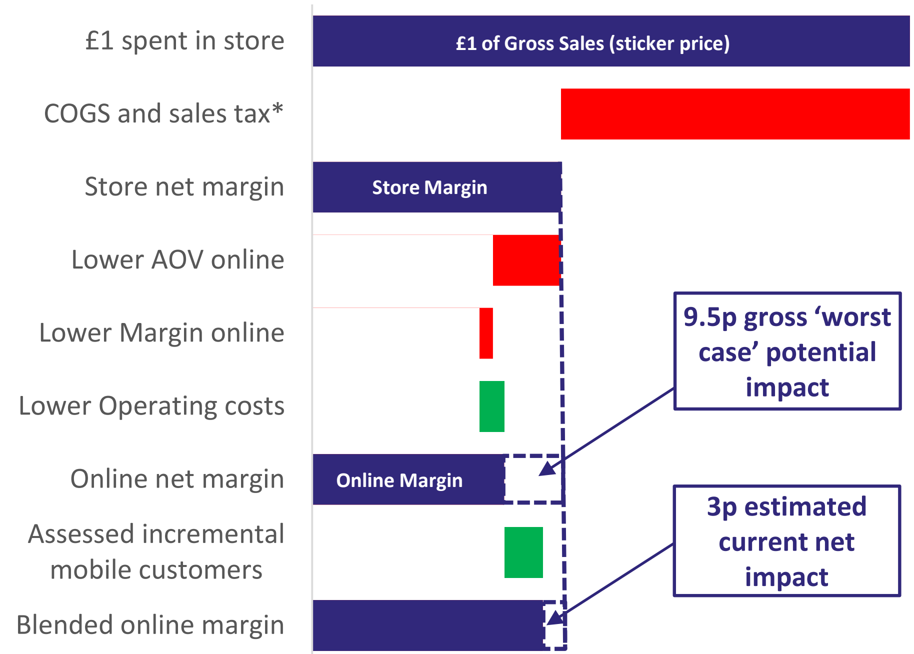
c.1-2% channel shift per annum at present

Lower online AOV and Margin at present

Lower asset base and operating costs driving higher ROCEs

DFS.CO.UK CHANNEL SHIFT IMPACT

(‘Worst case’ - assumes that the ‘same’ types of customer currently complete online as in-store and no improvement to online AOV)



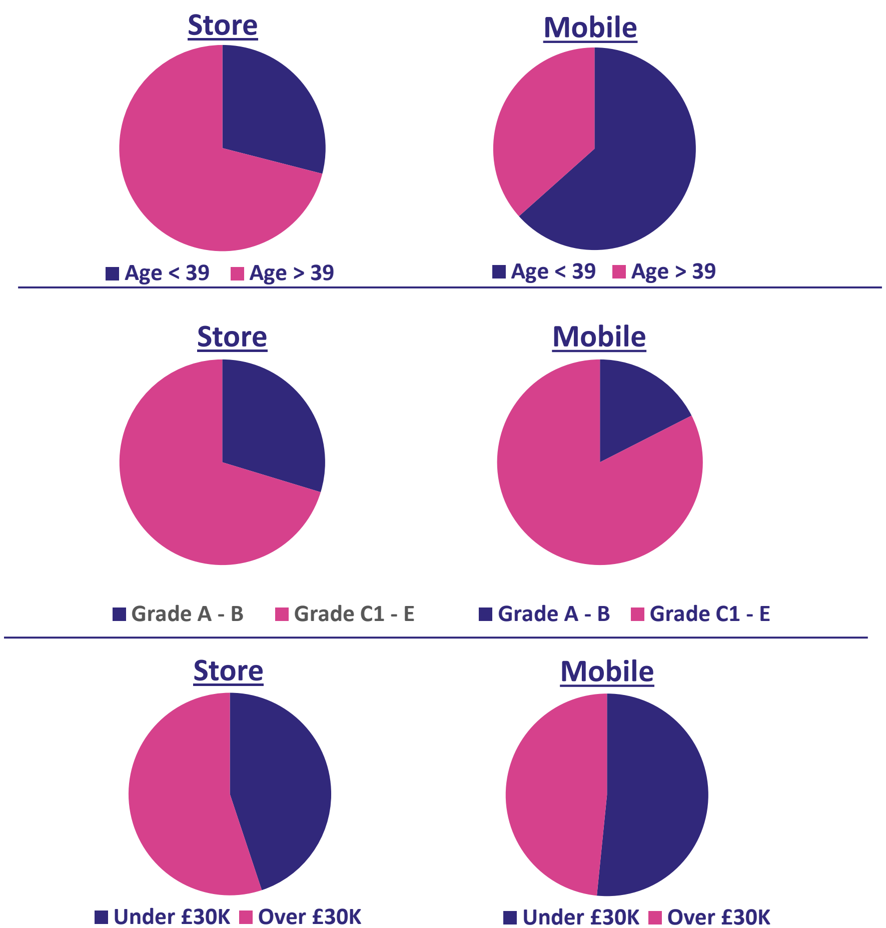
Online AOV growth and store cost optimisation opportunities underway

We see the customer journey as being a true cross-channel blend – however a ‘pure’ online channel transaction continues to be very profitable, with clear opportunities for growth

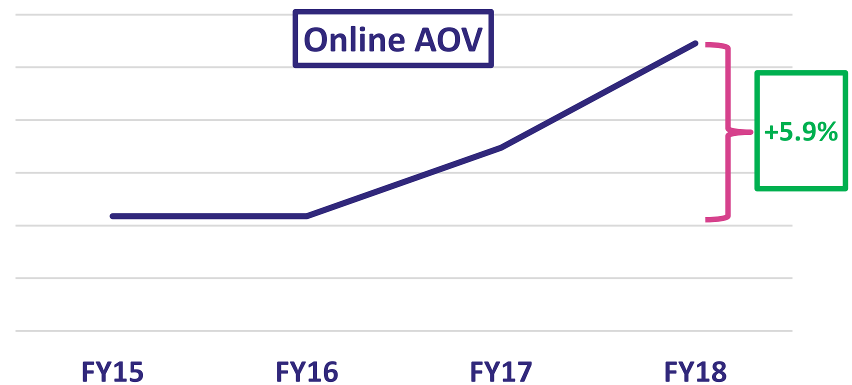
**COGS and sales taxes includes VAT, Interest Free Credit charges and Warranty Costs*

Omnichannel – Mobile Customers

MOBILE CUSTOMERS ARE DIFFERENT



AND WE ARE ALREADY GROWING AOV



Key Initiatives:

- Site Optimisation
- Outbound calling
- Mobile engagement team

Mobile users have a different profile to store customers and provide an opportunity to grow incremental revenues offsetting the gross impact of channel shift. We are focusing on continuing to grow the online AOV

2 Ongoing Broadening of Group Appeal

TAILORED PROPOSITIONS ATTRACTING WIDE AUDIENCE

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sofology

SOFA WORKSHOP

dwell

Ever evolving our marketing investment by channel to deliver the right brand and sales activation messaging

Sofology adds a complementary proposition relevant for incremental customer groups

DFS brand acceptability and consideration at an all time high

DFS remains the only sofa company awarded the British Standard Kitemark for quality

Incremental revenue being driven through a broader appeal to customers

Source: DFS Brand Tracking Research, conducted on behalf of DFS by Monkey See

3 Store Network Development

OPERATIONAL UPDATE

- DFS opening programme continues to generate sub-21 months cash payback and predictable returns

24 stores opened in year across the Group

- 5 DFS (including 1 former Multiyork site)
- 2 Sofology (+2 pre acquisition date)
- 6 Sofa Workshop standalones (Ex Multiyork)
- 5 Sofa Workshop co-locations
- 1 Dwell (former Multiyork)
- 5 Dwell co-locations

- DFS small store programme trial openings in Chelmsford and Guildford

NEW STORE OPENINGS

DFS Rugby

Sofa Workshop Epping

SOFOLOGY ESTATE

- Significant gaps in Sofology network – Potential for national roll-out
- Opportunity to drive DFS group benefits on existing leases as part of new store opening

Exploited opportunities and moved quickly to obtain space from struggling competitors

New store formats being trialled

Retail Space and Cost Efficiency

4

RETAIL SPACE UTILISATION

CDC programme complete with delivery cost savings being realised

Further opportunity exists to optimise space

3 Dwell and 4 Sofa Workshop stores opened

45 locations now benefitting from warehouse conversion

Plan to convert 16 store warehouses to sell Beds & Dining furniture in FY19 each driving c.£250K of incremental revenues

HIGHLIGHTS

£1 Cost per order benefit in FY18 relative to FY13 despite material cost inflation

+10% Growth in Retail 'box' sales from converting warehouse space to Dwell & Sofa Workshop stores

CO-LOCATED SITE # AT FY18 YEAR END

Dwell: 33

Sofa Workshop: 10

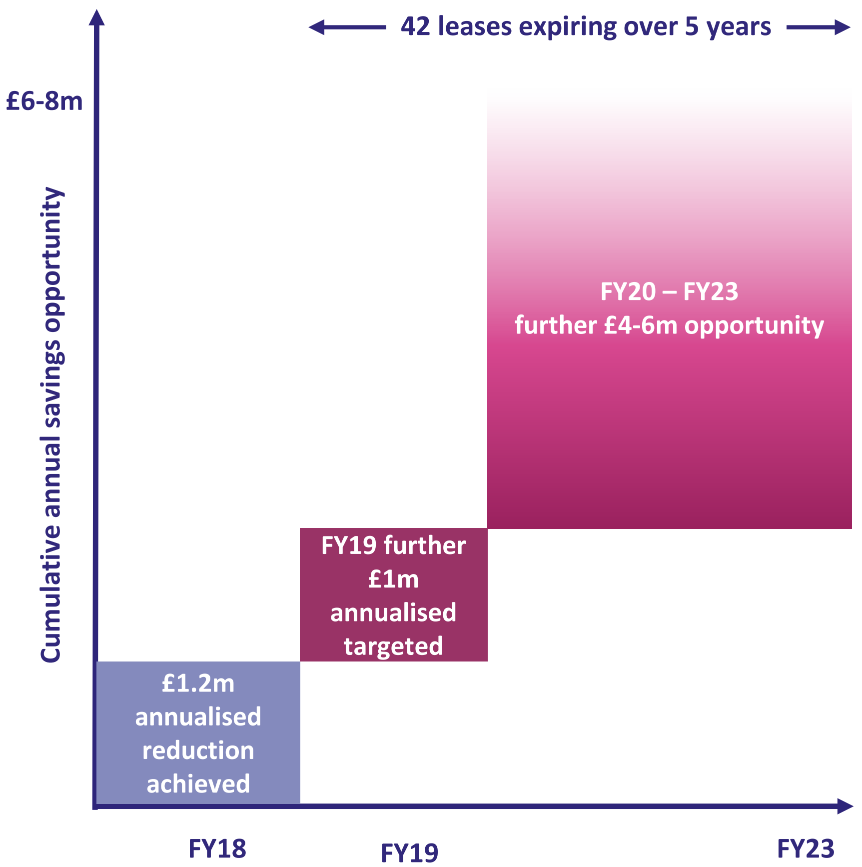
Beds & Dining: 15

CDC initiative is both reducing delivery costs as well as increasing Group sales through creation of additional Retail space

(1) Growth in Retail sales calculated using FY18 H1 conversions and comparing sales for the location 6 months post conversion of warehouse space to the same period in the prior year

4 Retail Space and Cost Efficiency

LEASE RENEWAL OPPORTUNITY



COMMENTARY

Terms renegotiated on 5 leases resulting in net savings of 38-45% per lease, in-line with target of 25-45%

Potential for c.£6-8m p.a. of property cost savings by end of FY23

Potential to reduce rent through brand collocation opportunities from FY20+

Current pressure in retail property market, near term lease expiry dates and Group scale creates opportunity for material rent savings in the medium to long term

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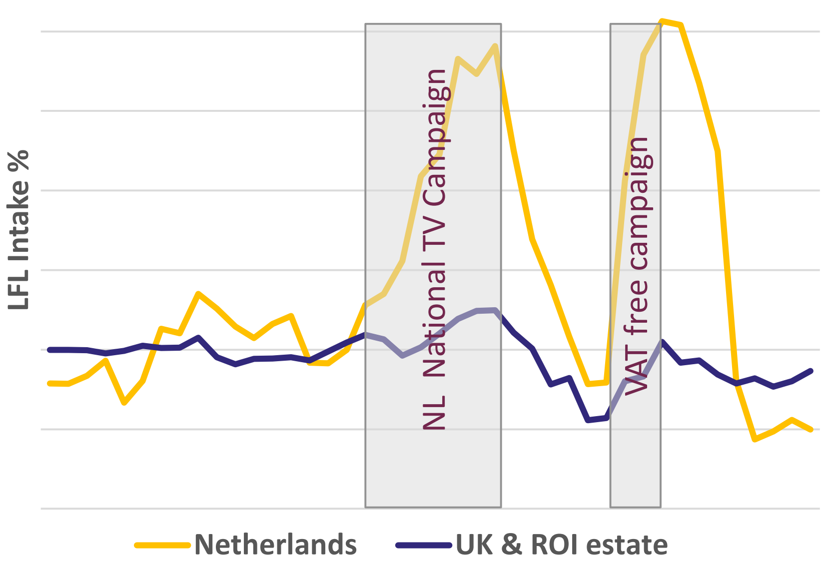
5 International Development – Netherlands & Spain

THE NETHERLANDS TV CAMPAIGN

Rolling L6W LFL Bookings Growth



THE NETHERLANDS – NEXT STEPS

Material uplift in bookings during national TV campaign and VAT free promotion

Long term impact difficult to gauge due to hot weather

Trial to be extended for 6 months

EBITDA losses likely to be £2-3m in FY19

SPAIN – UPDATE

- Two stores and website trading profitably
- Offer being broadened to grow domestic market

Some positive signs from Netherlands national TV campaign but extension to trial planned as the hot weather spell has limited our learnings. Spain business trading satisfactorily and in profit

Planning for the UK/EU Exit

FIVE KEY AREAS OF FOCUS ON THREE KEY OPERATIONAL GROUPS

- Consumer Demand
- Border Delays
- Regulatory Burden
- Tariffs
- Exchange Rates

- UK retail
- EU Retail (RoI, NL and ES)
- UK manufacturing

We continue our preparations for all likely outcomes as part of our regular risk mitigation process, until the exit path is clearer

Summary and Outlook

SUMMARY

- Results reflected a challenging market and were compounded by unexpected and protracted adverse weather and shipping issues in the final quarter
- Investment has been maintained to strengthen our position for the long term
- Proud of our progress

OUTLOOK

- Bookings since July have been encouraging but these will reflect an element of ‘catch-up’ from purchases deferred from Q4 last year
- Expect market to remain subdued into 2019, constrained by political risk and weak consumer sentiment
- We remain excited around the long-term opportunity given the strength of our position

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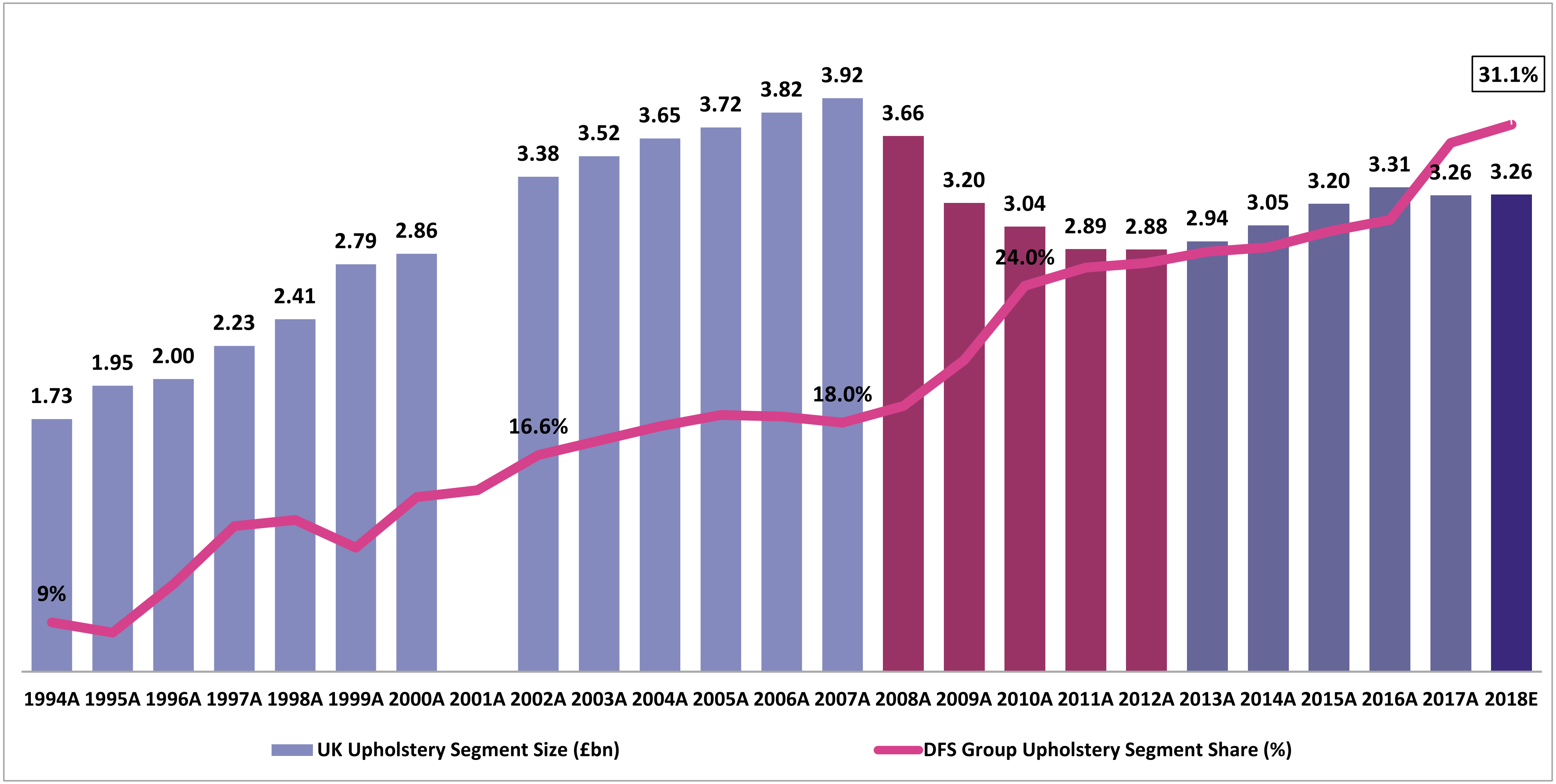
APPENDIX

Long-Term Progress in Group Share Capture



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

Source: 2007 data and prior based on DFS management information, 2008-2016 data is as published by Verdict at the time and is delivery charge inclusive, 2017-2018 data is as published by Global Data and excludes delivery charges but includes Sofology

Group Store Profile

AS AT 28 JULY 2018 (VS. 29 JULY 2017)

	UK	ROI	Holland	Spain	TOTAL
Large Format (c. 15,000sq.ft.+)	95 (-2)	2	2 *(+1)*	1	100
Medium Format (c. 10,000sq.ft.)	12 *(+3)*	2	3	-	17
Small Format (<5,000sq.ft.)	5 *(+2)*	-	1	-	6
Other (5,000sq.ft.)	-	-	-	1	1
DFS TOTAL	**112 (+3)**	**4**	**6 (+1)**	**2**	**124 (+4)**
Sofology *(10-12,000 sq.ft. & 5-7,000 sq.ft. Mezzanine)*	**41 *(+4)***	**-**	**-**	**-**	**41 (+4)**
Standalone	3	-	-	-	3
DFS Co-locations	33 *(+5)*	-	-	-	33
Dwell *(c. 3,500-6,000sq.ft)*	**36 (+5)**	**-**	**-**	**-**	**36 (+5)**
Standalone	21 (+6)	-	-	-	21
DFS Co-locations	10 *(+5)*	-	-	-	10
Sofa Workshop *(c. 2,500sq.ft)*	**31 (+11)**	**-**	**-**	**-**	**31 (+11)**

Historical performance for the new half year and full year end dates

52 weeks ending 30 June 2018	DFS £m	Other brands £m	Existing Group £m	Sofology* £m	Total £m
Gross sales	902.0	71.4	973.4	132.1	1,105.5
Revenue	691.3	58.1	749.4	104.6	**854.0**
Cost of sales	(277.0)	(25.7)	(302.7)	(52.6)	**(355.3)**
Gross profit	414.3	32.4	446.7	52.0	**498.7**
Selling and distribution costs (excl. property costs)	(222.5)	(22.0)	(244.5)	(31.0)	**(275.5)**
Brand contribution	191.8	10.4	202.2	21.0	**223.2**
Property costs			(84.7)	(13.0)	**(97.7)**
Underlying administrative expenses			(41.6)	(7.2)	**(48.8)**
Underlying EBITDA			75.9	0.8	**76.7**

** Sofology shown for the seven months ending June 2018, since acquisition*

Historical performance for the new half year and full year end dates

48 weeks ending 30 June 2018	**DFS £m**	**Other brands £m**	**Existing Group £m**	**Sofology* £m**	**Total £m**
Gross sales	806.7	64.7	871.4	132.1	1,003.5
Revenue	618.0	52.6	670.6	104.6	**775.2**
Cost of sales	(249.6)	(23.3)	(272.9)	(52.6)	**(325.5)**
Gross profit	368.4	29.3	397.7	52.0	**449.7**
Selling and distribution costs (excl. property costs)	(207.6)	(20.6)	(228.2)	(31.0)	**(259.2)**
Brand contribution	160.8	8.7	169.5	21.0	**190.5**
Property costs			(78.1)	(13.0)	**(91.1)**
Underlying administrative expenses			(39.4)	(7.2)	**(46.6)**
Underlying EBITDA			52.0	0.8	**52.8**

** Sofology shown for the seven months ending June 2018, since acquisition*

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