

DFS GROUP

Interim Results

MARCH 2023



Overview

Introduction & Overview

Tim Stacey

Financials

John Fallon

Strategy & Operational update

Tim Stacey

Outlook & Summary

Tim Stacey

Q&A

Tim Stacey & John Fallon



H1 FY23 Summary

Record market share, but challenging environment

Strong second quarter order intake
continued into second-half Winter Sale

Increasing profit margins, cost headwinds reducing

Margin 'Build Back' plan on track,
margin improvement in H2

Profit guidance in line with consensus, weighted to H2

Continued focus on growth, gross margin % and
cost control

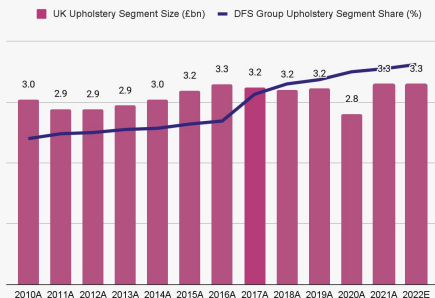


Market Context

Record market share...

Despite a challenging consumer environment, consistent market share growth for the Group to 38%

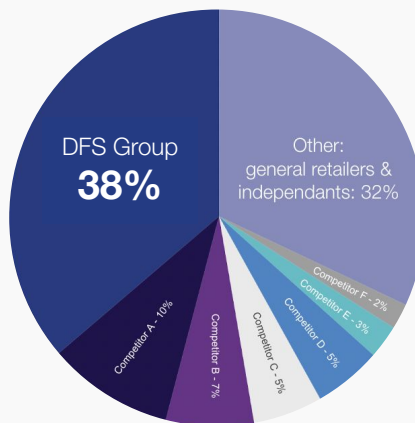
DFS Group Upholstery Sector Share (%)
(& UK upholstery segment size £bn)



(Source: Global Data/Barclays, calendar years)

...with further headroom

DFS Group clear market leader: a fragmented long-tail of independents & other retailers; opportunities to grow share



Our winning model

Our continued belief that the winning combination is both physical & digital:



Best Store Experience
Best New Formats
Best Retail Estates
Best Sales Teams

Best Online Brand Strength
Best Products & Range
Best Enhanced Technology
Best Ecommerce Platform

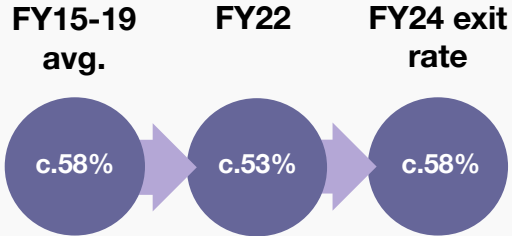
Three areas of focus

1. Growth

Maintain & grow share
+
Drive Average Order Value
+
**Access Home, especially
Beds & Mattresses**

Market challenging but
+38% market share:
an all-time high

2. Gross Margin %



- Positive drivers:**
- Freight & COGs normalisation;
 - Reduced supply chain disruption
- Negative drivers:**
- Interest Free Credit costs;
 - £/\$ rates

3. Costs & inflation

£500m
operating costs
+
c.5% inflation

Taking actions to mitigate
+ lower costs without
impacting our growth agenda

Overview

Introduction & Overview

Tim Stacey

Financials

John Fallon

Strategy & Operational update

Tim Stacey

Outlook & Summary

Tim Stacey

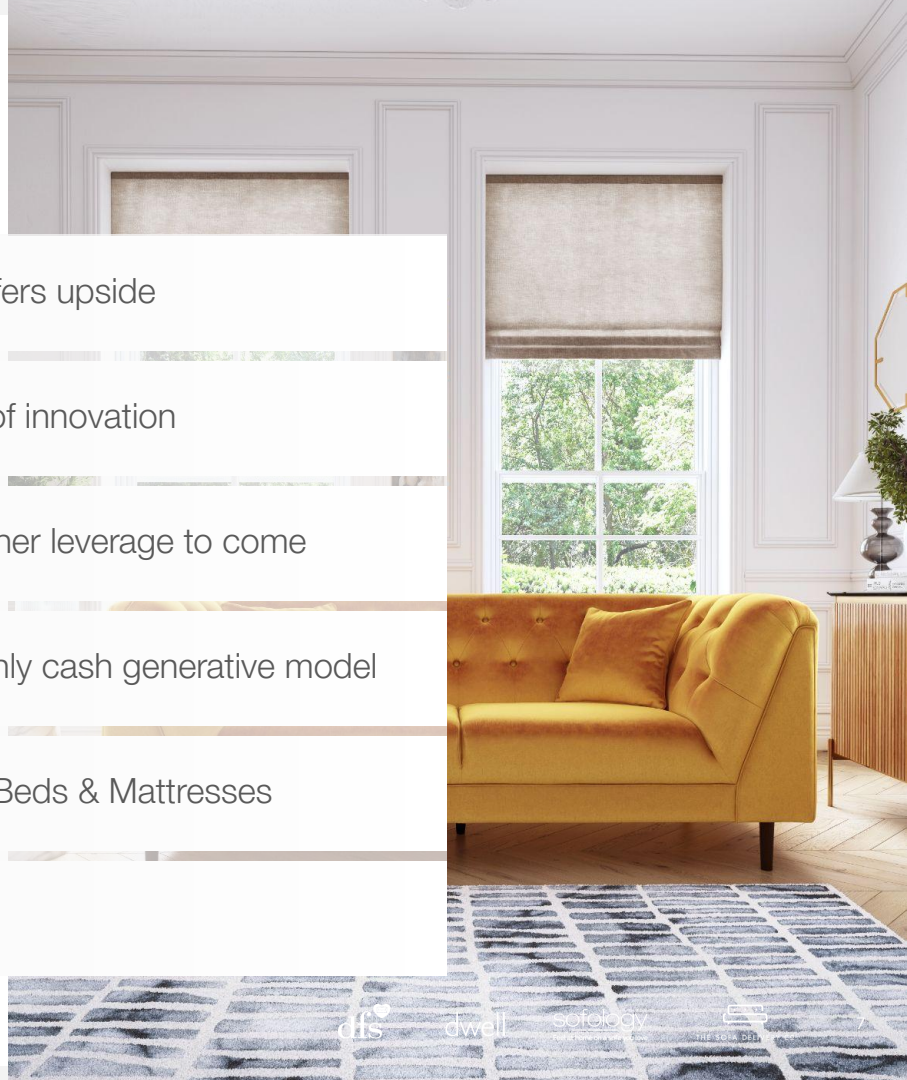
Q&A

Tim Stacey & John Fallon



Reflections so far

1. **Exclusive brands, high quality products**, Sofology offers upside
2. **Powerful omni-channel platform** with a track record of innovation
3. **Unmatchable scale**: unlocks market leading value, further leverage to come
4. **A well invested, strongly positioned business**: a highly cash generative model
5. **Home: a valuable addressable market**, starting with Beds & Mattresses
6. **Culture and values**: the special ingredient



Results overview

<i>(£m) unless stated</i>	H1 2023 26 weeks to 25-Dec-22 ¹	H1 2022 26 weeks to 26-Dec-21 ¹
Revenue	544.5	556.5
<i>Growth vs FY19</i>	+9.4%	+11.8%
Reported PBT	6.8	22.8
Underlying PBTA²	7.1	23.3
<i>Underlying EPS</i>	2.2p	7.3p
Net bank debt	135.6	65.4
<i>Leverage</i>	1.7x	1.3x

- Revenue growth relative to pre-pandemic period
- PBT down due to elevated H1 order bank, inflationary pressures and growth investments
- Profit weighted to H2, as headwinds subside and profitability improvements delivered
- Leverage outside target range (0.5x-1.0x); plans to reduce
- Headroom well within covenants

¹ Continuing operations only (excludes the discontinued International operation & Sofa Workshop disposal)

² PBTA excludes brand amortisation

Revenue performance

	H1 FY23	YoY	v.H1 FY19*
Gross Sales	705.6	(1.1%)	+9.6%
DFS (inc Dwell)	557.2	(1.9%)	+10.5%
Sofology	148.4	+2.5%	+6.1%
<i>Digital % Sales^</i>	24.0%	+1.0%pts	+6.5%pts
Revenue	544.5	(2.2%)	+9.4%
Market Share	38%	+2%pts	+7%pts

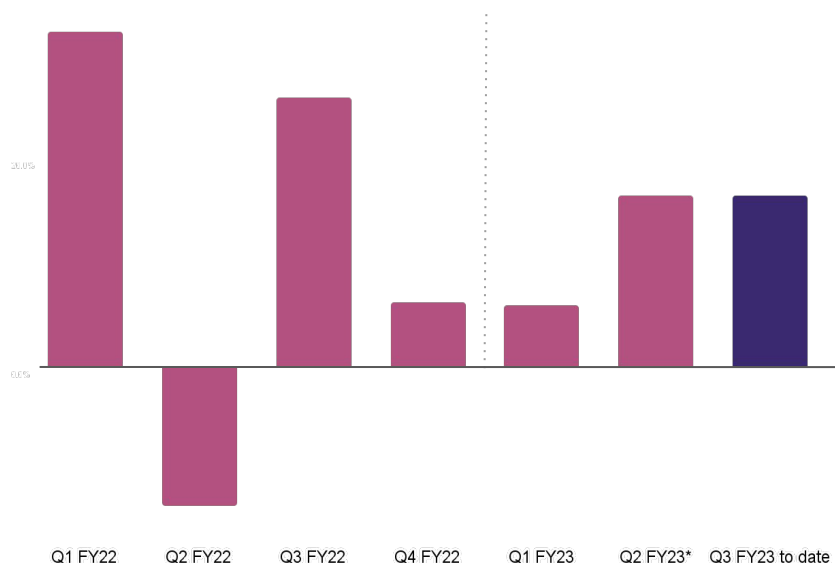
- Gross Sales (deliveries) +9.6% higher than FY19
- Digital sales^ 24% of total gross sales, c40% higher than pre-pandemic
- Higher average order values offset volume decline in tough consumer market
- Beds & Mattresses ranges +70% year on year online bookings growth
- Sofology LFL recovery an opportunity after supply chain delays in 2021/22
- Revenue growth lower than gross sales due to increased IFC costs

* H1 FY19 is the pro forma unaudited 26 week period to 30 December 2018. Revenues are for continued operations

^Gross sales for orders completed online and via telephone as a percentage of total Gross Sales

Strong Q2 order growth

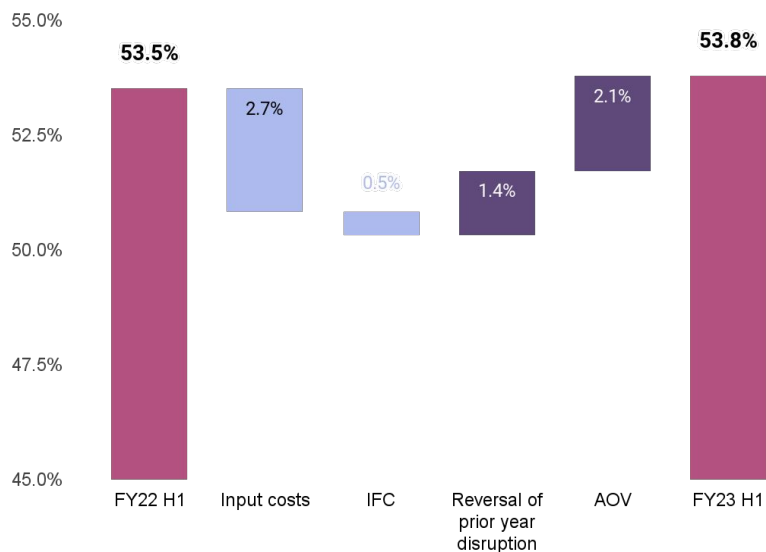
Order value growth (vs FY19)



- Q2 Order Intake +16.3% vs FY19; order bank elevated by c£4m profit
- Positive Winter Sale supports Q3 to date
- Market demand remains uncertain; consumer environment expected to remain challenging across CY2023
- Record market share of 38% across first half, with further headroom in Beds & Mattresses

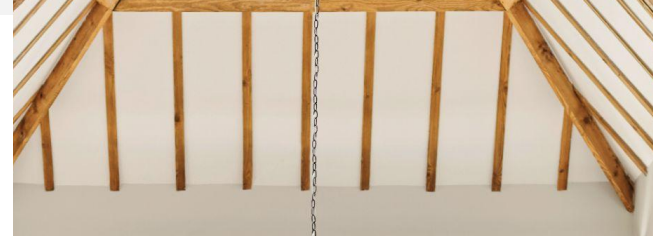
*Excludes wk26 due to differing number of post Christmas sales days that fall into the period each year
Q3 FY23 to date covers the period to week 26 to 37 (week ending 12 March 2023)

Gross margin



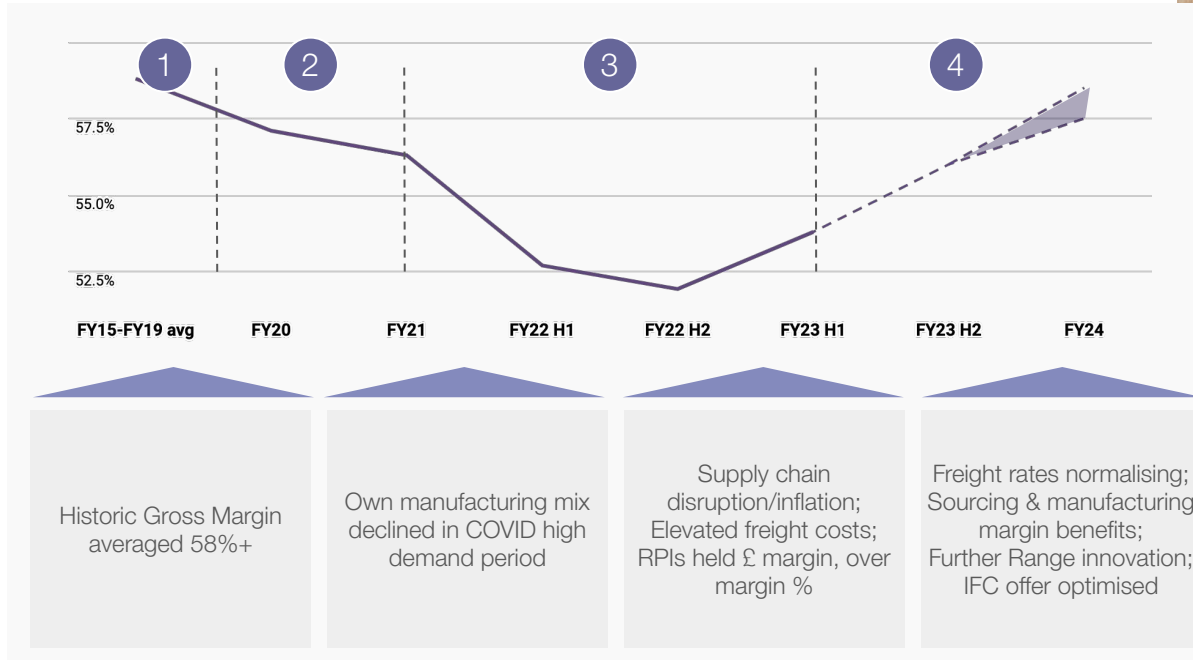
- Gross margin of 53.8%, up +30bps year on year; +190ps from H2 FY22 low of 51.9%
- Input costs: Freight rates headwind peaked CY 2022, fully reverses from March 2023
- IFC subsidy costs contained to c£6m year on year; supported by favourable contract rates
- Prior year COVID related disruption unwinds
- AOV increases from range innovation and selective retail price increases

*Excludes wk26 due to differing number of post Christmas sales days that fall into the period each year



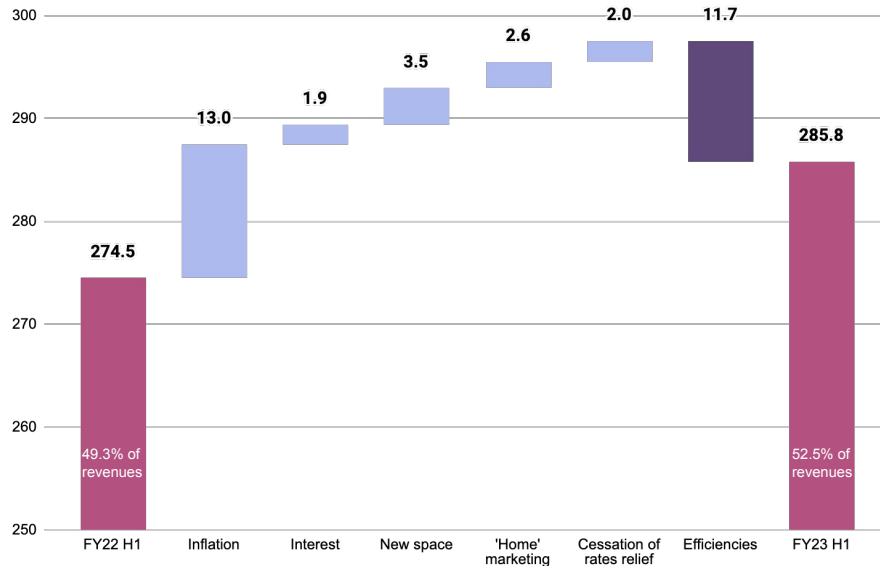
Gross margin

Recovery plan on track



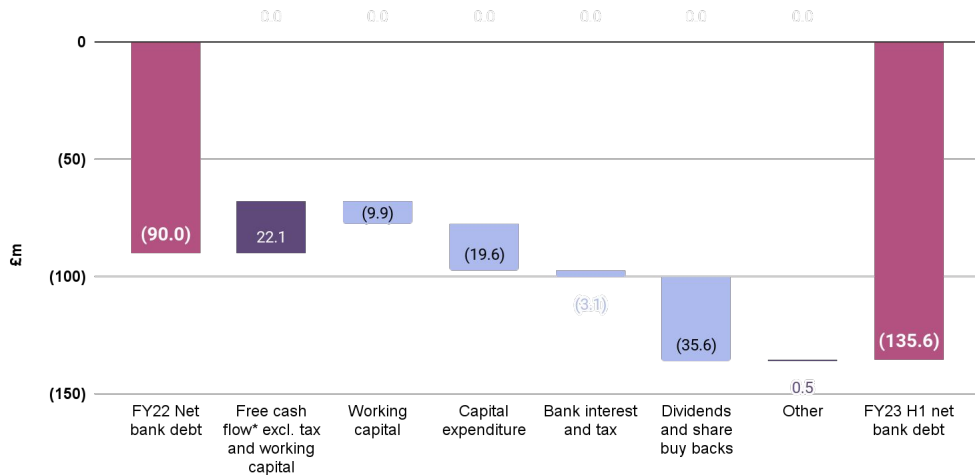
- Gross Margin on track to continue recovery in second half (to c56%)
- Freight rates <\$2k from Mar '23
- IFC offer now limited to 36 months
- Further Group sourcing leverage offers route back to historical rate

Operating costs (including D&A and interest)



- Inflation mainly driven by labour and supply chain related costs
- Continued to invest in Beds awareness, new Sofology showrooms & warehouse capacity for growth
- Efficiencies from Sofa Delivery Company and reduced disruption
- Renewed focus on lowering cost base

Cash and Net Debt



Drivers of net debt movement:

Profit weighted to H2

+

Working capital normalising

+

Shareholder returns in respect of strong performance in prior years

- Leverage at 1.7x
- Target 0.5x - 1.0x
- Expect leverage to reduce as profit growth delivered

Capital distribution policy simplified

- Ordinary dividend calculation simplified to EPS cover basis. Greater transparency, easier to forecast
 - Net debt leverage target unchanged; prioritises long-term resilience
 - Delivers attractive returns as profits grow from current cyclical low + strong free cash flow generated
 - Interim dividend of 1.5p
 - Projected total ordinary dividend 4.5p, based on 2.5x cover, subject to delivery of FY23 profit guidance
-

Capital distribution policy updated:

- Ordinary dividend cover between 2.25x and 2.75x earnings per share
- Target Net Debt Leverage* range unchanged between 0.5x and 1.0x
- Special returns when average net debt projected to fall below the minimum target of 0.5x

*The ratio of period end net bank debt to cash EBITDA for the previous twelve months.

Cash EBITDA: Net cash from operating activities before tax, less movements on working capital and provisions balances and payments made under lease obligations, adding back non-underlying items before tax.

Outlook

FY23

- Consumer outlook: market demand remains uncertain and hard to forecast
- Q3 to date: Order intake in line with expectations
- Profit* guidance in line with market consensus (range £30m-£35m)
 - Gross Margin % rebuild on track to c.56% for H2, freight costs reducing
 - Order bank assumed to fully normalise

*Profit before tax and brand amortisation
Market consensus £32.3m PBTA

Medium term

- Record market share: Group well positioned for when market volumes recover
- Gross margin plan to rebuild to 58%
- Cost base review underway
- Continuing to invest to support growth ambitions

Overview

Introduction & Overview

Tim Stacey

Financials

John Fallon

Strategy & Operational update

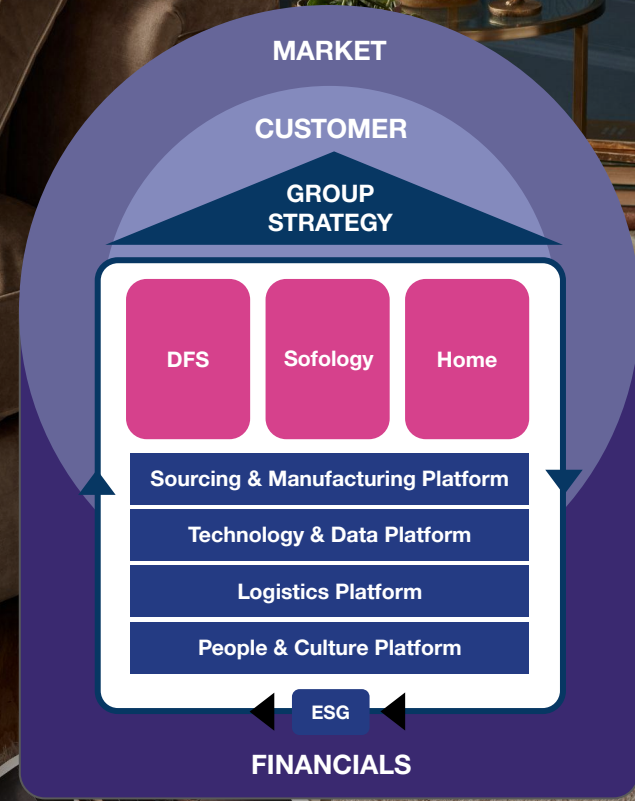
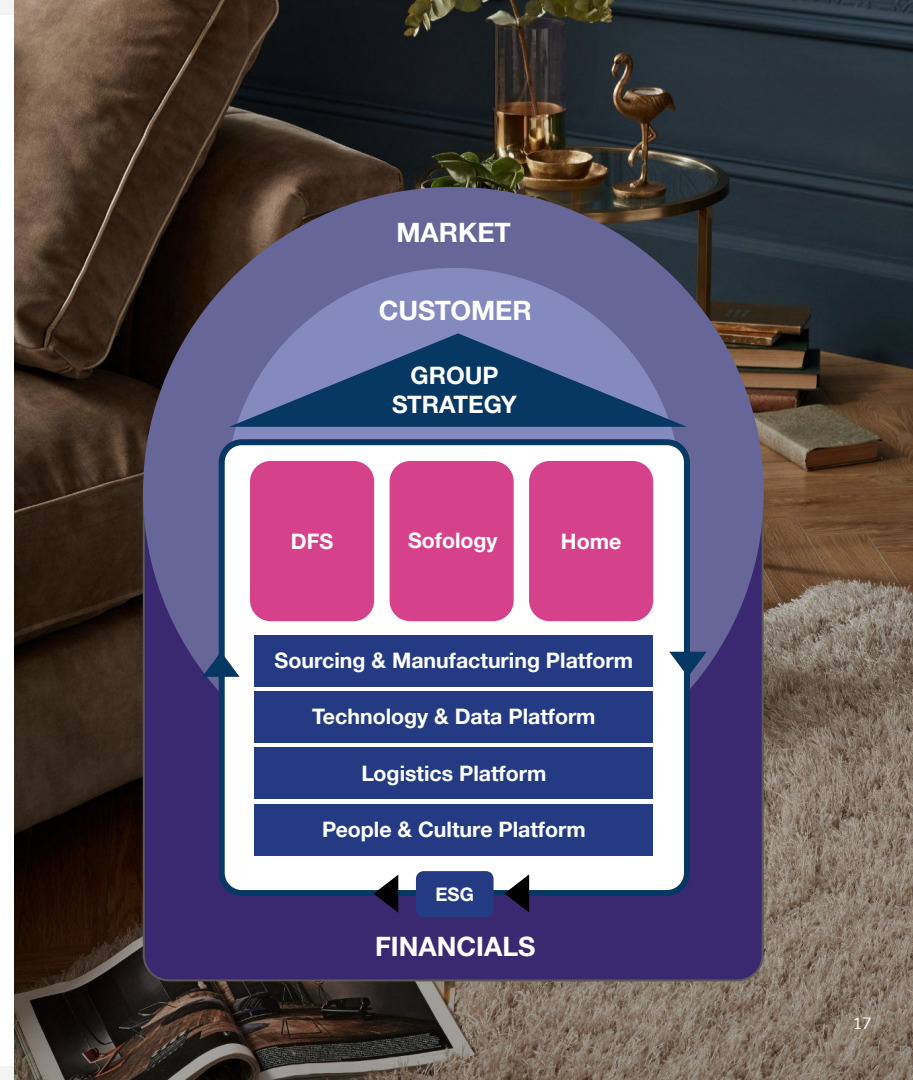
Tim Stacey

Outlook & Summary

Tim Stacey

Q&A

Tim Stacey & John Fallon



The What: DFS Pillar

Strong on-going performance

New
brand
marketing

**WHAT'S
YOUR
THING?**

Driving impact: DFS is one of Meta's most advanced partners in the retail sector

Strategic
range
development



E.g extended Grand Designs range: the Lambourn made from recyclable fabric

Ongoing
investment
in format



Transformation roll out across 50 stores. 5%↑ LFL sales; payback <24mths

Workforce
Optimisation
Solution



Roll-out across the entire estate; continues to drive increased conversion (+0.5% YoY)

The What: Sofology Pillar

Continued development



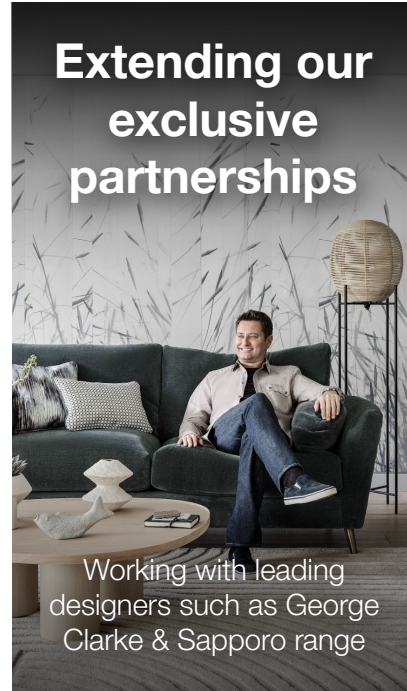
Highly targeted brand proposition

New campaign delivering highest level of awareness for Sofology brand



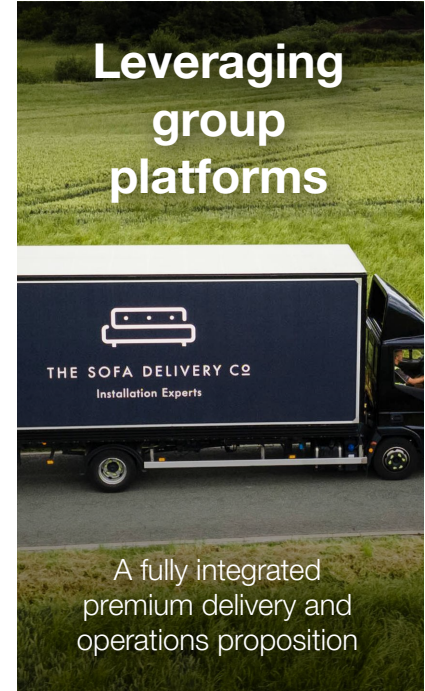
New sustainable eco range

New Gaia: recyclable fabric sustainable seat fillings; can be recycled or repurposed at the end of the sofa's life



Extending our exclusive partnerships

Working with leading designers such as George Clarke & Sapporo range



Leveraging group platforms

A fully integrated premium delivery and operations proposition

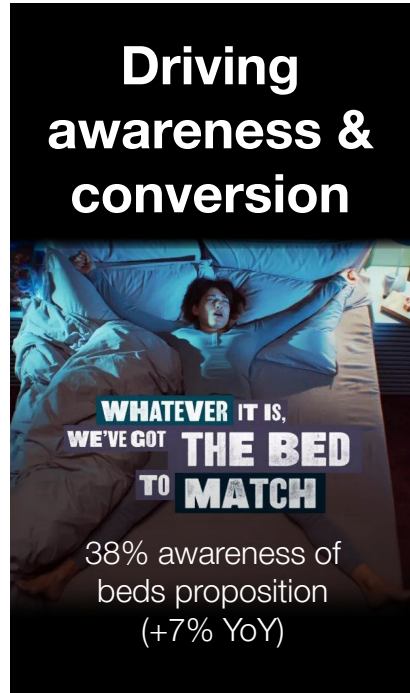
The What: Home Pillar

Sustained investment in building the foundations



**Unlocking
Beds &
Mattresses
opportunity**

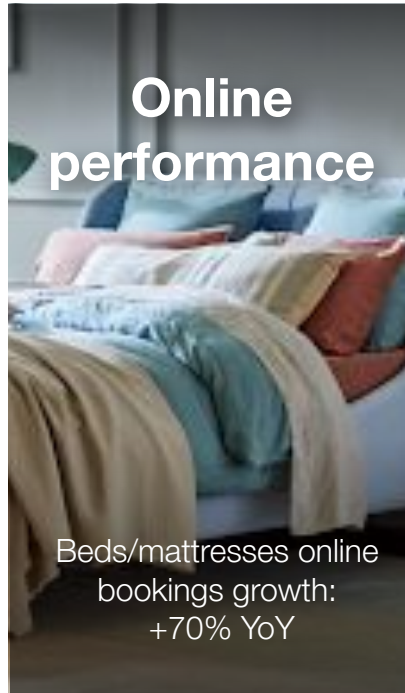
Focusing on £3bn addressable market and aim to secure 4% share



**Driving
awareness &
conversion**

**WHATEVER IT IS,
WE'VE GOT THE BED
TO MATCH**

38% awareness of beds proposition (+7% YoY)



**Online
performance**

Beds/mattresses online bookings growth: +70% YoY



**Completed
Drop ship
Consolidation**

All Beds & Mattresses deliveries consolidated via Wincanton partnership

Platform Highlights

On-going progress across the business, including:

Sourcing & Manufacturing

Investing in our Doncaster manufacturing site;
evolve & optimise supplier mix;

Technology & Data

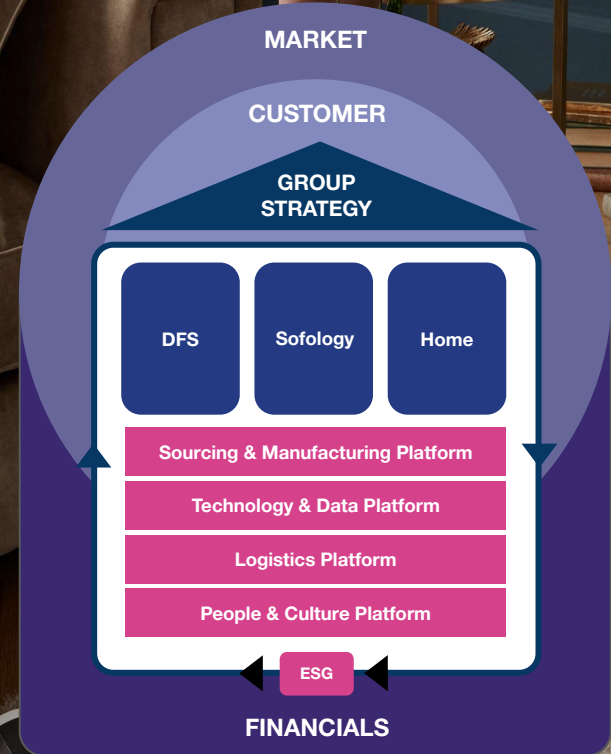
Continued investment in ongoing transformation
programmes (see next slide)

Logistics

Implemented 2 super warehouses, integration complete
driving cost savings

People & Culture

Integrated Group Teams in Finance, HR & Technology
Underpinned with new EVP to help drive retention



Technology & Data

On-going progress across the business, including:

New data-rich customer segmentation

For our Pillar Brands to help drive efficiency & effectiveness

Sofology's Intelligent Lending Platform

Roll out of DFS' successful multi-lender finance solution

Launched Data Literacy programme

Starting with Sodelco, followed by rest of Group



ESG Highlights

On-going progress made across the 'Sofa Cycle' framework and 'Everyone Welcome' People strategy including:

E: Clear focus on product circularity

Launched new ranges with innovative product construction, leading towards the market's first fully circular product

S: Launched breakthrough initiatives

One example: our new "Drivers' School" programme: upskilling our 3.5t drivers; already added over 50+ 7t drivers

G: Embedded board-level RSC

To ensure clear governance and to continue to help review progress on all fronts



Overview

Introduction & Overview

Tim Stacey

Financials

John Fallon

Strategy & Operational update

Tim Stacey

Outlook & Summary

Tim Stacey

Q&A

Tim Stacey & John Fallon



Summary & longer term view

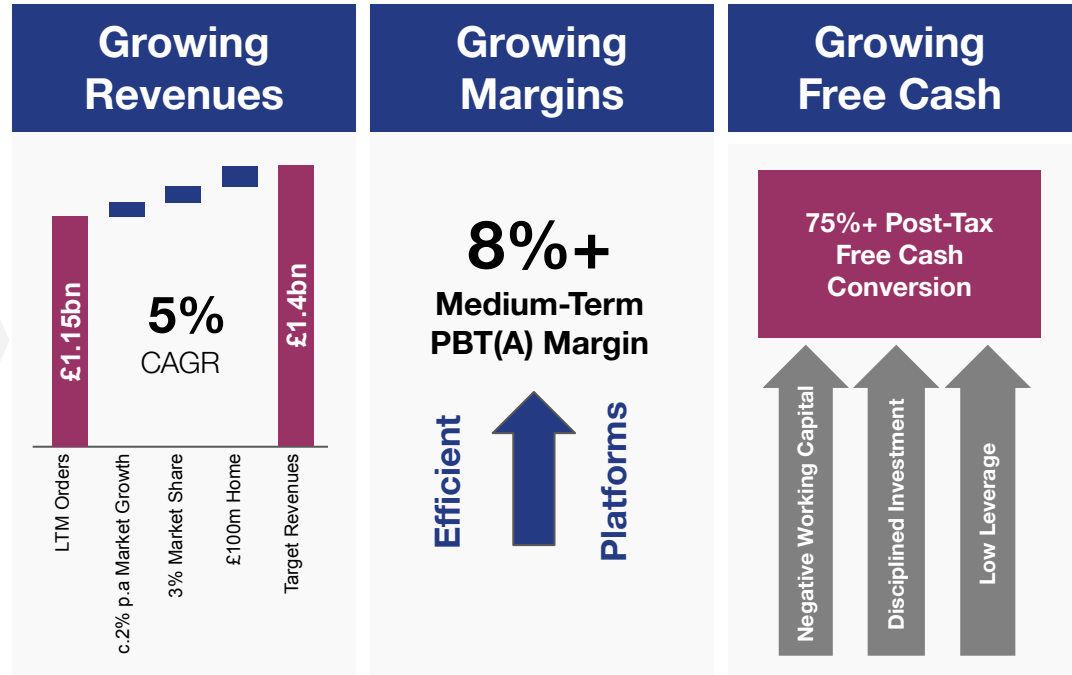
Today...

Record market share,
challenging market

Improving profit margins,
cost headwinds reducing

Profit* expected to be in
line with market
expectations

Looking ahead:



*Profit before tax and brand amortisation

Overview

Introduction & Overview

Tim Stacey

Financials

John Fallon

Strategy & Operational update

Tim Stacey

Outlook & Summary

Tim Stacey

Q&A

Tim Stacey & John Fallon



The image features a collection of decorative pillows on a green fabric background. A large white circle with a thin black border is centered over the pillows, containing the text "Thank you". The pillows include a dark blue one with a tiger, a dark blue one with birds and flowers, and a pink one with a large bird. A yellow fringed pillow is also visible.

Thank you

Group Showroom Profile

AS AT 25 DECEMBER 2022 (VS. 26 DECEMBER 2021 EXCLUDING SOFA WORKSHOP)

	UK	ROI	Holland	Spain	TOTAL
Large Format (c. 15,000 sq.ft.+)	90 (-2)	3	- (-2)	- (-1)	93 (-5)
Medium Format (c. 10,000 sq.ft.)	19	2	- (-4)	-	21 (-4)
Small Format (c. 5,000 sq.ft.)	3 (-1)	-	-	- (-1)	3 (-2)
DFS TOTAL	112 (-3)	5	- (-6)	- (-2)	117 (-11)
Large format (c. 15,000 sq.ft.+)	55 (+2)	-	-	-	55 (+2)
Medium format (c.10,000-15,000 sq.ft)	2 (+1)	-	-	-	2 (+1)
Sofology TOTAL	57 (+3)	-	-	-	57 (+3)