


dfs
the sofa experts



Interim results
30 March 2017



Highlights

Ian Filby

Continued Financial Growth and Strong Operational Progress

H1 FINANCIALS

£493.7m **Gross sales**
+7.0%

£16.7m **Profit before tax**
+3.1%

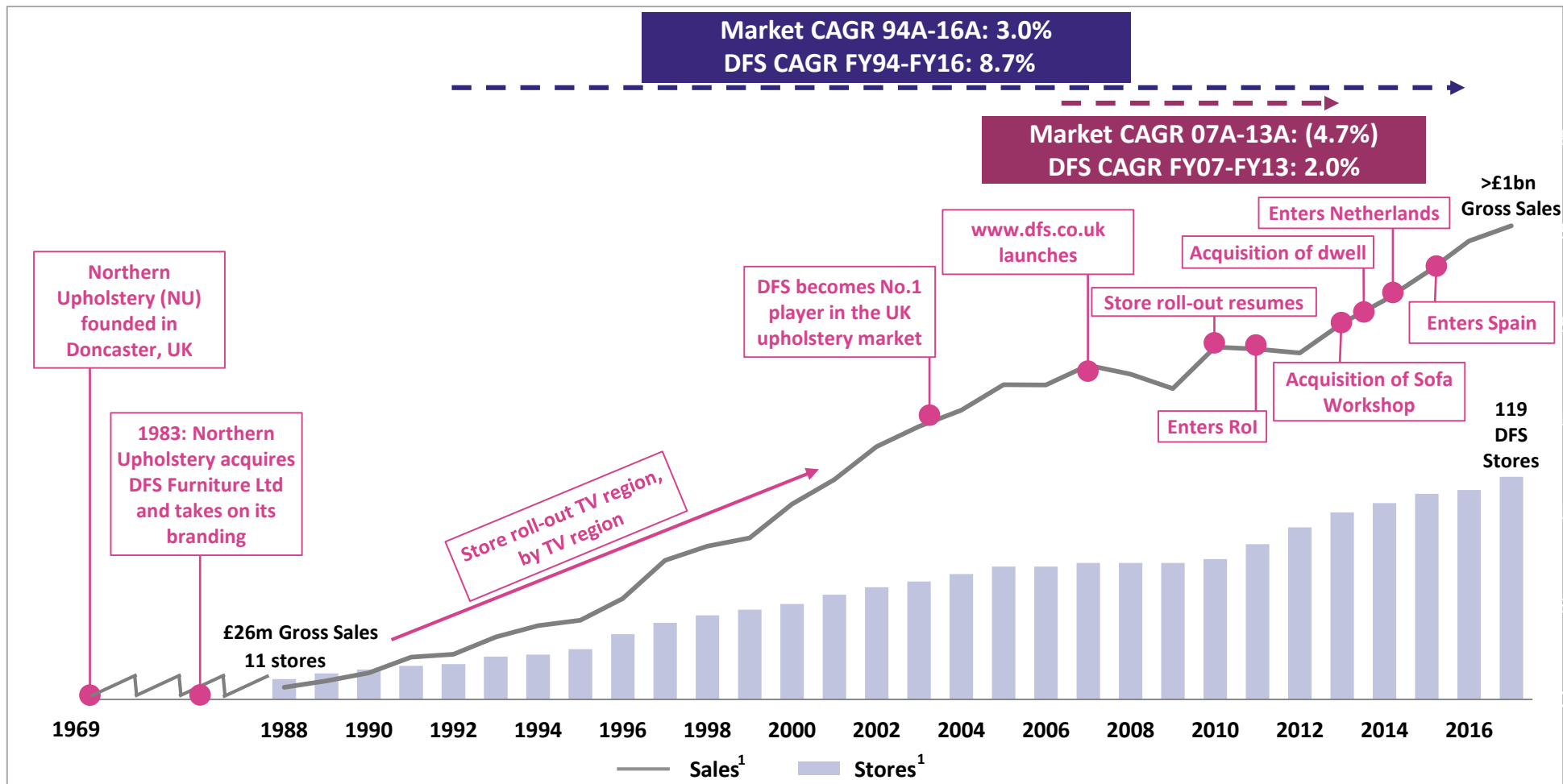
£20m **Special dividend**
9.5p per share

OPERATIONAL

-  Good growth in UK revenues with positive LFLs and new store openings
-  International progressing as expected
-  Positive Dwell and Sofa Workshop performance using converted existing store warehouse space
-  Continued double-digit web growth
-  Small-format store trials continuing
-  Record customer NPS
-  Significant investment in operations

We continue to successfully implement our strategy, delivering last twelve months gross sales of £1,012.8m and PBT of £65.0m, with strong cash conversion underpinning announcement of a special dividend

Milestone of £1bn of Gross Sales, as Part of our Long-Term Journey



We have maintained a long and consistent track record of above market growth



Notes:

1. Line chart illustrates Gross Sales (incl. VAT). Gross Sales between 1988-2006 are estimated based on standard VAT rates. Bar chart illustrates number of DFS stores.

Financials

Nicola Bancroft

Record Financial Results

<i>(£m)</i>	H1 2016 26 weeks 30-Jan-2016	H1 2017 26 weeks 28-Jan-2017	FY 2016 52 weeks 30-Jul-16	LTM H1 2017 52 weeks 28-Jan-2017
Gross Sales	461.3	493.7	980.4	1,012.8
<i>Growth (%)</i>	+7.0%	+7.0%	+7.4%	+7.4%
Revenue	355.8	379.9	756.0	780.1
<i>Growth (%)</i>	+6.9%	+6.8%	+7.1%	+7.0%
EBITDA	31.0	32.4	94.4	95.8
<i>Growth (%)</i>	+12.3%	+4.5%	+5.8%	+3.5%
PBT	16.2	16.7	64.5	65.0
<i>Growth (%)</i>	-	+3.1%	-	+8.0%
Earning Per Share⁽¹⁾	6.0p	6.2p	23.7p	23.9p
<i>Growth (%)</i>	-	+3.3%	+28.1%	+4.8%
Ordinary DPS	3.5p	3.7p	11.0p	11.2p
Special DPS		9.5p		9.5p

OVERVIEW

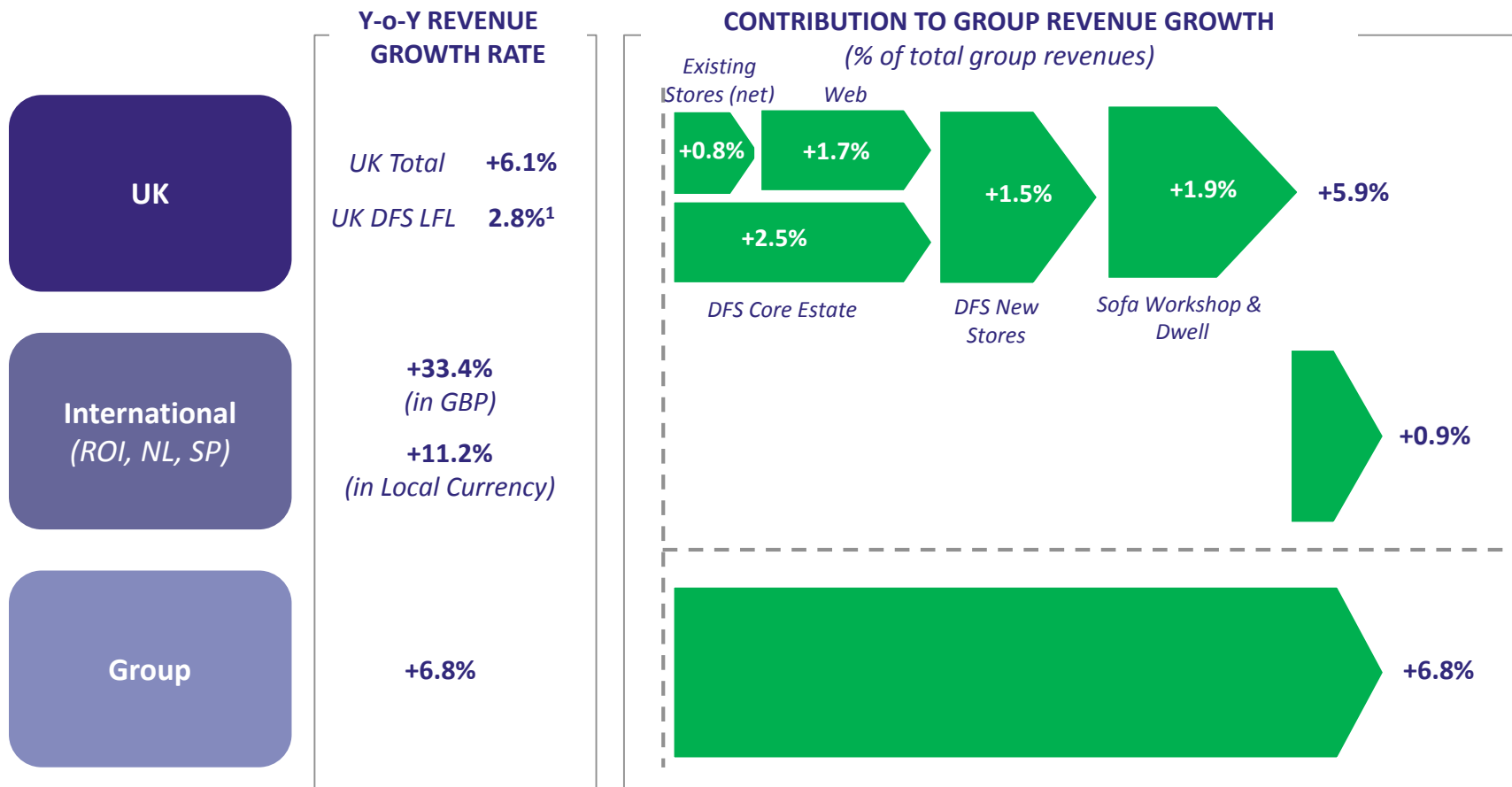
Further consistent growth in gross sales and revenue

Growth in EBITDA despite input cost pressures

Interim Dividend and Special Dividend declared

**Growth in EBITDA and earnings per share driven by good revenue performance.
Announcement of special dividend to be paid alongside interim dividend**

All Segments Seeing Revenue Growth



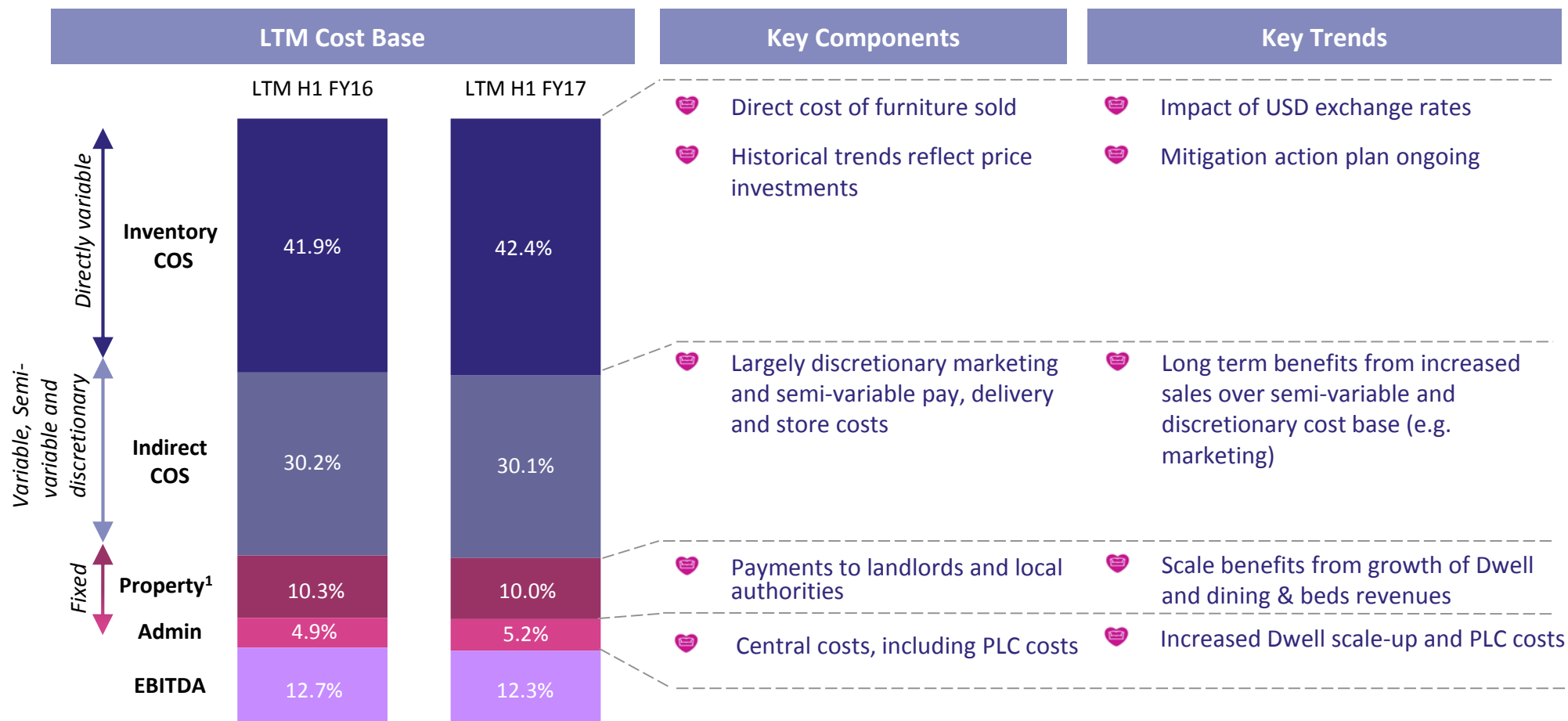
Good revenue growth performance, with significant contribution from proven growth levers



Notes:

1. Web and 99 DFS UK stores in like-for-like group out of 108 UK stores at period end

Cost Base Flexibility

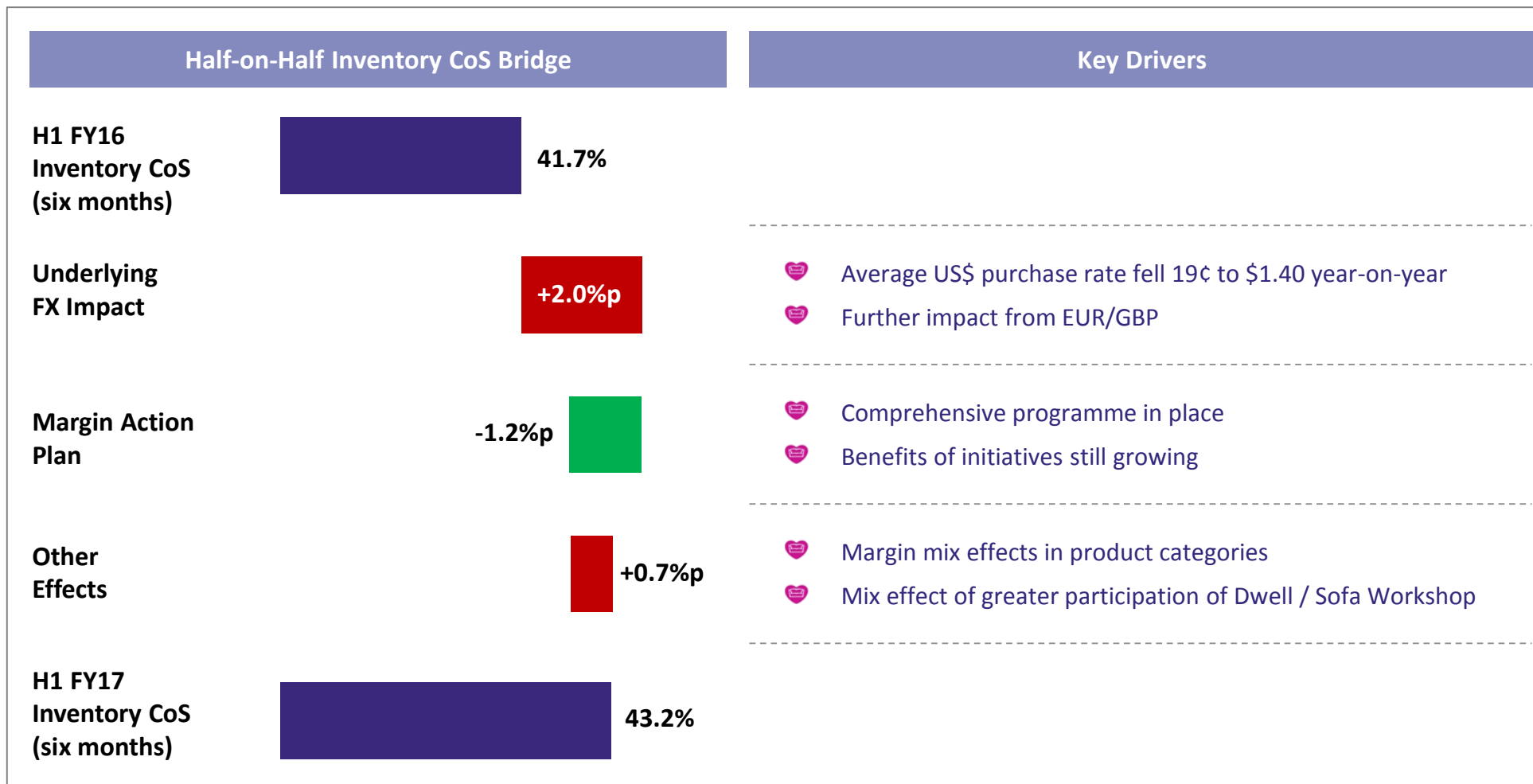


Revenue growth resulting in operating leverage over fixed costs. EBITDA margin adversely impacted by cost of sales trends

Notes:

- Property comprises rent and rates

Margin Action Plan Well Underway



Margin action plan continuing to offset impact of US\$ linked cost inflation. Full year gross margin potential exposure continues to be expected to be at c. 0.5% of revenues, despite weaker FX environment

Strong Cash Generation Supporting Announcement of Special Dividend

Y-O-Y PROGRESS IN LINE WITH ANTICIPATED TRENDS

<i>(£m)</i>	LTM H1 2016	FY 2016	LTM H1 2017
Underlying EBITDA	92.6	94.4	95.8
Capex	(20.7)	(24.5)	(30.9)
Change in Working Capital	1.3	5.7	0.2
Free Cash Flow¹	73.2	75.6	65.1
<i>Conversion (% of EBITDA)²</i>	<i>79.0%</i>	<i>80.1%</i>	<i>68.0%</i>
Net debt	(158.1)	(137.1)	(135.6)
<i>Multiple of underlying EBITDA (x)</i>	<i>1.71x</i>	<i>1.45x</i>	<i>1.42x</i>

SPECIAL DIVIDEND

- ♥ Stronger year-on-year cash position as expected
 - Record levels of capital investment in business in the period
- ♥ Intention to maintain net debt / EBITDA broadly between 1.0x and 1.5x
- ♥ Special dividend of £20m (9.5p per share) paid alongside interim dividend
 - Expect to end year at c. 1.5x net debt / EBITDA
- ♥ First payment of an expected recurring programme of special capital returns

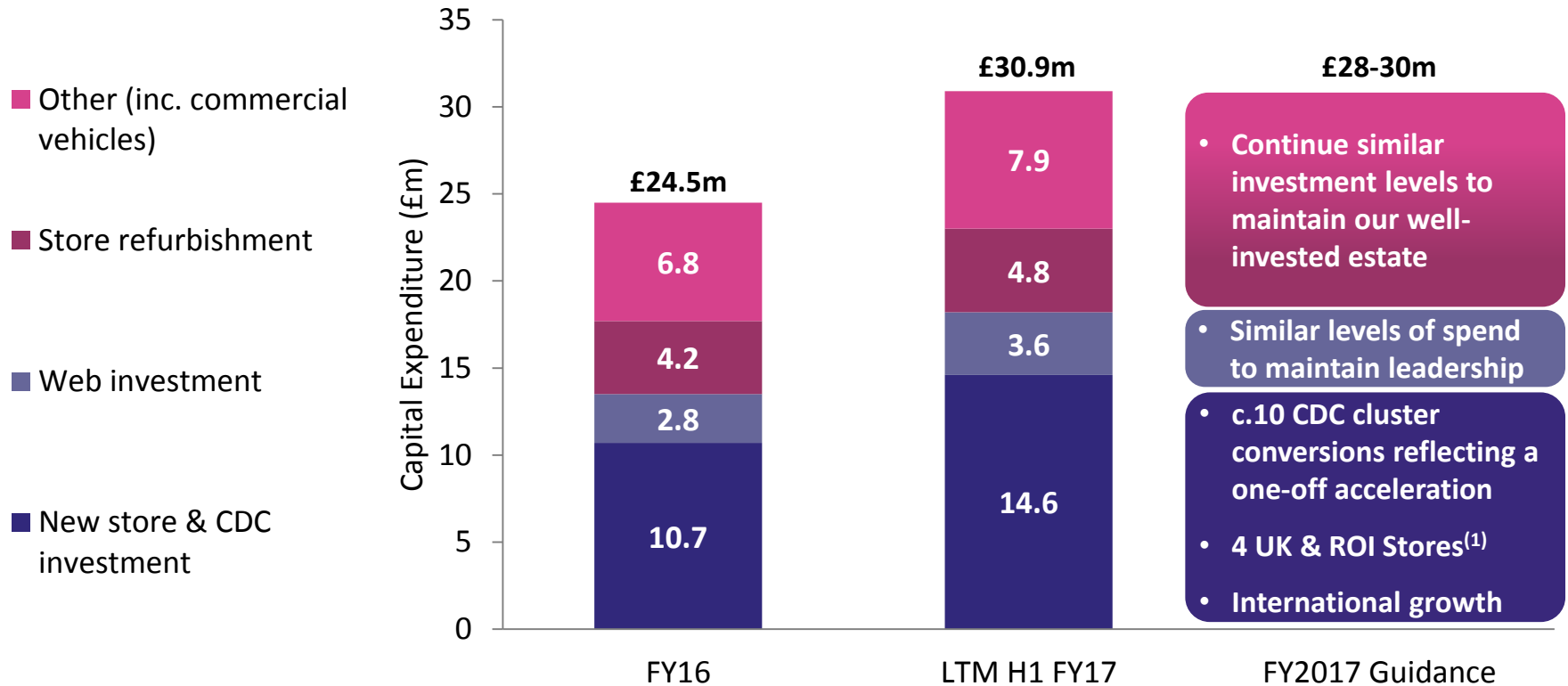
Strong cash generation in a period of record capital investment leading to substantially stronger year-on-year cash position. Special dividend announced in line with policy of returning capital to shareholders subject to capital needs being accounted for

Notes:

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

Investment in Infrastructure for Future Growth

CASH CAPITAL EXPENDITURE

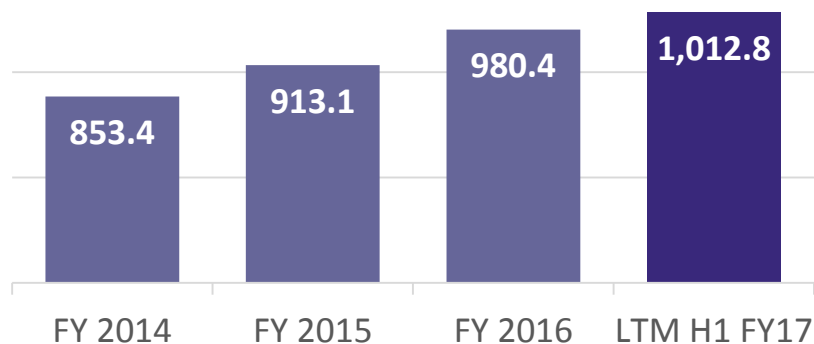


Capex spend reflects CDC acceleration, and investment in existing and new stores. Full year capex expected to be £28m-£30m due to the CDC acceleration underway. Thereafter, capex requirements for existing growth and maintenance initiatives likely to be lower than FY17

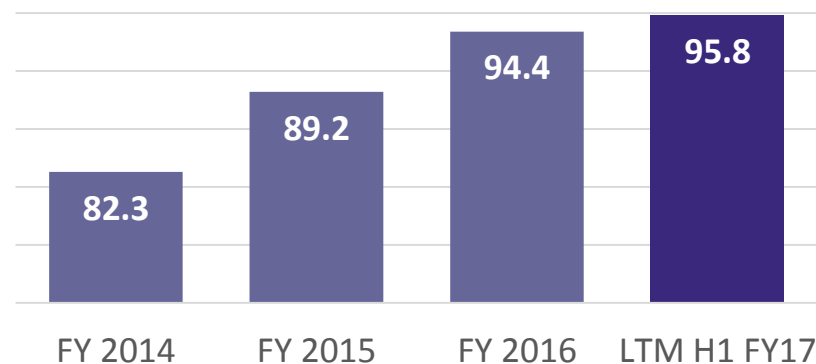
(1) Includes on retail park relocation of Kings Lynn store

Summary: Positive Financial KPIs

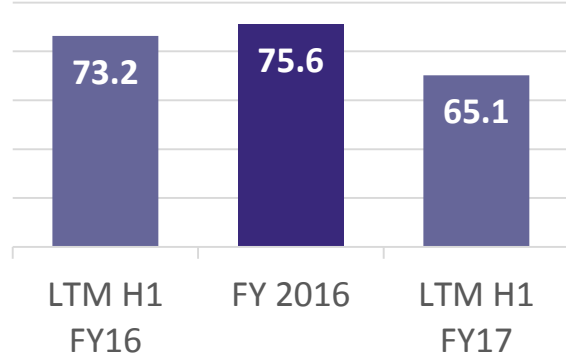
GROSS SALES (£M)



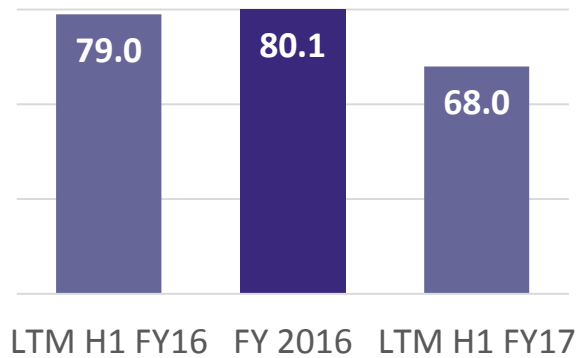
UNDERLYING EBITDA (£M)



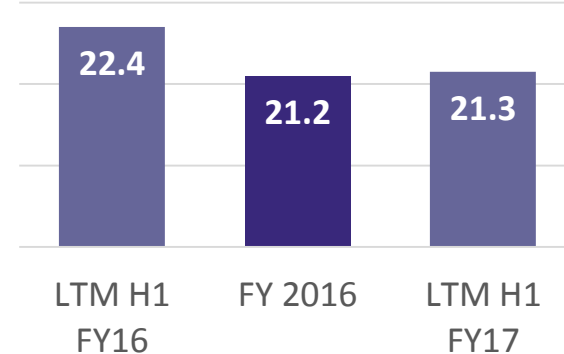
FREE CASH FLOW (£M)



CASH CONVERSION (%)



LEASE ADJUSTED ROCE (%)

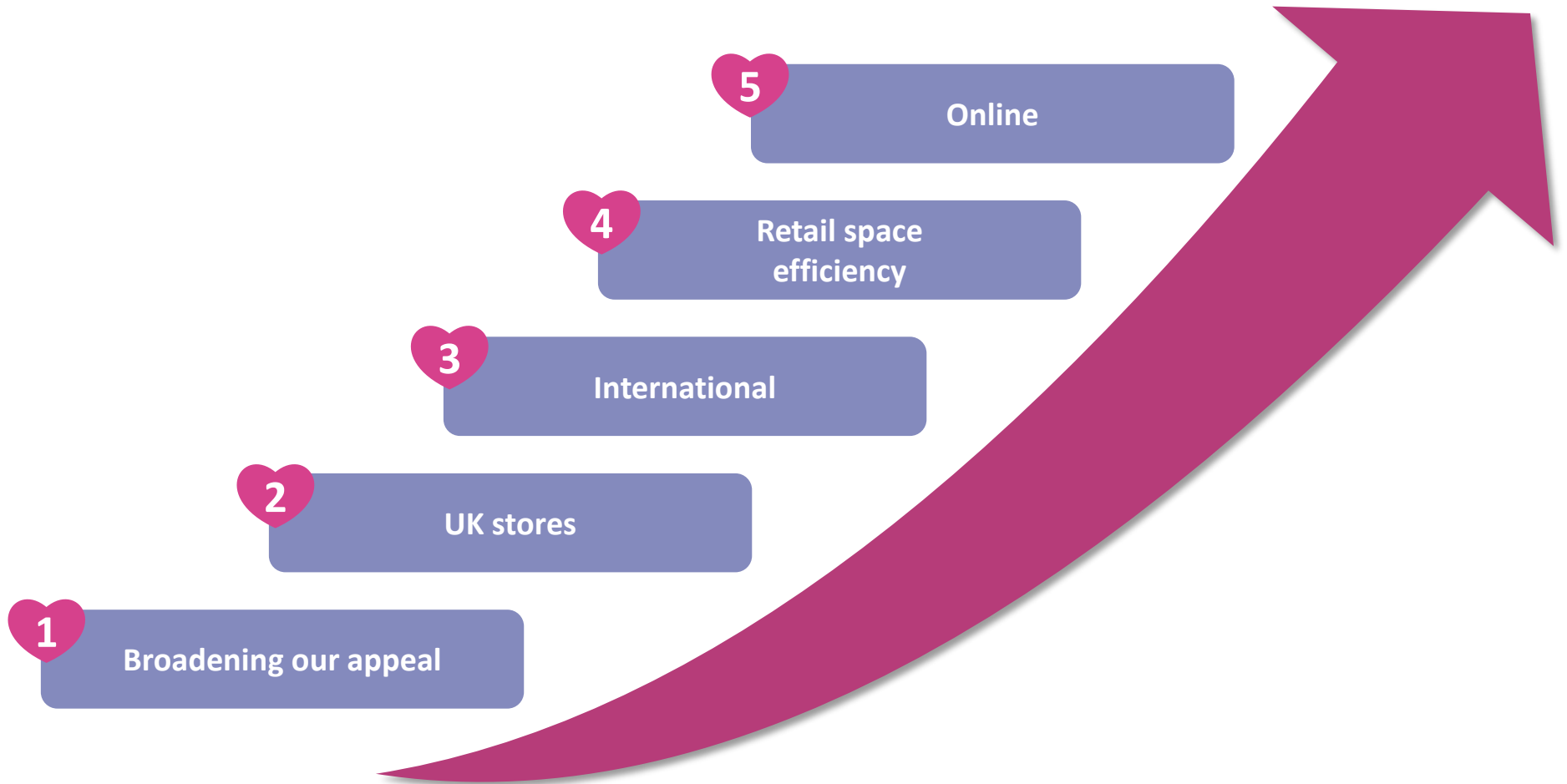


Positive trends overall with sales and earnings growth, high cash conversion and an attractive, stable ROCE

Operational Update

Ian Filby

Our Proven Levers of Growth



Strong fundamentals of Scale, Flexible Cost Base and Vertical Integration

1 Ongoing Broadening of Appeal

NEW CREATIVE APPROACH WITH AARDMAN



AWARD WINNING TEAM GB CAMPAIGN



Retail Week Advertising
Campaign of the Year



OPERATIONAL UPDATE

- ♥ Positive brand benefits from successive successful innovative advertising campaigns
- ♥ Continued growth in branded product sales
- ♥ Product innovation maintained
 - Country Living *Keswick* and French Connection *Clay* ranges now in-store
 - Two Sofa Workshop ranges now introduced throughout the estate
- ♥ Further plans in place for future growth

Incremental LFL growth being driven through a broader appeal to customers

2 DFS Store Network Development

OPERATIONAL UPDATE

- ♥ Truro and Salisbury opened in half-year and trading well, with Ashford opening imminent
- ♥ Crawley small-store trial location opened successfully and operating profitably
 - c. 5,200 sq ft footprint
 - Small store operating model being refined based on learnings to date
- ♥ Continued overall trend of 3-5 new UK and ROI traditional format stores p.a.
 - Pipeline for next two years clearly defined, subject to negotiation
 - Completion of substantial refits of Banbury, Nottingham and Kings Lynn with associated landlord incentives

NEW STORE OPENINGS



Salisbury - August 2016 - 12,300 sq.ft.

Truro - September 2016 - 16,100sq.ft.

Crawley – November 2016 – 5,200 sq.ft.

Ashford – April 2017 - 10,000 sq.ft.

Store openings exploiting “white space” with new formats being trialled

3 International Development – Netherlands & Spain

THE NETHERLANDS

- ♥ New stores opened in Heerlen (December) and Den Haag (March) and in line with plan
- ♥ National marketing trial planned for 2017/18
- ♥ Operating profit investment continues to be in line with expectations



SPAIN

- ♥ Trial store to increase access to expatriate market opened near Malaga
- ♥ Interest free credit proposition now available to British and Spanish residents
- ♥ Spain expected to contribute to operating profit



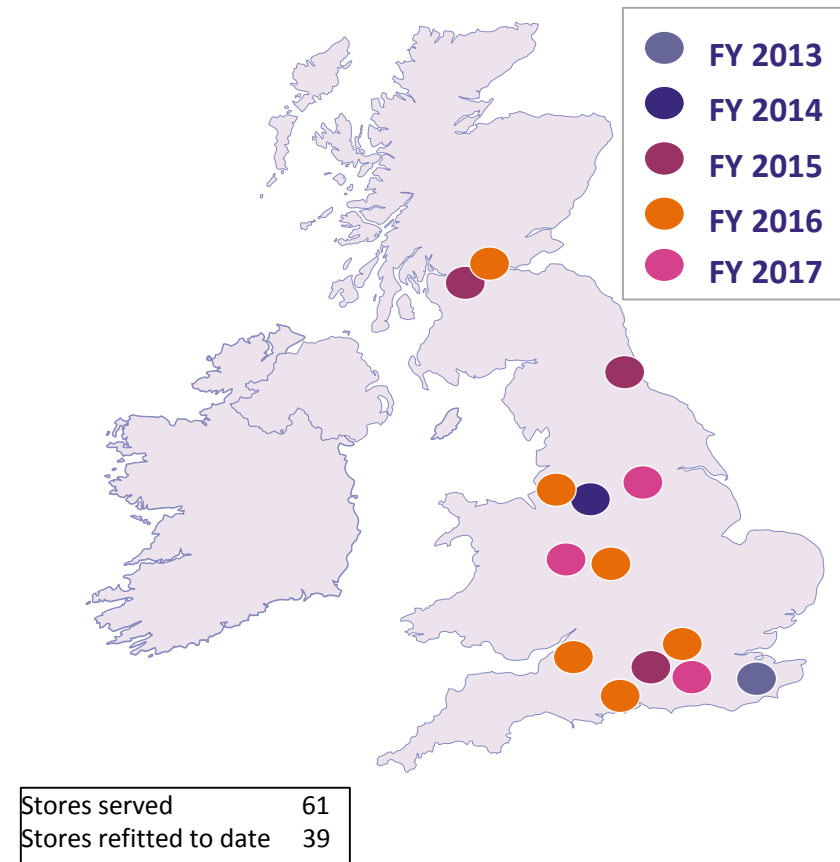
Measured international development progressing in-line with our expectations

4 Retail Space Efficiency

OPERATIONAL UPDATE

- Fourteen UK CDCs operational by end of January
- 39 stores converted at year end
 - 34 weighted average stores in period
- Final five CDCs to open in next six months
- Retail space conversion will complete in FY17

FOURTEEN UK CDCs NOW OPEN



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

4 Retail Space Efficiency – Continued Progress with Dwell and Sofa Workshop

DWELL

- ♥ 15 new co-located stores opened in period
- ♥ New Milton Keynes distribution warehouse successfully opened January 2017
- ♥ Further co-locations planned for FY2018



SOFA WORKSHOP

- ♥ Continued double-digit sales growth
- ♥ New co-located stores in Exeter and Edinburgh trading strongly
- ♥ Further new store co-locations planned for FY2018

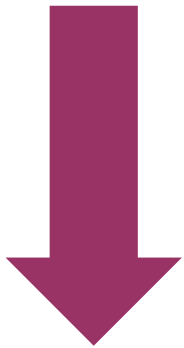


5 Continued Online Growth

ONLINE FUNDAMENTAL TO OMNICHANNEL JOURNEY

c.80%

of DFS customers start their research online



> 90%

of UK furniture & floorcovering sales transacted within or touch a store

OPERATIONAL UPDATE

- ♥ Continued double-digit sales growth
 - Trend towards e-commerce transactions
 - Increasing mix towards mobile devices
- ♥ Significant increases in online visitor numbers
 - Leading presence in natural search terms
 - Ongoing innovation in paid search efficiency
- ♥ Increasing use of online channel for order progress tracking and payments
- ♥ “Swoosh” roll-out complete

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

Operational Update: Investing in Our People

OPERATIONAL UPDATE

- ♥ Key point of difference and underpins continued growth of NPS
 - Post purchase NPS at 85.1% (+1.9% y-o-y)
 - Established Customer at 35.8% (+5.0% y-o-y)
- ♥ Comprehensive training programme with external accreditation for all new joiners
 - Includes customer service level 2 NVQs for all front-line employees
- ♥ Managers undertaking CMI accredited training

CONTINUED RECOGNITION



Maintaining significant investment as a driver of customer service and organisational performance

Operational Update: Managing the Margin Impact

Product Respecification

- Review of key components of product cost
- Opportunities to improve product margins without customer detriment



Supplier Negotiations

- Supplier cost sharing
- Reflects benefits of volume growth from underlying DFS growth and supplier consolidation strategy



Driving AOV

- New higher value products
- Broader range of fabrics and finishes (e.g. velvet)



New Ranges in Price Architecture

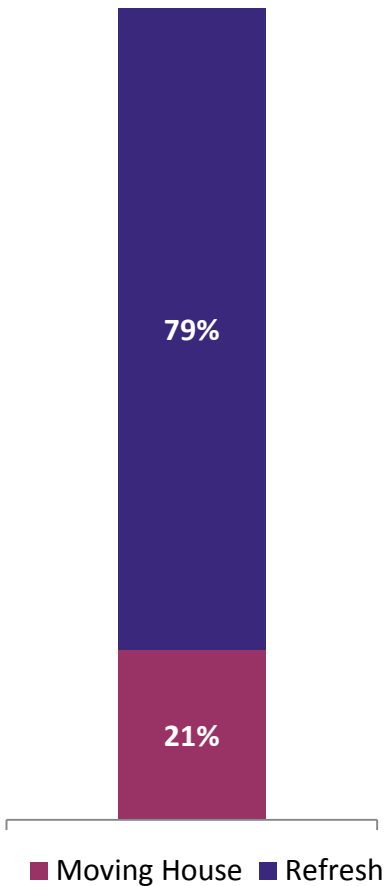
- Evolution of some ranges at key price points
- Keep overall range architecture consistent



Multiple initiatives to mitigate / offset margin impacts without resorting to price increases

Market Growth Drivers Remain Positive Relative to Historical Lows

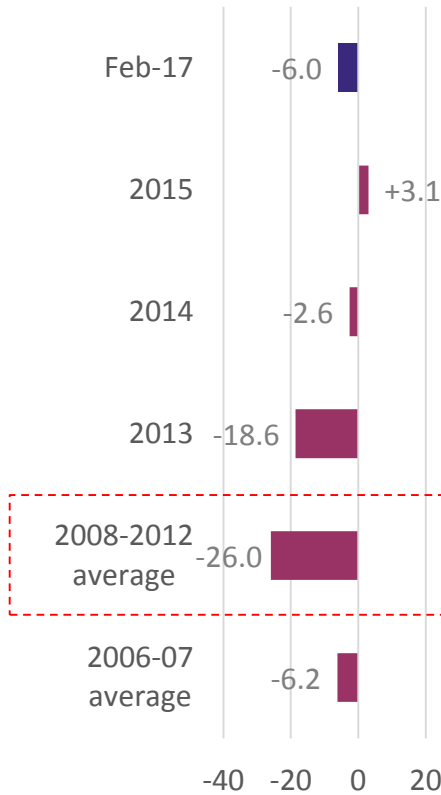
Why People Buy Upholstery



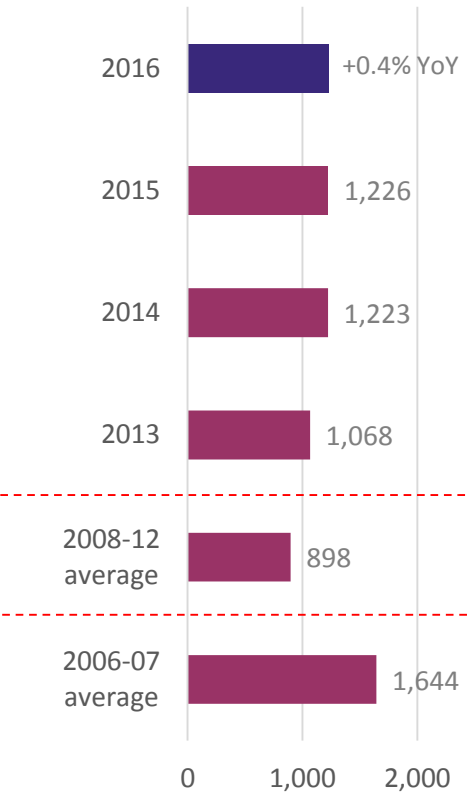
Source:
Independent Survey conducted on behalf of DFS



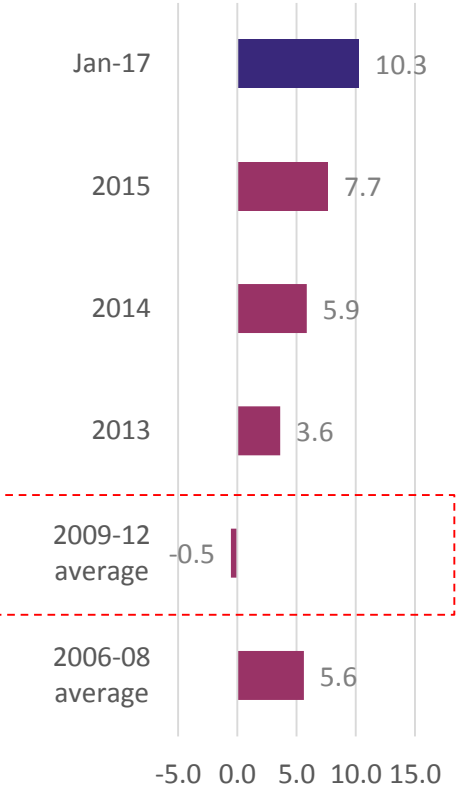
Consumer Confidence (%)¹



Housing Transactions ('000s)²



Net Unsecured Lending (% change)³



Notes:

1. GfK Consumer Confidence average of individual scores for each year
2. HMRC - number of residential property transactions completions with a value over £40,000 for England and Wales
3. Bank of England - 12 month average growth rate of total (excluding the Student Loans Company) sterling net unsecured lending to individuals (in %) seasonally adjusted (note: 2008 growth of 5.1%; '08-12 average growth calculated as +0.6%)

Well Positioned to Prosper in All Environments

1

Scale

- ♥ Larger than next four competitors combined
- ♥ Sales and logistics intensity allows us to consistently offer customers better value overall

2

**Flexible
Business
Model**

- ♥ Significant majority of cost base is directly or semi variable (only c. 15% fixed costs)
- ♥ Made to order operations – no stock risk, very high cash conversion

3

**Vertical
Integration**

- ♥ Factories operate as an additional profit centre
- ♥ UK based
- ♥ Give insight to assist in supplier negotiations

Summary and Outlook

SUMMARY

- Record results and good strategic progress
- Special dividend declared reflecting strong cash generation, in-line with long-term gearing policy

OUTLOOK

- Some impact on product margins from adverse currency movements causing cost inflation
- Mitigating margin benefits still coming through
- Political and economic outlook for 2017 is still uncertain
- Expectations for revenue and profit before tax over the full year remain unchanged, recognising as expected a softer market environment in the second half of the financial year
- Business is well-positioned given its scale, highly flexible cost base and vertical integration

APPENDIX

Financial Calendar

Ex-dividend share trading begins	– 1 June 2017
Dividend record date	– 2 June 2017
Dividend payment date	– 21 June 2017
Full year trading update	– 10 August 2017
Full year results	– 5 October 2017*

* Denotes date to be confirmed

Group Store Profile

AS AT 28 JANUARY 2017

	UK	ROI	Holland	Spain	TOTAL
<i>Large Format (c. 15,000sq.ft.+)</i>	97	2	1	-	100
<i>Medium Format (c. 10,000sq.ft.)</i>	8	2	2	-	12
<i>Small Format (<5,000sq.ft.)</i>	3	-	1	-	4
<i>Other (5,000sq.ft.)</i>	-	-	-	1	1
DFS TOTAL	108	4	4	1	117
<i>Standalone</i>	3	-	-	-	3
<i>DFS Space Conversions</i>	27	-	-	-	27
Dwell (c. 3,500-6,000sq.ft)	30	-	-	-	30
<i>Standalone</i>	15	-	-	-	15
<i>DFS Space Conversions</i>	5	-	-	-	5
Sofa Workshop (c. 2,500sq.ft)	20	-	-	-	20

Group Store Profile

AS AT 30 MARCH 2017

	UK	ROI	Holland	Spain	TOTAL
<i>Large Format (c. 15,000sq.ft.+)</i>	97	2	1	1	101
<i>Medium Format (c. 10,000sq.ft.)</i>	8	2	3	-	13
<i>Small Format (<5,000sq.ft.)</i>	3	-	1	-	4
<i>Other (5,000sq.ft.)</i>	-	-	-	1	1
DFS TOTAL	108	4	5	2	119
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Sofa Workshop (c. 2,500sq.ft)	20	-	-	-	20



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