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DFS Furniture PLC
14 July 2020

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DFS FURNITURE PLC - POST-CLOSE TRADING UPDATE

DFS Furniture plc ("DFS" or "the Group"), the UK's leading retailer of living room furniture, provides the following update for the 52 week trading period ended 28 June 2020.

Summary

- Revenues of c.£725m, down by £271m year-on-year*, due to the pause in deliveries to comply with COVID-19 restrictions for the majority of the final quarter.
- As a consequence of the delivery suspension, profit before tax (pre IFRS 16 and brand amortisation) expected to be in the range of a £(56m)-£(58m) loss (subject to audit) excluding Sofa Workshop and Dwell restructuring costs noted below.
- The Group had been performing in line with expectations in March, until the lockdown, with order intake up in the second half year-on-year, and particularly strong in the DFS brand.
- All operations, other than our websites, were suspended on 23 March. All trading activities, including showrooms, manufacturing and distribution have resumed full operation.
- Accelerated online trading throughout both the lockdown period and since showrooms reopened with online order intake up 77% year-on-year from 23 March to 12 July.
- Order intake in showrooms following re-opening has been markedly above prior year comparatives, reflecting latent demand, with year-on-year growth of 69% between 1 June and 12 July.
- Solid financial position with a particularly strong opening order book for the next financial year that will generate an incremental revenue benefit of c.£100m in FY21 and available cash resources at period end of just over £160m.

**Year-on-year performance is measured against the 52 week pro forma period to 30 June 2019*

Financial results

Prior to the impact of the COVID-19 pandemic, trading during the second half had been satisfactory, with our Group order intake up year-on-year, and particularly strong in the DFS brand.

As we recognise revenues upon the delivery of orders to our customers and due to the pause in deliveries for the majority of the final quarter, in order to comply with COVID-19 restrictions, FY20 revenues were down by £271m year-on-year to c.£725m.

We have taken substantial cost and cash flow actions to protect the business in the face of this trading disruption. In particular, we have rephased marketing spend, agreed a reduction in senior management pay, secured rent deferral agreements with our landlords and reduced our discretionary operating costs. Government support through the retail business rates holiday and for the furlough of over 5,000 of our team members to protect employment levels has also partly offset the substantial losses that we have incurred due to the business suspension. Collectively, these actions allowed us to reduce our monthly cash operating costs in April and May to beneath £14m per month, (£20m when including rental payments deferred to later periods). We also acted quickly in the peak of the crisis when the duration of the lockdown was unknown to secure an additional £70m working capital facility and £64m of gross equity placing proceeds in order to support the business whilst operations were paused.

Profitability for the 52 weeks to 28 June 2020 will be materially impacted by the drop-through of the lower cash margin from the substantially reduced deliveries relative to prior years, together with the operating costs over the period of disruption. Profit before tax (pre IFRS16 and before brand amortisation) is expected to be in the range of a £(56m)-(£58m) loss (subject to audit) excluding the Sofa Workshop and Dwell restructuring and impairment costs recognised, as noted below in the strategic update.

PBT	
50	52 week pro forma period to 30 June 2019
(156)	Gross profit reduction from £271m lower revenues
+23	Operating cost base actions

+26	Furlough of employees and rates relief
= (56 - 58)	**Expected FY20 PBT** (*before brand amortisation, restructuring costs and adoption of IFRS16)*

Operational update
The health and wellbeing of customers and colleagues has been and always will be our priority. All operations, in line with government guidance, were paused on 23 March other than order taking on our websites and part of our small international business. We have ensured our colleagues have the appropriate personal protective equipment (PPE) and set up our operational locations in line with or ahead of Government guidance enabling us to restart selling, manufacturing and delivering our products in a safe manner.

Our showrooms were reopened in line with devolved government timelines. We trialled a small number of showroom openings from 22 May in England with the majority of the remaining English showrooms open by 29 May. Our NI and ROI, Scotland, Wales and International showrooms were all open by 22 June. Similarly, with full health and safety measures implemented, our manufacturing and delivery operations resumed gradually from the end of May. Our support centres are also operational; however we are encouraging all colleagues that can work from home to continue to do so.

We believe that, given the large footprint of most of our retail showrooms, the current Government-imposed social distancing measures do not present a material barrier to order intake. Our manufacturing and final mile logistics activities are also fully operational having implemented a number of new working practices and safety measures as we work to produce and deliver orders and reduce our order book back down to normal levels.

Following the localised lockdown of the Leicester area, we have temporarily closed our DFS, Sofology and Dwell showrooms on Fosse Retail Park, Leicester. However, leveraging our safe delivery practices and in line with Government guidance, we have been able to continue to deliver to all UK postcodes, including the Leicester area.

Trading update and financial position
Order intake in our web channels increased significantly in the lockdown period benefitting from our well invested platforms and has remained strong since showrooms reopened, up 77% year-on-year from the start of the lockdown until 12 July.

We have also experienced very strong trading in stores since reopening with order intake up 69% year-on-year. We believe this performance materially benefited from latent demand from customers that would otherwise have completed purchases in late March, April or May and, given the wider economic uncertainty, we remain cautious on the outlook for demand.

In preparing for a challenging trading environment, we take some comfort from a materially higher opening order bank year-on-year, from which we expect to realise an incremental c. £100m of revenues in the first half of FY21. We have also taken appropriate action on operating costs, including headcount and marketing budgets. Retail business rates relief of c. £19m will also be received in financial year FY21, as a result of the rates holiday until the end of March 2021. Furthermore, following the recently completed equity placing and the £70m temporary working capital facility secured in April, our available cash resources at the year end were just over £160m.

Strategic update
Our strategy remains unchanged overall. We are, however, prioritising the core elements of our strategy: Accelerating our investment in technology and omni-channel initiatives in our largest brands, DFS and Sofology, given the pace of consumer behaviour change over the lockdown; leveraging our supply chain assets to improve Group wide efficiency in our final mile delivery operations; and achieving property cost savings. We have also accelerated our work on using data more effectively to drive marketing efficiency.

We also continue to see the opportunity to grow the Sofology brand to around 70 showrooms. We have agreed a twelve month deferral of the opening dates of five previously secured new locations, in order to allow us to take immediate advantage of attractive units that may be vacated by distressed retailers on otherwise fully-occupied retail parks. We are currently in advanced discussions on a number of these locations.

Reflecting the challenging outlook for our market, we are taking necessary actions to preserve our future competitiveness. We have commenced an operational restructuring of Sofa Workshop and Dwell to improve the returns generated by those brands. Largely driven by this restructuring, we anticipate that we will recognise non-cash impairments of acquisition-related goodwill and some limited property right-of-use assets. We will also incur some limited cash restructuring costs of less than £2m associated with a targeted reduction in headcount. In total we expect to recognise a P&L charge of £16-£18m in financial year FY20 in relation to this restructuring.

Outlook

Recent trading has been very strong, boosted by latent demand which we have been able to capture as a result of our ongoing investment in our best-in-class online offering and a prompt resumption of our showroom operations. Despite the benefit of this exceptional recent trading performance and ongoing Government stimulus packages, we remain cautious on the outlook for the remainder of 2020 and into 2021, given likely lower consumer confidence and a potentially slower residential property market.

Whilst a weak trading environment would impact our short-term revenue and profits, we have historically prospered in economic downturns and gained market share. Furthermore, we believe that recent positive trading illustrates the resilience of the sofa replacement cycle over longer time frames and supports a view that the market can return to historical long-term growth rates in due course.

As the clear market leader with strong brand recognition, high showroom sales densities and advantageous vertical integration, we feel well-positioned in both the short and long-term to continue cash generation and drive shareholder returns.

Comment from Tim Stacey, Group Chief Executive

"*The events of the past few months have brought the best out of our Group, and I am very proud of our fantastic people who throughout this crisis have voluntarily supported the NHS, including delivering sofas to around 50 hospitals across the UK and manufacturing PPE in our factories for local hospital trusts. Our priority throughout the crisis has been to protect and support our people and our customers. With their support, and an even stronger sense of togetherness, we emerge with renewed energy and purpose*".

"*I also want to thank our many stakeholders for their firm support throughout this crisis from our shareholders, banks, supplier partners, our landlords, the Government and also the British Retail Consortium for their help and advice. Again, these relationships are stronger than ever, and we look forward to developing our Group together*".

"*Our strong online platforms have served customers well throughout the lockdown and we have seen consistently high order intake, which I'm pleased to see has continued as our showrooms reopened. There is no doubt that consumer behaviours are changing fast and as such we are accelerating our omni-channel strategy through increased investment in technology right across the customer experience*".

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About DFS Furniture plc

The Group is the clear market leading retailer of living room furniture in the United Kingdom. We design, manufacture, sell and deliver to our customers an extensive range of furniture products. The business operates an omnichannel retail network of living room furniture showrooms and web sites in the United Kingdom and other European countries, trading through four leading brands. The Group has been established and developed gradually over 50 years of operating history. We attract customers through our substantial and continued investment in nationwide marketing activities and our reputation for high quality products and service, breadth of product ranges and price points and favourable consumer financing options.

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