DFS GROUP

FY23 RESULTS

21 September 2023

dfs

sofology
Feel at home on a sofa you love

THE SOFA DELIVERY CO

FY23 RESULTS

Overview

Introduction
Tim Stacey

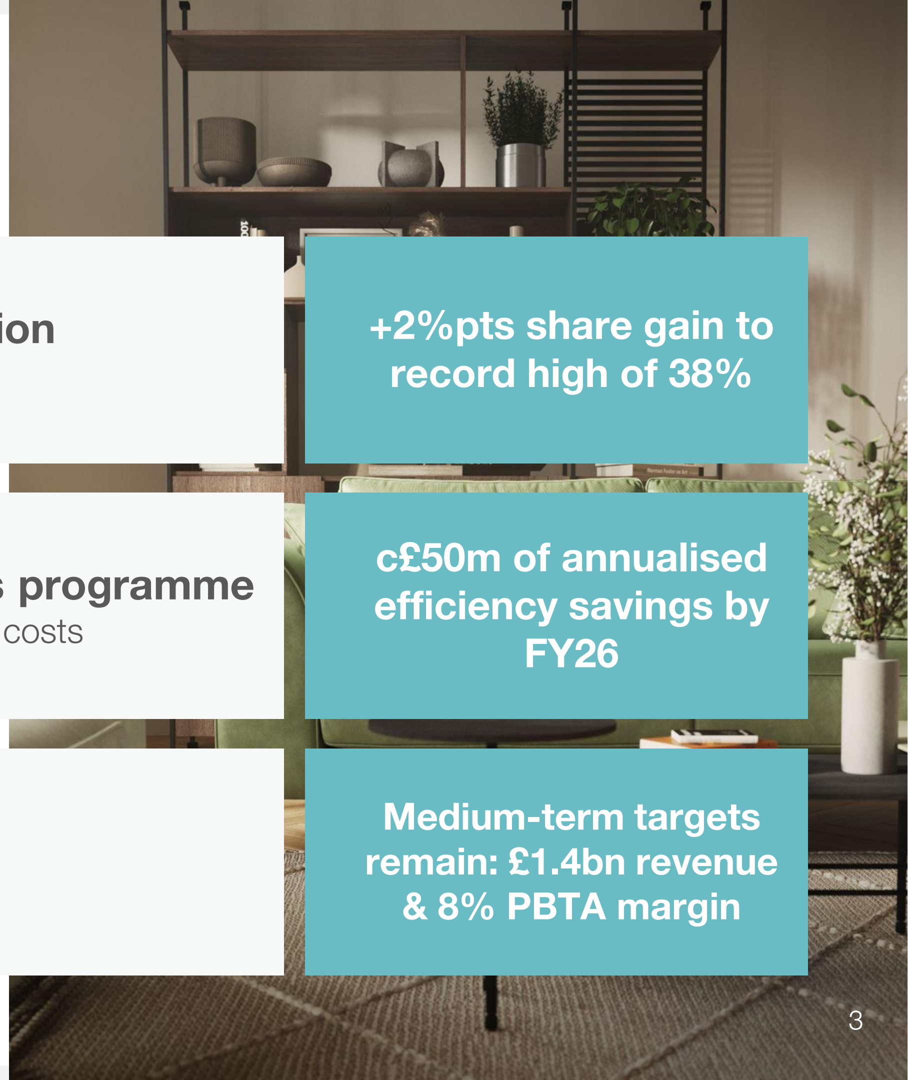
Financials
John Fallon

Strategy & Operational update
Tim Stacey

Outlook & Summary
Tim Stacey

Questions & Answers
Tim Stacey & John Fallon

Introduction



Continuing to extend our leadership position
Market share gains in tough trading conditions

+2%pts share gain to record high of 38%

Operational excellence & cost efficiencies programme
Three areas of cost focus: product, property & operating costs

c£50m of annualised efficiency savings by FY26

Well positioned for the future
Refinancing completed; well invested asset base

Medium-term targets remain: £1.4bn revenue & 8% PBTA margin

FY23 Headlines

+15%	**+2%pts to record 38%**	**+1.7%pts**
Gross sales vs FY19 pre-pandemic[1]	YoY market share growth	Gross margin rate YoY growth[1]
£30.6m	**£250m lending facility**	**+59%**
PBTA[2]	Refinancing complete, covenants unchanged	DFS NPS established customer YoY

[1] Continuing operations
[2] Underlying PBT from continuing operations excluding brand amortisation

Broader market context:

Market volumes down c15% relative to pre-pandemic

	FY23e	YoY	FY23 vs FY19
Market Value[1]	£3.18bn	(6%)	(1%)
Market Volume Change[2]		(19%)	(15%)
DFS Group Market Share[3]	38%	+2%pts	+4%pts

- Market volumes 15% below FY19, driven by consumer confidence, cost of living crisis
- Market value declines supported by RPI to offset input cost inflation
- DFS record share gains have partly mitigated market decline
- Medium term expect market volume recovery

[1] GlobalData using their 2023 estimate
[2] i) CACI upholstery sector transaction volumes (for the FY19 period H2 data used as data not available before then) ii) ONS data: Calculated using furniture and lighting market value and ONS retail price inflation data for furniture sector
[3] i) GlobalData (July 2023) ii) Proprietary Barclaycard data iii) Group half yearly surveys issued by Boxclever sent to 3,000 people that have purchased a sofa in preceding 12 months

FY23 RESULTS

Overview

Introduction
Tim Stacey

Financials
John Fallon

Strategy & Operational update
Tim Stacey

Outlook & Summary
Tim Stacey

Questions & Answers
Tim Stacey & John Fallon

Results overview

(£m) unless stated	**FY23[1]**	**FY22[1]**
Revenue	**1,088.9**	**1,149.8**
Market Share	*38%*	*36%*
Reported PBT	29.7	58.5
Underlying PBTA	**30.6**	**60.3**
Underlying basic EPS	9.6p	17.5p
Net bank debt	140.3	90.0
Leverage	**1.9x**	**1.0x**
Ordinary DPS	**4.5p**	**7.4p**

- Revenue down in challenging market, but gaining market share
- PBTA within previously guided range
- Net bank debt increase: Special returns in respect of prior period cash generation, working capital now normalised
- Dividend 4.5p, in line with guidance (2.3x cover, policy 2.25x-2.75x)

[1] Continuing operations excluding brand amortisation

Revenue performance

Sales reflect tough market partly mitigated by share gains

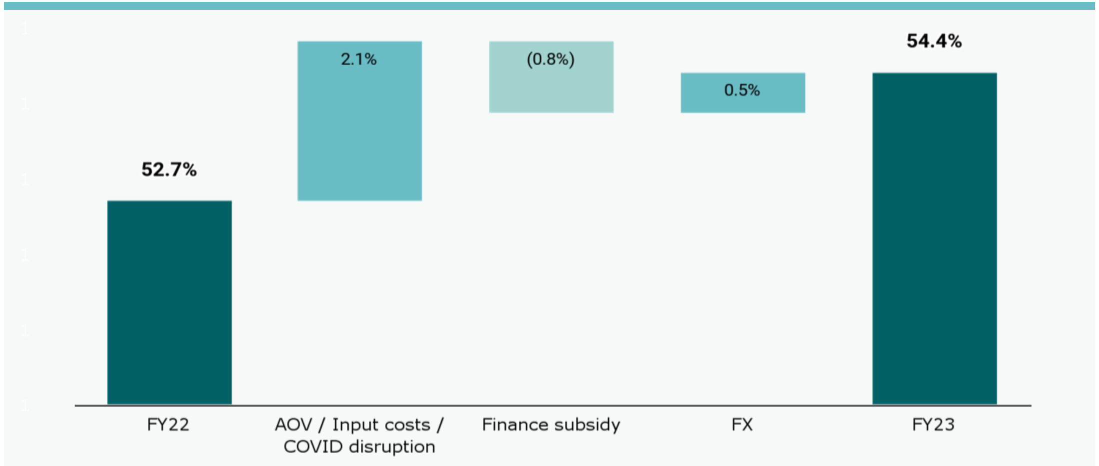
(£m) unless stated	**FY23**	**YoY**
Gross Sales	**1,423.6**	**-3.5%**
DFS (inc Dwell)	1,125.5	-3.7%
Sofology	298.1	-2.2%
*Digital % Sales^*	24.0%	+0.7%pts
Revenue	**1,088.9**	**-5.3%**
Market Share	38%	+2%pts

- Gross Sales declined across both brands in tougher market
- Volume declines partly offset by average order value growth; order bank back to normal
- Digital sales^ stabilised at 24% of total Gross Sales (FY19: 17%)
- Revenue is reported net of IFC subsidy costs, which have increased +£21m YoY
- IFC max term reduced to 36mths from May to part mitigate impact of rises in BoE base rates

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

Gross margin

Margin improving in line with expectations

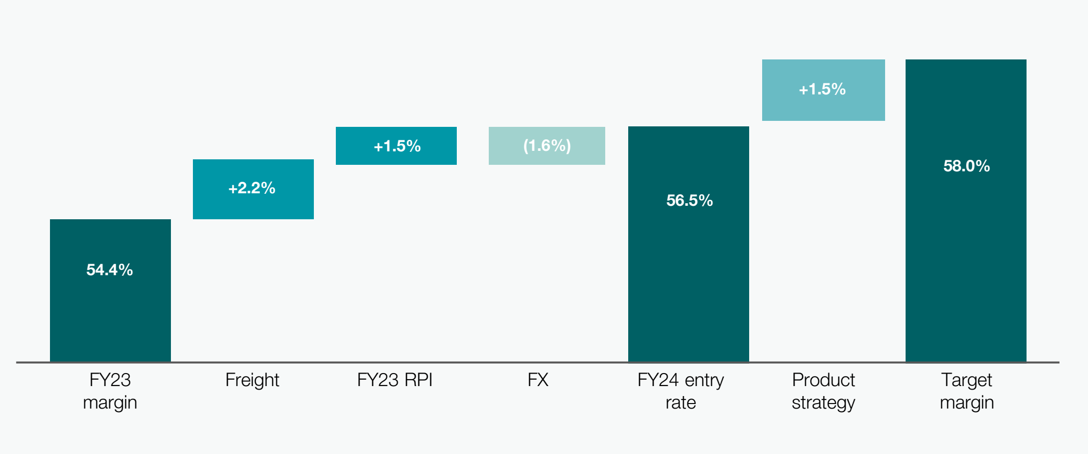


- Gross margin rate continuing to improve; H1 53.8%, H2 55.0%
- Supply chains back to normal; COVID disruption reversed; FY23 exit freight rates back to pre-pandemic levels
- Retail price increases from May mitigates FX headwind into FY24

FY23 RESULTS

Gross margin outlook

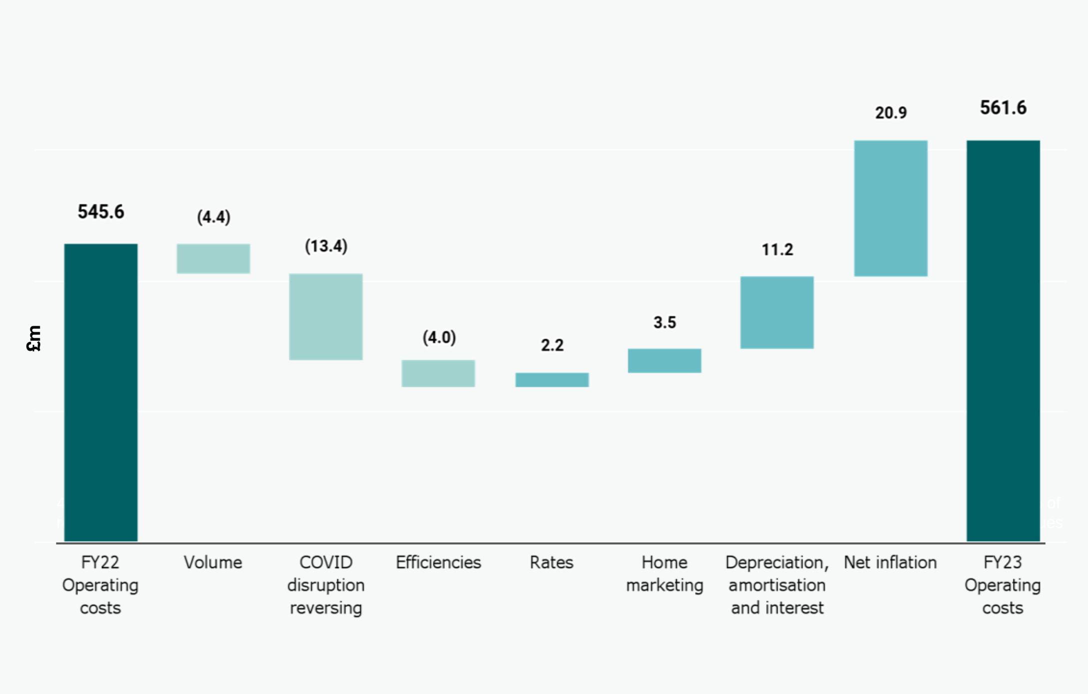
Recovery on track to 58% target



- 56.5% FY24 entry rate:
  - Freight rates now back to pre-pandemic rates
  - Full year effect of FY23 retail price increases offsetting FX headwind
- Product sourcing & manufacturing strategy to support progress towards 58% target

Operating costs

Efficiencies and reversal of disruption more than offset by significant cost inflation



- COVID disruption impacts mostly reversed across absence levels, trunking and customer service costs
- Efficiency savings primarily from optimising of Sofa Delivery Co. and Marketing
- Rates higher due to end of FY22 business rates relief
- Home marketing investments to drive beds/mattresses proposition
- Interest costs £6.6m higher due to BoE base rates and higher net debt
- Impairment charge £2.0m on distribution centres post integration; targeting accelerated lease exits
- Inflationary pressures primarily across labour and energy related costs

Operating costs include sales, distribution, administration, depreciation, amortisation and interest charges

Cost to Operate Efficiencies

Savings will mitigate future inflation, supports progress towards 8% PBTA target

c£50m annualised savings by FY26

Product: £20m - £25m

- Sustainable strategic supplier partnerships by region (i.e. UK, Europe, Far East)
- UK manufacturing optimised
- Group buying synergies, re-balancing volumes
- Supports 58% GM target

Property: £6m - £8m

- Future lease re-gear opportunities

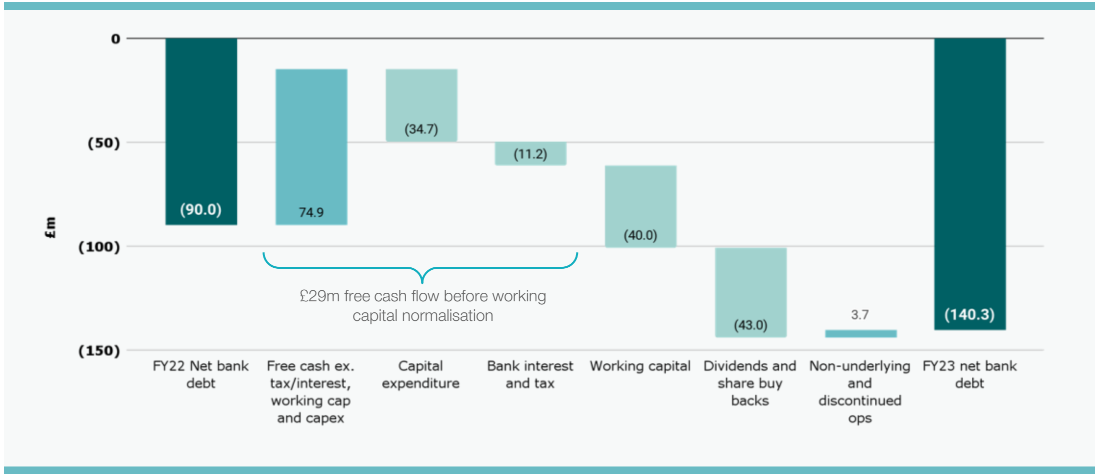
- Distribution centres rationalised post Sofa Delivery Co group integration
- Hold DFS, more Sofology stores

Operating Costs: £20m - £25m

- Simpler and more efficient Group Operating Models
- GNFR (i.e. non-product) spend: rationalise & retender; better system & controls
- 'Operate for less' programme across retail, Sofa Delivery Co, central support
- Upweighted project management and governance

Cash and Net debt

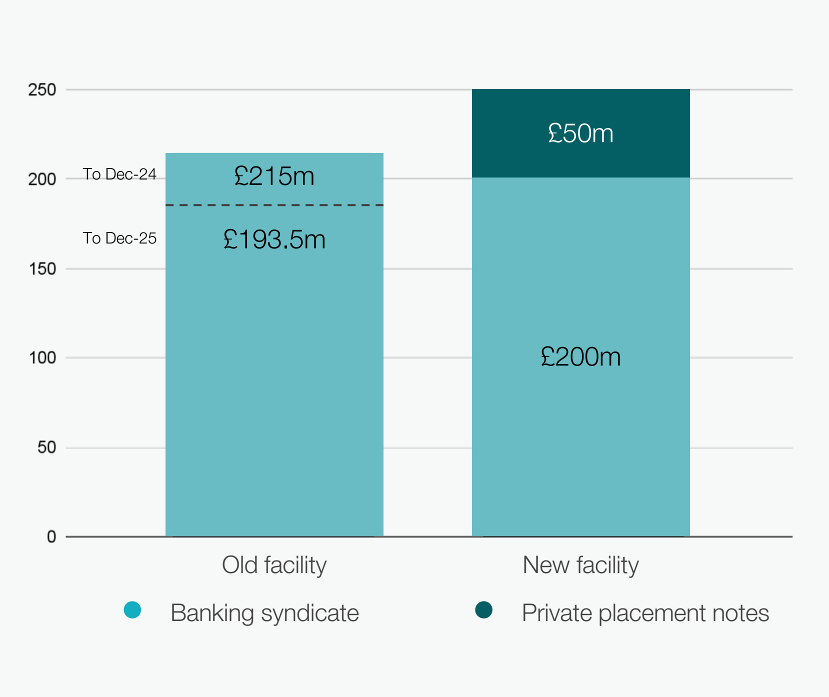
Working capital normalised, leverage expected to reduce



- Net Debt movement driven by working capital normalising and special shareholder returns in respect of cash generated in prior periods
- Capital investments in future growth included 3 new Sofology showrooms, DFS showroom refurbishments and technology platforms
- Leverage 1.9x; targeting leverage c1.5x by end of FY24
- New £250m lending facility increases liquidity; clear headroom on covenants

£250m Credit Facilities signed Sep '23

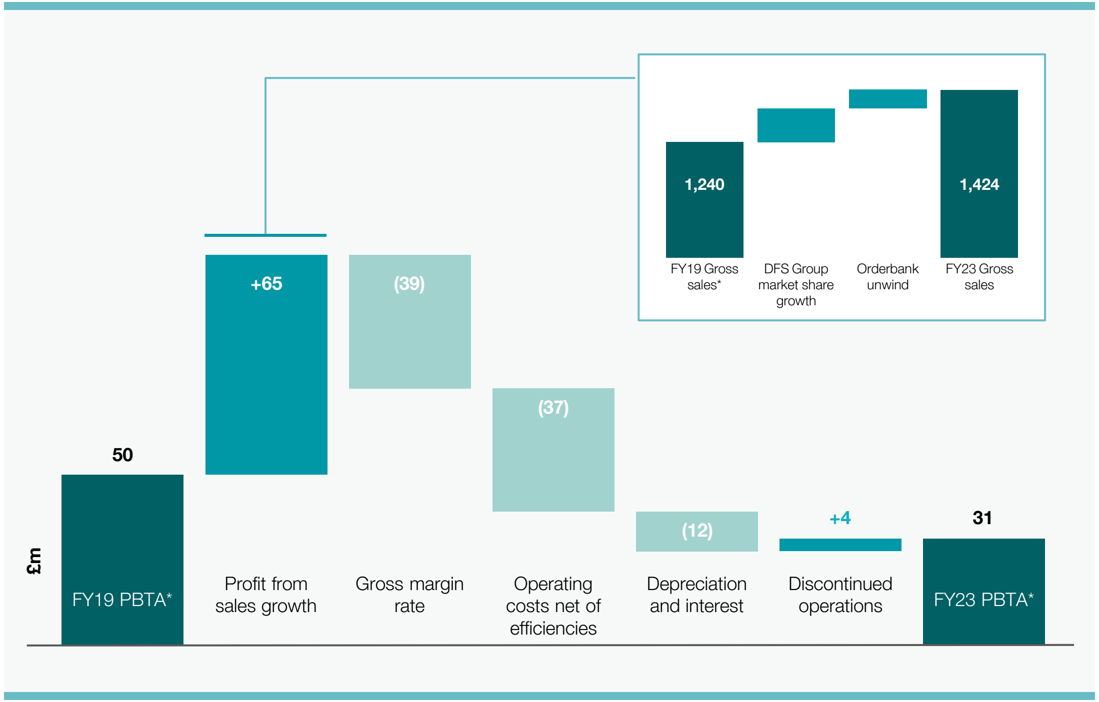
Renewed facility increased and extended



- Available funds now increased to £250m from £215m
- £200m bank facility matures Sep 2027, +16mth extension option
- £50m US PP notes mature evenly between Sep 2028 and Sep 2030
- Covenants unchanged
  - 3.0x max leverage
  - 1.5x min fixed charge cover
- No change to capital policy, targeting deleverage over time
- Secures additional liquidity over longer term and flexibility to support strategic objectives

4 year view post pandemic

Share growth and orderbank unwind not enough to offset weak market, high inflation



Gross sales FY23 vs FY19:

- Sales increase from share gains in declining market (market: c-1% in value; c-15% volume decline) and order bank unwind
- Share gains from exits, inc Harveys, independents, pure plays; plus Sofology showroom rollout

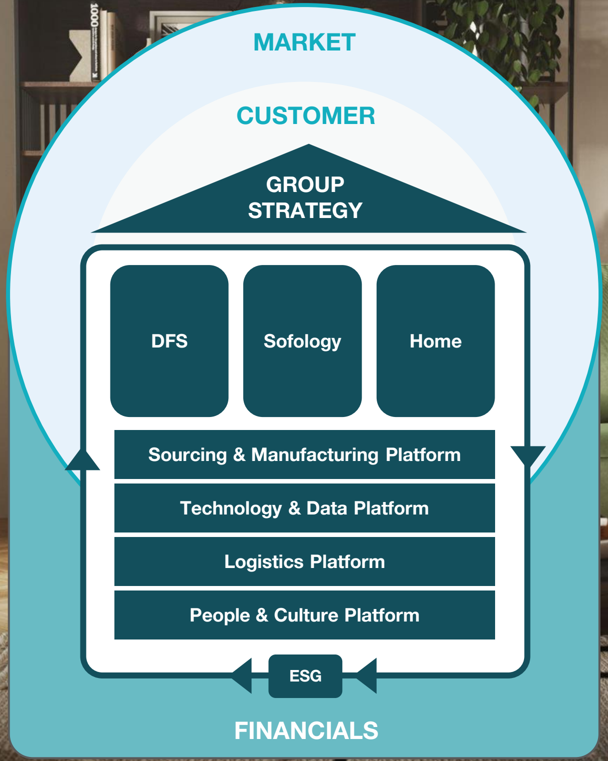
Profit FY23 vs FY19:

- Share gains, RPI mitigating input inflation
- Margin rate impacted by raw material and freight rate increases
- Inflationary pressures on cost base and higher interest costs partly offset by cost efficiencies

*Underlying PBT before brand amortisation. FY19 is the 52 week pro forma period to 30 June 2019
gross margin rate impact inclusive of movements in IFC subsidy charges

FY23 RESULTS

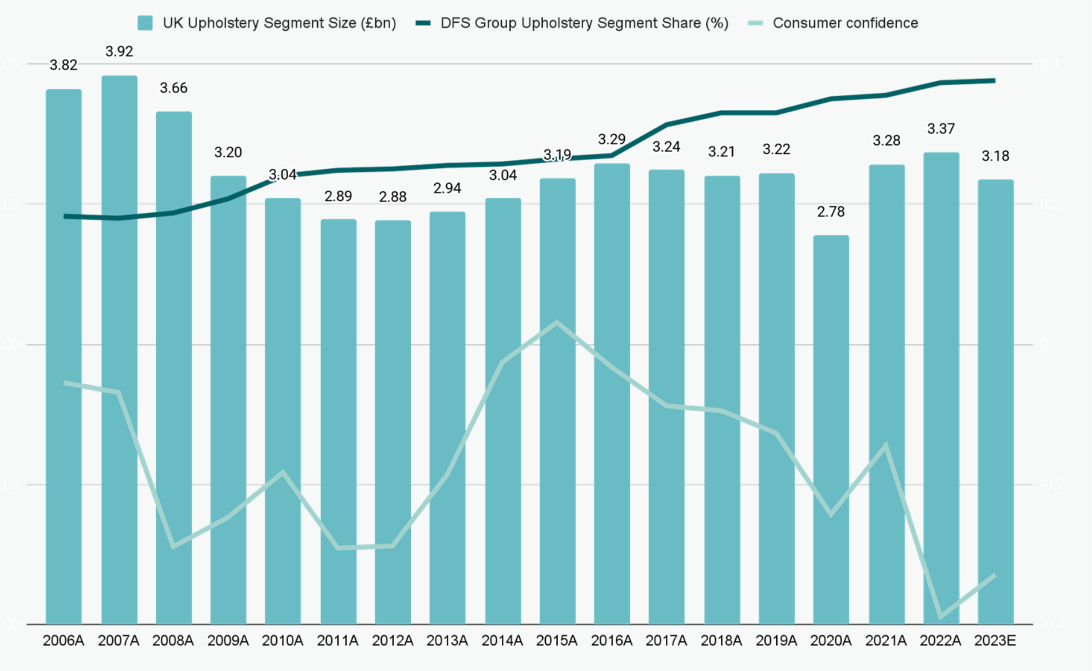
Overview



dfs sofology THE SOFA DELIVERY CO

Market Drivers

Challenging short term outlook, Group well positioned to continue to grow share



Market drivers:

- Consumer confidence remains challenging, but signs of recovery
- Housing market represents c20% of our sales, housing transactions -9% FY23 vs FY22
- Availability of consumer credit in growth

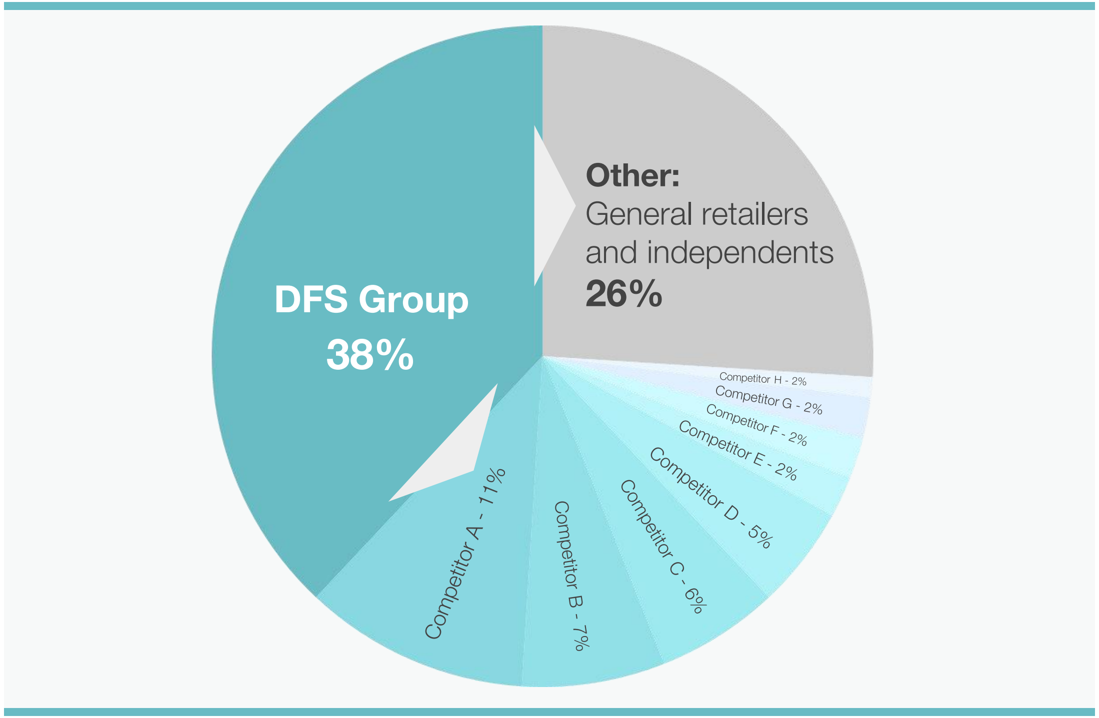
Market share:

- Strong track record of growth across the cycle
- Leveraging the strength of our brands, operating platforms and scale

Sources: GlobalData market share, GfK consumer confidence, ONS - UK monthly property transactions

Market share gains: today & looking ahead

Significant runway for further share gains



- Despite market & consumer headwinds, the Group continues to perform well and has secured record market share
- Given the long-tail of independents, and our powerful brands, opportunity for further share gains in the future

Sources: Barclays implied deposit market, Global Data estimate of delivered market

FY23 RESULTS

Our Pillars

Extending our leadership position, strong progress across all areas

- New product & brand development driving conversion and AOV
- New formats now in 58 showrooms, payback < 2 years
- NPS customer scores step change, +59% year on year

- New showroom rollout continues, +3 to 58, scope for 65-70
- New strategy launched - aim to be number 2 sofa retailer
- Operational performance strong - NPS improving

- Focus on £3bn beds and mattresses opportunity through online channels
- +69% growth year on year online
- New stock management and drop shipment foundations in place

Platform Highlights

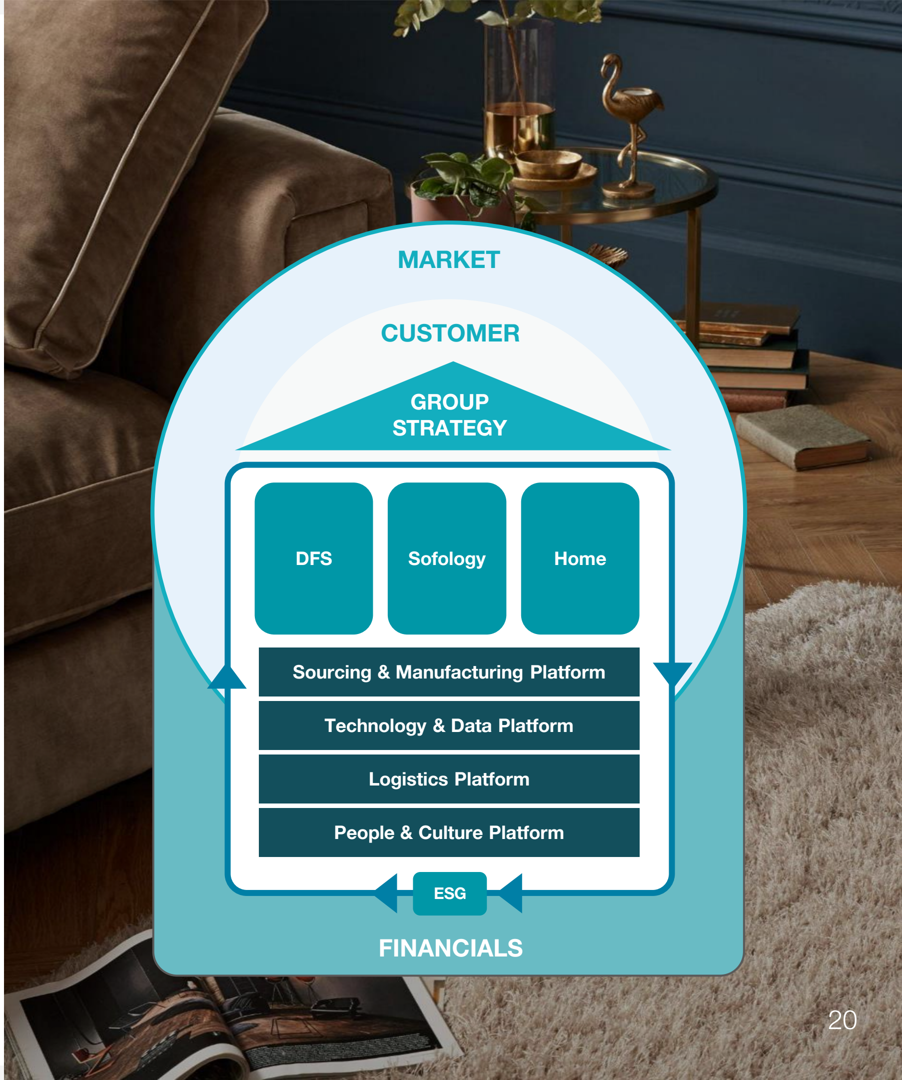
Progress across all four key platforms

Sourcing & Manufacturing
Continuing to evolve & optimise global supplier partnerships; UK manufacturing optimised

Technology & Data
Home Fulfilment foundations concluded; ILP roll-out across Sofology; Data Apprenticeships (c40 people)

Logistics (Sofa Delivery Co)
Postcode integration completed, operating savings achieved throughout FY23; CDC rationalisation and property savings now also being realised

People & Culture
Integrated Group Teams in Finance, HR & Technology
Underpinned with new EVP to help drive retention
70+ graduates from our Drivers' School



Sustainability

New initiatives and innovation

2040 net zero pledge

On track to submit science based targets to SBTI by June 2024

Launched first circular sofa range

The Gaia, in partnership with George Clarke part of the Sustainable Edit at Sofology

Longer-term ambition to become a circular business

Currently working on a 'Future, Back' strategy to drive circularity across the business

FY23 RESULTS

Overview

Introduction
Tim Stacey

Financials
John Fallon

Strategy & Operational update
Tim Stacey

Outlook & Summary
Tim Stacey

Questions & Answers
Tim Stacey & John Fallon

FY24 Guidance

Group Revenue	Underlying PBTA	Cash Capex
£1,060-1,080m	£30-35m	£25-30m

P&L:

- Revenue: assumes market order volumes down -5%
- GM%: continued improvement to 57%
- Operating cost inflation: 4%
- Profit weighted to H2

Cash flow:

- Working capital flat over 52 weeks*
- Capex
  - Cash: £25m-£30m
  - Leased assets: £7-10m

Current trading:

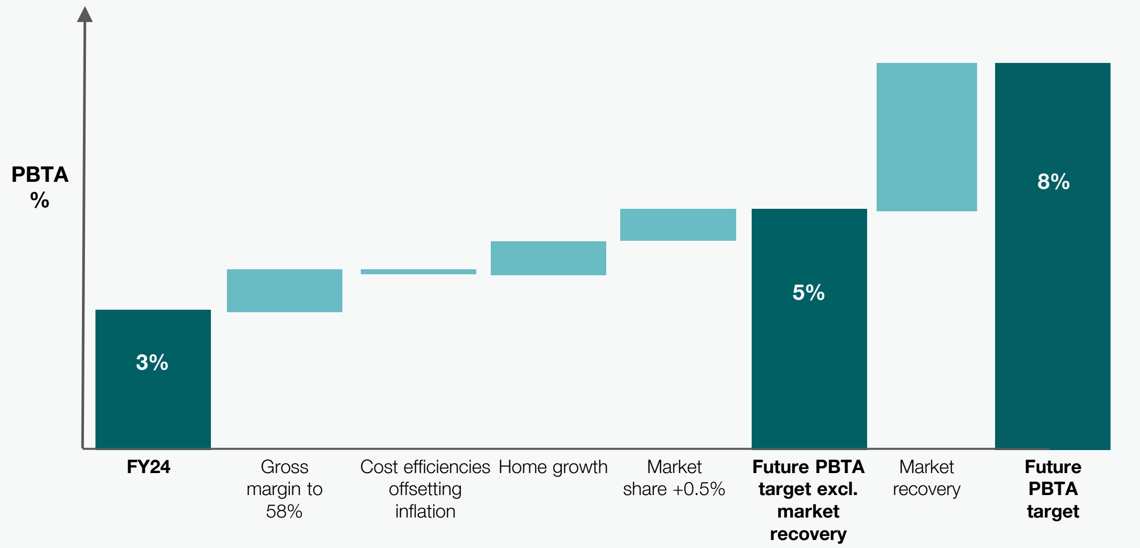
- Solid start to FY24, in line with expectations

Notes:

*FY24 will be a 53 week period. Temporary c£15m working capital outflow in week 53 due to rent & HMRC payments

Looking forward:

Focused on improving profitability; Targeting 8% PBTA as market recovers



- Route to 5% PBTA margin, independent of the expected recovery in market volumes
- As market volumes recover to pre-pandemic levels:
  - Operational leverage supports 8% PBTA
  - Negative working capital cycle and well invested platforms also supports stronger free cash flow

FY23 RESULTS

Overview

APPENDIX

Group Showroom Profile

AS AT 25 JUNE 2023 (VS. 26 JUNE 2022 EXCLUDING SOFA WORKSHOP)

	UK	ROI	TOTAL
Large Format (c. 15,000sq.ft.+)	90 (-1)	3	93 (-1)
Medium Format (c. 10,000sq.ft.)	18	2	20
Small Format (c. 5,000sq.ft.)	3	-	3
Dwell standalone	1	-	1
DFS TOTAL	112 (-1)	5	117 (-1)
Large format (c. 15,000sq.ft.+)	56 (+3)	-	56 (+3)
Medium format (c.10,000-15,000 sq.ft)	2	-	2
Sofology TOTAL	58 (+3)	-	58 (+3)