DFS GROUP

FY24 Results

25 September 2024

dfs

sofology
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THE SOFA DELIVERY CO

FY24 RESULTS

Overview

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Introduction

Good operational progress in very challenging market conditions

Controlling the controllables:
- Record NPS scores
- Clear market leadership, gross margin improvement, cost base lowered
- Product and marketing innovation alongside new brand partnerships

Market demand levels weaker than expected:
- Market volumes reached a record low
- Sales and profits below original expectations
- Planning prudently, covenant amendments to protect against unexpected market downside risk

Well positioned to capitalise on market recovery:
- Clear market leader
- Well invested asset base / negative working capital model
- Market drivers: Green shoots emerging

Cost to operate efficiency savings of £27.5m

Market volumes: > 20% down vs pre-pandemic

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

FY24 RESULTS

Headlines

-1.8%	YoY order intake[1]
+140 bps (55.8%)	YoY gross margin rate (FY24 rate)
£27.5m	Cost to operate efficiency savings
£10.5m (£30.6m)	Adjusted PBTu[2] (prior year)
£85.2m	Liquidity headroom
Post-purchase & post-delivery NPS at record highs	Net promoter scores

[1] Calculated by comparing the first 52 weeks of the 53 week FY24 period to the 52 week FY23 period
[2] Underlying PBT from continuing operations excluding brand amortisation

Market context

Market volumes have been at record lows

	Sep-23 guidance	FY24 YoY	FY24 vs FY19
Market Volume	(5%)	(10%)[1]	(23%)[1]

- Market volumes worse than anticipated
  - c10% down YoY
  - c23% down vs pre pandemic
- Reflecting weak market drivers
  - Housing transactions down -9% YoY LTM to June 2024
  - Consumer confidence relatively low

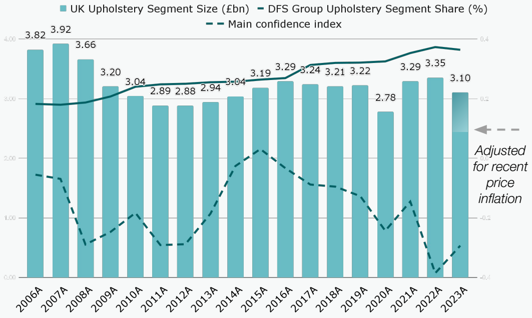
[1] CACI upholstery sector transaction volumes (for the FY19 period H2 data used as data not available before then)

Market size and share

We are the clear market leader

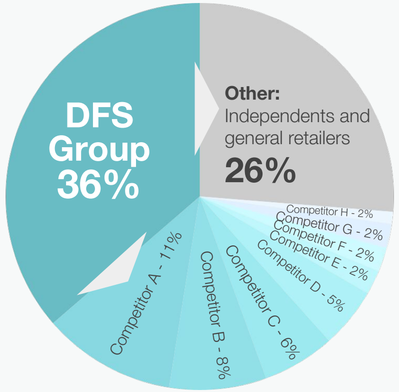
Maintaining our market leadership

Consumer confidence / UK upholstery market size



…over 3x size of nearest competitor

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



Market developments

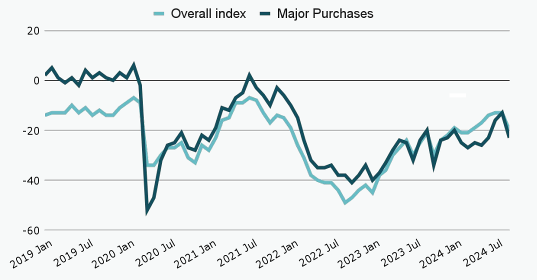
- Market share[1] 36% vs 32% 2020
- Independents continuing to decline
- Record share in specialist upholstery retailer subset
- General home and multi-category retailers have gained share from other specialists

[1] Global Data August 2024

Market drivers

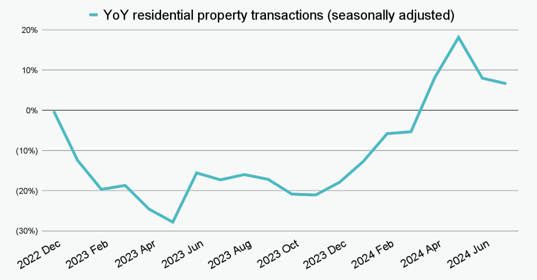
Improving outlook signalling potential upholstery market recovery

Consumer confidence - major purchases



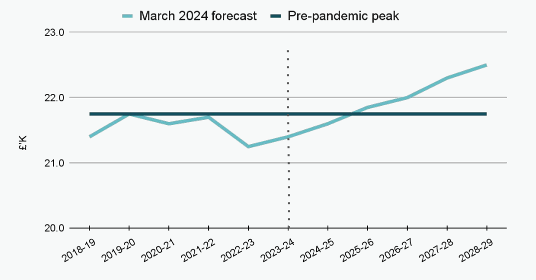
- 80% of transactions are replacements
- Strong correlation between consumer confidence and market demand
- Improving trend in both the overall index and appetite for major purchases (albeit volatile)

Property transactions



- Drive c20% of upholstery purchases
- LTM property transactions -13% below pre COVID average; Last 4 months in YoY growth
- Savills forecast strong house move growth in CY25 +8.6%, CY26 +1.8%

Real household disposable income



- Real disposable income inflexion point
- OBR forecast a gradual recovery, back to pre pandemic levels by fiscal year 25/26
- Household savings ratio also in growth over last 4 quarters

Global Data forecast upholstery market growth +5.3% CY 2025, +3.4% CY 2026

Consumer confidence: GFK
Savills forecast 7 May 2024
Property transactions: HMRC
Global Data forecast August 2024
Household disposable income growth: Most recent OBR forecasts: March 2024

Overview

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Results overview

(£m) unless stated	FY24[1,3]	FY23[2,3]	YoY
Revenue	987.1	1,088.9	(9.3%)
Underlying PBT(A)	**10.5**	**30.6**	**(20.1)**
Reported PBT	(1.7)	29.7	(31.4)
Underlying basic EPS	1.5p	9.6p	(8.1p)
Net bank debt	164.8	140.3	(24.5)
Leverage[4]	**2.5x**	**1.9x**	**(0.6x)**
Ordinary DPS	**1.1p**	**4.5p**	**(3.4p)**

- Revenue impacted by reduction in market demand levels and prior year order bank benefit
- Gross margin and cost saving actions provide partial mitigation
- Good levels of cash headroom; Covenant widening agreed Sept '24 provides additional downside security

[1] 53 weeks [2] 52 weeks [3] Continuing operations
[4] Leverage per banking covenant definition (Pre-IFRS 16)

FY24 RESULTS

Revenue

Lower due to weak market demand & FY23 order bank benefit

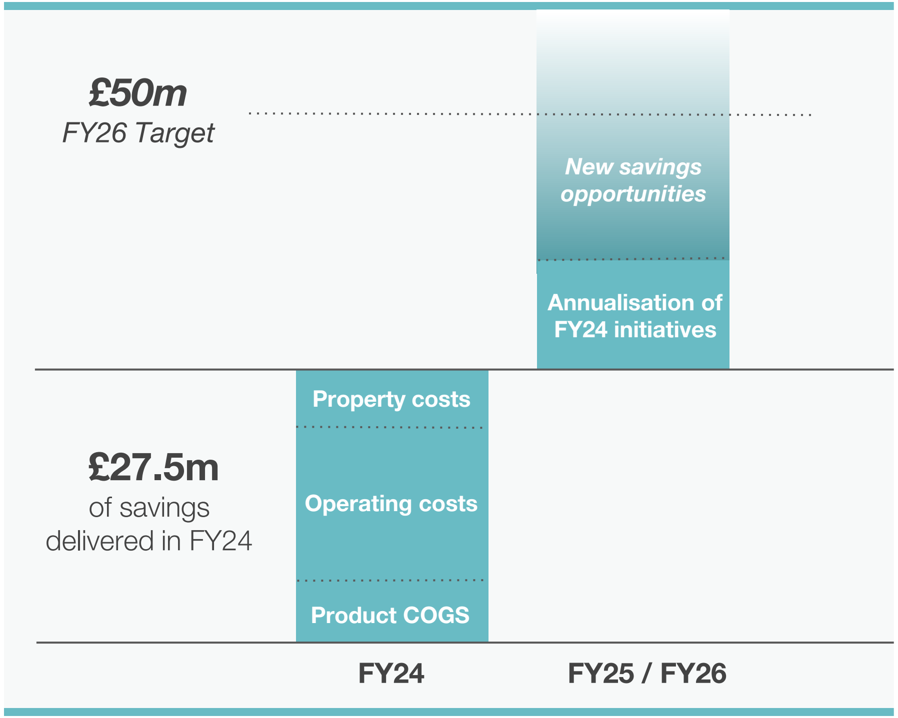
(£m) unless stated	**FY24**	**YoY**
DFS (inc Dwell)	1,047.0	(7.0%)
Sofology	264.8	(11.2%)
Gross Sales	**1,311.8**	**(7.9%)**
Revenue	**987.1**	**(9.3%)**

- Order intake down -1.8% in the period[1] in tough market conditions
- Gross sales and revenue impacted by FY23 high opening order bank unwinding in prior year
- £12m of revenue deferred to future periods due to fourth quarter Red Sea shipping delays
- Revenue also lower due to increased cost of providing interest free credit as a result of Bank of England rates, partially mitigated by moving to 36 months for majority of trading period
- Every 1% movement in base rate changes our IFC costs by £7-8m on an annualised basis

[1] Calculated by comparing the first 52 weeks of the 53 week FY24 period to the 52 week FY23 period

Cost to Operate efficiencies

Delivering £50m savings target faster than expected



Product cost of goods

- Volumes redistributed to optimise cost of goods with key supplier partnerships

Operating costs

- Sofa Delivery Company productivity savings
- Customer service op model restructured
- Closure of manufacturing and woodmill facilities
- Retail labour model further optimised
- Group Support overhead savings

Property costs

- Sofa Delivery Company estate consolidation
- Retail lease regears; rates revaluations

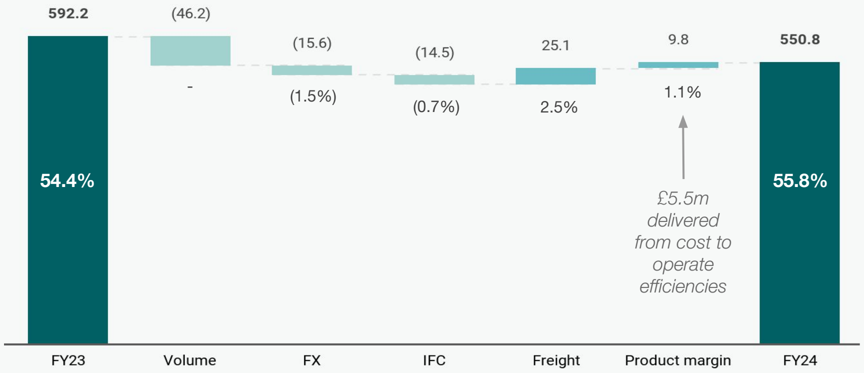
FY25/FY26

- Full year effect of FY24 initiatives expected to deliver £8-9m of incremental savings in FY25
- Further opportunities identified across Sofa Delivery Company, Property, Group support overheads, GNFR spend optimisation

Note: £6.5m non underlying P&L charges / £4.1m cash incurred in FY24 to enable savings above; £1m of further one-off P&L and cash costs expected in FY25

Gross margin

Margin rate +140bps, with scope for further growth

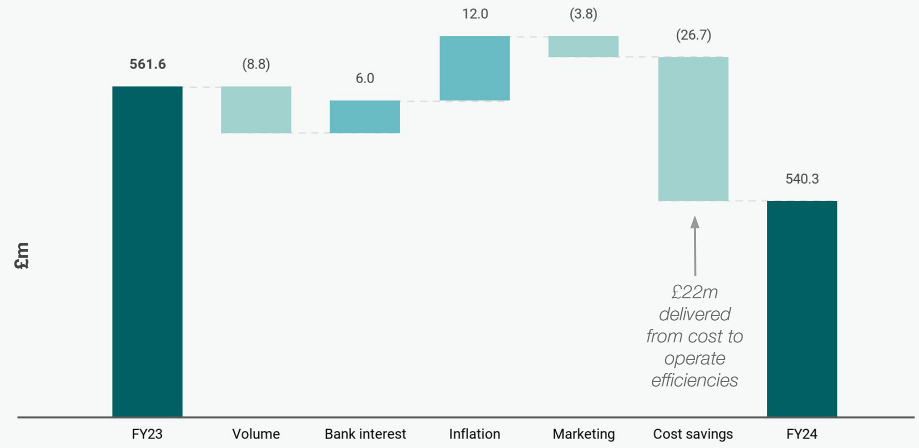


- Gross margin benefitted from lower freight rates, product cost of goods improvements and H2 FY23 RPI increases
- Looking forward, Bank of England rates, FX rates and further cost of goods improvements offer opportunity to keep growing gross margin rate
- Freight rates difficult to forecast and a sensitivity due to uncertain outlook for Red Sea routing
- Slight margin reduction vs H1 driven by actions taken to drive demand and increased freight costs due to Red Sea disruption

Note gross margin rate impact of changes in interest free credit charges is lower than the impact of other changes to gross margin rate due to interest free credit costs being recognised as a deduction in arriving at revenue

Operating costs (inc dep & interest)

£21.3m net savings supported by cost efficiencies and disciplined cost management



- Interest costs higher as a result of higher BoE rates and higher average net debt
- Inflation impact contained to c.3% / £12m, mainly wages, energy costs and business rates
- Marketing spend prioritised to core upholstery; Home marketing investments deferred
- Cost savings include:
  - £22m of in year benefits from cost to operate efficiencies
  - Net £4.7m of further savings mainly from Rent & Rates historical recoveries and non payment of financial performance bonuses
- Operationally we remain ready to capitalise on future market recovery

Operating costs include sales, distribution, administration, depreciation, amortisation and interest, excludes brand amortisation

Cash Flow

Maintaining disciplined cash management

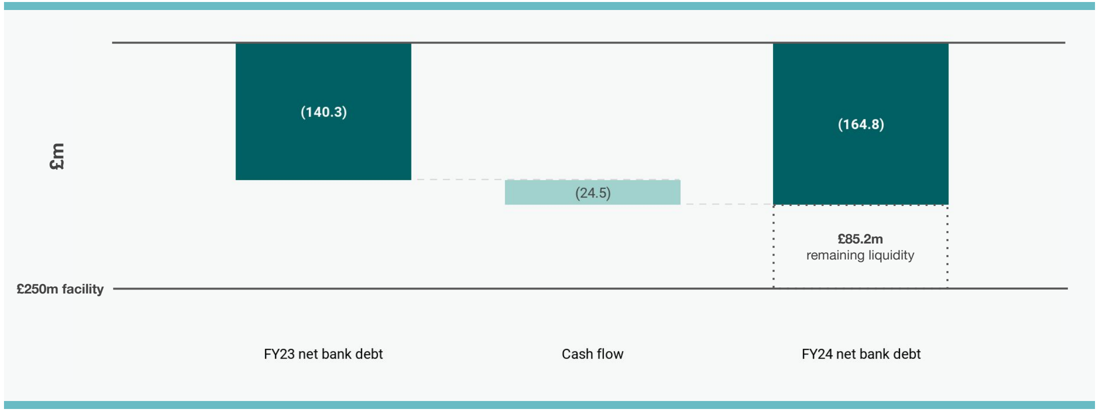
	FY24	FY23
Underlying EBITDA / other*	143.2	164.0
Capex	(21.6)	(34.9)
Interest and tax	(21.4)	(11.0)
Principal & interest paid on lease liabilities	(92.4)	(85.1)
Working capital	(17.8)	(40.0)
Underlying free cash flow	**(10.0)**	**(7.0)**
Non-underlying items	(5.1)	(0.3)
Free cash flow	**(15.1)**	**(7.3)**
Shareholder returns	(9.4)	(43.0)
Cash flow	**(24.5)**	**(50.3)**

*Other of £1.2m in FY24 and £6.6m in FY23 includes discontinued operations, gains on disposal of right of use assets, profit on disposal of fixed assets, FX revaluations and share based payments expense

- Cash capex prioritised in the period, in response to more challenging market environment
- Bank interest increased by £8.1m as a result of higher BoE rates and higher average net debt
- Working capital outflow £18m due to lower level of trading activity and £5m week 53 VAT payment (reverses in future periods)
- Lease liabilities line also includes £8m week 53 rent payment that reverses in future periods
- Non-underlying outflows: restructuring costs to enable cost efficiencies & cash costs related to Sept-23 refinancing
- FY23 shareholder returns include distributions associated with higher profits made in previous periods

Net debt & covenants

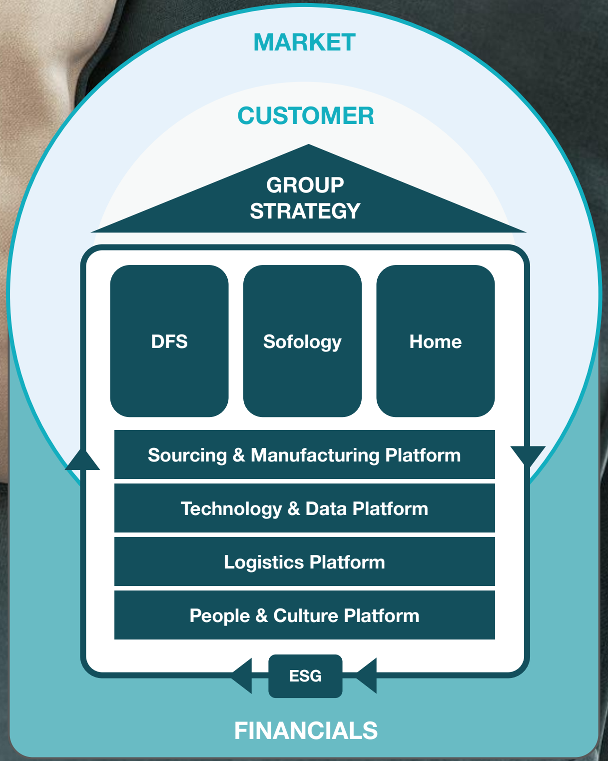
Focus on maintaining balance sheet flexibility



- Closing net debt £164.8m, good headroom versus £250m facility secured in Sept 2023
- Year end covenant tests fully satisfied, leverage[1] 2.5x (limit 3.0x), fixed charge cover 1.57x (min 1.50x)
- Covenant widening secured with banks in Sept 2024; protects against unanticipated downside risk
    - Leverage amended = 3.9x H1 FY25; 3.7x H2 FY25; 3.0x thereafter
    - FCC amended = 1.3x H1 FY25; 1.3x H2 FY25; 1.4x H1 FY26; 1.5x thereafter
- No final dividend proposed; interim dividend substantially covers the lower than anticipated full year profit based on our dividend cover policy
- Focused on reducing net debt levels and bringing leverage within our 0.5x to 1.0x target range

[1]Leverage per banking covenant definition (Pre-IFRS 16)

Overview



MARKET
CUSTOMER
GROUP STRATEGY
DFS
Sofology
Home
Sourcing & Manufacturing Platform
Technology & Data Platform
Logistics Platform
People & Culture Platform
ESG
FINANCIALS

Our Pillars

Clear market leadership position

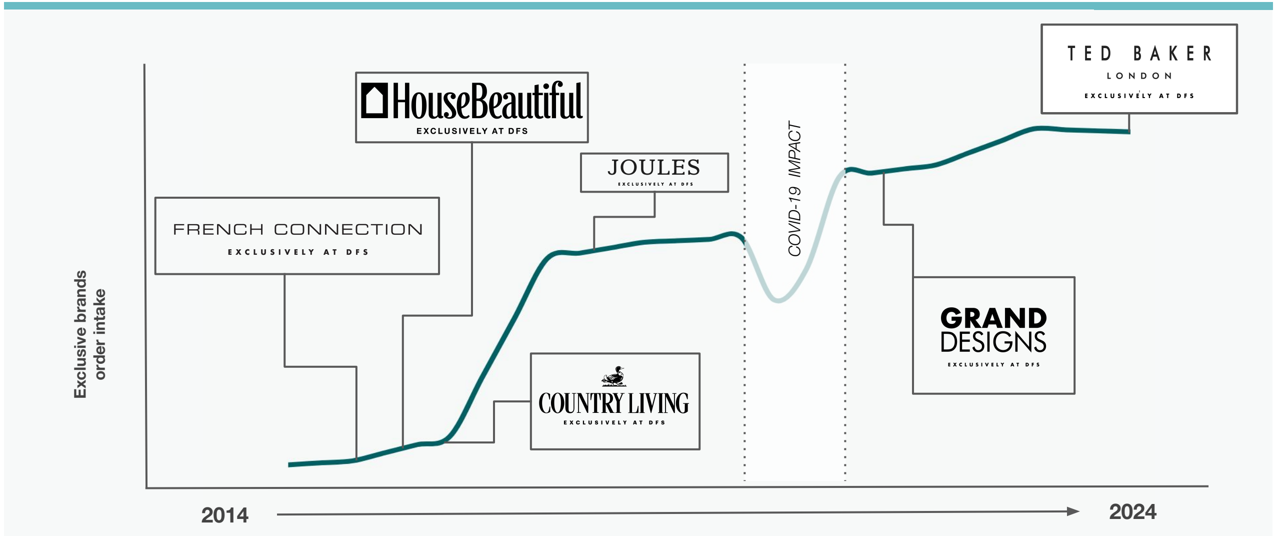
- New product & exclusive brand development driving conversion and AOV
- Marketing innovation driving strong returns
- NPS customer scores continue to strengthen

- Price and range proposition refreshed
- Promotional activation introduced
- NPS customer scores continue to strengthen

- Foundational infrastructure in place
- Margin and cost improvement drive year on year profit improvement
- Investment to drive sales on hold until upholstery market improves

DFS: Broadening appeal

Long term growth from broadened DFS proposition



- Exclusive brands
  - FY24 Ted Baker
  - FY25 La-Z-Boy
- Shift in marketing strategy
- Product development examples
  - Cinesound
  - House Beautiful refresh

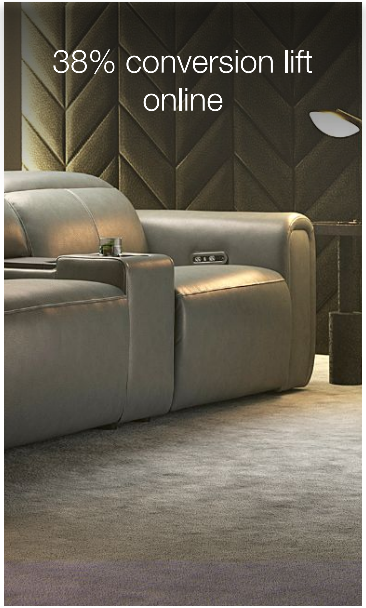
Sofology: Proposition evolution

Range improvements & pricing alterations in H2 with instantaneous improvement

Actions

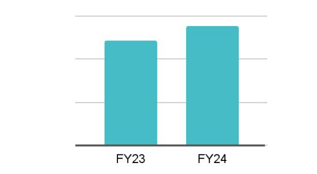
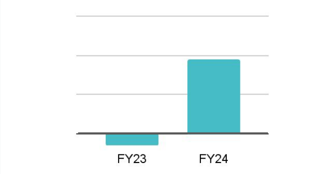
- Retail pricing reduced
- New product ranges
- Web redesign
- Introduction of promotional activations:
  - Introductory Prices
  - Limited Editions

Impact



NPS scores

Both brands in good shape and achieving record high scores

	Post-purchase	Established Customers
DFS		
Sofology		

- Post-purchase scores at record highs in both brands
- Established customer scores recovering from pandemic disruption impacts
- Trend continues in FY25 to date

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Platform Highlights

Good progress across all areas

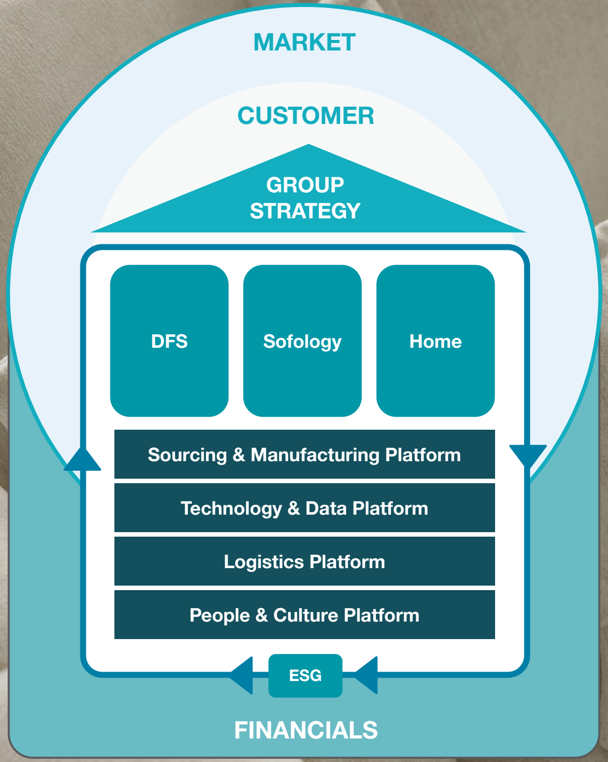
Sourcing & Manufacturing
Redistribution of production following manufacturing site closures
Optimisation of cost and quality across our supplier base

Technology & Data
Intelligent Lending Platform roll-out across Sofology
Implementation of AI to improve customer experience & productivity

Logistics
Improvements across all key performance indicators
Effective operations driving reductions in delivery costs

People & Culture
Improved EVP; offering management and leadership programmes
Achieved Bronze accreditation in the Inclusive Employers Standard

Sustainability
Net zero strategy submitted to SBTI in June 2024
Manufacturing partners committed to developing their own science-based net zero plans; covers 59% of Scope 3 emissions



The Sofa Delivery Company

Developing a valuable asset

Formed in 2021 to bring DFS and Sofology logistics operations together

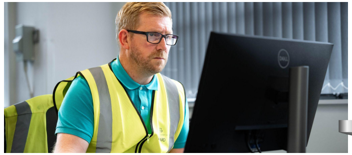
Smart well invested technology and integrated systems

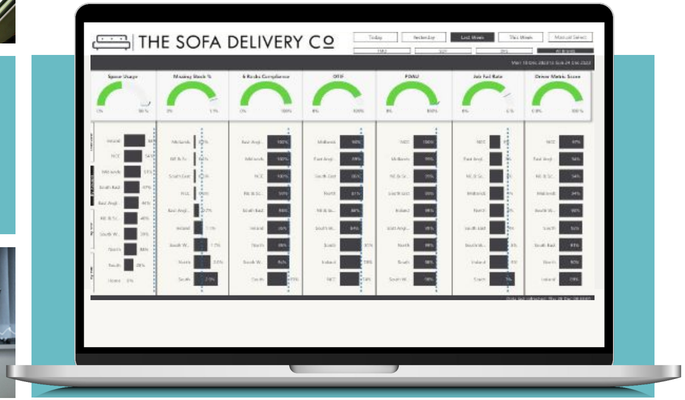
Record high post-delivery NPS scores and operational efficiencies reducing costs

Post-delivery NPS	**Cost base YoY** inflation & volume adjusted
+16% (62.6 FY24 vs 53.7 FY23)	-8%

UK wide distribution network of CDCs and delivery vehicles

Powerful dashboards provide data led insight, driving productivity





Overview

FY25 Outlook

We expect to deliver profit and free cash flow growth

- FY25 trading to date has been in line with our expectations
- Expect to achieve market consensus profit expectations*:
  - Low single digit market demand recovery expected, strengthening over course of year
  - PBTu H2 weighted
- Group planning prudently for the year ahead, with focus on cash flow generation
- Cash flow guidance;
  - Capital expenditure £20-25m
  - Net exceptional cash costs of c£4m

Company compiled analyst consensus £23.2m PBTu

Longer term

Market recovery and operational leverage will drive significant profit growth

- Downturn in market volumes has significantly impacted profit performance
- Market recovery back to pre pandemic FY19 volumes is expected
- Market drivers have been weak, but signs of potential recovery to come
- Prudent illustration opposite assumes partial market recovery
- Operational leverage results in 7% PBT(A) margin
- Further market recovery, Home growth, gross margin rate support confidence in medium term 8% PBT target

Impact of growing upholstery demand:	FY24	Market recovery (illustrative)	Illustrative future P&L
Market vs pre pandemic	c(23%)	+18%	(5%)
Revenue	£987m	£187m[1]	£1,174m
PBT(A) % of revenue	£10m 1%	£74m[2]	£84m 7%

[1] Includes £12m uplift from assumed reversal of current Red Sea related lead time delays
[2] 40% drop through

FY24 RESULTS

Overview

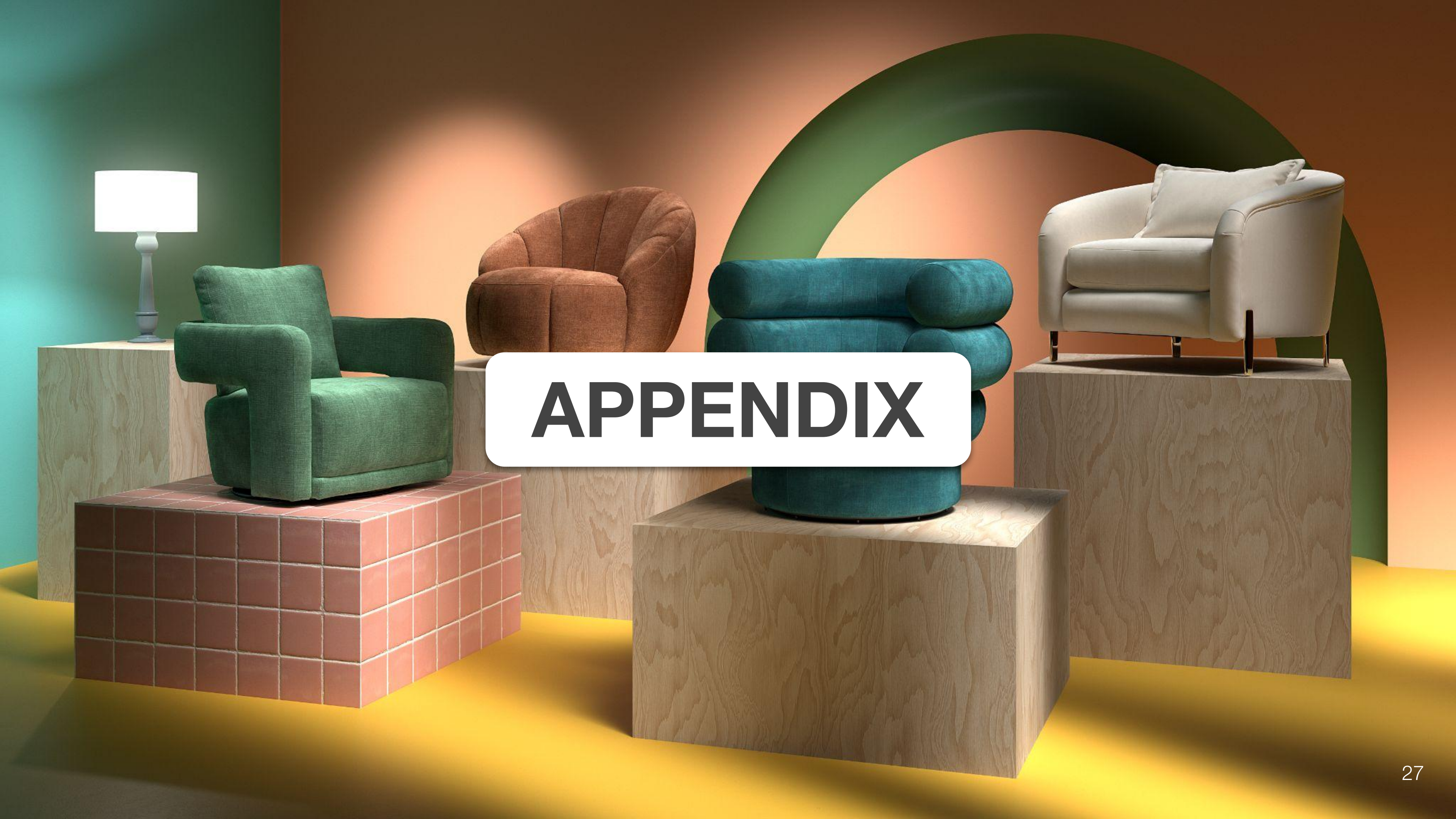
Introduction
Tim Stacey

Financials
John Fallon

Strategy & Operational update
Tim Stacey

Outlook & Summary
Tim Stacey

Questions & Answers
Tim Stacey & John Fallon



APPENDIX

Non-underlying costs

FY24 (£m)	P&L	Cash
Restructuring costs	6.5	4.1
Land slippage costs	3.1	0.2
Release of lease guarantee costs	(0.7)	-
Refinancing costs	1.9	0.8
Total	**10.8**	**5.1**

- Restructuring costs: Closure of one of our manufacturing plants and wood mills, restructuring of central support functions
- Land slippage: Remediation works required to an area of land slippage identified at one of our remaining manufacturing sites
- Lease guarantee costs: Provision releases associated with former subsidiary companies
- Refinancing costs: Refinancing our lending facilities in Sept 2023 with the majority of this cost covering the write off of unamortised issue costs

Group Showroom Profile

AS AT 30 JUNE 2024 (VS. 25 JUNE 2023)

	UK	ROI	TOTAL
Large Format (c. 15,000sq.ft.+)	90	3	93
Medium Format (c. 10,000sq.ft.)	17 (-1)	2	19 (-1)
Small Format (c. 5,000sq.ft.)	2 (-1)	-	2 (-1)
Dwell standalone	1	-	1
DFS TOTAL	110 (-2)	5	115 (-2)
Large format (c. 15,000sq.ft.+)	56	-	56
Medium format (c.10,000-15,000 sq.ft)	2	-	2
Sofology TOTAL	58	-	58