

DFS GROUP

# FY24 Results

25 September 2024



FY24 RESULTS

# Overview

## Introduction

Tim Stacey

## Financials

John Fallon

## Strategy & Operational update

Tim Stacey

## Outlook & Summary

Tim Stacey

## Questions & Answers

Tim Stacey & John Fallon



sofology



# 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

Cost to operate  
efficiency savings of  
£27.5m

## 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

Market volumes: >  
20% down vs  
pre-pandemic

## Well positioned to capitalise on market recovery:

- Clear market leader
- Well invested asset base / negative working capital model
- Market drivers: Green shoots emerging

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



# Headlines

**-1.8%**

YoY order intake<sup>1</sup>

**+140 bps**  
(55.8%)

YoY gross margin rate  
(FY24 rate)

**£27.5m**

Cost to operate  
efficiency savings

**£10.5m**  
(£30.6m)

Adjusted PBTu<sup>2</sup>  
(prior year)

**£85.2m**

Liquidity headroom

Post-purchase &  
post-delivery NPS at  
record highs

Net promoter scores

<sup>1</sup> Calculated by comparing the first 52 weeks of the 53 week FY24 period to the 52 week FY23 period

<sup>2</sup> 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%) <sup>1</sup>	(23%) <sup>1</sup>

- 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

<sup>1</sup> CACI upholstery sector transaction volumes (for the FY19 period H2 data used as data not available before then)

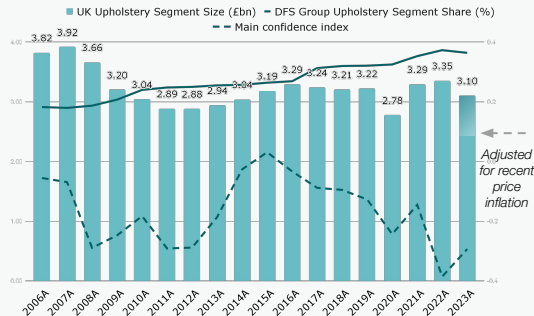


# Market size and share

We are the clear market leader

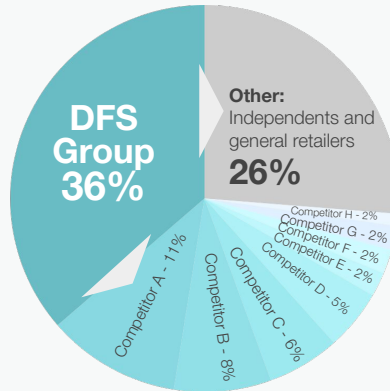
## Maintaining our market leadership

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

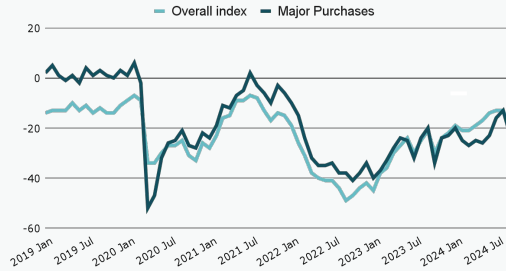
- Market share<sup>1</sup> 36% vs 32% 2020
- Independents continuing to decline
- Record share in specialist upholstery retailer subset
- General home and multi-category retailers have gained share from other specialists

<sup>1</sup> Global Data August 2024

# Market drivers

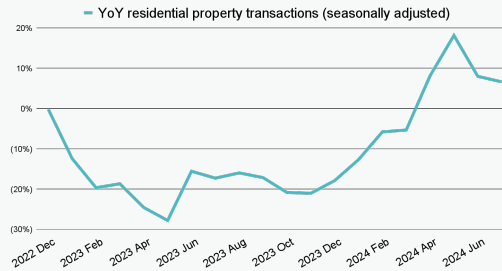
## Improving outlook signalling potential upholstery market recovery

Consumer confidence - major purchases



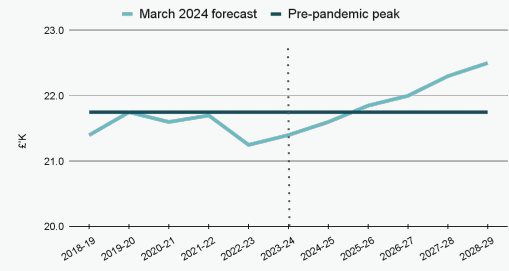
- 80% of transactions are replacements
- Strong correlation between consumer confidence and market demand
- Improving trend in both the overall index and appetite for major purchases (albeit volatile)

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**



FY24 RESULTS

# Overview

## Introduction

Tim Stacey

## Financials

John Fallon

## Strategy & Operational update

Tim Stacey

## Outlook & Summary

Tim Stacey

## Questions & Answers

Tim Stacey & John Fallon



sofology



# Results overview

<i>(£m) unless stated</i>	FY24 <sup>1,3</sup>	FY23 <sup>2,3</sup>	YoY
Revenue	987.1	1,088.9	(9.3%)
<b>Underlying PBT(A)</b>	<b>10.5</b>	<b>30.6</b>	<b>(20.1)</b>
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)
<b>Leverage<sup>4</sup></b>	<b>2.5x</b>	<b>1.9x</b>	<b>(0.6x)</b>
<b>Ordinary DPS</b>	<b>1.1p</b>	<b>4.5p</b>	<b>(3.4p)</b>

- 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

<sup>1</sup> 53 weeks   <sup>2</sup> 52 weeks   <sup>3</sup> Continuing operations

<sup>4</sup> Leverage per banking covenant definition (Pre-IFRS 16)





# Revenue

Lower due to weak market demand & FY23 order bank benefit

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

- Order intake down -1.8% in the period<sup>1</sup> 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

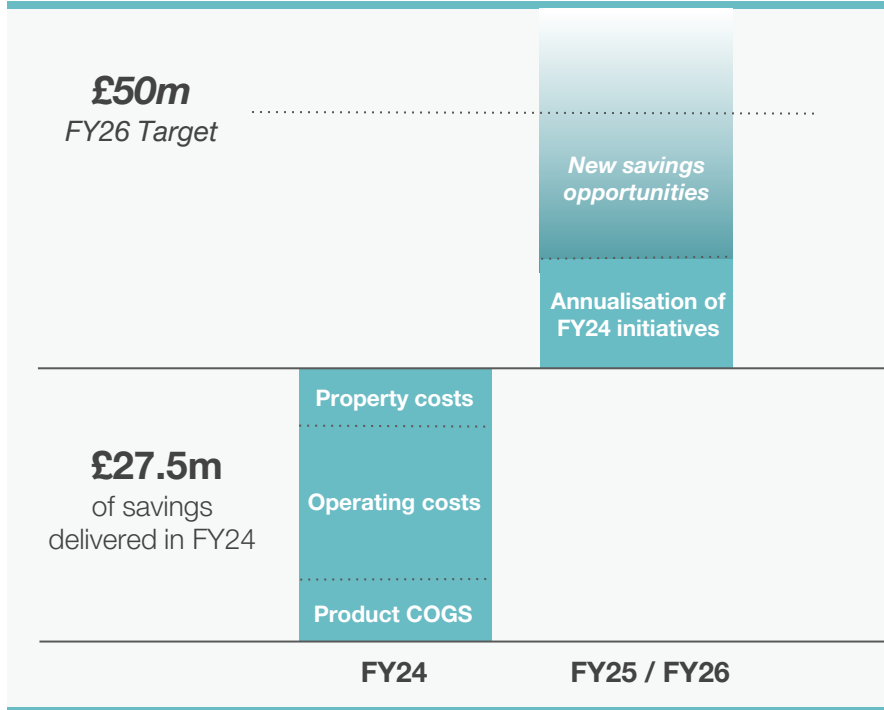
<sup>1</sup> Calculated by comparing the first 52 weeks of the 53 week FY24 period to the 52 week FY23 period





# Cost to Operate efficiencies

Delivering £50m savings target faster than expected



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

## 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

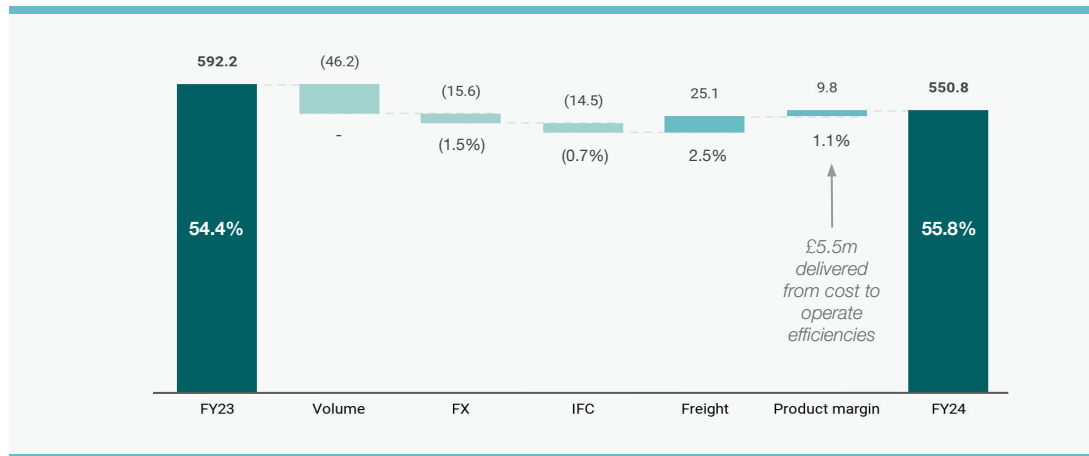
- Sofa Delivery Company estate consolidation
- Retail lease regears; rates revaluations

## 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

# Gross margin

Margin rate +140bps, with scope for further growth



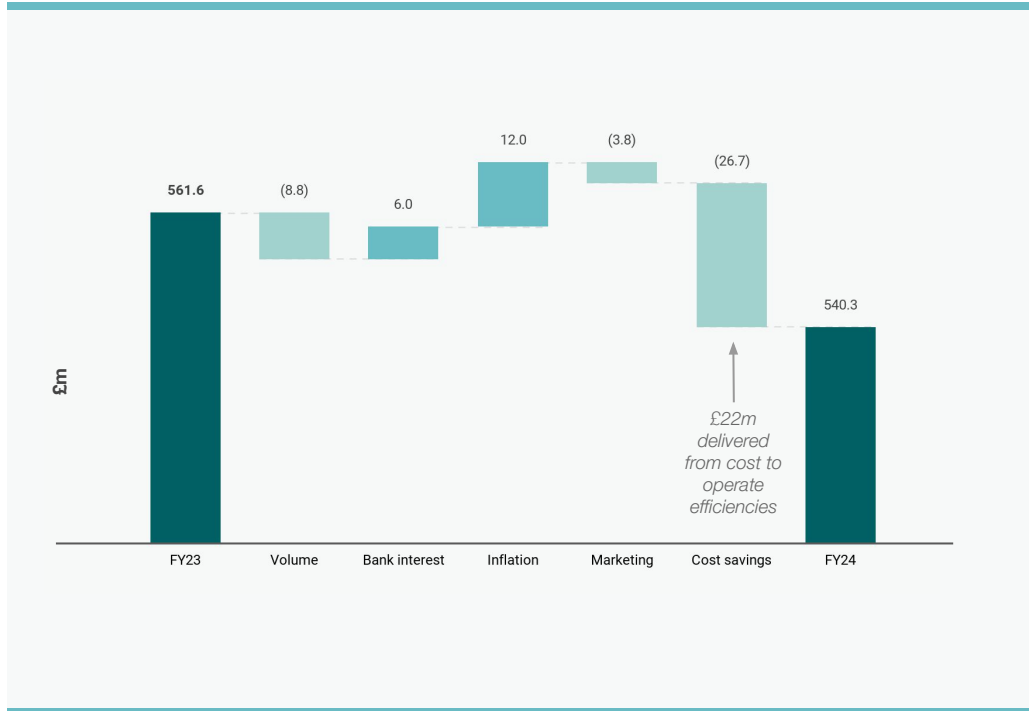
- Gross margin benefitted from lower freight rates, product cost of goods improvements and H2 FY23 RPI increases
- Looking forward, Bank of England rates, FX rates and further cost of goods improvements offer opportunity to keep growing gross margin rate
- Freight rates difficult to forecast and a sensitivity 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

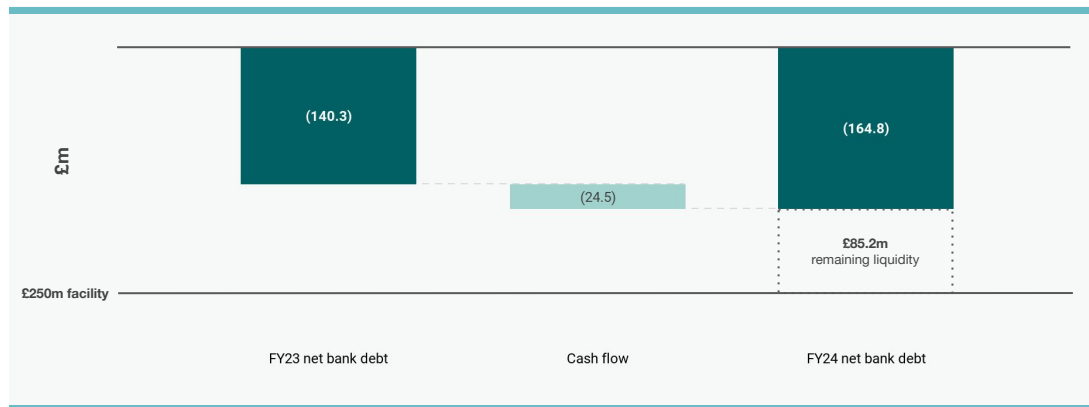
	FY24	FY23
Underlying EBITDA / other*	143.2	164.0
Capex	(21.6)	(34.9)
Interest and tax	(21.4)	(11.0)
Principal & interest paid on lease liabilities	(92.4)	(85.1)
Working capital	(17.8)	(40.0)
<b>Underlying free cash flow</b>	<b>(10.0)</b>	<b>(7.0)</b>
Non-underlying items	(5.1)	(0.3)
<b>Free cash flow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

\*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<sup>1</sup> 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

<sup>1</sup>Leverage per banking covenant definition (Pre-IFRS 16)



# Overview

## Introduction

Tim Stacey

## Financials

John Fallon

## Strategy & Operational update

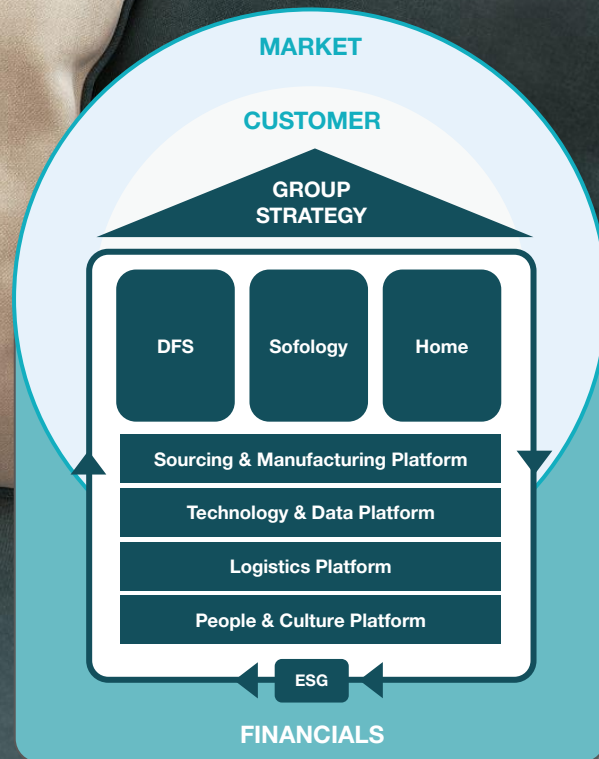
Tim Stacey

## Outlook & Summary

Tim Stacey

## Questions & Answers

Tim Stacey & John Fallon





# 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



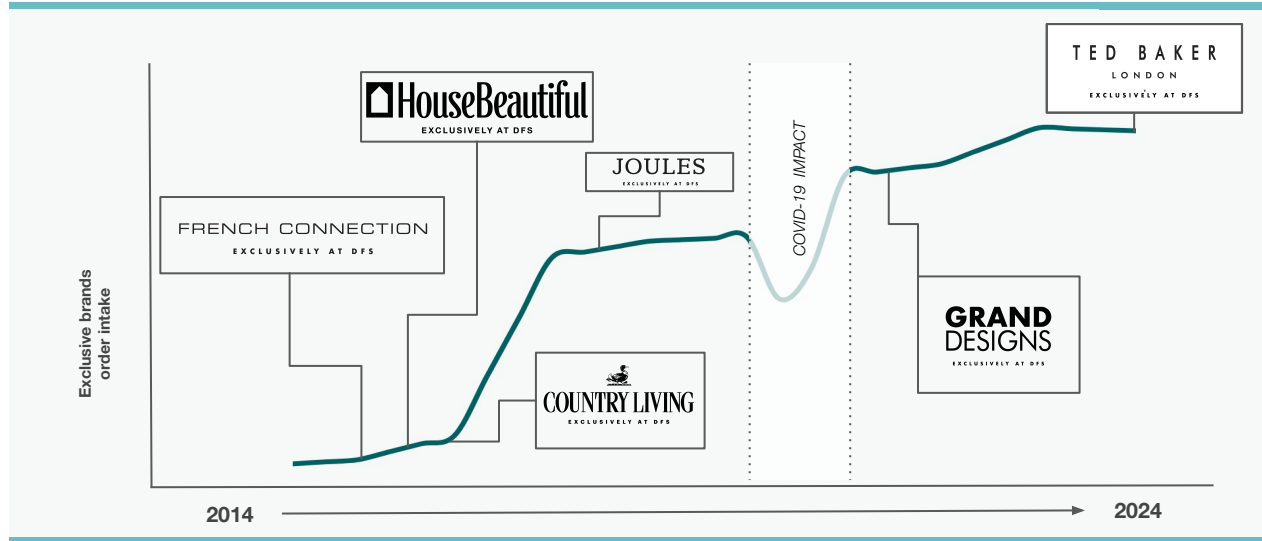
- Price and range proposition refreshed
- Promotional activation introduced
- NPS customer scores continue to strengthen



- 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

Outperformed the market\* across Q4 FY24

38% conversion lift online

Momentum has continued through into FYX25 YTD



# NPS scores

Both brands in good shape and achieving record high scores



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





# 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

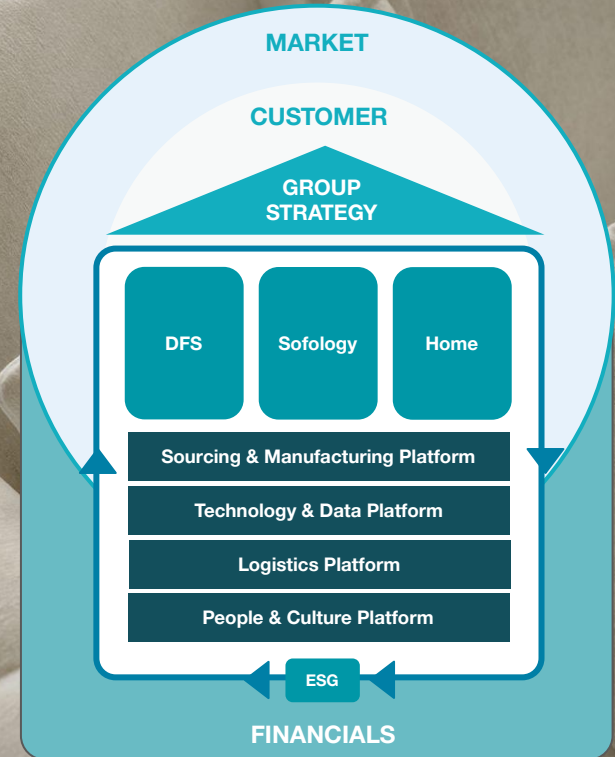
Improvements across all key performance indicators  
Effective operations driving reductions in delivery costs

## 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





FY24 RESULTS

# Overview

## Introduction

Tim Stacey

## Financials

John Fallon

## Strategy & Operational update

Tim Stacey

## Outlook & Summary

Tim Stacey

## Questions & Answers

Tim Stacey & John Fallon





# 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 <sup>1</sup>	£1,174m
PBT(A) (% of revenue)	£10m (1%)	£74m <sup>2</sup>	£84m (7%)

<sup>1</sup> Includes £12m uplift from assumed reversal of current Red Sea related lead time delays

<sup>2</sup> 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
<b>Total</b>	<b>10.8</b>	<b>5.1</b>

- 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
<b>DFS TOTAL</b>	<b>110 (-2)</b>	<b>5</b>	<b>115 (-2)</b>
Large format (c. 15,000sq.ft.+)	56	-	56
Medium format (c.10,000-15,000 sq.ft)	2	-	2
<b>Sofology TOTAL</b>	<b>58</b>	<b>-</b>	<b>58</b>