

## Chair's statement

# Financial and operational resilience in a challenging year



**Ian Durant**  
Non-Executive Chair

### 2020 highlights

- Fast and decisive action in response to Covid-19; temporary suspension of business drives loss before tax for the year
- Strong trading online during lockdown, which has continued into the new financial year both in showrooms and online
- Good strategic progress with the focus on DFS and Sofology
- Sale of Sofa Workshop and restructuring of Dwell completed early in the new financial year
- Development of phase one of our Group Environmental, Social and Governance agenda

### Overview

This has been an extraordinary year, unprecedented in the challenges posed by the closure of our showrooms, manufacturing and delivery capabilities for almost three months of our peak Spring trading period. During this period, the majority of our colleagues were furloughed and the small team which remained worked from home.

I applaud the response of our people in managing the closure of our operations in late March, looking after colleague welfare and planning and executing the reopening of the business at the start of June.

During the peak of the Covid-19 pandemic the Board met frequently to provide support and guidance to the Group Leadership Team. This included assisting with making the key tactical decisions required to secure the operational and financial position of the Group, including agreeing arrangements with landlords and suppliers to manage our cashflow, increasing the Group's banking facilities and raising new equity financing.

### Strategy progress

In the first full financial year since its launch, we have continued to progress the implementation of the Group's strategy to be the leading sofa retailer in the digital age. In particular, a number of new initiatives have been launched to further develop the omnichannel proposition of the largest brands, DFS and Sofology. Progress has also been made on leveraging DFS's existing assets to support improved returns on capital through sharing retail space and logistics assets to support Sofology's expanded presence across the UK. Having proved our ability to do this, including the integration and development of the supporting information systems and processes the Group is well positioned to replicate this approach across the UK and the Republic of Ireland over the next two years.

### Financial results

At our half-year trading update we reported that Group revenues were down 5.7% in the first half against the strong prior year comparative; however, importantly, order intake was up year-on-year in the second half, with a particular strength in the DFS brand. This remained the position and the Group, excluding the underperformance of Sofa Workshop, was on track to broadly meet market profit expectations for the full year until the Covid-19 pandemic took hold in late March. Then, in line with government requirements, all UK operations excluding our web platform were suspended from 23 March. Our showrooms, manufacturing facilities and delivery network closed for almost three months, resulting in a revenue shortfall of c. £270m which led to a reported loss before tax for the year of £81.2m.

### Covid-19 pandemic shutdown

The reaction of the business to the pandemic was fast and effective. After pausing operations overnight, additional communication channels were established to ensure colleagues remained fully informed of the developing situation and the impact of the business' 'hibernation'. Almost 90% of colleagues were furloughed and around 500 remaining colleagues worked tirelessly to manage the impact on the business. Expenditure was minimised and, in order to increase financial resilience, in April 2020 the executive team secured an incremental £70m twelve month debt facility from our banks to supplement our existing lending arrangements, and we also raised £63.9m in new equity financing from a share placing the same month.

I would also like to express our thanks to the Group's many stakeholders for their support through this challenging period. This includes the Government for providing broad support including the Coronavirus Job Retention Scheme, and many of our larger suppliers and landlords, who agreed to payment deferrals.

### Re-establishing our operations

The DFS and Sofology brands traded well online throughout the lockdown period. Benefitting from continued investment over numerous years, as we shared in our July trading statement order intake across the online channels was up 77% year-on-year from the beginning of lockdown to 12 July 2020.

Most of the Group's customers still choose to visit our showrooms, so they can experience the look and feel of our products, as well as the all important "comfort test", before committing to a purchase. During lockdown the executive team worked hard to put in place all the steps necessary to safely welcome back employees and customers into our showrooms and restart our manufacturing and delivery operations with appropriate safety measures. To facilitate the re-opening, we implemented strict social distancing and hygiene measures and introduced a new appointment system for customers which has proved popular.

Since re-opening in June, we have been pleased to see a significant increase in customer orders, which has been sustained into the first three months of the new financial year. We believe this reflects both latent demand from the period of closure and a renewed focus and enthusiasm amongst customers for enhancing the comfort of their homes.

The high level of orders, combined with constrained deliveries through June as operations gradually recommenced, resulted in a higher than normal order bank at the end of the year. The Group therefore entered the new financial year with good momentum.

We are very aware of the ongoing economic uncertainty and have decided to focus our efforts more closely on the development of the DFS and Sofology brands, which we believe provide the greatest opportunities for growth. To facilitate this we have, since the end of the financial year, completed the sale of Sofa Workshop and integrated the management of the Dwell retail team into DFS to reduce costs and help it become a more profitable part of the Group. Unfortunately, the consequence of this is the loss of a number of colleague roles from the business.

We recognise the environment in the new financial year, is likely to be highly challenging, and may require rapid changes in our ways of working to adapt to the continued impact of Covid-19. The Board and Executive have adopted a shorter, more frequent planning cycle to reflect this heightened risk. I am confident given the pace at which the Group has responded to recent challenges we have the right team and structures in place to manage these risks.

### Our purpose, our values and our people

The Group, which is the outright market leader in its sector in the UK, has a distinctive culture. There is a great sense of pride, commitment, and a "can-do" attitude

amongst the people that work across the business. Our purpose, built on our values, is to bring great design and comfort into every living room, in an affordable, responsible, and sustainable manner.

That our people live our values has been evident from their dedication and enthusiasm over the past year. Aside from the pandemic there is a significant amount of change going on within the Group and I commend our employees for their commitment and determination to see through the numerous projects that are underway.

### Environmental, Social and Governance ("ESG")

With the support of the Board, the Group Leadership team has spent a considerable amount of time and effort developing phase one of the Group's ESG strategy. Our ambition is to leverage our influence and scale as market leader to offer sustainable and ethical products and to drive a more circular product lifecycle. This starts from sourcing and manufacturing, through to retailing and delivery before then ensuring the collection and responsible disposal of products at the end of their useful lives.

As a result, we expect to become more efficient, competitive and innovative without margin dilution to support the long-term sustainability and profitability of the Group. We believe this approach to sustainability is expected by our customers and indeed embedding sustainability into everything we do is a key priority for the future.

We are well aware that there is much to be done, and the team has been on a journey to first understand, through independent audits, our current situation in relation to sourcing, energy consumption, waste products and our people. We have then developed what we consider to be stretching but realistic targets and plans to achieve these.

We launched four key initiatives in the year: our wood and leather sourcing strategy; reduction and recycling of packaging; our 'sofa rescue' service to reduce the amount of waste product entering landfill; and our tree planting initiative working with the Woodland Trust. There are many other work streams underway – more detail on these and our targets can be found on pages 48-59.

I am proud of the work done by our colleagues across the Group to support the incredible work of the NHS during the height of the health crisis. Support was provided to 50 NHS hospitals across the UK, by donating and delivering sofas, sofas and recliners to allow health workers to enjoy much needed rest whilst remaining on site between shifts to support patients.

### The Board

In September 2019, Alison Hutchinson succeeded Luke Mayhew as Senior Independent Director, prior to his retirement from the Board at the AGM in November. In January, Steve Johnson succeeded Alison as Chair of the Remuneration Committee. In January 2020 we welcomed Jane Bedhall to

the Board as a Non-Executive Director. Jane has subsequently taken on the role as our designated Non-Executive Director as we look to further strengthen the Board's understanding of employee views.

The Board's focus in the year has been to drive the implementation of the Group's strategy through providing oversight, support and challenge to the Group Leadership team. Although interrupted by the sudden and extreme impact of Covid-19 closure, the Group's strategic direction remains intact and steps have been taken to accelerate changes which we anticipate will enhance the Group's UK market leadership position and profitability.

More details on the Board's activities can be found on pages 66 to 75 in the Corporate Governance Report and Section 172 Statement on pages 60 to 63.

### Dividend

As a result of the uncertainty driven by the pandemic, we took the decision to cancel the interim dividend. Whilst trading has been strong since the lockdown measures eased, we remain cautious around the continued potential impacts of Covid-19 on operations and the macro-economy. While the terms of the incremental banking facility secured in April preclude payment of a dividend at the current time in any event, we would not have otherwise sought to recommend payment of a final dividend in respect of the FY20 financial year as we seek to maximise the financial resilience of the Group.

### Looking ahead

The Group's scale economies, brand heritage, vertical integration and financial strength position it well for what is, as noted in the Chief Executive's outlook, likely to be a tough trading environment. This strength has enabled the Group to grow its market share during previous times of economic challenge as less resilient competitors exited the market, for example during the global financial crisis of 2008/9.

In these uncertain times we need to be cautious and alert to the unexpected. It is impossible to predict the impact of the political, social and economic developments we are seeing. Notwithstanding these challenges, the Board is confident that the strength and resilience of the business places the Group in a relatively strong position over the long term and well placed to manage these market uncertainties. We remain committed to developing the Group to drive shareholder returns, have a positive impact on our society and continue to provide a rewarding place for our people to work and believe these aspirations are mutually compatible.

### Ian Durant

Chair of the Board  
24 September 2020