Consolidated income statement

for 52 weeks ended 28 June 2020 (48 weeks ended 30 June 2019)

	Notes	52 weeks to 28 June 2020 Underlying £m	52 weeks to 28 June 2020 Non-underlying £m	52 weeks to 28 June 2020 Total £m	48 weeks to 30 June 2019 Underlying £m	48 weeks to 30 June 2019 Non-underlying £m	48 weeks to 30 June 2019 Total £m
Gross sales	1, 2	**935.0**	**–**	**935.0**	1,165.0	–	1,165.0
Revenue	2	**724.5**	**–**	**724.5**	901.0	–	901.0
Cost of sales		**(307.4)**	**(3.1)**	**(310.5)**	(383.8)	–	(383.8)
Gross profit		**417.1**	**(3.1)**	**414.0**	517.2	–	517.2
Selling and distribution costs		**(287.5)**	**(2.1)**	**(289.6)**	(392.8)	–	(392.8)
Administrative expenses	3	**(67.7)**	**(0.2)**	**(67.9)**	(59.3)	(4.4)	(63.7)
Operating profit before depreciation, amortisation and impairment		**61.9**	**(5.4)**	**56.5**	65.1	(4.4)	60.7
Depreciation		**(81.9)**	**–**	**(81.9)**	(23.3)	–	(23.3)
Amortisation		**(6.8)**	**–**	**(6.8)**	(4.9)	–	(4.9)
Impairments		**(0.3)**	**(11.2)**	**(11.5)**	–	–	–
Operating (loss)/profit	2, 3	**(27.1)**	**(16.6)**	**(43.7)**	36.9	(4.4)	32.5
Finance income	5	**0.1**	**–**	**0.1**	0.2	–	0.2
Finance expenses	5	**(37.6)**	**–**	**(37.6)**	(10.3)	–	(10.3)
(Loss)/profit before tax		**(64.6)**	**(16.6)**	**(81.2)**	26.8	(4.4)	22.4
Taxation	6	**11.1**	**0.9**	**12.0**	(5.1)	0.8	(4.3)
(Loss)/profit for the period		**(53.5)**	**(15.7)**	**(69.2)**	21.7	(3.6)	18.1
Earnings per share							
Basic	7	**(24.3)p**	**(7.1)p**	**(31.4)p**	10.3p	(1.7)p	8.6p
Diluted	7	**(24.3)p**	**(7.1)p**	**(31.4)p**	10.1p	(1.7)p	8.4p

Consolidated statement of comprehensive income
for 52 weeks ended 28 June 2020 (48 weeks ended 30 June 2019)

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
(Loss)/profit for the period	**(69.2)**	18.1
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	**3.9**	9.7
Net change in fair value of cash flow hedges reclassified to profit or loss		
Recognised in cost of sales	**(8.3)**	(6.1)
Recognised in finance expense	**0.7**	(0.6)
Income tax on items that are or may be reclassified subsequently to profit or loss	**0.4**	(0.5)
Other comprehensive (expense)/income for the period, net of income tax	**(3.3)**	2.5
Total comprehensive (expense)/income for the period	**(72.5)**	20.6

Consolidated balance sheet
at 28 June 2020 (30 June 2019)

	Note	28 June 2020 £m	30 June 2019 £m
Non-current assets			
Property, plant and equipment	8	**74.1**	89.9
Right of use assets	8, 9	**384.5**	–
Intangible assets	10	**532.5**	539.0
Other financial assets	12	**0.8**	1.4
Deferred tax assets	13	**24.0**	8.7
		1,015.9	639.0
Current assets			
Inventories	14	**58.9**	54.8
Other financial assets	12	**4.5**	6.3
Trade and other receivables	15	**22.2**	32.8
Current tax assets		**7.8**	–
Cash and cash equivalents		**62.3**	29.8
		155.7	123.7
Total assets		**1,171.6**	762.7
Current liabilities			
Trade payables and other liabilities	16	**(216.0)**	(225.1)
Lease liabilities	9, 16	**(88.6)**	–
Provisions	20	**(11.9)**	(5.0)
Other financial liabilities	17	**(0.1)**	–
Current tax liabilities		**–**	(0.8)
		(316.6)	(230.9)
Non-current liabilities			
Interest-bearing loans and borrowings	18	**(218.7)**	(194.0)
Lease liabilities	9, 16	**(428.6)**	–
Provisions	20	**(3.9)**	(5.6)
Other financial liabilities	17	**(1.9)**	(0.7)
Other liabilities	16	**–**	(79.7)
		(653.1)	(280.0)
Total liabilities		**(969.7)**	(510.9)
Net assets		**201.9**	251.8
Equity attributable to owners of the Company			
Share capital	22	**383.4**	319.5
Share premium	22	**40.4**	40.4
Merger reserve	22	**18.6**	18.6
Treasury shares	22	**(0.7)**	(2.1)
Cash flow hedging reserve	22	**3.3**	7.0
Retained earnings		**(243.1)**	(131.6)
Total equity		**201.9**	251.8

These financial statements were approved by the Board of Directors on 24 September 2020 and were signed on its behalf by

Tim Stacey
Chief Executive Officer

Mike Schmidt
Chief Financial Officer

Company registered number: 7236769

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 28 July 2018	**319.5**	**40.4**	**18.6**	**(3.3)**	**4.0**	**(126.8)**	**252.4**
Profit for the period	–	–	–	–	–	18.1	18.1
Other comprehensive income/(expense)	–	–	–	–	3.0	(0.5)	2.5
Total comprehensive income/(expense) for the period	–	–	–	–	3.0	17.6	20.6
Dividends	–	–	–	–	–	(23.8)	(23.8)
Treasury shares issued	–	–	–	1.2	–	(1.2)	–
Share based payments	–	–	–	–	–	2.6	2.6
Balance at 30 June 2019	**319.5**	**40.4**	**18.6**	**(2.1)**	**7.0**	**(131.6)**	**251.8**
Adjustment on initial application of IFRS 16 (net of tax)	–	–	–	–	–	(26.4)	(26.4)
Adjusted balance at 1 July 2019	**319.5**	**40.4**	**18.6**	**(2.1)**	**7.0**	**(158.0)**	**225.4**
Loss for the year	–	–	–	–	–	(69.2)	(69.2)
Other comprehensive income/(expense)	–	–	–	–	(3.7)	0.4	(3.3)
Total comprehensive income/(expense) for the year	–	–	–	–	(3.7)	(68.8)	(72.5)
Dividends	–	–	–	–	–	(15.9)	(15.9)
Purchase of own shares	–	–	–	(1.1)	–	–	(1.1)
Treasury shares issued	–	–	–	2.5	–	(1.2)	1.3
Shares issue	63.9	–	–	–	–	–	63.9
Settlement of share based payments	–	–	–	–	–	(1.6)	(1.6)
Share based payments	–	–	–	–	–	2.4	2.4
Balance at 28 June 2020	**383.4**	**40.4**	**18.6**	**(0.7)**	**3.3**	**(243.1)**	**201.9**

Consolidated cash flow statement

for 52 weeks ended 28 June 2020 (48 weeks ended 30 June 2019)

	Note	**52 weeks to 28 June 2020 £m**	48 weeks to 30 June 2019 £m
(Loss)/profit for the period		**(69.2)**	18.1
Adjustments for:			
Income tax expense		**(12.0)**	4.3
Financial income		**(0.1)**	(0.2)
Financial expenses		**37.6**	10.3
Depreciation of property, plant and equipment		**21.3**	23.3
Depreciation of right of use assets		**60.6**	–
Amortisation of intangible assets		**6.8**	4.9
Impairment of assets		**11.5**	–
Gain on sale of property, plant and equipment		**(1.1)**	(0.8)
Settlement of share based payments		**(1.6)**	–
Share based payment expense		**2.4**	2.6
Increase in trade and other receivables		**(1.6)**	(1.6)
Increase in inventories		**(4.1)**	(0.4)
Increase/(decrease) in trade and other payables		**4.7**	(10.2)
Increase/(decrease) in provisions		**6.6**	(0.3)
Net cash from operating activities before tax		**61.8**	50.0
Tax paid		**(6.1)**	(7.4)
Net cash from operating activities		**55.7**	42.6
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1.4**	1.2
Interest received		**0.1**	0.2
Acquisition of property, plant and equipment		**(16.8)**	(17.5)
Acquisition of other intangible assets		**(6.6)**	(6.9)
Net cash from investing activities		**(21.9)**	(23.0)
Cash flows from financing activities			
Interest paid		**(9.0)**	(7.7)
Interest paid on lease liabilities		**(29.2)**	–
Payment of lease liabilities[1]		**(36.3)**	(3.5)
Drawdown/(repayment) of borrowings		**25.0**	(2.0)
Proceeds on issue of shares		**63.9**	–
Purchase of own shares		**(1.1)**	–
Proceeds from sale of own shares		**1.3**	–
Ordinary dividends paid		**(15.9)**	(23.8)
Net cash from financing activities		**(1.3)**	(37.0)
Net increase/(decrease) in cash and cash equivalents		**32.5**	(17.4)
Cash and cash equivalents at beginning of period		**29.8**	47.2
Cash and cash equivalents at end of period	26	**62.3**	29.8

1. Prior period interest and capital repayments on lease liabilities relate solely to finance leases recognised in accordance with IAS 17.

Notes to the consolidated financial statements
at 28 June 2020

1 Accounting policies
DFS Furniture plc ("the Company") is a public company incorporated and domiciled in England in the United Kingdom (Company number: 07236769). The address of the registered office is 1 Rockingham Way, Redhouse Interchange, Adwick-Le-Street, Doncaster, South Yorkshire, DN6 7NA.

The consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

These annual financial statements are the first in which the Group has applied IFRS 16 Leases, further details of which are presented in note 1.18. With the exception of the adoption of IFRS 16, the accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.17.

1.1 Basis of preparation
The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"), other than the early adoption of the IFRS 16 Covid-19 Related Rent Concessions Amendment which has yet to be endorsed by the EU (as detailed in note 1.18). The financial statements are prepared on the historical cost basis except for certain financial instruments and share based payment charges which are measured at their fair value. The financial statements are for the 52 weeks to 28 June 2020 (last year 48 weeks to 30 June 2019).

The Company has elected to prepare its parent company financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"); these are presented on pages 152 to 156.

Going concern
The financial statements are prepared on a going concern basis, which the directors believe to be appropriate for the following reasons.

The Group has a £250.0m revolving credit facility in place until August 2022, and in April 2020, to increase resilience to the short-term effects of the Covid-19 pandemic, secured an additional twelve month facility of £70.0m from the same group of lending banks. In the same month the Group also secured £63.9m of equity funding from a placing of ordinary shares. During the period from the inception of the additional £70.0m facility through to June 2021, existing covenants on the revolving credit facility (of 3.0x net Debt / EBITDA and 1.5x Fixed Charge Cover) have been replaced by new minimum quarterly EBITDA and net debt covenants. At the date of approval of these financial statements, none of the £70.0m facility had been utilised and a further £170.0m of the revolving credit facility remained undrawn, giving the Group a total of £240.0m available facility in addition to cash in hand, at bank (£47.8m as at 21 September 2020).

The Directors have prepared cash flow forecasts for the Group covering a period of 18 months to March 2022. These forecasts indicate that the Group will be in compliance with the minimum quarterly EBITDA and net debt covenants applicable for that period, which are assessed monthly, as well as the original covenants which become effective once more from June 2021. These forecasts include a number of assumptions in relation to: level of customer order intake; gross profit margins; and achievement of cost savings in line with the Group's strategic plans.

The Directors have also prepared severe but plausible downside sensitivity scenarios which cover the same period as the base case. These downside scenarios include specific consideration of a range of impacts that could arise from the continued coronavirus pandemic and the UK's exit from the EU. These scenarios included: significantly reduced customer spending; a second lockdown during FY21 leading to reduced order intake and customer deliveries; and disruptions to manufacturing and supply chain causing delays in receiving stock; and possible changes in the regulatory environment surrounding product warranty insurance. As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur have also been considered. These mitigating actions included reducing discretionary advertising expenditure, a pause on expansionary capital investment and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the Directors to implement mitigating actions should they need to, indicate that there remains sufficient headroom in the forecast period for the Group and Company to operate within the committed facilities and to comply with all relevant banking covenants during the forecast period.

The Directors have considered all of the factors noted above, including the inherent uncertainty in forecasting the impact of the coronavirus pandemic, and are confident that the Group and Company have adequate resources to continue to meet all liabilities as and when they fall due for the foreseeable future and at least for the period of twelve months from the date of these financial statements. Accordingly, the financial statements are prepared on a going concern basis.

1.2 Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control exists when the Group is exposed to or has rights to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the date that control commences until the date that control ceases. The acquisition method is used to account for the acquisition of subsidiaries. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

1 Accounting policies continued

1.3 Gross sales and revenue

Revenue is measured at the fair value of the consideration receivable by the Group for the provision of goods to external customers, being the total amount payable by the customer ("gross sales") less: value added and other sales taxes, the costs of obtaining interest free credit on behalf of customers and the amounts payable to third parties relating to products for which the Group acts as an agent. For products where the Group acts as an agent, the amount recognised in revenue is the net fee receivable by the Group.

Many of the Group's customers choose to take advantage of the interest-free credit that the Group makes available. This credit is provided by external finance houses, who pay the Group the gross sales value of the customer order on delivery, less a fee for taking responsibility for payment collection and bearing the full credit risk for any future default by the customer. The fee due to the finance house varies depending on the amount borrowed by the customer, the length of the repayment term and the LIBOR rate at the time of the transaction.

In calculating reported revenue in accordance with IFRS the Group is required to deduct these fees from the value of the customer order. Reported revenue will therefore vary depending on the proportion of customers who choose to take up the interest free credit offer, the average duration of the interest free loan period and the prevailing LIBOR rates.

For the purposes of managing its business the Group focuses on gross sales, which is defined as the total amount payable by customers, inclusive of VAT and other sales taxes and prior to any accounting adjustments for interest-free credit fees or aftercare product costs. The directors believe gross sales is a more transparent measure of the activity levels and performance of its stores and online channels as it is not affected by customer preferences on payment options. Accordingly gross sales is presented in this annual report in addition to statutory revenue, with a reconciliation between the two measures provided in note 2 to the financial statements.

Both gross sales and revenue are stated net of returns and sales allowances, and are recognised when goods have been delivered to the customer, the revenue and costs in respect of the transaction can be measured reliably and collectability is reasonably assured. Receipt of goods by the customer represents the completion of the Group's performance obligation under the sales contract and payment is received prior to or immediately after delivery. Expected future costs of satisfying the Group's obligations under long-term product guarantees offered to customers are determined at the time of the sale, provided for separately (note 20) and charged to cost of sales.

1.4 Expenses

Non-underlying items

Items that are material in size, unusual or non-recurring in nature are disclosed separately in the income statement in order to provide an indication of the Group's underlying business performance. The principal items which may be included as non-underlying are:

- significant profit or loss on the disposal of non-current assets
- material impairment charges
- significant non-recurring tax charges or credits
- costs associated with significant corporate, financial or operating restructuring, including acquisitions
- initial costs of establishing operations in new geographical territories

Material finance income or expenses associated with significant changes in the Group's borrowings are disclosed separately as non-underlying items below operating profit.

Royalty payments

Royalties payable to brand partners on sales of branded products are charged to cost of sales when the related product is delivered to the customer.

Finance income and expenses

Finance expenses comprise interest payable, finance charges on lease liabilities recognised in profit or loss using the effective interest method and unwinding of the discount on provisions and other liabilities measures at present value. Finance income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the Group's right to receive payments is established.

1.5 Employee benefits

Defined contribution plans

Payments to defined contribution pension plans are recognised as an expense in the income statement as they fall due.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Share based payments

The fair value of equity settled share based payments is recognised as an expense over the vesting period of the related awards, with a corresponding increase in equity. Fair values are calculated using option pricing models appropriate to the terms and conditions of the awards. The amount charged as an expense is regularly reviewed and adjusted to reflect the achievement of service and non-market based performance conditions.

1 Accounting policies continued

1.6 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

At interim reporting periods the tax charge is calculated in accordance with IAS 34, adjusted for material non-taxable items.

A deferred tax asset is recognised on deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.7 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on qualifying cash flow hedges, which are recognised directly in other comprehensive income.

1.8 Business combinations

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Goodwill is initially measured at cost, being the excess of the acquisition cost over the Group's interest in the assets and liabilities recognised. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Acquisitions prior to 31 July 2011 (date of transition to IFRSs)

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Group and Company elected not to restate business combinations that took place prior to 31 July 2011. In respect of acquisitions prior to transition, goodwill is included at 31 July 2011 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that goodwill was amortised. On transition, amortisation of goodwill ceased as required by IFRS 1.

1.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- buildings 50 years
- plant and equipment 3 to 10 years
- motor vehicles 4 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1 Accounting policies continued

1.10 Leases

Policy applicable to 30 June 2019.

Leases in which the Group assumed substantially all the risks and rewards of ownership of the leased asset were classified as finance leases. Where land and buildings were held under leases the accounting treatment of the land was considered separately from that of the buildings. Leased assets acquired by way of finance lease were stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

Operating lease payments

Payments made under operating leases were recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received were recognised in the income statement as an integral part of the total lease expense. The Group had no significant contingent rental arrangements.

Finance lease payments

Minimum lease payments were apportioned between the finance charge and the reduction of the outstanding liability. The finance charge was allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

1.11 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. Estimated useful lives are as follows:

- computer software and website costs 3 years
- acquired brand names 10 to 20 years

1.12 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods manufactured by the Group includes direct materials, direct labour and appropriate overhead expenditure.

1.13 Impairment

The carrying amounts of the Group's tangible and intangible assets other than goodwill are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.14 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Details of provisions recognised are in note 20 and the related significant estimates and judgements in note 1.17.

1 Accounting policies continued

1.15 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

1.16 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

On adoption of IFRS 9, the Group made the election to continue to apply the hedge accounting requirements of IAS 39 to all of its hedging relationships. Therefore, where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and presented within the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss remains in the hedging reserve and is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For other cash flow hedges the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.17 Significant areas of estimation and judgement

In the application of the Group's accounting policies, the Directors are required to make judgments, estimates and assumptions that affect the value of reported assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and other relevant factors, and may differ from actual results. No significant areas of judgement arose in the current financial statements. Significant areas of estimation for the Group are explained below:

Contingent consideration

The terms of the acquisition of Sofology Limited included deferred contingent consideration payable based on profits of the acquired business post-acquisition. The value of this deferred consideration has yet to be finalised, and therefore the financial statements include a provision for the amount potentially payable of £5.0m. This estimate is based on an analysis of the detailed terms of the sale and purchase agreement and consideration of the possible outcomes of the expert determination process. The final value of the consideration payable may therefore materially differ from the amount accrued.

Notes to the consolidated financial statements continued
at 28 June 2020

1 Accounting policies continued

1.17 Significant areas of estimation and judgement continued
The following are other areas of important estimates and judgements relating to material balances in the Group's financial statements, but which do not meet the IFRS-defined criteria of a significant estimate:

Going concern
In making the assessment of going concern for the Group and the Company, the Directors consider a number of assumptions and estimates relating to the future performance of the Group, as detailed in note 1.1. The Directors are satisfied that no reasonably possible change in these estimate would result in a change in the going concern assessment of the Group or the Company and therefore it is not considered a significant estimate as at 28 June 2020.

Goodwill impairment
Goodwill is tested annually for impairment by comparing its carrying value to a calculation of the value in use of the relevant cash-generating units. This exercise requires estimates to be made of future cash flows arising from each cash-generating unit and the appropriate discount rate to apply. Further details of the key assumptions underlying the calculation detailed in note 10. The Directors are satisfied that no reasonably possible change in these estimates would result in a change in the going concern assessment of the Group or the Company and therefore it is not considered a significant estimate as at 28 June 2020.

Customer guarantees
The Group maintains a provision for its obligations under long term product guarantees offered to its customers. In determining the value of this provision estimates are made of the number of future claims that will be received and the cost of satisfying those claims. Further details are provided in note 20. The Directors are satisfied that no reasonably possible change in these estimates would result in a material difference to the value of the provision and therefore it is not considered a significant estimate as at 28 June 2020.

Discount rates (IFRS 16)
The lease liability is initially recognised at the present value of the remaining lease payments, discounted at the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group has used judgement to calculate the appropriate incremental borrowing rate.

The incremental borrowing rates depend on the asset type and the lease term and are determined using the following inputs:
- the risk-free rate based on the UK bond market, with the lease term being used to determine the appropriate length bond
- a Group specific adjustment to reflect the Group's specific borrowing conditions

Taking these factors into consideration the Group has calculated a number of discount rates to be applied to the portfolio of leases in the range of 3.67% to 6.35%.

Net realisable value of inventories
As detailed in note 14, the Group makes estimates of applicable selling prices to determine the net realisable value of inventories. The Directors are satisfied that no reasonably possible change in these estimates would result in a material difference to the value of the provision and therefore it is not considered a significant estimate as at 28 June 2020.

1.18 New accounting standards
In the period ended 28 June 2020, the Group has adopted IFRS 16. Further details of the impact of the adoption of this standard are given below. There are no other new standards, amendments to existing standards or interpretations that are effective for the first time in the period ended 28 June 2020 that have a material impact on the Group's results.

A number of new or revised standards and interpretations have been issued which are not yet effective or endorsed by the EU, and which have not therefore been applied by the Group in these financial statements.

IFRS 16 Leases
IFRS 16 Leases replaces existing lease guidance under IAS 17 Leases and introduces a fundamental change to the recognition, measurement, presentation and disclosure of leases for lessees. IFRS 16 eliminates the current dual accounting model for lessees under IAS 17 (operating leases and finance leases) and requires lessees to account for most leases under a single, on-balance sheet model. Accordingly, figures presented for the 48 weeks ended 30 June 2019 reflect the requirements of IAS 17, while those presented for the 52 weeks ended 28 June 2020 are in accordance with IFRS 16.

Definition of a lease
At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

1 Accounting policies continued

1.18 New accounting standards continued

Transition method and practical expedients used

The Group has opted to apply the modified retrospective approach to transition; under this approach the Group is not required to restate prior year figures.

Under the modified retrospective approach, IFRS 16 provides for a number of optional practical expedients. On transition, the Group has applied the following practical expedients:

- application of IFRS 16 to contracts that were previously identified as leases applying IAS 17 Leases and IFRIC 4;
- use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for short term (less than 12 months as at 30 June 2019) leases and low value leases on transition as operating leases;
- exclusion of initial direct costs from the measurement of the right of use asset on transition;
- reliance on IAS 37 onerous lease assessment to determine whether leases are onerous on transition;
- use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Covid-19-related rent concessions amendment – deferrals of lease payments as a direct result of Covid-19 have been assessed as non-modifying.

The published Covid-19 related rent concessions amendment has been applied to all relevant rent concessions during the financial year. These concessions did not include waivers of rent payable. The amount recognised in the income statement as a consequence of applying the practical expedient to changes in lease payments arising from rent concessions was £0.3m, all rent concessions relate to deferrals of lease payments. The Group has elected to adopt the amendment early, although it has yet to be endorsed by the EU.

Lease liability – initial recognition

At 1 July 2019 the Group has recognised a lease liability and a right of use asset. On transition, the lease liabilities are recognised at the present value of future lease payments discounted at the incremental borrowing rate applicable to the lease. On transition, the Group's weighted average incremental borrowing rate was 5.6%.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments; and
- amounts expected to be payable under a residual value guarantee.

Lease liability – subsequent measurement

The lease liability is subsequently increased by the interest cost arising from the unwind of the discount, and decreased by the cash lease payments made.

Lease liability – remeasurement

The lease liability is remeasured if:

- there is a change in either the lease term or the assessment of an option to purchase the underlying asset. In these circumstances, the lease liability is remeasured using a revised discount rate; or
- there is a change in the amounts expected to be payable under a residual guarantee or if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments. In these circumstances, the discount rate remains unchanged, unless the change in lease payments results from a change in floating interest rates.

In both scenarios, the carrying value of the right of use asset will be adjusted by the amount of the remeasurement of the lease liability, to the extent that the right of use asset will be reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

Right of use asset – initial recognition

IFRS 16 defines a right of use asset as an asset which represents a lessee's right to use an underlying asset for the lease term.

At transition, the right of use assets are measured at either:

- "Mod A": the carrying value as if IFRS 16 had been applied since the lease commencement date, discounted by the Group's incremental borrowing rate as at 1 July 2019. This methodology has been applied where the historical information has been available to facilitate this; or
- "Mod B": an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised in the statement of financial position immediately before the date of initial application. This methodology has been applied to the majority of the Group's leases.

Right of use asset – subsequent measurement

Right of use assets are subsequently measured at initial carrying value:

- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any remeasurement of the lease liability

The right of use asset is subsequently depreciated on a straight line basis from the commencement date to the end of the lease term. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Notes to the consolidated financial statements continued
at 28 June 2020

1 Accounting policies continued
1.18 New accounting standards continued
Impact on the Group financial statements

The impact of the IFRS 16 transition adjustments on the 30 June 2019 balance sheet are summarised below:

	Note	30 June 2019 IAS 17 £m	IFRS 16 adjustment £m	1 July 2019 IFRS 16 £m
Non-current assets				
Property, plant and equipment	i	89.9	(10.5)	79.4
Right of use assets	ii	–	445.0	445.0
Intangible assets		539.0	–	539.0
Other financial assets		1.4	–	1.4
Deferred tax assets	iii	8.7	5.4	14.1
		639.0	439.9	1,078.9
Current assets				
Inventories		54.8	–	54.8
Other financial assets		6.3	–	6.3
Trade and other receivables	iv	32.8	(12.3)	20.5
Cash and cash equivalents		29.8	–	29.8
		123.7	(12.3)	111.4
Total assets		762.7	427.6	1,190.3
Current liabilities				
Trade payables and other liabilities	v	(225.1)	13.5	(211.6)
Lease liabilities	vi	–	(88.8)	(88.8)
Provisions		(5.0)	–	(5.0)
Other financial liabilities		–	–	–
Current tax liabilities		(0.8)	–	(0.8)
		(230.9)	(75.3)	(306.2)
Non-current liabilities				
Interest bearing loans and borrowings		(194.0)	–	(194.0)
Lease liabilities	vi	–	(459.8)	(459.8)
Provisions	vii	(5.6)	1.4	(4.2)
Other financial liabilities		(0.7)	–	(0.7)
Other liabilities	v	(79.7)	79.7	–
		(280.0)	(378.7)	(658.7)
Total liabilities		(510.9)	(454.0)	(964.9)
Net assets		251.8	(26.4)	225.4
Equity attributable to owners of the Company				
Share capital		319.5	–	319.5
Share premium		40.4	–	40.4
Merger reserve		18.6	–	18.6
Treasury shares		(2.1)	–	(2.1)
Cash flow hedging reserve		7.0	–	7.0
Retained earnings		(131.6)	(26.4)	(158.0)
Total equity		251.8	(26.4)	225.4

Notes:

i. Reclassification of net book value of assets classified as finance leases under IAS 17.
ii. Recognition of right of use assets on transition (including reclassification in 1. above).
iii. Movement in deferred tax arising from IFRS 16 transition adjustments.
iv. Elimination of IAS 17 lease prepayment balances.
v. Elimination of IAS 17 lease incentive balances (capital contributions, rent-free periods and fixed rent reviews), adjusted for in right of use asset (or opening retained earnings where Mod A has been applied).
vi. Recognition of lease liabilities arising under IFRS 16 and reclassification of finance lease liabilities previously recognised under IAS 17.
vii. Elimination of IAS 37 onerous lease provisions, adjusted for in value of right of use asset.

1 Accounting policies continued

1.18 New accounting standards continued

The following table reconciles the undiscounted commitments under non-cancellable operating leases as at 30 June 2019, as presented in the Group's Annual Report for the 48 weeks to 30 June 2019, to the amount of lease liabilities recognised on transition to IFRS 16 at 1 July 2019:

	1 July 2019 IFRS 16 £m
Commitments under non-cancellable operating leases as at 30 June 2019	**695.1**
Effect of discounting	(156.0)
Leases previously accounted for as finance leases	12.1
Other	(2.6)
Lease liabilities recognised as at 1 July 2019	**548.6**

The impact of IFRS 16 to the income statement for the 52 week period to 28 June 2020 is summarised below:

		52 weeks to 28 June 2020		
	Note	Presented under IAS 17 £m	Impact of IFRS 16 £m	Presented under IFRS 16 £m
Gross sales		**935.0**	**–**	**935.0**
Revenue		**724.5**	**–**	**724.5**
Cost of sales		**(310.5)**	**–**	**(310.5)**
Gross profit		**414.0**	**–**	**414.0**
Selling and distribution costs		**(369.0)**	**79.4**	**(289.6)**
Administrative expenses		**(68.3)**	**0.4**	**(67.9)**
Operating (loss)/profit before depreciation, amortisation and impairment	i	**(23.3)**	**79.8**	**(56.5)**
Depreciation	ii	**(25.9)**	**(56.0)**	**(81.9)**
Amortisation		**(6.8)**	**–**	**(6.8)**
Impairments	iii	**(7.1)**	**(4.4)**	**(11.5)**
Operating loss		**(63.1)**	**19.4**	**(43.7)**
Finance income		**0.1**	**–**	**0.1**
Finance expenses	iv	**(11.9)**	**(25.7)**	**(37.6)**
Loss before tax		**(74.9)**	**(6.3)**	**(81.2)**
Taxation	v	**11.9**	**0.1**	**12.0**
Loss for the period		**(63.0)**	**(6.2)**	**(69.2)**

Notes:

i. Reversal of operating lease rental charges recognised under IAS 17.
ii. Depreciation charge on right of use assets recognised under IFRS 16.
iii. Right of use asset impairment recognised under IFRS 16
iv. Unwind of discount on IFRS 16 lease liabilities.
v. Tax effect on net income statement differences.

Notes to the consolidated financial statements continued
at 28 June 2020

1 Accounting policies continued
1.18 New accounting standards continued
The impact of IFRS 16 to the balance sheet as at 28 June 2020 is summarised below:

	Note	28 June 2020 IAS 17 £m	IFRS 16 adjustment £m	28 June 2020 IFRS 16 £m
Non-current assets				
Property, plant and equipment	i	85.0	(10.9)	**74.1**
Right of use assets	ii	–	384.5	**384.5**
Intangible assets		532.5	–	**532.5**
Other financial assets		0.8	–	**0.8**
Deferred tax assets	iii	18.5	5.5	**24.0**
		636.8	379.1	**1,015.9**
Current assets				
Inventories		58.9	–	**58.9**
Other financial assets		4.5	–	**4.5**
Trade and other receivables	iv	23.8	(1.6)	**22.2**
Current tax assets		7.8	–	**7.8**
Cash and cash equivalents		62.3	–	**62.3**
		157.3	(1.6)	**155.7**
Total assets		794.1	377.5	**1,171.6**
Current liabilities				
Trade payables and other liabilities	v	(243.2)	27.2	**(216.0)**
Lease liabilities	vi	–	(88.6)	**(88.6)**
Provisions		(13.2)	1.3	**(11.9)**
Other financial liabilities		(0.1)	–	**(0.1)**
Current tax liabilities		–	–	**–**
		(256.5)	(60.1)	**(316.6)**
Non-current liabilities				
Interest bearing loans and borrowings		(218.7)	–	**(218.7)**
Lease liabilities	vi	–	(428.6)	**(428.6)**
Provisions	vii	(8.8)	4.9	**(3.9)**
Other financial liabilities		(1.9)	–	**(1.9)**
Other liabilities	v	(73.7)	73.7	**–**
		(303.1)	(350.0)	**(653.1)**
Total liabilities		(559.6)	(410.1)	**(969.7)**
Net assets		234.5	(32.6)	**201.9**
Equity attributable to owners of the Company				
Share capital		383.4	–	**383.4**
Share premium		40.4	–	**40.4**
Merger reserve		18.6	–	**18.6**
Treasury shares		(0.7)	–	**(0.7)**
Cash flow hedging reserve		3.3	–	**3.3**
Retained earnings		(210.5)	(32.6)	**(243.1)**
Total equity		234.5	(32.6)	**201.9**

Notes:
i. Reclassification of net book value of assets classified as finance leases under IAS 17.
ii. Recognition of right of use assets on transition (including reclassification in 1. above).
iii. Movement in deferred tax arising from IFRS 16 transition adjustments.
iv. Elimination of IAS 17 lease prepayment balances.
v. Elimination of IAS 17 lease incentive balances (capital contributions, rent-free periods and fixed rent reviews), adjusted for in right of use asset (or opening retained earnings where Mod A has been applied).
vi. Recognition of lease liabilities arising under IFRS 16 and reclassification of finance lease liabilities previously recognised under IAS 17.
vii. Elimination of IAS 37 onerous lease provisions, adjusted for in value of right of use asset.

2 Segmental analysis

The Group's operating segments under IFRS 8 have been determined based on management accounts reports reviewed by the Executive Board. Segment performance is assessed based upon brand contribution. Brand contribution is defined as underlying EBITDA (being earnings before interest and tax excluding depreciation charges and non-underlying items) excluding property costs and central administration costs.

The Group reviews and manages the performance of its operations on a retail brand basis, and the identified reportable segments and the nature of their business activities are as follows:
DFS: the manufacture and retailing of upholstered furniture and related products through DFS branded stores and websites.
Sofology: the retailing of upholstered furniture and related products through Sofology branded stores and website.

Other segment activities comprise the retailing of upholstered and other furniture and related products through other brands, including Dwell and Sofa Workshop.

	External sales		Internal sales		Total gross sales	
	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m	**52 weeks to 28 June 2020 £m**	48 weeks to 30 June 2019 £m	**52 weeks to 28 June 2020 £m**	48 weeks to 30 June 2019 £m
DFS	**697.1**	850.2	**–**	–	**697.1**	850.2
Sofology	**181.7**	237.7	**–**	–	**181.7**	237.7
Other segments	**56.2**	77.1	**0.1**	0.5	**56.3**	77.6
Eliminations	**–**	–	**(0.1)**	(0.5)	**(0.1)**	(0.5)
Gross sales	**935.0**	1,165.0	**–**	–	**935.0**	1,165.0

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Total segments gross sales	**935.0**	1,165.0
Less: value added and other sales taxes	**(146.4)**	(183.5)
Less: costs of interest free credit and aftercare products	**(64.1)**	(80.5)
Revenue	**724.5**	901.0
Of which:		
Furniture sales	**676.0**	839.5
Sales of aftercare products	**48.5**	61.5
Revenue	**724.5**	901.0

52 weeks to 28 June 2020

	DFS £m	**Sofology £m**	**Other £m**	**Total £m**
Revenue	**535.2**	**143.7**	**45.6**	**724.5**
Cost of sales	**(212.6)**	**(72.3)**	**(22.5)**	**(307.4)**
Gross profit	**322.6**	**71.4**	**23.1**	**417.1**
Selling & distribution costs (excluding property costs)	**(191.6)**	**(47.8)**	**(20.9)**	**(260.3)**
Brand contribution (segment profit)	**131.0**	**23.6**	**2.2**	**156.8**
Property costs				**(27.2)**
Underlying administrative expenses				**(67.7)**
Underlying EBITDA				**61.9**

48 weeks to 30 June 2019

	DFS £m	Sofology £m	Other £m	Total £m
Revenue	650.6	187.7	62.7	901.0
Cost of sales	(262.5)	(92.3)	(29.0)	(383.8)
Gross profit	388.1	95.4	33.7	517.2
Selling & distribution costs (excluding property costs)	(217.1)	(52.7)	(23.9)	(293.7)
Brand contribution (segment profit)	171.0	42.7	9.8	223.5
Property costs				(99.1)
Underlying administrative expenses				(59.3)
Underlying EBITDA				65.1

Notes to the consolidated financial statements continued
at 28 June 2020

2 Segmental analysis continued

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Underlying EBITDA	**61.9**	65.1
Non-underlying items	**(16.6)**	(4.4)
Depreciation & amortisation	**(88.7)**	(28.2)
Impairments	**(0.3)**	–
Operating (loss)/profit	**(43.7)**	32.5
Finance income	**0.1**	0.2
Finance expenses	**(37.6)**	(10.3)
(Loss)/profit before tax	**(81.2)**	22.4

A geographical analysis of revenue is presented below:

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
United Kingdom	**701.7**	872.0
Europe	**22.8**	29.0
Total revenue	**724.5**	901.0

	Assets		Liabilities	
	28 June 2020 £m	30 June 2019 £m	28 June 2020 £m	30 June 2019 £m
DFS	**1,009.8**	645.4	**(594.3)**	(236.6)
Sofology	**145.5**	91.0	**(143.9)**	(66.1)
Other segments	**23.5**	34.6	**(55.1)**	(37.4)
Total segments	**1,178.8**	771.0	**(793.3)**	(340.1)
Loans and financing	**–**	–	**(218.7)**	(194.0)
Financial assets/(liabilities)	**5.3**	7.7	**(2.0)**	(0.7)
Current tax	**7.8**	–	**–**	(0.8)
Deferred tax	**24.0**	8.7	**–**	–
Eliminations	**(44.3)**	(24.7)	**44.3**	24.7
Total Group	**1,171.6**	762.7	**(969.7)**	(510.9)

Segment assets comprise tangible and intangible non-current assets including goodwill and brand names, inventories, trade and other receivables, cash and cash equivalents. Segment liabilities comprises trade payables and current and non-current other liabilities and provisions.

	Additions to non-current assets		Depreciation, amortisation and impairment	
	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
DFS	**22.2**	24.5	**66.2**[1]	19.5
Sofology	**7.6**	3.8	**18.8**[2]	5.9
Other segments	**1.3**	1.1	**15.2**[3]	2.8
Total Group	**31.1**	29.4	**100.2**	28.2

Additions to non-current assets include both tangible and intangible non-current assets but excludes amounts arising on transition to IFRS 16.

1. DFS: includes impairment charges of £1.2m (2019: £nil).
2. Sofology: includes impairment charges of £0.3m (2019: £nil).
3. Other segments: includes impairment charges of £10.0m (2019: £nil).

3 Operating profit

Group operating profit is stated after charging/(crediting):

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Depreciation on tangible assets (including depreciation on right of use assets)	**81.9**	23.3
Amortisation of intangible assets	**6.8**	4.9
Impairment of tangible assets	**5.2**	–
Impairment of intangible assets	**1.0**	–
Impairment of goodwill	**5.3**	–
Net gain on disposal of property, plant and equipment	**(1.1)**	(0.8)
Cost of inventories recognised as an expense	**317.1**	393.8
Write down of inventories to net realisable value	**7.2**	0.2
Other costs of sales	**(13.8)**	(10.2)
Operating lease rentals	**1.9**	73.6

During the period the Group received Government support through the Coronavirus Job Retention Scheme totalling £19.5m (2019: £nil).

Non-underlying items	**52 weeks to 28 June 2020 £m**	48 weeks to 30 June 2019 £m
Acquisition related professional fees	**–**	0.2
Integration costs	**–**	3.3
Restructuring costs	**2.3**	0.9
Impairment of goodwill and brand names	**6.3**	–
Impairment of tangible and right of use assets	**4.9**	–
Write down of inventories on restructuring	**3.1**	–
	16.6	4.4

Non-underlying costs in the current year arose in connection with the restructure of the Dwell brand and the sale of Sofa Workshop following the end of the financial year. The goodwill and intangible brand name relating to Sofa Workshop was fully impaired, together with right of use and other tangible assets relating to stores being closed. In addition, related inventories impacted by the restructure were written down to a reduced net realisable value. Other restructuring costs included redundancy costs and operational costs associated with exiting closed locations.

In the prior period acquisition related fees, additional consideration and integration costs arose on the Group's acquisition of Sofology Limited. Restructuring costs related to exceptional restructuring activity within the DFS brand and Group support centre, to align with the revised ways of working following the Sofology Limited acquisition.

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Auditor's remuneration:		
Audit of these financial statements	**0.3**	0.2
Audit of the financial statements of Group subsidiaries	**0.1**	0.1
Amounts receivable by the Company's auditor and its associates in respect of:		
All other services	**–**	–
	0.4	0.3

During the period, an amount of £20,000 was receivable by the Company's auditor in respect of the review of the Group's interim financial statements (2019: £20,000).

4 Staff numbers and costs

The average number of persons employed by the Group during the period, analysed by category, was as follows:

	Number of employees	
	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Production	**1,160**	1,132
Warehouse and transport	**1,056**	1,097
Sales and administration	**3,281**	3,227
	5,497	5,456

Notes to the consolidated financial statements continued
at 28 June 2020

4 Staff numbers and costs continued
The aggregate payroll costs of these persons were as follows:

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Wages and salaries	**163.1**	145.7
Social security costs	**15.5**	15.5
Other pension costs	**5.5**	3.7
	184.1	164.9
Share based payment expense (equity settled)	**2.4**	2.6
	186.5	167.5
Coronavirus Job Retention Scheme income	**(19.5)**	–
	167.0	167.5

Aggregate remuneration payable to directors in respect of qualifying services was as follows:

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Emoluments	**1.1**	1.2
Pension contributions	**0.1**	0.1
Gain on exercise of share options	**0.1**	0.4

One director accrued retirement benefits under pension schemes in the period (2019: nil). All of the directors' pension contributions were to defined contribution schemes.

5 Finance income and expense

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Finance income		
Interest income on bank deposits	**0.1**	0.2
Total finance income	**0.1**	0.2
Finance expense		
Interest payable on senior revolving credit facility	**(7.6)**	(6.8)
Bank fees	**(0.5)**	(0.2)
Fair value lease adjustment unwind	**–**	(2.7)
Unwind of discount on provisions	**–**	(0.1)
Interest on lease liabilities	**(29.2)**	(0.5)
Other interest	**(0.3)**	–
Total finance expense	**(37.6)**	(10.3)

6 Taxation
Recognised in the income statement

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Current tax		
Current period	**(2.6)**	5.8
Adjustments for prior years	**–**	(0.3)
Current tax (credit)/expense	**(2.6)**	5.5
Deferred tax		
Origination and reversal of temporary differences	**(6.8)**	(1.4)
Deferred tax rate change	**(1.9)**	0.1
Adjustments for prior years	**(0.7)**	0.1
Deferred tax credit	**(9.4)**	(1.2)
Total tax (credit)/expense in income statement	**(12.0)**	4.3

6 Taxation continued

Reconciliation of effective tax rate

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
(Loss)/profit before tax for the period	**(81.2)**	22.4
Tax using the UK corporation tax rate of 19% (2019: 19%)	**(15.4)**	4.3
Non-deductible expenses	**2.5**	1.1
Tax exempt revenues	**–**	(0.3)
Effect of tax rates in foreign jurisdictions	**0.2**	0.3
Amounts not recognised/(previously not recognised) on losses	**2.9**	(0.9)
Adjustments in respect of share options	**0.4**	–
Adjustment in respect of prior years	**(0.8)**	(0.3)
Impact of change in tax rate on deferred tax balances	**(1.8)**	0.1
Total tax (credit)/expense	**(12.0)**	4.3

The Finance Act 2016, which was substantively enacted in September 2016, included provisions to reduce the rate of UK corporation tax to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020. In November 2019 a change to this provision was made which holds the rate of UK corporation tax at 19% with no further reduction.

Deferred taxation is measured at tax rates that are expected to apply in the periods in which temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Accordingly, a tax rate of 19% has been applied when calculating deferred tax assets and liabilities at 28 June 2020 (17% at 30 June 2019).

Income tax recognised in other comprehensive income

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Effective portion of changes in fair value of cash flow hedges	**0.9**	1.6
Net change in fair value of cash flow hedges reclassified to profit or loss	**(1.6)**	(1.1)
Adjustments in respect of share options	**0.1**	–
Impact of change in tax rate on deferred tax balances	**0.2**	–
	(0.4)	0.5

7 Earnings per share

Statutory earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the financial period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period. The weighted average number of shares reflects the movements in share capital detailed in note 21 and the impact of movements in treasury shares held by the Company. Changes in the Company's capital structure with no corresponding change in resources are reflected as if they had occurred at the beginning of the earliest period presented.

Diluted earnings per share is calculated using the same net profit or loss for the financial period attributable to ordinary equity holders of the parent company, but increasing the weighted average number of ordinary shares by the dilutive effect of potential ordinary shares. Potential ordinary shares arise from employee based payment arrangements (note 24). Where share based payments are subject to performance conditions, they are included as potential ordinary shares to the extent that the performance conditions have been met at the reporting date. Details of share based payment vesting conditions are provided in the Director's Remuneration Report.

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Basic total earnings per share	**(31.4)**	8.6
Diluted total earnings per share	**(31.4)**	8.4

Notes to the consolidated financial statements continued
at 28 June 2020

7 Earnings per share continued
Statutory earnings per share continued

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
(Loss)/profit for the period attributable to equity holders of the parent Company	**(69.2)**	18.1

	28 June 2020 No.	30 June 2019 No.
Weighted average number of shares in issue for basic earnings per share	**220,289,976**	212,008,955
Dilutive effect of employee share based payment awards	**–**	3,144,296
Weighted average number of shares in issue for diluted earnings per share	**220,289,976**	215,153,251

Underlying earnings per share
Underlying basic earnings per share and underlying diluted earnings per share are calculated by dividing the profit for the period attributable to ordinary equity holders of the parent company, as adjusted to exclude the effect of non-underlying items, by the same weighted average numbers of ordinary shares above used for basic and diluted earnings per share respectively.

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
(Loss)/profit for the period attributable to equity holders of the parent Company	**(69.2)**	18.1
Non-underlying loss after tax	**15.7**	3.6
Underlying (loss)/profit for the period attributable to equity holders of the parent Company	**(53.5)**	21.7

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Underlying basic earnings per share	**(24.3)**	10.3
Underlying diluted earnings per share	**(24.3)**	10.1

8 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Right of use assets £m	Total £m
Cost					
Balance at 28 July 2018	8.4	144.0	27.2	–	179.6
Additions	0.3	17.8	4.4	–	22.5
Disposals	(0.1)	(0.2)	(3.3)	–	(3.6)
Balance at 30 June 2019	8.6	161.6	28.3	–	198.5
Recognised on adoption of IFRS 16	–	–	–	434.5	434.5
Reclassifications	–	(1.3)	(17.1)	18.4	–
Additions	–	15.9	0.9	7.7	24.5
Remeasurements	–	–	–	(2.9)	(2.9)
Disposals	–	(1.8)	(0.1)	(3.3)	(5.2)
Balance at 28 June 2020	**8.6**	**174.4**	**12.0**	**454.4**	**649.4**
Depreciation and impairments					
Balance at 28 July 2018	1.1	74.5	12.9	–	88.5
Depreciation charge for the period	0.2	17.6	5.5	–	23.3
Disposals	–	(0.1)	(3.1)	–	(3.2)
Balance at 30 June 2019	1.3	92.0	15.3	–	108.6
Reclassifications	–	(0.7)	(7.2)	7.9	–
Depreciation charge for the period	0.2	19.3	1.8	60.6	81.9
Disposals	–	(1.9)	–	(3.0)	(4.9)
Impairments	–	0.8	–	4.4	5.2
Balance at 28 June 2020	**1.5**	**109.5**	**9.9**	**69.9**	**190.8**

8 Property, plant and equipment continued

Net book value					
At 28 July 2018	7.3	69.5	14.3	–	91.1
At 30 June 2019	7.3	69.6	13.0	–	89.9
At 28 June 2020	**7.1**	**64.9**	**2.1**	**384.5**	**458.6**

Leased plant and equipment
For the period to 30 June 2019, the total net book value of motor vehicles and plant and equipment was £10.5m in respect of assets held under finance leases. Depreciation for that period on these assets was £3.6m. These have been reclassified to right of use assets on transition to IFRS 16.

Capital commitments
At 28 June 2020 the Group had contracted capital commitments of £1.7m (2019: £5.4m) for which no provision has been made in the financial statements.

9. Leases

Right of use assets

	Property £m	Vehicles £m	Equipment £m	Total £m
Cost				
On adoption of IFRS 16	434.5	–	–	434.5
Reclassification	–	17.1	1.3	18.4
Additions	2.4	5.3	–	7.7
Remeasurements	(2.9)	–	–	(2.9)
Disposals	–	(3.3)	–	(3.3)
At 28 June 2020	**434.0**	**19.1**	**1.3**	**454.4**
Depreciation and impairment				
Reclassification	–	7.2	0.7	7.9
Depreciation charge for the period	56.1	4.2	0.3	60.6
Disposals	–	(3.0)	–	(3.0)
Impairment of right of use asset	4.4	–	–	4.4
At 28 June 2020	**60.5**	**8.4**	**1.0**	**69.9**
Net book value at 28 June 2020	**373.5**	**10.7**	**0.3**	**384.5**

Amounts recognised in the consolidated balance sheet as at 28 June 2020:

	2020 £m
Current lease liabilities	**88.6**
Non-current lease liabilities	**428.6**

For more information on the maturity of the Group's lease liabilities, see note 24.

Amounts recognised in the consolidated income statement for the 52 weeks to 28 June 2020:

	52 weeks to 28 June 2020 £m
Interest on lease liabilities	**29.2**
Variable lease payments not included in the measurement of lease liabilities	**2.1**
Income from subleasing right of use assets	**(1.0)**
Expenses relating to short term leases and low value leases	**0.8**

Amounts recognised in the consolidated cash flow statement for the 52 weeks to 28 June 2020:

	52 weeks to 28 June 2020 £m
Total cash outflow for lease liabilities	**64.9**

Notes to the consolidated financial statements continued
at 28 June 2020

9 Leases continued
Right of use assets continued
Non-cancellable short term lease rentals are payable as follows:

	28 June 2020 £m	30 June 2019 £m
Less than one year	**1.2**	84.4
Between one and five years	**–**	312.0
More than five years	**–**	298.7
	1.2	695.1

The Group has entered into short term leases in respect of warehouses and equipment.

At 28 June 2020, future rentals receivable under non-cancellable leases where the Group is the lessor were £2.1m (2019: £8.1m).

10 Intangible assets

	Computer software £m	Brand Names £m	Goodwill £m	Total £m
Cost				
Balance at 28 July 2018	21.1	16.8	514.6	552.5
Additions	6.9	–	–	6.9
Balance at 30 June 2019	28.0	16.8	514.6	559.4
Additions	6.6	–	–	6.6
Balance at 28 June 2020	**34.6**	**16.8**	**514.6**	**566.0**
Amortisation and impairments				
Balance at 28 July 2018	14.0	1.5	–	15.5
Amortisation charge for the period	3.5	1.4	–	4.9
Balance at 30 June 2019	17.5	2.9	–	20.4
Amortisation charge for the period	5.3	1.5	–	6.8
Impairments	–	1.0	5.3	6.3
Balance at 28 June 2020	**22.8**	**5.4**	**5.3**	**33.5**
Net book value				
At 28 July 2018	7.1	15.3	514.6	537.0
At 30 June 2019	10.5	13.9	514.6	539.0
At 28 June 2020	**11.8**	**11.4**	**509.3**	**532.5**

Goodwill
The carrying amount of goodwill is allocated to the following cash generating units:

	Goodwill	
	28 June 2020 £m	30 June 2019 £m
DFS Trading Limited	**479.9**	479.9
Sofology Limited	**28.4**	28.4
The Sofa Workshop Limited	**–**	5.3
DFS Spain Limited	**1.0**	1.0
	509.3	514.6

Goodwill is tested annually for impairment on the basis of value in use. The key assumptions underlying the calculations are: factors influencing the cash flows generated, such as future sales volumes and changes in selling prices and direct costs; the long term growth rate expected for the market; and the discount rate applied.

Cash flow forecasts are prepared from the latest financial results and internal budgets for the next four years, which take into account external macroeconomic indicators as well as internal growth expectations for each cash generating unit. Selling prices and related costs are based on past practice and expected future changes in the market. A terminal value was then calculated on the basis of the four year plan and the expected long-term growth rate for the UK upholstery furniture sector of 2.0%. These cash flow forecasts were then discounted at pre-tax discount rates between 8.0% and 11.1% (2019: 10.7%-12.2%). The discount rates are estimated based on the Group's weighted average cost of capital, risk adjusted for an individual unit's circumstances.

10 Intangible assets continued

For the DFS brands and Sofology, these calculations showed a significant headroom between the calculated value in use and the carrying value of goodwill in the financial statements. A number of sensitivities were then applied to the base case model to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. This analysis applied a number of challenging scenarios, including: possible shortfalls in cash flows compared to plan, a decrease in the long term growth rate of the UK upholstery market, and changes in applicable discount rates. On the basis of this analysis the Directors concluded that a reasonably possible change in assumptions would not lead to an impairment being recognised.

Subsequent to the end of the financial year, The Sofa Workshop Limited was disposed of by the Group (see note 28). The market value of the business, as evidenced by the sale proceeds receivable on disposal, was below the carrying value of the related assets and accordingly the associated goodwill and brand name were fully impaired at 28 June 2020.

11 Investments in subsidiaries

The following companies are incorporated in England and Wales, are wholly owned by the Group and have been consolidated:

	Principal activity
Diamond Holdco 2 Limited[1]	Intermediate holding company
Diamond Holdco 7 Limited[1]	Intermediate holding company
DFS Furniture Holdings plc[1]	Intermediate holding company
DFS Furniture Company Limited[1]	Intermediate holding company
DFS Trading Limited[1]	Furniture retailer
Coin Retail Limited (Jersey)[2]	Intermediate holding company
Coin Furniture Limited1	Furniture retailer
The Sofa Workshop Limited[3]	Furniture retailer
DFS Spain Limited[1]	Furniture retailer
Sofology Limited[4]	Furniture retailer
C.S Lounge Suites Limited[1]	Dormant
Soundsofa Limited[1]	Dormant
Loveseats Limited[1]	Dormant
Slothworks Limited[1]	Dormant
Sofaworks Limited[1]	Dormant
Sleepology Limited[1]	Dormant
Haydock Furniture Limited[5]	Dormant

Registered offices:
1. Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster DN6 7NA.
2. 13-14 Esplanade, St Helier, Jersey JE1 1BD.
3. 2nd Floor, Mill Pool House, Mill Lane, Godalming, Surrey, GU7 1EY.
4. Ashton Road, Golborne, Warrington, WA3 3UL.

12 Other financial assets

	28 June 2020 £m	30 June 2019 £m
Non-current		
Foreign exchange contracts	**0.8**	1.4
Current		
Foreign exchange contracts	**4.5**	6.3

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 24).

Notes to the consolidated financial statements continued
at 28 June 2020

13 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	28 June 2020 £m	30 June 2019 £m
Fixed asset timing differences	**6.2**	3.9
Fair value lease creditor	**–**	4.8
IFRS 16	**10.3**	–
Remeasurement of derivatives to fair value	**(0.6)**	(1.1)
Tax losses carried forward	**6.3**	1.5
Brand names	**(2.0)**	(2.2)
Share based payments	**1.0**	1.1
Corporate interest restriction	**1.8**	–
Other temporary differences	**1.0**	0.7
Net tax assets	**24.0**	8.7

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
At start of period	**8.7**	8.0
Recognised on adoption of IFRS 16	**5.4**	–
Credited/(charged) to the income statement:		
Fixed asset timing differences	**2.3**	0.1
Fair value lease creditor	**–**	(0.2)
IFRS 16	**0.1**	–
Tax losses carried forward	**4.8**	0.6
Brand names	**0.2**	–
Share based payments	**–**	0.3
Corporate interest restriction	**1.8**	–
Other temporary differences	**0.3**	0.4
Recognised in the statement of comprehensive income	**0.4**	(0.5)
At end of period	**24.0**	8.7

Deferred tax assets on losses of £6.8m (2019: £3.5m) have not been recognised as there is uncertainty over the utilisation of these losses.

14 Inventories

	28 June 2020 £m	30 June 2019 £m
Raw materials and consumables	**7.4**	5.9
Finished goods and goods for resale	**63.2**	56.5
	70.6	62.4
Provision for net realisable value	**(11.7)**	(7.6)
	58.9	54.8

In applying its accounting policy for inventory, the Group identifies those items where there is a risk that net realisable value does not exceed cost, due to either the age of condition of the item. An estimate of the net realisable value of such items is made based on the sale of similar items in the past, taking into account expected future opportunities for sale, and their carrying value reduced by an appropriate provision.

15 Trade and other receivables

	28 June 2020 £m	30 June 2019 £m
Trade receivables	**10.4**	9.1
Prepayments	**10.1**	22.8
Accrued income	**0.9**	0.6
Other receivables	**0.8**	0.3
	22.2	32.8

No interest is charged on trade receivables; the Group bears no credit risk in respect of amounts due from retail customers under interest free credit arrangements. Prepayments and accrued income do not include impaired assets.

16 Trade payables and other liabilities

	28 June 2020 £m	30 June 2019 £m
Current		
Payments received on account	**86.8**	42.2
Trade payables	**41.9**	106.9
Other creditors including other tax and social security	**39.0**	26.9
Accruals	**48.3**	43.3
Deferred income	**–**	1.9
Lease liabilities	**88.6**	3.9
	304.6	225.1

	28 June 2020 £m	30 June 2019 £m
Non-current		
Fair value lease creditor	**–**	24.0
Accruals	**–**	34.1
Deferred income	**–**	13.4
Lease liabilities	**428.6**	8.2
	428.6	79.7

Payments on account represent contract liabilities under IFRS 15, which will be realised through revenue in the subsequent financial year. Trade payables do not bear interest and are paid within agreed credit terms. Property lease incentives are classified as non-current to the extent that they will be credited to the income statement more than one year from the reporting date.

For more information on lease liabilities, see note 1.18.

17 Other financial liabilities

	28 June 2020 £m	30 June 2019 £m
Non-current		
Interest rate derivatives	**1.9**	0.7
Current		
Foreign exchange contracts	**0.1**	–

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 23). Interest rate derivatives are used to hedge interest rate risk on the Group's floating rate debt (note 23).

18 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 23.

	28 June 2020 £m	30 June 2019 £m
Senior revolving credit facility	**220.0**	195.0
Unamortised issue costs	**(1.3)**	(1.0)
Lease liabilities	**218.7**	194.0

The revolving credit facility bears interest at a rate of 3 month LIBOR plus 2.60% and is repayable in full on 2 August 2022. The revolving credit facility is secured on a first priority basis with fixed and floating charges over substantially all of the assets of the Company and DFS Furniture Holdings plc. On 25 September 2019 the Group increased the size of the revolving credit facility from £230.0m to £250.0m through an accordion facility. On 28 April 2020 an additional Facility B of £70.0m was made available through the revolving credit facility bearing interest at a rate of LIBOR plus 3.75% and repayable on 28 April 2021. The Facility B has not been drawn to date.

For more information on the maturity of the Group's lease liabilities, see note 24.

Notes to the consolidated financial statements continued
at 28 June 2020

19 Employee benefits

Defined contribution pension plans

The Group operates a number of defined contribution pension plans under which contributions by the employees and the Group are administered by trustees in funds separate from the Group's assets. The costs of these schemes are charged to the income statement as they become payable under the rules of the scheme. The total pension cost of the Group for the period was £5.5m (2019: £3.7m).

20 Provisions

	Guarantee provision £m	Property provisions £m	Other provisions £m	Total £m
Balance at 30 June 2019	7.4	2.4	0.8	10.6
Impact of IFRS 16	–	(1.4)	–	(1.4)
Balance at 1 July 2019	7.4	1.0	0.8	9.2
Provisions made during the period	5.2	0.7	0.4	6.3
Transferred from accruals	–	–	5.0	5.0
Provisions used during the period	(4.5)	(0.1)	(0.1)	(4.7)
Balance at 28 June 2020	**8.1**	**1.6**	**6.1**	**15.8**
Current	5.6	0.2	6.1	11.9
Non-current	2.5	1.4	–	3.9
	8.1	**1.6**	**6.1**	**15.8**

The Group offers a long-term guarantee on its upholstery products and in accordance with accounting standards a provision is maintained for the expected future cost of fulfilling these guarantees on products which have been delivered before the reporting date. In calculating this provision the key areas of estimation are the number of future claims, average cost per claim and the expected period over which claims will arise (nearly all claims arise within two years of delivery). The Group has considered the sensitivity of the calculation to these key areas of estimation, and determined that a 10% change in either the average cost per claim or the number of expected future calls would change the value of the calculated provision by £0.6m. The directors have therefore concluded that reasonably possible variations in estimate would not result in a material difference.

Property provisions relate to an estimate of dilapidation costs based on anticipated lease expiries and renewals and will predominantly be utilised more than five years from the reporting date.

Other provisions relate to payment of refunds to customers for payment protection insurance policies and other regulatory costs, and deferred consideration payable on the Group's November 2017 acquisition of Sofology. Under the terms of the acquisition, deferred contingent consideration was payable based on underlying earnings before interest, tax, depreciation and amortisation of the acquired business for the twelve months ended 30 September 2018. The acquisition accounting reflected the Directors' estimate that no further consideration would be payable, based on the immediate post-acquisition performance. Subsequent performance of the acquired business strengthened and in FY18 £5.0m of additional consideration was accrued and recognised as a non-underlying expense in the income statement. While the Directors' view of the amount potentially payable has not changed, there is increased uncertainty on the timing of the settlement and accordingly the £5.0m accrued has been reclassified to provisions. On determination and settlement, any difference between the final amount due and the amount provided will be recognised as a non-underlying expense or credit.

21 Dividends

The following dividends were recognised and paid during the period:

	Pence per ordinary share	**52 weeks to 28 June 2020 £m**	48 weeks to 30 June 2019 £m
Final ordinary dividend for FY18	7.5p	**–**	15.9
Interim ordinary dividend for FY19	3.7p	**–**	7.9
Final ordinary dividend for FY19	7.5p	**15.9**	–
		15.9	23.8

The Directors do not recommend a final dividend in respect of the financial period ended 28 June 2020.

22 Capital and reserves

Share capital

Ordinary shares of £1.50 each	Number of shares '000	Ordinary shares £m
Allotted, called up and fully paid		
At the start of the financial period	213,030	319.5
Issued during the year	42,607	63.9
At the end of the financial period	255,637	383.4

On 23 April 2020, 42,606,119 new ordinary shares were issued at nominal value of £1.50 for cash consideration of £63,909,179. The Company has just one class of share in issue and so all shareholders benefit from the same rights, as set out in Company's Articles of Association and the Companies Act 2006. Further information on share capital is given in the Directors' Report on page 108.

Share premium

The share premium account represents the surplus of consideration received for issued ordinary share capital over its nominal value. This arose on the issue ordinary shares on 11 March 2015.

Merger reserve

The merger reserve arose on the issue of shares in the Company in exchange for minority interests in the issued share capital of a subsidiary company on 10 March 2015.

Treasury shares

Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

During the period ending 28 June 2020 the Company purchased 400,000 of its own ordinary shares at a total cost of £1.1m for the purpose of satisfying employee share based payment awards. During the period 990,451 of these shares (2019: 511,489) were used to satisfy employee share based payment awards. At 28 June 2020 the company had 266,473 ordinary shares held in treasury (2019: 856,924).

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

23 Financial instruments: categories and fair value

	28 June 2020 £m	30 June 2019 £m
Financial assets		
Derivatives in designated hedging relationships	**5.3**	7.7
Loans and receivables	**11.2**	9.4
Cash	**62.3**	29.8
Financial liabilities		
Derivatives in designated hedging relationships	**(2.0)**	(0.7)
Senior revolving credit facility	**(218.7)**	(194.0)
Amortised cost	**(101.0)**	(210.2)
Fair value	**(5.0)**	–
Finance lease obligations	**(517.2)**	(12.1)

All derivatives are categorised as Level 2 under the requirements of IFRS 7 as they are valued using techniques based significantly on observed market data.

Financial liabilities measured at fair value through profit and loss relate to acquisition contingent consideration and are categorised as level 3 under the requirements of IFRS 7 as they are not based on observable market data.

The Directors consider that the fair values of each category of the Group's financial instruments are the same as their carrying values in the Group's balance sheet.

Notes to the consolidated financial statements continued
at 28 June 2020

24 Financial instruments: risk management

The objectives, policies and processes governing the treasury activities of the Group are reviewed and approved by the Board. The Group's documented treasury policy includes details of authorised counterparties, instrument types and transaction limits and principles for the management of liquidity, interest and foreign exchange risks. As part of its strategy for the management of these risks the Group uses derivative financial instruments. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Liquidity risk

The Group manages its cash and borrowing requirements to ensure that it has sufficient liquid resources to meet its obligations as they fall due while making efficient use of the Group's financial resources.

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows (including interest) of the Group's financial liabilities:

28 June 2020	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	90.2	–	–	–	90.2
Lease liabilities	88.0	85.9	214.5	235.3	623.7
Senior revolving credit facility	4.6	3.9	220.6	–	229.1
Other liabilities	11.9	2.5	–	1.4	15.8
	194.7	92.3	435.1	236.7	958.8
Derivatives: net settled	0.9	0.8	0.1	–	1.8
Derivatives: gross settled					
Cash in flows	(107.7)	(34.3)	–	–	(142.0)
Cash out flows	114.5	27.1	–	–	141.6
Total cash flows	202.4	85.9	435.2	236.7	960.2

30 June 2019	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	199.6	–	–	–	199.6
Lease liabilities	4.3	3.6	5.1	–	13.0
Senior revolving credit facility	5.8	5.8	211.5	–	223.1
Other liabilities	4.9	2.2	0.6	2.1	9.8
	214.6	11.6	217.2	2.1	445.5
Derivatives: net settled	0.7	–	–	–	0.7
Derivatives: gross settled					
Cash in flows	(135.9)	(68.6)	–	–	(204.5)
Cash out flows	143.6	55.7	–	–	199.3
Total cash flows	223.0	(1.3)	217.2	2.1	441.0

Interest rate risk management

The Group's operating profit is affected by the cost of providing interest free credit to its customers. A fall in LIBOR rates would have a positive impact on operating profit and a rise in LIBOR rates would impact operating profit negatively. However, with the current low LIBOR rates any increases or decreases at present would largely be mitigated by the LIBOR 'floor' mechanisms used by the external providers of credit to the Group's customers. Excluding the effect of these floors, an increase in LIBOR of one percentage point would reduce the Group's reported revenue by 0.5%.

The Group is exposed to interest rate risk on its senior revolving credit facility, which bears interest at a floating rate of 3 month GBP LIBOR plus 2.10%. In order to provide some certainty over the future cash flows associated with this debt, the Group has in place four participating interest rate swaps and caps. The effect of these instruments is to fix the interest rate payable on the senior revolving credit facility to a maximum level while allowing the Group to retain some benefit on a proportion of the facility where LIBOR remained below 1.39%. The fair values of the Group's interest rate derivatives are as follows:

	28 June 2020 £m	30 June 2019 £m
Interest rate swaps		
Derivatives in designated hedging relationships	(1.9)	(0.7)

24 Financial instruments: risk management continued

Foreign exchange risk management

The Group is exposed to the risks of exchange rate fluctuations on the purchase of products denominated in foreign currencies. Currency requirements are assessed by analysis of historic purchasing patterns by month, adjusted as appropriate to take into account current trading expectations. The Group's treasury policy allows for the use of forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases up to 18 months in advance. These contracts are designated as cash flow hedges.

The table below summarises the forward foreign exchange contracts outstanding at the period end:

	28 June 2020		30 June 2019	
	Notional amount £m	**Fair value £m**	Notional amount £m	Fair value £m
Derivatives in designated hedging relationships				
US Dollar	**141.7**	**4.1**	199.3	5.9

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	28 June 2020 £m	30 June 2019 £m	**28 June 2020 £m**	30 June 2019 £m
US Dollar	**7.7**	6.4	**(7.8)**	(16.3)
Euro	**4.4**	4.8	**(0.1)**	(1.1)

Foreign currency sensitivity analysis

The Group's primary foreign currency exposures are to US Dollars and the Euro. The table below illustrates the hypothetical sensitivity of the Group's reported profit and closing equity to a 10% weakening of these currencies against Sterling, assuming all other variables were unchanged. The sensitivity rate of 10% represents the Directors' assessment of a reasonably possible change, based on historic volatility.

The analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The analysis assumes that exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the cash flow hedging reserve in equity.

Positive figures represent an increase in profit or equity.

	Income statement		**Equity**	
	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m	**52 weeks to 28 June 2020 £m**	48 weeks to 30 June 2019 £m
US Dollar	**–**	1.0	**(14.7)**	(20.7)
Euro	**(0.4)**	(0.4)	**–**	–

A 10% strengthening of the above currencies against the Sterling at the period end would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment securities.

Investments of cash, borrowings and derivative instruments are transacted only through counterparties meeting the credit rating and investment criteria specified in the Group's treasury policy. The Group's exposure and the credit ratings of its counterparties are regularly reviewed. Concentrations of risk are mitigated through the use of multiple counterparties and by counterparty limits which are reviewed and approved by the Board.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Capital management

The capital structure of the Group consists of debt, as analysed in note 26, and equity attributable to the equity holders of the parent company, comprising issued capital, reserves and retained earnings as shown in the consolidated statement of changes in equity. The Group manages its capital with the objective that all entities within the Group continue as going concerns while maintaining an efficient structure to minimise the cost of capital. The Group is not restricted by any externally imposed capital requirements.

Notes to the consolidated financial statements continued
at 28 June 2020

25 Share based payments
The Group has three share based payment schemes in operation:

Long Term Incentive Plan (LTIP)
The LTIP is a discretionary executive reward plan that allows the Group to grant conditional share awards or nil-cost options to selected executives at the discretion of the Remuneration Committee. The scheme is focused on the senior leadership roles in the Group, including Executive Directors. The maximum value of LTIP awards granted to an individual is 150% of base salary, although the Remuneration Committee may in exceptional circumstances increase this to 300%.

LTIP awards vest after a three year performance period subject to the achievement of performance measures based on earnings per share and total shareholder return targets. Further information on LTIP performance targets and awards made to Directors is given in the Directors' Remuneration Report on pages 101 to 102.

Restricted Share Plan (RSP)
The RSP is also a discretionary reward plan under which conditional share awards or nil-cost options may be granted to individuals in key executive roles in the Group, excluding Executive Directors and other recipients of LTIP awards. Awards may not exceed 50% of an individual's salary for a particular financial year.

RSP awards vest after a three year performance period (other than those granted shortly after Admission vested in July 2017). Awards granted prior to June 2019 were not subject to other performance conditions. For awards granted in FY20, 50% of an individual participant's award is subject to a performance measure based on earnings per share.

Save as Your Earn (SAYE)
SAYE schemes are currently available to all employees in the UK and Republic of Ireland, with invitations to participate generally issued on an annual basis and subject to HMRC rules. The current maximum monthly savings limit for the schemes is £500. Options are granted at the prevailing market rate less a discount of 20% and vest three years from the date of grant.

The movements in outstanding awards under each of the schemes are summarised below:

	LTIP No.	RSP No.	SAYE No.
Outstanding at the beginning of the period	2,027,337	3,560,690	2,613,436
Granted	616,340	1,132,586	1,376,384
Forfeited	(370,663)	(240,604)	(52,413)
Exercised	(170,380)	(847,608)	(715,925)
Lapsed	(426,412)	–	(262,356)
Cancelled	–	–	(450,668)
Outstanding at the end of the period	**1,676,222**	**3,605,064**	**2,508,458**
Weighted average remaining contractual life (months)	**17.3**	**15.5**	**20.3**
Weighted average share price at exercise	**£2.15**	**£2.15**	**£2.56**

At 28 June 2020 the weighted average exercise price of outstanding SAYE options was £1.79 (2019: £1.83) and the range of exercise prices was £1.61 to £1.88 (2019: £1.61 to £2.62).

Fair value calculations
The LTIP, RSP and SAYE awards are all accounted for as equity-settled under IFRS 2. The fair value of LTIP awards which are subject to a market based performance condition (total shareholder return) is calculated using a stochastic (Monte Carlo) option pricing model. RSP awards, SAYE awards and LTIP awards subject to a non-market based performance condition (earnings per share) are valued using a Black-Scholes option pricing model. The inputs to these models for awards granted during the financial period are detailed below:

	LTIP	RSP	SAYE
Grant date	25 October 2019	25 October 2019	25 November 2019
Share price at date of grant	£2.46	£2.46	£2.35
Exercise price	Nil	Nil	£1.88
Volatility[3]	28.0-29.4%	–[2]	29.4%
Expected life	3 years	3 years	3.1 years
Risk free rate	0.4%	–[2]	0.4%
Dividend yield	–[1]	4.6%	4.6%
Fair value per share			
Market based performance conditions[3]	£1.00-£1.10	–	–
Non-market based performance condition / no performance condition	£2.46	£2.15	£0.50

1. LTIP participants are entitled to receive dividend equivalents on unvested awards therefore dividend yield does not impact the fair value calculation.
2. Volatility and risk free rates do not impact the fair value calculation for awards with no exercise price or market based performance condition.
3. The 2019 LTIP grant included a number of required holdings periods, giving a range of volatility and fair values.

25 Share based payments continued

As the Company had only limited share price history at the date of grant, expected volatility was based on a proxy volatility determined from the median volatility of a group of appropriate comparator companies within the FTSE All Share index. Expected life has been assumed to equate to the vesting period of the awards.

The total share based payment expense included in administration costs in respect of the above schemes was £2.4m (2019: £2.6m).

26 Net debt

	30 June 2019 £m	IFRS 16 transition £m	Cash flow £m	Other non-cash changes £m	**28 June 2020 £m**
Cash in hand, at bank	29.8	–	32.5	–	**62.3**
Cash and cash equivalents	29.8	–	32.5	–	**62.3**
Senior revolving credit facility	(194.0)	–	(25.0)	0.3	**(218.7)**
Lease liabilities	(12.1)	(536.6)	36.3	(4.8)	**(517.2)**
Total net debt	(176.3)	(536.6)	43.8	(4.5)	**(673.6)**

	28 July 2018 £m	Cash flow £m	Other non-cash changes £m	**30 June 2019 £m**
Cash in hand, at bank	47.2	(17.4)	–	**29.8**
Cash and cash equivalents	47.2	(17.4)	–	**29.8**
Senior revolving credit facility	(195.7)	2.0	(0.3)	**(194.0)**
Finance lease liabilities	(10.5)	3.5	(5.1)	**(12.1)**
Total net debt	(159.0)	(11.9)	(5.4)	**(176.3)**

Non-cash changes include the addition of new finance leases within the period of £7.7m (2019: £5.1m) and the amortisation of capitalised debt issue costs of (£0.3m) (2019: £0.3m).

27 Related parties

Key Management Personnel

At 28 June 2020, Directors of the Company held 0.3% of its issued ordinary share capital (2019: 0.2%), and a further 0.1% (2019: 0.0%) was held by other key management personnel.

The compensation of key management personnel (including the Directors) is as follows:

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Emoluments	**2.9**	3.9
Share based payments expense	**0.7**	0.8
Company contributions to money purchase schemes	**0.2**	0.1
	3.8	4.8

28 Subsequent events

On 26 August 2020, the Group agreed the sale of the entire issued share capital of The Sofa Workshop Limited for cash consideration of £0.3m. This sale was subject to the receipt of regulatory approval from the FCA which was received on 1 September 2020 and the transaction formally completed on 18 September 2020.

Company balance sheet
at 28 June 2020

	Note	28 June 2020 £m	30 June 2019 £m
Non-current assets			
Investments	2	**246.5**	244.1
Current assets			
Amounts due from group companies	3	**356.7**	293.0
Current liabilities			
Amounts due to group companies	4	**(112.0)**	(94.9)
Net assets		**491.2**	442.2
Capital and reserves			
Called up share capital	5	**383.4**	319.5
Share premium	5	**40.4**	40.4
Merger reserve	5	**18.6**	18.6
Treasury shares	5	**(0.7)**	(2.1)
Retained earnings		**49.5**	65.8
Equity shareholders' funds		**491.2**	442.2

These financial statements were approved by the Board of Directors on 24 September 2020 and were signed on its behalf by:

Tim Stacey
Chief Executive Officer

Mike Schmidt
Chief Financial Officer

Company statement of changes in equity
at 28 June 2020

	Share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Retained earnings £m	Total equity £m
Balance at 28 July 2018	**319.5**	**40.4**	**18.6**	**(3.3)**	**88.1**	**463.3**
Profit for the period	–	–	–	–	–	–
Other comprehensive income/(expense)	–	–	–	–	–	–
Total comprehensive income/(expense) for the period	–	–	–	–	–	–
Dividends	–	–	–	–	(23.7)	(23.7)
Treasury shares issued	–	–	–	1.2	(1.2)	–
Share based payments	–	–	–	–	2.6	2.6
Balance at 30 June 2019	**319.5**	**40.4**	**18.6**	**(2.1)**	**65.8**	**442.2**
Profit for the period	–	–	–	–	–	–
Other comprehensive income/(expense)	–	–	–	–	–	–
Total comprehensive income/(expense) for the period	–	–	–	–	–	–
Dividends	–	–	–	–	(15.9)	(15.9)
Purchase of own shares	–	–	–	(1.1)	–	(1.1)
Treasury shares issued	–	–	–	2.5	(1.2)	1.3
Shares issue	63.9	–	–	–	–	63.9
Settlement of share based payments	–	–	–	–	(1.6)	(1.6)
Share based payments	–	–	–	–	2.4	2.4
Balance at 28 June 2020	**383.4**	**40.4**	**18.6**	**(0.7)**	**49.5**	**491.2**

Notes to the Company financial statements
at 28 June 2020

1 Accounting policies
Basis of preparation
The financial statements are prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In these financial statements the Company has applied the exemption available under FRS101 in respect of the following disclosures:
- a cash flow statement and related notes
- comparative period reconciliations
- disclosures in respect of transactions with wholly owned subsidiaries
- disclosures in respect of capital management
- the impact of new but not yet effective IFRSs

As the consolidated accounts of the Company include the equivalent disclosures, the Company has also taken the exemption available under FRS 101 in respect of IFRS 2 *Share Based Payments* disclosures of group settled share based payments. Under Section 408 of the Companies Act 2006, the Company is not required to present its own profit and loss account. The Company's profit for the period was £nil (2019: £nil).

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern
The financial statements are prepared on a going concern basis, which the directors believe to be appropriate for the following reasons.

The Company heads a Group which has a £250.0m revolving credit facility in place until August 2022, and in April 2020, to increase resilience to the short-term effects of the Covid-19 pandemic, secured an additional twelve month facility of £70.0m from the same group of lending banks. In the same month the Group also secured £63.9m of equity funding from a placing of ordinary shares. During the period from the inception of the additional £70.0m facility through to June 2021, existing covenants on the revolving credit facility (of 3.0x Net Debt/EBITDA and 1.5x Fixed Charge Cover) have been replaced by new minimum quarterly EBITDA and net debt covenants. At the date of approval of these financial statements, none of the £70.0m facility had been utilised and a further £170.0m of the revolving credit facility remained undrawn, giving the Group a total of £240.0m available facility in addition to cash in hand, at bank (£47.8m as at 21 September 2020).

The Directors have prepared cash flow forecasts for the Company and its Group covering a period of 18 months to March 2022. These forecasts indicate that the Group will be in compliance with the minimum quarterly EBITDA and net debt covenants applicable for that period, which are assessed monthly, as well as the original covenants which become effective once more from June 2021. These forecasts include a number of assumptions in relation to: level of customer order intake; gross profit margins; and achievement of cost savings in line with the Group's strategic plans.

The Directors have also prepared severe but plausible downside sensitivity scenarios which cover the same period as the base case. These downside scenarios include specific consideration of a range of impacts that could arise from the continued coronavirus pandemic and the UK's exit from the EU. These scenarios included: significantly reduced customer spending; a second lockdown during FY21 leading to reduced order intake and customer deliveries; disruptions to manufacturing and supply chain causing delays in receiving stock; and possible changes in the regulatory environment surrounding product warranty insurance. As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur have also been considered. These mitigating actions included reducing discretionary advertising expenditure, a pause on expansionary capital investment and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the Directors to implement mitigating actions should they need to, indicate that there remains sufficient headroom in the forecast period for the Group and Company to operate within the committed facilities and to comply with all relevant banking covenants during the forecast period.

The Directors have considered all of the factors noted above, including the inherent uncertainty in forecasting the impact of the coronavirus pandemic, and are confident that the Group and Company have adequate resources to continue to meet all liabilities as and when they fall due for the foreseeable future and at least for the period of twelve months from the date of these financial statements. Accordingly, the financial statements are prepared on a going concern basis.

Investments
Investments are stated at cost, less any accumulated impairment losses. Carrying values of investments in subsidiary companies are reviewed at each reporting date to determine whether there is any indication of impairment. If any such exists, then the investment's recoverable amount is estimated based on a value in use calculation. An impairment loss is recognised if the carrying amount of the investment exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Amounts due from and to group companies
Amounts receivable from or payable to other companies within the Company's group are recognised initially and fair value and subsequently measured at amortised cost less any provision for impairment.

1 Accounting policies continued

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income. Deferred tax is provided on temporary differences between the carrying amounts if assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Share based payments

Awards (options or conditional shares) granted by the Company over its own shares to the employees of subsidiary companies are recognised in the Company's own financial statements as an increase in the cost of investment in subsidiaries. The amount recognised is equivalent to the equity-settled share based payment charge recognised in the consolidated financial statements. The corresponding credit is recognised directly in equity.

Treasury shares

Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

Audit fees

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements.

Directors' remuneration and staff numbers

The Company has no employees other than the Directors, who did not receive any remuneration for their services directly from the Company in either the current or preceding period. See note 27 in the Group consolidated accounts for Key Management Personnel compensation.

2 Investments

	Shares in subsidiary undertakings	
	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Cost and net book value		
At the start of the financial period	**244.1**	241.5
Additions	**2.4**	2.6
At the end of the financial period	**246.5**	244.1

Details of the Company's investments are given in note 10. Additions in the current and prior period relate to capital contributions made in respect of share based payments schemes for the Group's employees. Although the value of the Company's market capitalisation at 28 June 2020 relative to its net assets was a potential impairment indicator, value in use calculations derived from cash flow forecasts prepared for the Company and its Group supported the carrying value of the Company's investments in subsidiary undertakings and accordingly no impairment loss was recognised.

3 Debtors

	28 June 2020 £m	30 June 2019 £m
Amounts due from subsidiary undertakings (non-interest bearing, repayable on demand)	**356.7**	293.0

4 Creditors: amounts due in less than one year

	28 June 2020 £m	30 June 2019 £m
Amounts due to subsidiary undertakings (non-interest bearing, repayable on demand)	**112.0**	94.9

Notes to the Company financial statements continued
at 28 June 2020

5 Capital and reserves
Share capital

Ordinary shares of £1.50 each	Number of shares '000	Ordinary shares £m
Allotted, called up and fully paid		
At the start of the financial period	**213,030**	319.5
Issued during the year	**42,607**	63.9
At the end of the financial period	**255,637**	383.4

On 23 April 2020, 42,606,119 new ordinary shares were issued at the nominal value of £1.50. The Company has just one class of share in issue and so all shareholders benefit from the same rights, as set out in Company's Articles of Association and the Companies Act 2006.

Share premium
The share premium account represents the surplus of consideration received for issued ordinary share capital over its nominal value. This arose on the issue ordinary shares on 11 March 2015.

Merger reserve
The merger reserve arose on the issue of shares in the Company in exchange for minority interests in the issued share capital of a subsidiary company on 10 March 2015.

Treasury shares
Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

During the period ending 28 June 2020 the Company purchased 400,000 of its own ordinary shares at a total cost of £1.1m for the purpose of satisfying employee share based payment awards. During the period 990,451 of these shares (2019: 511,489) were used to satisfy employee share based payment awards. At 28 June 2020 the Company had 266,473 ordinary shares held in treasury (2019: 856,924).

Financial history

		FY20	FY20 pre IFRS 16	FY19[3] 52 weeks	FY19[2] 48 weeks	FY18[1]	FY17	FY16
Gross sales	£m	**935.0**	**935.0**	1,287.2	1,165.0	1,125.6	990.8	980.4
Revenue	£m	**724.5**	**724.5**	996.2	901.0	870.5	762.7	756.0
Underlying EBITDA	£m	**61.9**	**(13.8)**	90.2	65.1	76.1	82.4	94.4
Underlying (loss)/profit before tax excluding brand amortisation	£m	**(63.1)**	**(55.3)**	50.2	28.2	38.3	50.2	64.6
(Loss)/profit before tax	£m	**(81.2)**	**(74.9)**	43.6	22.4	25.8	50.1	64.5
Basic earnings per share	p	**(31.4)**	**(28.5)**	16.5	8.6	8.9	18.7	28.3
Ordinary dividends per share	p	**–**	**–**	11.2	11.2	11.2	11.2	11.0
Special dividends per share	p	**–**	**–**	–	–	–	9.5	–
Purchase of own shares	£m	**1.1**	**1.1**	–	–	–	–	3.7
Total shareholder return	%	**-32.5**	**-32.5**	+31.9	+31.5	+1.9%	+6.5%	-21.5%

Notes:
1. Sofology acquired 30 November 2017.
2. Audited statutory period: 48 weeks ended 30 June 2019.
3. Unaudited pro-forma period: 52 weeks ended 30 June 2019.

Alternative performance measures

In reporting the Group's financial performance, the Directors make use of a number of alternative performance measures (APMs) in addition to those defined or specified under EU-adopted International Financial Reporting Standards (IFRS).

The Directors consider that these APMs provide useful additional information to support understanding of underlying trends and business performance. In particular, APMs enhance the comparability of information between reporting periods by adjusting for non-underlying items. APMs are therefore used by the Group's Directors and management for internal performance analysis, planning and incentive setting purposes in addition to external communication of the Group's financial results.

In order to facilitate understanding of the APMs used by the Group, and their relationship to reported IFRS measures, definitions and numerical reconciliations are set out below. Definitions of APMs may vary from business to business and accordingly the Group's APMs may not be directly comparable to similar APMs reported by other entities.

Notes to FY20

The Group changed its accounting reference date to 30 June in the previous year and accordingly the statutory audited results for FY19 were the 48 weeks ended 30 June 2019. To enable meaningful comparatives for reported key performance indicators, unaudited pro-forma figures for the 52 weeks ended 30 June 2019 have also been presented. These pro-forma figures are calculated by adding unaudited results per the Group management accounts for the 4 weeks to 28 July 2018 to the audited statutory results for the 48 weeks to 30 June 2019.

APM	Definition	Rationale
Like-for-like revenue	Revenue from all online and telephone channels and those retail showrooms which have been open for at least one full financial year and not identified as impacted by new showroom openings in the current or comparative period.	Provides insight into year on year changes in the underlying trading environment by excluding distortions from new showroom openings.
LTM FY19	Last twelve months/52 weeks ended 30 June 2019 (unaudited, pro-forma period).	A twelve month period is required to enable comparison to reported results for previous periods. The seasonal nature of the Group's activity means that many KPIs are only meaningful when assessed on a full year basis.
Gross sales	Amounts payable by external customers for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes.	Key measure of overall sales performance which unlike IFRS revenue is not affected by the extent to which customers take up the Group's interest free credit offering.
Brand contribution	Gross profit less selling and distribution costs, excluding property and administration costs.	Measure of brand-controllable profit as it excludes shared Group costs.
EBITDA	Earnings before interest, taxation, depreciation and amortisation.	A commonly used simple cash profit measure.
Non-underlying items	Certain material, unusual or non-recurring items which the directors believe are not indicative of the Group's underlying performance.	Clear and separate identification of such items facilitates understanding of underlying trading performance.
Underlying EBITDA	Earnings before interest, taxation, depreciation and amortisation, as adjusted for non-underlying items.	Profit measure reflecting underlying trading performance.
Underlying profit before tax and brand amortisation	Profit before tax adjusted for non-underlying items and amortisation associated with the acquired brands of Sofology, Dwell and Sofa Workshop.	Profit measure widely used by investors and analysts.
Underlying earnings per share	Post-tax earnings per share as adjusted for non-underlying items.	Exclusion of non-underlying items facilitates year on year comparisons of the key investor measure of earnings per share.
Free cash flow	Sum of Underlying EBITDA, less gross capital expenditure and changes in working capital.	Measure of the cash flow generated by the Group beyond that required to invest in its business activities.
Leverage (or gearing)	The ratio of period end net debt to underlying EBITDA for the previous twelve months.	Key measure for banking facilities which indicates the relative level of borrowings to profit.
Return on capital employed (ROCE)	Post-tax operating profit before non-underlying items plus operating lease charges, expressed as a percentage of the sum of: property, plant & equipment, computer software, working capital and 8x operating lease charges.	Represents the post-tax return the Group achieves on the investment it has made in its business.

Key performance indicators

Reconciliations to IFRS measures

EBITDA	Note	FY20 £m	LTM FY19 £m	FY19 £m
Operating (loss)/profit	2	**(43.7)**	54.3	32.5
Depreciation	3	**81.9**	25.8	23.3
Amortisation	3	**6.8**	5.0	4.9
Impairments	3	**11.5**	–	–
EBITDA		**56.5**	85.1	60.7

Underlying EBITDA	FY20 £m	LTM FY19 £m	FY19 £m
EBITDA	**56.5**	85.1	60.7
Non-underlying operating items	**5.4**	5.1	4.4
Underlying EBITDA	**61.9**	90.2	65.1

EBITDA (pre-IFRS 16)	Note	FY20 £m	LTM FY19 £m	FY19 £m
Operating (loss)/profit	2	**(43.7)**	54.3	60.7
Impact of IFRS 16	1.18	**19.4**	–	–
Operating (loss)/profit (pre-IFRS 16)	1.18	**(63.1)**	54.3	32.5
Depreciation (pre-IFRS 16)	1.18	**25.9**	25.8	23.3
Amortisation (pre-IFRS 16)	1.18	**6.8**	5.0	4.9
Impairments (pre-IFRS 16)	1.18	**7.1**	–	–
EBITDA (pre-IFRS 16)	1.18	**(23.3)**	85.1	60.7

Underlying EBITDA (pre-IFRS 16)	Note	FY20 £m	LTM FY19 £m	FY19 £m
EBITDA (pre-IFRS 16)	1.18	**(23.3)**	85.1	60.7
Non-underlying operating items (pre-IFRS 16)		**9.5**	5.1	4.4
Underlying EBITDA (pre-IFRS 16)		**(13.8)**	90.2	65.1

Free cash flow (pre-IFRS 16)	Note	FY20 £m	LTM FY19 £m
Underlying EBITDA (pre-IFRS 16)		**(13.8)**	90.2
Acquisition of property, plant and equipment (pre-IFRS 16)	8	**(16.8)**	(19.4)
Acquisition of other intangible assets	10	**(6.6)**	(6.9)
Cash capital expenditure (pre-IFRS 16)		**(23.4)**	(26.3)
Share based payment expense	4	**2.4**	2.6
Increase in debtors (pre-IFRS 16)		**9.1**	(1.9)
Increase in inventories		**(4.0)**	3.2
Increase in trade and other payables (pre-IFRS 16)		**8.6**	25.5
Decrease in provisions (pre-IFRS 16)		**11.3**	(0.7)
Change in working capital (pre-IFRS 16)		**27.4**	28.7
Free cash flow generation (pre-IFRS 16)		**(9.8)**	92.6

Underlying profit before tax and brand amortisation (pre-IFRS 16)	Note	FY20 £m	LTM FY19 £m	FY19 £m
(Loss)/profit before tax	2	**(81.2)**	43.6	22.4
Impact of IFRS 16	1.18	**6.3**	–	–
(Loss)/profit before tax (pre-IFRS 16)	1.18	**(74.9)**	43.6	22.4
Non-underlying items (pre-IFRS 16)		**16.6**	5.1	4.4
Amortisation of brand names	10	**1.5**	1.5	1.4
Underlying (loss)/profit before tax and brand amortisation (pre-IFRS 16)		**(56.8)**	50.2	28.2

Alternative performance measures continued

Key performance indicators continued

Net debt (pre-IFRS 16)	30 June 2019 £m	Cash flow £m	Other non-cash changes £m	28 June 2020 £m
Cash in hand, at bank	29.8	32.5	–	62.3
Cash and cash equivalents	29.8	32.5	–	62.3
Senior revolving credit facility	(194.0)	(25.0)	0.3	(218.7)
Finance lease liabilities (pre-IFRS 16)	(12.1)	4.5	(5.2)	(12.8)
Total net debt	(176.3)	12.0	(4.9)	(169.2)

Return on capital employed	Note	**FY20 £m**	LTM FY19 £m
Operating (loss)/profit (pre-IFRS 16)	1.18	**(63.1)**	54.3
Non-underlying operating items (pre-IFRS 16)		**16.6**	5.1
Operating lease charge (pre-IFRS 16)		**79.9**	80.2
Pre-tax return (pre-IFRS 16)		**33.4**	139.6
Effective tax rate		**17.1%**	19.0%
Tax adjusted return (A) (pre-IFRS 16)		**27.7**	113.1
Property, plant and equipment (pre-IFRS 16)		**85.0**	89.9
Computer software	10	**11.8**	10.5
		96.8	100.4
Inventories	14	**58.9**	54.8
Trade receivables	15	**10.4**	9.1
Prepayments (pre-IFRS 16)		**11.7**	22.8
Accrued income	15	**0.9**	0.6
Other receivables	15	**0.8**	0.3
Payments received on account	16	**(86.8)**	(42.2)
Trade payables	16	**(41.9)**	(106.9)
Working capital (pre-IFRS 16)		**(46.0)**	(61.5)
8 times lease charge (pre-IFRS 16)		**639.2**	641.6
Total capital employed (B) (pre-IFRS 16)		**690.0**	680.5
ROCE (A/B) (pre-IFRS 16)		**4.0%**	16.6%

Shareholder information

Contacts

Chief Executive Officer
Tim Stacey

Chief Financial Officer
Mike Schmidt

Group Company Secretary & General Counsel
Elizabeth McDonald

Investor relations
Philip Hutchinson

Corporate website
www.dfscorporate.co.uk

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Corporate advisers:

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Leeds
LS1 4DA

Remuneration advisor
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Embankment Place London
WC2N 6RH

Brokers
Peel Hunt Limited & Jefferies International Limited

Shareholder enquiries
The Company's registrar is Equiniti. They will be pleased to deal with any questions regarding your shareholding or dividends. Please notify them of your change of address or other personal information. Their address details are:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Equiniti is a trading name of Equiniti Limited.

Equiniti helpline: 0371 384 2030.
Overseas holders should contact +44 (0)121 415 7047.

Lines are open 9.00am to 5.00pm, Monday to Friday (excluding public holidays).

Shareholders are able to manage their shareholding online and facilities include electronic communications, account enquiries, amendment of address and dividend mandate instructions.

For institutional investor enquiries, please contact:
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Annual General Meeting 2019
This year's AGM will be held virtually, at 2.30pm on 13 November 2020 at DFS Head Office, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA

Financial calendar

FY20 full year results	24 September 2020
Annual General Meeting	13 November 2020

DFS Furniture plcw
1 Rockingham Way
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www.dfscorporate.co.uk
www.dfs.co.uk

Report and Accounts
Registered number 7236769
28 June 2020

Company No. 07236769

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