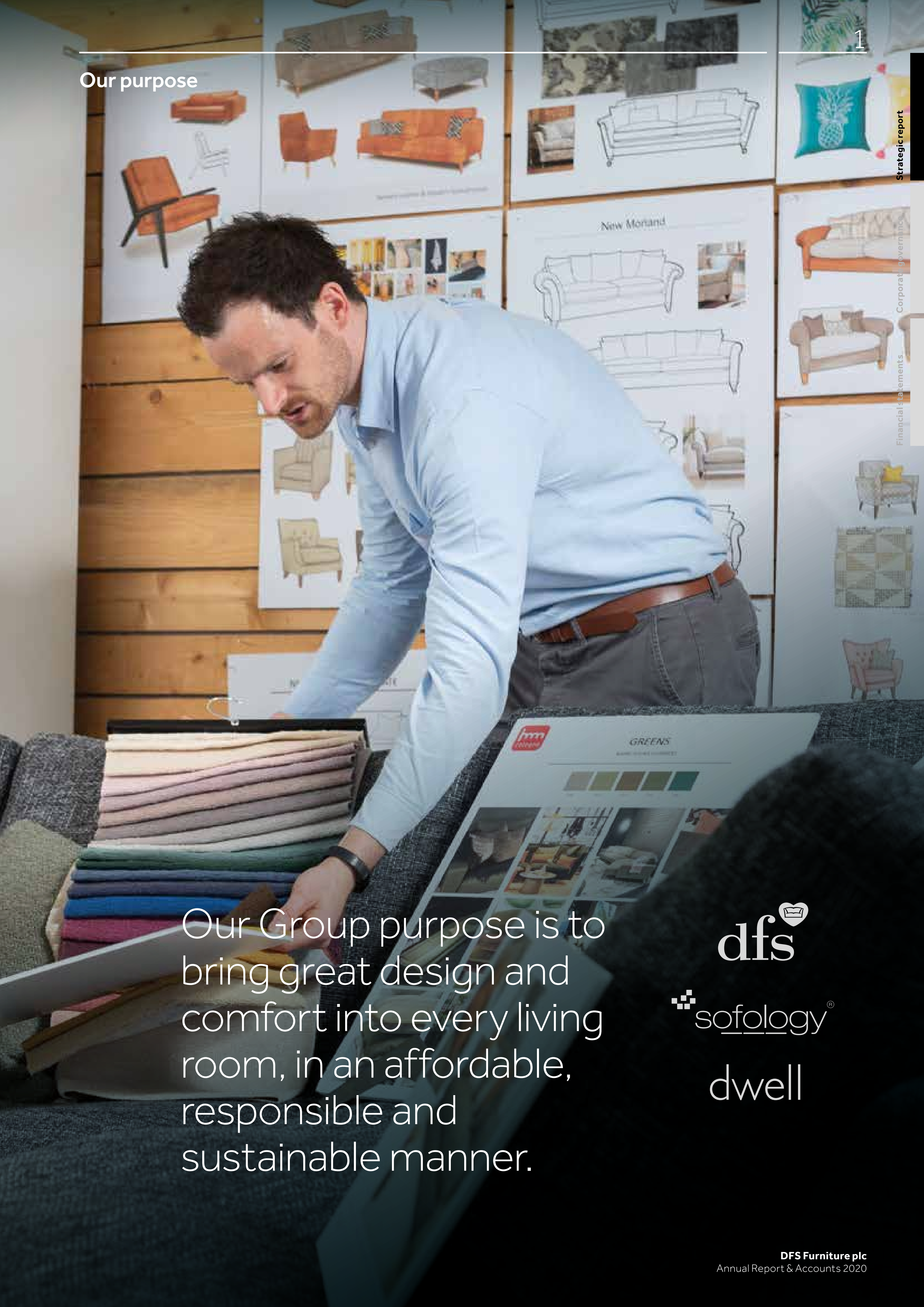


Our Group purpose is to bring great design and comfort into every living room, in an affordable, responsible and sustainable manner.

dfs
sofology®
dwell

Our customers and our people are at the heart of everything we do, reflected in our three core values

1. Think Customer
We treat them as we would our own family and keep them at the forefront of our minds because they are the heart of our Group.

2. Be Real
We bring our whole selves to work and are confident to speak up. We accept each other for who we are and respect each other as part of our family.

3. Aim High
We play to win for the same team, focused on our shared family ambition. We are bold, brave and welcome challenge as a chance to innovate.

For over 50 years, we have provided millions of sofas into homes across the UK, the Republic of Ireland, Spain and the Netherlands.

Highlights

We continue to make progress on our strategic agenda focused on driving the DFS core business, further developing our Group platforms and setting Sofology up for future growth.

Financial highlights

The Group has implemented IFRS 16 for the first time in FY20. To aid comparison with prior years, unaudited financial measures excluding the impact of IFRS 16 are presented alongside reported results.

In the previous year, the Group changed its accounting reference date from 31 July to 30 June. FY19 was therefore a short accounting period of 48 weeks. In order to provide full year comparative figures, unaudited pro-forma figures are presented for the 52 weeks ended 30 June 2019, in addition to the audited statutory period of 48 weeks ended 30 June 2019.

Definitions and reconciliations of these alternative performance measures can be found on page 158.

Group revenue

FY20	£724.5m
FY20 pre-IFRS 16	£724.5m
FY19 (52 weeks pro-forma)	£996.2m
FY19 (48 weeks)	£901.0m

Underlying EBITDA[1]

FY20	£61.9m
FY20 pre-IFRS 16	£(13.8)m
FY19 (52 weeks pro-forma)	£90.2m
FY19 (48 weeks)	£65.1m

Underlying (loss)/profit before tax excluding amortisation of brand names[1]

FY20	£(63.1)m
FY20 pre-IFRS 16	£(56.8)m
FY19 (52 weeks pro-forma)	£50.2m
FY19 (48 weeks)	£28.2m

(Loss)/profit before tax

FY20	£(81.2)m
FY20 pre-IFRS 16	£(74.9)m
FY19 (52 weeks pro-forma)	£43.6m
FY19 (48 weeks)	£22.4m

Underlying earnings per share[1]

FY20	(24.3)p
FY20 pre-IFRS 16	(22.9)p
FY19 (52 weeks pro-forma)	18.4p
FY19 (48 weeks)	10.3p

Earnings per share

FY20	£(31.4)m
FY20 pre-IFRS 16	£(28.5)m
FY19 (52 weeks pro-forma)	£16.5m
FY19 (48 weeks)	£8.6m

1. Refer to pages 158 to 160 for further information on alternative performance measures.

Operational and strategic highlights

Comprehensive response to Covid-19, protecting colleagues, customers and the long-term value of the business.

Further progress with our strategy to lead sofa retailing in the digital age:

Drive the DFS core

- Investment in digital and showrooms to drive DFS omnichannel journey
- Online order intake during lockdown and showroom performance since reopening highlight resilience of digital infrastructure and customer demand for both channels

Build the platforms

- Development of a group-wide, best-in-class platform underway with the rollout of the Sofa Delivery Co. and Stockwise

Unlock new growth

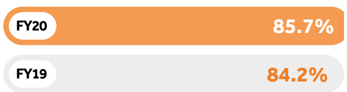
- Store roll-out accelerates at Sofology; strategic restructuring of small brands to improve returns

Further development of our ESG strategy, which is embedded in the business.

Strong trading online during lockdown, which has continued into the new financial year both in showrooms and online.

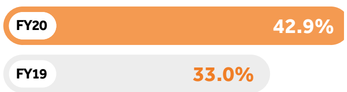
Post Purchase NPS[2]

85.7%



Established Customer NPS[2]

42.9%



2. Net Promoter Scores are for the DFS brand.

What's in our report

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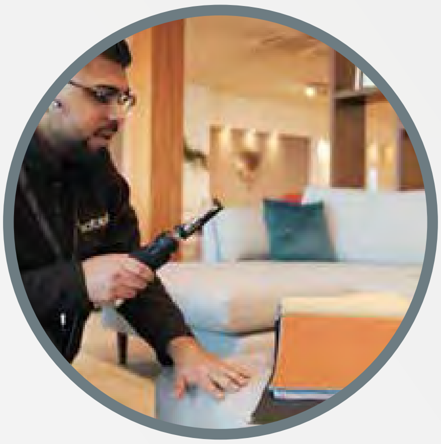
Our strategy is to be the leading sofa retailer in the digital age, meeting customer expectations, stakeholder demands and delivering growth whilst integrating sustainability into the way we do business.



Vertical integration

We design, retail, manufacture, deliver and carry out after-sales servicing.

We have a network of showrooms across the UK, Ireland and parts of Europe and market-leading websites so we can offer customers a seamless omnichannel experience.

We manufacture around a quarter of all Group sofas in the UK across our own five factories and wood mills. We operate our own distribution network, with more than 20 distribution centres, around 370 delivery vehicles and 600 delivery colleagues who carefully install our products into customers' homes.

Our team of 235 service managers address any after-sales issues and deliver high levels of customer satisfaction.

UK factories

5

Portfolio of complementary brands

We operate three separate brands: DFS, Sofology and Dwell.

Our brands are complementary – they appeal to different customer segments and allow us to target the majority of the market and deliver organic market share growth.

Each brand curates their own ranges, supported by specialist in-house design teams.

Creative direction is managed by each brand team who operate independently from their own head offices.

UK showrooms nationwide

196

Well invested omnichannel platform with unrivalled scale

We invest in our business for the long term.

With a 34% market share across the Group, we are over three times the size of our nearest direct competitor.

We continue to invest in technology to improve our websites and enhance our range of online services, including augmented reality visualisation tools and live "in-store" communications.

All our brands have a national network of well-invested showrooms with highly motivated and well-trained sales colleagues. With the launch of The Sofa Delivery Co., we're developing a fully integrated Group-wide supply chain platform and delivering a range of efficiencies.

Group market share

34%

> “The way our people responded to this crisis was nothing short of exemplary, and I cannot thank them enough for their spirit, engagement and hard work.”

Tim Stacey, CEO

Our people

We would not be the market leader without our 5,000+ talented and enthusiastic colleagues.

We continue to be rated one of the best companies to work for in the UK with consistently high levels of employee engagement.

Our award-winning apprenticeship schemes support individuals to become highly skilled in specialist occupations and develop long-term careers with the Group.

Group colleagues

5,372

SofaRescue at sofology

Clearabee

Partnered with waste recycling experts Clearabee

Our new Environmental, Social and Governance (ESG) strategy launches in the current year.

Building on current initiatives such as our Sofa Rescue partnership with Clearabee and PlanTree reforestation initiative, our new strategy incorporates specific multi-year targets for our brands across key areas of the business including sourcing, packaging, recycling, energy efficiency, gender diversity and flexible working.

Furniture pieces diverted from landfill

>33,000

Our brands

We are the leading sofa retailing group in the UK – we operate across three brands, each appealing to different customer segments.

Joules Ashwicke

- DFS is the leading retailer of sofas in the UK with over 50 years' heritage
- Headquartered in Doncaster it operates 117 showrooms in the UK and Republic of Ireland, eight across Spain and the Netherlands and a leading web platform
- The brand is promotionally led with broad reaching advertising campaigns that drive brand recall and focus on comfort and value for money
- Its customers tend to have average national income and a high proportion are young families
- As one of the UK's most visible retail brands, DFS is often an anchor tenant driving significant footfall to destination retail parks
- DFS is the most commonly searched term online in the sector, ahead of even "sofa", and its website received an average of 1.9m unique visitors each month in the 12 months to June 2020
- Sofa orders are fulfilled on a made to order basis

In addition to DFS's own brand products, it also offers a wide range of exclusive brands created in collaboration with the UK's top home and lifestyle brands.

Revenue

FY20 £535.2m

FY19 (52 weeks pro-forma) £721.7m

FY19 (48 weeks) £650.6m

Number of showrooms

125

FY19 125

sofology®

- Sofology is the third largest retailer of sofas in the UK
- Headquartered near Warrington it trades through its growing national footprint of 45 showrooms and its website
- Its marketing approach focuses on emphasising product design and quality
- The use of well known celebrities in its TV and digital adverts has helped build its brand awareness and distinctiveness
- The brand appeals to a slightly more affluent than average customer
- Utilises a strong omni-channel model that enables the customer to start building a basket in showroom for completion there and then or once they are back at home
- Its products are made to order

Islington

Revenue[2]

FY20		£143.7m
FY19	(52 weeks pro-forma)	£205.9m
FY19	(48 weeks)	£187.7m

Number of showrooms

45

FY19 42

dwell

- Dwell sells stylish, modern furniture, lighting and home accessories
- Dwell's products are on display in 39 DFS showrooms as well as on its own standalone website
- Its customers tend to be affluent and slightly older families in the 35-55 age range
- In contrast to the rest of the Group, Dwell operates a stocked model from its Milton Keynes national distribution centre allowing for short customer lead times

Bergen

Tabula

Financial and operational resilience in a challenging year

Ian Durant
Non-Executive Chair

2020 highlights

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

Overview

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

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

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

Strategy progress

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

Financial results

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

Covid-19 pandemic closedown

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

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

Re-establishing our operations

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

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

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

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

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

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

Our purpose, our values and our people

The Group, which is the outright market leader in its sector in the UK, has a distinctive culture. There is a great sense of pride, commitment, and a "can-do" attitude amongst the people that work across the business. Our purpose, built on our values, is to bring great design and comfort into every living room, in an affordable, responsible, and sustainable manner.

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

Environmental, Social and Governance ("ESG")

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

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

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

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

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

The Board

In September 2019, Alison Hutchinson succeeded Luke Mayhew as Senior Independent Director, prior to his retirement from the Board at the AGM in November. In January, Steve Johnson succeeded Alison as Chair of the Remuneration Committee. In January 2020 we welcomed Jane Bednall to the Board as a Non-Executive Director. Jane has subsequently taken on the role as our designated Non-Executive Director as we look to further strengthen the Board's understanding of employee views.

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

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

Dividend

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

Looking ahead

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

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

Ian Durant
Chair of the Board
24 September 2020

Our strategy, to lead sofa retailing in the digital age, is more relevant than ever.

Tim Stacey
Chief Executive Officer

2020 highlights

- Loss before tax of £81.2m as a direct result of business suspension during lockdown
- Comprehensive response to Covid-19, protecting colleagues, customers and the business
- Acceleration of growth strategy focused on DFS and Sofology
- Good progress on cost efficiency
- Development of our ESG strategy, which is embedded in our business
- Very strong demand since reopening

Overview

The decision to close our business down for the first time in 50 years on 23 March 2020, based on the Government guidance, was momentous but clearly necessary. We moved swiftly to protect colleagues and customers by temporarily closing all showrooms, manufacturing and distribution operations.

The way our people responded to this crisis was nothing short of exemplary, and I cannot thank them enough for their spirit, engagement and hard work throughout lockdown, ingredients that enabled us to come through the crisis. We also really appreciated the support we received from our key stakeholders, including our shareholders, our banking partners, our suppliers and our landlords. With their collective support, and the actions we have taken, I am very confident that the Group has emerged even stronger from this unprecedented period.

Re-opening the business safely has been a huge undertaking and we have put colleague and customer safety first. The careful re-opening through late May and June, together with the disruption through lockdown itself, has clearly impacted the financial performance in the year with revenue for the 52 weeks to 28 June 2020 declining by £271.7m to £724.5m compared to the 52 week unaudited pro forma prior year period.

This reported performance is based on the fact that the Group recognises revenues at the point of delivery of orders to customers, and consequently second half financial performance was particularly adversely affected. The Group traded very well online, but government lockdown restrictions from 23 March severely restricted customer deliveries for much of the remaining period.

Underlying loss before tax excluding brand amortisation[1] for the year on a pre-IFRS 16 basis was £56.8m compared to a profit of £50.2m in the comparative period. We ended the year with net debt on a pre-IFRS 16 basis[1] of £169.2m (2019: £176.3m), after raising £63.9m from shareholders as part of our measures to build financial resilience in response to the pandemic.

Since the year end, net debt has reduced significantly, due to a combination of the resumption of customer deliveries and very strong order intake, which has exceeded our expectations in the first few months of the new financial year. We have reviewed extensive external and internal data and we believe that the current level of performance is due to a combination of latent demand post lockdown, a shift of consumer behaviour towards spending on "home", the relative strength of our omni-channel offer and competitor market exits.

Based on data from Global Retail the upholstery market was relatively flat for three years from the start of 2017 to the end of 2019, driven by low consumer confidence and a subdued housing market caused by political uncertainty and relative macro economic weakness. There appeared to be some green shoots in the market after the December General election, pre-lockdown, as conversion and Average Order Value improved post Boxing Day, although footfall and web visitors remained fairly depressed.

Post-lockdown there appears to be a shift upwards in the market cycle, but it is only a few months of trading, and macro economic storm clouds are gathering, together with the next phase of Brexit and the threat of further disruption from Covid-19. Indeed, the current out-performance could be "pull forward" from the autumn as consumers fear a second wave of the virus. It is therefore impossible to call as to how sustainable this trend might be, and as such, to predict the future from the autumn onwards would be speculative at best. That said, given the start to the new financial year and the relative strength of our proposition, we are well positioned to take advantage if the current trends continue and we can also cope with potential further disruption.

1. Refer to pages 158 to 160 for APM definitions

“I am so proud of, and grateful to, every single one of our colleagues and stakeholders for the way in which we managed through the lockdown.”

Prior to the arrival of Covid-19, we were making good progress on our strategic initiatives, despite the continued challenges from the relatively flat market. During lockdown we reflected on our progress, given the acceleration in consumer behaviour towards online shopping, and the underlying strengths of our well-invested omnichannel platform and unrivalled industry scale.

As I outline below, since the year end, we have taken further actions to reinforce the structure of the Group and we will continue to invest in core assets and key initiatives which support our long-term strategy and deliver improved shareholder returns.

Managing the Covid-19 pandemic

Our company values, allied to our rigorous risk management framework, helped shape our response to the Covid-19 pandemic. From January, Covid-19 evolved rapidly from a predominantly regional concern, disrupting our Chinese imports, to an international crisis affecting many elements of daily life, including every aspect of our own Group activities.

As the pandemic spread into the UK, our first actions were to prioritise the health and safety of our colleagues and customers. On 23 March, we closed all our showrooms, manufacturing and distribution operations in the UK, Republic of Ireland and Spain and immediately suspended all customer deliveries, with health concerns paramount. Despite severe restrictions on physical operations, we continued to support close to 5,000 furloughed colleagues at a time of growing financial uncertainty, fully protecting salaries in April and maintaining salaries at 80% of full pay until colleagues returned to work, in excess of Government salary caps. In solidarity with our teams on furlough, all our Group’s senior leadership, including our Board Directors and senior executives, agreed an equivalent salary reduction.

We also amended our sick pay policy to take account of Covid-19 risks and the salaries of the Group’s senior executives and Non-Executive directors were reduced while operations were suspended. We also provided valuable well-being support to employees via numerous avenues including our employee assistance helpline and The DFS Living Well Workplace platform. Government restrictions on our business began to be eased from the end of May, and our own operations resumed once we were confident that we had the correct measures in place to protect our colleagues and customers.

Safety concerns addressed, aided by our Group-wide Google technology infrastructure to facilitate remote team-working, we were able to enact recently updated business continuity procedures in order to protect the health of the business. We undertook a thorough financial review, significantly reducing expenditure, deferring new store openings and utilising the UK government’s business rates holiday and the Coronavirus Job Retention Scheme to manage costs and cash.

In relation to key external stakeholders, we aimed to act with integrity in relation to our suppliers and landlords. Recognising their existential challenges, we prioritised payments to smaller, key long-standing suppliers. We acknowledge the support of our strongest landlords and suppliers in allowing us to secure temporary improvements to our payment schedules.

Our investors also deserve recognition for their support during the pandemic. With cash flows temporarily constrained as lockdown restrictions prevented us from delivering our growing customer order bank, we were able to secure a temporary £70m extension to our banking facilities. Our largest shareholders also participated in a £63.9m share placing which was also supported by our Board members. As dividend payments have been suspended to help manage the financial impact of the pandemic, we acknowledge our shareholders’ support and will aim to recommence payments once the macroeconomic outlook is more certain.

At a time of unprecedented challenge, I have greatly admired how our various stakeholders and management teams have been able to work calmly together, allowing us to operate safely and preserve the long term value of the Group. The power of strong relationships is something that we value highly as a Group.

Review of strategic progress

The far-reaching consequences of the pandemic underline more than ever the importance of fully embracing digital channels as online penetration accelerates across the retail sector. In the upholstery market we believe that it is the combination of digital and the physical aspects of our showrooms that will continue to be successful . We know from our research that 90% of sofa buying decisions are made in the showrooms after the all important “sit test” as “comfort” is the number one reason why customers choose to buy a sofa or not. Showrooms are therefore at the centre of our business model and as such we believe that the Group is well placed if consumers reprioritise the home within their lifestyles and spending patterns.

Our strategy, to lead sofa retailing in the digital age, aims to generate, as previously announced, £40m of incremental profit before tax relative to FY18 and excluding the impact of normal market growth/decline, by focusing on three core pillars: (i) to drive the DFS core brand, (ii) to build group platforms to maximise efficiency, and (iii) to unlock new profitable channels of growth.

Drive the DFS core

The DFS brand is the largest and most profitable in the Group and the key priority of our strategy is to focus on driving this brand across all channels. We continue to invest in our infrastructure in order to further improve our omnichannel customer journey.

With a strong online offer and well-invested showrooms, DFS is well positioned to compete across all channels. Prior to the Covid-19 pandemic, our recent market research showed that 85% of customers began their sofa buying research online, with around 90% of customers subsequently visiting a showroom to conduct a “sit-test” before completing their purchase. As such we believe that the combination of digital and physical showrooms is the right business model for the upholstery sector.

We were pleased, however, to see that we could trade well online, even without the benefit of showrooms during the lockdown period. This performance underlines the strength of the DFS brand and our online proposition, as well as our reputation for supplying good value products.

Our showrooms performed strongly as they reopened in the final weeks of the financial year. This trend has continued into the current financial year, together with high levels of growth through our online channels. Our online penetration of total orders is up 3ppts to 22% over the last six months.

A greater proportion of our advertising expenditure was spent on digital marketing as we worked with Facebook, Instagram and Pinterest to develop increasingly targeted customer campaigns. We also improved our on site search capabilities, being the first sofa retailer in the UK to introduce “visual search”. This functionality enables customers to take photos of any sofa they see in any setting and then compare that to our extensive ranges.

In the first half of the year, we re-platformed the DFS website onto Google Cloud, enabling improved functionality, a faster user experience and far greater user capacity. Furthermore, having been the first sofa retailer to launch augmented reality on an iPhone mobile browser, enabling a customer to view a sofa in their own

Chief Executive's report continued

home, we've launched a second generation service with a new software partner and have been increasing the number of ranges available on this service. These initiatives have had a positive impact, particularly when showrooms were closed during the lockdown period.

We continued to invest in our showrooms in the year, equipping our sales colleagues across the showroom estate with 1,200 new Google Chrome tablets. The tablets enable rapid access to key information in a convenient and secure way, utilising customer data from their online account with us to direct them to the products they've been browsing and similar products that may match their requirements. Working with our artificial intelligence partner, Satalia, we developed a model to predict footfall, based on local market trends, weather, promotional campaigns to ensure we can act at short notice to optimise our sales team scheduling to meet demand.

We continue to track customer satisfaction by monitoring Net Promoter Scores (NPS) at various stages of the customer journey. Our post purchase NPS score for the DFS brand was 85.7% (FY19 84.2%). Our established customer satisfaction score improved significantly to 42.9% (FY19 33.0%). This increase was driven by a combination of better digital communication with customers post purchase, improved product quality and new digital tools enabling customers to book their own delivery and access customer service and help.

We're using our data more efficiently to deliver timely insights into consumer trends and drive more effective product development. We continue to see above average sales growth from our licensed sofa brands including French Connection, House Beautiful, Country Living and Joules, with successful new model introductions driving sales as they roll out across the DFS store estate.

Towards the end of the financial year, we also introduced the DFS Chair Edit – a series of new colourful accent chairs that complement existing sofa product ranges and allow customers to indulge their own design talents and create a coordinated living room look. In the current year, we have recently launched new ranges targeting busy families and to attract additional style-focused customers with our exclusive Halo Luxe partnership, which showcases the very best leather products.

We are making great progress in modernising and driving the DFS core business and this remains the key priority of our strategy. We look forward to continuing our investment, particularly in digital capability, as the year progresses, as we look to strengthen DFS's market-leading position.

Build the platforms

This strategic pillar focuses on Group-wide benefits from utilising existing infrastructure and scaling systems, processes and data. As a market-leading, vertically-integrated business, we are targeting significant efficiency gains from our property, logistics, marketing and manufacturing activities.

We continue to make good progress securing property savings, through a combination of rent reductions on leases approaching renewal and downsizing some showrooms. Last year we secured a further £1.4m of annualised savings, bringing the total annualised saving since the program began to £4.3m. We are confident of achieving the £6-8m targeted annual savings by FY23 as previously communicated. In order to secure the maximum value benefit over the longer term, we only commit to new leases where appropriate terms are available, reflecting the rental market trend and the Group's strength as an anchor tenant on many retail parks. We are also well placed to strengthen our portfolio during a period of market disruption affecting our competitors.

We continue to seek efficiencies from our Customer Distribution Centre (CDC) network, with some of our CDCs now delivering multiple Group brands after a successful trial. In the year, we relocated our Belfast CDC from our retail site into a new standalone location, repurposing the space to house more of our brands with minimal incremental rent. Our relocated Belfast CDC now delivers more of our brands' products to customers' homes on the same vehicles under our 'The Sofa Delivery Co' branded group delivery network. This network will enable us to provide better and more consistent service to our customers at a lower cost to the Group by: increasing utilisation of our delivery fleet and reducing carbon emissions; reducing CDC operating costs; and leveraging DFS's proprietary routing and scheduling optimisation software. We have the opportunity to transition all the Group's sofa delivery operations to this model by the end of Financial Year 2022 with annualised savings of £3m+.

To improve customer experience, we have trialled seven days a week and later evening delivery slots in our Glasgow CDC. As well as providing greater customer convenience, the change in shift patterns has also generated positive feedback from our colleagues in relation to work life balance and rest periods. We are considering extending this trial to all CDCs over the next 24 months.

We target continuous incremental improvements in our customer facing technology platforms. In the year, we enabled DFS customers to book their delivery and installation slots online. Around fifty percent of our customers now use this online functionality resulting in both higher NPS scores and increased efficiency. Customers can also now track where their delivery vehicle is, in real-time, on the day of delivery.

Marketing has been a traditional DFS strength and a major area of investment for the group. However, we believe we can drive significant efficiencies by using increasingly granular data-led analysis, particularly in relation to our digital marketing investment. With the support of our expert partners, we have identified optimum amounts of investment by brand for the current financial year, which will be regularly reviewed to reflect prevailing market conditions.

Going forward we are reviewing our own manufacturing capacity and capability given our growth plans for both DFS, Sofology and Dwell, the clear margin benefits of vertical integration and the potential for increased control of end to end supply chain.

We recognise that world class retail businesses are moving to become more platform-based in order to enable future profitability and extract cost efficiencies. We are making good progress on our platforms and intend to deliver all of the cost savings identified by Financial Year 2023.

Unlock new growth

The third pillar of our strategy is 'unlock new growth' which targets profitable growth from our other brands. Most recently this was reflected in the acquisition of Sofology in 2017 for £25m, following on from opportunistic acquisitions of Dwell and Sofa Workshop in 2013 and organic expansion in the Netherlands and Spain .

Recent operational challenges, weaker results and the uncertain retail outlook, have led us to review our Group structure and re-assess the prospects of certain smaller Group businesses. As we recover from the pandemic, we believe that it is important that the Group retains the financial resilience to weather a period of economic uncertainty, and that the investment in individual brands matches future returns prospects. With a leaner, simplified structure, we believe the Group will be best placed to maintain its leading market position, while taking advantage of the significant Sofology profit growth opportunity.

Sofology

We plan to accelerate the development of Sofology, and see significant scope to expand the number of showrooms in the UK, driving further economies of scale. We were encouraged by the performance of Sofology during the year, particularly the online channels during the lockdown period and as showrooms re-opened towards the end of the financial year.

Sofology continues to lead the sector with its seamless omnichannel journey, and made further progress in this area in the last financial year. Recent developments include website enhancements such as a 'go-in-store' capability, whereby a customer browsing online can be connected to a colleague in a showroom via video, see the product live and have any questions answered, and the introduction of a 'sofa sizer', enabling a customer to enter the maximum height, width and depth of a sofa with the range immediately refined and presented to the customer. These initiatives have helped contribute to improved web and showroom conversion throughout the year.

We have developed significant new product ranges and refreshed the existing offer through the addition of new coverings. These new collections have been successful in driving improved Average Order Values and gross margins, and as such are driving strong sales and margin growth year on year post lockdown.

Sofology's NPS continues to benefit from investment in product quality and after sales service. Colleague engagement scores have also continued to improve and attrition has reduced significantly.

Sofology opened three new showrooms in the period including its first store in Northern Ireland. Despite disruption due to lockdown measures, we remain encouraged by the new store performance.

We continue to see the opportunity to grow the Sofology brand to 65-70 outlets in the medium term. In the current year, taking advantage of favourable lease terms, we are seeking to accelerate the showroom opening programme and plan to open 6-10 new showrooms in the next twelve months.

Sofa Workshop and Dwell

The disappointing performance by Sofa Workshop we outlined in our interim results deteriorated further in the second half. Following our strategic review, we decided to sell Sofa Workshop and the transaction was finalised and announced in August.

In a competitive homewares market, Dwell also reported a decline in sales and brand contribution during the year. We have restructured the Dwell operating model to enable its wide range of attractive products to be sold more seamlessly to DFS customers, as well as online. We believe that Dwell has a complimentary proposition to our sofa brands and is now set up to deliver profitable growth going forward.

International

Prior to lockdown, the performance of our six Netherlands showrooms was in line with expectations and we expect to conclude our review on growth options for this business in 2021. Our two Spanish showrooms continue to perform well despite potential uncertainty from the Brexit, which may have some effect in the areas they are located.

People, purpose and values

FY20 placed significant demands on our Group colleagues, including managing uncertainties around the government furlough programme, or working extended hours from home alongside domestic pressures and perhaps coping with anxiety around Covid-19. Using a variety of means, we have aimed to support our colleagues from a financial and wellbeing perspective as much as possible during this period. I genuinely appreciate all our colleagues for their efforts in the year.

Despite the growing importance of digital technology, retailing remains very much a 'people' business, and the industry remains the UK's largest private sector employer. I am proud to lead a Group with more than 5,000 passionate and dedicated colleagues. As a vertically-integrated omnichannel business, with a strong 'family' ethos, the Group offers a wide range of career opportunities across our manufacturing, retailing, distribution and support functions. We also provide a range of career development opportunities, from our award-winning apprenticeship programme to leadership skills workshops.

We continue to receive external recognition for our employment engagement, gaining a Best Companies™ accreditation for a fifth consecutive year, with colleagues highlighting positive manager relationships and an enjoyable team working environment as key attractions of the Group. We continue to benefit from colleagues' loyalty, with almost 40% of colleagues having more than five years' service with the Group.

As a successful UK-based company and the market leader in our sector, we also believe that, in addition to delivering long-term value for shareholders, we have a responsibility to contribute to the success of wider society and to be aware of our impact on the environment. To this end, we have spent time reflecting on our company purpose throughout the year:

Our Group purpose is to bring great design and comfort into every living room, in an affordable, responsible, and sustainable manner. Our customers and our people are at the heart of everything we do, reflected in our three core values of 'Think Customer', 'Be Real' and 'Aim High'. These values are firmly ingrained across the Group and are central to our strategy and our purpose.

Environmental, Social and Governance (ESG)

Reflecting our purpose and values, we are committed to acting in a responsible and sustainable manner into the long-term. Our Group-wide ESG initiative is led by Sofology CEO Sally Hopson and supported by Alison Hutchinson as Board sponsor. In the last twelve months, we have intensified our efforts in this critical area, and have developed a new ESG Strategy that will be announced alongside our preliminary results. The Strategy will detail specific multi-year targets for our brands across key areas of the business including sourcing, packaging, recycling, energy efficiency, gender diversity and flexible working. We intend to turn ESG leadership into a sustainable source of competitive advantage for the Group. Further details of our ESG Strategy can be found on page 48 of this Annual report.

Impact of the UK's exit process from the EU

In my 2019 CEO's report, I reported in detail on our work on the potential impact of the UK's departure from the European Union. Our preparations have continued, overseen by the Group Risk Team reporting to the Audit Committee. The UK is currently in a transition period until the end of 2020 while trade negotiations take place regarding the nature of the future relationship with the EU. The level of change required as part of any trade deal is unclear as yet. We have established a cross brand Working Group prioritising actions to address the "known knowns" surrounding the EU departure process. With governments prioritising the Covid-19 response, it is currently unclear whether the transition period will be extended and, on balance therefore, the risks of a 'no deal' departure have increased. We provide more detail on Brexit in our Risks & Uncertainties analysis on page 35.

As indicated in last year's report, the two principal risks to the Group from the EU departure remain consumer confidence related impacts on consumer demand, and border delays. As a result of the Covid-19 pandemic, consumer confidence is already low. We will continue our preparations to minimise the disruption as part of our risk management process, until the UK and EU's path forward is clear.

Outlook

While the reported decline in profit is undoubtedly disappointing in headline financial terms, a significant proportion of this profit has already been recovered in the current year as we resumed customer deliveries. We have also continued to make progress with our strategic agenda, strengthened our stakeholder relationships and worked hard to preserve the value of the Group.

The current year has started very strongly with all showrooms now open and our digital channels continuing to grow. Our year-on-year order intake growth over the last twelve weeks, combined with our previously announced higher opening order book, implies c.£226m of additional revenues will be realised in this financial year. We believe that this growth is due to a combination of pent up demand from lockdown, consumers spending relatively more on their homes and the strength of the DFS and Sofology propositions in particular.

In the absence of further lockdown impacts, we therefore look forward to reporting a strong first half sales and profit performance, although the full year outcome will be dependent on the effects of the pandemic and Brexit on consumer confidence, the housing market and levels of employment. Cash generation will continue to be a priority as we look to rebuild our financial resilience.

We remain focused on executing our strategy, with agility and pace, and believe that the Group is well placed to further strengthen our market-leading position in the medium term. The events of the past year have allowed us to build an even stronger sense of togetherness. We emerge from the crisis stronger and with renewed energy and purpose.

Tim Stacey
Chief Executive Officer
24 September 2020

Working together

At a time of unprecedented challenge, our various stakeholders and management teams have been working closely together, allowing us to operate safely and preserve the long term value of the Group. Our Group 'family' values of Think Customer, Be Real, and Aim High have helped shape our response to the Covid-19 pandemic.

1. Employees

As the pandemic spread into the UK and our European markets, we acted fast to protect the health of our colleagues and customers by closing showrooms, factories and suspending customer deliveries, only resuming operations after detailed safety checks. We've provided financial support beyond government caps for furloughed colleagues, updated our sick pay policy and offered extensive wellbeing support across phone helplines, our Living Well platform and informal team get-togethers.

2. Customers

We've introduced appointment booking slots, social distancing in the stores and ensured that our delivery teams are equipped with all the right PPE. We're now trialling 'go in store' video calls with local showroom teams so customers can consult advisors from the comfort of their own homes.

3. Suppliers & landlords

Despite the financial pressures of the pandemic, we've aimed to treat suppliers and landlords fairly, supporting our smaller, long-standing suppliers during the peak of the crisis. In turn, we also recognise the support of our strongest suppliers and landlords who granted us improvements to our payment schedules.

4. Investors

We appreciate our investors for their support during the pandemic. As lockdown restrictions prevented us from making deliveries to customers, our banks and shareholders provided us with temporary additional financial resources so we could continue trading online and investing for the future despite Covid-19 disruption.

5. Community

The Group and our employees support a range of charities and volunteer to help the community throughout the year. During the peak of the pandemic, we provided over £100,000 of sofas and sofa beds to NHS hospitals between April and June and donated £300,000 of products to Children in Need for families impacted by Covid-19. Our factories also supported the 'Love of Scrubs' campaign, with volunteers in the factories cutting 7,300 sets of scrubs to be sewn by the Love of Scrubs Group.

Protection

Employees have been issued with the appropriate protective equipment and given clear instructions as to how to perform their roles safely in the current environment.

Online support

We've kept in touch with our colleagues via our Facebook Workplace platform which also hosted live-streamed "Town Hall" management presentations.

Business continuity

Recently upgraded business continuity plans ensured we could act swiftly when the pandemic struck, switching seamlessly to remote working via Google's G-Suite.

Supporting NHS key workers

We donated over £100,000 of sofas and sofa beds to 50 NHS hospitals between April and June 2020.

Volunteering

Our volunteering initiative, Giving Back at DFS, launched just before the Covid-19 lockdown. This initiative commits us to supporting colleagues with their own volunteering initiatives and donating up to 1% of profits and up to 1% of product volumes to deserving causes.

Shareholders

We were able to count on our largest shareholders to back a £63.9m share placing which was also supported by our Board members.

Suppliers and landlords

We've worked collaboratively with our suppliers during the crisis, prioritising payments to smaller long-standing suppliers whilst benefiting from the support of our largest suppliers and landlords.

> **"Thank you so much again. Gestures like this, and a comfortable sofa to sit on during breaks will certainly boost morale with my colleagues."**
>
> Dr. Emily Gott,
> Prince Charles Hospital,
> Merthyr Tydfil,
> South Wales

We are the leading sofa retailer in the digital age

The upholstered furniture market is large and still fragmented despite ongoing market share gain and consolidation by leading players.

Market opportunity

Large potential customer base

The DFS Group has a specialist focus on the retail upholstered furniture segment. The UK upholstery furniture market was estimated by GlobalData to be valued at £3.2 billion (incl. VAT) in 2019. We also offer a selected range of beds, dining and other furniture and home accessories giving access to other segments in the UK furniture market.

Clear leader in the segment

The DFS Group, through its DFS, Sofology and Dwell brands, is the clear leader in the upholstery furniture market with 34% share by value. We see three broad categories of companies actively competing in the upholstery furniture retail market: Specialist Chains such as DFS, Sofology, ScS and Furniture Village; Independents that are typically single store operations; and General Merchandisers such as Ikea, John Lewis, Next, Argos, Debenhams and all other retailers including DIY chains and supermarkets. Historically the Group has tended to gain market share during periods of market weakness as weaker multiples and independent chains have exited the market. For example, the Group's market share increased from c.18% to 26% during the 2007-2014 period (GlobalData).

Steady growth over long-term periods

Since 2010, the UK upholstered furniture segment of the furniture market has achieved modest compound annual growth despite political uncertainty following the 2016 vote to leave the EU and subdued housing market activity. Demand is supported by a seven year replacement cycle and underpinned by demographic trends.

We believe over shorter time frames the segment is principally driven by three key factors: consumer confidence, housing market activity and consumer credit availability.

In addition to these market drivers we do see from time to time some material volatility in market demand levels caused by particularly hot or cold weather and significant public events.

UK upholstery furniture market

£3.2bn

Group market share

34%

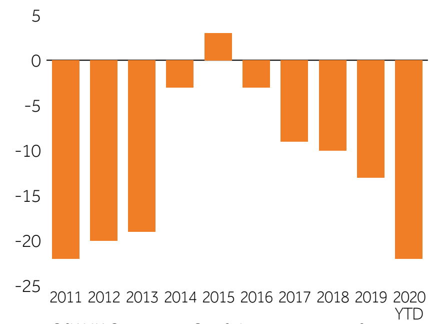
Blenheim

Market conditions are currently challenging, with consumers managing uncertainty due to Brexit and Covid-19.

Key market drivers

Consumer confidence
Levels of consumer spending, particularly for big ticket items, are influenced by general consumer confidence. UK consumer confidence has weakened since 2016 amid uncertainty following the referendum vote to leave the EU. Consumer confidence appeared to improve slightly following the UK General Election in December 2019, only to fall to near record levels as lockdown measures were introduced to manage the spread of Covid-19.

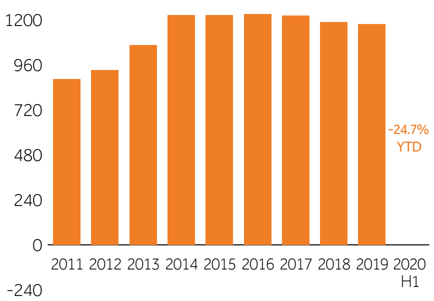
Consumer confidence[1]



1. GfK UK Consumer Confidence average of individual scores for each year.

Housing market
Independent research conducted on our behalf suggests that c.20% of upholstery purchases are triggered by a house move. Housing market transactions have been subdued since 2015, reflecting a combination of macroeconomic and political factors as well as a weaker environment for buy-to-let transactions. In 2020, Government social distancing measures led to a sharp contraction in housing market activity in the spring but which has shown signs of stabilisation during the summer.

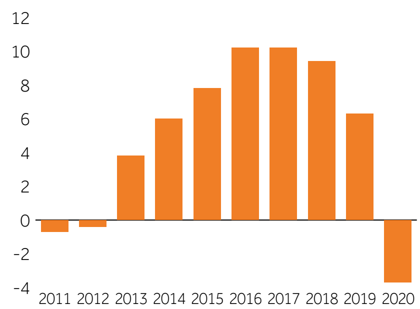
Housing transactions p.a. ('000s[2])



2. HMRC – number of residential property transaction completions with a value over £40,000 for the UK, seasonally adjusted.

Consumer credit
Upholstered furniture typically has relatively high unit prices and thus the availability of consumer credit can facilitate purchases and upselling. Consumer uncertainty has reduced demand for credit since 2016. In the current year, with discretionary spending options restricted, demand for consumer credit fell sharply during the Covid-19 lockdown period. Employment uncertainty may reduce credit demand for the year as a whole.

Net unsecured lending growth[3] (%)



3. Monthly 12 month growth rate of total (excluding the Student Loans Company) sterling net consumer credit lending to individuals (in percent) seasonally adjusted.

The customer is at the heart of our Group journey

3. Quality manufacturing

We are one of the largest manufacturers of upholstered furniture in the UK. Our three finished goods and two sub-component factories each benefit from a highly skilled workforce who collectively produce around a quarter of all the furniture we sell.

UK factories

5

French Connection Studio

2. Omnichannel retail

The combination of our well invested websites, national showroom networks and call centres which are staffed by well trained and highly motivated sales teams provide a market-leading omnichannel experience to our customers. Collectively across all our brands we have styles and price points that appeal to the majority of the market and we make our products more affordable through offering interest free credit.

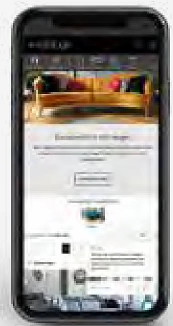
Group showrooms

209

1. Design and inspire

90% of customers research online

Through our innovative in-house design teams and with our buying expertise we remain at the forefront of home furnishing trends with each of our brands offering a distinct curated range. We inspire consumers to consider a purchase through memorable advertising, inspirational web content and more recently through the use of augmented reality technology to visualise our sofas in their homes.



UK-based design studios

2

4. Service

Aftercare is provided by highly skilled teams with the majority of after-sales issues being addressed in customers' homes by our own colleagues.

5. Innovative delivery options

Through our own network of customer delivery centres and our own delivery fleet we carefully deliver our products to customers' homes and provide a comprehensive installation service.

Joules Patterdale

How we create value...

Our enablers

Customer ethos
'Think Customer' is our first value. By treating customers as we would our own family, we aim to deliver great service.

Unparalleled scale
We have a UK Group market share of c.34%, over three times that of our nearest competitor.

Complementary brands
Our complementary brands appeal to different customer segments.

Well-invested platform
Modern, well-located showrooms and innovative apps and websites give customers the convenience to shop exactly how they want. Our own warehouses and delivery fleet use state-of-the-art software to help us operate efficiently.

Made-to-order products
The majority of the products we sell are made-to-order enabling us to operate with negative working capital.

Vertically integrated model
We have end-to-end control of the customer journey from design all the way through to after-sales servicing.

Exceptional people
We have over 50 years of expertise and recruit, train and retain what we believe are the highest calibre people in the industry.

What we do

Design and inspire
Our design teams and experienced buyers curate attractive and distinct propositions across our unique brands that appeal to most tastes. Our marketing aims to reach our target markets across all broadcast and digital media, inspiring customers to consider a purchase.

Retail
Our websites and showrooms nationwide combine to create an increasingly seamless customer experience, allowing customers the opportunity to visualise, sit on and feel the product, while researching and then transacting in store, at home or on the move.

Manufacture
We manufacture around a quarter of the Group's sofa orders in our own British factories, resulting in shorter lead times and superior quality control.

Deliver and install
Our delivery network operates from customer distribution centres spread across the UK and Ireland using custom-built route-mapping technology to reduce lead times and optimise efficiency.

Service
Sometimes things go wrong and, if they do, we have our own teams of upholsterers that are on hand to visit customers in their homes and address any after-sales issues.

Purpose
To bring great design and comfort into every living room, in an affordable, responsible and sustainable manner. For over 50 years, we have provided millions of sofas into homes across the UK, the Republic of Ireland, Spain and the Netherlands.

See page 1 for more information

Values
Our customers and our people are at the heart of everything we do, reflected in our three core values:
- 'Think Customer'
- 'Be Real'
- 'Aim High'

See page 2 for more information

How we deliver value...

Outcomes

Sustain sector-leading operating margins

Scale advantages across the value chain, from sourcing and shipping rates to maximising delivery and service fleet utilisation.

Grow our market share

We have a history of growing our market share over the long-term in all economic climates. Our exclusive brands enable us to target the majority of the market and we have a clear opportunity to grow further.

Maintain strong cash generation

We aim to deliver consistent free cash flow generation enabling us to both invest for growth and return funds to shareholders.

Continue to invest in business

We reward our staff fairly, maintain and enhance our existing assets and selectively invest in growth opportunities to optimise the returns for our shareholders.

Value for stakeholders

Customers

85.7%
post purchase NPS

Employees

39%
employees > five years' service

Suppliers

40%
customer orders from British factories[1]

Shareholders

£135m
cash distributed since flotation

Community

£28m
raised for charitable causes through partnerships with the British Heart Foundation and Children in Need customer donations and fundraising initiatives

1. Includes third party manufacturing and internal manufacturing

Strategy

Leading sofa retailing in the digital age through three inter-related strategic pillars:

1. Drive DFS core
2. Build the platforms
3. Unlock new growth

See pages 24-31 for more information

Governance

Robust corporate governance framework, practices and policies to manage and deliver long-term success for the Company.

See pages 64-110 for more information

Our strategy for growth

Bewitching

Our aim is to lead sofa retailing in the digital age. We intend to strengthen our market position, lead from the front and embrace the challenges and opportunities of the digital age.

Our strategy is centred on three interrelated pillars across which we see £40m of incremental profit opportunity in the medium term spread broadly equally across the pillars.

The strategy reflects the Group's expertise, scale, retail assets and supporting infrastructure and the ability to utilise these enablers to both improve our operating efficiency and unlock the growth potential across the brand portfolio.

01

Drive DFS core

A renewed focus on driving the core DFS business across all channels

01 **Omnichannel**
Develop seamless customer journey across channels

Focus for 2020/21
- Further enhancements to seamless customer journey
- Incremental product sales opportunities via DFS website

02 **Product innovation**
Enhance our unique and differentiated product offer

Focus for 2020/21
- New 'data-driven' product launches to drive conversion, improve margin and attract new customers to the DFS brand
- Collaborate with our brand partners and roll-out new eye-catching models

03 **Customer proposition and service innovation**
New services to engage customers

Focus for 2020/21
- Evaluate 'video in store' proposition trial
- Light-touch refresh for selected showrooms

02

Build the platforms

Build platforms to enable profitable Group growth

01 **Cost efficiency and property cost reduction**
Reduce our relative cost base

Focus for 2020/21
- Flexible, strategic approach to lease negotiations – medium-term cost savings targets remain on track
- Repurposing retail space to improve productivity and customer proposition

02 **Supply chain**
Best-in-market two person sofa delivery and installation

Focus for 2020/21
- Complete Group-wide rollout of inventory management system
- Extend trials of 7-day extended hours delivery model
- Roll-out of Sofa Delivery Company into new locations

03 **Marketing investment**
Data and insight driven efficiency and effectiveness across the Group

Focus for 2020/21
- Applying data-driven econometric analysis to target significant improvements in marketing ROI

03

Unlock new growth

Unlock and deliver new profitable growth

01 **Sofology**
Develop a nationwide business

Focus for 2020/21
- Targeting 6-10 new showrooms in key locations
- Continued development of omnichannel initiatives
- Increase marketing intensity to build brand awareness

02 **Dwell**
Broaden reach through digital, wholesale and right space

Focus for 2020/21
- "Pivot" Dwell to a wholesale brand
- Disposal of Sofa Workshop (completed September 2020)

03 **International: Netherlands**
Break-even and beyond on current model

Focus for 2020/21
- Develop options for medium-term growth

01 Drive DFS core

Incremental gains from wide-ranging omnichannel initiatives

Our experience during lockdown and the subsequent careful re-opening of our showrooms highlighted that customers really value being able to shop online, in-store or a combination of both channels. This unique period presented a genuine test of recent omnichannel investment, highlighting the resilience of our digital infrastructure and the creativity of our commercial teams. In the year ahead, we're planning more initiatives across a range of areas to further enhance our customer experience.

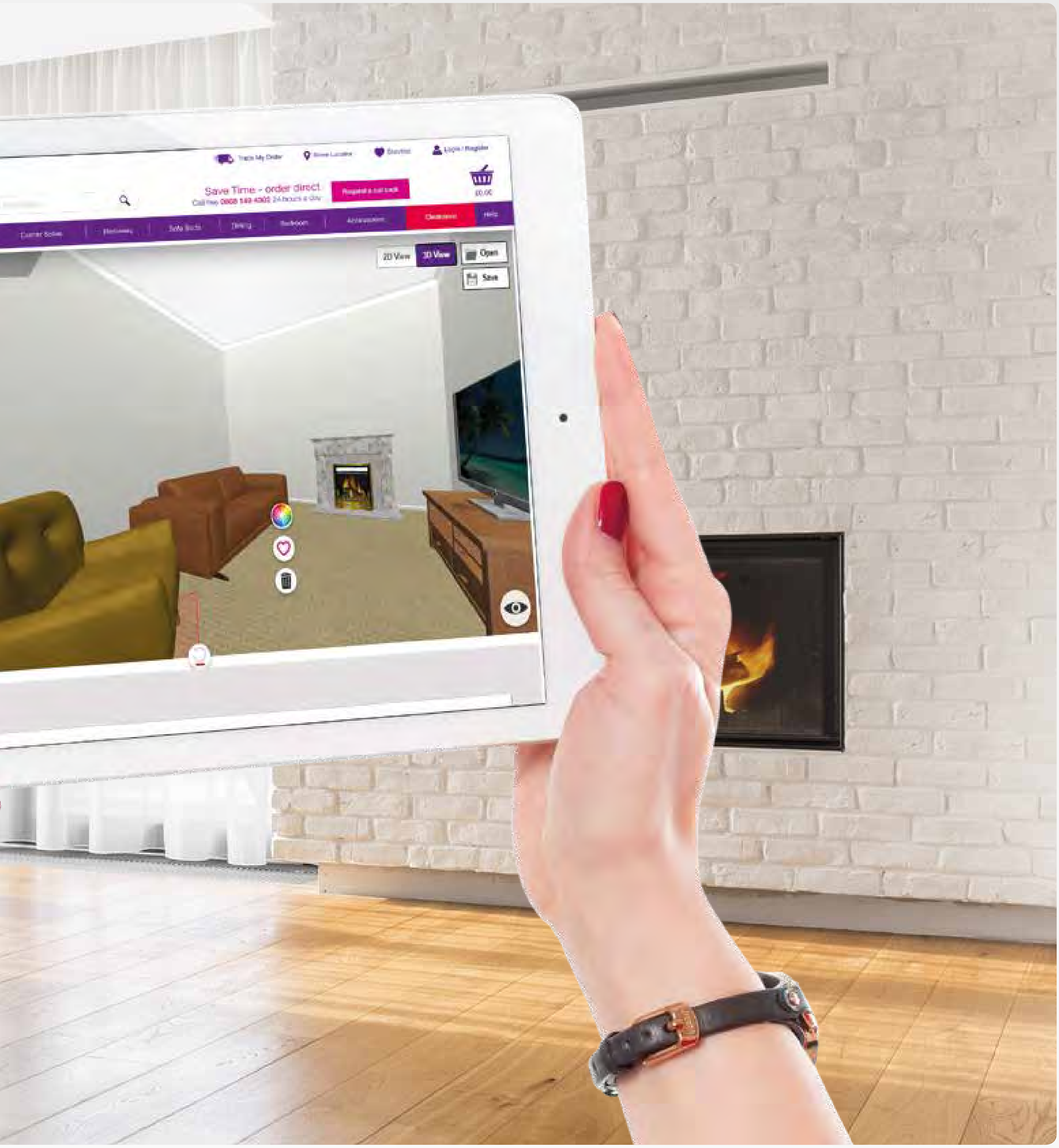
We're continuously investing in technology to improve customers' shopping experience across our showrooms and websites. With the purchasing process increasingly beginning online, customers are able to use a growing range of online tools to help them find their dream sofa, helping differentiate us from competitors. In the last year, achievements included an expansion in the number of sofas in our Augmented Reality visualisation tool database, allowing customers to use smartphones to visualise a wider range of models and colours in their own living space. The completion of our shared web-to-store customer basket allows customers to create an editable shortlist of preferred options they can take into the showroom. Combined with the launch of our appointment booking facility, customers can discuss potential purchases with well-informed colleagues at a time that suits them.

In the current year, drawing on successful learnings from Sofology, we are trialling live video-in-store communication, so customers can interact directly with local DFS colleagues before travelling to the showroom.

Product innovation also remains at the heart of DFS. We're excited about our new product launches in the year ahead, which include ranges to appeal to all of our major target customer groups, such as Halo Luxe and further exclusive brand range extensions. We're making increasing use of data and customer insight to improve our product ranges, and drive sales of our exclusive branded products.

The surge in post lockdown visits to our showrooms underlines that showrooms remain at the heart of the sofa purchase customer journey. We've been refreshing our showrooms with better lighting, new flooring and improved visibility across the shopfloor, leading to higher sales and a significantly improved customer feedback.

With a record order bank as we head into the new financial year, we're expecting to be busy on a number of fronts, but we believe our targets of constant improvement across the DFS brand leave us well placed to deliver further profitable market share growth into the medium term.


Save Time - order direct
2D View
3D View
Open
Save

02 Building a leading Group-wide supply chain platform

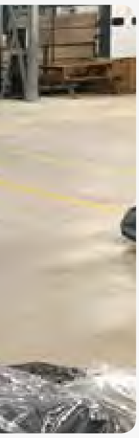
Our two-person sofa delivery and installation service has long been a source of competitive advantage for DFS, but we're looking to leverage this further as we seek to build on recent systems investments and service initiatives to develop a best-in-class Group-wide platform.

As we move towards an increasingly integrated Group structure, we are rolling out our leading DFS supply chain platform to support our upholstery-led brands. This results in a more efficient use of our distribution infrastructure, delivering economic benefits and reducing the environmental impact through less overall delivery miles. To this end, in the last year we have extended a number of trials and initiatives as we put in place a number of key building blocks for the future.

In the last financial year, we continued the development of our Stockwise inventory management system that will be integrated across the Group's different retail brands, enabling us to fulfil a range of orders from the same customer delivery centre regardless of which retail brand sold to the customer. We have also completed the rollout of our in-day delivery tracking system allowing customers the ability to track, online, the progress the delivery team are making against the estimated time of arrival on the day of delivery.

In our Belfast Customer Delivery Centre (CDC), alongside a full trial to test our systems integration, we also introduced our new 'Sofa Delivery Co.' branding and vehicle livery, which was received positively by both customers and colleagues. In our Glasgow CDC, in addition to our brand launch, we also began full trials of a new working practices model which combines more flexible shift patterns for colleagues with the ability to offer 7 days a week, extended hours delivery to customers, improving both customer satisfaction and employee work-life balance with an industry-leading 4 on 4 off colleague shift pattern.

In the current year, our priority is to complete the roll-out of our fully integrated supply chain systems and The Sofa Delivery Co. branding across all our CDCs and the StockWise inventory system across all of our Group retail stores. As our retail competitor set continues to evolve, we believe our supply chain initiatives will allow us to retain our leadership of the sector and achieve further profitable market share growth.




THE SOFA DELIVERY CO


THE SOFA DELIVERY CO

03 National expansion of Sofology

Delivering profitable expansion of our Sofology brand is a key element of our group growth strategy. New showrooms are performing well and we're pursuing a range of initiatives aimed at delivering attractive medium-term sales and profit growth.

Launched in 2016 and owned by the group since 2017, Sofology is DFS's younger sibling, bursting with energy and ideas. A leader in product design, Sofology appeals to customers with stylish, contemporary tastes. With only 45 showrooms in the UK, Sofology is roughly a third of the size of DFS and we expect the brand to deliver incremental sales and profit growth as we target a chain of around 65-70 outlets in the medium term. Despite a lockdown affected end to the year, Sofology opened three showrooms in FY20, which are performing in line with expectations. We are targeting 6-10 new showrooms in FY21, taking advantage of favourable lease terms.

Growth doesn't only come from new showrooms. We're targeting like-for-like sales growth from increased brand awareness, high NPS scores and from our highly engaged colleagues via a number of new initiatives, including improvement in our web sales performance, incremental sales from accessories, as well as continually innovating from a product perspective. Recent product launch successes include the 'Palm' sofa, as featured in our latest Owen Wilson advert, and the 'City Living' range appealing to space-constrained urban dwellers, that builds on the success that the DFS brand has had with the 'So Simple' range.

Improved profitability and return on capital are important parts of the Sofology growth story and we continue to explore the benefits of best practice exchange and the growing adoption of group-wide platforms, such as the Belfast Sofa Delivery Co. trial and Sofology showroom co-location with DFS. Launched in the digital age, Sofology has long prioritised the omnichannel customer journey and its 'Go in Store' innovation is now being trialled elsewhere in the Group. A larger showroom network will also allow the chain to deliver improved economies of scale from its already highly visible nationwide TV campaigns.

Last but not least, with environmental credentials increasingly critical to every consumer brand, Sofology stands at the forefront of the Group's Environmental, Social and Governance (ESG) efforts. The Group's new ESG strategy sets a series of brand targets in key areas such as sustainable sourcing, diversity and flexible working. We intend to turn ESG leadership versus our main upholstery competitors into a sustainable source of competitive advantage.

Weekend


sofology

How we manage risk...

The Group faces a number of risks and uncertainties in both the development and day-to-day operations of its business.

Identify

The Board has overall responsibility for the management of risk and the identification of principal risks that may affect the Group's strategic objectives. The Group has an established risk register which is coordinated and analysed by the Group's Risk and Internal Audit function to facilitate biannual reviews of principal risks by the Directors, including identification of emerging risks arising and also horizon risks to be monitored.

1. Principal risks
These risks have been identified by the GLT as the ones that pose the greatest threat to the success of the Group.

2. Strategic risks
These risks pose a threat to the Group but are considered well controlled, and the impact if materialised would be sustainable.

3. Operational risks
Granular risks that have localised impact on individual departments, and/or business areas.

Risk pyramid graphic

Each principal risk is owned by a member of the Group Leadership Team. The Directors maintain overall responsibility for risk management throughout the Group and oversee the implementation of processes to manage these risks by the Group Leadership Team and operational management. The Audit Committee, delegated by the Board, is responsible for the review of the effectiveness of the internal control framework. The Audit Committee reviews the Group's internal risk register on a regular basis. The Audit Committee and Board also review presentations on topics in relation to key risk areas such as Covid-19, data protection, cyber security and significant change initiatives.

The ongoing process of management and mitigation of risk by the Group Leadership Team is focused through the context of a Group risk appetite agreed by the Board, with a rolling plan for the Board to periodically review all principal risks with the Group Leadership Team using this approach. The Group seeks to continuously develop its risk management processes and in the last year a particular focus has been on developing comprehensive operational risk registers via Group-wide engagement sessions, as well as the roll-out of our new online in-house developed risk management platform. The new platform is expected to further embed risk management into the day-to-day practice of all senior and middle management colleagues. Specific risk-focused initiatives undertaken during the financial year included a full externally assessed cyber review, completed in July 2019, and an upgrade to the Group's Business Continuity procedures, completed in September 2019.

Evaluate

The Directors confirm that they have made a robust assessment of the emerging and principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

Mitigate

The Group's principal risks are discussed opposite, together with the Group's related mitigating activities. Other risks which are currently either not known to the Group, or are not considered material, could also impact the Group's reported performance or assets. Additional controls that could be implemented to reduce or manage particular risks better will be considered by the Directors in line with the Group's risk appetite and decisions on whether the additional controls are implemented will be documented and reviewed in subsequent risk reviews.

Covid-19 pandemic

In the second half of the financial year, the Group took a dynamic approach to managing the risks surrounding the Covid-19 pandemic, with the Group identifying the virus as an emerging risk in January 2020 – initially as a supply chain disruption risk, but subsequently elevating this to a major business resilience risk. This resulted in a number of management actions being taken in the second half of the year, including:

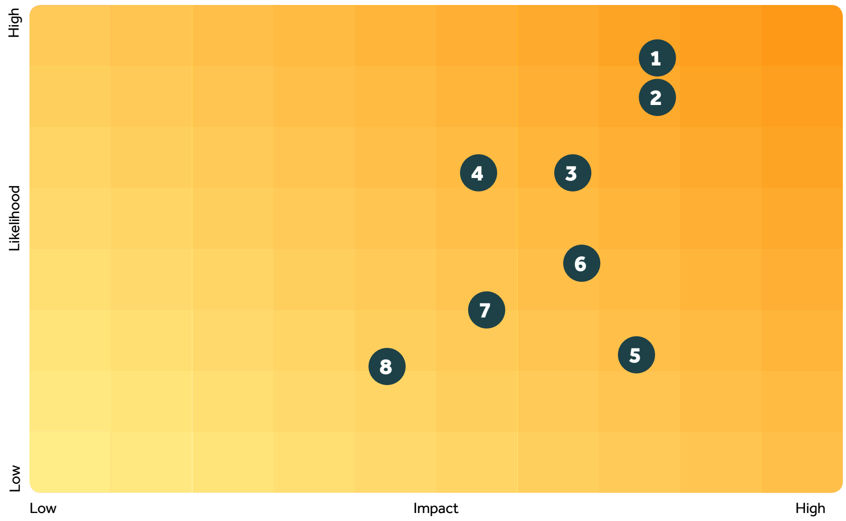
- Activating business continuity plans, including the introduction of streamlined decision-making structures, and the establishment of a crisis management team which met on a daily basis to manage the response to the pandemic, including daily calls with the Group Leadership Team.

- Temporarily closing physical retail stores, manufacturing operations and suspension of customer deliveries, resuming gradually towards the financial year end.
- Utilising the UK Government's Coronavirus Job Retention Scheme for furloughed employees and introduction of home working processes for those required to work during the lockdown period.
- Undertaking a detailed financial review to assess the impact of the pandemic, resulting in the introduction of a significant expenditure reduction programme, managing liquidity and strengthening the Group's financial position by suspending dividends and raising additional capital from lenders and shareholders.
- Completing a strategic review in relation to the Group's investment in smaller brands.
- Liaising with landlords to adjust payment schedules on leased properties, and deferring new store openings.
- Engaging with key stakeholders throughout the process, including employees, customers, suppliers, regulatory bodies, shareholders and lenders.

As part of our risk management process, and in this annual report, we have assessed the impact of pandemic as a new principal risk (Business Continuity and Resilience) for the Group and present mitigating actions below. Where necessary, we also highlight the potential impact of the pandemic in relation to our other principal risks. We also consider the impact of the pandemic in detail in our Viability Reporting.

Risk heat map

In analysing the key risks for our business, we consider regulatory and other external publications and peer Group comparisons to ensure that the Group's risk register is comprehensive and places appropriate emphasis on those risks that may pose a more significant threat. The heat map below illustrates the distribution of identified risks according to their relative likelihood of occurrence and potential severity of their impact after taking into account mitigating activities:



Principal risks

1 Business continuity and resilience
2 Brexit
3 Cyber
4 Environmental, Social and Governance
5 Financial risk and liquidity
6 Regulatory environment
7 Consumer proposition and industry competition
8 Transformation

See pages 80 to 81 for more on how risk is managed.

Risks and uncertainties continued

Link to strategic pillar

1 Drive the DFS core 2 Build the platforms 3 Unlock new growth

Movement

▲ Increase
= Unchanged
▼ Decrease

Principal risks

Risk	Strategic link	Mitigation	Movement
Business continuity and resilience As illustrated by the Covid-19 pandemic, the Group faces the risk of disruption to its operations from a wide range of unpredictable domestic and international events. These risks can range from smaller localised disruptions (e.g. supply chain, manufacturing, stores or systems) to major impacts affecting the Group for an extended period. Events and situations requiring the temporary closure of some or all of the Group's showrooms and customer delivery operations result in loss or delay of revenue and cash. Disruption to UK and international production and supply chains may also affect the Group's ability to deliver products to customers in a particular period, again impacting financial performance. The business may also incur additional costs, either directly or as a consequence of the disruption impacting operational efficiency.	1 2 3	The Group maintains business continuity plans to manage a range of potential disruptions. These were invoked during the Covid-19 pandemic when a crisis management committee was formed, meeting daily to oversee the Group's response to the pandemic. Each business function has developed and maintains full response plans to highlight and track actions immediately required, as well as those relating to temporary suspension and restart of activities. The Group has incorporated the learnings and strategies from our response to the pandemic in 2020 into its procedures for responding to a second wave of the Covid-19 virus or future pandemics and its formal business continuity plans will be further updated in the current year. Cyber risk is considered a distinct principal risk for the Group in its own right. However, IT systems are regularly reviewed in order to ensure that they are able to support the Group in the event of a disruption to operations. The Group maintains a comprehensive overview of its cost base and commitments and communicates regularly with key stakeholder groups including employees, investors, suppliers, landlords and regulators. This supports a cooperative and dynamic approach to managing cash and liquidity in the event of severe disruption to trading, as successfully demonstrated during the lockdown period. The Group was also able to utilise Government support programmes in relation to employee and business rates expenses and deferral of tax liabilities, although there is no guarantee that such programmes would extend indefinitely in the event of a more sustained pandemic. The Group regularly reviews its capital requirements in order to provide sufficient flexibility and resilience to manage disruption to its operations.	▲

Risk	Strategic link	Mitigation	Movement
Brexit The Group sources a substantial proportion of its raw materials and finished goods from outside of the UK, has retail operations in the Republic of Ireland, the Netherlands and Spain, and employs many EU nationals across its operations, both in the UK (primarily within its manufacturing operations) and overseas. In common with other UK-based businesses, the Group is therefore exposed to a number of potential risks as a consequence of the UK leaving the European Union. These may include a negative effect on consumer demand, delays or additional costs in transporting goods into or out of the UK, an increase in the cost of goods and materials due to adverse exchange rate movements or additional duties or tariffs, shortage of skilled employees and additional administrative costs. The UK is currently in a transition period until the end of 2020 while trade negotiations take place regarding the nature of the future relationship with the EU. The level of change required as part of any trade deal is unclear as yet, and with governments prioritising the Covid-19 response, the risks of a 'no deal' departure from the EU have increased.	1 2 3	The Group has established a working group to focus on the analysis of expected legislative and practical changes to the Group's operating environment as a consequence of Brexit, and has taken advice on approach and key risk areas from external advisors. The conclusions of this work have been reviewed with the Board. The Brexit working group identified a number of specific relevant areas of focus for the Group, with the two key concerns being: • impact on the consumer market/economy • delays/congestion at borders due to additional checks The working group determined that border delays would likely have a greater impact at roll-on-roll-off ports (Dover/Calais) than at freight ports where clearance is often completed whilst at sea. All third party suppliers have been tasked with obtaining all necessary regulatory permits to support rapid customs clearance procedures, and status is being monitored. Approximately one third of finished goods are sourced from Europe, excluding the UK. The Group does not anticipate any significant adverse impacts on supplies from the Far East (approximately one quarter of finished goods) due to Brexit. Longer term risks posed by potential adverse movements in exchange rates, would be expected to be addressed by an industry-wide pricing response to any permanent change in the cost environment. While progress has been made and assurance has been obtained, the continued uncertainty (exacerbated by Covid-19) requires the Group to maintain its vigilance and planning process as the end of the transition period approaches.	▲
Cyber The Group's operations depend upon the continued availability and integrity of its IT systems, including the security of customer and other data held by the Group, and risk of attacks is ever increasing. Increased levels of remote working during the Covid-19 pandemic have increased the Group's reliance on its IT infrastructure. The Group's IT infrastructure and websites are a key component of its omni-channel proposition and its strategic objective to lead furniture retailing in the digital age. A failure to review and innovate in this competitive area could impact achievement of the Group's strategic growth plans. Effective operational systems supporting supply chain, customer delivery, call-handling and the processing of financial transactions are essential to the delivery of a good customer experience. We also rely on a number of key systems to support timely reporting on operational performance. Delays or errors could result in increased costs or lost revenue.	1 2 3	Full IT security backup and business continuity procedures, comprising both internal and third party resources, are in place and are regularly reviewed, tested and updated. A full review was conducted in July 2019, including critical risk assessments in each business area, and identified improvement opportunities were incorporated into the FY20 plan with further actions to be integrated into the FY21 plan. Technical security measures against data loss through a systems breach are in place and regularly reviewed and updated, including through external audit, which is also reported to the Board. Third party penetration testing is carried out routinely to check the resilience of the Group's systems to cyber-attack. A colleague cyber-awareness programme is also in place. The Group continues to make substantial investment in both website development and digital marketing to maintain its market-leading position. An established team of experienced staff in this field are supported with ongoing relationships with external partners. The Group engages with independent third parties to actively monitor both customer satisfaction with its digital services and the emergence of new online competitors. IT systems are regularly reviewed and upgraded to ensure they continue to support the needs of the Group, and the conclusions of reviews are discussed and challenged at the Board.	▲

Risks and uncertainties continued

Link to strategic pillar

1 Drive the DFS core 2 Build the platforms 3 Unlock new growth

Movement

▲ Increase
= Unchanged
▼ Decrease

Risk	Strategic link	Mitigation	Movement
Environmental, Social and Governance Key stakeholders, including customers, employees, investors and regulators, as well as the media, are increasingly focused on the Group's policies and management regarding Environmental, Social and Governance (ESG) risks. A failure to manage the business in accordance with high ESG standards could expose the Group, or its key third party suppliers, to adverse financial consequences, reputational damage, and difficulties in retaining or attracting employees. Failure to adapt to growing public interest in social and environmental concerns may deter customers or demotivate colleagues.	1 3	The Group's efforts in relation to certain ESG risks are covered in detail in the sustainability and responsibility report on pages 48 to 59. The Group has also developed an ESG strategy which has been approved by the Group Board and is overseen by a member of the Senior Leadership Team. The Group continues to develop its environmental and social agenda, having already enhanced its operating approach in Timber Sourcing, Modern Slavery and Anti-Bribery compliance during recent years. The Group plans to publish its updated ESG strategy in the current year, setting out detailed, multi-year targets by brand. The Group's environmental strategy comprises a range of initiatives linked to 'the sofa cycle' foundation framework. The Group has specific targets in relation to wood and leather sourcing, packaging and sofa recycling. The Group has also launched several sustainability initiatives aimed at reducing the Group's carbon footprint and prioritising energy from renewable sources including: our PlanTree tree planting partnership with the Woodland Trust; and Sofa Rescue, our recycling partnership aimed at minimising diversion to landfill. In 2019, Sofology received the Environmental ISO-14001 Accreditation. DFS and Sofology now have a contract with Track Record Global (TRG) to establish our suppliers' performance against our timber and leather sourcing policies. The Group supports the continuous growth and development of our employees through a variety of training and leadership programmes at all levels of the business. The Group has invested significantly in the health, safety and wellbeing of our employees and consistently tracks employee engagement. The Group recognises the benefits of a diverse workforce and gender diversity is a key area of focus for our Senior Leadership teams. The Group has a range of specific gender diversity targets at a range of levels within the organisation. The Group also seeks to make a positive contribution to the communities in which we operate, supporting a variety of charities and organisations and encouraging our employees to contribute to society including via our own volunteering programmes. The Group has developed a robust corporate governance framework, practices and policies to manage and deliver long-term success for the Company, including (but not limited to) Board composition, Audit Committee structure, executive compensation and whistleblowing.	▲

Risk	Strategic link	Mitigation	Movement
Financial risk and liquidity A downturn in the macroeconomic environment, or increased uncertainty from Brexit and the Covid-19 pandemic, may impact the Group's ability to obtain debt or equity financing. Any "no-deal Brexit" disruption, or a temporary suspension of customer deliveries, as experienced in the second half of FY20 as part of measures to contain Covid-19, may increase working capital needs for the Group with delays slowing the realisation of revenues. An increase in interest rates could increase the Group's financing costs. The Group is also exposed to foreign currency exchange risk on certain purchases sourced from overseas.	1 2 3	The Group aims to maintain good working relationships with all financial counterparties and engages proactively to ensure that counterparties fairly understand the financial performance and continue to support Group activities. The Group regularly reviews its financing arrangements to ensure it has adequate funds in place and financing costs are kept to a minimum. The Group operates a five year revolving credit facility that matures in August 2022 and was able to secure a further £70m temporary extension to this facility until March 2021 in response to the Covid-19 pandemic. The facility enables more dynamic management of short term borrowing needs, reducing interest costs. The Group would expect to refinance this loan no less than 12 to 18 months before maturity. Foreign exchange and interest rate risks are managed through the use of appropriate hedging arrangements in accordance with its Board-approved treasury policy, with details reviewed by the Board on a regular basis. Further details on foreign exchange hedging are provided in the CFO's review. No financial instruments are entered into for speculative purposes.	▲
Regulatory environment The Group is subject to increasing levels of compliance requirements in many of its activities from regulatory and other authorities including; the Financial Conduct Authority for its consumer finance offering, the Information Commissioner's Office in regards to data protection and Health and Safety Executive and local authorities for the health and safety of its colleagues and customers. The Group also generates income from product aftercare insurance. Changes to the regulatory environment surrounding product warranty insurance could impact the sales of these products, which currently account for a mid-teen percentage share of Group gross profits. Changes in other legislation which may have significant retrospective or future economic effects could also impact operating results. Recently, the Group has been required to adhere to detailed Government operational guidelines to contain the spread of Covid-19. Failure to meet our regulatory obligations, or provide a safe environment for our colleagues and customers may result in significant financial impacts and/or reputational damage.	1 2 3	Comprehensive training and monitoring programmes (including individual NPS, Internal audits and mystery shoppers) are in place to ensure that employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance. A Group Leadership Team Governance, Risk and Compliance Committee is in place supported by a number of sub-committees, which includes a committee focussing primarily on regulatory areas and conduct risks, and Health and Safety. The Committee monitors management information and reviews processes and procedures to ensure our customers are treated fairly. This includes rigorous oversight and escalation processes to maintain the status of limited permission to offer consumer finance granted by the FCA. The Committee also reviews the regulatory landscape and forthcoming changes to ensure timely, structured and sustainable planning and implementation. The CFO and the Director of Risk and Internal Audit attend these Committee meetings and are responsible for ensuring that relevant matters are also escalated to the Audit Committee for consideration. The Group continues to place significant focus on maintaining its compliance with data protection requirements and has a robust set of policies supported by annual data protection training for all employees. The Group has a compliance framework that ensures ongoing review and monitoring; a review of the Group's information security by external cyber-security professionals was completed in the year. The Group also regularly reviews customer satisfaction levels with these products, working hard on regulatory compliance and proactively seeking to ensure customers derive value from their policy. The Group continues to review the pricing and cover levels of the insurance products it offers to maintain and enhance the customer value proposition.	▲

Risks and uncertainties continued

Link to strategic pillar

1 Drive the DFS core 2 Build the platforms 3 Unlock new growth

Movement

Increase

Unchanged

Decrease

Risk	Strategic link	Mitigation	Movement
Customer proposition and industry competition Maintaining the reputation of, and value associated with, the Group's brands and product offering is central to the success of the business. Increased customer concerns, falls in actual product quality or poor customer service could have a negative effect on the reputation of our brands, leading to loss of revenue. A failure to predict changes in customer tastes or the impact of changes in the competitive environment (particularly with the growth of new online entrants and international competitors) could reduce the Group's revenues and market share. The Covid-19 pandemic and allied customer health concerns may cause an acceleration in the shift away from physical stores towards online retailing.	1 2 3	Products and services are continually reviewed to ensure they suit customers' needs, are competitively priced, offer good value, meet the right quality standards and are supported by excellent customer service, in order to enhance the Group's market-leading position. Our in-house design teams enable reaction to emerging trends and new entrants to the market. External design partners are also incentivised to generate new product concepts on a regular basis. The Group regularly holds innovation working sessions focused on both product and service areas, with relevant Board members joining the Senior Leadership in participating in these. Through our internal manufacturing knowledge and close supplier relationships, we are able to identify and address any quality issues that emerge. We also have good data and insight building on our NPS framework that allows product level analysis of potential issues. Our made-to-order model allows identified improvements to be rapidly effected. The Group is investing significantly in developing its online presence and continues to make good progress in growing online sales, as part of our omni-channel strategy. We track our relative progress in online growth through external benchmarks. Prior to the Covid-19 pandemic, evidence suggested that c. 90% of customers want to view a physical product before making a purchase, although the Group's online retail order intake performed strongly when customers were unable to visit stores during the lockdown period. The Group's focus on customer care quality and service is underpinned by our established use of Net Promoter Score ("NPS") at all touch points of the consumer journey. Colleagues across the business are directly incentivised on NPS scores to reinforce customer-focused behaviours.	Unchanged
Transformation The Group's 2017 acquisition of Sofology and related development objectives were based on an expectation around the synergistic and other benefits that would be generated. The Group is also executing a strategy to build its platforms to support the Group brands, while reviewing its investments in certain smaller operations. Failure to effectively execute this transformation strategy or to otherwise realise expected synergies could negatively impact the results of the Group. The integration of Dwell's operations into DFS in order to reduce operating costs may negatively impact overall sales of Dwell products. Continued diversion of management time and ongoing disruption to the economy as a result of the Covid-19 pandemic may affect the Group's ability to deliver anticipated benefits within the original time horizon.	2 3	Experienced senior management have been engaged in the design and delivery of the integration and transformation plans, and regular updates are given to the Board. The Group has an executive directly responsible for transformation who oversees a team of project managers engaged to drive our processes. Risk assessments are completed for all critical workstreams and have been challenged through Board and Audit Committee discussions. The Group continues to target efficiency gains by increasingly sharing Group infrastructure including logistics (e.g. the Sofa Delivery Co. launch), central support functions, and manufacturing facilities. Sofology has traded well since acquisition, although store openings planned for the current year have been temporarily put on hold while the Group assesses the impact of Covid-19 on its competitors and the environment for attractive retail locations. A strategic review of the smaller brands has resulted in significant reorganisation of the Dwell retail operations and, subsequent to the end of the financial year, the sale of Sofa Workshop.	Increase

Viability reporting

In accordance with the revised UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a period significantly longer than 12 months from the date of approval of the financial statements. The period assessed was the three years from 28 June 2020 as in the opinion of the Directors this reflects the longest period over which the impact of key risks can be reasonably assessed within a big-ticket retail business given the potential volatility of the trading environment arising from continuing political and economic uncertainties.

Approach

The Group established a 'base case' model of financial performance over the three year assessment period which reflected prudent expectations of future customer demand and the execution of the Group's strategic plans.

The Directors then made a robust consideration of the key risks and uncertainties that could impact the future performance of the Group and the achievement of its strategic objectives, as discussed on pages 32 to 38 of this Annual Report. Particular regard was paid to the potential impacts of Covid-19, while acknowledging that the significant uncertainties surrounding the future trajectory of the pandemic and the related Government response present an additional source of variability.

The primary impact of those risks which could significantly affect the future viability of the Group is a decrease in customer orders, and associated reduction in revenue. The effect of this lost revenue on profit before tax and cash was applied to the base case model using an expected 'drop through' rate, based on expected gross margins and variability of costs. The analysis considered a range of severe but plausible scenarios impacting revenue alongside specific modelling relating to possible changes in the regulatory environment surrounding product warranty insurance and the impact of port delays arising from a 'no deal' Brexit.

For each scenario, sensitivity and stress-testing analysis was performed to model the impact on the Group's profitability and cash flows. The assessment considered how risks could affect the business now, and how they may develop in future. The analysis takes into account the significant level of variable and discretionary spend, including marketing costs, in the Group's business model and the existence and effectiveness of other mitigating actions the Group could take, including the reduction of capital expenditure to maintenance-only levels and the continued restriction of dividend payments.

Key assumptions

The base case forecast, which is prepared on a prudent basis, assumes a double-digit decline in customer orders across the remainder of FY21, followed by a gradual recovery in the UK upholstery market over the subsequent three years to reach an overall size broadly in line with FY19 levels. No market share benefit arising from the withdrawal of competitors from the sector has been included in the analysis, although the Group has historically grown market share in periods of economic downturn. The base case also assumes no significant change in either upholstery gross margin or order bank across the assessment period and that dividend payments resume from FY23.

In sensitising the base case for lower revenue scenarios, the rate of drop through to profit is assumed to be consistent throughout the assessment period. Where Covid or other events necessitate the temporary closure of retail showrooms, it has been assumed that half of the expected customer orders for that period are subsequently recovered when showrooms re-open and customer deliveries can continue at a reduced capacity while showrooms are closed.

In developing the viability assessment it has been assumed that the Group's £250.0 million revolving credit facility will be replaced on or before its maturity in August 2022 with a comparable facility and the same covenants.

Results

The range of severe but plausible scenarios included a further market decline of 5% beyond that already included in the base case, and potential Covid-related shutdowns ranging between two and four months. The Group maintained both covenant compliance and sufficient liquidity in all these scenarios. The Group's resilience under these severe scenarios has been enhanced as a result of the £64m proceeds from the share placing and £70m additional credit facility both obtained in April 2020. Based upon this assessment, the Directors have confirmed that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 25 June 2023.

Key performance indicators

Financial

Gross sales[1]

FY20		£935.0m
FY20	pre-IFRS 16	£935.0m
FY19	(52 weeks pro forma)	£1,287.2m
FY19	(48 weeks)	£1,165.0m
FY18		£1,125.6m
FY17		£990.8m

Description
Gross sales represents the total amounts payable by external customers for goods supplied by the Group, including aftercare products (for which the Group acts as an agent), delivery charges and value added and other sales taxes.

Performance
Significant fall in sales due to temporary pause in trading during UK Covid-19 lockdown.

Underlying EBITDA[1]

FY20		£61.9m
FY20	pre-IFRS 16	£(13.8)m
FY19	(52 weeks pro forma)	£90.2m
FY19	(48 weeks)	£65.1m
FY18		£76.1m
FY17		£82.4m

Description
Underlying EBITDA means underlying earnings before interest, taxation, depreciation and amortisation.

Performance
Reduction in EBITDA as a consequence of reduced gross sales.

Underlying PBT excluding brand amortisation[1]

FY20		£(63.1)m
FY20	pre-IFRS 16	£(56.8)m
FY19	(52 weeks pro forma)	£50.2m
FY19	(48 weeks)	£28.2m
FY18		£38.3m
FY17		£50.2m

Description
Profit before tax adjusted for non-underlying items and amortisation associated with acquired brands.

Performance
Loss before tax arises from fall in EBITDA.

Free cash flow[1]

FY20	pre-IFRS 16	£(9.8)m
FY19	(52 weeks pro forma)	£92.6m
FY18		£60.4m
FY17		£57.0m

Description
Free cash flow is Underlying EBITDA, less cash capital expenditure and changes in working capital.

Performance
Cash out flow in the year due to lower sales and resulting fall in profits.

Gearing[1]

FY20		
FY19	(52 weeks pro forma)	1.95x
FY18		2.09x
FY17		1.75x

Description
Gearing is net debt divided by underlying EBITDA for the previous twelve months.

Performance
Gearing ratio not meaningful for FY20 due to reported losses in the year.

Lease adjusted ROCE[1]

FY20	pre-IFRS 16	4.0%
FY19	(52 weeks pro forma)	16.6%
FY18		15.6%
FY17		18.7%

Description
Return on Capital Employed ("ROCE") is post-tax operating profit before non-underlying items plus operating lease charges expressed as a percentage of the sum of: property, plant and equipment, computer software, working capital and 8x operating lease charges.

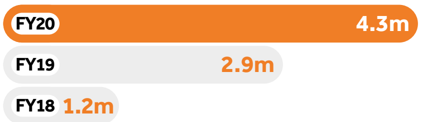
Performance
Decrease in ROCE reflects significantly lower profit.

1. Pro-forma period is the unaudited 52 weeks to 30 June 2019. Refer to pages 158 to 160 for further information on alternative performance measures.

Non-financial

Cumulative property cost savings secured

£4.3m



Description
Savings from regears 'right sizing' showrooms and closure of showrooms that have no adverse impact on total brand sales.

Performance
Improving trend based on the Group's anchor tenant status and strength of covenant.

NPS (%) – post purchase customer satisfaction

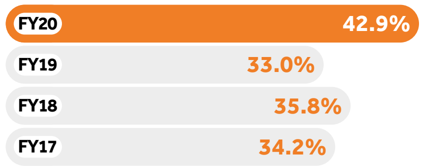
85.7%

Description
Average across all DFS stores based on post purchase customer satisfaction surveys.

Performance
Small year on year increase in very strong overall level.

NPS (%) – established customer satisfaction

42.9%



Description
Average across all DFS stores based on established customer satisfaction surveys (six months after order).

Performance
Significant increase reflects ongoing focus in this area and resolution of prior year port delay impacts.

Sofology UK stores

45

Description
Number of Sofology stores trading at the end of the financial period.

Performance
Three additional stores opened in FY20 (Peterborough, Cheltenham and Belfast).

Financial strength and flexibility to prosper in the changing environment

Mike Schmidt
Chief Financial Officer

In brief

- Revenue of £724.5m – a reduction of £271.7m from the unaudited pro-forma twelve month comparative period, driven by the pause in trading during the Covid-19 lockdown
- Underlying loss before tax, pre IFRS 16 and excluding brand amortisation[1] of £56.8m
- Restructuring and impairment charges totalling £16.6m recognised in connection with strategic review of smaller brands
- Reported loss before tax, including restructuring costs and impact of IFRS 16, of £81.2m
- Placing of 42.6m shares in April 2020, to increase resilience in light of Covid-19, raising gross proceeds of £63.9m
- Year end net debt maintained at £169.2m on a pre-IFRS 16 basis[1], compared with £176.3m at June 2019, with equity proceeds offsetting operating losses
- Strong online order intake since March, and in showrooms since reopening, which has continued into current year

Our headline financial results reflect the impact of the Covid-19 lockdown, due to showroom closures and the suspension of deliveries for the majority of the final quarter as well as an unusually strong prior year comparative in the first half. Since the Group recognises revenue on delivery to the customer, the lockdown period resulted in a significant sales and profit shortfall compared to the prior year. In order to mitigate the short and medium term financial impacts of the pandemic, the Group has taken wide-ranging actions with the aim of strengthening its financial resilience. Order intake in late June and in the current year has been very positive year-on-year as we have benefited from deferred consumer spending, and an increased consumer prioritisation of home-spending, since the national lockdown ended.

Nevertheless, despite current trading, the economic outlook remains particularly uncertain due to the ongoing pandemic and the end of the Brexit transition period. Our current year focus is on capturing the benefit of the strong market environment while it persists, maintaining financial resilience, and prioritising investment in the key elements of our long-term digital age strategy. To support our responsiveness we have shortened our planning cycles, and sought where possible to time-limit any incremental cost commitments that we make – for example in discretionary marketing spend commitments and flexible recruitment of colleagues to match resources with current incremental demand.

During this period of unprecedented change and challenge for the Group, I sincerely appreciate the hard work and dedication of all our colleagues in helping us respond positively and proactively, and the strong support and understanding that we have received from our broader stakeholder groups.

Basis of financial presentation

In the previous financial year, the Group changed its accounting reference date and reported a 48 week period to 30 June 2019. The current period being reported is the 52 week period to 28 June 2020. In order to provide a meaningful comparative, the unaudited pro-forma results for the 52 week period to 30 June 2019 are included in the table opposite and commentary that follows.

The financial statements are prepared for the first time this year under IFRS 16. The Group has adopted a modified retrospective transition approach to IFRS 16, meaning financial statements for earlier periods will not be restated. To aid comparability with the prior period, FY20 results are presented in the table both before and after applying IFRS 16. The impact of applying IFRS 16 is to increase the reported loss before tax for the reported 52 weeks by £6.3m. The adoption of IFRS 16 has no impact on the way we run the business or on the Group's cash flows, other than a marginal change in corporation tax payments due with a slight reduction in the short term, offset by higher payments in the longer term.

Brand contribution, which is reported before property or central costs, remains our preferred measure of segment profitability.

1. Refer pages 158-160 for APM definitions

52 weeks to 28 June 2020 £m	DFS	Sofology	Other	Group – underlying pre IFRS 16	IFRS 16	Group – underlying IFRS 16	Non-underlying items[1]	Brand amort'n	Group – Reported IFRS 16
Gross sales[1]	697.1	181.7	56.2	935.0	–	935.0	–	–	935.0
Revenue	**535.2**	**143.7**	**45.6**	**724.5**	**–**	**724.5**	**–**	**–**	**724.5**
Cost of sales	(212.6)	(72.3)	(22.5)	(307.4)	–	(307.4)	(3.1)	–	(310.5)
Gross profit	322.6	71.4	23.1	417.1	–	417.1	(3.1)	–	414.0
Selling and distribution costs*	(191.6)	(47.8)	(20.9)	(260.3)	–	(260.3)	(2.1)	–	(262.4)
Brand contribution[1]	**131.0**	**23.6**	**2.2**	**156.8**	**–**	**156.8**	**(5.2)**	**–**	**151.6**
Property costs				(102.5)	75.3	(27.2)	–	–	(27.2)
Administrative expenses				(68.1)	0.4	(67.7)	(0.2)	–	(67.9)
EBITDA[1]				**(13.8)**	**75.7**	**61.9**	**(5.4)**	**–**	**56.5**
Depreciation, amortisation & impairment				(31.2)	(56.3)	(87.5)	(11.2)	(1.5)	(100.2)
Operating profit				(45.0)	19.4	(25.6)	(16.6)	(1.5)	(43.7)
Interest				(11.8)	(25.7)	(37.5)	–	–	(37.5)
Loss before tax				**(56.8)**	**(6.3)**	**(63.1)**	**(16.6)**	**(1.5)**	**(81.2)**

	Unaudited pro-forma results: 52 weeks to 30 June 2019				Audited results for the 48 weeks to 30 June 2019			
£m	DFS	Sofology	Other	Group – underlying	Group – underlying	Non-underlying items[1]	Brand amort'n	Group – reported
Gross sales[1]	942.1	260.7	84.4	1,287.2	1,165.0	–	–	1,165.0
Revenue	**721.7**	**205.9**	**68.6**	**996.2**	**901.0**	**–**	**–**	**901.0**
Cost of sales	(288.4)	(101.5)	(31.7)	(421.6)	(383.8)	–	–	(383.8)
Gross profit	433.3	104.4	36.9	574.6	517.2	–	–	517.2
Selling and distribution costs*	(232.1)	(56.7)	(25.6)	(314.4)	(293.7)	–	–	(293.7)
Brand contribution[1]	**201.2**	**47.7**	**11.3**	**260.2**	**223.5**	**–**	**–**	**223.5**
Property costs				(107.5)	(99.1)	–	–	(99.1)
Administrative expenses				(62.5)	(59.3)	(4.4)	–	(63.7)
EBITDA[1]				**90.2**	**65.1**	**(4.4)**	**–**	**60.7**
Depreciation, amortisation & impairment				(29.3)	(26.8)	–	(1.4)	(28.2)
Operating profit				60.9	38.3	(4.4)	(1.4)	32.5
Interest				(10.7)	(10.1)	–	–	(10.1)
Profit before tax				**50.2**	**28.2**	**(4.4)**	**(1.4)**	**22.4**

1. Refer pages 158-160 for APM definitions
* Excludes property costs

Financial review continued

Covid-19 impact and refinancing

The CEO Report covers the Group's detailed operational and strategic actions in relation to the pandemic in the last financial year. From a financial perspective, our main actions in response to the pandemic were to address the profit and cash flow implications of disruption to our made-to-order, negative working capital model, to meet our financial obligations to key stakeholders (in particular those smaller suppliers most dependent upon the Group) and to ensure that we had sufficient financial resources to see us through a lockdown period of potentially uncertain duration.

In March, as the implications of the pandemic became more apparent, the Group undertook a wide range of mitigating actions to reduce cash operating costs. In addition, in order to give the Group liquidity headroom through a severe lockdown scenario, the Group successfully completed a placing of 42.6m shares (an increase of 19.9% of the issued ordinary share capital of DFS prior to the placing) to raise gross proceeds of £63.9m in April 2020. Alongside the placing, the Group also secured a 12-month, £70m extension to its existing £250m bank facilities.

Our usual bank covenants of 3.0x (IAS17) net debt/EBITDA and 1.5x Fixed Charge Cover have been temporarily replaced by two financial covenants for so long as the additional £70m 12 month facility remains outstanding. The first is a quarterly EBITDA test that proxies the previous net debt/EBITDA test, and requires us to ensure cumulative EBITDA (IAS17) during FY20 grows by at least £17.1m each quarter across the FY20 financial year, reaching a target last nine month EBITDA of £51.3m in March 2021. The second is a test to ensure that total facilities are not drawn beyond £300m each month end through to November 2020 and beyond £250m each month end through to March 2021.

Restructuring of Dwell and sale of Sofa Workshop

As detailed in our July trading update, towards the end of FY20 the Group began an operational restructuring of Sofa Workshop and Dwell to improve the returns generated by these brands. Since the financial year end, the Sofa Workshop business has been sold and Dwell's retail sales teams and certain back office support functions have been integrated into the DFS operating unit, while their buying, marketing and other commercial operations will remain distinct. Largely as a result of this restructuring and related trading, the Group has recognised non-cash impairments of acquisition-related goodwill and brand names and certain property right-of-use assets. The Group has also incurred cash restructuring costs of £1.3m associated with related headcount reductions and £3.1m reduction in net realisable value of associated inventory. In total we have recognised income statement charges of £16.6m in FY20 in relation to the restructuring, which have been presented as non-underlying costs.

Sales and revenue

As noted above, annual revenues were severely impacted by the pause in deliveries for the majority of the final quarter to comply with Covid-19 restrictions. Total gross sales[1] for the Group declined by 27.4% to £935.0m compared to the pro-forma twelve month comparative period. Revenue, which is stated after deducting VAT and the costs of providing interest free credit and aftercare products, declined at a similar rate to £724.5m. Sofology opened three showrooms in the financial year which overall performed in line with our expectations prior to the pause in trading due to Covid-19.

While the suspension of customer deliveries severely impacted reported revenue in the financial year, the Group continued to take orders online during the lockdown period, achieving strong year-on-year growth. Showrooms also benefited from a release of latent demand as stores re-opened in the final weeks of the financial year. We discuss the current year implications of a materially higher year-on-year opening order bank in the 'looking forward' section below.

Gross profit

Underlying gross profit[1] declined by 27.4% to £417.1m compared to £574.6m for the twelve month pro forma comparative period as a result of the lower revenues and a small decrease in underlying gross margin percentage of 10bps to 57.5%. The DFS brand gross margin increased 20bps year-on-year as a result of sourcing, pricing and quality improvements coming through as well as more favourable US dollar exchange rates. This was offset by increased promotional activity and customer care costs across Dwell and Sofa Workshop and sell-off of clearance stock in Sofology. After additional inventory write downs in connection with the reorganisation of Dwell and Sofa Workshop, reported gross margin was £414.0m.

We source around one quarter of the finished goods that we sell from the Far East, and we pay for these goods in US dollars. We continue to protect ourselves from adverse US dollar exchange rate movements for our spend of c. $165m annually, by hedging our US dollar purchases to maintain eighteen months cover by value. Our hedged rate for FY20 as a whole was broadly consistent with the rates secured for FY19. Our hedged rate for FY21 is 5 cents lower than the average rate secured for the whole of FY20. Each one cent movement in the dollar to sterling exchange rate impacts profits by approximately £1m, however these impacts will be felt by all industry participants and we will seek to mitigate these impacts in our commercial proposition.

Operating costs and brand contribution[1]

Underlying selling and distribution costs[1] (excluding property costs) reduced by £54.1m (17.2%) to £260.3m, reflecting the reduced trading volumes together with a wide range of mitigating actions to offset the financial impact of the pandemic, including a re-phasing of marketing spend and reduced discretionary expenditure. We continued to invest in key initiatives including Sofology showroom expansion, digital innovation and last-mile logistics development. Underlying brand contribution[1] for the Group reduced by £103.4m overall to £156.8m.

Property costs and administrative expenses

Underlying property costs[1] pre IFRS 16 reduced by £5.0m to £102.5m. This was primarily due to a c.£6m benefit in FY20 from the retail business rates holiday implemented by the UK Government from April 2020. While a limited increase in costs arose from incremental space taken in the year, this was broadly offset by the impact of lease re-gears.

Underlying administrative expenses[1] pre IFRS 16 increased by £5.6m to £68.1m, predominantly as a result of investment in the infrastructure to support the delivery of strategic initiatives and to a lesser extent from regulatory-driven increases to employer pension contributions.

1. Refer pages 158-160 for APM definitions

EBITDA[1]

As a net result of the lower revenues and the other factors described above, the Group's underlying EBITDA[1] pre IFRS 16 decreased from £90.2m profit for the unaudited pro-forma twelve months to 30 June 2019 to a loss of £13.8m for FY20. Government support through the retail business rates holiday and for the furlough of over 5,000 of our team members to protect employment levels partially mitigated the substantial losses that we have incurred due to the business suspension.

Depreciation, amortisation and impairment

Underlying depreciation, amortisation and impairment charges[1] of £31.2m pre IFRS 16 (excluding brand amortisation) reflected a modest increase on the prior year in line with the related asset base. A further £11.2m of non-underlying impairment charges were recognised in connection with the restructuring discussed above, including the write down of the Sofa Workshop goodwill and brand name.

Interest

Pre IFRS 16 interest charges[1] increased by £1.1m from £10.7m to £11.8m due to higher borrowings as part of our contingency planning in the early stages of the pandemic.

Profit Before Tax ('PBT')

Underlying PBT[1] for the year (pre-IFRS 16 and brand amortisation) was a loss of £56.8m compared with a profit of £50.2m for the unaudited twelve month pro-forma comparative period. Including non-underlying items and the adoption of IFRS 16, the total reported loss before tax was £81.2m.

IFRS 16

To provide better comparability with the previous financial year, the table on page 43 illustrates the impact on the income statement of the adoption of IFRS 16. Further details are provided in note 1 to the financial statements.

Reported EBITDA[1] (including the impact of IFRS 16) was £56.5m as a consequence of the majority of lease rental charges no longer being charged to operating profit. These charges were replaced with additional depreciation and interest charges of £56.3m and £25.7m respectively. The net impact of these changes increased the reported loss before tax for the 52 weeks ended 30 June 2020 by £6.3m compared to that which would have been reported under IAS 17.

Although the timing of the recognition of lease expenses is accelerated under IFRS 16, the total expense over the life of the lease is identical to that under IAS 17. Therefore, excluding the effect of any future changes to the Group's leases, this negative impact will reduce over the next two financial years and by FY23 would result in a modest benefit to reporting profit before tax. However, new leases entered into will also slow the realisation of this non-cash benefit to reported profits.

Tax

The reported effective tax rate for FY20 is 14.8%. This is lower than the applicable UK Corporation Tax rate of 19.0% primarily due to losses incurred in Sofa Workshop which have not been recognised as deferred tax assets, the non-deductible write down of goodwill and disallowable depreciation on non-qualifying assets.

Earnings per share

Basic earnings per share for the Group was a loss of 31.4 pence per share for the 52 weeks to 28 June 2020 (48 weeks to 30 June 2019: profit of 8.6 pence per share), based on a weighted average number of shares in issue for the financial year of 220.3m reflecting the placing of new shares in April 2020 (FY19 212.0m).

Capital expenditure

Cash capital expenditure for the period was £23.4m, a reduction of £2.9m from the £26.3m for the unaudited pro-forma comparative period[1]. The year-on-year reduction reflects a scaling back in non-essential discretionary capital expenditure as part of our mitigating actions to manage the financial impact of the pandemic. In addition to the £23.4m cash capital expenditure, £5.3m of assets (predominantly delivery vehicles and company cars) were acquired under lease arrangements which was a consistent level of investment to last year.

Cash flow and balance sheet

As we have highlighted previously, the DFS business model benefits from negative working capital: payments are received from customers on or before delivery, while our suppliers are paid to agreed terms. Working capital balances are seasonal depending on recent trading activity and cost seasonality (particularly in advertising spend) as well as predictable patterns of payments on rents, tax payments and other recurring charges. Inventory balances are limited and have historically remained broadly stable.

The suspension of customer deliveries during the pandemic, also delayed the receipt of the related customer payments and the Group was only partially able to limit the unwind of its negative working capital position. The additional £70m 12-month credit facility agreed in April was primarily intended to cover a working capital unwind. The proceeds of the placing, combined with both the resumption of customer deliveries towards the end of FY20, and the better than expected sales in the current year to date, means the Group has not as yet needed to draw on this secondary facility.

The sharp reduction in operating profits experienced in the second half resulted in a significant operating cash outflow for the year. This was partially mitigated by the actions the Group had taken to reduce discretionary spending as well as utilisation of available Government support. In addition to the £6.0m in-year benefit of the retail business rates holiday, the Group has received £19.5m in respect of FY20 under the UK Coronavirus Job Retention Scheme, and was also able to defer VAT, PAYE and Duty payments totalling £28.7m into FY21. In consultation with our landlords, £27.8m of rent payments were also deferred as at year end. A working capital out flow is therefore to be expected in FY21 as stakeholders' various Covid-19 related payment deferral schemes and agreements fall due. Combined with net financing cash inflows as a result of the share placing, the Group ended the year with a pre IFRS 16 net debt of £169.2m (FY19 £176.3m).

1. Refer pages 158-160 for APM definitions

Financial review continued

Dividend

Reflecting confidence in the Group's outlook at the time, the FY20 interim dividend was declared at 3.7 pence per share. Subsequently, however, it became clear that Covid-19 was evolving from a Far East sourcing issue into a more significant threat to the UK economy. A desire to strengthen the Group's financial resilience and liquidity position led the Group to cancel the payment of the interim dividend and seek additional financing facilities, including a 12-month, £70m facility secured in April 2020. As part of the terms of this facility, the Group has undertaken not to pay dividends or conduct any acquisitions until either six months after the repayment of the incremental facility, or following the refinancing of all existing bank facilities.

Given the broader macroeconomic uncertainty, the desire to increase financial resilience and the restrictions in place under the banking facilities, the Directors do not propose a final dividend (FY19: 7.5 pence).

We do recognise the value some of our shareholders place upon regular dividend payments. The Group will continue to review its dividend policy in the light of our trading performance, business requirements and the uncertain economic environment.

Risk and governance

Building on initiatives in FY19, the Group continues to strengthen its approach to risk and governance. In FY20 a particular focus was on developing comprehensive operational risk registers via Group-wide engagement sessions, as well as the roll-out of our new in-house developed online risk management platform. The new platform is expected to further embed risk management into the day-to-day practice of all senior and middle management colleagues. Specific risk-focused initiatives undertaken during the financial year included a full externally assessed cyber review, completed in July 2019, and an upgrade to the Group's business continuity procedures, completed in September 2019, both of which have proved valuable in facing into the impacts of Covid-19. Business Continuity and Resilience constitutes one of the Group's Principal Risks and the Group has incorporated the learnings and strategies from our response to the pandemic in 2020 into its procedures for responding to a potential second wave of the Covid-19 virus or other significant disruption. The Group's formal business continuity plans will be updated further in the current year.

Looking forward

As indicated in our August trading update, the Group has experienced strong trading since the lockdown period both online and in our showrooms. Nevertheless, given the lingering effects of the pandemic and wider economic uncertainty, we remain cautious on the outlook for the remainder of 2020 and into 2021, and we remain concerned by lower consumer confidence and a potentially slower residential property market. Whilst a weak trading environment would impact our short-term revenue and profits, the Group has historically prospered in economic downturns and gained market share.

The dichotomy between current trading and the potential future macroeconomic environment makes giving meaningful guidance for our revenue performance in FY21 and beyond exceptionally challenging; and it will be our revenue performance that will primarily drive our future profit outturn. To assist our stakeholders however, we have prepared three scenarios for revenue performance. We believe the scenarios can help give a feel for how the Group might perform in very different trading environments. However, the choice of revenue changes modelled and their impact on costs and profits should be seen as illustrative and not as guidance given the number of factors that are unforeseeable and the current early stage of the current financial year.

Scenario overview

IFRS 16 Basis	Low	Medium	High
Revenue	Rest of year: **-30%** £959m	Rest of year: **-15%** £1,064m	Rest of year: **0%** £1,169m
Gross profit	Overall gross margin broadly flat at 58%		
	£556m	£617m	£678m
Operating costs	Identified cost mitigation of up to £15m	c. £400m	Increases by <10% of change in revenues
Interest & depreciation	←	c.£123m	→
Implied PBT	£57m	£94m	£147m

Revenues
In planning for FY21 we benchmark our performance relative to the 52 weeks to December 2019, where we generated revenues of £943.0m excluding Sofa Workshop. We take some comfort from a materially higher opening order bank year-on-year, from which we expect to realise an incremental c.£100m of revenues and early trading over the first twelve weeks that has generated a further c.£126m of incremental revenues. Trading in October 2020 onwards may however be significantly weaker, with (i) the UK furlough scheme coming to an end which may affect employment levels and consumer sentiment, and (ii) expected longer manufacturing lead times for our products creating less of a call to action for delivery ahead of Christmas, and (iii) the potential impact of Brexit on sentiment. Offsetting that, we have some early evidence that the DFS Group is gaining market share following the recent tough environment and we may see consumers continuing to prioritise spending on their homes, which is consistent with the average order value growth that we have seen over the last twelve weeks of +7.6%. We therefore see a very wide range of potential outcomes, with some of our internal modelling scenarios hypothesising that the upholstery market could be weaker than the 10%+ year-on-year market declines seen post the global financial crisis. Likewise we also do see a potential scenario where demand levels could even stay positive across the year.

Gross profit
Our gross margins continue to remain stable or grow slightly in the retail activities of our scale brands of DFS and Sofology. Although we will face some pressure from adverse foreign exchange rates we believe this can be offset through the commercial proposition. As revenues rise or fall, the manufacturing participation will flex slightly, which may generate slight fluctuation in margin levels, however this variation is unlikely to be significant relative to other assumptions.

Cost base
We have taken appropriate action on operating costs, including headcount and marketing budgets. Following the sale of Sofa Workshop, we believe our base operating cost base is likely to be c.£400m excluding Sofa Workshop. Retail business rates relief of c.£19m will also be received in FY21 and is reflected within that expected cost base. The cost base does carry some flexibility from sales team commissions and last-mile delivery costs, which we expect to move by a little less than 10% of any revenue change. We do also retain the ability to make choices on our advertising spend and other cost commitments, giving potential additional flexibility of up to £15m.

Interest and depreciation
We expect these to remain broadly similar to prior years, albeit with depreciation of property right-of-use assets changing to reflect the increased property estate and the potential for bank facility refinancing fees to be incurred during the year.

Profit Before Tax outturn
The three scenarios show a wide range of outcomes, but it is notable that all scenarios result in profit before tax above recent financial years, and the 'middle' and 'high' scenario are materially above prior years. We would however be cautious around extrapolating these profits into future years given that the rates relief is not expected to continue and the risk that these revenue levels will not recur.

Financial resources and cashflow
Following the recently completed equity placing and the £70m temporary working capital facility secured in April, our available cash resources at the year end were just over £160m. In line with typical market practice, we expect to refinance the Group's existing £250m senior revolving credit facility at least a year ahead of its maturity in August 2022.

Although we do expect that we will need to make 'deferred' rental and taxation payments of approximately £56.5m during FY21 and into FY22, our strong trading to date has reduced net bank borrowings (excluding finance lease obligations) as at 21 September 2020 to £32.2m (equivalent to overall pre-IFRS 16 net debt of less than £50.0m) and we believe we have the resilience to respond to a range of economic scenarios whilst continuing to invest in our most compelling growth initiatives.

Applying recent learnings from the pandemic, we also now expect customer deliveries and hence revenue and cash generation to continue throughout all but the most severe lockdown scenarios, further increasing our resilience. We have prioritised capital expenditure on our critical development initiatives and up to ten showrooms openingduring the year, which have proven rapid paybacks, and we therefore currently expect our capital expenditure in FY21 to be broadly in line with prior years.

In conclusion
The past six months have presented exceptional challenges and we do not anticipate the near-term environment will be any less demanding. Notwithstanding that, we continue to believe the business is well positioned strategically and has an appropriate financial model and resources to deliver attractive shareholder returns.

Mike Schmidt
Chief Financial Officer
24 September 2020

Sustainable, responsible, and inclusive business

Our Group purpose is to bring great design and comfort into every living room, in an affordable, responsible, and sustainable manner.

Introduction

As is clear from our purpose, our Group is committed to acting in a responsible, sustainable, and inclusive manner, which puts our customers and our colleagues at heart of everything we do.

Our ESG strategy

During the year we put significant effort into developing our approach to ensuring our business is built on the right ethical foundations and that we have an ESG strategy for our Group that builds on our the values embedded in our businesses and integrates sustainability considerations firmly into the way we do business.

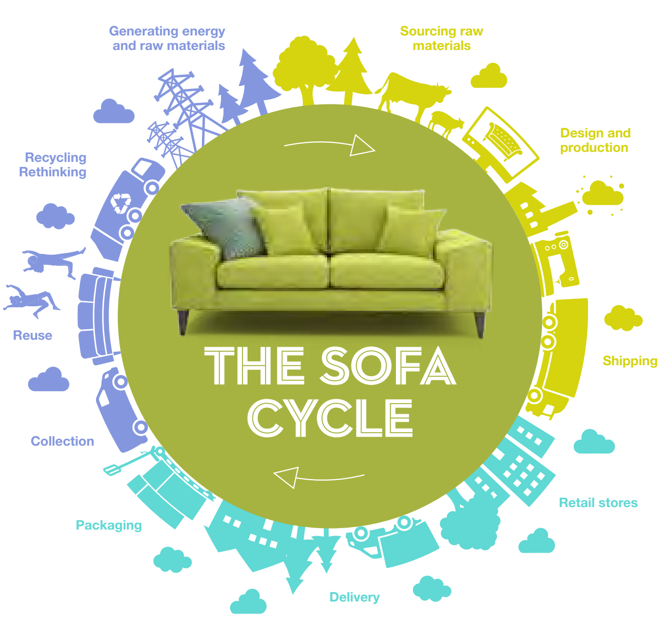
Our thinking follows the concept of the circular economy, which aims to keep products in use for longer, by reusing, recycling or remaking, so any waste becomes the beginning of another process or a recovered resource. The Sofa Cycle helps us visually articulate shared Group-level objectives. Each of our businesses can then use the Cycle to create activities and policies relevant to their brand, their size and their customers. It also has the flexibility to evolve over time as our business becomes even more circular in its approach, and the evolution of sustainable practices enables us to do more. We appreciate that the Sofa Cycle very much addresses the product aspects of our business, rather than being people focused. This acknowledges the fact that we can't address the whole ESG agenda at once, and must take it step by step. Of course, people issues are vital – and we believe we are already good employers – so we will look to add more colleague-based initiatives in Phase 2 of our ESG strategy.

Our phase 1 Group ESG targets and our 4-key initiatives for the year; our foundation initiatives Sourcing our Wood and Leather and Recycling our Packaging, and our flagship initiatives Sofa Rescue and PlanTree are built around the Sofa Cycle.

We believe that we can meet customer expectations, stakeholder demands and continue to grow our business while fulfilling and embracing our social and environmental obligations.

After working with our partners and looking at where we are, we decided that our primary focus for this phase of our journey would be on the products we provide our customers. We are acutely aware that far too many of the sofas that are in people's homes, have not been manufactured in sustainable fashion and that too many of them end up in landfill.

We developed our strategy based upon a circular approach that covers the entire life cycle of the sofas we provide, from sourcing the raw material or finished products, our supply chain and manufacturing through to the retailing, delivery and lifecycle of the sofa.



Initiatives launched in 2020

1. Sourcing our wood and leather
2. Recycling our packaging
3. Sofa rescue
4. "PlanTree"

The aim of the Sofa Cycle is to capture the complex and interlinked aspect to the cycle of a sofa's life and to ensure we build in sustainability when developing our products and services. Whether it is through sourcing FSC compliant wood to make the frames for our sofas or ensuring our delivery vehicle routing system, Apollo, plans the most efficient route to minimise carbon output.

Working with partners the Carbon Trust, TRG, Clearabee and the Woodland Trust, we are continuing to develop our multi-year transformational plan focussed on environmental and social issues across the spectrum of our businesses. We aim to ensure we have a clear, independently audited view of our plan for all areas of our ESG initiatives. Our ESG initiative is led on behalf of the Group's Leadership Team by Sofology's CEO Sally Hopson, supported by Alison Hutchinson as Board sponsor.

This year we have worked together to develop our phase 1 Group ESG Targets. The targets apply to each of our brands individually. They are our best view of the steps we need to take as a Group over the next 4 years. Some of the brands are expected to achieve some of these targets earlier than the date for the Group, depending on where the brand is currently in relation to each target.

Our Phase 1 Group ESG Targets

E is for environmental

Wood sourcing	All our sofas will be built of 100% FSC Certified Wood by 2025.
Leather sourcing	The leather we use will not lead to deforestation in Amazon regions or elsewhere by December 2021.
Packaging	We will reduce our packaging and ensure 100% of the plastic packaging we use is recyclable by December 2020.
Sofa packaging	85% of all our sofa packaging will be recycled by December 2020. 100% of all our sofa packaging will be recycled by December 2022.
CO_2 reduction	We will reduce our CO_2 emissions with Sofa Delivery Company by a minimum of 10% by 2023.
CO_2 offset	We will achieve 100% carbon offset by December 2020.

S is for social, our colleagues and our communities

Inclusion and diversity	All Group apprenticeship programmes will have at least 50% female representation from 2020.
Inclusion and diversity	All Group Management development programmes will have at least 50% female representation from 2020.
Inclusion and diversity	A minimum 50% of showroom managers will be female by December 2024.
Charity community	Volunteering Days – everyone can have paid time off to give back to their community. Target a minimum of 1,150 Volunteering days by December 2021.

G is for governance, how we manage what we do

ISO	ISO45001 – Health & Safety from December 2021.
ISO	ISO14001 – Environmental Management from December 2021.
Modern slavery audits	Independent ethical audits of our supply chain by December 2021.

Our environment

Progress against our initiatives 2020

1) Sustainable resources – sourcing wood and leather

During the year we focussed our efforts on developing our targets and examining our supply chain to ensure we are sourcing our raw materials and finished goods in a sustainable way. We updated our policies on timber and introduced our new policy on sourcing leather. These can be found on our website at www.dfscorporate.co.uk/governance/policies.

As the nation's biggest sofa manufacturer, the Group has been working hard to source wood as sustainably as possible, but also wants to go further and contribute significantly to reforestation and ensure that the leather we use does not lead to deforestation. We are engaging actively with our suppliers to implement a robust verification programme for timber and leather products sourcing. We comply with European Timber Regulation No 9952010, and whilst we are not an operator placing timber or timber products on the internal market for the first time, as a trader we require all our timber suppliers to certify that the timber used in our products or supplied to us, is compliant with the regulations. We keep records of all timber supplied to DFS and timber products from our suppliers for a minimum of five years.

We will not accept in our furniture:

01	Illegally harvested wood
02	Timber harvested in violation of traditional and human rights
03	Timber from forests in which high conservation values are threatened by management activities
04	Timber from forests being converted to plantations and non-forest use since 1994
05	Timber from forests in which genetically modified trees are planted
06	Unknown sources
07	Leather from animal skins that is not a by-product of the meat packing industry
08	Animal skins from aborted or live animals or from endangered species (including any species listed in the three CITES Appendices)
09	Products containing leather where the supplying partner has not declared the species of animal and country of slaughter for all items
10	Products from suppliers who are unable to demonstrate that their leather supply chains do not contribute to deforestation

2) Recycling our packaging

When we deliver a sofa, we remove and recycle as much of the packaging as possible. We have continued to increase the amount we recycle, and by next year will be recycling all our sofa packaging. That means working with our suppliers to remove from our packaging any materials that are difficult to recycle or are damaging to the environment. Through these efforts, we have decided to get rid of polystyrene packaging as it is so hard to recycle. Another positive move is in using recyclable corner protectors, which can be used up to eight times on the sofas we deliver before being completely recycled.

3) Sofa rescue

When people buy a new sofa, they often want to get rid of their old one. Unless they pass it on to family, friends or charity, this isn't easy to organise. Whilst DFS has worked for many years with the British Heart Foundation to ensure as many sofas as possible are resold and reused, too many are still going to landfill.

As part of our sofa cycle, we developed our sofa recycling service "Sofa Rescue". When DFS customers buy a new sofa or armchair, they have the option either to donate it to the British Heart Foundation, or they can choose to have their old sofa or armchair collected and recycled by our partner Clearabee. Clearabee will collect the customer's old sofa and take it to a certified recycling centre where it is broken down to its component parts for recycling and creating energy from waste.

The Sofa Rescue Scheme was rolled out nationally in January to DFS customers and in June for Sofology customers, and to date more than 33,000 pieces of furniture have been successfully diverted from landfill.

4) PlanTree

PlanTree is our permanent reforestation initiative. While we work hard to source wood as sustainably as possible, we want to go further, and contribute significantly to reforestation. That's the aim of Sofology's PlanTree campaign, where for every sofa order, we plant a tree in the UK, as part of accredited reforestation schemes run by the Woodland Trust. When a customer places an order, we tell them about the tree we will plant on their behalf. When we deliver their item, we include a thank you card and reference to the tree. Through PlanTree, Sofology will plant over circa 100,000 trees (1 tree per order) in the UK in 2020. DFS has committed to launching PlanTree in 2021 and will also be focusing on a UK tree planting programme. We are also proud to be working with the UK's largest woodland conservation charity to help us mitigate our carbon emissions.

Energy usage

Electricity use is a key component of the Group's CO_2 emissions. During the year we continued to work hard to improve our energy efficiency. We have implemented a series of energy initiatives to reduce our carbon footprint and eliminate our energy waste.

We are committed to further reducing our energy consumption, and our Energy Management Policy supports our reduction in carbon emissions. Through the deployment of the latest in energy technology and a new energy management platform, we have complete visibility across all sites; this enables us to manage and reduce our energy waste by monitoring consumption against agreed targets.

From October 2020, 100% renewable electricity backed by REGOs has been secured for 92% of our estate, with the target to have 100% of our electricity sourced from renewable energy by 2023.

During the year we worked with Businesswise Solutions to get a clearer understanding of our energy usage across the Group and to roll out low energy lighting schemes across our showrooms and our offices. Additionally, we use automated meters to monitor and investigate usage of both gas and electricity. We will continue to work with Carbon Trust and other advisors to reduce the amount of energy we use. As well as setting our phase 1 environmental targets, we worked with our partners to understand our impact on the environment looking at water and waste management. We will continue to develop our wider phase 2 environmental targets during 2021.

Fleet

Our transport fleet drives over 9 million miles per year delivering to customers' homes, so it needs to be efficient and safe. All trucks are on a six-year replacement cycle to ensure we continuously modernise the fleet and move towards the highest European emission standards. We combine this with in-cab telemetry and a system of daily debriefs where driver behaviour is assessed against energy-efficiency and safety targets. We reward drivers who reach the highest standards, and we work with any who need help to improve. We keep looking for further improvements and we continue to work with industry bodies and truck manufacturers in trials of new technology.

With our company car fleet, we encourage the use of electric or hybrid cars providing charging points at key sites across the UK. 9.8% of our company car fleet is electric or hybrid.

The CO_2 performance of our company car fleet has come down to 99.6 g/km (FY19: 100g/km) which is 22 % below the UK national average for new registrations which is currently 127.6g/km.

We are continually looking at new ways we can improve our CO_2 performance. Our DFS customers have the option to select "eco" delivery slots when planning their delivery with our route planning software optimising the routing of our vehicles to minimise emissions.

To mitigate our carbon emissions during 2020, the Group will plant over 59 hectares of native woodland with over 112,250 trees in the UK through the Woodland Trust's Carbon scheme. As a Group we are currently the Woodland Trust's largest carbon mitigation partnership.

Energy and transport fuel consumed

The tables below show our energy use and associated greenhouse gas emissions in line with the UK Government Streamlined Energy and Carbon Reporting Requirements. Usage and emissions reported correspond with our financial year.

	FY20 MWh
UK operations	96,192
International operations	4,364
Group	100,556

	TCO_2e			TCO_2e per employee	
	2020	2019	% decrease	2020	2019
UK					
Direct emissions Scope 1	17,928	19,543	-8.3	3.4	3.7
Indirect emissions Scope 2	6,364	7,654	-16.9	1.2	1.5
Sub-total UK	**24,292**	27,197	-10.7	**4.6**	5.2
International operations*					
Direct emissions Scope 1	2,506	–	–	12.7	–
Indirect emissions Scope 2	690	–	–	3.5	–
Sub-total International	**3,196**	–	–	**16.2**	–
Group Total	**27,488**	–	–	**5.0**	–

* First year of reporting on our emissions from the ROI, Spain and the Netherlands

Notes:
GHG emissions have been restated for 2019 as there was an error in the calculation as both gas and electricity were included in Scope 2, rather than fuel for transport and gas being reported in Scope 1 with just electricity in Scope 2.

The total TCO_2 reported in 2019 was 28,064 (excluding International) when in fact it should have been 27,197 (excluding International).

To express our annual emissions in relation to a quantifiable factor associated with our activities, we have used Tonnes CO_2 per employee as this is a relevant indication of growth.

Our colleagues

The colleagues in our business are the heart of its success.

Much of the value we deliver to customers is through the expertise and experience of all our colleagues. Our sustainability relies on our ability to attract colleagues with the right skills and behaviours and to motivate, develop, support and reward them appropriately.

During the year we employed 5,372 colleagues across the UK, Republic of Ireland, the Netherlands, and Spain. We believe that our ability to deliver fantastic products and service to our customers comes from the passion and commitment shown by all our colleagues across all parts of our Group. We are proud of the work we do to develop and strengthen our teams. Creating and sustaining a values-based culture with good governance to enable us to fulfil our purpose is crucial to ensuring our colleagues remain engaged, well informed, and able to effectively deliver our strategy.

Talent and development

We continue to grow and develop all our colleagues recognising this is pivotal to the success of our Group. Developing and retaining talent is important to us and as such we have a robust talent review process in place across the Group and a range of learning solutions to develop key skills, support career progression and role transitions. We actively promote the benefits of further learning and development for all our colleagues, at whatever stage of their career. We provided over 6,000 face-to-face training days to our colleagues. During the pandemic we utilised our digital technology to deliver a range of virtual learning solutions. The success of these virtual learning sessions will enable us to continue to offer bite sized support and development to all our colleagues, offering a truly agile learning and development proposition well into the future.

Apprenticeships and early careers

As a Group we are very proud to invest in the development of all our colleagues. We welcome students into our business for early careers work experience and offer learning which supports students in their transition from school to work. Our apprenticeship scheme, which supports our inclusivity and diversity approach, continues to grow and supports not only young participants to achieve formal qualifications in their chosen field, but since 2017, we also offer Advanced and Higher Apprenticeships to existing colleagues wanting to further their professional development. Over 65 young colleagues have completed the level 2 apprenticeships, with the majority staying with the Group. A further 62 colleagues have started an advanced or higher apprenticeship.

Sofology colleagues enjoying tree planting day

Our colleagues

Employee engagement

Creating highly engaged teams is a cornerstone of our success. We listen to our colleagues' feedback and ideas in many ways, including our partnership with Best Companies. We believe a key part of employee engagement is not only listening, but also acting on what our colleagues have to say, and in turn letting them know about the improvements and changes we make. We engage our colleagues through:

- Our Group Leadership Forum, consisting of 70 senior leaders from across the Group. The Forum meets regularly to keep informed with what is happening, collaborate and share best practice.
- Workplace by Facebook is a leading digital platform that allows colleagues to connect and collaborate with each other, while keeping updated about key news from across the Group. Workplace also gives all of our colleagues direct and instant access to our Group Leadership Team, which enables great conversations about what matters most to our business.
- We keep our colleagues informed of performance and strategy through regular meetings led by the Group Leadership Team and updates via Workplace and Crafted, the Group-wide magazine.
- The Executive Directors attend key business meetings throughout the year, including regular trading performance review and capital allocation meetings, and present financial results to our colleagues in live "Town Hall" sessions which are streamed live via Workplace to give access to all colleagues.
- The Chairman and other Non-Executive Directors attend meetings with our colleagues, when they attend the Employee Voice Forum and visit showrooms, factories, and warehouses. During the year, the Board appointed a Designated Non-Executive Director to ensure we continue to focus on the views of our colleagues.

Helping our colleagues to do the right thing.

All our colleagues must be equipped to make the right decisions. The Group supports this by consistently promoting and embedding our policies, processes, and training. Our Group Code of Conduct outlines Group values and the behaviours we expect. Colleagues also receive mandatory online training on Anti-Bribery, Modern Slavery and Data Protection.

If our colleagues witness something inappropriate, they can report the matter to their line management, or make use of our independent and confidential whistleblowing helpline.

Health, safety and well-being

The health, safety and well-being of our colleagues, customers and partners is extremely important to us, never more so than this year as we face the impact of Covid-19 on our business.

To help our colleagues and customers have confidence in returning to work and to our factories and our showrooms, we developed our Covid-19 response plan:

- Social distancing in place across all sites;
- Sanitising stations installed within all areas for both customers and colleagues;
- Temperature checks for all colleagues at the beginning of their shift;
- PPE provided – face masks and visors made available for all colleagues;
- Clear guidance for delivery teams and our service upholsterers visiting customers' homes;
- Checking/ auditing across all areas that the new processes are being followed by everyone; and
- Created business area specific Covid-19 re-boarding videos, modules, and risk assessments.

Throughout the year we continued to invest in training and development and in improving our processes and practices to ensure that we operate safe and secure workplaces. All colleagues complete online training modules to ensure awareness of the Group's 'house rules' for health and safety and these are reinforced with monthly safety messages to refresh and remind our colleagues. Despite the challenges arising from the pandemic during this last year, both our DFS and Sofology retail brands have been awarded the RoSPA Silver Award for continual improvement towards Health and Safety. Sofology has maintained its ISO45001 certification. DFS expects to gain its ISO45001 certification by December 2020.

The Group is a passionate advocate for removing the stigma attached to mental ill-health, actively creating a culture of openness and support. As a Group we have mental health first aiders working across the Group and throughout the pandemic we worked with our colleagues to ensure that whether they were working or furloughed, they looked after their mental health. Our colleague wellbeing resources provide a range of support including direct access to counselling services. We also offer colleagues private medical benefits that give parity to mental and physical health conditions.

Inclusivity and diversity

The Group is committed to ensuring our colleagues can thrive and prosper. Approaching inclusivity and diversity as a business issue reflects our firm view that inclusive and diverse teams, working within inclusive environments, are more innovative, engaged, and deliver better outcomes for our customers. Our colleagues and those suppliers and contractors we work with are expected to embrace a culture of diversity and to be respectful and considerate to others.

Whilst the Group continues to focus on gender and addressing the gender pay gap, our aspirations going forward are to broaden the agenda to encompass all aspects of diversity more widely. Our 2019 conference and 2020 digital 'In the loop' session both highlighted the importance of diversity, inclusion, and reflecting our customer base in the communities that we live in.

Our steering group is committed to building a more inclusive and diverse workforce and we have built on previous years' successful campaigns for International Women's Day and Pride events. Our DFS retail brand celebrated International Women's Day by asking our colleagues what this year's theme #EachForEqual really means to them. In Sofology the team shared lots of colleague stories for our Pride week, joining virtual Pride events, along with offering wellbeing support from our Living Well programme and recommended learning modules from our online training hub.

> "DFS was once again a finalist in the Retailer of the Year in the All About School Leavers Awards for apprenticeship schemes."

Our leadership development programmes ensure inclusion and wellbeing are at the core as we recognise the importance of line manager awareness and we encourage our managers to complete our online modules on diversity and inclusion. We delivered a People's policy skills workshop to our management teams with the focus on effective management of the disciplinary, absence and grievance processes, but with an underlying thread of nurturing an inclusive and diverse workforce.

We continue to promote inclusivity and diversity across our workforce as well as prohibiting discrimination in any form throughout the year. To do so:

- We give full and fair consideration to employment applications from individuals with disabilities to ensure they have equal opportunity for employment and development in our business.
- We continue to try to improve female representation in key business areas that have a traditional skew towards men.
- We set performance targets for a large proportion of the management population to focus on the gender split across all sectors of our business.
- We provide recruitment development workshops for managers with a dedicated section on unconscious bias training covering gender and ethnicity.
- We are building assessment criteria into our online recruitment processes that remove unconscious bias.
- We have family friendly policies for parents.

Details of our most recent gender pay gap report, can be found on page 99 in the Directors' Remuneration Report.

Gender diversity of the Group 28 June 2020

	Year	Male	Female
Directors	20	4 (57%)	3 (43%)
	19	5 (71%)	2 (29%)
Group Leadership Team	20	6 (67%)	3 (33%)
	19	5 (56%)	4 (44%)
Senior managers	20	17 (68%)	8 (32%)
	19	N/A	N/A
All colleagues	20	3,437 (64%)	1,935 (36%)
	19	3,502 (64%)	1,950 (36%)

Male Female

Case study

The young people joining our apprenticeship programmes are taking their first step on building a long-term career with us, a great example of this is Sam Barnes. Sam joined our very first apprenticeship programme in 2014 at the age of 19, having been travelling for a year doing charity work, Sam was looking for an apprenticeship that would give him a trade. Although Sam had never thought of a career in the furniture industry, he was keen to gain the skills involved in upholstery and having the opportunity to complete the Duke of Edinburgh Gold Award alongside the apprenticeship was an added bonus.

Sam excelled through his programme, and with the support from the store team, he gained a permanent position and successfully completed his qualification and Gold Award. Then in 2018 Sam saw an internal vacancy for a Development coach for the Service Manager apprenticeship programme. Having come through the apprenticeship programme himself, Sam was eager to work with and develop young people to give them the same opportunities and support that he had received. Sam was successful in his application and has since redesigned the programmes and now delivers these for both DFS and Sofology.

Sam, showing Alfie, one of our Service Apprentices in Birstall, how the leather colours work.

Our customers

Atticus

Taking pride of place in our customers' homes, we understand the importance of providing responsibly sourced, high-quality, durable products that can withstand the demands of a busy household – all whilst offering the luxurious style, comfort and value for money which our customers love.

Delivering these standards requires a detailed approach, achieved by working closely with our long-standing supplier base. Through our close partnerships, we take on a 'tried and tested' approach, rigorously testing each one of our products to ensure it meets the highest standards of safety and durability. Along with carrying out tests on the structure during production of new ranges, we also carry out a unique process on the first product samples we receive. This involves stripping down the unit entirely for one final inspection that can result in further tweaks and improvements – If a product does not meet our quality standards, we will not include it in any of our ranges. The quality of materials and the skill of the craftsmanship mean that we are so confident in the structural durability of our ranges that we guarantee them for a minimum of 15 years. Within the Group we are continually finding innovative ways to create new products that have an eco-friendly story to tell, Sofology will introduce a 100% recyclable 'Heron' eco-fabric, and a sofa made from recycled materials later this year.

As we manufacture many of the sofas we supply, we have direct control of these factors with the sofas that we make in our UK factories. We know where the raw materials are sourced from, and we can test the finished products to levels beyond industry standards in recognised accredited test laboratories.

To ensure we deliver the highest levels of customer service we make significant investment in training and developing our colleagues. Colleague performance and customer satisfaction are monitored through regular inspections, customer surveys and, for some of our brands, mystery shoppers which are carried out through an independent consumer research group.

Customer referral is the perfect indicator of excellent customer satisfaction and we use Net Promoter Score ("NPS") as a measure of recommendation, which provides us with an internationally recognised predictor with proven links to business success. NPS forms a component of remuneration for colleagues throughout the business, including salespeople, management, head office teams and Executive Directors.

Our suppliers

We have long standing relationships with our upholstery suppliers and close contact with them is maintained through frequent visits by our operational and senior management team. This year more than ever those relationships have proved crucial to the success of our business. We work with our suppliers to monitor and improve quality and performance, and ensure compliance with our ethical trading standards.

We go to great lengths to ensure the quality and safety of all the products we sell. With over 50 years of designing and manufacturing sofas in the UK, our unique knowledge of the manufacturing process enables us to understand and work with our suppliers worldwide to ensure they can meet our quality standards.

Our own detailed quality checks and product testing are supported using independent safety specialists, and all upholstered furniture items are offered with a minimum 15-year guarantee. Fire safety is of paramount importance, so all our products are tested by independent UKAS accredited organisations to ensure they meet our rigorous standards policy.

We are very proud that our upholstery products carry the British Standards Kitemark™ for domestic furniture making. DFS is the only furniture retailer and manufacturer to have been awarded this prestigious external quality standard across all our ranges.

Business ethics

Whoever we work with and wherever they are based, we expect suppliers to comply with our Supplier Code of Conduct. We have a clear Anti-bribery policy in place and all colleagues dealing with third parties are expected to undergo training in this area. The policy makes clear our zero-tolerance approach to any breach of the Bribery Act. Our contracts with suppliers are clear about the standards we expect them to comply with and we require all our Suppliers to certify that they comply with the Supplier Code of Conduct.

To assist our colleagues in doing the right thing we have a clear whistleblowing policy supported by an external, confidential reporting hotline which enables colleagues to report concerns in confidence.

Modern slavery

We respect and uphold human rights and the Group does not tolerate modern slavery in any part of our operations or supply chain. We have developed a series of steps to mitigate the risks of slavery or human trafficking within our business, including: formal communication with new and established suppliers, and regular visits to suppliers both in the UK and overseas to audit our suppliers' practices in accordance with our Supplier Code of Conduct. Our suppliers must be able to demonstrate that they operate to recognised standards, uphold human rights, and prevent modern slavery. Our statement made in accordance with the Modern Slavery Act 2015, which contains further information, is available on our website at http://www.dfscorporate.co.uk.

Our communities

We recognise that we have both a responsibility and an opportunity to make a difference to people's lives in the communities where we live and work. We do this in many ways across the Group, from raising money for charity, right through to donating our products to help those in need.

As we entered 2020, we watched the world face one of its biggest ever challenges, that has impacted lives all over the world. Clear leadership and quick decision-making, supported by the extraordinary efforts and attitudes of all our colleagues, enabled us to continue to support our customers, support our suppliers, develop new safe ways of working and do our bit for the UK's NHS heroes.

The Group provided urgent support to around 50 NHS hospitals during the pandemic, donating and delivering sofabeds, sofas and recliners allowing health workers to enjoy much needed rest whilst remaining on site between shifts to support the patients. Our factories supported the Love of Scrubs campaign, with volunteers in the factories cutting 7,300 sets of scrubs to be sewn outside by the Love of Scrubs Group.

Actions in response to Covid-19

Our response in numbers

Over £100,000

of sofas and sofa beds provided to the NHS hospitals between April and June

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£300,000

of products for Children in Need for families impacted by the pandemic

We will continue to work together as a team to ensure that we do everything we can to help to limit the impact of the pandemic in the communities in which we live and work.

Giving Back: an innovative new charity and volunteering strategy

In 2020, just before the Coronavirus lockdown, we launched Giving Back at DFS, an innovative new way for colleagues and the Company to make a difference to the communities where we live and work. Through Giving Back, we have committed to raise and donate up to 1% of our Profit Before Tax every year, give every colleague one day's paid volunteering and donate up to 1% of our products (volume) each year to charitable causes and organisations who need them the most. From planting trees to helping at local homeless shelters, every one of our colleagues is encouraged to get out into their community and support a cause close to their heart.

DFS and BBC Children in Need

2019/20 saw DFS raise over £450,000 for BBC Children in Need. Together with our customers we have raised over £5,000,000 for BBC Children in Need over the last eight years. This year after talking to our colleagues about what they considered important, we decided to take our partnership with BBC Children in Need in an exciting new direction – a DFS Funding Programme focusing on the mental health and well-being of children & young people.

Over the next three years, the money raised by DFS and our customers will support 7,500 children and young people showing severe mental health issues, which will help to keep them safe and improve their emotional wellbeing. Our money will provide one-to-one support and specialist counselling that will make a real difference to their lives. In addition to this we have also pledged £300,000 of products to Children in Need to help those children and young people who have been most affected by the Covid-19 pandemic.

We also want to help our colleagues create a real local connection to BBC Children in Need and have a better understanding of the difference that our partnership makes in their local community. That is why we are connecting all DFS showrooms, customer delivery centres, manufacturing sites and offices with a BBC Children in Need project or partner that is within ten miles of them.

The Pennies Foundation

During the year, Sofology chose to partner with the registered charity "The Pennies Foundation". Pennies works with Sofology to allow customers to support the six local charities nominated by Sofology colleagues for each Sofology retail region. The charities selected by the colleagues provide support for smaller local charities working with children and young colleagues across the UK in a range of challenging situations. As well as supporting these charities through customer donations, Sofology colleagues have completed individual fundraising activities to raise extra funds, including a bike riding marathon, an ice bucket challenge in our North Region for Grace House, and a skydive for CATTs in our North Central region. Now lockdown has eased, Sofology colleagues have now started to volunteer for Grace House in their garden area, as well as helping with painting their new therapy rooms.

Duke of Edinburgh

The Group continues to benefit from our long-standing partnership with the Duke of Edinburgh Award Scheme. DFS remains a Silver Partner of the Duke of Edinburgh's Award, with the focus of our partnership being supporting young colleagues to develop new skills and gain valuable experience through our apprenticeship programme.

Working with all our partners we will continue to work to ensure we make a positive contribution to the society in which we live and work.

Section 172 statement

Our Section 172(1) Statement describes how the Directors, individually and collectively, acting in good faith have exercised their duties over the course of the year to promote the long-term success of the Company for the benefit of its members as a whole, and in doing so have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006.

Our stakeholders

The Directors consider that the following groups are the Company's key stakeholders. The Board believes that understanding the respective interests of such stakeholder groups so that these may be properly considered in the Board's decisions, is not only the right thing to do, but is fundamental to our ability to drive value creation over the longer term. Now, as we enter a new financial year adapting to new ways of working and living due to the impact of the global Covid-19 pandemic, balancing the needs and expectations of our stakeholders has never been more challenging or more important.

We have grouped our stakeholders into seven key categories and have provided an overview of the way in which the Board acted with regard to these groups when making key strategic decisions.

We do this through various methods, including: direct engagement by Board members; receiving reports and updates from members of management who engage with such groups; and coverage in our Board papers of relevant stakeholder interests with regard to proposed courses of action.

Our colleagues

see pages 61.

The strength of our business is built on the hard work, loyalty, and dedication of all of our people. Our colleagues rely on us to provide stable employment opportunities to enable each of them to realise their potential in a working environment where they can be at their best. We are committed to developing our people and have a strong culture of learning and development including an award-winning apprenticeship scheme.

Our customers

see page 61.

Our customers are the reason we exist.
We are dedicated to providing innovative, attractive, design-led, high quality products to new and existing customers at great value.

Our suppliers

see page 61.

We rely on our raw material suppliers and our suppliers of finished goods to manufacture our products to the highest standards, on commercially attractive terms and on short lead times. Our landlords provide the real estate that we fit out and operate as our showrooms and Customer Distribution Centres. We work with a range of key suppliers who provide our IT systems, maintain our sites and provide us with the goods and services to operate our business. Our suppliers relied on us to generate revenue and employment for them throughout the 2020 financial year.

Our communities

see page 62.

Communities and the wider public expect us to act as a responsible company and neighbour, and to positively impact the local communities in which we operate.

Our environment

see pages 62.

Our people and our customers require us to minimise any adverse impact we might have on the environment.

Our investors

see page 62.

We rely on our shareholders and providers of debt funding as essential sources of capital to further our business objectives. They rely on us to protect and manage their investments in a responsible and sustainable way that generates value for them over the long term.

Our regulators

see page 62.

We seek to enjoy a constructive and cooperative relationship with the bodies that authorise and regulate our business activities. This helps us maintain a reputation for high standards of business conduct.

Considering the long-term impact of decisions

Within the retail sector, the operational cycle is short due to a variety of consumer patterns and seasonal factors. Despite this, the Board remains mindful that its strategic decisions can have both short and long-term implications for the business and its stakeholders, and these implications are carefully assessed.

The most prevalent example of this is in the Board's decisions with regards to capital allocation. During the year, in approving the Company's budget the Board balanced:

- the need for capital expenditure on new and existing showrooms, warehouses, and systems to support operational performance; with
- a desire to remain resilient to risks, attract, and retain long term investors by growing the value of the Company and returning surplus capital to shareholders.

Considering our colleagues

Our colleagues and the members of our wider workforce are our most valuable asset. The Board takes active steps to ensure that the suggestions, views, and interests of our workforce are captured and considered in our decision-making and that the health and wellbeing of our employees are prioritised.

This year as the pandemic spread, our first actions were to focus on the health and safety of our colleagues. We continued to support our furloughed colleagues at a time of growing financial uncertainty, fully protecting salaries in April and maintaining salaries at 80% of full pay until colleagues returned to work, in excess of government salary caps.

Colleague engagement

The Group benefits from having a CEO and CFO who have served with the Group as employees for several years before joining the Board. They both maintain a high degree of personal oversight and engagement in the Group's day to day operations. This knowledge of the business and active style of engagement means our Executive Directors maintain an acute insight into the mood, culture, and views of our people, which they then report on to the wider Board.

There are a number of effective workforce engagement mechanisms in place across the Group:

- Workplace, our online platform for colleagues, facilitates ongoing, meaningful performance and development conversations between managers and teams. Workplace provides a forum for positive and constructive feedback by individuals, peers, and managers.
- Employees are kept informed of performance and strategy through regular presentations, Town Hall meetings and Workplace updates from members of the Group Leadership Team.
- Employee engagement surveys are undertaken annually, and the results are reported to the Board. In addition, we use Workplace to conduct pulse surveys to help us to quickly check in and understand how colleagues are feeling. The most recent one looked at how people felt coming back to work after the pandemic shutdown.
- The Chairman and other Non-Executive Directors attend meetings with our employees, through the Employee Voice Forum with the Group People Director, and where appropriate Executive Directors and visit showrooms, factories, and warehouses.
- Our use of technology has enabled us to accommodate most meetings and communications remotely. This helps support flexible working and enabled employees working remotely during the pandemic to stay in touch.

These meetings provide effective engagement and open discussion on the key business issues, policies, and the working environment in different parts of the Group, with actions agreed on issues raised.

The Group People Director attends Board and Remuneration Committee meetings to brief on employee-related matters including: engagement activities; the results of employee opinion surveys; staff retention rates, diversity; numbers and nature of whistleblowing reports; disciplinary and grievance procedures; learning and development activity; pay and reward including gender pay gap; and people initiatives.

The Board considers that, taken together, these arrangements deliver an effective means of ensuring the Board stays alert to the views of our people. In addition, and to strengthen the Board's understanding of the issues impacting the workforce, the Board has during the year appointed a Designated Non-Executive Director to ensure a deeper understanding by the Board of the views of the workforce.

Inclusivity and diversity

Making inclusivity and diversity a central consideration helps the business to attract, retain and develop the best talent from every walk of life.

During the year we:

- Updated our Board Inclusivity and Diversity Policy and our Group Equal Opportunities Policy.
- Focused on developing flexible working with a particular focus on part-time roles within our retail teams to make them more attractive to those colleagues working around family commitments.
- Worked towards increasing the support offered to working parents through enhanced employee leave.

Considering the need to foster the Company's business relationships with customers and suppliers

Customers

As a large retail business, the sentiment of customers can be seen in the Company's underlying sales performance figures and Customer NPS scores, which the Board reviews regularly. The Executive Directors provide updates to the Board on their perceptions of consumer sentiment and the market view. The interests of customers are considered in key decisions e.g. relating to: showroom portfolio changes; selection of product lines including our third-party brands; selection and monitoring of suppliers to ensure quality and safety standards are met; freight and logistics arrangements to maximise efficiencies from order to delivery; the availability of customer credit products; and the development of our Online platform across each of our brands. With the interests of customers in mind, during the year the Board reviewed proposals in respect of: showroom openings ; capital expenditure on showrooms and warehouses; the restructuring of the Dwell operating model and the customer delivery contract with our partner Wincanton; and reviewed our insurance offering to customers. The Board took the decision to sell the Sofa Workshop subsidiary in order to focus resources on our DFS and Sofology brands.

Section 172 statement continued

Suppliers
Throughout the year the Board was briefed on major contract renegotiations and the strategy with regards to suppliers and with certain landlords of the Group's premises. The Board seeks to balance the benefits of maintaining strong partnering relationships with key suppliers alongside the need to obtain value for money for our investors and the desired quality and service levels for our customers. During the lockdown period we worked closely with all our suppliers and valued their support and assistance in agreeing payment plans that helped us to manage our cashflow position until we had stabilised the business and could recommence deliveries into our customers' homes. We have continued to work closely with our suppliers as we developed new ways of working across the Group.

Further details on ethical trading and our focus on suppliers as part of maintaining a reputation for high standards of business conduct are noted below.

Considering the impact of the Company's operations on the community and the environment

The Board supports the Group's approach to Environmental, Social and Governance matters with a view to reducing adverse impacts on the environment and supporting the communities in which we live and work. Please see pages 48 to 59 of our Sustainability and Responsibility Report for details. The Board has oversight of the Group's ESG Strategy and targets, with the Senior Independent Non-Executive Director acting as the Board sponsor in this area.

The Board intends to give further consideration in 2021 to the Group's phase 2 ESG targets.

Considering the need of the Company to maintain a reputation for high standards of business conduct

Corporate governance
Our reputation is key. It underpins our ability to earn the loyalty of our customers and to grow our business. The Board recognises the importance of operating a robust corporate governance framework, and you can read about how we comply with the UK Corporate Governance Code and our approach to governance in our Corporate Governance Report on pages 66 to 75.

Ethical trading and responsible sourcing
The Audit Committee exercises strong oversight over the Group's activities in these areas including reviewing the work of the internal audit function, and reports to the Board on such topics as appropriate.

During the year, the Board approved the Group's Employee Code of Conduct with which all our People, employees, consultants and sub-contractors must comply and the 2019 Modern Slavery Transparency Statement, published at https://www.dfscorporate.co.uk/governance/policies. A new employee training module on understanding Modern Slavery was rolled out across the Group. All our Suppliers are required to sign up to our Supplier Code of Conduct and to confirm that they comply with the Modern Slavery Act. A copy of our Supplier Code of Conduct and our Modern Slavery Statement can be found at www.dfscorporate.co.uk/governance/policies.

Considering the need to act fairly as between members of the Company

The Company has just one class of share in issue and so all shareholders benefit from the same rights, as set out in the Company's Articles of Association and the Companies Act 2006. The Board recognises its legal and regulatory duties, including under the EU Market Abuse Regulation, and does not take any decisions or actions, such as selectively disclosing confidential or inside information, that would provide any shareholder or group of shareholders with any unfair advantage or position compared to the shareholders as a whole.

Investor engagement
During the year, the CEO and CFO regularly held one-to-one meetings, calls, roadshows, and conferences with institutional investors. The Chairman and Senior Independent Director also engaged with certain major shareholders by way of meetings and calls. There is also regular communication with institutional investors by the Head of Investor Relations and senior management.

During 2020, the Board have engaged with investors on a range of topics, including:
- Governance including Board composition;
- Executive remuneration;
- the Group's Environmental, Social and Governance Strategy;
- Company performance against its strategy; and
- the impact of Covid-19.

The Board receives regular information on investor views in several ways:
- The Company's largest shareholders are invited to listen in to online full year and interim results presentations, at which Executive and Non-Executive Directors are present.
- The Group's corporate brokers provide feedback on market reaction and investor views after full and half year results announcements and investor roadshows.
- Analyst/broker reports and views: independent investment research analysts also have access to Executive Directors as part of their investment advisory roles and are able to attend results meetings, company visits and Capital Markets Days. The analysts' research publications provide timely feedback on financial performance, strategy, and share valuation.
- Reports from the Chairman and other Non-Executive Directors who have direct dialogue with shareholders. Shareholder feedback reports and statements made by representative associations. All shareholders have an opportunity to ask questions or represent their views formally to the Board at the AGM, or with directors after the meeting.

Investors' interests were considered as part of the Board's decisions throughout FY20 including with regard to: obtaining an additional credit facility to protect the Group's cash position at the peak of the Covid-19 pandemic; the issue of new equity finance through a non-preemptive placing of ordinary shares; and the cancellation of the interim dividend, in order to preserve cash within the Group in light of the pandemic.

The Board carefully considers the Group's cash position and forecasts when making decisions on capital allocation and the Company's dividend policy.

Regulators

Our Group is regulated by the Financial Conduct Authority in respect of the provision of credit broking. As a responsible authorised company, we seek always to cooperate and engage constructively with the FCA and meet its standards.

The Audit Committee exercises independent oversight over the regulated Finance business that includes updates on matters under discussion with the FCA.

Tax strategy[1]

We manage our tax affairs responsibly and proactively to comply with tax legislation. The Group's approach is to seek to build solid and constructive working relationships with all tax authorities.

During the year, the Board approved the Group's 2019 Tax Strategy[1] to comply with Schedule 19, paragraph 16(2) of the UK Finance Act 2016 published at https://www.dfscorporate.co.uk/governance/policies. This policy includes a requirement that the Company engages with HMRC constructively, honestly and in a timely and professional manner, and seeks to resolve disputed matters through active and transparent engagement. The Group CFO provides regular updates to the Board on tax matters.

1. Not part of the s172 requirements subject to audit

Financial reporting

The reporting of the Group's financial results is subject to oversight by the Financial Conduct Authority ("FCA"). In preparing its annual report and accounts, the Group maintains an awareness of published FCA guidance to support the quality of its reporting, and where specific enquiries are raised seeks to engage with the regulator in a positive and constructive manner.

Debt capital/credit facility providers and credit reference agencies

The Group CFO and the Company's Treasury team are responsible for managing the relationships with our bank syndicate, and for the Group's cash/debt management and financing activities.

The Group CFO provides regular reports to the Board on these activities including the Company's plans to ensure appropriate access to debt capital, monitoring the headroom and maturity schedules of our primary credit facilities.

The Board approves the Company's Treasury Policy annually.

S172 statement of non-financial information statement

The table below sets out where the other information required to be disclosed under sections 414CA and 414CB Companies Act 2006 can be found in this Annual Report.

Reporting requirement	Relevant information	Policies and standards
The Company's employees	Our Colleagues – pages 52-55 Sustainability and Responsibility report	• Diversity & Inclusivity Policy* • Equal Opportunities Policy* • Whistleblowing Policy* • Group Health and Safety Policy • Group Employment Policies
Anti-corruption and anti-bribery matters	Anti-Bribery – page 57 Sustainability and Responsibility report	• Group Code of Conduct* • Anti- Bribery Policy* • Competition Law Policy • Supplier Code of Practice Standards* • Whistleblowing Policy*
Respect for human rights	Modern Slavery – page 57 Whistleblowing – Audit Committee report page 81	• Modern Slavery Policy* • Data Protection Policy • Privacy Policy*
Social matters		• Tax Strategy*
Environmental matters	Sustainability and Responsibility – pages 50-51	• Environment Policy • Timber Sourcing Policy* • Leather policy

* These policies can be found at https://www.dfscorporate.co.uk/governance/policies

This Strategic Report was approved by the Board on 24 September 2020.
On behalf of the Board

Tim Stacey
Chief Executive Officer

Mike Schmidt
Chief Financial Officer