DFS Furniture plc

Capital and Distribution Policy

This Capital and Distribution policy has been updated for IFRS 16, and refers to "Cash EBITDA" calculated with reference to the statutory cashflow statement rather than IAS17 EBITDA in order to provide investors with transparency of our intended approach.

KEY PRINCIPLES OF OUR APPROACH

1. **The Board holds sole authority for the Group's Capital and Distribution policy, and any decisions on its application**

   This Capital and Distribution policy is reviewed annually by the Board, and will be published on our corporate website and in our annual report. The principles outlined within this policy are however intended to apply for the foreseeable future, absent significant changes in our Group's business model, investment requirements, underlying profitability or market environment.

   This policy has been determined following comprehensive review by the Board, including consideration of feedback from shareholders and our advisers.

   The Board retains ultimate discretion on the application of this policy. We believe this policy explains our anticipated decision making approach in reasonably foreseeable scenarios. However, in exceptional circumstances we may deviate from this policy should we believe that is ultimately in the best interests of the Group and its relevant stakeholders.

2. **We will remain mindful of the principal risks the business faces and intend to operate with a resilient, but efficient capital structure**

   In setting targeted leverage levels and available cash headroom under financing facilities, the Board remains mindful of the principal risks that the Group faces, as outlined in the annual report. At present a number of these risks are at 'high' levels, and the Board also views the macroeconomic environment as uncertain.

   The Group therefore intends to operate with a modest amount of leverage so that net bank debt[1] falls within the range 0.5x – 1.0x last twelve months' Cash EBITDA[1]. The Group intends to operate broadly in the middle of the range but may in future move to the top or bottom of that range depending on the anticipated capital needs of the business and the overall outlook for the Group, including our principal risk assessment and the macroeconomic backdrop.

[1] As defined below

3. **In allocating our capital we will always prioritise the long-term health of the Group and commit to investments where we anticipate returns in excess of our cost of capital**

   In deciding our capital allocation approach, we first have regard to the capital needs of the business, whether for operating expenditure or investment in capital assets. We recognise that in any single year there are elements of our spend that are "maintenance" in nature, and we consciously seek to avoid allowing a backlog on spending in these areas to develop.

   We also will always seek to ensure we have sufficient financial resources available to invest in relevant projects that generate a return in excess of our internal cost of capital. Where significant investments are made, they are first reviewed by executive management and also the board, with clear measures established to assess the returns the investment is expected to generate. The performance of these investments is subsequently reviewed to assess performance, drive any further action and learn from previous decisions made.

   The majority of our growth investments are currently in showroom or warehouse assets, where, based on substantial prior experience, we expect to see financial returns beginning to be generated within the short-term.

   Where investments have either unproven returns, or are potentially more risky, we will restrict the size of investment made until either more certainty of performance is established or we will increase the minimum desired returns threshold.

4. **We recognise dividends as an important element of our investment case for our shareholders**

   Subject always to outlook, and investment needs for the Group, the Board intends that the ordinary dividend payout ratio should be between 40% and 50% of annual underlying cash generation in the full year in respect of which the dividend is paid. Likewise, and subject to the constraints outlined in this policy, we would expect to maintain or steadily increase the absolute amount of each dividend payment in line with the growth of the cash generation of our business. The Board therefore may allow the ordinary dividend payout ratio to temporarily rise above 50% in order to maintain the dividend at the same level year-on-year in cash terms. We also may go beneath a 40% payout ratio should the implied dividend yield suggest share buybacks would deliver a better relative value return for our shareholders.

5. **Our dividend payments will only be made from underlying cash generation**

   Barring very exceptional circumstances, we expect that the total amount of the ordinary dividend paid each year on a rolling basis, would not exceed the underlying cash generation generated over the last twelve months. As a result, we would not borrow in order to fund the ordinary dividend, nor would we allow the Group to pay ordinary dividends outside the dividend payout ratio range unless there was a reasonable expectation that the Group would return to that range within the two subsequent financial years, while maintaining the desired leverage range. If necessary, we would therefore reduce or halt the payment of dividends.

OTHER MATTERS

- **Calculation of key financial ratios**

  Net bank debt *- average weekly cleared cash balances net of any revolving credit facility debt balances over the most recent six month period. This calculation excludes lease liabilities outstanding.*

  Cash EBITDA - *Over the most recent 52 week financial period, the sum of (i) Net cash from operating activities before tax (ii) Payment of lease liabilities (iii) Interest paid on lease liabilities (iv) excluding movements in provisions and working capital (trade receivables, inventories and trade and other payables). Each of these items is as stated in the audited cashflow statement of the consolidated group accounts.*

  Annual underlying cash generation *- We will calculate underlying cash generation with reference to the annual change in reported net bank debt excluding (i) any ordinary and/or special dividends paid, (ii) any non-underlying cash costs or exceptional working capital movements incurred, and (iii) any acquisition related consideration.*

  Ordinary dividend payout ratio *- total amount paid to shareholders by way of ordinary dividend divided by the Group's annual underlying cash generation.*

- **Ordinary dividend payment approach**

  We will normally make a final and interim dividend payment each year. We intend, in normal circumstances, that our interim dividend payment will be set at broadly half of the amount of the previous final dividend payment.

- **Special returns of capital**

  The Board holds sole authority for the decision to either pay special dividends or carry out any share repurchases (including for employee share schemes). The Board will consider returning cash to shareholders if average net bank debt over a period is projected to fall in the period below the target level. Any decision to conduct a special return of capital will be subject to known and anticipated investment plans at the time, and the longer-term outlook for the group.

- **Share buybacks for the purposes of employee share schemes**

  Subject to operating with a modest amount of leverage (in line with the principles above), to avoid dilution of existing shareholder interests the Board's intention is for the Group to purchase shares in the market for re-issue under employee share schemes.

- **Distributable reserves**

  The Board will seek to ensure that the parent company has sufficient distributable reserves available from which to make distributions, and prior to payment of a dividend the CFO will ensure that dividends are only paid out of distributable reserves. The Board believes that, in the reasonably foreseeable future, the Group is likely to have ample distributable reserves for the implementation of this dividend policy.

Approved by the Board on 8 March 2021.