15 September 2022 **For immediate release**

DFS Furniture plc (“DFS” and the “Group”)

Preliminary Results

OVERCOMING SIGNIFICANT COVID-RELATED CHALLENGES WHILST SECURING MARKET SHARE GROWTH AND REMAINING FOCUSED ON LONG-TERM VALUE CREATION

DFS Furniture plc (the “Group”), the market leading retailer of living room and upholstered furniture in the United Kingdom, today announces its preliminary results for the 52 weeks ended 26 June 2022 (prior year comparative period is the 52 weeks ended 27 June 2021, non Covid-19 disrupted comparative period is the unaudited pro-forma 52 weeks to 30 June 2019[1]).

£m	FY22	FY21	Change	Pro-forma FY19[1] (unaudited)	Change
Revenue	1,149.8	1,060.2	8.5%	996.2	15.4%
Revenue excluding Sofa Workshop[3]	1,149.8	1,055.1	9.0%	957.4[4]	20.1%
Digital % of revenues excluding Sofa Workshop	*22.3%*	*34.3%*	*(12.0%pt)*	*17.0%*	*5.3%pt*
Underlying PBT(A)[2] from continuing operations	60.3	109.2	(44.8%)	52.6[4]	14.6%
PBT from continuing operations	58.5	102.6	(43.0%)	46.0[4]	27.1%
Basic underlying EPS[2] from continuing operations	17.5p	37.3p	(53.1%)	19.3p	(9.3%)
Basic EPS	12.3p	34.5p	(64.3%)	16.5p	(25.5%)
Net bank debt[2]	90.0	19.0	(373.7%)	176.3	49.0%
Leverage[2]	1.1x	0.2x	0.9x	2.0x	(0.9x)

[1] As previously published, in 2019 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.
[2] Definitions and reconciliations of KPIs including Alternative Performance Measures (“APMs”) are provided at the end of this statement in Note 12 to the condensed consolidated financial statements.
[3] Sofa Workshop was disposed of by the Group in September 2020.
[4] Also excludes the discontinued Netherlands and Spain businesses to be consistent with FY21 and FY22.

Financial summary:

- Revenue from continuing operations was £1,149.8m (FY21: £1,060.2m). Revenue from continuing operations (excluding Sofa Workshop) grew by £192.4m or 20.1% compared to the non Covid disrupted pro-forma FY19 period[1] (up 15.4% on an as reported basis vs. FY19 pro forma)

underpinned by a strong order bank entering the year, as well as double-digit order intake growth across both brands driven by market share gain in DFS and new showroom openings in Sofology.
- Online mix of 22.7% still significantly ahead of the pro-forma FY19 period[1] but now normalised versus the higher levels in the FY21 financial period which was impacted by Covid-related government lockdowns.
- Underlying profit before tax from continuing operations excluding brand amortisation[1] of £60.3m. Reported profit before tax of £58.5m (FY21: £102.6m).
- Closure of both the Netherlands and Spain businesses, as announced in March 2022, and presentation as discontinued operations; total loss for the period for discontinued operations (including non-underlying costs) £12.8m (FY21: £3.4m loss).
- Increase in net bank debt[1] to £90.0m from £19.0m at previous financial year end with period end leverage[1] at 1.1x as transitory working capital benefits normalise and commenced our special capital return programme (comprising the in year special dividend and the ongoing share buyback programme).
- Board proposes to extend the current £25m share buyback programme by a further £10m and declare a final dividend of 3.7 pence per share for FY22. Following commencement of the Group's special capital return programme, over £75m of excess capital is to be returned to shareholders through ordinary and special distributions in calendar year 2022.
- Further one-year extension of £215m ESG-linked senior revolving credit facility to December 2024.

Operational and strategic highlights

- Progressed our new 'Pillars and Platforms' strategy leading to further market share gains, demonstrating the strength of our business model and our ability to attract customers through digital and physical retail channels at scale.
- Opened seven new Sofology showrooms in FY22 with two further openings planned in FY23, driving additional upholstery market share gain through a proven approach.
- DFS store transformation programme now rolled out across 47 stores, with the refitted stores showing enhanced sales growth and an average payback period of under 24 months.
- Overcame unprecedented Covid-related supply chain challenges which particularly impacted operational and financial performance in the first half of the year.
- Navigated double-digit industry-wide inflationary cost pressures which were carefully absorbed into our product range pricing.
- Continued expansion into the home market with exclusive brand partnerships and significant opportunities to gain market share in the £3bn+ bed and mattresses market by leveraging our existing group platforms.
- Significant progress made during the year in understanding our carbon footprint, leading to product and service innovation.

Current trading

In the fourth quarter of FY22 and first quarter of FY23, order volumes for the Group softened markedly relative to pre-pandemic levels, reflecting a trend seen widely across the furniture industry. The macroeconomic environment remains challenging, given the potential effects of the current high-inflationary environment on consumer behaviour. We therefore present three alternative scenarios for performance in the financial year that are detailed in the Operating Review below. These show an outturn for profit before tax and brand amortisation of between £20m and £54m based upon assumptions of an average market order volume decline relative to pre-pandemic levels of between -15% and -5%.

The £36m profit before tax and brand amortisation outturn in our medium scenario is based upon a market-wide like-for-like order intake volume decline of -10% relative to pre-pandemic levels. It is hard to extrapolate short-term trends into the future, and there are some transient factors likely to have particularly impacted demand over the Summer, including consumer uncertainty on domestic energy prices, reopening of holiday travel and the hot weather. However, the -5% and -10% scenarios would require a continuation of September's recovery from the weaker average trading patterns observed in July and August FY23.

We are targeting cost opportunities on property, supply chain and administrative activities, created by the scale benefits of ongoing DFS and Sofology brand alignments and volume growth relative to pre-pandemic levels. Furthermore we have been reassured to date by consumers' relative tolerance of any necessary price increases to offset inflation and the revenue benefit of the sustained c.3% points of market share that we have captured since FY19. These factors, together with the over a £30m elevated order bank entering the financial year, will provide some insulation to our short-term profit expectations.

Tim Stacey, Group Chief Executive Officer said:

"This has been the most operationally challenging year that we can remember with industry-wide Covid-related supply chain issues, double digit cost inflation on raw materials and ongoing colleague absence and skill shortages. None of this is new news now and we are not alone in having to navigate these issues. In the end what matters is the strength of our business that allowed us to respond to events and to that end I am so proud and grateful to every single one of our colleagues who have shown such resilience, resourcefulness and commitment throughout the year. Thank you.

Looking forward, the UK furniture market continues to be challenging and the outlook for the sector remains uncertain given the macroeconomic environment. From the fourth quarter of the year, we saw a reduction in the volume of orders, which we believe is consistent with the overall furniture retail market, although our elevated order bank will provide some resilience as we enter our 2023 financial year.

In previous challenging environments DFS has performed resiliently and strengthened its market position, by leveraging its fundamental strengths in brand equity, manufacturer access, store sales densities, scale of operations and flexible cost base. In the face of the current slowdown in the market, I am confident that we will emerge stronger.

We will continue to pursue our strategy outlined in our Capital Markets day on 15th March, and stand behind our ambition to grow turnover to £1.4bn and increase our PBT(A)[1] profit margin to over 8%."

[1] *Refer to note 13 for APM definitions*

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Analysts presentation
DFS will be hosting a virtual results analyst presentation at 9.00am today. A live webcast and the presentation slides will be available on the Group's website: www.dfscorporate.co.uk.

About DFS Furniture plc
The Group is the clear market-leading retailer of living room furniture in the United Kingdom. Our Group purpose is to bring great design and comfort into every home, in an affordable, responsible and sustainable manner. We operate an integrated physical and digital retail network of living room furniture showrooms and web sites in the United Kingdom and Republic of Ireland, trading through our leading brands: DFS and Sofology. We attract customers through our targeted and national marketing activities and our reputation for high quality products and service, breadth of product offer and favourable consumer financing options. We fulfil orders for our exclusive product ranges through our own three UK finished goods factories, and through manufacturing partners located in the UK, Europe and Far East, and deliver them with care through our expert final-mile delivery service "The Sofa Delivery Company".

CHAIR'S STATEMENT

Overview

The year to June 2022 was operationally challenging with market-wide disruption caused by the pandemic impacting the Group's manufacturing and logistics operations, and by significant fluctuations in customer demand patterns. Some customers have regrettably experienced delays to their deliveries but our colleagues have responded with great resilience and tenacity. The Board is grateful for their untiring efforts through a difficult year.

Despite these difficulties the Group increased its market share, which tends to occur during challenging economic times, strengthening its base for the future.

Strategy

The Group has made good progress in establishing the organisation, resourcing, systems and integration required to pursue its 'Pillars and Platforms' strategy. DFS and Sofology are supported by Group enabling platforms: Sourcing and Manufacturing, Technology and Data, People and Culture, and the Sofa Delivery Company logistics platform.

This will support the new focus on categories of home furniture adjacent to our core market leadership in upholstered sofas. Progress has also been made in brand partnerships and new product development.
During the year the Group announced its review of its international operations. Following that review the Board concluded that having persevered with these for a number of years the path to creating value was less compelling than a focus on the wider UK and ROI home market. Consequently the decision was made to close the Group's operations in the Netherlands and Spain, which are presented as discontinued operations in the financial statements.

Good progress has been achieved in developing the Group's ESG strategy. To give these complex areas sufficient focus, the Board established the Responsible and Sustainable Business Committee (RSC). Working closely with our CEO and Director of Sustainability, the Committee has reviewed the ESG strategy and targets, has more clearly defined our areas of focus in Planet, People, Customer and Communities, and oversees the work being carried out across the Group.

The Environmental strategy is built around relationships with key suppliers and the team continues to work to leverage the Group's influence and scale as market leader to offer sustainable and ethical products and to drive a more circular product lifecycle.

Financial results

Although earnings fell short of our own expectations, the Group delivered revenue growth of 20.1% (excluding discontinued operations and Sofa Workshop) and underlying profit before tax and brand amortisation[1] of £60.3m – 14.6% higher than our FY19 pre-pandemic comparator*. Reported profit before tax from continuing operations was £58.5m (2021: £102.6m). Reported loss from discontinued operations was £12.8m, which included non-underlying costs of £11.3m.

Excluding the working capital movement corresponding to the normalisation of the order bank, the Group generated free cash flow from continuing operations after tax of £37.2m[2] (2021: £57.7m). This is a continuation of the performance since the Group's IPO that has seen total cash generation before net shareholder distributions of £139m since the end of FY15. The underlying ROCE on continuing operations[1] in the financial year was 18.7%, which is below our long-term targets, but significantly above our assessed cost of capital and implying the potential for strong future shareholder returns from the continued significant capital investment in the business.

The Group's long-term value generation ambition remains unchanged. Through this growth, as set out in our Capital Markets Day in March, we believe there is the potential for significant value creation through share price appreciation and capital returns.

Our purpose, values, and people

The Group has a distinctive culture: our people are proud, loyal and committed to the Group and to supporting each other. The Group retains that sense of being a family, even as the business continues to grow. Recognising that market disruptions have placed stress on our people this year, the leadership team has implemented a number of initiatives to ensure that all our people feel included and supported so they can give their best.

We remain committed to the values which make DFS distinctive, putting our customers and our people at the heart of everything we do. Our purpose was refreshed this year to align with a wider market ambition and reflects our desire to bring great design and comfort into every home, in an affordable, responsible and sustainable manner.

The Board

As previously announced, Mike Schmidt will step down as a Director of the Company on 14 October 2022. Mike has led the finance team through a challenging period and was instrumental in the successful debt and equity raise at the start of the pandemic. He has overseen significant returns to investors with the special dividend paid in May and the ongoing £25m share buyback. I thank Mike for all his hard work since he joined the Group in 2014 and more recently as the Chief Financial Officer since 2019 and wish him well for the future. The Board recognises the importance of the Chief Financial Officer's role and is active in seeking Mike's successor with the help of an external recruitment advisor.

The Group has made significant progress over the last few years operating through challenging conditions. In order to ensure a smooth cycle of Board succession I can confirm that I will be retiring as the Chair and from the Board at the conclusion of the Annual General Meeting on 4 November 2022. An independent sub-committee of the Nominations Committee was appointed earlier in the year who, working with Spencer Stuart, undertook the search for my successor and as we announced on 12 September Steve Johnson will be appointed Chair with effect from the close of the AGM on 4 November 2022.

Steve joined the Board in December 2018 and is currently the Chair of the Remuneration Committee. He has considerable retail experience having previously held several senior roles with major UK retailers, starting his career with Asda and most recently Matalan. I know Steve will be an excellent Chair and provide valuable support for the executive team and strong leadership for the Board.

I am proud and privileged to have been part of this organisation and look forward to seeing the further growth and success of the Group.

Governance

Good governance of the Group remains a priority. The Board values dialogue with our stakeholders and is cognisant of our responsibility to all our stakeholders. The Company's section 172 statement, details of stakeholder engagement and further details of the Board's work will be set out in the annual report.

Capital structure and returns

The Board's approach to capital structure as set out in our published Capital and Distribution policy is to operate with a resilient but efficient capital structure, mindful of the principal opportunities and risks faced by the business. The Board will always prioritise the long-term health of the Group and commit to investments, including share buybacks, where we anticipate returns in excess of our cost of capital. Where we believe we have excess capital, as has been the case over the last 12 months, we will return it efficiently to shareholders. We also recognise dividends as an important element of our investment case for many of our shareholders.

In March 2022 the Board announced a £25m share buyback, and I can confirm that up to 12 September the Company has bought back 14.7m shares. Recognising the implied strong returns from this buyback programme that are outlined in the Financial Review, the Board has decided to step outside our usual capital distribution approach. The Board intends to extend the current share buy back, by diverting approximately half of the otherwise intended final dividend payment, and utilise this to purchase a further £10m tranche of shares. This repurchase will take place over the next 3-6 months, subject to remaining within repurchase authorisations granted by our shareholders. Alongside this £10m capital return by buyback, the Board is also recommending a final dividend of 3.7p pence per share (2021: 7.5p), giving a total ordinary dividend for the year of 7.4p (2021: 7.5p).

Upon completion of this further tranche of purchases the Company intends to cancel all the shares held following the buy back programmes.

This 3.7p final ordinary dividend taken together with the 3.7p interim ordinary dividend and 10.0p special dividend paid in May and also the £35m of share buybacks will mean the Group will have returned over £75m of capital to shareholders during calendar year 2022.

While the Board remains mindful of the volatile and challenging macroeconomic environment, the Group's financial position is robust and creates a solid base for long-term cash generation and attractive returns to shareholders.

Looking Forward

These are uncertain times, with the rising UK cost of living placing new pressures on our customers and colleagues. We continue to closely monitor the situation in Ukraine, though the direct risk to our operations and sourcing is low, and our thoughts remain with all those affected. The Group Leadership Team is focussed on controlling the things which can be controlled whilst remaining alert and agile to deal with the unexpected. Notwithstanding the market-wide challenges faced by the Group, the Board is confident that as the market leader in upholstered furniture our people, products and platforms position the Group well to succeed in delivering its strategy and emerge stronger than ever.

Ian Durant
Chair of the Board
15 September 2022

** pro-forma (unaudited) 52 week period ended 30 June 2019 prepared on an IAS17 basis*
[1] *Refer note 13 for APM definitions*
[2] *Refer Financial Review for reconciliation*

CHIEF EXECUTIVE'S OPERATING REVIEW

Overview

We set out our new "Pillars and Platforms" strategy at our Capital Markets day in March 2022. This strategy is designed to lead furniture retailing in the digital age and includes the continued investment in our DFS and Sofology retail pillars as well as our expansion into our new "Home" retail pillar, focused on the beds and mattresses market. We will continue to invest in our platform capabilities including sourcing and manufacturing, technology and data, logistics and of course our people.

We have clear evidence that our strategy is working in terms of gaining market share, based on the proprietary third party data we observe from Barclaycard and CACI. Despite the many and varied short-term headwinds, we know historically that our Group performs well relative to the sector during challenging times and with a clear strategy and focus on execution we remain committed to our long-term strategic and financial goals.

Our financial results for the year reflect the significant operational and supply-chain challenges, which particularly impacted the financial performance in the first half of the year. The results also reflect wide fluctuations in order intake by quarter with relatively strong trading in quarters one and three, followed by weaker trading in quarters two and four. There was clearly a market-wide reduction in demand in quarter four as a result of the well documented cost of living challenges in the UK .

We also saw significant inflationary cost pressures during the year, including increases to the cost of raw materials, freight, people costs and logistics. However, through careful management of our product range pricing we have broadly mitigated the impact on our cash margin.

Over the course of the year, we have navigated through a very challenging operating environment with industry-wide Covid disruption affecting our end-to-end supply chain, from extended manufacturing lead times, Far East shipping disruption and reduced HGV trunking reliability.

This in turn did unfortunately impact our customers, and was reflected in our Post-Delivery Net-Promoter Score decreasing 16.7%pts compared to the prior year, as our customers felt the impact of these delays. We responded by significantly increasing resources in our customer service teams, securing additional warehouse space in the south of the UK and utilising external 7.5 tonne drivers to cope with both additional volumes and disruption.

This action and investment has led to improvements in the second half of the year, with delivery volumes increasing by +7% compared with H1, together with increases in our Post-Delivery Net Promoter Score, which increased by 6.9%pts in H2. However, Covid-linked supply-chain disruption still remained a challenge in the second half.

At our interim results we shared our intention to consult with colleagues in the Netherlands on a potential closure of that business. A similar process was subsequently undertaken in Spain and this resulted in the difficult decision to wind down both of these operations. I would like to thank our colleagues and partners in both the Netherlands and Spain for their valued contributions.

I would like to thank all of our customers for their patience and loyalty as we navigated through these operational challenges. We remain committed to providing the best possible experience for our customers and the external disruption has reduced throughout 2022. I would also like to thank our dedicated colleagues for all of their resilience, resourcefulness and commitment that they have shown in the face of the most difficult operating environment that we have experienced for decades.

With market demand reducing across quarter four, we recognise the macroeconomic uncertainty we face in the new financial year. However, our business is resilient: I believe that we have the strongest customer proposition in the sector from the strength of our brand recognition, the exclusive brand partners that we work with and our unparalleled access to some of the largest furniture manufacturers in the world. Supported by our scale, we also operate with the highest operating margins in the sector and we have clear levers in our control to mitigate the wider economic challenges and proceed with our long-term strategy. Our balance sheet remains strong and we were pleased to continue to reward our shareholders for their support during the peak of the pandemic in 2020 through our share buyback programme and dividend payments.

Finally, I would like to pay a special tribute to two people who have provided tremendous support, encouragement and wisdom throughout my tenure as CEO. After more than five years on the Board our Chairman, Ian Durant, has confirmed he will retire following our 2022 Annual General Meeting on 4 November. Ian has provided great counsel and leadership throughout some challenging times and I would like to take this opportunity to register a personal thank you.

Mike Schmidt, our Chief Financial Officer, leaves on 14 October 2022 to take on a new opportunity as CFO of B&M Home Bargains. Mike has been with our business for eight years and has played an integral role in our modernisation, growth and development and I wish him continued success in his next chapter. I am truly grateful to both Ian and Mike for everything they have done for our Group over their tenures.

I am greatly looking forward to working with our Chair-designate Steve Johnson, one of our current Non-Executive directors. Steve's detailed knowledge of our Group and wider retail experience will continue to be invaluable to us as we move forward with our strategy.

Financial results

Revenue increased by 9.0% versus the prior year on a comparable basis (excluding both Sofa Workshop, which was sold in September 2020 and our discontinued operations in the Netherlands and Spain), however our FY21 revenues and profits benefited from the unprecedented surge in customer demand as we exited the first government lockdown, as well as being impacted by further showroom closures of up to 21 weeks. A more representative, pre-pandemic comparator period is therefore the pro-forma 52 week period ended 30 June 2019 (Pro-forma FY19)[1]. Against this period, FY22 revenue increased by 20.1% (excluding Sofa Workshop and discontinued operations). This performance is reflective of market share gains, our increased average order values to mitigate inflationary cost trends, as well as ongoing Covid-linked supply chain disruption.

Underlying profit before tax and brand amortisation[1] from continuing operations reduced to £60.3m compared to a profit of £109.2m in FY21, but increased versus an IAS17 profit of £52.6m in the pre-pandemic pro-forma FY19[1] period. Reported profit before tax from continuing operations was £58.5m compared to a profit of £102.6m in FY21 and £46.0m in the pro-forma FY19[1] period.

The exited International DFS businesses in the Netherlands and Spain are presented as discontinued operations, with a total net loss of £12.8m recognised below Group profit after tax. This includes £11.3m of non-underlying termination costs comprising impairment of goodwill and leased property assets, write downs of related inventory and redundancy costs.

Net bank debt[1] in FY22 increased by £71.0m to £90.0m which reflects the capital returns made to shareholders in the year, which consisted of £28.4m of ordinary dividends, £25.4m of special dividends and £4.4m of our £25m share buyback programme completed by the year end. In addition we saw the anticipated reversal of the working capital benefit from FY20 and FY21 as the order book normalised (and related customer deposits held reduced) and landlord payments agreed to be deferred from FY20 were repaid. However, due to our robust underlying cash generation, our year end leverage[1] was 1.1x, close to our target of 1.0x. Reflecting this, we recommend a final dividend of 3.7p per share and an extension of our share buyback programme by £10m.

Operational update

The environment that we have navigated throughout FY22 has undoubtedly been one of the most challenging that we have faced in our history, with Covid-related supplier capacity reductions, port and inbound delays, colleague absences and skills shortages and unprecedented raw material cost inflation.

Starting the year with an extremely strong order bank, the first half of the year saw significant disruption to our inbound flow of finished goods, particularly from our Far East suppliers, with production and inbound deliveries impacted by port closures and shipping challenges.

This disruption of our regular inbound flow of goods to our distribution centres resulted in additional stock holding requirements and we sourced two additional modern and large warehouses to cope with the increased capacity requirements we have seen. The new warehouses are key in our integration of the DFS and Sofology delivery networks, and will serve as significant hubs in our future operational approach.

Additionally, our final-mile delivery network and our own manufacturing resource was impacted by high Covid-related absence levels as well as the much reported nationwide lorry driver shortages, resulting in a greater reliance on using third party delivery partners.

We saw improvements in the second half of the year with reduced levels of Covid-related absences and an increase in the reliability of inbound from our Far East suppliers. Although we incurred one-off operational costs, including additional temporary warehouse space, an increase in customer service and warehouse resource and utilisation of third-party delivery partners, this operational response helped us to significantly increase deliveries, with second half gross sales[1] outperforming first half by 7%. We also saw an improvement in our Post-Delivery Net Promoter Score by 21% in the second half of the year.

Challenges remain, with continuing raw material inflation and further Covid-related supply chain impacts. Driver shortages also continue to be a problem in the UK, however, we have recently implemented our driver training school to increase our internal resource of delivery drivers. This involves training 3.5 tonne vehicle drivers to be able to drive 7.5 tonne vehicles, as well as running our 'Warehouse to Wheels' scheme, training our warehouse colleagues to become qualified drivers. Furthermore, our scale and our size does give us an advantage over our competitors, with our ability to forward buy both Far East freight capacity and foreign currency, providing mitigation against the current challenging consumer environment.

Looking forward, although operating challenges remain, our geographical spread of suppliers, our dedicated final mile delivery network and warehousing facilities and our size, scale and operational agility leaves us well placed to mitigate any further operational risk.

Review of strategic progress

Over the past three years, our vision has been to lead sofa retailing in the digital age and our strategy has been to establish our new scale, following the continued significant gains in market share achieved. The strategy was centred upon three interrelated themes (Drive DFS Core, Build the Platforms, Unlock New Growth) delivering incremental annual profits of £40m. We now believe that we have established this higher scale.

Our new vision is to lead furniture retailing in the digital age, and we will pursue this through our 'Pillars and Platforms' strategy that will unlock new categories of growth, while leveraging our proven and leading upholstery market make-to-order model advantages.

The strategy of the business is made up of three pillars: Our DFS brand, our Sofology brand and our expansion into the home market. The growth of our three pillars will be enabled by our four group platforms: Sourcing and Manufacturing, Technology and Data, People and Culture and the Sofa Delivery Company logistics platforms.

Our ambition in delivering this strategy is to increase Group revenues to £1.4bn by FY26 or if the weak economic environment persists FY27, and through the scale efficiencies of our platforms we aim to deliver a growth in PBT(A)[1] profit margin in the medium term to over 8%.

Our pillars - DFS

The DFS brand is the largest and most profitable brand in the Group, and the key priority of our strategy is to make the most of our strengths and drive the growth of the brand across all channels. Key initiatives have been to unlock new growth from our ongoing showroom transformation programme, investing in new ranges and exclusive brands and via our leading retail execution, our people and our marketing.

We believe that our integrated retail approach delivers the UK & ROI's best sector showroom experience for upholstery, encompassing our new showroom formats with our diverse and talented retail teams, together with the best sector online presence as measured by brand strength, range, enhanced technology and platform scale. Online penetration remained strong in the year at 25% and DFS remains the clear market leader for the online retail of sofas, demonstrating the importance of our investment in our leading integrated retail capabilities.

We have continued to extend our appeal to a wide range of customers, to enhance our position as the UK leader in living room furniture across all segments. Attractive, exclusive and strategic brands and ranges have been developed using our constantly improving data platforms, which allows us to maximise the appeal across our product portfolio, without diminishing our appeal to customers traditionally focused on value. Using all of our customer and marketing segmentation data, we have created the product style wheel which ensures we have a product range to cover all of our customer segments, as well as speedily identifying any underperformers and increasingly embedding sustainability into our ranges. Our exclusive brands are a key way of differentiating us from the rest of the market, which include partnerships with Joules, French Connection, Country Living, Grand Designs and Cath Kidston amongst others. We have been increasing our supplier base to ensure we have more models and to support our market share growth.

Key highlights of new products launched during the year include our DFS Storeaway collection. Mixing style and comfort with ingenuity and technology, it contains hidden features from USB charging devices, additional storage drawers, lights, cup holders and even hidden sofa beds. We also launched the dfsvegan range of sofas which are 100% animal-product free. These sofas also received the approval of PETA, a charity dedicated to establishing and protecting the rights of animals.

We have invested in our store transformation programme which has to date been rolled out across 47 DFS stores. The key differences this brings are improved lighting, better space optimisation, creating clear sight lines and improved accessorising. With better zoning of product styles, this helps to strengthen the look and feel of the showroom and gives consistency across the channels. The refit programme has led to an increase of 5% sales across the like-for-like refitted estate, with a typical refit costing around £300k leading to a payback period of under 24 months.

Our people and our retail execution are key to our continued success, with our people being at the heart of everything we do. We are focused on improving our gender balance, with 46% of our store colleagues now being female, aided by the increase of our part-time mix to 47% (FY21: 29%). Whilst we feel that this is the right thing to do culturally for the business, it also ensures that our sales teams are as effective as possible, with the increased part-time mix improving the flexibility of our teams and helping to ensure we have more sales colleague resource during our peak trading times.

This year, our Intelligent Lending Platform (ILP) went live, with the aim of transforming interest free credit. Interest free credit is a key part of our customer offer, but it is a time consuming process for both customers and colleagues, and at peak periods it prevents us from serving as many customers as possible. The introduction of ILP has addressed both of these issues, with the process now taking 15 minutes less than it did previously, shaving off a third of the time of order build. It also allows complete-at-home functionality, soft credit searches and simpler second line referrals that increase our customers' likelihood of obtaining the credit that is right for them.

We have continued to see market share growth over the past two years, and going forward we see a clear opportunity to continue extending the market leadership of the DFS brand.

Our pillars - Sofology

We have made progress this year in increasing the number of geographical locations of Sofology stores and developing the brand into a nationwide business. Sofology delivered sales and brand contribution growth of 18% and 16% compared with the pro-forma FY19[1] pre-pandemic comparators.

Seven new stores were opened during the year in Orpington, Glasgow, Poole, Ipswich, New Malden, Birmingham and Bristol to give a total of 55 stores at the year end, with an additional store opened in September 2022 and one further store planned for FY23.

Sofology has a reputation for being trend and design focused. The ethos of the brand is 'feeling at home on a sofa you love', which conveys the emotion and importance of purchasing the sofa for a home. A critical feature in the Sofology model is its 'no sales' approach, which is unique in the market and helps differentiate Sofology as the boutique brand on the retail park. Our distinctive advertising builds on this differentiation, using well known actors who are equally celebrated for their own individual sense of style. This year Helena Bonham-Carter has played a key role in Sofology advertisements and her unique style and creativity has proved a strong fit for the Sofology brand.

In terms of product, Sofology is strategic in its range development whilst continually pushing innovation. During the year, Sofology launched its ‘Sustainable Edit’ collection. This includes the ‘Spring-bond’ product designed exclusively for Sofology as a replacement for foam interiors. This British made product is chemical free and is made from 80% recycled materials and is 100% recyclable and is a cleaner, greener foam alternative.

New product launches in the year include the Brantwood and Midland Hill ranges in collaboration with George Clarke. George is an aspirational designer and architect and very accessible to our customer base. Both products are FSC accredited and there are further products in development, with George being a natural fit with our ‘lively lifestiles’ customer who want style, comfort and design that offers practical living solutions.

We continue to see the opportunity to grow the Sofology brand to 65-70 outlets in the medium-term, targeting revenue of c.£300m at a pre-tax profit margin of 5-7%.

Our pillars - Home

As a Group, we view the beds and mattresses segment as a key opportunity. With an addressable market size of £3bn per annum, our ambition is to grow market share in this segment to 4%. We are able to utilise many of the Group’s assets, including; sourcing and manufacturing capability for upholstered furniture, web and logistics platforms, marketing expertise and differentiated brand partnerships. We already have 800,000 customers each year with many utilising our leading interest free credit offer and we have a really strong opportunity from our existing customer base.

A key element to achieving this strategy is product awareness, we have therefore been investing in ‘above the line’ marketing and in turn have released our first non-sofa TV advert earlier this year, focusing on our bed range.

Our platforms

The growth of our three pillars - DFS, Sofology and Home are enabled by our four group enabling platforms: Sourcing and Manufacturing, Technology and Data, People and Culture and our Sofa Delivery Company Logistics platforms.

Technology & data platforms

Over the past few years, the Group has invested heavily in its collection and use of technology and data, with the ambition of our data platforms being to unlock new growth for our brands and to drive operational efficiencies in our cost base.

We are currently investing in our ‘Integrated Retail Intelligence System’ (IRIS), which integrates 35+ data sources to provide a 360-degree view of the Group. This cloud-based solution incorporates AI and machine learning decisioning and process automation to gain insights across every element of the customer purchase cycle, thereby driving additional performance and growth in the business, at a sustainable increased efficiency. Ultimately, the use of data gives our colleagues the power to make faster and better data-led decisions.

One example of this is our growth engine, which combines multiple datasets to identify how to best market in specific localities. This helps to drive better, more efficient marketing spend.

Another application we have developed is Workforce Optimisation, which combines both footfall predictions and workforce data. By predicting footfall ten weeks in advance, we are able to improve peak-time conversion in our showrooms by ensuring we have sufficient resources in stores at the right time, and we have seen sizeable improvements in conversion at our peak times as a result of this tool.

We have also made great strides in improving our logistics platforms. Apollo is our vehicle planning and optimisation tool, which allows us to plan delivery routes within capacity to maximise the fleet, reduce the volume of vehicles on the road and reduce our use of third party delivery partners. It uses advanced algorithms to automatically optimise delivery schedules every time a new delivery is booked. It has led to an increased efficiency for our colleagues, with the time to schedule our last mile fleet on a daily basis reduced to three minutes, unplanned overtime reducing by 19% and fuel consumption reducing by 18%, providing cost savings as well as reducing our environmental impact.

These, as well as the aforementioned Intelligent Lending Platform, are just a few examples of the advances in data we have made and the benefits we gain from them.

Sourcing and manufacturing platforms

It is key to acknowledge that as a Group, we already have a significant competitive advantage from our sourcing and manufacturing. We have been producing made-to-order sofas for over 50 years, and for over 20 years we have developed partnerships around the world with the biggest furniture manufacturers. Our capacity, design style and business model are hard to replicate, and our scale gives cost price advantages.

We look to continually improve the efficiency and performance of our manufacturing sites. During the year we commenced the refurbishment of our Doncaster manufacturing facility. This involved reconfiguring the site, reducing the level of manual handling on site, creating a better flow of the production process and increasing available working space to enable increased storage, reducing the risk of stoppages from materials not being on site. Work on this is set to be complete in the first half of the 2023 financial year.

Over the next few years, we will be further investing in our manufacturing to create the UK's most responsible, resilient, flexible and efficient manufacturing operation and aim to increase capacity for DFS and Sofology. We will ensure ESG remains a key priority, therefore our focus will be on ensuring we are as efficient as possible; reducing supply chain delivery miles and reducing product build complexity, whilst continuing to lead on recycled components.

The Sofa Delivery Company

Our group logistics platform, the Sofa Delivery Company was launched in June 2021, with the objective of providing the best delivery service in the market for our customers and our colleagues. This involved merging our DFS and Sofology delivery networks into a single combined network, improving both the service for our customers as well as cost efficiency savings.

The Sofa Delivery Company operates on a ‘4 days on, 4 days off’ work schedule which provides an attractive work-life balance for our drivers. This enables us to offer extended delivery hours to our customers seven days a week.

Significant progress has been made during the year integrating both brands onto our delivery planning system, Apollo, as well as the roll out of one stock-management system across the Group. The next key rollout will be the postcode integration mapping which will mean that any of our vans will be able to deliver mixed loads of customer orders from either brand, unlocking even more efficiencies.

We have also made progress in creating a distribution network that is the ‘right size’ for the Group’s scale, with two new warehouse sites opened across FY22.

ESG

As a Group, we continue to be guided by our purpose which is to bring great design and comfort into every home, in an affordable, responsible and sustainable manner.

We launched our ESG strategy in September 2020, with a strong focus on the Environment based on our “Sofa Cycle” approach and have continued to make significant progress on a range of fronts for our key stakeholders over the past two years, as detailed below.

Environment

The Group's 'Sofa cycle' is based on the circular economy concept meaning that sustainability is increasingly embedded across the Group. Critical to the long-term success of our sustainability goals is the creation of a credible roadmap. The first step on this journey is to fully understand our carbon footprint and we have made significant progress during the year, and are now able to report our total carbon footprint including Scope 3 emissions for the last four years. Although there are clearly specific challenges to the Group to overcome in order to become Net-Zero by 2040, we now have the data and foundations on which to build a credible plan.

Across the Group we are developing innovative products to support our sustainable strategy. During the year, DFS launched its Grand Designs beds collection using only the most innovative and sustainable materials. Sofology introduced the 'Sustainability Edit' collection which includes a full recycled foam alternative, recycled fabrics and wooden frames from sustainable sources.

We continue to invest in testing new materials and developing new innovative ranges with our key suppliers. This includes a partnership with Imperial College and the Royal Institute called the 'Centre for Climate Change Innovation', to address specific material challenges.

During the year we incorporated sustainability KPIs into our revolving credit facility with a group of our relationship banks, ensuring coverage across both environmental and social areas. Our first measurement period was December 2021 and I'm pleased to report that all of our externally assured sustainability targets were achieved.

Social

We launched our diversity and inclusion strategy last year and have continued to drive the conversation around other forms of inclusion and diversity with internal education and engagement activity, alongside the creation of longer-term plans across our brands, operating teams and central offices to make a measurable difference to the makeup of our workforce.

We saw heightened engagement with calendar events including Black History Month, International Men's Day, World Religion Day and International Day of Persons with Disabilities and the official inception of our LGBTQ+ & Allies Network came to life during Pride Month.

Across the DFS Group, we want to create a culture where everyone feels welcome. We believe a big part of making this happen is supporting our colleagues to lead happy, healthy lives at every stage. One of the positives to come from the pandemic has been a greater care and appreciation of our mental, physical and financial wellbeing.

The Group has responded by introducing a number of benefits and support to our employees focused across Mind, Body and Life. We are confident that our wellbeing offering overall is industry leading and we are working with best-in-class partners to deliver the best for our people - our greatest asset.

Governance

The Group continues to maintain 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.

Furthermore, the Group has established a clear governance structure in place for ESG related matters. During the year the Board introduced the Responsible and Sustainable Business Committee which is chaired by our Senior Independent Director Alison Hutchinson and comprises myself as CEO, and our non-executive directors, Loraine Martins and Jane Bednall.

Trading Outlook & Scenarios

In the fourth quarter of FY22 and first quarter of FY23, order volumes for the Group softened markedly relative to pre-pandemic levels, reflecting a trend seen widely across the furniture industry. The macroeconomic environment remains challenging, given the potential effects of the current high-inflationary environment on consumer behaviour. We therefore present three alternative scenarios for performance in the financial year:

Scenario:	**Low**	**Medium**	**High**
Like-for-like Market-Wide Order Intake Volume vs FY19	(15%)	(10%)	(5%)
DFS Revenue Growth vs FY19 *(cont' ops)*	c. +10%	c. +16%	c. +23%
DFS Revenues	£1,060m	£1,120m	£1,175m
PBT	£20m	£36m	£54m

The outturn in our medium scenario is based upon a market-wide like-for-like order intake volume decline of 10% relative to pre-pandemic levels. It is hard to extrapolate short-term trends into the future, and there are some transient factors likely to have particularly impacted demand over the summer, including consumer uncertainty on domestic energy prices, reopening of holiday travel and the hot weather. However, the -5% and -10% scenarios we present would require a continuation of September's recovery from the weaker average trading patterns observed in July and August FY23. In all scenarios we reflect the revenue benefit of the c.3% points of market share that we have captured since FY19, the £30m higher order bank in revenue terms entering the year and also the significant growth in average order values seen.

Our retail margin percentages are assumed to be similar in each scenario. We are targeting cost opportunities on property, supply chain and administrative activities, created by the scale benefits of ongoing DFS and Sofology brand alignments and volume growth relative to pre-pandemic levels. However, operating costs further reduce in the lower scenarios, from direct volume-related costs flexing but also incremental cost action of £3m in the medium scenario, and a further £6m of direct cost reduction in the low scenario.

Each scenario is dependent on there being no prolonged disruption to manufacturing production or deliveries in the period, for example due to Covid-related impacts to our supply chain.

Conclusion

This has been the most operationally challenging year that we can remember with industry-wide Covid-related supply chain issues, double-digit cost inflation on raw materials and ongoing colleague absence and skill shortages. None of this is new news now and we are not alone in having to navigate these issues. In the end what matters is the strength of our business that allowed us to that allows us to respond to these events and to that end I am so proud and grateful to every single one of our colleagues who have shown such resilience, resourcefulness and commitment throughout the year. Thank you.

I would also like to apologise to those customers who have experienced delays and disruption to their deliveries. We have invested more in all aspects of our operation and the external supply chain challenges have abated somewhat. As such we feel confident that we have the resources, plans and focus to improve customer satisfaction back to pre-pandemic levels.

Looking forward, the UK furniture market continues to be challenging and the outlook for the sector remains uncertain given the macroeconomic environment. From the fourth quarter of the year, we saw a reduction in the volume of orders, which we believe is consistent with the overall furniture retail market, although our elevated order bank will provide some resilience as we enter our 2023 financial year.

In previous challenging environments, DFS has performed resiliently and strengthened its market position, by leveraging its fundamental strengths in brand equity, manufacturer access, store sales densities, scale of operations and flexible cost base. In the face of the current slowdown in the market, I am confident that we will emerge stronger.

We will continue to pursue our strategy outlined in our Capital Markets day on 15 March, and stand behind our ambition to grow turnover to £1.4bn and increase our PBT(A)[1] profit margin to over 8%.

Tim Stacey
Group Chief Executive Officer
15 September 2022

[1] *Refer to note 13 to the condensed consolidated financial statements for definitions and reconciliations of alternative performance measures*

FINANCIAL REVIEW

The operating environment during FY22 was exceptionally challenging, with a significant number of anomalous and hard to predict factors including (i) volatile consumer demand trends, (ii) significant levels of Covid-linked operating disruption and (iii) the impact of significant inflation.
In considering the consumer demand volatility over the financial year, it is important to first recognise that the Group saw overall positive order intake volume growth relative to pre-pandemic levels despite significant price inflation during the year. There were however also four distinct quarters of fluctuating demand. We entered the financial year with a large order book that was augmented by a strong first quarter of double-digit percentage order intake volume growth relative to pre-pandemic comparator years. This period was then followed by a weak second quarter of order intake, which was likely driven by the forced extension of lead times. Our third quarter once again saw double-digit percentage volume growth, despite double-digit percentage price increases. The final quarter however was again weak across the market as consumer fears around cost of living increases took hold. Therefore, while the overall impact of higher demand leading to higher delivered revenues is positive, the challenges of demand forecasting in this volatile environment increased the difficulty of efficient operational resource planning, supplier management and financial forecasting across the period.

Operating disruption was also a constant challenge throughout the year. In the first half we experienced unprecedented logistics challenges. There was significant disruption to our inbound flow of goods as a result of port closures and shipping challenges, as well as our manufacturers and logistics being impacted by high levels of Covid-related absences and skills shortages. In the second half we saw continued elevated absence and also the impact on raw materials availability and finished goods flow as a result of Russia's invasion of Ukraine. In dealing with these challenges we sought to stay committed to our first value of "Think Customer" - accepting that this approach may carry significant additional short-term cost, but that in the long-term it should reward us in reputational protection and market share gain. We implemented a number of measures in response including taking on additional warehousing space and increased resourcing in our delivery and warehousing network, but also taking on additional customer service team members to seek to manage unprecedented levels of inbound customer contacts. The impact of these mitigating actions is visible in the growth of our operating cost base described below, and has limited the profit benefit from the additional revenues delivered in this financial year.

As with almost all retailers, inflationary effects in both finished goods and operating costs were a constant pressure, throughout the year under review. Our normal operating practice would be to seek to drive operating efficiency to limit changes in pricing of our range architecture. Given the size of the inflationary pressures and Covid disruption-linked inefficiency that we faced, we have had to raise selling prices to mitigate impacts on our profit per customer transaction. We have however consciously sought to protect market share as we have moved prices, recognising also there will be a future opportunity to normalise our cost base as the environment stabilises.

Overall, in FY22 the Group has faced into one of the most challenging operating environments in its history whilst growing revenues, profits and market share over its pre-pandemic comparator*. Our underlying profit before tax and brand amortisation[1] for the full year was £60.3m which was below our internal targets for the year but still represents a significant 14.6% growth on pre-pandemic periods from continuing operations (excluding Sofa Workshop). I would like to take this opportunity to thank all of our colleagues for their hard work, dedication and perseverance in helping us to achieve this outturn.

*pro-forma (unaudited) 52 week period ended 30 June 2019 prepared on an IAS17 basis

Basis of preparation

Having reviewed the performance of our International operations in the Netherlands and Spain and assessed the relative financial returns and execution risks of overturning their loss-making position, the Board concluded that the Group's capital and resources were better focused on the UK and ROI markets. With due consideration for all stakeholders, including consultation with impacted colleagues, the decision was taken to close these operations. The Group's expansion into mainland Europe had represented a specific major component of the Group's growth strategy and had demanded distinct products, supply chain, retail and operational management structures to those of the existing UK and ROI operations. While the revenues ultimately achieved in these territories were modest compared with growth in the rest of the

Group, the withdrawal from the entirety of the Group's operations in mainland Europe is nonetheless a substantial change in strategic focus and structure of the DFS brand business.

Having considered these factors, we have concluded that the International operations represent a major geographical area and it is appropriate to present them as discontinued operations. This means that their revenues and costs are not presented as separate line items in the consolidated income statement, instead being replaced by a single post-tax line item. The financial statements for the FY21 comparative period have been re-stated to be on a consistent basis as required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Following the implementation of our Group-wide supply chain platform, The Sofa Delivery Company, from the start of FY22 the revenue and costs of our supply chain network and manufacturing operations are no longer included within reported retail brand segments. This changed basis of preparation limits comparisons of segment performance across the financial period other than for external revenues and gross sales[1].

Our FY21 comparator period was significantly impacted by Covid restrictions. We experienced elevated levels of pent-up customer demand during the year following an increase in consumer spending in home categories reflecting both the growth in remote working and also reduced leisure and travel spend. In addition to this, our showrooms were closed for up to 21 weeks during that year as a result of government lockdowns. We have therefore also included unaudited pro-forma results for the 52 weeks ended 30 June 2019 (pro-forma FY19)* below to provide additional comparison with a non Covid-disrupted trading period. The year-on-year commentary covering gross sales[1], revenue, gross margin and brand contribution[1] that follows focuses on comparing the results for this financial year to the pro-forma FY19 period*.

**As previously published, in 2019 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. Refer to note 13 for further details on alternative performance measures, and to the FY19 financial statements for the reconciliation from the reported 48 week results to the pro-forma 52 weeks.*

Revenue and gross sales[1]

	Gross sales[1] (£m)				Growth vs. FY19* (%)	
	FY22	**FY21**	**FY19***		**FY22**	**FY21**
DFS (inc Dwell)	1,169.1	1,083.9	979.1		19.5%	10.7%
Sofology	304.9	269.2	260.7		17.0%	3.3%
Others	0.6	-	-		-	-
Sub-total	**1,474.6**	**1,353.1**	**1,239.8**		**18.9%**	**9.1%**
Sofa Workshop	**-**	6.3	34.4		**-**	**-**
Total	**1,474.6**	**1,359.4**	**1,274.2**		**15.7%**	**6.7%**

* FY19 is unaudited 52 week pro-forma period ended 30 June 2019, adjusted to exclude £13.0m of gross sales relating to discontinued operations in Netherlands and Spain

Gross sales[1] from continuing operations (excluding Sofa Workshop) increased by 18.9% to £1,474.6m compared to the pro-forma FY19[1] period. The increase in revenues reflected a combination of growth in delivery volumes (13.9%) and average transaction value (5.0%).

This growth in delivered revenues for both DFS and Sofology was underpinned by a strong opening order book entering the year, which was largely normalised across the year, however it was also supported by underlying double-digit order intake growth in both brands. In DFS this was driven by market share gain driving a strong like-for-like estate performance while Sofology's growth has primarily been driven by new showroom openings.

Our delivered gross sales[1] and revenues were impacted particularly in the first half of the year by significant industry-wide operational and supply chain challenges including port closures, shipping challenges, Covid-related absences and skills shortages across the logistics sector. The Group responded to these challenges, as described above, and as a result the value of gross sales[1] increased by 7% in H2 relative to H1 as a consequence of increased delivery volumes.

Revenue from continuing operations, which is stated after deducting VAT and the costs of providing interest free credit and aftercare products, increased year-on-year by 20.1% (excluding Sofa Workshop), a slightly higher rate than gross sales, driven by a higher proportion of cash purchases resulting in lower interest free credit costs.

Gross profit

	£m		**Percentage of Revenues (%)**
FY21 Gross profit*	**597.1**		**56.3**
Excluding Sofa Workshop	(3.8)		(0.1)
Sub-total	**593.3**		**56.2**
Volumes/Manufacturing	14.3		(0.4)
Inflationary costs & mix	7.9		(2.3)
Foreign exchange	4.1		0.4
Disruption and customer costs	(13.7)		(1.2)
FY22 Gross profit	**605.9**		**52.7**

* Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5

Gross profit increased by 2.1% to £605.9m compared to FY21 (excluding Sofa Workshop), however decreased as a percentage of revenue from 56.2% in FY21 (excluding Sofa Workshop) to 52.7%.

According to the ONS, the UK Furniture sector has seen inflationary cost impacts from finished goods and raw materials price increases of over 18% relative to FY19 levels. Seeking to mitigate the impact of this inflation on our customers we have typically sought to pass the actual cost rises that we have experienced through on a pound-for-pound basis, which has resulted in our cash margin growing by 1.3%, but our percentage margin being diluted by 2.3%pts.

We continue to manage the risk from adverse US dollar exchange rate movements, by hedging our forward US dollar purchases. Our rate for FY22 was three cents higher (favourable) than the rates secured for FY21 and FY23 is broadly similar to FY22. Each one cent movement in the dollar to sterling exchange rate impacts profits by approximately £1m, before mitigation.

In addition to this, our gross profit has been impacted by the end-to-end costs of operating in the current post-Covid environment. Particularly in the first half of the year we saw one-off logistics disruption costs, including significant increases in our inbound shipping and haulage costs caused by high demand in logistics markets. In order to create additional working space within our warehouse network, we accelerated the clearance of ex-display and customer returned finished goods stock, thereby realising a lower margin than we would otherwise typically expect. Finally, in managing the impact of longer, less predictable delivery lead times we saw increased costs from customer allowances and customer returns provisioning.

As we look forward, we believe that the incremental costs of the post-Covid environment are moderating, and while there may be some lingering effects in some cost categories, we expect to see year-on-year reductions of the level of disruption in FY23 and beyond. As an example of this for every $1,000 reduction in the cost of shipping a forty-foot container from the Far East in calendar year 2023 relative to 2022, we would expect our inbound logistics costs to decline by circa £9m in both FY23 and FY24.

Other operating costs

	Operating costs (£m)			FY22 Cost growth	
	FY22	**FY21**	**FY19***	**Vs FY21**	**Vs FY19***
Selling & distribution	338.4	295.5	298.6	14.5%	13.3%
Administrative expenses	62.0	74.8	59.7	(17.1%)	3.9%
Underlying Costs**	400.4	370.3	358.3	8.0%	11.7%
Property costs	29.6	2.0	103.6	(1,480.0%)	(71.4%)
Sofa Workshop	-	0.8	14.9	-	-
Other non-underlying	0.4	2.1	5.1	-	-
Total (as reported)	430.4	375.2	481.9	14.7%	(10.7%)

* FY19 unaudited 52 week pro-forma period ending 30 June 2019, excluding £7.6m of costs from Discontinued operations
** Underlying operating costs have been stated before Sofa Workshop which was sold in the previous financial year, and property costs due to the retail business rates relief in FY21 and the impact of IFRS16 from FY20 onwards

Underlying[1] operating costs have increased by 8.0% to £400.4m vs FY21, and by 11.7% compared to the pro-forma FY19 period[1]. Total operating costs of £430.4m were £55.2m (14.7%) higher than FY21.

In particular, the Group saw inflationary pressure across final mile logistics resulting in cost increases of £2.0m versus FY21. Following the significant gross sales[1] growth of the Group over recent years from showroom openings and market share gains, we have also scaled our supply chain network with increased operating hours, warehouse footprints and fleet size to increase ongoing delivery capacity, leading to a further increase in costs of £5.5m. Finally, the industry-wide Covid disruption seen across the period has resulted in approximately £14.9m of inefficiency and increased one-off operating costs, with increased colleague absence levels, and reduced trunking predictability, in addition to a need to temporarily increase substantially the size of our call-centre and in-home service teams to meet the demands of serving a much larger order bank. We believe that there is a significant FY23 opportunity and normalisation in these costs that will be realised through our routine operational execution.

Wages costs across the Group were also impacted by inflationary pressures, with £7.6m of wage inflation across the year. Our blended increase from our scheduled annual salary review conducted in April-22 was 3.3%, with the majority of the £4.2m full-year costs of that increase to be realised in FY23. While the significant majority of our colleagues are paid significantly above minimum wage levels, we continue to monitor the impact of wage inflation on our business and given the diversity of roles within our workforce, we expect that our average pay increases will be in line with UK-wide trends. To mitigate these effects, we are taking opportunities to leverage our Group platforms, and improve our process efficiency, and we believe that we can access savings of over £10m by FY26.

Under IFRS 16, property costs in the income statement include only business rates and a very small amount of rental charges relating to leases outside the scope of IFRS 16. Property costs increased by £27.6m year-on-year primarily due to the UK retail business rates relief in the prior year of around £29m which applied to the majority of our showroom estate.

There were further cost reductions across administrative expenses of circa £2m with the FY21 comparator including an above-target bonus payment. Administrative expenses increased by £2.3m in comparison to FY19, largely reflecting the increased size and scale of our business offset by group operating efficiencies being realised. In particular, we have continued our focus on digital development, spending a combined £17.2m of operating expenditure and capital expenditure across the financial year - levels that most specialist sector competitors are not able to match.

Non-underlying[1] costs for continuing operations of £0.4m were recognised in FY22 comprising £0.9m in relation to the reorganisation of our operating structures to execute the strategic plan and £0.5m of provision releases relating to previous non-underlying charges. Non-underlying costs in FY21 totalled £5.2m in relation to the loss on disposal of Sofa Workshop, and costs associated with the refinancing of the Group's Revolving Credit Facility (RCF).

Depreciation, Amortisation & Interest

Depreciation and amortisation charges increased by £4.6m year-on-year to £88.2m. This modest increase versus the prior year was in line with the related asset base, with Sofology opening seven new showrooms in the year.

Underlying interest charges of £28.8m were £3.8m lower year-on-year due to lower IFRS 16 interest charges. Total interest was £6.9m lower year-on-year with £3.1m of non-underlying refinancing costs incurred in FY21.

Profit Before Tax (PBT)

Underlying PBT from continuing operations excluding brand amortisation[1] of £60.3m compares to £109.2m in the prior year and £52.6m in the pro-forma FY19 period[1] .

Reported PBT from continuing operations of £58.5m was £44.1m lower than FY21, and £12.5m higher than the pro-forma FY19 period[1].

Tax

The reported effective tax rate for FY22 is 29.9%. This is higher than the applicable UK Corporation Tax rate of 19.0% and is primarily due to disallowable depreciation on non-qualifying assets, the effect of overseas branch exemptions and the differential in rates between current taxes (19%) and deferred taxes (25%). An estimated claim for the benefit of the increased capital allowance super deduction has also been included for relevant expenditure incurred and contracted on or after 1 April 2021; excluding this benefit the effective rate would have been 1% higher.

The Group operates a tax strategy that seeks to protect our low risk tax profile in the UK by complying with all applicable tax rules and regulations. We will not take positions on tax matters that may create reputational risk or jeopardise our good standing with taxing authorities, however we are prepared to defend our position where we disagree with a ruling or decision of a tax authority, in order to protect our ongoing business. During the course of the year we successfully appealed an HMRC assessment at First Tier Tribunal relating to our VAT partial exemption calculation. This has the effect of preserving our previous treatment of digital advertising costs on an ongoing basis.

Discontinued Operations

Results for discontinued operations, being the DFS businesses in the Netherlands and Spain, comprise the £1.5m trading loss on revenue of £9.0m and non-underlying charges of £11.3m. The non-underlying charges relate to employee compensation and other closure costs (£5.3m), impairment charges of right-of-use assets (£3.1m), write down of other assets (£1.4m) and intangible assets (£1.5m). Further details of the results of discontinued operations are presented in Note 11 to the condensed consolidated financial statements.

Earnings Per Share

Basic earnings per share from continuing operations for the Group was 17.3 pence based on a weighted average number of shares in issue for the year of 254.7m (FY21: 35.8 pence per share; 257.1m shares).

Capital Expenditure, Cashflow and Balance Sheet

Cash Generation (£m)	FY22	FY21
Operating profit from continuing operations	**87.3**	**138.3**
Operating loss from discontinued operations	(13.4)	(3.1)
Depreciation, amortisation, impairment and disposal gains	94.7	83.4
Working capital (outflow) / inflow	(28.8)	87.1
Share-based (settlements) / payments	(0.1)	1.5
Tax paid	(6.8)	(8.2)
Net cash generated from operating activities	**132.9**	**299.0**
Capex: Net cash used in investing activities	(45.6)	(47.4)
Net interest paid	(3.8)	(6.1)
Interest on lease liabilities	(25.0)	(26.7)
Repayment of lease liabilities	(63.5)	(77.1)
Post-tax free cash flow[1]	**(5.0)**	**141.7**
Free cashflow excluding operating loss from discontinued operations and working capital (outflow) / inflow above	*37.2*	*57.7*

The Group is financially strong with a historical record of strong cash generation underpinned by our negative working capital model. During the financial year, our lead time and weekly delivery value linked to customer deposits and trade payables have largely normalised from pandemic-related effects and this has led to a reported £28.8m working capital cash outflow in the period. We view this normalisation as directly-linked to the post-pandemic trading period and hence exclude it from our internal assessment of underlying cashflow from the business. We still anticipate a limited further outflow of £15.0m from trade payables and payments on account as lead times normalise. The operating loss from discontinued operations in the period comprises £0.7m of cash charges and also £12.7m of non-cash charges that are balanced by increased reported depreciation and working capital.

Excluding the working capital flows and the impact of discontinued operations, free cash flow after tax[1] was £37.2m (FY21: £51.6m) reflecting the lower relative profits in the period, but once again generating excess cash flow above our ordinary dividend payments.

We consistently re-invest in our operations to maintain an appropriate operating standard and avoid an investment debt forming that may damage financial performance in later years. The most significant elements of this are in our vehicle fleet supporting customer deliveries and service, and our real estate. We also make continued significant digital re-investment to keep our online functionality current for latest generation technology and enhance the Group's data/systems security.

Capital Expenditure Breakdown (£m)	FY22	FY21
Retail estate	25.2	29.8
Logistics and manufacturing tangible assets	9.6	3.9
Digital investment	12.2	11.1
Other (including proceeds from sales of property, plant and equipment)	(1.4)	2.6
Total Investment	**45.6**	**47.4**
Total Investment (Including Leased Fleet Investment)		

Including fleet lease investment percentage split between:		
Maintenance	*45.8%*	*43.9%*
Growth	*54.2%*	*56.1%*

We consider each of the growth investments that we make in the Group using a value-creation framework that considers the lease adjusted return on capital employed and payback period of each growth investment. Our significant growth investments are commonly either in our retail estate, or in our digital capabilities and where possible we will seek to pilot investment initiatives to measure and test returns performance before committing significant capital. During the financial year, we opened seven Sofology showrooms and one DFS brand showrooms, made good progress on finishing the transformation of our final mile logistics network and continued our investment in our data and digital capabilities. Overall net spend in FY22 was £45.6m, similar to FY21 spend of £47.4m, as we continue to invest strongly in the growth of our operations. We expect FY23 spending to be at similar levels, reflecting the intention to refurbish at least 16 DFS showrooms, including a mezzanine trial, which we expect to drive incremental like-for-like order intake growth and also at least two new Sofology showrooms. Should the trading environment deteriorate further, we may choose to slow some of this investment to protect our cash generation.

The Group's return on capital employed (ROCE[1]) for the period was 18.7%, which grew by 2.1% pts relative to pro-forma FY19[1] performance (calculated on a lease adjusted basis from IAS17 prepared financials). This reflects the higher profitability of the business partly offset by a larger asset base employed to support our currently larger scale of business. We expect that this return should grow over time as we extract efficiencies in capital employed in our logistics estate and drive profitability in a more normal macroeconomic environment.

Our net bank debt[1] position in FY22 increased by £71.0m to £90.0m. This was due to a number of factors including in particular last year's transitory working capital benefits normalising, and the commencement of our special capital return programme inclusive of a special dividend and our share buyback programme. Our group leverage[1] ratio is 1.1x, which is slightly above the upper end of our 0.5x-1.0x target leverage range set out in our published Capital Allocation and Distribution policy. While we would generally target operating at the mid-point of this range, the profit impact of the fourth quarter of trading has reduced our earnings and increased our leverage ratios.

In December 2021 the Group extended its RCF with its existing syndicate of seven banks all continuing their involvement at existing levels. In September 2021 we were also pleased to incorporate into the RCF documentation an interest rate linked to the achievement of sustainability-related targets covering sustainable sourcing practices for wood and leather, greenhouse gas emissions and diversity in our workforce, which aligns our financing with our ESG ambitions. In FY22 we have met all of the in scope targets, with third party assurance provided by DNV, a sustainability assurance specialist. Our £215m banking facility covenants remain consistent with our facility pre Covid-19 at 3.0x maximum net debt / EBITDA and minimum 1.5x fixed charge cover, both measured on an IAS17 basis.

Capital Allocation, Share Buyback and Dividends

In March 2022 we announced an interim dividend of 3.7p totalling £9.4m, a special dividend of 10.0p totalling £25.4m and a share buyback programme of £25m. In May 2022 both the interim and special dividend payments totalling £34.8m were paid, and as of 12 September, we are 85.5% of the way through our £25m share buyback. Through to 12 September 2022, the Group has invested £21.4m in share buybacks at an average price paid per share of £1.44, purchasing 15.1m shares. This reduces the number of shares in issue by 5.8%, leading to earnings per share accretion of a similar percentage. Returns from the buyback are expected to be ahead of our internal hurdle rates. Based upon our full-year underlying profit after tax from continuing operations of £44.6m, the post-tax return on investment on these buybacks to date is 11.9%, and based upon reasonable medium-term projections, we estimate an internal rate of return for this programme of over 30%.

As set out in our published Capital Allocation and Distribution Policy, the Board and senior management adopts a rigorous approach to the Group's capital allocation decisions. While maintaining our resilient, but efficient capital structure, we will invest in our business where we expect to generate a return in excess of our internal cost of capital.

Within our approach, we consider share buybacks alongside other forms of capital investment, and shareholder returns. Reflecting upon the strong returns from share buybacks, and a trailing 8.4% ordinary or 15.9% total dividend yield based upon last twelve months of dividend payments to June 2022 and a 9 September 2022 closing share price of £1.33, the Board believes that it is appropriate to reconsider the allocation approach for capital distribution to shareholders. Instead of following our usual approach to either hold or grow our ordinary dividend payment year-on-year (always subject to the position of and prospects for the business), we instead intend to reallocate £10m that would otherwise have been distributed through a flat ordinary dividend and reallocate that to a further tranche of buyback, to be carried out over the next three-six months subject to shareholder authorisations. The Board therefore proposes to pay a final dividend for FY22 of 3.7 pence per share (FY21: 7.5 pence per share), alongside extending the currently ongoing £25m share buyback by a further £10m. This will still position our trailing dividend yield at 5.6%, while taking advantage of the significant returns implied by a share buyback.

In making this decision, the Board remains aware of the value that shareholders place upon dividends and a consistent and predictable policy. As stated in our published Capital and Distribution policy, subject always to outlook and the investment needs for the Group, we would intend to make ordinary dividend payments at a payout ratio between 40% and 50% of annual underlying cash generation and remaining within a 0.5x-1.0x leverage range, moving away from this approach only in exceptional circumstances and where we have an expectation to return to this range within the two subsequent financial years. Recognising the more uncertain environment that we are entering, it is also worth emphasising that the Board intends that future dividend payments will only be made from our underlying cash generation over the last twelve months.

Once the final dividend is paid and the share buyback is completed we therefore anticipate that we will have returned over £75m of excess capital to shareholders in calendar year 2022, reflecting the strong deleveraging and underlying cash generation since the pandemic period.

Looking Forward

As indicated in our June pre-close statement, the UK furniture market saw a reduction in demand in the fourth quarter of FY22, and the Group saw a similar step-change reduction in order volumes, but offset by our sustained gains in market share. Subsequently, in FY23 we have seen like-for-like market share gains retained but we have evidence that whole-market demand remains well beneath FY19 pre-pandemic comparators.

It remains difficult for us to predict consumer behaviour over the next twelve months, particularly in the current highly inflationary environment for essential expenditures. As outlined in the CEO's report we are therefore planning for a range of financial and operating scenarios, while preserving essential investment in our customer proposition and digital development. We are targeting cost opportunities on property, supply chain and administrative activities, created by the scale benefits of ongoing DFS and Sofology brand alignments and volume growth relative to pre-pandemic levels. Furthermore we have been reassured to date by consumers' relative tolerance of any necessary price increases to offset inflation. These factors, together with the over £30m elevated order bank entering the financial year, will provide some insulation to our short-term profits expectations.

The Group has a long track record of sustained performance in varying market environments, and historically has strengthened its upholstery segment share in challenging environments. While near-term performance will inevitably be impacted by the current macroeconomic context, as the economy stabilises, any market share gains achieved should drive incremental shareholder value.

Looking beyond FY23, we therefore maintain long-term ambitions in line with those previously shared in our trading results statements and at our Capital Markets Day. We will seek to drive above market rate revenue growth from market share gains, new store openings and growth in the 'Home' category - targeting £1.4bn of revenues by FY26. We expect our underlying profit before tax margin to grow over time to 8% and beyond, underpinned by our Platforms strategy. Achieving those two aims, combined with continuing our disciplined approach to capital investment should drive a ROCE at high-teens levels and lead to strong cash generation that can be deployed to enhance value for shareholders.

Principal Risks and Uncertainties

The Board carried out a robust assessment in July 2022 of the principal risks that could threaten the Group's business model, future performance, solvency or liquidity. The full assessment, including the factors that will mitigate them will be included in the 2022 Annual Report. A summary is provided below:

Risk	**Impact**
Supply chain and manufacturing resilience	Elevated or volatile order volumes together with any further operational disruption from Covid-19 could place pressure on the Group's own manufacturing capability and those of our external raw material and finished product suppliers. Infrastructure investment and the requirement to recruit and train less experienced colleagues could temporarily impact manufacturing efficiency
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 attacks on retailers are common
Consumer 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 and profits
Financial risk and liquidity	A significant downturn in the macroeconomic environment, further disruption to our international supply chain, or additional uncertainty arising from, for example, the Covid-19 pandemic or conflict in Ukraine, may impact the Group's ability to obtain debt or equity financing
Regulatory	Changes to the regulatory environment surrounding product aftercare insurance could impact the sales of these products, which currently account for a high single digit percentage share of Group gross profits, and the Group's reputation could be negatively impacted if the sales process for these products does not ensure that customers have adequate information to make appropriate buying choices. Changes in other legislation which may have significant retrospective or future economic effects could also impact operating results
Environmental, social and governance	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
Transformation	Failure to execute transformation projects successfully could reduce the Group's operational efficiency, erode the Group's market leadership position and have a negative impact on financial performance. A lack of sufficient management resources or excessive complexity in the various work streams could limit the Group's ability to deliver anticipated benefits within the original time horizon
Retention of skilled workers due to labour shortage	Failure to attract and retain high quality colleagues could negatively impact operational performance and customer service levels. Excessive wage inflation could increase the Group's cost base, reducing profitability
Macroeconomic uncertainty	Any deferral of purchases by customers caused by factors including (but not limited to): consumer confidence, employment levels, real income, the availability of credit and the level of housing market activity would affect our revenues and

	profits. Significant cost inflation in raw materials, fuel and freight costs, exacerbated by the consequences of the war in Ukraine and other geo-political events, could reduce the Group's profitability or necessitate increases in product selling prices, discouraging customer purchases. Increases in interest rates and associated higher costs of borrowing may further reduce levels of discretionary spend and also result in lower housing market activity

Mike Schmidt
Chief Financial Officer
15 September 2022

[1] *Refer to note 13 to the condensed consolidated financial statements for definitions and reconciliations of alternative performance measures*

Consolidated income statement

		52 weeks to 26 June 2022			52 weeks to 27 June 2021		
		Underlying	**Non-underlying**	**Total**	Underlying	Non-underlying	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Gross sales[1]	*2*	**1,474.6**	**-**	**1,474.6**	1,359.4	-	1,359.4
Revenue	*2*	**1,149.8**	**-**	**1,149.8**	1,060.2	-	1,060.2
Cost of sales		**(543.9)**	**-**	**(543.9)**	(463.1)	-	(463.1)
Gross profit		**605.9**	**-**	**605.9**	597.1	-	597.1
Selling and distribution costs		**(368.0)**	**-**	**(368.0)**	(298.0)	-	(298.0)
Administrative expenses	*3*	**(62.0)**	**(0.4)**	**(62.4)**	(75.1)	(2.1)	(77.2)
Operating profit before depreciation and amortisation		**175.9**	**(0.4)**	**175.5**	224.0	(2.1)	221.9
Depreciation	*3*	**(77.7)**	**-**	**(77.7)**	(75.7)	-	(75.7)
Amortisation	*3*	**(10.5)**	**-**	**(10.5)**	(7.9)	-	(7.9)
Operating profit/(loss)	*2, 3*	**87.7**	**(0.4)**	**87.3**	140.4	(2.1)	138.3
Finance expenses	*4*	**(28.8)**	**-**	**(28.8)**	(32.6)	(3.1)	(35.7)
Profit/(loss) before tax		**58.9**	**(0.4)**	**58.5**	107.8	(5.2)	102.6
Taxation		**(14.3)**	**-**	**(14.3)**	(11.9)	1.4	(10.5)
Profit/(loss) for the period from continuing operations		**44.6**	**(0.4)**	**44.2**	95.9	(3.8)	92.1
Loss for the period from discontinued operations	*11*	**(1.5)**	**(11.3)**	**(12.8)**	(3.4)	-	(3.4)
Profit/(loss) for the period		**43.1**	**(11.7)**	**31.4**	92.5	(3.8)	88.7

Earnings per share

Basic	*5*						
- from continuing operations		**17.5p**	**(0.2)p**	**17.3p**	37.3p	(1.5)p	35.8p
- from discontinued operations		**(0.6)p**	**(4.4)p**	**(5.0)p**	(1.3)p	-	(1.3)p
Total		**16.9p**	**(4.6)p**	**12.3p**	36.0p	(1.5)p	34.5p
Diluted	*5*						
- from continuing operations		**17.4p**	**(0.2)p**	**17.2p**	36.9p	(1.4)p	35.5p
- from discontinued operations		**(0.6)p**	**(4.4)p**	**(5.0)p**	(1.3)p	-	(1.3)p
Total		**16.8p**	**(4.6)p**	**12.2p**	35.6p	(1.4)p	34.2p

[1] Refer to note 12 to the condensed consolidated financial statements for definitions and reconciliations of alternative performance measures

Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued operations in accordance with IFRS 5.

Consolidated statement of comprehensive income

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Profit for the period	**31.4**	88.7
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	**23.6**	(22.4)
Net change in fair value of cash flow hedges reclassified to profit or loss		
Recognised in cost of sales	**1.9**	9.2
Recognised in finance expense	**-**	1.9
Income tax on items that are/may be reclassified subsequently to profit or loss	**(6.4)**	2.6
Other comprehensive expense for the period, net of income tax	**19.1**	(8.7)
Total comprehensive income for the period	**50.5**	80.0
Total comprehensive income for the period attributable to owners of the parent		
- from continuing operations	**62.3**	83.4
- from discontinued operations	**(12.8)**	(3.4)
	50.5	80.0

Consolidated balance sheet

	Note	**26 June 2022 £m**	27 June 2021 £m
Non-current assets			
Property, plant and equipment		**105.9**	91.6
Right of use assets		**338.0**	345.1
Intangible assets		**533.8**	535.4
Other financial assets		**4.8**	0.1
Deferred tax assets		**10.8**	24.7
		993.3	996.9
Current assets			
Inventories		**64.4**	61.1
Other financial assets		**12.8**	0.1
Trade and other receivables		**24.3**	17.1
Current tax assets		**7.8**	6.9
Cash and cash equivalents		**17.3**	22.7
		126.6	107.9
Total assets		**1,119.9**	1,104.8
Current liabilities			
Bank overdraft		**(12.3)**	(16.7)
Trade payables and other liabilities		**(280.7)**	(297.4)
Lease liabilities		**(89.0)**	(88.1)
Provisions	*9*	**(12.8)**	(15.1)
Other financial liabilities		**-**	(6.7)
		(394.8)	(424.0)
Non-current liabilities			
Interest bearing loans and borrowings	*10*	**(93.5)**	(23.1)
Lease liabilities		**(356.4)**	(366.0)
Provisions	*9*	**(6.3)**	(5.7)
Other financial liabilities		**-**	(1.5)
		(456.2)	(396.3)
Total liabilities		**(851.0)**	(820.3)
Net assets		**268.9**	284.5
Equity attributable to equity holders of the parent			
Share capital		**25.9**	25.9
Share premium		**40.4**	40.4
Merger reserve		**18.6**	18.6
Capital redemption reserve		**357.8**	357.8
Treasury shares		**(4.9)**	(0.7)
Employee Benefit Trust shares		**(6.9)**	(0.2)
Cash flow hedging reserve		**17.5**	(8.0)
Retained earnings		**(179.5)**	(149.3)
Total equity		**268.9**	284.5

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Treasury shares £m	Employee Benefit Trust shares £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 28 June 2020	**383.4**	**40.4**	**18.6**	**-**	**(0.7)**	**-**	**3.3**	**(243.1)**	**201.9**
Profit for the period	-	-	-	-	-	-	-	88.7	88.7
Other comprehensive income/(expense)	-	-	-	-	-	-	(11.3)	2.6	(8.7)
Total comprehensive (expense)/income for the period	-	-	-	-	-	-	(11.3)	91.3	80.0
Purchase of shares by Employee Benefit Trust	0.3	-	-	-	-	(0.3)	-	-	-
Employee Benefit Trust shares issued	-	-	-	-	-	0.1	-	1.0	1.1
Repurchase and cancellation of deferred shares	(357.8)	-	-	357.8	-	-	-	-	-
Settlement of share based payments	-	-	-	-	-	-	-	(2.1)	(2.1)
Share based payments	-	-	-	-	-	-	-	3.6	3.6
Balance at 27 June 2021	**25.9**	**40.4**	**18.6**	**357.8**	**(0.7)**	**(0.2)**	**(8.0)**	**(149.3)**	**284.5**
Profit for the period	-	-	-	-	-	-	-	31.4	31.4
Other comprehensive income/(expense)	-	-	-	-	-	-	25.5	(6.4)	19.1
Total comprehensive income for the period	-	-	-	-	-	-	25.5	25.0	50.5
Dividends	-	-	-	-	-	-	-	(53.8)	(53.8)
Purchase of own shares	-	-	-	-	(4.4)	-	-	-	(4.4)
Treasury shares issued	-	-	-	-	0.2	-	-	(0.2)	-
Purchase of shares Employee Benefit Trust	-	-	-	-	-	(8.1)	-	-	(8.1)
Employee Benefit Trust shares issued	-	-	-	-	-	1.4	-	(1.0)	0.4
Settlement of share based payments	-	-	-	-	-	-	-	(2.7)	(2.7)
Share based payments	-	-	-	-	-	-	-	2.6	2.6
Tax recognised directly in equity	-	-	-	-	-	-	-	(0.1)	(0.1)
Balance at 26 June 2022	**25.9**	**40.4**	**18.6**	**357.8**	**(4.9)**	**(6.9)**	**17.0**	**(179.5)**	**268.4**

Consolidated cash flow statement

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Profit for the period	**31.4**	88.7
Adjustments for:		
Income tax expense	**13.4**	10.5
Finance expenses	**29.1**	32.9
Exceptional financing costs	**-**	3.1
Depreciation of property, plant and equipment	**20.7**	19.7
Depreciation of right of use assets	**58.5**	57.7
Amortisation of intangible assets	**10.5**	7.9
Impairment of assets	**6.0**	-
Gain on sale of property, plant and equipment	**(1.1)**	(1.2)
Loss/(gain) on disposal of right of use assets	**0.1**	(1.4)
Loss on sale of subsidiaries	**-**	0.7
Settlement of share based payments	**(2.7)**	(2.1)
Share based payment expense	**2.6**	3.6
(Increase)/decrease in trade and other receivables	**(7.2)**	4.6
Increase in inventories	**(3.3)**	(2.2)
(Decrease)/increase in trade and other payables	**(16.6)**	81.4
(Decrease)/increase in provisions	**(1.7)**	3.3
Net cash from operating activities before tax	**139.7**	307.2
Tax paid	**(6.8)**	(8.2)
Net cash from operating activities	**132.9**	299.0
Investing activities		
Proceeds from sale of property, plant and equipment	**1.8**	1.5
Proceeds received from sale of subsidiaries	**-**	0.3
Acquisition of property, plant and equipment	**(36.8)**	(38.0)
Acquisition of other intangible assets	**(10.6)**	(11.2)
Net cash used in investing activities	**(45.6)**	(47.4)
Financing activities		
Interest paid	**(3.8)**	(6.1)
Interest paid on lease liabilities	**(25.0)**	(26.7)
Payment of lease liabilities	**(63.5)**	(77.1)
Exceptional financing costs	**-**	(4.1)
Drawdown/(repayment) of borrowings	**70.0**	(195.0)
Proceeds on issue of shares	**-**	0.3
Purchase of own shares	**(8.2)**	(0.3)
Proceeds from sale of own shares	**0.4**	1.1
Purchase of treasury shares	**(4.4)**	-
Ordinary dividends paid	**(28.4)**	-
Special dividends paid	**(25.4)**	-
Net cash used in financing activities	**(88.3)**	(307.9)
Net decrease in cash and cash equivalents	**(1.0)**	(56.3)
Cash and cash equivalents at beginning of period	**6.0**	62.3
Cash and cash equivalents (including bank overdrafts) at end of period	**5.0**	6.0

Notes to the condensed consolidated financial statements

1 Basis of preparation

The condensed consolidated financial statements have been prepared and approved by the directors in accordance with UK adopted international accounting standards and applicable law. The financial information is derived from the Group's consolidated financial statements for the year ended 26 June 2022. The financial statements are prepared on the historical cost basis except for certain financial instruments and share based payment charges which are measured at their fair value. The financial statements are for the 52 weeks to 26 June 2022 (last year 52 weeks to 27 June 2021) and were approved by the Directors on 15 September 2022.

The financial information set out above does not constitute the company's statutory accounts for the periods ended 26 June 2022 or 27 June 2021 but is derived from those accounts. Statutory accounts for the period ended 27 June 2021 have been delivered to the registrar of companies, and those for the period ended 26 June 2022 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Going concern

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

The Group has a £215.0m revolving credit facility which has been extended to mature in December 2024, with an option to extend the facility for a further year, subject to mutual agreement with the consortium of lending banks. At 12 September 2022, £37.0m of the revolving credit facility remained undrawn, in addition to cash in hand, at bank of £5.5m.

Covenants applicable to the revolving credit facility are: 3.0x net Debt/EBITDA and 1.5x Fixed Charge Cover, and are assessed on a six-monthly basis at June and December.

The Directors have prepared cash flow forecasts for the Group covering a period of at least twelve months from the date of approval of these financial statements, which indicate that the Group will be in compliance with these covenants. These forecasts include a number of assumptions in relation to: market size and the Group's order intake; average order values; inflationary impacts on gross margin and other costs; sector-wide manufacturing and supply chain capacities; and achievement of cost savings in line with the Group's strategic plans.

The Directors have also prepared severe but plausible downside sensitivity scenarios which cover the same period as the base case. These scenarios included: sustained market volume declines of up to 15% leading to significantly reduced customer spending; impacts on gross margin and other costs from inflationary cost pressures; increases in interest rates, and; supply chain impacts as a result of direct and indirect consequences of the conflict in Ukraine and the broader economic environment, and a combination of these scenarios.

As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur have also been considered. Should these severe but plausible scenarios occur, the Directors could implement these actions to help reduce the impact on the Group. These mitigating actions included reducing discretionary advertising expenditure, retail price increases, a pause on expansionary capital investment and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the Directors to implement mitigating actions should they need to, indicate that there remains sufficient headroom in the forecast period for the Group to operate within the committed facilities and to comply with all relevant banking covenants during the forecast period.

1 Basis of preparation *(continued)*

The Directors have considered all of the factors noted above, including the inherent uncertainty in forecasting the impact of the current economic and political environment and future impacts of the Covid-19 pandemic, and are confident that the Group has adequate resources to continue to meet all liabilities as and when they fall due for the foreseeable future and at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements are prepared on a going concern basis.

Discontinued operations

The presentation of discontinued operations is an area of significant judgement, requiring consideration of the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations as to whether the terminated operations represent a major separate line of business or geographical area of operations, are part of a single coordinated disposal plan or represent a subsidiary acquired exclusively with a view to resale.

In considering the closure of the Group's International operations, the Directors assessed a number of factors. The Group's expansion into mainland Europe had represented a specific major component of the Group's growth strategy and had demanded distinct products, supply chain, retail and operational management structures to those of the existing UK and ROI operations. While the revenues ultimately achieved in these territories were modest compared with growth in the rest of the Group, the withdrawal from the entirety of the Group's operations in mainland Europe is nonetheless a substantial change in strategic focus and structure of the DFS brand business.

The critical steps to effect the closure of the International businesses had been completed by 26 June 2022, although the Group retains certain obligations to its customers after the cessation of trade in respect of orders yet to be fulfilled and continuing guarantees of delivered products

The Directors judged that these operations represented a major geographical area of business and the closure was part of a single coordinated disposal plan and were therefore satisfied that the criteria under IFRS 5 have been met and presentation as discontinued operations is appropriate. Accordingly, the results of these operations are presented as discontinued operations in the consolidated income statement.

2 Segmental Analysis

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

The Group reviews and manages the performance of its operations on a retail brand basis, and the identified reportable segments and the nature of their business activities are as follows:

DFS: the retailing of upholstered furniture and related products through DFS and Dwell branded stores and websites.

Sofology: the retailing of upholstered furniture and related products through Sofology branded stores and website.

2 Segmental Analysis *(continued)*

In FY21, other segments comprised the retailing of upholstered furniture and related products through Sofa Workshop until its disposal on 18 September 2020. Following a significant change in the internal organisation and reporting structure of the business from the beginning of FY22, other segments comprises the manufacture of upholstered furniture and the supply of contract logistics. The nature and extent of this change means that it has not been practicable to restate prior periods on the same basis.

Results for the 52 weeks to 27 June 2021 have been represented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5. These discontinued operations were previously included within the DFS segment.

Segment revenue and profit - continuing operations

	External sales		**Internal sales**		**Total gross sales**	
	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021 £m	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021 £m
DFS	**1,169.1**	1,083.9	**-**	-	**1,169.1**	1,083.9
Sofology	**304.9**	269.2	**-**	-	**304.9**	269.2
Other segments	**0.6**	6.3	**187.9**	-	**188.5**	6.3
Eliminations	**-**	-	**(187.9)**	-	**(187.9)**	-
Gross sales	**1,474.6**	1,359.4	**-**	-	**1,474.6**	1,359.4

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Total segments gross sales	**1,474.6**	1,359.4
Less: value added and other sales taxes	**(233.8)**	(215.8)
Less: costs of interest free credit and aftercare products	**(91.0)**	(83.4)
Revenue	**1,149.8**	1,060.2
Of which:		
Furniture sales	**1,096.8**	1,005.7
Sales of aftercare products	**53.0**	54.5
Revenue	**1,149.8**	1,060.2

52 weeks to 26 June 2022 - continuing operations

	DFS £m	**Sofology £m**	**Other £m**	**Eliminations £m**	**Total £m**
Revenue	**906.3**	**242.9**	**188.5**	**(187.9)**	**1,149.8**
Cost of sales	**(452.9)**	**(121.6)**	**(59.8)**	**90.4**	**(543.9)**
Gross profit	**453.4**	**121.3**	**128.7**	**(97.5)**	**605.9**
Selling & distribution costs (excluding property costs)	**(210.1)**	**(65.9)**	**(137.1)**	**74.7**	**(338.4)**
Brand contribution (segment profit)	**243.3**	**55.4**	**(8.4)**	**(22.8)**	**267.5**
Property costs					**(29.6)**
Underlying administrative expenses					**(62.0)**
Underlying EBITDA					**175.9**

Segment revenue and profit - continuing operations *(continued)*

52 weeks to 27 June 2021 - continuing operations

	DFS £m	Sofology £m	Other £m	Total £m
Revenue	840.4	214.6	5.1	1,060.1
Cost of sales	(360.0)	(101.8)	(1.3)	(463.1)
Gross profit	480.4	112.8	3.8	597.0
Selling & distribution costs (excluding property costs)	(239.9)	(55.6)	(0.5)	(296.0)
Brand contribution (segment profit)	**240.5**	**57.2**	**3.3**	**301.0**
Property costs				(2.0)
Underlying administrative expenses				(75.2)
Underlying EBITDA				223.8

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Underlying EBITDA	**175.9**	224.0
Non-underlying items	**(0.4)**	(2.1)
Depreciation & amortisation	**(88.2)**	(83.6)
Operating profit	**87.3**	138.3
Finance expenses	**(28.8)**	(32.6)
Non-underlying finance costs	**-**	(3.1)
Profit before tax	**58.5**	102.6

A geographical analysis of revenue is presented below:

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
United Kingdom	**1,129.3**	1,044.7
Europe	**20.5**	15.5
Total revenue	**1,149.8**	1,060.2

2 Segmental Analysis *(continued)*

Segment assets and liabilities

	Assets		Liabilities	
	26 June 2022 £m	27 June 2021 £m	**26 June 2022 £m**	27 June 2021 £m
DFS	**948.4**	931.4	**(625.0)**	(647.0)
Sofology	**167.6**	174.1	**(142.6)**	(157.8)
Other segments	**30.0**	-	**(52.2)**	-
Total segments	**1,146.0**	1,105.5	**(819.8)**	(804.8)
Loans and financing	**-**	-	**(93.5)**	(39.8)
Financial assets/(liabilities)	**17.6**	0.2	**-**	(8.2)
Current tax	**7.8**	6.9	**-**	-
Deferred tax	**10.8**	24.7	**-**	-
Eliminations	**(62.3)**	(32.5)	**62.3**	32.5
Total Group	**1,119.5**	1,104.8	**(851.0)**	(820.3)

Segment assets comprise tangible and intangible non-current assets including goodwill and brand names, inventories, trade and other receivables, cash and cash equivalents. Segment liabilities comprise trade payables and current and non-current other liabilities and provisions. The balances as at 27 June 2021 have been represented for improved understanding of the assets and liabilities.

	Additions to non-current assets		Depreciation and amortisation	
	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021 £m
DFS	**72.0**	51.6	**66.0**	66.4
Sofology	**14.8**	17.9	**17.3**	17.8
Other segments	**12.5**	-	**4.9**	1.1
Total Group	**99.3**	69.5	**88.2**	85.3

Additions to non-current assets include both tangible and intangible non-current assets.

3 Operating profit - continuing operations

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

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Depreciation on tangible assets (including depreciation on right of use assets)	**77.7**	75.7
Amortisation of intangible assets	**10.5**	7.9
Net gain on disposal of property, plant and equipment	**(1.1)**	(1.2)
Net gain on disposal of right of use assets	**0.1**	(1.4)
Cost of inventories recognised as an expense	**548.1**	462.0
Write down of inventories to net realisable value	**4.6**	5.6
Other cost of sales	**(8.8)**	(4.6)
Release of provisions (note 9)	**(2.1)**	(1.3)
Government grants received (business rates relief)	**(2.0)**	29.0
Operating lease rentals	**0.7**	0.5

Non-underlying items	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021 £m
Restructuring costs	**0.9**	1.4
Acquisition costs	**(0.2)**	-
Release of lease guarantee provision	**(0.3)**	-
Loss on disposal of subsidiaries	**-**	0.7
	0.4	2.1

Restructuring costs arose from significant changes to the Group's operating model and the associated consolidation of central activities. Acquisition costs relate to the Group's November 2017 acquisition of Sofology. Deferred consideration relating to the acquisition was finalised and settled on 11 August 2021, with the residual of the related provision credited to profit and loss. The release of the lease guarantee provision relates to the property provisions detailed in note 9.

In the 52 weeks to 27 June 2021 the Group formally completed the disposal of The Sofa Workshop Limited for cash consideration of £0.3m. The loss on disposal included professional fees, property guarantees and other costs associated with the disposal. In addition, non-underlying redundancy costs were incurred in the year in respect of a significant operational restructuring of the DFS sales administration function.

In addition to the non-underlying costs for continuing operations above, a further £11.3m of non-underlying costs were recognised in respect of discontinued operations. These costs relate to the impairment of tangible and intangible assets and employee compensation and other closure costs associated with the termination of discontinued operations. Further details are presented in note 28 to the consolidated financial statements.

4 Finance expense - continuing operations

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Interest payable on senior revolving credit facility	**2.5**	4.2
Bank fees	**1.5**	2.0
Unwind of discount on provisions	**-**	0.1
Interest on lease liabilities	**24.7**	26.2
Other interest	**0.1**	0.1
Total underlying finance expense	**28.8**	32.6
Non-underlying items:		
Refinancing costs	**-**	3.1
Total finance costs	**28.8**	35.7

Non-underlying finance costs relate to the refinancing of the Group's revolving credit facility in December 2020.

5 Earnings per share

	52 weeks to 26 June 2022 pence	52 weeks to 27 June 2021 pence
Basic earnings/(loss) per share		
- from continuing operations	**17.3**	35.8
- from discontinued operations	**(5.0)**	(1.3)
Total basic earnings per share	**12.3**	34.5
Diluted earnings/(loss) per share		
- from continuing operations	**17.2**	35.5
- from discontinued operations	**(5.0)**	(1.3)
Total basic earnings per share	**12.2**	34.2

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Profit/(loss) attributable to equity holders of the parent company		
- from continuing operations	**44.2**	92.1
- from discontinued operations	**(12.8)**	(3.4)
	31.4	88.7

	26 June 2022 No.	27 June 2021 No.
Weighted average number of shares for basic earnings per share	**254,675,661**	257,096,686
Dilutive effect of employee share based payment awards	**1,220,492**	2,352,481
Weighted average number of shares for diluted earnings per share	**255,896,153**	259,449,167

5 Earnings per share *(continued)*

Underlying earnings per share

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

Continuing operations	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021 £m
Profit/(loss) for the year attributable to equity holders of the parent company	**44.2**	92.1
Non-underlying loss after tax	**0.4**	3.8
Underlying profit/(loss) for the year attributable to equity holders of the parent	**44.6**	95.9

Discontinued operations	**52 weeks to 26 June 2022 £m**	52 weeks to 27 June 2021 £m
Profit/(loss) for the year attributable to equity holders of the parent company	**(12.8)**	(3.4)
Non-underlying loss after tax	**11.3**	-
Underlying profit/(loss) for the year attributable to equity holders of the parent	**(1.5)**	(3.4)

6 Dividends

	Pence per ordinary share	**52 weeks to 26 June 2022**	52 weeks to 27 June 2021
		£m	£m
Final ordinary dividend for FY21	7.5p	**19.0**	-
Interim ordinary dividend for FY22	3.7p	**9.4**	-
Special dividend	10.0p	**25.4**	-
		53.8	-

The Directors recommend a final dividend of 3.7p in respect of the financial period ended 26 June 2022, resulting in a total proposed dividend of £8.9m. Subject to shareholder approval it is intended that this dividend will be paid on 29 December 2022. DFS Furniture plc shares will trade ex-dividend from 1 December 2022 and the record date will be 2 December 2022. This dividend has not therefore been recognised as a liability in these financial statements.

7 Financial instruments

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

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

The Directors have reviewed for expected credit losses and consider the amount of any such losses to be immaterial.

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

8 Capital expenditure

For the 52 weeks to 26 June 2022, additions of property, plant and equipment (including those acquired under finance leases) totalled £88.7m (2021: £58.3m). Additions of intangible assets (computer software) totalled £10.6m (2021: £11.2m).

At 26 June 2022 the Group had contracted capital commitments of £11.8m (2021: £3.6m) for which no provision has been made in the financial statements.

9 Provisions

	Guarantee provision £m	Property provisions £m	Other provisions £m	Total £m
Balance at 27 June 2021	9.1	3.7	8.0	20.8
Provisions made during the period	4.4	0.6	5.5	10.5
Provisions used during the period	(4.8)	-	(5.3)	(10.1)
Provisions released during the period	-	(0.3)	(1.8)	(2.1)
Balance at 26 June 2022	**8.7**	**4.0**	**6.4**	**19.1**
Current	6.1	0.7	6.0	12.8
Non-current	2.6	3.3	0.4	6.3
	8.7	**4.0**	**6.4**	**19.1**

The Group offers a long-term guarantee on its upholstery products and in accordance with accounting standards a provision is maintained for the expected future cost of fulfilling these guarantees on products which have been delivered before the reporting date. In calculating this provision the key areas of estimation are the number of future claims, average cost per claim and the expected period over which claims will arise (nearly all claims arise within two years of delivery). The Group has considered the sensitivity of the calculation to these key areas of estimation, and determined that a 10% change in either the average cost per claim or the number of expected future calls would change the value of the calculated provision by £0.8m. The directors have therefore concluded that reasonably possible variations in estimate would not result in a material difference.

Property provisions relate to potential obligations under lease guarantees offered to former subsidiary companies, the majority of which expire in 2025, and dilapidation costs for Group properties based on anticipated lease expiries and renewals, which will predominantly be utilised more than five years from the reporting date.

Other provisions relate to payment of refunds to customers for payment protection insurance policies and other regulatory costs, and at 27 June 2021 included deferred consideration payable on the Group's November 2017 acquisition of Sofology. The deferred consideration payable was finalised and settled on 11 August 2021 with the difference between the provision and the amount payable, including costs, being credited to profit and loss. Other provisions also include costs associated with the exit from Spain and the Netherlands, see note 11 for details.

10 Net debt

	27 June 2021 £m	Cash flow £m	Other non-cash changes £m	26 June 2022 £m
Cash in hand, at bank	22.7	(5.4)	-	**17.3**
Bank overdraft	(16.7)	4.4	-	**(12.3)**
Cash and cash equivalents	6.0	(1.0)	-	**5.0**
Senior revolving credit facility	(23.1)	(70.0)	(0.4)	**(93.5)**
Finance lease liabilities	(454.1)	63.5	(54.8)	**(445.4)**
Total net debt	(471.2)	(7.5)	(55.2)	**(533.9)**

	28 June 2020 £m	Cash flow £m	Other non-cash changes £m	27 June 2021 £m
Cash in hand, at bank	62.3	(39.6)	-	22.7
Bank overdraft	-	(16.7)	-	(16.7)
Cash and cash equivalents	62.3	(56.3)	-	6.0
Senior revolving credit facility	(218.7)	195.0	0.6	(23.1)
Finance lease liabilities	(517.2)	77.1	(14.0)	(454.1)
Total net debt	(673.6)	215.8	(13.4)	(471.2)

Non-cash changes include the addition of leases within the period of £51.9m (2021: £20.3m), lease remeasurements of £5.4m (2021: £13.5m), disposals of leases of £2.5m (2021: £13.6m), impact of the disposal of Sofa Workshop on lease liabilities of £nil (2021: £6.2m) and the amortisation of capitalised debt issue costs of £0.4m (2021: £0.6m).

11 Discontinued operations

During the period the Group took the decision to exit its operations in the Netherlands and Spain. As disclosed in note 1, the Directors considered a number of factors and exercised judgement in concluding that it was appropriate to present the results of these businesses as discontinued operations, in accordance with the Group's accounting policy. The revenues and expenses of the discontinued operations have therefore been eliminated from the consolidated income statement for the Group's continuing operations and are shown as a separate single post-tax line item. Prior to being classified as discontinued operations, these operations were included within the DFS segment of the Group's segmental analysis.

Results from discontinued operations:

	52 weeks to 26 June 2022			52 weeks to 27 June 2021
	Underlying £m	**Non-underlying £m**	**Total £m**	**Total £m**
Revenue	**9.0**	**-**	**9.0**	7.6
Cost of sales	(4.6)	-	(4.6)	(3.5)
Gross profit	**4.4**	**-**	**4.4**	4.1
Selling and distribution costs	(5.0)	-	(5.0)	(5.5)
Administrative expenses	-	(5.3)	(5.3)	-
Operating loss before depreciation, amortisation and impairment	**(0.6)**	**(5.3)**	**(5.9)**	(1.4)
Depreciation	(1.5)	-	(1.5)	(1.7)
Impairment	-	(6.0)	(6.0)	-
Operating loss	**(2.1)**	**(11.3)**	**(13.4)**	(3.1)
Finance expenses	(0.3)	-	(0.3)	(0.2)
Loss before tax	**(2.4)**	**(11.3)**	**(13.7)**	(3.3)
Taxation	0.9	-	0.9	(0.1)
Loss for the period from discontinued operations	**(1.5)**	**(11.3)**	**(12.8)**	(3.4)

Non-underlying items from discontinued operations	**52 weeks to 26 June 2022 Total £m**	**52 weeks to 27 June 2021 Total £m**
Write down of right of use assets	**3.1**	-
Write down of other assets	**1.4**	-
Write off of goodwill and intangible assets	**1.5**	-
Other closure costs	**5.3**	-
	11.3	-

The write down of right of use assets arises due to the closure of leased showrooms and warehouses in Spain and the Netherlands. Other assets, mostly inventory, have been written down to their net realisable value following the closure. Goodwill and other intangibles held in the consolidated balance sheet in relation to DFS Spain have been written off. Other closure costs relate to staff redundancy and other costs such as legal costs.

11 Discontinued operations (*continued*)

Cash flows from discontinued operations:

	52 weeks to 26 June 2022 £m	52 weeks to 27 June 2021 £m
Net cash from operating activities	**1.1**	0.3
Net cash used in investing activities	**-**	(0.3)
Net cash used in financing activities	**(1.4)**	(1.2)
Net decrease in cash and cash equivalents	**(0.3)**	(1.2)
Cash and cash equivalents at beginning of period	**1.6**	2.8
Net cash and cash equivalents (including bank overdraft) at end of period	**1.3**	1.6

12 Annual General Meeting

The Annual General Meeting will be held on 4 November 2022 at 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA. The Annual Report and Accounts and Notice of Meeting will be sent to shareholders and copies will be available from the Company's registered office: 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA and on the Company's website at www.dfscorporate.co.uk.

13 Alternative Performance Measures

In reporting the Group's financial performance, the Directors make use of a number of alternative performance measures ("APMs") in addition to those defined or specified under EU-adopted International Financial Reporting Standards ("IFRS"). APMs are not IFRS measures, nor are they intended to be a substitute for IFRS measures.

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

In order to facilitate understanding of the APMs used by the Group, and their relationship to reported IFRS measures, definitions and numerical reconciliations are set out below. Reconciliations relating to the unaudited pro-forma FY19 period (52 weeks ended 30 June 2019) were set out in the FY20 and FY19 annual reports.

Definitions of APMs may vary from business to business and accordingly the Group's APMs may not be directly comparable to similar APMs reported by other entities.

APM	Definition	Rationale
Gross sales	Amounts payable by external customers for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes.	Key measure of overall sales performance which unlike IFRS revenue is not affected by the extent to which customers take up the Group's interest free credit offering.
Brand contribution	Gross profit less selling and distribution costs, excluding property and administration costs.	Measure of brand-controllable profit as it excludes shared Group costs.
EBITDA	Earnings before interest, taxation, depreciation and amortisation.	A commonly used profit measure.
Non-underlying items	Certain material, unusual or non-recurring items which the Directors believe are not indicative of the Group's underlying performance.	Clear and separate identification of such items facilitates understanding of underlying trading performance.
Underlying EBITDA	Earnings before interest, taxation, depreciation and amortisation from continuing operations, as adjusted for non-underlying items.	Profit measure reflecting underlying trading performance.
Underlying profit before tax and brand amortisation PBT(A)	Profit before tax from continuing operations adjusted for non-underlying items and amortisation associated with the acquired brands of Sofology and Dwell.	Profit measure widely used by investors and analysts.
Underlying earnings per share	Post-tax earnings per share from continuing operations as adjusted for non-underlying items.	Exclusion of non-underlying items facilitates year on year comparisons of the key investor measure of earnings per share.
Net bank debt	Balance drawn down on interest bearing loans, with unamortised issue costs added back, less cash and cash equivalents (including bank overdrafts).	Measure of the Group's cash indebtedness which supports assessment of available liquidity and cash flow generation in the reporting period.

Cash EBITDA	Net cash from operating activities before tax less movements on working capital and provisions balances and payments made under lease obligations.	Measure of the operating cash generation of the business, normalised to reflect timing differences in working capital movements.
Leverage (or gearing)	The ratio of period end net bank debt to cash EBITDA for the previous twelve months.	Key measure which indicates the relative level of borrowing to operating cash generation, widely used by investors and analysts.
Underlying return on capital employed (underlying ROCE)[2]	Underlying post tax operating profit, from continuing operations expressed as a percentage of the sum of: property, plant & equipment, computer software, right of use assets and working capital.	Represents the post-tax return the Group achieves on the investment it has made in its business.
Underlying free cash flow to equity holders	The change in net bank debt for the period after adding back dividends, acquisition related consideration, share based transactions and non-underlying cash flows.	Measure of the underlying cash return generated for shareholders in the period and a key financial target for Executive Director remuneration.

Key performance indicators

Reconciliations to IFRS measures

EBITDA - continuing operations	**Note**	**FY22 £m**	**FY21 £m**
Operating profit	2	87.3	138.3
Depreciation	3	77.7	75.7
Amortisation	3	10.5	7.9
EBITDA		175.5	221.9

Underlying EBITDA - continuing operations	**Note**	**FY22 £m**	**FY21 £m**
EBITDA		175.5	221.9
Non-underlying operating items	3	0.4	2.1
Underlying EBITDA		175.9	224.0

Underlying profit before tax and brand amortisation - PBT(A) - continuing operations	**Note**	**FY22 £m**	**FY21 £m**
Profit before tax	2	58.5	102.6
Non-underlying items	3,4	0.4	5.2
Amortisation of brand names		1.4	1.4
Underlying profit before tax and brand amortisation		60.3	109.2

13 Alternative Performance Measures (*continued*)

Net bank debt	**FY22 £m**	**FY21 £m**
Interest bearing loans and borrowings	93.5	23.1
Unamortised issue costs	1.5	1.9
Cash and cash equivalents (including bank overdraft)	(5.0)	(6.0)
Net bank debt	90.0	19.0

Closing net bank debt	90.0	19.0
Opening net bank debt	19.0	157.7
Movement in net bank debt	71.0	(138.7)

Leverage	**FY22 £m**	**FY21 £m**
Net bank debt (A)	90.0	19.0
Net cash from operating activities before tax	139.7	307.2
less		
Movement in trade and other receivables	7.2	(4.6)
Movement in inventories	3.3	2.2
Movement in trade and other payables	16.6	(81.4)
Movement in provisions	1.7	(3.3)
Payment of lease liabilities	(25.0)	(26.7)
Payment of interest on leases	(63.5)	(77.1)
Cash EBITDA (B)	80.0	116.3
Leverage (A/B)	**1.1x**	**0.2x**

Underlying return on capital employed - continuing operations	**FY22 £m**	**FY21 £m**
Operating profit from continuing operations	87.3	138.3
Non-underlying items	0.4	5.2
Pre-tax return	87.7	143.5
Effective tax rate	*24.3%*	*11.0%*
Tax adjusted return (A)	**66.4**	**127.7**
Property, plant and equipment	105.9	91.6
ROU assets	338.0	345.1
Computer software	17.7	16.4
	461.6	453.1
Inventories	64.4	61.1
Trade receivables	12.6	9.3
Prepayments	11.4	7.2
Accrued income	0.3	0.4
Other receivables	-	0.2
Payments received on account	(72.2)	(117.7)
Trade payables	(122.5)	(83.9)
Working capital	(106.0)	(123.4)
Total capital employed (B)	**355.6**	**329.7**
Underlying ROCE (A/B)	**18.7%**	**38.7%**

13 Alternative Performance Measures (*continued*)

Underlying free cash flow to equity holders	Note	FY22 £m	FY21 £m
Movement in net bank debt		(71.0)	138.7
Dividends	6	53.8	-
Proceeds on issue of shares		-	(0.3)
Purchase of own shares		8.1	0.3
Proceeds from sale of own shares		(0.4)	(1.1)
Purchase of treasury shares		4.4	-
Non-underlying cash items disclosed in cash flow statement		-	4.1
Underlying free cash flow to equity holders		**(5.1)**	**141.7**

Unaudited pro-forma 52 weeks ended 30 June 2019 - IAS 17

	DFS £m	Sofology £m	Sofa Workshop £m	Total £m	Discontinued operations £m	Total from continuing operations £m
Gross sales	**992.1**	**260.7**	**34.3**	**1,287.2**	**(13.0)**	**1,274.2**
Revenue	**762.6**	**205.9**	**27.7**	**996.2**	**(11.1)**	**985.1**
Cost of sales	(306.6)	(101.5)	(13.5)	(421.6)	5.0	(416.6)
Gross profit	**456.0**	**104.4**	**14.2**	**574.6**	**(6.1)**	**568.5**
Selling & distribution costs	(248.3)	(56.7)	(9.4)	(314.4)	6.4	(308.0)
Brand contribution	**207.7**	**47.7**	**4.8**	**260.2**	**0.3**	**260.5**
Property costs				(107.5)	1.1	(106.4)
Administrative expenses				(62.5)	0.1	(62.4)
Underlying EBITDA				**90.2**	**1.5**	**91.7**
Depreciation, amortisation and impairments excluding brand amortisation				(29.3)	0.9	(28.4)
Underlying operating profit				**(60.9)**	**2.4**	**63.3**
Interest				(10.7)	-	(10.7)
Underlying PBT pre brand amortisation				**50.2**	**2.4**	**52.6**
Brand amortisation				(1.5)	-	(1.5)
Underlying PBT				**48.7**	**2.4**	**51.1**
Underlying items				(5.1)	-	(5.1)
PBT				**43.6**	**2.4**	**46.0**
Basic underlying EPS				18.4p	0.9p	19.3p

This preliminary results statement, the full text of the Stock Exchange announcement and the results presentation can be found on the Company's website at www.dfscorporate.co.uk

This report contains statements that constitute forward-looking statements relating to the business, financial performance and results of the Company and the industry in which the Company operates. These statements may be identified by words such as "may", "will", "shall", "anticipate", "believe", "intend", "project", "goal", "expectation", "belief", "estimate", "plan", "target", or "forecast" and similar expressions for the negative thereof; or by forward-looking nature of discussions of strategy, plans or intentions; or by their context. No representation is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. All statements regarding the future are subject to inherent risks and uncertainties and various factors that would cause actual future results, performance or events to differ materially from those described or implied in these statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate and neither the Company nor any other person accepts any responsibility for the accuracy of the opinions expressed in this interim report or the underlying assumptions. Past performance is not an indication of future results and past performance should not be taken as a representation that trends or activities underlying past performance will continue in the future. The forward-looking statements in this interim report speak only as at the date of this interim report and the Company expressly disclaims any obligation or undertaking to release any updates or revisions to these forward-looking statements to reflect any change in the Company's expectations in regard thereto or any change in events, conditions or circumstances on which any statement is based after the date of this interim report or to update or to keep current any other information contained in this interim report or to provide any additional information in relation to such forward-looking statements. Undue reliance should not therefore be placed on such forward-looking statements.