

16 March 2023
Immediate release

**DFS Furniture plc (“DFS” and the “Group”)
Interim Results Announcement**

**RECORD MARKET SHARE POSITION
PBT IN LINE WITH MARKET EXPECTATIONS**

DFS Furniture plc, the market-leading retailer of living room and upholstered furniture in the United Kingdom, today announces its interim results for the 26 week period ended 25 December 2022 (prior year comparative periods are the 26 weeks ended 26 December 2021 (H1 FY22) and the 26 week unaudited pro forma period ended 30 December 2018 (H1 FY19)).

£m	H1 FY23	H1 FY22	Change
Revenue from continuing operations ¹	544.5	556.5	(2.2%)
<i>Growth vs H1 FY19⁴</i>	<i>+9.4%</i>	<i>+11.8%</i>	<i>-</i>
Underlying PBT(A) from continuing operations ^{1,2,3}	7.1	23.3	(16.2)
Reported PBT	6.8	22.8	(16.0)
Basic underlying EPS from continuing operations ^{1,3}	2.2p	7.3p	(5.1p)
Reported EPS	2.1p	7.0p	(4.9p)
Ordinary dividend	1.5p	3.7p	(2.2p)
Net bank debt ³	135.6	65.4	70.2
Leverage ³	1.7x	1.3x	0.4x

¹ Continuing operations excludes the discontinued International operation and Sofa Workshop which was disposed of in September 2020

² PBT(A) - profit before tax, excluding brand amortisation

³ Definitions and reconciliations of KPIs including Alternative Performance Measures (“APMs”) are provided at the end of this statement in Note 15 to the condensed consolidated financial statements

⁴ H1 FY19 is unaudited pro forma period 26 weeks ended 30 December 2018. In 2019, the group changed its accounting reference date from 31 July to 30 June. FY19 was therefore a short accounting period, and the half year published results were prepared for the 22 weeks ended 30 December 2018. To aid comparability, unaudited pro forma figures are presented for the 26 weeks ended 30 December 2018.

Strategic and operational highlights:

- Record market share achieved with a c.2%pts increase from our FY22 position to 38%, extending our position as the clear market leader

- First phase of our Home strategy progressing well with the extension of our upholstery exclusive brand partnerships to bed frames and completion of IT development and logistics enabling activities contributing to beds and mattresses year on year online order growth of 70%
- DFS brand successfully broadening its appeal to a wider audience driving up average order values
- Two new Sofology showrooms opened with the brand now present in 57 locations as we continue our national roll-out plan
- Sofa Delivery Company integration work complete with the same infrastructure being used to deliver DFS and Sofology orders driving cost savings

Financial summary:

- Revenue from continuing operations¹ of £544.5m is up 9.4% compared to the non-Covid disrupted pro-forma FY19 period⁴ (down 2.2% on H1 FY22: £556.5m)
- Higher average order values driven by range innovation as well as some retail price increases to counter input inflation more than offset the impact on revenues of a decline in market volumes compared to FY19^{1,4}
- PBT(A)^{1,2,3} of £7.1m or 1.3% of revenues is reflective of a weak market environment, particularly in quarter one (H1 FY22 PBT(A): £23.3m)
- Order bank remains elevated (given our made to order model and a stronger second quarter performance) equivalent to c.£4m of profit which we expect to realise through H2
- Cost headwinds are abating and profit margins expected to improve in H2 of FY23 onwards and beyond
- Net bank debt³ increased to £135.6m from £90.0m at June 2022, reflecting the relatively low profit in the period, completion of share buy back programmes announced in March and September 2022 and working capital balances starting to normalise
- FY23 profit before tax and brand amortisation expected to be in a range of £30-£35m in line with market consensus[^] towards the lower end of our previous guidance
- Interim dividend of 1.5p approved by the Board reflecting an anticipated 4.5p total full year dividend, subject to H2 financial performance

Profit growth initiatives:

- We have plans in place to rebuild gross margins with an anticipated FY23 H2 rate of c.56% (compared to H1 rate of 53.8%) as we target a c.58% exit rate in FY24
- Cost headwinds are reducing and in some cases reversing. We have secured freight rates for calendar year 2023 broadly in line with historical (pre-Covid) levels
- Sofa Delivery Company integration activity and some back office integration now complete, and we progress to the next stage of our cost opportunity program
- We are confident in the plans we have in place and our ability to achieve the financial performance targets announced at our Capital Markets Day in March 2022 with revenues of £1.4bn and PBT margins of 8%+ over the medium term

Tim Stacey, Group Chief Executive Officer said:

“I’m pleased to report that the Group has extended its long track record of achieving market share gains in a challenging market to what are now record levels. We expect our profit* for the year to be between £30m-£35m in line with external expectations.

The share gains have gone some way to alleviating the impact of the weaker market we have observed in 2022 overall. Those gains built throughout the period with the group delivering strong order intake growth

in the second quarter. The order intake momentum has continued through the important winter sale period.

Profit margins have reduced over the last year due to a combination of significant cost increases and our commercial strategy to ensure that we continued to offer great value for customers in an environment where consumer discretionary spend was under pressure.

We have however improved our gross margins in the first half of this year from H2 of FY22 and further still in the second half to date through product innovation and selected retail price increases. Cost headwinds are reducing and in some cases reversing and we expect our upward gross margin trajectory to continue as we execute our margin build back plan.

At our capital markets day in March 2022 we set out our ambitions to grow revenues to £1.4bn and operate at an 8%+ PBT margin generating post tax free cash flows of 75%+. We continue to target that level of financial performance and have solid plans in place to deliver this.

Our disciplined approach to investment, data led innovation, entrepreneurial culture, scale advantages and strong operational execution will support a continuation of our long term trend of market share growth.”

**Profit before tax and brand amortisation. Refer to note 15 to the financial statements for definitions and reconciliations of Alternative Performance Measures.*

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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 living room, 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, Republic of Ireland, trading through our leading brands, DFS, Sofology and Dwell. 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 delivered with care through our expert final-mile delivery service "The Sofa Delivery Company Limited".

CHIEF EXECUTIVE'S OPERATING REVIEW

Overview

We have clearly been operating in a challenging macro economic environment which has led to the upholstery market declining in volume terms, estimated at -15%, and cost inflation running at double digit growth for the majority of 2022, compared to pre pandemic levels.

As we have experienced historically, the Group has continued its long term track record of gaining market share when times are tough, adding c.2%pts since our previous financial year to 38% and extending our position as the clear UK market leader in upholstery.

We believe that our market share gains are a result of both the underlying relative strength of our overall consumer proposition and our improved value as we passed on the cost increases to consumers on a £ for £ basis rather than with a mark up applied. This has reduced our reported profit margins in the first half, but we are well set to capitalise on future market recovery and the recently observed reduction in external cost headwinds.

We have a clear plan that we are implementing to return gross margin to historical levels more normally achieved by the Group. Alongside the gross margin rebuild we continue to actively manage our cost base to grow our profit levels.

Following strong second quarter trading, momentum continued through the important winter sales trading period. Due to a softening in order intake in recent weeks we have revised our profit* guidance to £30-35m, towards the lower end of our previous guidance.

**Profit before tax and brand amortisation. Refer to note 15 to the financial statements for definitions and reconciliations of Alternative Performance Measures.*

Market context

The consumer environment has been challenging, with upholstery market volumes significantly down compared with pre pandemic (FY19) levels and we continue to see the exit of independent sofa retailers and some pureplays.

As demonstrated at our Capital Markets Day last year, we believe that the winning model for the upholstery market is a combination of the best physical and digital channels for our customers and, despite the market backdrop, we have been able to continue to invest in these and our supporting platforms to drive growth.

Alongside these investments we have developed a culture of using data to provide insight and support our decision making. These investments and insight, combined with the benefits our scale brings, enable us to, for example, attract and establish strong partnerships with leading brands, market more effectively, buy more efficiently, convert more customers and deliver at lower cost. These competitive advantages have helped us achieve consistent market share growth.

We can see a clear path for further growth given the fragmented, long-tail of independents and other general retailers, as well as our strategy to expand our share in the c.£5bn (non sofa) home market.

Financial results

We achieved revenue growth compared to the FY19 pre pandemic period⁴ across both our DFS and Sofology brands in the first half of this financial year.

Our data sources indicate market order volumes were down approximately 15% against FY19 with the DFS Group outperforming in mid single digit decline. We have offset the volume declines through higher average order values as a result of range innovation, broadening our appeal to a wider consumer base as well as some retail price increases.

Underlying profit before tax and brand amortisation³ of £7.1m and our PBT margin of 1.3% are below historical levels reflecting very low market wide demand levels in the first quarter and relatively low gross margin rates to optimise order intake and profits. We have developed robust plans and are currently implementing them to improve our profitability.

Detail on our financial performance is included in our CFO's Financial Review.

Our three areas of focus

Growth

We continue to drive market share growth in the upholstery sector across the economic cycle. Our latest read using our proprietary Barclaycard data set indicates our share has increased from 36% in FY22 to around 38% in the first half of this year. We see further opportunity to grow share in the short term given the tough trading conditions, we are likely to continue to see the exit from the market of some of the smaller players. We continue to see an opportunity to gain share in the Home (non-upholstery) sector which is discussed below.

Gross margins

The Group averaged gross margins of 58% up to FY19; these dropped in recent years to 52.7% in FY22 due to a variety of factors including increased shipping rates, cost of goods and general inflation. We have a clear plan to drive gross margins back to historical levels and have secured shipping rates for calendar year 2023 inline with pre Covid levels. Our first half gross margin has recovered to 53.8% and we are on track to deliver a second half margin of c.56%.

Costs and inflation

We are reviewing the full spectrum of our cost base across our operations and support functions to ensure we operate more efficiently. We will however ensure that areas critical to our growth agenda receive an appropriate level of investment.

Our Pillars

DFS: strong on-going performance

The brand has successfully transitioned its proposition to appeal to a broad customer base through enhancements to its product offering and innovative marketing.

Our new marketing campaign 'What's Your Thing?' is driving a record Brand Connection Score and we continue to invest in our showroom format with our transformation programme now rolled out across 50 locations. We are pleased that we continued to see as strong sales uplifts (+5%) and short payback periods (under two years) on the most recently refurbished showrooms as we did on the high priority locations we refurbished when we launched the program.

Our strategic range development continues at pace and we have seen innovative models with hidden storage, heated seats and reclining memory functions perform well. We have seen a trend develop for large corner group sofas with our higher price point “Storeaway” ranges a good example of broadening the DFS brands appeal.

The brand’s market share is at an all time high and we see opportunities to grow this further.

Sofology: continued growth & development

The Sofology brand has become a household name following sustained marketing investment since our acquisition of the business in 2017. Using well known celebrities in its advertisements, such as Owen Wilson and more recently Helena Bonham Carter in the ‘Bring Imagination to Life’ campaign, has helped contribute to Sofology achieving its highest ever brand awareness.

Sofology has also started to collaborate with TV stars such as the architect George Clark to create sustainable, design-led ranges such as the Gaia and Midland Hill ranges. These have added to the growing number of sustainable based ranges in the ‘sustainable edit collection’ which feature fabrics made from recycled pre and post consumer waste, fillings that are recycled or recyclable to support a circular economy, as well as wooden frames from sustainable sources.

We have continued to integrate the brand into the Group and develop shared platforms. For instance the Sofa Delivery Company which was formed from the consolidation of the warehouse and logistics operations of the DFS and Sofology brands now delivers on behalf of both brands following the successful integration of the workforce and IT systems. This has enabled scale benefits and lower delivery costs for the Group.

Home: sustained investment in building the foundations

We have made good progress in developing our strategy to grow our share of the Home market.

The first phase is to grow our share in the £3bn beds and mattresses market. We have been able to utilise our existing upholstery exclusive brand partnerships with the likes of French Connection, Grand Designs, Joules and Cath Kidston to expand these offerings to bed frames. We have targeted sales of our beds and mattress ranges through our online channel and through the use of digital tools such as our ‘swoosh’ large format screens and tablets in our showrooms. In a select number of showrooms we have also utilised some space to include a beds and mattresses section. We have expanded our partnership with Wincanton to develop a drop-ship solution for beds and mattresses which went live in January of this year. This has involved IT system development and integration to enable an end to end view of customer orders and stock management.

Our beds and mattresses online order intake in the first half is up 70% year on year, in line with our expectations. Having now established the supply chain foundations and developed the product proposition, we plan to accelerate our investment in marketing to drive awareness and growth in the the beds and mattresses market, focused on our digital channels.

Our platforms

Our four group platforms enable growth in our DFS and Sofology brands and Home pillars.

Technology and Data:

We continue to see the collection and use of data as critical to maintain and develop our market leading position in the sector. Our recent initiatives aim to drive improvements from attracting and converting customers through to driving efficiency through the process of delivering orders to customers homes.

Recent examples include the development of our Integrated Retail Intelligence System which brings together numerous data sources to create one unified view of the customer and the ongoing development of our integrated lending platform (ILP) to work across our Sofology brand. ILP speeds up the process and likelihood of customers gaining the credit that is right for them and helps enable increased conversion at busy trading times. We have developed middle mile software which helps enable the sale of cancelled customer orders or returned stock across the country in an efficient manner via our national distribution centre and there remain further opportunities to develop this solution to use with our manufacturing operations.

Our digital marketing efforts have been recognised by some global digital powerhouses. We are the only retailer across the globe in 2022 to have been recognised by Meta/Facebook as a standout partner and had a case study written about our best-in-class approach. We have developed a robust profit-driven demand-led approach to digital marketing, enabling us to target potential customers with the right messaging at the right time at a hyper local level to increase our marketing ROI.

We are also investing in internal capability across both IT development as well as colleague training which puts us in a great position to take advantage of future opportunities.

Sourcing and Manufacturing

We have been manufacturing sofas for over 50 years, have established relationships with the major upholstery suppliers across the world and we can source at preferential rates given our scale. Following the Group's growth in share and with Sofology now an established major player in the market we are revisiting our supplier mix with a view to evolving and optimising it. ESG considerations will play a crucial part in the decision-making process.

People and Culture

The DFS Group is a people business. Attracting and retaining the right colleagues, developing them and ensuring they enjoy and get satisfaction from their work is imperative for us.

We are constantly evolving our employee value proposition to ensure we remain an attractive employer to work for. Whilst ensuring our pay levels are competitive we also provide a plethora of other benefits which include our recently launched subsidised private health offering which is accessible to all our workforce, free flu vaccinations, mental health support, access to discounts with major retailers and support for the menopause and mens' health issues, to name but a few.

We have sought to share best practice across the Group, create consistency in service and increase our efficiency by integrating back office support functions across finance, HR & technology, health & safety, and legal & compliance and there remains further opportunity to generate additional synergies.

Logistics

The Sofa Delivery Company operated through an incredibly challenging period in the last two financial years due to the unpredictability of manufacturing & inbound freight and a high absence rate, both driven by Covid. The operation also had to deal with very high levels of orders to deliver and a UK-wide shortage in

delivery drivers. The external environment has stabilised somewhat and after a successful IT integration each of our distribution centres now receives and delivers out both brands orders using the same workforce and fleet to drive efficiencies and cost savings for the Group.

Following the opening of two super warehouses in 2022 and optimisation of the post codes each distribution centre delivers to, we have reassessed our property requirements and will be closing a small number of distribution centres in this financial year driving property cost savings in FY24 onwards.

Looking ahead

The Group has extended its long track record of achieving market share gains in a challenging market to what are now record levels. We expect our profit* for the year to be between £30m-£35m in line with external expectations

This has gone some way to alleviating the impact of the weaker market we have observed in 2022 overall. Those share gains built throughout the period with the group delivering strong order intake growth in the second quarter. The order intake momentum has continued through the important winter sale period.

Whilst profit margins have taken a step backwards due to inflationary pressures and a much softer trading environment, the cost headwinds are subsiding and in some cases reversing. Our gross margin FY23 H2 rate is expected to be c.56% and we are targeting an FY24 exit rate of 58%.

At our capital markets day in March 2022 we set out our ambitions to grow revenues to £1.4bn and operate at an 8%+ PBT margin generating post tax free cash flows of 75%+. We continue to target that level of financial performance and have solid plans in place to deliver this.

Our disciplined approach to investment, data led innovation, entrepreneurial culture, scale advantages and strong operational execution will support a continuation of our long term trend of market share growth.

Tim Stacey

Group Chief Executive Officer

**Profit before tax and brand amortisation. Refer to note 15 to the financial statements for definitions and reconciliations of Alternative Performance Measures.*

FINANCIAL REVIEW

The Group is in a strong position having delivered market share gains to record levels to 38% (FY22 36%). This is supported by both the proprietary Barclaycard market data that we track and Global Data.

Through the period, we have continued to invest to support future growth, with expenditure on new and existing stores, our beds and mattresses ranges and in our market leading digital capabilities.

This leaves the Group well positioned to grow revenues, profits and generate strong levels of free cash flows as a result of initiatives underway which will be bolstered when market volumes return to more normal levels.

Basis of preparation

As detailed in the FY22 annual report, following the decision to close the Group's operations in the Netherlands and Spain, the results from these businesses have been presented as discontinued operations. During the 26 weeks ended 25 December 2022, the residual order book of these discontinued operations has been delivered and the operations wound down, resulting in small amounts of income and costs relating to these discontinued operations being recognised in the period. Unless otherwise indicated the commentary below relates to continuing operations.

Revenue and gross sales

Group gross sales^{1,3}, which are recognised on delivery of orders to customers, decreased by 1.1% for the period to £705.6m (FY22 H1: £713.2m). Compared to the pre-pandemic FY19 proforma period⁴, Group gross sales increased by 9.6% (FY19 H1⁴: £644.0m).

<i>Continuing operations</i>	26 weeks ended 25 December 2022		
£m	H1 FY23	YoY	v.H1 FY19 ⁴
Gross Sales	705.6	(1.1%)	+9.6%
DFS (inc Dwell)	557.2	(1.9%)	+10.5%
Sofology	148.4	+2.5%	+6.1%
Digital % Sales [^]	24.0%	+1.0%pts	+6.5%pts
Revenue	544.5	(2.2%)	+9.4%

[^] Digital % Sales represents the Gross Sales for orders completed online and via telephone sales as a percentage of total Gross Sales

Gross sales performance in the half was supported by a high opening order bank and order intake growth** of 10.6%. Market demand in quarter one was relatively low resulting in the order bank unwinding to normal levels. Quarter two order intake performance was much stronger (+16.3% vs FY19, +18.8% year on year), supported by market share gains. Due to this order intake profile and our made to order model, our order bank remained elevated at the end of the half, equivalent to c.£4m in profit terms.

We saw growth coming from increases to average order values, driven by range innovation as well as some retail price increases, partly offset by order volumes down slightly.

We delivered growth in both stores and online, with digital linked sales now making up 24.0% of total sales, lower than the peaks of the pandemic, but up 6.5%pts compared to FY19⁴.

We saw strong growth in the DFS brand of +10.5% vs FY19⁴ and growth in the Sofology brand of +6.1% vs FY19⁴, with the logistics and manufacturing issues experienced in FY22 and FY21 now largely stabilised.

Within Home categories, sales of our Beds & Mattresses ranges continued to grow strongly, up 57% in the period, in line with our expectations, including online growth of c70%. Across our sofa ranges those with added features such as charging points, recliners with memory settings and hidden storage have performed well.

Group revenue of £544.5m was 2.2% lower than prior year (£556.5m), but 9.4% ahead of H1 FY19⁴ (£497.8m). This was slightly below the growth in gross sales due to an increase in the subsidy costs of our interest free credit (IFC) offering which is deducted from gross sales in arriving at reported revenue.

IFC costs increased as a result of increases to underlying interest rates, together with an increase in credit participation levels back towards historical averages after a period of reduced uptake during the pandemic period. IFC remains an important part of our overall customer value proposition and in March 2023 we reduced the maximum term from 48 months to 36 months to reduce the impact of rising subsidy costs while maintaining a compelling offer.

***Order intake growth for the period calculated using weeks 1-25 of the financial period (and for the second quarter using weeks 14-25) to remove the impact of the different number of days in each financial year falling into the post Christmas sale trading period.*

Gross profit

Gross profit of £292.9m decreased by £4.9m (1.6%) year on year. As a percentage of revenue, gross profit in the period was 53.8%, representing an improvement of 30bps year on year and 110bps compared to the FY22 financial year. The Group has continued to pass on cost price increases £ for £, without a retail mark-up and this approach has helped to optimise customer order intake and support the market share gains we have seen across the period.

Whilst the macro economic outlook remains uncertain, we expect gross margin rate to continue to improve back toward pre-pandemic levels over the course of the second half and FY24. This will be supported by lower freight rates already secured for calendar year 2023 which are more in line with pre-pandemic rates, and the delivery of other sourcing, ranging and pricing initiatives to strengthen margin.

Selling, distribution and administration costs

Selling, administrative and distribution costs, excluding property costs, were £206.6m (H1 FY22: £204.8m), representing a cost % of revenue of 37.9% (H1 FY22: 36.8%). The increase year on year was a result of inflationary cost pressures and additional marketing investment to support the growth in our Beds & Mattresses ranges. This was partly mitigated by a reduction in prior year costs associated with inbound logistics disruption and Covid-related absence, together with efficiency savings from The Sofa Delivery Company which now delivers on behalf of both the DFS and Sofology brands.

Property costs were £18.1m (H1 FY22: £12.9m), with the year on year increase due to a combination of the cessation of business rates relief (benefit of £2.0m in H1 FY22), new Sofology showroom openings and investments in the capacity of our warehouse estate.

Continuous improvement of our operating models and cost base remains central to our pillars and platforms strategy, and we are currently undertaking a further comprehensive review of operating costs. We expect additional opportunities remain to improve productivity and lower the cost to operate across the Group, which will support our future revenue and PBT(A)³ growth targets.

Depreciation, amortisation and interest

Depreciation and amortisation charges (excluding brand amortisation) increased year on year by 5.6% to £45.1m (H1 FY22: £42.7m) as a result of capital investment in expanding the Sofology showroom estate, investment in one of our manufacturing facilities and continued investment in digital initiatives.

Interest for the period was £16.0m (H1 FY22: £14.1m) with the increase arising due to a higher average drawdown on the senior revolving credit facility in the period, and higher applicable interest rates following the increases to the Bank of England base rate.

Profits and earnings per share

Underlying profit before tax and brand amortisation³ for the 26 week period to 25 December 2022 was £7.1m, compared to £23.3m in the prior period, reflecting the lower year on year gross sales and the net increase in operating costs due to inflationary pressures and investments to support future growth.

Reported profit before tax for the period was £6.8m (H1 FY21: £22.8m).

The tax charge recognised in the interim financial statements has been calculated using the expected effective tax rate for the full year of 19.1% (FY22: 29.9%). This is lower than the applicable UK Corporation Tax rate of 20.5% (FY22: 19.0%), primarily due to the availability of the super deduction on capital expenditure. The FY22 effective tax rate was higher than normal for the Group due to the differential in rates between current and deferred taxes along with the effect of overseas branch exemptions.

Underlying basic earnings per share from continuing operations was 2.2 pence (H1 FY22: 7.3 pence). Total reported earnings per share was 2.1 pence (H1 FY22: 7.0 pence).

Discontinued operations

Results for the discontinued operations, being the DFS operations in the Netherlands and Spain amounts to a trading loss of £0.6m on revenue of £1.9m. Trading in both these businesses has ceased and we have now delivered the last of the associated order book. Further details of the results of discontinued operations are presented in note 14 to the condensed consolidated financial statements.

Cash flow and net debt

Net bank debt³ increased by £45.6m to £135.6m in the period. This reflects the relatively low level of profit performance for the half year, working capital unwind of £9.9m, payment of the FY22 final dividend (£8.7m) and £26.9m of share buybacks announced in March and September 2022. The September buy back program completed in January 2023.

Cash capital expenditure for the period was £19.6m (H1 FY22: £25.2m). This included spend on two new Sofology showrooms opened in the period, as well as refits of a further three DFS stores and investments to optimise Beds & Mattresses selling space in 6 showrooms. We also invested in one of our three manufacturing sites to reconfigure the layout to improve the production process and increase storage capacity to reduce the risk of materials shortages. We continued to invest in digital initiatives to support future sales and cost efficiencies as Tim described in his review.

We expect annual cash capital investment to be c.£35m for FY23.

The Group's return on capital employed (ROCE³) for the period was 16.5%, down from 18.7% in FY22 due to the relatively low profits in H1 FY23 and a relatively consistent level of capital employed. We expect that this return should grow over time as i) we drive profitability through gross margin improvements, cost base initiatives and further market share gains and ii) market volumes recover.

The Group has signed a one-year extension to its ESG-linked senior revolving credit facility consistent with the terms of the original agreement. This facility now has a December 2025 maturity (previously December 2024) and will reduce from its current £215.0m to £193.5m in December 2024. The financial covenants remain at 3.0x maximum net debt / underlying EBITDA and minimum 1.5x fixed charge cover, both measured on an IAS17 basis.

Capital distribution policy and dividends

We have updated our capital distribution policy which can be found on our corporate website.

The previous policy included an adjusted free cash flow based approach for ordinary dividends which was introduced in order to ensure the transition to IFRS 16 (which had no cash flow impact) did not impact on dividend payments.

The updated policy takes a dividend cover based approach which is more closely aligned with market practice. We have set a cover of 2.25-2.75x basic underlying EPS to calculate ordinary dividends in the full year in which the dividend is declared. Our target leverage remains unchanged at 0.5x to 1.0x (measured as net bank debt / last twelve month cash EBITDA³).

The Board has declared an interim dividend for FY23 of 1.5 pence per share (£3.5m total cost). This is based on an expected full year total dividend of 4.5 pence per share subject to meeting the midpoint of our £30-35m PBT profit expectation and reflects a 2.5x EPS cover. This dividend will be paid on 25 May 2023 to shareholders on the register on 14 April 2023. We expect to pay a dividend in the middle of the range subject to profit growth in FY24 onwards, until our leverage returns to our target range.

The updated policy also enables the Board to consider returning surplus cash to shareholders by way of a special distribution if average net bank debt remains below our target leverage range for a sustained period, subject to the anticipated capital needs of the business and the overall outlook for the Group.

Looking forward

The Group is in a strong position in the upholstery market having extended its market share to a record 38%. There remains opportunities to grow share further given the fragmented market and the Group is making progress in growing its share in the £3bn beds and mattresses market.

Our gross margin rate has improved year on year and we are on track to grow this to 56% for H2 and then back towards historical levels of c58% as we exit FY24. Alongside the gross margin improvement plan, we are undertaking a further review of our total cost base which we expect to support additional efficiency improvements.

John Fallon

Chief Financial Officer

¹ Continuing operations excludes the discontinued International operation and Sofa Workshop which was disposed of in September 2020

² PBT(A) - profit before tax, excluding brand amortisation

³ Definitions and reconciliations of KPIs including Alternative Performance Measures ("APMs") are provided at the end of this statement in Note 15 to the condensed consolidated financial statements

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PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks that could threaten the Group's business model, future performance, solvency or liquidity remain consistent with those described in the 2022 Annual Report. A summary is provided below:

Risk	Impact
Supply chain and manufacturing resilience	Elevated or volatile order volumes that 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 macro economic 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
Macro economic 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

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK;

- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

Tim Stacey
Chief Executive Officer

John Fallon
Chief Financial Officer

16 March 2023

INDEPENDENT REVIEW REPORT TO DFS FURNITURE PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 25 December 2022 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 25 December 2022 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK and the Disclosure Guidance and Transparency Rules (“the DTR”) of the UK’s Financial Conduct Authority (“the UK FCA”).

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* (“ISRE (UK) 2410”) issued for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Group to cease to continue as a going concern, and the above conclusions are not a guarantee that the Group will continue in operation.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with UK-adopted international accounting standards.

The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Frances Simpson**for and on behalf of KPMG LLP***Chartered Accountants*

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

16 March 2023

Unaudited condensed consolidated income statement

	26 weeks to 25 December 2022			26 weeks to 26 December 2021*			52 weeks to 26 June 2022			
	Note	Underlying £m	Non- underlying £m	Total £m	Underlying £m	Non- underlying £m	Total £m	Underlying £m	Non- underlying £m	Total £m
Continuing operations										
Gross sales	3	705.6	-	705.6	713.2	-	713.2	1,474.6	-	1,474.6
Revenue	3	544.5	-	544.5	556.5	-	556.5	1,149.8	-	1,149.8
Cost of sales		(251.6)	-	(251.6)	(258.7)	-	(258.7)	(543.9)	-	(543.9)
Gross profit		292.9	-	292.9	297.8	-	297.8	605.9	-	605.9
Selling and distribution costs		(187.3)	-	(187.3)	(181.2)	-	(181.2)	(368.0)	-	(368.0)
Administrative expenses		(37.4)	0.4	(37.0)	(36.5)	0.2	(36.3)	(62.0)	(0.4)	(62.4)
Operating profit before depreciation and amortisation		68.2	0.4	68.6	80.1	0.2	80.3	175.9	(0.4)	175.5
Depreciation		(40.2)	-	(40.2)	(38.3)	-	(38.3)	(77.7)	-	(77.7)
Amortisation		(5.6)	-	(5.6)	(5.1)	-	(5.1)	(10.5)	-	(10.5)
Operating profit/(loss)	4	22.4	0.4	22.8	36.7	0.2	36.9	87.7	(0.4)	87.3
Finance expenses	5	(16.0)	-	(16.0)	(14.1)	-	(14.1)	(28.8)	-	(28.8)
Profit/(loss) before tax		6.4	0.4	6.8	22.6	0.2	22.8	58.9	(0.4)	58.5
Taxation	6	(1.0)	(0.1)	(1.1)	(4.2)	-	(4.2)	(14.3)	-	(14.3)
Profit/(loss) for the period from continuing operations		5.4	0.3	5.7	18.4	0.2	18.6	44.6	(0.4)	44.2
Loss for the period from discontinued operations		(0.6)	-	(0.6)	(0.9)	-	(0.9)	(1.5)	(11.3)	(12.8)
Profit/(loss) for the period		4.8	0.3	5.1	17.5	0.2	17.7	43.1	(11.7)	31.4
Statutory earnings per share										
Basic	7									
- from continuing operations		2.2p	0.1p	2.3p	7.3p	0.1p	7.4p	17.5p	(0.2)p	17.3p
- from discontinued operations		(0.2)p	-	(0.2)p	(0.4)p	-	(0.4)p	(0.6)p	(4.4)p	(5.0)p
Total		2.0p	0.1p	2.1p	6.9p	0.1p	7.0p	16.9p	(4.6)p	12.3p
Diluted	7									
- from continuing operations		2.2p	0.1p	2.3p	7.2p	0.1p	7.3p	17.4p	(0.2)p	17.2p
- from discontinued operations		(0.2)p	-	(0.2)p	(0.4)p	-	(0.4)p	(0.6)p	(4.4)p	(5.0)p
Total		2.0p	0.1p	2.1p	6.8p	0.1p	6.9p	16.8p	(4.6)p	12.2p

*Results for the 26 weeks to 26 December 2021 have been re-presented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

Unaudited condensed consolidated statement of comprehensive income

	26 weeks to 25 December 2022 £m	26 weeks to 26 December 2021* £m	52 weeks to 26 June 2022 £m
Profit for the period	5.1	17.7	31.4
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Effective portion of changes in fair value of cash flow hedges	(3.0)	4.5	23.6
Net change in fair value of cash flow hedges reclassified to profit or loss			
Recognised in cost of sales	(9.3)	3.8	1.9
Income tax on items that are or may be reclassified subsequently to profit or loss	3.0	(2.1)	(6.4)
Other comprehensive income/(expense) for the period, net of income tax	(9.3)	6.2	19.1
Total comprehensive income for the period	(4.2)	23.9	50.5
Total comprehensive income for the period attributable to the owners of the parent			
- from continuing operations	(3.6)	24.8	63.3
- from discontinued operations	(0.6)	(0.9)	(12.8)
	(4.2)	23.9	50.5

*Results for the 26 weeks to 26 December 2021 have been re-presented to reflect the classification of operations in Spain and the Netherlands as discontinued in accordance with IFRS 5.

Unaudited condensed consolidated balance sheet

		25 December 2022 £m	26 December 2021 £m	26 June 2022 £m
	<i>Note</i>			
Non-current assets				
Property, plant and equipment	11	107.9	100.2	105.9
Right of use assets	11	314.8	355.7	338.0
Intangible assets	11	534.8	535.8	533.8
Other financial assets		0.1	1.4	4.8
Deferred tax assets		14.1	23.1	10.8
		971.7	1,016.2	993.3
Current assets				
Inventories		56.5	63.5	64.4
Other financial assets		8.2	1.2	12.8
Trade and other receivables		21.2	13.3	24.3
Current tax assets		5.7	6.6	7.8
Cash and cash equivalents (excluding bank overdrafts)		34.4	19.1	17.3
		126.0	103.7	126.6
Total assets		1,097.7	1,119.9	1,119.9
Current liabilities				
Bank overdraft		-	(9.5)	(12.3)
Trade payables and other liabilities		(260.7)	(279.9)	(280.7)
Lease liabilities		(83.3)	(86.7)	(89.0)
Provisions	12	(12.3)	(9.1)	(12.8)
Other financial liabilities		(2.5)	(2.1)	-
		(358.8)	(387.3)	(394.8)
Non-current liabilities				
Interest bearing loans and borrowings		(168.8)	(73.5)	(93.5)
Lease liabilities		(333.5)	(371.7)	(356.4)
Provisions	12	(6.0)	(6.5)	(6.3)
Other financial liabilities		(0.6)	(0.1)	-
		(508.9)	(451.8)	(456.2)
Total liabilities		(867.7)	(839.1)	(851.0)
Net assets		230.0	280.8	268.9
Equity attributable to equity holders of the parent				
Share capital		24.1	25.9	25.9
Share premium		40.4	40.4	40.4
Merger reserve		18.6	18.6	18.6
Capital redemption reserve		359.6	357.8	357.8
Treasury shares		(6.1)	(0.7)	(4.9)
Shares held by employee benefit trust		(6.6)	(7.3)	(6.9)
Cash flow hedging reserve		5.2	0.3	17.5
Retained earnings		(205.2)	(154.2)	(179.5)
Total equity		230.0	280.8	268.9

Unaudited condensed 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 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	-	-	-	-	-	-	-	17.7	17.7
Other comprehensive income/(expense)	-	-	-	-	-	-	8.3	(2.1)	6.2
Total comprehensive income for the period	-	-	-	-	-	-	8.3	15.6	23.9
Dividends	-	-	-	-	-	-	-	(19.0)	(19.0)
Purchase of shares held by Employee Benefit Trust	-	-	-	-	-	(8.2)	-	-	(8.2)
Employee benefit trust shares issued	-	-	-	-	-	1.1	-	(1.1)	-
Settlement of share based payments	-	-	-	-	-	-	-	(2.6)	(2.6)
Share based payments	-	-	-	-	-	-	-	2.2	2.2
Balance at 26 December 2021	25.9	40.4	18.6	357.8	(0.7)	(7.3)	0.3	(154.2)	280.8
Balance at 26 June 2022	25.9	40.4	18.6	357.8	(4.9)	(6.9)	17.5	(179.5)	268.9
Profit for the period	-	-	-	-	-	-	-	5.1	5.1
Other comprehensive income/(expense)	-	-	-	-	-	-	(12.3)	3.0	(9.3)
Total comprehensive income for the period	-	-	-	-	-	-	(12.3)	8.1	(4.2)
Dividends	-	-	-	-	-	-	-	(8.7)	(8.7)
Purchase of own shares	-	-	-	-	(26.9)	-	-	-	(26.9)
Employee benefit trust shares issued	-	-	-	-	-	0.3	-	(0.3)	-
Settlement of share based payments	-	-	-	-	-	-	-	(0.2)	(0.2)
Share based payments	-	-	-	-	-	-	-	1.1	1.1
Shares purchased for cancellation	(1.8)	-	-	1.8	25.7	-	-	(25.7)	-
Balance at 25 December 2022	24.1	40.4	18.6	359.6	(6.1)	(6.6)	5.2	(205.2)	230.0

Unaudited condensed consolidated cash flow statement

	26 weeks to 25 December 2022 £m	26 weeks to 26 December 2021 £m	52 weeks to 26 June 2022 £m
Profit for the period	5.1	17.7	31.4
<i>Adjustments for:</i>			
Income tax expense	1.2	3.9	13.4
Finance expenses	16.1	14.3	29.1
Depreciation of property, plant and equipment	10.8	10.0	20.7
Depreciation of right of use assets	29.4	29.1	58.5
Amortisation of intangible assets	5.6	5.1	10.5
Impairment of assets	-	-	6.0
Gain on sale of property, plant and equipment	(0.7)	(0.3)	(1.1)
Loss/(gain) on disposal of right of use assets	0.7	0.1	0.1
Settlement of share based payments	(0.2)	(2.6)	(2.7)
Share based payment expense	1.1	2.2	2.6
Decrease/(increase) in trade and other receivables	3.1	3.8	(7.2)
Decrease/(increase) in inventories	7.9	(2.4)	(3.3)
Decrease in trade and other payables	(20.1)	(17.2)	(16.6)
Decrease in provisions	(0.8)	(5.2)	(1.7)
Net cash from operating activities before tax	59.2	58.5	139.7
Tax paid	0.7	(4.1)	(6.8)
Net cash from operating activities	59.9	54.4	132.9
Investing activities			
Proceeds from sale of property, plant and equipment	0.7	1.5	1.8
Acquisition of property, plant and equipment	(13.0)	(19.5)	(36.8)
Acquisition of other intangible assets	(6.6)	(5.7)	(10.6)
Net cash used in investing activities	(18.9)	(23.7)	(45.6)
Financing activities			
Interest paid	(3.8)	(1.8)	(3.8)
Interest paid on lease liabilities	(11.8)	(12.5)	(25.0)
Payment of lease liabilities	(35.4)	(35.6)	(63.5)
Drawdown of borrowings	75.0	50.0	70.0
Purchase of own shares	-	(8.2)	(8.2)
Proceeds from sale of own shares	-	-	0.4
Purchase of treasury shares	(26.9)	-	(4.4)
Ordinary dividends paid	(8.7)	(19.0)	(28.4)
Special dividends paid	-	-	(25.4)
Net cash used in financing activities	(11.6)	(27.1)	(88.3)
Net increase/(decrease) in cash and cash equivalents	29.4	3.6	(1.0)
Cash and cash equivalents at beginning of period	5.0	6.0	6.0
Cash and cash equivalents (including bank overdraft) at end of period	34.4	9.6	5.0

Notes to the condensed consolidated financial statements

1. Basis of preparation

These unaudited condensed consolidated interim financial statements for DFS Furniture plc (“the Company”) and its subsidiaries (together, “the Group”) were approved for release on 16 March 2023.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK, and comprise the results for the 26 weeks ended 25 December 2022, the 26 weeks ended 26 December 2021, and the 52 weeks ended 26 June 2022.

The condensed consolidated interim financial statements do not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the condensed consolidated interim financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the company’s published consolidated financial statements for the year ended 26 June 2022 which were prepared in accordance with international accounting standards (‘UK-adopted IFRS’).

The statutory accounts for the 52 weeks ended 26 June 2022 have been reported on by the Company’s auditor and delivered to the Registrar of Companies. The auditor’s report for those accounts was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The auditor’s review report for the 26 weeks ended 25 December 2022 is attached.

Going concern

The condensed consolidated interim 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 with a consortium of banks which has been extended to mature in December 2025 (previously December 2024). This facility is due to be reduced to £193.5m from 21 December 2024. At 14 March 2023, £40.0m of the revolving credit facility remained undrawn, in addition to cash in hand, at bank of £3.4m.

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 interim condensed consolidated 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 volumes; 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 include sustained market declines of up to 10%, leading to reduced customer spending combined with negative impacts on gross margin whether from inflationary cost pressures, constraints on selling prices or increases in interest rates. The Directors have also performed reverse stress-testing analysis to confirm that circumstances resulting in a covenant breach were beyond those considered plausible.

Notes to the condensed consolidated financial statements

1. Basis of preparation (continued)

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 include reducing discretionary advertising and other expenditure, retail price increases, a pause on expansionary capital investment, a reduction or pause in dividend payments, 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.

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 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 condensed consolidated interim financial statements. Accordingly, the condensed consolidated interim financial statements are prepared on a going concern basis.

2. Principal accounting policies

As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the accounting policies adopted in preparing the condensed consolidated interim financial statements are consistent with the policies in the Group's financial statements for the 52 weeks ended 26 June 2022, these are consistent with IFRS, as issued by the International Accounting Standards Board and adopted by the UK Endorsement Board for use in the United Kingdom. There are no new standards, amendments to existing standards or interpretations that are effective for the first time in the period ended 25 December 2022 that have a material impact on the Group's results.

3. 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.
Other:	the manufacture of upholstered furniture and the supply of contract logistics.

Notes to the condensed consolidated financial statements

3. Segmental analysis (continued)

Segment revenue and profit - continuing operations

	External sales			Internal sales			Total gross sales		
	26 weeks to 25 December 2022	26 weeks to 26 December 2021*	52 weeks to 26 June 2022	26 weeks to 25 December 2022	26 weeks to 26 December 2021*	52 weeks to 26 June 2022	26 weeks to 25 December 2022	26 weeks to 26 December 2021*	52 weeks to 26 June 2022
	£m	£m	£m	£m	£m	£m	£m	£m	£m
DFS	557.2	568.1	1,169.1	-	-	-	557.2	568.1	1,169.1
Sofology	148.4	144.8	304.9	-	-	-	148.4	144.8	304.9
Other segments	-	0.3	0.6	105.6	94.2	187.9	105.6	94.5	188.5
Eliminations	-	-	-	(105.6)	(94.2)	(187.9)	(105.6)	(94.2)	(187.9)
Gross sales	705.6	713.2	1,474.6	-	-	-	705.6	713.2	1,474.6

	26 weeks to 25 December 2022 £m	26 weeks to 26 December 2021* £m	52 weeks to 26 June 2022 £m
Total segments gross sales	705.6	713.2	1,474.6
Less: value added and other sales taxes	(112.1)	(113.7)	(233.8)
Less: costs of interest free credit and aftercare services	(49.0)	(43.0)	(91.0)
Revenue	544.5	556.5	1,149.8
Of which:			
Furniture sales	518.1	531.1	1,096.8
Sales of aftercare products	26.4	25.4	53.0
Revenue	544.5	556.5	1,149.8

26 weeks to 25 December 2022 - continuing operations	DFS £m	Sofology £m	Other £m	Eliminations £m	Total £m
Revenue	428.4	116.1	105.6	(105.6)	544.5
Cost of sales	(213.7)	(54.8)	(29.7)	46.6	(251.6)
Gross profit	214.7	61.3	75.9	(59.0)	292.9
Selling and distribution costs (excluding property costs)	(116.3)	(32.7)	(64.2)	44.0	(169.2)
Brand contribution (segment profit)	98.4	28.6	11.7	(15.0)	123.7
Property costs					(18.1)
Underlying administrative expenses					(37.4)
Underlying EBITDA					68.2

26 weeks to 26 December 2021* - continuing operations	DFS £m	Sofology £m	Other £m	Eliminations £m	Total £m
Revenue	441.4	114.9	94.4	(94.2)	556.5
Cost of sales	(216.3)	(59.1)	(29.9)	46.6	(258.7)
Gross profit	225.1	55.8	64.5	(47.6)	297.8
Selling and distribution costs (excluding property costs)	(104.8)	(32.9)	(67.6)	37.0	(168.3)
Brand contribution (segment profit)	120.3	22.9	(3.1)	(10.6)	129.5
Property costs					(12.9)
Underlying administrative expenses					(36.5)
Underlying EBITDA					80.1

Notes to the condensed consolidated financial statements

3. Segmental analysis (continued)

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 and 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

	26 weeks to 25 December 2022 £m	26 weeks to 26 December 2021* £m	52 weeks to 26 June 2022 £m
Underlying EBITDA	68.2	80.1	175.9
Non-underlying items	0.4	0.2	(0.4)
Depreciation & amortisation	(45.8)	(43.4)	(88.2)
Operating profit	22.8	36.9	87.3
Finance expense	(16.0)	(14.1)	(28.8)
Profit before tax	6.8	22.8	58.5

A geographical analysis of revenue is presented below:

	26 weeks to 25 December 2022 £m	26 weeks to 26 December 2021* £m	52 weeks to 26 June 2022 £m
United Kingdom	536.5	546.0	1,129.3
Europe	8.0	10.5	20.5
Total revenue	544.5	556.5	1,149.8

*Results for the 26 weeks to 26 December 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 assets and liabilities

	Assets			Liabilities		
	25 December 2022 £m	26 December 2021 £m	26 June 2022 £m	25 December 2022 £m	26 December 2021 £m	26 June 2022 £m
DFS	953.5	957.0	948.4	(583.1)	(628.5)	(625.0)
Sofology	176.4	172.4	167.6	(149.3)	(156.5)	(142.6)
Other segments	41.3	57.2	30.0	(65.0)	(67.9)	(52.2)
Total segments	1,171.2	1,186.6	1,146.0	(797.4)	(852.9)	(819.8)
Loans and financing	-	-	-	(168.8)	(83.0)	(93.5)
Financial assets/(liabilities)	8.3	2.6	17.6	(3.1)	(2.2)	-
Current tax	5.7	6.6	7.8	-	-	-
Deferred tax	14.1	23.1	10.8	-	-	-
Eliminations	(101.6)	(99.0)	(62.3)	101.6	99.0	62.3
Total Group	1,097.7	1,119.9	1,119.9	(867.7)	(839.1)	(851.0)

Notes to the condensed consolidated financial statements

3. Segmental analysis (continued)

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.

	Additions to non-current assets			Depreciation, amortisation and impairments		
	26 weeks to 25 December 2022	26 weeks to 26 December 2021	52 weeks to 26 June 2022	26 weeks to 25 December 2022	26 weeks to 26 December 2021	52 weeks to 26 June 2022
	£m	£m	£m	£m	£m	£m
DFS	19.0	45.9	72.0	33.4	33.1	66.0
Sofology	6.2	9.4	14.8	9.4	8.6	17.3
Other segments	3.6	6.4	12.5	3.0	1.7	4.9
Total Group	28.8	61.7	99.3	45.8	43.4	88.2

Additions to non-current assets include both tangible and intangible non-current assets but exclude amounts arising on acquisition.

4. Operating profit - continuing operations

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

	26 weeks to 25 December 2022	26 weeks to 26 December 2021*	52 weeks to 26 June 2022
	£m	£m	£m
Depreciation on tangible assets (including depreciation on right of use assets)	40.2	38.3	77.7
Amortisation of intangible assets	5.6	5.1	10.5
Net gain on disposal of property, plant and equipment	(0.7)	(0.3)	(1.1)
Net loss/(gain) on disposal of right of use assets	0.7	0.1	0.1
Cost of inventories recognised as an expense	264.1	260.4	548.1
Write down of inventories to net realisable value	(1.8)	1.2	4.6
Other costs of sales	(10.7)	(2.9)	(8.8)
Release of provisions	-	(0.2)	(2.1)
Government grants received (business rates relief)	(0.2)	(0.5)	(2.0)
Operating lease rentals	0.2	1.8	0.7
<i>Non-underlying items:</i>			
Restructuring costs	-	0.2	0.9
Acquisition costs	-	(0.2)	(0.2)
Release of lease guarantee provision	(0.4)	(0.2)	(0.3)
	(0.4)	(0.2)	0.4

The release of the lease guarantee provision relates to the property provisions detailed in note 12. During the period ended 26 June 2022 restructuring costs arose from significant changes to the Group's operating model and the associated consolidation of central activities. The release of 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.

In addition to the non-underlying costs for continuing operations above, during the period ended 26 June 2022 a further £11.3m of non-underlying costs were recognised in respect of discontinued operations. These costs related 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 14.

*Results for the 26 weeks to 26 December 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.

Notes to the condensed consolidated financial statements

5. Finance expense - continuing operations

	26 weeks to 25 December 2022 £m	26 weeks to 26 December 2021* £m	52 weeks to 26 June 2022 £m
Interest payable on senior revolving credit facility	4.0	0.8	2.5
Bank fees	0.3	0.9	1.5
Unwind of discount on provisions	-	0.1	-
Interest on lease liabilities	11.7	12.4	24.7
Other interest	-	(0.1)	0.1
Total finance expense	16.0	14.1	28.8

*Results for the 26 weeks to 26 December 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.

6. Taxation

The tax charge recognised in the interim financial statements has been calculated on the basis of the expected effective tax rate for the 52 weeks to 25 June 2023 of 19.1% (52 weeks to 26 June 2022: 18.24%).

7. Earnings per share

	26 weeks to 25 December 2022 pence	26 weeks to 26 December 2021 pence	52 weeks to 26 June 2022 pence
Basic earnings/(loss) per share			
- from continuing operations	2.3	7.4	17.3
- from discontinued operations	(0.2)	(0.4)	(5.0)
Total basic earnings per share	2.1	7.0	12.3
Diluted earnings/(loss) per share			
- from continuing operations	2.3	7.3	17.2
- from discontinued operations	(0.2)	(0.4)	(5.0)
Total diluted earnings per share	2.1	6.9	12.2

	26 weeks to 25 December 2022 £m	26 weeks to 26 December 2021 £m	52 weeks to 26 June 2022 £m
Profit attributable to equity holders of the parent company			
- from continuing operations	5.7	18.6	44.2
- from discontinued operations	(0.6)	(0.9)	(12.8)
	5.1	17.7	31.4

	26 weeks to 25 December 2022 No.	26 weeks to 26 December 2021 No.	52 weeks to 26 June 2022 No.
Weighted average number of shares for basic earnings per share	244,862,812	252,617,478	254,675,661
Dilutive effect of employee share based payment awards	1,200,789	3,030,052	1,220,492
Weighted average number of shares for diluted earnings per share	246,063,601	255,647,530	255,896,153

Notes to the condensed consolidated financial statements

7. 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.

	26 weeks to 25 December 2022 £m	26 weeks to 26 December 2021* £m	52 weeks to 26 June 2022 £m
Continuing operations			
Profit attributable to equity holders of the parent company	5.7	18.6	44.2
Non-underlying items (profit)/loss after tax	(0.3)	(0.2)	0.4
Underlying profit attributable to equity holders of the parent company	5.4	18.4	44.6
Discontinued operations			
Profit attributable to equity holders of the parent company	(0.6)	(0.9)	(12.8)
Non-underlying items (profit)/loss after tax	-	-	11.3
Underlying profit attributable to equity holders of the parent company	(0.6)	(0.9)	(1.5)

	26 weeks to 25 December 2022 pence	26 weeks to 26 December 2021* pence	52 weeks to 26 June 2022 pence
Underlying basic earnings per share			
- from continuing operations	2.2	7.3	17.5
- from discontinued operations	(0.2)	(0.4)	(0.6)
Total underlying basic earnings per share	2.0	6.9	16.9
Underlying diluted earnings per share			
- from continuing operations	2.2	7.2	17.4
- from discontinued operations	(0.2)	(0.4)	(0.6)
Total underlying diluted earnings per share	2.0	6.8	16.8

*Results for the 26 weeks to 26 December 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.

8. Dividends

	Pence per ordinary share	26 weeks to 25 December 2022 £m	26 weeks to 26 December 2021 £m	52 weeks to 26 June 2022 £m
Final ordinary dividend for FY21	7.5p	-	19.0	19.0
Interim ordinary dividend for FY22	3.7p	-	-	9.4
Special dividend	10.0p	-	-	25.4
Final ordinary dividend for FY22	3.7p	8.7	-	-
		8.7	19.0	53.8

The directors have declared an interim dividend for the period ending 25 June 2023 of 1.5p per ordinary share to be paid on 25 May 2023. DFS Furniture plc shares will trade ex-dividend from 13 April 2023 and the record date will be 14 April 2023.

Notes to the condensed consolidated financial statements

9. 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.

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.

10. Seasonality of operations

The Group's business is subject to sales order peaks due to the effects of promotional periods and, historically, a significant proportion of its annual revenue has been derived from orders generated during specific promotional periods. Promotional periods are generally aligned with periods over which consumers seek to make more purchases. In recent years the timing of revenue has also been impacted by periods of Covid-related store closures and other restrictions.

The Group's most important trading periods in terms of order volumes have historically been in the promotional periods during the post-Christmas winter sale, Easter, the pre-Christmas guaranteed delivery period, and other public bank holidays. These increases in its order volumes (as opposed to its revenue, which is recognised upon completion of delivery, typically between three and 12 weeks after orders are placed) have generally been influenced, inter alia, by increases in the Group's spending on marketing and promotions in the period immediately prior to, and during, these promotional periods.

As a result of this seasonality of operations the results for the first half of the financial year have typically been smaller than the second half.

11. Capital expenditure

	Property, plant and equipment £m	Right of use asset £m	Intangible assets £m
Net book value as at 27 June 2022	105.9	338.0	533.8
Additions	13.0	9.2	6.6
Remeasurements	-	(1.7)	-
Disposals	(0.2)	(1.3)	-
Reclassifications	-	-	-
Depreciation, amortisation and impairment	(10.8)	(29.4)	(5.6)
Net book value as at 25 December 2022	107.9	314.8	534.8

	Property, plant and equipment £m	Right of use asset £m	Intangible assets £m
Net book value as at 28 June 2021	91.6	345.1	535.4
Additions	19.5	36.5	5.7
Remeasurements	-	3.4	-
Disposals	(1.1)	(0.2)	-
Reclassifications	0.2	-	(0.2)
Depreciation, amortisation and impairment	(10.0)	(29.1)	(5.1)
Net book value as at 26 December 2021	100.2	355.7	535.8

Notes to the condensed consolidated financial statements

12. Provisions

	Guarantee provision £m	Property provisions £m	Other provisions £m	Total £m
Balance at 26 June 2022	8.7	4.0	6.4	19.1
Provisions made during the period	5.2	1.2	-	6.4
Provisions used during the period	(5.1)	(0.1)	(1.6)	(6.8)
Released during the period	-	(0.4)	-	(0.4)
Balance at 25 December 2022	8.8	4.7	4.8	18.3
Current	6.2	1.7	4.4	12.3
Non-current	2.6	3.0	0.4	6.0
	8.8	4.7	4.8	18.3

	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	4.5	0.2	0.2	4.9
Provisions used during the period	(4.2)	-	(5.5)	(9.7)
Released during the period	-	(0.2)	(0.2)	(0.4)
Balance at 26 December 2021	9.4	3.7	2.5	15.6
Current	6.3	0.7	2.1	9.1
Non-current	3.1	3.0	0.4	6.5
	9.4	3.7	2.5	15.6

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).

Property provisions relate to potential obligations under lease guarantees offered to former subsidiary companies, the majority of which expire in 2025, and wear and tear 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 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 during the period ended 26 December 2021 (see note 4). Other provisions also include costs associated with the exit from the Netherlands and Spain, see note 14 for details.

Notes to the condensed consolidated financial statements

13. Net debt

	26 June 2022 £m	Cash flow £m	Other non-cash changes £m	25 December 2022 £m
Cash in hand, at bank	17.3	17.1	-	34.4
Bank overdraft	(12.3)	12.3	-	-
Cash and cash equivalents	5.0	29.4	-	34.4
Senior revolving credit facility	(93.5)	(75.0)	(0.3)	(168.8)
Lease liabilities	(445.4)	35.4	(6.8)	(416.8)
Total net debt	(533.9)	(10.2)	(7.1)	(551.2)

	27 June 2021 £m	Cash flow £m	Other non-cash changes £m	26 December 2021 £m
Cash in hand, at bank	22.7	(3.6)	-	19.1
Bank overdraft	(16.7)	7.2	-	(9.5)
Cash and cash equivalents	6.0	3.6	-	9.6
Senior revolving credit facility	(23.1)	(50.0)	(0.4)	(73.5)
Lease liabilities	(454.1)	35.6	(39.9)	(458.4)
Total net debt	(471.2)	(10.8)	(40.3)	(522.3)

14. Discontinued operations

During the period ended 26 June 2022 the Group took the decision to exit its operations in the Netherlands and Spain, and details of the decision can be found in the Group's published consolidated financial statements for the year ended 26 June 2022. The revenues and expenses of the discontinued operations have been eliminated from the condensed 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.

	26 weeks to 25 December 2022			26 weeks to 26 December 2021	52 weeks to 26 June 2022	
	Underlying £m	Non- underlying £m	Total £m	Total £m	Total £m	
Results from discontinued operations						
Revenue	1.9	-	1.9	4.6	9.0	
Cost of sales	(1.1)	-	(1.1)	(2.2)	(4.6)	
Gross profit	0.8	-	0.8	2.4	4.4	
Selling and distribution costs	(1.1)	-	(1.1)	(2.6)	(5.0)	
Administrative expenses	(0.1)	-	(0.1)	-	(5.3)	
Operating profit before depreciation, amortisation and impairment	(0.4)	-	(0.4)	(0.2)	(5.9)	
Depreciation	-	-	-	(0.8)	(1.5)	
Impairment	-	-	-	-	(6.0)	
Operating profit/(loss)	(0.4)	-	(0.4)	(1.0)	(13.4)	
Finance expenses	(0.1)	-	(0.1)	(0.2)	(0.3)	
Profit/(loss) before tax	(0.5)	-	(0.5)	(1.2)	(13.7)	
Taxation	(0.1)	-	(0.1)	0.3	0.9	
Profit/(loss) for the period from discontinued operations	(0.6)	-	(0.6)	(0.9)	(12.8)	
Non-underlying items from discontinued operations				26 weeks to 25 December 2022 £m	26 weeks to 26 December 2021 £m	52 weeks to 27 June 2022 £m
Impairment of right of use assets				-	-	3.1
Impairment of other assets				-	-	1.4
Impairment of goodwill and intangible assets				-	-	1.5
Other closure costs				-	-	5.3
				-	-	11.3

14. Discontinued operations (*continued*)

In the 52 weeks to 26 June 2022 the impairment of right of use assets arose due to the closure of leased showrooms and warehouses in Spain and the Netherlands. Other assets, mostly inventory, were impaired to their net realisable value following the closure. Goodwill and other intangibles held in the condensed consolidated balance sheet in relation to DFS Spain were impaired. Other closure costs relate to staff redundancy and other costs such as legal costs.

15. 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 UK adopted International Financial Reporting Standards ("IFRS").

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

In order to facilitate understanding of the APMs used by the Group, and their relationship to reported IFRS measures, definitions and numerical reconciliations are set out below.

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

APM glossary and definitions

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	Items that are material in size, unusual or non-recurring in nature 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.

Notes to the condensed consolidated financial statements

15. Alternative performance measures (*continued*)

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, adding back non-underlying items before tax.	Measure of the non-underlying operating cash generation of the business, normalised to reflect timing differences in working capital movements.
Leverage (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)	Underlying post-tax operating profit from continuing activities, 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.
LTM Dec-21	Last twelve months/52 weeks ended 27 December 2021 (unaudited, pro forma period).	Certain KPIs (e.g. Leverage) are only meaningful when assessed on a full year basis.
LTM Dec-22	Last twelve months/52 weeks ended 26 December 2022 (unaudited, pro forma period).	Certain KPIs (e.g. Leverage) are only meaningful when assessed on a full year basis.

Notes to the condensed consolidated financial statements

15. Alternative performance measures (continued)

Reconciliations to IFRS measures

EBITDA	H1 FY23 £m	H1 FY22 £m	FY22 £m
Operating profit from continuing operations	22.8	36.9	87.3
Depreciation	40.2	38.3	77.7
Amortisation	5.6	5.1	10.5
EBITDA from continuing operations	68.6	80.3	175.5

Underlying EBITDA	H1 FY23 £m	H1 FY22 £m	FY22 £m
EBITDA from continuing operations	68.6	80.3	175.5
Non-underlying operating items	(0.4)	(0.2)	0.4
Underlying EBITDA from continuing operations	68.2	80.1	175.9

Underlying profit before tax and brand amortisation – PBT(A)	H1 FY23 £m	H1 FY22 £m	FY22 £m
Profit before tax from continuing operations	6.8	22.8	58.5
Non-underlying items	(0.4)	(0.2)	0.4
Amortisation of brand names	0.7	0.7	1.4
Underlying profit before tax and brand amortisation	7.1	23.3	60.3

Net bank debt	H1 FY23 £m	H1 FY22 £m	FY22 £m
Interest bearing loans and borrowings	168.8	73.5	93.5
Unamortised issue costs	1.2	1.5	1.5
Cash and cash equivalents (including bank overdraft)	(34.4)	(9.6)	(5.0)
Net bank debt	135.6	65.4	90.0

Movement in net bank debt	H1 FY23 £m	H1 FY22 £m	FY22 £m
Closing net bank debt	(135.6)	(65.4)	(90.0)
Less: Opening net bank debt	90.0	19.0	19.0
Movement in net bank debt	(45.6)	(46.4)	(71.0)

Notes to the condensed consolidated financial statements

15. Alternative performance measures (continued)

Leverage	LTM Dec-22 £m	LTM Dec-21 £m	FY22 £m
Net bank debt (A)	135.6	65.4	90.0
Net cash from operating activities before tax	140.4	176.3	139.7
Add back:			
Pre-tax non-underlying items	11.5	1.3	11.7
Less:			
Movement in trade and other receivables	7.9	(10.9)	7.2
Movement in inventories	(7.0)	(4.6)	3.3
Movement in trade and other payables	19.5	(18.1)	16.6
Movement in provisions	(2.7)	4.8	1.7
Payment of lease liabilities	(63.3)	(73.7)	(63.5)
Payment of interest on leases	(24.3)	(25.5)	(25.0)
Cash EBITDA (B)	82.0	49.6	91.7
Leverage (A/B)	1.7x	1.3x	1.0x

Underlying return on capital employed from continuing operations	LTM Dec-22 £m	LTM Dec-21 £m	FY22 £m
Operating profit from continuing operations	73.2	80.0	87.3
Non-underlying operating items	0.2	0.8	0.4
Pre-tax return	73.4	80.8	87.7
Effective tax rate	19.1%	18.2%	24.3%
Tax adjusted return (A)	59.4	66.1	66.4
Property, plant and equipment	107.9	100.2	105.9
ROU assets	314.8	355.7	338.0
Computer software	19.4	17.5	17.7
	442.1	473.4	461.6
Inventories	56.5	63.5	64.4
Trade receivables	9.7	4.4	12.6
Prepayments	11.2	8.5	11.4
Accrued income	0.3	0.4	0.3
Payments received on account	(49.5)	(99.6)	(72.2)
Trade payables	(110.8)	(92.3)	(122.5)
Working capital	(82.6)	(115.1)	(106.0)
Total capital employed (B)	359.5	358.3	355.6
Underlying ROCE from continuing operations (A/B)	16.5%	18.4%	18.7%

Notes to the condensed consolidated financial statements

Unaudited pro-forma 26 weeks ended 30 December 2018

	DFS (inc Dwell) £m	Sofology £m	Total from continuing operations exc. Sofa Workshop £m	Sofa Workshop £m	Total from continuing operations £m	Discontinued operations £m	Total £m
Gross sales	504.1	139.9	644.0	17.8	661.8	7.0	668.8
Revenue	387.2	110.6	497.8	14.1	511.9	5.7	517.6
Cost of sales	(155.6)	(54.2)	(209.8)	(6.6)	(216.4)	(2.5)	(218.9)
Gross profit	231.6	56.4	288.0	7.5	295.5	3.2	298.7
Selling and distribution costs (excluding property costs)	(120.3)	(28.9)	(149.2)	(4.3)	(153.5)	(3.1)	(156.6)
Brand contribution	111.3	27.5	138.8	3.2	142.0	0.1	142.1
Property costs			(51.9)	(1.3)	(53.2)	(0.4)	(53.6)
Underlying administrative expenses			(29.2)	(1.3)	(30.5)	(0.1)	(30.6)
Underlying EBITDA			57.7	0.6	58.3	(0.4)	57.9
Depreciation, amortisation and impairments (excluding brand amortisation)			(13.5)	(0.7)	(14.2)	(0.4)	(14.6)
Underlying operating profit			44.2	(0.1)	44.1	(0.8)	43.3
Interest			(5.3)	-	(5.3)	-	(5.3)
Underlying PBT excluding brand amortisation			38.9	(0.1)	38.8	(0.8)	38.0
Brand amortisation			(0.5)	(0.1)	(0.6)	-	(0.6)
Underlying PBT			38.4	(0.2)	38.2	(0.8)	37.4
Underlying items			(2.0)	-	(2.0)	-	(2.0)
PBT			36.4	(0.2)	36.2	(0.8)	35.4

This interim report, 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 interim 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.