Strategic report

CONTENTS

AT A GLANCE

Read more about DFS on **page 5**

Read more about Sofology on **page 6**

Read more about The Sofa Delivery Co on **page 6**

AT A GLANCE CONTINUED

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

dfs

DFS is the leading retailer of sofas in the UK with over 50 years' heritage.

Headquartered in Doncaster, it operates 117 showrooms in the UK and Republic of Ireland, and a leading web platform.

The brand is promotionally-led with broad-reaching advertising campaigns that drive brand recall and focus on comfort and value for money.

Its customers tend to have average national income and a high proportion are young families.

As one of the UK's most visible retail brands, DFS is often an anchor tenant driving significant footfall to destination retail parks.

DFS is the most commonly searched term online in the sector, ahead of even 'sofa', and its website received an average of 2 million unique visitors each month in the 12 months to June 2023.

The majority of sofa orders are fulfilled on a made-to-order basis.

FY23 brand revenue (including Dwell)

£858.5m

FY23 number of showrooms

117

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

COUNTRY LIVING sofas exclusively at dfs

Joules sofas exclusively at dfs

ICONICA sofas exclusively at dfs

FRENCH CONNECTION sofas exclusively at dfs

HouseBeautiful sofas exclusively at dfs

PLATINUM EXCLUSIVELY AT DFS

GRAND DESIGNS EXCLUSIVELY AT DFS

Cath Kidston EXCLUSIVELY AT DFS

dfs storeaway

dfs VEGAN

sofology®

Sofology is the third largest retailer of sofas in the UK.

Headquartered near Warrington, it trades through its growing national footprint of 58 showrooms and its website.

We see an opportunity to expand the showroom portfolio with a medium-term target of 65-70 showrooms.

Its marketing approach focuses on emphasising product design and quality.

The use of well known celebrities in its TV and digital adverts has helped build its brand awareness and distinctiveness.

The brand appeals to a slightly more affluent than average customer.

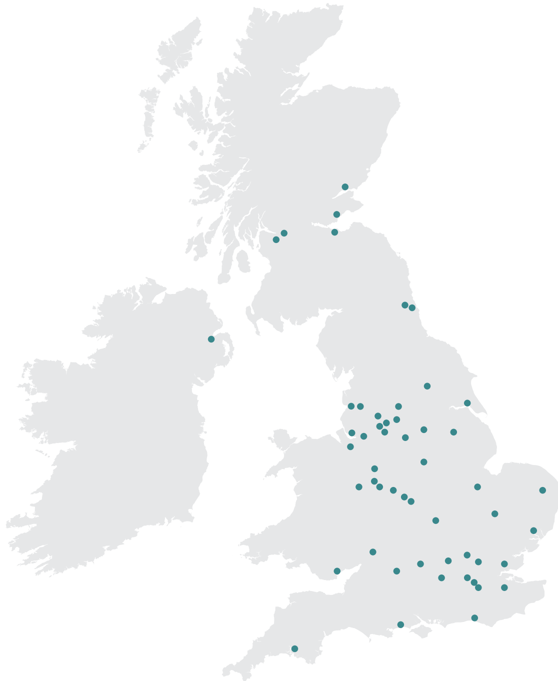
Its sofa orders are fulfilled on a made-to-order basis.

FY23 number of showrooms

58

FY23 brand revenue

£230.4m



THE SOFA DELIVERY Co

Our Group-wide logistics platform is one of several key infrastructure components supporting our retail brands.

The Sofa Delivery Company also plays an important role in achieving the Group's environmental targets in relation to emissions, waste and recycling.

Offering extended hours delivery to our customers seven days a week, virtually all year round.

Delivery vehicles

276

OUR FUNDAMENTALS

Delivering sustainable growth

Our Group benefits from four fundamental advantages that provide our business model with resilience and position us well for the future.

1. Clear market leader

With 38% of the sofa retailing market, the DFS group is over three times the size of our nearest competitor. This market leadership enables significant economies of scale and industry-leading profit margins.

2. Integrated retail business

We believe our winning combination of digital and physical assets is the right long-term approach for the sofa market. With our integrated platform, we're 'channel agnostic' and flexible to support customers however they want to shop. This is supported by our own dedicated manufacturing and supply chain operations.

3. Sustainable business model

We are committed to building a sustainable business model, both in terms of our impact on the environment and our long-term success and resilience as a Group. Our scale and profitability has allowed us to invest for the long term throughout the economic cycle, leaving us with well-invested platforms relative to our competition.

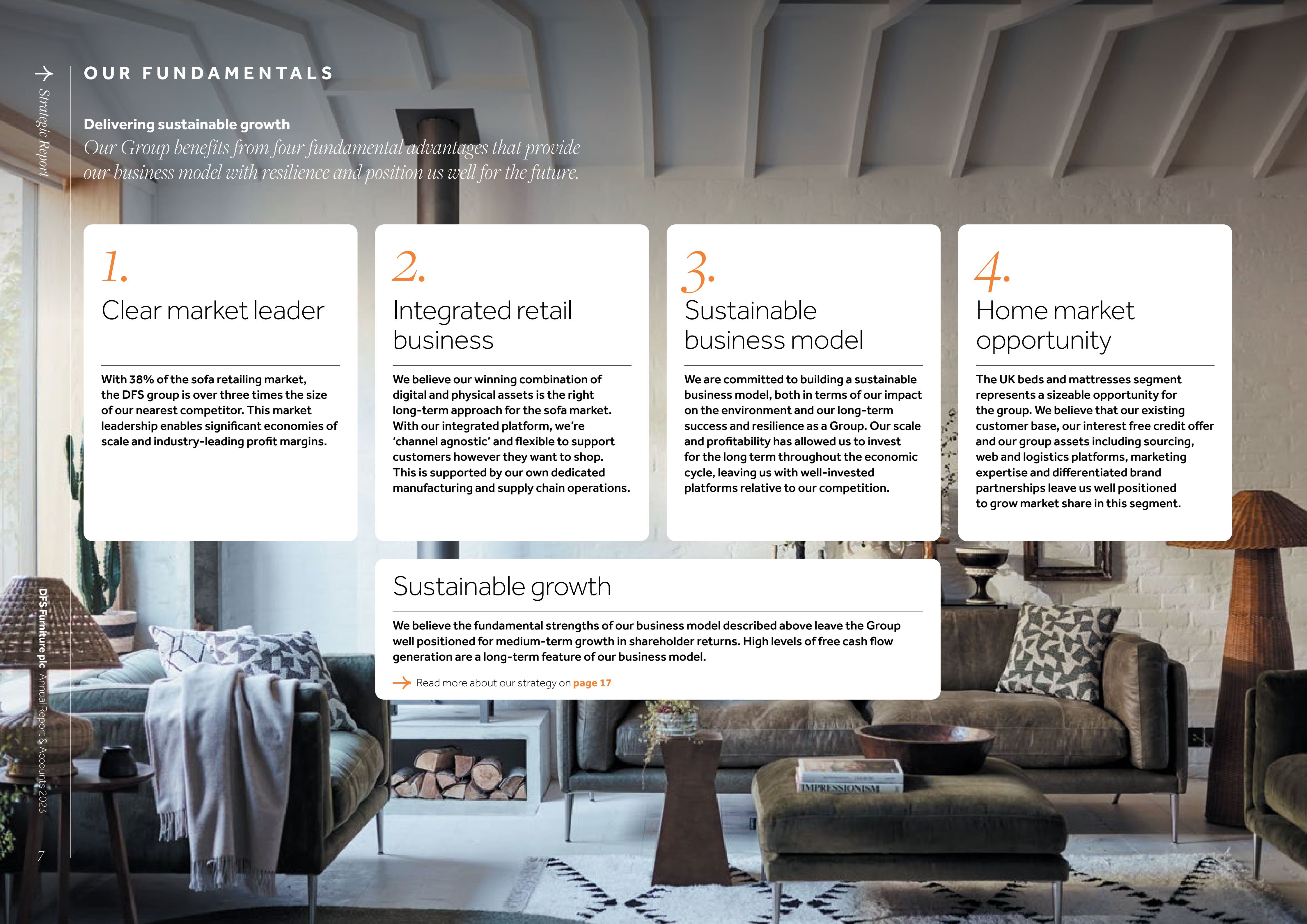
4. Home market opportunity

The UK beds and mattresses segment represents a sizeable opportunity for the group. We believe that our existing customer base, our interest free credit offer and our group assets including sourcing, web and logistics platforms, marketing expertise and differentiated brand partnerships leave us well positioned to grow market share in this segment.

Sustainable growth

We believe the fundamental strengths of our business model described above leave the Group well positioned for medium-term growth in shareholder returns. High levels of free cash flow generation are a long-term feature of our business model.

→ Read more about our strategy on **page 17**.



CHAIR'S STATEMENT

Growing market share in a challenging year

The year to June 2023 has been marked by an uncertain and disrupted external environment, with the continuing impact of the conflict in Ukraine, global inflationary pressures, and the move away from the extremely low level of interest rates seen over the last ten years all weighing on UK consumers.

This external backdrop has meant another incredibly challenging year for the Group, with the business constantly balancing the need to invest in the assets and resources to support future growth with caution given current market volatility. I am delighted to be able to report that, as always, no matter how big the challenge, our colleagues across the Group have responded with skill and enthusiasm to ensure that the business continues to deliver a positive experience for all our customers. The success of the Group in growing its market share to record levels is testament to the operational excellence within the business along with the strong affinity our brands have developed with our customers.

Financial results

FY23 was a year of significant challenge due to the weak economic backdrop. Despite consumer demand being impacted by the macroeconomic environment, the business has extended its long history of growing market share which increased to 38%. This growth in market share has been underpinned by the Group's leading brands, scale and well invested integrated retail proposition and the Group expects to continue to outperform a declining market in FY24.

IN BRIEF

- Appointment of a new Chair
- Recruitment of a new CFO
- Appointment of a new Chair of the Remuneration Committee
- Completion of a £250m refinancing of the Group

STEVE JOHNSON
Chair of the Board
Bio on **page 63**

CHAIR'S STATEMENT CONTINUED

Despite the challenging market environment we are confident that the Group's long-term value generation ambition remains unchanged. Further growth in market share and carefully managing the cost base will deliver a return to growth in profit and the potential for significant value creation through share price appreciation and capital returns.

Board and Governance
This has been a year of significant change at Board level, but we believe that both the external Board appointments and the internal promotions have further enhanced and reinvigorated the Group's capability and talent.

Ian Durant had indicated to the Board a wish to retire at the AGM in November 2022 and after a robust, externally led search I was delighted to accept the opportunity to Chair the Board. On behalf of the Board I would like to thank Ian for his invaluable contribution to the business over the last six years. Under his leadership the DFS Group achieved substantial growth and successfully navigated the challenges the business faced during the last few years first with the pandemic and then the cost of living crisis. We all wish Ian well for the future.

In November 2022 we were pleased to announce the appointment of John Fallon as Chief Financial Officer (CFO). John is an accomplished finance leader who brings a wealth of retail experience to the Group, all of which will be hugely beneficial as we work to achieve our strategic aims and drive profit through growing market share and closely managing our cost base.

In March 2023 we announced the appointment of Gill Barr to the Board as a Non-Executive Director and Chair of the Remuneration Committee. Gill has wide experience in retail, consumer, and logistics both as an executive and Non-Executive Director, including as a seasoned Remuneration Chair, and I am looking forward to working closely with her.

Jane Bednall decided to step down from the Board at the end of the financial year. My thanks go to Jane for her contribution during her time with the business and I wish her the best for her future ventures. I am delighted that Loraine Martins has agreed to take over Jane's responsibilities as the Designated Non-Executive director representing the views of the wider workforce.

I would like to thank my Board colleagues and the Group Leadership Team for their commitment and support over the last year. The Nomination Committee section of this report on page 76 provides further details.

One of my key responsibilities as the Chair is to set the tone for our Group and ensure good governance. As a Board we continue to work closely with the Group Leadership Team to maintain oversight of the strategic, operational and compliance risks across the Group, to help to shape our strategy and uphold the standards expected of us. The Corporate Governance report (see pages 65 to 70) sets out our approach to ensuring good governance and provides details of this year's activities.

People
Our people live our values, they are dedicated and loyal and put our customers and each other at the heart of everything they do. They are committed to delivering the highest level of customer service and to collaborating closely with our suppliers and the local communities we operate in, wherever they are. We rely on their skills, experience, competence, agility, and drive to take our business forward. For all this we thank our colleagues. We will continue to support their efforts, to help them develop and grow their careers in ways that benefit both them and the business. One great example of how we support our colleagues and provide them with new opportunities can be found at page 43 where we provide details of the work of our Driver Training School.

Strategy
As previously announced, the Group decided in 2022 to simplify its structure and close its operations in Spain and the Netherlands. This work was completed in the Autumn of 2022. Since then, the Group has made good progress in refocusing the business on our DFS and Sofology brands and The Sofa Delivery Company. Continuing to improve productivity across our operations is key to better supporting our customers and to carefully managing our cost base in light of ongoing inflationary pressures. To this end, a full review of the Group's operating cost base has been undertaken, led by the new CFO, with support from the Group Leadership Team and external advisers. As a result of this review and given the significant cost increases facing UK manufacturing, we are currently working to consolidate our UK manufacturing base and are consulting with colleagues on the proposed closure of our smallest factory and the wood mill that supplies it. As part of that process we are working with those colleagues who are impacted to identify alternative opportunities for them at our other manufacturing sites and within the wider Group.

As the market leader, we have always believed that long term sustainable growth can only be achieved by being aware of the impact our activities can have on the wider society and understanding what is important to colleagues and customers both now and in the future. Work continues on developing the Group's ESG strategy with the focus on building our relationships with our existing supplier base to develop sustainable and ethical products and to drive a more circular product lifecycle. During the year Sofology launched the Gaia, our first fully circular range. As a Board we are keen to continue to show leadership in this area and to be judged by our performance, including through our approach to executive pay. In FY23 we included ESG measures in our annual bonus and, from FY24, ESG targets will be included in our Long-Term Incentive Plan performance measures. Our ESG commitments and progress are discussed in detail on pages 39 to 61.

Capital structure and returns
Having reviewed our approach to dividends and having published an updated Capital and Distribution policy in March 2023, the Board is recommending a final dividend of 3.0 pence per share (2022: 3.7p), giving a total ordinary dividend for the year of 4.5p (2022: 7.4p).

I am pleased to announce that since the year end the Group has successfully completed a £250m refinancing. The facility is a combination of a £200m Revolving Credit Facility, provided by members of the previous banking syndicate and £50m of US private placement notes.

Looking Forward
The Board remains mindful of the impact on consumers of the uncertain macroeconomic environment that resulted in the upholstered furniture market being 15% below pre-pandemic levels, and we expect a mid-single digit year on year market decline in FY24. Despite this the Group's financial and operational position is robust. Our market share continues to grow, driven by our operational excellence, and the Group Leadership Team is focused on robustly managing our margins and cost base, supporting our customers, and collaborating with our suppliers to bring the best possible products to the market, whilst remaining alert and agile to deal with the unexpected. The Board is confident that this approach will allow the Group to create a solid base for long-term cash generation and attractive returns to shareholders once the market returns to a more stable trading environment.

STEVE JOHNSON
Chair of the Board
21 September 2023

Group revenue
£1,088.9m

Underlying profit before tax and brand amortisation[1]
£30.6m

1. Refer to pages 25 to 27 for definitions of APMs.

Profit before tax
£29.7m

CHIEF EXECUTIVE'S REPORT

Strategic progress in a challenging environment

The Group has made good progress strategically and operationally throughout the year as we focused on executing our growth strategy and continuously improving our operating platforms. We have continued our long term track record of growing our market share in the UK upholstery sector with a significant 2% pts step up in the period, taking the Group's value share of the upholstery market to a record high of 38%. This has been achieved whilst rebuilding our gross margin rate back towards historical levels. We have also seen a step change in our customer experience scores through improved operational grip and the easing of the external supply chain crisis.

This progress has been made against a backdrop of a very challenging market environment with high levels of cost inflation and significant increases in interest rates. The combined impact of these macroeconomic factors reduced consumer confidence levels, which have remained at or close to record lows and reduced consumer real disposable income levels. Consequently the UK upholstery market has been under significant pressure and we estimate that market order volumes were down 15% or more relative to pre-pandemic levels. In addition, like most other businesses, we have had to tackle high levels of input cost inflation. As expected, we have seen improved efficiency in our operating platforms following historical investments and these, alongside careful management of our operating costs and selective retail price increases have helped to mitigate these cost headwinds.

IN BRIEF

- Continuing to win share in a very tough market, extending market leadership with 2% pts share gain to a record 38% of the UK upholstery market
- Brands continue to evolve: DFS range continues to broaden appeal to wider customer base; further three Sofology showrooms opened taking the total to 58 (38 at acquisition)
- Continue to strengthen the foundations for growth in the £3bn beds and mattresses market with drop-ship delivery solution launched and exclusive brand partnerships extended to bed ranges, driving online sales up 69% year on year
- Operationally in the strongest position since the pandemic, reflected in customer experience scores with supply chains, order banks and customer lead times all fully back to normal

TIM STACEY
Chief Executive Officer
Bio on page 63

CHIEF EXECUTIVE'S REPORT CONTINUED

Despite the weaker than anticipated market environment the Group's underlying profit before tax and brand amortisation[1] performance of £30.6m was within the range we had guided to when we reported our interim results. In what we expect to be a challenging trading environment for at least the next financial year we are continuing to focus on executing our strategy, developing our customer propositions and adapting our cost base to bolster profitability in this period of subdued demand whilst ensuring we are well placed for the long term.

Market update
Proprietary data that we have access to indicates the upholstery market has been in significant decline in FY23 with market order volumes down 15% or more relative to the pre-pandemic period. Demand across the period was also volatile with weaker demand more pronounced in the first and final quarters of the year. As a result of the low demand in the final quarter, profits were constrained to the lower end of the range we had guided to.

Over the period as a whole the Group outperformed the market, growing its share by 2% pts across the year to a record level of 38% as tracked by GlobalData and our proprietary Barclaycard data. Market share was picked up predominantly from the independent and pure play competitors which now represents 26% of the market. We anticipate that this competitor set will continue to decline, providing opportunity for further market share growth for the Group.

With the cost of living crisis lingering on and consumers now also being impacted by higher property costs, we anticipate that market demand will drop further in FY24 before we start to see a recovery to pre-pandemic levels. We do however expect to continue our track record of growing market share underpinned by the Group's leading brands, scale and well invested integrated retail proposition.

Reflections on FY23 financial performance
Stepping back, when I consider FY23 as a whole, the fact that profits were delivered within our guided range despite the tougher than expected trading conditions our market faced is testament to the relative strength of our brands and our operational agility.

The reported profit before tax of £29.7m and underlying profit before tax and brand amortisation[1] of £30.6m however is a low point for the Group (outside the Covid lockdown impacted FY20 period) and reflective of a very weak market and high levels of input cost inflation. These headwinds were mitigated, to an extent, by the market share gains we achieved, gross margin rate improvement, effective operating cost management and the benefit of a high opening order bank that unwound in the period.

Our plan to recover gross margin rates to pre-pandemic levels of c.58% is making progress. Since FY22 where a margin rate of 51.9% was recorded we have seen steady improvement to 53.8% in H1 FY23 and 55.0% in H2 FY23 with the exit rate for the year being higher.

We anticipate that the margin rate will improve further through FY24 as we target an exit rate approaching 58% supported by the full year benefit of reduced Far East shipping rates (which have now returned to pre-pandemic levels), retail price increases implemented in March 2023, raw material input costs that are now reducing and improved sourcing strategies which I elaborate on further below. These will more than offset a headwind from Bank of England base rate increases that result in higher costs for providing our interest free credit (IFC) proposition. We took the decision to alter our IFC proposition in March to mitigate the cost increase by reducing the maximum credit term from 48 months to 36 months and our proposition still remains industry leading.

Led by our new CFO, John Fallon, and supported by external advisors we have carried out a full review of the operating cost base. A number of quick win opportunities have been enacted to date and the Group Leadership Team are each taking ownership to deliver projects which will drive multi-year cost improvements, starting in FY24, through operating more efficiently and effectively. More detail can be found in John's CFO report.

Strategic update
Our vision is to lead furniture retailing in the digital age. To achieve this vision our strategy is to profitably and sustainably grow our core upholstery brands across both our physical and online propositions and also our share of the £5bn non upholstery Home market. This growth is based on utilising and enhancing our enabling platforms; technology and data, logistics, sourcing and manufacturing, and people and culture.

Our brands
Our two retail brands, DFS and Sofology, have both performed relatively well in the period, each growing their market share.

During the year the DFS brand performed well, extending its leadership position as the largest UK upholstery retailer through focusing on the customer experience and expanding its proposition to appeal to a wider audience. Utilising our customer and marketing segmentation data the brand developed and launched ranges to appeal more to customer segments where we were under indexing. We've seen the benefits coming through via increased conversion rates and increases in our average order values.

Our new store format initiative has progressed well in the year with 11 DFS showroom refurbishments taking place. We have now refurbished our 58 top priority showrooms over the last four years and payback periods for the more recent investments remain strong at under two years.

During the year we opened three new Sofology showrooms, bringing the total to 58 (from 38 showrooms at acquisition). The new showrooms are performing well and the average return on investment of recent stores trading over 12 months is over 65%. We continue to see opportunities for a total of 65-70 showrooms across the UK and Ireland for the brand. The new leadership team at Sofology has also refined and developed a new three-year growth plan called 'Drive to 25' that has been approved by the Board and launched internally and which builds on the recent progress on performance and customer satisfaction. The ambition is for Sofology to become the UK's number 2 sofa retailer, behind DFS.

NPS performances across DFS and Sofology have improved through FY23 following a decline across the pandemic. This decline was driven by lead time delays due to factory lockdowns, global logistics challenges, raw material shortages and a drop in customer service levels driven by high levels of demand. We have since invested to improve our customer service levels which have contributed to DFS's established customer satisfaction NPS improving from 12 in FY22 to 19 in FY23 and in Sofology, which was materially impacted by Covid disruption, from -49 to -6 and we expect the improving trend to continue through FY24.

Both brands continue to build and strengthen their integrated retail business models, enabling our customers to shop seamlessly across all channels, online, in store and at every stage of their journey: from early-stage researching, to advice and support across their purchase decisions through to delivery, installation and after-sales support.

The home market opportunity
We have made good progress in laying the foundations to support the Group's growth in the £5bn Home market and are seeing early signs of success through increased sales levels.

We are targeting the £3bn beds and mattresses market first and have expanded our exclusive brand partnerships in the upholstery market with high quality brands such as French Connection, Grand Designs and Joules to cover bed frames. We have targeted sales of our ranges through our online channels and through dedicated spaces in a select number of showrooms. To fulfil these orders we have developed a drop-ship solution for beds and mattresses with Wincanton which went live in January of this year. Our beds and mattresses online sales have been in line with our expectations, up 69% year on year.

Our supporting platforms
Sourcing & Manufacturing: To support the gross margin improvements discussed above we have reviewed the relative end to end cost of sourcing products across our supplier base, including from potential new suppliers in alternative geographies. This review covered the cost of producing and shipping products along with risk and quality considerations and ESG matters such as suppliers' ability to align with our raw material sourcing requirements and ethical working practices.

1. Refer to pages 25 to 27 for definitions of APMs.

CHIEF EXECUTIVE'S REPORT CONTINUED

Following investment in our larger UK sites in recent years, we have determined that the Group will benefit from consolidating its UK manufacturing operations. As a result, in early September 2023 we commenced a consultation with our colleagues employed at our smallest manufacturing site and one of our wood mills. As part of that process we are working with colleagues to identify opportunities at our other manufacturing sites and within the wider Group if that becomes necessary.

We are continuing to build good relationships with partners internationally and there are opportunities to optimise our global supplier mix.

Data and technology: Data-backed decision making and utilisation of technology to support efficient operations across the business remains a critical enabler in supporting the Group's continued market share growth and driving bottom line profitability.

We are making good progress in developing our customer data platform that brings together data from a myriad of systems across the Group to provide a detailed customer view. Examples of where we are utilising this include multiple touchpoints from the initial purchase through to the delivery experience, where we are able to support and guide each customer, with timely communications that are personalised to their unique journey. We are also developing our Intelligent Lending Platform used by DFS to be used by our Sofology brand. This increases the likelihood of customers obtaining the interest free credit that meets their requirements and speeds up the process of completing orders enabling increased conversion rates at times of high demand.

To help ensure our colleagues utilise the data that is available we have launched a data apprenticeship programme. Starting with the Sofa Delivery Company we have 40 people enrolled on the course which is run in conjunction with a third party. Over the 13 month course our colleagues are developing their skills to utilise and transform data into insights to drive appropriate action.

Logistics: Following the formation of the Sofa Delivery Company in June 2021 that brought together the logistics functions of our two brands we now deliver all the Group's sofa sales through the same systems and physical infrastructure. Scale benefits are now being realised as a result of improved fleet utilisation, van fill and labour productivity. As part of this process, through the year we have also rationalised the number of distribution centres we operate from which will drive further savings over the short to medium term as a result of lower property costs.

People: Our colleagues are fundamental to the success of the Group. Looking after their wellbeing as well as their personal development has been a key focus in FY23. In what is a challenging time for many, given the cost of living crisis, our 'winter wise' support scheme was designed to support colleagues in a number of ways, for example through thank you vouchers at Christmas that could be used at a number of retail stores and access to a discounted health care scheme available to all employees. We have also seen 140 colleagues attend our leadership academies – these are targeted at middle management to provide the skills to develop into future leaders. Our sustainability report has further details on how we are supporting and developing our colleagues.

Sustainability

We have a dedicated section of our annual report that covers sustainability in detail set out on pages 39 to 61. The key elements I want to highlight here are in relation to: culture and governance; where we are on our net zero journey; and employee development.

The Group is guided by our purpose to bring great design and comfort into every home in an affordable, responsible and sustainable manner and has pledged to achieve net zero by 2040.

In the previous financial year we completed the model to capture our full carbon footprint. Like many other businesses, the majority of our carbon footprint sits within our scope 3 emissions (c.90%). Throughout this year a significant amount of progress has been made in developing our carbon reduction roadmap and we are on track to submit science based targets to the SBTI for approval by June 2024. We have developed a number of policies and targets to help reduce our impact on the environment covering key elements of the materials that make up the sofas we sell, for example leather, textiles and timber. Details, including the progress we are making on these alongside our other environmental and diversity and inclusion targets can be found in the Responsibility and Sustainability report.

A sustainability mindset is now fully embedded across the business and our sustainability and responsibility champions have proved to be a real driving force in developing ideas and initiatives, cultivating a diverse and open environment for all our colleagues from the ground up. We have a well-developed and effective governance structure (see page 60). This helps ensure we have a clear strategy, act with integrity and with transparency and hear a wide range of views with committee members representing all areas of our business.

Colleague wellbeing and development is very important to the Group to nurture and retain talent. One specific example that I am very proud of is the Sofa Delivery Company Driver School. This was launched late in the previous financial year and to date we have had nearly 70 colleagues graduate. The driver school provides career progression and improved pay for our colleagues, principally warehouse operatives and 3.5T drivers by funding their training to become 7.5T HGV drivers whilst addressing a business issue of recruiting this role given the competitive labour market.

Outlook

As mentioned above, upholstery market volumes are down 15% relative to pre-pandemic levels. We expect a further decline in the upholstery market order volumes in FY24 before they start to recover given the ongoing pressures on the consumer.

Based on all the data points we can see, our baseline assumption is that the market will decline by a further 5% in volume terms in FY24, with the Group continuing to outperform the market leveraging the strength of our brands, operating platforms and scale. Despite the continued pressure on revenues, we are targeting a modest year-on-year increase in underlying profit before tax and brand amortisation[1] supported by the continued delivery of our gross margin improvement plan and operating cost savings.

Following a mid-single digit year on year decline in the final quarter of FY23 in part linked to the hot weather, across the FY24 period to date order intake has strengthened back into positive growth in line with our expectations and helped by the expected opportunity from weaker prior year comparatives.

Conclusion

I want to sincerely thank our colleagues for their truly outstanding and consistently high level of determination and dedication to deliver at their best for the Group and for their help in getting us to the strongest position we have ever been in terms of market share.

The Group is operating in one of the toughest economic climates we have experienced. Whilst we are confident the upholstery market will recover, forecasting the specific timing and pace of the recovery is challenging.

We do, however, expect to generate a modest year-on-year increase in profit before tax in FY24 despite a relatively weak market in which we expect volumes will continue to decline across the next 12 months. Looking to the future as market volumes recover, we remain confident in achieving the financial performance set out at our Capital Markets Day in 2022 of £1.4bn of revenues at an 8% PBT.

TIM STACEY
Chief Executive Officer
21 September 2023

1. Refer to pages 25 to 27 for definitions of APMs.

MARKET OVERVIEW

We are the leading sofa retailer in the digital age

The Group has continued its long term track record of market share growth achieving a record 38% in FY23.

Large potential customer base
The DFS Group has a specialist focus on the retail upholstered furniture segment. The UK upholstery furniture market was estimated by GlobalData to be valued at £3.4bn (incl. VAT) in the calendar year 2022. As a Group, we view the beds and mattresses segment as a key opportunity increasing our Total Addressable Market ('TAM') by approximately £3bn.

Clear leader in the segment
The Group, through its DFS and Sofology and brands, is the clear leader in the upholstered furniture market, with 38%[1] market share by value in FY23. This market remains highly fragmented and we see further opportunities to grow our market share. We see four broad categories of companies actively competing in the upholstered furniture retail market: specialist chains such as DFS, Sofology, ScS and Furniture Village; independents that are typically single store operations; predominantly online furniture retailers such as Wayfair; and larger general merchandise or homeware retailers such as Amazon, Argos, Dunelm, Ikea, John Lewis, and Next.

We believe the integration of digital and physical is the right long-term approach to serve our customers. Our well-invested 'integrated retail' business model allows us to adapt to fast-changing consumer shopping habits, and positions us well for the future.

Historically, the Group has tended to gain market share during periods of market weakness as weaker multiples and independent chains have exited the market. For example, the Group's market share increased from c.19% to 24% during the 2008-2010 Global Financial Crisis impacted period (GlobalData).

Market conditions are currently challenging with the UK upholstery market seeing a reduction in volumes.

Historically, the Group has been able to grow market share during economically challenging times.

Demand is supported by a seven year replacement cycle and underpinned by demographic trends. We believe over shorter time frames the segment is principally driven by three key factors: consumer confidence, housing market activity and consumer credit availability, discussed below. In addition to these market drivers we do see from time to time some volatility in market demand levels caused by particularly hot or cold weather and significant public events.

1. GlobalData calendar year 2022.

MARKET OVERVIEW CONTINUED

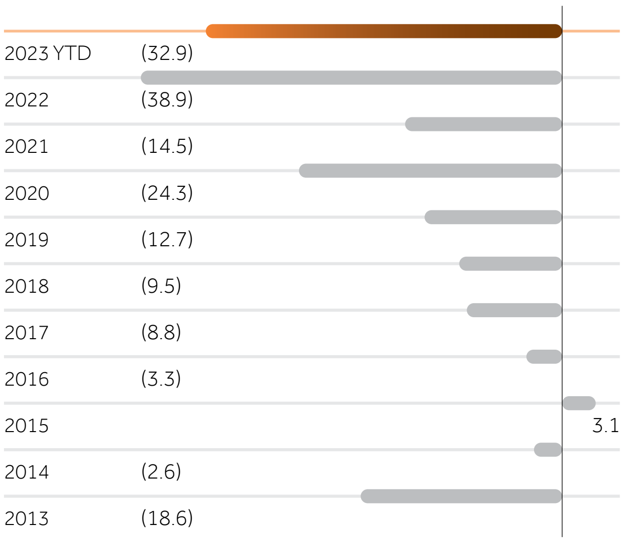
Market conditions are currently challenging with the UK upholstery market seeing a reduction in volumes. Historically, the Group has been able to grow market share during economically challenging times.

Key Market Drivers

Consumer confidence

Levels of consumer spending, particularly for big ticket items, are influenced by general consumer confidence. UK consumer confidence, as measured by GfK, has weakened since 2016 amid uncertainty following the referendum vote to leave the European Union. In 2020, consumer confidence fell further due to economic and financial uncertainty around the pandemic, but subsequently recovered to pre-pandemic levels. In 2022, consumer confidence declined reaching record lows in September 2022 and currently remains at relatively low levels with high inflation and interest rates putting pressure on consumer budgets.

Consumer confidence[1]

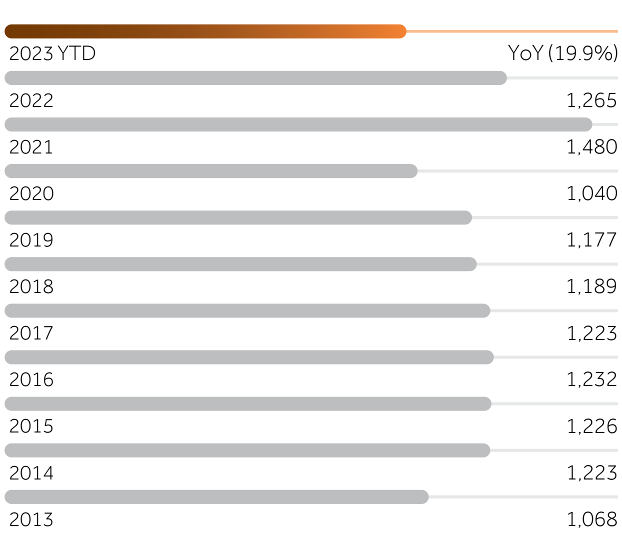


1. GfK UK Consumer Confidence average of individual month scores for each year.

Housing Market

Independent research conducted on our behalf suggests that c.20% of upholstery purchases are triggered by a house move. As the pandemic spread in spring 2020, government social distancing measures led to a sharp contraction in housing market activity, which subsequently bounced back in 2021 as a result of temporary government measures to reduce stamp duty payable on residential property purchases. Transactions then fell in 2022, albeit remaining above pre-pandemic levels. Rising interest rates are impacting the level of activity in the housing market with transactions in 2023 to date tracking significantly below pre-pandemic levels.

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

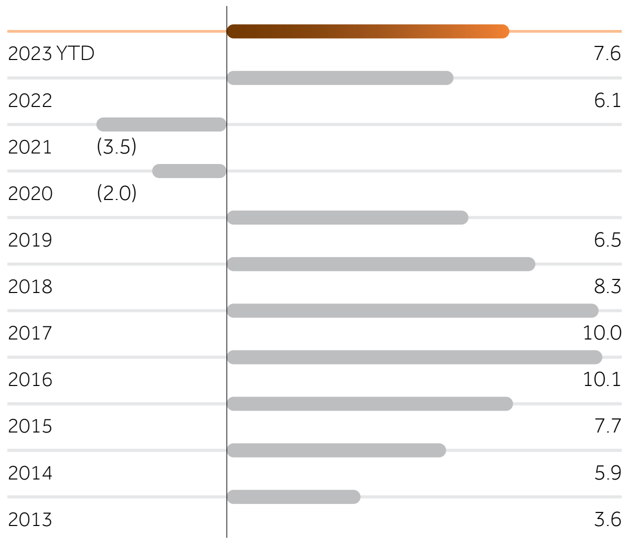


2. HMRC – number of residential property transaction completions with a value over £40,000 for the UK, seasonally adjusted.

Consumer credit

Upholstered furniture typically has relatively high unit prices and the availability of consumer credit can facilitate purchases and upselling. Consumer credit growth slowed since the EU referendum, reflecting increased economic and political uncertainty. Through the pandemic, UK consumers reduced debt, as government restrictions reduced options for discretionary spending e.g. foreign travel and leisure. Consumer unsecured lending has grown since 2022.

Net unsecured lending growth[3] (%)



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

OUR CUSTOMER JOURNEY

The customer is at the heart of our Group journey

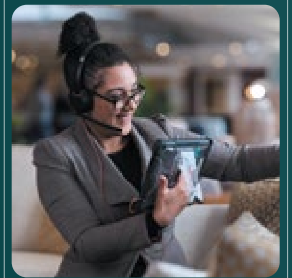
1
DESIGN & INSPIRE

Through our innovative in-house design teams and with our buying expertise we remain at the forefront of home furnishing trends with each of our brands offering a distinct curated range. We inspire consumers to consider a purchase through memorable advertising, inspirational web content and the use of augmented reality technology. Sustainability is a growing feature of our products. Our Grand Designs ranges feature all elements made from recycled or recyclable materials and our fully circular Gaia sofa.

90% of customers research online

90%

2
INTEGRATED RETAIL MODEL



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

UK showrooms

175

3
CUTTING EDGE TECHNOLOGY

We focus on embracing and leveraging technology to maintain our position as the leading sofa retailer in the digital age.

Colleagues enrolled on new data apprenticeship programme

40

4
MANUFACTURING

We are one of the largest manufacturers of upholstered furniture in the UK. Our factories collectively produce around 20% of all the furniture we sell.

Orders manufactured in own factories

20%

5
SERVICE

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

Service managers

220

6
INNOVATIVE DELIVERY OPTIONS

The Sofa Delivery Company is our leading Group-wide supply chain platform. Through our own network of customer delivery centres and our own delivery fleet we carefully deliver our products to customers' homes and provide a comprehensive installation service.

Delivery vehicles

276

7
SOFA COLLECTION & RECYCLING

Getting rid of an old sofa responsibly and conveniently is a real issue for customers. Unless old sofas are passed on to family, friends or charity, many go into landfill. Our experienced specialist partner Clearabee will collect customers old sofas and take them to the nearest recycling centre where it will be broken down to its component parts to reuse, recycle or create new energy.

Sofas saved from landfill

84,000

BUSINESS MODEL

How we create value...

OUR ENABLERS

Customer ethos

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

Unparalleled scale

We have a UK Group market share of c.38%[1], over three times that of our nearest competitor.

Complementary brands

Our complementary brands appeal to different customer segments.

Well-invested platform

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

Made-to-order products

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

Vertically integrated model

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

Exceptional people

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

WHAT WE DO

Design and inspire

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

Retail

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

Manufacture

We manufacture around 20% of the Group's sofa orders in our own British factories, resulting in shorter lead times and greater oversight on sustainability.

Deliver and install

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

Service

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

How we deliver value...

OUTCOMES

Sustain sector-leading operating margins

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

Grow our market share

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

Maintain strong cash generation

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

Continue to invest in the business

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

VALUE FOR STAKEHOLDERS

CUSTOMERS

91.3%

DFS post purchase NPS

EMPLOYEES

35%

employees > five years' service

SUPPLIERS

37%

customer orders from British factories[2]

SHAREHOLDERS

£182m

net cash distributed since flotation[3]

COMMUNITY

£6.9m

raised since 2013 for BBC Children in Need through customer donations and fundraising initiatives

1. GlobalData calendar 2022 estimate.
2. Includes third party manufacturing and internal manufacturing.
3. Dividends and share buy backs net of 2020 equity raise.

OUR STRATEGY

Our strategy is made up of the three pillars of our business: Our DFS brand, our Sofology brand, and our expansion into the Home market. The growth of our pillars will be enabled by our group enabling platforms: Technology and data, Logistics, Sourcing and manufacturing and People and culture. The strategy reflects the Group's expertise, scale, assets and supporting infrastructure and the ability to use our enabling platforms to both improve the operational efficiency and the growth across our brand portfolio.

We are committed to building a sustainable business model, both in terms of our impact on the environment and preserving our long-term success as a Group.

Pillars

DFS & Home

dfs HOME

Customer proposition and service innovation

New services to engage customers

Focus for 23/24

- Continued investment in new format stores and range evolution
- Leverage foundations laid in FY23 to drive beds and mattress sales
- Continued improvement of established customer NPS scores to pre-pandemic levels

Sofology

sofology

Increase scale of business

To further grow the showroom estate throughout the UK

Focus for 23/24

- Commence implementation of new 'Drive for 25' strategy
- Continue roll-out of showrooms on the route to targeted 65-70 locations
- Continued improvement of established customer NPS scores to pre-pandemic levels

Platforms

Group Enabling Platforms

Technology & data

Using data and technology to unlock growth in our brands

Focus for 23/24

- Development & enhancement of customer data platform to enhance cross-channel selling
- Rollout of Intelligent Lending Platform in Sofology

Logistics

Best in market two person delivery and installation

Focus for 23/24

- Continue to optimise operational performance
- Sublet or surrender distribution centres no longer required following integration

Sourcing & manufacturing

Optimising our supplier portfolio

Focus for 23/24

- Implementation of product strategy to drive 58% gross margin

People & culture

Delivering fundamental cultural change

Focus for 23/24

- Continue to develop our Employee Value Proposition (EVP) ensuring our external perception is appealing and matches our internal reality

OUR STRATEGY CONTINUED

Retail

Best experience
Biggest range and the critical 'sit test':

86%

of DFS customers visit a store before buying

Best ranges

91%

of shoppers agreed that DFS was somewhere they can find the latest styles and trends

Best sales teams

9/10

people would recommend DFS having purchased within a DFS store

Sustainability

HOME

Sourcing & Manufacturing platform

Technology & Data platform

Logistics platform

People & Culture platform

Sustainability

Digital

Best online brand strength
'DFS' is searched for

1.8x

more than the term 'Sofas'

87%

of store customers research online before coming in to store

Best enhanced technology
The largest collection of augmented reality (AR) assets accessed through a web browser in the furniture category

Best ecommerce platform
Europe's first implementation of HCL Commerce v9

Growth ambitions

Revenue ambition

£1.4bn

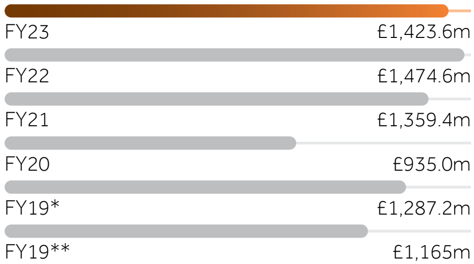
Sustainable profit margin

8%

KEY PERFORMANCE INDICATORS – FINANCIAL

Gross Sales[1]

£1,423.6m

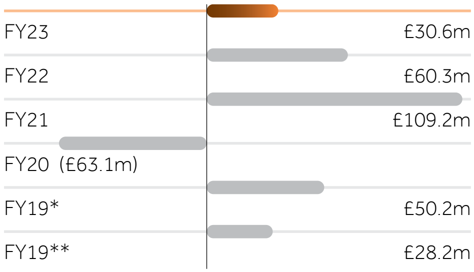


Description
Gross sales represents the total amounts payable by external customers for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes.

Performance
Decline in sales due to reduced levels of market demand which was partially offset by increased market share.

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

£30.6m

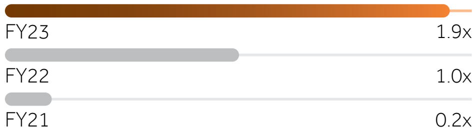


Description
Profit before tax adjusted for non-underlying items and amortisation associated with acquired brands.

Performance
Decrease due to the lower level of revenue, inflationary cost increases and the increase in interest rate linked charges.

Leverage[1]

1.9x

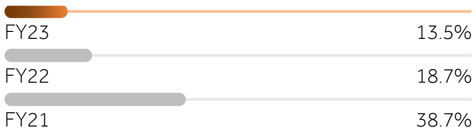


Description
The ratio of period end net bank debt to cash EBITDA for the previous twelve months.

Performance
Increase driven by higher net bank debt due to normalisation of working capital and special returns paid in respect of performance in prior periods as well as a lower level of cash EBITDA.

Underlying return on capital employed[1]

13.5%

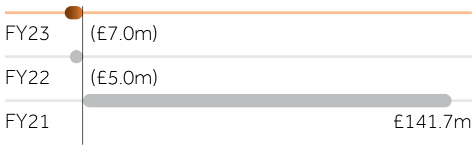


Description
Underlying return on Capital Employed ('underlying ROCE') is underlying post tax profits expressed as a percentage of the sum of property, plant and equipment, computer software, right of use assets and working capital.

Performance
Decrease driven by the lower underlying profit in the period and to a lesser extent from higher capital employed as a result of working capital normalisation.

Underlying free cash flow to equity holders[1]

(£7.0m)



Description
Underlying free cash flow to equity holders is the change in net bank debt for the period after adding back dividends, acquisition related consideration, share based transactions and non-underlying cash flows.

Performance
Reduction driven by transitory working capital inflows over the last two years normalising as well as the lower relative profits in the period. Excluding the working capital movement, free cash flow was £29.4m (FY22: £37.2m).

Key

* 52 weeks pro-forma.
** 48 weeks reported.
1. Refer to pages 25 to 27 for APM definitions.
2. 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.

KEY PERFORMANCE INDICATORS – NON-FINANCIAL

Net Promoter Score (%) – Post purchase customer satisfaction

91.3%

FY23	91.3%
FY22	86.3%
FY21	86.4%

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

Performance
Significant year on year increase maintaining a very strong overall level.

Strategic Links

Net Promoter Score (%) – Established customer satisfaction

18.6%

FY23	18.6%
FY22	11.7%
FY21	30.7%

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

Performance
Recovery following FY22 which was heavily impacted by disruption to shipping, reduced HGV reliability and extended manufacturing lead times as a result of Covid-19 and raw material supply.

Strategic Links

Suppliers – Average days to pay

39.4 days

FY23	39.4
FY22	35.8
FY21	30.6

Description
Average number of days between receipt and payment of supplier invoices.

Performance
Increase from FY22 due to standardisation of key supplier terms to 60 days.

Strategic Links

Suppliers – % paid on time

73.8%

FY23	73.8%
FY22	72.0%
FY21	71.8%

Description
Percentage of supplier invoices paid within agreed terms.

Performance
Increase from FY22 driven by continuous improvement within the operational teams.

Strategic Links

Sofology UK stores

58

FY23	58
FY22	55
FY21	50

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

Performance
Three additional stores opened in FY23 (Hedge End, Inverness and Redbrick Mill).

Strategic Links

Key to Strategic Links

- Sourcing & Manufacturing
- Technology & Data
- Logistics
- People & Culture

FINANCIAL REVIEW

Financial review

The Group has operated through a challenging trading environment in FY23, influenced by reductions in consumer disposable income and increased market volatility. Against this backdrop, we delivered strong market share gains despite Group revenue being towards the lower end of our expectations coming into the year. There was good progress on gross margin rate and this together with disciplined cost control helped to underpin profit conversion and ensured that full year profits were delivered within the guidance range we shared at our interim results.

Looking to the future, the Group remains financially secure and we continue to strengthen our foundations for future growth. We recently completed the successful refinancing of our debt facilities, which has resulted in increased funding for an extended period, supported by a more diversified lending group. After a comprehensive review of the Group's cost base, we have also established a cost efficiencies programme across our product, property and operating cost models.

IN BRIEF

- Profit before tax and brand amortisation[1] of £30.6m, within guidance at interims
- Profit down year on year as a result of weaker market and inflationary pressures, partially offset by improving gross margins, cost efficiencies and share gains
- Gross margin up 170bps to 54.4%, on track to keep improving towards our pre-Covid average of 58%
- New Cost to Operate efficiencies programme established, targeting c£50m of annualised savings by FY26
- Net debt increased to £140m from £90m due to working capital normalising after inflows during pandemic period, and shareholder returns
- £250m refinancing successfully completed, extending the facility and diversifying the lending group

1. Refer to pages 25 to 27 for definitions of APMs.

JOHN FALLON
Chief Financial Officer

Bio on **page 63**

FINANCIAL REVIEW CONTINUED

Continuing operations £m	52 weeks ended 25 June 2023 FY23	YoY
Gross Sales[1]	**1,423.6**	(3.5%)
DFS (inc Dwell)	**1,125.5**	(3.7%)
Sofology	**298.1**	(2.2%)
Digital % Sales*	**24.0%**	+0.7% pts
Revenue	**1,088.9**	(5.3%)

* Digital % Sales represents the Gross Sales for orders completed online and via telephone sales as a percentage of total Gross Sales.

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 first half of the period, the residual order book of these discontinued operations has been delivered and the operations wound down. Unless otherwise indicated the commentary below relates to continuing operations.

Revenue and gross sales
Group gross sales[1] which are recognised on delivery of orders to customers, decreased by 3.5% for the period to £1,423.6m (FY22: £1,474.6m) with both retail brands reporting a reduction on prior year.

The decrease is partly reflective of the challenging market environment in FY23, compared with more favourable market conditions in FY22 when the market benefitted from higher volumes linked to the pandemic. The Group partially mitigated this by both brands growing their market share[2].

Relative to the pre-pandemic FY19 period, Group gross sales increased by 15.0% supported by higher average order values.

The Group has invested ahead of its competitors in both digital and showroom sales channels and we remain the clear market leader in both. In FY23 24.0% of sales were completed digitally, lower than the peaks of the pandemic, but up from 17% in FY19. We continue to be channel agnostic, supported by our market research which consistently reinforces that a significant majority of customers prefer to utilise both channels in their shopping journey as part of a seamless experience and transaction.

1. Refer to pages 25 to 27 for APM definitions.
2. Market share sources: GlobalData (July 2023) Barclaycard proprietary data.

Sales of our beds & mattresses ranges continued to grow, with online gross sales up 69% in the period. Across our upholstery ranges, those sofas with added features such as recliners with memory settings, charge points and hidden storage performed relatively better.

Group revenue of £1,088.9m was 5.3% lower than prior year (£1,149.8m). This included an increase in the subsidy costs of our interest free credit (IFC) offering as a result of the steadily increasing Bank of England base rates and credit participation levels moving back to historical averages after slightly reducing during the pandemic period. We partially mitigated this impact through the change in our IFC proposition that Tim mentioned in his CEO report, which will also go some way to mitigating the increased IFC costs we are expecting to incur through FY24. Following the change to our IFC maximum term, every 1% increase in Bank of England rate would result in a c£6m increase in costs for the Group, if unmitigated.

Gross profit
Gross profit of £592.2m decreased by £13.7m (2.3%), driven by the lower revenues.

We have made good progress improving our gross margin rate across the period. As a percentage of revenue, gross margin in the period was 54.4% (FY22: 52.7%), an increase of 170 bps year on year.

Prior to the pandemic, the Group consistently achieved a gross margin rate in the region of 58%, but this reduced through the pandemic period as a result of i) higher levels of goodwill gestures, ii) an increased level of cancelled orders sold at discounted levels, iii) a shortage in supply of raw materials resulting in higher costs, and iv) a large increase in container shipping rates.

Gross margin rate reached a low of 51.9% in H2 FY22 and since then we have seen steady improvement. The rate improved to 53.8% in H1 FY23 and 55.0% in H2 due to the majority of the pandemic disruption impacts falling away, the impact of selective retail price increases being realised on orders delivered from May 2023 and a reduction in freight rates which started to return close to pre-pandemic levels in our final quarter. These improvements more than offset the dilutive effect on gross margin of the increased IFC costs mentioned above.

Whilst the macroeconomic outlook remains uncertain, we expect gross margin to continue to improve. The FY24 gross margin rate is expected to be above 57% as a result of freight rates now contracted at pre-pandemic levels, the full year effect of FY23 retail price increases, and cost price benefits from our product sourcing strategy mentioned in Tim's CEO statement. These benefits will more than offset the higher IFC costs and a hedged USD FX rate that is 10 cents adverse to the FY23 average rate paid (c£13m in cash terms).

Selling, distribution and administration and property costs
Selling, distribution and administration costs totalled £434.8m (FY22: £430.0m), representing a cost % of revenue of 39.9% (FY22: 37.4%).

The increase year on year was a result of inflationary increases across the operating cost base and investments in marketing to support growth in our beds & mattresses ranges. These increases were mostly mitigated by a reduction in prior year costs associated with inbound logistics disruption and Covid related absence, together with on-going efficiency improvements, from the Sofa Delivery Company and retail workforce optimisation tools. In addition, variable costs associated with delivery volumes and commission levels reduced.

Property costs, which include business rates and a small amount of rental costs that fall outside the scope of IFRS 16 remained broadly flat year on year at £30.2m (FY22: £29.6m). The end of business rates relief which benefitted FY22 has been partially offset by business rate revaluations effective April 2023 and empty property rates relief (see below), netting to a £2.2m increase. This increase was partially offset by a lower amount of rental costs that fall outside the scope of IFRS 16.

Depreciation, amortisation and interest
Depreciation, amortisation and interest charges have increased by £11.2m to £128.2m (FY22: £117.0m). The increase is driven by three components.

Firstly, £6.6m from higher interest costs on our RCF facility due to higher SONIA rates and a higher average drawn balance, compared to limited utilisation of the facility through FY22.

Secondly, a £1.8m increase in depreciation and amortisation charges as a result of our higher tangible and intangible asset base.

Thirdly, a £2.0m right of use asset impairment charge. This charge is associated with the rationalisation of operational distribution centres following completion of the integration of the DFS and Sofology logistics functions and from closing temporary storage sites opened in the pandemic period.

We have seen continued success in securing lower rents on retail leases that were approaching expiry (average of over 30% annualised saving per lease) and these savings have almost fully offset the full year impact from opening two large distribution centres mid way through FY22.

Profits and earnings per share
Reported profit before tax for the 52 week period to 25 June 2023 was £29.7m (FY22: 58.5m). Underlying profit before tax and brand amortisation[1] (PBTa) was £30.6m compared to £60.3m in FY22, mainly reflecting lower revenues, inflationary cost increases and costs linked to interest rate increases.

The tax charge recognised in the financial statements has been calculated using an effective tax rate for the year of 21.3%, broadly in line with the average applicable UK Corporate tax rate of 21.5% across the

FINANCIAL REVIEW CONTINUED

period. This effective rate of 21.3% is below the rate for FY22 (29.9%) which was high due to the differential in rates between current and deferred taxes along with the effect of overseas branch exemptions.

Reported profit after tax for the period of £26.2m is inclusive of a £1.4m brand amortisation charge, £7.1m tax charge, a £3.6m credit in relation to profit before tax on discontinued operations that arose due to a release of a provision booked in FY22 in relation to closing our operations in the Netherlands and Spain and a £0.5m non-underlying credit on continuing operations. Reported profit after tax in FY22 was £31.4m which included a £12.8m loss associated with the closure of those international operations.

Basic underlying earnings per share from continuing operations for the Group was 9.6 pence (FY22: 17.5p).

Cash flow, net debt and dividends
Net bank debt increased from £90.0m to £140.3m. This included special returns paid to shareholders in respect of cash generated in prior periods (£30.9m) and net working capital outflows of £40.0m as creditor balances and customer deposit levels reduced to more normal levels.

Working capital has now normalised following a significant inflow in FY21 through the pandemic period as a result of increased sales demand leading to higher trade creditors and accruals and extended supply chain lead times leading to a higher level of customer deposits being held. Excluding the working capital outflow, free cash flow[1] of £29.4m was generated in FY23.

Cash capital expenditure for the period was £33.6m (FY22: £45.6m). This included spend on three new Sofology showrooms taking the total to 58 as we continue our national roll-out programme, 11 DFS showroom refurbishments (58 showrooms completed over the last four years) and technology investments to enhance the customer experience and support operational performance as Tim explained in his CEO statement. The year on year reduction in spend is due to a lower number of Sofology showroom openings (FY22: 7) and the opening of two large distribution centres in the prior year. In addition £8.7m was incurred on leased motor vehicle additions (FY22: £7.7m) which includes company cars and commercial vehicles.

The Group's return on capital employed for the period was 13.5%, lower than that achieved in FY22 of 18.7% due to the reduced profit in the period and to a lesser extent from higher capital employed as a result of working capital normalisation. We expect returns to grow over time given i) our anticipated improved profitability as our product, property and operating cost reductions are delivered and market volumes recover and ii) our negative working capital model.

Leverage increased to 1.9x at the end of FY23, compared to 1.0x at FY22, reflecting our higher net debt level and lower profit. Over the medium term we remain committed to managing leverage within our target range of 0.5-1.0x.

Post year end, in September we completed the refinancing of our debt facilities, increasing the total amount of funds available to £250m from £215m. The new facilities were secured at competitive rates and consist of £200m from existing banking partners which runs to September 2027 (with a 16 month extension option) and £50m from the addition of US private placement notes with redemption dates split equally between September 2028 and September 2030.

The covenants and other facility terms remain unchanged from the previous facility; 3.0x maximum leverage and 1.5x minimum fixed charge cover. The increased facility is an endorsement of the continued confidence and support the Group maintains with our lending partners and provides liquidity headroom and flexibility to continue investing in our strategy.

Aligned to our capital distribution policy we are proposing a final FY23 dividend of 3.0p per share, bringing the total dividend to 4.5p per share (an underlying EPS cover of 2.3x[2]. This is in line with guidance at the interim results in March.

1. Refer to pages 25 to 27 for APM definitions.
2. Calculated using the share count post completion of the share buy back programme.

Looking forward

FY24 Guidance
Forecasting sales performance accurately over the next year is difficult. In particular, we cannot accurately predict how the forecasts for inflation and higher borrowing costs will affect consumer behaviours. In that context, we currently forecast that the upholstery market will see further declines over the next 12 months of c.5%, but this assumption remains a key sensitivity.

FY24 PBT is budgeted to increase slightly year on year, supported by progress on gross margin rate and operating cost efficiencies, mitigating cost inflation and interest rate headwinds.

FY24 Guidance

Group revenue	£1,060 - £1,080m
PBTa[1]	£30m - £35m
Cash capex	£25m - £30m

Cash capex will reduce slightly to £25-30m with the range dependent on whether potential new Sofology showrooms are opened towards the end of FY24 or fall into FY25.

FY24 will be a 53 week period. Whilst underlying working capital has normalised and is expected to be stable year on year, significant rent and tax payments are scheduled to fall due in the 53rd week, resulting in a working capital outflow of c£15m for the FY24 period.

In a year when we expect limited opportunities for growth, we are increasing our focus on the actions we can take to strengthen the foundations of the business, both to support short term share gains and to ensure we are strongly positioned for profitable growth in future years. This includes the 'Cost to Operate' efficiencies programme described below as well as capital investments being prioritised into areas with proven returns.

'Cost to Operate' efficiencies programme
Following a full review of our cost base completed earlier this year, supported by external benchmarks and insight, we have established a Cost to Operate efficiencies programme that is targeting annualised savings of c£50m by FY26.

Whilst we expect to start to see savings from this year, some projects will require longer periods of planning, or investment in new systems and processes. Approximately half of the targeted benefits are expected to come from our product related strategies, which will underpin delivery of our 58% gross margin target. The other benefits will lower our operating costs, helping to offset future inflationary headwinds and overall supporting the growth we are targeting in our profit margins. The three main programmes are summarised below.

1. Product costs (manufacturing and sourcing): Cost of goods (COGs) £20-£25m annualised saving Better leveraging of our scale to lower COGs and develop a best in class sustainable supplier portfolio. COGs opportunity will support our target Gross Margin of 58%.

2. Operating cost models: £20-£25m annualised saving opportunity:
   Improving productivity and lowering our cost to operate through a combination of projects:
   – Group operating models that are more efficient. Initial opportunities are in customer services & repairs and marketing, in addition to realising the remaining logistics benefits via The Sofa Delivery Company.
   – Goods not for resale procurement savings from consolidating the supplier base, retendering contracts across key spend areas, supported by better systems and controls.
   – 'Operate for less' programme focused on simplifying, centralising and automating other key processes (utilising technology) to unlock fixed and variable cost savings across showrooms, logistics and central support centres.

3. Property costs. £6m to £8m annualised saving opportunity:
   – Continuing to optimise our store estate, taking full advantage of our covenant strength to maximise lease re-gear savings.

FINANCIAL REVIEW
CONTINUED

We have also introduced a robust project governance structure to support planning, decision-making and implementation of the programme, led by the Group Leadership Team.

We expect to deliver around a quarter of these savings in FY24 with the remainder split evenly over the following two years and estimate c.£4-5m per year in non-underlying cash charges in FY24 and FY25 to access the benefits for the first two years (P&L charge likely to be c.£2m per year higher due to asset write-downs).

Profit margin growth
Although we are preparing for the macro outlook and consumer demand to be weak over the short term, we are confident the Group is well placed to achieve our 8% PBT margin taget in the medium term.

We expect market volumes will recover back to pre-pandemic levels (volumes expected to be down by c.20% by end of FY24 versus FY19), but it is difficult to predict how quickly and over what period that recovery will take place. In that context, we see a route to a PBT margin of 5% without market recovery, increasing further to our 8% CMD target as and when market volumes recover, supported by benefits from our gross margin and cost to operate programmes, together with incremental PBT contribution from growth in our Home business.

JOHN FALLON
Chief Financial Officer
21 September 2023

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'). 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.

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 cost of or 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. See note 2 for further details.	Measure of brand-controllable profit as it excludes shared Group costs.
Adjusted EBITDA	Earnings before interest, taxation, depreciation, amortisation adjusted to exclude impairments.	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. See note 1.6 for further details.	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 to exclude impairments and 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. See note 7 for further details.	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.
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.
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)	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.

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Key performance indicators

Reconciliations to IFRS measures

Adjusted EBITDA	Note	FY23 £m	FY22 £m
Operating profit from continuing operations	2	**63.8**	87.3
Depreciation	3	**80.5**	77.7
Amortisation	3	**11.6**	10.5
Impairments	3	**2.0**	–
Adjusted EBITDA from continuing operations		**157.9**	175.5

Underlying EBITDA	Note	FY23 £m	FY22 £m
Adjusted EBITDA from continuing operations		**157.9**	175.5
Non-underlying operating items	3	**(0.5)**	0.4
Underlying EBITDA from continuing operations		**157.4**	175.9

Underlying profit before tax and brand amortisation – PBTa	Note	FY23 £m	FY22 £m
Profit before tax from continuing operations	2	**29.7**	58.5
Non-underlying items	3	**(0.5)**	0.4
Amortisation of brand names	10	**1.4**	1.4
Underlying profit before tax and brand amortisation		**30.6**	60.3

Net bank debt	Note	FY23 £m	FY22 £m
Interest bearing loans and borrowings		**165.8**	93.5
Unamortised issue costs	18	**1.2**	1.5
Cash and cash equivalents (including bank overdraft)		**(26.7)**	(5.0)
Net bank debt		**140.3**	90.0

Movement in net bank debt	FY23 £m	FY22 £m
Closing net bank debt	**(140.3)**	(90.0)
Less: Opening net bank debt	**90.0**	19.0
Movement in net bank debt	**(50.3)**	(71.0)

Underlying free cash flow to equity holders	Note	FY22 £m	FY21 £m
Movement in net bank debt		**(50.3)**	(71.0)
Dividends	21	**12.1**	53.8
Purchase of shares by Employee Benefit Trust		**–**	8.2
Proceeds from sale of own shares		**–**	(0.4)
Purchase of own shares		**30.9**	4.4
Non-underlying cash items included in cash flow statement		**0.3**	–
Underlying free cash flow to equity holders		**(7.0)**	(5.0)
Exclude:			
Working capital outflow		**40.0**	28.8
Operating result from discontinued operations	29	**(3.6)**	13.4
Underlying free cash flow to equity holders excluding operating result from discontinued operations and working capital outflow		**29.4**	37.2

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Leverage	Note	FY23 £m	FY22 £m
Net bank debt (A)		**140.3**	90.0
Net cash from operating activities before tax	26	**122.4**	139.7
Adjusted for:			
Pre-tax non-underlying items		**(4.3)**	11.7
Movement in trade and other receivables		**(13.2)**	7.2
Movement in inventories		**(8.6)**	3.3
Movement in trade and other payables		**55.8**	16.6
Movement in provisions		**6.0**	1.7
Payment of interest on lease liabilities		**(23.5)**	(25.0)
Payment of lease liabilities		**(61.6)**	(63.5)
Cash EBITDA (B)		**73.0**	91.7
Leverage (A/B)		**1.9x**	1.0x

Underlying return on capital employed from continuing operations	Note	FY23 £m	FY22 £m
Operating profit from continuing operations		**63.8**	87.3
Non-underlying operating items		**(0.5)**	0.4
Pre-tax return		**63.3**	87.7
Effective tax rate for continuing operations		**22.6%**	24.3%
Tax adjusted return (A)		**49.0**	66.4
Property, plant and equipment	8	**97.4**	105.9
ROU assets	9	**312.6**	338.0
Computer software	10	**22.0**	17.7
		432.0	461.6
Inventories	14	**55.8**	64.4
Trade receivables	15	**7.7**	12.6
Prepayments	15	**3.0**	11.4
Accrued income	15	**0.1**	0.3
Other receivables	15	**0.3**	–
Payments received on account	16	**(39.1)**	(72.2)
Trade payables	16	**(97.6)**	(122.5)
Working capital		**(69.8)**	(106.0)
Total capital employed (B)		**362.2**	355.6
Underlying ROCE (A/B)		**13.5%**	18.7%

RISKS AND UNCERTAINTIES

The Group faces a number of risks and uncertainties in both its day-to-day business operations and strategic development. Effective mitigation of these risks is essential to enable us to meet the needs of our customers.

Identification of risks

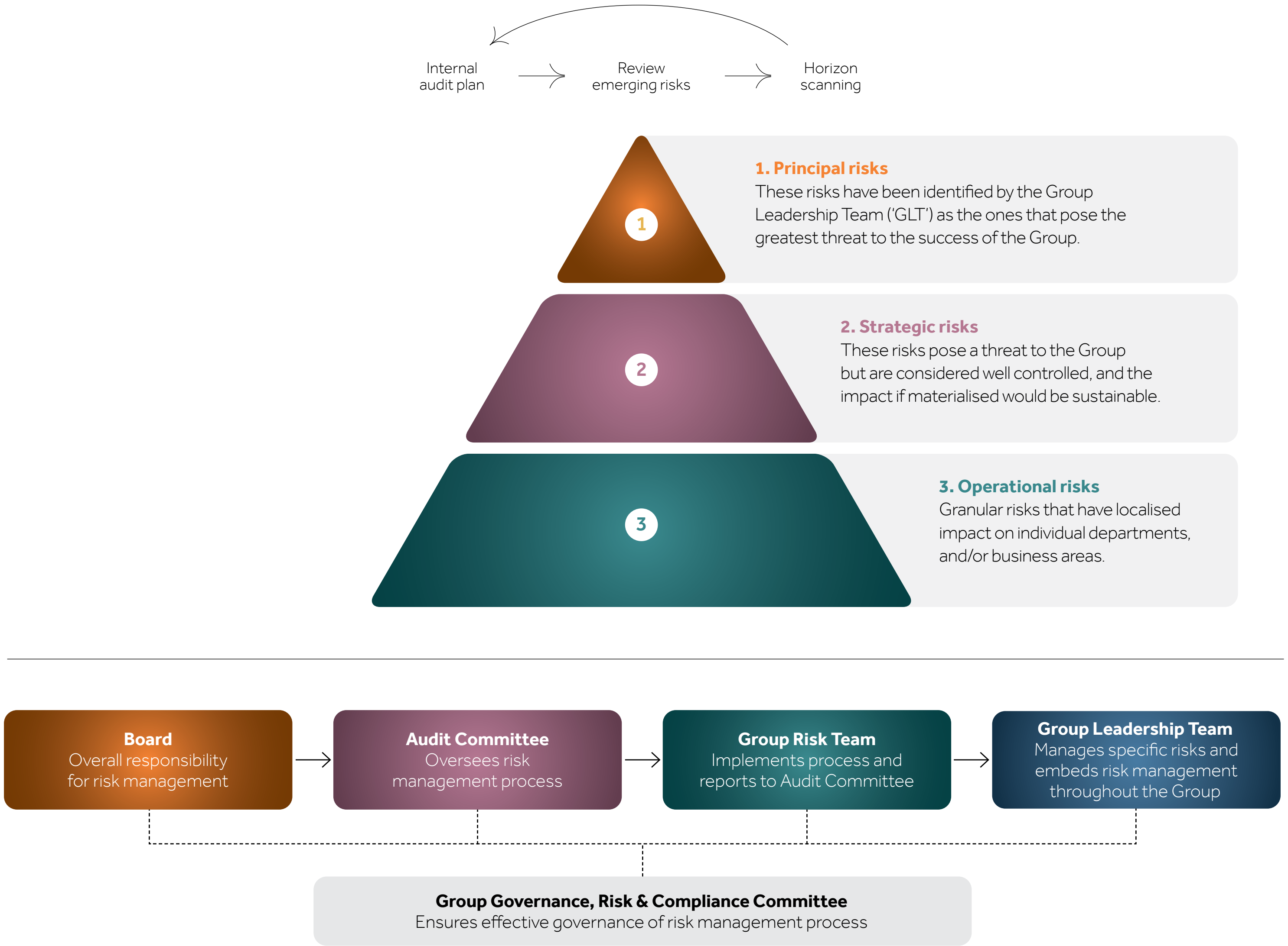
The Board has overall responsibility for the management of risk and the identification of principal risks that may affect the Group's strategic objectives. The Group has an established risk register of existing risks, emerging risks arising and horizon risks to be monitored. This risk register is managed by the Group risk team, and the principal risks are formally reviewed by the Directors three times a year.

The graphic to the right details how responsibility for risk management is allocated across the Group.

Each principal risk is owned by a member of the Group Leadership Team ('GLT'), with strategic and operational risks being owned and managed by the senior management team. The Board maintains overall responsibility for risk management throughout the Group and oversee the implementation of processes to manage these risks by the GLT and operational management. The Audit Committee, delegated by the Board, is responsible for the review of the effectiveness of the internal control framework.

Management and mitigation of risk by the GLT is driven by a Group risk appetite agreed by the Board. The Group Governance, Risk & Compliance Committee ('GRC'), comprised of senior management, meets monthly to review changes in the regulatory/legal landscape and the Group's key risks and concerns. In addition to the GRC, a formal quarterly risk review is conducted by the GLT.

The Group Risk Team supports risk owners in managing risks effectively, utilising the Group's CAMMS Risk Management system to facilitate an enterprise-wide approach to risk management and reporting. The Group Risk team also performs regular horizon scanning and reviews of emerging risks.



RISKS AND UNCERTAINTIES CONTINUED

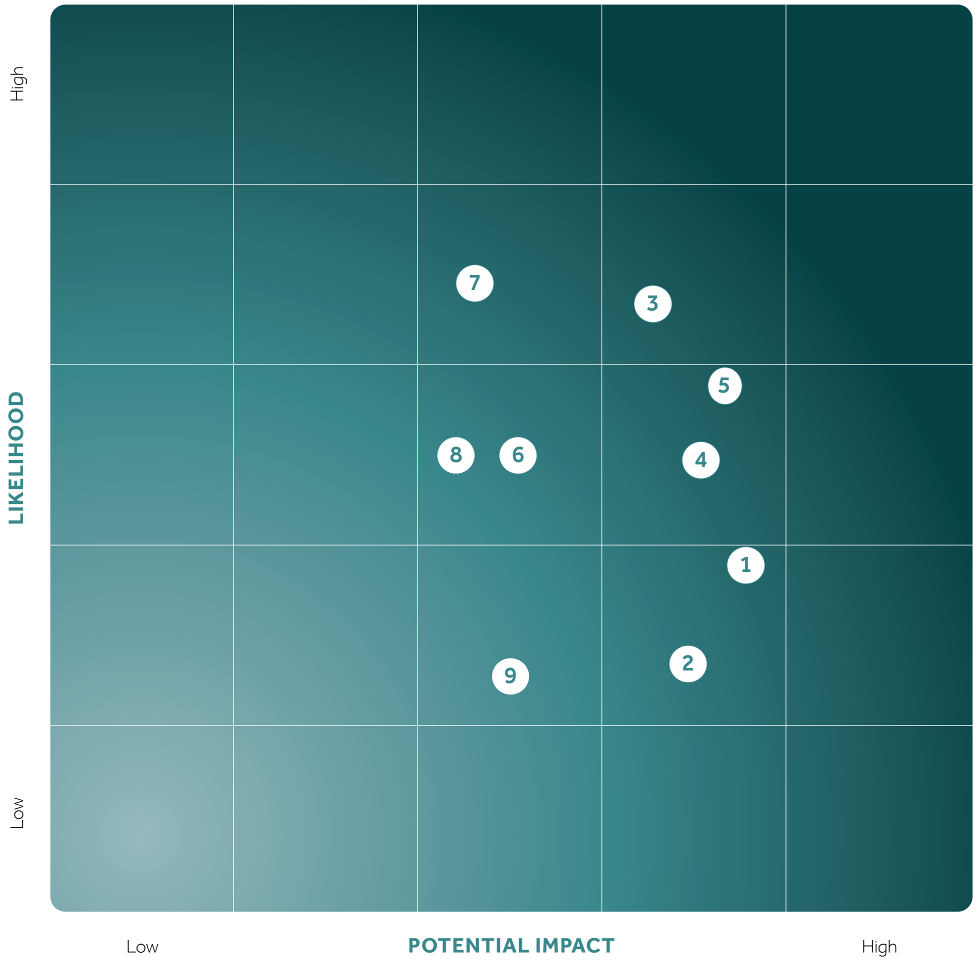
Evaluation of risks
The Directors have made a robust assessment of the principal and emerging risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

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

Changes to principal risks in the year
As part of our risk management process the Group principal risks are regularly reviewed with the GLT and the Audit Committee. There have been no new risks added or risks removed in FY23.

Risk heat map
The impacts of identified risks are measured against pre-defined criteria in a number of areas – Financial, Operational, Health & Safety, Legal & Regulatory, Technology – to establish a robust and objective assessment. The heat map below illustrates the distribution of identified risks according to their relative likelihood of occurrence and the potential severity of their impact after taking into account mitigating activities.

Management of climate change and other significant ESG risks
We are committed to building a sustainable business model, both in terms of our impact on the environment and preserving our long-term success as a Group. ESG remains a principal risk in our FY23 Annual report and is embedded within the Group's risk management process with specific oversight by the Responsible and Sustainable Business Committee ('RSC'). As part of our risk management strategy we consider all ESG impacts associated directly or indirectly to our existing, new and emerging risks and have developed and implemented an ESG specific risk register for greater visibility and control over these threats.



Principal risks

1. Financial risk and liquidity
2. Regulatory environment
3. Cyber
4. Supply chain and manufacturing resilience
5. Macroeconomic uncertainty
6. ESG
7. Retention of skilled workers due to labour shortages
8. Consumer proposition and industry competition
9. Transformation

Principal Risk

FINANCIAL RISK AND LIQUIDITY

What is the risk?
The geopolitical and macroeconomic environment or other events (such as a future pandemic or expansion of the Ukraine war into other territories) may impact the Group's working capital requirements, its ability to access debt or equity financing, the cost of that financing, or the price of purchases in foreign currencies.

Strategic link

Potential impact
– An increase in interest rates could increase the Group's finance costs, reducing profitability.
– Temporary suspension of customer deliveries, or manufacturing delays could delay the realisation of revenues and increase the Group's working capital needs.
– A change in the US dollar rate could result in the Group paying more for purchases of goods transacted in US dollars, reducing profitability.
– A failure to comply with financial covenants associated with the facility could result in it being withdrawn.

Mitigation
– Good working relationships maintained with all financial counterparties, ensuring that counterparties fairly understand our financial performance. Regular reviews of financing arrangements to ensure adequate funds in place and financing costs kept to a minimum.
– Management of foreign exchange risk through the use of appropriate hedging arrangements in accordance with the Board approved treasury policy.

FY23 progress
– Refinancing completed in September 2023 across a more diversified lending group with available funds increasing from £215m to £250m and maturity dates split between September 2027 and September 2030.
– Update of treasury policy to improve alignment with trading patterns.

Movement
Increase

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home
Platforms: Sourcing & Manufacturing Technology & Data Logistics People & Culture
Movement: Increase Unchanged Decrease

Principal Risk

REGULATORY ENVIRONMENT

What is the risk?
The Group is subject to increasing levels of compliance requirements in many of its activities from regulatory and other authorities, including the Financial Conduct Authority for its consumer finance offering, the Information Commissioner's Office in relation to data protection and Health and Safety Executive and local authorities for the health and safety of its colleagues and customers. The Group also generates revenue from the sale of product aftercare insurance, a form of general insurance add-on product.

Strategic link
1, 2, 3, Technology & Data

Potential impact
– Changes in legislation with significant retrospective or future economic effects could impact operating results.
– Failure to meet our compliance obligations could negatively impact the Group's reputation or result in fines/penalties, reducing profitability.
– Non-compliance could result in potential civil or criminal liability for the Group's companies and/or senior management.
– Changes to the regulatory environment surrounding product aftercare insurance could impact the sales of these products.
– 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.

Mitigation
– Comprehensive training and monitoring programmes (including individual colleague NPS, internal audits and mystery shoppers) in place to ensure employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance.
– Monitoring of management information and review of processes and procedures by GRC to ensure customers are treated fairly.
– Rigorous oversight and escalation processes in place to maintain status of limited permission to offer consumer finance granted by the FCA.
– Review of regulatory landscape and forthcoming changes to ensure timely, structured and sustainable planning and implementation.
– Escalation of relevant matters to Audit Committee for consideration.
– Robust policies to ensure compliance with data protection requirements, including annual data protection training for all colleagues.
– Regular review of pricing and cover levels of insurance products offered to maintain and enhance the customer value proposition.
– Robust sales principles and compliance frameworks across all brands.
– Mandatory training programme for colleagues involved in sale of product aftercare insurance.

FY23 progress
– Review of procedures and controls to ensure compliance with Consumer Duty regulations.

Movement
Increase

RISKS AND UNCERTAINTIES CONTINUED

Principal Risk

CYBER

What is the risk?
A cyber-attack, ransomware or data breach could result in business disruption, and loss or corruption of customer data, which could adversely impact our reputation and customer confidence.

Our website and IT infrastructure are key elements of our strategy. A failure to review and innovate in this competitive area could impact achievement of the Group's growth plans.

Strategic link

Potential impact
– Inability to access core operating systems (supply chain, customer delivery, call-handling, financial transaction processing) could adversely impact customer experience and lead to increased costs or loss of revenue.
– Loss of customer data could lead to a loss of reputation and regulatory fines. Delays or errors in reporting on operational performance could result in increased costs or lost revenue.

Mitigation
– Full IT security backup and business continuity procedures in place and regularly reviewed, tested and updated.
– Technical security measures against data loss through a systems breach in place and regularly reviewed and updated, including by third-party experts, the results of which are reported to the Board.
– Third party penetration testing carried out routinely to check the resilience of the Group's systems to cyber attack.
– Mandatory cyber awareness programme for relevant colleagues.
– Substantial ongoing investment in website development and digital marketing, complemented by third party monitoring of both customer satisfaction with our digital services and the emergence of new online competitors.
– IT systems are regularly reviewed and upgraded to ensure they continue to support the needs of the Group.

FY23 progress
– Supplier security requirements defined, documented and utilised during procurement.
– New infrastructure deployments evaluated against security best practice benchmarks.
– Expansion of protection tools, now using AI to reduce risk of phishing and business e-mail compromise.

Movement

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home

Platforms: Sourcing & Manufacturing Technology & Data Logistics People & Culture

Movement: Increase Unchanged Decrease

Principal Risk

SUPPLY CHAIN AND MANUFACTURING RESILIENCE

What is the risk?
Disruption across our supply chain, including shortages of critical materials, reliance on key manufacturing sites and logistics constraints could result in supply shortages or delays.

Strategic link

Potential impact
– Failure to supply customer orders on time or to expected quality, could lead to loss of revenue and/or profits and adverse impacts on the reputation of the Group and its retail brands.
– Inefficient production schedules due to raw materials supply, could result in increased costs.
– Increased lead times as a consequence of production details or transport disruption could result in loss of sales.

Mitigation
– Sales & Operations Planning function established to proactively manage the end-to-end supply chain across the Group.
– Annual shipping contracts that set out fixed pricing and capacity availability maintained in order to manage uncertainty of prices and volumes in the container shipping industry, particularly in relation to deliveries from the Far East.

FY23 progress
– Full review of supplier strategies for each retail brand.
– Implementation of formal supplier performance reviews.

Movement

RISKS AND UNCERTAINTIES CONTINUED

Principal Risk

MACROECONOMIC UNCERTAINTY

What is the risk?
The Group's products represent a significant discretionary spend for customers and demand is heavily influenced by factors affecting the economic environment in which the Group operates including (but not limited to): consumer confidence, employment levels, real income, the availability of credit and the level of housing market activity.

Strategic link

Potential impact
- Increases in interest rates and associated higher costs of borrowing may reduce levels of customers' discretionary spending and result in lower housing market activity, reducing revenues and profits.
- Significant cost inflation in raw materials, fuel and freight costs, could reduce the Group's profitability or necessitate increases in product selling prices, discouraging customer purchases.

Mitigation
- Continuous review of product ranges to ensure they provide an attractive customer proposition at a variety of price points.
- Range selection supported by detailed data analysis and customer choice enhanced through exclusive and strategic brand partnerships.
- Regular reviews of interest free credit offering to balance the cost to the Group with the flexibility required by our customers.
- Management of cost base in periods of lower income through reduced discretionary and variable spend.

FY23 progress
- Continued programme of forward purchase of freight, energy and foreign currency to manage costs in an inflationary environment.
- Modification of interest free credit offering to mitigate impact of increased interest rates.

Movement
Increase

Principal Risk

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

What is the risk?
Key stakeholders, including customers, colleagues, investors and regulators, as well as the media, are increasingly focused on the Group's policies and management regarding Environmental, Social and Governance ('ESG') risks. The Group is also required to meet increasing non-financial reporting and disclosure requirements.

Strategic link
1
2
3

Potential impact
- Failure to manage the business in accordance with high ESG standards could result in underlying risk to business resilience, reputation, growth and share price performance.
- Failure to address existing and emerging ESG risks across our products, the environment and society could deter customers or demotivate colleagues.
- Potential for regulatory penalties if related reporting requirements are not adequately met.

Mitigation
- Responsible and Sustainable Business Committee ('RSC') established as a dedicated Board committee responsible for governance and oversight of the Group's ESG strategy.
- Detailed metrics and targets developed across a broad range of ESG matters monitored by the Committee, from gender diversity to sustainable and ethical sourcing of raw materials and reductions in carbon emissions.
- External audit and certification of suppliers of goods for resale and external assurance on reported carbon emissions.

FY23 progress
- Completed Climate Scenario Analysis, both transition and physical risks and integrated strategic risks in risk register with strategic planning, particularly within manufacturing strategy.
- Developed Net Zero roadmap aligned to Science Based targets with the intent to submit to SBTI in June 2024. Set supplier engagement targets for FY23/24 to validate plan prior to submission in addition to scope 1 intensity targets.
- Implemented Sustainable Sourcing Policy with additional targets for cotton, packaging and fire retardants as well as continuing to improve on existing targets.

Movement
Unchanged

Link to strategic pillars and platforms

Pillars:	1 DFS	2 Sofology	3 Home	
Platforms:	Sourcing & Manufacturing	Technology & Data	Logistics	People & Culture
Movement:	Increase	Unchanged	Decrease	

RISKS AND UNCERTAINTIES CONTINUED

Principal Risk

RETENTION OF SKILLED WORKERS DUE TO LABOUR SHORTAGES

What is the risk?
There has been increased pressure within the UK labour market in general with low levels of unemployment, high levels of vacancies and shortages of skilled workers across all sectors. The Group needs to attract, retain and develop the right talent and required capabilities to achieve targeted business performance and delivery of our strategy.

Strategic link

Sourcing & Manufacturing; Technology & Data; Logistics; People & Culture

Potential impact
– 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.

Mitigation
– Regular function specific remuneration benchmarking and business-wide annual salary reviews ensure colleague remuneration is competitive.
– Significant resource and focus invested in building an inclusive and engaging culture.
– Suite of additional benefits available to colleagues, with particular emphasis on colleague wellbeing.
– Internal training and development programmes developed in areas where skills shortages are identified.

FY23 progress
– Expansion of The Sofa Delivery Company driver school to generate required skills in shortage areas.

Movement

Unchanged

Link to strategic pillars and platforms

Pillars:	1 DFS	2 Sofology	3 Home	
Platforms:	Sourcing & Manufacturing	Technology & Data	Logistics	People & Culture
Movement:	Increase	Unchanged	Decrease	

Principal Risk

CONSUMER PROPOSITION AND INDUSTRY COMPETITION

What is the risk?
The reputation of, and value associated with, the Group's brands and product offering is central to the success of the business. Failure to maintain a well-designed, high-quality product range that is priced attractively could compromise the success of the Group.

Strategic link

1
2
3

Potential impact
– Failure to predict changes in customer tastes or to respond to the impact of changes in the competitive environment could reduce the Group's revenues, and profitability.
– Reputational damage resulting from customer complaints, 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.
– Competitors could improve their offering, reducing our market share.

Mitigation
– Continual review of products and services to ensure they suit customers' needs, are competitively priced, offer good value, meet the right quality and sustainability standards and are supported by excellent customer service.
– In-house product design team and external design partners ensures product range is attractive and innovative.
– Internal manufacturing, close supplier relationships and made-to-order model allows any quality issues to be addressed swiftly.
– Use of Net Promoter Score (NPS), and incentivisation of colleagues on the basis of NPS scores encourages customer-focused behaviours throughout the customer journey.
– Frequent competitor analysis and mystery shopping at competitor's stores and online offerings.

FY23 progress
– Development of new competitor insight tool to facilitate regular reporting on price movements and new product launches.

Movement

Unchanged

RISKS AND UNCERTAINTIES CONTINUED

Principal Risk

TRANSFORMATION

What is the risk? The Group undertakes a number of significant investment or business change projects that are key to successfully executing its strategy.	**Strategic link** 1 2 3
Potential impact – 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 timeframe. – 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.	
Mitigation – An executive member (the COO) has responsibility for transformation, overseeing a programme structure and a team of project managers dedicated to its execution. – Risk assessments completed for all critical workstreams and challenged through Board and Audit Committee discussions. – Experienced senior management engaged in the design and delivery of the integration and transformation plans providing regular updates to the Board. – Regular review of transformation programme to ensure priorities and areas of focus are appropriate to support delivery of the Group's strategy.	
FY23 progress – Group-wide review of established key change programmes in order to focus time and resources appropriately. – Alignment of governance structures to ensure consistency across all active programmes.	**Movement** —

Link to strategic pillars and platforms

Pillars: 1 DFS 2 Sofology 3 Home

Platforms: Sourcing & Manufacturing Technology & Data Logistics People & Culture

Movement: Increase Unchanged Decrease

Viability Reporting

In accordance with the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a period significantly longer than 12 months from the date of approval of the financial statements. The period assessed was the three years from 26 June 2023 as in the opinion of the Directors this reflects the longest period over which the impact of key risks can be reasonably assessed within a big-ticket retail business given the potential volatility of the trading environment.

Approach

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

The Directors then made a robust consideration of the key risks and uncertainties that could impact the future performance of the Group and the achievement of its strategic objectives, as discussed on pages 28 to 34 of this Annual Report. Particular regard was paid to the potential for further market contraction and continued inflationary pressures or increases in interest rates.

The primary impacts of those risks which could significantly affect the future viability of the Group are a decrease in customer orders, reducing revenue, and an increase in the Group's costs, including those resulting from the impacts of climate change on materials and suppliers, reducing profitability. The effect of lost revenue on profit before tax and cash was applied to the base case model using an expected 'drop through' rate, based on expected gross margins and variability of costs. Cost increases were modelled on general and specific assumptions for inflation. The analysis considered a range of severe but plausible scenarios impacting revenue and margin, a significant reduction in customer spending, and impacts on profitability from inflationary cost pressures and interest rate rises.

For each scenario, sensitivity and stress-testing analysis was performed to model the impact on the Group's profitability and cash flows. The assessment considered how risks could affect the business now, and how they may develop in future.

Key Assumptions

The base case forecast assumes a further underlying contraction in the Group's market of 5% in FY24, from an already low base relative to pre-pandemic levels, followed by a slow recovery (mid single digit annual growth) in subsequent years. The base case also reflects a cautious assessment of the anticipated growth in the Group's market share driven by delivery of our strategic initiatives. Revenue is assumed in line with order intake, keeping order bank levels relatively consistent across the assessment period.

Gross margin percentage for FY24 is expected to be ahead of FY23 through more effective sourcing and the annualised impact of price increases and freight rate reductions already implemented. Other costs reflect anticipated inflationary increases and benefits from specific cost saving initiatives. Capital expenditure is assumed to remain in line with planned investments and strategic initiatives.

In sensitising the base case for lower revenue scenarios, the rate of drop through to profit is assumed to be consistent throughout the assessment period.

The viability assessment reflects the continued availability of the Group's debt facilities which from 1 September 2023 comprise a £200.0m revolving credit facility maturing in September 2027 (with an option to extend to January 2029) and £50.0m of fixed rate private placement debt notes £25.0m maturing in September 2028 and £25.0m maturing in September 2030.

Results

The range of severe but plausible scenarios included a market decline of up to 10% in FY24, further interest rate rises of 2%, and a sustained reduction in gross margin.

These impacts were modelled individually and in certain combinations, in conjunction with a range of mitigating actions that could be taken to preserve the Group's profitability and cash flows. Mitigating actions included reductions in discretionary costs and capital expenditure and a reduction or pause in dividend payments. Reverse stress-testing was also performed on the most severe scenarios.

The Group maintained both covenant compliance and sufficient liquidity in all these scenarios. Based upon this assessment the Directors have a reasonable expectation that the Group and Company will be able to continue in operation and remain commercially viable over the three year period of assessment.

SECTION 172 STATEMENT

Section 172(1) (a)-(f) of the Companies Act 2006 ('Section 172(1)') requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole.

The Directors have had regard to the matters set out in Section 172(1) when performing their duties. They consider they have acted in good faith, in the way that would be most likely to promote the success of the Company for the benefit of its members as a whole, while also considering the broad range of stakeholders who interact with, and are affected by, our business.

Engaging with our stakeholders

As a Board we recognise the importance of balancing the needs and views of all of our stakeholders. Throughout the year we have engaged with all our stakeholder groups to understand the impact of the decisions we make. The Board considers that taken together, the arrangements detailed below deliver an effective means of ensuring the Board stays alert to the views of all our stakeholders. The table below identifies where, in the Annual Report, information on the issues, factors and stakeholders the Board has considered in respect of Section 172(1).

Section 172(1) (a)-(f)			How we engage	Where to find it	Page numbers
A	**The likely consequences of any decision in the long term**	The Board reviewed the progress made against the Group's Pillars and Platforms strategy and ensured that both decisions taken and future plans support the long-term success of the Group.	– Focus is on how we deliver on our purpose and ensure we live up to our values. – Focus on how we manage the Group's cost base given the current economic uncertainty. – Look to ensure we balance the way we reward our people with how we provide a return on investments to our shareholders.	– Our strategy – Key performance indicators – Financial review – Principal risks and uncertainties – Viability statement – Corporate governance report – Directors' remuneration report	17 19 - 20 21 - 24 28 - 34 35 65 - 70 78 - 99
B	**The interests of our colleagues**	Our colleagues are critical to the success of our business and the Board has ultimate responsibility for ensuring the Group's decisions consider their interests. During the year colleagues have taken part in our Voice forums held by members of the Board to raise any concerns or issues with them directly.	– Regular virtual & in-person Town Halls are hosted by the Group Chief Executive Officer. – Regular briefings to the Board by the Chief People Officer on employee-related matters, including engagement activities, the results of opinion surveys, retention rates, learning and development activity, pay and reward initiatives. – We encourage open and honest discussions with our colleagues but for those who wish to report concerns anonymously we have an independent whistleblowing helpline.	– Chair's statement – Our fundamentals – Chief Executive's report – Our strategy – Key performance indicators – Responsibility and sustainability report – Principal risks and uncertainties – Corporate governance report – Directors' remuneration report	8 - 9 7 10 - 12 17 19 - 20 39 - 61 28 - 34 65 - 70 78 - 99
C	**The need to build strong beneficial relationships with our customers and suppliers.**	Managing these relationships is critical in ensuring the Group delivers on its strategy. We are committed to bringing great design and comfort to our customers, in an affordable, responsible, and sustainable manner. We regularly engage with our suppliers to discuss how we can achieve our purpose.	– We conduct regular focus groups for customers to review our new products. – Ensuring we have the market leading financial services products (IFC and our product insurance) available for our customers. – We seek feedback from our customers through Net Promoter Score ('NPS') customer satisfaction surveys. – Monitoring our own manufacturing operations and our third party suppliers to ensure quality and safety standards are met.	– Chair's statement – Our fundamentals – Our business model – Chief Executive's report – Market overview – Responsibility and sustainability report – Corporate governance report – Directors' remuneration report	8 - 9 7 16 10 - 12 13 39 - 61 65 - 70 78 - 99

SECTION 172 STATEMENT CONTINUED

Section 172(1) (a)-(f)			How we engage	Where to find it	Page numbers
D	**The impact of the company's operations on the community and the environment**	As a responsible business, the Group is committed to acting in the best interests of our communities and in a sustainable manner. We are committed to working to lessen our impact on the environment and improve the communities in which we operate. Led by the Responsible and Sustainable Business Committee the Group's ESG strategy has clear targets that aim to integrate sustainability throughout all aspects of our business, to minimise any adverse impact we might have on the environment.	– We support national charities, including Children in Need and during the year Sofology established a national partnership with Home-Start. In addition the Group provided over £650,000 of our products to a range of good causes. – We give colleagues volunteer days to help them get involved in the communities in which we operate. – We are focused on developing new sustainable products to reduce our carbon footprint.	– Chair's statement – Our fundamentals – Chief Executive's report – Our strategy – Responsibility and sustainability report – Principal risks and uncertainties – Corporate governance report	8 - 9 7 10 - 12 17 39 - 61 28 - 34 65 - 70
E	**The desirability of the company maintaining a reputation for high standards of business conduct**	We have strong internal governance processes and all our colleagues receive mandatory online training on Our Code of Conduct, Data Protection, Modern Slavery, Cyber Security and Anti-Bribery & Corruption. Our suppliers are required to comply with our supplier code of practice which details our requirements for product quality, safety, employee standards and anti-bribery and corruption policies. We seek to have a positive and constructive relationship with the regulatory bodies that authorise and regulate our business activities.	– We are transparent in our approach and publish our policies including our Employee Code of Conduct on our corporate website. – We have a clear Tax Strategy. – We rolled out our 'Consumer Duty' compliance programme to all employees in customer facing roles.	– Responsibility and sustainability report – Corporate governance report – Directors' remuneration report	39 - 61 65 - 70 78 - 99
F	**The need to act fairly as between members of the company**	The Board seeks to ensure Investors receive a fair and balanced return on their investment. During the year the Board approved a £10m share buyback and paid investors an interim dividend in line with the Capital & Distribution policy of 1.5p. Throughout the year the Group has continued to engage with our investors to ensure their views and interests are taken into account when making decisions.	– We publish regular financial reporting and trading updates via RNS. – A series of events is held throughout the financial year, including our AGM, and presentations of our half-year and full-year results. – The Board meets with investors and potential investors throughout the year. – Management have regular discussions with our banks about our strategic priorities.	– Chair's statement – Our business model – Corporate governance report	8 - 9 16 65 - 70

SECTION 172 STATEMENT CONTINUED

The chart below demonstrates the Board process in considering Section 172(1) in its decision-making.

Board papers highlight information considering Section 172(1) matters

Board Information

Our Board continually engages with stakeholders

See **page 36** for more information

The Group's culture helps ensure that there is proper consideration of the potential impacts of decisions

Board Strategic Discussion

Section 172(1) matters are considered in the Board's discussions on strategy, how decisions impact a stakeholder group and underpin long-term value creation, and the implications for business resilience

Actions taken as a result of Board engagement

Board Decision

Outcomes of decisions assessed and further engagement and dialogue with stakeholders

S172 Statement of non-financial information

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

Reporting requirement	Relevant information	Policies and Standards
The Company's employees	Section 172 Statement –Engaging our colleagues – page 36 Responsibility and Sustainability report – pages 39 to 61 Directors Remuneration report – pages 78 to 99	– Diversity & Inclusivity Policy – Equal Opportunities Policy – Whistleblowing Policy – Group Health and Safety Policy
Anti-corruption and anti-bribery matters	Responsibility and Sustainability report – page 51	– Group Employee Code of Conduct – Anti- Bribery Policy – Supplier Code of Practice – Whistleblowing Policy
Respect for human rights Modern Slavery	Responsibility and Sustainability report – page 53	– Anti-Slavery and Human Trafficking Policy – Modern Slavery Statement – Data Protection Policy & Privacy Policy – Group Human Rights Policy
Social matters	Responsibility and Sustainability report – pages 39 to 61	– Tax Strategy – Group Employee Code of Conduct – Group Communities and Charitable Giving Policy
Environmental matters	Section 172 Statement – Having regard to the impact of the Company's operations on the community and the environment – page 37 Responsibility and Sustainability report – pages 39 to 61	– Environment Policy – Group Timber Policy – Group Leather Policy

Copies of all our policies are available at https://www.dfscorporate.co.uk/governance/policies-statements.