

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

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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

Group revenue

£1,088.9m

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.

Underlying profit before tax and brand amortisation¹

£30.6m

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

Profit before tax

£29.7m

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