DFS Furniture plc

Capital and Distribution Policy

This Capital and Distribution policy has been updated for IFRS 16, and refers to underlying cash generation rather than EBITDA in order to provide investors with transparency of our intended approach as we complete the process of transition.

Ordinary dividend

The Group will operate with a modest amount of leverage such that net debt, measured as closing weekly average net liquid funds excluding capitalised lease balances over the most recent six month period, should fall within the range 1.0x – 1.5x last twelve months' pre-tax net cash from operating activities less cash payments for lease liabilities. The Group may aim to operate at the top, mid-point or bottom of that range depending on the anticipated capital needs of the business and the overall outlook for the Group, including the macroeconomic environment.

We will normally make a final and interim dividend payment each year. Our interim dividend payment will be set at broadly half of the amount of the previous final dividend payment. We would expect to maintain or steadily increase the absolute amount of each dividend payment in line with the growth of the business.

The Board intends, subject always to the outlook for the Group, that ordinary dividend payout ratio (by which we mean the total amount paid to shareholders by way of ordinary dividend divided by the Group's annual underlying cash generation) should be between 40% and 50% in the full year in respect of which the dividend is paid. The Board may allow a temporary fall in the dividend cover requirements in order to maintain the dividend at the same level year-on-year in cash terms.

We will calculate underlying cash generation by (i) the annual change in reported net bank debt plus (ii) the value of ordinary and/or special dividends paid, plus (iii) any non-underlying costs or working capital movements incurred, and (iv) any acquisition related consideration.

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

Special returns of capital

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

Share buybacks for the purposes of employee share schemes

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

Distributable reserves

The Board will seek to ensure that the parent company has sufficient distributable reserves available from which to make distributions, and prior to payment of a dividend the CFO will ensure that dividends are only paid out of distributable reserves.

Duration of this policy

Absent significant changes in our group's business model, a requirement to invest capital to support the growth of our business, or deterioration of our profitability we would expect this policy to apply for the foreseeable future.

Approved by the Board on 17 September 2019.