23 September 2021 **For immediate release**

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

Preliminary Results

MARKET OUTPERFORMANCE DRIVEN BY OUR SCALE AND INTEGRATED RETAIL MODEL, CREATING A SUSTAINABLE BASE FOR FURTHER GROWTH

DFS Furniture plc (the “Group”), the market leading retailer of living room and upholstered furniture in the United Kingdom, today announces its preliminary results for the 52 weeks ended 27 June 2021 (prior year comparative period is the 52 weeks ended 28 June 2020, non Covid-19 disrupted comparative period is the unaudited pro-forma 52 weeks to 30 June 2019[2]).

£'m	FY21	FY20	Change	Pro-forma FY19[2] (unaudited)	Change
Revenue	1,067.7	724.5	47.4%	996.2	7.2%
Revenue excluding Sofa Workshop[3]	1,062.6	710.2	49.6%	968.5	9.7%
Digital % of revenues excluding Sofa Workshop	*35.3%*	*18.6%*	*16.7%pt*	*17.0%*	*18.3%pt*
Underlying PBT(A)[1]	105.8	(63.1)	168.9	50.2	55.6
PBT	99.2	(81.2)	180.4	43.6	55.6
Basic underlying EPS[1]	36.0p	(24.3)p	60.3p	18.4p	17.6p
Basic EPS	34.5p	(31.4)p	65.9p	16.5p	18p
Net bank debt[1]	19.0	157.7	88.8%	165.2	n/a
Leverage[1]	0.2x	n/a	n/a	2.0x	1.8x

[1] Definitions and reconciliations of KPIs including Alternative Performance Measures (“APMs”) are provided at the end of this statement in Note 12 to the condensed consolidated financial statements.
[2]As previously published, in 2019 the Group changed its accounting reference date from 31 July to 30 June. FY19 was therefore a short accounting period of 48 weeks. In order to provide full year comparative figures, unaudited pro-forma figures are presented for the 52 weeks ended 30 June 2019.
[3]Sofa Workshop was disposed of by the Group in September 2020.

Financial summary:

- Revenue from continuing operations grew by £94.1m or 9.7% compared to the non Covid disrupted pro-forma FY19 period (up 7.2% on an as reported basis vs. FY19 pro forma), as we leveraged our scale, operating experience and long-standing relationships to accelerate our make-to-order deliveries rate.
- Growth in new orders in the period was significantly stronger than the revenue growth and was driven by market share gains, pent-up demand from ‘lockdown one’, and a shift in consumer spending to the home, leading to a high closing order bank that will be recognised through H1 FY22.
- Resilient trading performance through lockdown periods benefitting from the strength of our integrated retail proposition, with online revenues up 184.3% year-on-year.

- Record underlying profit before tax excluding brand amortisation[1] achieved of £105.8m; £99.2m on a reported basis.
- Significant reduction in net bank debt[1] to £19.0m (c.£89m excluding temporary working capital benefit) from £157.7m at previous financial year end with period end leverage[1] at 0.2x.
- Dividend to be reinstated with a proposed final payment of 7.5 pence per share, reflecting the implementation of our published Capital & Distribution policy.
- New three year agreement for £225m ESG-linked senior revolving credit facility to December 2023 with two further one year extension options.
- Strong consumer demand continues to be experienced over the first 12 weeks of FY22 with the current order bank at a record high, providing further resilience.

Operational and strategic highlights

- Progressed our strategic agenda, responding rapidly to the fast-changing operating and trading environment.
- Gained market share through our integrated retail model, demonstrating the strength of our business model and our ability to attract customers through digital and physical retail channels at scale.
- Delivery of £9m of incremental efficiency savings in year across our property and marketing platforms.
- Opened five new Sofology Showrooms in FY21 with eight openings planned in FY22, driving additional upholstery market share gain through a proven approach.
- Integration of Dwell into the DFS brand operating structure, increasing efficiency and creating competitive fulfilment solution for DFS's extended homeware offer.
- Launched 15 upholstered bed ranges through our DFS brand, with positive early results, and strengthened our beds commercial partnerships, driving the opportunity to gain share in the £5bn+ bed and non-upholstery living room market.
- Significant progress since launch of new ESG strategy in September 2020, with progress across all target areas and a good consumer response to our newly launched sustainable ranges including our partnership with Grand Designs. Formation of Responsible and Sustainable Business Committee to ensure Board oversight of ESG strategy.

Current trading

As detailed in our year end trading statement, strong customer demand in the final quarter of FY21 was already expected to underpin revenues and profits in the first half of FY22. Order intake has also remained strong in the current financial year to date, well ahead of our previous scenario of +7% growth on FY19, resulting in an order bank that continues to grow and which in absolute terms is very significantly ahead of normal levels. This order intake provides significant resilience, and confidence in our outlook. However the constraining factor on our reported short-term financial performance will be our pace of conversion of the order bank, which depends on both our supplier partner manufacturing capacity and also the capacity of our proprietary logistics operations. We believe the Group is well placed to achieve the medium scenario of our range of FY22 profit outcomes identified back in June.

We already have increased output capacity significantly in FY21. We continue to strengthen our operations, increasing warehouse capacity and resourcing levels, to meet customer demand. Notwithstanding this, it should be recognised that the short-term operational environment continues to be exceptionally uncertain and difficult, given well-reported logistics disruption, cost inflation pressures and unplanned Covid absences. We believe that we have the right plans in place to mitigate these impacts, underpinned by our scale, operating experience and long-standing relationships, and we are focused on delivering good customer service, protecting our colleagues and creating long-term value.

Tim Stacey, Group Chief Executive Officer said:

"Our record profits delivery in the last financial year is a fitting tribute to all the hard work of our colleagues and testament to the resilience and flexibility of our integrated business model. Despite numerous operational challenges during the pandemic, I'm proud that we have remained focused on our strategic agenda to lead sofa retailing in the digital age and are on track to achieve the incremental £40m of profit benefits set out in 2018. We also see further growth opportunities into the medium term derived from extending the reach of our retail brands and optimising our operating platforms.

As we enter a new financial year, the Group is very well positioned to build on its market leadership position in sofa retailing and to target further growth as we invest to strengthen our business platforms and extend our retail proposition into adjacent product categories. "

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

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

CHAIR'S STATEMENT

Overview

The year to 27 June 2021 is the second year affected by the far-reaching consequences of the Covid-19 pandemic. In facing the multi-faceted challenges this has thrown up, our 5,000 colleagues have demonstrated high levels of resilience, tenacity, and loyalty in maintaining the momentum of recovery. Learning from the experience of the first UK lockdown and taking an agile approach in the face of ever changing lockdown restrictions and international supply chain disruption, the Group kept its manufacturing and supply chain operational and safe throughout the year. Online sales increased year-on-year by 184% benefiting from the investments in technology to improve the online experience for our customers, and our showroom colleagues provided additional support to customers wishing to purchase over the telephone.

From the outset of the pandemic a priority has been to look after our people. During the year I am pleased to say that despite many of our showrooms being closed for up to 21 weeks of the year the Group did not furlough any colleagues, and instead introduced a 'Coronavirus Absence Pay Scheme'. The aim of the scheme, which paid colleagues 80% of their pay, was to ensure that our colleagues had the peace of mind that they would be supported if they were absent from work because they were ill with the virus or could not attend work for other Covid-related reasons.

Strategic Progress

We have continued to progress the implementation of the Group's strategy and refine its priorities in response to changing market conditions and opportunities. This has included aspiring to ESG leadership in our sector and planning improvements to the effectiveness and scalability of our UK manufacturing.

A number of initiatives have been launched to develop the product ranges and the integrated retail proposition of our two larger brands, and we have achieved an increase of c.2%pts in the Group's market share.

Sofology, which targets a different customer demographic to DFS, is continuing to perform well. The brand is now gaining national coverage after opening five showrooms in the year and with a strong pipeline in place is in a good position to take advantage of the growth in the home furnishings market.

Progress has also been made with the creation of our new Group final mile logistics operation; The Sofa Delivery Company which will significantly improve the UK logistics capability for both our brands. Over a thousand of our colleagues within DFS and Sofology joined the new business, with the aim of improving the customer experience and reducing both our operating costs and our carbon footprint.

Financial Results

Showrooms were closed for a significant portion of the year, but the periods when they were open saw exceptional levels of demand and similarly our online channels had a busy year. This has enabled suppliers and internal manufacturing operations to operate at high production levels and for the business to deliver an elevated volume of orders to our customers. Consequently, the Group has achieved a record level of revenue and profits. Total group revenue exceeded £1billion for the first time, generating underlying profit before tax and brand amortisation[1] of £105.8m. Reported profit before tax was £99.2m, giving rise to earnings per share of 34.5 pence.

Looking forward, the Group has started the year with strong trading momentum, supported by a higher-than-normal order bank entering the current financial year and a continued enthusiasm amongst customers for enhancing the comfort of their homes. This means the Group now holds relatively higher levels of visibility on customer demand for FY22 and alters the principal driver of our overall financial performance in the new financial year to maximising our supply chain throughput, and mitigating any operating and raw material cost inflation or other Covid disruption experienced.

The operating conditions in the new financial year are currently demanding and whilst the high levels of demand are welcome, they do present substantial operational challenges for our supply chain and manufacturing teams to overcome. Further, despite the roll out of the UK vaccination programme we may still have to change our ways of working to adapt to the continued impact of Covid-19. I am however confident that, given the way in which the Group has addressed all of the challenges of the last year, we are positioned to respond, with well-established leadership and appropriate structures in place to manage these risks.

Our purpose, our values, and our people

The Group, the outright market leader in its sector in the UK, has a distinctive culture. There is a great sense of pride, loyalty, and commitment from our colleagues across the Group. Our purpose, built on our values of “Think Customer, Be Real and Aim High”, is to bring great design and comfort into every living room, in an affordable, responsible, and sustainable manner. That our people live our values has been evident from their continued dedication and enthusiasm over the past year as they have worked hard to support our customers and each other through the challenges brought by the pandemic.

We are aware that the pandemic has had a serious impact on people’s health and wellbeing. Over the year the Group has invested in resources to support our colleagues through the pandemic. This includes a new sick-pay scheme, increasing the number of mental health first aiders and working with partners to launch digital tools to help us understand how our colleagues are feeling and to help them try to deal with any health issues.

Environmental, Social and Governance ("ESG")

Over the last year the Group has made good progress against our initial ESG targets. Our strategy is to leverage our influence and scale as market leader to offer sustainable and ethical products, to drive a more circular product lifecycle and to act in a responsible manner with our customers, suppliers, and wider stakeholders.

Significant effort has been made in improving the traceability of the raw materials used in our products and obtaining third party certification and verification that our suppliers meet our sustainable sourcing requirements. This has initially focussed on timber and leather, and we have now published new targets covering the fabrics we use. Both Sofology and DFS have introduced sustainable sofas during the year. For example, the DFS ‘Grand Designs’ range uses fabric made from recycled polyester yarns, with sustainably sourced timber and sustainable sofa cushions made using 50% recycled plastic from Plastic Bank, globally recognised as one of the leading solutions to reduce ocean plastic.

The Group has also committed to the BRC Climate Action Roadmap to be net zero by 2040 and we are in the process of securing a specialist advisor to help us understand our Scope 3 emissions and establish Science-Based targets to allow us to achieve our net zero ambitions.

During the year the Group’s Leadership Team has developed our Inclusivity and Diversity strategy. The mission is to make DFS a place where “Everyone is Welcome” and whose ethnic make-up reflects the society in which we operate our business.

We believe this approach to sustainability and to responsible business is expected by our colleagues, our customers and our wider stakeholders and indeed embedding sustainability into everything we do is a key priority for the future. To support our progress and ensure that continuing appropriate focus is given, the Board has now decided to establish a Responsible and Sustainable Business Committee to directly address these topics, with the Committee’s terms of reference available on our corporate website.

The Board

In late June 2021 we welcomed Loraine Martins to the Board as a Non-Executive Director. Loraine is already fully engaged within the business and brings a wealth of experience in inclusivity, diversity and health and safety to the Group.

Dividend

Last year the Board took the decision not to recommend the payment of a dividend in order to support the Group's financial resilience. We do however recognise that dividends are an important element of the investment case for our shareholders, as stated in our Capital and Distribution policy, and we have the intention of steadily growing our dividends over time in line with our cash generation and prospects, while prioritising the Group's long-term financial health. As set out in greater detail in the CFO's report, this year, as a result of our strong financial performance I am pleased to confirm we will be recommending a final FY21 dividend of 7.5p per share.

Looking ahead

As the UK's leading upholstery retailer and manufacturer, the Board is confident that our expertise in designing new and innovative products, our brand heritage, vertical integration, and financial strength, places the Group in a relatively strong position over the long term. We remain committed to developing the Group to deliver on the expectation of our customers, drive shareholder returns, have a positive impact on society and to provide an inclusive and rewarding place for our colleagues to work.

Ian Durant

Chair of the Board

23 September 2021

CHIEF EXECUTIVE'S OPERATING REVIEW

Overview

I am pleased to report a strong recovery in FY21 following a challenging FY20 which was impacted by the early stages of the Covid-19 pandemic. The Group delivered record sales and profit and further extended our market leadership. This performance reflects the benefit of our own historical investments in our online capability, showroom estate and business platforms, a favourable environment for consumer spending on homeware products as well as pent-up demand at the start of the financial year.

Delivering this growth would not have been possible without our loyal colleagues and they all deserve a huge thank you for their commitment and resilience during the year, as well as their unwavering application of our Group core values 'Think Customer', 'Be Real' and 'Aim High', as we have sought to meet unprecedented customer demand.

I would like to thank all our customers for their continued loyalty and patience in relation to extended lead times as we dealt with exceptional levels of demand and faced disruption to our supply chains. Reflecting shareholders' support during the peak of the pandemic in the spring of 2020, I am also pleased that we are able to repay their commitment to the Group with a year of strong profits, a positive outlook, a strengthened balance sheet and a return to dividend payments.

While furniture and homewares markets have grown strongly, our market share also continues to grow, at least in line with the 2%+ rate that we experienced in the first half of FY21, based on our own proprietary data developed with Barclaycard. I believe that these gains are due to the fundamental attractions of our Group, which I set out in our interim results: the Group's market leadership position, which drives multiple economies of scale; our 'channel agnostic' integrated retail model, which allows us to meet fast changing customer shopping habits; and our sustainable business approach, both in terms of our impact on the environment and preserving our long-term success as a Group. With these strong foundations in place, we believe our strong operating performance will continue and we are set to grow further into the medium term.

Financial results

Revenue rose 47.4% on the previous year, or 49.6% on a comparable basis (excluding Sofa Workshop, which was sold in September 2020), however our FY20 revenues and profits were severely impacted by the pause in deliveries for the majority of the final quarter to comply with Covid-19 restrictions. A more representative, pre-pandemic comparator period is therefore the pro-forma 52 week period ended 30 June 2019[1] ("Pro-forma FY19"). Against this period, FY21 revenue increased by 7.2% (+9.7% excluding Sofa Workshop). This performance reflects market share gains as well as the ongoing benefit of a shift in consumer spending to home-related categories.

Underlying profit before tax and brand amortisation[1] rose to £105.8m compared to a loss of £63.1m in FY20 and an IAS17 profit of £50.2m in the pre-pandemic Pro-forma FY19. Reported profit before tax was £99.2m compared to a loss of £81.2m in FY20. Driven by strong trading alongside a favourable movement in working capital, net bank debt[1] reduced by £138.7m in the period to £19.0m. Adjusting for the working capital position, which we expect to unwind, our year end leverage ended the year within our targeted 0.5-1.0x range. Reflecting our robust underlying cash generation, significantly reduced financial leverage and our positive start to FY22, we recommend a final dividend of 7.5p per share.

As detailed in our June pre-close statement, the Group recognises revenue at the point of delivery to customers and therefore the strong order intake seen in the final quarter of FY21 will benefit revenues and profits in FY22. We address current year prospects in more detail in the Financial Review.

Operational Update

One of our fundamental advantages is our increasingly integrated sales model. Our integrated retail ambition puts the customer at the centre of our business and aims to deliver a customer journey that is consistent across all our sales channels. The strength of our digital infrastructure and the Group's integrated approach proved invaluable as we have adapted to the rapidly-changing retail environment. Our digital platforms allowed us to rapidly redeploy showroom colleagues into online sales and customer service roles during those periods when our showrooms were closed.

Due to restrictions around showroom openings in the year, the strength of our online sales was a clear highlight of our integrated approach, and a key point of differentiation versus our specialist competitors. Gross sales[1] via our online channel increased by 184% compared with a year earlier and in lockdown periods our market share gains were particularly elevated.

Our strong profit delivery was achieved despite a number of operational challenges in the year, principally disruption due to the Covid-19 pandemic and external supply chain factors. Our management of Covid-19 benefited from our learnings in the previous financial year, as we were once again required to close and reopen showrooms at different times according to national restrictions, often at short notice. The safety and wellbeing of our customers and colleagues remained our priority throughout. Colleagues have been regularly reminded to adhere to our health and safety "Golden Rules", which remained in place throughout the financial year.

Performance throughout the year was particularly affected by shipping disruption from the Far East and raw materials supply issues relating primarily to foam availability in Europe. We have also faced internal and external manufacturing capacity and delivery constraints and cost inflation due to high levels of demand for our products.

As we stated in our interim results, in relation to Brexit, limited disruption has been experienced to date and we continue to believe that the Group is well placed in its key markets following the UK's departure from the EU.

Review of Strategic Progress

The aim of our strategy is to lead sofa retailing in the digital age. The strategy is centred on three interrelated pillars (Drive DFS Core, Build The Platforms and Unlock New Growth) across which we identified initiatives to drive £40m of incremental pre-tax profit as originally set out in 2018.

We are pleased with our strategic progress, particularly in relation to the strength of our digital infrastructure during the pandemic and the growth and integration of the Sofology acquisition. While our FY21 PBT and current FY22 PBT guidance indicates that we are well down the road in relation to our original profit targets, we still see significant growth potential across the Group. We provide a progress update on the individual pillars below.

Drive The Core

The DFS brand is the largest and most profitable in the Group, accounting for c.80% of Group revenue and brand contribution[1] in the last financial year. The key priority of this strategic pillar is to drive the growth of the DFS brand across all our channels. Key initiatives in the year centred on delivering further enhancements to our seamless customer journey, developing new innovative products and making improvements to our showroom estate and customer service provision.

Our integrated retail investment programme encompasses a range of initiatives including: continuous enhancements to our website with a focus on imagery, page load speeds and checkout; further investment in text chat to deliver an improved customer experience; shared baskets in place to support the customer journey across website and showrooms; improvements to our resourcing and reward models, driving greater efficiency and conversion; and the development of a consistent approach to refreshing our showroom format. Reflecting the strength of our websites, we have begun to focus our efforts on pursuing a range of opportunities to grow our total addressable market by targeting incremental product sales from items, such as beds and homewares, that we are not able to range extensively in our showrooms.

Attractive, exclusive products are a key point of differentiation versus our competitors and we continually refine our use of data and insights to improve our customer targeting, range management and new product development. This allows us to maximise the customer appeal of our product portfolio, ensure there are no gaps in the key style groups, promptly replace any underperformers and increasingly embed sustainability in our ranges.

A product launch highlight in the first half of the financial year was our aspirational 'Halo Luxe' luxury leather range with its own product-led TV advertising campaign. In the second half we introduced our new partnership with 'Grand Designs' for a new range of sofas combining design integrity and a sustainability ethos. We've also expanded our bed offer, featuring exclusive ranges from our brand partners Joules and French Connection, as we target incremental growth from this sizeable market opportunity. Finally, reflecting DFS's status as Team GB's official Olympics homeware partner, we launched the new limited edition Yuttari range to both honour and help provide relaxation for our elite Team GB athletes on their journey to Tokyo.

We're constantly seeking to improve our customer proposition and develop new innovative services to engage customers. Consistent surges in demand as we reopened our showrooms following various national government lockdowns highlight just how much customers appreciate our well-invested showrooms. We believe the combination of digital and physical is the right long-term approach to address consumers within the sofa market.

We continued to invest in showrooms in the year, scheduling works during lockdowns where possible to minimise disruption on trading. We are undertaking a programme to update our showrooms, which includes space optimisation of Dwell and former Sofa Workshop space, relocation of the administrative area, and an improved layout for customers. These changes typically result in a significant increase in upholstery bays boosting productivity. In FY21 we completed 16 refurbishments and plan an additional 16 in the current year. Our online appointment booking service remains popular with customers and we continue to evaluate our live 'video in store' proposition.

Customer service helps drive our brand reputation and therefore remains a key area of focus, particularly given the twin challenges of the pandemic and supply chain disruption. I highly value our customer service, delivery and repair teams who continue to work incredibly hard on behalf of our customers. We track customer satisfaction by monitoring Net Promoter Scores (NPS) at various stages of the customer journey. Our post purchase NPS score for the DFS brand remains around its all-time high at 86.4% (FY20 85.7%). In contrast, our established customer satisfaction score declined year-on-year to 30.7% (FY20 42.9%), reflecting the volatile supply chain environment. Based on a survey sent to customers four months after delivery, this June figure captures those customers most impacted by delivery delays caused by disruption to shipping as a result of Covid-19 and raw material supply. We are working very hard to mitigate these factors outside our control and are in the process of centralising our customer service activities to deliver improved service levels from a more efficient and flexible Group-wide platform.

While we've achieved significant progress in the year, we are only two years into our strategy and seeing no shortage of opportunities to extend the market leadership of our core DFS brand.

Build The Platforms

This strategic pillar focuses on Group-wide benefits from utilising existing infrastructure and scaling systems, processes and data. As a market-leading, vertically-integrated business, we are targeting significant efficiency gains from our property, logistics, marketing and manufacturing activities. In recent results presentations we've highlighted the attractive characteristics of platform-led retailers, which include greater commercial, operational and technical resilience, delivery of valuable customer data and insights and increased scale and reach.

In FY21 our focus was on achieving ongoing cost savings and efficiency targets across our showroom property estate, driving a range of marketing efficiency improvements, and continuing our plans to develop the best two-man sofa delivery company in the UK.

We continue to make good progress securing property savings, through a combination of rent reductions on leases approaching renewal and downsizing some showrooms. Last year we secured a further £1.3m of annualised savings, bringing the total annualised saving since the program began to £5.6m. We are confident of achieving the £6-8m targeted annual savings by FY23 as previously communicated. We expect to achieve further savings in the medium term as leases expire beyond FY23.

Turning to logistics, we have delivered another year of progress in our objective of building a leading Group-wide logistics platform, The Sofa Delivery Company. Our aim is to improve efficiency, including improved customer service and a more flexible working environment for colleagues whilst also reducing the Group's environmental impact. Our development plans are on track as we target annualised savings of at least £3m from the end of the current financial year. We are currently integrating our logistics IT systems across the Group, a key enabler for multi-brand order fulfilment, and will complete the roll-out of our delivery vehicle routing and inventory management systems across all vehicles in the re-branded fleet by the end of FY22.

Following the completion of our colleague consultation process and the creation of an independent logistics subsidiary, the Sofa Delivery Company is now able to offer Group-wide extended hours delivery to customers seven days a week, increasingly important given customers' busy lifestyles.

Our ongoing marketing transformation programme continues to move ahead at pace. Alongside our focus on data and insights to drive our omnichannel marketing investment, we have recently reviewed our DFS retail brand activities which has resulted in the appointment of a new communications agency, to help support and drive the next phase in our DFS retail brand marketing. Additionally, we are currently reviewing our marketing production and automation capabilities in an effort to secure further efficiencies across our key customer communications channels. Finally, we are leveraging our marketing capabilities across the group, enabling our Sofology marketing colleagues to adopt and adapt our Group econometric modelling platform to help inform their marketing and channel mix investment strategy.

Unlock New Growth

Our third strategic pillar is to 'Unlock New Growth' from commercial initiatives beyond our core DFS brand. Our main priority in the last financial year has been to accelerate the roll-out of the Sofology showroom estate to support its development into a leading nationwide sofa retail brand. This pillar also covers growth opportunities derived from our Dwell homewares brand and our overseas showrooms in Spain and the Netherlands.

Sofology

We are making good progress in our plans to develop our Sofology brand into a nationwide business. Despite headwinds of shipping delays and foam disruption, Sofology delivered sales and brand contribution[1] growth of c.4% and 20% respectively compared with the pro-forma FY19 pre-pandemic year.

Following a pause in planned openings in FY20 as we assessed the impact of the pandemic on the property market, we opened five showrooms in FY21, with new outlets in Hove, Stockport, Swindon, Cambridge and Maidstone, to give a total of 50 UK showrooms. In the current year we anticipate opening a further eight showrooms.

Sofology has a reputation for fun, style and sustainability, and we're committed to retaining the brand's aspirational appeal in a Group context. Following on from our successful Owen Wilson campaign, Sofology's latest advertising sees Helena Bonham Carter encouraging customers to 'bring imagination to life' in the way they make their homes.

New product launches in the year included the Pioneer 'eco' sofa in the first half, featuring zero foam, 100% recyclable springs, sustainably sourced timber, fabric made from recycled yarns plus a 20-year guarantee. Just before the year end, Sofology introduced 'Loop', a flexible, sustainable upholstery rental service, whereby customers can select a stylish, fully recyclable sofa on a 6-18 month rental plan with options to renew as required. At the end of the customer agreement, each part of the sofa can be repurposed or recycled, ensuring nothing goes to landfill. We have also recently introduced three exclusive sofa ranges from the Paloma Faith Home range, including the aptly named Rock N Roll model.

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

Dwell and International

As detailed in last year's results, we restructured Dwell's operations to enable its wide range of attractive products to be sold more seamlessly to DFS customers, as well as online. Dwell's integration into the DFS brand operating structure resulted in the elimination of the operating losses incurred in the previous year and a more efficient real estate footprint as we integrated Dwell's offer into the DFS showrooms and progressed the closure of Dwell's remaining standalone retail outlets. Dwell's sourcing expertise and supplier relationships are also contributing to the development of DFS's extended homeware offer.

With a total addressable market of c.£5bn, we see the beds and non-upholstery living room market as a particularly attractive growth opportunity for the Group. We are able to leverage many of the Group's assets, including manufacturing capability for upholstered furniture, web and logistics platforms, marketing expertise and brand partnerships to develop a truly compelling bedroom offering. Sales of beds through our online channels were particularly strong in the year and we continue to develop our showroom proposition in selected key locations.

We continue to review our growth options for our international business, which includes six showrooms in the Netherlands and two in Spain.

Investor Event

Reflecting upon the operational volumes currently in the business and our focus on looking after our customers and colleagues to drive long-term value creation**,** the Group has decided to defer the investor event planned for November 2021 until Spring 2022. This event will provide investors with a detailed update on the development of our various platforms alongside an opportunity to view the latest evolution of our DFS and Sofology growth strategies. We also look forward to providing more details on our manufacturing investment, as well as our plans to grow our sales of living room furniture and beds.

ESG

We remain guided by our Group purpose, which is to bring great design and comfort into every living room, in an affordable, responsible and sustainable manner. FY21 has been a year of progress on a range of fronts for our key stakeholders, as detailed below.

Whilst the achievement of our record financial results is undoubtedly a highlight, this performance would not have been possible without the strength, resilience and spirit of our people. The Group has a unique culture underpinned by our core 'family' values of 'Think Customer', 'Aim High' and 'Be Real'. Rising to challenges at work and at home, our colleagues have enabled the Group to emerge from the pandemic much stronger than when we entered. On behalf of the management team and the Board, I would like to thank all our colleagues for their sterling efforts in the year.

We launched our ESG strategy in September 2020, with a strong focus on the Environment based on our "sofa cycle" approach and have made solid progress against our Phase 1 targets in the last 12 months. One of the highlights of the financial year was our first ESG Supplier Conference in March, which is available on our Group corporate website. As well as featuring contributions from 'thought leaders' such as CDP Co-Founder and environmental expert James Cameron, the conference set out our intent to work with our suppliers to innovate and develop new ways of making our products and our business even more sustainable and transparent. In June 2021, the Group undertook a formal materiality assessment, supported by a third party expert, in order to identify and prioritise all of the Group's sustainability risks and opportunities.

Given ESG is a rapidly advancing subject, with increasing Board time dedicated to it, the Group has established a new Responsible and Sustainable Business Board Sub-Committee, which will meet at least three times per year. Responsibility Champions have been appointed at all levels of the business, ESG Working Groups established for each brand and external expert partners are in place to support us. We have recently introduced our Phase 2 ESG targets, which include an increased focus on Social criteria and incorporate our work on diversity and inclusion.

Environmental

Sustainability is a key element of our business model, and having launched our ESG Strategy in September 2020, we've come a long way in a short amount of time and are excited about the opportunities ahead. With the Group's 'Sofa Cycle' based on the circular economy concept, sustainability is increasingly embedded across the Group.

A key focus in FY21 was on our finished products and the resources used in manufacturing them. We have driven positive change, particularly in relation to the sustainable sourcing of some key materials in our sofas. Phase 2 targets expand our focus to cover textiles and material certifications.

Social

The wellbeing of our colleagues has remained a top priority during the last financial year. We continued to follow various government rules and regulations in our various markets during the period and regularly reminded our employees to observe our five Covid-19 'Golden Rules' to keep colleagues and customers safe. As we anticipate a hopeful return to more 'normal' lives, we've been surveying all our employees on their ideal working conditions as well as providing extensive wellbeing support. During the summer we've also been refurbishing our Group Support Centre and Sofology head office in preparation for a more flexible hybrid working approach.

Our 'Be Real' core value is about accepting each other for who we are and respecting each other as part of one big family. Embracing diversity and inclusion is therefore a key focus for the Group. We've been listening, learning and educating ourselves about different races, genders, abilities, sexual orientations, religions and nationalities, with the aim of being a Group where “everyone is welcome”. For example, in the second half of FY21 we celebrated the range of international languages spoken across the Group, International Women’s Day and Pride month. With our ‘Everyone Welcome’ ambition in focus, I’d like to issue a warm welcome to our newly appointed Non-Executive Director, Loraine Martins OBE, FRSA. Loraine brings tremendous experience of supporting employers to develop equality, diversity and inclusion in the workplace.

Governance

The Group continues to be rated highly by external assessors for the strength of its governance, maintaining a robust corporate governance framework, practices and policies to manage and deliver long-term success for the Company, including (but not limited to) Board composition, Audit Committee structure, executive compensation and whistleblowing.

Current Trading

As detailed in our year end trading statement, strong customer demand in the final quarter of FY21 was already expected to underpin revenues and profits in the first half of FY22. Order intake has also remained strong in the current financial year to date, well ahead of our previous scenario of +7% growth on FY19, resulting in an order bank that continues to grow and which in absolute terms is very significantly ahead of normal levels. This order intake provides significant resilience, and confidence in our outlook. However the constraining factor on our reported short-term financial performance will be our pace of conversion of the order bank which depends on both our supplier partner manufacturing capacity and also the capacity of our proprietary logistics operations. We believe the Group is well placed to achieve the medium scenario of our range of FY22 profit outcomes identified back in June.

We already have increased output capacity significantly in FY21. We continue to strengthen our operations, increasing warehouse capacity and resourcing levels, to meet customer demand. Notwithstanding this, it should be recognised that the short-term operational environment continues to be exceptionally uncertain and difficult, given well-reported logistics disruption, cost inflation pressures and unplanned Covid-19 absences. We believe that we have the right plans in place to mitigate these impacts, underpinned by our scale, operating experience and long-standing relationships and we are focused on delivering good customer service, protecting our colleagues and creating long-term value.

Conclusion and Outlook

Our record profits delivery in the last financial year is a fitting tribute to all the hard work of our colleagues and testament to the resilience and flexibility of our integrated business model. Despite numerous operational challenges during the pandemic, I’m proud that we have remained focused on our strategic agenda to lead sofa retailing in the digital age and are on track to achieve the incremental £40m of profit benefits set out in 2018. We also see further growth opportunities into the medium term derived from extending the reach of our retail brands and optimising our operating platforms.

As we enter a new financial year, the Group is very well positioned to build on its market leadership position in sofa retailing and to target further growth as we invest to strengthen our business platforms and extend our retail proposition into adjacent product categories.

We emerge from the pandemic stronger than ever. This strength is underpinned by our fantastic teams who have worked with dedication, care and enthusiasm despite the many and varied challenges we have faced. I want to personally thank every single colleague for their unwavering support and look forward with huge optimism, fuelled by the position the business is now in and most importantly the spirit, commitment and loyalty of our people.

Tim Stacey

Group Chief Executive Officer

23 September 2021

FINANCIAL REVIEW

Overview

The Group has achieved record levels of revenues, profit and cash flow in FY21 which has significantly strengthened our financial position across the course of the year. With market share gains made through the year, a high opening order bank, strong demand experienced to date in FY22 and good strategic progress we have a positive outlook, despite the potentially challenging and changeable, Covid-impacted operating environment.

The strong financial performance in the FY21 year was driven by a number of factors:

Firstly, we started the year with a high order book that enabled us to manufacture and deliver orders at a relatively high and consistent level to our customers through the summer and autumn. The size of the order book has also strengthened our cash position, with customers typically placing a cash deposit with us at the time of order.

Secondly, there were elevated levels of consumer demand throughout the year driven by market share gains and a sustained increase in consumer interest in spending in home categories, reflecting both growth in remote working and also reduced leisure and travel spend. Our investment in our integrated retail model positioned us well to capture this demand during lockdown periods as well as when restrictions eased.

Thirdly, as our various sales channels utilise the same fulfilment operations we were able to keep our internal manufacturing, external finished goods suppliers and our final mile logistics operations working efficiently through the majority of the year. This enabled us to maintain elevated levels of customer deliveries whilst keeping our cost base well controlled.

While we incurred additional costs given the disruption of up to 21 weeks of showroom closures in the year, increased colleague sickness levels and the introduction of self-isolation and operating costs to support necessary changes to working and retail environments, these costs were offset through the suspension of UK retail business rates. Given the growth in profits due to our trading performance we therefore chose not to draw upon either the Coronavirus Job Retention Scheme or other Covid support grants in FY21 (prior year details are presented in note 3 to the financial statements).

Our revenue growth in FY21 was however constrained by sector-wide pressures on supply chains from raw materials availability, container shipping delays (including the effects of disruption in the Suez Canal) and Covid-19 disruption of factory production, particularly in the final quarter of the year. Consequently, the high demand experienced in the second half and in the new financial year to date has resulted in an order bank at the end of the year even greater than the elevated order bank that we started with, providing resilience for FY22.

Our made to order model has enabled us to deliver revenue growth without investing in stock and our negative working capital model and strong profitability has enabled us to significantly de-lever. Having fully repaid the HMRC VAT liabilities that were deferred from the previous financial year, net bank debt[1] reduced by £138.7m over the year to £19.0m and our reported leverage[1] was 0.2x. This position does reflect a transitory working capital benefit of c.£70m which will reverse over time as the order book normalises (and related customer deposits held reduce) and landlord payments agreed to be deferred from FY20 are fully repaid.

In December 2020 we entered into a new three-year agreement, with two one year extension options for a £225m senior revolving credit facility with our existing syndicate of seven banks all continuing their involvement, but at different proportional levels of participation. In order to align our financing with our ESG sustainability ambitions we agreed to have the option to link the interest rate to the achievement of sustainability related targets. I'm pleased to confirm that we have now implemented this with targets covering sustainable sourcing practices for wood and leather, greenhouse gas emissions and diversity in our workforce.

Given our current financial position, confidence in our enhanced market leading position and anticipated future cash generation the Board are recommending to shareholders that dividends are restarted with a final FY21 dividend of 7.5p per share.

In what has obviously been challenging conditions for our teams to work in given the pandemic, compounded by unprecedented levels of demand to fulfil throughout our operations I'd like to take this opportunity to thank our colleagues for their effort and perseverance in helping us achieve this record financial performance.

Basis of preparation

Following the reorganisation of our Dwell business over the summer 2020 period we have this year presented the Dwell and DFS brand segments as one segment to reflect how these brands are now managed.

As communicated in our FY20 annual report, we sold the Sofa Workshop business in September 2020. In order to aid comparison of continuing operating segments, the table below includes a subtotal excluding Sofa Workshop.

Brand contribution[1], which is reported before property or administrative expenses, remains our preferred measure of segment profitability.

As FY20 was significantly impacted by Covid-19 related government guidance preventing us from delivering orders (and therefore recognising revenue) we have also included unaudited pro-forma results for the 52 weeks ended 30 June 2019 ("pro-forma FY19)* below to provide additional comparison with a non Covid-disrupted trading period. The year-on-year commentary covering gross sales, revenue, gross margin and brand contribution that follows focuses on comparing the results for this financial year to the pro-forma FY19 period.

[1] *Definitions and reconciliations of KPIs including Alternative Performance Measures ("APMs") are provided at the end of this statement in Note 12 to the condensed consolidated financial statements.*

**As previously published, in 2019 the Group changed its accounting reference date from 31 July to 30 June. FY19 was therefore a short accounting period of 48 weeks. In order to provide full year comparative figures, unaudited pro-forma figures are presented for the 52 weeks ended 30 June 2019. Refer to note 12 for further details on alternative performance measures.*

Audited 52 weeks ended 27 June 2021 - IFRS 16

	DFS	Sofology	Subtotal	Sofa Workshop	Total before non underlying items	Non underlying items	Total
Gross sales[1]	**1,093.2**	**269.2**	**1,362.4**	**6.3**	**1,368.7**	**-**	**1,368.7**
Revenue	**848.0**	**214.6**	**1,062.6**	**5.1**	**1,067.7**	**-**	**1,067.7**
Cost of Sales	(363.4)	(101.8)	(465.2)	(1.3)	(466.5)	-	(466.5)
Gross Profit	**484.6**	**112.8**	**597.4**	**3.8**	**601.2**	**-**	**601.2**
Selling & Distribution costs	(244.4)	(55.6)	(300.0)	(0.5)	(300.5)	-	(300.5)
Brand Contribution[1]	**240.2**	**57.2**	**297.4**	**3.3**	**300.7**	**-**	**300.7**
Property Costs					(2.9)	-	(2.9)
Administrative Expenses					(75.2)	(2.1)	(77.3)
EBITDA[1]					**222.6**	**(2.1)**	**220.5**
Depreciation, amortisation and impairments excl brand amortisation					(83.9)	-	(83.9)
Operating Profit					**138.7**	**(2.1)**	**136.6**
Interest					(32.9)	(3.1)	(36.0)
PBT pre brand amortisation[1]					**105.8**	**(5.2)**	**100.6**
Brand amortisation					(1.4)	-	(1.4)
PBT					**104.4**	**(5.2)**	**99.2**

Audited 52 weeks ended 28 June 2020 - IFRS 16

	DFS	Sofology	Subtotal	Sofa Workshop	Total before non underlying items	Non underlying items	Total
Gross sales[1]	**735.3**	**181.7**	**917.0**	**18.0**	**935.0**	**-**	**935.0**
Revenue	**566.5**	**143.7**	**710.2**	**14.3**	**724.5**	**-**	**724.5**
Cost of Sales	(227.5)	(72.3)	(299.8)	(7.6)	(307.4)	(3.1)	(310.5)
Gross Profit	**339.0**	**71.4**	**410.4**	**6.7**	**417.1**	**(3.1)**	**414.0**
Selling & Distribution costs	(205.3)	(47.8)	(253.1)	(7.2)	(260.3)	(2.1)	(262.4)
Brand Contribution[1]	**133.7**	**23.6**	**157.3**	**(0.5)**	**156.8**	**(5.2)**	**151.6**
Property Costs					(27.2)	-	(27.2)
Administrative Expenses					(67.7)	(0.2)	(67.9)
EBITDA[1]					**61.9**	**(5.4)**	**56.5**
Depreciation, amortisation and impairments excl brand amortisation					(87.5)	(11.2)	(98.7)

Operating Profit	**(25.6)**	**(16.6)**	**(42.2)**
Interest	(37.5)	-	(37.5)
PBT pre brand amortisation[1]	**(63.1)**	**(16.6)**	**(79.7)**
Brand amortisation	(1.5)	-	(1.5)
PBT	**(64.6)**	**(16.6)**	**(81.2)**

Unaudited 52 weeks ended 30 June 2019 - IAS 17

	DFS	Sofology	Subtotal	Sofa Workshop	Total before non underlying items	Non underlying items	Total
Gross sales[1]	992.1	260.7	1,252.8	34.4	1,287.2	-	1,287.2
Revenue	762.6	205.9	968.5	27.7	996.2	-	996.2
Cost of Sales	(306.6)	(101.5)	(408.1)	(13.5)	(421.6)	-	(421.6)
Gross Profit	456.0	104.4	560.4	14.2	574.6	-	574.6
Selling & Distribution costs	(248.3)	(56.7)	(305.0)	(9.4)	(314.4)	-	(314.4)
Brand Contribution[1]	207.7	47.7	255.4	4.8	260.2	-	260.2
Property Costs					(107.5)	-	(107.5)
Administrative Expenses					(62.5)	(5.1)	(67.6)
EBITDA[1]					**90.2**	**(5.1)**	**85.1**
Depreciation, amortisation and impairments excl brand amortisation					(29.3)	-	(29.3)
Operating Profit					**60.9**	**(5.1)**	**55.8**
Interest					(10.7)	-	(10.7)
PBT pre brand amortisation[1]					**50.2**	**(5.1)**	**45.1**
Brand amortisation					(1.5)	-	(1.5)
PBT					**48.7**	**(5.1)**	**43.6**

Sales and revenue

Gross sales[1] increased 6.3% to £1,368.7m compared to the pro-forma FY19 period (up 8.7% excluding the disposed Sofa Workshop operation). The drivers of this growth and the consequent changes in revenues are as described in the overview section above. Both Sofology and DFS achieved high order intake growth significantly above gross sales and revenue growth rates relative to the pro-forma FY19 period (ex Sofa Workshop). However, the DFS brand was better able than Sofology to grow the rate of delivery of manufactured goods in the year, and given the strength of the dfs.co.uk online web site traded particularly well in the lockdown period thereby achieving a 10.2% growth in delivered gross sales[1], with Sofology delivering 3.3% gross sales[1] growth. Given the current size of Sofology's order book and the growing use of Group manufacturing relationships, we expect strong delivered gross sales[1] growth from Sofology in FY22.

Revenue, which is stated after deducting VAT and the costs of providing interest free credit and aftercare products increased at a slightly higher rate than gross sales[1], up 7.2% (or 9.7% excluding Sofa Workshop) driven by a higher proportion of cash purchases resulting in lower interest free credit costs.

Gross profit

Gross profit increased 4.6% to £601.2m compared to the pro-forma FY19 period (up 6.6% excluding Sofa Workshop).

Gross profit as a percentage of revenue decreased from 57.7% in the pro-forma FY19 period to 56.3%. This was principally due to a mix effect with our internal manufacturing operation, which captures an incremental manufacturing cash margin and predominantly serves the DFS brand. Although operating at full capacity in the first half of the year, the overall greater sales volumes in FY21 meant that internal manufacturing represented a lower proportion of the total value of goods sold. This effect was exacerbated in the second half of the year due to some Covid-19 related disruption resulting in below-capacity production levels. Adjusting for this mix effect, despite facing raw materials and shipping cost inflation, underlying retail gross margin was broadly flat year-on-year due to growth in average order value. Sofology gross margin increased 1.9%pts from the pro-forma FY19 period to FY21, reflecting the brand had no internal manufacturing mix impact and also less of an increase in the web channel mix (which typically has a lower gross margin).

While we have already seen and anticipate further inflation in global shipping costs and raw materials, these factors are industry-wide and are not expected to cause a deterioration of sustainable gross profit margins.

We source around one quarter of the finished goods that we sell from the Far East, and we pay for these in US dollars. We continue to manage the risk from adverse US dollar exchange rate movements for our annual spend of c.$180m-$190m, by hedging our US dollar purchases to maintain 18 months cover by value. Our hedged rate for FY21 was 6 cents lower (adverse) than the rates secured for FY20 and pro-forma FY19 period. Our hedged rate for FY22 is 3 cents higher (favourable) to the average rate secured for FY21. Each one cent movement in the dollar to sterling exchange rate impacts profits by approximately £1m, however these impacts will be felt by all industry participants who we anticipate will act to protect profitability in the case of adverse rate movements and remain ‘price competitive’ in the case of favourable movements.

Selling & distribution costs and brand contribution[1]

Underlying[1] selling and distribution costs decreased by £13.9m compared to the pro-forma FY19 period. Excluding Sofa Workshop, the reduction in costs of £5.0m was driven by increased effectiveness in our marketing approach through improved targeting. This was partially offset by the higher sales volumes driving the variable costs in our delivery network and wage commission models, and Covid-19 related costs such as PPE.

Underlying brand contribution[1] of £300.7m for the year represents an increase of £40.5m relative to the pro-forma FY19 period (an increase of £42.0m excluding Sofa Workshop) reflecting the higher revenues.

Due to the impact of preparing our pro-forma FY19 period under IAS 17 and subsequent periods under IFRS 16, we now compare the following costs in FY21 with those incurred in FY20.

Property costs and administrative expenses

Property costs represent business rates and a small amount of rental charges where we occupy premises on a 'hold-over' basis (where the lease has expired) or for short term leases under a year long. Property costs decreased £24.3m year-on-year due to the suspension of UK business rates for the majority of our showroom estate for the full financial year and the final quarter of the previous financial year.

Underlying[1] administrative expenses of £75.2m increased by £7.5m year-on-year due to performance recognition payments across the business, investment to support our ongoing strategy, including better use of data to target marketing, and some Covid-19 related additional operating costs. As noted in our interim results, we also recognised a one-off increase in our payment protection insurance provision in connection with historical sales transactions.

Depreciation, amortisation and interest

Total depreciation and amortisation charges of £85.3m were £14.9m lower than FY20 predominantly due to non-underlying impairment charges recognised last year in connection with the disposal of Sofa Workshop.

Underlying[1] depreciation and amortisation charges (excluding brand amortisation) reduced by £3.6m year-on-year primarily due to lower IFRS16 charges on our right of use property assets as a result of savings secured on existing leases and from the assignment of leases following the disposal of Sofa Workshop. These savings are partially offset by the impact of entering leases for new Sofology showrooms.

Underlying[1] interest charges decreased £4.6m year-on-year due to lower utilisation of our revolving credit facility and lower IFRS16 interest charges. Total interest of £36.0m included £3.1m of non-underlying refinancing costs as noted below.

Profit before tax

Underlying PBT excluding brand amortisation[1] of £105.8m compares to a prior year loss, impacted by Covid, of £63.1m.

A total of £5.2m of non-underlying costs were incurred in FY21 in relation to the loss on disposal of Sofa Workshop (including legal fees and other related costs), costs associated with the refinancing of the Group's revolving credit facility and redundancy costs associated with a major change to the DFS brand administration function. Non-underlying costs in FY20 totalled £16.6m in relation to the restructuring of Sofa Workshop and Dwell brand and goodwill, brand name and property right of use asset impairments.

FY20	**£m**		**FY21**	**£m**
Brand, goodwill, fixed asset and right of use asset impairments	(11.2)		Refinancing costs	(3.1)
Stock write-down to net realisable value	(3.1)		DFS admin team restructuring	(1.4)
Restructuring	(1.3)		Residual Sofa Workshop asset write-off and disposal costs	(0.7)
Total	**(16.6)**		**Total**	**(5.2)**

Reported PBT of £99.2m was £180.4m higher than FY20, and more than double the £43.6m for the pro-forma FY19 period.

Compared to the pro-forma FY19 period the increase in underlying profit before brand amortisation[1] of £55.6m was driven by the same factors as explained above. With a similar amount of non-underlying costs incurred in FY19 the reported profit growth was also £55.6m.

Tax

The reported effective tax rate for FY21 is 10.7%. This is lower than the applicable UK Corporation Tax rate of 19.0% and is primarily due to the change in tax rate used to calculate the Group's deferred tax balances and also the utilisation of some brought forward tax losses associated with one of our trading subsidiaries which were previously not recognised.

Earnings per share

Basic earnings per share for the Group was 34.5 pence based on a weighted average number of shares in issue for the year of 257.1m (FY20 a loss of 31.4 pence per share).

Capital expenditure, cash flow and balance sheet

A strong trading performance combined with our negative working capital cycle has resulted in high levels of operating cash flow being generated in the year. This has enabled us to continue to invest to deliver our strategy.

We incurred £49.2m of cash capital expenditure in the year. This included £12.7m expenditure on the freehold acquisition of one of our leased showrooms. Although this transaction secures in perpetuity a strong retail location, this was an opportunistic financial transaction that provides a favourable average c.13% annual return on investment through no longer incurring £16.2m of already committed future lease payments over the next c.9 years. We do not currently expect that similar opportunities will arise in our lease estate, albeit we remain willing to increase investment levels where strong risk-adjusted returns are available and we have appropriate financial resources to fund that investment.

Excluding this freehold acquisition the cash capital expenditure of £36.5m was £13.1m above the relatively low level incurred in the previous year whenn investments were held back to mitigate the cash flow impact of the temporary pause in our operations. The increase in spend was driven by investment in six new showrooms and six part completed new showrooms, a significantly higher number of refurbishments (utilising lockdown periods) as well as an increased level of investment in technology to drive both operational efficiency and continual improvements to our web proposition. In addition. £2.9m of assets (predominantly delivery vehicles and company cars) were acquired under lease arrangements (FY20 £5.3m).

We expect to invest approximately £35m across cash and approximately £10m of finance leased assets in FY22 with a potential additional £12-15m on new manufacturing investment spread across FY22 and FY23.

Net bank debt[1] reduced by £138.7m to £19.0m in the period and our leverage[1] (measured as net bank debt / last twelve month operating cash flows before tax and excluding working capital movements, less lease payments) fell to 0.2x (FY20 was significantly negative due to the losses incurred). Our refinanced £225m banking facility covenants remain consistent with our facility pre Covid-19 at 3.0x maximum net debt / EBITDA and minimum 1.5x fixed charge cover, both measured on an IAS17 basis.

As we have highlighted previously, the DFS business model benefits from negative working capital, with payments received from customers upon delivery or through deposits ahead of delivery overall, while our suppliers are paid to agreed terms. Working capital balances are seasonal depending on recent trading activity, cost seasonality (particularly in advertising spend) and predictable patterns of payments on rents, tax payments and other recurring charges. We carry limited inventory, and balances at year end have remained relatively stable overall. The closing net bank debt position at June 2021 benefits from higher levels of customer deposits associated with the elevated order bank. As the order bank normalises to more seasonal levels (which will be dependent on when the elevated demand levels start to reduce), deferred rent payments from the previous year are made and having now finalised the deferred consideration due to the previous Sofology shareholders at £4.7m there will be a c.£70m working capital outflow.

The Group's return on capital employed[1] for the period of 28.3% was significantly higher than the pre Covid-19 pro-forma FY19 16.6% return (calculated on a lease adjusted basis from IAS17 prepared financials) and driven by the higher profit.

Looking forward

In our June trading statement we provided three scenarios illustrating the potential range of profit for our FY22 year. The low and medium scenarios illustrated differing levels of order intake relative to the pro-forma FY19 period. The medium scenario assumed a step up in manufacturing and delivery capacity relative to the pro-forma FY19 period and a third scenario illustrated that additional profit could be driven by a further increase in capacity and not additional order intake growth.

Pleasingly, order intake performance to date has been ahead of the high case scenario and we continue to focus on increasing manufacturing output and delivery throughput across our supply chain. However, Covid-19 related absences have impacted our operations and some of our suppliers. Compounded by raw material shortages and shipping related disruption which are impacting the whole sector, the lead times on our made to order products continue to be longer than normal and we currently believe that the medium case reflects the most likely profit outcome, and delivering on this does still require an increase in weekly deliveries from currently achieved levels.

The sector is experiencing cost inflation across a number of categories including raw materials and logistics costs and we are needing to over-invest in operating resources such as warehouse space and colleague resourcing in order to mitigate the unpredictability of the operating environment. The Group has a track record of maintaining gross margins in periods of inflation and differing foreign exchange rates and we are taking actions to offset the current cost pressures. We have updated the scenarios provided in the June trading statement to reflect the higher revenues, largely driven by higher average order values, with profits unchanged:

Scenario:	**Low**	**Medium**	**High**
Order intake vs FY19 (excl Sofa Workshop)	11%	15%	15%+
Revenue	1,133	1,180	1,205
Revenue growth vs FY19 (excl Sofa Workshop)	17%	22%	24%
PBT	66	85	96

Subject to no sudden and material decline in order intake we expect to remain operating with an elevated order bank at the end of the FY22 period and consequently the strong order intake experienced to date has the potential to support financial performance in FY23.

We continue to target achieving revenue growth above upholstery market rates from LFL market share gain and showroom rollout and also to grow revenues in other home related categories, particularly the sizeable UK beds market. With an intention to have opened more than 20 new showrooms since 2019, and having evidence of sustained market share gain and AOV growth, our outlook for FY23 and beyond is to sustain base revenues of at least £1.15bn and achieve 7%+ PBT margins, with 75-80% of PBT converted to cash.

Dividends

In light of our strong financial position, significantly reduced leverage and considering the strong cash flows we continue to generate, the Board proposes to recommence dividends with a final dividend for FY21 of 7.5 pence per share in line with historical levels (FY19 7.5 pence per share). As stated in our published Capital and Distribution policy, subject always to outlook and the investment needs for the Group, we would intend to make ordinary dividend payments at a payout ratio between 40% and 50% of annual underlying cash generation.

Summary

The Group is in a strong position having gained market share, holding a significant order bank and having strengthened our balance sheet. We continue to operate in a market with high levels of demand, and are trading well and generating strong cash flows. Whilst the operating environment will likely remain challenging with inflationary pressure, supply chain disruption and Covid-19 related colleague absences to manage we are confident in our ability to deliver our strategy, achieve our previously disclosed ambition to sustainably grow our profits and thereby provide strong returns to our shareholders

Mike Schmidt

Chief Financial Officer

23 September 2021

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

Consolidated income statement

	Note	52 weeks to 27 June 2021 Underlying £m	Non-underlying £m	Total £m	52 weeks to 28 June 2020 Underlying £m	Non-underlying £m	Total £m
Gross sales[1]	*2*	**1,368.7**	**-**	**1,368.7**	935.0	-	935.0
Revenue	*2*	**1,067.7**	**-**	**1,067.7**	724.5	-	724.5
Cost of sales		**(466.5)**	**-**	**(466.5)**	(307.4)	(3.1)	(310.5)
Gross profit		**601.2**	**-**	**601.2**	417.1	(3.1)	414.0
Selling and distribution costs		**(303.4)**	**-**	**(303.4)**	(287.5)	(2.1)	(289.6)
Administrative expenses	*3*	**(75.2)**	**(2.1)**	**(77.3)**	(67.7)	(0.2)	(67.9)
Operating profit before depreciation and amortisation		**222.6**	**(2.1)**	**220.5**	61.9	(5.4)	56.5
Depreciation	*3*	**(77.4)**	**-**	**(77.4)**	(81.9)	-	(81.9)
Amortisation	*3*	**(7.9)**	**-**	**(7.9)**	(6.8)	-	(6.8)
Impairments		**-**	**-**	**-**	(0.3)	(11.2)	(11.5)
Operating profit/(loss)	*2, 3*	**137.3**	**(2.1)**	**135.2**	(27.1)	(16.6)	(43.7)
Finance income		**-**	**-**	**-**	0.1	-	0.1
Finance expenses	*4*	**(32.9)**	**(3.1)**	**(36.0)**	(37.6)	-	(37.6)
Profit/(loss) before tax		**104.4**	**(5.2)**	**99.2**	(64.6)	(16.6)	(81.2)
Taxation		**(11.9)**	**1.4**	**(10.5)**	11.1	0.9	12.0
Profit/(loss) for the year		**92.5**	**(3.8)**	**88.7**	(53.5)	(15.7)	(69.2)

Earnings per share							
Basic	*5*	**36.0p**	**(1.5)p**	**34.5p**	(24.3)p	(7.1)p	(31.4)p
Diluted	*5*	**35.6p**	**(1.4)p**	**34.2p**	(24.3)p	(7.1)p	(31.4)p

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

Consolidated statement of comprehensive income

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Profit/(loss) for the year	**88.7**	(69.2)
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	**(22.4)**	3.9
Net change in fair value of cash flow hedges reclassified to profit or loss		
Recognised in cost of sales	**9.2**	(8.3)
Recognised in finance expense	**1.9**	0.7
Income tax on items that are/may be reclassified subsequently to profit or loss	**2.6**	0.4
Other comprehensive expense for the period, net of income tax	**(8.7)**	(3.3)
Total comprehensive income/(expense) for the period	**80.0**	(72.5)

Consolidated balance sheet

	Note	**27 June 2021 £m**	28 June 2020 £m
Non-current assets			
Property, plant and equipment		**91.6**	74.1
Right of use assets		**345.1**	384.5
Intangible assets		**535.4**	532.5
Other financial assets		**0.1**	0.8
Deferred tax assets		**24.7**	24.0
		996.9	1,015.9
Current assets			
Inventories		**61.1**	58.9
Other financial assets		**0.1**	4.5
Trade and other receivables		**17.1**	22.2
Current tax assets		**6.9**	7.8
Cash and cash equivalents		**22.7**	62.3
		107.9	155.7
Total assets		**1,104.8**	1,171.6
Current liabilities			
Bank overdraft		**(16.7)**	-
Trade payables and other liabilities		**(297.4)**	(216.0)
Lease liabilities		**(88.1)**	(88.6)
Provisions	*9*	**(15.1)**	(11.9)
Other financial liabilities		**(6.7)**	(0.1)
		(424.0)	(316.6)
Non-current liabilities			
Interest bearing loans and borrowings	*10*	**(23.1)**	(218.7)
Lease liabilities		**(366.0)**	(428.6)
Provisions	*9*	**(5.7)**	(3.9)
Other financial liabilities		**(1.5)**	(1.9)
		(396.3)	(653.1)
Total liabilities		**(820.3)**	(969.7)
Net assets		**284.5**	201.9
Equity attributable to equity holders of the parent			
Share capital		**25.9**	383.4
Share premium		**40.4**	40.4
Merger reserve		**18.6**	18.6
Capital redemption reserve		**357.8**	-
Treasury shares		**(0.7)**	(0.7)
Employee Benefit Trust shares		**(0.2)**	-
Cash flow hedging reserve		**(8.0)**	3.3
Retained earnings		**(149.3)**	(243.1)
Total equity		**284.5**	201.9

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Treasury shares £m	Employee Benefit Trust shares £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 30 June 2019	**319.5**	**40.4**	**18.6**	**-**	**(2.1)**	**-**	**7.0**	**(131.6)**	**251.8**
Adjustment on initial application of IFRS 16 (net of tax)	-	-	-	-	-	-	-	(26.4)	(26.4)
Adjusted balance at 1 July 2019	**319.5**	**40.4**	**18.6**	**-**	**(2.1)**	**-**	**7.0**	**(158.0)**	**225.4**
Loss for the year	-	-	-	-	-	-	-	(69.2)	(69.2)
Other comprehensive income/(expense)	-	-	-	-	-	-	(3.7)	0.4	(3.3)
Total comprehensive income/(expense) for the period	-	-	-	-	-	-	(3.7)	(68.8)	(72.5)
Dividends	-	-	-	-	-	-	-	(15.9)	(15.9)
Purchase of own shares	-	-	-	-	(1.1)	-	-	-	(1.1)
Treasury shares issued	-	-	-	-	2.5	-	-	(1.2)	1.3
Shares issue	63.9	-	-	-	-	-	-	-	63.9
Settlement of share based payments	-	-	-	-	-	-	-	(1.6)	(1.6)
Share based payments	-	-	-	-	-	-	-	2.4	2.4
Balance at 28 June 2020	**383.4**	**40.4**	**18.6**	**-**	**(0.7)**	**-**	**3.3**	**(243.1)**	**201.9**
Profit for the year	-	-	-	-	-	-	-	88.7	88.7
Other comprehensive income/(expense)	-	-	-	-	-	-	(11.3)	2.6	(8.7)
Total comprehensive income/(expense) for the period	**-**	**-**	-	-	-	-	(11.3)	91.3	80.0
Issue of shares to Employee Benefit Trust	0.3	-	-	-	-	(0.3)	-	-	-
Employee Benefit Trust shares issued	-	-	-	-	-	0.1	-	1.0	1.1
Repurchase and cancellation of deferred shares	(357.8)	-	-	357.8	-	-	-	-	-
Settlement of share based payments	-	-	-	-	-	-	-	(2.1)	(2.1)
Share based payments	-	-	-	-	-	-	-	3.6	3.6
Balance at 27 June 2021	**25.9**	**40.4**	**18.6**	**357.8**	**(0.7)**	**(0.2)**	**(8.0)**	**(149.3)**	**284.5**

Consolidated cash flow statement

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Profit/(loss) for the period	**88.7**	(69.2)
Adjustments for:		
Income tax expense/(credit)	**10.5**	(12.0)
Finance income	**-**	(0.1)
Finance expenses	**32.9**	37.6
Exceptional financing costs	**3.1**	-
Depreciation of property, plant and equipment	**19.7**	21.3
Depreciation of right of use assets	**57.7**	60.6
Amortisation of intangible assets	**7.9**	6.8
Impairment of assets	**-**	11.5
Gain on sale of property, plant and equipment	**(1.2)**	(1.1)
Gain on disposal of right of use assets	**(1.4)**	-
Loss on sale of subsidiaries	**0.7**	-
Settlement of share based payments	**(2.1)**	(1.6)
Share based payment expense	**3.6**	2.4
Decrease/(increase) in trade and other receivables	**4.6**	(1.6)
Increase in inventories	**(2.2)**	(4.1)
Increase in trade and other payables	**81.4**	4.7
Increase in provisions	**3.3**	6.6
Net cash from operating activities before tax	**307.2**	61.8
Tax paid	**(8.2)**	(6.1)
Net cash from operating activities	**299.0**	55.7
Investing activities		
Proceeds from sale of property, plant and equipment	**1.5**	1.4
Proceeds received from sale of subsidiaries	**0.3**	-
Interest received	**-**	0.1
Acquisition of property, plant and equipment	**(38.0)**	(16.8)
Acquisition of other intangible assets	**(11.2)**	(6.6)
Net cash used in investing activities	**(47.4)**	(21.9)
Financing activities		
Interest paid	**(6.1)**	(9.0)
Interest paid on lease liabilities	**(26.7)**	(29.2)
Payment of lease liabilities	**(77.1)**	(36.3)
Exceptional financing costs	**(4.1)**	-
(Repayment)/drawdown of borrowings	**(195.0)**	25.0
Proceeds on issue of shares	**0.3**	63.9
Purchase of own shares	**(0.3)**	(1.1)
Proceeds from sale of own shares	**1.1**	1.3
Ordinary dividends paid	**-**	(15.9)
Net cash used in financing activities	**(307.9)**	(1.3)
Net (decrease)/increase in cash and cash equivalents	**(56.3)**	32.5
Cash and cash equivalents at beginning of period	**62.3**	29.8
Cash and cash equivalents (including bank overdrafts) at end of period	**6.0**	62.3

Notes to the condensed consolidated financial statements

1 Basis of preparation

The condensed consolidated financial statements have been prepared and approved by the directors in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial information is derived from the Group's consolidated financial statements for the year ended 27 June 2021.The financial statements are prepared on the historical cost basis except for certain financial instruments and share based payment charges which are measured at their fair value. The financial statements are for the 52 weeks to 27 June 2021 (last year 52 weeks to 28 June 2020) and were approved by the Directors on 23 September 2021.

The financial information set out above does not constitute the company's statutory accounts for the periods ended 27 June 2021 or 28 June 2020 but is derived from those accounts. Statutory accounts for the period ended 28 June 2020 have been delivered to the registrar of companies, and those for the period ended 27 June 2021 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Going concern

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

The Group has a £225.0m revolving credit facility with a consortium of seven banks maturing in December 2023, with two one-year options to extend the facility, subject to mutual agreement. At 20 September 2021, £217.0m of the revolving credit facility remained undrawn, in addition to cash in hand, at bank of £9.0m.

Covenants applicable to the revolving credit facility are consistent with those on the previous facility (prior to the temporary alternative covenants in place from April 2020 to December 2020): 3.0x net Debt/EBITDA and 1.5x Fixed Charge Cover, and are assessed on a six-monthly basis at June and December. The Directors have prepared cash flow forecasts for the Group covering a period of at least twelve months from the date of approval of these financial statements, which indicate that the Group will be in compliance with these covenants. These forecasts include a number of assumptions in relation to: market size and the Group's order intake; impacts on gross margin from regulatory and other changes; sector-wide manufacturing and supply chain capacities; and achievement of cost savings in line with the Group's strategic plans.

The Directors have also prepared severe but plausible downside sensitivity scenarios which cover the same period as the base case. These scenarios included: further two month Covid-19 related showroom closures; significantly reduced customer spending; and impacts on gross margin from inflationary cost pressures. As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur have also been considered. These mitigating actions included reducing discretionary advertising expenditure, a pause on expansionary capital investment and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the Directors to implement mitigating actions should they need to, indicate that there remains sufficient headroom in the forecast period for the Group to operate within the committed facilities and to comply with all relevant banking covenants during the forecast period.

1 Basis of preparation *(continued)*

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

2 Segmental Analysis

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

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

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

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

During the current financial year, the retail operations and management of the Dwell brand were combined with the DFS brand and accordingly they are now presented as one segment. Prior year comparative figures have been re-presented to align with the revised presentation. Other segment activities comprise the retailing of upholstered and related products through Sofa Workshop until it was disposed of on 18 September 2020.

Segment revenue and profit

	External sales		**Internal sales**		**Total gross sales**	
	52 weeks to 27 June 2021	52 weeks to 28 June 2020 Re-presented	**52 weeks to 27 June 2021**	52 weeks to 28 June 2020 Re-presented	**52 weeks to 27 June 2021**	52 weeks to 28 June 2020 Re-presented
	£m	£m	**£m**	£m	**£m**	£m
DFS	**1,093.2**	735.3	**-**	-	**1,093.2**	735.3
Sofology	**269.2**	181.7	**-**	-	**269.2**	181.7
Other segments	**6.3**	18.0	**-**	-	**6.3**	18.0
Eliminations	**-**	-	**-**	-	**-**	-
Gross sales	**1,368.7**	935.0	**-**	-	**1,368.7**	935.0

2 Segmental Analysis *(continued)*

Segment revenue and profit *(continued)*

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Total segments gross sales	**1,368.7**	935.0
Less: value added and other sales taxes	**(217.4)**	(146.4)
Less: costs of interest free credit and aftercare products	**(83.6)**	(64.1)
Revenue	**1,067.7**	724.5
Of which:		
Furniture sales	**1,013.2**	676.0
Sales of aftercare products	**54.5**	48.5
Revenue	**1,067.7**	724.5

52 weeks to 27 June 2021

	DFS £m	**Sofology £m**	**Other £m**	**Total £m**
Revenue	848.0	214.6	5.1	1,067.7
Cost of sales	(363.4)	(101.8)	(1.3)	(466.5)
Gross profit	484.6	112.8	3.8	601.2
Selling & distribution costs (excluding property costs)	(244.4)	(55.6)	(0.5)	(300.5)
Brand contribution (segment profit)	**240.2**	**57.2**	**3.3**	**300.7**
Property costs				(2.9)
Underlying administrative expenses				(75.2)
Underlying EBITDA				222.6

52 weeks to 28 June 2020

	DFS Re-presented £m	Sofology £m	Other Re-presented £m	Total £m
Revenue	566.5	143.7	14.3	724.5
Cost of sales	(227.5)	(72.3)	(7.6)	(307.4)
Gross profit	339.0	71.4	6.7	417.1
Selling & distribution costs (excluding property costs)	(205.3)	(47.8)	(7.2)	(260.3)
Brand contribution (segment profit)	**133.7**	**23.6**	**(0.5)**	**156.8**
Property costs				(27.2)
Underlying administrative expenses				(67.7)
Underlying EBITDA				61.9

2 Segmental Analysis *(continued)*

Segment revenue and profit *(continued)*

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Underlying EBITDA	**222.6**	61.9
Non-underlying items	**(2.1)**	(16.6)
Depreciation & amortisation	**(85.3)**	(88.7)
Impairments	**-**	(0.3)
Operating profit	**135.2**	(43.7)
Finance income		0.1
Finance expenses	**(32.9)**	(37.6)
Non-underlying finance costs	**(3.1)**	-
Profit/(loss) before tax	**99.2**	(81.2)

A geographical analysis of revenue is presented below:

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
United Kingdom	**1,044.6**	701.7
Europe	**23.1**	22.8
Total revenue	**1,067.7**	724.5

Segment assets and liabilities

	Assets		**Liabilities**	
	27 June 2021 £m	28 June 2020 Re-presented £m	**27 June 2021 £m**	28 June 2020 Re-presented £m
DFS	903.4	997.0	(659.2)	(595.4)
Sofology	174.1	145.5	(157.8)	(143.9)
Other segments	-	7.5	-	(25.2)
Total segments	**1,077.5**	1,150.0	**(817.0)**	(764.5)
Loans and financing	-	-	(23.1)	(218.7)
Financial assets/(liabilities)	0.2	5.3	(8.2)	(2.0)
Current tax	6.9	7.8	-	-
Deferred tax	24.7	24.0	-	-
Eliminations	(4.5)	(15.5)	28.0	15.5
Total Group	**1,104.8**	1,171.6	**(820.3)**	(969.7)

Segment assets comprises tangible and intangible non-current assets including goodwill and brand names, inventories, trade and other receivables, cash and cash equivalents. Segment liabilities comprises trade payables and current and non-current other liabilities and provisions.

2 Segmental Analysis *(continued)*

Segment assets and liabilities *(continued)*

	Additions to non-current assets		**Depreciation and amortisation**	
	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 Re-presented £m	**52 weeks to 27 June 2021 £m**	52 weeks to 28 June 2020 Re-presented £m
DFS	**51.6**	22.9	**66.4**	68.3[1]
Sofology	**17.9**	7.6	**17.8**	18.8[2]
Other segments	**-**	0.6	**1.1**	13.1[3]
Total Group	**69.5**	31.1	**85.3**	100.2

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

1. 2020: DFS: includes impairment charges of £1.4m
2. 2020: Sofology: includes impairment charges of £0.3m
3. 2020: Other segments: includes impairment charges of £9.8m

3 Operating profit

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

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Depreciation on tangible assets (including depreciation on right of use assets)	**77.4**	81.9
Amortisation of intangible assets	**7.9**	6.8
Impairment of tangible assets	**-**	5.2
Impairments of intangible assets	**-**	1.0
Impairment of goodwill	**-**	5.3
Net gain on disposal of property, plant and equipment	**(1.2)**	(1.1)
Net gain on disposal of right of use assets	**(1.4)**	-
Cost of inventories recognised as an expense	**465.5**	317.1
Write down of inventories to net realisable value	**5.6**	7.2
Other cost of sales variances	**(4.6)**	(13.8)
Operating lease rentals	**0.5**	1.9

During the period the Group did not receive any Government support through the Coronavirus Job Retention Scheme (2020: £19.5m).

Non-underlying items	**52 weeks to 27 June 2021 £m**	52 weeks to 28 June 2020 £m
Restructuring costs	**1.4**	2.3
Impairment of goodwill and brand names	**-**	6.3
Impairment of tangible and right of use assets	**-**	4.9
Write down of inventories on restructuring	**-**	3.1
Loss on disposal of subsidiaries	**0.7**	-
	2.1	16.6

On 18 September 2020, the Group formally completed the sale of the entire issued share capital of The Sofa Workshop Limited for cash consideration of £0.3m. The loss on disposal includes professional fees, property guarantees and other costs associated with the disposal.

In addition, non-underlying redundancy costs of £1.4m were incurred in the year in respect of a significant operational restructuring of the DFS sales administration function.

3 Operating profit *(continued)*

In the 52 weeks to 28 June 2020, non-underlying costs arose in connection with the restructure of the Dwell brand and the sale of Sofa Workshop following the end of the financial year. The goodwill relating to Sofa Workshop was fully impaired, together with the right of use and other tangible assets relating to stores being closed, and the brand name was written down to £0.3m. In addition, related inventories impacted by the restructure were written down to a reduced net realisable value. Other restructuring costs included redundancy costs and operational costs associated with exiting closed locations.

4 Finance expense

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Interest payable on senior revolving credit facility	**(4.2)**	(7.6)
Bank fees	**(2.0)**	(0.5)
Unwind of discount on provisions	**(0.1)**	-
Interest on lease liabilities	**(26.5)**	(29.2)
Other interest	**(0.1)**	(0.3)
Total underlying finance expense	**(32.9)**	(37.6)
Non-underlying items:		
Refinancing costs	**(3.1)**	-
Total finance costs	**(36.0)**	(37.6)

Non-underlying finance costs of £3.1m relate to the refinancing of the Group's revolving credit facility in December 2020. This includes the write off of unamortised underwriting fees associated with the old revolving credit facility, break costs associated with exiting interest rate swaps that were no longer required, and professional fees incurred in relation to the arrangement of the new revolving credit facility.

5 Earnings per share

	52 weeks to 27 June 2021 pence	52 weeks to 28 June 2020 pence
Basic earnings per share	**34.5**	(31.4)
Diluted earnings per share	**34.2**	(31.4)

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Profit/(loss) attributable to equity holders of the parent company	**88.7**	(69.2)

	27 June 2021 No.	28 June 2020 No.
Weighted average number of shares for basic earnings per share	**257,096,686**	220,289,976
Dilutive effect of employee share based payment awards	**2,352,481**	-
Weighted average number of shares for diluted earnings per share	**259,449,167**	220,289,976

5 Earnings per share *(continued)*

Underlying earnings per share

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

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Profit/(loss) for the year attributable to equity holders of the parent company	**88.7**	(69.2)
Non-underlying loss after tax	**3.8**	15.7
Underlying profit/(loss) for the year attributable to equity holders of the parent	**92.5**	(53.5)

	52 weeks to 27 June 2021 pence	52 weeks to 28 June 2020 pence
Underlying basic earnings per share	**36.0**	(24.3)
Underlying diluted earnings per share	**35.6**	(24.3)

6 Dividends

	Pence per ordinary share	**52 weeks to 27 June 2021**	52 weeks to 28 June 2020
		£m	£m
Final ordinary dividend for FY19	7.5p	**-**	15.9
		-	15.9

The Directors recommend a final dividend of 7.5p in respect of the financial period ended 27 June 2021, resulting in a total proposed dividend of £19.4m. Subject to shareholder approval it is intended that this dividend will be paid on 23 December 2021. DFS Furniture plc shares will trade ex-dividend from 25 November 2021 and the record date will be 26 November 2021. This dividend has not therefore been recognised as a liability in these financial statements.

7 Financial instruments

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

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

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

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

8 Capital expenditure

For the 52 weeks to 27 June 2021, additions of property, plant and equipment (including those acquired under finance leases) totalled £58.3m (2020: £24.5m). Additions of intangible assets (computer software) totalled £11.2m (2020: £6.6m).

At 27 June 2021 the Group had contracted capital commitments of £3.6m (2020: £1.7m) for which no provision has been made in the financial statements.

9 Provisions

	Guarantee provision £m	Property provisions £m	Other provisions £m	Total £m
Balance at 28 June 2020	8.1	1.6	6.1	15.8
Provisions made during the period	6.6	3.1	3.2	12.9
Provisions reclassified during the period	-	0.8	-	0.8
Provisions used during the period	(5.6)	-	(1.1)	(6.7)
Provisions released on disposal of subsidiary	-	(0.7)	-	(0.7)
Provisions released during the period	-	(1.1)	(0.2)	(1.3)
Balance at 27 June 2021	**9.1**	**3.7**	**8.0**	**20.8**
Current	6.2	0.9	8.0	15.1
Non-current	2.9	2.8	-	5.7
	9.1	**3.7**	**8.0**	**20.8**

The Group offers a long-term guarantee on its upholstery products and in accordance with accounting standards a provision is maintained for the expected future cost of fulfilling these guarantees on products which have been delivered before the reporting date. In calculating this provision the key areas of estimation are the number of future claims, average cost per claim and the expected period over which claims will arise (nearly all claims arise within two years of delivery). The Group has considered the sensitivity of the calculation to these key areas of estimation, and determined that a 10% change in either the average cost per claim or the number of expected future calls would change the value of the calculated provision by £0.9m. The directors have therefore concluded that reasonably possible variations in estimate would not result in a material difference.

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

Other provisions relate to payment of refunds to customers for payment protection insurance policies and other regulatory costs, and deferred consideration payable on the Group's November 2017 acquisition of Sofology. Subsequent to the balance sheet date, the deferred consideration was finalised and settled on 11 August 2021.

10 Net debt

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

	30 June 2019 £m	IFRS 16 transition £m	Cash flow £m	Other non-cash changes £m	28 June 2020 £m
Cash in hand, at bank	**29.8**	**-**	32.5	-	**62.3**
Cash and cash equivalents	**29.8**	**-**	32.5	-	**62.3**
Senior revolving credit facility	**(194.0)**	**-**	(25.0)	0.3	**(218.7)**
Finance lease liabilities	**(12.1)**	**(536.6)**	36.3	(4.8)	**(517.2)**
Total net debt	**(176.3)**	**(536.6)**	43.8	(4.5)	**(673.6)**

Non-cash changes include the addition of leases within the period of £20.3m (2020: £7.7m), lease remeasurements of £13.5m (2020: £2.9m), disposals of leases of £13.6m (£nil), impact of the disposal of Sofa Workshop on lease liabilities of £6.2m (2020: £nil) and the amortisation of capitalised debt issue costs of £0.6m (2020: £0.3m).

11 Annual General Meeting

The Annual General Meeting will be held on 12 November 2021 at 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA. The Annual Report and Accounts and Notice of Meeting will be sent to shareholders and copies will be available from the Company's registered office: 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA and on the Company's website at www.dfscorporate.co.uk.

12 Alternative Performance Measures

In reporting the Group's financial performance, the Directors make use of a number of alternative performance measures (APMs) in addition to those defined or specified under EU-adopted International Financial Reporting Standards (IFRS).

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

In order to facilitate understanding of the APMs used by the Group, and their relationship to reported IFRS measures, definitions and numerical reconciliations are set out below. Reconciliations relating to the unaudited pro-forma FY19 period (52 weeks ended 30 June 2019) were set out in the FY20 and FY19 annual reports. Definitions of APMs may vary from business to business and accordingly the Group's APMs may not be directly comparable to similar APMs reported by other entities.

APM	Definition	Rationale
Gross sales	Amounts payable by external customers for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes.	Key measure of overall sales performance which unlike IFRS revenue is not affected by the extent to which customers take up the Group's interest free credit offering.
Brand contribution	Gross profit less selling and distribution costs, excluding property and administration costs.	Measure of brand-controllable profit as it excludes shared Group costs.
EBITDA[1]	Earnings before interest, taxation, depreciation and amortisation.	A commonly used profit measure.
Non-underlying items	Certain material, unusual or non-recurring items which the directors believe are not indicative of the Group's underlying performance.	Clear and separate identification of such items facilitates understanding of underlying trading performance.
Underlying EBITDA[1]	Earnings before interest, taxation, depreciation and amortisation, as adjusted for non-underlying items	Profit measure reflecting underlying trading performance.
Underlying profit before tax and brand amortisation PBT(A)	Profit before tax 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 as adjusted for non-underlying items.	Exclusion of non-underlying items facilitates year on year comparisons of the key investor measure of earnings per share.
Net bank debt	Balance drawn down on interest-bearing loans, with unamortised issue costs added back, less cash and cash equivalents (including bank overdrafts).	Measure of the Group's cash indebtedness which supports assessment of available liquidity and cash flow generation in the reporting period.
Cash EBITDA	Net cash from operating activities before tax less movements on working capital and provisions balances and payments made under lease obligations.	Measure of the operating cash generation of the business normalised to reflect timing differences in working capital movements.

Leverage (or gearing)[2]	The ratio of period end net debt to underlying 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)[1]	Underlying post tax profit expressed as a percentage of the sum of property, plant & equipment, computer software, right of use assets and working capital.	Represents the post-tax return the Group achieves on the investment it has made in its business.
Underlying free cash flow to equity holders	The change in net bank debt for the period after adding back dividends, acquisition related consideration, share based transactions and non-underlying cash flows.	Measure of the underlying cash return generated for shareholders in the period and a key financial for Executive Director remuneration.

1.Following the adoption of IFRS 16, EBITDA/Underlying EBITDA are less useful as performance measures and accordingly are no longer presented as Key Performance Indicators or Financial Highlights.

2. Definition revised following adoption of IFRS 16.

Key performance indicators

Reconciliations to IFRS measures

EBITDA	**Note**	**FY21 £m**	**FY20 £m**
Operating profit/(loss)	2	135.2	(43.7)
Depreciation	3	77.4	81.9
Amortisation	3	7.9	6.8
Impairments	3	-	11.5
EBITDA		220.5	56.5

Underlying EBITDA	**Note**	**FY21 £m**	**FY20 £m**
EBITDA		220.5	56.5
Non-underlying operating items	3	2.1	5.4
Underlying EBITDA		222.6	61.9

Underlying profit before tax and brand amortisation - PBT(A)	**Note**	**FY21 £m**	**FY20 £m**
Profit /(loss) before tax	2	99.2	(81.2)
Non-underlying items	3,4	5.2	16.6
Amortisation of brand names		1.4	1.5
Underlying (loss)/profit before tax and brand amortisation		105.8	(63.1)

Net Bank debt	**FY21 £m**	**FY20 £m**
Interest bearing loans and borrowings	23.1	218.7
Unamortised issue costs	1.9	1.3
Cash and cash equivalents (Including bank overdraft)	(6.0)	(62.3)
Net bank debt	19.0	157.7

Leverage	**FY21 £m**	**FY20 £m**
Net bank debt (A)	19.0	157.7
Net cash from operating activities before tax less	307.2	61.8
Movement in trade and other receivables	(4.6)	1.6
Movement in inventories	2.2	4.1
Movement in trade and other payables	(81.4)	(4.7)
Movement in provisions	(3.3)	(6.6)
Payment of lease liabilities	(26.7)	(29.2)
Payment of interest on leases	(77.1)	(36.3)
Cash EBITDA (B)	116.3	(9.3)
Leverage (A/B)	**0.2x**	**(17.0)x**

Underlying return on capital employed	**FY21 £m**	**FY20 £m**
Profit before tax	99.2	(81.2)
Non-underlying items	5.2	16.6
Pre-tax return	104.4	(64.6)
Effective tax rate	*10.7%*	*17.1%*
Tax adjusted return (A)	**93.2**	**(53.6)**
Property, plant and equipment	91.6	74.1
ROU assets	345.1	384.5
Computer software	16.4	11.8
	453.1	470.4
Inventories	61.1	58.9
Trade receivables	9.3	10.4
Prepayments	7.2	10.1
Accrued income	0.4	0.9
Other receivables	0.2	0.8
Payments received on account	(117.7)	(86.8)
Trade payables	(83.9)	(41.9)
Working capital	(123.4)	(47.6)
Total capital employed (B)	**329.7**	**422.8**
Underlying ROCE (A/B)	**28.3%**	**(12.7)%**

Underlying free cash flow to equity holders	**Note**	**FY21 £m**	**FY20 £m**
Movement in net bank debt		138.7	7.5
Dividends	6	-	15.9
Proceeds on issue of shares		(0.3)	(63.9)
Purchase of own shares		0.3	1.1
Proceeds from sale of own shares		(1.1)	(1.3)
Non-underlying cash items disclosed in cash flow statement		4.1	-
Underlying free cash flow to equity holders		**141.7**	**(40.7)**

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

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