For immediate release **11 October 2022**

ScS Group plc
("ScS" or the "Group")

Audited preliminary results for the 52 weeks ended 30 July 2022

STRONG FY22 RESULTS AND STRATEGIC PROGRESS; RESILIENT BALANCE SHEET MAINTAINED

ScS, one of the UK's largest retailers of upholstered furniture and floorings, is pleased to announce its audited preliminary results for the 52 weeks ended 30 July 2022.

Financial summary:

	FY22	**FY21****	**Variance**
Gross sales*	£344.7m	£319.2m	+8.0%
Revenue	£331.6m	£305.2m	+8.6%
Gross profit	£156.3m	£147.0m	+6.3%
Gross margin*	45.3%	46.1%	(0.72%)
Operating profit	£20.2m	£26.8m	(£6.6m)
Underlying operating profit* excluding business rates relief	£17.6m	£12.3m	+£5.3m
Profit before tax	£16.4m	£22.7m	(£6.3m)
Underlying profit before tax* excluding business rates relief	£13.8m	£8.2m	+£5.6m
Earnings per share	36.2p	50.4p	(14.2p)
Underlying earnings per share*	36.2p	41.3p	(5.1p)

** This report includes alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, within the Financial Review.*

***FY21 gross sales and revenue have been restated to account for warranty sales as an agent rather than principal under IFRS 15. This did not result in any change to reported profit, earnings per share, cash flows or in the consolidated statement of financial position.*

Financial highlights:

- Strong financial performance in the year with record delivered sales
- Maintained gross margin* at pre-pandemic levels despite inflationary cost pressures
- Underlying profit before tax* excluding business rates relief of £13.8m, £5.6m higher than FY21
- Strong balance sheet with cash of £70.8m (2021: £87.7m)
- Recommended final dividend of 9.0p per share which, if approved, would give a full year dividend of 13.5p per share (2021: 10.0p)

Operational highlights:

- One year like-for-like* order growth of 3.9%
- Supply chain improvements reduced closing order book (including VAT) to £71.7m (2021: £103.5m) albeit still £28.8m higher than at the same point in 2019
- Good progress in year one of refreshed strategy - investments in people, product, customer service and digital proposition:
  - Strengthened leadership in key teams
  - Improved Trustpilot rating to the maximum 5 stars, maintaining our 'Excellent' rating with over 370,000 reviews
  - Implemented our new concept design into three stores, trialling new formats, ranges and digital features

Current trading and outlook:

- As widely reported, inflationary pressures and reduced consumer confidence continues to impact visitor numbers (both physical and digital) to businesses which retail big ticket discretionary items
- Consequently, initial trading in the year has been tougher than we saw in the second half of FY22, with order intake for the first ten weeks of the new financial year down 7.8% on a like-for-like* basis when compared to the first ten weeks to 6 October 2018 in FY19 (with FY19 being the last full year not impacted by the pandemic)
- One year like-for-like* order intake is down 14.4% on the prior year, with FY22 having benefitted from pent up demand as the UK recovered from the impact of the COVID-19 pandemic

- Resilient balance sheet, with cash of £76.7m as at 8 October 2022 and no debt
- We are mindful of the challenges of the current economic climate, but believe our flexible operating model, refreshed strategy and robust balance sheet places the Group in an excellent position to deal with the headwinds our industry is facing. The tightening economy, coupled with the execution of the next phase of our strategy, will provide opportunities to take market share

Steve Carson, Chief Executive Officer of ScS, commented:
"We are pleased to be announcing results that are ahead of market expectations. The year saw the Group deliver record sales, maintain its strong gross margin and manage costs effectively, resulting in a 68% increase in underlying profit before tax, excluding business rates relief. We also saw excellent progress in year one of our refreshed strategy, including strengthening our teams as we look to drive the business forward in the coming years.

Trading since the start of the new financial year has been subdued, with the challenges of high inflation impacting consumers' disposable income. As previously reported, the sector is seeing softening demand as consumers defer spend on big ticket discretionary purchases.

We are pleased with the strategic progress we have made which, coupled with the strength of the Group's balance sheet, places the business in a strong position to deal with current headwinds. Whilst we expect the coming months to be challenging, we are confident in the longer term growth prospects of the business."

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Enquiries:

ScS Group PLC Steve Carson, Chief Executive Officer Chris Muir, Chief Financial Officer	**c/o Buchanan +44 (0)20 7466 5000**
Buchanan Richard Oldworth Toto Berger Verity Parker	**Tel: +44 (0)20 7466 5000** **scs@buchanan.uk.com**

Presentation and webcast
A presentation for analysts will be held this morning at Buchanan, 107 Cheapside, London, EC2V 6DN commencing at 9.30am.

ScS Group plc's Preliminary Results 2022 are available at www.scsplc.co.uk. An audio webcast of the presentation will also be made available later in the day.

For further information, please contact Buchanan at scs@buchanan.uk.com.

Notes to editors
ScS is one of the UK's largest retailers of upholstered furniture and floorings, promoting itself as the "Sofa Carpet Specialist", seeking to offer value and choice through a wide range of upholstered furniture and flooring products. The Group's product range is designed to appeal to a broad customer base with a mid-market priced offering and is currently traded from 98 stores.

The Group's upholstered furniture business specialises primarily in fabric and leather sofas and chairs. ScS sells a range of branded products which are not sold under registered trademarks and a range of branded products which are sold under registered trademarks owned by ScS (such as Endurance, Inspire and SiSi Italia). The Group also offers a range of third party brands (which include La-Z-Boy and G Plan). The Group's flooring business includes carpets, as well as laminate and vinyl flooring."

CHAIR'S LETTER

Dear Shareholder,

FY22 was another successful year for ScS as we made good progress in the first year of our refreshed strategy, and delivered strong results whilst managing both inflationary cost pressures and supply chain disruptions. I want to thank Steve and his team for their stewardship, and each and every colleague across the business for their commitment, dedication and for never losing sight of our purpose and values.

Embedding our new purpose and strategy

At the end of last year we launched our new purpose, 'Helping create the home you love', which continues to guide the decisions we make and drives us to achieve our strategic ambitions while creating value for our stakeholders. I am pleased to see the progress we have made, particularly as we look to the future and how ScS will continue to develop its brand, customer offering and a culture in which our colleagues can thrive. My visit to the first of our new concept stores during the year really brought this to life, seeing our fresh new store design, improved omnichannel technology and inspiring product offering. The store showcases the best of ScS, with stylish ranges at affordable prices including new flooring offerings, a refreshed dining range, and new products through our partnership with Ideal Home, the most popular home publication in the UK. Ideal Home's goal is to make great home design accessible to everyone, aligning well with our own mission of becoming the UK's best value home retailer, delivering outstanding value, quality and choice with a seamless customer experience. It has been a particular highlight to see the progress we have made in improving our customer journey, resulting in the Group achieving the maximum 5-star 'Excellent' Trustpilot rating.

As a Board we recognise the importance of embedding our purpose and strategy both ethically and sustainably. I was pleased this year to see the progress made in our ESG strategy and to oversee the introduction of new remuneration performance targets specifically related to ESG, which will see 10% of the executive and senior management bonus schemes now dependent on progress in our colleague survey score and reduction in waste within our business.

Resilient business model

The past couple of years have demonstrated the resilience of our business. Through the responsiveness of our teams, control of our flexible cost base and prudent capital management, we have successfully navigated the challenges of COVID-19 and protected our stakeholders' interests. This year has seen the positive financial outcomes of that, with an increase in like-for-like order intake*, record delivered sales, an increase in the total dividend by 35% to 13.5p and the commencement of a £7m share buyback. Our balance sheet remains strong with £70.8m of cash and no debt.

I am particularly pleased that we have been successful in maintaining our gross margin* and controlling costs despite inflationary pressures.

Board changes

It was with great sadness that we announced the sudden death of Non-Executive Director George Adams in November 2021. George joined the Board in July 2015 and was Chair of the Remuneration Committee and I am hugely thankful for the commitment he gave the business over that time. I know I speak for the whole Board when I say we miss him greatly, both as our colleague and friend.

I am very grateful to Angela Luger who agreed to take on the additional responsibility as Chair of the Group's Remuneration Committee from January 2022.

As a result of George's passing, together with Ron McMillan and I nearing the end of our nine year service periods, we began the process to appoint three new Non-Executive Directors. I am delighted that we have successfully filled all three positions with the recent appointments of Carol Kavanagh, who joined the Board on 26 September 2022, Andy Kemp who will join the Board on 1 February 2023 and John Walden, who will join the Board as Chair Designate on 1 March 2023. The intention is that John will become the new Non-Executive Chair on 30 November 2023 when I retire. Carol, Andy and John have held a number of relevant senior positions and have extensive listed company experience. I look forward to working with them and their appointments will strengthen the Board's capabilities while playing a crucial role in our succession planning.

Shareholder return

As I previously mentioned, the Group continues to maintain a strong balance sheet and the Board actively reviews the allocation of capital, considering potential external and internal investment opportunities and returns to shareholders. We continue to maintain a strong cash position, providing resilience in the current environment and our strategic progress provides us with further confidence in the Group's future performance. As a consequence of this strength, during the year the Group announced a £7m share buyback programme which has now returned over £3.3m to shareholders. We continue to remain committed to this programme.

As we reflect on the strong result for the year, the Board is pleased to propose an increased final dividend of 9.0p (2021: 7.0p) subject to approval at the Annual General Meeting (AGM). This would result in a full year dividend of 13.5p (2021: 10.0p).

Summary

We enter the new financial year with caution given the current challenging economic environment. However, our targeted investment over many years in our business model and colleagues has generated strong and resilient results in the past and we are confident that we can take market share and continue to deliver for our stakeholders.

On behalf of the Board, I would like to thank our shareholders, suppliers and customers for their continued support as well as our colleagues for their loyalty and hard work.

Yours sincerely,

Alan Smith
Chairman
10 October 2022

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CHIEF EXECUTIVE'S REPORT

Overview
The year ended 30 July 2022 marks my first full financial year as CEO after joining the business in January 2021. It is also the first year of our refreshed purpose, mission and strategy which have continued to drive the business forward.

I would like to take this opportunity to thank all of the fantastic teams at ScS for their loyalty, diligence and enthusiasm over the past year, enabling the business to adapt, strengthen and overcome challenges. Having the right people in the right roles is fundamental to the success of any business. Our colleagues have continued to demonstrate the Group's values and put the customers at the centre of everything they do. Their hard work is reflected in the improvement of our Trustpilot rating from 4.5 to the maximum 5 stars, delivering an 'Excellent' rating. At the start of FY23 I was delighted to recognise this hard work and loyalty, as we announced over £2m of investment in our colleagues take home pay, both through an increase in their basic salaries and a £400 one-off cost of living support payment.

Results
The Group started the year with a strong order book which, together with positive like-for-like order growth*, resulted in an increase in gross sales* of 8.0% compared to the prior year.

During the year we have worked hard, particularly alongside our suppliers, to manage cost inflation. Our tight oversight and control of margin has been a key focus of our strategy and has enabled us to deliver a strong gross margin* of 45.3% (2021: 46.1%) in line with pre-pandemic levels. Gross profit increased 6.3% to £156.3m (2021: £147.0m).

Pleasingly, profits exceeded initial expectations despite, as predicted, being impacted by the planned reduction in business rates relief, which reduced £7.6m in the year to £2.6m (2021: £10.2m). Underlying profit before tax* excluding business rates relief increased to £13.8m (2021: £8.2m).

Strategic progress
I am pleased with the progress made in year one of our refreshed strategy, which colleagues have embraced together with new ways of thinking and working. We have retained a solid foundation on which we can build over the coming years and believe we are well placed to continue to deliver excellent returns to shareholders despite the economic pressures the UK is facing. I look forward to seeing the results of our investment as we build momentum and enter the next phase. Below are some of the key achievements from the year.

Outstanding team
Our colleagues remain at the heart of our business and our aim is to 'be a place people love to work', where colleagues feel they belong, are listened to and are given the opportunity to develop.

Attracting new talent has been important to strengthen and support several teams crucial to our strategy, and we are delighted with our progress. We have:

- Added further strength to our senior commercial team, appointing a new Commercial Director, a Sales and Operations Director and a Chief Marketing & Digital Officer to our Executive Board;
- Strengthened the leadership and increased the capability and capacity of the digital team;
- Recognised the talent within our own teams by making a number of promotions and internal transfers; and
- Grown our people team to support the recruitment and development of our colleagues, with additional experience added to support the development of our reward strategy.

During the year we significantly overhauled our hiring and on-boarding process. We introduced a new digital welcome pack to inspire new colleagues as they begin their journey with us and we are in the process of investing in a new careers website and application tracking system to improve efficiencies in the hiring process.

Increasing engagement and enhancing our culture continues to be a top priority for the Board. Colleague focus groups have been held throughout the year to help us shape our behaviours, define how we lead and review our current RIGHT values. The results of the latest annual employee survey were encouraging and contained more constructive ideas and comments than ever before, demonstrating that our colleagues are happy to share their thoughts. By reviewing the feedback we hope to implement meaningful changes to drive improvements across the business.

As we seek ways to improve retention, a key focus of our people strategy is to review and benchmark our reward offering. During the year we enhanced reward for our distribution teams who operate in a highly competitive job market and we are currently benchmarking remuneration across the business. We also relaunched our share incentive plan with a new provider with the aim to encourage colleagues to share in the success of the business. Additionally we introduced the ability for our employees to salary sacrifice their pension contributions, which will result in an increase to many of our colleagues' net pay. We are delighted to see that our retention rates are improving with a decrease in staff turnover of 2.4% compared to FY21.

Customer driven

Our mission is to be the UK's best value home retailer, delivering outstanding value, quality and choice with a seamless customer experience. As we strive to achieve this mission, improving product quality and streamlining the customer journey are key focus areas within the 'customer driven' element of our strategy.

A key part of enhancing the customer experience is the monitoring of our customers' reviews on Trustpilot in order to understand what we are doing well and also identify areas for improvement. We are delighted to have increased our Trustpilot rating from 4.5 to the maximum 5 stars, delivering an 'Excellent' rating, improved the underlying TrustScore to 4.8 and exceeded 370,000 reviews. During the year we have also enabled reviews at a local store level, with over half achieving the full 5-star rating, and every store attaining a minimum of 4.5 stars.

Our efforts to improve product quality included:

- Introducing a pre-delivery inspection procedure, making use of in-house service technicians to fix any minor issues within our distribution centres;
- Trialling new ways of handling and transporting products to minimise damage from the outset; and
- Issuing revised terms to suppliers to improve quality and give ScS greater involvement in design specification.

We have also launched a new 'track your order' tool on our website, supported members of our customer experience team to undertake City & Guilds accredited training, and invested in new technology for our contact centre which we look forward to implementing next year.

Earlier in the year we engaged the help of a third-party specialist to assist us in conducting detailed customer research into our brand awareness and consideration, and to provide information on customer segments to guide future decision making. We have integrated customer data into our business intelligence software to give our commercial team greater visibility with access to more customer metrics and demographic data.

Inspiring ranges

As we build upon and enhance our product offering, we have introduced new design aesthetics mixing contemporary and stylish, chic and colour, whilst maintaining our value focus. This has resulted in the launch of 70 new furniture models and 88 new flooring options.

Our new product ranges include our collaboration with Laurence Llewelyn-Bowen, the 'LLB at Home' collection, as well as our new 'Botanicals' sofa range. More recently we have announced our partnership with Ideal Home, the most popular home publication in the UK with a significant digital presence. We look forward to working together to inspire our customers as they design their homes.

As part of finding the right partners to drive our growth, we have reviewed our furniture supplier base and on-boarded a number of new suppliers across the UK and Europe, reducing our reliance on the Far East as we aim to improve product quality, reduce the environmental impact, and reduce lead times. Our ongoing commitment to help our customers create the home they love continues to drive our product procurement decisions.

We also launched our new 'quick delivery sofas', with lead times of just two weeks, and worked with a number of suppliers to enable direct home delivery of product direct from supplier to customer. We are continuing to build and evolve this service to transform the speed that we can deliver to our customers.

During the year we introduced an area within a select number of stores which we call 'The Dining Room @ ScS'. It brings our dining range together in a dedicated area of the store and has proven successful. We have reviewed our product offering, ensuring a good mix of shape and range of materials, which is proving popular with our customers as dining sales increased by 28.5% on the prior year.

We believe there remains further potential in our flooring business, and are consequently looking for ways to improve the customer journey. We have strengthened the flooring operations team to help drive the areas we want to improve.

We have also simplified our product range, increased colleague training, reviewed third-party fitter pay rates to improve retention and streamlined our supplier base to improve service and quality.

Digitally optimised

To support our digital growth ambitions we have significantly expanded our team to improve research and development, merchandising and marketing. In January 2022 we opened a hub within our expanded Coventry store as a base for our digital team. Locating the team within a concept store will improve their integration with both our retail colleagues and our customers, advancing our full omnichannel offering. Our newly appointed Chief Marketing & Digital Officer will oversee the digital and technology teams and lead the digital strategy.

Ensuring that we have the right people, the right tools and the right partners has been a top priority for our digital leadership team in the last 12 months. We have reviewed our partner base and retendered contracts, engaging specialist agencies across:

- Digital media - partnering with one of the top 5 media agencies in the world, reviewing advertising through digital channels, driving efficiency in digital marketing and providing insights into market demand and customer online shopping behaviours
- SEO - optimising our website and creating an 'inspiration hub' to drive organic visibility and capture customers at the research phase of their shopping journey
- Analytics - improving both qualitative and quantitative data including new tools such as user feedback and Google Analytics 360 to better understand shopper behaviour and friction points to help drive improvements
- Personalisation - implementing a market-leading personalisation suite to power experiences such as product recommendations and triggered messaging

To optimise the effectiveness of our marketing, we have built an econometric model to continually monitor and review the changes we make, to understand and improve omnichannel marketing efficiency and further our digital success.

We have also made good progress in building our social media presence, including the launch of a new influencer programme to help build engagement with relevant audiences to increase awareness and consideration.

During the year we have added new functionality to our website through a new agile development and optimisation programme, including enabling customers to leave product reviews. The reviews allow us to better understand our customers and ensure that our products are meeting their expectations. Building on our omnichannel experience, customers can now create an online wishlist which they can save and share to create a more seamless customer journey.

Over the last twelve months the team has worked hard to ensure that the digitally optimised element of the strategy is set up for success and the Board looks forward to seeing the impact of the investments made in the coming years.

Engaging showrooms

A key focus for this year has been developing our new concept store where we can trial new ideas. The aim is to provide a more modern look and feel, ensuring that our products are showcased in the best format and to utilise digital developments to enhance the customer experience to help create the home they love. We are trialling a number of initiatives such as:

- A completely refreshed showroom interior and layout with enhanced lighting, improved furniture bays, a restructured flooring display and a dedicated area for our dining ranges;
- New ranges and product offerings to broaden the choice available to our customers;
- Digital stations, referred to as 'endless aisles', where our customers can browse our full range of products and build a wish list; and
- A web application that allows customers to scan a product QR code for full product details, recommendations and payment options.

Having implemented our new concept design in one store during the year, we have now refitted two further stores at the start of the new financial year. We will continue to trial, test and measure the performance of the three concept stores and use the learnings to shape and refine the future roll-out across more locations.

As we continue to invest in our showrooms to create a more inspiring experience, we successfully trialled a new 'declutter' programme in several stores which had a positive impact on performance. This included reducing the amount and size of the point of sale, and being more selective around some of the occasional ranges we offer. The trial showrooms are cleaner, brighter and more inviting and we will extend this programme across the entire store network in FY23.

During the year we reviewed our store network to ensure our showrooms are in the best possible locations. In doing so we have closed one of our Southampton stores and our Greenock store as their leases ended and their performances did not meet our required levels. We have also relocated our Rotherham and Doncaster stores to more modern units in improved locations whilst reducing costs. As we consider further expansion, we are utilising customer demographic data and existing store performance to identify potential new locations.

Strengthen the core

We continue to review the success of our product ranges and have further developed our line level margin analysis tools to allow us to better manage the profitability of our product offering alongside maximising our customer experience. The tools are increasingly useful as we experience inflationary challenges and are also invaluable when comparing performance as we experiment in other areas of our strategy.

As we expand our data driven approach we have developed tools such as our distribution centre balanced scorecards, allowing for further comparison of KPIs and sharing of best practice across our distribution network.

During the year we have reviewed processes in a number of key cost lines to identify areas for improvement. We have enhanced the reporting visibility of our compensation and allowances cost line and improved the robustness of the stock write off process, utilising new technology and working with the ESG steering group to identify ways to avoid waste wherever possible.

Our finance house partners continue to facilitate a significant amount of the orders we take, as our customers look to take advantage of a more affordable payment option. This could increase further as the cost of living increases, and we are keen to ensure we are working with the best providers in terms of service to our customers, acceptance rates, and cost. As part of that process, during the year we have been retendering our finance house partners, including trialling a new in-store provider.

We remain focused on improving the success of the core business model we have operated for many years, with strong cost management as reflected in the achievement of a 45.3% gross margin* despite cost pressures; a resilient balance sheet with cash of £70.8m; and informed decision making driving revenue to record levels.

Environmental, social and governance (ESG)

We have made significant progress during the year in developing and launching our ESG strategy. A steering group has been established, clear targets have been defined and we continue to build our sustainability roadmap.

ESG is an area that is rapidly advancing and is a standing Board agenda item, with regular updates provided by the ESG steering group. Although we are relatively early on our ESG journey, we have made great strides and are committed to driving further change.

Environmental

During the year we continued to work closely with external providers of independent assurance to provide us with the confidence that our supply chains are operating sustainably. Over 70% of the leather used within our products is from approved 'Leather Working Group' suppliers and we aim to increase this to 100% by July 2023.

Social

The Group's culture is underpinned by our RIGHT values and our aim is to 'be a place people love to work'. The wellbeing of our colleagues has remained a top priority and during the year we have appointed a lead wellbeing champion who is helping us work towards achieving a 'Better Health at Work Award'. The award recognises the achievements of organisations addressing a wide range of health issues within the workplace.

Governance

The Group continues to maintain a robust corporate governance framework, with policies and practices in place to deliver long-term sustainable success. Furthermore, the Group has completed its first report in line with Task Force on Climate-related Financial Disclosures (TCFD) requirements.

Current trading and outlook

Trading since the start of the new financial year has been subdued, with the challenges of high inflation impacting consumers' disposable income. As previously reported, the sector is seeing softening demand as consumers defer spend on big ticket discretionary purchases.

We are pleased with the strategic progress we have made to date which, coupled with the strength of the Group's balance sheet, places the business in a strong position to deal with the current headwinds. As a consequence, while we expect the coming months to be challenging, we are confident in the longer term growth prospects of the business.

Steve Carson
Chief Executive Officer
10 October 2022

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FINANCIAL REVIEW

	52 weeks ended 30 July 2022 £m	As restated** 53 weeks ended 31 July 2021 £m
Gross sales*	**344.7**	319.2
Revenue	**331.6**	305.2
Gross profit	**156.3**	147.0
Distribution costs	**(21.3)**	(18.7)
Administration expenses before exceptional items and business rates relief	**(117.4)**	(116.0)
Business rates relief	**2.6**	10.2
Total operating expenses	**(136.1)**	(124.5)
Underlying operating profit*	**20.2**	22.5
Operating exceptional items	**-**	4.3
Operating profit	**20.2**	26.8
Net finance expense	**(3.8)**	(4.1)
Profit before tax	**16.4**	22.7
Tax	**(2.8)**	(3.6)
Profit after tax	**13.6**	19.1
Underlying profit before tax*	**16.4**	18.4
Statutory earnings per share	**36.2p**	50.4p
Underlying earnings per share*	**36.2p**	41.3p
EBITDA*	**46.8**	52.8
Underlying EBITDA*	**46.8**	48.5

* *This report includes alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, below.*
** *The prior year gross sales and revenue have been restated to account for warranty sales as an agent rather than principal under IFRS 15. This did not result in any change to reported profit, earnings per share, cash flows or in the consolidated statement of financial position.*

Overview
Improvements in the supply chain, coupled with the increase in orders in the year resulted in the Group achieving record levels of gross sales*. Whilst facing significant inflationary cost pressures, the business achieved a 45.3% gross margin* in the year, which is in line with pre-pandemic comparatives and delivered an underlying operating profit* of £20.2m (2021: £22.5m). The Group benefited from £2.6m of business rates relief in the year (2021: £10.2m).

Shareholder returns have increased in the year, with a proposed full year ordinary dividend increase of 35%, coupled with the commencement of a £7m share buyback programme. The Board are mindful of the challenging economic environment we face and remain committed to retaining a robust balance sheet in these uncertain times.

Gross sales and revenue
The Group continues to operate a special order business, where goods are built for customers in line with their specifications. Gross sales*, revenue and related profit is not recognised until the orders are delivered. Due to the impacts of the COVID-19 pandemic, the year commenced with the Group having an order book totalling £103.5m (including VAT). Despite increased year-on-year order intake, supply chain improvements in the past 12 months meant we were able to reduce the size of the order book to £71.7m at 30 July 2022. The closing order book at the year end was still £28.8m higher than at the same point in 2019.

Gross sales* increased by £25.5m (8.0%) to £344.7m (2021: £319.2m).

This movement is further analysed below:
- An increase in furniture sales in stores of 14.7% to £279.9m (2021: £244.0m);
- An increase in flooring sales in stores of 13.6% to £32.6m (2021: £28.7m); and
- A decrease in online sales of 30.8% to £32.2m (2021: £46.5m).

Revenue, which represents gross sales* less charges relating to interest-free credit sales (see note 3 to the financial statements – Segment information), increased by 8.6% to £331.6m when compared to the prior year (2021: £305.2m).

Gross profit

Whilst gross margin* declined slightly on the prior year, it remained strong at 45.3% (2021: 46.1%) and in line with pre-pandemic levels. This was particularly pleasing given the inflationary cost pressures faced by the Group throughout the year. The decrease of 72 basis points was largely due to an increase in lower margin stock sales, as the stores have been open for the full year unlike in the prior year which experienced periods of store closures due to COVID-19.

The increased volume and margin year on year resulted in an increase in gross profit of £9.3m (6.3%).

Distribution costs

Distribution costs comprise the total cost of the in-house distribution function and includes employment costs, vehicle running costs, property and utility costs for the nine distribution centres, as well as costs of third-party delivery services contracted to support peak delivery periods.

Distribution costs increased 14.0% in the year to £21.3m (2021: £18.7m). This exceeds the 8.0% increase in gross sales* as a consequence of an increase in staff-related costs driven by salary pressures in the logistics sector and an increase in fuel and property-related costs.

As a percentage of gross sales* for the year, distribution costs were 6.2% (2021: 5.9%).

Administration expenses before exceptional items and business rates relief

Administration expenses comprise:

- Store operating costs, principally employment costs and property-related costs (depreciation, rates, utilities and store repairs);
- Marketing expenditure; and
- General administrative expenditure, which includes the employment costs for the Directors, senior management and all head office based support functions and other central costs.

Administration costs for the year totalled £117.4m, compared to £116.0m in the prior year. Administration costs were 34.0% of gross sales*, down from 36.3% in the prior year.

There was an overall increase in administration costs of £1.4m:

- Marketing costs increased by £6.1m to £23.3m (2021: £17.2m), as the business increased the investment in advertising with a return back to pre-pandemic levels (2019: £22.4m), together with increased digital marketing spend. The prior year saw reduced marketing investment during periods of store closure due to the pandemic;
- Performance-related pay decreased by £3.9m to £12.9m (2021: £16.8m) when compared to the prior year. Commission paid increased £0.5m in the year. However, this was offset by a £4.4m reduction in bonuses paid to senior and middle management due to performance levels achieved compared to the increased targets set at the start of the year as we emerged from the COVID-19 pandemic;
- Other payroll costs have increased by £0.3m to £35.7m (2021: £35.4m) with the impact of wage inflation being largely offset by reducing headcount;
- Property-related costs, including depreciation and amortisation, increased by £0.7m to £38.5m (2021: £37.8m) predominately due to increases in energy costs partly offset by cost savings as a result of store closures; and
- Other costs decreased by £1.8m to £7.0m (2021: £8.8m) as our cost base normalises and returns to pre-pandemic levels.

Business rates relief

The Group's result for the year has benefited from £2.6m (2021: £10.2m) of retail business rates relief provided in response to the COVID-19 outbreak. No further benefit is expected in the year ending 29 July 2023.

Flexible costs

The nature of the Group's business model, where almost all sales are made to order, results in the majority of costs being proportional to sales. This provides the Group with the ability to flex its cost base as revenue changes, protecting the business should there be wider economic pressures. As shown below, the proportion of cost variability remained relatively consistent year on year.

Excluding business rates relief and exceptional items, total costs before tax for the year were £330.9m (2021: £311.0m). Total costs increased £19.9m, largely as a result of the movement in variable costs, which increased in line with the increase in sales.

Of total costs, 74% (2021: 72%), or £245.9m (2021: £224.9m) were variable or discretionary, and were made up of:
- £188.4m cost of goods sold, including finance and warranty costs (2021: £172.2m);
- £21.3m distribution costs (2021: £18.7m);
- £23.3m marketing costs (2021: £17.2m); and
- £12.9m performance-related payroll costs (2021: £16.8m).

Semi-variable costs totalled £42.7m, or 13% of total costs, for the year (2021: £44.2m; 14%) and are predominantly other non-performance-related payroll costs and store costs. Depreciation and interest (including on leased assets), rates, heating and lighting make up the remaining £42.3m (13%) of total costs (2021: £41.9m; 14%).

Underlying operating profit*
Operating profit before exceptional costs was £20.2m for the year, compared to £22.5m last year, driven by the £9.3m increase in gross profit being offset by the decrease in business rates relief and an increase in both distribution and administration costs. Without the additional business rates relief, the Group would have recorded an underlying operating profit of £17.6m (2021: £12.3m).

Operating exceptional items
In the prior year a £4.2m exceptional credit was recorded relating to the reversal of previous impairment to the Group's stores – both the property, plant and equipment and right-of-use lease assets. The majority of the prior year credit reversed the impairment taken in the FY20 as a consequence of reduced forecasts following the impact of COVID-19, with an additional element reversing historic store impairment following stronger forecast store performance.

Finance costs
The net finance expense has decreased by £0.3m to £3.8m (2021: £4.1m) as a result of a reduction in interest on the Group's lease liability as the Group's average lease length decreased.

Taxation
The tax charge for the financial year is lower (2021: lower) than if the standard rate of corporation tax had been applied, mainly due to the benefit of the capital allowances super deduction on qualifying additions and the increase in the rate used to measure the Group's deferred tax asset.

Earnings per share (EPS)
EPS for the year ended 30 July 2022 was 36.2p (2021: 50.4p) and underlying EPS* which excludes exceptional costs, was 36.2p (2021: 41.3p).

A full reconciliation of EPS is shown in note 8.

Cash and cash equivalents
The Group operates a negative working capital business model whereby:
- For cash/card sales, customers pay deposits at the point of order and settle outstanding balances before delivery;
- For consumer credit sales, the loan provider pays ScS within two working days of delivery; and
- The majority of product suppliers are paid at the end of the month following the month of delivery into the distribution centres.

Cash decreased £16.8m in the year to £70.8m (2021: £87.7m). A summary of cash flows is shown below:

	52 weeks ended 30 July 2022 £m	53 weeks ended 31 July 2021 £m
Cash generated from operating activities	**28.5**	**41.6**
Payment of capital and interest elements of leases	**(28.6)**	**(26.4)**
Net capital expenditure	**(4.7)**	**(4.5)**
Net taxation and interest payments	**(3.9)**	**(3.8)**
Free cash flow	**(8.7)**	**6.9**
Dividends	**(4.4)**	**(1.1)**
Purchase of own shares	**(3.6)**	**(0.4)**
Net cash (outflow)/generated	**(16.8)**	**5.4**

The cash generated from operating activities is £13.1m lower than FY21 due predominantly to the normalisation of working capital including a reduction in customer deposits and VAT owed.

The payment of capital and interest elements of leases has increased by £2.2m, principally as a result of a larger proportion of the repayment of rent deferrals negotiated with landlords in FY20 falling into FY22 than FY21.

Capital allocation
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern whilst retaining financial flexibility to both invest in the business where economic returns are attractive and provide returns to shareholders. We aim to allocate capital, subject to strict returns criteria, to meet the strategic needs of the business. Our target is gross capital expenditure of under 4.0% of total sales per annum, on average. During this financial year we invested in developing our Coventry concept store and digital lounge as part of the 'Engaging showrooms' pillar of our strategy, and relocated two stores and one distribution centre to improve our operations.

Return to shareholders
The Board recognises the importance of a dividend to investors and, despite suspending the dividend temporarily, is keen to reinstate a progressive policy, with the intention to:

- Keep earnings cover in the range of 1.25x to 2.00x;
- Ensure cash cover remains in the range of 1.75x to 2.25x through the economic cycle; and
- Pay an interim dividend that will be approximately one-third of the total dividend.

The Board considers this policy appropriate given the strength of the balance sheet, whilst ensuring the Group has sufficient resources to pursue potential future opportunities to deliver growth.

As a result of the positive trading, the Group paid an interim dividend of 4.5p in May 2022 (2021: 3.0p). The Board is confident in the outlook for the Group and proposes a final dividend of 9.0p (2021: 7.0p). If approved, this would give a full-year dividend of 13.5p (2021: 10.0p). The final dividend, if approved, will be paid on 9 December 2022 to shareholders on the register on 11 November 2022. The ex-dividend date is 10 November 2022.

The total dividend paid is in line with target earnings per share cover, and cash cover through the economic cycle.

In March, the Group also launched a share buyback programme to further return funds to shareholders through the buyback and cancellation of up to £7m of shares. As at the signing date, the Group had purchased and cancelled £3.3m worth of shares, and will seek approval at the Group's AGM in November 2022 to complete the programme.

Principal risks and uncertainties
The principal risks and uncertainties which the Group faces are detailed on pages 50 to 59 of the Annual Report for 2021, which is dated 4 October 2021 and is available from the ScS Group plc website: www.scsplc.co.uk.

A summary of the principal risks has been provided below:

- Changes in consumer confidence
- Changes in interest rates, currency rates and availability of consumer credit could lead to cost pressure and changes in customer spending
- Competition with other retailers and failing to respond to key changes in the competitive environment
- Regulatory and compliance risk
- Supply chain and sourcing risk
- Disruption to the Group's IT systems

- Challenges in retaining and developing our colleagues
- Protecting our brand and reputation External factors adversely affecting footfall in our stores over key trading periods

Significant increases in energy prices, general price inflation and interest rate increases have all placed pressure on household budgets, which, along with widespread economic and political uncertainty has and will continue to negatively affect consumer confidence. The cost of living crisis is impacting all aspects of people's daily lives, including their decisions in relation to spending on non-essential items, and in particular big ticket items. This risk continues to escalate as further increases in home energy, general costs and interest rates are predicted. Whilst recent and future government intervention may help reduce the impact, we are mindful that the recently announced government 'Growth Plan' has, initially at least, increased forecasted interest rates, reduced mortgage availability, and decreased the value of sterling against the dollar. Higher interest rates will impact mortgage costs and potentially decrease disposable household income, together with increasing the Group's cost of supplying interest free credit. Lower mortgage availability could impact the level of housing transactions. A sustained decrease in the value of sterling against the dollar would increase product costs.

The ongoing conflict in Ukraine has added further uncertainty in the macro economy, which has and will continue to reduce consumer confidence and add increased pressure to the supply chain.

The 'Economic Environment' principal risk is directly impacted by the decrease in consumer confidence and the cost of living increases highlighted above. We have therefore increased the risk level to high.

Alternative performance measures ("APMs")

In the reporting of financial information, the Board have adopted various alternative performance measures (APMs). APMs should be considered in addition to IFRS measurements. The Board believe that these APMs assist in providing useful information on the underlying performance and position of the Group and enhance the comparability of information between reporting periods by adjusting for non-underlying items which affect IFRS measures and are used internally by the Board to measure the Group's performance.

Consequently, APMs are used by the Board and management for performance analysis, planning, reporting and incentive setting purposes and have remained consistent with prior year. A subset is also used by management in setting Director and management remuneration. The measures are also used in discussions with the investment analyst community. The key APMs used by the Group are summarised in the table below.

<table>
<tr><th>APM</th><th>Definition</th><th>Reconciliation</th></tr>
<tr><td>Like-for like order growth</td><td>'Like-for-like' order growth comprises total orders (inclusive of VAT) in a financial period compared to total orders achieved in a prior period excluding new or closed stores to ensure comparability.</td><td>N/A</td></tr>
<tr><td>Gross sales</td><td>Gross sales represents turnover on the sale of goods and aftercare services before deduction of interest-free credit.</td><td><table>
<tr><td></td><td>FY22
£'000</td><td>Restated
FY21
£'000</td></tr>
<tr><td>Revenue</td><td>331,569</td><td>305,231</td></tr>
<tr><td>Add back: costs of interest free credit</td><td>13,141</td><td>13,953</td></tr>
<tr><td>Gross sales (note 3)</td><td>344,710</td><td>319,184</td></tr>
</table></td></tr>
<tr><td>Gross margin</td><td>Gross profit as a percentage of gross sales.</td><td><table>
<tr><td></td><td>FY22
£'000</td><td>Restated
FY21
£'000</td></tr>
<tr><td>Revenue</td><td>331,569</td><td>305,231</td></tr>
<tr><td>Add back: costs of interest free credit</td><td>13,141</td><td>13,953</td></tr>
<tr><td>Gross sales (note 3)</td><td>344,710</td><td>319,184</td></tr>
<tr><td>Gross profit</td><td>156,264</td><td>146,987</td></tr>
<tr><td>Gross margin</td><td>45.3%</td><td>46.1%</td></tr>
</table></td></tr>
</table>

<table>
<tr><td>Non-underlying items</td><td>Certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group and are excluded by virtue of their size and nature to reflect management’s view of the performance of the Group.</td><td>
<table>
<tr><td></td><td>FY22
£’000</td><td>FY21
£’000</td></tr>
<tr><td>Operating exceptional items (note 4)</td><td>-</td><td>4,242</td></tr>
</table>
</td></tr>
<tr><td>EBITDA and underlying EBITDA</td><td>Earnings before interest, tax, depreciation & amortisation (EBITDA). Underlying EBITDA is before the effect of non-underlying items in the year.</td><td>
<table>
<tr><td></td><td>FY22
£’000</td><td>FY21
£’000</td></tr>
<tr><td>Statutory operating profit</td><td>20,199</td><td>26,773</td></tr>
<tr><td>Depreciation/amortisation:</td><td></td><td></td></tr>
<tr><td>On tangible fixed assets</td><td>4,162</td><td>3,980</td></tr>
<tr><td>On right-of-use assets</td><td>21,523</td><td>21,149</td></tr>
<tr><td>On intangible assets</td><td>882</td><td>865</td></tr>
<tr><td>EBITDA</td><td>46,766</td><td>52,767</td></tr>
<tr><td>Non-underlying items</td><td>-</td><td>(4,242)</td></tr>
<tr><td>Underlying EBITDA</td><td>46,766</td><td>48,525</td></tr>
</table>
</td></tr>
<tr><td>Underlying operating profit</td><td>Underlying operating profit is based on operating profit before the effect of non-underlying items in the year.</td><td>
<table>
<tr><td></td><td>FY22
£’000</td><td>FY21
£’000</td></tr>
<tr><td>Statutory operating profit</td><td>20,199</td><td>26,773</td></tr>
<tr><td>Non-underlying items</td><td>-</td><td>(4,242)</td></tr>
<tr><td>Underlying operating profit</td><td>20,199</td><td>22,531</td></tr>
</table>
</td></tr>
<tr><td>Underlying profit before tax</td><td>Underlying profit before tax is based on profit before tax before the effect of non-underlying items in the year.</td><td>
<table>
<tr><td></td><td>FY22
£’000</td><td>FY21
£’000</td></tr>
<tr><td>Statutory profit before tax</td><td>16,358</td><td>22,674</td></tr>
<tr><td>Non-underlying items</td><td>-</td><td>(4,242)</td></tr>
<tr><td>Underlying profit before tax</td><td>16,358</td><td>18,432</td></tr>
</table>
</td></tr>
<tr><td>Underlying basic earnings per share (EPS)</td><td>Underlying basic EPS is based on earnings per share before the effect of non-underlying items in the year.</td><td>
<table>
<tr><td></td><td>FY22
£’000</td><td>FY21
£’000</td></tr>
<tr><td>Profit for the period</td><td>13,584</td><td>19,064</td></tr>
<tr><td>Non-underlying items net of tax</td><td>-</td><td>(3,436)</td></tr>
<tr><td>Underlying profit after tax</td><td>13,584</td><td>15,628</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>Number of shares (000’s)</td><td>37,499</td><td>37,829</td></tr>
<tr><td>Underlying EPS</td><td>36.2p</td><td>41.3p</td></tr>
</table>
</td></tr>
</table>

ScS Group plc
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Audited 52 weeks ended 30 July 2022 £'000**	Audited 53 weeks ended 31 July 2021 (restated*) £'000
Gross sales	3	**344,710**	319,184
Revenue	3	**331,569**	305,231
Cost of sales		**(175,305)**	(158,244)
Gross profit		**156,264**	146,987
Distribution costs		**(21,304)**	(18,680)
Administrative expenses including exceptional items		**(114,761)**	(101,534)
Operating profit		**20,199**	26,773
Analysed as:			
Underlying operating profit		**20,199**	22,531
Operating exceptional items included within administrative expenses	4	**-**	4,242
Operating profit		**20,199**	26,773
Finance costs	5	**(3,856)**	(4,180)
Finance income	6	**15**	81
Net finance costs		**(3,841)**	(4,099)
Profit before taxation		**16,358**	22,674
Income tax charge	7	**(2,774)**	(3,610)
Profit for the year		**13,584**	19,064
Profit is attributable to:			
Owners of the parent		**13,584**	19,064
Underlying earnings per share:			
Basic earnings per share (pence)	8	**36.2p**	41.3p
Diluted earnings per share (pence)	8	**35.0p**	39.8p
Statutory earnings per share:			
Basic earnings per share (pence)	8	**36.2p**	50.4p
Diluted earnings per share (pence)	8	**35.0p**	48.6p

There are no other sources of comprehensive income/(expense).

**The prior year gross sales, revenue and cost of sales figures have been restated to account for warranty sales as an agent rather than principal under IFRS 15 (note 12). There are no changes to gross profit, or any subsequent financial statement line items.*

ScS Group plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 July 2022 £'000	As at 31 July 2021 £'000
Non-current assets			
Intangible assets		**2,494**	2,243
Property, plant and equipment		**18,076**	18,381
Right-of-use assets		**96,996**	102,630
Deferred tax asset		**1,845**	2,024
Total non-current assets		**119,411**	125,278
Current assets			
Inventories		**19,791**	17,328
Trade and other receivables		**6,011**	4,947
Cash and cash equivalents		**70,819**	87,650
Total current assets		**96,621**	109,925
Total assets		**216,032**	235,203
Current liabilities			
Current income tax liabilities		**309**	1,171
Trade and other payables	9	**57,328**	71,818
Provisions		**303**	488
Lease liabilities		**19,721**	22,693
Total current liabilities		**77,661**	96,170
Non-current liabilities			
Provisions		**1,192**	1,155
Lease liabilities		**87,012**	93,368
Total non-current liabilities		**88,204**	94,523
Total liabilities		**165,865**	190,693
Capital and reserves attributable to the owners of the parent			
Share capital		**37**	38
Share premium		**16**	16
Capital redemption reserve		**16**	15
Treasury reserve	11	**(681)**	(549)
Merger reserve		**25,511**	25,511
Retained earnings		**25,268**	19,479
Equity attributable to the owners of the parent		**50,167**	44,510
Total equity		**50,167**	44,510
Total equity and liabilities		**216,032**	235,203

ScS Group plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent						
	Share capital	Share premium	Capital redemption reserve	Merger reserve	Treasury reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 26 July 2020	**38**	**16**	**15**	**25,511**	**(182)**	**106**	**25,504**
Profit and total comprehensive income	-	-	-	-	-	19,064	19,064
Share-based payment charge	-	-	-	-	-	1,450	1,450
Purchase of treasury shares	-	-	-	-	(410)	-	(410)
Sale of treasury shares	-	-	-	-	43	(8)	35
Dividend paid	-	-	-	-	-	(1,133)	(1,133)
Balance at 31 July 2021	**38**	**16**	**15**	**25,511**	**(549)**	**19,479**	**44,510**
Balance at 1 August 2021	**38**	**16**	**15**	**25,511**	**(549)**	**19,479**	**44,510**
Profit and total comprehensive income	-	-	-	-	-	13,584	13,584
Share-based payment charge	-	-	-	-	-	153	153
Repurchase of own shares	-	-	-	-	-	(2,201)	(2,201)
Cancellation of repurchased shares	(1)	-	1	-	-	-	-
Purchase of treasury shares (note 11)	-	-	-	-	(1,476)	-	(1,476)
Issue of treasury shares to employees (note 11)	-	-	-	-	1,344	(1,304)	40
Dividend paid (note 10)	-	-	-	-	-	(4,443)	(4,443)
Balance at 30 July 2022	**37**	**16**	**16**	**25,511**	**(681)**	**25,268**	**50,167**

ScS Group plc

CONSOLIDATED STATEMENT OF CASH FLOWS

	52 weeks ended 30 July 2022	53 weeks ended 31 July 2021 (restated*)
Cash flows from operating activities	**£'000**	£'000
Profit before taxation	**16,358**	22,674
Adjustments for:		
Depreciation of property, plant and equipment	**4,162**	3,980
Depreciation of right-of-use assets	**21,523**	21,149
Amortisation of intangible assets	**882**	865
Impairment reversal on non-current assets	**-**	(4,242)
Share-based payment charge	**153**	1,450
Finance costs	**3,856**	4,180
Finance income	**(15)**	(81)
	46,919	49,975
Changes in working capital:		
(Increase)/decrease in inventories	**(2,463)**	879
Increase in trade and other receivables	**(1,064)**	(143)
Decrease in trade and other payables	**(14,908)**	(9,141)
Cash generated from operating activities	**28,484**	41,570
Income taxes paid	**(3,457)**	(3,381)
Net cash flow generated from operating activities	**25,027**	38,189
Cash flows from investing activities		
Purchase of property, plant and equipment	**(3,741)**	(3,654)
Payments to acquire intangible assets	**(1,004)**	(855)
Interest received	**15**	81
Net cash outflow from investing activities	**(4,730)**	(4,428)
Cash flows from financing activities		
Dividends paid	**(4,443)**	(1,133)
Purchase of own shares (note 11)	**(3,677)**	(410)
Sale of treasury shares (note 11)	**40**	35
Interest paid	**(418)**	(439)
Interest paid on lease liabilities	**(3,438)**	(3,741)
Payment of capital element of leases	**(25,192)**	(22,705)
Net cash flow used in financing activities	**(37,128)**	(28,393)
Net (decrease)/increase in cash and cash equivalents	**(16,831)**	5,368
Cash and cash equivalents at beginning of period	**87,650**	82,282
Cash and cash equivalents at end of period	**70,819**	87,650

** The prior year cash flow has been restated to reclassify interest paid from operating activities to financing activities (note 12).*

Notes to the audited condensed consolidated financial statements

1. **General information**

ScS Group plc (the "Company") is incorporated and domiciled in the UK (Company registration number 03263435). The address of the registered office is 45-49 Villiers Street, Sunderland, SR1 1HA. The principal activity of the Company and its subsidiaries (the "Group") is the provision of upholstered furniture and flooring, trading under the name ScS.

The 2021 audited financial statements for the Group have been filed with Companies House.

2. **Basis of preparation**

The Board approved the preliminary announcement on 10 October 2022.

The results for the financial year ended 30 July 2022, including comparative financial information, have been prepared and approved by the directors in accordance with UK adopted international accounting standards and the applicable requirements of the Companies Act 2006.

The financial information set out above does not constitute the Group's statutory accounts for the years ended 30 July 2022 or 31 July 2021, but is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies, and those for 2022 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors 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.

Other than noted below the same accounting policies and methods of computation are followed as in the latest published audited accounts for the year ended 31 July 2021, which are available on the Group's website at www.scsplc.co.uk

Change in accounting policy

Gross sales and revenue

The Group has reconsidered the judgement it previously applied in respect of the accounting policy in relation to the sale of warranties. The Group now considers that it is acting as an agent in the sale of warranties as opposed to the principal.

As detailed in note 12, the change in policy requires restatement of gross sales, revenue and cost of sales in the year ended 31 July 2021 but has no impact on reported profit, cash flows or the consolidated statement of financial position.

Consolidated statement of cash flows

In the prior year the consolidated statement of cash flows presented interest paid within operating activities. This has been reclassified to within financing activities consistent with the classification of interest paid on lease liabilities.

Going concern

At the time of approving the financial statements, the Board is required to formally assess that the business has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the 'going concern' basis of accounting.

Liquidity

The most significant factor in considering whether current resources are adequate is to consider the Group's liquidity. At 30 July 2022, the Group's cash balance totalled £70.8m and £18.4m was owed as trade payables for goods delivered. The Group has no drawn down debt, and further liquidity is available through the £12.0m revolving credit facility (RCF) granted on 6 October 2022. This facility is committed for a term of 36 months and would be renegotiated well in advance of this maturity date. The RCF is subject to certain covenants in respect of fixed charge cover, liquidity and leverage.

Cash flows
As part of the Group's ongoing review of going concern, the directors have reviewed the results for the 12 months to 30 July 2022 and have modelled cash flow forecasts under the following scenarios:

- A 'base case' scenario to July 2025 which reflects the challenging economic environment whilst also recognising the impact of our strategic progress on the group's results. We assume no further lockdown periods or direct impact on our store and distribution operation.
- A minor sensitivity which sees a reduction in revenue due to a downturn in consumer confidence whilst being able to maintain our assumed gross margin as per the 'base case' scenario.
- A moderate sensitivity which sees a reduction in gross margin versus 'base case' with a compounding annual increase in fuel and utility costs representing an increasingly challenging economic environment.
- A 'severe but plausible' downside sensitivity which models much more significant reductions in sales and margin, together with the assumption that our suppliers have the credit insurance they use to support their payment terms with the Group withdrawn, seeing our suppliers request earlier payment dates to alleviate their working capital challenges.

Under each sensitivity, the Group has modelled associated reductions in marketing and distribution costs, bonus costs and sales-related commission payments in response to the downturn in the Group's performance brought on by the challenging economic environment, and the Group maintains suitable liquidity headroom. Under the 'severe but plausible downside' scenario more severe cash preservation methods are implemented, such as reducing capital expenditure, suspending shareholder returns and reducing headcount.

Throughout the 'severe but plausible downside' scenario, the Group would have significant cash headroom. Including the withdrawal of supplier credit insurance, the cash low point at the end of July 2023 remains substantial at £34.5m. Forecasts show there is no requirement for any additional sources of financing throughout the extended viability period.

For the reasons set out in detail above, the Board believe it remains appropriate to prepare the Group financial statements on a going concern basis.

New standards, amendments and interpretations
There are no new accounting standards, interpretations and amendments adopted in the year which have had a material impact on the amounts reported in this consolidated set of financial statements.

Critical accounting judgements and estimates
The preparation of the financial statements requires judgements, estimates and assumptions to be made that affect the reported value of assets, liabilities, revenues and expenses. The nature of estimation and judgement means that actual outcomes could differ from expectation.

Critical accounting estimates and assumptions
Management consider that accounting estimates and assumptions made in relation to the following items have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities.

Stock provisions
The Group holds £19.8m of inventory at the year end, and the majority of this stock is held for display in our showrooms. Due to the nature of this stock, it will often be subject to the wear and tear associated with use in a showroom environment, and some items may have also been in our showroom for an extended period of time. As such, this stock is often unable to achieve the same margin as the 'special order' stock purchased and delivered directly to our customers, and may occasionally be sold at a level lower than cost following a business decision to refresh the range or better utilise the space. The Group's policy in relation to stock provisioning is, therefore, to provide for obsolete, slow-moving and defective stock, and therefore, ensure that stock is held at the most appropriate estimate of net realisable value.

In determining an estimate of this value, management has made judgements in respect of the quality of the Group's products and saleability, and applied a provision based on historic sales levels. Whilst management considers that the methodologies and assumptions adopted in the valuation are supportable, reasonable and robust, because of the inherent uncertainty of the sale price of stock currently held, those estimated values may differ from the final sale and the total differences could potentially be significant.

Impairment of property, plant and equipment and right-of-use assets
Management consider each showroom to be a cash-generating unit (CGU). At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets to determine whether there is any indication of impairment at a showroom following poor performance. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amounts for CGUs are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on the Group's internal budgets, which are then extrapolated over the remaining showroom lease length, and management's expectations of estimated growth rates.

The key estimates for the value in use calculations are those regarding the discount rate used and expected changes to future cash flows. Management consider the potential impact of changes in these key estimates in performing sensitivity analysis. Management sets the budgets based on past experiences and expectations of future changes in the market and estimates discount rate using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the CGUs, deriving from the Group's post-tax weighted average cost of capital. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised as income immediately.

3. Segmental analysis

The Board have determined the operating segments based on the operating reports reviewed by the Executive Board (the Executive Directors and the other Directors of the trading subsidiary, A. Share & Sons Limited) that are used to assess both performance and strategic decisions. The Board have identified that the Executive Board are the chief operating decision makers in accordance with the requirements of IFRS 8 Operating segments.

The Board consider that the Group operates one type of business generating gross sales and revenue from the retail of furniture and flooring. All gross sales and revenue profit before taxation, assets and liabilities are attributable to the principal activity of the Group and other related services. All gross sales and revenues are generated in the United Kingdom.

Analysis of gross sales is as follows:

	52 weeks ended 30 July 2022 £'000	(restated) 53 weeks ended 31 July 2021 £'000
Sale of goods	**340,580**	299,200
Associated warranties	**4,130**	19,984
Gross sales	**344,710**	319,184
Less: costs of interest free credit	**(13,141)**	(13,953)
Revenue	**331,569**	305,231
Of which		
In-store furniture	**269,781**	233,865
In-store flooring	**31,704**	27,883
Online	**30,084**	43,483
Revenue	**331,569**	305,231

4. Exceptional items included within administrative expenses

In order to provide a clearer understanding of underlying profitability, underlying operating profit excludes exceptional items, which relate to items that, either by their size or nature, require separate disclosure in order to give a fuller understanding of the Group's financial performance. Exceptional items, booked to operating costs, comprised the following:

	52 weeks ended 30 July 2022 £'000	53 weeks ended 31 July 2021 £'000
Impairment reversal	**-**	4,242

Impairment reversal

In the prior year exceptional items include a credit of £4,242,000 which relates to the reversal of previous impairment to the Group's stores. This was split between the right-of-use asset (£2,932,000) and tangible assets (£1,310,000), apportioned based on net book value.

5. Finance costs

	52 weeks ended 30 July 2022 £'000	53 weeks ended 31 July 2021 £'000
Bank facility renewal fees	**-**	19
Bank facility non-utilisation fees	**413**	396
Other finance costs	**5**	24
Interest on lease liability	**3,438**	3,741
	3,856	4,180

6. Finance income

	52 weeks ended 30 July 2022 £'000	53 weeks ended 31 July 2021 £'000
Bank interest received	**15**	81

7. Taxation

The total tax charge for the financial year of £2.8m (2021: £3.6m) comprises a corporation tax charge of £2.6m (2021: £4.9m) and a deferred tax charge of £0.2m (2021: credit of £1.3m). The tax charge is an effective rate of 17.0%, which is lower (2021: 15.9% - lower) than if the standard rate of corporation tax had been applied, mainly due to the benefit of the capital allowances super deduction on qualifying additions and the increase in the rate used to measure the Group's deferred tax asset.

The UK corporation tax standard rate for the period was 19% (2021: 19%). The Finance Act 2021 maintained the main rate of UK corporation tax at 19% until 31 March 2023, before increasing it to 25% from 1 April 2023. These changes were substantively enacted at the balance sheet date, 30 July 2022, and hence have been reflected in the measurement of deferred tax balances, resulting in deferred tax being calculated using an effective rate of 25% as at 30 July 2022.

On 23 September 2022 it was announced that the corporation tax rate change from 19% to 25%, with effect from 1 April 2023, was to be cancelled. This was not substantively enacted at the balance sheet date and therefore the impact of this change is not reflected in the measurement of deferred tax. If the rate change had been substantively enacted prior to 30 July 2022, the impact would have been to reduce the deferred tax asset by £442,000, with a corresponding debit to the income statement.

8. Earnings per share

	52 weeks ended 30 July 2022	53 weeks ended 31 July 2021
a) Basic earnings per share attributable to the ordinary equity holders of the company		
From underlying operations	**36.2p**	41.3p
From exceptional items	**-**	9.1p
Total basic earnings per share	**36.2p**	50.4p
b) Diluted earnings per share attributable to the ordinary equity holders of the company		
From underlying operations	**35.0p**	39.8p
From exceptional items	**-**	8.8p
Total diluted earnings per share	**35.0p**	48.6p

	52 weeks ended 30 July 2022 £'000	53 weeks ended 31 July 2021 £'000
c) Reconciliations of earnings used in calculating earnings per share		
Profit from operations	**13,584**	19,064
- Deduct exceptional items net of tax	**-**	(3,436)
Total profits from underlying operations	**13,584**	15,628

d) Weighted average number of shares used as the denominator

	52 weeks ended 30 July 2022 Number	53 weeks ended 31 July 2021 Number
Weighted average number of shares in issue for the purposes of basic earnings per share	**37,498,925**	37,828,902
Effect of dilutive potential ordinary shares:		
- share options	**1,354,896**	1,435,066
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**38,853,821**	39,263,968

9. Trade and other payables current

	As at 30 July 2022 £'000	As at 31 July 2021 £'000
Trade payables	**18,374**	15,369
Payments received on account	**25,540**	36,955
Other tax and social security payable	**2,236**	6,175
Accruals	**11,178**	13,319
	57,328	71,818

The fair value of financial liabilities approximates their carrying value due to short maturities. Financial liabilities are denominated in pounds sterling.

Payments received on account represent deposits taken from customers at the point of order and in advance of the Group fulfilling its performance obligations to provide goods and services for customer orders. They will be realised in the next 12 months. The brought forward balance of payments received on account was recognised as revenue during the year.

10. Dividend

A final dividend for the year ended 31 July 2021 of 7.0p resulted in a payment of £2,659,000 which was made on 10 December 2021. It has been recognised in shareholders' equity in the year to 30 July 2022.

An interim dividend of 4.5p (2021: 3.0p) per ordinary share was declared by the Board on 22 March 2022 and resulted in a payment of £1,684,000 which was made on 12 May 2022. It has been recognised in shareholders' equity in the year to 30 July 2022.

During the year dividend equivalents were paid on the vesting of the 2020 LTIP totalling £100,000.

Given the strength of the Group's balance sheet coupled with the strong result for the year a final dividend of 9.0p has been proposed and, if approved, will be recorded within the financial statements for the year ended 29 July 2023.

11. Treasury shares and share buyback

The Group's Employee Benefit Trust held 257,414 shares at the start of the year.

During the financial year, the Group's Employee Benefit Trust purchased a further 624,453 ordinary shares of 0.1 pence each in the Group at an average price of 236.4 pence per ordinary share, and 554,204 ordinary shares were used to satisfy management incentive awards.

As at 30 July 2022 the Group holds 327,663 of its own ordinary shares of 0.1 pence each in the Group at an average purchase price of 207.7 pence.

During the year the Group acquired 1,242,208 ordinary shares at an average share price of 174.4p per ordinary share for a total consideration including associated fees of £2,201,000. Following this purchase, the ordinary shares purchased by the Group were cancelled, and the Group's issued share capital subsequently consists of 36,770,447 ordinary shares, each with one voting right.

12. Prior year restatement

Accounting for the sale of warranty products

The Group adopted IFRS 15 in the year ended 27 July 2019 and at that time applied a judgement that the Group acted as the principal in transactions involving the sale of warranties. A key judgement was that ScS controls the warranty before it is provided to the customer given that ScS takes responsibly for the majority of the customers purchasing process, including marketing the product and administering refunds, and has discretion to establish prices.

Following communication with the FRC, the Directors have concluded that as the Group has no inventory risk associated with the warranty, and that the right to the warranty is created only when the warranty product is obtained by the customer (i.e upon delivery of the furniture to which the warranty relates), it is appropriate for the Group to revise its judgement and conclude that it is acting as an agent in the sale of warranties. This change in accounting policy choice will allow for more relevant comparability with others in our industry.

The change in accounting policy has resulted in a prior year restatement, with gross sales, revenue and costs of sales being reduced by £5,335,000 in the consolidated statement of comprehensive income for the year ended 31 July 2021. This change results in revenue representing the net income receivable by the Group on the sale of warranties product. The restatement did not result in any change to reported profit, earnings per share, cash flows or in the consolidated statement of financial position.

Classification of interest paid

In the prior year the consolidated statement of cash flows presented interest paid of £439,000 within operating activities. This has been reclassified to within financing activities, consistent with the classification of interest paid on lease liabilities.