For immediate release **25 October 2023**

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

Audited preliminary results for the 52 weeks ended 29 July 2023

RESILIENT RESULTS; ROBUST 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 29 July 2023.

Financial summary:

Group	Group FY23	Snug	Group FY23 excl. Snug	Group FY22 pre Snug
Gross sales*	**£343.5m**	£4.2m	£339.3m	£344.7m
Revenue	**£325.9m**	£4.2m	£321.7m	£331.6m
Gross profit	**£152.4m**	£2.8m	£149.6m	£156.3m
Gross margin*	**44.4%**	65.8%	44.1%	45.3%
Profit/(loss) before tax	**£6.0m**	(£2.8m)	£8.8m	£16.4m
Underlying profit before tax*	**£7.2m**	(£1.9m)	£9.2m	£13.8m

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

The Group acquired the business and assets of Snug on 10 January 2023. Snug made a loss before tax for the year of £2.8m, with an underlying loss before tax* of £1.9m.

Financial highlights:

- Despite a challenging economic climate, delivered sales were only 0.4% below prior year
- Gross margin of 44.4%, 1.0% lower than prior year with increased year on year costs for providing credit to customers partially offset by price increases
- Underlying profit before tax* of £7.2m, including a £1.9m loss before tax from the newly acquired Snug business
- Completion of share buyback programme, returning £7.0m to shareholders
- Strong balance sheet with cash of £69.5m as at 29 July 2023 (FY22: £70.8m)
- Recommended final dividend of 10.0p per share, which, if approved, would give a full year dividend of 14.5p per share (FY22: 13.5p), an increase of 7.4%

Operational highlights:

- Strong ScS like-for-like order growth* in H2 of 5.9%, order intake for the full year was in line with FY22
- Acquired Snug out of administration in January 2023, re-established operations from an effective standing start
- Continued to gain market share, further cementing position as the UK's second largest upholstered furniture retailer
- Further strategic progress:
    - Acquired Snug, expanding the Group's offering and increasing market share, subsequently opened one new standalone Snug store in Bristol and nine Snug concessions in ScS stores
    - Opened two new ScS stores in York and Swindon
    - Refreshed and launched new branding and advertising for ScS
    - Implemented our new format store design into eight further locations
    - Achieved Kitemark certification for domestic furniture from the British Standards Institute
    - Exceeded 440,000 reviews on Trustpilot, maintained the maximum 5-star 'Excellent'

Current trading and outlook:

- Trading has toughened over the first quarter, with ScS like-for-like order intake growing 2.7% in August, 0.3% in September and declining 4.4% in October. Order intake was in line with the prior year for the 12 weeks to 21 October 2023

- Opened a new standalone Snug store in Westfield London and seven further concessions in ScS stores
- Planned investment in a further 12 ScS stores to adopt our new format design
- Resilient balance sheet, with forecasted cash of £57m as at 31 October 2023

Steve Carson, Chief Executive Officer of ScS, commented:
"We are pleased to announce a resilient set of results and to continue to take market share in what is a challenging environment. We were also delighted to see continued progress in year two of our strategy, including modernising our product offering, investing in our store estate, refreshing and relaunching our brand and advertising and to announce the acquisition of Snug.

We remain cognisant of the challenging economic environment facing our customers which is expected to continue throughout FY24. We therefore believe that continuing to focus on our value driven proposition is extremely important so that everyone is able to create the home they love.

The Board is confident that the Group's strategy and strong balance sheet will enable ongoing trading resilience and we continue to expect to grow market share while investing in stores, in our digital proposition, and other strategic growth opportunities."

Offer for the Company
On 24 October 2023, Cerezzola Limited, a wholly owned subsidiary of Poltronesofà S.p.A., announced a recommended cash offer for the entire issued and to be issued share capital of the Company of 270p. In addition, shareholders who are on the register at the close of business on 17 November 2023 will be entitled to receive the final dividend of 10.0p (in respect of the year ended 29 July 2023).

It is intended that the acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act. Cerezzola Limited has indicated its intention (subject to the requisite acceptance thresholds as referred to in the announcement of 24 October 2023) to make applications to the London Stock Exchange for the cancellation of the trading of the Company's shares on the Main Market as soon as practicable following the completion of the offer. This process will take place following the release of the Annual Report and is expected to complete in the first quarter of 2024. Further details relating to the timetable of the offer will be announced in due course.

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

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Notes to Editors
ScS is one of the UK's largest retailers of sofas, flooring and furniture. We trade as two separate brands- the core ScS brand and the newly acquired Snug brand.

The ScS brand seeks to offer value and choice through a wide range of sofas, flooring and furniture products. The product range is designed to appeal to a broad customer base with a mid-market priced offering and is currently traded from 100 stores. The brand specialises primarily in fabric and leather sofas and chairs, selling 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). It also offers a range of third party brands (which include La-Z-Boy, Ideal Home and G Plan). The flooring business includes carpets, rugs, wood, laminate and luxury vinyl tiling.

Snug is an innovative digital-first sofa and sofa-bed business specialising in modular and re-configurable sofas, with quick delivery and excellent quality and customer service. Although predominantly online, Snug also operates from three stores in Leeds, Bristol and Westfield London, and 23 concessions throughout the UK.

Chair's letter

Dear Shareholder,

This is my final review and I would like to start by thanking the talented people I have had the pleasure and privilege to work with throughout my nine years. I am extremely proud of what has been achieved during this time. I am equally pleased that ScS has maintained its core identity, providing excellent value and delivering first-class service to our customers, things I am certain will be the foundations for future successes.

FY23 was a challenging year, impacted by the continued economic pressures consumers and businesses face across the UK. Profits fell in the year, driven by a reduction in our gross margin in our ScS business due to the increased cost of providing credit to our customers. Whilst navigating the uncertain external environment, the Group made notable strides implementing our strategy. I was very pleased with the progress Steve and his team made in the year and would like to thank them for their stewardship and determination, as well as thanking all my colleagues for their continued commitment, application of our RIGHT values and pursuit of our ultimate purpose, 'to help create the home you love'.

Following the year end, on 24 October 2023, a wholly-owned subsidiary of Poltronesofà S.p.A. announced a recommended cash offer for the Company of 270p per share. In addition, the Group's shareholders will also be entitled to receive a final dividend in respect of the year ended 29 July 2023 of 10p per share.

Purpose and strategy

I have been delighted with the progress made in the second year of our refreshed strategy. I am confident that this will ensure ScS is in a position to weather the current turbulent economic environment, continue to take market share and prosper when the economy improves.

During the year the team delivered the Group's first acquisition in its long history, acquiring Snug. The Board visited Snug's contemporary Leeds store and met the team, including CEO Rob Bridgman, and heard about their exciting plans. Snug's strong brand and differentiated digital-first offering complements our existing proposition, further diversifies our customer base and increases our market share. I look forward to watching the business grow in the coming years.

Together with other members of the Board I have also visited a number of our new format stores and was impressed with how the team has adapted the design following the learnings gained from our initial locations. It has been pleasing to see their strong performance and we plan to continue to invest in modernising our stores as long as we continue to see the targeted returns.

I was excited to see the positive reaction to the refresh of our ScS brand and modernised product range, making the customer proposition more welcoming and appealing to a wider audience.

None of this progress would have been possible without a fully engaged team and the results of the latest annual employee survey showed an increase in colleague satisfaction by four points to 75, ahead of the UK benchmark. This increase is reflected in our improved employee retention rates.

We continue to recognise the importance of embedding our purpose and strategy in both an ethical and sustainable manner and have progressed towards our ESG objectives. These efforts continue, with our ESG committee establishing a Net Zero strategy.

Shareholder returns

We continue to maintain a strong balance sheet, with £69.5m of cash and no debt at the year end, providing resilience in the current environment. Combined with the strategic progress, the Board has confidence in the Group's future.

In the year we completed our share buyback programme, returning a total of £7.0m to our shareholders and in addition, completed the cash acquisition of Snug. The Board actively reviews the allocation of capital, considering potential external and internal investment opportunities and returns to shareholders.

As we reflect on the robust performance for the year, the Board is pleased to propose a final dividend of 10.0p subject to approval at the AGM. Upon approval, this would mean a full year dividend of 14.5p.

Board changes

Last year we reported the appointment of three new Non-Executive Directors. Carol Kavanagh, who joined the Board on 26 September 2022, Andy Kemp who joined the Board on 1 February 2023 and John Walden who joined as Chair

Designate on 1 March 2023. Additionally, I was pleased to welcome Swarupa Pathakji to the Board as Non-Executive Director on 2 May 2023.

Carol, Andy, John and Swarupa have all held a number of relevant senior positions and have extensive listed company experience that will strengthen the Board's capabilities whilst playing a crucial role in the advancement of our strategy. They have all undertaken a comprehensive induction process and are making valuable contributions to the Group.

The original plan was that both Ron McMillan and I would step down from our positions upon the conclusion of the AGM on 1 December 2023, both having served nine years on the Board, the maximum term recommended under the UK Corporate Governance Code. The current intention is that Ron and I will remain as Non-Executive Directors on the Board for a short period post the AGM to assist with the conclusion of the offer for the Company that was announced on the 24 October 2023 and further updates with regards to this will be made as appropriate.

With the notification from Chris Muir of his intention to step down as Chief Financial Officer (CFO), and following a comprehensive recruitment process, I was delighted to welcome Mark Fleetwood to the Group as Chris's successor on 4 September 2023. Chris has been a vital part of the success of ScS since his appointment in 2016 and I'd like to thank him for his contribution. Chris will remain as an Executive Director on the Board to assist with the conclusion of the offer for the Company.

Summary

We enter the new financial year cautiously optimistic, acknowledging the uncertain economic outlook and the pressures currently and prospectively facing household incomes. However, with the combination of the resilient business model we operate and the strategic progress we have made, alongside targeted investments, we are confident that the Group has improved its offering and is well positioned to compete for market share and to 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. With our proven steadfast operational resilience, continuing strategic progress and strong future prospects, I am confident in handing over the Chair to John Walden. I do so certain in the knowledge that I am leaving ScS and all of its stakeholders in good hands.

It only remains for me to say a very sincere thank you to everyone who has supported me throughout my time with ScS, and to wish you all the very best for the future.

Offer for the Company

Following the year end, on 24 October 2023, a wholly-owned subsidiary of Poltronesofà S.p.A. announced a recommended cash offer for the Company of 270p per share. In addition, the Group's shareholders will also be entitled to receive a final dividend in respect of the year ended 29 July 2023 of 10p per share.

Established in Forli in 1995, Poltronesofà S.p.A. has become the leading sofa retailer in Italy and one of the leading sofa retailers in Europe. It designs and sells sofas and armchairs, as well as sofa beds and decorative accessories and retails them through its 166 stores in Italy, 104 stores in France and 26 further stores across Europe (14 in Belgium, nine in Switzerland, two in Cyprus and one in Malta). Poltronesofà S.p.A. is widely recognised for its focus on a high-quality customer experience while offering Italian-manufactured products at affordable prices. Poltronesofà's customers appreciate the extensive optionality for customisation, with the wide range of models and versions being customisable through Poltronesofà's extensive range of upholsteries. This customer-centric offering is made available at a very convenient price range.

It is intended that the acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act and is expected to complete in the first quarter of 2024.

Yours sincerely,

Alan Smith
Chair
24 October 2023

Chief Executive's report

Overview

The year ended 29 July 2023 marks the conclusion of the second year of our refreshed strategy, mission and purpose which has driven our priorities. Like most companies, we have faced a challenging trading environment resulting from the economic pressures households are facing throughout the UK. Our strong foundations and core values alongside diligent responsive actions have enabled us to maintain a resilient financial performance and gain market share.

I am proud to lead this special business which has always had a family feel, and I would like to thank all of our teams for their ongoing dedication, enthusiasm and contributions in a challenging year. Our colleagues continue to demonstrate the Group's values and put the customers at the centre of everything we do. This hard work and dedication continues to be recognised by our customers, and I am delighted to see that come through in our 5-star 'Excellent' Trustpilot rating.

Results

Positive trading and effective cost management have helped us to navigate a challenging macroeconomic environment to deliver profit ahead of market expectations.

The ScS like-for-like order intake* momentum improved significantly throughout the year. The first half saw a like-for-like order intake reduction of 4.7%, largely due to the first 16 weeks of the year experiencing a 9.1% reduction due to the comparative period benefitting from strong pent-up demand following the last national lockdown. The 10 weeks to 28 January 2023 saw a return to order intake growth of 2.6%, which included the key winter sale. The ScS business refreshed its brand in February 2023 and like-for-like order growth subsequently improved to 5.9% in H2, resulting in FY23 order intake being in line with the prior year.

Whilst all market commentary indicates that big-ticket discretionary purchases remain subdued it was pleasing to see that for the second year running, the ScS business continued to gain market share, cementing its position as the UK's second largest upholstered furniture retailer.

Gross delivered sales was £343.5m (2022: £344.7m), with the ScS business seeing a £5.4m reduction due to a larger order book unwind in FY22. This was partially offset by £4.2m of sales from Snug. Gross profit was £152.4m (2022: £156.3m) with underlying profit before tax*of £7.2m (2022: £13.8m), including a £1.9m loss before tax from Snug.

Gross margin for the year was 44.4% (2022: 45.3%). This was impacted by an increase in the cost of providing credit to customers and the level of display stock sales as we completed the store 'declutter' programme to improve the look and feel of our stores. The cost of credit and level of display stock sales were partially offset by price rises in the year.

Strategic progress

The second year of our refreshed strategy has seen solid progress across a number of areas and would not have been possible without the commitment and support of our colleagues across the Group. The actions we have taken are designed to increase our competitiveness in the marketplace and to position the business to gain market share, doing so in a measured way to ensure the Group remains resilient.

The prior year saw the Group implement a new design concept at our existing Coventry store. Two further stores were invested in at the start of FY23, followed by a period of reflection to measure and refine these initial design concepts. The three concept stores have outperformed the rest of the estate, seeing increased sales, employee satisfaction and a reduction in employee turnover. Taking learnings from the first three stores we then invested in a further six stores in final quarter of the year. Our intention is to invest in at least a further 12 stores in FY24, with the possibility of increasing this if returns are as expected.

Following a period of detailed research, the Group modernised the ScS brand and marketing approach. Our updated marketing tone, style and logo showcase our products in a warm, welcoming manner which we believe is more aligned with our customers and the market, and dovetails well with our new store look and new product ranges. This was a big decision given the positioning and tone of the existing branding and marketing style and we were pleased to see the sales response and market share gain since launch at the start of H2.

To improve our product offering, we have elevated and modernised the ranges on offer in our stores, thus attracting a wider customer demographic as we broaden our appeal. This comes on the back of collaborations, including Ideal Home, with whom we have launched eight exclusive Ideal Home branded sofa ranges, and our new collection with Paloma Faith. We have also expanded our hard floor proposition across laminate, luxury vinyl tiling and engineered wood. As well as improving the range we offer, in recognition of our product quality, we achieved Kitemark certification for domestic furniture by the British Standards Institute. We are one of only a handful of furniture retailers in the UK to hold this stamp of approval.

I remain delighted with our acquisition of Snug in January 2023. Snug is an exciting and young business with great potential. It has a strong and recognisable brand, a differentiated product and targets a market that complements our proposition. In that regard, it presents us with a great opportunity to further increase market share. We therefore view it as a fantastic strategic and cultural fit, which reinforces our commitment to helping our customers create the home they love. Snug's order growth was initially slower than we had hoped, but I am encouraged to see current run rates that are in line with our expectations.

Snug's focus since acquisition has been on re-establishing operations from an effective standing start, including rebuilding supplier relationships, restoring stock levels, re-launching the brand and online presence, and building order momentum. Snug's strategy for the future closely aligns with the wider Group, focused on the aims of improving brand awareness and continuing to grow sales. Alongside a focus on improving the online experience for customers, Snug will also increase its offline presence, both with new standalone stores where the opportunity presents itself, together with ScS's new modernised store rollout each incorporating a Snug concession.

Environmental, social and governance (ESG)
Since developing our ESG strategy last year, we have made progress against the targets and objectives set. I am particularly pleased with some of the differences we have been able to make as part of our work in this area. We have worked hard to implement a number of wellbeing initiatives throughout the year and it was particularly gratifying to receive the 'Bronze Better Health at Work' award along with the 'Best Newcomer' award resulting from all of these fantastic initiatives.

Our ESG steering group has also been working with external consultants on the development of a roadmap towards achieving our Net Zero strategy.

Board changes
Alan Smith, Ron McMillan and Chris Muir will leave the business in the coming year. All three have been supportive and provided wise counsel during my time in the business and I wish them well in their future endeavours. Mark Fleetwood joined the Group in September 2023 as CFO and I am very much looking forward to working with him.

Current trading and outlook
We remain cognisant of the challenging economic environment facing our customers which is expected to continue throughout FY24. We therefore believe that continuing to focus on our value driven proposition is extremely important so that everyone is able to create the home they love.

The Board is confident that the Group's strategy and strong balance sheet will enable ongoing trading resilience and we continue to expect to grow market share while investing in stores, in our digital proposition, and other strategic growth opportunities.

Steve Carson
Chief Executive Officer
24 October 2023

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

FINANCIAL REVIEW

	Group 52 weeks ended 29 July 2023 £m	Snug 29 weeks ended 29 July 2023 £m	Group excl. Snug 52 weeks ended 29 July 2023 £m	Group 52 weeks ended 30 July 2022 £m
Gross sales*	**343.5**	**4.2**	**339.3**	344.7
Revenue	**325.9**	**4.1**	**321.7**	331.6
Gross profit	**152.4**	**2.8**	**149.6**	156.3
Distribution costs	**(21.8)**	**(1.2)**	**(20.7)**	(21.3)
Administration expenses	**(121.0)**	**(3.5)**	**(117.4)**	(117.3)
Total operating expenses	**(142.8)**	**(4.7)**	**(138.1)**	(138.6)
Underlying operating profit/(loss)*	**9.6**	**(1.9)**	**11.5**	17.6
Adjusting items	**(1.2)**	**(0.8)**	**(0.4)**	2.6
Operating profit/(loss)	**8.3**	**(2.8)**	**11.1**	20.2
Net finance expense	**(2.4)**	**-**	**(2.4)**	(3.8)
Profit/(loss) before tax	**6.0**	**(2.8)**	**8.8**	16.4
Underlying profit (loss) before tax*	**7.2**	**(1.9)**	**9.2**	13.8
EBITDA*	**34.0**	**(2.8)**	**36.7**	46.8
Underlying EBITDA*	**35.2**	**(1.9)**	**37.1**	44.2
Statutory earnings per share	**12.8p**			36.2p
Underlying earnings per share*	**15.9p**			30.7p

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

Overview

The Group faced a challenging trading environment throughout FY23. Whilst we were disappointed to not see progress in our financial results, we are pleased to be delivering a resilient set of numbers that were ahead of market expectations. Including Snug, gross sales were in line with the prior year. However, we saw increased pressure on gross margin largely due to the increased costs of providing interest-free credit. The ScS business saw a 1.6% reduction in gross sales, which, coupled with the 44.1% gross margin (FY22: 45.3%), saw gross profit reduce by £6.6m. This was partially offset by a £0.6m reduction in operating costs and a £1.5m reduction in net finance costs due to monies received from cash on deposit.

Shareholder returns have increased in the year, with a proposed full year ordinary dividend increase of 7.4%, coupled with the completion of the £7.0m share buyback programme announced in March 2022. The Board is mindful of the challenging economic environment we face and remain committed to retaining a robust balance sheet in these uncertain times.

On 10 January 2023, we acquired the business and assets of Snug. Initial post-acquisition trading was slower than we originally forecast as the business rebuilt from a standing start and Snug made an underlying loss before tax of £1.9m in the year. Trading in Snug improved significantly in the final quarter of the year.

Given Snug's relative size, and the fact it has sufficiently similar characteristics to the rest of the ScS Group to allow aggregation under IFRS 8, we have aggregated Snug into the rest of the Group as one reportable segment. However, to provide clarity and comparability in the first year, the following narrative is split: ScS, Snug and Group.

ScS

	FY23	FY22	Variance
Gross sales*	£339.3m	£344.7m	(1.6%)
Revenue	£321.7m	£331.6m	(3.0%)
Gross profit	£149.6m	£156.3m	(4.2%)
Gross margin*	44.1%	45.3%	(1.2%)
Profit before tax	£8.8m	£16.4m	(£7.6m)
Underlying profit before tax*	£9.2m	£13.8m	(£4.6m)

Gross sales* and revenue
Gross sales* in the period decreased by £5.4m (1.6%) to £339.3m when compared to prior year (FY22: £344.7m). Like-for-like order intake* remained in line with FY22 despite a challenging economic environment and encouragingly we saw order growth in the second half of the year. The movement on gross sales* is further analysed as follows:

- A decrease in furniture sales in ScS stores of 1.5% to £275.6m (FY22: £279.9m);
- A decrease in flooring sales in ScS stores of 7.7% to £30.1m (FY22: £32.6m); and
- An increase in online sales of 4.1% to £33.6m (FY22: £32.2m).

Revenue, which represents gross sales* less charges relating to interest-free credit sales, decreased by 3.0% from FY22 to £321.7m. Revenue for the period has been adversely impacted by an increase in the cost of finance due to increased customer adoption and a number of rate increases across the year.

Gross profit
Gross margin* was 44.1% (FY22: 45.3%). The decrease of 120 basis points was largely due to an increase in the cost of providing credit to customers, with a higher proportion of customers utilising credit when compared to the prior year, further compounded by an increase in the underlying interest rates in the UK. As a proportion of gross sales* the cost of interest-free credit has increased by 1.4% to 5.2%. The business also experienced a lower margin on display stock sales as part of the rollout of our 'decluttering' programme. The cost of credit and stock impacts were partially offset by product price rises in the year.

Distribution costs
Distribution costs comprise the total cost of our 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 decreased by £0.6m in the period to £20.7m (FY22: £21.3m). As a percentage of gross sales* for the period, distribution costs were 6.1% (FY22: 6.2%). The reduction was driven by improved inbound planning and performance, coupled with fewer deliveries which resulted in the lower use of outside carriers and agency staff.

Administrative expenses
Administrative 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 customer support functions and other central costs.

Administration costs for the year totalled £117.4m, in line with the prior year. Administration costs were 34.6% of gross sales*, up from 34.0% in the prior year. Key movements in the year included:

- £0.4m decrease in marketing investment, however spend remained consistent at 6.8% of gross sales*;
- £0.4m reduction in performance-related pay due to a decrease in bonuses accrued for senior management as a result of the performance levels achieved;
- £2.4m increase in other payroll costs, largely due to the impact of wage inflation;
- £1.5m reduction in property costs, largely due to a decrease in depreciation charges on the right of use assets as a result of rent reductions, with a further benefit from rate reductions; and
- £0.1m reduction in other costs.

Flexible costs
The nature of ScS'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 consistent year-on-year.

Total underlying costs before tax for the period were £330.1m (FY22: of £330.9m).

Of this total, 74.4% (FY22: 74.3%), or £245.7m (FY22: £245.9m), are variable or discretionary, and are made up of:

- £189.6m cost of goods sold, including finance and warranty costs (FY22: £188.4m);
- £20.7m distribution costs (FY22: £21.3m);
- £22.9m marketing costs (FY22: £23.3m); and
- £12.5m performance-related payroll costs (FY22: £12.9m).

Semi-variable costs totalled £45.0m, or 13.6% of total costs, for the year (FY22: £42.7m; 12.9%) and are predominantly other non-performance-related payroll costs. Depreciation, interest, rates, heating and lighting make up the remaining £39.4m (11.9%) of total costs (FY22: £42.3m; 12.8%).

Snug

Following the acquisition of Snug in January 2023, we have re-established operations from an effective standing start. This included rebuilding supplier relationships, restoring stock levels, improving brand awareness, and ultimately building order momentum. These challenges meant order growth was initially slower than we had hoped but we are pleased that current run rates are now in line with our expectations.

Snug made a loss before tax in FY23 of £2.8m, removing pre-trading costs gives an underlying loss before tax of £1.9m in H2. Gross sales* in H2 were £4.2m and a gross profit of £2.8m was achieved, delivering a gross margin* of 65.8%. This gross margin was supported by sales of stock purchased at a reduced cost as part of the administration. Whilst we expect gross margin to reduce in FY24, we still expect it to exceed the ScS margin due to the sourcing profile of the Snug business.

Distribution costs totalled £1.2m. Administration costs were £3.5m, with the main elements being:

- Marketing costs were £1.6m, this equated to 39% of gross sales* as we invested in re-establishing the brand online;
- Payroll costs totalled £1.3m; and
- Other costs (including property, legal, technology, depreciation and general running expenses) totalled £0.6m.

Recent trading indicates that the investment and efforts deployed over the final six months of FY23 are proving successful.

Group

Underlying operating profit*
Operating profit before adjusting items was £9.6m for the year, compared to £17.6m last year, driven by the £1.9m loss incurred in Snug and the £6.6m decrease in ScS gross profit, partially offset by a reduction in ScS distribution costs of £0.6m.

Adjusting items
In the current year the Group has adopted an adjusting items APM to exclude certain costs and incomes that are material in size or unusual/non-recurring in nature, from statutory measures to reflect management's view of the underlying performance of the Group and to aid the reader of the accounts.

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Impairment charge associated with stores	**(2,438)**	-
Snug acquisition and pre-trading costs	**(849)**	-
Business interruption insurance claim	**1,250**	-
Exit of Cambridge store	**790**	-
Business rates relief	**-**	2,570
	(1,247)	2,570

Adjusting items (non-GAAP) comprise:

- £2.4m charge in relation to the impairment of the Group's property plant and equipment and right of use assets as a consequence of the current view on longer-term store performance in a potentially weakened economic environment;
- Snug pre-trading costs of £0.8m, including acquisition costs such as legal and professional fees;
- Receipt of a £1.3m business interruption insurance payment relating to loss of profit as a result of the initial lockdown period during the COVID-19 pandemic;
- An early termination payment from the landlord to exit the Cambridge store earlier than the lease end date, coupled with the associated gain on disposal from the lease £0.8m; and
- During the prior year, the Group benefitted from £2.6m of retail business rates relief provided in response to the COVID-19 outbreak. No further benefit was received in the year ended 29 July 2023.

For further information, see note 6.

Net finance cost
The net finance cost has decreased by £1.5m to £2.4m compared to FY22 as a result of increased interest income earned on the Group's significant cash balances.

Taxation
The tax charge for the financial year is higher (2022: lower) than if the standard rate of corporation tax had been applied, mainly due to the impact of non-qualifying depreciation on assets, and non-deductible expenses.

Earnings per share (EPS)
EPS for the year ended 29 July 2023 was 12.8p (2022: 36.2p) and underlying EPS* which excludes adjusting items, was 15.9p (2022: 30.7p).

A full reconciliation of EPS is shown in note 10.

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 by £1.3m in the year to £69.5m (2022: £70.8m). A summary of cash flows is shown below:

	52 weeks ended 29 July 2023 £m	52 weeks ended 30 July 2022 £m
Cash generated from operating activities	**41.8**	**28.5**
Payment of capital and interest elements of leases	**(23.3)**	**(28.6)**
Net capital expenditure	**(9.3)**	**(4.7)**
Net taxation and interest payments	**-**	**(3.9)**
Free cash flow	**9.2**	**(8.7)**
Acquisition of business combination	**(0.9)**	**-**
Dividends	**(4.7)**	**(4.4)**
Purchase of own shares	**(4.9)**	**(3.6)**
Net cash outflow	**(1.3)**	**(16.8)**

The Group continued to be cash generative in the period with a net cash inflow from operating activities of £41.8m.

Cash generated from operating activities is £13.3m higher than FY22 due to the following:

- FY22 saw a large working capital outflow due to a reduction in customer deposits as lead times shortened, coupled with the timing of VAT payments;
- The current year has seen a working capital inflow as a result of the timing of month end supplier payments. This was partially offset by a reduction in customer deposits as lead times normalised to pre pandemic levels;

- FY23 also saw an increase in stock levels following the investment in our Snug business; and
- The working capital movements noted above were partially offset by profit being higher in FY22.

The payment of capital and interest elements of leases decreased by £5.4m due to the prior year including the repayment of rent deferrals previously negotiated with landlords when stores were temporarily closed due to the Government's imposed lockdown response to COVID-19.

Net taxation and interest payments reduced by £3.8m, due to a reduction in tax payable of £1.7m (in line with the reduction in profit) and an increase in interest received on cash deposits of £1.9m. Interest payable reduced £0.2m following the renegotiation of the Group's revolving credit facility.

Net capital expenditure increased in the year as the Group invested in modernising the ScS store network and technology stack.

Cash outflow in relation to the purchase of own shares has increased £1.3m in the year driven by a £2.6m increase in share buybacks, partially offset by a £1.3m reduction in shares bought by the Group's Employee Benefit Trust.

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 the year we invested in implementing our new store format in eight locations as part of the 'Engaging showrooms' pillar of our strategy.

Return to shareholders
The Board recognises the importance of a dividend to investors and 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.

The Board is confident the Group can continue to take market share and build on the strategic progress experienced in the past two years. The Group paid an interim dividend of 4.5p in May 2023 (2022: 4.5p). The Board is confident in the outlook for the Group and proposes a final dividend of [10.0p] (2022: 9.0p). If approved, this would give a full-year dividend of [14.5p] (2022: 13.5p). The final dividend, if approved, will be paid on 15 December 2023 to shareholders on the register on 17 November 2023. The ex-dividend date is 16 November 2023.

In March 2022 the Group announced a share buyback programme which was completed in February 2023 returning £7.0m to our shareholders.

Offer for the Company
Following the year end, on 24 October 2023 a wholly-owned subsidiary of Poltronesofà S.p.A. announced a recommended cash offer for the Company of 270p per share. It is intended that the acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act and is expected to complete in the first quarter of 2024. The Group's existing committed debt facilities contain a standard change of control clause that will be triggered once the acquisition completes. This could result in the existing committed debt facilities being withdrawn. The Group does not have visibility of the post completion funding for the Group at this time. Therefore, this could create some uncertainty as to the Group's going concern.

The Directors note the intention statements by Poltronesofà S.p.A. included within the announcement on 24 October 2023, which state that following completion of the acquisition, Poltronesofà S.p.A. intends to support the Group by leveraging its significant, pan-European industry expertise and providing the capital necessary to accelerate the Group's strategy. Poltronesofà S.p.A. is highly supportive of management's vision for the business and the long-term ambitions of being the UK's best value-for-money home retailer and recognises and values the strong strategic, operational and product positioning and setup of the Group, as well as the expertise of its management team and employees. Poltronesofà S.p.A. therefore intends to work closely with the Group's senior management to undertake a strategic review of the Group in order to determine how its short and long-term objectives can best be delivered or exceeded.

Notwithstanding Poltronesofà S.p.A.'s stated intentions, the current Directors will not have full control over the acquired Group and therefore they do not currently have full knowledge of the new ultimate parent undertaking's future intentions and funding plans in relation to the Group. Therefore the change of control position indicates a material uncertainty which may cast significant doubt upon the Group and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Having considered all of the above, the Board is of the opinion that the going concern basis adopted in the preparation of the consolidated statements is appropriate.

Principal risks and uncertainties

The principal risks and uncertainties which the Group faces are detailed on pages 50 to 58 of the Annual Report for 2022, which is dated 10 October 2022 and is available from the ScS Group plc website: www.scsplc.co.uk. A summary of the principal risks is set out 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

During the year, the Group has added climate change as a new principal risk. As a UK premium listed company, the Group is required to demonstrate how it plans to address the management of Environmental, Social and Governance (ESG) risks. Our key stakeholders, including customers, employees, investors and regulators as well as the media continue to focus on the Group's plans and progress in this area. Failure to meet customer demand for sustainable products could result in reduced sales. Ensuring the sustainability of our products and operations is important as not addressing these areas could lead to increased costs for the business in the medium to long term.

Alternative Performance Measures ("APMs")

In the reporting of financial information, the Board has adopted 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 period. The measures are also used in discussions with the investment community. The key APMs used by the Group are summarised in the table below.

APM	Definition	Reconciliation
Like-for like order intake	'Like-for-like' order intake 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.	N/A
Gross sales	Gross sales represents turnover on the sale of goods and commission on	**FY23** FY22

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<td></td>
<td>warranties before deduction of interest-free credit.</td>
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<tr><td></td><td>£’000</td><td>£’000</td></tr>
<tr><td>Revenue</td><td>325,865</td><td>331,569</td></tr>
<tr><td>Add back: costs of interest free credit</td><td>17,592</td><td>13,141</td></tr>
<tr><td>Gross sales (note 5)</td><td>343,457</td><td>344,710</td></tr>
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<td>Gross margin</td>
<td>Gross profit as a percentage of gross sales.</td>
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<tr><td></td><td>FY23
£’000</td><td>FY22
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<tr><td>Gross sales (note 5)</td><td>343,457</td><td>344,710</td></tr>
<tr><td>Gross profit</td><td>152,398</td><td>156,264</td></tr>
<tr><td>Gross margin</td><td>44.4%</td><td>45.3%</td></tr>
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<tr>
<td>Adjusting items</td>
<td>Certain costs or incomes that are material in size or unusual/non-recurring in nature are excluded from statutory measures to reflect management’s view of the underlying performance of the Group.</td>
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<table>
<tr><td></td><td>FY23
£’000</td><td>FY22
£’000</td></tr>
<tr><td>Adjusting items (note 6)</td><td>(1,247)</td><td>2,570</td></tr>
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<td>EBITDA and underlying EBITDA</td>
<td>Earnings before interest, tax, depreciation and amortisation (EBITDA). Underlying EBITDA is before the effect of adjusting items in the year.</td>
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<table>
<tr><td></td><td>FY23
£’000</td><td>FY22
£’000</td></tr>
<tr><td>Statutory operating profit</td><td>8,346</td><td>20,199</td></tr>
<tr><td>Depreciation of tangible fixed assets</td><td>4,179</td><td>4,162</td></tr>
<tr><td>Depreciation of right-of-use assets</td><td>20,269</td><td>21,523</td></tr>
<tr><td>Amortisation of intangible assets</td><td>1,185</td><td>882</td></tr>
<tr><td>EBITDA</td><td>33,979</td><td>46,766</td></tr>
<tr><td>Adjusting items</td><td>1,247</td><td>(2,570)</td></tr>
<tr><td>Underlying EBITDA</td><td>35,226</td><td>44,196</td></tr>
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<td>Underlying operating profit</td>
<td>Underlying operating profit is based on operating profit before the effect of adjusting items in the year.</td>
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<tr><td>Adjusting items</td><td>1,247</td><td>(2,570)</td></tr>
<tr><td>Underlying operating profit</td><td>9,593</td><td>17,629</td></tr>
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<td>Underlying profit before tax</td>
<td>Underlying profit before tax is based on profit before tax before the effect of adjusting items in the year.</td>
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<tr><td></td><td>FY23
£’000</td><td>FY22
£’000</td></tr>
<tr><td>Statutory profit before tax</td><td>5,985</td><td>16,358</td></tr>
<tr><td>Adjusting items</td><td>1,247</td><td>(2,570)</td></tr>
<tr><td>Underlying profit before tax</td><td>7,232</td><td>13,788</td></tr>
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<td>Underlying basic earnings per share (EPS)</td>
<td>Underlying basic EPS is based on earnings per share before the effect of adjusting items in the year.</td>
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<table>
<tr><td></td><td>FY23
£’000</td><td>FY22
£’000</td></tr>
<tr><td>Profit for the year</td><td>4,450</td><td>13,584</td></tr>
<tr><td>Adjusting items net of tax</td><td>1,055</td><td>(2,082)</td></tr>
<tr><td>Underlying profit after tax</td><td>5,505</td><td>11,502</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>Number of shares (000’s)</td><td>34,691</td><td>37,499</td></tr>
<tr><td>Underlying EPS</td><td>15.9p</td><td>30.7p</td></tr>
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ScS Group plc
Consolidated statement of comprehensive income

	Note	**Audited 52 weeks ended 29 July 2023 £'000**	Audited 52 weeks ended 30 July 2022 £'000
Gross sales	5	**343,457**	344,710
Revenue	5	**325,865**	331,569
Cost of sales		**(173,467)**	(175,305)
Gross profit		**152,398**	156,264
Distribution costs		**(21,828)**	(21,304)
Administrative expenses		**(122,224)**	(114,761)
Operating profit		**8,346**	20,199
Analysed as:			
Underlying operating profit		**9,593**	17,629
Operating adjusting items included within administrative expenses	6	**(1,247)**	2,570
Operating profit		**8,346**	20,199
Finance costs	7	**(4,322)**	(3,856)
Finance income	8	**1,961**	15
Net finance costs		**(2,361)**	(3,841)
Profit before taxation		**5,985**	16,358
Income tax charge	9	**(1,535)**	(2,774)
Profit for the year		**4,450**	13,584
Profit is attributable to:			
Owners of the parent		**4,450**	13,584
Earnings per share:			
Basic earnings per share (pence)	10	**12.8p**	36.2p
Diluted earnings per share (pence)	10	**12.1p**	35.0p

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

ScS Group plc

Consolidated statement of financial position

	Note	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Non-current assets			
Intangible assets		**3,253**	2,494
Goodwill	14	**500**	-
Property, plant and equipment		**21,303**	18,076
Right-of-use assets		**88,960**	96,996
Deferred tax asset		**1,873**	1,845
Total non-current assets		**115,889**	119,411
Current assets			
Inventories		**24,633**	19,791
Trade and other receivables		**6,336**	6,011
Cash and cash equivalents		**69,538**	70,819
Total current assets		**100,507**	96,621
Total assets		**216,396**	216,032
Current liabilities			
Current income tax liabilities		**159**	309
Trade and other payables	11	**68,047**	57,328
Provisions		**231**	303
Lease liabilities		**20,246**	19,721
Total current liabilities		**88,683**	77,661
Non-current liabilities			
Provisions		**1,048**	1,192
Lease liabilities		**81,098**	87,012
Total non-current liabilities		**82,146**	88,204
Total liabilities		**170,829**	165,865
Capital and reserves attributable to the owners of the parent			
Share capital		**34**	37
Share premium		**16**	16
Capital redemption reserve		**19**	16
Treasury reserve	13	**(203)**	(681)
Merger reserve		**25,511**	25,511
Retained earnings		**20,190**	25,268
Equity attributable to the owners of the parent		**45,567**	50,167
Total equity		**45,567**	50,167
Total equity and liabilities		**216,396**	216,032

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 1 August 2021	**38**	**16**	**15**	**25,511**	**(549)**	**19,479**	**44,510**
Profit and total comprehensive income	-	-	-	-	-	13,584	13,584
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	-	-	-	-	(1,476)	-	(1,476)
Issue of treasury shares to employees	-	-	-	-	1,344	(1,304)	40
Dividend paid	-	-	-	-	-	(4,443)	(4,443)
Total transactions with shareholders	(1)	-	1	-	(132)	(7,795)	(7,927)
Balance at 30 July 2022	**37**	**16**	**16**	**25,511**	**(681)**	**25,268**	**50,167**
Balance at 31 July 2022	**37**	**16**	**16**	**25,511**	**(681)**	**25,268**	**50,167**
Profit and total comprehensive income	-	-	-	-	-	4,450	4,450
Total comprehensive income	-	-	-	-	-	4,450	4,450
Share-based payment charge	-	-	-	-	-	598	598
Repurchase of own shares	-	-	-	-	-	(4,776)	(4,776)
Cancellation of repurchased shares	(3)	-	3	-	116	(116)	-
Purchase of treasury shares (note 13)	-	-	-	-	(148)	-	(148)
Issue of treasury shares to employees (note 13)	-	-	-	-	510	(510)	-
Dividend paid (note 12)	-	-	-	-	-	(4,724)	(4,724)
Total transactions with shareholders	(3)	-	3	-	478	(9,528)	(9,050)
Balance at 29 July 2023	**34**	**16**	**19**	**25,511**	**(203)**	**20,190**	**45,567**

ScS Group plc

Consolidated statement of cash flows

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Cash flows from operating activities		
Profit before taxation	**5,985**	16,358
Adjustments for:		
Depreciation of property, plant and equipment	**4,179**	4,162
Depreciation of right-of-use assets	**20,269**	21,523
Amortisation of intangible assets	**1,185**	882
Impairment on non-current assets	**2,438**	-
Loss on disposal of assets	**270**	-
Profit on termination of lease	**(346)**	-
Share-based payment charge	**598**	153
Finance costs	**4,322**	3,856
Finance income	**(1,961)**	(15)
	36,939	46,919
Changes in working capital:		
Increase in inventories	**(4,715)**	(2,463)
Increase in trade and other receivables	**(325)**	(1,064)
Increase/(decrease) in trade and other payables	**9,881**	(14,908)
Cash generated from operating activities	**41,780**	28,484
Income taxes paid	**(1,713)**	(3,457)
Net cash flow generated from operating activities	**40,067**	25,027
Cash flows from investing activities		
Acquisition of business combination	**(875)**	-
Purchase of property, plant and equipment	**(7,550)**	(3,741)
Payments to acquire intangible assets	**(1,708)**	(1,004)
Interest received	**1,961**	15
Net cash outflow from investing activities	**(8,172)**	(4,730)
Cash flows from financing activities		
Dividends paid (note 12)	**(4,724)**	(4,443)
Purchase of own shares (note 13)	**(4,924)**	(3,677)
Sale of treasury shares (note 13)	**-**	40
Interest paid	**(265)**	(418)
Interest paid on lease liabilities	**(4,057)**	(3,438)
Payment of capital element of leases	**(19,206)**	(25,192)
Net cash flow used in financing activities	**(33,176)**	(37,128)
Net decrease in cash and cash equivalents	**(1,281)**	(16,831)
Cash and cash equivalents at beginning of year	**70,819**	87,650
Cash and cash equivalents at end of year	**69,538**	70,819

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 names ScS and Snug.

The 2022 audited financial statements for the Group have been filed with Companies House.

2. **Basis of preparation**

The Board approved the preliminary announcement on 24 October 2023.

The results for the financial year ended 29 July 2023, 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 29 July 2023 or 30 July 2022, but is derived from those accounts. Statutory accounts for 2022 have been delivered to the Registrar of Companies, and those for 2023 will be delivered in due course. The auditors have reported on the 2022 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. The auditors have also reported on the 2023 accounts; their report was (i) unqualified, (ii) included one reference to a matter to which the Auditor drew attention without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The auditor's report can be found in the ScS group plc's full Annual Report and Accounts.

This report has been prepared on the basis of the policies set out in the 2022 annual financial statements, with the addition of the policies as a result of the business combination in the year noted below. The Group has also adopted a new APM, adjusting items, which are covered in note 6.

3. **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 29 July 2023, the Group's cash balance totalled £69.5m and £33.3m 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 29 July 2023 and have modelled cash flow forecasts under the following scenarios:

- A 'base case' scenario to July 2026 which reflects the challenging economic environment whilst also recognising the impact of our strategic progress on the group's results.
- 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' 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 2024 remains substantial at £21.2m. Forecasts show there is no requirement for any additional sources of financing throughout the extended viability period.

Following the year end, on 24 October 2023 a wholly-owned subsidiary of Poltronesofà S.p.A. announced a recommended cash offer for the Company of 270p per share. It is intended that the acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act and is expected to complete in the first quarter of 2024. The Group's existing committed debt facilities contain a standard change of control clause that will be triggered once the acquisition completes. This could result in the existing committed debt facilities being withdrawn. The Group does not have visibility of the post completion funding for the Group at this time. Therefore, this could create some uncertainty as to the Group's going concern.

The Directors note the Poltronesofà S.p.A. intention statements included within the announcement on 24 October 2023, which state that following completion of the acquisition, Poltronesofà S.p.A. intends to support the Group by leveraging its significant, pan-European industry expertise and providing the capital necessary to accelerate the Group's strategy. Poltronesofà S.p.A. is highly supportive of the Groups management's vision for the business and the long-term ambitions of being the UK's best value-for-money home retailer and recognises and values the strong strategic, operational and product positioning and setup of the Group, as well as the expertise of its management team and employees. Poltronesofà S.p.A. therefore intends to work closely with the Group's senior management to undertake a strategic review of the Group in order to determine how its short and long-term objectives can best be delivered or exceeded.

Notwithstanding Poltronesofà S.p.A.'s stated intentions, the current Directors will not have full control over the acquired Group and therefore they do not currently have full knowledge of the new ultimate parent undertaking's future intentions and funding plans in relation to the Group. Therefore the change of control position indicates a material uncertainty which may cast significant doubt upon the Group and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Having considered all of the above, the Board is of the opinion that the going concern basis adopted in the preparation of the consolidated statements is appropriate.

4. Accounting policies

This report for the 52 weeks ended 29 July 2023 have been prepared on the basis of the policies set out in the 2022 Consolidated Financial Statements, with the addition of the policies as a result of the business combination in the year noted below.

Goodwill

Goodwill arising on consolidation represents the excess of the consideration paid over the fair value of the identifiable assets (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment annually or as triggering events occur. Any impairment in value is recognised within the income statement.

Acquired intangible assets

Acquired intangible assets include trademarks or brands. These assets are capitalised on acquisition at cost and amortised on a straight-line basis over their estimated useful lives. Acquired intangible assets are tested for impairment as triggering events occur. Any impairment in value is recognised within the income statement.

Business combinations
Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary comprises the:

- Fair values of the assets transferred;
- Liabilities incurred to the former owners of the acquired business;
- Equity interests issued by the Group;
- Fair value of any asset or liability resulting from a contingent consideration arrangement; and
- Fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:
- Consideration transferred;
- Amount of any non-controlling interest in the acquired entity; and
- Acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill.

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 £24.6m of inventory at the year end, with the majority of this stock 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 estimating 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 considers 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 considers 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.

5. Segmental analysis

The Board has 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 has identified that the Executive Board are the chief operating decision makers in accordance with the requirements of IFRS 8 Operating segments.

The Board considers 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 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Sale of goods	**340,998**	340,580
Associated warranties	**2,459**	4,130
Gross sales	**343,457**	344,710
Less: costs of interest free credit	**(17,592)**	(13,141)
Revenue	**325,865**	331,569

Of which		
In-store furniture	**263,541**	269,781
In-store flooring	**28,940**	31,704
Online	**33,384**	30,084
Revenue	**325,865**	331,569

6. Adjusting items

In order to provide a clearer understanding of underlying profitability, adjusting items which relate to certain costs or incomes that are material in size and unusual/non-recurring in nature are excluded from statutory measures. Adjusting items (non-GAAP) in the year comprised the following:

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Impairment charge associated with stores	**(2,438)**	-
Snug acquisition and pre-trading costs	**(849)**	-
Business interruption insurance claim	**1,250**	-
Exit of Cambridge store	**790**	-
Business rates relief	**-**	2,570
	(1,247)	2,570

Impairment charge associated with stores

As a consequence of the current view of future projections for the business an impairment charge of £2,438,000 has been recognised on the assets associated with a number of our stores. This has been split between the right-of-use asset (£1,930,000) and tangible assets (£508,000), apportioned based on net book value.

Snug acquisition and pre-trading costs

Adjusting items include £849,000 of costs relating to the acquisition costs (including legal and professional fees) and pre trading expenses.

Business interruption insurance claim

The Group received a business interruption insurance payment of £1,250,000 in relation to loss of profit as a result of the initial lockdown period during the COVID-19 pandemic.

Exit of Cambridge store

The Group exited its Cambridge store in July 2023, ahead of the lease expiry date. As part of the exit agreement, a termination payment of £650,000 was received from the landlord. The Group also realised an IFRS16 gain on disposal of the lease of £341,000 offset partly by disposal of assets with a remaining net book value of £201,000.

Business rates relief

During the prior year, the Group benefitted from £2,570,000 of retail business rates relief provided in response to the COVID-19 outbreak. No further benefit was received in the year ended 29 July 2023.

7. Finance costs

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Bank facility renewal fees	**49**	-
Bank facility non-utilisation fees	**194**	413
Other finance costs	**22**	5
Interest on lease liability	**4,057**	3,438
	4,322	3,856

8. Finance income

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Bank interest received	**1,961**	15

9. Taxation

The total tax charge for the financial year of £1.5m (2022: £2.8m) results in an effective rate of 25.6%, which is higher (2022: 17.0% - lower) than if the standard rate of corporation tax had been applied, mainly due to the impact of non-qualifying depreciation on assets, and non-deductible expenses. The prior year benefitted from 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 21% (2022: 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 by the prior year balance sheet date and consequently deferred tax at 30 July 2022 and 29 July 2023 were both calculated based on the rate of 25%.

10. Earnings per share

	52 weeks ended 29 July 2023	52 weeks ended 30 July 2022
a) Basic earnings per share attributable to the ordinary equity holders of the company		
From underlying operations	**15.9p**	30.7p
From adjusting items	**(3.0p)**	5.5p
Total basic earnings per share	**12.8p**	36.2p
b) Diluted earnings per share attributable to the ordinary equity holders of the company		
From underlying operations	**15.0p**	29.6p
From adjusting items	**(2.9p)**	5.4p
Total diluted earnings per share	**12.1p**	35.0p

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
c) Reconciliations of earnings used in calculating earnings per share		
Profit from operations	**4,450**	13,584
- Adjusting items net of tax	**1,055**	(2,082)
Total profits from underlying operations	**5,505**	11,502

d) Weighted average number of shares used as the denominator

	52 weeks ended 29 July 2023 Number	52 weeks ended 30 July 2022 Number
Weighted average number of shares in issue for the purposes of basic earnings per share	**34,690,701**	**37,498,925**
Effect of dilutive potential ordinary shares:		
- share options	**2,031,118**	**1,354,896**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**36,721,819**	**38,853,821**

11. Trade and other payables current

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Trade payables	**33,267**	18,374
Payments received on account	**18,906**	25,540
Other tax and social security payable	**4,729**	2,236
Accruals	**11,145**	11,178
	68,047	57,328

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.

12. Dividend

A final dividend for the year ended 30 July 2022 of 9.0p resulted in a payment of £3,198,000 which was made on 9 December 2022. It has been recognised in shareholders' equity in the year ended 29 July 2023.

An interim dividend of 4.5p (2022: 4.5p) per ordinary share was declared by the Board on 21 March 2023 and resulted in a payment of £1,522,000 which was made on 11 May 2023. It has been recognised in shareholders' equity in the year ended 29 July 2023.

During the year dividend equivalents were paid on the vesting of LTIPs totalling £4,000.

Given the strength of the Group's balance sheet coupled with the resilient result for the year a final dividend of [10.0]p has been proposed and, if approved, will be recorded within the financial statements for the year ending 27 July 2024.

13. Treasury shares and share buyback

The Group's Employee Benefit Trust held 327,663 shares at the start of the year.

74,932 shares which were purchased into treasury in the prior year have subsequently been transferred to retained earnings in the year, at an average price of 154.56 pence per ordinary share, and cancelled as part of the share buyback programme.

During the period, the Group's Employee Benefit Trust purchased a further 106,637 ordinary shares of 0.1 pence each in the Group at an average price of 139.00 pence per ordinary share, and 228,008 ordinary shares were used to satisfy management incentive awards.

As at 29 July 2023 the Group holds 131,360 of its own ordinary shares of 0.1 pence each in the Group at an average purchase price of 154.9 pence.

As part of the Group's share buyback programme, during the period the Group acquired 2,740,841 ordinary shares at an average share price of 171.6 pence per ordinary share for a total consideration including associated fees of £4,776,000. Following this purchase, the ordinary shares purchased by the Group were cancelled, and the Group's issued share capital at 29 July 2023 subsequently consisted of 33,954,674 ordinary shares, each with one voting right.

14. Business combination

On 10 January 2023, the Group announced it had acquired the brand, domain names, website, intellectual property and stock of Snugsofa.com ("Snug") from the administrators of Snug Shack Limited for consideration of £875,000.

The acquisition of Snug represents further progression in Group's strategy. Snug's strong brand and differentiated digital-first offering will complement the Group's existing proposition, further diversifying its customer base and increase market share.

The purchase has been accounted for as a business combination. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	£'000
Purchase consideration	
Cash paid	**875**
Total purchase consideration	**875**

The assets recognised as a result of the acquisition are as follows:

	Fair value £'000
Intangible assets	**250**
Inventories	**125**
Total identifiable assets	**375**
Goodwill	**500**
Total asset value	**875**

The goodwill is attributable to Snug's strong brand, innovative digital capabilities and synergies expected to arise after the Group's acquisition of the new subsidiary. It has been allocated to the furniture retail segment.

Pre-trading and acquisition related costs

Pre-trading and acquisition related costs of £849,000 are included in administrative expenses in profit or loss.

Revenue and underlying profit contribution

Snug contributed revenues of £4,121,000 and a net loss before tax of £1,938,000 to the Group for the year ended 29 July 2023.

15. Post balance sheet events

Subsequent to the 29 July 2023, a further £1,250,000 business interruption insurance payment was received relating to loss of profit as a result of the COVID-19 pandemic. As at the year end the Group did not have a high level of certainty that this payment would be received, or the timeframe on which it may do so, and therefore did not disclose it is a receivable. As such, in line with the treatment of the £1,250,000 received during the year to 29 July 2023, we expect to recognise and disclose this item as an adjusting item to consolidated income in the year to 27 July 2024.

On 24 October 2023, a wholly-owned subsidiary of Poltronesofà S.p.A. announced a recommended offer for the entire issued and to be issued share capital of the Company of 270p per share in cash. In addition, shareholders who are on the register at the close of business on 17 November 2023 will be entitled to receive the final dividend of 10.0p (in respect of the year ended 29 July 2023).

It is intended that the acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act. Cerezzola Limited (a wholly-owned subsidiary of Poltronesofà S.p.A.) has indicated its intention (subject to the requisite acceptance thresholds being achieved referred to in the announcement of 24 October 2023) to delist the Company from the London Stock Exchange as soon as practicable following the cancellation of listing and trading of the Company's shares. This process will take place following the release of the Annual Report and is targeted to complete in the first quarter of 2024.