14 September 2022
Dunelm Group plc

Preliminary Results for the 53 weeks ended 2 July 2022

Record results, confident in a challenging environment

Dunelm Group plc ("Dunelm" or "the Group"), the UK's leading homewares retailer, today announces its preliminary results for the 53 weeks to 2 July 2022.

	FY22 (52 weeks)[6]	FY21 (52 weeks)	YoY (52w vs 52w)	FY22 (53 weeks)	YoY
Total sales	£1,553.1m	£1,336.2m	+16.2%	£1,581.4m	+18.4%
Gross margin	51.2%	51.6%	-40bps	51.2%	-40bps
Operating costs:sales ratio	37.5%	39.1%	-160bps	37.4%	-170bps
Profit before tax (PBT)	£209.0m	£157.8m	+32.4%	£212.8m	+34.9%
Diluted earnings per share	82.1p	62.9p	+30.5%	83.6p	+32.9%
Digital % total sales[1]	35%	46%	-11ppts	35%	-11ppts

	FY22 (53 weeks)	FY21 (52 weeks)	YoY
Free cash flow[2]	£153.0m	£108.5m	+£44.5m
Net (debt)/cash[3]	(£23.8m)	£128.6m	-£152.4m
Ordinary dividend per share[4]	40p	35p	+14.3%
Special dividend per share[5]	37p	65p	n/a

Highlights

- Strong sales growth of 16.2%[6] with total sales 41% higher than FY19
- Homewares market share gain of +140bps and continued share gains in furniture[7]
- Active customers grew by 8.5%[8] over the year, with increases across all demographics
- New ecommerce and furniture fulfilment operations opened in the year, giving capacity for growth and improved delivery options for customers
- Scope 1 carbon and plastic packaging reduction targets met and textiles take-back service introduced in stores nationwide
- Healthy gross margin of 51.2%[6] including impact of the extra Summer Sale in the year
- PBT growth of 32.4%[6], with a strong profit margin reflecting cost leverage and operational grip
- Free cash flow of £153.0m, representing 70% conversion of operating profit
- Final dividend of 26p (FY21: 23p) taking the full year ordinary dividend to 40p, an increase of 14.3%

Outlook and current trading

- Sales have remained robust in the first ten weeks of the financial year
- Proven strength of the Dunelm business model gives us confidence, despite an extremely challenging environment
- Our primary focus is to continue offering outstanding value to all our customers
- Expect to deliver c.50% gross margin for the full year and manage costs through efficiency improvements and operational grip
- On track to deliver FY23 results in line with analysts' expectations[9]

Nick Wilkinson, Chief Executive Officer, commented*:*

"Our colleagues and our committed supplier partners are at the heart of our success. In another year of excellent performance, I am extremely grateful for their skill, commitment and adaptability in the face of new external challenges and during another busy period of progress across the business.

"We feel confident and well prepared to weather the current economic pressures – we emerged from an unprecedented global pandemic as a bigger, better business and we believe we have the tools in place to do that again. That said, the operating and economic environment is extremely challenging.

"In this environment, we have to make every pound count, both for ourselves through our tight operational grip and cost discipline, and for our customers, through our offer of outstanding value at all price points.

"Dunelm, at its heart, offers customers great choice and value. Now is not the time for us to shy away from that, but for us to fully embrace it; whether it's our Winter Warm collection or our Student Essentials range, we think Dunelm's unique and market-leading offer is more relevant than ever before."

[1] Digital includes home delivery, Click & Collect and tablet-based sales in store
[2] Free cash flow is defined as net cash generated from operating activities less capex (net of disposals) and business combinations, net interest paid (including leases) and loan transaction costs, and repayment of lease liabilities. A reconciliation of operating profit to free cash flow is included in the CFO review
[3] Excluding lease liabilities. Full definition provided in the table of alternative performance measures in the CFO review
[4] Ordinary dividends declared relating to the financial year
[5] FY21 special dividend of 65p declared with the FY21 financial results and paid in FY22. FY22 special dividend of 37p declared with the FY22 interim results and paid in FY22
[6] 52-week basis. On a 53-week basis, total sales were £1,581.4m (+18.4%), gross margin was 51.2% (-40bps) and PBT was £212.8m (+34.9%). 52-week results are unaudited
[7] GlobalData UK homewares market
[8] Unique active customers who have transacted at least once in the 12 months to June 2022. Source: Barclays. The basis of calculation for this metric has been updated in FY22 and the prior years restated on a consistent basis, as we believe that this is a more accurate estimate
[9] Company compiled consensus average of analysts' expectations for FY23 PBT of £178m, with a range £130m to £193m

Analyst Presentation:

There will be an in-person presentation for analysts and institutional investors this morning at 9.30am, hosted at Peel Hunt LLP, 100 Liverpool Street, London, EC2M 2AT, as well as a webcast and conference call with a facility for Q&A. For details, please contact pauline.guenot@mhpc.com. A copy of the presentation will be made available at https://corporate.dunelm.com

For further information please contact:

Dunelm Group plc investorrelations@dunelm.com
Nick Wilkinson, Chief Executive Officer
Karen Witts, Chief Financial Officer

MHP Communications 07710 032 657
Simon Hockridge / Rachel Farrington / Pete Lambie dunelm@mhpc.com

Next scheduled event:
Dunelm will release its first quarter trading update on 20 October 2022.

Quarterly analysis:

	53 weeks to 2 July 2022						
	Q1	**Q2**	**H1**	**Q3**	**Q4**	**H2**	**FY**
Total sales	£388.8m	£406.8m	£795.6m	£399.0m	£386.7m	£785.7m	£1,581.4m
Total sales growth	8.3%	12.9%	10.6%	68.6%	1.7%	27.4%	18.4%
Digital % total sales	33%	33%	33%	35%	37%	36%	35%
Gross margin movement	-10bps	+160bps	+80bps	+30bps	-320bps	-150bps	-40bps

	52 weeks to 26 June 2021						
	Q1	**Q2**	**H1**	**Q3**	**Q4**	**H2**	**FY**
Total sales	£359.1m	£360.4m	£719.4m	£236.6m	£380.2m	£616.8m	£1,336.2m
Total sales growth	36.7%	11.8%	23.0%	-16.8%	101.7%	30.4%	26.3%
Digital % total sales	30%	41%	35%	93%	37%	59%	46%
Gross margin movement	+100bps	+10bps	+50bps	+30bps	+460bps	+220bps	+130bps

Notes to Editors:

Dunelm is the UK's market leader in homewares, with a specialist offering for customers across multiple categories via its 177 predominantly out-of-town superstores and website, dunelm.com.

The business was founded in 1979 as a market stall, selling ready-made curtains. The first shop was opened in Leicester in 1984, with the first superstore opening in 1991. With a vision to be the 1st Choice for Home, Dunelm offers quality, value and style throughout its extensive product range, alongside services such as Home Delivery, Click & Collect and Made to Measure window treatments. From its textiles heritage in areas such as bedding, curtains, cushions, quilts and pillows, Dunelm has broadened its range into categories including furniture, kitchenware, dining, lighting, outdoor, craft and decoration. Its c.50,000 product lines include specialist own brands and labels such as Dorma and Fogarty, sourced from long-term committed suppliers.

Dunelm's purpose is 'To help create the joy of truly feeling at home, now and for generations to come'. The business is headquartered in Leicester and employs over 11,000 colleagues. It has been listed on the London Stock Exchange since October 2006 (DNLM.L) and has a current market capitalisation of approximately £1.5bn.

CHAIRMAN'S STATEMENT

I am very pleased to report an excellent financial performance, with total sales growth of 16.2%, delivering record pre-tax profits of £209.0m, an increase of 32.4% on the prior year[10]. More importantly, these results demonstrate the strength of our business model and the broad appeal of our customer proposition. These fundamental strengths will hold us in good stead as we trade into a much tougher consumer environment. Historically, 85% of our sales growth has come from market share gains and we remain confident that we can continue to win share. At the heart of our success is the skill and dedication of our over 11,000 colleagues. We are proud and grateful for their work.

For the first time in two years, our stores were open for the entirety of the year, enabling customers to fully benefit from our total retail system. We have continued to invest in digitising our business and improving our operational capability, with the opening of a dedicated ecommerce distribution fulfilment facility and a new furniture warehouse; all designed to improve our customer service. We have increased our customer numbers once again and continued to win market share.

We have emerged from the Covid crisis as a bigger and stronger business, well positioned to face into the pressures of the current inflationary environment and cost of living challenges. Our commitment to offering our customers outstanding value remains as strong as ever and we shall continue to cater for all customers, no matter how they adapt to this environment, by providing options for every style, space and budget.

In accordance with our long-held values, the Board is deeply mindful that our decisions must always balance the needs of our customers, colleagues, communities, suppliers and shareholders, as well as the environment which we all share. I am pleased that we have continued to make progress in delivering for all these stakeholders. In addition to our very strong financial performance, we have created more than 800 new roles and raised more than £450k for our new charity partner, Mind.

Sustainability remains a key focus for the business and we have continued to make good progress during the year. We introduced a take-back scheme for textiles during the year, which is live in more than 90% of our stores, with take-back now covering more than 50% of own-brand products. We have a number of partnerships in place to support our Net Zero Pathway, having joined the Aldersgate Group during the year and continued our collaborations with Textiles 2030 and the British Retail Consortium. We also recently launched Conscious Choice, a fantastic collection of products which helps our customers make more thoughtful decisions through products that last longer and are made from more sustainable materials.

[10] 52-week basis. On a 53-week basis, total sales were £1,581.4m (+18.4%), gross margin was 51.2% (-40bps) and PBT was £212.8m (+34.9%). 52-week results are unaudited

Dividends

The Board has proposed a final ordinary dividend of 26 pence per share, recognising our very strong performance in the year and our continued confidence in the business. This takes the full-year ordinary dividend to 40 pence per share, ahead of the 35 pence per share paid in FY21, with dividend cover of 2.1×, within the range of our stated policy.

During the year our strong cash flow allowed us to pay two special dividends: 65 pence per share in October 2021 and 37 pence per share in March 2022. Our net debt ended the year at 0.1× FY22 EBITDA, slightly below our long-term targeted range of between 0.2× and 0.6×.

Board Update

In April 2022 we were delighted to announce the appointment of Karen Witts as Chief Financial Officer (CFO). Karen is an accomplished finance leader who brings a wealth of experience from her previous roles with high-profile consumer-facing brands, which will help us to deliver our ambitious growth plans. Karen joined the Board on 9 June 2022 and succeeded Laura Carr, who stepped down from the Board in that month. We also welcomed Vijay Talwar and Kelly Devine to the Board as Non-Executive Directors during the year, who bring a great deal of energy and experience, particularly in digital and data.

Finally, post year-end, we announced the appointment of Alison Brittain to the Board as a NED with effect from 7 September 2022, with the intention that she will succeed me as Chair ahead of the expiry of my nine-year term in September 2023. Alison is a highly experienced leader with a strong track-record across a range of consumer-facing companies, and with values clearly aligned to our own. I am thrilled that Dunelm has been able to attract a Chair Designate of Alison's calibre to lead the Board through our next stage of growth.

1st Choice for Home

Moving forward, we believe that Dunelm's fundamental strengths will once again differentiate us at a time when consumers have to consider their purchase decisions even more carefully. This plays to the strength of our product range, our customer proposition and our proven total retail system, which combines the advantages of both physical and digital retail. In addition, our strong balance sheet and underlying cash generation will allow us to continue to invest in further strengthening our business. We remain confident that we can continue to deliver for all our stakeholders and be the 1st Choice for Home.

Andy Harrison
Chairman
14 September 2022

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

With stores being forced to close during both FY20 and FY21, we were delighted that we were able to keep our doors open to our customers throughout FY22. It is clear that customers are increasingly enjoying the advantages of our total retail system, which allows them to experience the friendly service of our physical stores in combination with the convenience of our digital channels; this has contributed to the delivery of record results this year.

FY22 presented new challenges, most notably the impact of higher cost of goods and inflationary pressures on both businesses and the consumer. Despite these challenges we have been busy developing our proposition and capabilities whilst continuing to drive our sustainability agenda. We remain focused on, and driven by, our shared values, and, against a complex backdrop, our *'keep listening and learning'* value is proving particularly relevant. Once again, our incredible colleagues and committed suppliers stepped up, learning and adapting in order to deliver the best possible outcomes for our customers. I would like to sincerely thank each and every one of them for their continued resilience and contribution to another very successful year.

We expect the current challenges to persist at least throughout the year ahead and are conscious that many of our customers are fearful about the mounting cost of living pressures. Our primary focus at this time is to continue offering outstanding value to our customers, whilst recognising that individuals will adapt to the environment in their own ways. As ever, we continue to apply a relentless focus on basic operational discipline and attention to detail throughout the business to ensure that every pound counts. This has characterised Dunelm in recent years, and is even more important in light of the current challenges we face.

FY22 Review

Another strong performance

FY22 was another strong year for the business. Total sales grew by 16.2%[11], and while the year-on-year growth benefitted from the lockdown related store closures last year, the growth of 41.1% compared to FY19 demonstrates the pace at which the business has developed through the pandemic period. We were pleased with the performance of our stores following two years of disruption and our digital channels also traded well, making up 35% of total sales over the year, up from 20% in FY19. More people shopped with us than ever before; our active customer base grew by 8.5%. Our strong sales performance was supported by further market share gains, with our share in the homewares market growing by 140bps.

We delivered a strong gross margin of 51.2%[11], despite an additional sale event in Q1, as customer participation in event sales was low through most of the year. We saw a higher participation of event sales in Q4, especially during our Summer Sale. Profit before tax grew by 32.4%[11], benefitting from the strong sales growth, higher than expected leverage of fixed store costs in the first half, and ongoing tight operational grip.

We delivered a robust free cash flow of £153.0m, which included the impact of temporarily building our inventory levels. This was a strategic decision we took to maintain availability for customers through ongoing supply chain instability which was seen across the market.

On the back of this strong financial performance, the Board has proposed a final ordinary dividend of 26p, bringing the total ordinary dividend in respect of FY22 to 40p, an increase of 14.3%.

[11] 52-week basis. On a 53-week basis, total sales were £1,581.4m (+18.4%), gross margin was 51.2% (-40bps) and PBT was £212.8m (+34.9%). 52-week results are unaudited

Delivering for all our stakeholders

We recognise that we have a diverse set of stakeholders in our business, and in FY22 we continued to take decisions to balance the needs and expectations of all of them.

Our colleagues are extremely important to us and we were pleased to be able to offer employment to over 800 new colleagues in the year. We understand the impact of the higher cost of living on all of our colleagues, and so we implemented a median pay increase above 7% (greater than the equivalent increase to the National Living Wage), focussing proportionately higher pay increases on our lower paid colleagues. We want Dunelm to be an inclusive workplace, and aspire to achieve a colleague base reflective of society at all levels, providing opportunity for all. During the year we provided training and set up network support groups to increase awareness in inclusion and diversity, particularly in the areas of neurodiversity and ethnicity.

We also made progress on our ambitions to support thriving, purpose-driven communities around every one of our stores. We now have more than one million followers of our store Facebook groups. We delivered 19,000 Christmas gifts to local care homes, schools and women's refuges. We raised over £600k for charities in the year from colleague fundraising activity, including over £450k for the mental health charity, Mind, during the first year of our partnership.

We continue to focus on delivering outstanding value for our customers. We sell great products at great prices and our customers feed back with consistently high reviews on our own-brand products. We believe that our "fast and friendly" store service is already a differentiator for Dunelm, and in order to improve our home delivery service for customers, we opened a new furniture distribution hub and a new fulfilment operation in the year.

Our business success also helps our committed suppliers to grow their businesses. We worked collaboratively with them to minimise the disruption to customers from the supply chain challenges and on initiatives to support the achievement of our sustainability ambitions.

We shared our ambitious long-term targets for sustainability in FY21. In FY22, we achieved our in-year targets for carbon emissions, plastic packaging reduction and take-back - where we introduced a textiles take-back scheme. 30% of our own branded cotton products met our "more responsibly sourced cotton" standard. This was below the ambitious target that we set, but we are learning and educating ourselves and our suppliers, and we are confident that we will achieve our longer term commitments. We also recently launched a new label, called Conscious Choice, which showcases our most sustainable products, allowing customers to make more informed buying decisions.

Strategic Update: Becoming our Customers' 1st Choice for Home

Dunelm already enjoys broad-based appeal and greater than 90% brand awareness[12]. We are continuing to grow that appeal, and the number of active customers who shopped with us increased by 8.5% in FY22. We saw growth across all geographic regions in the UK, with customers in London and the South contributing 40% of our total growth in customer numbers in FY22[13]. We have seen growth in customer numbers across all income levels, with a year-on-year increase of more than 10% in both the <£20k per annum and >£100k per annum income groups[13]. We have also increased the appeal across all age ranges, with customers aged between 16 and 24 growing by 8.5% and those aged 65 and over growing by 16.2%[13].

Our plan is to become our customers' 1st Choice for Home. We want to attract more customers to shop at Dunelm for their home, and for all customers to shop more frequently, across more product categories. To achieve this we are working hard to deliver our purpose, 'to help create the joy of truly feeling at home, now and for generations to come.' In the current climate, more than ever, we are ambitious about striving to do this brilliantly, and excited by the opportunity to continue to learn and adapt.

[12] Prompted awareness three month rolling average to June 2022. Source: BrandVue
[13] Analysis of Dunelm customers FY21 to FY22. Source: Barclays

Investing in digitising the business

Digitising the business is a broad concept which refers to the development of digital and data capabilities which allow us to grow our product offer (beyond the physical limits of a store's capacity); to reach more consumers through digital content and channels; and to give to our customers the advantages of physical stores with the ease and convenience of online sales. We now have 177 stores, all offering Click & Collect and tablet-based selling of the broader Dunelm range via colleague hosts. During the year we expanded our digital fulfilment capacity and capabilities, with a new dedicated ecommerce facility and a new furniture warehouse.

The strength of our total retail system has been proven in recent years. Our customers were able to benefit from the convenience of our digital channels during the pandemic and more recently have returned to stores to take advantage of our full physical retail offering. Many of the customers who shopped with us for the first time online during the pandemic are now shopping in store, or across both channels, which contributed to an increase in shopping frequency of 10%[14]. We also know that our multi-channel and multi-category customers shop on average 5x more often and spend 7x[15] more than customers shopping through single channels and categories, further demonstrating the advantages of our model. In addition, the number of 'most valuable' customers, defined as those customers with higher spend across multiple visits, grew by 16%[16].

We are continuing to invest in digitising the business in a thoughtful way, to further enhance our product offer, brand reach, and customer experience. To maximise returns, we are being agile in the way we deploy our digital teams, balancing investment in growth areas such as customer acquisition and in foundational capabilities such as master data management.

[14] Number of visits per retained customer in FY22. Retained customers defined as those who shopped with Dunelm in FY21 and FY22. Source: Barclays
[15] Internal analysis based on active customers for the 12 months to June 2022.
[16] Internal analysis of 'most valuable' customers based on number of visits and total expenditure.

Strengthening the customer proposition

We are constantly evolving and improving our overall customer proposition by continuing to strengthen our offer across four key areas: ***choice and value***, ***good and circular***, ***friendly and expert***, and ***easy and convenient*****.** Against the current macro-economic backdrop and the resulting pressure on household budgets, this is as important as ever.

In terms of ***choice and value***, we offer a broad product range of more than 50,000 SKUs across 30 sub-categories, covering a large proportion of the UK homewares markets, at price points to appeal to all customers, whatever their style or budget. We have seen growth across the breadth of our product categories, both in those where we have higher market shares, and newer areas, including furniture and decorating. In all areas we have worked hard to mitigate the impact of cost inflation, re-designing and re-sourcing products in collaboration with our suppliers. We utilise a 'good – better – best' hierarchy of price and quality tiers in our core product ranges, and are totally committed to offering great value at all price points. An example of this is our range of plain dye bedding, where we offer 15 different price/quality levels between the opening price ('good') product and the highest price ('best') product. In the second half of FY22 we re-set our range of plain dye bedding, with a lower price in the 'good' tier, and a small number of limited price increases across the best and better tiers. Most prices remained unchanged, but with new colours and fabrics introduced. Across each of the 'good', 'better' and 'best' tiers we saw strong growth in volume and sales. The scope for continuous improvement and innovation around choice and value is limitless, gives us energy, and leverages the skills, expertise and experience of our colleagues and our supplier partners. The same approach is present in how we develop special buys, impulse items and seasonal ranges, which adapt to changing customer needs and preferences, and is an area of particular focus in the current environment.

For the first time, we have included our ambition to be more environmentally and socially responsible into our customer proposition, calling this ***good and circular***. We wish to offer our customers the opportunity to make informed choices, and have therefore increased the number of products which meet our 'more responsibly sourced' standards. In addition to The Edited Life, our lifestyle brand, which incorporates a variety of more sustainable materials and encourages reduced consumption, we have also recently launched 'Conscious Choice'. To be included in this selection of sustainably-focused own-brand lines, each product must be made from at least 50% more sustainable materials (by weight) compared to conventional alternatives, and will typically also offer an extended guarantee of between five and 25 years, with the products having been designed with durability in mind. In addition to product development, we also reduced the volume of plastic packaging on our own-brand products, and, in December 2021, expanded an in-store textiles take-back scheme nationwide. We now have customer take-back options for more than half of our own-brand product range, and have seen significant customer uptake.

As a business with both digital channels and local stores, we have numerous ways to seamlessly offer our customers both ***friendly and expert*** services. We recently re-modelled some of our larger stores to extend the furniture department, showcasing more of our home delivery range for our customers to see and sample and to allow them to ask for advice. We will learn whether customers are willing to travel further to visit these stores, but we have also enabled the colleagues in these stores to talk to customers and showcase the product virtually through video calls. Indeed, in recent years we have worked to connect all of our stores digitally with their local areas. This has exceeded our expectations in many ways, with a total of over one million Facebook followers in the communities we are building around our stores to support local initiatives that help people and the environment. This is becoming a reinforcing model where these communities foster word-of-mouth awareness and advocacy, and underpin our local marketing, lowering the cost of reaching new customers and encouraging more visits.

Easy and convenient is another part of our customer proposition that benefits from the combination of physical and digital channels. Click & Collect is one example of this, as is the ability to research more complex products either online or instore, depending on personal preference. Our Made to Measure curtains and blinds service is benefitting from the work underway to offer the same comprehensive assortment through all channels, and to allow customers to manage their order seamlessly between their online account and an in-store consultation. As part of our commitment to offer a more comprehensive range in this category, in May 2022 we acquired Sunflex, a leading supplier of blinds, curtains and poles, for a cash consideration of £20.8m. This acquisition enhances our product capability in window treatments and brings design, quality and fulfilment capability across a complex product catalogue.

We have also invested in, and improved, our home delivery capability, with the opening of two new distribution centres. A dedicated ecommerce fulfilment facility in Stoke, in partnership with GXO, to support our digital growth ambitions through better customer service, scale and efficiency, has already enabled us to shorten delivery times and extend order cut off times for express delivery services. In March 2022, we opened a dedicated 200,000 sq. ft. furniture distribution hub in Daventry, to improve the availability and speed of delivery of bulkier items, as well as the productivity of the flows into our home delivery network.

This ongoing work to strengthen our customer proposition is benefitting from the capabilities we continue to build in areas such as product, technology, digital & data engineering and insight & analytics. None of this would be possible without the strong operational focus and desire we have to *make every pound count*, which enables us to offer outstanding value to our customers, and at the same time invest prudently in digitising the business.

Summary and outlook

Trading in the first ten weeks of the financial year has remained robust. The comparative period benefitted from the delayed Summer Sale and reopening of stores and associated pent up consumer demand so, as expected, sales have been below the levels seen last year.

The operating and economic environment is extremely challenging. High inflation is expected to remain a feature throughout the year to come, and potentially beyond, causing the pressures on household budgets to increase. While consumer behaviour is unpredictable, our primary focus is to offer outstanding value. We continue to listen, learn and adapt, which plays to our strengths. We have a resilient, relevant and advantaged business model which is highly cash generative, and we are confident in our ability to continue to deliver for all stakeholders.

As we return to more normal patterns of customer behaviour, we expect a gross margin of c.50%, in line with our historic average. We are managing input cost inflation through our tight operational grip, and despite the macro challenges, we are on track to deliver FY23 results in line with analysts' expectations[17].

[17] Company compiled consensus average of analysts' expectations for FY23 PBT of £178m, with a range £130m to £193m.

Nick Wilkinson
Chief Executive Officer
14 September 2022

CHIEF FINANCIAL OFFICER'S REVIEW

Revenue

Total sales for the comparable 52-week period increased by 16.2% to £1,553.1m[18] (FY21: £1,336.2m). For the 53 weeks to 2 July 2022, total sales increased by 18.4%. These growth rates reflect a strong year of trading, the additional Summer Sale event in Q1, and a weaker comparative period in FY21 when stores were only able to offer Click and Collect services for around one third of the year. Digital sales made up 35% of total sales, lower than FY21 (46%) due to the store closure periods in the previous year.

	FY22 (52 weeks)	YoY (52w vs 52w)	FY22 (53 weeks)	YoY
Total Group sales	**£1,553.1m**	**+16.2%**	**£1,581.4m**	**+18.4%**
Digital % total sales	*35%*	*-11ppts*	*35%*	*-11ppts*
Homewares market share[19]	*10.2%*	*+1.4ppts*		
Furniture market share[19]	*1.9%*	*+0.2ppts*		

Compared to FY19 (the last comparable period with all stores open all year), and on a consistent 52-week basis, total sales grew by 41.1% (FY19: £1,100.4m). Digital sales have grown by 2.5x since FY19, when they made up 20% of total sales. The growth rates we have delivered reflect the significant improvements we have made to our product offer, the broadening appeal of our brand, and the strength of our total retail system, which offers customers a friendly and convenient shopping experience across all channels.

We continue to see broad-based growth across our categories. Our furniture categories have performed particularly well, benefitting from improved availability and new additions to our ranges, such as home office (where we have increased the number of options by 60%). Our seasonal ranges also performed strongly, with customers responding well to our winter warm and garden furniture lines in particular. We are also pleased with the performance of our decorating ranges, and the new products we launched in collaboration with the Natural History Museum.

Encouragingly, we have further increased our market share[19]. In homewares, our market share increased by 140bps, and we also gained share in the furniture market, from a small base. Consistent with recent years, over 85% of our total growth in the year was from market share gains. We remain confident that the improvements we are making to our customer proposition in the four key focus areas described in the CEO review will continue to deliver market share gains going forward.

[18] FY22 was a 53-week year. Unless otherwise stated, commentary relates to the comparable 52-week period. The 52-week results for FY22 are unaudited

[19] GlobalData UK homewares and furniture markets. Furniture excludes kitchen and bathroom furniture. Our homewares market share for FY21 has been restated by GlobalDataUK to 8.8% (previously reported 9.1%).

Gross margin

We continued to work closely with our committed suppliers to mitigate cost price pressures and minimise retail price increases, whilst maintaining our commitment to offering customers great value for money at all price points.

Gross margin of 51.2% (on both 52 and 53-week bases) was strong, reflecting a continued lower participation of event sales in the first half of the year. Gross margin was 40bps lower than the prior year primarily reflecting a return to historic levels of participation in event lines during our Summer Sale in Q4.

Looking ahead, we expect the participation in event lines to be higher than the last two financial years and expect FY23 gross margin to be closer to our long-term average of around 50%.

Operating costs

Total operating costs were £581.8m[20] (FY21: £522.5m), representing an operating cost ratio of 37.5% (FY21: 39.1%). On a 53-week basis, total operating costs were £591.7m, with an operating cost ratio of 37.4%. The operating cost ratio benefitted from the leverage effect of a full year with all stores open, with this impact being particularly strong in H1.

The growth in sales increased operating costs by £12m, including £7m from the decision to increase our stockholding to protect availability. We expect these temporary costs to continue through H1 FY23, and then to reduce as stock levels return to more typical levels in H2. The impact of the reintroduction of business rates and the repayment of the JRS monies in FY21 led to a net increase in operating costs of £10m in the year. Inflationary pressures, mainly on wages, increased operating costs by £17m. We invested £20m in building capabilities and capacity (particularly in technology, data, digital and fulfilment). Our investment in new ecommerce and furniture supply chain sites will improve customer service. The 53rd week added a further £10m of costs compared to FY21.

We will continue to invest in a thoughtful way for the long-term, ensuring that our resources are deployed to maximise returns. In recent years we have invested in capability in areas such as digital, data and customer insight, as well as supply chain capacity to support medium term growth. We will leverage the benefit from these investments as they mature and become more efficient, helping to offset inflationary pressures. Our approach to operational grip has never been more important, and we will continue to relentlessly focus on making every pound count.

[20] FY22 was a 53-week year. Unless otherwise stated, commentary relates to the comparable 52-week period. The 52-week results for FY22 are unaudited

Profit and earnings per share

Operating profit of £213.9m[21] (53-week basis: £217.7m) was 28.5% higher than FY21 (FY21: £166.4m). This reflects a full year of open stores, strong gross margin, and a tight operational grip on costs. The acquisition and consolidation of the Sunflex business towards the end of FY22 did not have a material impact on earnings in the period.

Net finance costs of £4.8m[21] (FY21: £8.6m) included interest on IFRS 16 lease liabilities of £4.8m (FY21: £5.3m). On a 53-week basis, net finance costs were £4.9m.

Profit before tax in the period was £209.0m[21] (FY21: £157.8m), an increase of £51.2m year on year. On a 53-week basis, profit before tax was £212.8m.

Profit after tax of £168.2m[21] (FY21: £128.9m) reflected an effective tax rate of 19.5% (FY21: 18.3%). On a 53-week basis, profit after tax was £171.2m. The effective tax rate was 50bps higher than the UK headline rate, within our historic range, but higher than FY21 which benefitted from the timing of R&D claims. We expect the effective tax rate to continue to trend c.50-80bps above the headline rate.

Basic earnings per share (EPS) for the period were 83.0 pence[21] (FY21: 63.7 pence). Diluted earnings per share were 82.1 pence[21] (FY21: 62.9 pence). On a 53-week basis, basic earnings per share were 84.5 pence, with diluted earnings per share at 83.6 pence.

[21] FY22 was a 53-week year. Unless otherwise stated, commentary relates to the comparable 52-week period. The 52-week results for FY22 are unaudited

Cash generation and net cash

In the period, the Group generated £153.0m of free cash flow (FY21: £108.5m).

	FY22 (53 weeks) £m	**FY21 (52 weeks) £m**
Operating profit	217.7	166.4
Depreciation and amortisation[22]	79.3	80.8
Working capital outflow	(14.8)	(35.0)
Share-based payments	4.8	7.5
Tax paid	(35.2)	(35.5)
Net cash generated from operating activities	**251.8**	**184.2**
Capex and business combinations	(41.7)	(15.7)
Net interest and loan transaction costs[23]	(2.1)	(0.7)
Interest on lease liabilities	(4.8)	(5.3)
Repayment of principal element of lease liabilities	(50.2)	(54.0)
Free cash flow	**153.0**	**108.5**

[22] Including impairment and loss on disposal
[23] Excluding interest on lease liabilities

There was a working capital outflow of £14.8m in the period (FY21: £35.0m) as we consciously built our inventory levels to ensure we maintained good availability for customers, given the risk of ongoing supply chain disruption which has been seen across the market. Inventories at the end of the period were £223.0m (FY21: £172.4m). Whilst we are comfortable with this level of inventory for now, we do expect stock holding to reduce during FY23.

Total capital investment was £41.7m (FY21: £15.7m). This included £9.3m relating to the set-up of our new ecommerce and furniture supply chain operations, and £11.5m spent on the three new stores opened in the period, as well as refits of nine existing stores and decarbonisation initiatives. On 3 May 2022 we acquired the trade and assets of Sunflex, a division of Hunter Douglas (UK) Limited, for a cash consideration of £20.8m, of which £17.7m had been paid at 2 July 2022. We expect capital expenditure in FY23 to be c.£20-£30m.

Cash tax paid of £35.2m (FY21: £35.5m) included receipts in relation to research and development claims made at the end of FY21.

Repayments of lease liabilities of £50.2m (FY21: £54.0m) were lower than the prior year as the comparative was impacted by the agreed deferral of the June 2020 rent payments into H1 FY21.

In the period, the Group spent £28.3m (FY21: nil) purchasing shares to be held in treasury to satisfy future obligations under its employee share schemes.

After total dividend payments in the period of £282.1m (FY21: £24.3m), including special dividends of £207.0m, the Group ended the year with a net debt position of £23.8m (FY21: net cash £128.6m).

Banking agreements

In December 2021 the Group agreed a new £185m sustainability-linked unsecured revolving credit facility ("RCF"). The facility has an initial term of four years, which may be extended by a maximum of a further two years at Dunelm's request, subject to lender consent. The RCF incorporates four sustainability-linked performance targets which align with our ambitious sustainability plans, including our commitment to pursue a Net Zero

Pathway. In FY22, we achieved our targets for plastic packaging, take-back and carbon reduction. Despite an improvement in the sourcing of cotton, our FY22 target was not achieved. We continue to learn and educate ourselves and our suppliers, and remain confident that we will achieve our long-term targets. The terms of the RCF include covenants in respect of leverage (net debt to be no greater than 2.5× EBITDA[24]) and fixed charge cover (EBITDA[24] to be no less than 1.75× fixed charges[25]), both of which were met comfortably as at 2 July 2022.

In addition, the Group maintains £10m of uncommitted overdraft facilities and has an accordion option within the RCF for a maximum facility of £75m.

[24] EBITDA excludes right of use asset depreciation
[25] Fixed charges are defined as interest costs plus right of use asset depreciation

Going concern

At the time of approving the financial statements, the Board of Directors 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. To support this assessment, the Board is required to consider the Group's current financial position, its strategy, the market outlook and its principal risks.

The key judgement that the Directors have considered in forming their conclusion is the potential impact on future revenue, profits and cashflows of a downturn in consumer spending away from homewares due to the current economic environment, resulting in no growth in Year 1 and lower sales and margin across all channels throughout the review period. They have also considered a deeper downturn in consumer spending away from homewares, resulting in negative growth in Year 1 and lower sales and margin across all channels throughout the review period.

In both downside scenarios Dunelm has sufficient liquidity to continue trading, including maintaining the payment of dividends in line with its dividend policy, and to comfortably meet its financial covenants. Reverse stress modelling has demonstrated that a prolonged sales reduction of 30% from Q2 FY23 and 37% from FY24 is required to breach covenants by the end of FY24 and a 55% sales reduction is required to breach the RCF limit by the end of FY24, assuming reasonable mitigating actions have been implemented.

In such an event, management would follow a similar course of actions to those initially undertaken during the recent Covid-19 pandemic.

As a result, the Board believes that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements. In addition, based on a review of the impact of climate change, climate change is not expected to have a significant impact in the Group's going concern assessment.

Capital and dividend policies

The Board policy on capital structure targets an average net debt level (excluding lease obligations and short-term fluctuations in working capital) of between 0.2× and 0.6× of the last 12 months' EBITDA (on a post IFRS 16 basis). The Group's dividend policy targets ordinary dividend cover of between 1.75× and 2.25× earnings per share during the financial year to which the dividend relates.

The Board will continue to consider returning surplus cash to shareholders if average net debt, excluding lease liabilities, over a period consistently falls below the minimum target of 0.2× EBITDA, subject to known and anticipated investment plans at the time.

The Group's full capital and dividend policies are available on our website at www.corporate.dunelm.com.

Dividends

The Board has proposed a final ordinary dividend of 26 pence per share, recognising our very strong performance in the year and our confidence in the business. This takes the full year ordinary dividend to 40 pence per share, ahead of the 35 pence per share paid in FY21, with dividend cover of 2.1× on both a 52 and 53 week basis, within the range of our stated policy. The final dividend will be paid on 5 December 2022 to shareholders on the register on 11 November 2022, subject to it being approved by shareholders at the AGM. We paid total dividends of £282m in the year, including special dividends of £207m.

Principal risks and uncertainties

The Board regularly reviews and monitors the risks and uncertainties which could have a material effect on the Group's results. The principal risks and uncertainties that could lead to a material impact have not significantly changed from those listed in the FY21 Annual Report. No new principal risks were identified in the year, however there were four risks where the potential impact had increased over the year, with the remaining risks having no change in their overall impact. We have also renamed one of our principal risks. A summary of the principal risks has been provided below:

Risk	Impact
Competition, market and customers	Failure to respond to changing consumer needs e.g., the shift towards online sales, personalisation, rental versus ownership, sustainability and customer experience, and to maintain a competitive offer (range, quality, value and ease of shopping) could impact profitability and limit opportunities for growth. A downturn in the economy and consumer spending, aggressive competitor activity (especially with cost price pressures) could impact sales and profit.
Catastrophic business events	Failure to withstand the impact of an external event or combination of events that severely disrupts markets and causes significant damage to all or a substantial part of the Group's sales or operations (e.g. pandemic).
Brand damage	Our customers expect us to deliver products that are safe, compliant with legal and regulatory requirements, and fit for purpose. Increasingly, customers also want to know that products have been responsibly sourced and that their environmental impact is minimised. We must also ensure that our suppliers share and uphold our approach to business ethics, human rights (including safety and modern slavery) and the environment. Failure to do so could result in harm to individuals with the potential for customers, colleagues and other stakeholders to lose confidence in the Dunelm brand.
People and culture	The success of the business could be impacted if it fails to attract, retain and motivate high-calibre colleagues. Maintaining and evolving the culture of our business (embodied in our shared values) is essential to delivering our strategy and ensuring the long-term sustainability of our business.
IT systems, data and cyber security	Operations impacted by failure to develop technology to support the strategy, lack of systems availability due to cyber attack or other failure, and reputational damage/fines due to loss of personal data.
Regulatory and compliance	Fines, damages claims, and reputational damage could be incurred if we fail to comply with legislative or regulatory requirements, including consumer law, health and safety, employment law, GDPR and data protection, Bribery Act, or competition law.
Climate change and environment	Failure to anticipate and address the strategic, regulatory, and reputational impact of climate change and environmental matters, and governmental, consumer and media action in response to it.
Supply chain disruption	Changes in global supply chain capacity, labour shortages, ongoing disruption from Covid-19 and geo-political instability may cause interruption to the supply of stock to our stores and fulfilment of online orders which could impact sales. Inflationary pressures linked to these challenges could impact profitability.

Business efficiency	Profitability could be impacted by failure to operate the business efficiently or to manage margin volatility.
Finance and treasury	Progress against business objectives constrained by a lack of short-term funding and long term capital.

Alternative performance measures (APMs)

APM	Definition, purpose and reconciliation to statutory measure
Unique active customers growth	12-month rolling growth in unique active customers who have shopped in the 12 months, based on Barclays transactional data. Note that Barclays data represents approximately 10% of total Dunelm transactions. To measure whether we are continuing to grow our active customer base – from both new customers and retention of existing customers.
Total sales	Equivalent to revenue (from all channels). This is net of customer returns.
Digital sales	Digital sales include home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store.
Digital % total sales	Digital sales (as defined above) expressed as a percentage of revenue. This is not a measure that we seek to maximise in itself, but we measure it to track our adaptability to changing customer behaviours.
Gross margin %	Gross profit/revenue. Measures the profitability made on product sales prior to selling & distribution costs and administrative expenses.
Operating costs to sales ratio	Operating costs/revenue. To measure the growth of costs relative to sales growth.
EBITDA	Earnings before interest, tax, depreciation, amortisation and impairment. Excludes right of use asset depreciation. To measure compliance with bank covenants
Effective tax rate	Taxation/profit before taxation. To measure how close we are to the UK corporation tax rate and understand the reasons for any differences.
Capex (net of disposals)	Acquisition of intangible assets and acquisition of property, plant and equipment less proceeds on disposal of property, plant and equipment and intangibles.
Free cash flow	Net cash generated from operating activities less capex (net of disposals) and business combinations, net interest paid (including leases) and loan transaction costs, and repayment of lease liabilities. Measures the cash generated that is available for disbursement to shareholders.
Net cash/(debt)	Cash and cash equivalents less total borrowings (as shown in note 12). Excludes IFRS 16 lease liabilities.

Karen Witts
Chief Financial Officer
14 September 2022

Consolidated Income Statement
For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m	2021 52 weeks £'m
Revenue		**1,581.4**	**1,336.2**
Cost of sales		(772.0)	(647.3)
Gross profit		**809.4**	**688.9**
Operating costs	2	(591.7)	(522.5)
Operating profit	3	**217.7**	**166.4**
Financial income	5	1.2	0.1
Financial expenses	5	(6.1)	(8.7)
Profit before taxation		**212.8**	**157.8**
Taxation	6	(41.6)	(28.9)
Profit for the period		**171.2**	**128.9**
Earnings per Ordinary Share - basic	8	84.5p	63.7p
Earnings per Ordinary Share - diluted	8	83.6p	62.9p

Consolidated Statement of Comprehensive Income
For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m	2021 52 weeks £'m
Profit for the period		171.2	128.9
Other comprehensive income/(expense):			
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of cash flow hedges		32.4	(17.7)
Deferred tax on hedging movements		(5.3)	2.2
Other comprehensive income for the period, net of tax		27.1	(15.5)
Total comprehensive income for the period		**198.3**	**113.4**

Consolidated Statement of Financial Position
As at 2 July 2022

	Note	2 July 2022 53 weeks £'m	26 June 2021 52 weeks £'m
Non–current assets			
Intangible assets	9	9.9	14.8
Property, plant and equipment	10	173.7	162.6
Right-of-use assets	11	248.5	262.0
Deferred tax assets		4.1	11.4
Derivative financial instruments		4.6	0.3
Total non-current assets		**440.8**	**451.1**
Current assets			
Inventories		223.0	172.4
Trade and other receivables		22.9	11.8
Current tax asset		1.1	2.4
Derivative financial instruments		19.9	0.4
Cash and cash equivalents		30.2	128.6
Total current assets		**297.1**	**315.6**
Total assets		**737.9**	**766.7**
Current liabilities			
Trade and other payables		(223.2)	(181.8)
Lease liabilities	11	(52.8)	(49.0)
Derivative financial instruments		-	(5.1)
Total current liabilities		**(276.0)**	**(235.9)**
Non-current liabilities			
Bank loans	12	(52.8)	-
Lease liabilities	11	(225.3)	(244.3)
Provisions		(5.5)	(4.5)
Derivative financial instruments		-	(0.8)
Total non-current liabilities		**(283.6)**	**(249.6)**
Total liabilities		**(559.6)**	**(485.5)**
Net assets		**178.3**	**281.2**
Equity			
Issued share capital		2.0	2.0
Share premium account		1.7	1.6
Capital redemption reserve		43.2	43.2
Hedging reserve		20.2	(4.3)
Retained earnings		111.2	238.7
Total equity attributable to equity holders of the Parent		**178.3**	**281.2**

Karen Witts
Chief Financial Officer
14 September 2022

Consolidated Statement of Cash Flows
For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m	2021 52 weeks £'m
Cash flows from operating activities			
Profit before taxation		**212.8**	**157.8**
Net financial expense	5	4.9	8.6
Operating profit		**217.7**	**166.4**
Depreciation and amortisation of property, plant and equipment and intangible assets	3	30.5	31.8
Depreciation of right-of-use assets	3	48.6	45.7
Loss on disposal and impairment of property, plant and equipment and intangible assets	3	0.3	2.3
(Gain)/loss on disposal and impairment of right-of-use assets	3	(0.1)	1.0
Share-based payments expense		4.8	7.5
Operating cash flows before movements in working capital		**301.8**	**254.7**
Increase in inventories		(40.3)	(54.2)
(Increase)/decrease in trade and other receivables		(7.7)	4.1
Increase in trade and other payables		33.2	15.1
Net movement in working capital		**(14.8)**	**(35.0)**
Tax paid		(35.2)	(35.5)
Net cash generated from operating activities		**251.8**	**184.2**
Cash flows from investing activities			
Acquisition of intangible assets		(0.7)	(0.6)
Acquisition of property, plant and equipment		(23.3)	(15.1)
Acquisition of business combination		(17.7)	-
Interest received		0.1	0.1
Net cash used in investing activities		**(41.6)**	**(15.6)**
Cash flows from financing activities			
Proceeds from issue of treasury shares and ordinary shares		3.9	1.8
Purchase of treasury shares		(28.3)	-
Drawdowns on Revolving Credit Facility		85.0	-
Repayments of Revolving Credit Facility		(31.0)	(45.0)
Interest paid and loan transaction costs		(2.2)	(0.8)
Interest paid on lease liabilities	11	(4.8)	(5.3)
Repayment of principal element of lease liabilities		(50.2)	(54.0)
Ordinary dividends paid	7	(282.1)	(24.3)
Net cash used in financing activities		**(309.7)**	**(127.6)**
Net (decrease) / increase in cash and cash equivalents		**(99.5)**	**41.0**
Foreign exchange revaluations	5	1.1	(2.4)
Cash and cash equivalents at the beginning of the period		128.6	90.0
Cash and cash equivalents at the end of the period		**30.2**	**128.6**

Consolidated Statement of Changes in Equity
For the 53 weeks ended 2 July 2022

	Note	Issued share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Hedging reserve £'m	Retained earnings £'m	Total equity attributable to equity holders of the Parent £'m
As at 28 June 2020		**2.0**	**1.6**	**43.2**	**5.3**	**121.3**	**173.4**
Profit for the period		-	-	-	-	128.9	128.9
Movement in fair value of cash flow hedges		-	-	-	(17.7)	-	(17.7)
Deferred tax on hedging movements		-	-	-	2.2	-	2.2
Total comprehensive income for the period		-	-	-	(15.5)	128.9	113.4
Proceeds from issue of treasury shares		-	-	-	-	1.8	1.8
Share-based payments		-	-	-	-	7.5	7.5
Deferred tax on share-based payments		-	-	-	-	2.9	2.9
Current tax on share options exercised		-	-	-	-	0.6	0.6
Loss on cash flow hedges transferred to inventory		-	-	-	5.9	-	5.9
Ordinary dividends paid	7	-	-	-	-	(24.3)	(24.3)
Total transactions with owners, recorded directly in equity		-	-	-	5.9	(11.5)	(5.6)
As at 26 June 2021		**2.0**	**1.6**	**43.2**	**(4.3)**	**238.7**	**281.2**
Profit for the period		-	-	-	-	171.2	171.2
Movement in fair value of cash flow hedges		-	-	-	32.4	-	32.4
Deferred tax on hedging movements		-	-	-	(5.3)	-	(5.3)
Total comprehensive income for the period		-	-	-	27.1	171.2	198.3
Proceeds from issue of shares		-	0.1	-	-	-	0.1
Proceeds from issue of treasury shares		-	-	-	-	3.9	3.9
Purchase of treasury shares		-	-	-	-	(28.3)	(28.3)
Share-based payments		-	-	-	-	4.8	4.8
Deferred tax on share-based payments		-	-	-	-	0.8	0.8
Current tax on share options exercised		-	-	-	-	2.2	2.2
Gain on cash flow hedges transferred to inventory		-	-	-	(2.6)	-	(2.6)
Ordinary dividends paid	7	-	-	-	-	(282.1)	(282.1)
Total transactions with owners, recorded directly in equity		-	0.1	-	(2.6)	(298.7)	(301.2)
As at 2 July 2022		**2.0**	**1.7**	**43.2**	**20.2**	**111.2**	**178.3**

Accounting Policies

For the 53 weeks ended 2 July 2022

Basis of preparation

The period ended 2 July 2022 consisted of 53 weeks. The comparative period consisted of 52 weeks.

The annual report and financial statements for the period ended 2 July 2022 were approved by the Board of Directors on 14 September 2022 along with this preliminary announcement, but have not yet been delivered to the Registrar of Companies.

The financial information contained in this preliminary announcement does not constitute the Group's statutory accounts within the meaning of Section 434 of the Companies Act 2006.

The auditor's report on the statutory accounts for the period ended 2 July 2022 was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The statutory accounts of Dunelm Group plc for the period ended 26 June 2021 have been delivered to the Registrar of Companies. The auditor's report on the statutory accounts for the period ended 26 June 2021 was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

1. Revenue

The Group has one reportable segment, in accordance with IFRS 8 'Operating Segments', which is the retail of homewares in the UK.

Customers access the Group's offer across multiple channels and their journey often involves more than one channel. Therefore, internal reporting focuses on the Group as a whole and does not identify individual segments.

The Chief Operating Decision-maker is the Executive Board of Directors of Dunelm Group plc. The Executive Board reviews internal management reports on a monthly basis and performance is assessed based on a number of financial and non-financial KPIs as well as on profit before taxation.

Management believes that these measures are the most relevant in evaluating the performance of the Group and for making resource allocation decisions.

All material operations of the Group are carried out in the UK. The Group's revenue is driven by the consolidation of individual small value transactions and as a result, Group revenue is not reliant on a major customer or group of customers.

At the year end the Group had £12.2m (2021: £11.8m) of sales orders placed that will be recognised in the Consolidated Income Statement when the goods are despatched in the following financial year.

2. Operating costs

	2022 53 weeks £'m	2021 52 weeks £'m
Selling and distribution costs	469.4	423.9
Administrative expenses	122.3	98.6
	591.7	522.5

3. Operating profit

Operating profit is stated after charging / (crediting) the following items:

	2022 53 weeks £'m	2021 52 weeks £'m
Cost of inventories included in cost of sales	765.3	638.5
Amortisation of intangible assets	6.2	7.3
Depreciation of owned property, plant and equipment	24.3	24.5
Depreciation of right-of-use assets	48.6	45.7
Loss on disposal and impairment of property, plant and equipment and intangible assets	0.3	2.3
(Gains) / losses on disposal and impairment of right-of-use assets	(0.1)	1.0
Expense related to short-term leases	0.6	1.8

The cost of inventories included in cost of sales includes the impact of a net increase in the provision for obsolete inventory of £4.2m (2021: £5.3m increase) of which £2.6m relates to Sunflex.

The analysis of the auditors' remuneration is as follows:

	2022 53 weeks £'000	2021 52 weeks £'000
Fees payable to the Group's auditors for the audit of the Parent and consolidated annual financial statements	46	29
Fees payable to the Group's auditors and their associates for other services to the Group		
- Audit of the Company's subsidiaries pursuant to legislation	256	225
- Other assurance services	42	40

4. Employee numbers and costs

The average monthly number of people employed by the Group (including Directors) was:

	2022 53 weeks Number of heads	2022 53 weeks Full time equivalents	2021 52 weeks Number of heads	2021 52 weeks Full time equivalents
Selling	9,544	5,437	9,039	5,390
Distribution	963	930	829	812
Administration	925	906	704	695
	11,432	7,273	10,572	6,897

The aggregate remuneration of all employees (including Directors) comprises:

	2022 53 weeks £'m	2021 52 weeks £'m
Wages and salaries (including termination benefits)	211.1	190.8
Social security costs	14.3	13.0
Share-based payment expense	4.9	7.5
Pension costs - defined contribution plans	5.2	4.5
	235.5	215.8

In the prior year, payroll costs included £14.5m relating to the Board's decision to repay claims made in 2020 under the UK Government's Coronavirus Job Retention Scheme.

5. Financial income and expenses

	2022 53 weeks £'m	2021 52 weeks £'m
Financial income		
Interest on bank deposits	0.1	0.1
Net foreign exchange gains	1.1	-
	1.2	0.1
Financial expenses		
Interest on bank borrowings	(0.9)	(0.8)
Amortisation of issue costs of bank loans	(0.4)	(0.2)
Net foreign exchange losses	-	(2.4)
Interest on lease liabilities	(4.8)	(5.3)
	(6.1)	(8.7)
Net financial expense	(4.9)	(8.6)

6. Taxation

	2022 53 weeks £'m	2021 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	39.0	32.7
Adjustments in respect of prior periods	(0.2)	(1.7)
	38.8	31.0
Deferred taxation		
Origination of temporary differences	3.0	(1.3)
Adjustments in respect of prior periods	(0.2)	-
Impact of change in tax rate	-	(0.8)
	2.8	(2.1)
Total tax expense	41.6	28.9

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2022 53 weeks £'m	2021 52 weeks £'m
Profit before taxation	212.8	157.8
UK corporation tax at standard rate of 19.0% (2021: 19.0%)	40.4	30.0
Factors affecting the charge in the period:		
Non-deductible expenses	1.6	1.4
Adjustments in respect of prior periods	(0.4)	(1.7)
Impact of change in tax rate	-	(0.8)
Tax charge	41.6	28.9

The taxation charge for the period as a percentage of profit before tax is 19.5% (2021: 18.3%).

The UK Government substantively enacted an increase in the corporation tax rate to 25.0% effective from 1 April 2023. The deferred tax asset as at 2 July 2022 has been calculated based on the rate of 25.0% unless the asset/liability is expected to be realised or settled before the rate increase in which case the rate of 19.0% has been used.

7. Dividends

The dividends set out in the table below relate to the 1 pence Ordinary Shares:

		2022 53 weeks £'m	2021 52 weeks £'m
Interim dividend for the period ended 26 June 2021	- paid 12.0 pence	-	24.3
Special dividend for the period ended 26 June 2021	- paid 65.0 pence	131.9	-
Final dividend for the period ended 26 June 2021	- paid 23.0 pence	46.8	-
Interim dividend for the period ended 2 July 2022	- paid 14.0 pence	28.3	-
Special dividend for the period ended 2 July 2022	- paid 37.0 pence	75.1	-
		282.1	24.3

The Board are proposing a final dividend of 26 pence per Ordinary Share for the period ended 2 July 2022 which equates to £52.9m. Subject to shareholder approval at the AGM this will be paid on 5 December 2022 to shareholders on the register at the close of business on 11 November 2022.

8. Earnings per Ordinary Share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period, excluding Ordinary Shares purchased by the Company and held as treasury shares.

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. These represent share options granted to employees where the exercise price is less than the average market price of the Group's Ordinary Shares during the period.

Weighted average numbers of shares:

	2022 53 weeks '000	2021 52 weeks '000
Weighted average number of shares in issue during the period	202,722	202,445
Impact of share options	2,135	2,445
Number of shares for diluted earnings per share	204,857	204,890

	2022 53 weeks £'m	2021 52 weeks £'m
Profit for the period	171.2	128.9
Earnings per Ordinary Share - basic	84.5p	63.7p
Earnings per Ordinary Share - diluted	83.6p	62.9p

9. Intangible assets

	Software development and licences £'m	Rights to brands and customer lists £'m	Total £'m
Cost			
At 28 June 2020	51.7	11.0	62.7
Additions	0.6	-	0.6
Disposals	(0.3)	-	(0.3)
At 26 June 2021	52.0	11.0	63.0
Additions	0.9	-	0.9
Acquisition through business combination	-	0.5	0.5
Disposals	(0.3)	-	(0.3)
At 2 July 2022	**52.6**	**11.5**	**64.1**
Accumulated amortisation			
At 28 June 2020	29.0	11.0	40.0
Charge for the financial period	7.3	-	7.3
Disposals	(0.3)	-	(0.3)
Impairment	1.2	-	1.2
At 26 June 2021	37.2	11.0	48.2
Charge for the financial period	6.2	-	6.2
Disposals	(0.2)	-	(0.2)
At 2 July 2022	**43.2**	**11.0**	**54.2**
Net book value			
At 28 June 2020	22.7	-	22.7
At 26 June 2021	14.8	-	14.8
At 2 July 2022	**9.4**	**0.5**	**9.9**

All amortisation is included within operating costs in the Consolidated Income Statement.

There was no trigger for impairment in the period. Last year's impairment of £1.2m relates to tablet-based sales enabling software that was impaired following the development and roll out of new functionality in this area.

Within software development and licences there were no additions (2021: nil) related to internally generated assets.

10. Property, plant and equipment

	Freehold land and buildings	Leasehold improvements	Fixtures, fittings and equipment	Total
	£'m	£'m	£'m	£'m
Cost				
At 28 June 2020	97.7	160.6	119.9	378.2
Additions	-	3.8	9.0	12.8
Disposals	-	(6.7)	(4.7)	(11.4)
At 26 June 2021	97.7	157.7	124.2	379.6
Transfer	-	1.2	(1.2)	-
Additions	0.1	13.3	12.6	26.0
Acquisition through business combination	9.2	0.1	0.3	9.6
Disposals	-	(8.3)	(3.7)	(12.0)
At 2 July 2022	**107.0**	**164.0**	**132.2**	**403.2**
Accumulated depreciation				
At 28 June 2020	16.4	84.8	101.6	202.8
Charge for the financial period	1.7	13.2	9.6	24.5
Disposals	-	(6.2)	(4.3)	(10.5)
Impairment	-	0.1	0.1	0.2
At 26 June 2021	18.1	91.9	107.0	217.0
Transfer	-	(0.5)	0.5	-
Charge for the financial period	1.8	14.4	8.1	24.3
Disposals	-	(8.1)	(3.7)	(11.8)
At 2 July 2022	**19.9**	**97.7**	**111.9**	**229.5**
Net book value				
At 28 June 2020	81.3	75.8	18.3	175.4
At 26 June 2021	79.6	65.8	17.2	162.6
At 2 July 2022	**87.1**	**66.3**	**20.3**	**173.7**

All depreciation and impairment charges have been included within operating costs in the Consolidated Income Statement.

There was no trigger for impairment in the period. Last year's impairment of £0.2m relates to store impairment. The recoverable amount was determined as the value in use, applying a discount rate of 10.0% (pre-tax).

Similar asset categories have been amalgamated into leasehold improvements and fixtures, fittings and equipment in the current year. The nature of this change is presentational under IAS1.

11. Leases

Right-of-use assets included in the Consolidated Statement of Financial Position at 2 July 2022 were as follows:

	2022 53 weeks Land and buildings £'m	2022 53 weeks Motor vehicles, plant and equipment £'m	2022 53 weeks Total £'m	2021 52 weeks Total £'m
At the beginning of the period	254.7	7.3	262.0	283.3
Additions	30.9	4.4	35.3	25.5
Disposals	(0.1)	(0.1)	(0.2)	(0.1)
Impairment	-	-	-	(1.0)
Depreciation	(45.1)	(3.5)	(48.6)	(45.7)
At the end of the period	**240.4**	**8.1**	**248.5**	**262.0**

Right-of-use additions include £3.1m of lease modifications (2021: £1.3m).

Lease liabilities included in the Consolidated Statement of Financial Position at 2 July 2022 were as follows:

	2022 53 weeks Land and buildings £'m	2022 53 weeks Motor vehicles, plant and equipment £'m	2022 53 weeks Total £'m	2021 52 weeks Total £'m
At the beginning of the period	(286.1)	(7.2)	(293.3)	(314.4)
Additions	(31.5)	(4.4)	(35.9)	(26.9)
Disposals	-	0.1	0.1	0.1
Interest	(4.7)	(0.1)	(4.8)	(5.3)
Repayment of lease liabilities	52.2	3.6	55.8	53.2
At the end of the period	**(270.1)**	**(8.0)**	**(278.1)**	**(293.3)**

The discount rate applied across all lease liabilities ranged between 0.9% and 2.8% (2021: 1.0% and 2.1%). The discount rate reflects our incremental borrowing rate which we assess by considering the marginal rate on the Group's RCF, the Bank of England base rate, the yield on Government bonds and the term of the lease.

The maturity analysis of the lease liabilities is as follows:

	2022 53 weeks £'m	2021 52 weeks £'m
Current	(52.8)	(49.0)
Non-current	(225.3)	(244.3)
	(278.1)	**(293.3)**

The remaining contractual maturities of the lease liabilities, which are gross and undiscounted, are as follows:

	2022 53 weeks £'m	2021 52 weeks £'m
Less than one year	(57.1)	(53.7)
One to two years	(53.2)	(51.8)
Two to five years	(111.9)	(119.1)
Five to ten years	(68.3)	(78.2)
More than ten years	(5.0)	(10.1)
Total undiscounted lease liability	**(295.5)**	**(312.9)**

The average remaining lease term of our leasehold land and buildings is 5.2 years.

The following amounts have been recognised in the Consolidated Income Statement:

	2022 53 weeks Land and buildings £'m	2022 53 weeks Motor vehicles, plant and equipment £'m	2022 53 weeks Total £'m	2021 52 weeks Total £'m
Depreciation of right-of-use assets	45.1	3.5	48.6	45.7
Gain on disposal of right-of-use assets	(0.1)	-	(0.1)	-
Impairment of right-of-use assets	-	-	-	1.0
Interest expenses (included in financial expenses)	4.7	0.1	4.8	5.3
Expense relating to short-term leases	0.5	0.1	0.6	1.8

There was no trigger for impairment in the current year. The prior year's impairment of £1.0m relates to store impairment. The recoverable amount has been determined as the value in use applying a discount rate of 10.0% (pre-tax).

The total cash outflow for leases during the financial period was £55.0m (2021: £59.3m).

12. Bank loans

	2022 53 weeks £'m	2021 52 weeks £'m
Total borrowings	54.0	-
Less: unamortised debt issue costs	(1.2)	(0.2)
	52.8	(0.2)

Unamortised debt issue costs of £0.2m are included in other receivables as at 26 June 2021 as there was no debt at the period end.