



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

Interim results for the 26 weeks ended 28 January 2023

SCS PERFORMANCE IN LINE WITH EXPECTATIONS
ACQUISITION OF SNUG DIVERSIFIES GROUP AND POSITIONS IT TO FURTHER INCREASE MARKET SHARE

ScS, one of the UK's largest retailers of sofas, flooring and furniture, presents its interim results for the 26 weeks ended 28 January 2023 ("period" or "H1 FY23").

Financial summary:

	H1 FY23 £m	H1 FY22** £m	Variance
Gross sales*	154.9	149.8	5.0
Revenue	147.9	144.2	3.7
Gross profit	67.8	67.6	0.3
Gross margin*	43.8%	45.1%	(1.3%)
Loss before tax	(6.3)	(3.6)	(2.7)
Underlying loss before tax*	(4.7)	(5.6)	0.9
Loss per share	(14.6p)	(7.6p)	(7.0p)
Underlying loss per share*	(10.8p)	(11.8p)	1.0p

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

**H1 FY22 gross sales and revenue have been restated to account for warranty sales as an agent rather than principal under IFRS 15. This did not result in any change to reported profit, earnings per share, cash flows or in the consolidated statement of financial position.

On 10 January 2023, the business and assets of Snug were acquired out of administration. Due to the close proximity of the acquisition to the period end, Snug has not contributed to gross profit in the period. Total costs of £0.8m have been recognised in the period, largely due to set up and acquisition costs, all of which have been classified as adjusting items.

Financial highlights:

- Delivered sales increased 3.4% with improvements in the supply chain reducing lead times
- Underlying loss before tax of £4.7m, £0.9m ahead of the prior period and typical of H1 performance, which includes significant marketing expenditure to support the winter sale and where profitability is substantially H2 weighted
- Excluding stock sales, gross margin* was in line with the prior period. Reported decline due to an increase in display stock sales as the Group rolled out the decluttering programme
- Strong balance sheet with cash of £76.9m as at 28 January 2023 (H1 FY22: £87.9m)
- Confidence in outlook supports ongoing shareholder returns
 - Interim dividend of 4.5p (H1 FY22: 4.5p)
 - Completion of share buyback programme, returning £7m to shareholders

Operational highlights:

- Strong winter sale with the last 10 weeks of the period seeing like-for-like* order intake growth of 2.6%
- Market share gains achieved during the period
- Continued strategic progress:
 - Acquired the business and assets of Snug, expanding the Group's offering and increasing market share
 - Opened two new stores in York and Swindon
 - Implemented our new concept design into two further stores
 - Achieved Kitemark certification for domestic furniture from the British Standards Institute
 - Exceeded 400,000 reviews on Trustpilot, making ScS the 5th most reviewed company in the UK
 - Maintained the maximum 5-star 'Excellent' rating on Trustpilot, with ScS being the only company in the UK's top 10 most reviewed to hold the full 5-star rating

Current trading and outlook:

- Like-for-like* order intake momentum continued to improve after the period end, with growth of 5.7% in the 7 weeks to 18 March 2023
- One year like-for-like order intake for the 33 weeks is down 2.8%
- Planned investment in a further eight stores to adopt our concept design
- Resilient balance sheet, with cash of £83.2m as at 18 March 2023 and no debt
- ScS remains on track to deliver a full year profit before tax in line with market expectations †
- Pleased with the Snug acquisition which we expect will be earnings accretive in FY24. We intend to invest in the business throughout H2 and expect Snug will report a second half loss before tax of £1.0m

† The Board believe that consensus market expectation for underlying profit before tax for the full year is £7.7m. For the avoidance of doubt, this excludes the impact of Snug in FY23, guidance of which is provided for the first time today.

Steve Carson, Chief Executive Officer of ScS, commented:

“The Group made good strategic progress in the first six months of the financial year and continued to take market share. We are pleased with the strength of our winter sale performance and the subsequent increase in order momentum over the last two months.

The macroeconomic environment continues to be challenging and we are mindful of the pressures faced by many of our customers. Therefore, continuing to focus on our value driven proposition is more important than ever so that everyone is able to create the home they love.

The Board continues to believe that progress with the Group's strategy, ongoing cost management and a robust balance sheet places it in a strong financial and operational position. The outlook, therefore, is positive and ScS remains on track to deliver full year profit before tax in line with market expectations.”

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A presentation for analysts will be held this morning at Buchanan, 107 Cheapside, London, EC2V 6DN commencing at 9.30am today, Tuesday 21 March 2023.

ScS Group plc's Interim Results 2023 are available at www.scsplc.co.uk. An audio webcast of the presentation will also be made available later in the day.

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

Notes to editors

ScS is one of the UK's largest retailers of 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 one store in Leeds and seven concessions throughout England.

Business review

The first six months of FY23 has been a period of further strategic progress which has resulted in a resilient financial performance despite the challenging economic climate. We are particularly pleased to report a successful winter sale and excellent order intake momentum, and to have expanded the Group through our acquisition of the business and assets of Snugsofa.com (“Snug”). Furthermore, externally sourced data shows the Group gained market share over the period.

Results

Like-for-like* order intake momentum improved significantly throughout the period but particularly through the key winter sale, as the Group started the period with tough comparatives. For the first 16 weeks of the period, like-for-like* order intake was down by 9.1% due to the comparative period benefitting from strong pent-up demand following the last national lockdown. The subsequent 10 weeks to 28 January 2023 saw a return to order intake growth of 2.6%, which included the key winter sale. Overall like-for-like* order intake was 4.7% down for the first half of the financial year, largely reflecting the challenging comparative, but this was partially mitigated by improved underlying performance.

Gross sales* for the period increased 3.4% to £154.9m compared to the prior period. Gross profit increased by 0.4% to £67.8m and gross margin* was 43.8% (45.1% in H1 FY22). The reduction in gross margin* was driven by higher levels of stock sales as the Group sold off display stock as part of a decluttering programme to improve the look and feel of our showrooms. Gross margin was in line with the prior period when adjusted for stock sales.

The Group made an underlying loss before tax* of £4.7m for the period, a £0.9m improvement on the prior period. This is in line with the Group’s usual profile, predominately due to the investment in marketing in the first half of the financial year to support order intake over the key winter sale. The benefit of this investment will be reflected in the second half of the year.

Snug acquisition

On 10 January 2023 the Group acquired, out of administration, the brand, domain names, website, intellectual property and stock of Snug for £875,000. Snug is an innovative digital-first sofa and sofa-bed business specialising in modular and re-configurable sofas. It has a strong brand and differentiated digital-first offering, which the Board believe will complement the Group's existing proposition, further diversifying its customer base and increasing market share. The acquisition represents further progression in ScS's strategy, and is a great strategic and cultural fit which reinforces our commitment to helping our customers create the home they love.

Since the acquisition, the business has worked hard to re-establish relationships with suppliers, replenish stock and relaunch trading. Snug is now fully operational, trading from the website and currently operates from one store in Leeds and seven concessions throughout England. We plan to launch Snug concessions into our ScS showrooms in the coming months, which will help build the national presence and awareness of the brand. These concessions will be trialled in our concept stores.

Strategy update

Outstanding team

Ensuring our colleagues feel valued remains a top priority for the Board. At the start of the period, we invested £2.0m in our colleagues’ take home pay, both through an increase in their basic salaries and a £400 one-off cost of living support payment.

As we strive to increase engagement and drive meaningful change, the results of the latest annual employee survey were encouraging as the overall survey score increased by three points to 74 which is ahead of the UK benchmark. This increase in colleague satisfaction is also reflected in our retention rates, which increased compared to the prior period.

In December 2022 the Group achieved the bronze ‘Better Health at Work Award’ as we continued to focus on health and wellbeing. In attaining this award, eleven colleagues were trained as health advocates, a number of health campaigns were launched such as ‘Raising cancer awareness & health habits’ and a ‘Wellbeing hub’ was created on our intranet.

We continued to review our overall reward offering and have:

- Overhauled our family friendly policies including enhanced maternity and paternity pay;
- Introduced a 24 hour virtual general practitioner service for our colleagues and members of their households;
- Offered access to low-cost health plans; and

- Improved our colleague discount policy and extended it to family and friends.

As we aim to recruit excellent talent, we have launched a new careers website and application tracking system to improve efficiencies in the hiring process. In support of our colleagues participating in charitable endeavours we launched a new volunteering policy in which all colleagues are given the support of the business to volunteer for a cause of their choice.

We also welcomed 53 new colleagues into the Group as part of the acquisition of Snug. They have been a significant part of building the brand and developing the business.

Customer driven

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

In recognition of our product quality, we achieved Kitemark certification for domestic furniture by the British Standards Institute. We are one of only three furniture retailers in the UK to hold this stamp of approval. The BSI Kitemark is a recognised symbol of outstanding quality, safety and trust around the world. It provides consumers with reassurance that products have been made with care and skill in an environment with rigorous factory process controls. It also demonstrates that each product type has been independently tested in accredited laboratories to withstand extremely demanding safety and durability trials.

As part of our continued efforts to improve our customer experience we have implemented a new end-to-end technology solution that delivers significant improvements such as a virtual queue in which customers do not need to wait on hold and can instead opt for one of the team to call them back. The system allocates calls to a relevant handler based on their skills to optimise efficiency and the system links into our social media platforms so that we have increased visibility of customer queries. The implementation of this new platform has led to reduced wait times and improved service levels.

We have also become a member of the Furniture & Home Improvement Ombudsman which has enhanced the development and training of our customer experience team and provides additional assurance for our customers through the Ombudsman's alternative dispute resolution services.

Our commitment to improving product quality and the customer journey is reflected by the 18% reduction in the number of times that customers contact us regarding their order or delivered product.

A key part of enhancing the customer experience is obtaining and learning from customer feedback. We became the fifth most reviewed company in the UK on Trustpilot having received over 400,000 reviews. We also maintained the maximum 5-star 'Excellent' rating, making us the only company in the UK's top 10 most reviewed to hold the full 5-star rating, with a Trustscore of 4.8. On a local store level, over three quarters achieved the full 5-star rating, and every store attained a minimum of 4.5 stars, which is a credit to our dedicated retail teams.

We also conducted a number of customer research groups, receiving feedback on a range of topics such as marketing and promotional style and store design which has led us to onboarding a new creative agency and media partner. We look forward to refreshing and modernising our marketing style and tone in the second half of the year.

Inspiring ranges

As part of ongoing product development, we announced our partnership with Ideal Home and have since launched three exclusive Ideal Home branded sofa ranges, developed in conjunction with its team. In addition, we launched 34 new upholstery ranges in the period, bringing our customers varied styles, fabrics and colours. Given this refreshed product offering, we have seen a slight change in our customer demographic with a wider range of households shopping with us as we broaden our appeal. We are also pleased to see our furniture lead times return to historic levels through continued work with our suppliers and have seen a significant decrease in customer cancellations when compared to the prior period.

To improve our flooring offering we launched a new hard flooring proposition across laminate, luxury vinyl tiling and engineered wood. We also focused our flooring products through the introduction of 20 'star buy' ranges, increasing colleague knowledge and confidence in a more streamlined offering and delivering unbeatable value for money for our customers across a more simplified product base. In addition, we made several improvements to our customer journey by enhancing the service provided by our external fitters, leading to a reduction in customer queries.

As we continue to further improve our dining ranges, and embed our ESG strategy throughout the business, in October 2022 we launched our first sustainable dining range made from FSC certified reclaimed pine. The collection boasts both sustainable and eco-friendly credentials and is made from re-used pallets.

Digitally optimised

Online sales have increased 16.7% compared to the prior period and now represent 10.1% (H1 FY22: 8.9%) of total gross sales*. Supporting this, we have increased digital engagement with our customers and, to improve the customer journey, we have:

- Added 'question and answer' sections to the product pages on our website;
- Created a 'visual bundling solution' that enables the customer to add multiple items into one image to visualise how our products will look together;
- Launched AI visualiser technology to some of our flooring ranges to allow our customers to see how our products would look in their home; and
- Developed an online wishlist in which customers can save their favorite products and share with our retail teams to create a more seamless customer journey.

To drive our social media presence we have been trialling competitions and increasing our collaborations with influencers. We have seen an increase in engagement as a result of this, with engagement levels through Facebook being at their highest levels yet. The team at Snug bring with them a wealth of knowledge in this area, with a large social media following and excellent track record in social commerce through the use of innovative and creative ways to further customer engagement. We look forward to the digital team at ScS working closely with the team at Snug and both brands taking advantage of the resulting synergies.

As part of a digital marketing project, our retail colleagues within our stores have been working hard to ensure that customers who may not be ready to make a purchase remain informed about the product they are interested in by taking their details, allowing for targeted and focused marketing. The digital team has also been working with our retail teams to aid the declutter programme within our stores by launching a clearance section on our website.

During the period we engaged the support of a third party specialist to work with our teams as we look to invest in the future technology stack to support the Group. We have completed the discovery phase of this project and look forward to taking the next steps, with the ultimate aim of increasing efficiency within our teams, allowing for improved data analysis and enhanced system agility.

Engaging showrooms

During FY22 a key focus was launching our new concept store where we could trial improvements to the look and feel of our showrooms, new technology and ideas. In addition to the initial Coventry store we launched in July 2022, we have refitted two further stores during the period in Gateshead and Uddingston. Whilst there are opportunities to further improve the concept, it is pleasing that all three concept stores have outperformed the rest of the estate since re-opening. We continue to obtain valuable insight from the concept stores, through performance and customer feedback, such as understanding which layouts are most successful, where certain brands are best displayed and how technology can support the customer journey. Following the success of our initial concept stores, we have now planned investment in a further eight stores before the end of the financial year.

As we continue to enhance the in-store experience, we have rolled out our 'declutter' programme, which commenced in FY22, across the entire store network. This included reducing the amount and size of the point of sale materials and being more selective around some of the ranges on display. This programme contributed to an increase in display stock sales in the period.

We are pleased to have continued to expand our store estate by opening two new stores in York and Swindon on Boxing Day, bringing our total UK store count to 100. We continue to consider further expansion through utilising customer demographic data and a purpose built model which helps us to identify the optimum store footprint, location and likely performance of potential new stores.

Strengthen the core

To increase sales and further drive conversion we have invested in training for our retail colleagues including:

- Delivery of 'art of selling' training to ensure that our colleagues felt equipped and empowered ahead of the key winter sale. Over the period we have seen an increase in our in-store furniture conversion KPI of 9%; and

- Training focused on the top selling flooring ranges to enhance product knowledge and to help our colleagues to feel more confident when advising customers on the most suitable products for them. We have seen an increase in our in-store flooring conversion KPI of 12% over the period.

At the start of the period we created a divisional sales structure by splitting our national sales reporting into two divisions, North and South. This change allows colleagues to be more focused on regional and store performance within their divisions ensuring we meet our growth targets and profitability goals. We have also strengthened our regional management team.

During FY22 we enhanced the reporting visibility of our compensation and allowances cost line. This increased insight and action taken has led to a 14% reduction in this cost. We are continuously looking for ways to improve gross margin and during the period we have reviewed our pricing strategy and finalised a retender of our finance house partners. We have also reviewed our supplier mix and onboarded several new suppliers to increase our optionality in relation to product sourcing.

The Group has maintained a strong cash position and worked hard to ensure we achieve good returns on those deposits. Interest received for the period is £0.6m higher than the prior period.

As we seek to adopt more data driven approaches to aid decision making we have utilised footfall data to refine our colleague levels and opening hours across our store network. We have also sought to reduce product damage and have installed a new vehicle-to-ground lift at one of our distribution centres. We will monitor the impact on both colleagues and product damage as we consider further potential rollout to other sites.

We recently committed to support Shelter, a registered charity that campaigns for tenant rights across the UK, as a commercial sponsor as part of our social agenda within our ESG strategy. Over the period we helped Shelter to generate over £20,000 in sales through their stores by providing stock which was no longer required by the business. This has not only helped to further Shelter's fantastic work but it has also allowed our business to be more environmentally friendly and reduce the waste that is generated by our operations.

Board changes

The Board welcomed a number of new appointments during the period:

- Carol Kavanagh was appointed on 26 September 2022 as a Non-Executive Director. Carol has been working closely with the Chair of the Remuneration Committee, Angela Luger, who she will succeed later this month. Angela will continue in her role as a Non-Executive Director and in November 2023 will assume the role of Senior Independent Director;
- Andy Kemp was appointed on 1 February 2023 as a Non-Executive Director. Andy will liaise with Ron McMillan over the coming months as he prepares to take on the role of Audit Committee Chair when Ron steps down from the Board on 1 December 2023 having completed nine years as a Board member; and
- John Walden was appointed on 1 March 2023 as Chair Designate and will work closely with Alan Smith over the coming months as he prepares to take on the role of Chair when Alan steps down on 1 December 2023 having completed nine years as a Board member.

On 2 December 2022 Chris Muir notified the Board of his intention to step down as Chief Financial Officer. The process to identify a successor is underway. Chris has a 12 month notice period and will remain with the business while a successor is identified and to facilitate a smooth handover. A further announcement in this respect will be made in due course.

Dividend and share buyback programme

The Group continues to maintain a strong balance sheet and the Board actively reviews the allocation of capital, considering potential external and internal investment opportunities and returns to shareholders. The period has seen the Group generate strong cash flows and the strategic progress provides further confidence in the Group's future. As a consequence, the Board is pleased to announce an interim dividend of 4.5p per ordinary share (H1 FY22: 4.5p). The dividend will be payable on 11 May 2023 to shareholders on the register on 21 April 2023. The ex-dividend date is 20 April 2023.

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

Looking forward

The Group made good strategic progress in the first six months of the financial year and continued to take market share. We are pleased with the strength of our winter sale performance and the subsequent increase in order momentum over the last two months.

The macroeconomic environment continues to be challenging and we are mindful of the pressures faced by many of our customers. Therefore, continuing to focus on our value driven proposition is more important than ever so that everyone is able to create the home they love.

The Board continues to believe that progress with the Group's strategy, ongoing cost management and a robust balance sheet places it in a strong financial and operational position. The outlook, therefore, is positive and ScS remains on track to deliver full year profit before tax in line with market expectations**.

** The Board believe that consensus market expectation for underlying profit before tax for the full year is £7.7m. For the avoidance of doubt, this excludes the impact of Snug in FY23, guidance of which is provided for the first time today.

FINANCIAL REVIEW

	26 weeks ended 28 January 2023	Restated** 26 weeks ended 29 January 2022	Variance H1 FY23 to H1 FY22
	H1 FY23 £m	H1 FY22 £m	£m
Gross sales*	154.9	149.8	5.0
Revenue	147.9	144.2	3.7
Gross profit	67.8	67.6	0.3
Distribution costs	(10.1)	(9.6)	(0.5)
Administration expenses	(61.0)	(61.7)	0.7
Underlying operating loss*	(3.3)	(3.7)	0.4
Adjusting items	(1.6)	1.9	(3.6)
Operating loss for the period	(4.9)	(1.8)	(3.2)
Net finance costs	(1.4)	(1.9)	0.5
Loss before tax for the period	(6.3)	(3.6)	(2.7)
Income tax credit	1.1	0.8	0.4
Loss after tax for the period	(5.2)	(2.9)	(2.3)
Underlying loss before tax*	(4.7)	(5.6)	0.9

* This report includes alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, on pages 14 to 15.

** The prior period gross sales and revenue have been restated to account for warranty sales as an agent rather than principal under IFRS 15, see note 18. This did not result in any change to reported profit, earnings per share, cash flows or in the consolidated statement of financial position.

On 10 January 2023, the business and assets of Snug were acquired out of administration. Due to the close proximity of the acquisition to the period end, Snug has not contributed to gross profit in the period. Total costs of £0.8m have been recognised in the period, largely due to set up and acquisition costs all of which have been classified as adjusting items.

Gross sales* and revenue

Improvements in the supply chain, and consequently a reduction in lead times, saw gross sales* increase by £5.0m (3.4%) to £154.9m when compared to H1 FY22. The movement on gross sales* is further analysed as follows:

- An increase in furniture sales in ScS stores of 3.3% to £125.1m (H1 FY22: £121.0m);
- A decrease in flooring sales in ScS stores of 7.8% to £14.2m (H1 FY22: £15.4m); and
- An increase in online sales of 16.7% to £15.6m (H1 FY22: £13.4m).

The decrease in flooring sales is due to the prior period benefitting from a large opening order book. Encouragingly flooring like-for-like* order intake has grown 5.2% in the period.

Revenue, which represents gross sales* less charges relating to interest free credit sales (see note 5 – Segmental information), increased by 2.6% from H1 FY22 to £147.9m. Revenue for the period has been adversely impacted by an increase in the cost of supplying interest free finance as rates continue to rise. As a proportion of gross sales* the cost of interest free credit has increased by 0.7% to 4.5%.

Gross profit

Gross margin* was 43.8% (H1 FY22: 45.1%). The decrease of 130 basis points was largely due to an increase in lower margin display stock sales as the Group sold off increased levels of stock as part of the roll out of our decluttering programme. Excluding stock sales and associated costs, gross margin* was in line with the prior period.

The increased volume year on year resulted in an increase in gross profit of £0.3m (0.4%).

Distribution costs

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

Distribution costs increased £0.5m in the period to £10.1m (H1 FY22: £9.6m). As a percentage of gross sales* for the period, distribution costs were 6.5% (H1 FY22: 6.4%). The increase in costs was driven by the inflationary cost pressures on salaries, fuel, utilities and other property related costs.

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 head office based support functions and other central costs.

Administration costs for the period totalled £61.0m, compared to £61.7m in the prior period. Administration costs were 39.4% of gross sales*, down from 41.2% in the prior period.

- £0.3m decrease in marketing investment, following a rephasing of media spend;
- £1.0m reduction in performance related pay due to a decrease in bonuses accrued for senior management as a result of the performance levels achieved;
- £1.5m increase in other payroll costs due to the impact of inflationary wage costs;
- £0.8m reduction in property costs, largely due to a decrease in depreciation charges on the right of use asset as a result of rent savings; and
- £0.1m reduction in other costs.

Flexible costs

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

Total underlying costs before tax for the period were £159.6m compared to H1 FY22 of £155.4m.

Of this total, 73.0% (H1 FY22: 72.4%), or £116.5m (H1 FY22: £112.5m), are variable or discretionary, and are made up of:

- £87.0m cost of goods sold, including finance and warranty costs (H1 FY22: £82.2m);
- £10.1m distribution costs (H1 FY22: £9.6m);
- £14.7m marketing costs (H1 FY22: £15.0m); and
- £4.7m performance related payroll costs (H1 FY22: £5.7m).

Semi-variable costs totalled £22.8m, or 14.3% of total costs, for the period (H1 FY22: £21.4m; 13.8%) and are predominantly other non-performance related payroll costs. Depreciation, interest, rates, heating and lighting make up the remaining £20.2m (12.7%) of total costs (H1 FY22: £21.4m; 13.8%).

Underlying operating loss*

Due to the seasonal nature of the business, the Group's result for the first half of the year is impacted by higher advertising spend to support the autumn and winter sales. The second half of the year benefits from the delivery of those orders and significantly less advertising spend. The Group's underlying operating loss* was £3.3m for the first half of the financial year, compared to £3.7m for H1 FY22.

Adjusting items

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

	26 weeks ended 28 January 2023 £'000	26 weeks ended 29 January 2022 £'000	52 weeks ended 30 July 2022 £'000
Impairment charge associated with stores	(2,030)	-	-
Snug acquisition and pre-trading costs	(849)	-	-
Business interruption insurance claim	1,250	-	-
Business rates relief	-	1,924	2,570
	(1,629)	1,924	2,570

Adjusting items comprise:

- £2.0m 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; and
- During the prior period, the Group benefitted from £1.9m of retail business rates relief provided in response to the COVID-19 outbreak. No further benefit was received in the period ended 28 January 2023.

For further information see note 6.

Net finance cost

The net finance cost has decreased by £0.5m to £1.4m compared to H1 FY22 as a result of increased interest income on the Group's significant cash balance.

Taxation

The tax credit for the period is lower (H1 FY22: higher) than if the standard rate of corporation tax had been applied primarily due to non-deductible expenses.

Underlying loss before tax*

The Group's underlying loss before tax* was £4.7m for the first half of the financial year, compared to £5.6m for H1 FY22.

Acquisition of Snug

Since the period end Snug has commenced trading and we are encouraged by the recent order levels. Investment is required to grow the business and it is therefore expected that Snug will generate an underlying loss before tax of £1.0m in FY23, and then go on to be earnings accretive in FY24.

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 increased £6.1m in the period to £76.9m (H1 FY22: £87.9m). A summary of the Group's cash flows is shown below:

	26 weeks ended 28 January 2023	26 weeks ended 29 January 2022
	£m	£m
Cash generated from operating activities	29.0	24.5
Payment of capital and interest elements of leases	(11.5)	(15.9)
Net capital expenditure	(3.6)	(1.9)
Net taxation and interest payments	(0.1)	(2.3)
Free cash flow	13.8	4.4
Acquisition of business combination	(0.9)	-
Dividends	(3.2)	(2.8)
Purchase of own shares	(3.6)	(1.4)
Net cash generated	6.1	0.2

The Group continued to be cash generative in the period with a net cash inflow from operating activities of £29.0m.

Cash generated from operating activities is £4.5m higher than H2 FY22 due to an increase in working capital inflow, largely as a result of the timing of VAT payments, partially offset by a reduction in customer deposits as lead times reduce.

The payment of capital and interest elements of leases has decreased by £4.4m due to the prior period 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.

Cash outflow in relation to the purchase of own shares has increased by £2.3m in the period as a result of £3.5m of share buybacks, offset by a £1.2m reduction in the number of shares bought for the purposes of satisfying management incentive awards.

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 period we invested in developing two further concept stores as part of the 'Engaging showrooms' pillar of our strategy, and opened two new stores.

Return to shareholders

The Board is confident the Group can build on the strong strategic progress experienced in the first half of the year. As a consequence, the Board is pleased to announce an interim dividend of 4.5p per ordinary share (H1 FY22: 4.5p). Full year profit expectations and the strength of the balance sheet gives the Board confidence to maintain the dividend at the same level.

The 4.5p dividend reflects an anticipated one third and two thirds split between the interim and final dividend respectively. This dividend will be payable on 11 May 2023 to shareholders on the register on 21 April 2023. The ex-dividend date is 20 April 2023.

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

Principal risks and uncertainties

The principal risks and uncertainties which the Group faces are unchanged from those 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

Steve Carson
Chief Executive Officer
20 March 2023

Alternative Performance Measures (“APMs”)

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

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

APM	Definition	Reconciliation																		
Like-for like order growth	‘Like-for-like’ order growth comprises total orders (inclusive of VAT) in a financial period compared to total orders achieved in a prior period excluding new or closed stores to ensure comparability.	N/A																		
Gross sales	Gross sales represents turnover on the sale of goods and commission on warranties before deduction of interest-free credit.	<table border="1"> <thead> <tr> <th></th> <th>Restated* HY23 £’000</th> <th>HY22 £’000</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>147,861</td> <td>144,167</td> </tr> <tr> <td>Add back: costs of interest free credit</td> <td>6,991</td> <td>5,656</td> </tr> <tr> <td>Gross sales (note 5)</td> <td>154,852</td> <td>149,823</td> </tr> </tbody> </table>		Restated* HY23 £’000	HY22 £’000	Revenue	147,861	144,167	Add back: costs of interest free credit	6,991	5,656	Gross sales (note 5)	154,852	149,823						
	Restated* HY23 £’000	HY22 £’000																		
Revenue	147,861	144,167																		
Add back: costs of interest free credit	6,991	5,656																		
Gross sales (note 5)	154,852	149,823																		
Gross margin	Gross profit as a percentage of gross sales.	<table border="1"> <thead> <tr> <th></th> <th>Restated* HY23 £’000</th> <th>HY22 £’000</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>147,861</td> <td>144,167</td> </tr> <tr> <td>Add back: costs of interest free credit</td> <td>6,991</td> <td>5,656</td> </tr> <tr> <td>Gross sales (note 5)</td> <td>154,852</td> <td>149,823</td> </tr> <tr> <td>Gross profit</td> <td>67,845</td> <td>67,592</td> </tr> <tr> <td>Gross margin</td> <td>43.8%</td> <td>45.1%</td> </tr> </tbody> </table>		Restated* HY23 £’000	HY22 £’000	Revenue	147,861	144,167	Add back: costs of interest free credit	6,991	5,656	Gross sales (note 5)	154,852	149,823	Gross profit	67,845	67,592	Gross margin	43.8%	45.1%
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Gross sales (note 5)	154,852	149,823																		
Gross profit	67,845	67,592																		
Gross margin	43.8%	45.1%																		
Adjusting items	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.	<table border="1"> <thead> <tr> <th></th> <th>HY23 £’000</th> <th>HY22 £’000</th> </tr> </thead> <tbody> <tr> <td>Adjusting items (note 6)</td> <td>(1,629)</td> <td>1,924</td> </tr> </tbody> </table>		HY23 £’000	HY22 £’000	Adjusting items (note 6)	(1,629)	1,924												
	HY23 £’000	HY22 £’000																		
Adjusting items (note 6)	(1,629)	1,924																		
Underlying operating (loss)/profit	Underlying operating (loss)/profit is based on operating (loss)/profit before the effect of adjusting items in the period.	<table border="1"> <thead> <tr> <th></th> <th>HY23 £’000</th> <th>HY22 £’000</th> </tr> </thead> <tbody> <tr> <td>Statutory operating loss</td> <td>(4,926)</td> <td>(1,760)</td> </tr> <tr> <td>Adjusting items</td> <td>1,629</td> <td>(1,924)</td> </tr> <tr> <td>Underlying operating loss</td> <td>(3,297)</td> <td>(3,684)</td> </tr> </tbody> </table>		HY23 £’000	HY22 £’000	Statutory operating loss	(4,926)	(1,760)	Adjusting items	1,629	(1,924)	Underlying operating loss	(3,297)	(3,684)						
	HY23 £’000	HY22 £’000																		
Statutory operating loss	(4,926)	(1,760)																		
Adjusting items	1,629	(1,924)																		
Underlying operating loss	(3,297)	(3,684)																		

*The prior period gross sales, revenue and cost of sales figures have been restated to account for warranty sales as an agent rather than principal under IFRS 15 (note 18).

Underlying (loss)/profit before tax	Underlying (loss)/profit before tax is based on (loss)/profit before tax before the effect of adjusting items in the period.	HY23	HY22
		£'000	£'000
		Statutory loss before tax	(3,635)
		(6,337)	(1,924)
Underlying basic (loss)/earnings per share (EPS)	Underlying basic EPS is based on earnings per share before the effect of adjusting items in the period.	HY23	HY22
		£'000	£'000
		Loss for the period	(2,881)
		(5,202)	(1,558)
		Adjusting items net of tax	(4,439)
		1,351	(3,851)
		Underlying loss before tax	(4,439)
		(4,708)	(5,559)
		HY23	HY22
		£'000	£'000
		Loss for the period	(2,881)
		(5,202)	(1,558)
		Adjusting items net of tax	(1,558)
		1,351	(3,851)
		Underlying loss after tax	(4,439)
		(3,851)	(4,439)
		HY23	HY22
		£'000	£'000
		Number of shares (000's)	37,748
		35,528	(11.8p)
		Underlying LPS	(11.8p)
		(10.8p)	(10.8p)

STATEMENT OF DIRECTORS RESPONSIBILITIES

The directors confirm that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first 26 weeks and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining 26 weeks of the financial year; and
- Material related-party transactions in the first 26 weeks and any material changes in the related-party transactions described in the last annual report.

The directors of ScS Group plc who were in office during the period and up to the date of this report, unless otherwise stated, were:

Alan Smith	Non-Executive Chairman
John Walden	Non-Executive Chair Designate (appointed 1 March 2023)
Ron McMillan	Non-Executive Director
Angela Luger	Non-Executive Director
Carol Kavanagh	Non-Executive Director (appointed 26 September 2022)
Andy Kemp	Non-Executive Director (appointed 1 February 2023)
Stephen Carson	Chief Executive Officer
Chris Muir	Chief Financial Officer

A list of current directors is maintained on the ScS Group plc website: www.scsplc.co.uk.

By order of the Board

Richard Butts
Company Secretary
20 March 2023

Independent review report to ScS Group plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed ScS Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the Interim results of ScS Group plc for the 26 week period ended 28 January 2023 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- The condensed consolidated statement of financial position as at 28 January 2023;
- The condensed consolidated statement of comprehensive income for the period then ended;
- The condensed consolidated cash flow statement for the period then ended;
- The condensed consolidated statement of changes in equity for the period then ended; and
- The explanatory notes to the interim financial statements.

The interim financial statements included in the Interim results of ScS Group plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ("ISRE (UK) 2410"). A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Interim results, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Interim results based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than

audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
Newcastle upon Tyne
20 March 2023

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited 26 weeks ended 28 January 2023	Restated* Unaudited 26 weeks ended 29 January 2022	Audited 52 weeks ended 30 July 2022
	Note	£'000	£'000	£'000
Gross sales	5	154,852	149,823	344,710
Revenue	5	147,861	144,167	331,569
Cost of sales		(80,016)	(76,575)	(175,305)
Gross profit		67,845	67,592	156,264
Distribution costs		(10,112)	(9,567)	(21,304)
Administrative expenses		(62,659)	(59,785)	(114,761)
Operating (loss)/profit		(4,926)	(1,760)	20,199
Analysed as:				
Underlying operating (loss)/profit*- non-GAAP measure		(3,297)	(3,684)	17,629
Adjusting items included within administrative expenses	6	(1,629)	1,924	2,570
Operating (loss)/profit		(4,926)	(1,760)	20,199
Finance costs	7	(2,012)	(1,881)	(3,856)
Finance income	8	601	6	15
Net finance costs		(1,411)	(1,875)	(3,841)
(Loss)/profit before taxation		(6,337)	(3,635)	16,358
Income tax credit/(charge)	12	1,135	754	(2,774)
(Loss)/profit for the period		(5,202)	(2,881)	13,584
(Loss)/profit is attributable to:				
Owners of the parent		(5,202)	(2,881)	13,584
Basic (loss)/earnings per share (pence)	13	(14.6p)	(7.6p)	36.2p
Diluted (loss)/earnings per share (pence)	13	(14.6p)	(7.6p)	35.0p

Reconciliation of (loss)/profit before tax and adjusting items:				
(Loss)/profit before taxation		(6,337)	(3,635)	16,358
Adjusting items	6	1,629	(1,924)	(2,570)
Underlying (loss)/profit* for the period- non-GAAP measure		(4,708)	(5,559)	13,788

There is no variance between the diluted and basic earnings per share in the current period.

There are no other sources of comprehensive income.

*The prior period gross sales, revenue and cost of sales figures have been restated to account for warranty sales as an agent rather than principal under IFRS 15 (note 18). There are no changes to gross profit, or any subsequent financial statement line items.

ScS Group plc

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited as at 28 January 2023 £'000	Unaudited as at 29 January 2022 £'000	Audited as at 30 July 2022 £'000
Non-current assets				
Intangible assets		2,820	2,181	2,494
Goodwill	17	500	-	-
Property, plant and equipment		18,060	17,377	18,076
Right of use asset		91,615	101,274	96,996
Deferred tax asset		1,674	1,913	1,845
Total non-current assets		114,669	122,745	119,411
Current assets				
Inventories		18,519	17,641	19,791
Trade and other receivables		7,169	5,736	6,011
Tax receivable		1,547	1,751	-
Cash and cash equivalents		76,869	87,889	70,819
Total current assets		104,104	113,017	96,621
Total assets		218,773	235,762	216,032
Current liabilities				
Current income tax liabilities		-	-	309
Trade and other payables	14	75,709	85,149	57,328
Provisions		-	679	303
Lease liabilities		19,670	20,019	19,721
Total current liabilities		95,379	105,847	77,661
Non-current liabilities				
Provisions		1,270	996	1,192
Lease liabilities		84,005	91,234	87,012
Total non-current liabilities		85,275	92,230	88,204
Total liabilities		180,654	198,077	165,865
Capital and reserves attributable to the owners of the parent				
Share capital		35	38	37
Share premium		16	16	16
Capital redemption reserve		18	15	16
Merger reserve		25,511	25,511	25,511
Treasury shares	16	(703)	(721)	(681)
Retained earnings		13,242	12,826	25,268
Equity attributable to the owners of the parent		38,119	37,685	50,167
Total equity		38,119	37,685	50,167
Total equity and liabilities		218,773	235,762	216,032

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent						Total equity
	Share capital	Share premium	Capital redemption reserve	Merger reserve	Treasury shares	Retained earnings	
	£'000	£'000	£'000	£'000	£'000	£'000	
Balance at 1 August 2021	38	16	15	25,511	(549)	19,479	44,510
Loss for the period	-	-	-	-	-	(2,881)	(2,881)
Share-based payment charge	-	-	-	-	-	175	175
Purchase of treasury shares	-	-	-	-	(1,360)	-	(1,360)
Issue of treasury shares to employees	-	-	-	-	1,188	(1,188)	-
Dividend paid	-	-	-	-	-	(2,759)	(2,759)
Balance at 29 January 2022	38	16	15	25,511	(721)	12,826	37,685
Balance at 30 January 2022	38	16	15	25,511	(721)	12,826	37,685
Profit and total comprehensive income	-	-	-	-	-	16,465	16,465
Share-based payment charge	-	-	-	-	-	(22)	(22)
Repurchase of own shares	-	-	-	-	-	(2,201)	(2,201)
Cancellation of repurchased shares	(1)	-	1	-	-	-	-
Purchase of treasury shares	-	-	-	-	(116)	-	(116)
Issue of treasury shares to employees	-	-	-	-	156	(116)	40
Dividend paid	-	-	-	-	-	(1,684)	(1,684)
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
Loss for the period	-	-	-	-	-	(5,202)	(5,202)
Repurchase of own shares	-	-	-	-	-	(2,997)	(2,997)
Transfer out of treasury shares	-	-	-	-	116	(116)	-
Cancellation of repurchased shares	(2)	-	2	-	-	-	-
Purchase of treasury shares (note 16)	-	-	-	-	(648)	-	(648)
Issue of treasury shares to employees (note 16)	-	-	-	-	510	(510)	-
Dividend paid (note 15)	-	-	-	-	-	(3,201)	(3,201)
Balance at 28 January 2023	35	16	18	25,511	(703)	13,242	38,119

ScS Group plc

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited 26 weeks ended 28 January 2023	Unaudited 26 weeks ended 29 January 2022	Audited 52 weeks ended 30 July 2022
	£'000	£'000	£'000
Cash flows from operating activities			
(Loss)/profit before taxation	(6,337)	(3,635)	16,358
Adjustments for:			
Depreciation of property plant and equipment	2,010	2,132	4,162
Depreciation of right-of-use assets	10,333	10,872	21,523
Amortisation of intangible assets	542	377	882
Impairment on non-current assets	2,030	-	-
Share-based payment charge	-	175	153
Finance costs	2,012	1,881	3,856
Finance income	(601)	(6)	(15)
	9,989	11,796	46,919
Changes in working capital:			
Decrease/(increase) in inventories	1,398	(313)	(2,463)
(Increase) in trade and other receivables	(1,158)	(789)	(1,064)
Increase/(decrease) in trade and other payables	18,721	13,800	(14,908)
Cash generated from operating activities	28,950	24,494	28,484
Income taxes paid	(550)	(2,057)	(3,457)
Net cash flow generated from operating activities	28,400	22,437	25,027
Cash flows from investing activities			
Acquisition of business combination	(875)	-	-
Purchase of property, plant and equipment	(2,740)	(1,539)	(3,741)
Payments to acquire intangible assets	(832)	(368)	(1,004)
Interest received	601	6	15
Net cash outflow from investing activities	(3,846)	(1,901)	(4,730)
Cash flows from financing activities			
Dividends paid (note 15)	(3,201)	(2,759)	(4,443)
Purchase of own shares (note 16)	(3,645)	(1,360)	(3,677)
Sale of treasury shares	-	-	40
Interest paid	(156)	(242)	(418)
Interest paid on lease liabilities	(1,856)	(1,639)	(3,438)
Payment of capital element of leases	(9,646)	(14,297)	(25,192)
Net cash flow used in financing activities	(18,504)	(20,297)	(37,128)
Net increase/(decrease) in cash and cash equivalents	6,050	239	(16,831)
Cash and cash equivalents at beginning of period	70,819	87,650	87,650
Cash and cash equivalents at end of period	76,869	87,889	70,819

Notes to the unaudited 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

This interim report for the 26 weeks ended 28 January 2023 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 period noted below, and in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom’s Financial Conduct Authority. The Group has also adopted a new APM, adjusting items, which is defined on page 14.

The condensed consolidated financial statements need to be read in conjunction with the Annual Report 2022 dated 10 October 2022 (the “Annual Report 2022”), which has been prepared in accordance with UK-adopted international accounting standards and the requirements of the Companies Act 2006

The report of the auditors for the financial statements for the 52 weeks ended 30 July 2022, included in the Annual Report 2022, was unqualified, did not contain an emphasis of matter paragraph and did not include a statement under Section 498 of the Companies Act 2006.

The Group's interim condensed consolidated financial information is not audited and does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. These condensed interim financial statements were approved for issue on 20 March 2023.

3. Going concern

The interim financial statements have been prepared on a going concern basis.

At the time of approving the interim financial statements, the Board is required to formally assess that the business has adequate resources to continue in operational existence for the next 12 months 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 28 January 2023, the Group’s cash balance totalled £76.9m and £25.6m 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 6 months to 28 January 2023 and have modelled cash flow forecasts for a period of at least 12 months from the date of approval of the interim financial information. Directors have utilised internal forecasts to produce the base case modelling which reflects the challenging economic environment whilst also recognising the impact of our strategic progress.

A sensitised ‘severe but plausible’ downside was also calculated which modelled 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. Directors concluded the company will have sufficient funds through its existing cash balances to meet its liabilities as and when they fall due.

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

4. Accounting policies

This interim report for the 26 weeks ended 28 January 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 period noted below, and in accordance with UK adopted IAS 34 and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority.

Intangible assets

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.

5. Segmental information

The directors have determined the operating segments based on the operating reports reviewed by the senior management team (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 directors have identified that the senior management team is the chief operating decision maker in accordance with the requirements of IFRS 8 'Segmental reporting'.

The directors consider the business to be one main type of business generating revenue; the retail of furniture and flooring. All segment revenue, profit before taxation, assets and liabilities are attributable to the principal activity of the Group and other related services. All revenues are generated in the United Kingdom, and recognised at the point in time the goods and any associated warranty contracts have been delivered to the customer. Warranty services, once sold, are subsequently provided by third parties. There have been no changes to the director's determination of segments since those disclosed in the Annual Report 2022.

Analysis of gross sales is as follows:

	26 weeks ended 28 January 2023	26 weeks ended 29 January 2022 (restated)	52 weeks ended 30 July 2022
	£'000	£'000	£'000
Sale of goods	153,800	147,198	340,580
Associated warranties	1,052	2,625	4,130
Gross Sales	154,852	149,823	344,710
Less: costs of interest free credit	(6,991)	(5,656)	(13,141)
Revenue	147,861	144,167	331,569
Of which			
In-store furniture	119,924	116,654	269,781
In-store flooring	13,707	14,948	31,704
Online	14,230	12,565	30,084
Revenue	147,861	144,167	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 or unusual/non-recurring in nature are excluded from statutory measures. Adjusting items in the period comprised the following:

	26 weeks ended 28 January 2023	26 weeks ended 29 January 2022	52 weeks ended 30 July 2022
	£'000	£'000	£'000
Impairment charge associated with stores	(2,030)	-	-
Snug acquisition and pre-trading costs	(849)	-	-
Business interruption insurance claim	1,250	-	-
Business rates relief	-	1,924	2,570
	(1,629)	1,924	2,570

Impairment charge associated with stores

As a consequence of the current view of future projections for the business an impairment charge of £2,030,000 has been recognised on the assets associated with a number of our stores. This has been split between the right-of-use asset (£1,634,000) and tangible assets (£396,000), 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.

Business rates relief

During the prior period, the Group benefitted from £1,924,000 of retail business rates relief provided in response to the COVID-19 outbreak. No further benefit was received in the period ending 28 January 2023.

7. Finance costs

	26 weeks ended 28 January 2023	26 weeks ended 29 January 2022	52 weeks ended 30 July 2022
	£'000	£'000	£'000
Bank facility non-utilisation fees	124	209	413
Bank facility renewal fees	19	-	-
Other finance costs	13	33	5
Interest on lease liability	1,856	1,639	3,438
	2,012	1,881	3,856

8. Finance income

	26 weeks ended 28 January 2023	26 weeks ended 29 January 2022	52 weeks ended 30 July 2022
	£'000	£'000	£'000
Bank interest received	601	6	15

9. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the more important judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the historical financial information in the Annual Report 2022.

10. Financial risk management

The Groups activities expose it to a variety of financial risks which include funding and liquidity risk, credit risk, interest rate risk and other price risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and they should be read in conjunction with the Annual Report 2022. There has been no change to the risk management procedures or the accounting policies from those included in the Annual Report 2022.

11. Seasonality of operations

Due to the seasonal nature of the business, the Group's result for the first half of the year is impacted by higher advertising spend to support the autumn and winter sales. The second half of the year benefits from the delivery of those orders and significantly less advertising spend. In the 26 weeks ended 29 January 2022, 43.5% of revenues accumulated in the first half of the year and an operating loss of £1.8m was generated. In the second half of the 52 weeks ended 30 July 2022, 56.5% of total revenue was earned and an operating profit of £22.0m was generated.

12. Taxation

The tax credit for the 26 weeks ended 28 January 2023 is based on an estimated average annual effective tax rate of 17.9% (26 weeks ended 29 January 2022: tax credit 20.7%). The tax credit is lower than if the standard rate of corporation tax had been applied primarily as a result of non-deductible expenses in relation to depreciation. We expect the tax rate for the full year to be higher than the statutory rate.

The UK corporation tax standard rate for the period was 21% (2022: 19%) taking into account the scheduled rise to 25% from 1 April 2023.

13. **(Loss)/earnings per share**

	26 weeks ended 28 January 2023 pence	26 weeks ended 29 January 2022 pence	52 weeks ended 30 July 2022 Pence
a) Basic (loss)/earnings per share attributable to the ordinary equity holders of the company			
Basic (loss)/earnings per share from underlying operations	(10.8p)	(11.8p)	30.7p
From adjusting items	(3.8p)	4.1p	5.5p
Total basic (loss)/earnings per share	(14.6p)	(7.6p)	36.2p
b) Diluted (loss)/earnings per share attributable to the ordinary equity holders of the company			
Diluted (loss)/earnings per share from underlying operations	(10.8p)	(11.8p)	29.6p
From adjusting items	(3.8p)	4.1p	5.4p
Total diluted (loss)/earnings per share	(14.6p)	(7.6p)	35.0p
c) Reconciliations of earnings used in calculating earnings per share			
(Loss)/profit from operations	(5,202)	(2,881)	13,584
- Adjusting items net of tax	1,351	(1,558)	(2,082)
(Loss)/profit from underlying operations	(3,851)	(4,439)	11,502
d) Weighted average number of shares used as the denominator			
Weighted average number of shares in issue for the purposes of basic earnings per share	35,528,366	37,748,026	37,498,925
Effect of dilutive potential ordinary shares:			
- share options	-	-	1,354,896
Weighted average number of ordinary shares for the purpose of diluted earnings per share	35,528,366	37,748,026	38,853,821

A total of 924,329 potential ordinary shares have not been included within the calculation of diluted earnings per share for the 26 weeks ended 28 January 2023 as the loss made in the period results in the shares having no dilutive impact.

14. **Trade and other payables current**

	As at 28 January 2023 £'000	As at 29 January 2022 £'000	As at 30 July 2022 £'000
Trade payables	25,589	22,900	18,374
Payments received on account	31,956	45,552	25,540
Other tax and social security payable	7,253	4,637	2,236
Accruals	10,911	12,060	11,178
	75,709	85,149	57,328

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

15. 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 period to 28 January 2023.

During the period dividend equivalents were paid on the vesting of the 2022 LTIP totalling £3,000.

The Board has declared an interim dividend of 4.5p (2022: 4.5p) per share. This dividend will be payable on 11 May 2023 to shareholders on the register on 21 April 2023. The ex-dividend date is 20 April 2023. The interim dividend, amounting to £1,522,000 has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year to 29 July 2023.

16. 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 period, 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 349,749 ordinary shares of 0.1 pence each in the Group at an average price of 185.29 pence per ordinary share, and 228,008 ordinary shares were used to satisfy management incentive awards.

As at 28 January 2023 the Group holds 374,472 of its own ordinary shares of 0.1 pence each in the Group at an average purchase price of 187.81 pence.

As part of the Group's share buyback programme, during the period the Group acquired 1,919,574 ordinary shares at an average share price of 156.14 pence per ordinary share for a total consideration including associated fees of £2,997,000. Following this purchase, the ordinary shares purchased by the Group were cancelled, and the Group's issued share capital at 28 January 2023 subsequently consisted of 34,757,208 ordinary shares, each with one voting right.

17. 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:

	<u>£'000</u>
Purchase consideration	
Cash paid	<u>875</u>
Total purchase consideration	<u><u>875</u></u>

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

	Fair value £'000
Intangible assets	250
Inventories	125
Total identifiable assets	375
Add: goodwill	500
	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 profit contribution

Snug contributed revenues of £nil and a net loss of £849,000 to the Group for the period ended 28 January 2023.

18. Prior period restatement

Accounting for the sale of warranty products

In line with the restatement made within the Group's Annual Report and Accounts for the year ended 30 July 2022, the Group has restated its results to 29 January 2022. This adjustment restated gross sales and sales, it did not result in any changes to reported profit, earnings per share, cash flows or in the consolidated statement of financial position.

The change in accounting policy has resulted in a prior period restatement, with gross sales, revenue and costs of sales being reduced by £1,703,000 in the consolidated statement of comprehensive income for the period ended 29 January 2022.