EXECUTIVE REVIEW

Paul Bal
CEO

Overview

Twelve months ago, as we looked at the coming year, it was expected to be a year where our focus would be on stabilising the Group's falling profitability. It is therefore pleasing to report that during the year ended 31 March 2023 we have stabilised profitability, delivering a significant improvement in **adjusted profit before tax** ($9.2 million up from $1.3 million loss in the prior year). This highlights a good start in the journey to turnaround performance, growing profitability and margins as a result.

Whilst FY2023 was not without its challenges, as consumer demand weakened in the last quarter in some markets and paper and energy-driven costs continued to rise, the Group has delivered adjusted profit growth ahead of our earlier expectations. The **adjusted operating profit** more than quadrupled to $16.1 million, with the **reported operating loss** at $12.0 million which includes a non-cash $29.1 million impairment of goodwill. **Adjusted operating profit margins** similarly more than quadrupled to 1.8%. The Group remains on track to meet its aspiration to return to pre-pandemic operating profit margins by FY2025.

The two main drivers behind this result were stronger than anticipated trading within DG International, notably in continental Europe, and benefits coming from the turnaround initiatives underway in the DG Americas division which resulted in the division returning to profitability. During the year we have strengthened the DG Americas leadership team and are currently in the process of doing the same in DG international.

These improvements more than offset a weakening in the UK market in the last quarter of the year, predominantly driven by lower consumer demand, and will have consequences for the outlook for the year ahead. It has also led to a significant non-cash write-down of historically acquired goodwill in that market.

Adverse currency movements and softening of demand in some of our markets are reflected in the year's **revenue** performance. Group **revenue** was down 4% in constant currency (8% in reported terms) versus prior year. Much of the revenue decline was experienced in DG Americas, where revenue was 10% lower. This resulted from a combination of the strategic decision to exit loss-making business, as well as lower volume in the second half of the year. DG International, though down 3% in reported **revenue**, grew 10% in constant currency with growth in all markets on a full-year basis.

The improved profit generation has been complemented by better than expected cash generation, with the Group ending the year with a net cash balance of $50.5 million, a year-on-year improvement of over $20.0 million. Improving working capital management has been a focus for the year, and this should continue to deliver further benefits in the year ahead. We have just completed a re-financing of the Group, which secures the funding of our working capital cycle for at least 3 years. Further details of the new arrangements are set out in note 15.

As previously anticipated, in light of the Group's current position on the path to profit recovery and the challenges around reduced consumer demand, the Board is not proposing a dividend in respect of the year ended 31 March 2023.

Board changes

Paul Bal was appointed Group Chief Financial Officer (CFO), joining the Board in May 2022. Giles Willits, the outgoing CFO left at the end of June 2022.

In November 2022, following an extensive selection process involving internal and external candidates, Paul Bal was appointed Group Chief Executive Officer (CEO), effective from April 2023 when the Chair of the Board, Stewart Gilliland, stepped down from the Interim Executive Chair role that he had assumed in June 2022.

Rohan Cummings will be joining the Board in July 2023 as the new Group CFO. Rohan joins the Group from Devro Limited (formerly Devro plc which was listed on the LSE), a global leader in the supply of collagen casing and films, where he has been the group's CFO since 2020. Rohan has extensive PLC experience, as well as significant commercial and strategic capabilities having worked in complex global operations.

Lance Burn, Interim Chief Operating Officer (COO), stepped down from the Board at the end of March 2023, and will stay with the Group to the end of October 2023. The Board is very grateful for his dedication and contribution to the business for over a decade, and especially as it navigated the various challenges of the past eighteen months.

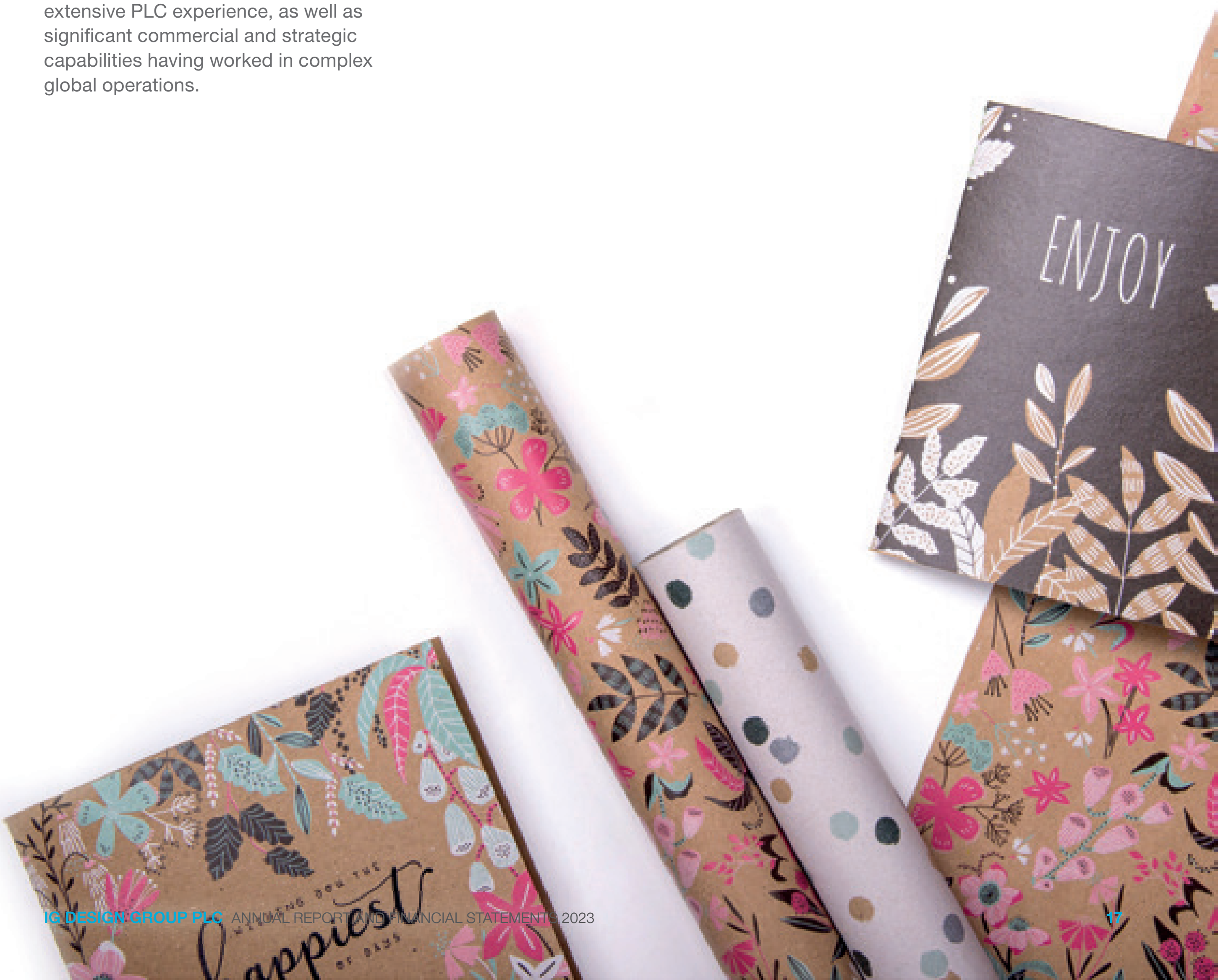
The leadership team of DG Americas, which Lance had been supporting since March 2022, has been strengthened with the appointment of a new DG Americas CEO and CFO. The DG International leadership team is also being strengthened, and this will remove the requirement for a COO.

Claire Binyon joined as a Non-Executive Director in June 2022.

Incentive schemes

The Value Creation Scheme (VCS) was terminated in June 2022 as it was no longer aligning the interests of shareholders and employees, and all awards were cancelled.

Awards under a new Long-Term Incentive Plan (2022-2025 LTIP) were granted on 11 August 2022. This incentive plan is considered a more appropriate and standard mechanism to align interests and reward sustained future financial delivery and value creation. Further details are set out in note 23.



EXECUTIVE REVIEW
CONTINUED

Our strategy

The challenges experienced in FY2022 caused the Board to revisit its priorities, plans, strategy and aspirations. The sheer speed and scale of the impact required an immediate pivot toward quickly making the Group's operations more resilient. This was done with a 5-point focus on:

- reducing complexity and better leveraging expertise and scale, and improving mix,
- improving margins,
- a more resilient supply chain,
- lowering working capital levels, and
- strong leadership and management teams at all levels of the Group.

Good overall progress has been made in these areas, ahead of our expectations. This is witnessed through the delivery of the improved profit margins, stronger cash generation in the year, and strengthening leadership. The current difficult economic environment, with pressure on consumer spend, dictates that we must continue to concentrate on these areas for now.

Nevertheless, given the long planning cycles associated with our business, we must look beyond our current goal of recovering to pre-pandemic operating profit margins, and chart a course that will also grow the business. To that end, in late 2022, the Board commissioned a strategic exercise using professional external support. The output from that exercise has been articulated into a high-level strategy aimed at returning the Group to profitable growth over the coming 3 to 4 years.

In summary, the new strategy concentrates on two areas:

- being the partner of choice for our customers, by strengthening and better leveraging our unique business model, particularly where there is opportunity for competitive advantage, and
- winning together with our customers, through better execution and developing sustained category value

The strategy is being rolled-out across the business units over the summer and will be driven through a combination of centrally co-ordinated as well as local initiatives. At the half-year, we hope to share with shareholders further details of our progress as well as sharing case studies further down the line to highlight some of the initiatives underway. Further details on the new strategy are set out on pages 14 and 15.

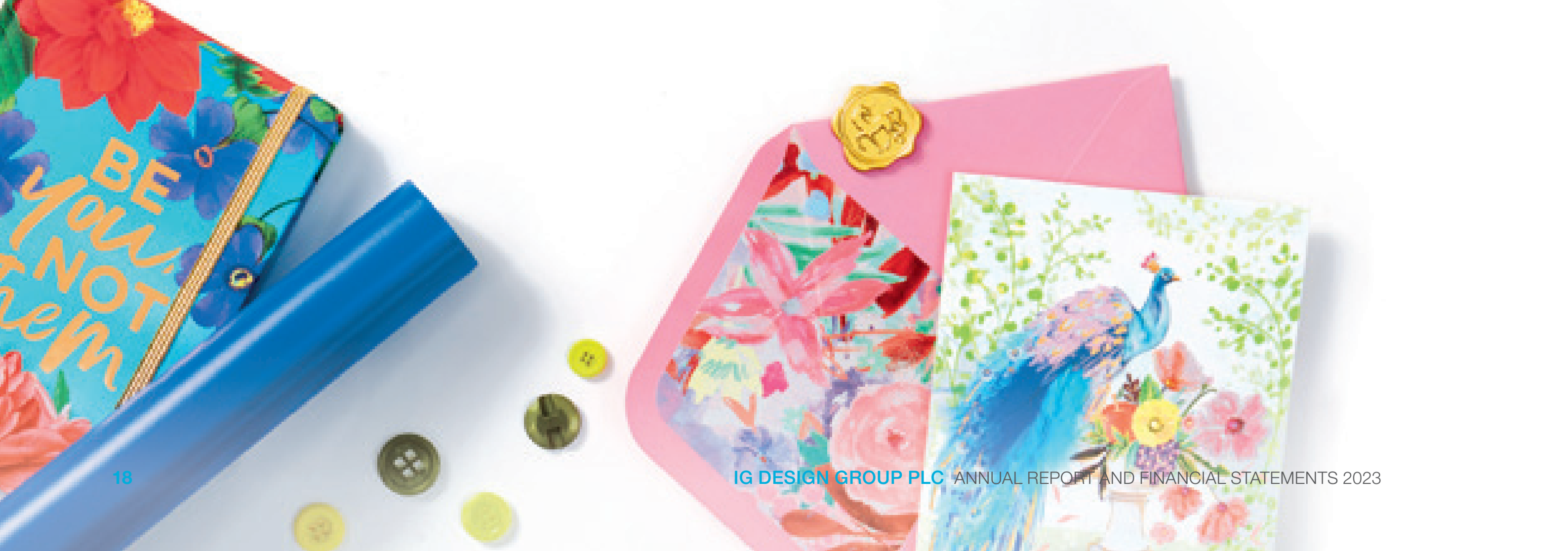
Outlook

FY2023's financial performance exceeded our aspirations for the year. Not only was the profit decline stabilised, but it was also turned around. This performance puts us ahead in our journey to restore pre-pandemic operating profit margins in FY2025. The Board does however now expect FY2024 to present continued demand and pricing challenges given the depressed consumer demand experienced in several of our markets since Christmas 2022. This may temper some of our progress during FY2024, but we still anticipate further operating profit growth and margin improvement over the full year.

Within the year, we anticipate a return to a more normalised H1/H2 split, reversing the accelerated ordering experienced in H1 FY2023. The Board remains encouraged by the enduring strength of our longstanding customer relationships, which has already generated an orderbook representing 62% of FY2024's budgeted revenues (71% at this stage last year). We still believe our FY2025 operating profit margin aspiration to be achievable. Additional support to deliver this will come from the new strategy as initiatives get underway.

The combination of continued improvements in cash generation and management, as well as the terms of the new financing arrangements should limit the rise in financing costs being driven by higher market interest rates. Over the coming year average net debt should continue to reduce from the current levels of c$17.0 million. This means that operating profit gains in the year ahead should substantially pass through to improved adjusted profit before tax.

The Board still aspires to return to paying dividends, but based on the immediate outlook, and the need to strengthen the business model, the Board does not expect to be in a position to do so during FY2024.



Summary FY2023 results

Revenue at reported rates fell by 8%, due in part to adverse currency effects. The decline in constant currency terms was 4%, with a 10% decline in DG Americas more than offsetting the 10% growth in the smaller DG International division. The decline resulted from a combination of softer consumer demand in the later stages of the year in some markets more than offsetting growth in others, coupled with a conscious exit from unprofitable or very low margin business in DG Americas.

The Group's **adjusted operating profit margin** rose 140 basis points, to 1.8%, with the growth coming from DG Americas returning to profitability, as the various restructuring and turnaround initiatives gained traction and delivered benefits. Consequently, DG Americas' **adjusted operating profit margin** rose 230 basis points to 0.5%. Some slippage in the DG International **adjusted operating profit margin** predominantly reflected the adverse foreign exchange effects and the tougher UK market. The improved operating profits, helped by better cash generation, kept interest costs below expectation and resulted in an adjusted profit before tax of $9.2 million, versus last year's loss of $1.3 million.

Taking into account the tax charge, this resulted in a small **adjusted diluted loss per share** of 0.2 cents versus last year's loss of 7.7 cents.

The year's adjusting items are a net cost of $28.1 million (FY2022: $3.5 million credit). This mainly results from the non-cash write-down of the goodwill allocated to the UK and Asia Cash-Generating Unit (CGU); offset by insurance receipts related to a prior acquisition, net proceeds from surplus site disposals and other business restructurings, some minor prior year provision releases; and the amortisation of acquired intangibles.

The goodwill write-down results in an enlarged **reported loss before tax** of $18.9 million (FY2022: $2.2 million profit). The effective tax rate for the year is largely distorted by the mix of profits and losses generated across the jurisdictions in which the Group operates and certain loss making units not realising a tax benefit due to restrictions on recognition of deferred tax assets. The **diluted reported loss per share** of 28.6 cents (FY2022: loss of 3.3 cents) reflects the reported loss, driven by the goodwill write-down.

The Group ended the year with a net cash balance of $50.5 million (FY2022: $30.2 million), reflecting our focus on cash generation and management, especially through working capital improvements. Correspondingly, average leverage for the year has improved to 0.6 times (FY2022: 1.0 times), also benefitting from the improved (both pre-IFRS 16 basis and post) EBITDA.

As the Group is still on a path to profit-recovery and given the challenging retail outlook in a number of markets, the Board is not recommending a dividend in respect of the year ended 31 March 2023.

Regional highlights

Overall, there was a reduction in Group **revenue** of 8% with **adjusted operating profit** up to $16.1 million (FY2022: $3.8 million) as the Group benefits from the execution of the turnaround in DG Americas. The split between our DG Americas and DG International segments is as follows:

			Segmental revenue			Adjusted operating profit/(loss)			Adjusted operating margin	
% Group revenue			**FY2023**	FY2022	% growth	**FY2023**	FY2022	% growth	**FY2023**	FY2022
66%	**DG Americas**	$m	**593.0**	659.0	(10.0%)	**2.9**	(11.7)	124.9%	**0.5%**	(1.8%)
34%	**DG International**	$m	**299.6**	307.9	(2.7%)	**19.8**	20.8	(4.8%)	**6.6%**	6.8%
—	Elims/Central costs	$m	**(2.3)**	(1.8)		**(6.6)**	(5.3)			
100%	**Total**	$m	**890.3**	965.1	(7.7%)	**16.1**	3.8	321.2%	**1.8%**	0.4%

EXECUTIVE REVIEW
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Design Group Americas

Our business in the US, which makes up about two-thirds of the Group's total revenues, saw **revenue** decline 10% to $593.0 million (FY2022: $659.0 million). This was driven by a combination of softer demand for certain categories in the second-half of the year, as well as the conscious decision to exit loss-making, marginally profitable, and unduly onerous business. Categories particularly impacted by these factors were Celebrations and Craft & creative play, the latter having benefitted from the Covid-19 lockdowns in recent years. These declines more than offset the benefits that came from catch-up pricing through two waves in order to recover margins lost in the previous year.

Despite the decline in revenues, DG Americas returned to profitability, and delivered an **adjusted operating profit** of $2.9 million (FY2022: loss of $11.7 million). The drivers behind this turnaround are benefits coming from the various initiatives set in motion last year following the collapse in the division's profitability.

The initiatives focused on delivering pricing, cost-savings and simplifying our commercial proposition. They delivered benefits of c$56 million at an adjusted operating profit level in the year. The initiatives included: the closure of 4 surplus sites; sale of the Manhattan, Kansas site in April 2022 for net proceeds of $6.7 million, yielding a profit on disposal of $4.6 million; further utilisation of Mexican facilities for near-shoring; more effective procurement and shipment; and a net headcount reduction of 100. In addition, our category teams were reorganised and underpinned with additional support for product development, design, sales and account management. New initiatives and opportunities continue to be identified, and the Design Group Americas team expects further value to be generated from these activities in FY2024 and beyond.

Capabilities are also being developed and strengthened to support future profitable revenue growth. This is being complemented by further reorganisation, investment in technology, and training and development of our commercial organisation to streamline our product cycles and improve execution in the retail environment.

Good progress was also made with working capital reduction, especially with inventory levels and trade receivables.

On 23 May 2022, the Group purchased the remaining 49% interest in Anker Play Products LLC (APP), bringing our total ownership to 100%. This was completed pursuant to the exercise of a put option by the holder of the 49%, which the Group was legally obliged to purchase under a 2017 agreement. APP develops and sources craft products, toys and games for the US retail market. The transaction, made through DG Americas, was satisfied by a cash payment of $3.0 million funded from existing banking facilities.

Design Group International

This division largely comprises the Group's businesses in the United Kingdom, continental Europe, the Far East and Australia. It saw a 3% **revenue** year-on-year decline at reported rates, to $299.6 million. The main driver of this decline was adverse foreign currency impacts due to the strength of the US dollar versus all of the other key currencies transacted by the businesses in the segment. At constant exchange rates, revenues were up 10%, with increases experienced in all key markets.

The second half of the year saw marked softening in DG UK, and a slight reduction in our DG Australia joint venture as the economic environment deteriorated and put pressure on consumer discretionary spend.

Adjusted operating profit at $19.8 million (FY2022: $20.8 million) was down 5%. However at constant currency rates **adjusted operating profit** was up 10%. This result was driven by the strong trading performance from our businesses operating in continental Europe, which did not experience the same degree of softness in the second half of the year.

Consumer sentiment in Europe was more resilient, and our key customers emerged as "winners" in the current value-focused retail environment. The weakness in the UK market in the second half of the year was volume-driven and meant DG International's **adjusted operating profit** margin retreated slightly by 20 basis points to 6.6%.

DG UK's **revenue** for the year grew just over 5%, but the second half was challenging as demand declined after Christmas. As a result, the business only delivered a small operating profit with continued inflation in paper and energy costs largely offsetting improved pricing. Our key brands in the UK have continued to perform well with Eco Nature™ sales and profits growing 10% and 11% respectively, with more details set out in the section on sustainability on pages 30 to 47. Our premium Tom Smith® brand celebrated the 175th birthday of the Christmas cracker, holding a Royal Warrant for the supply of Christmas crackers to the Royal Household since 1906. Recently DG UK was proud to receive Tesco's supplier innovation award for our collaborative work on category development. Looking ahead, in response to the demand challenges experienced in the second half, we have recently undertaken a restructuring of the UK business, which represents c15% of the Group's FY2023 revenues. The intention is to develop a more competitive and agile business model that is better suited to today's UK retail environment. Whilst this has regrettably involved a net headcount reduction of 31, the leadership team is being strengthened. The business has also formed a creative collaboration with the University of Northampton to leverage their capabilities as well as foster relationships with up and coming design talent.

DG Europe benefitted from strong demand from our more value-orientated key customers which are winning in the current economic climate. The business enjoyed very strong **revenue** growth of 18%, which included improved pricing to recover continued inflation in paper and energy prices.

Adjusted operating profit grew 41%, and margins improved further, as the team continues to adopt a continuous improvement approach, combined with high automation.

Similarly, DG Australia saw **revenue** growth of 5% as its Independents customer channel grew market share. The business continues to be active in new product development, developing a compelling assortment. Unfortunately, labour shortages and cost inflation in that market reduced **adjusted operating profits** by 10%.

Our products, brands and channels

The Group continues to aspire to be our retail customers' "partner of choice" for our categories, and our diverse product portfolio is a good demonstration of this.

Revenue by product category	FY2023		FY2022	
Celebrations	**60%**	**$533.7m**	63%	$604.1m
Craft & creative play	**17%**	**$150.8m**	16%	$154.3m
Stationery	**5%**	**$45.0m**	4%	$44.8m
Gifting	**11%**	**$96.9m**	10%	$94.4m
'Not-for-resale' consumables	**7%**	**$63.9m**	7%	$67.5m
Total		**$890.3m**		$965.1m

The 12% decline in the Celebrations category was driven by the sales performance in DG Americas, with declines in most product-types, but especially gift wrap and ribbons and bows. This more than offset the growth in these product types in all DG International markets and the progress with cards in DG Americas. Whilst stationery remained stable, giftware gains were driven by photo frames in DG International. The decline in 'not-for-resale' consumables came from reduced demand for floral packaging in DG Americas. The Craft & creative play category continued to normalise from Covid-pandemic lockdown highs.

Revenue by customer channel	FY2023		FY2022	
Value & mass	**67%**	**$597.1m**	67%	$643.9m
Specialist	**14%**	**$120.4m**	15%	$144.4m
Independents	**17%**	**$153.7m**	16%	$156.5m
Online	**2%**	**$19.1m**	2%	$20.3m
Total		**$890.3m**		$965.1m

The Value & mass channel saw a small decline of 7% driven by the adverse DG Americas dynamics. This more than offset good progress in all of the DG International businesses where this channel benefitted from recent consumer-driven focus on value. Similarly, the 17% decline in Specialists is largely driven by DG Americas, where we consciously exited unprofitable business, offsetting the progress in continental Europe. Overall, our top 20 customers represent 68% of our sales (FY2022: 68%).

Revenue by season	FY2023		FY2022	
Christmas	**42%**	**$374.7m**	40%	$390.9m
Minor seasons	**9%**	**$76.5m**	7%	$65.8m
Everyday	**49%**	**$439.1m**	53%	$508.4m
Total		**$890.3m**		$965.1m

The reversal of the trend seen in recent years towards more Everyday business reflects the pressures experienced in certain markets post-Christmas 2022, particularly in DG UK. There was also a general reduction in DG Americas revenues, offsetting strong progress in DG Europe, with photo frames in particular.

Revenue by brand	FY2023		FY2022	
Licensed	**9%**	**$82.2m**	9%	$84.2m
Customer own brand/Bespoke	**54%**	**$474.3m**	48%	$459.8m
Design Group/Generic brand	**37%**	**$333.8m**	43%	$421.1m
Total		**$890.3m**		$965.1m

The reduction in DG branded sales reflects the adverse DG Americas revenue dynamics, which more than offset the gains in all DG International markets.

EXECUTIVE REVIEW
CONTINUED

Sustainability

The Board launched the Group's sustainability framework 'helping design a better future' in FY2021, which defined the Group's approach by identifying three pillars that will deliver a more sustainable future. These three pillars are People, Product and Planet.

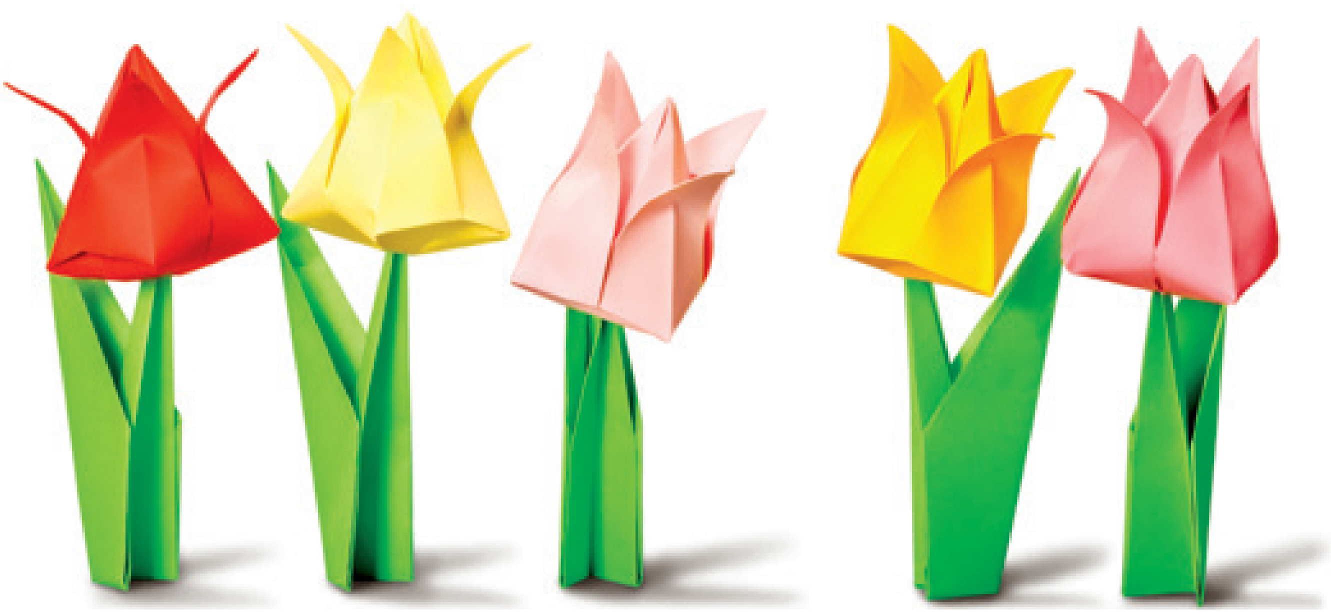
The Group's sustainability strategy is underpinned by our overall aim to minimise our impact on the environment by constantly challenging ourselves to find ways in which we can use our scale and people to influence and drive positive, proactive change. We understand that our impact and responsibilities extend beyond our immediate surroundings, into the lives of our employees, the environment, and our local and global communities. We continue to believe we have a moral as well as a commercial necessity to strive for the highest standards of ethical behaviour and to innovate to reduce the environmental impact of our operations to protect and preserve our planet, for this and future generations.

Over the past year we have continued to refine the Group's approach to sustainability and the associated key performance sustainability indicators (KPIs). We report our performance against these and the progress the Group has made during the year as seen in the Sustainability report on pages 30 to 47. We recognise that we are on a sustainability journey so as we move forward, we'll seek to further enhance the metrics we monitor whilst also looking to set targets by which to measure our success.

In the year we have made more progress in our journey towards compliance with Taskforce for Climate-related Financial Disclosures (TCFD) through the completion of a risk assessment exercise to identify the Group's climate-related risks and opportunities over the short, medium and long term. In future this will be integrated into our wider risk management processes.

People – Our people are key to the success of our business, and in the challenging times we are facing it is even more important to ensure that we are recognising performance and loyalty, and investing in the many talented individuals and teams across the Group. Given the "cost of living crisis" being experienced across the world, we took various additional steps in our businesses, over and above the normal, to try and mitigate the impact on our employees and their families.

This year saw the launch of the first Group-wide employee engagement survey: "Your Voice. Our Future". There was a pleasing 78% participation rate, and it was encouraging to learn that despite the significant changes taking place across the business, our teams remain positive about their roles, Design Group as a place to work, and its future. The survey has also provided management with areas for further improving the working environment, and these are now being followed-up.



Other notable achievements in FY2023 include the launch of the "DG Bravo" recognition programme in DG Americas, training opportunities such as our leadership development programmes for emerging leaders in DG UK and DG Americas, and a women's development network providing training opportunities for aspiring female leaders in DG Americas. Extending beyond leadership, the DG Europe Academy has had another successful year with internal training programmes available for our employees to develop their knowledge and skills across a range of topics. DG UK has trained mental health first aiders across the business and run a monthly health programme focused on both mental and physical wellbeing with challenges for employees to get involved with.

Product – There is no question that the nature of our products requires us to be innovative in our design to create more sustainable solutions and collections to promote to our customers and theirs. A notable achievement is the continued development of our shrink-free wrapping paper, which eliminates plastic waste through the use of recyclable paper labels, with the launch of Smartwrap™ in continental Europe this year. This complements our Eco Nature™ ranges already established in the UK which have continued to perform well. We will look to further improve our sustainable solutions in these markets where there is traction with consumers. Numerous other initiatives are underway finding innovative solutions with both customers and external specialists and academic institutions to continue to reduce the environmental impact of our products. For example, in DG Europe, all plastic frames now have 100% recycled frames.

Planet – The Group has formally incorporated Climate Change as a principal risk (formerly an emerging risk) acknowledging our responsibility to protect and preserve our planet and its environment, as well as the sustainability of our business. Notable achievements in FY2023 include DG Europe being awarded Ecocert's climate neutral status on their giftwrap collections following investment in innovative Smartwrap™ technology to provide next-generation shrink-free solutions. This, coupled with DG UK and DG Europe powering their manufacturing, warehousing, and office facilities with 100% renewable electricity, drives us forward on our journey towards net zero emissions. In the area of sea freight, DG Europe is seeking to achieve carbon neutrality on half of its shipments. Finally, also testament to our efforts was DG Americas achieving Walmart's Giga-Guru status, recognising our collaboration with our biggest customer in the area of supply chain carbon reduction.

Detailed financial review

The Group's financial results are summarised below, setting out both the reported and the adjusted results.

	FY2023			FY2022		
	Reported $m	Adjusting items $m	Adjusted $m	Reported $m	Adjusting items $m	Adjusted $m
Revenue	890.3	—	890.3	965.1	—	965.1
Gross profit	131.7	1.4	133.1	122.2	(2.5)	119.7
Overheads	(143.7)	26.7	(117.0)	(114.5)	(1.4)	(115.9)
Operating (loss)/profit	(12.0)	28.1	16.1	7.7	(3.9)	3.8
Finance charge	(6.9)	—	(6.9)	(5.5)	0.4	(5.1)
(Loss)/profit before tax	(18.9)	28.1	9.2	2.2	(3.5)	(1.3)
Tax	(7.6)	(0.2)	(7.8)	(2.5)	(0.8)	(3.3)
(Loss)/profit after tax	(26.5)	27.9	1.4	(0.3)	(4.3)	(4.6)
Operating (loss)/profit	(12.0)	28.1	16.1	7.7	(3.9)	3.8
Impairment of goodwill	29.1	(29.1)	—	—	—	—
Depreciation and impairment of PPE and software	14.6	—	14.6	16.4	0.3	16.7
Depreciation and impairment of right-of-use assets	18.4	(0.7)	17.7	15.3	2.5	17.8
Acquisition amortisation	2.8	(2.8)	—	2.8	(2.8)	—
EBITDA	52.9	(4.5)	48.4	42.2	(3.9)	38.3
Diluted loss per share	(28.6c)	28.4c	(0.2c)	(3.3c)	(4.4c)	(7.7c)

EXECUTIVE REVIEW
CONTINUED

Revenue for the year ended 31 March 2023 reduced by 8% to $890.3 million (FY2022: $965.1 million) driven by combination of adverse foreign exchange movements in DG International, the strategic decision to exit loss-making business in DG Americas, and lower volume in the second half of the year in a number of our markets. Constant currency Group revenues reduced by 4% year-on-year.

Adjusted operating profit saw an increase year-on-year to $16.1 million (FY2022: $3.8 million) and **adjusted gross margin** increased to 14.9% (FY2022: 12.4%), reflecting stronger than anticipated trading within DG International particularly continental Europe, benefits from the turnaround initiatives in DG Americas and some catch-up pricing to offset some of the inflation continuing in our inputs. Inventory provisions made in the year were $19.3 million (FY2022: $18.3 million) and inventory provision releases were $6.3 million (FY2022: $5.0 million).

Adjusted overheads as a percentage of revenue increased to 13.1% (FY2022: 12.0%). **Adjusted operating margin** at 1.8% (FY2022: 0.4%) was up year-on-year, reflecting the higher gross margins and cost management. Overall **adjusted profit before tax** was $9.2 million (FY2022: loss before tax $1.3 million). The Group finished the year with a reported **loss before tax** of $18.9 million (FY2022: profit before tax of $2.2 million). This is significantly adverse to the improvement in **adjusted profit before tax** reflecting the (largely non-cash) adjusting items in the current year of $28.1 million compared to a net credit of $3.5 million in the prior year. Further details of the adjusting items are detailed below.

Adjusted profit after tax was $1.4 million (FY2022: adjusted loss after tax of $4.6 million) with loss after tax for the year at $26.5 million (FY2022: $0.3 million).

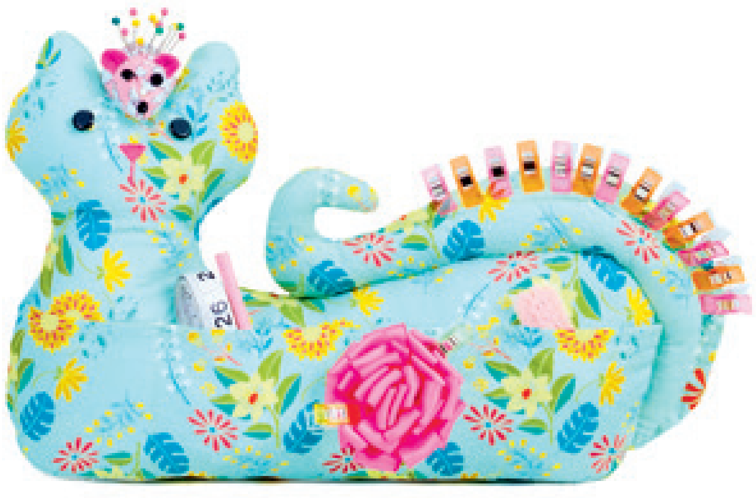
Finance charges

Finance costs were higher than the prior year at $6.9 million (FY2022: $5.5 million), resulting from higher financing costs at $4.0 million (FY2022: $2.0 million) which reflected the significant increase in interest rates during the year. The IFRS 16 related lease liability interest was marginally lower than the prior year at $2.9 million (FY2022: $3.5 million), of which $0.4 million was treated as an adjusting item in the prior year.

Adjusting items

Adjusting items are material items or items of an unusual or non-recurring nature which represent gains or losses which are separately presented by virtue of their nature, size and/or incidence. The Group's adjusting items in the year to 31 March 2023 result in a (largely non-cash) net charge of $28.1 million compared to a net credit of $3.5 million in the prior year. Details of all adjusting items are included below:

Adjusting Items	FY2023	FY2022
Goodwill impairment	$29.1m	—
(Gains)/losses and transaction costs relating to acquisitions and disposals of businesses	($1.5m)	$3.7m
Acquisition integration and restructuring (income)/costs	($2.0m)	($1.7m)
Reversal of impairment of assets	($0.2m)	($2.6m)
IT security incident income	($0.1m)	($5.7m)
Amortisation of acquired intangibles	$2.8m	$2.8m
Total	**$28.1m**	($3.5m)



Goodwill impairment – $29.1 million charge

In the year an impairment of $29.1 million has been recorded to write down the goodwill from historical acquisitions in the UK and Asia CGU.

Following the deterioration of the result experienced in UK and Asia CGU already referred to, especially in the second half of FY2023, the longer-term impacts on the forecasts for future cash flows have resulted in an impairment.

The calculation was further exacerbated by the significant increase in the discount rate, mainly as a result of higher interest rates. Further details of this impairment are set out in note 9.

(Gains)/losses and transaction costs relating to acquisitions and disposals of businesses – $1.5 million credit (FY2022: $3.7 million charge)

In the year $1.5 million of insurance income was received relating to the Impact Innovations, Inc acquisition Representations & Warranties insurance settlement relating to accounting and tax issues present at acquisition.

Acquisition integration and restructuring (income)/costs – $2.0 million credit (FY2022: $1.7 million credit)

In order to realise synergies from acquisitions, or existing businesses, integration and restructuring projects are respectively undertaken that aim to deliver future savings and efficiencies for the Group. These are projects outside of the normal operations of the business and typically incur one-time costs to ensure successful implementation. As such it is appropriate that costs associated with projects of this nature be included as adjusting items. The costs incurred in the year relate to the reorganisation, business simplification and impairment expenses in DG Americas and the reorganisation of the DG UK businesses as follows:

Site closures – In April 2022, the Manhattan, Kansas property was sold for proceeds of $6.7 million resulting in a profit on disposal of $4.6 million recognised as an adjusting item. In March 2023, a decision was made to exit a surplus site in Clara City, Minnesota. This resulted in an impairment of the right-of-use asset associated with the underlying lease of $0.8 million. Additional costs of $0.3 million were incurred in relation to the relocation and closure of these sites, as well as the consolidation of other US sites.

DG America and DG UK business reorganisation – In the year further restructuring costs, relating to staff, of $0.8 million have been recognised in DG Americas following the announcement of further business reorganisation. Similarly, in March 2023 the UK business internally announced a business simplification in light of the downturn of the UK market outlook, resulting in the recognition of one-off restructuring costs of $0.7 million.

Reversal of impairment of assets – $0.2 million credit (FY2022: $2.6 million credit)

At the onset of the Covid-19 pandemic a review of inventory, trade receivables and fixed assets was undertaken. Inventories were assessed at 31 March 2020 for the net realisable value and an impairment of $7.4 million was recognised. Trade receivables were assessed for their expected credit loss in line with IFRS 9 and an impairment of $3.8 million was recognised. The UK's bag-line machines were impaired by $0.3 million based on expected future cash flows associated with the 'not for-resale' consumables business.

In the year a credit of $0.2 million has been recognised relating to reversal of impairments no longer required. There are no remaining provisions relating to these costs.

IT security incident income – $0.1 million credit (FY2022: $5.7 million credit)

The IT security incident which occurred in DG Americas in October/November 2020 resulted in one-off costs of $2.2 million being incurred during the year ended 31 March 2021. This did not include the lost profits incurred as a result of downtime in the business for which an insurance claim was made. In the year final insurance income was received of $0.1 million in relation to this incident.

Amortisation of acquired intangibles – $2.8 million charge (FY2022: $2.8 million charge)

Under UK IFRS, as part of the acquisition of a company, it is necessary to identify intangible assets such as customer lists and trade names which form part of the intangible value of the acquired business but are not part of the acquired balance sheet. These intangible assets are then amortised to the income statement over their useful economic lives. These are not operational costs relating to the running of the acquired business and are directly related to the accounting for the acquisition. These comprise mainly trade names and brands acquired as part of the acquisition of Impact Innovations Inc. (Impact) and CSS Industries Inc. (CSS) in the USA.

EXECUTIVE REVIEW
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Taxation

The Group aims to manage its tax affairs in an open and transparent manner, with the objective of full compliance with all applicable rules and regulations in tax jurisdictions in which it operates. We have not entered into any tax avoidance or otherwise aggressive tax planning schemes and the Group continues to operate its tax affairs in this manner.

The Group's **adjusted tax** charge for the year is $7.8 million (FY2022: $3.3 million) against an **adjusted profit before tax** of $9.2 million (FY2022: loss of $1.3 million). Deferred tax assets relating to the entities in the UK (both UK trading and PLC) are not being recognised as the assessment of future taxable profits shows insufficient future taxable profits against which to utilise the deferred tax assets. Consequently, the absence of tax relief on current year tax losses significantly inflates the effective tax charge for the Group. The profits in DG Europe and Australia, which are the main contributors to adjusted profit before tax, are taxed at higher statutory tax rates (25.8% and 30% respectively).

In DG Americas, the impact of movements in uncertain tax positions together with permanent items adds to the tax charge. Further details of this tax charge are set out in note 11.

Tax paid in the year was $7.3 million (FY2022: $5.2 million). This is $2.1 million higher than the prior year, reflecting higher profits in the Group's tax-paying jurisdictions.

Loss per share

Diluted adjusted loss per share at 0.2 cents (FY2022: 7.7 cents) is improved year-on-year driven by the significantly higher adjusted earnings attributable to equity holders of the Company. **Diluted loss per share** at 28.6 cents (FY2022: 3.3 cents) is significantly lower than adjusted, reflecting the adjusting items charge in the FY2023 year. Further details are set out in note 21.

Dividend

In light of the Group's current position on the path to profit and margin recovery, and the challenges due to forecast reduced consumer demand in certain markets, the Board are not recommending a final dividend (FY2022: nil). As a result, the full-year dividend is nil (FY2022: 1.68 cents (1.25 pence) based on the interim dividend which was paid in January 2022).

Return on capital employed

Improving the **return on capital employed** continues to be a key target for each of the business units as well as the Group overall. The Group saw the **return on capital employed** increase year-on-year to 5.6% (FY2022: 1.3%), reflecting the improved profitability and our efforts to reduce our working capital requirements.

Cash flow and net cash

The Group ended the year with its net cash balance at $50.5 million (FY2022: $30.2 million). The significant increase in the cash balance year-on-year is a direct result of the higher EBITDA contribution and the improved working capital management resulting in **adjusted cash generated from operations** significantly higher at $60.4 million (FY2022: $5.8 million).

Cash flow	FY2023	FY2022
Adjusted EBITDA	$48.4m	$38.3m
Add back for share-based payment charge/(credit)	$0.8m	($0.8m)
Movements in working capital	$11.2m	($31.7m)
Adjusted cash generated from operations	$60.4m	$5.8m
Adjusting items within cash generated from operations	($1.4m)	($1.9m)
Cash generated from operations	$59.0m	$3.9m
Adjusting items within investing and financing activities	$8.3m	($4.3m)
Capital expenditure (net of disposals of property, plant and equipment)	($5.8m)	($8.3m)
Acquisition of non-controlling interest	($3.0m)	—
Tax paid	($7.3m)	($5.2m)
Interest paid	($5.3m)	($4.2m)
Lease liabilities principal repayments	($20.4m)	($16.8m)
Dividends paid (including those paid to non-controlling interests)	($3.0m)	($12.6m)
Purchase of own shares	($0.9m)	—
FX and other	($1.3m)	$1.2m
Movement in net cash	$20.3m	($46.3m)
Opening net cash	$30.2m	$76.5m
Closing net cash	$50.5m	$30.2m

Working capital

The working capital cash flow improved from a $31.7 million outflow in the prior year to a $11.2 million inflow. This was driven primarily by improved working capital management across the Group. The lowering of working capital levels will remain a focus of the Group.

More than ever, the Group continues to actively track debtors and credit risk profiles of all of our customers to mitigate as far as possible any additional exposure to credit risk. Doubtful debt write off in the year was less than 0.1% of revenue (FY2022: 0.2%), reflecting our continued proactive approach to mitigating credit risk exposure.

Capital expenditure

Capital expenditure in the year reduced in relation to the prior year at $5.8 million (FY2022: $8.3 million). There were no significant capital projects in the year to 31 March 2023. Capital expenditure in FY2024 is expected to be higher with investment in new ERP and manufacturing capabilities.

Average leverage

Average leverage is a key measure for the Group measuring the seasonality of our working capital demands across the business and the need to ensure the Group manages its peak funding requirements within its bank facility limits. As at 31 March 2023 **average leverage** was 0.6 times, improved from 1.0 times in the prior year. This reflects the improvement in **adjusted EBITDA** compared to the prior year and stabilised average debt at $17.1 million (FY2022: $17.2 million).

Our measure of average leverage excludes lease liabilities from our measurement of debt and we reduce adjusted EBITDA for lease payments. This mirrors the approach taken by our banks in measuring leverage for the purposes of the banking facilities and therefore is considered the most relevant measure for management to adopt.

Banking facilities

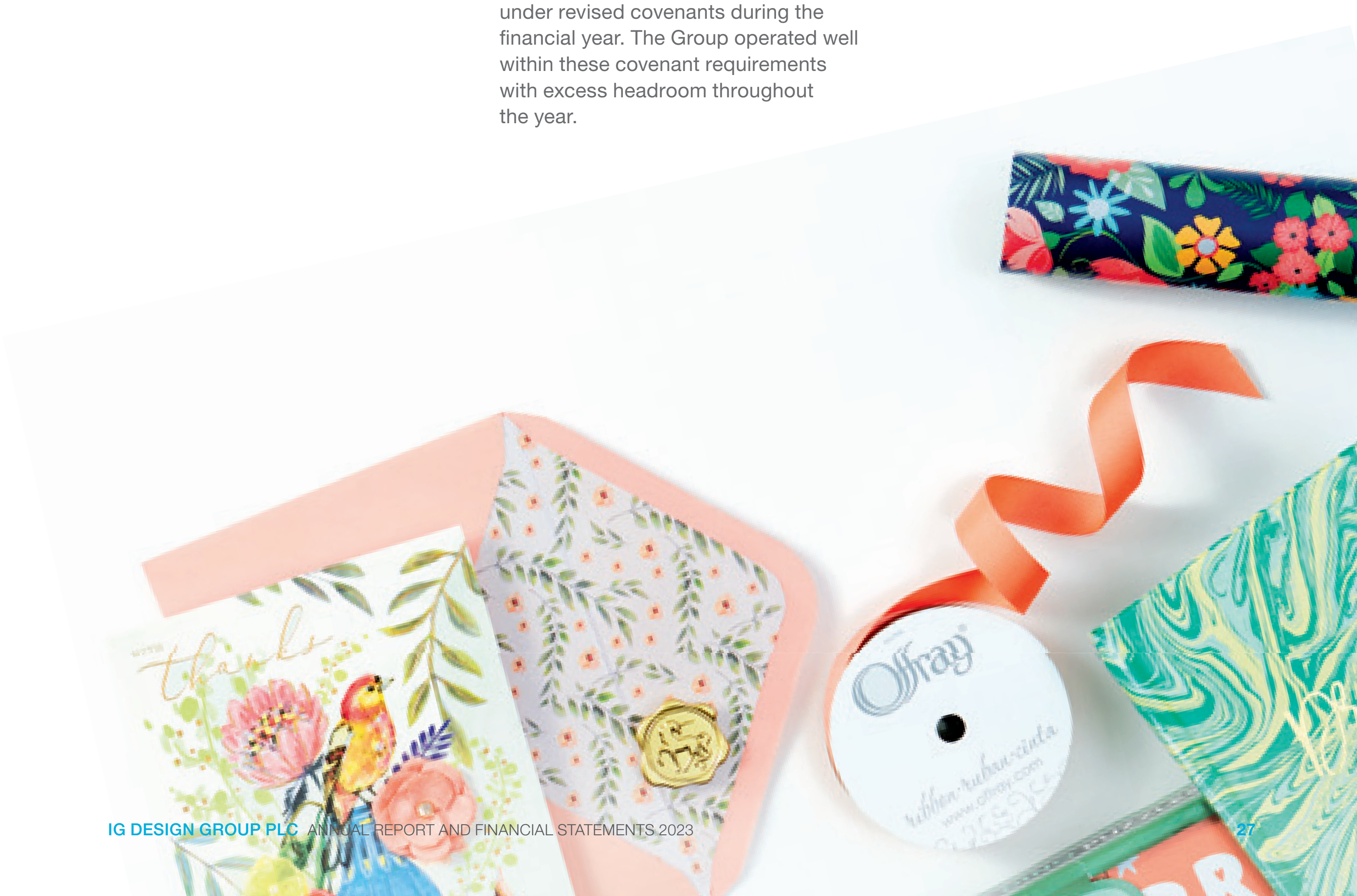
On 1 June 2022 the Company amended and extended the term of its revolving credit facility, and operated under revised covenants during the financial year. The Group operated well within these covenant requirements with excess headroom throughout the year.

On 2 June 2023, the Group announced the successful negotiation of a $125.0 million three-year refinancing with HSBC and NatWest banks. The new facility is structured as an Asset Backed Lending (ABL) arrangement secured with an all-assets lien in the USA and an all-assets security in the UK. The Group has also extended its overdraft facility provided by HSBC. This facility replaces the previous revolving credit facilities originally agreed in 2019.

The new facility carries an initial bank margin of 1.75% to 2.25%, based on average excess availability (plus 0.1% spread adjustment) over the forward-looking term rate based on the US Secured Overnight Financing Rate (SOFR) which is lower than the margins on the 2019 facilities.

The Board believes that the new ABL facility, which flexes in line with the receivables in the USA, provide more than sufficient headroom to fund the Group's working capital needs over the period of the facility.

Further details are set out in note 15.



EXECUTIVE REVIEW
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Foreign exchange exposure management

Our foreign exchange (FX) exposure is split into two areas:

Translational FX exposure – This exposure is the result of the requirement for the Group to report its results in one currency. This necessitates the translation of our regional business units' local currency financial results into the Group's adopted reported currency. The Group's reporting currency is US dollars in light of the fact that a significant proportion of the Group's revenues and profits are in US dollars. There remains a smaller part of the Group whose functional currency is something other than US dollars. The constant currency results recalculate the prior year based on the exchange rates of the current year to enhance the comparability of information between reporting periods. The overall impact on **revenue** and profits from currency movements in FY2023 when compared to FY2022 is significant relative to the balances. The increase in revenue would have been $36.4 million higher if FY2022 revenues are translated at FY2023 foreign currency exchange rates, and the growth in **adjusted loss before tax** would have been $2.4 million higher.

Transactional FX exposure – This FX exposure is managed carefully by the Group as it can result in additional cash outflows if not managed appropriately. In response to this risk the Group adopts an active hedging policy to ensure foreign exchange movements remain mitigated as far as possible. In addition, a reasonable proportion of this hedging is achieved through natural hedges whereby our purchases and sales in US dollars are offset. The balance of our hedging is achieved through forward exchange contracts and similar derivatives.

Financial position and going concern basis

The Group's net assets decreased by $35.3 million to $334.4 million at 31 March 2023 (FY2022: $369.7 million), primarily reflecting impairment of goodwill in the current year.

As at the 31 March 2023 balance sheet date, in light of the FY2023 results and the outlook for FY2024, the Directors have paid particularly close attention to their assessment of going concern in preparation of these financial statements. The Group is appropriately capitalised at the year end with a net cash position of $50.5 million.

The Directors of the Group have performed an assessment of the overall position and future forecasts for the purposes of going concern. The going concern assessment has been performed using the Group's FY2024 and FY2025 budgets and plans. These forecasts have been reviewed in detail by the Board and take into account the seasonal working capital cycle of the business. They have been sensitised to reflect severe but plausible adverse downturns in the current assumptions including the potential impact of a significant disruption in one of our major customer's business, as well as increased inflationary pressures in the DG International and DG Americas business segments, beyond those risks already factored into the budgets and plans.

The base forecasts and additional sensitivity analysis have been tested against the ABL facility limits and covenants. The analysis demonstrated that the Group has sufficient headroom for the Group to meet its obligations as they fall due for a forecast period of more than twelve months beyond the date of signing these accounts and will also be compliant with all covenants within this time frame and beyond. As such, the Directors do not see any practical regulatory or legal restrictions which would limit their ability to fund the different regions of the business as required as the Group has sufficient resources.

Accordingly, the Directors have continued to adopt the going concern basis of accounting in preparing the financial statements.

Alternative performance measures

This review includes alternative performance measures (APMs) that are presented in addition to the standard UK IFRS metrics. The Directors believe that these APMs provide important additional information regarding the underlying performance of the business including trends, performance and position of the Group. APMs are used to enhance the comparability of information between reporting periods and segmental business units by adjusting for exceptional or uncontrollable factors which affect UK IFRS measures, to aid the understanding of the Group's performance. Consequently, APMs are used by the Directors and management for strategic and performance analysis, planning, reporting and reward setting. APMs reflect the results of the business excluding adjusting items, which are items that are material or items of an unusual or non-recurring nature.

The APMs and the definitions used are listed below:

- Adjusted EBITDA – Profit/(loss) before finance charges, tax, depreciation, amortisation, impairment (EBITDA) and adjusting items
- Adjusted gross profit – Gross profit before adjusting items
- Adjusted operating profit/(loss) – Profit/(loss) before finance charges, tax and adjusting items
- Adjusted profit/(loss) before tax – Profit/(loss) before tax and adjusting items
- Adjusted profit/(loss) after tax – Profit/(loss) after tax before adjusting items and associated tax effect
- Adjusted tax – Tax before adjusting items
- Diluted adjusted earnings/(loss) per share – Diluted earnings/(loss) per share before adjusting items and associated tax effect
- Adjusted overheads – Selling costs, administration expenses, other operating income, profit/(loss) on disposal of property, plant and equipment (overheads) before adjusting items
- Adjusted cash generated from operations – Cash generated from operations before the associated cash impact of those adjusting items
- Net cash – Cash and cash equivalents, bank overdraft and loan arrangement fees

In terms of these APMs, a full reconciliation between our adjusted and reported results is provided in the detailed financial review above, from which the following key performance metrics have been derived:

- Adjusted gross margin – Adjusted gross profit divided by revenue
- Adjusted operating margin – Adjusted operating profit divided by revenue
- Adjusted EBITDA margin – Adjusted EBITDA divided by revenue
- Cash conversion – Adjusted cash generated from operations divided by adjusted EBITDA

In addition, the Group calculates the following key performance measures using the above APMs:

- Return on capital employed – Adjusted operating profit divided by monthly average net capital employed (where capital employed is net assets excluding net cash and intangible assets)
- Average leverage – Average bank debt (being average debt measured before lease liabilities) divided by adjusted EBITDA reduced for lease payments

Further details of the items categorised as adjusting items are disclosed in more detail in note 3.

Paul Bal
Director

19 June 2023