

Simply value for money

Dunelm
mill



Dunelm Group PLC
Preliminary Results Presentation
52 Weeks to 2 July 2011



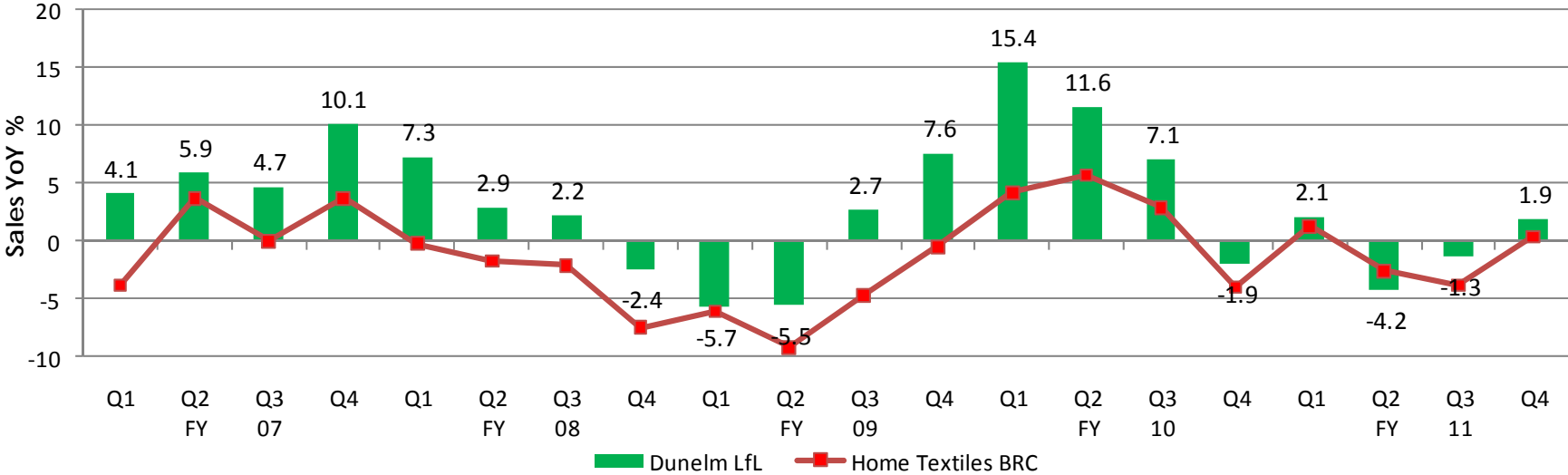
David Stead

Finance Director

Financial highlights FY 11

	FY11	FY10	Year on year change
Sales	£538.5m	£492.8m	+9.3%
LFL Sales growth	-0.6%	+8.0%	
Gross margin	48.0%	46.8%	+120bps
Operating profit	£83.3m	£75.5m	+10.4%
Profit before tax	£83.6m	£76.8m	+9.0%
EPS (fully diluted)	29.3p	26.9p	+8.9%
Dividend	11.5p	8.0p	+43.8%

Like-for-like sales trend



Consistent market-beating growth

Q2 and Q3 FY10 Dunelm numbers adjusted for Christmas phasing

Margin analysis

	FY11	FY10
Gross margin	48.0%	46.8%
Staff costs	(14.1%)	(13.8%)
Property rents	(4.7%)	(4.6%)
Depreciation / amortisation	(2.6%)	(2.3%)
Other costs	(11.1%)	(10.8%)
Operating margin	15.5%	15.3%

Margin and Cost base

	FY11	Outlook – Key Drivers
Gross Margin	<ul style="list-style-type: none"> • Improved clearance • Pass-through of cost price increases 	<ul style="list-style-type: none"> • Continuing scale benefits • Greater stability in commodity prices/past increases now working through • Increases in Far East wage & energy costs/reduction in freight rates
Rents	<ul style="list-style-type: none"> • Continued low increases 	<ul style="list-style-type: none"> • No major upward pressure
Depreciation	<ul style="list-style-type: none"> • New stores/refits 	<ul style="list-style-type: none"> • More new stores/refits, new Head Office
Marketing	<ul style="list-style-type: none"> • National press 	<ul style="list-style-type: none"> • Continuing investment
Logistics	<ul style="list-style-type: none"> • Increased capacity 	<ul style="list-style-type: none"> • Improving utilisation
Head office	<ul style="list-style-type: none"> • Maximum capacity 	<ul style="list-style-type: none"> • New facility

Profit after Tax

(£m)	FY11	FY10	
Operating Profit	83.3	75.5	
Financial Items			
- Interest receivable	0.5	0.6	
- Loan and other interest payable	(0.0)	(0.1)	
- Foreign exchange (loss)/gain	(0.2)	0.8	
Profit Before Tax	83.6	76.8	
Tax	(23.8)	(22.4)	Effective rate 28.5% (29.2%)
Profit After Tax	59.8	55.4	
EPS (fully diluted)	29.3p	26.9p	
Dividend	11.5p	8.0p	Dividend cover 2.5x (3.4x)

44% increase in dividend and revised cover

Working capital movement

(£m)		Key Drivers
Inventory increase	(13.9)	10 new stores
Debtors increase	(4.1)	Prepaid rent
Creditors increase	13.9	Increase in deferred rent creditor Increase in trade creditors and VAT
Overall increase	(4.1)	

Operating cash generation

(£m)	FY11	FY10
Operating Profit	83.3	75.5
Depreciation and amortisation	14.1	11.4
Other non-cash movements	1.7	1.8
Working capital movement	(4.1)	1.7
Net interest	0.5	0.5
Tax paid	(21.5)	(18.9)
Net cash from operations	74.0	72.0
Cash conversion	89%	95%

Capital investment

(£m)	FY11	FY10
Major transactions		
Freehold store acquisitions	8.0	2.0
New Head Office	5.8	2.1
Ongoing investments		
New store fit-outs	13.4	10.9
Refits and other store investments	7.0	7.0
Stoke fit-out	1.1	1.0
IT investment (including Web)	1.3	1.2
Other	0.6	0.4
Total	37.2	24.6

Significant investment across the business

Capex – FY12 Key Drivers

- New stores – average fit out cost £1.2m per store
- Refits – major (£0.6m per store) / medium (£0.1m per store)
- New Head Office - £4.0m
- Continuing multi-channel investment
- Freehold opportunities

Total investment c.£30m (excluding freeholds)

Net cash generation

(£m)	FY11	FY10
Net cash from operations	74.0	72.0
Capital expenditure	(37.2)	(24.6)
Dividends paid	(17.1)	(14.0)
Return of capital	-	(43.2)
Other	0.1	1.2
Change in net cash	19.8	(8.6)
Year end net cash	35.1	15.4
Daily average net cash	35.9	18.4*

*NB. FY10 average net cash was for Q4 only (following the return of capital)



Nick Wharton

Chief Executive

Financial Year Overview

FY11 – A year for retail basics

- Market share gains in consolidating market
- Active trading strategies developed
- Store pipeline strong
- Multi-channel growth encouraging
- Scale opportunities emerging

Solid progress in challenging consumer environment

Growth Strategy

Consistent and Effective Growth Strategy

Further develop specialist position

Expand store portfolio

Grow multi-channel

Develop and exploit infrastructure

Specialist Position

Core ranges

- Extensive range of homewares
- Great authority - depth and choice
- Strong availability
- Own and owned brands

c.80% of sales

Special buys

- Frequently changing
- Powerful displays
- Core homewares and related products
- "Treasure-hunt" feel

c.20% of sales



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Service

- Specialist knowledge
- Custom made
- "Dunelm at Home"



Specialist Position

More agile trading stance in challenging consumer environment

- More dynamic trading plan
 - Increased Miss It Miss Out promotions
 - Focus on linked sales
 - Dedicated Web marketing plan
- In-store communication
 - Silent salesman increases conversion
 - "Get The Look" builds basket size
- Targeted incentives introduced
 - Enhanced earning opportunities
 - Incentives balance profit and service
- Improved labour profiling



Specialist Position: Communication

Increased advertising communicates proposition advantage

- Media efficiencies delivered
- Increased tactical cut through
 - Consistent execution
 - Increased advertising frequency
- Dedicated brand activity
 - Seasonal relevant programmes
 - Range / expertise / quality messages
- Social media launched
 - Facebook and Twitter launched in July
 - Engagement through conversation & inspiration

New Advertising Execution



Brand Support Programme

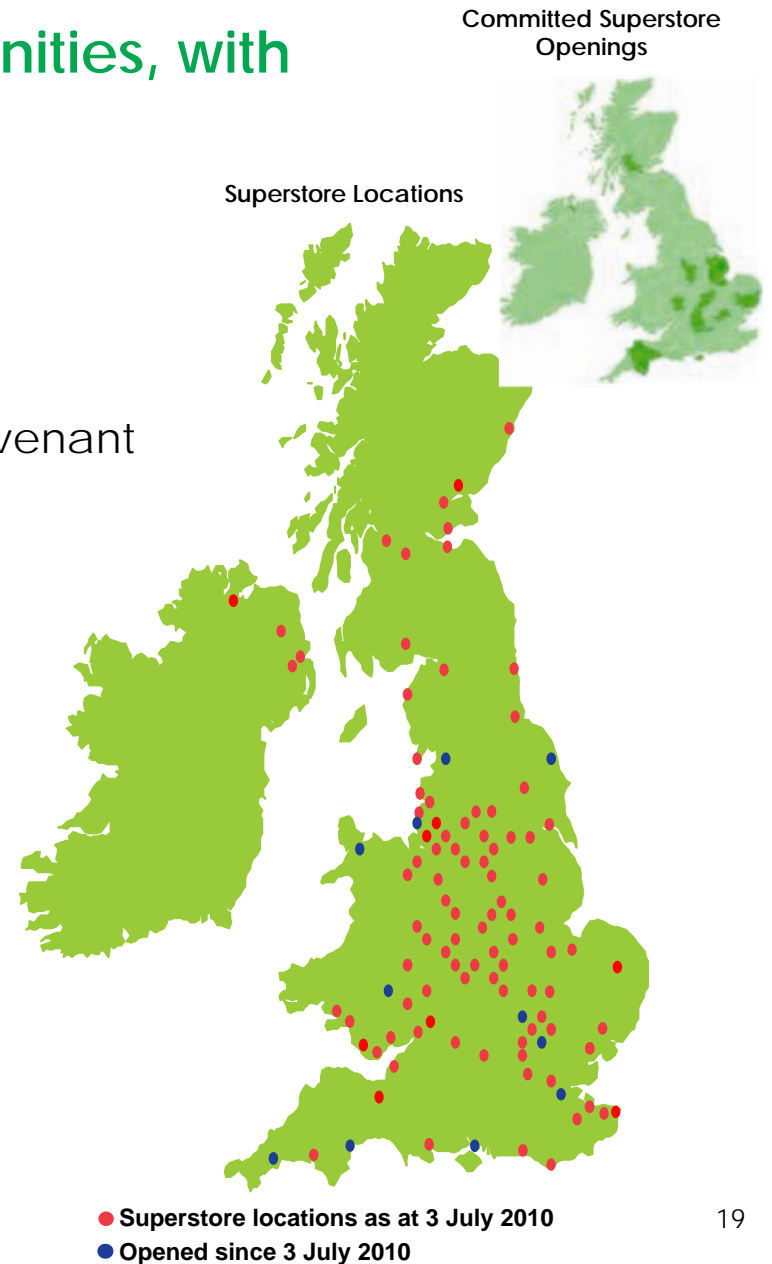


Store Portfolio: New Stores

Significant new superstore opportunities, with attractive returns

- Opportunity
 - 150 – 200 UK Superstores
 - Average payback: 30 months¹
 - Attractive tenant – large footprint, strong covenant
- Current position
 - 104 Superstores
 - 10 Stores opened in FY11
 - 1 Store opened since Year End
 - 9 More openings pre Christmas
 - 4 in South
 - 4 Further openings committed
 - 2 in South

1. Discounted payback after tax anticipated from store opening in FY09-FY11



Store Portfolio: Refits

Proven refit programme continues to generate returns

- Sales improvement delivered through:
 - New range introduction
 - Enhanced adjacencies & environment
 - Pausa Coffee Shop
- Model constantly refined to maintain ROIC



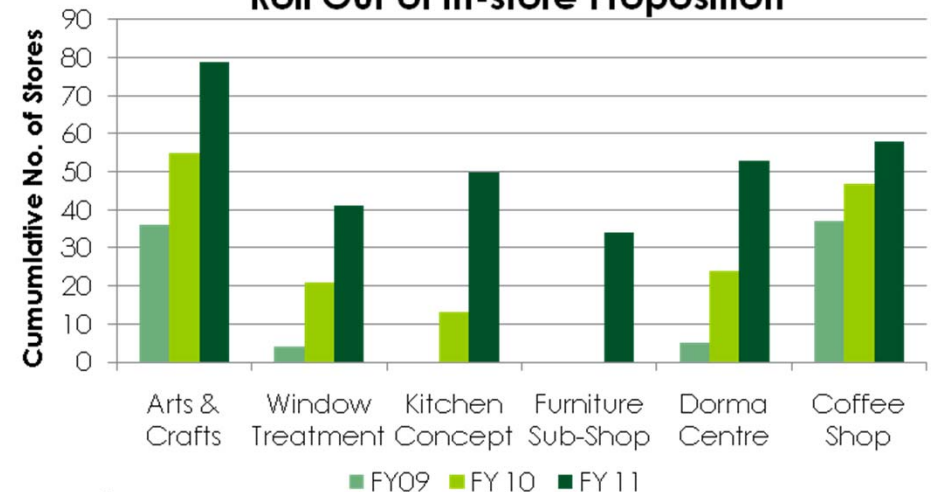
Customer offer

- Expanded market area
- Furniture sub-shop introduced

Investment

- Major c. £600k investment
- Medium c. £100k investment

Roll Out of In-store Proposition



- 10 -15 major/medium refits targeted for FY12

Multi - Channel

Dunelm-mill.com firmly established as number one revenue store

- Opportunity

- Clear preference for some customers
- Higher frequency of visit and spend
- Shop window extends brand reach
- Own brand participation protects margin

- Current position

- Number one revenue store from strong visitor growth
- Profitable foundation
 - Fulfilment economies improved
 - Scale benefits emerging
- Attractive returns from digital advertising
- High customer engagement
 - 200,000 E-shot database
 - 13,000 customer reviews (84% good/excellent)



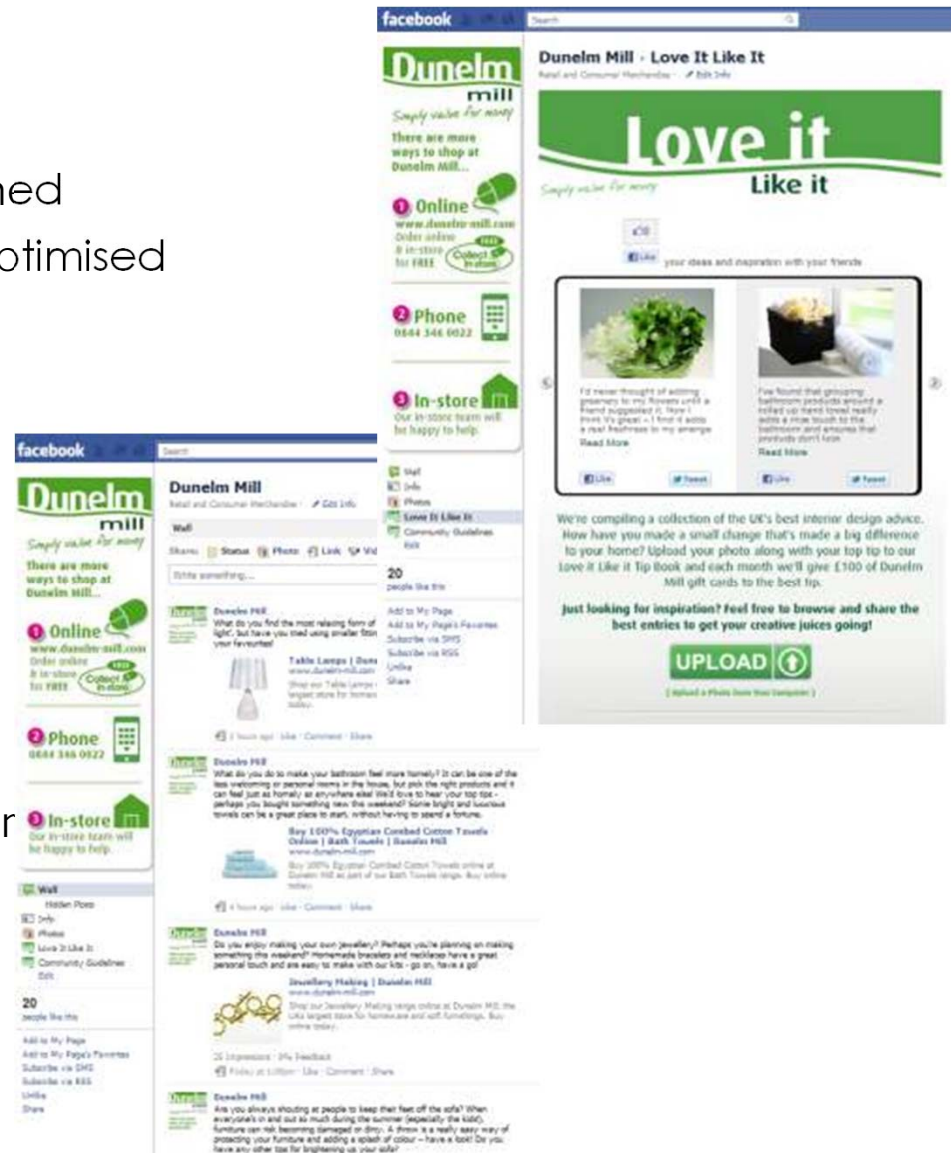
Mrs J, Hull. "I liked the look of the bedding the minute I saw it. Thought it was modern and just the colour I wanted as I had just decorated in teal. Looks fantastic on the bed".

Multi – Channel

Significant growth opportunity from Multi-Channel emerging

- FY12 Development Plan
 - Reserve & Collect launch
 - Social media presence established
 - Search engine / pay per click optimised
 - Web more actively traded
 - Mobi site launch

- Longer Term
 - Range extension
 - Enhanced imagery
 - More delivery choices
 - Increased customer engagement
 - In-store ordering



Develop & Exploit Infrastructure

Infrastructure in place to support targeted growth

- Continued logistics / IT development
 - Stoke Warehouse (500,000 sq ft)
 - Footprint doubled in 2010
 - Capacity to support store growth and direct sourcing
 - RF voice implementation improves efficiency
 - Nominated carrier migration successfully completed
 - Automated store ordering for 50% of inventory
- Management capability strengthened
 - Chief Operating Officer
 - Director Of Multi-Channel
- New head office - capacity for growth and workflow upside



Summary

- Chief Executive transition completed
- Strengthened management team
- Solid growth in sales and profit
- Strong new store pipeline
- Exciting multi-channel opportunity

Confidence in future growth despite challenging environment

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Appendices

Strong balance sheet

(£m)	2 nd July 11	3 rd July 10
Total non-current assets	130.5	107.8
Inventories	76.5	62.6
Receivables	14.6	10.5
Cash	35.1	15.4
Total assets	256.7	196.3
Current liabilities	(98.9)	(83.4)
Non-current liabilities	(0.6)	(0.2)
Net assets	157.2	112.7
Share capital	2.0	2.0
Share premium	0.7	0.6
Other reserves	42.8	42.8
Retained earnings	111.7	67.3
Total equity	157.2	112.7

Store Portfolio: Growth & Investment

50% of superstores are new or have received major investment in the last 3 years

