

# Dunelm Group plc



## Corporate Governance Presentation

7 January 2016

Andy Harrison,

Simon Emeny, William Reeve, Peter Ruis, Liz Doherty,

Marion Sears, Will Adderley



# Agenda

- Approach to corporate governance
- Overview of current arrangements
- Committees:
  - Nominations
  - Remuneration
  - Audit & risk
- Corporate Social Responsibility
- Live Issues
- Discussion Documents
  - IA (IVIS) report
  - ISS
  - PIRC



# Approach to Corporate Governance

## Approach:

- We do things properly
- Honest and with integrity
- Intend to comply
- Pragmatic – explain if necessary
- Sparing use of advisers is healthy

## Attitude:

- Always ask:
  - what is the business benefit?
  - how does it help the customer?
- Think of “the Dunelm way”
- Keep things simple

## Board Culture:

- Close knit – focus on what’s right for Dunelm
- Low key – out of the spotlight
- Long term – expect to live with our decisions
- We care – do it ourselves if we can

# Shareholder Communications and Advisors

## Advisors

Brokers – UBS and Stifel (Oriel)

Auditors – PwC appointed from FY14 following tender process

Other financial – KPMG for tax; Deloitte for debt (neither exclusive)

Remuneration – Deloitte (ad hoc - when needed)

## Shareholder communication

Institutions	Family
NEDs at results presentations	Social Christmas dinner
Analysts' visits	Ad hoc "formal" contact by NEDs
NED attendance on road shows	Informal family contact
NEDs lead consultation	Meeting with any new board member
This Governance meeting	

# Current Board

**Board:** After much work we have refreshed the board and we have a “Chair + 4 + 4” structure

	Andy Harrison Chair	
Will Adderley <i>Deputy Chair</i>		Simon Emeny <i>SID</i>
John Browett <i>CEO</i>		Liz Doherty <i>NED</i>
Keith Down <i>CFO</i>		William Reeve <i>NED</i>
Marion Sears <i>Non-independent NED</i>		Peter Ruis <i>NED</i>

**Committees:** All NEDs (if allowed)

	Audit & Risk	Remuneration	Nominations
Chair	Liz Doherty	Simon Emeny	Marion Sears
Members	Simon Emeny William Reeve Peter Ruis  (Andy Harrison and Marion Sears by invitation)	Andy Harrison Liz Doherty William Reeve Peter Ruis  (Will Adderley and Marion Sears by invitation)	Andy Harrison Liz Doherty Simon Emeny William Reeve Peter Ruis  Will Adderley (as shareholder)

# Nominations Committee

## Evolution of the Dunelm Board since IPO:

2006	IPO: Geoff, Marion, Bill, Will, David
2007	Simon appointed NED
2008	Bill retired
2009	Nick appointed as NED
2010	Nick appointed CEO designate
2011	Nick became CEO; Will became Deputy Chairman
2012	Matt appointed NED
2013	Liz appointed NED
2014	Andy appointed NED Nick resigned CEO search was unsatisfactory so Will reappointed CEO
2015	Matt left Andy became chairman, Geoff retired John appointed CEO, Will reverted to Deputy Chairman William and Peter appointed NEDs Keith appointed CFO, David retired

- Succession planning has been continuous
- And we have grown the company and preserved the culture
- Adderleys and Board have asked Marion to stay
- We now have:
  - a refreshed Board
  - strong diversity of thought and skills
  - stronger executive capability
  - composition that follows best practice
- As before focus is on the long-term:
  - strategy
  - profitable growth
  - value creation

We introduced a new Policy for the new executive team which was approved at the 2015 AGM:

- We consulted with institutional shareholders, who were supportive
- New policy is designed to last throughout Dunelm's "Chapter 3":
  - Stretching LTIP performance conditions maintained
  - Fixed number of LTIP award shares (to be reviewed at each Policy vote i.e. every three years)
  - Share purchase on arrival

## Principles:

- Keep things simple and transparent to all
- Strong alignment due to a specific requirement to re-invest bonus and LTIP awards in Dunelm shares
- Long-term focus
  - Base salary and benefits - median or below
    - represents a minority of total pay
    - future salary rises set in context of company-wide increase
  - Annual bonus – median
    - we have responded to shareholder feedback and changed the performance conditions
  - LTIP – upper quartile
    - EPS continues to be performance measure – it is appropriate for Dunelm
    - stretching performance conditions

# Remuneration Committee

## New policy summary:

	CEO	CFO	Performance conditions
Base salary	£500,000	£350,000	
Pension	20%	15%	
Other	£21,000	£21,000	
Fixed total	£621,000	£424,000	
Bonus	125% x base	125% x base	80% budget PBT; 20% non-financial KPIs Min at 95% budget; max at 105% budget
LTIP	110,000 shares pa (200% of base on appointment)	60,000 shares pa (160% of base on appointment)	3 year performance period: <ul style="list-style-type: none"> <li>• EPS CAGR vs RPI+3% - RPI+15%</li> <li>• 10% vests at RPI+3% threshold</li> </ul>
Alignment	Lifetime Lock-in: 2/3rds bonus & LTIP re-invested in Dunelm shares each year. To be held for duration of employment at Dunelm. 50% of these to be held for 2 years after leaving.		
Max pay year 1	£2.2m	£1.4m	Based on share price of 920p
Notice period	6 months	6 months	

# Remuneration Policy alignment with Corporate Strategy

- Our strategy centres around our three growth opportunities:
  - LFL store sales growth
  - National coverage from rolling out new stores
  - Growing sales and profit in the home delivery channel
- These are all long-term objectives
  - Board leads by example with long-term thinking
- Remuneration is structured specifically:
  - To be aligned in share ownership – share purchase on arrival and Lifetime Lock-in
  - To pay for performance – fixed pay is < 1/3<sup>rd</sup> max opportunity
  - To focus on long-term value creation – fixed share LTIP award generates wealth if share price rises
- Will's remuneration reduced to £1 + benefits – thank you

# Audit & Risk Committee

- Risk remains a whole Board responsibility
- Committee focus on risk process heightens attention at senior level
- Oversight managed through:
  - Executive board line responsibilities
  - Dialogue with auditors
  - Accounting policies
  - Internal audit programme
  - Operational audit team
  - Review of internal risk management processes
- Internal audit programme conducted by internal and external specialists such as KPMG
  - Focus on specific project areas decided by the Committee
- Strict “unique advantage” rule on non audit fees
- Change of auditor in 2014 following audit tender

# Corporate Social Responsibility

- Oversight by the Board as a whole
  - Approve policies
  - Monitor KPIs
  - Annual presentation on health & safety
  - Specific presentations on other matters (eg ethical trading)
- Implementation by Executive Board - line responsibility for individual topics
- Key considerations: customers, colleagues, H&S, Suppliers, Environment, Community
- 2015 highlights:
  - 8,000 colleagues completed “Customer First” 2<sup>nd</sup> phase training
  - >90% participation in engagement survey; improved score to over 80%
  - All stores had H&S audit; customer accident rate reduced
  - Improved communication with factories; 70% now green/amber in Ethical Code of Conduct audit
  - Improved levels of waste recycling, energy use and carbon emissions - further pilot trials ongoing
  - Each store has a Charity Champion; we offer an annual day’s leave for charity work

## Our Live Issues are mostly Good Issues:

- **Business:**
  - New executive team needs to settle
  - Preserving the culture
  - Prioritising our opportunities: business improvement and business development
  - How will the Home Delivery market develop?
- **Corporate:**
  - Share buy-backs to satisfy LTIP entitlements
  - Rule 9 waiver - some shareholders vote against due to “policy”
  - Mechanism for future returns of surplus cash
  - Appropriate gearing level
- **Governance**
  - Continued succession planning, including oversight of below Board team and diversity
  - Likely to ask Simon to continue as SID and RemCo Chair beyond his 9 year anniversary, to 2017 AGM, so as to ensure board continuity and better NED phasing
  - Marion as non-independent NED has stepped down from Audit & Risk and Rem Committees
  - External Board evaluation
  - Preparation for viability statement
  - Review policy on use of auditor for non-audit services