

# **Dunelm Group plc**

## **Corporate Governance Presentation**

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30 January 2013

# Agenda

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- Overview of current arrangements
- Approach to Corporate Governance
- Risk
- Audit
- Remuneration
- Nominations
- Corporate Social Responsibility
- Changes since last year
- Live Issues
  
- Discussion Documents
  - ABI report
  - RREV
  - PIRC

# Overview of Current Arrangements

## Board

	<b>Geoff Cooper Chair</b>	
Will Adderley Deputy Chair		Marion Sears SID
Nick Wharton CEO		Simon Emeny NED
David Stead FD		Matt Davies NED

## Committees

	<b>Audit Com</b>	<b>Rem Co</b>	<b>Nom Com</b>
Chair	Matt Davies	Marion Sears	Marion Sears
Members	Marion Sears Simon Emeny	Geoff Cooper Simon Emeny Matt Davies	Geoff Cooper Simon Emeny Matt Davies  Will Adderley

# Shareholder Communications and Advisors

- Brokers – UBS and Oriel
- Auditors – KPMG
- Remuneration – Deloitte (ad hoc)
- Shareholder communication:

## **Institutions**

- NEDs at results presentations
- Analysts' visits
- NED attendance on road shows
- NEDs lead consultation
- The Governance meeting

## **Family**

- Occasional Board lunches
- Spring and Christmas dinners
- Ad hoc “formal” contact by NEDs
- Informal family contact
- Presentation of intentions

# 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?”
- Think of “the Dunelm way”
- Keep things simple

## Board Culture:

- Small and consensual – focus on what's right for Dunelm
- Low key – we like to be out of the spotlight
- Long term – we expect to live with our decisions
- We care – we do it ourselves if we can

# Risk

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- Board owns risk management – there is no Risk Committee
  - Twice per year risk review – formal process
  - Approach is to embed risk into day-to-day management
  - Board-set boundaries for obvious areas
  - Regular “deep dives” into risk topics
- Risk management is through a combination of:
  - Formal processes as above
  - Senior team leading by example
  - Alignment
  - Culture and ethics
- Senior team alignment
  - Execs - 1x salary after 3 years and 2x salary after 5 years
  - Operating board – 1x salary
- Major shareholder on the Board heightens awareness

# Audit Committee

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- Composition is compliant following Matt Davies' appointment
- Approach is to be prudent and low risk – main discussion is about:
  - Stock
  - Cash / systems controls
- Regular debate about gearing and use of cash (as whole Board)
- Decisions made:
  - Don't use auditors for other services unless clearly better
  - Annual review of need for internal audit function
  - Auditor rotation –awaiting clarification of best practice

# Remuneration Committee

- Principles & policy:
  - Keep things simple and transparent
  - Base salary set at median or below – should represent a minority of total pay
  - Default position: base salary increases with company-wide increase
  - Annual bonus – max award in line at 100%
  - LTIP – max award upper quartile at 150%
  - Therefore max potential CEO pay is c.£1.5m based on 2012/13 salary incl pension & benefits
- EPS used as key performance measure for annual bonus and LTIP
  - 3 year LTIP with max vest at EPS CAGR of RPI+15%
  - Lack of leverage and board control over debt reduces risk of using EPS
  - More performance measures may lead to higher payouts
  - Will Adderley no longer receives LTIP grants
- Issues for 2013:
  - Longer term LTIPs - increase performance period or defer transfer after vesting
  - How to treat executives fairly if LTIP term is lengthened / deferral introduced
  - Will institutions support this existing policy in a binding vote?

# Policy Alignment with Corporate Strategy

- Strategy centres around the growth and development of our:
  - Specialist proposition
  - Store portfolio
  - Multi-channel capability
  - Infrastructure
- These are all long-term objectives
  - Board leads by example with long-term thinking
- Since IPO, remuneration has been structured specifically:
  - To be aligned in share ownership
    - Required shareholding value at 2 x salary
    - requirements below board of 1x and 0.5x
    - Active promotion of SAYE scheme
  - To reward performance
    - 70% of max earnings opportunity is performance related
  - To be focused on long term value creation
    - >40% of max earnings on LTIP;
    - CEO has 5 year options
- “Single Number” for execs ranged between £0.9m - £1.2m in 2012

# ABI Principles of Remuneration – Nov 2012

Subject	ABI guidance updated November 2012	Dunelm position
Buy-out on recruitment	Should be like-for-like	Noted for next exec recruitment
Pensions	Disclose / justify differences between execs and workforce	DC: 10% salary for board, 5% for management, stakeholder scheme
Variable pay	Should be simple: preferably just one bonus and one LTIP	One bonus and one LTIP
	RemCo to keep discretion on bonus in case award is inappropriate	RemCo has discretion on bonus
	Link LTIP length to strategy timing; consider additional holding period	Longer term under consideration
	LTIP performance criteria - link financial measures to value creation	EPS is financial, a key driver of share price, under management's control
Types of scheme	Matching shares may add unnecessary complexity	No matching scheme
	Dividends should not be paid on options prior to exercise	No dividends paid on unvested LTIP
	Measuring performance pre-grant not favoured	Not applicable
Exec shareholdings	Should only count towards holding requirement if unfettered	Only count if unfettered

# Nominations Committee

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- Constant work to review / refresh board composition
  - Matt Davies appointed in 2012
  - Likely to appoint a further NED in 2013
- Ideally no more than one new appointment per year
- Objectives:
  - Comply
  - Having some working execs as NEDs is helpful
  - Board will always be mixed gender
  - Ensure appropriate diversity of thought for long term strategic thinking
  - Ensure the organisation has suitable talent management processes to service future growth
- The overriding tasks of the Committee are to:
  - preserve the culture; and
  - ensure appropriate resource in a growing organisation – at all levels

# Corporate Social Responsibility

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- CSR taken seriously:
  - It matters to customers
  - It matters to colleagues
  - It affects profitability
  - It is important for our reputation
- Our approach is to embed CSR into Operating Board responsibilities
  - Environment (waste, energy, carbon, packing)
  - Social ( ethical trade, suppliers, customers, H&S)
  - Employees (career development, equal ops, communication, H&S)
  - Community (charitable donations and fund-raising, Job Centre partnerships)
- Board receives monthly scorecard including CSR measures and H&S reporting
  - H&S “deep dive” annually
  - Presentations on topics for specific management focus

# Changes in the Past Year

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- Appointed Matt Davies as new NED – now compliant on board and committee composition
- Dawn Durrant appointed company secretary – no longer the finance director
- Review of board skills and group talent management processes
- Updated succession plan for execs and NEDs
- RemCo:
  - normalised pensions for execs at 10% of salary
  - Required shareholding introduced for senior management group
  - Published the “single number” for total exec remuneration in 2011/12
  - introduced clawback on un-vested performance pay from 2012/13
  - Will Adderley no longer receives LTIP grants from 2012/13
- Initiated regular colleague engagement survey and relaunched Colleague Council

# Live Issues

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- External board evaluation
- Board succession
- Auditor rotation
- RemCo:
  - How to address market request for longer-term LTIPs
  - What do executives receive in return?
  - How to reward if base pay becomes out of line with peer group
- Rule 9 waiver
- Policy of returning surplus cash
- Efficient engagement with institutional shareholders