Dunelm Group plc
Interim Results Presentation
26 weeks up to 29 December 2012
David Stead
Finance Director
# Financial Highlights

Profitable growth continues

<table>
<thead>
<tr>
<th></th>
<th>FY13 H1</th>
<th>FY12 H1</th>
<th>Yr on Yr Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>£340.1m</td>
<td>£299.9m</td>
<td>+13.4%</td>
</tr>
<tr>
<td>LFL Sales growth</td>
<td>+2.2%</td>
<td>+1.1%</td>
<td></td>
</tr>
<tr>
<td>Gross margin</td>
<td>49.5%</td>
<td>49.2%</td>
<td>+30bps</td>
</tr>
<tr>
<td>Operating profit</td>
<td>£59.3m</td>
<td>£51.8m</td>
<td>+14.5%</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>£59.8m</td>
<td>£52.2m</td>
<td>+14.6%</td>
</tr>
<tr>
<td>EPS (fully diluted)</td>
<td>22.1p</td>
<td>18.6p</td>
<td>+18.8%</td>
</tr>
</tbody>
</table>
Like for Like Sales

Since FY10:
- LFL growth averages 3.4%
- Total growth averages 13.4%
- Consistent market share gains

NB all figures are based on sales excluding VAT
Gross Margin

Positive Drivers

- Direct sourcing
- Commodity prices
- Increasing scale
- Lifecycle management

Negative Drivers

- Investment in price
Operating costs tightly controlled

<table>
<thead>
<tr>
<th>Operating costs FY12 H1</th>
<th>£m</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating costs FY12 H1</td>
<td>95.9</td>
<td></td>
</tr>
<tr>
<td>LFL stores</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Non-LFL stores</td>
<td>11.2</td>
<td>Average 13% additional selling space vs FY12 H1</td>
</tr>
<tr>
<td>Other</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td><strong>Operating costs FY13 H1</strong></td>
<td><strong>108.9</strong></td>
<td></td>
</tr>
</tbody>
</table>
## Profit After Tax

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY13 H1</th>
<th>FY12 H1</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit</td>
<td>59.3</td>
<td>51.8</td>
<td></td>
</tr>
<tr>
<td>Financial Items</td>
<td>0.5</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>59.8</td>
<td>52.2</td>
<td></td>
</tr>
<tr>
<td>Tax</td>
<td>(14.7)</td>
<td>(14.3)</td>
<td>Effective rate 24.8%</td>
</tr>
<tr>
<td>Profit After Tax</td>
<td>45.1</td>
<td>37.9</td>
<td></td>
</tr>
<tr>
<td>EPS (fully diluted)</td>
<td>22.1p</td>
<td>18.6p</td>
<td></td>
</tr>
<tr>
<td>Dividend</td>
<td>4.5p</td>
<td>4.0p</td>
<td></td>
</tr>
</tbody>
</table>
## Operating Cash Generation

### Strong cash conversion

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY13 H1</th>
<th>FY12 H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit</td>
<td>59.3</td>
<td>51.8</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>10.0</td>
<td>8.5</td>
</tr>
<tr>
<td>Other non-cash movements</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Working capital movement</td>
<td>5.4</td>
<td>11.7</td>
</tr>
<tr>
<td>Net interest</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(13.0)</td>
<td>(13.2)</td>
</tr>
<tr>
<td><strong>Net cash from operations</strong></td>
<td>63.4</td>
<td>60.2</td>
</tr>
</tbody>
</table>

| Cash conversion¹                  | 107%    | 116%    |

¹ Net cash from operations as a proportion of operating profit
## Working Capital Movement

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY13 H1</th>
<th>FY12 H1</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory increase</td>
<td>(8.1)</td>
<td>(7.7)</td>
<td>Net 9 additional superstores</td>
</tr>
<tr>
<td>Receivables increase</td>
<td>(2.6)</td>
<td>(3.0)</td>
<td></td>
</tr>
<tr>
<td>Payables increase</td>
<td>16.0</td>
<td>22.4</td>
<td>Seasonality and new stores</td>
</tr>
<tr>
<td>Overall reduction</td>
<td>5.4</td>
<td>11.7</td>
<td></td>
</tr>
</tbody>
</table>
Capital Investment

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY13 H1</th>
<th>FY12 H1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Major transactions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freehold acquisitions</td>
<td>-</td>
<td>9.6</td>
</tr>
<tr>
<td>New Head Office</td>
<td>-</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>Ongoing investments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New store fit-outs</td>
<td>11.6</td>
<td>13.0</td>
</tr>
<tr>
<td>Refits and other store investments</td>
<td>2.0</td>
<td>2.4</td>
</tr>
<tr>
<td>IT investment</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Other</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14.9</td>
<td>29.4</td>
</tr>
</tbody>
</table>

- 2 freehold units acquired in FY12
- 10 new stores fitted out in FY13H1, 11 in comparable period
- 2 major refits completed in FY13 H1, 2 in comparable period
## Net Cash Generation

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY13 H1</th>
<th>FY12 H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash from operations</td>
<td>63.4</td>
<td>60.2</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(14.9)</td>
<td>(29.4)</td>
</tr>
<tr>
<td>Dividends paid / return of capital</td>
<td>(86.1)</td>
<td>(16.2)</td>
</tr>
<tr>
<td>Other</td>
<td>(0.1)</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Change in net cash</strong></td>
<td>(37.6)</td>
<td>14.7</td>
</tr>
<tr>
<td><strong>Period end net cash</strong></td>
<td>27.4</td>
<td>49.9</td>
</tr>
<tr>
<td><strong>Daily average net cleared funds</strong></td>
<td>N/A</td>
<td>47.6</td>
</tr>
</tbody>
</table>
Guidance

- LFL sales growth
- Sales from non-LFL stores
- Gross margin
- Operating costs
- Tax
- Capex
Nick Wharton
Chief Executive
Overview

Consistent strategy execution and disciplined operational management

- Customer offer further differentiated with clear opportunities
- Clear scope to grow brand awareness
- Further expanded footprint to 123 superstores
- Multi-channel progress encouraging
- Enhanced organisational and process capability
- Share leadership in large consolidating market
Market Overview

Leader in sizeable fragmented market

Large market
- £11 bn consumer market
- Value stable post 2008

Classically fragmented
- Top 3 retailers less than 20%
- Top 10 less than 50%
- Independents c.25% & shrinking

Homewares Market Shares

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>Change vs 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dunelm</td>
<td>6.9%</td>
<td>+2.9% pts</td>
</tr>
<tr>
<td>John Lewis</td>
<td>6.8%</td>
<td>+1.7% pts</td>
</tr>
<tr>
<td>Argos</td>
<td>4.9%</td>
<td>-0.4% pts</td>
</tr>
<tr>
<td>Top 3</td>
<td>18.6%</td>
<td>+3.7% pts</td>
</tr>
<tr>
<td>Top 10</td>
<td>48.4%</td>
<td>+7.9% pts</td>
</tr>
<tr>
<td>Independents (&lt;0.5%)</td>
<td>22.9%</td>
<td>-12.4% pts</td>
</tr>
</tbody>
</table>

Sources: Verdict, UBS
Growth Strategy

Consistent and effective growth strategy

Further develop specialist position

Expand store portfolio

Grow multi-channel

Develop and exploit infrastructure
Specialist Position

Dunelm’s unique proposition resonates with most types of customers

- **Choice (Range)**
  - One-stop Homewares destination
    - 21 departments (hard & soft lines), 20,000 SKU’s
    - Expanded domain (e.g. furniture)
  - Pricing architecture
    - Entry: Grocer price, higher quality
    - Exit: Branded quality, lower price
  - Exclusive brands & products

- **Value (Price & Quality)**
  - Trusted EDLP proposition
  - New Lower Prices

- **Convenience**
  - Growing Edge of Town store portfolio
  - Multi-channel proposition
  - Strong in store stock depth

[Images of product offers]

**Verdict:** Homewares Customer Selection Criteria

- **Range**
- **Quality**
- **Service**
- **Price**
- **Convenience**
- **Layout / Facilities**
Specialist Position: Service

Developing service as point of difference

• Significant in store task reduction
  - Inventory management
    • Centralised delivery checking
    • 90% penetration of automated replenishment
  - Store logistics
    • Toted deliveries
    • DC single picking (H2 FY13)

• Re-investment in inspiration & engagement
  - Targeted service & training programme
  - “be inspired” builds basket size
  - Expertise communicated via Point of Sale
  - Technological enablement

• Value added services
  - Made to Measure provides differentiation
  - At Home consultations: Roll-out now in progress
Specialist Position: Communication

Clear priority to increase brand awareness

- Low national brand awareness

- Cross media approach builds awareness
  - National press provides exposure frequency
  - High returns from extensive digital programme
  - Social media targeted to build brand relationship
  - Brand programme: Range / expertise / quality messages

- Catalogue
  - Successful Trial: Autumn 2012
  - Two planned for 2013

- Developing PR programme
  - House Beautiful “Home Retailer of the Year”
  - Kitchen “Excellence” Award
Store Portfolio: New Stores

Significant portfolio growth opportunity, with attractive returns

• Portfolio Opportunity / Progress
  - Approximately 200 UK superstores
  - Development & competition limited
  - Attractive tenant
    • Large footprint
    • Strong covenant
  - FY13
    • H1: 10 stores, including 2 relocations\(^1\)
    • 6 stores legally committed
  - Tactical use of freeholds

• Attractive Returns
  - Recent payback: 30 months\(^2\)
  - Targeted Payback:
    • Large Catchment: 36 months
    • Small Catchment: 48 months

• Refit Programme
  - Ensures contemporary look and feel
  - Protects brand standards
  - Optimal range selection introduced
  - Sales opportunity from new ranges

\(^1\) Relocated stores include Coventry which was re-opened after fire damage
\(^2\) Discounted payback after tax anticipated from stores opening in FY09-FY11
Multi-Channel

Multi-channel increases convenience & creates national showcase

• Opportunity
  - Clear customer preference
  - ‘Shop window’ expands reach
  - Higher frequency of visit and spend
  - Market differentiation vs. independents
  - Own brand participation protects margin

• Current Position
  - Improving customer experience
  - Growing participation:
    • FY12 average: 2%
    • FY13 Quarter 2: Exit rate: 4%
  - Growing mobile participation
  - www.Dunelm.com acquired
  - Encouraging web extension trial
Multi-Channel

Multi-channel provides further growth opportunity

• Longer term development
  - Platform refresh
  - Compelling content: advice, content and personalisation
  - Extend convenience options including Order & Collect

• Near term development
  - New Fulfilment Operation
    - Full offer available for home delivery
    - Enhance delivery options
    - Enables larger web exclusive ranges
  - Compelling content (e.g. Step by Step Guides)
  - Increased convenience e.g. Paypal
Develop and Exploit Infrastructure

Infrastructure and process development underpins growth

• Infrastructure in place to support growth
  – Strong IT backbone
    • Head office (SAP), store (Retail J) and on-line (IBM)
    • Clear upgrade path
  – Flexible Supply Chain:
    • Stores via NDC & Nominated Carrier
    • Dedicated home delivery facility: summer 2013
  – Management capability strengthened
  – Head office provides significant capacity for growth

• Process & Capability development continues
  – Direct Sourcing
    • Supply management
    • Inventory consolidation
    • Quality & inspection
  – Customer offer: Repeatable and consistent
    • Automated replenishment
    • Range & Space management
Summary

Further progress in trading and strategic development

- Robust growth in sales and profit
- Customer offer investments protect market position
- New store expansion continues with solid pipeline
- Multi-channel revenue and earnings momentum
- Functionally rich and robust infrastructure
- Strengthened process and organisational discipline

Strong foundation for continued growth
Dunelm Group plc
Interim Results Presentation
26 weeks up to 29 December 2012
## Summary Balance Sheet

<table>
<thead>
<tr>
<th>(£m)</th>
<th>29 December 2012</th>
<th>31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total non-current assets</td>
<td>155.1</td>
<td>151.5</td>
</tr>
<tr>
<td>Inventories</td>
<td>94.3</td>
<td>84.1</td>
</tr>
<tr>
<td>Receivables</td>
<td>20.0</td>
<td>17.5</td>
</tr>
<tr>
<td>Cash</td>
<td>27.4</td>
<td>49.9</td>
</tr>
<tr>
<td>Total assets</td>
<td>295.8</td>
<td>303.1</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(114.1)</td>
<td>(121.4)</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>(0.3)</td>
<td>(0.7)</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td><strong>181.4</strong></td>
<td><strong>181.0</strong></td>
</tr>
<tr>
<td>Share capital</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Share premium/other reserves</td>
<td>44.1</td>
<td>43.9</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>135.6</td>
<td>135.1</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td><strong>181.4</strong></td>
<td><strong>181.0</strong></td>
</tr>
</tbody>
</table>
Store Portfolio: New Stores & Committed Stores

Superstore Locations

Committed Superstore Locations

Superstores as at 30 June 2012
Superstores opened since 30 June 2012