

# Dunelm Group plc



## Corporate Governance Presentation

10 January 2018

Andy Harrison,

Liz Doherty, William Reeve, Peter Ruis

Marion Sears, Will Adderley

# Agenda

**Approach to corporate governance**

**Overview of current arrangements**

**Committees**

**Our responsibilities**

**Board priorities for 2018**

**Questions / discussion (NB in closed period  
and therefore no discussion of current trading)**



# Approach to Corporate Governance

## Approach:

- We do things properly
- Open 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 Engagement and Advisors

## Advisors

Brokers – UBS and Stifel

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 engagement

### Institutions:

NEDs at results presentations

Capital markets day

NED attendance on road shows

NEDs lead consultation

This Governance meeting

### Family:

Social Christmas dinner

Ad hoc “formal” contact by NEDs

Informal family contact

Meeting with any new board member

Successful Capital Markets Day held on 11 October 2017

# Current Board

Board: We have a “Chair + 4 + 4” structure

	Andy Harrison Chair	
Will Adderley Deputy Chair		Liz Doherty SID
Nick Wilkinson (from 1 Feb) CEO		William Reeve NED
Keith Down CFO		Peter Ruis NED
Marion Sears Non-independent NED		Rachel Osborne NED (from 1 April)

Committees: All NEDs (if allowed)

	Audit and Risk	Remuneration	Nominations
Chair	Liz Doherty	William Reeve	Andy Harrison
Members	William Reeve Peter Ruis Rachel Osborne ( <i>from 1 April</i> ) (Andy Harrison and Marion Sears by invitation)	Andy Harrison Liz Doherty Peter Ruis Rachel Osborne ( <i>from 1 April</i> ) (Will Adderley and Marion Sears by invitation)	Liz Doherty William Reeve Peter Ruis Marion Sears Rachel Osborne ( <i>from 1 April</i> ) Will Adderley (as shareholder)

# Nominations Committee

## Evolution of the Dunelm Board since IPO:

2006	IPO: Geoff Cooper, Marion Sears, Bill Adderley, Will Adderley, David Stead
2007	Simon Emeny appointed NED
2008	Bill Adderley retired
2009	Nick Wharton appointed as NED
2010	Nick Wharton appointed CEO designate
2011	Nick Wharton became CEO; Will Adderley became Deputy Chairman
2012	Matt Davies appointed NED
2013	Liz Doherty appointed NED
2014	Andy Harrison appointed NED Nick Wharton resigned CEO search was unsatisfactory so Will Adderley reappointed CEO
2015	Matt Davies left (to run a competitor, Tesco UK) Andy Harrison became chairman, Geoff Cooper retired John Browett appointed CEO, Will Adderley reverted to Deputy Chairman William Reeve and Peter Ruis appointed NEDs Keith Down appointed CFO, David Stead retired
2016	Simon Emeny's tenure extended by one year- for continuity
2017	John Browett resigned, Nick Wilkinson appointed (from 1 Feb) Simon Emeny retired Rachel Osborne appointed (from 1 April 2018)

- Succession planning has been continuous – conscious balance of continuity and refreshment
- Company has tripled in size since IPO, and culture preserved
- Adderleys and Board have asked Marion to stay
- We have:
  - a recently refreshed Board
  - strong diversity of thought and skills
  - strong executive capability
  - composition that follows best practice
- Consistent focus is on the long-term:
  - strategy
  - profitable growth
  - value creation

# Remuneration Committee

## We updated our Policy for the new Executive Team in 2015, and revised it at the 2017 AGM:

- We consulted with institutional shareholders in 2015 and 2017
- 98% support in 2015, and 99% in 2017
- Stretching LTIP performance conditions, combined with strong shareholding requirement
- Alignment to strategy – rewards strong, profitable growth
- ISS assessment in FY17 demonstrated pay was linked to performance

## Principles:

- Keep things simple and transparent to all
- Strong shareholder alignment - specific requirement to invest in shares on appointment, and re-invest 2/3 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
    - maximum pension entitlement 15% ( CEO max reduced from 20% in 2017)
  - Annual bonus – median
    - targets are 80% financial, 20% personal and strategic
  - LTIP – upper quartile
    - EPS continues to be performance measure – it is appropriate for Dunelm
    - stretching performance conditions

# Remuneration Committee

## 2017 Policy summary:

	CEO *	CFO	Comments
Base salary (current)	£520,200	£364,140	Salary increased by 2% in July, in line with workforce award
Pension	15%	15%	CEO max reduced from 20% in 2017 Policy
Other	£21,000	£21,000	Car allowance, health cover etc
Fixed total FY18	£645,000	£440,000	
Bonus	125% x base	125% x base	80% budget PBT; 20% non-financial KPIs Min at 95% budget; max at 105% budget
LTIP (from FY18)	200% of base	200% of base	3 year performance period: <ul style="list-style-type: none"> <li>• EPS CAGR vs RPI+3% - RPI+12%</li> <li>• 10% vests at RPI+3% threshold</li> </ul> Special dividend equivalents
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.		
FY17 "single figure"	£0.72m	£0.56m	
Notice period	6 months	6 months	

\* Figures shown are for former CEO John Browett - Nick Wilkinson's package is broadly in line

# Remuneration Policy aligned to Corporate Strategy

- Our **vision** is to be the **customer's number one choice for homewares and furniture**
- Our **ambition** is to **double our sales – to £2bn (30-40% online)** – and be **twice as good** as we are today for our customers
- To deliver this, we have **four goals**
  - Create **more reasons for customers to shop** at Dunelm
  - Make it **easy and inspiring** for customers to shop
  - A **simple and low cost** operating model
  - A **great place to work** for our colleagues
- These **long term objectives** are underpinned by our **business principles** – we take **long term decisions** and treat our **customers, colleagues, suppliers and communities** with respect.
- **Remuneration** is structured specifically:
  - To be **aligned through 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** – LTIP award generates wealth if share price rises
- Will's remuneration reduced in 2015 to £1 + benefits – thank you

# Audit and 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
  - Board / Exec Board risk management and internal control reviews
- Internal audit programme conducted by internal and external specialists such as KPMG, reports to Committee
  - Focus on specific project areas decided by the Committee
  - Move to full internal audit function by FY20
- Strict policy on use of auditors for non-audit services
- Stronger focus on assurance from FY17

# Our Responsibilities

- Key considerations: customers, colleagues, health and safety, suppliers, environment, community
- Oversight by the Board as a whole
  - Approve policies
  - Monitor KPIs
  - Presentations on people (2 x per annum) and health & safety and ethical /slavery (1x per annum)
- Implementation by Executive Board – named Execs have responsibility for individual topics
- Link to risk register and business principles
  
- 2017 highlights:
  - Awards from Which?, House Beautiful, Café Life
  - Relaunched our business principles and embedded them in our People processes and communications
  - All stores had H&S audit; customer accident rate reduced
  - Modern slavery awareness training delivered across the business
  - Further reduction in energy use and carbon emissions
  - Partnership with Home-Start UK

# Board areas of focus for 2018

## This year we will focus on:

- **Business:**

- Delivering our strategic goals, as set out at our Capital Market Day in October 2017
- Delivering the benefits from our Worldstores acquisition
- Making progress towards our ambition of £2bn sales / 30-40% online
- Delivering for our customers, our colleagues, our suppliers, our shareholders, our community and all of our stakeholders

- **Governance**

- Continued succession planning for the Board and Exec team, and diversity
- Governance reform, including:
  - enhanced Board engagement with our Colleague Council
  - demonstrating compliance with s172 Companies Act
  - new Corporate Governance Code
  - gender pay disclosures.