



Annual Results - FY19

4 SEPTEMBER 2019





Annual Results – FY19

- FY19 performance
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FY19 performance

Nick Wilkinson - CEO



FY19 highlights

+8.5%

Unique active customers¹

+10.7%

Total LFL sales

+160 bps

Gross margin

+23.4%

Profit before tax²

£154m

Free cash flow

60p

Total shareholder dividend³

¹ Unique active customers who have shopped in the last 12 months, based on management estimates using Barclays data

² Growth percentage based on FY18 comparative on a pre exceptional basis

³ Ordinary dividend of 28p plus a special dividend of 32p

WHAT WE HAVE DONE IN FY19

Focused on core business & operational grip

- ✔ Simplified business model with one supply chain and one website
- ✔ Transferred profitable Worldstores products to dunelm.com
- ✔ Product sourcing focused on offering more style and better value
- ✔ Established better cost and cash discipline
- ✔ Listened to Customers and Colleagues: higher satisfaction and engagement

Furniture:

+48%

LFL growth vs LY

End of season stock:

£5.5m

reduction vs LY

Colleague engagement:

+14% pts

increase vs LY



WHAT WE HAVE DONE IN FY19

Introduced *Home of Homes* brand campaign

- ✔ Launched integrated marketing campaign including sponsorship of ITV's *This Morning*
- ✔ Improved the effectiveness of marketing spend across Brand and Digital
- ✔ Encouraging results with increased customers across stores and digital channels
- ✔ Brand awareness and consideration have increased year over year

Unique Store Customers*:

+7.3%

12 months to June 19

Unique Online Customers*:

+28.4%

12 months to June 19

Brand Awareness:

+3% pts

12 weeks to June 19

* Unique store and online customers who have shopped with us in the last 12 months, based on management estimates using Barclays data



WHAT WE HAVE DONE IN FY19

Seized more digital opportunities

- ✔ Increased online ranging and trading focus in all categories
- ✔ Increased the number of in-store hosts using iPads to offer extended ranges (c. 2%pts contribution to store sales growth)
- ✔ Increased speed of website which helped contribute to strong growth on our existing platform
- ✔ Made good progress in developing our new digital platform

Store LFL growth:

+7.7%

vs LY

dunelm.com growth:

+35.1%

vs LY

Multichannel sales:

17.4%

+3.9% pts vs LY





Financial review

Laura Carr – CFO



FINANCIAL REVIEW

Financial summary

	FY19	FY18	Growth
Sales	£1,100.4m	£1,050.1m	+4.8%
LFL Sales growth	+10.7%	+4.2%	
Gross margin	49.6%	48.0%	+160bps
Profit before tax*	£125.9m	£102.0m	+23.4%
Free cashflow	£154.4m	£52.9m	+191.9%
Net debt	(£25.3m)	(£124.0m)	£98.7m
Earnings per share**	49.9p	40.0p	+24.8%
Ordinary dividend	28.0p	26.5p	+5.7%
Special dividend	32.0p	-	-

* FY18 Profit before tax is shown before exceptional charges of £8.9m

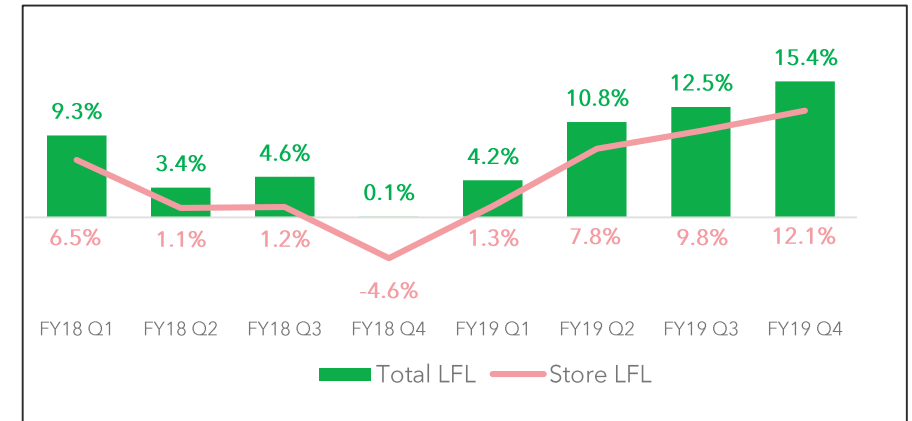
** Diluted EPS, FY18 shown before exceptional charges

Sales growth

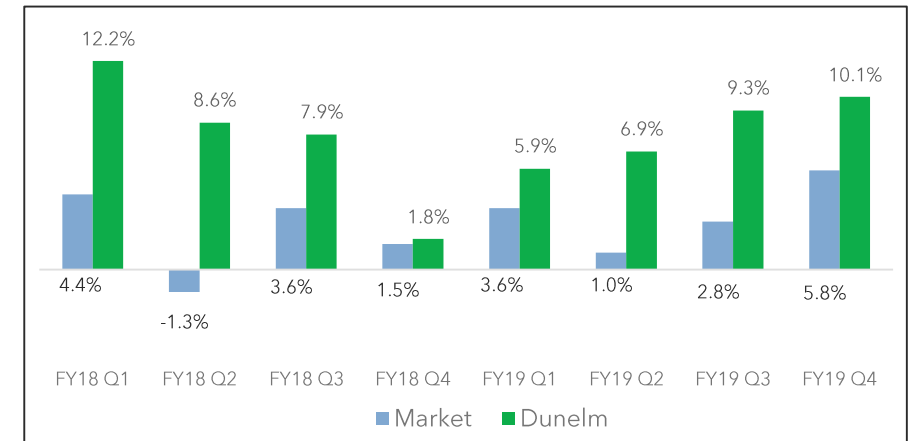
	FY19	Growth £	Growth %
LFL Stores	£883.8m	+£62.9m	+7.7%
dunelm.com	£140.2m	+£36.4m	+35.1%
Total LFL	£1,024.0m	+£99.3m	+10.7%
Non-LFL Stores	£72.9m	+£13.4m	
Total Core Dunelm	£1,096.9m	+£112.7m	+11.5%
Worldstores	£3.5m	(£62.4m)	
Total Group	£1,100.4m	+£50.3m	+4.8%

- Strong LFL performance across all channels
- dunelm.com benefitted from transfer of profitable products from Worldstores during FY18 and FY19
- Three new superstores in FY19 including two relocations (FY18: ten new superstores including one relocation)

Quarterly LFL growth*

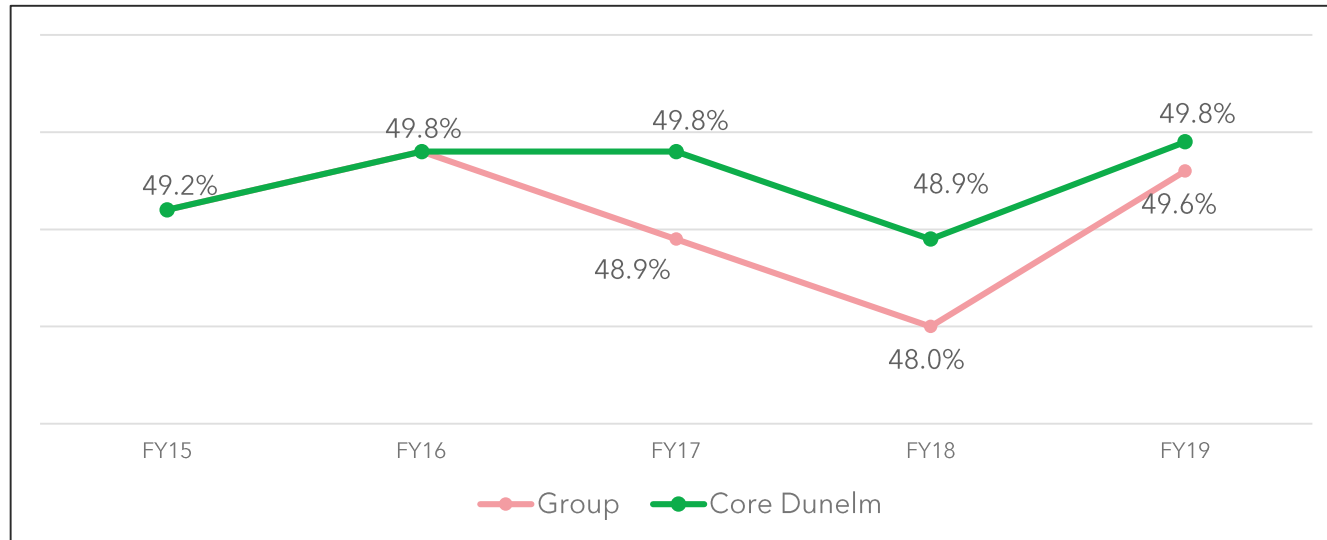


Quarterly homewares performance vs market



Source: Internal analysis based on GfK homewares data - Sales growth % for certain categories

Gross margin

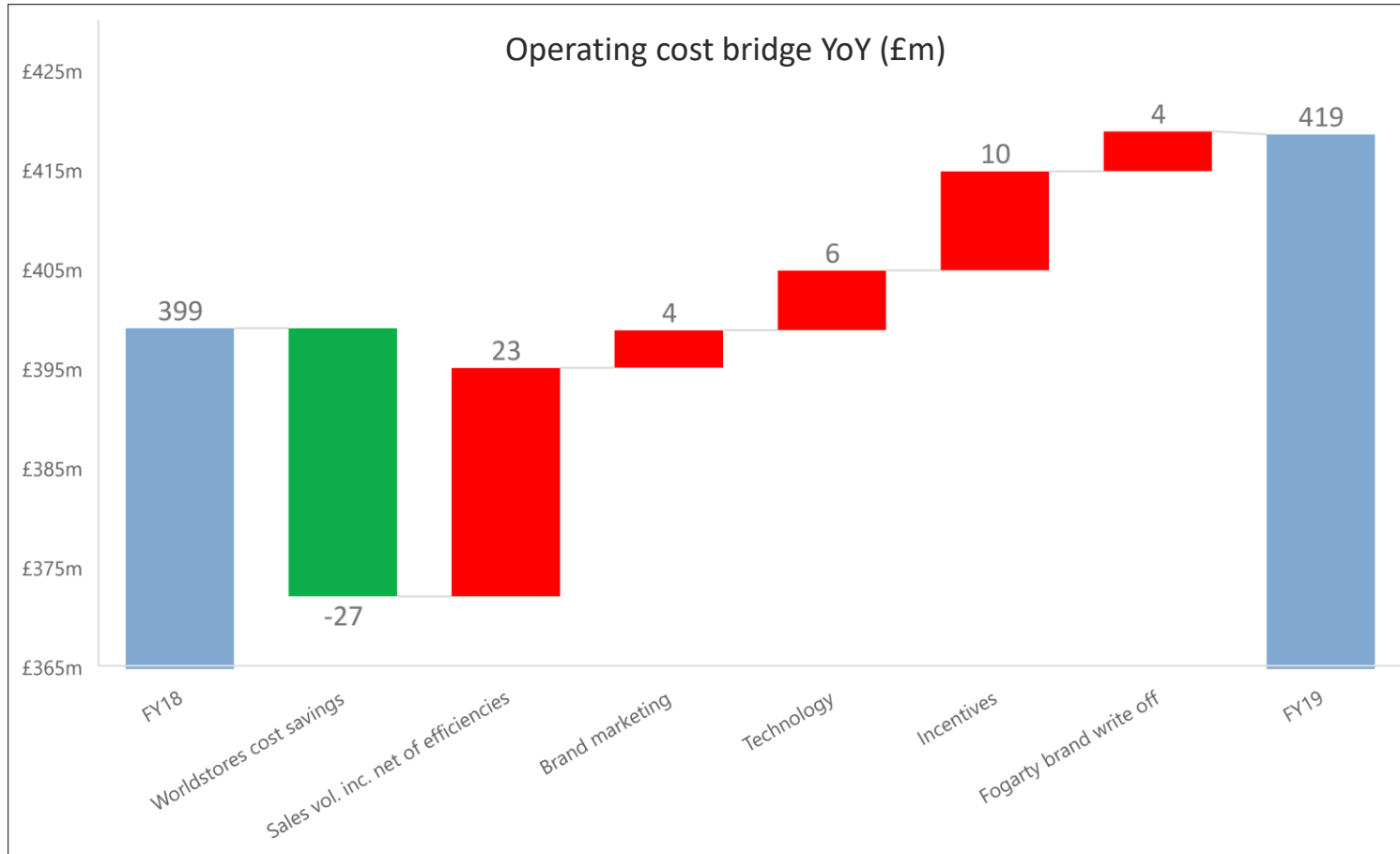


Margin rate increase of 160bps vs LY due to:

- Improved operational grip around product lifecycle management
- Better product sourcing from negotiations and FX rate benefit
- Lower end of season clearance
- Elimination of dilutive Worldstores sales (benefit of c. 60bps)



Operating costs



- Operating cost to sales ratio held flat¹
- Focus on driving productivity:
 - Closure of Worldstores business
 - Stores and supply chain efficiencies
 - Stock loss improvements
- Cost savings and scale leverage offset by:
 - Inflationary headwinds (incl. NLW)
 - Higher investment in marketing and technology
 - Increased incentives
 - One-off brand write off

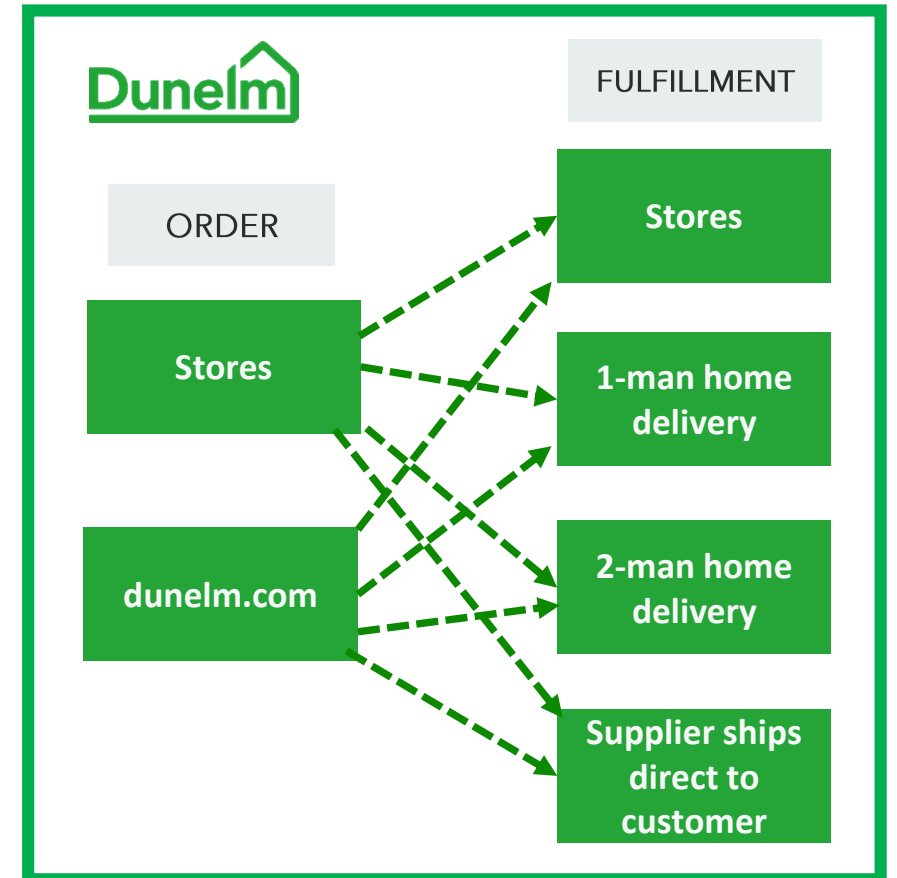
¹ Flat cost ratio based on FY18 comparative on a pre exceptional basis

Operating margin

Our focus is total system growth

- We aim to serve the customer where they choose
- Definition of channels is increasingly complex and will continue to evolve
- We see online sales as an incremental opportunity and not substitutional
- Growth in home delivered fulfilment will be reflected in operating margin
 - Product margin broadly flat across channels
 - Returns % levels do not significantly impact channel profitability
 - Marginal costs to sell ~9% pts of sales higher for home delivery
- We will optimise the unit economics of each channel

Total retail system



Interest, tax and EPS

	FY19	FY18*
Interest and other financial items	(£1.0m)	(£2.7m)
Profit before tax	£125.9m	£102.0m
Tax	(£24.6m)	(£21.0m)
<i>Effective tax rate</i>	19.5%	20.6%
Profit after tax	£101.3m	£81.0m
Basic earnings per share	50.2 pence	40.1 pence
Diluted earnings per share	49.9 pence	40.0 pence

- Lower interest costs due to improved cash position year over year
- FY18 tax rate impacted by non-deductible write-offs relating to Worldstores business
- EPS growth of 24.8% on a diluted basis, before FY18 exceptional costs

*FY18 results presented above before exceptional items



FINANCIAL REVIEW

Free cash flow

	FY19	FY18
Operating profit*	£126.9m	£104.7m
Depreciation and amortisation**	£39.4m	£34.9m
EBITDA*	£166.3m	£139.6m
Working capital movement	£26.5m	(£20.3m)
Other non-cash movements & Interest	£1.7m	£0.3m
Tax paid	(£20.5m)	(£18.9m)
Exceptional items - operating activities	-	(£2.2m)
Net cash from operations	£174.0m	£98.5m
Capital expenditure (net of disposal proceeds)	(£19.6m)	(£45.6m)
Free cash flow	£154.4m	£52.9m
Free cash flow : Operating profit*	122%	51%
Net cash from operations : Operating profit*	137%	94%

* FY18 operating profit and EBITDA shown before exceptional items

** Net of disposal proceeds

Working capital movement

	FY19	FY18
Stock (increase) / decrease	(£3.0m)	£8.6m
Receivables (increase) / decrease	(£1.7m)	£2.5m
Payables increase / (decrease)	£31.2m	(£31.4m)
Total	£26.5m	(£20.3m)

- Stock balances well controlled through the year
- Inflow from payables driven by timing of inventories received but not paid for until FY20 and higher accruals (including incentives)
- We anticipate that approximately £10-15m of this working capital inflow will reverse in FY20





FINANCIAL REVIEW

Capital investment

	FY19	FY18	Comments
New stores	£3.9m	£13.8m	FY19: 3 new stores (incl. 2 relocations) FY18: 10 new stores (incl. 1 relocation)
Refits (incl. small works)	£7.8m	£10.6m	FY19: 10 refits FY18: 6 refits
Technology	£12.0m	£14.3m	Includes new digital platform and POS system
Supply Chain	£1.0m	£0.9m	
Other	£0.8m	£2.3m	
Freehold properties	-	£2.1m	No freehold stores (FY18: One)
Total	£25.5m	£44.0m	

- Fewer new store openings compared to FY18, expect 3-5 new stores in FY20, including relocations
- As we work on developing our new digital platform, more costs have been expensed in FY19, so capital spend is lower. Once the platform is rolled out, all digital development costs will be expensed
- Expect this change to result in £5-7m switch from capital expenditure to operating expense in FY20. Total cash technology investment will remain broadly flat year over year

Dividends

	FY19	FY18	Growth
Interim ordinary dividend	7.5p	7.0p	7.1%
Final ordinary dividend	20.5p	19.5p	5.1%
Total ordinary dividend	28.0p	26.5p	5.7%
Special dividend	32.0p	-	-

- Ordinary dividend back within target range for dividend cover (1.78 times)
- Final dividend to be paid, subject to shareholder approval, on 22 November 2019 to those shareholders on the register as at 1 November 2019
- Special dividend to be paid on 11 October 2019 to those shareholders on the register as at 20 September 2019

Ordinary dividend cover: target range 1.75x to 2.25x



Net cash generation

	FY19	FY18
Opening net debt	(£124.0m)	(£122.1m)
Free cash flow	£154.4m	£52.9m
Dividends paid	(£54.6m)	(£53.4m)
Other	(£1.1m)	(£1.4m)
Closing net debt	(£25.3m)	(£124.0m)
Net debt / EBITDA	0.15x	0.89x
Weekly average net debt	(£50.8m)	(£112.4m)

	RCF
Facility	£165m
Expiry	March 2023
Covenants:	
Leverage	<2.5x
Fixed charge cover	>1.75x

- Focused on maintaining strong balance sheet:

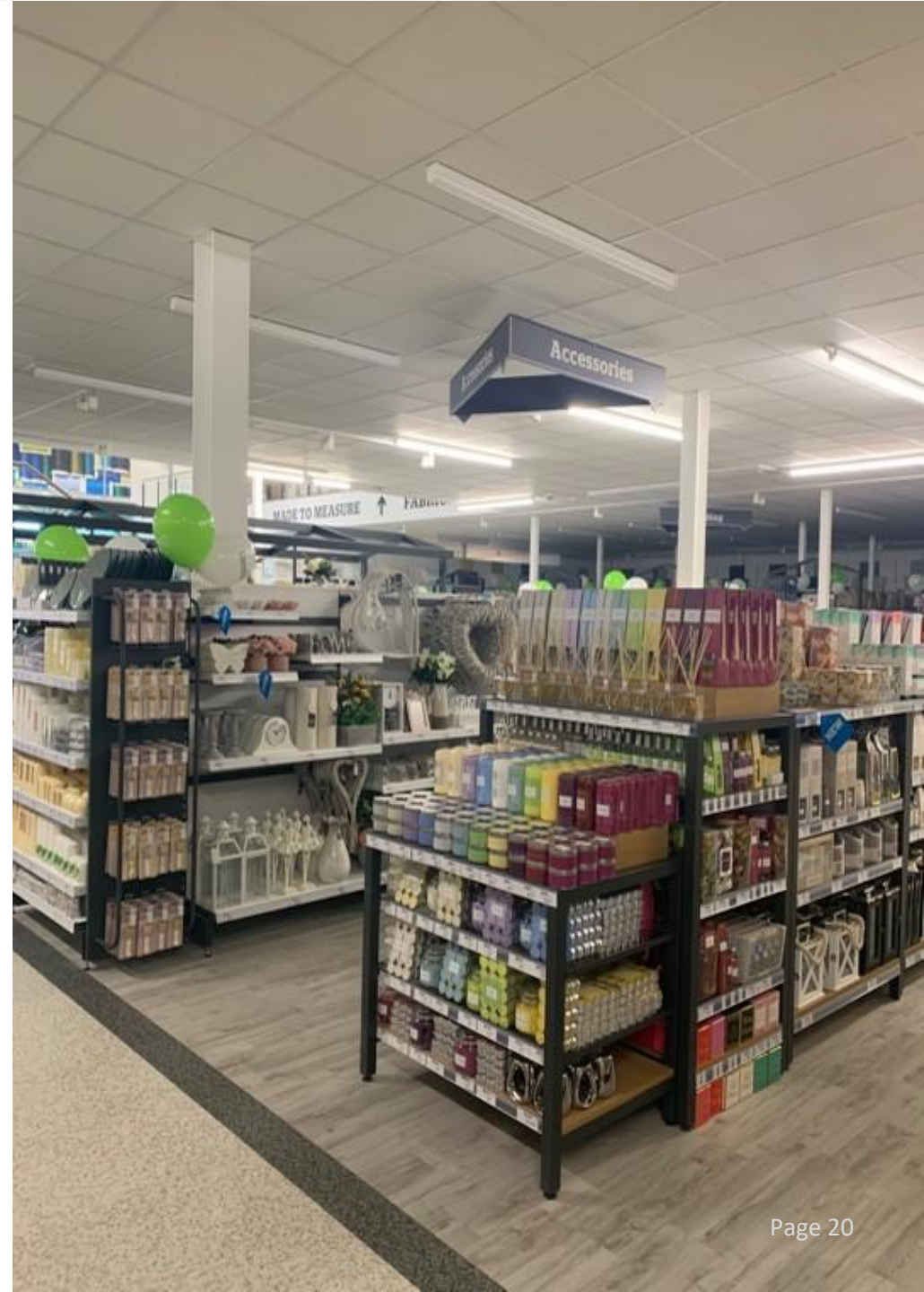
FY19 Target net debt range of 0.25 - 0.75x EBITDA (range to be updated from FY20 for IFRS 16 change in accounting)

- Priorities for uses of cash:

1. Invest in business to drive sustainable profitable growth
2. Return surplus cash to shareholders

IFRS 16 'Leases'

- We will report on an IFRS 16 basis from FY20, with operating lease commitments being capitalised and amortised
- We have chosen the modified retrospective method of adoption (no prior year restatement)
- Proforma comparatives will be provided for information only (see appendix)
- No cash impact and no impact on business decision making
- The change in accounting will reduce PBT in FY20 by c. £3m
- EBITDA will increase by c. £50m, therefore net debt to EBITDA target will be updated to reflect new accounting rules
- New range 0.2 times to 0.6 times EBITDA



FY20 guidance

Sales

- Cautious about level of consumer confidence due to political uncertainty
- Tougher comparatives from Q2 onwards

Gross Margin

- Margin broadly flat on a full year basis, with gains in the first half offset by FX headwinds in the second half

Costs

- Higher digital development costs in P&L (from H2 post go-live of the new platform c. £5-7m)
- Expect operating costs as % of sales to be broadly similar to FY19

IFRS 16

- Reduces FY20 PBT by c. £3m

Tax rate

- Effective rate c. 100bps above statutory headline rate

Cash

- Estimate total capex around £30m, including one freehold
- 3-5 new stores including relocations
- Small working capital outflow (before adjusting for IFRS 16)
- Cash tax impact of c. £19m (reflecting one-off statutory change in payment timings and higher profits)



A bedroom scene with a bed, a patterned pillow, a blue blanket, and a geometric pendant light.

Strategy and outlook

Nick Wilkinson - CEO

A changing homewares consumer

- Consumers of all ages are becoming more and more resourceful online
- Shoppers are adopting a broader portfolio of homewares retailers
- Our broad range of products and price points allows us to be considered across all homewares purchases
- Understanding and reacting quickly to these consumer trends is our focus

Homewares Purchases



Evolution of our strategy - 1

- Entering a new phase of growth:
 - 1 Market stall to High Street, promo & own brand range of home textiles
 - 2 Superstore roll-out, full homewares offer from network of supplier partners
 - 3 A stronger brand and a 'total retail' system where digital offer augments store experience

- Our Purpose and Key Business Principles remain unchanged

OUR PURPOSE

Helping everyone create a home they love

OUR CUSTOMER PROMISES

Great choice and value

Easy and inspiring to shop

Convenient to buy and return

OUR SELL MORE PLAN



2 million new customers

1 more shop with us a year

1 more product per basket

OUR FOUNDATIONS

Committed colleagues

Customer insight and data

Agile and scalable digital platform

Low cost store portfolio

Lean and efficient supply chain

Committed supplier partners

OUR KEY BUSINESS PRINCIPLES

Sell more

Be committed

Do things our own way

Keep it simple

Evolution of our strategy - 2



- Customer promises ensure we deliver our purpose
- Own brand product and colleague expertise are key differentiators
- An effective 'Sell More' Plan in place to attract new customers to the brand and increase frequency/basket size
- Foundations of business will continue to be strengthened
 - ✓ Some will develop from a position of strength (e.g. store portfolio)
 - ✓ Others require considerable development (e.g. customer insight and data)

Extend product choice and value

- Continuous improvement across all price bands and taste types
- Adding c. 6,000 products this year to online only ranges, mostly own label
- Furniture offer maturing with more own label and greater choice
- Special buy programmes continue



Launch our new digital platform and more

- Testing well advanced to launch new digital platform in FY20
- Sales risk during transition
- Confident we will see material improvements to speed, search and checkout functionality
- Have built scalable platform founded on latest cloud-native technology
- Ambitious plans post go-live to enhance shopping experience and convenience



New arrivals

Just in and ready to go, they don't get fresher than this



NEW BEDDING >



NEW BLINDS >



NEW COOK >



NEW FURNITURE >



NEW DECOR >

Broaden and deepen our customer base

- Sponsorship of *This Morning* continues until Spring 2020
- *Home of Homes* brand campaign continues with new content released across the year
- Better targeted PPC and utilisation of social channels
- Focus on collecting insight into drivers of customers shopping frequency and testing improvement levers
- Progressing towards target of 200 stores (expect between 3-5 new stores pa, including relocations)



Build our capabilities

- Continue to build on the transformations started in FY19 across our Technology and Product teams
- New focus on strengthening our data and insight capability
- Continue to listen and learn how to be a better place to work
- Learning how to talk about mental health across the whole company, and breaking down taboos



LOOKING FORWARD

Market outlook

- Homewares market has seen modest growth for the last two years
- Positive trends of real wage growth and high employment
- Dunelm's broad range of products and price points appeal to customers moving house or improving their existing home
- Cautious outlook for consumer spending as we enter our peak period





Summary

- Strong FY19 performance: improved all of our customer, operating and financial metrics
- Continued strong performance for first 8 weeks of FY20 boosted by weak comparatives, but we remain cautious about the uncertain political climate and the impact it may have on consumer spending
- Excited about the significant potential to grow the business as we enhance and extend our multichannel offer and build on our market leading position



Q&A

Appendix

- Investment case
- IFRS 16 'Leases' proforma
- FY19 quarterly LFL growth
- LFL Historic Growth
- Cash returns to shareholders
- P&L summary
- Balance sheet summary



Strongly positioned to drive long term earnings growth

Brand purpose	An ambitious brand purpose appealing to a wide range of consumer segments, and with potential for significant growth (a market leader with a low market share)
Customer offer	A distinctive and specialist offer – quality, value and style from a product portfolio that is largely own brand and sourced from long-term committed suppliers
Multi-channel retail model	A total retail system – stores and online offers are complementary, and the total system grows as more customers are reached by the brand
Financial position	A highly cash generative business with a strong balance sheet, no legacy issues (no DB pension and low cost lease commitments) and a track record of returning surplus cash
Shared values	Entrepreneurial origins alive in the business through our Key Business Principles, with a total commitment to <i>doing the right thing</i> for the long term and to being a great place to work

IFRS 16 'Leases' proforma

	FY19	Exclude rent	Include depreciation	Include interest	Post IFRS16
Revenue	£1,100m	-	-	-	£1,100m
Gross profit	£546m	-	-	-	£546m
Operating costs	(£419m)	£51m	(£47m)	-	(£415m)
Operating profit	£127m	£51m	(£47m)	-	£131m
Financial income	£1m	-	-	-	£1m
Financial expenses	(£2m)	-	-	(£7m)	(£9m)
PBT	£126m	£51m	(£47m)	(£7m)	£123m

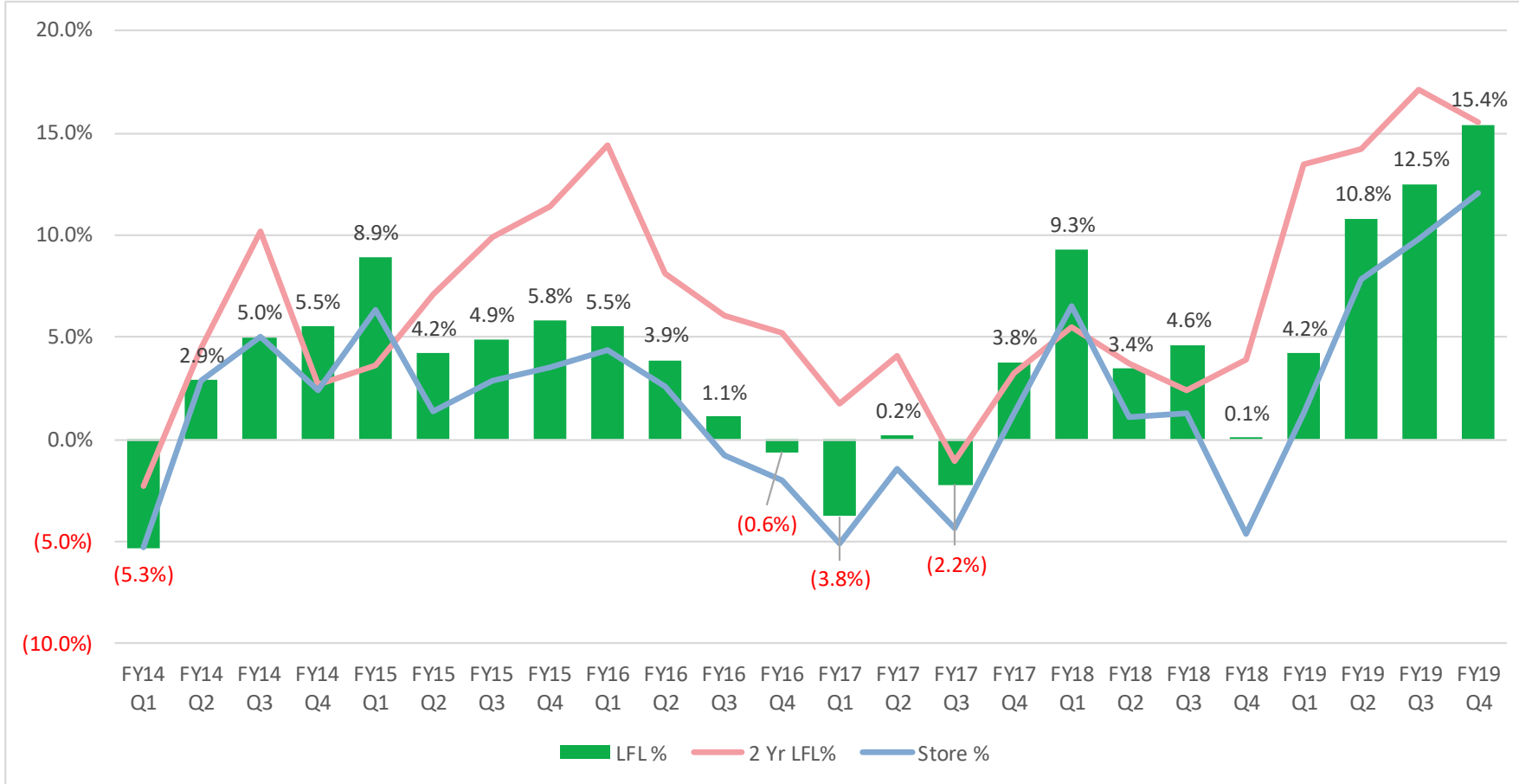
- Dunelm will adopt IFRS 16 'Leases' from FY20 onwards, using the modified retrospective approach. This means that comparatives will not be restated. Proforma numbers for FY19 have been provided for information only to support the transition. These numbers are unaudited.
- IFRS16 adjustments are non-cash

Quarterly LFL numbers

	Q1	Q2	H1	Q3	Q4	H2	FY
LFL Stores	1.3%	7.8%	4.8%	9.8%	12.1%	10.9%	7.7%
LFL Online	33.3%	37.7%	35.8%	32.1%	37.0%	34.6%	35.1%
Total LFL	4.2%	10.8%	7.8%	12.5%	15.4%	13.9%	10.7%
Total Group	0.1%	2.0%	1.2%	6.1%	11.6%	8.7%	4.8%

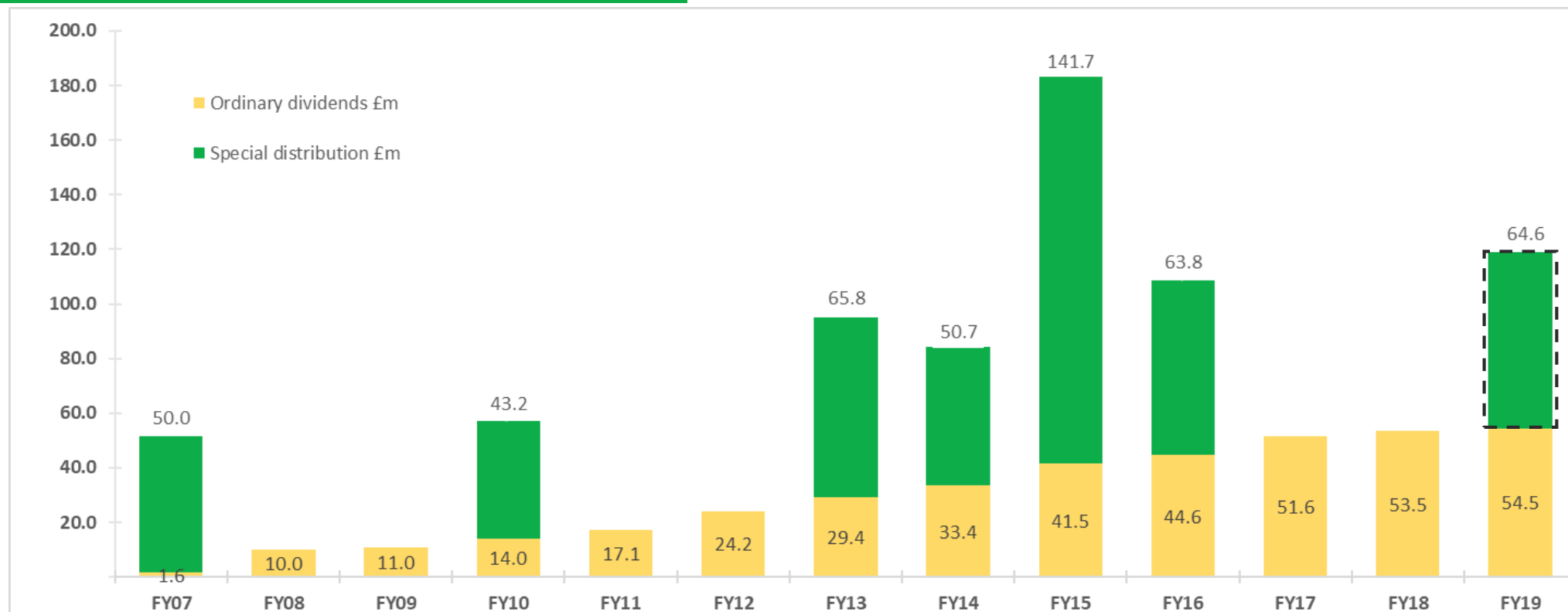
LFL sales in Q2 (and therefore H1) have been restated due to a reclassification between LFL stores and Non LFL stores. Total Sales are unchanged.

LFL Historic Growth



LFL sales in FY19 Q2 (and therefore FY19 H1) have been restated due to a reclassification between LFL stores and Non LFL stores. Total Sales are unchanged.

Cash returns to shareholders



	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18**	FY19
Ordinary dividend cover	3.2x	3.0x	3.1x	3.4x	2.5x	2.5x	2.5x	2.2x	2.2x	2.0x	1.4x	1.4x	1.8x
Dividend yield*	13.4%	3.2%	3.4%	8.4%	2.6%	3.0%	6.7%	4.8%	10.5%	6.2%	3.6%	4.4%	8.1%
Interim	0.8p	2.0p	2.0p	3.0p	3.5p	4.0p	4.5p	5.0p	5.5p	6.0p	6.5p	7.0p	7.5p
Final	3.0p	3.5p	4.0p	5.0p	8.0p	10.0p	11.5p	15.0p	16.0p	19.1p	19.5p	19.5p	20.5p
Special	25.0p			21.5p			32.5p	25.0p	70.0p	31.5p			32.0p

Chart shows actual cash payments in each financial year, table references dividends associated with year. Special distribution in FY19 to be paid in FY20

*Based on average share price in each year **Before exceptional items

Total cash returns from FY07 to date = £866.3m including the special dividend to be paid in October 2019

P&L Summary

	FY19	FY18 (Underlying)	FY18 Exceptional Items	FY18 Reported
Revenue	£1,100.4m	£1,050.1m		£1,050.1m
Cost of sales	(£554.8m)	(£546.5m)		(£546.5m)
Gross profit	£545.6m	£503.6m		£503.6m
<i>Gross margin %</i>	49.6%	48.0%		48.0%
Operating costs	(£418.7m)	(£398.9m)	(£8.9m)	(£407.8m)
Operating profit	£126.9m	£104.7m	(£8.9m)	£95.8m
Financial income	£0.9m	-		-
Financial expenses	(£1.9m)	(£2.7m)		(£2.7m)
Profit before tax	£125.9m	£102.0m	(£8.9m)	£93.1m
<i>PBT margin %</i>	11.4%	9.7%		8.9%
Taxation	(£24.6m)	(£21.0m)	£1.2m	(£19.8m)
Profit after tax	£101.3m	£81.0m	(£7.7m)	£73.3m

Balance Sheet summary

	FY19	FY18
Total non-current assets	£209.7m	£228.6m
Inventories	£157.7m	£154.7m
Receivables	£25.6m	£23.9m
Cash	£19.0m	£15.0m
Financial instruments	£5.1m	£2.8m
Total assets	£417.1m	£425.0m
Current liabilities	(£149.8m)	(£110.3m)
Non-current liabilities	(£81.5m)	(£180.0m)
Net assets	£185.8m	£134.7m
Share capital	£2.0m	£2.0m
Share premium/other reserves	£49.8m	£47.6m
Retained earnings	£134.0m	£85.1m
Total equity	£185.8m	£134.7m