

Interim Results

DUNELM GROUP PLC

Released 07:00:07 09 February 2022

 RNS Number : 0853B
 Dunelm Group plc
 09 February 2022

9 February 2022 Dunelm Group plc

Interim Results for the 26 weeks ended 25 December 2021

Record performance and moving forward as the 1st choice for home

Dunelm Group plc ("Dunelm" or "the Group"), the UK's leading homewares retailer, today announces its interim results for the 26 weeks to 25 December 2021.

	FY22 H1	FY21 H1	YoY
Total sales	£795.6m	£719.4m	+10.6%
Gross margin	52.8%	52.0%	+80bps
Profit before tax (PBT)	£140.8m	£112.4m	+25.3%
Digital % total sales ¹	33%	35%	(2)%pts
Free cash flow ²	£106.3m	£98.0m	+£8.3m
Net cash/(debt) ³	£47.7m	£140.6m	£(92.9)m
Diluted earnings per share	55.4p	44.1p	+25.6%
Interim dividend	14.0p	12.0p	+16.7%
Special dividend	37.0p	-	n/a

Highlights

- Strong sales growth across the total retail system with sales up 10.6% vs H1 FY21 and 36.0% vs H1 FY20
- Continued outperformance of the market in both homewares and furniture⁴
- Proposition and brand development driving active customers to 13 million, a 6.3%⁵ increase over 12 months
- Gross margin +80bps year-on-year, due to higher full price sell through of seasonal lines, with the prior year margin impacted by store lockdowns
- Continued investment in digital capabilities to improve customer proposition with new ecommerce fulfilment facility opened in Stoke
- Record H1 PBT of £140.8m, +25.3% vs H1 FY21 (FY21 H1: £112.4m, FY20 H1: £83.6m), with profit margin reflecting a particularly strong stores performance and leverage of fixed costs
- Free cash flow of £106.3m, including working capital outflow of £21.0m (building inventories to mitigate supply chain disruption), with net cash at period end of £47.7m (FY21 H1: £140.6m)
- Interim dividend of 14p (FY21 H1: 12p); and special dividend of 37p to return to leverage in line with published capital policy

Outlook

- Trading to date in the second half, including the Winter Sale, has continued to be encouraging and the Board expects that FY22 PBT will be in line with recently upgraded expectations⁶
- Macro-economic outlook remains uncertain; however we are well placed to navigate inflationary challenges
- Confident in long term growth plans and further market share gains

Nick Wilkinson, Chief Executive Officer, commented:

"I would like to express my sincere appreciation to all my colleagues and our committed supplier partners for their adaptability and achievements and for living our Dunelm shared values every day. Together we have navigated another period filled with significant and evolving external challenges and delivered a very strong performance in the first half, with continued growth in customer numbers, further market share gains, record sales and particularly strong profitability.

"When we announced our interim results in 2020, we were weeks away from the world being turned upside down. Two years later, we are moving forwards as a bigger, better business, with more capability, more resilience, more ambition, and delivering accelerated growth.

"We have not only worked hard and innovated to enhance our customers' experience across all channels and categories, but have also continued to develop our customer proposition and capabilities at pace to support our future growth. Our product range is now broader and better than ever, with an increasing focus on sustainability, as demonstrated in our new collection which has been curated in collaboration with the Natural History Museum.

"We look to the future excited, energised and eager to continue being our customers' 1st choice for home."

¹ Digital includes home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store

² Free cash flow is defined as net cash generated from operating activities less capex (net of disposals), net interest paid and loan transaction costs, interest on lease liabilities and repayment of lease liabilities. A reconciliation of operating profit to free cash flow is included in the CFO review

³ Excluding lease liabilities. Full definition provided in the table of alternative performance measures in the CFO review

⁴ Based on GfK weekly homewares and furniture panel

⁵ Unique active customers who have shopped in the 12 months to December 2021, based on management estimates using Barclays data

⁶ Management understand the range of analysts' estimates for FY22 PBT, which have been updated since the second quarter trading statement, is £198m - £218m, with consensus of £206m

Analyst Presentation:

There will be an in-person presentation for analysts and institutional investors this morning at 9.30am, hosted at Peel Hunt LLP, 100 Liverpool Street, London, EC2M 2AT, as well as a webcast and conference call with a facility for Q&A. For details, please contact tom.gardner@mhpc.com. A copy of the presentation will be made available at <https://corporate.dunelm.com>

For further information please contact:

Dunelm Group plc

Nick Wilkinson, Chief Executive Officer
Laura Carr, Chief Financial Officer

investorrelations@dunelm.com

MHP Communications

Simon Hockridge / Rachel Mann / Pete Lambie

07710 032 657

dunelm@mhpc.com

Next scheduled event:

Dunelm will release its third quarter trading update on 14 April 2022.

Notes

Quarterly analysis:

	53 weeks to 2 July 2022						
	Q1	Q2	H1	Q3	Q4	H2	FY
Total sales	£388.8m	£406.8m	£795.6m				
Total sales growth	8.3%	12.9%	10.6%				
Digital % total sales	33%	33%	33%				
Gross margin movement	-10bps	+160bps	+80bps				

	52 weeks to 26 June 2021						
	Q1	Q2	H1	Q3	Q4	H2	FY
Total sales	£359.1m	£360.4m	£719.4m	£236.6m	£380.2m	£616.8m	£1,336.2m
Total sales growth	36.7%	11.8%	23.0%	-16.8%	101.7%	30.4%	26.3%
Digital % total sales	30%	41%	35%	93%	37%	59%	46%
Gross margin movement	+100bps	+10bps	+50bps	+30bps	+460bps	+220bps	+130bps

Notes to Editors:

Dunelm is the UK's market leader in homewares, with a specialist offering for customers across multiple categories via its 175 predominantly out-of-town superstores and website, dunelm.com.

The business was founded in 1979 as a market stall, selling ready-made curtains. The first shop was opened in Leicester in 1984, with the first superstore opening in 1991. With a vision to be the 1st choice for home, Dunelm offers quality, value and style throughout its extensive product range, alongside services such as Home Delivery, Click & Collect and Made to Measure window treatments. From its textiles heritage in areas such as bedding, curtains, cushions, quilts and pillows, Dunelm has broadened its range into categories including furniture, kitchenware, dining, lighting, outdoor, craft and decoration. Its c.50,000 product lines include specialist own brands and labels such as Dorma and Fogarty, sourced from long-term committed suppliers.

Dunelm's purpose is *'To help create the joy of truly feeling at home. Now and for the generations to come'*. The business is headquartered in Leicester and employs over 11,000 colleagues. It has been listed on the London Stock Exchange since October 2006 (DNLM.L) and has a current market capitalisation of approximately £2.6bn.

CHAIRMAN'S STATEMENT

The Covid pandemic has been a big challenge for us all. I am delighted that Dunelm has risen to the challenge and that we have accelerated our transformation into a multichannel retailer. Our teams have delivered another excellent performance for all our stakeholders in the first half of FY22, for which I thank them once again.

We have continued to win market share driven by the power of our customer proposition. In the first half total sales grew by 10.6% (36.0% on a two year basis) to £795.6m and we delivered record profit before tax of £140.8m.

ESG remains a strong focus and we have made further advances in the first half towards our Net Zero Pathway commitment. For example, our new bank facility has been directly linked to specific sustainability targets as set out in the CFO Report.

We also made further progress on our journey to ensure our business is inclusive. We continued our inclusion and diversity educational program across the Board and senior managers and our colleagues have embraced the various network groups which were set up to provide a forum for listening and learning in areas where inclusion and diversity can be improved.

Reflecting our strong performance in the year to date and our confidence in future growth, the Board has declared an interim dividend of 14 pence per share (FY21 H1: 12p). With continued strong cash generation and a commitment to our published capital policy, the Board has also declared a further special dividend of 37 pence per share. This amount takes us back to within our target leverage range and demonstrates the confidence we have in the Group's future prospects.

We were pleased to welcome Vijay Talwar to the Board as a Non-Executive Director on 1st October 2021. Vijay brings with him excellent experience with international consumer brands. We have also recently announced that Kelly Devine, currently the President, UK and Ireland, of Mastercard, will join our Board on 1st March 2022. Kelly brings excellent experience from the fast moving international payments industry. We announced in December that our CFO, Laura Carr, will be leaving the business in June 2022. We have commenced a search for Laura's successor and will provide an update in due course.

Although conscious of the uncertain macro-economic outlook and the potential headwinds ahead, the Board remains confident that Dunelm will continue to win market share, helping more customers to create the home they love. As a result we will continue to drive growth in sales, profits and cash flow, enabling further investment in the business and delivering for all our stakeholders and our shared environment.

Andy Harrison
Chairman
9 February 2022

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

We have navigated another period filled with significant and evolving external challenges and I am thankful for the ongoing commitment and adaptability of all our key stakeholders: our customers, colleagues, suppliers and investors.

Throughout the successive phases of the pandemic, we have realised that having genuine shared values and keeping things simple is a competitive advantage for Dunelm during turbulent times. Most recently we have embodied our value of *Act Like Owners* in trading our Winter and Christmas ranges with flexibility and local adaptations as a result of ongoing supply chain disruption.

We have not only worked hard and innovated to maintain a positive and enjoyable shopping experience for our customers across all channels and categories, but have also continued to develop our proposition and capabilities at pace. As a result, we have delivered another very strong performance in the first half of the financial year, whilst further investing to support future growth.

I would like to express my sincere appreciation to all my colleagues and our committed supplier partners for their achievements and for living our Dunelm shared values every day. It is due to their commitment that Dunelm is a bigger and better business today, with more capability and more ambition, and is delivering accelerated growth.

H1 Review

Record performance with strong profitability

We delivered a record performance in the first half, with sales of £795.6m, up 10.6% year-on-year and up 36.0% compared to the same period two years ago. Digital sales made up 33% of total sales in the half and have more than doubled in absolute terms since the comparative period in FY20 (+120.7%). Performance in our stores was also very encouraging. Sales growth was broad based, across most product categories, and we were particularly pleased with the performance from furniture categories, due to better availability and range extensions, and from our seasonal ranges which sold particularly well in our stores during Q2.

Gross margin was 80bps higher than the prior year, due to strong full price seasonal sell through and reflecting in part the impact of lockdowns in the prior period. Profit before tax of £140.8m (FY21 H1: £112.4m) was particularly strong, benefiting from the higher gross margin and good leverage of fixed costs, which was accentuated by the excellent store sales in the period. Free cash flow was also very strong, at £106m, despite our strategy to build inventory in light of ongoing supply chain issues. As a result of this strong profitability and cash flow generation we have declared both interim and special dividends, moving us into our target leverage range.

The broadening appeal of our proposition led to year-on-year growth in our active customer base of 6.3% to 13 million⁷. Weekly market data we receive from GfK also showed that we continued our strong outperformance of both the homewares and furniture markets throughout the period⁸.

⁷ Unique active customers who have shopped in the 12 months to December 2021, based on management estimates using Barclays data

⁸ Based on GfK weekly homewares and furniture panel

Continuing to develop our customer proposition and capabilities at pace

Following the launch of our new digital platform in October 2019, we have continued to enhance and innovate the customer experience, supported by investment in digital capabilities and talent.

We made progress on digital fulfilment with the opening of our new dedicated ecommerce operation in Stoke in partnership with GXO towards the end of the period - a facility which will support our future growth ambitions through better customer experience, scale and efficiency. Over time this facility will enable the extension of our range available for Click & Collect and will reduce customer lead times.

In addition, we have progressed the development of our new furniture hub in Daventry. We relocated one of our in-house home delivery network 'hubs' to this site in December 2021 and began accepting in-bound inventory to the main warehouse in January, with the site expected to be fully operational in March. This facility is an important step in our ability to scale furniture growth, enabling both range expansion and improved customer experience in terms of availability and speed of delivery.

As highlighted by the strong store performance in the first half, our stores remain central to our total retail system, and we continue to invest to improve both the physical shopping experience and the integration with our digital platform. Click & Collect has continued to prove popular with customers and is an important part of our cross-channel experience, with over a third of customers picking up orders also shopping in store on the same trip. We have further invested in sales training, including a renewed focus on 'friendly and helpful' service. Sales made by our iPad-enabled store hosts have been very strong during the first half, with customers valuing the expert advice offered and the access to our extended product range.

We opened one new superstore towards the end of the half in Beverley, East Yorkshire. We also completed five major refits across our store estate, in which we have rebalanced the use of store space to showcase the full breadth of our range and drive sales in newer categories (e.g. furniture displays). We are also trialling our new Pausa kitchen café, an experience which our customers love and increases dwell time in store.

We further expanded and innovated our product offer, including approximately 250 extensions to ranges in furniture, both across living and dining furniture; for example desks in our Compton Ivory range, and widening our own brand beds and mattresses offer, for example with Fogarty mattresses. We also made good progress on our sustainable product goals, for example our 100% responsibly sourced cotton bedding range and our re-engineered Egyptian cotton towels are now using significantly less water in the dyeing process. We have continued to focus on our value proposition for customers, including more entry-price products and increased promotional buys.

As part of the broader role we play in the lives of our customers, colleagues and communities, we ran our second *Delivering Joy* campaign in the run up to Christmas, with our local store communities delivering over 18,000 gifts to care homes, women's refuges, primary schools and animal shelters. We also launched a *Deck the Halls* campaign, asking customers to 'Join the *Dunelves*' by bringing in their unwanted Christmas decorations, which we then repurposed and delivered, along with homewares items from our own collections, to local communities, for example to hospitals and care homes.

Moving forward

Moving forward with purpose

We provided an update at our FY21 results on our renewed purpose, "*To help create the joy of truly feeling at home. Now and for the generations to come.*" This purpose was born out of the understanding we developed during the pandemic of the broader role we could play in the lives of our customers and society at large. It was created through collaboration with our customers and colleagues and describes what we aspire to do every day for our customers at Dunelm. Our purpose captures a long-held belief that our inclusive product offering, services and shopping experience are for everyone and for all tastes and budgets.

The confidence we feel in our purpose was demonstrated in the brand campaign we launched in Autumn 2021, called *Dun Your Way*, a celebration of individuality (an example of us putting into action our learnings about inclusion and diversity) and the power of helping our customers and colleagues to *truly feel at home*.

Our purpose also underpins the significant steps we will take to achieve our ambitions for carbon reduction and sustainability as part of our Net Zero Pathway. We have developed a roadmap for Scope 1 carbon reduction and are busy learning and testing on Scope 3, aware of both the scale of what needs to be done and the opportunity to lead in this space.

Our purpose also guides us equally in developing our colleague proposition to '*feel at home, wherever you work.*' This approach to hybrid working is enabling us to access a broader talent base with colleagues working in different ways and different locations.

We are ambitious about our brand, about being a good company and about profitable growth. Our goal is to be the first choice for UK home-lovers, across all the products and services we offer.

Long term market share gains

Our business has transformed over the last five years having built capability and confidence in investing behind digital-fuelled growth. We have a long track record of sales growth of 10% compound annual growth rate (CAGR)⁹; and whilst we continue to open new stores, digital innovation is now the primary driver of sales growth, including within our stores.

The markets we operate in (Homewares, Furniture and Decorative DIY) have grown in low single-digits, at a combined 1.5% CAGR over the last five years, 1.4% over the last ten years and slightly higher at 2.2% CAGR over the last two years¹⁰. In comparison, Dunelm has grown at 10% CAGR over both the last five and ten years and this growth has accelerated to 12% over the last two years. Our growth has been driven by long term market share gains.

We calculate that 85% of our growth over the last five years has come from market share gains. We gain market share by continuously and sustainably improving our customer proposition. We see headroom for further share gains through continuous expansion of our product offering and the services and experience we offer across our brand and our total retail system.

⁹ 10% sales CAGR on both a 5 and 10 year basis to December 2021

¹⁰ Market growth based on internal analysis using GlobalData Homewares, Furniture and Decorative DIY markets for calendar year 2021 vs. 2016. Excludes bathroom and kitchen furniture

Growing our product offer

The UK homewares market is broad, covering many different categories and sub-categories. Dunelm's growth has been broad based, with sales and share gains across all types of product category, and with headroom to grow further across the board. We have extended our product range and authority from our 'heritage' soft furnishings categories to cover a large proportion of the wide-ranging UK homewares markets.

In our proprietary consumer research we categorise five broad 'missions' for UK consumers shopping for the home: *everyday necessities, rewarding essentials, decorative enhancements, room refreshes and considered permanents*. We have gained market share across all these home missions, with all of them contributing significantly to our sales growth over the last five years.

In addition to our 'heritage' product authority in *rewarding essentials* (products where comfort matters such as bed linen and towels) and in *room refreshes* (keeping the home vibrant and refreshed such as ready-made curtains & blinds and rugs), we have extended our expertise and capabilities across the spectrum of homewares shopping.

We are competing and winning in *everyday necessities* (day to day items such as pots & pans with an average price point of £6) through to *considered permanents* (bigger purchases to make the home secure and comfortable such as dining, living and bedroom furniture, with a higher but still relatively low average price of £120). We have grown our share of *considered permanents* significantly over the last five years, however with our share under 5%¹¹ we still have considerable headroom to grow.

¹¹ Market share based on internal analysis using calendar year 2021 GlobalData report. Categorisation into home missions based on Dunelm research and analysis

Growing our brand

Dunelm benefits from a large and scalable brand platform. Our brand awareness is over 90%, a growth of approximately 10%pts since 2016¹². As of December 2021, we have 13 million active customers, 3 million, or 30%, more than we had five years ago¹³. Our customers are also more engaged, with over 900k followers of local Facebook community groups (FY21 year end: 700k). The historic link between regional brand growth and new store openings is no longer evident, further proving the effectiveness of our cross-channel approach.

Over the last five years we have broadened the appeal of the Dunelm brand across all demographics with customer numbers growing across all age groups, all regions and all income levels¹³.

We have extended our reach and grown customer numbers across all age groups, with younger age groups (under 34) growing by 34% over the last five years and those over 50 growing by 35%. Growth in younger age groups has been particularly strong following the launch of our digital platform in 2019, with the under 34s contributing the largest share of growth¹³.

We have expanded from our Midlands heartland to national coverage and awareness, with growth in customer numbers across all regions. Customers from London and the South East have made the largest contribution to growth over the last five years, growing at 47%¹³.

At the same time we have grown our appeal across all income groups, with strong growth in customer numbers across all levels and a similar distribution of our customers across income levels to the distribution of UK households. Over the last five years we have grown customers in the £20k-£40k income band by 32% and customers in the >£100k band by 36%, evidence that our value, quality and style proposition appeals to everyone¹³.

¹² Prompted awareness 3-month rolling average to December 2021 (BrandVue); note that prior to 2019 brand awareness was reported from BrandIndex

¹³ Unique active customers who have shopped in the 12 months to December 2021, based on management estimates using Barclays data

Growing our total retail system

Dunelm has developed from a largely stores-based business to an integrated total retail system, including a compelling digital offer and seamless cross-channel experiences for our customers.

We now have 175 stores, offering Click & Collect (making up c.10% of store sales) and tablet-based selling of the broader Dunelm range via colleague hosts. We have developed not only our digital 'selling' capabilities and experience but also our digital fulfilment capacity and capabilities, with a new dedicated ecommerce facility and soon to be fully operational furniture warehouse.

Our digital sales (which include Click & Collect and in-store tablet-based sales) are more than five times the size they were five years ago, and more than double what they were in 2019, when we launched our new digital platform. Digital sales made up 33% of total sales in H1 FY22, and were over £600m in FY21, which included over four months of lockdowns when all sales were digital.

Digital growth has been incremental and not substitutional. Digital capabilities are fuelling store sales, with average total sales per store (including Click & Collect and in-store tablet sales) having grown by c.30% since 2016 (~5% CAGR)¹⁴.

Our customer growth mirrors our sales growth, with a significant shift in the mix of customers from over 90% store-based in 2019 to over 35% digital (including multichannel customers) in 2021. The mix of customers shopping cross-channel in a 12 month period has also grown considerably, from 4% in 2019 to 16% in 2021¹⁵. We know that our multichannel customers shop more frequently and spend more on average, as we make it easier for customers to access our growing range of products and services in ways that are convenient for them.

¹⁴ July to December 2021 compared to the comparative period in 2016. Store sales include cash & carry, Click & Collect and in-store tablet sales

¹⁵ Unique active customers who have shopped in the 12 months to June 2021, based on management estimates using Barclays data

Moving forward - continuing to grow market share

As the 1st choice for home for UK home-lovers we are focused on developing our proposition in terms of sustainable products, services and experiences. We have many opportunities to continue to learn and improve, and to grow our market share.

1) Product proposition

We are growing the choice of quality and value products we offer to customers by broadening our range. This includes developing new categories and ranges and filling in gaps within existing ranges. We are introducing new collections, sub-brands and collaborations. For example, our own Churchgate brand, named after our first store in Leicester and initially covering decorative accessories, now includes a new range of free-standing kitchen furniture. We will shortly be launching an exciting new collaboration with the Natural History Museum. Covering categories from textiles to furniture, all the products in the range reflect the unique and unusual archives along with the ethical and sustainable values that are at the Museum's heart.

As value becomes ever more important, we are focused on ensuring we continue to offer the best value to our customers. With our supplier partners we are re-sourcing and re-setting our range architecture, for example with previously occasional promotional lines moving into our regular range at 'good' price points, to offer lower prices. We are also making changes to packaging and product design to reduce shipping costs. It is constant, detailed and creative work, and we are confident in our ability to mitigate cost increases and manage retail prices while delivering unbeatable value for money.

At the same time, we continue to accelerate our capabilities to make our products more sustainable across the whole supply chain. For our upcoming Spring/Summer season, we have introduced and redesigned several product collections towards this aim. For example, in addition to our range of bed linen made from 100% responsibly sourced cotton, we will be introducing a new range made from 100% recycled cotton. We have also implemented a more sustainable dyeing process that reduces the amount of water needed to produce our Egyptian cotton towels. We have further developed our 'The Edited Life' range, including bathroom accessories made of bamboo instead of plastic.

2) Services and experiences proposition

In addition to supporting our customers to live more sustainably through the products they buy, we are now offering our customers opportunities to dispose of unwanted items responsibly through our range of take-back and recycling services. We launched a textiles, quilts and pillows take-back scheme across our store estate in December 2021 and are working with other partners to develop take-back services for other homewares and bulky items.

As well as continuing to roll out new stores to our remaining target catchments, we are undertaking a continual programme of refitting our store estate - from large scale refits to smaller refits to improve customer experience and layout. We completed five major refits in the first half and plan at least another five in the second half. We are trialling some new initiatives as part of these refits, including further development of the new Pausa 'kitchen café'. All new stores and refits are performing well and generating good returns on investment.

Our digital customer experience development carries on at pace, with enhancements continually delivered to the online experience. With a maturing technology and product management capability, we are improving site speed and the experience at key points of the customer journey. We are also achieving good levels of new account sign ups with the use of sign up prompts before payment, and continue to enhance our digital customer experience with improved search, wish lists and proposition enhancements proposition enhancements such as a furniture finder, room planner and sofa sizer. Significantly, we now have much more comprehensive product roadmaps for proposition development across all of our focus areas.

Investing in capability and capacity

We are pleased with the returns being delivered by the investments we have been making in capabilities such as digital and technology, which have driven our accelerated performance. The recent investments in our fulfilment capacity were made as a result of our confidence in our long term growth opportunities.

Our digital and technology capabilities are now well established and delivering growth, and we will invest further in these areas, for example in customer data, insight and product management. We are also investing in product development and supply capabilities, including a programme which is now underway to upgrade our processes and systems to support further broadening of the product offer and greater collaboration with our suppliers.

We are confident to continue investing to step change our capabilities, in order to improve the customer proposition and drive long-term sustainable growth and further market share gains.

Summary and outlook

We delivered a very strong performance in the first half of FY22, with continued growth in customer numbers, further market share gains, strong sales growth and particularly strong profitability.

Trading to date in the second half, including our Winter Sale event, has continued to be encouraging, and there is momentum across the business. Given that stores were closed in the comparative third quarter in FY21, we are pleased that the 2YoY growth remains consistent with that reported in the first half. The Board currently expects that FY22 full year PBT will be in line with recently upgraded market expectations¹⁶.

The macro-economic outlook remains uncertain. However, we are well placed to maintain our value proposition for customers while navigating the external headwinds. We have a largely own brand range with a high proportion of continuity products and strong relationships with our supplier partners and we will maintain our focus on tight operational grip.

The raised importance of the home for UK consumers in a changing and increasingly digital world will continue. Dunelm is a bigger and better business following the digital replatform in 2019. This has allowed us to accelerate growth across the total retail system and provides us with even more opportunity to attract more home-lovers to the brand. We remain energised and focussed on continuing to develop our customer proposition and we are confident that our growth plans, underpinned by our renewed purpose, will deliver further market share gains and shareholder returns.

¹⁶ Management understand the range of analysts' estimates for FY22 PBT, which have been updated since the second quarter trading statement, is £198m - £218m, with consensus of £206m

Nick Wilkinson
Chief Executive Officer
9 February 2022

CHIEF FINANCIAL OFFICER'S REVIEW

Revenue

Total revenue for the 26 weeks to 25 December 2021 increased by 10.6% to £795.6m (FY21 H1: £719.4m). Compared to FY20, total sales grew by 36.0% (FY20 H1: £585.0m).

	26 weeks to 25 December 2021		
	FY22 £m	YoY £%	2YoY %
Total Group sales	795.6	+10.6%	+36.0%
<i>Digital % total sales</i>	<i>33%</i>	<i>(2)%pts</i>	<i>+13%pts</i>

Sales in our stores were particularly strong, demonstrating the continued relevance of this channel to customers who enjoy friendly service while browsing and shopping our broad product ranges. Digital sales more than doubled compared to the comparable period in FY20 and represented 33% of total sales in H1 (FY21 H1: 35%, FY20 H1: 20%). This result reflects the advances we have made in our digital offer since launching our new platform in October 2019.

Our growth was broad-based across nearly all of our product categories, with strong performances in furniture categories which grew by over 30% in areas such as dining chairs and beds, driven by better availability and new ranges. With our stores being open throughout the half, our seasonal ranges also performed well, supported by the introduction of new on-trend ranges, increasingly designed with sustainability in mind.

We receive weekly data from the GfK Homewares panel which allows us to compare our performance against the market. This insight shows that we consistently outperformed the market throughout the half in both homewares and furniture, and that we have therefore continued to gain market share.

Gross margin

Gross margin of 52.8% was 80bps higher than the prior year, partly due to higher full price sell through of seasonal ranges. The comparative period in FY21 was also impacted by store closures and related stock provisions. These positive impacts were partially offset by the timing of the Summer Sale in the first quarter (delayed from the final quarter of FY21).

We estimate that full year gross margin will be around 30-50bps lower than FY21, reflecting the impact of reverting back to our historic approach of having two full Sale events during the second half (as compared to one reduced event in H2 FY21).

As expected, inflation on commodity prices and freight rates is now impacting the cost of stock purchases. We are collaborating with our committed suppliers to create sourcing benefits, managing the mix of products across price bands and, where appropriate, increasing retail prices. Due to our levels of stockholding, we expect the impact of these pressures to grow as we move into FY23. We remain committed to providing great value for money to our customers and feel confident in maintaining margins in line with our financial model.

Operating costs

Total operating costs were £277.0m (FY21 H1: £255.6m), representing an operating cost ratio of 34.8% (FY21 H1: 35.5%) and an increase of £21.4m compared to the prior year. This particularly strong operating cost ratio was primarily due to the leverage of store costs as a result of the very strong store sales performance.

Compared to the prior year, the net impact of the reintroduction of business rates and the repayment of JRS monies was to reduce operating costs by £3m in the period. Costs grew by £8m as a result of the additional sales volume. There was a £4m higher charge for accrued incentive schemes in the period, reflecting the more positive sales and profit outlook compared to the same time last year when our stores were closed, and the full year outlook was very uncertain.

Investment in supply chain capacity, including the new ecommerce and furniture sites and other storage costs related to higher stockholding, was £5m. These investments will improve customer lead times and enable growth in the furniture category in particular. In line with our growth plans, we invested a further £7m in growing our capabilities, including £5m in digital and technology and £2m in product development and supply. These investments are already contributing to our growth and will support further development of our proposition, enable better decision making and improve efficiency in the future.

We expect that the operating cost ratio for the full year will be slightly better than our medium-term guidance of c. 38%, reflecting the strong profitability in the first half, partly offset by the ongoing investment in our proposition and expected higher digital penetration in the second half.

Profit and earnings per share

Operating profit of £142.7m was significantly higher than FY21 and FY20 (FY21 H1: £118.3m, FY20 H1: £87.6m). This reflects the strong sales growth, higher gross margin, and leverage of our store cost base partially offset by the cost of the investments described above.

There was a net cost of £1.9m (FY21 H1: £5.9m) in respect of financial items in the period. This included interest on IFRS 16 lease liabilities of £2.4m (FY21 H1: £2.8m), interest payable and amortisation of arrangement fees relating to the Group's Revolving Credit Facility amounting to £0.5m (FY21 H1: £0.5m) and gains of £0.9m (FY21 H1: £2.7m loss) resulting from foreign exchange differences on the translation of dollar denominated assets and liabilities. Interest received on cash deposits was £0.1m (FY21 H1: £0.1m).

Profit before tax in the period was £140.8m (FY21 H1: £112.4m, FY20 H1: £83.6m), an increase of £28.4m compared to FY21 H1 and £57.2m compared to FY20 H1. Profit after tax of £113.4m (FY21 H1: £90.2m, FY20 H1: £67.6m) reflected an effective tax rate of 19.5% (FY21 H1: 19.7%) which was slightly lower than H1 FY21 due to higher availability of capital allowances.

Basic earnings per share (EPS) for the period were 55.9 pence (FY21 H1: 44.6 pence). Diluted earnings per share were 55.4 pence (FY21 H1: 44.1 pence).

Cash generation and net cash

In the period, the Group generated £106.3m of free cash flow (FY21 H1: £98.0m).

	FY22 H1 £m	FY21 H1 £m
Operating profit	142.7	118.3
Depreciation and amortisation ¹⁷	38.1	38.8
Working capital outflow	(21.0)	(1.3)
Share-based payments	3.2	1.1
Tax paid	(15.0)	(19.4)
Net cash generated from operating activities	148.0	137.5
Capex (net of disposals)	(14.2)	(6.4)
Net interest and loan transaction costs ¹⁸	(1.6)	(0.4)
Interest on lease liabilities	(2.4)	(2.8)
Repayment of lease liabilities	(23.5)	(29.9)
Free cash flow	106.3	98.0

¹⁷ Including impairment and loss on disposal

¹⁸ Excluding interest on lease liabilities

There was a working capital outflow of £21.0m in the period (FY21 H1: £1.3m) which reflected the decision to build inventory to mitigate against the risk of further supply chain disruption. Inventory at the end of the period was £204.4m (FY21 H1: £166.9m). We anticipate a further build of inventory in the early part of the second half to maintain availability and mitigate against ongoing supply chain disruption.

Total capital investment was £14.2m (FY21 H1: £6.4m). This included £7.8m relating to the set-up of our new ecommerce and furniture supply chain operations and £4.5m spent on the new store opened in the period and refits of existing stores (including decarbonisation initiatives). We anticipate a similar level of capital investment in the second half, including two expected new store openings and five major refits.

Tax paid of £15.0m (FY21 H1: £19.4m) included cash receipts in relation to research and development claims made at the end of FY21.

Repayments of lease liabilities of £23.5m (FY21 H1: £29.9m) were lower than the prior year as the comparative was impacted by the deferral of the June 2020 rent payments into H1 FY21.

In the period, the Group spent £9.6m (FY21 H1: nil) purchasing shares to be held in treasury to satisfy future obligations under its employee share schemes. We expect to purchase a similar number of shares in the second half.

After total dividend payments in the period of £178.7m (FY21 H1: £nil), the Group ended the half with a net cash position of £47.7m (FY21 H1: £140.6m).

Banking agreements

In December 2021 the Group agreed a new £185m sustainability-linked unsecured revolving credit facility ("RCF"). The facility has an initial term of four years, which may be extended by a maximum of a further two years at Dunelm's request, subject to lender consent. The RCF incorporates four sustainability-linked performance targets which align with our ambitious sustainability plans, including our commitment to pursue a Net Zero Pathway. These include annual targets in respect of reducing greenhouse gas emissions, responsible cotton sourcing, reducing plastic packaging and the provision of take-back services. Dependent on performance against these targets, there will be a 2.5bps premium or reduction to the base margin charged for the facility. The terms of the RCF are consistent with normal practice and include covenants in respect of leverage (net debt to be no greater than 2.5x EBITDA¹⁹) and fixed charge cover (EBITDA to be no less than 1.75x fixed charges²⁰), both of which were met comfortably as at 25 December 2021.

In addition, the Group maintains £10m of uncommitted overdraft facilities and has an accordion option within the RCF for a maximum facility of £75m.

¹⁹ EBITDA excludes right of use asset depreciation

²⁰ Fixed charges are defined as interest costs plus right of use asset depreciation

Capital and dividend policies

The Board policy on capital structure targets an average net debt level (excluding lease obligations and short-term fluctuations in working capital) of between 0.2x and 0.6x of the last 12 months' EBITDA (on a post IFRS 16 basis). The Group's dividend policy targets ordinary dividend cover of between 1.75x and 2.25x earnings per share during the financial year to which the dividend relates.

The Board will continue to consider returning surplus cash to shareholders if average net debt, excluding lease liabilities, over a period consistently falls below the minimum target of 0.2x EBITDA, subject to known and anticipated investment plans at the time.

The Group's full capital and dividend policies are available on our website at www.corporate.dunelm.com.

Dividends

Reflecting the strong performance in the first half of the year and confidence in the full year outlook, the Board has declared an interim dividend of 14 pence per share. This dividend will be paid on 8 April 2022 to shareholders on the register on 18 March 2022.

Given that the Group remains in a net cash position and that the Board remains committed to its capital policy, the Board has also declared a special dividend of 37 pence per share. This amount takes us back to within our target leverage range. The special dividend will be paid on 18 March 2022 to shareholders on the register on 25 February 2022.

Treasury management

The Group Board has established an overall Treasury Policy, day-to-day management of which is delegated to the Chief Financial Officer. The policy aims to ensure the following:

- Effective management of all clearing bank operations
- Access to appropriate levels of funding and liquidity
- Effective monitoring and management of all banking covenants
- Optimal investment of surplus cash within an approved risk/return profile
- Appropriate management of foreign exchange exposures and cash flows

Principal risks and uncertainties

The Board continually reviews and monitors the risks and uncertainties which could have a material effect on the Group's results. The principal risks and uncertainties that could lead to a material impact have not significantly changed from those listed in the FY21 Annual Report. A summary of the principal risks has been provided below:

Risk	Impact
Competition, market and customers	Failure to respond to changing consumer needs e.g. the shift towards online sales, personalisation, rental versus ownership, sustainability and customer experience, and to maintain a competitive offer (range, quality, value and ease of shopping) could impact profitability and limit opportunities for growth. A downturn in consumer spending or aggressive competitor activity (especially with cost price pressures) could impact sales and profit
Resilience	Failure to withstand the impact of an event or combination of events that significantly disrupts all or a substantial part of the Group's sales or operations (e.g. pandemic).
Brand damage	Our customers expect us to deliver products that are safe, compliant with legal and regulatory requirements, and fit for purpose. Increasingly, customers also want to know that products have been responsibly sourced and that their environmental impact is minimised. We must also ensure that our suppliers share and uphold our approach to business ethics, human rights (including

	safety and modern slavery) and the environment. Failure to do so could result in harm to individuals with the potential for customers, colleagues and other stakeholders to lose confidence in the Dunelm brand
People and culture	Unable to deliver strategy and sustainable long-term business performance due to failure to attract, retain and motivate high calibre colleagues, and to maintain our culture and shared values
IT systems, data and cyber security	Operations impacted by failure to develop technology to support the strategy, lack of availability due to cyber-attack or other failure, and reputational damage/fines due to loss of personal data
Regulatory and compliance	Fines, damages claims and reputational damage could be incurred if we fail to comply with legislative or regulatory requirements, including consumer law, health and safety, employment law, GDPR and data protection, Bribery Act, or competition law
Climate change and environment	Failure to anticipate and address the strategic, regulatory and reputational impact of climate change and environmental matters, and governmental, consumer and media action in response to it.
Supply chain disruption	Changes in global supply chain capacity, labour shortages, ongoing disruption from Covid-19 and geo-political instability may cause interruption to the supply of stock to our stores and fulfilment of online orders which could impact sales. Inflationary pressures linked to these challenges could impact profitability.
Business efficiency	Profitability impacted by failure to operate the business efficiently or to manage cost price volatility
Finance and treasury	Growth constrained by lack of access to capital and financial resources

Alternative performance measures (APMs)

APM	Definition, purpose and reconciliation to statutory measure
Total sales	Equivalent to revenue (from all channels). This is net of customer returns.
Digital sales	Digital sales include home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store.
Digital % total sales	Digital sales (as defined above) expressed as a percentage of revenue. This is not a measure that we seek to maximise in itself, but we measure it to track our adaptability to changing customer behaviours.
Gross margin %	Gross profit/revenue. Measures the profitability made on product sales prior to selling & distribution costs and administrative expenses.
Operating costs to sales ratio	Operating costs/revenue. To measure the growth of costs relative to sales growth.
EBITDA	Earnings before interest, tax, depreciation, amortisation and impairment. Excludes right of use asset depreciation. To measure compliance with bank covenants
Effective tax rate	Taxation/profit before taxation. To measure how close we are to the UK corporation tax rate and understand the reasons for any differences.
Capex (net of disposals)	Acquisition of intangible assets and acquisition of property, plant and equipment less proceeds on disposal of property, plant and equipment and intangibles.
Free cash flow	Net cash generated from operating activities less net cash used in investing activities, interest paid and loan transaction costs, interest on lease liabilities and repayment of lease liabilities. Measures the cash generated that is available for disbursement to shareholders.
Net cash/(debt)	Cash and cash equivalents less bank loans. Excludes IFRS 16 lease liabilities.

Laura Carr
Chief Financial Officer
9 February 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first 26 weeks and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining 27 weeks of the financial year; and
- material related-party transactions in the first 26 weeks and any material changes in the related-party transactions described in the last annual report.

The maintenance and integrity of the Dunelm Group Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that might have occurred to the interim financial statements since they were initially presented on the website.

The directors of Dunelm Group Plc are listed in the Company's annual report for 26 June 2021. A list of current directors is maintained on the Company's website: www.corporate.dunelm.com.

By order of the board

Nick Wilkinson
Chief Executive Officer
9 February 2022

Laura Carr
Chief Financial Officer
9 February 2022

INDEPENDENT REVIEW REPORT TO DUNELM GROUP PLC

Report on the condensed interim financial statements

Our conclusion

We have reviewed Dunelm Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the Interim Results of Dunelm Group plc for the 26 week period ended 25 December 2021 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated statement of financial position as at 25 December 2021;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Results of Dunelm Group plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
9 February 2022

CONSOLIDATED INCOME STATEMENT

(UNAUDITED)
For the 26 weeks ended 25 December 2021

		26 weeks ended 25 December 2021	26 weeks ended 26 December 2020	52 weeks ended 26 June 2021
	Note	£'m	£'m	£'m
Revenue	5	795.6	719.4	1,336.2
Cost of sales		(375.9)	(345.5)	(647.3)
Gross profit		419.7	373.9	688.9
Operating costs		(277.0)	(255.6)	(522.5)
Operating profit		142.7	118.3	166.4
Financial income		0.9	0.1	0.1
Financial expenses		(2.8)	(6.0)	(8.7)
Profit before taxation		140.8	112.4	157.8
Taxation	6	(27.4)	(22.2)	(28.9)
Profit for the period		113.4	90.2	128.9
Earnings per Ordinary Share - basic	8	55.9p	44.6p	63.7p
Earnings per Ordinary Share - diluted	8	55.4p	44.1p	62.9p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)
For the 26 weeks ended 25 December 2021

		26 weeks ended 25 December 2021	26 weeks ended 26 December 2020	52 weeks ended 26 June 2021
		£'m	£'m	£'m
Profit for the period		113.4	90.2	128.9
Other comprehensive (expense)/income:				
Items that may be subsequently reclassified to profit or loss:				
Movement in fair value of cash flow hedges		5.7	(13.9)	(17.7)
Deferred tax on hedging movements		(1.4)	2.5	2.2
Other comprehensive income/(expense) for the period, net of tax		4.3	(11.4)	(15.5)
Total comprehensive income for the period		117.7	78.8	113.4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(UNAUDITED)
As at 25 December 2021

		25 December 2021	26 December 2020	26 June 2021
	Note	£'m	£'m	£'m
Non-current assets				
Intangible assets	9	12.1	19.4	14.8
Property, plant and equipment	9	169.3	167.2	162.6
Right-of-use assets	10	264.4	291.5	262.0
Deferred tax assets		7.7	9.9	11.4
Derivative financial instruments		0.9	-	0.3
Total non-current assets		454.4	488.0	451.1
Current assets				
Inventories	11	204.4	166.9	172.4
Trade and other receivables		20.1	15.3	11.8
Current tax asset		-	-	2.4
Derivative financial instruments		2.4	-	0.4
Cash and cash equivalents		47.7	140.6	128.6
Total current assets		274.6	322.8	315.6
Total assets		729.0	810.8	766.7
Current liabilities				
Trade and other payables	12	(204.8)	(214.4)	(181.8)
Lease liabilities	10	(51.8)	(48.1)	(49.0)
Current tax liability		(8.3)	(6.8)	-
Derivative financial instruments		(1.2)	(5.5)	(5.1)
Total current liabilities		(266.1)	(274.8)	(235.9)
Non-current liabilities				

Lease liabilities	10	(243.7)	(274.5)	(244.3)
Provisions		(4.2)	(4.2)	(4.5)
Derivative financial instruments		(0.2)	(1.3)	(0.8)
Total non-current liabilities		(248.1)	(280.0)	(249.6)
Total liabilities		(514.2)	(554.8)	(485.5)
Net assets		214.8	256.0	281.2
Equity				
Issued share capital		2.0	2.0	2.0
Share premium account		1.6	1.6	1.6
Capital redemption reserve		43.2	43.2	43.2
Hedging reserve		1.5	(5.5)	(4.3)
Retained earnings		166.5	214.7	238.7
Total equity		214.8	256.0	281.2

Laura Carr
Chief Financial Officer
9 February 2022

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

For the 26 weeks ended 25 December 2021

		26 weeks ended 25 December 2021	26 weeks ended 26 December 2020	52 weeks ended 26 June 2021
	Note	£'m	£'m	£'m
Cash flows from operating activities				
Profit before taxation		140.8	112.4	157.8
Net financial expense		1.9	5.9	8.6
Operating profit		142.7	118.3	166.4
Depreciation and amortisation of property, plant and equipment and intangible assets	9	14.6	16.2	31.8
Depreciation on right-of-use assets	10	23.4	22.5	45.7
Loss on disposal and impairment of property, plant and equipment and intangible assets		0.1	0.1	2.3
Loss on disposal and impairment of right-of-use assets		-	-	1.0
Operating cash flow before movements in working capital		180.8	157.1	247.2
Increase in inventories		(32.0)	(48.7)	(54.2)
(Increase)/decrease in receivables		(7.1)	0.6	4.1
Increase in payables		18.1	46.8	15.1
Net movement in working capital		(21.0)	(1.3)	(35.0)
Share based payments expense		3.2	1.1	7.5
Tax paid		(15.0)	(19.4)	(35.5)
Net cash generated from operating activities		148.0	137.5	184.2
Cash flows from investing activities				
Acquisition of intangible assets		(0.5)	(0.2)	(0.6)
Acquisition of property, plant and equipment		(13.7)	(6.2)	(15.1)
Interest received		-	0.1	0.1
Net cash used in investing activities		(14.2)	(6.3)	(15.6)
Cash flows from financing activities				
Proceeds from exercise of share options		0.2	0.3	1.8
Purchase of treasury shares		(9.6)	-	-
Repayments of revolving credit facility		-	(45.0)	(45.0)
Interest paid and loan transaction costs		(1.6)	(0.5)	(0.8)
Interest paid on lease liabilities		(2.4)	(2.8)	(5.3)
Repayment of lease liabilities		(23.5)	(29.9)	(54.0)
Ordinary dividends paid	7	(178.7)	-	(24.3)
Net cash flows used in financing activities		(215.6)	(77.9)	(127.6)
Net (decrease)/increase in cash and cash equivalents		(81.8)	53.3	41.0
Foreign exchange revaluations		0.9	(2.7)	(2.4)
Cash and cash equivalents at the beginning of the period		128.6	90.0	90.0
Cash and cash equivalents at the end of the period		47.7	140.6	128.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(UNAUDITED)

For the 26 weeks ended 25 December 2021

Note Issued Share Capital Hedging Retained Total equity

	share capital	premium account	redemption reserve	reserve	earnings	attributable to equity holders of the Parent of the Parent
	£'m	£'m	£'m	£'m	£'m	£'m
As at 26 June 2021	2.0	1.6	43.2	(4.3)	238.7	281.2
Profit for the period	-	-	-	-	113.4	113.4
Movement in fair value of cash flow hedges	-	-	-	5.7	-	5.7
Deferred tax on hedging movements	-	-	-	(1.4)	-	(1.4)
Total comprehensive income for the period	-	-	-	4.3	113.4	117.7
Proceeds from issue of treasury shares	-	-	-	-	0.2	0.2
Purchase of treasury shares	-	-	-	-	(9.6)	(9.6)
Share based payments	-	-	-	-	3.2	3.2
Deferred tax on share based payments	-	-	-	-	(1.1)	(1.1)
Current tax on share options exercised	-	-	-	-	0.4	0.4
Losses on cash flow hedges transferred to inventory	-	-	-	1.5	-	1.5
Ordinary dividends paid	7	-	-	-	(178.7)	(178.7)
Total transactions with owners, recorded directly in equity	-	-	-	1.5	(185.6)	(184.1)
As at 25 December 2021	2.0	1.6	43.2	1.5	166.5	214.8
As at 27 June 2020	2.0	1.6	43.2	5.3	121.3	173.4
Profit for the period	-	-	-	-	90.2	90.2
Movement in fair value of cash flow hedges	-	-	-	(13.9)	-	(13.9)
Deferred tax on hedging movements	-	-	-	2.5	-	2.5
Total comprehensive income for the period	-	-	-	(11.4)	90.2	78.8
Proceeds from issue of treasury shares	-	-	-	-	0.3	0.3
Share based payments	-	-	-	-	1.1	1.1
Deferred tax on share based payments	-	-	-	-	1.6	1.6
Current tax on share options exercised	-	-	-	-	0.2	0.2
Losses on cash flow hedges transferred to inventory	-	-	-	0.6	-	0.6
Total transactions with owners, recorded directly in equity	-	-	-	0.6	3.2	3.8
As at 26 December 2020	2.0	1.6	43.2	(5.5)	214.7	256.0

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the 26 weeks ended 25 December 2021 (UNAUDITED)

1 General information

Dunelm Group plc and its subsidiaries ('the Group') are incorporated and domiciled in the UK. Dunelm Group plc is a listed public company, limited by shares and the company registration number is 04708277. The registered office is Watermead Business Park, Syston, Leicestershire, LE7 1AD.

The primary business activity of the Group is the sale of homewares through a network of UK stores and online.

The Group's financial results and cashflows are subject to seasonal trends between the first and second half of the financial period. Traditionally, revenue and profit are higher in the first half of the financial period due to the performance of seasonal lines and the timing of sale events. The Group uses a retail calendar, therefore will report on a 53 week basis for the period ending 2 July 2022. Even though the second half of the current financial period will be a 27 week period, this is not expected to impact the seasonality of the business.

2 Basis of preparation

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Dunelm Group Plc transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 27 June 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

This condensed consolidated interim financial report for the half-year reporting period ended 25 December 2021 has been prepared in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 26 June 2021, which has been prepared in accordance with both "International Accounting Standards in conformity with the requirements of the Companies Act 2006" and "International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union".

3 Going concern basis

The interim financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board of Directors have considered the current financial position of the Group, its strategy, the market outlook, and its principal risks. The Directors have also considered the Group's current cash position and its available facilities, including the recent renegotiation of the RCF bank facilities committed until 9 December 2025, which may be extended by a maximum of a further two years at Dunelm's request, subject to lender consent. Furthermore, cash flow forecasts have demonstrated that covenants will continue to be comfortably met even in downside scenarios such as further enforced store closures or general economic downturn. Following this review, the Directors have a reasonable expectation that the Group has adequate resources to continue

in operational existence for the foreseeable future and they continue to adopt the going concern basis of accounting in preparing these interim financial statements.

4 Accounting policies

The condensed financial statements have been prepared under the historical cost convention, except for derivative financial instruments and share based payments which are stated at their fair value.

The accounting policies adopted, as well as significant judgements and key estimates applied, are consistent with those in the annual financial statements for the year ended 26 June 2021, as described in those financial statements, except as described below:

- Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

5 Revenue

The Group has one reportable segment, in accordance with IFRS 8 - Operating Segments, which is the retail of homewares in the UK.

Customers access the Group's offer across multiple channels and often their journey involves more than one channel. Therefore, internal reporting focuses on the Group as a whole and does not identify individual segments.

6 Taxation

The taxation charge for the interim period has been calculated on the basis of the estimated effective tax rate for the full year of 19.5% (26 weeks ended 26 December 2020: 19.7%, 52 weeks ended 26 June 2021: 18.3%).

7 Dividends

		26 weeks ended 25 December 2021	26 weeks ended 26 December 2020	52 weeks ended 26 June 2021
		£'m	£'m	£'m
Interim dividend for the period ended 26 June 2021	- paid 12.0 pence	-	-	24.3
Final for the period ended 26 June 2021	- paid 23.0 pence	46.8	-	-
Special for the period ended 26 June 2021	- paid 65.0 pence	131.9	-	-
		178.7	-	24.3

The Directors have declared an interim dividend of 14.0 pence per Ordinary Share for the financial year ending 2 July 2022. This equates to an interim dividend of £28.4m. The dividend will be paid on 8 April 2022 to shareholders on the register at the close of business on 18 March 2022. The Directors have also declared a special dividend of 37.0 pence per Ordinary Share for the period ending 2 July 2022 which equates to £75.0m. This will be paid on 18 March 2022 to shareholders on the register at the close of business on 25 February 2022.

The interim and special dividends have not been recognised as a liability in these interim financial statements. They will be recognised in the Consolidated Statement of Changes in Equity in the period ending 2 July 2022.

8 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period excluding ordinary shares purchased by the Company and held as treasury shares.

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary Shares during the period.

Weighted average numbers of shares:

	26 weeks ended 25 December 2021	26 weeks ended 26 December 2020	52 weeks ended 26 June 2021
	'000	'000	'000
Weighted average number of shares in issue during the period	202,899	202,312	202,445
Impact of share options	1,806	2,049	2,445
Number of shares for diluted earnings per share	204,705	204,361	204,890

	26 weeks ended 25 December 2021	26 weeks ended 26 December 2020	52 weeks ended 26 June 2021
Profit for the period (£'m)	113.4	90.2	128.9
Earnings per Ordinary Share - basic	55.9p	44.6p	63.7p
Earnings per Ordinary Share - diluted	55.4p	44.1p	62.9p

9 Intangible assets and property, plant and equipment

	Intangible assets £'m	Property, plant and equipment £'m
Cost		
At 26 June 2021	63.0	379.6
Additions	0.6	18.1
Disposals	-	(7.6)
At 25 December 2021	63.6	390.1
Accumulated amortisation / depreciation		

At 26 June 2021	48.2	217.0
Charge for the financial period	3.3	11.3
Disposals	-	(7.5)
At 25 December 2021	51.5	220.8
Net book value		
At 26 June 2021	14.8	162.6
At 25 December 2021	12.1	169.3

All amortisation and depreciation charges have been included within operating costs in the Consolidated Income Statement.

10 Leases

Right-of-use assets included in the Consolidated Statement of Financial Position at 25 December 2021 were as follows:

	Land and buildings	Motor vehicles, plant and equipment	Total
	£'m	£'m	£'m
At 26 June 2021	254.7	7.3	262.0
Additions	24.7	1.5	26.2
Disposals	(0.4)	-	(0.4)
Depreciation	(21.8)	(1.6)	(23.4)
At 25 December 2021	257.2	7.2	264.4

Lease liabilities included in the Consolidated Statement of Financial Position at 25 December 2021 were as follows:

	Land and buildings	Motor vehicles, plant and equipment	Total
	£'m	£'m	£'m
At 26 June 2021	(286.1)	(7.2)	(293.3)
Additions	(25.4)	(1.5)	(26.9)
Disposals	0.4	-	0.4
Interest	(2.4)	-	(2.4)
Repayment of lease liabilities	25.0	1.7	26.7
At 25 December 2021	(288.5)	(7.0)	(295.5)

The discount rate applied to lease liabilities ranged between 0.9% and 2.1% (FY21 H1: 1.0% and 2.1%, FY21: 1.0% and 2.1%).

The following amounts have been recognised in the Consolidated Income Statement:

	26 weeks ended 25 December 2021	26 weeks ended 26 December 2020	52 weeks ended 26 June 2021
	Total £'m	Total £'m	Total £'m
Depreciation of right-of-use assets	23.4	-	45.7
Impairment of right-of-use assets	-	-	1.0
Interest expenses (included in financial expenses)	2.4	2.8	5.3
Expense relating to short-term leases	0.3	1.4	1.8

The total cash outflow for the leases during the financial period was £25.9m (FY21 H1: £32.7m, FY21: £59.3m).

11 Inventories

	25 December 2021	26 December 2020	26 June 2021
	£'m	£'m	£'m
Goods for resale	204.4	166.9	172.4

Goods for resale includes a net realisable value provision of £17.1m (FY21 H1: £14.6m, FY21: £17.2m). Write-downs of inventories to net realisable value in the 26 weeks to 25 December 2021 amounted to £8.4m (26 weeks ended 26 December 2020: £7.3m, 52 weeks ended 26 June 2021: £16.4m). These were recognised as an expense during the period and were included in cost of sales in the Consolidated Income Statement.

12 Trade and other payables

	25 December 2021	26 December 2020	26 June 2021
	£'m	£'m	£'m
Current			
Trade payables	87.2	85.4	69.4
Accruals and deferred income	74.5	82.6	69.9
Taxation and social security	42.8	46.4	42.3
Other payables	0.3	-	0.2
Total trade and other payables	204.8	214.4	181.8

The prior half year accruals and deferred income included £14.5m in relation to the UK Government's Job Retention Scheme claim which was repaid in February 2021.

13 Financial risk management and financial instruments

Financial risk factors

The Group's activities expose it to a variety of financial risks including foreign currency risk, fair value interest rate risk, credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 26 June 2021. There have been no changes in any risk management policies since the year end.

Capital management

The Company has medium term bank facilities of £185m (FY21 H1: £165m; FY21: £165m) committed until 9 December 2025, which may be extended by a maximum of a further two years at Dunelm's request, subject to lender consent. This is with an associated accordion facility of £75m (FY21 H1: £75m; FY21: £75m). As at 25 December 2021 none of this facility was drawn down (FY21 H1: nil; FY21: nil). The Group also has an overdraft facility of £10m.

Fair values

The fair value of the Group's financial assets and liabilities are equal to their carrying value. The fair value of foreign currency contracts are amounts required by the counterparties to cancel the contracts at the end of the period.

13 Financial risk management and financial instruments (continued)

Fair value hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

All derivative financial instruments carried at fair value have been measured by a Level 2 valuation method, based on observable market data.

14 Capital Commitments

As at 25 December 2021 the Company had entered into capital contracts amounting to £2.0m (FY21 H1: £4.0m; FY21: £13.7m).

15 Announcement

The interim report was approved by the Board on 9 February 2022. Copies are available from www.corporate.dunelm.com.

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

IR UWARRUBUURUR

London Stock Exchange plc is not responsible for and does not check content on this Website. Website users are responsible for checking content. Any news item (including any prospectus) which is addressed solely to the persons and countries specified therein should not be relied upon other than by such persons and/or outside the specified countries. [Terms and conditions](#), including restrictions on use and distribution apply.
