

Dunelm Group plc



Corporate Governance Presentation

16 January 2020

Presenters



- **Andy Harrison** **Chair / Nominations Committee Chair**



- **William Reeve** **Remuneration Committee Chair**



- **Ian Bull** **Audit and Risk Committee Chair**



- **Marion Sears** **Designated NED for colleague matters**



- **Peter Ruis** **Non-Executive Director**



- **Dawn Durrant** **Company Secretary**

Agenda

Our purpose and strategy

Culture and business principles

Approach to corporate governance

Overview of current arrangements

Committees

Sustainability

Board areas of focus for FY 2020



Our purpose and strategy

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

Culture and business principles

Sell more

Merchandise

Supplier relationships

Keep listening and looking

Be committed

Customer focus

Motivate our teams

Develop our people

Do things our own way

Be the underdog

Long term decisions

Keep it simple

Waste

Environment

Keep our cost structure lean

Approach to Corporate Governance

Approach

We do things properly

Honest and with integrity

Intend to comply

Pragmatic - explain if necessary

Sparing use of advisers is healthy

Attitude

Always ask:

- what is the business benefit?
- how does it help the customer?

Is it true to our business principles - think of "the Dunelm way"

Keep things simple and transparent

Board Culture

Close knit - focus on what's right for Dunelm

Low key - out of the spotlight

Long term - expect to live with our decisions

We care - listen to all of our stakeholders

Stakeholder Engagement

Customers

- CEO/Deputy Chairman respond to customer feedback
- Customer Insight report in Board pack
- Customer focus groups
- All Directors visit stores and the webstore

Colleagues

- Marion is Designated NED
- NED attends National Voice Meeting
- Annual Board/National Voice meeting
- 2 x annual engagement surveys
- Colleague KPIs in Board packs
- All Directors visit stores/company locations
- Independent whistleblowing hotline
- Chair , Deputy Chair and other NEDs attend annual company seminar

Environment

- Annual Board presentation
- Additional focus and discussion in FY19 reflected in promotion of environment and climate change to the register of principal risks, and discussion in relation to product strategy and suppliers
- Energy, waste, emissions data in Board packs

Stakeholder Engagement

Community

- Charity Committee oversees fundraising activity
- CEO/CFO/ Co Sec participate in charity fundraising events
- Co Sec relationship with Trading Standards
- New store teams engage with local job centres / local authority services

Shareholders

- Annual Report and website
- AGM attended by all Directors
- Chairman, Deputy Chairman and NEDs attend results presentations
- NEDs attend shareholder meetings on request
- Capital Markets Day
- Corporate Governance presentation

Suppliers

- Deputy Chairman/CEO attend supplier conference
- Key suppliers attend annual company seminar where the Chairman, Deputy Chairman, CEO & CFO are present
- Supplier presentation to the Board
- Independent whistleblowing helpline
- Ethical/slavery and environmental KPIs reported to Board

Current Board

Board: We have a "Chair + 4 + 4" structure

Andy Harrison Chair	
Will Adderley Deputy Chair	Ian Bull NED
Nick Wilkinson CEO	William Reeve NED
Laura Carr CFO	Peter Ruis NED
Marion Sears Non-independent NED	Paula Vennells NED

Committees: All NEDs (if allowed)

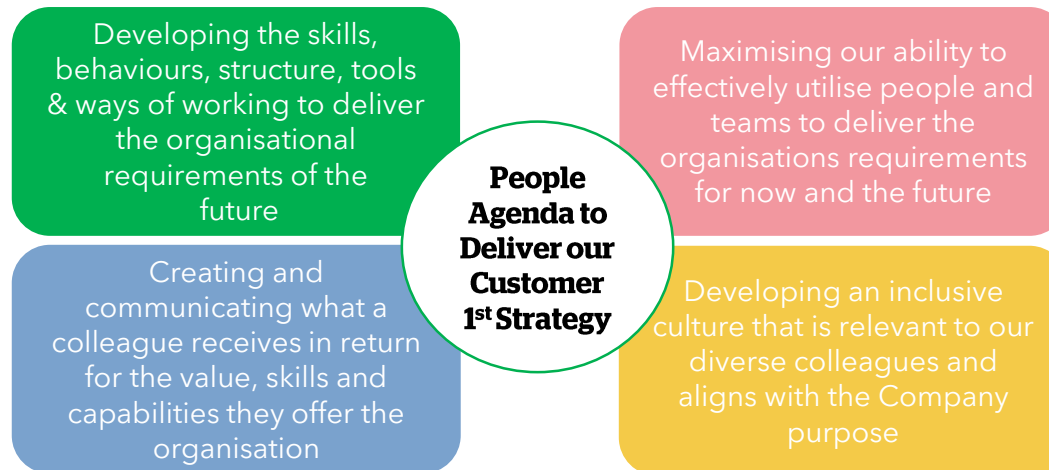
	Audit and Risk	Remuneration	Nominations
Chair	Ian Bull	William Reeve	Andy Harrison
Members	William Reeve Peter Ruis Paula Vennells (Andy Harrison and Marion Sears by invitation)	Andy Harrison Ian Bull Peter Ruis Paula Vennells (Will Adderley and Marion Sears by invitation)	Ian Bull William Reeve Peter Ruis Marion Sears Paula Vennells Will Adderley (as shareholder)

Nominations Committee

Board

- Our Board succession plan has constantly evolved. We have:
 - a recently refreshed Board
 - diversity of gender, thought and skills
 - strong executive capability
 - composition that follows best practice
- Search in progress for additional NED with digital expertise

Our People strategy - Committee and Board oversight, Board succession plan is consistent:



Priorities for FY20:

- Increasing focus on how we continue to foster our culture and business principles
- External Board evaluation
- Promoting diversity throughout the business
- NED responsibilities - SID appointment

Remuneration Committee - Consistent policy throughout the organisation

Our remuneration strategy has four principles, which we apply consistently throughout the organisation:

Dunelm's remuneration strategy	Examples of our approach
1. To pay fairly for an individual's roles and responsibilities	<ul style="list-style-type: none"> • All roles benchmarked. Aim to pay base salary at median, with competitive benefits at all levels • Increased focus on reducing gender pay gap
2. To be aligned through share ownership	<ul style="list-style-type: none"> • Exec Directors: share purchase on arrival plus LTIP and "Lifetime lock-in" for performance pay, and post-employment holding requirement • LTIP and restricted stock schemes in place for senior managers • Shareholding targets for senior managers • Extensive Sharesave scheme with high participation rates
3. To pay for performance	<ul style="list-style-type: none"> • Exec Directors: fixed pay is <1/3rd of max opportunity • All bonus awards linked to company and personal performance • LTIP based on consistent EPS growth with stretching targets
4. To focus on long-term, sustainable value creation	<ul style="list-style-type: none"> • "Lifetime lock-in" for PLC Exec Directors • Shareholding targets for senior managers • Performance targets driven by EPS growth

Remuneration Committee – evolution of our Policy

Principles:

- Consistent, simple and transparent policy in place since IPO –aligned to our business principles, our ownership structure, and the Board’s desire to reward sustainable, profitable growth over the long term
- Enshrined in our Remuneration Policy, last approved at the 2017 AGM with 99% support.
- ISS reports concluded that our pay outcomes are aligned to performance.
- Applied consistently throughout the organisation.

2020 Policy renewal:

- Policy renewal in 2020 – not intending significant changes
- We know that investor requirements are changing – these are the areas we expect to discuss with our shareholders through consultation:
 - Pension entitlement – committed to reduce this to 10% last year – will further reduce for new joiners in 2020 policy
 - EPS performance measure for LTIP –still appropriate for Dunelm
 - Claw back and malus provisions already tightened to give RemCo discretion to adjust variable pay outcomes

Remuneration Committee priorities for FY20

New obligations under the 2018 Corporate Governance Code and other governance reforms:

Already in place:

- Review of workforce remuneration and policies, and alignment with culture and business principles
- Oversight of Exec Committee pay
- Wider malus and clawback on variable pay
- Appointed a "Designated NED"
- Engagement with our colleagues on pay
- Engagement with shareholders

Areas of focus for FY20 and beyond:

- Approval of our Remuneration Policy at the November 2020 AGM - shareholder consultation in late Spring
- Pension policy is an area of wider market focus and we are monitoring developments
- Actions to reduce gender pay gap
- New annual report disclosures for FY20
 - CEO pay ratio - plan to use method B
 - New information in single figure table
 - Whether discretion used to adjust pay outcomes

Audit and Risk Committee

- **Ian Bull** succeeded Liz Doherty as Committee chair in November 2019
- Committee supports Board with oversight of financial reporting, internal control and risk
- In addition will focus on understanding and adopting agreed audit reforms –
 - Kingman Review
 - CMA
 - BEIS
 - Brydon Review

Areas of focus for FY20 and beyond:

- Clear rationale around all judgemental items i.e. keep high standards
- Continuous focus on Risk Management
 - Risk management processes, including emerging risks
 - Development of risk appetites and how embedded into core management processes
 - Becomes a strong driver of what is required from internal audit and assurance plan

Audit and Risk Committee

- **High Quality External Audit**
 - PwC appointed from FY14 following tender process; partner changed in FY19
 - Strict policy on use of auditors for non-audit services – aligned to best practice
 - Seek demonstration as to how external auditor has challenged management and applied professional scepticism
- **Continuous Improvement in Internal Controls**
 - Fully outsourced internal audit to KPMG in FY20 to increase capability
 - Assurance map to be driven from strategy, risks and mitigation
 - Enables 3 year rolling audit and assurance plan
- Focus on **specific project areas derived from risks** and agreed by the Committee
- Evolution of **Going Concern and Viability Statements**
- **New reporting requirements for FY20** – corporate governance statement, s172 Companies Act, climate change

Sustainability overview

- **Key considerations:** customers, colleagues, health and safety, suppliers, responsible sourcing, environment / climate change, community
- **Oversight by the Board** as a whole
 - Approve policies
 - Monitor KPIs
 - Presentations on individual topics
 - “Designated NED” for colleague matters
 - NED attends 2 x National Voice and Area Voice meetings per annum and feeds back to Board
 - National Voice (colleague council) meets with Board annually
- **Implementation by Executive Board** - named Execs have responsibility for individual topics, Company Secretary responsible for Group policy and investor engagement on Sustainability, and chairs the Exec Sustainability Committee
- Link to **risk register** and **business principles**
- **Increased Board and management focus in FY19** - developed and published targets and KPIs, linked to Sustainable Development Goals, climate change is now a “principal risk”
- **More to do in FY20 and beyond**, including development of longer term targets, additional targets on packaging and sourcing, and climate change reporting



FTSE4Good

Sustainability - people and engagement

We believe that a **great place to work** is a **great place to shop**

In FY19 we **improved engagement by 14%; colleague engagement is a bonus KPI** for Executive Directors and Executive Board members

68% of our colleagues are female - we are collecting data on ethnic diversity and developing policies to promote diversity

Motivate our teams and **Develop our people** are business principles, we offer fair pay and benefits, Sharesave open to all. Training and development available to all colleagues, and we actively promote our "homegrown talent"

Highly ranked compared to our peers on Glassdoor - in 2019 we were recognised as one **of the top 50 companies to work** for in the UK



Sustainability - people and safety

We have a **proactive approach to safety** - this year our focus has been on policies and practices around knife sales, food safety and allergen awareness, fleet safety, personal safety of store colleagues

We have a business-wide **mental health awareness** programme - all management colleagues complete mental health awareness training, and we have 50 trained mental health first aiders

We have invested in a programme to **remove fork lift trucks** from stores, to reduce this area of risk for our colleagues



Sustainability - products

Quality policies are in place for sourcing of key raw materials, including **cotton, timber, palm oil, feather and down and fur**, and we **prohibit animal testing**. We are targeting 100% sustainable palm oil by FY20, and 100% responsibly sourced cotton and 50% sustainable timber by 2025 for own brand products

We have committed to **eradicate or reduce all unnecessary product packaging**, with specific targets on plastic packaging

From FY21 key own brand suppliers will undergo an **annual environmental assessment**



Sustainability - suppliers

We do not manufacture the vast majority of the products that we sell, so we **need to maintain relationships** with **suppliers and manufacturers** who **share our values** and **meet our high standards**

“**Supplier relationships**” is one of our **business principles**. We are fair and straightforward with our suppliers and pay on time - we are signatories to the Prompt Payment Code



All product suppliers commit to our **policies on ethical trading / anti-slavery, anti-bribery** and **responsible sourcing**

All suppliers of Dunelm branded product must hold a satisfactory **ethical trading and anti-slavery audit** that is no more than two years old, and commit to resolve any issues



Sustainability - climate change and environment

We are **committed** to being good neighbours, and **minimising the impact** of our business **on the environment**

We will minimise the production of non-recyclable waste across our business -- in FY19 we recycled 76% of our waste

Where possible, any non-recyclable waste is sent for incineration - in FY19, 96% of waste was diverted from landfill - our target is zero waste to landfill

We will reduce energy usage - in FY19 we reduced year on year energy consumption by 8.2%. All of our electricity is from renewable sources

We will reduce CO2 emissions relative to turnover (Scopes 1 and 2) every year. In FY19 we reduced CO2 emissions relative to turnover by 21.6%

We are aiming to report against the standard set by the Task Force on Climate-related Financial Disclosures - we will start preparation for this in FY20



Sustainability - community

We support **Macmillan** as our Charity of the Year

In FY19, £580K was raised for charity, and we aim to exceed this in FY20 by at least 10%

All colleagues can take one day a years' paid leave for charitable / voluntary activity

We support charitable and community initiatives local to our stores and business operations, for example engaging with job centres when we open new stores



Board areas of focus for 2020

This year we will focus on:

Business:

- Continue to implement and evolve our Customer 1st strategy:
 - Extended product choice and value
 - Step up our digital experience, following successful replatform
 - Broaden and deepen our customer base
 - Build capabilities for the next phase of growth

Governance

- Refreshed NED team and NED responsibilities
- External Board review
- Renewal of Remuneration Policy
- Governance reform, including:
 - new Corporate Governance Code
 - continuing to evolve our stakeholder engagement
 - demonstrating compliance with s172 Companies Act
 - Audit reforms
 - new pay disclosures
 - climate change risk and disclosures