Dunelm

The Home of Homes

FY19 Interim Results

13 FEBRUARY 2019

FY19 Interim Results

AGENDA

- First half performance
- Financial review
- Strategy and outlook
- Q&A

First half performance

Nick Wilkinson – CEO

Highlights

- 6.9% Total LFL sales growth, with growth in both stores and online
- Gross margin up +170bps with favourable currency impact and greater focus on product profitability
- Return to profit growth and improved cash generation: H1 PBT £70m (+17% vs LY) and FCF £91m (+£63m vs LY)
- 5% growth in customer base combined with improved brand awareness
- Clear next steps to build our digital credentials whilst ensuring excellent delivery of retail basics

WHAT WE HAVE DONE IN H1

Focused on core business & operational grip

- Transferred profitable Worldstores and Kiddicare lines and performance marketing spend to Dunelm.com
- Increased focus on sourcing great value products and managing our trading calendar
- Established better cost and cash discipline, e.g. reduced stock loss
- Listened to Customers and Colleagues to improve satisfaction and engagement

Gross margin	Operating costs % of sales:	UK Glassdoor Ranking
50.3%	**37.4%**	**Top 50**
+170bps vs H1 LY	Flat YOY	3rd highest UK retailer

WHAT WE HAVE DONE IN H1

Introduced *Home of Homes* brand campaign

- Introduced advertising campaign on TV, radio and social channels
- Ran an ad-funded TV programme "Back to Mine" on ITV for 6 weeks during the Autumn
- Accelerated digital marketing investment under the Dunelm brand
- Early days, but initial results are encouraging

Unique Store Customers:	Unique Online Customers:	Brand Awareness Dec 18:
+4.3%	**+18.7%**	**+3.0% pts**
12 months to Dec 18	12 months to Dec 18	12 months to Dec 18

WHAT WE HAVE DONE IN H1

Seized more digital opportunities

- Fully aware that we are ‘playing catch up’ as a multichannel retailer - addressing this, and doing it our own way
- Increased online ranging and trading focus in all categories
- 1200 customer hosts using iPads in-store to offer extended ranges
- Improved site speed ahead of this Peak season

H1 multichannel sales:
15.7%
+3.9% pts vs H1 LY

Online growth
+35.8%
vs H1 LY

Financial Review

Laura Carr – CFO

FINANCIAL REVIEW

Financial summary

	H1 FY19	H1 FY18	Growth
Sales	**£551.8m**	**£545.4m**	**+1.2%**
LFL Sales growth	+6.9%	+6.0%	
Gross margin	50.3%	48.6%	+170bps
PBT*	**£70.0m**	**£60.0m**	**+16.7%**
Free cashflow	£91.2m	£27.8m	+228.1%
Net debt	(£72.9m)	(£134.3m)	(45.7%)
EPS**	27.5p	22.3p	+15.5%
Interim dividend	**7.5p**	**7.0p**	**+7.1%**

* PBT for H1 FY18 is shown before exceptional charges of £3.7m. H1 FY19 PBT includes a £3.8m write off of the Fogarty brand
** Fully diluted EPS before FY18 exceptional charges

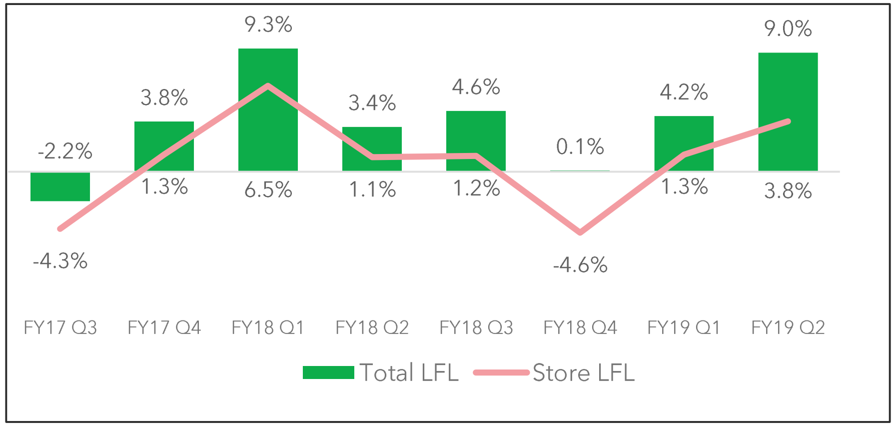
FINANCIAL REVIEW

Sales growth

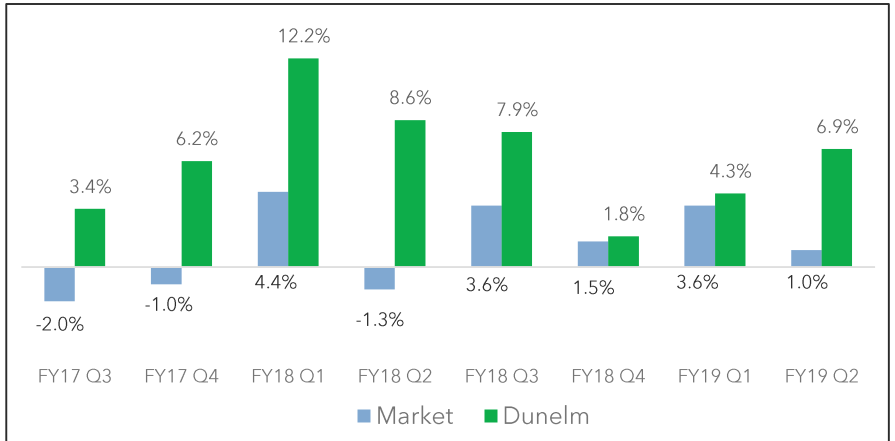
	H1 FY19	Growth £	Growth %
LFL Stores	£444.2m	+£16.3m	+3.8%
Dunelm.com	£62.5m	+£16.5m	+35.8%
Total LFL	£506.7m	+£32.8m	+6.9%
Non-LFL Stores	£41.5m	+£11.0m	
Total Core Dunelm	£548.2m	+£43.8m	+8.7%
Worldstores	£3.6m	(£37.4m)	
Total Group	£551.8m	+£6.4m	+1.2%

- Strong LFL performance across all channels
- Outperformed the homewares market. Market leading position with share of 8.1% (Source: Global data, September 2018)
- One superstore (a relocation) opened in H1 FY19 (H1 FY18: ten new superstores including one relocation)

Quarterly LFL growth



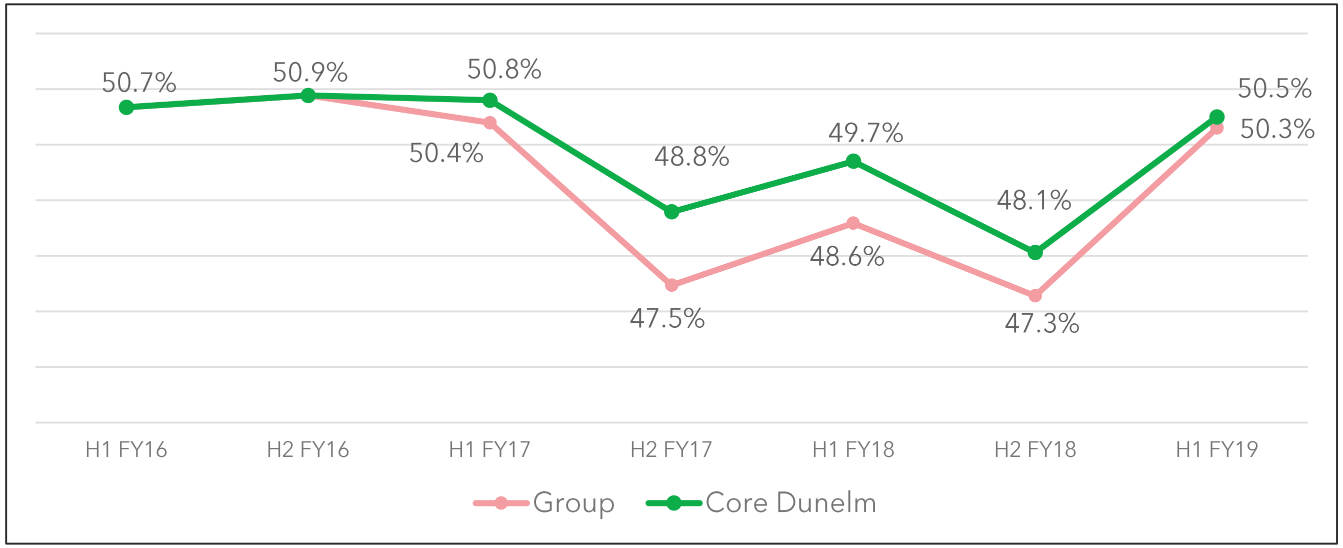
Quarterly homewares performance vs market



Source: Internal analysis based on GFK homewares data for certain homewares categories only

FINANCIAL REVIEW

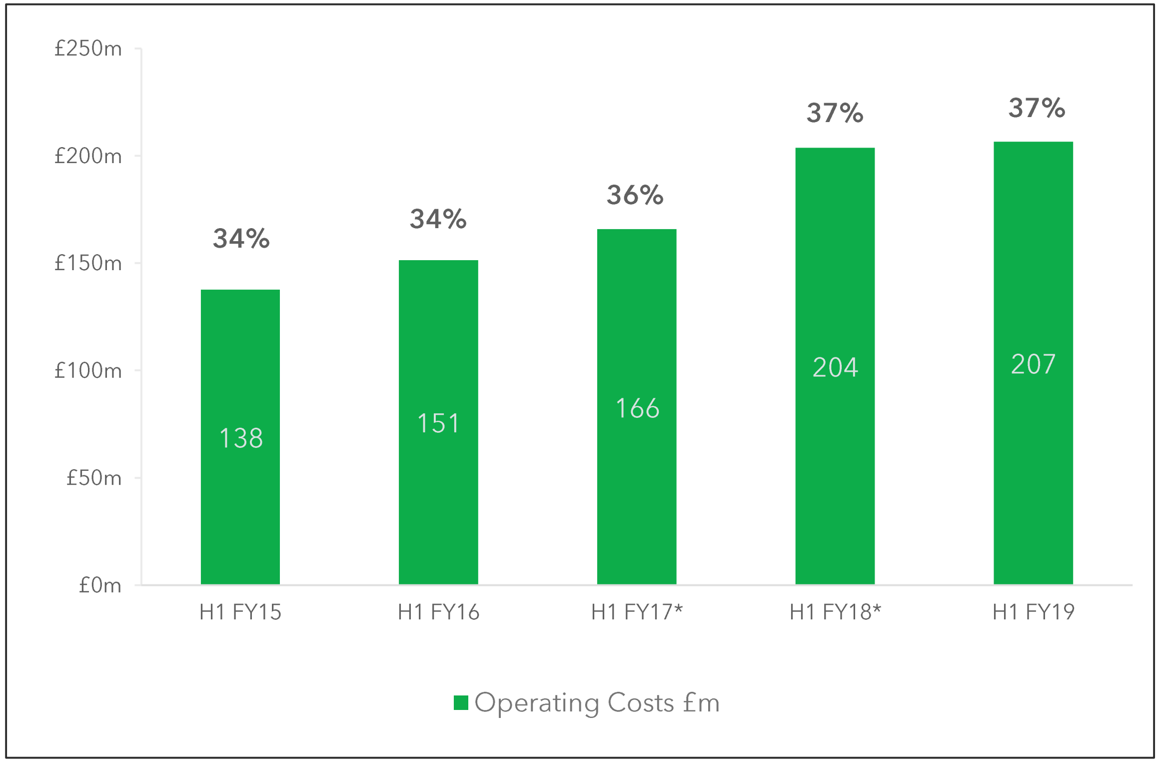
Gross margin



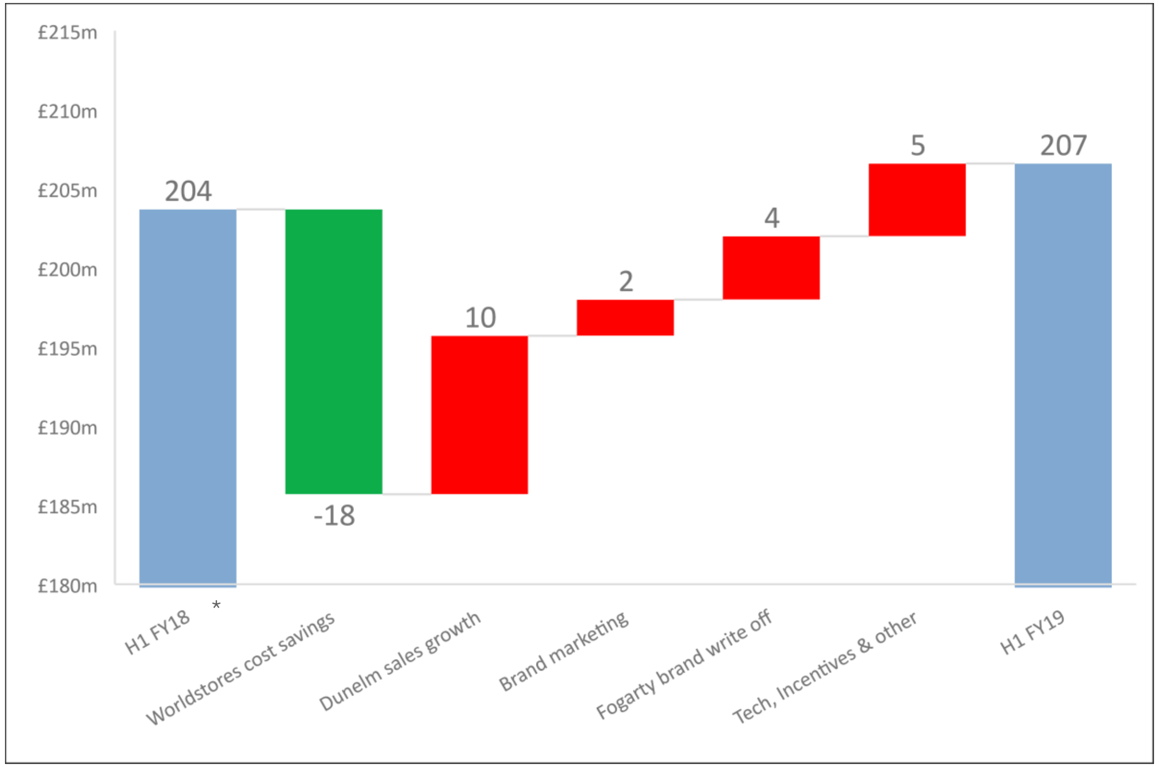
- Improved operational grip with better sourcing of core Dunelm products, focus on end of season clearance and favourable impact from FX +80bps
- Improvement from removing less profitable Worldstores sales +90bps
- Expect continued improvement year over year in H2, albeit at lower absolute margin due to impact of Winter and Summer sales

Operating costs

Total operating costs and % of sales



Operating cost bridge



* Shown before exceptional items

Financial items

	H1 FY19	H1 FY18*
Interest and other financial items	(£0.7m)	(£1.3m)
PBT	£70.0m	£60.0m
Tax	(£14.2m)	(£11.8m)
Effective tax rate	*20.3%*	*19.7%*
PAT	£55.8m	£48.2m
Basic EPS	27.6p	23.9p
Diluted EPS	**27.5p**	**23.8p**
Interim dividend	**7.5p**	**7.0p**

FY dividend cover target range 1.75x to 2.25x

*H1 FY18 presented above before exceptional cost items of (£3.7m). H1 FY19 PBT includes write off of Fogarty brand £3.8m

Free cash flow

	H1 FY19	H1 FY18
Operating profit*	£70.7m	£61.3m
Depreciation and amortisation	£22.1m	£17.8m
EBITDA*	**£92.8m**	**£79.1m**
Working capital movement	£21.4m	(£11.3m)
Other non-cash movements & Interest	£0.6m	£0.5m
Tax paid	(£7.9m)	(£7.2m)
Exceptional items – operating activities	-	(£1.3m)
Net cash from operations	**£106.9m**	**£59.8m**
Capital expenditure	(£15.7m)	(£32.0m)
Free cash flow	**£91.2m**	**£27.8m**
Free cash flow : Operating profit (pre FY18 exceptionals)	129%	45%
Net cash from operations : Operating profit (pre FY18 exceptionals)	151%	98%

* H1 FY18 operating profit and EBITDA shown before exceptional items

Working capital movement

	H1 FY19	H1 FY18
Stock increase	(£1.6m)	(£1.9m)
Receivables increase	(£0.5m)	(£0.3m)
Payables increase / (decrease)	£23.5m	(£9.1m)
Total	**£21.4m**	**(£11.3m)**

- Inflow from payables driven by timing and unusually low creditors balance at FY18 year end
- Total payables broadly in line with H1 FY18
- Total stock is £11m lower than same period last year driven by improved end of season sell through and reduced cover
- Full year working capital inflow expected to reflect improved stock position

Capital investment

	H1 FY19	H1 FY18	Comments
New stores	£1.5m	£13.6m	One relocation (FY18 H1: Ten new incl. one relocation)
Refits (major and other)	£4.0m	£8.1m	Three major refits (FY18 H1: Four major refits)
Technology	£8.8m	£6.3m	
Supply Chain	£0.7m	£0.2m	
Other	£0.7m	£1.7m	Relocation of bespoke curtain manufacturing centre
Freehold properties	-	£2.1m	No freehold stores (FY18 H1: One)
Total	**£15.7m**	**£32.0m**	

- FY19 full year capex expectation c.£30m (FY18: £44m)
- H2 capex focused on store refits and technology investment
- Increased discipline applied to investment decisions

Net cash generation

	H1 FY19	H1 FY18
Opening net debt	**(£124.0m)**	**(£122.1m)**
Free cash flow	£91.2m	£27.8m
Dividends paid	(£39.4m)	(£39.3m)
Other	(£0.7m)	(£0.7m)
Closing net debt	**(£72.9m)**	**(£134.3m)**
Net debt / EBITDA*	0.48x	0.96x
Daily average net debt – half year	(£80.9m)	(£117.0m)

* EBITDA calculated on last 12 months

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

- Focused on maintaining strong balance sheet
- Target net debt range of 0.25 – 0.75x EBITDA

- Priorities for uses of cash:
  - Invest in business to drive sustainable profitable growth
  - Return surplus cash to shareholders

FY19 H2 guidance

Sales

- No impact this FY from web re-platform
- Cautious about levels of consumer confidence in current climate

Gross Margin

- Expect continued improvement in H2
- Absolute margin lower in H2 due to impact of Winter and Summer sales

Tax

- Effective rate c100bps above statutory rate

Costs

- Expect operating costs as % of sales to be broadly similar to FY18
- Continued investment in new stores and online growth / Tech
- FY increase in brand marketing of £4m (H1 £2m)
- Expect to increase reward costs in line with improved performance

Capex

- Estimate FY capex to be c.£30m
- One new store (relocation) in H2
- Continuing refit programme and systems investment

Strategy and Outlook

Nick Wilkinson – CEO

CUSTOMER FIRST

The Leading Multichannel Specialist

OUR PURPOSE

Helping everyone create a home they love

OUR BUSINESS GOALS

- Reaching **more customers** with our **brand**
- Create **new reasons** for **customers** to shop
- **Easy** and **inspiring multichannel** shopping
- **Simple** and **low cost** and **good housekeepers**
- A **great** place to work **for colleagues**

OUR FOUNDATIONS

- A customer first culture
- Committed colleagues
- The best store portfolio
- Agile and scalable digital platform
- Lean and efficient supply chain
- Committed supplier partners

OUR KEY BUSINESS PRINCIPLES

Sell more | **Be committed** | **Do things our own way** | **Keep it simple**

OUR PURPOSE

Helping everyone create a home they love

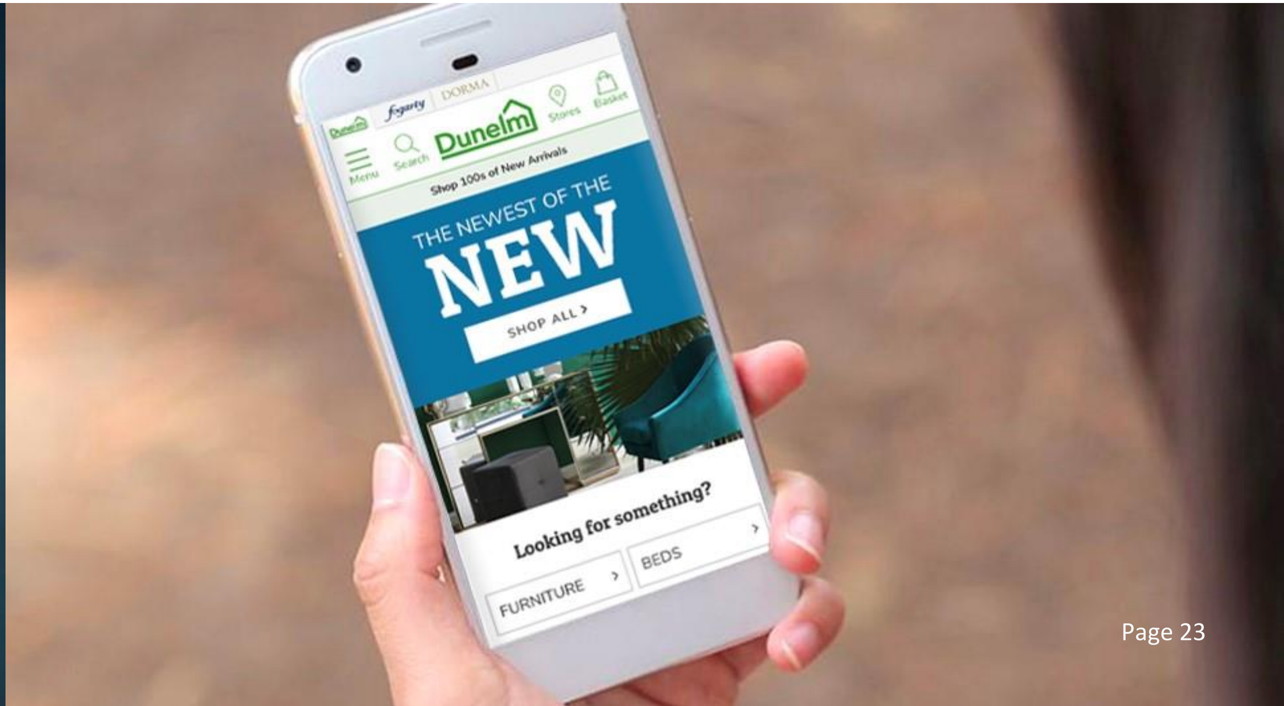
- Ambitious purpose, reflecting our potential as the leading specialist multichannel retailer in homewares
- Significant headroom to grow customer base, shopping frequency, and basket size
- Our customer proposition will evolve significantly
  - Product choice will continue to be extended
  - Stores will become service and experience orientated
  - Market-leading virtual and physical services will inspire, advise & help
  - Value and affordability will be more firmly embedded into ranges and deals

Reaching more customers with our brand

- Continue to build brand awareness and consideration over the next 18-24 months
- Fourth *Home of Homes TV* ad in February
- Sponsorship of *This Morning* from March
- Develop performance marketing programmes to support multichannel sales
- Develop more unique content to share through own channels and influencers

Easy and inspiring multichannel shopping - digital

- Current website is performing well
- Excited about opportunity to move to a new technical platform for digital operations
- Digital replatform in flight, with a Beta site approach to de-risk transition
- Will balance risks and benefits to manage the optimum roll out velocity in FY20



Easy and inspiring multichannel shopping - stores

- One new store (a relocation) to open in FY19 H2
- Expect c. 3-5 p.a. new stores over the medium term
- 200 stores target remains appropriate for UK coverage

- Refit programme continues with one major refit and several smaller refits in FY19 H2
- Will continue to test and learn

Other business goals

- Product plans will offer 'proper value' and quality at all price points
- Spring/Summer 19 collections add more style and choice to our ranges
- Continue to progress furniture 'the Dunelm way'
- Ongoing focus on operational grip and retail basics
- Development of our talented colleagues, especially in our re-structured Technology and Commercial teams
- Celebrate Dunelm's culture and business principles in our 40th year

Create **new reasons** for **customers** to shop

Simple and **low cost** - good housekeepers

A **great** place to work **for colleagues**

Summary & Outlook

- Improved focus and operational grip across the business to deliver a strong first half performance
- Winter Sale period trading has remained positive and we are pleased with our performance to date
- Confident in delivering full year market expectations* assuming no significant change in the economy
- Ambitious growth aspirations as we combine our existing strengths with better digital capabilities

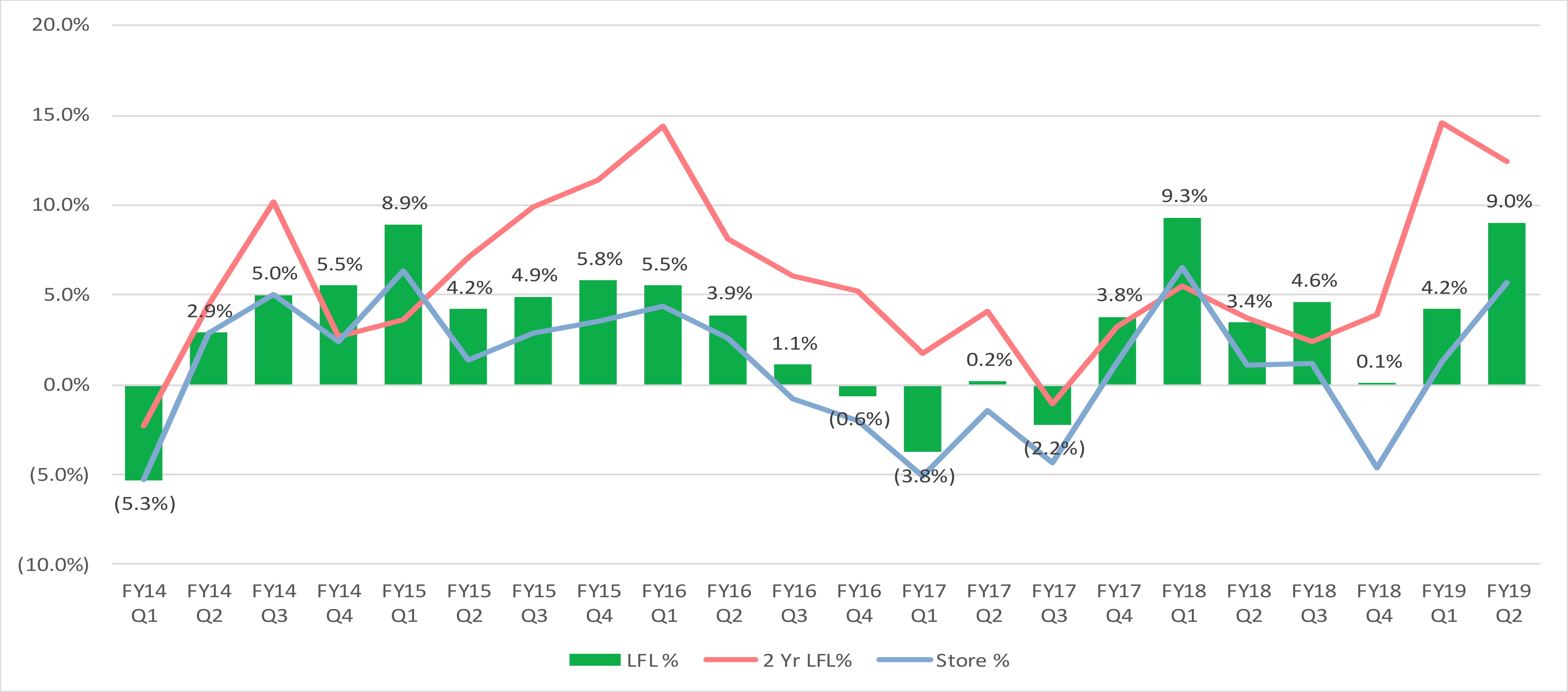
* Management understand that updated FY19 PBT analyst estimates are in the range of £114m - £118m

Q&A

Appendix

- LFL Historic Growth
- P&L Summary
- Balance sheet summary

LFL Historic Growth



P&L Summary

	H1 FY19	H1 FY18 (Underlying)	H1 FY18 Exceptional Items	H1 FY18
Revenue	£551.8m	£545.4m		£545.4m
Cost of sales	(£274.5m)	(£280.4m)		(£280.4m)
Gross Profit	**£277.3m**	£265.0m		£265.0m
Gross Margin %	*50.3%*	*48.6%*		*48.6%*
Operating costs	(£206.6m)	(£203.7m)	(£3.7m)	(£207.4m)
Operating Profit	**£70.7m**	**£61.3m**	**(£3.7m)**	**£57.6m**
Financial income	£0.1m	-		-
Financial expenses	(£0.8m)	(£1.3m)		(£1.3m)
PBT	**£70.0m**	**£60.0m**	**(£3.7m)**	**£56.3m**
PBT Margin %	*12.7%*	*11.0%*		*10.3%*
Taxation	(£14.2m)	(£11.8m)	£0.5m	(£11.3m)
PAT	**£55.8m**	**£48.2m**	**(£3.2m)**	**£45.0m**

Balance Sheet summary

	H1 FY19	H1 FY18
Total non-current assets	£222.1m	£236.2m
Inventories	£156.3m	£167.2m
Receivables	£24.4m	£26.5m
Cash	£21.2m	£15.3m
Financial instruments	£5.5m	£0.1m
Total assets	**£429.5m**	**£445.3m**
Current liabilities	(£140.9m)	(£138.5m)
Non-current liabilities	(£133.9m)	(£192.7m)
Net assets	**£154.7m**	**£114.1m**
Share capital	£2.0m	£2.0m
Share premium/other reserves	£50.8m	£41.4m
Retained earnings	£101.9m	£70.7m
Total equity	**£154.7m**	**£114.1m**