Dunelm

The Home of Homes

Annual Results – FY17

13 September 2017

Andy Harrison

Introduction

Our vision

Dunelm. The Home of Homes.

The number one choice for homewares and furniture.
Famous for style, value, quality and ease of shopping.

£2bn sales
30% - 40% Online

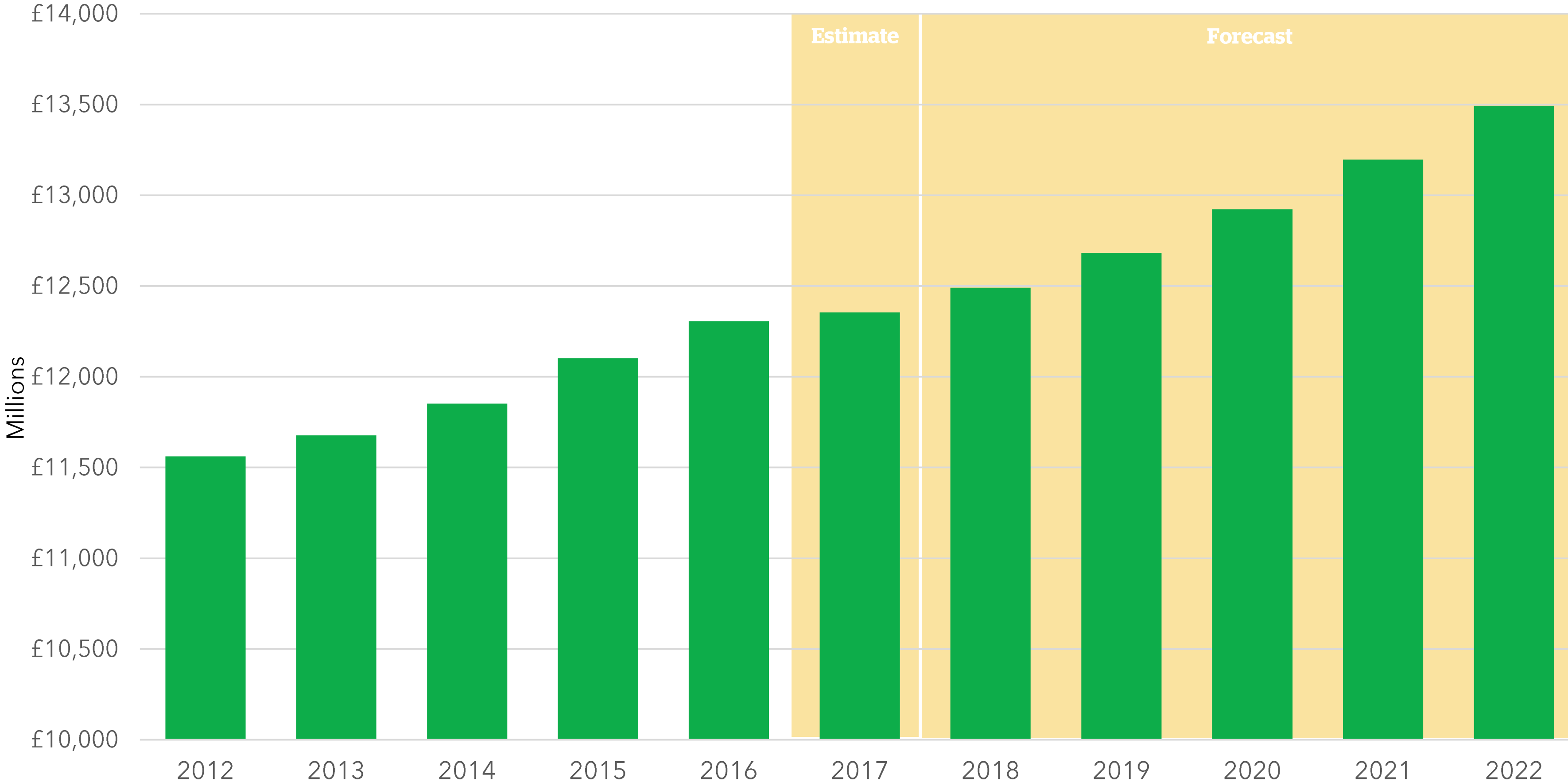
Attractive market opportunity

Homewares	Furniture

• £12bn+ market
• Stable and steady secular growth
• Share gain opportunity
  • Strong market leader
  • Homewares market remains fragmented
  • Just c.8% share
  • c.40 extra stores to go
  • Significant online opportunity
• Average basket c.£40
	• £11bn+ market
	• Share gain opportunity
	  • Relatively recent focus
	  • Just 1% share
	  • Dunelm brand and store network
	  • Customer overlap
	  • Worldstores acquisition
	  • Enhanced product range
	  • Improved delivery economics

Stores are critical for trials, look, touch & feel

Homewares: underlying market growth



*Globaldata research – 2017 estimate, 2018-2022 forecast

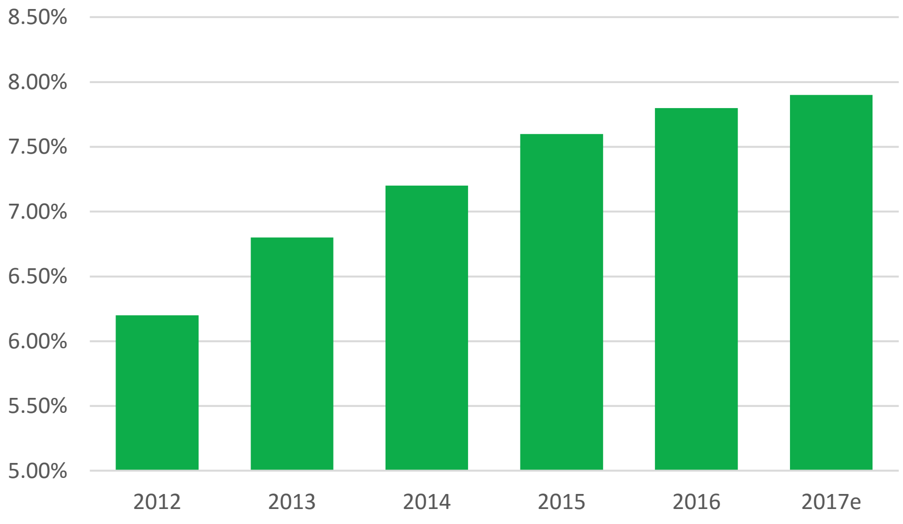
Historical market growth of 2% to 3% per annum

Customers love Dunelm

Which? — **Recommended Provider for Furnishings and Homeware**

HouseBeautiful AWARDS 2017 — **Home Retailer of the year, Gold Award**

Continued market share growth



*Globaldata research

- Continued growth in market share to 7.9%*
- NPS of c.75% in stores
- Great value across all ranges
  - good, better, best
  - 30,000 lines in store
  - 300,000+ lines online (including worldstores)
- 3 million+ customer visits to stores and website each week

Our business goals

Creating **new reasons** for **customers** to shop with Dunelm

Easy and inspiring for **customers** to shop (both instore and online)

A **simple** and **low cost** operating model

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

Our business plans support our goals

	DIGITAL	NEW STORE FORMAT	PRODUCT	FURNITURE	M2M	STORE OPERATING MODEL	SUPPLY CHAIN	KIDDICARE
CREATE NEW REASONS TO SHOP	✓		✓	✓	✓			✓
EASY AND INSPIRING TO SHOP	✓	✓	✓					
A SIMPLE AND LOW COST OPERATING MODEL	✓		✓			✓	✓	
A GREAT PLACE TO WORK FOR COLLEAGUES	✓	✓	✓	✓	✓	✓	✓	✓

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The **Home** of Homes

Keith Down

Business Review

Goal One

Creating **new reasons** for **customers** to shop with Dunelm

FY17 Key achievements

- Acquired Worldstores, Kiddicare and Achica
- Range improvements, more newness
- Introduced bigger Christmas and Summer Living ranges - growth of 48% and 76%, respectively

worldstores EVERYTHING FOR THE HOME

kiddicare

ACHICA

Goal One

Creating **new reasons** for **customers** to shop with Dunelm

FY18 Key objectives

- Build on our market leading homewares offer with more New & Seasonal ranges
- Fantastic customer choice (300,000+ Dunelm products online)
- Strong brands in Dorma, Fogarty, Kiddicare and Achica
- Step up in Furniture – Range, service and economics
- Improve M2M blinds and curtains online
- Kiddicare in Dunelm – a new category bringing new customers

Goal Two

Easy and inspiring for **customers** to shop (both instore and online)

FY17 Key achievements

- 11 major refits
- Rolled out 89 in-line tills, freeing up seasonal space
- Launched tablet-based selling in store
- Acquired 2-man fleet capability allowing nominated and next day white-glove delivery service
- Started 7-day M2M service

Goal Two

Easy and inspiring for **customers** to shop (both instore and online)

FY18 Key objectives

- Mobile POS with chip and pin, offering the whole range in every store
- Improved home delivery options with our own fleet
- A new website – the best of Worldstores and Dunelm
- At least 10 refits with our latest concept
- A personalised offer via email, social and landing pages
- Develop Click & Collect offer

Goal Three

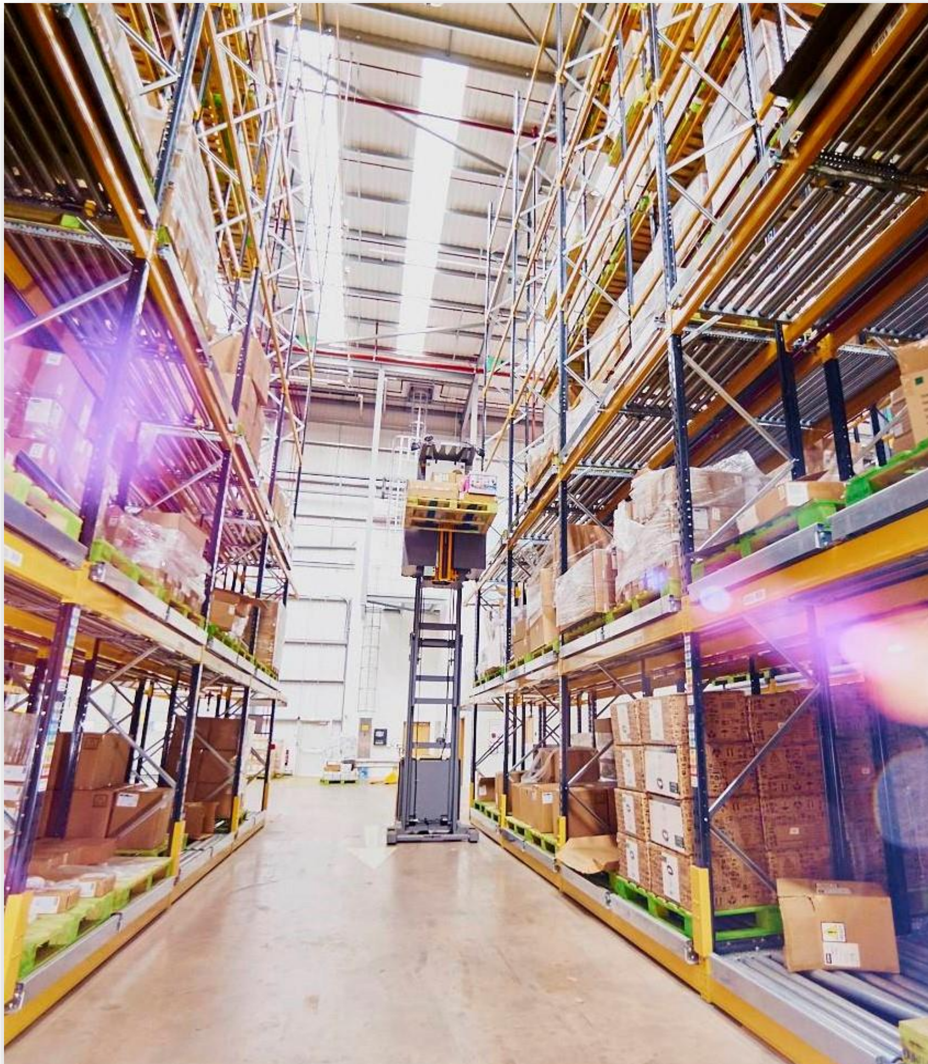
A simple and low cost operating model

FY17 Key achievements

- Improved productivity in Stoke warehouses
- 1-man, Kiddicare and Achica consolidation in Stoke
- Integrated 2-man network into Dunelm Home Delivery
- Improved stock management and streamlined people structure to improve customer service
- Consolidated Head Office functions post acquisition

Goal Three

A **simple** and **low cost** operating model



FY18 Key objectives

- Leverage strong supplier relationships
- Right stock, right time, right place, right route
- Further simplify store operations, freeing up time for service
- Investment in infrastructure allows for continual improvements to supply chain and distribution

Goal Four

A great place to work for colleagues

FY17 Key achievements

- Increased store manager internal appointments from 25% to 73%
- Invested 100,000 hours into colleague training through a mixture of workshops and online modules
- Launched our "always on" colleague feedback, giving colleagues a way to share their continuous feedback

FY18 Key objectives

- Better process, more rewarding jobs
- Home grown talent
- Leadership development
- Dunelm Principles are central

Benefits of the Worldstores acquisition

Provides a massive leap forward to our online and store offer which our customers will love

- Product range, sourcing agility and Furniture focus
- Home Delivery quality for 2-man deliveries
- Technology assets including DSV / fleet management and websites
- Kiddicare growth opportunity

Worldstores overview

- c.£25m-£30m net investment as substitute for internal development cost over a longer period
- 12-18 months to complete rather than 3+ years to develop ourselves
- Acquired £100m of turnover and extended range by c.300,000 SKUs
- £10.7m trading loss in FY17 reflects an annualised run rate loss of £15-£20m
- Expected to reach near break-even after integration benefits in FY18, and a further £10m improvement expected in FY19
- Integration to be completed by end of FY18

Worldstores integration benefits

Anticipated benefits	Impact area	FY18 Profit	FY19 Profit
Online Channel Integration	Sales improvement	£4.0m	£8.0m
Grow Kiddicare	Sales improvement	£1.0m	£2.0m
Supplier terms	Margin improvement	£2.0m	£3.0m
Business Integration	Cost reduction	£2.0m	£5.0m
Supply chain consolidation	Cost reduction	£3.0m	£4.0m
Total PBT benefit		£12.0m	£22.0m

Channel Profitability

- **Stores** - remain very profitable with operating margins, including fixed cost absorption, of c.14%-15%
- **Dunelm 1-Man Home Delivery** – good marginal contribution, already generating operating margin of c.10% with further scale benefits anticipated
- **Dunelm 2-Man Home Delivery** - broadly break-even but sub scale prior to acquisition
- **Worldstores 2-Man Home Delivery** - sub scale delivery network and high customer acquisition costs render this significantly unprofitable
- **Combined 2- Man operation** - will improve service and delivery drop density, and reduce customer acquisition cost, improving profitability
- **Kiddicare online** - marginally unprofitable but should benefit from Kiddicare category roll out in-store and increased brand awareness
- **Achica -** marginally unprofitable, business improvement plan

Dunelm's key strengths

Well positioned for growth – in-store and online	• #1 in Homewares and can grow • Furniture opportunity • Momentum in Online– now c.20% sales
A leading customer offer	• Product quality, value and range • Multichannel convenience • Friendly service
Low cost operating model	• 200 stores target whilst maintaining low cost estate • Lean support functions • Working and maintenance capital light and cash-generative

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Finance Review

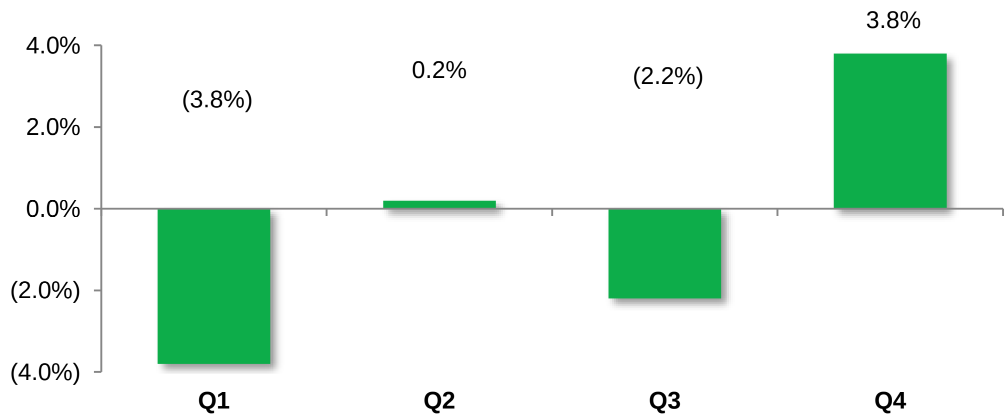
Financial highlights

	FY17			FY16	Growth	
	Dunelm	Worldstores	Total Group		Dunelm	Total Group
Sales	**£901.1m**	**£54.5m**	**£955.6m**	**£880.9m**	**£20.2m**	**£74.7m**
LFL sales growth	(0.5%)	n/a	**(0.5%)**	2.5%		
Gross margin	49.8%	33.9%	**48.9%**	49.8%	0bps	(90bps)
EBITDA before exceptional costs			**£142.2m**	**£154.3m**		(£12.1m)
Operating profit before exceptional costs	£122.4m	(£10.7m)	**£111.7m**	£129.3m	(£6.9m)	(£17.6m)
Financial items	(£2.4m)	-	**(£2.4m)**	(£0.4m)	(£2.0m)	(£2.0m)
Profit before tax and exceptional costs	**£120.0m**	**(£10.7m)**	**£109.3m**	**£128.9m**	**(£8.9m)**	**(£19.6m)**
Exceptional operating items	(£1.9m)	(£15.0m)	**(£16.9m)**	-	(£1.9m)	(£16.9m)
Operating profit	£120.5 m	(£25.7m)	**£94.8m**	£129.3m	(£8.8m)	(£34.5m)
Profit before tax	**£118.1m**	**(£25.7m)**	**£92.4m**	**£128.9m**	**(£10.8m)**	**(£36.5m)**
Tax			**(£19.3m)**	(£26.6m)		£7.3m
Effective tax rate			**20.9%**	20.6%		(30bps)
Profit After Tax			**£73.1m**	£102.3m		(£29.2m)
EPS (fully diluted) after exceptional costs			**36.1p**	50.3p		(14.2p)
Dividend per share			**26.0p**	25.1p		0.9p

Sales growth

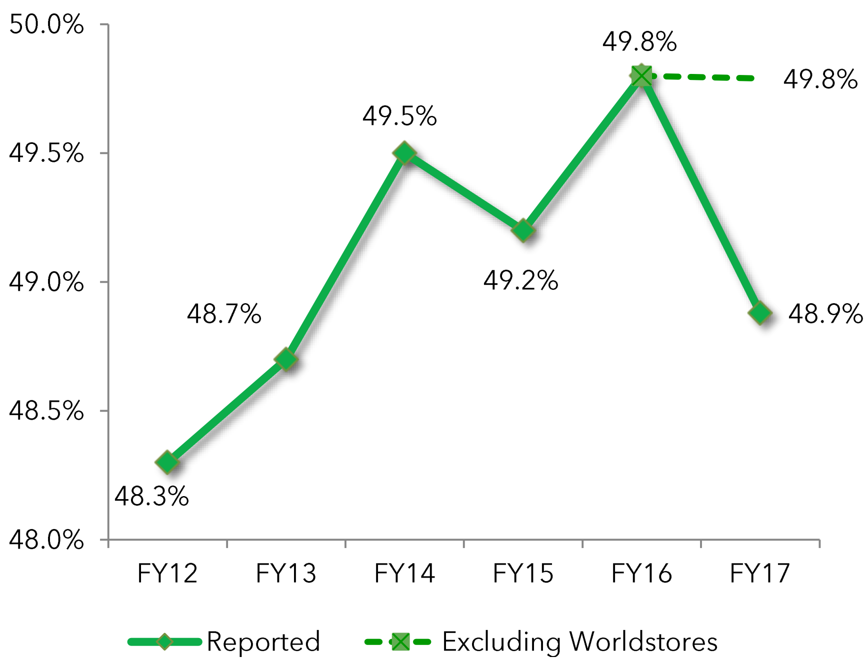
	FY17	Growth, £	Growth, %
LFL stores	£758.4m	(£18.7m)	(2.4%)
Online	£76.5m	£14.5m	23.5%
Total LFL	**£834.8m**	**(£4.1m)**	**(0.5%)**
Non-LFL stores	£66.3m	£66.3m	n/a
Total Dunelm excl. Worldstores	**£901.1m**	**£20.3m**	**2.3%**
Worldstores	£54.5m	£54.5m	n/a
Total	**£955.6m**	**£74.7m**	**8.5%**

Quarterly LFL Growth



Gross Margin trends & drivers

Gross margin evolution

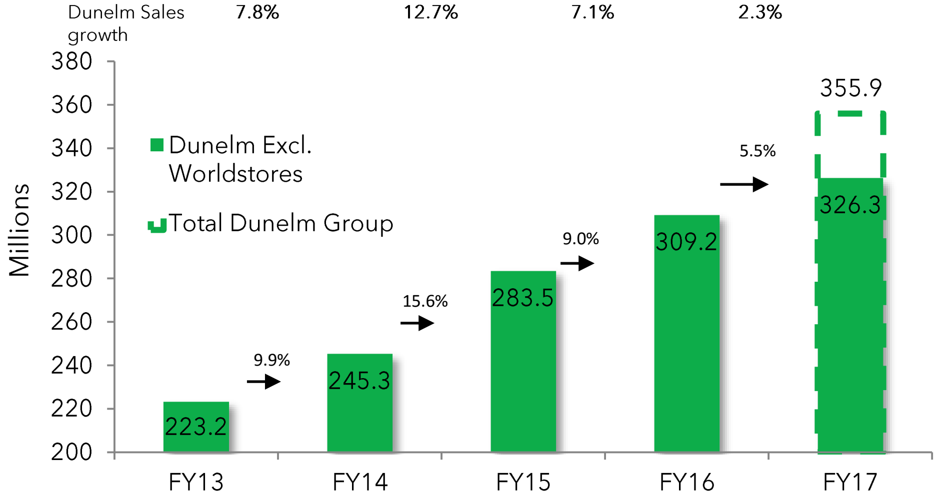


Key drivers

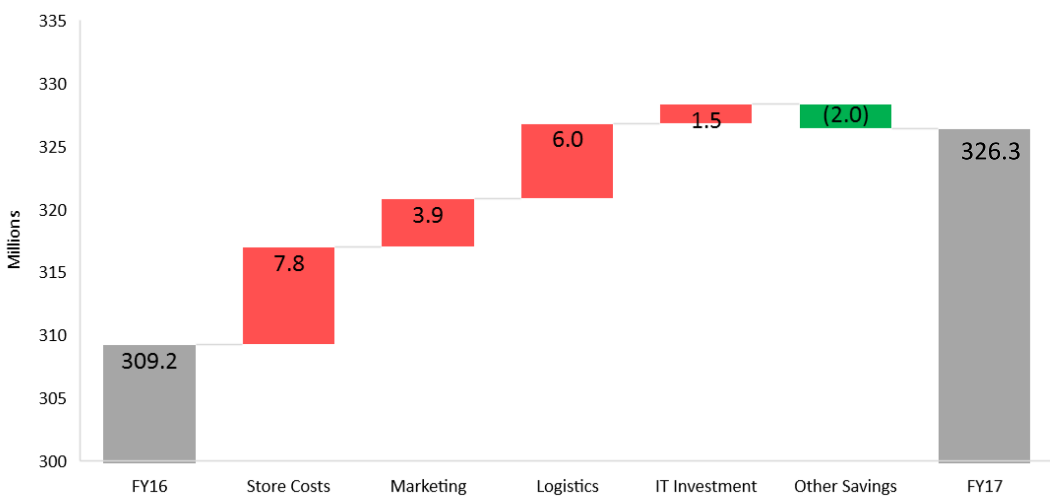
- Excluding Worldstores, gross margin flat year-on-year
- Worldstores margin of 34% diluted margin for 7 months post acquisition
- FY17 Q4 margin impacted by:
  - Increased newness generating higher end of season markdown
  - Increased seasonal sales at lower margin
- As expected, retail price increases offset cost price increases in FY17

Operating costs (excluding exceptional items)

Operating cost trend



FY16 to FY17 bridge



Store costs

- Reflects inflation, 7 new stores and 11 refits
- Increase in NLW largely offset by productivity savings

Marketing

- Increase in marketing for brand launch and digital marketing

Logistics

- Increased volumes from Online sales and Stoke 2 changes earlier in the year

IT

- Continued investment in recruitment and systems

Operating cost investments FY18

Overall, we expect operating cost growth to be broadly in line with sales growth

Stores

c.10 new stores opening

Continued investment in store refits

Logistics

Reversal of supply chain disruption in Q2/Q3

Continued Online sales growth

Efficiencies from combined network

Marketing

Continued investment in digital marketing – increased efficiency post acquisition

Continued investment in brand and seasonal campaigns

IT and Head Office

Depreciation growth from prior investments

Development of new website, till systems and mobile POS

Exceptional operating items

Exceptional Items	Cash	Non-cash	FY17	Comments
Acquisition costs – professional fees	£1.3m		£1.3m	£1m part of initial £8.5m consideration
Welcome payments for continuation of supply	£7.3m		£7.3m	Expected working capital outflow
Fair value adjustments		£0.5m	£0.5m	Non-cash write-off
Key management retention plans	£0.5m	£2.2m	£2.7m	Up to 3 year package
Asset impairment		£2.9m	£2.9m	IT and brand assets
Integration costs	£2.2m		£2.2m	Relates to warehouse and head office functions
Total Exceptional costs	**£11.3m**	**£5.6m**	**£16.9m**	

Around £7m of exceptional items are expected in FY18 relating to retention plans and continued integration; of which around £4m will be cash out-flow

Financial Items/ Tax/ EPS

	FY17	FY16
Interest	(£1.8m)	(£1.5m)
Forex	(£0.6m)	£1.1m
Financial Items	**(£2.4m)**	**(£0.4m)**
Taxation	(£19.3m)	(£26.6m)
Effective tax rate	20.9%	20.6%
Earnings per Ordinary Share – basic	36.3p	50.5p
Earnings per Ordinary Share - basic before exceptional costs	43.1p	50.5p
Earnings per Ordinary Share – diluted	36.1p	50.3p
Earnings per Ordinary Share - diluted before exceptional costs	42.8p	50.3p

Operating Cash Generation

	FY17	FY16	Comments
Operating Profit before exceptional items	**£111.7m**	**£129.3m**	
Depreciation and amortisation	£30.5m	£25.0m	
EBITDA before exceptional items	**£142.2m**	**£154.3m**	
Working capital movement	(£26.2m)	£18.3m	Non-recurring working capital investment
Other non-cash movements	(£0.3m)	£1.4m	
Net interest	£0.1m	£0.1m	
Tax paid	(£25.0m)	(£25.9m)	
Exceptional items	(£11.3m)	-	c.£4m expected in FY18
Net cash from operations	**£79.5m**	**£148.2m**	
Capital expenditure	(£58.0m)	(£39.8m)	
Payment to secured creditor on acquisition	(£7.5m)	-	One-off
Proceeds on disposal of property	£0.2m	£2.0m	
Free cash flow	**£14.2m**	**£110.4m**	c.£40m non-recurring investment in FY17
Free cash flow : Operating profit	13%	85%	
Cash conversion[1]	71%	115%	

[1] Net cash from operations as a proportion of operating profit

Non-recurring working capital investment

	FY17	FY16
Stock decrease / (increase)	(£45.0m)	£16.5m
Receivables decrease / (increase)	(£4.6m)	(£1.2m)
Payables increase	£23.4m	£3.0m
Overall movement	**(£26.2m)**	**£18.3m**

- Stock increase driven by 4 main areas:
  1. Earlier intake of Seasonal stock to improve availability (£17.0m)
  2. New stores opened in the year (£7.0m)
  3. Cost price increases (£11.0m)
  4. End of season due to increased newness (£7.2m)
- Payables increase reflects increase in Worldstores creditors as standard payment terms are established
- Small working capital reversal expected next year

Capital Investment – FY17

	FY17	FY16	Comments
Refits & small works	£19.7m	£11.0m	11 refits in new store format
IT	£12.7m	£7.2m	Includes Worldstores capital expenditure
Stoke	£3.3m	£11.9m	
Maintenance Capex	**£35.7m**	**£30.1m**	
New stores	£11.7m	£7.6m	7 new stores
Fogarty acquisition		£4.8m	
Freehold Properties	£13.1m		3 Freehold investments
Investment Capex	**£24.8m**	**£12.4m**	
Total	**£60.5m**	**£42.5m**	

Capital Investment – FY18 Expectation

	FY18	Comments
Refits & small works	£25.0m	Continued investment in refits and store format improvements – estimated cost of £25m
IT	£15.0m	Investment continues, including new combined website, estimated £15m in total
Maintenance Capex	**£40.0m**	
New stores	£15.0m	c.10 new stores & 2 relocations – average fit out cost c.£1.3m
Freehold Properties	£3.0m	Building Freehold store in Darlington – c.£3.0m
Investment Capex	**£18.0m**	
Total	**£55.0m - £60.0m**	

Net Cash Generation

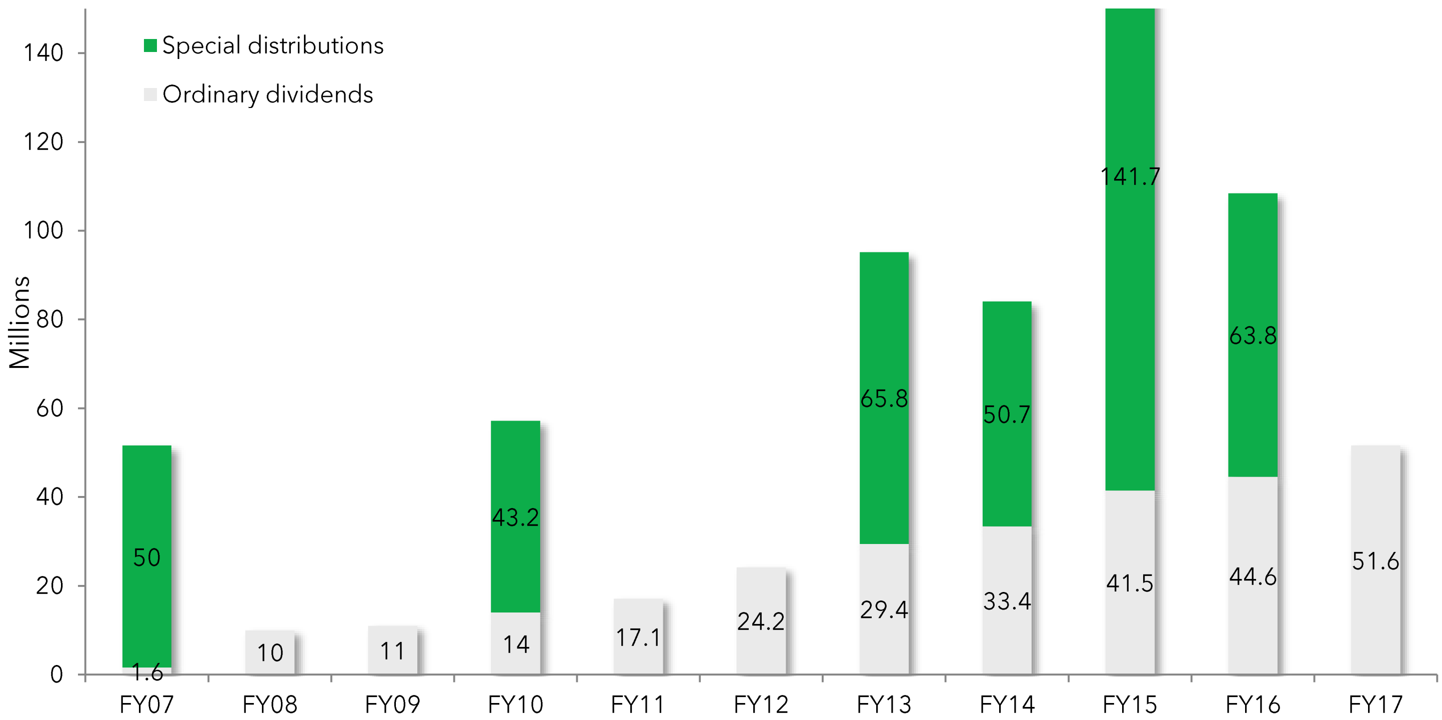
	FY17	FY16
Free cash flow	**£14.2m**	**£110.4m**
Ordinary dividends paid	(£51.6m)	(£44.6m)
Special distribution paid	-	(£63.8m)
Purchase of treasury shares	(£4.2m)	(£7.8m)
Other	(£1.2m)	£0.5m
Change in net debt	**(£42.8m)**	**(£5.3m)**
Opening net debt	(£79.3m)	(£74.0m)
Year end net debt	**(£122.1m)**	**(£79.3m)**
Daily average net debt	(£92.2m)	(£50.7m)

Net Debt including Worldstores

- Board is targeting net debt in the range of 0.25 – 0.75 x net debt/EBITDA
- 12 month EBITDA:
  - £142.2m before exceptional costs
  - £128.2m after exceptional costs
- Period end net debt of £122.1m. This equates to 0.86x EBITDA before exceptional costs
- We will regularly review the net debt position and return surplus capital as appropriate

RCF	
Facility	£150m RCF
Expiry	February 2020
Covenants • Leverage • Fixed charge cover	 < 2.5x > 1.75x

Cash Returns to Shareholders



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

Chart shows actual cash payments in each financial year *Based on average share price for FY07-FY17

Total cash returns since IPO = £655.1m (343.4p per share)

Ordinary dividend cover is 1.4x including exceptional items and 1.6x excluding exceptional items

FY17 cover below the Dividend policy of 1.75 – 2.25x cover, excluding exceptional items

Reflects the significant investment decisions made in respect of Worldstores and the Board expects good future EPS growth

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Dunelm – An exciting future

Outlook

- An encouraging start to the new financial year
- Good LFLs in first two months, boosted by weather comparatives
- Opening 8 new stores in first half of FY18, 4 of which are already open
- Worldstores integration remains on track

In-store + Online = greater than the sum of the parts

In-store benefits	Online benefits
Look, touch & feel Friendly advice Take home today 95% within 20min drive	Extended ranges Home Delivery convenience Search and compare Easy to browse

&

Combined proposition

Convenience in Click or Reserve & Collect

In store ordering for Home Delivery

Easier shopping trip

An exciting future

- Significant share gain opportunity in large, attractive markets
- Strong market leader in Homewares – strong brands and national store network
- Worldstores brings step change in online scale, capability and range
- A step change in furniture offer
- Strong cashflows, good margins and balance sheet strength
- Clear and ambitious plans
    - £2bn of sales from winning instore and online
    - The biggest, and best, multichannel homewares retailer

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Appendix

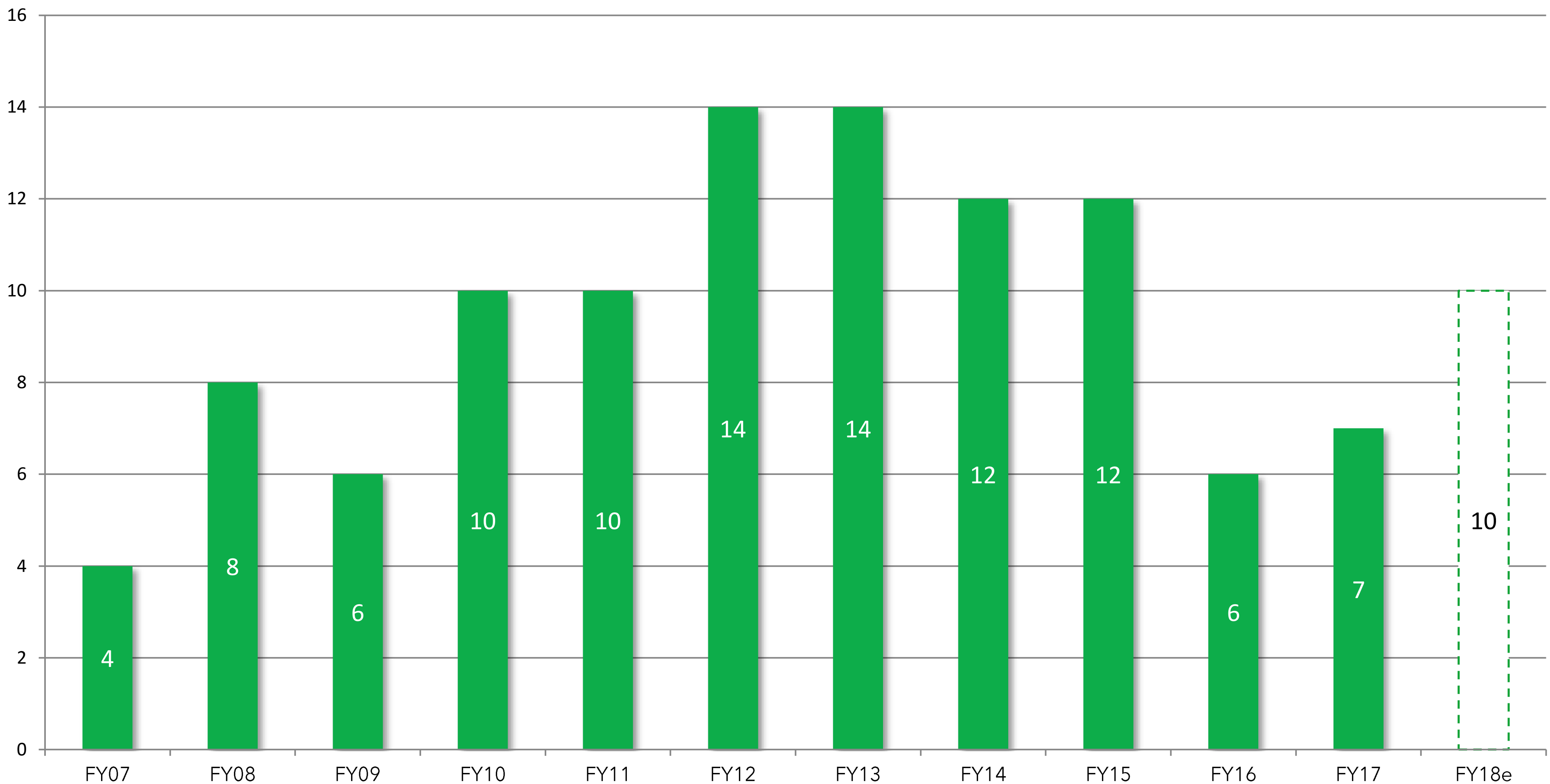
Worldstores – Cash cost of acquisition

Appendix

		Cash Movements
FY17:		
Trading loss post acquisition	(£10.7m)	
Tax on trading loss	£2.2m	
		(£8.5m)
Exceptional items (cash)	(£11.3m)	
Tax on exceptional items	£2.4m	
		(£8.9m)
Working capital benefit on creditor terms	£8.1m	
Payment of secured creditor	(£7.5m)	
Fixed Asset investment – IT Systems and warehouse	(£1.6m)	
		(£1.0m)
Cash Outlay FY17		**(£18.4m)**
Future expected:		
Worldstores trading net of £12m integration benefits in FY18	(£3.0m)	
Tax on trading loss	£0.6m	
		(£2.4m)
Exceptional items (cash)	(£4.0m)	
Tax on exceptional items	£0.8m	
		(£3.2m)
Fixed Asset investment – IT systems		**(£5.0m)**
Total Expected Cash Outlay*		**(£29.0m)**

*Excludes future potential LTIP's for management in 2019/20 which will be funded by trading performance and treated as non-exceptional

Store Openings by Year



Balance Sheet Summary

Appendix

	1st July 2017	2nd July 2016
Total non-current assets	£222.9m	£188.9m
Inventories	£165.3m	£116.6m
Receivables	£26.5m	£19.2m
Cash	£17.4m	£14.9m
Financial instruments	£1.1m	£6.8m
Total assets	**£433.2m**	**£346.4m**
Current liabilities	(£140.5m)	(£108.2m)
Non-current liabilities	(£182.6m)	(£138.6m)
Net assets	**£110.1m**	**£99.6m**
Share capital	£2.0m	£2.0m
Share premium/other reserves	£44.1m	£50.7m
Retained earnings	£64.0m	£46.9m
Total equity	**£110.1m**	**£99.6m**

LFL Historic Growth

Appendix