



Interim Results - FY20

12 FEBRUARY 2020





Interim Results – FY20

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



First half performance

Nick Wilkinson – CEO



Highlights

+5.6%
Total LFL sales

+120 bps
Gross margin¹

£83.6m
Profit before tax²

£64.4m
Free cash flow³

8.0p
Interim dividend

+8.8%
Unique active customers⁴

1 Gross margin is calculated as gross profit divided by revenue

2 PBT is shown on an IFRS 16 basis. The PBT in the prior period of £70m was prepared on an IAS 17 basis

3 Free cash flow is defined as net cash generated from operating activities less net cash used in investing activities and repayment of, and interest on, lease liabilities

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

WHAT WE HAVE DONE IN H1

Launched our new digital platform

- ✔ Customer experience enhancements at launch:
 - Improved speed (mobile 2X) and search functionality
 - Better checkout experience
 - Named (1-man) or nominated (2-man) delivery date
 - Click & Collect functionality and mixed basket transactions
- ✔ Removed capacity constraints from website growth

Online LFL sales growth:

+33.2%

vs H1 FY19

Multichannel sales participation:

19.2%

Up 3.5% pts vs H1 FY19



Launched our new digital platform (continued)

Built an in-house, modern, flexible and cloud-native digital platform to step change our retail innovation capabilities

Transformed our tech teams

- New organisational model
- Agile ways of working in tech and within the business
- Built internal digital engineering team
- Invested in people to transform culture

Transformed our tech architecture

- Serverless architecture (based on Amazon Web Services)
- Single page applications
- Language independent microservices
- Channel - agnostic shared services



WHAT WE HAVE DONE IN H1

Extended product choice and value

- ✓ Improved product quality, style and value
- ✓ Good, better, best architecture rebalanced, with more choice at lower price points
- ✓ Furniture offer continued to evolve with more choice and exclusive designs

Homewares market outperformance:

+3.7% pts

6 months to Dec 19

Furniture LFL sales growth:

+41.6%

vs H1 FY19

INTERIM RESULTS – H1 FY20



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WHAT WE HAVE DONE IN H1

Broadened and deepened our customer base

- ✓ Successful 'This Morning' sponsorship helped to drive improvements to all brand metrics
- ✓ Brand awareness increased to 85.2%
- ✓ 'Home of Homes' campaign continued with three more families
- ✓ Improved engagement with social channels and influencers

Unique active customers:

+8.8 %

12 months to Dec 19

Brand consideration:

+240 bps

Rolling 12wk average to Dec 19

INTERIM RESULTS – H1 FY20





Financial review

Laura Carr - CFO



FINANCIAL REVIEW

Financial summary

	H1 FY20 <i>Post IFRS 16</i>	H1 FY19	Growth
Sales	£585.0m	£551.8m	+6.0%
LFL Sales growth	+5.6%	+7.8%	
Gross margin	51.5%	50.3%	+120bps
Profit before tax ¹	£83.6m	£70.0m	+19.4%
Free cashflow	£64.4m	£91.2m	(£26.8m)
Net debt ²	(£67.7m)	(£72.9m)	+£5.2m
Diluted earnings per share ³	33.2p	27.5p	+20.7%
Interim dividend	8.0p	7.5p	+6.7%

¹ FY20 profit before tax is shown on a post IFRS 16 basis and FY19 profit before tax is shown on an IAS 17 basis

² Net debt (excluding IFRS 16 lease liabilities) is defined as cash and cash equivalents less total borrowings net of unamortised issue costs

³ Diluted EPS, FY20 is post IFRS 16 and FY19 is on an IAS 17 basis

IFRS 16 'Leases'

H1 P&L impact of IFRS 16	£m
Removal of operating lease expenses previously charged (i.e. rent)	£23.9m
Depreciation charged on right of use asset	(£22.6m)
Increase in operating profit	£1.3m
Interest charged on lease liabilities (increased financing costs)	(£2.6m)
Reduction in profit before tax	(£1.3m)

- First time adoption of IFRS 16 using modified retrospective approach. Comparatives are NOT restated
- No impact to cash flow and will not change the way we manage the business
- Profit before tax reduces (see above) and is £1.3m lower in H1
- EBITDA increased in H1 by £23.9m (but not used internally as a KPI)
- Balance sheet grossed up for "right of use" assets and lease liabilities

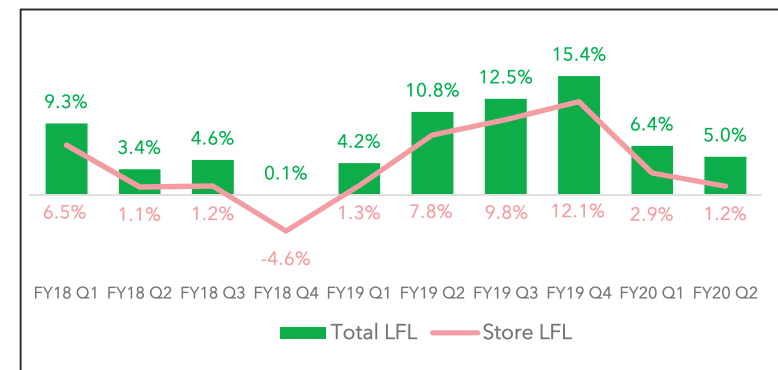


Sales growth

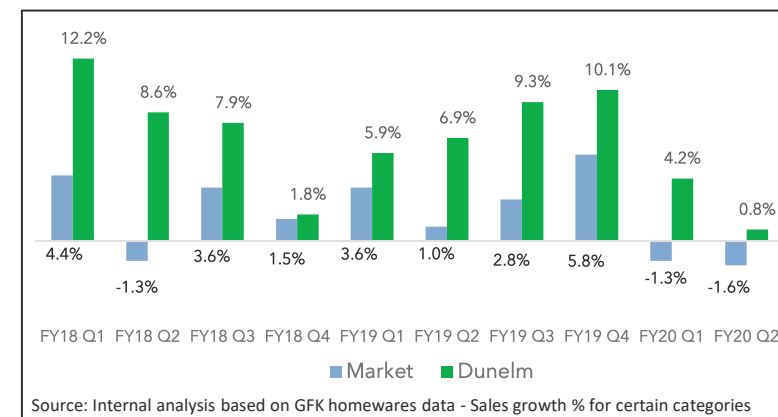
	H1 FY20	Growth £	Growth %
LFL Stores	£485.2m	+\$9.4m	+2.0%
dunelm.com	£83.4m	+\$20.8m	+33.2%
Total LFL	£568.6m	+\$30.2m	+5.6%
Non-LFL Stores	£16.4m	+\$6.6m	
Total Core Dunelm	£585.0m	+\$36.8m	+6.7%
Closed businesses	-	(£3.6m)	
Total Group	£585.0m	+\$33.2m	+6.0%

- Strong Total LFL performance especially given the strength of the comparative period (FY19 H1 Total LFL 7.8%)
- Following 18 months of growth, the homewares market declined during the first half. Dunelm’s growth outperformed the market
- Two new stores openings in H1 FY20: one new freehold and one relocation

Quarterly LFL growth

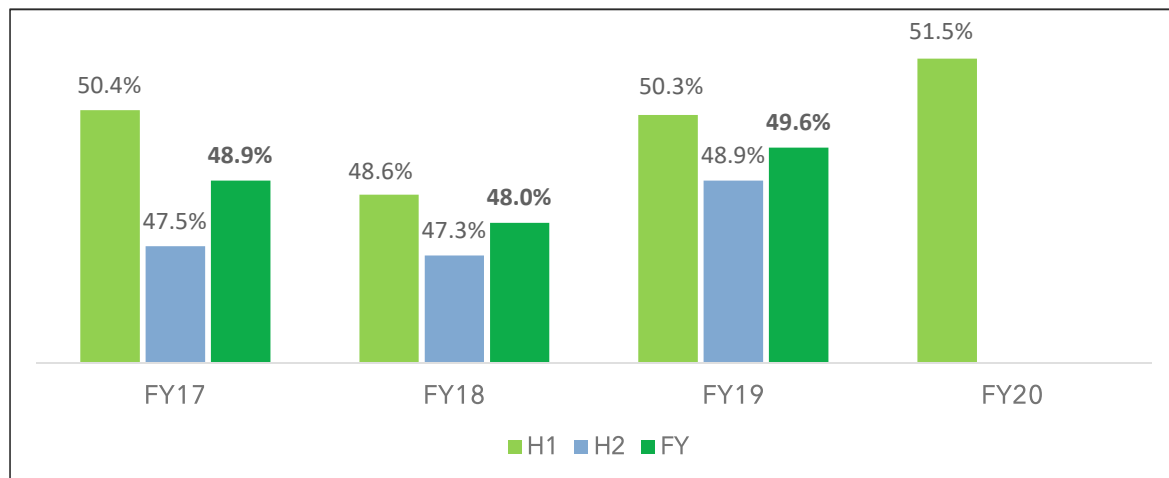


Quarterly homewares performance vs market



FINANCIAL REVIEW

Gross margin



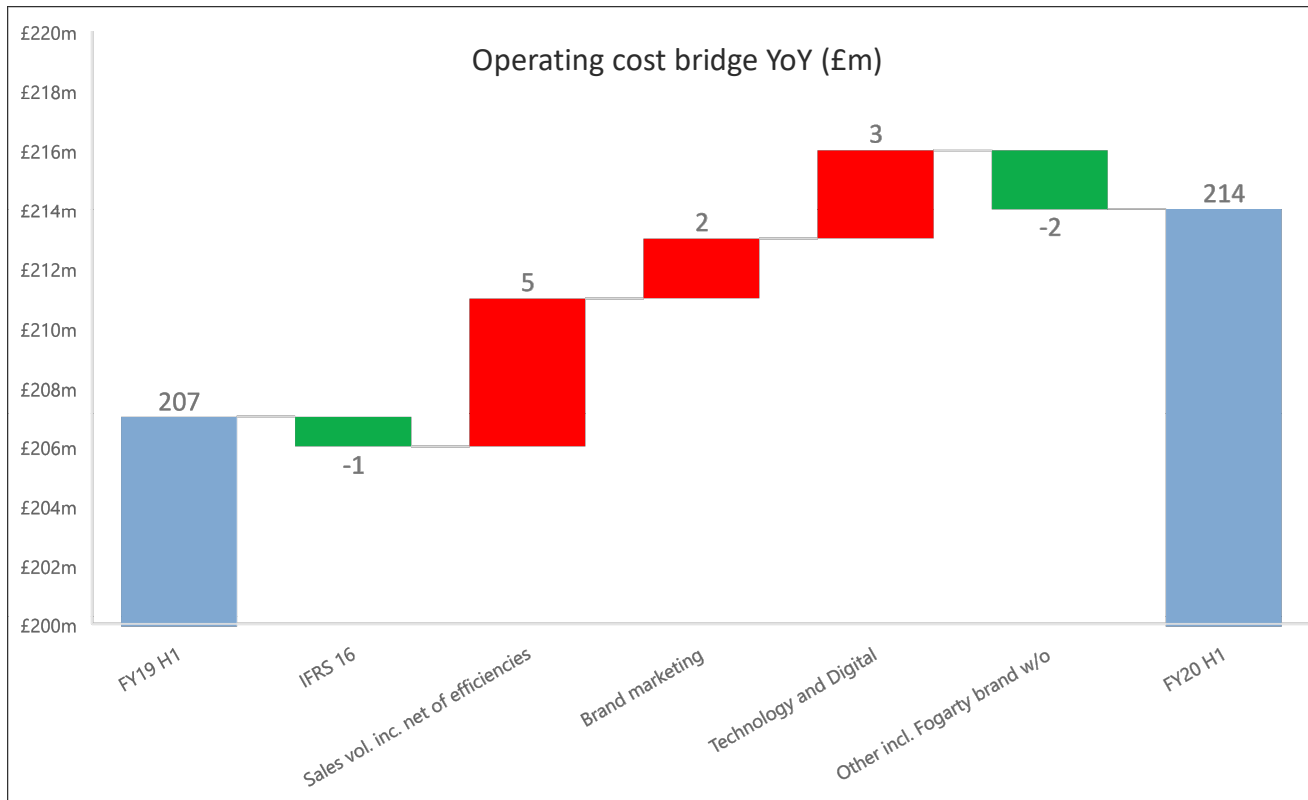
H1 FY20 margin rate increase of 120bps vs LY due to:

- Sourcing gains
- Lower end of season clearance

We expect H2 margin % to move forward vs H2 LY but at a lower rate of improvement than H1



Operating costs



- Operating costs increased by £6.9m but cost to sales ratio improved to 36.5% (FY19 H1 37.4%)
- Higher sales volume drives additional cost in stores and supply chain
- Further investments in brand marketing and technology to drive long term growth
- Digital development costs expensed from launch of new platform
- Ongoing focus on efficiency drivers to offset inflationary pressures such as National Living Wage

Illustrative channel contribution

	Stores	Online
Sales proportion	85%	15%
Gross margin: <i>Returns rate consistent across channels</i>	~ 50%	
Marginal costs: <i>E.g. variable costs including store labour, paid marketing, logistics, customer service centre, warehousing and distribution labour</i>	Lower	Higher
Fixed costs: <i>E.g. occupancy, base store labour including management, brand marketing, warehousing, customer service centre</i>	Higher	Lower
Channel contribution	~ 20%	
Central costs: <i>including head office functions, technology costs and financing</i>	~ (8%)	
Full year profit before tax	~ 12%	

- Simplified view of current channel economics (within each channel there are multiple fulfilment routes to customer)
- Gross margins are consistent across channels
- Channel contribution is broadly similar due to the different mix of fixed and variable costs in stores and online
- Each fulfilment route is profitable with an opportunity to further improve through scale and productivity initiatives
- Focused on growing sales across the total retail system with significant opportunity to grow market share
- We will manage development of the cost base with rigorous capital discipline and operational grip



FINANCIAL REVIEW

Capital investment

	H1 FY20	H1 FY19	Comments
New stores	£3.6m	£1.5m	FY20: 2 new stores (incl. 1 relocation); FY19: 1 relocation
Refits (incl. small works)	£3.3m	£4.0m	FY20: 5 refits (incl. 2 major); FY19: 5 refits (incl. 3 major)
Technology	£4.2m	£8.8m	Includes new digital platform, capitalised up to launch
Supply Chain	£0.2m	£0.7m	
Other	£0.2m	£0.7m	
Freehold properties	£5.6m	-	Acquisition of Bristol Cribbs Causeway
Total	£17.1m	£15.7m	

- Plan to open 2-3 new superstores in H2
- As previously highlighted, following the launch of the new digital platform, digital development costs will be expensed to the P&L. Estimated P&L impact ~ £5m in H2
- FY20 full year capex ~ £26-28m (FY19: £25.5m)



FINANCIAL REVIEW

Free cash flow

	H1 FY20	H1 FY19
Operating profit ¹	£87.6m	£70.7m
Depreciation and amortisation ²	£16.3m	£22.1m
Depreciation of right of use asset (IFRS 16)	£22.6m	-
EBITDA ¹	£126.5m	£92.8m
Working capital movement	£8.7m	£21.4m
Tax paid	(£28.0m)	(£7.9m)
Capital expenditure (net of disposal proceeds)	(£17.1m)	(£15.7m)
Repayment of lease liabilities (IFRS 16)	(£24.0m)	-
Interest & other non-cash movements	(£1.7m)	£0.6m
Free cash flow	£64.4m	£91.2m
Free cash flow : Operating profit ¹	74%	129%

1 Operating profit and EBITDA for FY20 shown on a post IFRS 16 basis and FY19 shown on an IAS 17 basis
 2 Net of disposal proceeds

Net cash generation

	H1 FY20	H1 FY19
Opening net debt	(£25.3m)	(£124.0m)
Free cash flow	£64.4m	£91.2m
Dividends paid	(£106.0m)	(£39.4m)
Other	(£0.8m)	(£0.7m)
Closing net debt ¹	(£67.7m)	(£72.9m)
Net debt / EBITDA ²	0.31x	0.48x
Weekly average net debt	(£24.2m)	(£80.9m)

- Focused on maintaining strong balance sheet:
 - FY20 target net debt range of 0.2 - 0.6x EBITDA
 - (updated leverage range to reflect EBITDA increases under IFRS 16)

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

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

FY20 guidance

- Expect H2 sales growth to be lower than H1 due to tougher comparatives
- Gross margin will improve in H2 year over year but at lower rate than H1
- Digital development costs now expensed to the P&L (since new platform went live) ~£5m H2 impact
- Operating costs as % of sales broadly similar to FY19
- IFRS 16 will reduce FY20 PBT by ~£2.7m
- Effective tax rate c. 60bps above statutory headline rate
- Full year capex expected to be between £26-28m
- Small working capital outflow

Revenue disclosures in FY21:

From next financial year, we will only disclose Total Like for Like sales as we believe this is a more meaningful measure of performance of the total retail system





Strategy and outlook

Nick Wilkinson - CEO

Customer 1st in a fast changing world

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

- Customer needs and technology continue to evolve at pace
- Our physical store experience is being enhanced and extended by modern digital capabilities
- This total retail system represents a new phase of growth and opportunity
- Our Customer 1st Strategy remains unchanged
- Accelerating our efforts to continuously improve and create new capabilities

What we will do next

Area of strategic focus	Why it matters
Further extend product choice and value	Product is at the heart of our differentiated customer proposition
Enhance our customer experience	We want to digitise our total retail system, and are now well positioned for innovation
Continue to broaden and deepen our customer base	The brand is still maturing, able to add more customers, and play a bigger role
Build our capabilities	We continue to evolve to stay relevant. Entrepreneurial origins are alive and well, with a total commitment to doing the right thing for the long term



WHAT WE WILL DO NEXT

Further extend product choice and value

- Extend product range to reinforce our specialist position
- Meet growing demand for sustainable products at affordable prices
- Extend our committed supplier group, especially in newer categories



Enhance our digital and physical customer experience

- Improve site functionality and performance (e.g. tools for cross-selling and up-selling)
- Extend Click & Collect offer to more of our range
- Improve functionality for tablet-based selling in stores
- Continue refit programme to refresh store estate and improve furniture offer in c.20 stores



WHAT WE WILL DO NEXT

Continue to broaden and deepen our customer base

- Exciting new partnership and opportunity to reach new audience with Channel 4's 'First Dates'
- 'Home of Homes' campaign continues with new Spring family
- Building relationships with key social influencers
- Continue to open new stores in new catchments, and test a smaller high street format



Build our capabilities

- Accelerate our sustainability capabilities, building on history of practical actions and ambitious about the role we can play
- Developing our data, insight and analytics capabilities
- Productivity initiatives in store and supply chain to mitigate inflationary pressures of the National Living Wage
- Expand our supply chain capacity, especially in 1-man e-commerce fulfilment





Summary

- Strong first half performance delivering further growth and profitability and building foundations for the future
- Q3 has started well with a good Winter Sale performance and we expect full year PBT to be slightly ahead of the top of the range of analyst expectations¹
- Watching brief on development of Coronavirus and potential impact on goods sourced from China. To date we have not assumed any material impact to our supply chain or full year financials
- Outlook for consumer spending remains uncertain, but we are well placed to manage through economic challenges
- We are in a new phase of growth, enhancing and extending our market leading proposition and total retail system



Q&A

The image shows a bedroom with a bed in the center. The bed has a white duvet cover and pillows with a vibrant floral pattern in shades of blue, green, and purple. A green semi-transparent overlay covers the left side of the image, containing the word 'Appendix' and a list of items. To the left of the bed, there is a potted plant with large green leaves in a woven basket. The background wall is a light, neutral color.

Appendix

- Investment case
- P&L summary
- Balance sheet summary
- Interest, tax and dividends
- Working capital movement
- LFL historic growth

Investment case

Strongly positioned to drive long term earnings growth

Brand purpose	A brand appealing to a wide range of consumer segments, with potential for significant market share gains in a large, fragmented market
Customer offer	A distinctive and specialist offer - quality, value and style from a product portfolio that is largely own brand and sourced from long-term committed suppliers - available to browse, buy and fulfil across channels
Total retail system	A total retail system - stores and online offers are complementary, and the total system is now well positioned for innovation and growth
Financial position	A highly cash generative business with a strong balance sheet, no legacy issues (no DB pension and low cost lease commitments) and a track record of returning surplus cash
Shared values	Entrepreneurial origins alive and well with a total commitment to doing the right thing for the long term, and to being a great place to work

P&L Summary

	H1 FY20 Pre IFRS 16	Impact of IFRS 16	H1 FY20 Post IFRS 16	H1 FY19	Change
Revenue	£585.0m		£585.0m	£551.8m	£33.2m
Cost of sales	(£283.9m)		(£283.9m)	(£274.5m)	(£9.4m)
Gross profit	£301.1m		£301.1m	£277.3m	£23.8m
Gross margin %	51.5%		51.5%	50.3%	120bps
Operating costs	(£214.8m)	£1.3m	(£213.5m)	(£206.6m)	(£6.9m)
Operating profit	£86.3m	£1.3m	£87.6m	£70.7m	£16.9m
Financial income	-		-	£0.1m	(£0.1m)
Financial expenses	(£1.4m)	(£2.6m)	(£4.0m)	(£0.8m)	(£3.2m)
Profit before tax	£84.9m	(£1.3m)	£83.6m	£70.0m	£13.6m
PBT margin %	14.5%		14.3%	12.7%	1.6%
Taxation	(£16.2m)	£0.2m	(£16.0m)	(£14.2m)	(£1.8m)
Profit after tax	£68.7m	(£1.1m)	£67.6m	£55.8m	£11.8m



APPENDIX

Balance sheet summary

	H1 FY20	H1 FY19
Total non-current assets	£493.8m	£222.1m
Inventories	£157.4m	£156.3m
Receivables	£11.6m	£24.4m
Cash		£21.2m
Financial instruments	£1.3m	£5.5m
Total assets	£664.1m	£429.5m
Current liabilities	(£207.0m)	(£140.9m)
Non-current liabilities	(£312.8m)	(£133.9m)
Net assets	£144.3m	£154.7m
Share capital	£2.0m	£2.0m
Share premium/other reserves	£43.9m	£50.8m
Retained earnings	£98.4m	£101.9m
Total equity	£144.3m	£154.7m



APPENDIX

Interest, tax and dividends

	H1 FY20	H1 FY19
Interest and other financial items	(£4.0m)	(£0.7m)
PBT ¹	£83.6m	£70.0m
Tax	(£16.0m)	(£14.2m)
Effective tax rate	19.1%	20.3%
PAT	£67.6m	£55.8m
Basic EPS	33.5p	27.6p
Diluted EPS	33.2p	27.5p
Interim dividend	8.0p	7.5p

Movement in interest and other financial items includes (£2.6m) of IFRS 16 interest charges

INTERIM RESULTS – H1 FY20

¹ FY20 is shown on an IFRS 16 basis and FY19 was prepared on an IAS 17 basis



APPENDIX

Working capital movement

	H1 FY20	H1 FY19
Stock decrease / (increase)	£0.3m	(£1.6m)
Receivables decrease / (increase)	£2.7m	(£0.5m)
Payables increase	£5.7m	£23.5m
Total	£8.7m	£21.4m

- Lower working capital inflow as anticipated following reversal of timing benefit at FY19 year-end
- Stock balances well controlled with lower levels of end of season clearance
- Expect a small working capital outflow at year-end



LFL historic growth

