Interim Results

DUNELM GROUP PLC

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Interim Results for the 26 weeks ended 26 December 2020

Strong performance, strategic progress and well positioned for the future

Dunelm Group plc ("Dunelm" or "the Group"), the UK's leading homewares retailer, today announces its interim results for the 26 weeks to 26 December 2020.

	FY21 H1	FY20 H1	YoY
Total sales	£719.4m	£585.0m	+23.0%
Gross margin	52.0%	51.5%	+50bps
Profit before tax (PBT)	£112.4m	£83.6m	+34.4%
Digital % total sales[1]	35.0%	20.4%	+14.6%pts
Free cash flow[2]	£98.0m	£63.9m	+£34.1m
Net cash/(debt) [3]	£140.9m	(£67.7m)	+£208.6m
Diluted earnings per share	44.1p	33.2p	32.8%
Interim dividend	12.0p	-	+12.0p

Highlights

- Very strong sales growth of 23%, despite the impact of store closures in the second quarter
- Continued market share growth, with sales growth significantly ahead of the homewares market
- Digital sales growth of 111%, with ongoing development of digital capabilities and successful scaling of technology and operations to respond to growth in peak volumes
- Growth in total active customers[4] of 4.4%, driven primarily by growth in online customers, with clear opportunities to grow customer numbers and frequency
- Continued focus on the health and wellbeing of our customers and colleagues; customer perceptions of safety in our stores and via our Click & Collect offer at 97%[5]
- Gross margin +50bps, driven mainly by sourcing gains
- PBT of £112.4m, +34.4% (FY20 H1: £83.6m), after the commitment to repay the £14.5m Job Retention Scheme (JRS) monies claimed in FY20
- Free cash flow of £98.0m, with net cash at period end of £140.9m (FY20 H1: net debt £67.7m)
- Resuming dividends with an interim of 12.0 pence (FY20: nil paid), reflecting our strong H1 performance and confidence in the medium-term outlook

Nick Wilkinson, Chief Executive Officer, commented:

"In light of another strong performance, I would like to express my sincere thanks to the whole Dunelm team, and our committed suppliers, who have continued to work tirelessly throughout these extraordinary times to ensure the highest safety standards for ourselves and our customers, and also for their dedication and commitment to continuing to improve our customer proposition.

"Sales were particularly strong in the first quarter, before we had to navigate the various restrictions which impacted the remainder of the period. These restrictions have become more severe in the second half of our financial year, with all but one of our stores currently closed, although we continue to serve customers through our digital channels, which have significantly advanced during the last year.

"Beyond the near-term uncertainty, we have never been more confident about the future. Dunelm is a market leader with a challenger brand mentality, in a large and growing segment. We have a clear runway to grow active customers and their frequency across our total retail system and to realise our long-term ambitions."

[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, interest on lease liabilities and repayment of lease liabilities

[3]Excluding lease liabilities

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

[5]Customer survey response to question: "Did you feel that you were able to visit the store in a way that put both you and our store colleagues' health and safety first?"

Analyst Presentation:

There will be a live presentation for analysts and institutional investors this morning at 9.30am, hosted via webcast, with a conference call facility for Q&A. For details, please contact ailsa.prestige@mhpc.com.

For further information please contact:

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Next scheduled event:
Dunelm expects to release its third quarter trading update on 8 April 2021.

Notes

Quarterly sales analysis:

	52 weeks to 26 June 2021						
	Q1	Q2	H1	Q3	Q4	H2	FY
Total sales	£359.1m	£360.4m	£719.4m				
Total LFL growth[6]	+35.7%	+10.8%	+22.0%				
Total Group growth	+36.7%	+11.8%	+23.0%				
Gross margin growth	+100bps	+10bps	+50bps				

	52 weeks to 27 June 2020						
	Q1	Q2	H1	Q3	Q4	H2	FY
Total sales	£262.6m	£322.4m	£585.0m	£284.4m	£188.5m	£472.9m	£1,057.9m
Total LFL growth[6]	+6.4%	+5.0%	+5.6%	-1.3%	-29.0%	-14.6%	-4.5%
Total Group growth	+5.8%	+6.2%	+6.0%	+0.0%	-28.6%	-13.8%	-3.9%
Gross margin growth	+130bps	+110bps	+120bps	+130bps	-210bps	+0bps	+70bps

[6]Total LFL: LFL stores and online (home delivery). LFL stores are those stores trading for at least one full financial year prior to 27 June 2020 without any significant change of space. LFL store revenues include Click & Collect / Reserve & Collect sales and home delivery sales in respect of orders placed via in-store tablets

Notes to Editors:

Dunelm was founded in 1979 as a market stall business, selling ready-made curtains. The first shop was opened in Leicester in 1984 and over the following years the business developed into a successful chain of high street shops before expanding, following the opening of the first Dunelm superstore in 1991, into broader homewares categories. Dunelm is now a multi-channel retailer, with dunelm.com being launched in 2005.

Dunelm is market leader in the £14bn UK homewares market and active in the £12bn UK furniture market. It currently operates 174 stores, of which the majority are out-of-town, and trades online through dunelm.com. Dunelm employs approximately 10,000 colleagues and sells approximately 50,000 product lines (including store and online exclusives).

Dunelm, 'The Home of Homes', offers a customer proposition of style, value, quality and ease of shopping. From its textiles heritage, in areas such as bedding, curtains, cushions, quilts and pillows, Dunelm has broadened its product range to a complete homewares offer including the likes of kitchenware, dining, lighting, seasonal, wall art and rugs. Dunelm is one of the few national retailers to offer an authoritative selection of curtain fabrics by the metre and owns a specialist UK facility dedicated to producing made-to-measure curtains and blinds.

The product range includes many exclusive, own brand designs and owned premium brands such as Dorma and Fogarty. This is augmented by a range of other well-known brands and licence agreements.

Dunelm has been listed on the London Stock Exchange since October 2006 (DNLM.L) and has a current market capitalisation of approximately £2.5bn.

CHAIRMAN'S STATEMENT

The Covid-19 pandemic continues to have a profound impact on all our lives. We are now in the midst of the third national lockdown of our stores. On behalf of the Board, I would like to thank all our colleagues, and our partners, for responding magnificently to the challenges. Throughout the crisis we have been guided by our Dunelm values, with the health and wellbeing of all our colleagues and customers as our top priority.

Dunelm delivered a strong performance in the first half of the year, gaining market share in a growing homewares market. This growth in our market share came despite many of our competitors being allowed to remain open whilst our stores were in lockdown, and reflects the strength of our customer offer and a business that now combines high quality stores with much improved digital capabilities, following our recent investments. This has enabled us to deliver growth across our total retail system.

Sales for the first half increased by 23%, despite the periods of store closures during the second quarter. Gross margin was up 50bps and we grew PBT by 34% to £112.4m, after the repayment of the £14.5m claimed under the Government Job Retention Scheme in FY20.

Reflecting the strong performance in the first half of the year and our confidence in the medium-term outlook, the Board has declared an interim dividend of 12 pence per share, recognising that no dividends were paid in respect of FY20. The amount of the final dividend will be decided in due course, considering the external environment at the time, together with an assessment of our balance sheet position. We remain committed to returning to our published capital and dividend policies over time, including returning any surplus cash to shareholders.

We have made progress in the first half in advancing towards our goal to 'make sustainability accessible to all', including our approach to climate change and the environment, colleague wellbeing, diversity and inclusion, as well as the role we play in our communities, with a continued focus on *Doing The Right Thing* for all our stakeholders.

We were very pleased to announce the appointment of a new non-Executive Director, Arja Taaveniku, who will join the Board on 15th February 2021. Arja's business capabilities and her experience from various international home retail businesses will be a great addition to our Board.

Our confidence in our future growth ambitions has been reinforced by our performance during the Covid-19 pandemic and we expect Dunelm to emerge as an even stronger business.

Andy Harrison
Chairman
10 February 2021

CHIEF EXECUTIVE OFFICER'S REVIEW

Stronger together

I would like to express my sincere thanks to the Dunelm team and our committed suppliers, who have continued to work tirelessly throughout these exceptional times, demonstrating their dedication and commitment to continuing to improve our customer proposition.

I am pleased with our strong performance in the first half of the financial year, with improvements across all our key performance metrics and continued development of our capabilities to support future growth. We delivered excellent sales, profit and cash flow growth, despite navigating further enforced store closure periods during the second quarter.

Throughout the Covid-19 crisis, and as we enter a new period of restrictions in early 2021, we have been focused on *Doing the Right Thing* for all our stakeholders against a challenging backdrop. The health and wellbeing of our customers and colleagues remains our top priority, and we have continued to monitor and enhance our best-in-class safety procedures. This is evidenced by our customers' perception of safety score (whether shopping in store or Click & Collect), which was at 97%[5] for the first half of the year.

The role we play in our communities has expanded, with high levels of engagement and a number of worthwhile activities which have grown organically. Store colleagues organised a campaign in December to 'deliver joy' in the form of personalised Christmas gifts for the most vulnerable in their local communities. The campaign spread across social media channels, with 786k shares.

We made the decision to repay the £14.5m Job Retention Scheme (JRS) monies claimed in the previous financial year, and not to claim any further support from that point. During the latest lockdown we have introduced a company funded 'furlough-equivalent' scheme for store colleagues and those who are clinically vulnerable or unable to work due to caring duties.

The whole Dunelm family, including our suppliers, have continued to demonstrate exceptional resilience and adaptability, whilst continuing to focus on our long-term ambitions and developments for future growth.

H1 performance

Sales performance in the first half was very strong, with total sales growth of 23.0% (H1 FY20: 6.0%), despite the impact of store closures in the final two months of the period. We delivered further gross margin expansion of 50bps (H1 FY20: +120bps) as a result of sourcing gains and a lower proportion of discounted sales. Profit before tax of £112.4m (H1 FY20: £83.6m) was up by 34.4%, after committing to repay the £14.5m JRS monies received in FY20. The improved profitability reflects both the strong sales growth which delivered good leverage of fixed costs, and our continued focus on operational grip across the business.

The early weeks of the half benefited from pent-up demand following the first lockdown and the delayed timing of our summer sale; the latter part of the half was impacted by further store closures across the estate, with different regions of the country being impacted by varying restrictions. During the second lockdown period in November, almost 85% of our store estate was closed to customers for a four-week period.

Our analysis, based on external data, shows that the homewares market[7] grew by 9.7% in the first half of our financial year, reflecting strong consumer demand. For comparable categories, our growth for the period was 21.0%. During the weeks when our store estate was fully open, we significantly outperformed the market, but we performed below the market in weeks impacted by store closures, as other retailers selling homewares were classified as 'essential' and remained open.

Total sales growth in the first quarter, when we were fully open, was 36.7% and total sales growth in the second quarter was 11.8%, impacted by store closures.

Digital[1] sales grew by 111% in the period and represented 35.0% of total sales (FY20 H1: 20.4%). In Q2, digital penetration was 40%, which included some periods when stores were closed to customers and only Click & Collect and home delivery services were available. Customers have become more comfortable with shopping for homewares and furniture online, and the recent investments we have made in our digital capabilities and capacity have enabled us to scale up rapidly to service this demand. Online traffic grew by c.95% and we saw a strong improvement in customer conversion, for both home delivery and Click & Collect.

[7]Homewares market (excluding Dunelm) calculated using GfK data and management estimates. Excludes furniture and home electricals. Dunelm growth stated for comparable categories.

Growing relevance in a changing world

The pandemic has accelerated the pace of change in consumer habits. These macro trends, coupled with the strategic levers we identified in our *Customer 1st* plan, mean we are becoming increasingly more relevant for more consumers.

The events of the last year have created more '*home lovers*' and new needs for existing ones as the home continues to play an even more important role in all of our lives, fulfilling more functions than ever before. Additionally, we see that the impact of social distancing restrictions has turbo-charged the adoption of digital sales and fulfilment channels for both existing and new customers.

Another trend we have observed is the relative strength of footfall to out-of-town retail parks when compared to the high street. Most of our stores, and all of our in-store cafes, are out of town and sufficiently spacious to have enabled us to provide a safe shopping environment for all our colleagues and customers.

We are also seeing increased engagement with our friendly digital content, growing interest in sustainability, and more support for local activities and community connections.

We continue to respond to these changing habits, and with our *Customer 1st* plan accelerating our own transition, we are experiencing an intense period of innovation, capability building and learning across all areas of our business.

Progressing our *Customer 1st* plan

We have continued to make good strategic progress on our *Customer 1st* plan.

This progress has been particularly evident in the advancement of our digital capabilities. During the first half we completed the re-engineering of the final foundational digital micro-services from the re-platform that we launched in October 2019. These last remaining technology re-writes included checkout, product information management and our delivery promise.

We have delivered improvements to findability on the website, including recommendations and query suggestions, which have led to an increase in users finding products. We have scaled our platform to become one of AWS's largest serverless consumers in Europe (meaning that we can scale rapidly to respond to peak volumes). We doubled our home delivery network capacity at peak run-rate, and reduced lead-times. We also improved our post sales customer journey communication, self-help services (e.g. 'track my order') and performance analytics. All of these factors have led to a doubling in online traffic and improved conversion.

We have also continued to grow our product offer and authority. We offered more newness and choice in core ranges, for example more products made from recycled materials, including cushions, bedding and bathroom textiles, as well as home hygiene and wellbeing collections.

We have enhanced affordability with some significant price drop campaigns, such as our popular winter 'Teddy' range, as well as a strong special buy promotional programme. We have reaffirmed our goals for UK and overseas committed supplier partners to meet our requirements for sustainability, quality, value and style.

Finally, our Autumn brand campaign '*Home. We get it'* drove increased consideration and engagement. Our brand 'good value' perception increased significantly year on year[8].

[8]BrandVue Retail as at December 2020

Looking forward

Our business was performing well before the Covid-19 crisis hit in March 2020. Since then we have navigated the uncertainty, built stronger relationships with all our stakeholders and proven the resilience of our business model.

Our strategy remains unchanged and indeed has been validated by our learnings throughout the crisis. More importantly, the crisis has enabled us to accelerate the pace of our digital and *Customer 1st* transformation.

Our ambitions and why we are best placed to win

We are highly ambitious about Dunelm's growth prospects. At the FY20 results in September, we laid out our ambitions: for long-term profitable growth; for our brand to be the #1 homewares destination; and our renewed commitment to being a good company. We believe we are well placed to achieve these ambitions and to win in our market.

Dunelm is a brand appealing to a wide range of customers, market leader in a large fragmented market, with a challenger brand mentality. The homewares and furniture markets have been among the stronger performing consumer segments over the last year and we have consistently grown our share.

We have a distinctive and specialist product portfolio - offering quality, value and style - that is largely own brand and sourced from long-term committed suppliers. We continue to extend and refresh our ranges, with increased focus on products that support our customers to live sustainably.

Our total retail system combines the advantages of digital and local physical shopping experiences. We believe that we best serve customers through the integration of our digital offer with the experience and service afforded by our friendly, local and largely out-of-town stores.

Dunelm is a highly cash generative business and this provides us the agility to invest in opportunities for growth and we are disciplined in investing to maximise long-term returns.

The last year has reinforced the importance of our shared values. Our teams have demonstrated their commitment to doing the right thing for all stakeholders for the long term, including our contribution to respond to the challenges of climate change, colleague diversity and inclusion, and our communities.

Significantly, as our understanding of customers has grown over recent years, we now have a clear runway for attracting more customers and growing their frequency over the coming years to achieve our ambitions.

Attracting more customers and growing their frequency

We have shown consistent growth over several years in the number of active customers shopping with us at least once in a 12-month period[9]. We currently have over 12 million active customers, a number which has grown by over two million since H1 FY18. Total active customer growth in the 12 months to December 2020 was 4.4%, which includes the impact of two lockdown periods on store customer growth.

Stores have historically been the channel where we acquired most of our new customers. At the same time the growth in the number of our online only active customers has accelerated over recent periods and is up by over 450% since H1 FY18. In the 12 months to December 2020 growth was 200%, reflecting both store closures and our significantly enhanced digital capabilities.

At our FY20 results in September, we shared that the growth in online customers during the fourth quarter of FY20, which included the first national lockdown (April - June 2020), was driven in broadly equal parts by customers new to Dunelm, store customers shopping online for the first time and increased frequency of existing customers. As we continue to observe the behaviour of this Q4 FY20 cohort we can see that they are following a similar pattern of behaviour to previous customers in terms of repeat purchase rates and repeat purchase values within their first six months of shopping at Dunelm. This gives us confidence in the long-term value of the customers we are acquiring.

We have been deepening our customer insight and can see that the key differentiating factor for our highest value customers is increased frequency driven by cross category and cross channel shopping. We estimate that around 40% of our sales come from these high value customers, who represent around 12% of our active customer base.

These customers shop on average 4.5 times more often in a 24 month period than our baseline customer average. They shop across 2.7 times more categories and are 7.9 times more likely to be multi-channel shoppers. The average order value for both groups is broadly consistent, showing that it is frequency which is the greatest driver of their value rather than basket size.

Growing customer frequency across our channels and categories is our biggest opportunity, as we continue to deepen our data and insight, evolve our proposition, target new customers, and channel our resources to best serve their needs and behaviours.

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

Our plans

As we look towards the second half of the financial year, we are focused on improving our proposition, whilst at the same time actively preparing for when the lockdown restrictions are lifted, when we can welcome back our customers in store. The following describes the key elements of our *Customer 1st* plan for the second half of the year, identifying some specific plans across our focus areas.

Customer

We continue to develop and evolve our customer proposition at pace, especially where 'digital' meets 'local and friendly' in-store. We are now beginning to use our new customer data platform to scale customer relationship marketing activity, engaging with customers through both behavioural and lifecycle campaigns. We will grow our contactable base, continuing the strong momentum within our local community Facebook groups. We will introduce 'My Account' services to offer order history, wish lists and stored details and are excited about the benefits this will deliver for frequent customers.

Product

We will continue to raise the bar in our core product offer as affordability and sustainability become even more important - offering customers *value they can believe in.* We will help our customers 'live well' from home by introducing new desks and chairs, dinnerware and storage. We will build further scale into our furniture offer through the development of our sourcing capabilities, fulfilment capacity and improvements to the in-store selling experience. We will grow our presence in adjacent categories including home decorating, outdoor living and 'make and mend' crafting.

Following some disruption to our supply chain in the first half of the year, we expect to return to higher levels of stock availability during the second half of the year which will support a compelling re-opening offer in stores and a strong proposition online.

Experience and services

As we look forward to the return of unrestricted trading in the coming months, we will be welcoming customers back to our Pausa coffee shops (one of the few café offerings available in many retail parks and an important part of our store offer) and reintroducing our customer hosts, with better technology and tools to support in-store selling of products available for home delivery.

We will be continuing to make improvements to our Click & Collect experience, developing services beyond 'contact free' and 'to car' with a wider assortment (including centrally fulfilled stock) and testing shorter lead times.

We will step up our capacity for site experimentation and will improve site content to optimise the experience now that the foundational technology is fully in place.

We will also be improving our home delivery experience - shortening delivery lead times (including an assessment of 'store to door' pilots) and providing better order tracking (via a new carrier management micro-service).

We will continue to increase the capacity of our supply chain to meet the high growth demands of the digital business. We doubled the capacity for one-man home delivery this winter peak and expect to grow this further whilst retaining maximum flexibility.

Sustainability

We are committed to making sustainability accessible for all, and we are extremely motivated to do this.

In line with our ambition to be a good company, we have worked with the Carbon Trust to develop our response to the challenges and opportunities of climate change. Initially we have evaluated our Scope 1 and Scope 2 carbon footprint and we are proud to share the initial commitments we have made to reduce our impact on the environment. We have set 10-year greenhouse gas reduction targets, aligned to a 1.5°C pathway:

- **Scope 1** - reduce emissions by 50% in absolute terms by 2030 (using 2019 as our base)
- **Scope 2** - commitment to continue to purchase renewable electricity

We are proud supporters of the British Retail Consortium's retail industry roadmap to achieve 'net zero' by 2040 and will be working on our own 2030 targets for Scope 3 emissions and our long-term strategy in the coming months.

We are adopting a stringent 'most responsibly sourced cotton' standard, based on industry best practice, communicated by a logo we're proud of, and are aiming for 50% of our Autumn/Winter 2021 bedding to meet this higher standard. As part of our responsible sourcing commitments, we will continue our robust ethical trading assurance programme, and progress transparency and assurance activities for key materials - cotton, timber, sheepskin, feathers and palm oil - with a target of 100% of these meeting our standard by 2025.

We also have plans to further reduce the packaging for our products and increase the recycled and recyclable content.

Following successful pilots, we will expand and develop re-use, repair, circular, recycling and take-back schemes for textiles, electrical items, furniture and mattresses.

Summary and outlook

Our first half performance was very strong across the total retail system, with growth significantly ahead of the market, despite further store closures in the second quarter. We performed well across all key metrics including sales, profit, free cash flow, active customer growth and our customer satisfaction scores. Our transition to a digital *Customer 1^st^* business has accelerated, as a result of both changing customer trends and our own strategic progress as we invest in capabilities and capacity.

We are navigating the current restrictions with safety as our first priority. All but one of our stores are currently closed to customers and we do not have clarity on when they will re-open. However, we continue to offer contactless Click & Collect[10] and home delivery services and are confident that the business will return to growth once we are allowed to re-open our stores.

Given the uncertainty as to when Covid-19 related restrictions will be lifted, we are unable to provide meaningful guidance on the outlook for the full year. However, to date in the current quarter, we have been covering approximately 70% of our prior year sales through our home delivery and Click & Collect[10] services. At this level of sales, we are making a modest weekly loss.

Beyond the near-term uncertainty we have never been more confident about the future. Dunelm is a market leader with a challenger brand mentality, in a large and growing segment. We have a clear runway to grow active customers and their frequency across our total retail system and to realise our long-term ambitions.

Nick Wilkinson
Chief Executive Officer
10 February 2021

[10] Click & Collect is available in 169 stores but is not available in Northern Ireland due to additional local restrictions

CHIEF FINANCIAL OFFICER'S REVIEW

Revenue

Total sales for the period increased by 23.0% to £719.4m (FY20 H1: £585.0m), with sales impacted by further store closures during October and November and again at the end of December.

	26 weeks to 26 December 2020		
	Revenue	YoY Growth	YoY Growth

	£m	£m	%
Total Group	719.4	+134.4	+23.0%
Digital % total sales	*35.0%*	-	*+14.6%pts*

During this period, we grew market share, with the homewares market performing at +9.7% and Dunelm comparable categories growing at +21.0%[11]. The strong sales performance reported in Q1 of 36.7% broadly continued until Covid-19 restrictions began to be reintroduced, beginning in Wales in October and then the English lockdown in November (with approximately 85% of stores closed). Stores re-opened in December to strong customer demand; however from 20th December onwards, new regional restrictions were introduced and by 5th January 2021, all of our store estate was closed to customers.

Throughout the restricted periods, we were permitted to operate a contactless Click & Collect service for our customers in all stores apart from the five in Northern Ireland, which closed fully on 26th December 2020.

Digital sales grew by 111% compared to the same period last year, reflecting the strength of our home delivery offer and the increasing relevance of Click & Collect. Digital sales represented 30% of the total in Q1, when stores were fully open, and 40% of total sales in Q2, including the impact of store closures during the period.

[11]Homewares market (excluding Dunelm) calculated using GfK data and management estimates. Excludes furniture and home electricals. Dunelm growth stated for comparable categories.

Gross margin

Gross margin of 52.0% was 50 bps higher than the same period last year. Gross margin in the first quarter improved by 100bps, benefitting from lower levels of clearance activity and sourcing gains. In the second quarter, gross margin grew by 10bps, as the benefit from lower discounts and sourcing gains was partially offset by provisions made for the reduced end of season clearance in December, as stores were closed ahead of our Winter sale.

Gross margin is historically lower in the second half due to the timing of the Winter and Summer sales and will be impacted by the level of seasonal stock on hand once stores reopen. We expect gross margin in the second half to be broadly flat to slightly positive year-on-year.

Operating costs

Operating costs for the period were £255.6m (FY20 H1: £213.5m), an increase of 19.7%. The key drivers of this increase included:

- £37m of volume related costs, primarily in supply chain and digital marketing;
- £5m Covid-19-related higher costs to serve, largely relating to meeter-greeters in store and social distancing protocols in stores and supply chain; and
- £5m of additional investment, mainly in technology, including £3m of costs that were previously capitalised but are now expensed (as previously advised), and in tactical and flexible supply chain capacity to respond to the doubling of volumes at peak.

This additional investment was partially offset by savings from the support centre restructuring announced at the end of FY20.

During the half we committed to repaying the £14.5m JRS monies that were claimed in Q4 FY20 during the first national lockdown. This cost was broadly offset by the business rates holiday granted to retailers of £14.4m in the period.

Operating costs as a percentage of sales were 35.5%, a 100bps improvement (FY20 H1: 36.5%), with fixed cost leverage improved due to the strong sales performance.

We assume a resumption of business rates in Q4, with a £7m cost compared to nil in Q4 FY20, although we await the details from the Scottish government's announcement in relation to the extension of the rates holiday. In the final quarter we will also cycle over the £14.5m JRS claims that were received in FY20.

Profit and earnings per Share

Operating profit for the period was £118.3m (FY20 H1: £87.6m), an increase of £30.7m, reflecting the strong trading performance, gross margin improvement, focused investments and operating leverage.

There was a net cost of £5.9m (FY20 H1: £4.0m) in respect of financial items in the period. This included interest on IFRS 16 lease liabilities of £2.8m (FY20 H1: £2.6m), interest payable and amortisation of arrangement fees relating to the Group's Revolving Credit Facility amounting to £0.5m (FY20 H1: £0.6m) and a loss of £2.7m (FY20 H1: £0.8m) resulting from foreign exchange differences on the translation of dollar denominated assets and liabilities. Interest received was £0.1m (FY20 H1: nil).

Profit before tax in the period was £112.4m (FY20 H1: £83.6m), an increase of £28.8m year-on-year. Profit after tax of £90.2m (FY20 H1: £67.6m) reflects the projected full year effective tax rate of 19.7% (FY20 H1: 19.1%).

Basic earnings per share (EPS) for the period were 44.6 pence (FY20 H1: 33.5 pence). Diluted earnings per share were 44.1 pence (FY20 H1: 33.2 pence).

Cash generation and net cash

In the period, the Group generated £98.0m of free cash flow (FY20 H1: £63.9m).

	FY21 H1 £m	FY20 H1 £m
Operating profit	118.3	87.6
Depreciation and amortisation[12]	38.8	38.9
Working capital (outflow) / inflow	(1.3)	8.7
Share-based payments	1.1	0.9
Tax paid	(19.4)	(28.0)

Net cash generated from operating activities	**137.5**	**108.1**
Capex (net of disposals)	(6.4)	(17.1)
Net interest[13]	(0.4)	(0.5)
Interest on lease liabilities	(2.8)	(2.6)
Repayment of lease liabilities	(29.9)	(24.0)
Free cash flow	**98.0**	**63.9**
Net cash / (debt)[14]	**140.9**	**(67.7)**

[12] Including impairment and loss on disposal

[13] Excluding interest on lease liabilities

[14] Excluding lease liabilities

Free cash flow contains a small working capital outflow of £1.3m (FY20 H1: £8.7m inflow). The FY20 year-end stock balance was unusually low so the working capital movement includes an increase in inventories of £48.7m, partially due to a higher level of goods in transit. This was offset by an increase in payables, reflecting the unpaid portion of the inventories increase as well as the accrued JRS repayment and an increase in tax payable. We continue to expect the FY20 exceptional working capital benefit of c.£80m to reverse in H2 as we rebuild stock levels and settle the deferred VAT payment of £22m.

Tax paid was £19.4m (FY20 H1: £28.0m) reflecting the normalisation of corporation tax payments after two additional quarterly payments were made in the comparable period last year.

Total capital investment was £6.4m for the half year (FY20 H1: £17.1m) which included £4m in relation to new store openings and refit activity. Spend in the comparable period last year included a £6m freehold acquisition as well as the digital platform investment. Since the launch of the new platform in October 2019, we are now expensing all digital development costs. We expect capital expenditure of c.£15m in the second half, as we continue to refresh our store estate and invest in our supply chain capacity.

Repayment of lease liabilities of £29.9m is £5.9m higher than FY20 H1, the increase representing the payment in this financial year of two months of rent deferred in FY20. Since the September quarter day, all rents have been paid as normal, quarterly in advance.

The Group ended the half with a strong balance sheet with a net cash position of £140.9m (FY20 H1: net debt £67.7m).

In light of this strong performance, the directors believe that the Group is well placed to manage its financing and other business risks satisfactorily and have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future.

Banking agreements

The Group has in place a £165m syndicated Revolving Credit Facility (RCF) which matures in 2023. The terms of the RCF are consistent with normal practice and include covenants (both calculated on a pre-IFRS 16 basis) in respect of leverage (net debt to be no greater than 2.5x EBITDA) and fixed charge cover (EBITDAR to be no less than 1.75x fixed charges), both of which were met comfortably as at 26 December 2020. The Group's ability to meet these covenants has been stress tested as part of viability modelling, which is described in more detail in the notes to the interim financial statements below.

In addition, the Group maintains £10m of uncommitted overdraft facilities and has an accordion option within the RCF for a maximum additional facility of £75m. In March 2020, the Group secured eligibility from the Bank of England for funding under the Covid-19 Corporate Financing Facility ("CCFF"). The Board does not currently anticipate any need to draw down on the CCFF facility.

Dividends

Reflecting the strong performance in the first half of the year and our confidence in the medium-term outlook, the Board has declared an interim dividend of 12 pence per share, recognising that no dividends were paid in respect of FY20. The amount of the final dividend will be decided in due course, considering the external environment at the time, together with an assessment of our balance sheet position. We remain committed to returning to our published capital and dividend policies over time, including returning any surplus cash to shareholders.

Capital structure and dividend policy

In normal circumstances, 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 the last 12 months' EBITDA (on a post IFRS 16 basis). The Group's capital and 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 anticipates, again under normal circumstances, considering returning surplus cash to shareholders if average net debt 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 policy is available on our website at www.corporate.dunelm.com.

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; and
- 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 2020

Annual Report, apart from the decision to remove Brexit as a principal risk. This is because, now the transition period is complete, we do not anticipate any material impact to our business going forward and the residual effects of exit are incorporated within the other principal risks. A summary of the remaining principal risks has been provided below:

Risk	Impact
Competition, market and customers	Failure to respond to changing consumer needs and to maintain a competitive offer could impact profitability and limit opportunities for growth. A downturn in consumer spending could impact sales and profit.
Resilience	Failure to withstand the impact of an event or combination of events that significantly disrupts all or a significant part of the Group's sales or operations (e.g. pandemic).
Brand damage	Harm to individuals or reputational damage due to product safety issues or ethical, slavery, bribery, environmental or sustainability issues in the supply chain.
People and culture	Unable to deliver strategy and sustainable long-term business performance due to failure to attract, retain and motivate high calibre employees, and to maintain our culture and business principles.
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 and reputational risk incurred due to failure to comply with legal and regulatory requirements relating to health and safety.
Climate change and environment	Failure to anticipate and address the strategic, regulatory and reputational impact of climate change and environmental matters, as well as governmental, consumer and media action in response to it.
Supply chain disruption	Sales, profitability or customer satisfaction impacted by supply chain disruption or loss of access to key support locations.
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.

Laura Carr
Chief Financial Officer
10 February 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union 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 six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The maintenance and integrity of the Company's 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 Company are listed in the Company's annual report for 27 June 2020. 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
10 February 2021

Laura Carr
Chief Financial Officer
10 February 2021

INDEPENDENT REVIEW REPORT TO DUNELM GROUP PLC

Report on the consolidated interim financial statements

Our conclusion
We have reviewed Dunelm Group plc's consolidated interim financial statements (the "interim financial statements") in the Interim Results of Dunelm Group plc for the 26 week period ended 26 December 2020 (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 International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union 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 26 December 2020;
- 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 International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

INDEPENDENT REVIEW REPORT TO DUNELM GROUP PLC (CONTINUED)

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
10 February 2021

CONSOLIDATED INCOME STATEMENT

(UNAUDITED)
For the 26 weeks ended 26 December 2020

	Note	26 weeks ended 26 December 2020 £'m	26 weeks ended 28 December 2019 £'m	52 weeks ended 27 June 2020 £'m
Revenue	5	**719.4**	**585.0**	**1,057.9**
Cost of sales		(345.5)	(283.9)	(525.5)
Gross profit		**373.9**	**301.1**	**532.4**
Operating costs		(255.6)	(213.5)	(416.4)
Operating profit		**118.3**	**87.6**	**116.0**
Financial income		0.1	-	0.4
Financial expenses		(6.0)	(4.0)	(7.3)
Profit before taxation		**112.4**	**83.6**	**109.1**
Taxation	6	(22.2)	(16.0)	(21.4)
Profit for the period		**90.2**	**67.6**	**87.7**
Earnings per Ordinary Share - basic	8	44.6p	33.5p	43.4p
Earnings per Ordinary Share - diluted	8	44.1p	33.2p	42.9p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)
For the 26 weeks ended 26 December 2020

26 weeks ended	26 weeks ended	52 weeks ended
	28 December	27 June

	26 December 2020	2019	2020
	£'m	£'m	£'m
Profit for the period	90.2	67.6	87.7
Other comprehensive (expense)/income:			
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of cash flow hedges	(13.9)	(3.1)	6.8
Gain on cash flow hedges transferred to inventory	-	(4.0)	-
Deferred tax on hedging movements	2.5	1.2	(0.1)
Other comprehensive (expense)/income for the period, net of tax	(11.4)	(5.9)	6.7
Total comprehensive income for the period	**78.8**	**61.7**	**94.4**

From the 52 weeks ended 27 June 2020 and going forward cash flow hedges transferred to inventory are included directly in equity, as this is not a reclassification adjustment as defined in IAS 1.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(UNAUDITED)

As at 26 December 2020

	Note	26 December 2020	28 December 2019	27 June 2020
		£'m	£'m	£'m
Non-current assets				
Intangible assets	9	19.4	26.6	22.7
Property, plant and equipment	9	167.2	181.0	175.4
Right-of-use assets	10	291.5	281.7	283.3
Deferred tax assets		9.9	4.5	4.2
Derivative financial instruments		-	-	1.6
Total non-current assets		**488.0**	**493.8**	**487.2**
Current assets				
Inventories	11	166.9	157.4	118.2
Trade and other receivables		15.3	11.6	15.6
Derivative financial instruments		-	1.3	5.0
Cash and cash equivalents	14	140.6	-	90.0
Total current assets		**322.8**	**170.3**	**228.8**
Total assets		**810.8**	**664.1**	**716.0**
Current liabilities				
Trade and other payables	12	(214.4)	(134.4)	(177.2)
Current borrowings	14	-	(26.3)	-
Lease liabilities	10	(48.1)	(42.4)	(48.0)
Liability for current tax		(6.8)	(2.6)	(2.6)
Derivative financial instruments		(5.5)	(1.3)	-
Total current liabilities		**(274.8)**	**(207.0)**	**(227.8)**
Non-current liabilities				
Bank loans	14	-	(41.4)	(44.6)
Lease liabilities	10	(274.5)	(268.6)	(266.4)
Provisions		(4.2)	(1.7)	(3.8)
Derivative financial instruments		(1.3)	(1.1)	-
Total non-current liabilities		**(280.0)**	**(312.8)**	**(314.8)**
Total liabilities		**(554.8)**	**(519.8)**	**(542.6)**
Net assets		**256.0**	**144.3**	**173.4**
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		(5.5)	(0.9)	5.3
Retained earnings		214.7	98.4	121.3
Total equity		**256.0**	**144.3**	**173.4**

Laura Carr
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

For the 26 weeks ended 26 December 2020

	Note	26 weeks ended 26 December 2020	26 weeks ended 28 December 2019	52 weeks ended 27 June 2020
		£'m	£'m	£'m
Cash flows from operating activities				
Profit before taxation		112.4	83.6	109.1
Net financial expense		5.9	4.0	6.9

Operating profit		**118.3**	**87.6**	**116.0**
Depreciation and amortisation of property, plant and equipment and intangible assets	9	16.2	16.2	33.2
Depreciation on right-of-use assets	10	22.5	22.6	45.1
Loss on disposal and impairment of property, plant and equipment and intangible assets		0.1	0.1	1.5
Impairment of right-of-use assets		-	-	0.4
Operating cash flow before movements in working capital		**157.1**	**126.5**	**196.2**
(Increase)/decrease in inventories		(48.7)	0.3	39.5
Decrease/(increase) in receivables		0.6	2.7	(1.2)
Increase in payables		46.8	5.7	41.8
Net movement in working capital		**(1.3)**	**8.7**	**80.1**
Share based payments expense		1.1	0.9	2.1
Tax paid		(19.4)	(28.0)	(34.3)
Net cash generated from operating activities		**137.5**	**108.1**	**244.1**
Cash flows from investing activities				
Acquisition of intangible assets		(0.2)	(4.0)	(4.4)
Acquisition of property, plant and equipment		(6.2)	(13.1)	(20.5)
Interest received		0.1	-	0.1
Net cash used in investing activities		**(6.3)**	**(17.1)**	**(24.8)**
Cash flows from financing activities				
Proceeds from exercise of share options		0.3	0.6	2.0
Drawdowns on revolving credit facility		-	47.0	165.0
Repayments of revolving credit facility		(45.0)	(50.0)	(165.0)
Repayment of lease liabilities		(29.9)	(24.0)	(37.7)
Interest paid on lease liabilities		(2.8)	(2.6)	(5.5)
Interest paid		(0.5)	(0.5)	(1.4)
Ordinary dividends paid	7	-	(106.0)	(106.0)
Net cash flows used in financing activities		**(77.9)**	**(135.5)**	**(148.6)**
Net increase/(decrease) in cash and cash equivalents		53.3	(44.5)	70.7
Foreign exchange revaluations		(2.7)	(0.8)	0.3
Cash and cash equivalents at the beginning of the period		90.0	19.0	19.0
Cash and cash equivalents at the end of the period		**140.6**	**(26.3)**	**90.0**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(UNAUDITED)

For the 26 weeks ended 26 December 2020

	Note	Issued share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Hedging reserve £'m	Retained earnings £'m	Total equity £'m
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**
As at 29 June 2019		2.0	1.6	43.2	5.0	134.0	185.8
Profit for the period		-	-	-	-	67.6	67.6
Movement in fair value of cash flow hedges		-	-	-	(3.1)	-	(3.1)
Gain on cash flow hedges transferred to inventory		-	-	-	(4.0)	-	(4.0)
Deferred tax on hedging movements		-	-	-	1.2	-	1.2
Total comprehensive income for the period		-	-	-	(5.9)	67.6	61.7
Proceeds from issue of treasury shares		-	-	-	-	0.6	0.6
Share based payments		-	-	-	-	0.9	0.9
Deferred tax on share based payments		-	-	-	-	1.3	1.3
Ordinary dividends paid	7	-	-	-	-	(106.0)	(106.0)
Total transactions with owners, recorded directly in equity		-	-	-	-	(103.2)	(103.2)
As at 28 December 2019		2.0	1.6	43.2	(0.9)	98.4	144.3

From the 52 weeks ended 27 June 2020 and going forward cash flow hedges transferred to inventory are included directly in equity, as this is not a reclassification adjustment as defined in IAS 1.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the 26 weeks ended 26 December 2020 (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 periods. Traditionally, revenue and profit are higher in the first half of the financial period due to the performance of seasonal lines and inclusion of the start of the Winter sale, however this will be affected by the uncertainty caused by Covid-19 in the current year.

2 Basis of preparation

These condensed interim financial statements for the 26 weeks ended 26 December 2020 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting', as adopted by the European Union.

The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 27 June 2020, which were prepared in accordance with IFRSs as adopted by the European Union.

The presentation of the condensed financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

These condensed interim financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006 and are not audited. Statutory accounts for the year ended 27 June 2020 were approved by the Board of Directors on 10 September 2020 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

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. 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.

The Group entered the recent national lockdown off the back of a very strong sales performance in H1, with sales up 23% year-on-year, despite various national and regional restrictions, and with £141m of net cash. The Group has access to a further £175m of approved banking facilities, which remain unutilised.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the 26 weeks ended 26 December 2020 (UNAUDITED)

3 Going concern basis (continued)

The Directors have reviewed the results in the half year and also considered the following three scenarios:

- A base case scenario assuming that the current lockdown, which was announced on the 4th January until at least mid-February, will continue until the end of March 2021. This scenario assumes that all stores are closed until March 2021 but stores can continue to operate a Click & Collect service. Stores will have a phased re-opening during April. Our home delivery sales continue at the elevated levels experienced during other lockdown periods in 2020.
- A 'severe but plausible downside' scenario where stores remain closed until end of March and Click & Collect activity is not permitted. Stores reopen on a phased basis from April but there is an additional full store estate lockdown for the whole of December 2021, which is during our peak trading period.
- A reverse stress test exercise, that was first completed in Summer 2020, has been performed to determine what level of sales downside would be required to breach our financial covenants.

In the 'severe but plausible downside' scenario the Group would not breach any of their financial covenants and would not require any additional sources of financing (including no requirement to drawdown on the Group's previously secured funding under the Covid-19 Corporate Financing Facility - "CCFF").

Under the reverse stress test scenario, a sales reduction of over 30% in Q4 FY21 and FY22 would be required to breach financial covenants in the period under review, which is considered to be extremely remote, especially given the positive growth in sales experienced in previous post-lockdown periods when stores have been fully open and able to trade. This scenario has been modelled assuming there is no government support and management make no significant savings to control costs. However, in the unlikely event of this size of sales decline, management would take the appropriate cost actions to reduce cash outflows.

As a result, despite the continued uncertainty relating to the duration of the current national lockdown, the Board believes that the Group is well placed to manage its financing and other significant risks satisfactorily, and that the Group will be able to operate within the level of its existing facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its 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 27 June 2020, 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the 26 weeks ended 26 December 2020 (UNAUDITED)

5 Segmental reporting

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 19.7% (26 weeks ended 28 December 2019: 19.1%, 52 weeks ended 27 June 2020: 19.6%).

7 Dividends

		26 weeks ended 26 December 2020 £'m	26 weeks ended 28 December 2019 £'m	52 weeks ended 27 June 2020 £'m
Special dividend for the period ended 29 June 2019	- paid 32.0 pence	-	64.6	64.6
Final for the period ended 29 June 2019	- paid 20.5 pence	-	41.4	41.4
		-	**106.0**	**106.0**

The Directors have declared an interim dividend of 12.0 pence per Ordinary Share for the financial year ending 26 June 2021. This equates to an interim dividend of £24.3m. The dividend will be paid on 9 April 2021 to shareholders on the register at the close of business on 19 March 2021.

The interim dividend has not been recognised as a liability in these interim financial statements. It will be recognised in the Consolidated Statement of Changes in Equity in the period ending 26 June 2021.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the 26 weeks ended 26 December 2020 (UNAUDITED)

8 Earnings per share (continued)

Weighted average numbers of shares:

	26 weeks ended 26 December 2020 '000	26 weeks ended 28 December 2019 '000	52 weeks ended 27 June 2020 '000
Weighted average number of shares in issue during the period	202,312	201,982	202,106
Impact of share options	2,049	1,672	2,113
Number of shares for diluted earnings per share	204,361	203,654	204,219

	26 weeks ended 26 December 2020	26 weeks ended 28 December 2019	52 weeks ended 27 June 2020
Profit for the period (£'m)	90.2	67.6	87.7
Earnings per Ordinary Share - basic	44.6p	33.5p	43.4p
Earnings per Ordinary Share - diluted	44.1p	33.2p	42.9p

9 Intangible assets and property, plant and equipment

	Intangible assets £'m	Property, plant and equipment £'m	Total £'m
Cost			
At 27 June 2020	62.7	378.2	440.9
Additions	0.4	4.4	4.8
Disposals	-	(4.6)	(4.6)
At 26 December 2020	**63.1**	**378.0**	**441.1**
Accumulated amortisation / depreciation			
At 27 June 2020	40.0	202.8	242.8

Charge for the financial period	3.7	12.5	16.2
Disposals	-	(4.5)	(4.5)
At 26 December 2020	**43.7**	**210.8**	**254.5**
Net book value			
At 27 June 2020	22.7	175.4	198.1
At 26 December 2020	**19.4**	**167.2**	**186.6**

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

Within intangible assets, there are no additions which relate to internally generated assets (FY20 H1: £0.8m, FY20: £0.8m).

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the 26 weeks ended 26 December 2020 (UNAUDITED)

10 Leases

Right-of-use assets included in the Consolidated Statement of Financial Position at 26 December 2020 were as follows:

	Land and buildings	Motor vehicles, plant and equipment	Total
	£'m	£'m	£'m
At 27 June 2020	275.6	7.7	283.3
Additions	28.7	2.0	30.7
Depreciation	(20.9)	(1.6)	(22.5)
At 26 December 2020	**283.4**	**8.1**	**291.5**

Right-of-use assets with a cost of £4.5m and accumulated depreciation of £4.5m were disposed of in the 26 weeks ended 26 December 2020 in respect of those leases where the current lease term has expired.

Lease liabilities included in the Consolidated Statement of Financial Position at 26 December 2020 were as follows:

	Land and buildings	Motor vehicles, plant and equipment	Total
	£'m	£'m	£'m
At 27 June 2020	(306.7)	(7.7)	(314.4)
Additions	(29.7)	(2.0)	(31.7)
Interest	(2.7)	(0.1)	(2.8)
Repayment of lease liabilities	24.7	1.6	26.3
At 26 December 2020	**(314.4)**	**(8.2)**	**(322.6)**

The discount rate applied to lease liabilities ranged between 1.0% and 2.1% (FY20 H1: 1.6% and 2.1%, FY20: 1.6% and 2.4%).

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

	26 weeks ended 26 December 2020 Total	26 weeks ended 28 December 2019 Total	52 weeks ended 27 June 2020 Total
	£'m	£'m	£'m
Depreciation of right-of-use assets	22.5	22.6	45.1
Impairment of right-of-use assets	-	-	0.4
Interest expenses (included in financial expenses)	2.8	2.6	5.5
Expense relating to short-term leases	1.4	1.3	2.3

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the 26 weeks ended 26 December 2020 (UNAUDITED)

10 Leases (continued)

The total cash outflow for the leases during the financial period was £32.7m (FY20 H1: £26.6m, FY20: £43.2m).

Cash repayment of lease liabilities includes the deferred payment into this financial year of two months' rent relating to FY20.

11 Inventories

	26 December 2020	28 December 2019	27 June 2020
	£'m	£'m	£'m
Goods for resale	166.9	157.4	118.2

Goods for resale includes a net realisable value provision of £14.6m (FY20 H1: £11.7m, FY20: £11.9m). Write-downs of inventories to net realisable value in the 26 weeks to 26 December 2020 amounted to £7.3m (26 weeks ended 28 December 2019: £7.0m, 52 weeks ended 27 June 2020: £14.3m). These were recognised as an expense during the period and were included in cost of sales in the Consolidated Income Statement.

The increase in inventories year-on-year is due to an increase in goods in transit partially offset by a decrease in stock in hand.

12 Trade and other payables

	26 December 2020 £'m	28 December 2019 £'m	27 June 2020 £'m
Current			
Trade payables	85.4	60.3	71.7
Accruals and deferred income	82.6	45.3	65.8
Taxation and social security	46.4	28.2	39.3
Other payables	-	0.6	0.4
Total trade and other payables	**214.4**	**134.4**	**177.2**

Taxation and social security includes VAT payable of £41.0m (FY20 H1: £23.6m, FY20: £34.1m) with the year-on-year increase mainly due to the UK Government's deferred VAT scheme, with deferred amounts due for payment in March 2021.

Current accruals and deferred income include capital accruals of £1.7m (FY20 H1: £2.1m, FY20: £3.3m) and a returns provision of £5.6m (FY20 H1: £3.1m, FY20: £7.2m). Contract liabilities of £2.6m (FY20 H1: £3.2m, FY20: £1.6m) for gift cards and credit notes are included within accruals and deferred income.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the 26 weeks ended 26 December 2020 (UNAUDITED)

12 Trade and other payables (continued)

Current accruals and deferred income also includes the commitment to repay the UK Government's Coronavirus Job Retention Scheme monies of £14.5m which was claimed in FY20. This repayment was recognised as an expense during the period and was included in operating costs in the Consolidated Income Statement.

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 27 June 2020. There have been no changes in any risk management policies since the year end.

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.

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 Bank loans

	26 December 2020 £'m	28 December 2019 £'m	27 June 2020 £'m
Bank loans	-	(42.0)	(45.0)
Less: unamortised debt issue costs*	0.3	0.6	0.4
Net bank loans	**0.3**	**(41.4)**	**(44.6)**
Current borrowings	-	(26.3)	-
Cash and cash equivalents	140.6	-	90.0
Net cash/(debt) excluding lease liabilities	**140.9**	**(67.7)**	**45.4**

* Unamortised debt issue costs included in other receivables as at 26 December 2020 as there is no debt at the period end.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the 26 weeks ended 26 December 2020 (UNAUDITED)

14 Bank loans (continued)

The Company has medium term bank facilities of £165m (FY20 H1: £165m; FY20: £165m) committed until 5 March 2023, with an associated accordion facility of £75m (FY20 H1: £75m; FY20: £75m). As at 26 December 2020 none of this facility was drawn down (FY19 H1: £42m; FY19: £45m). The carrying amount of bank borrowings is materially equal to fair value. The Group also has an overdraft facility of £10m. Current borrowings is included within cash and cash equivalents in the Consolidated Statement of Cash Flows.

15 Capital Commitments

As at 26 December 2020 the Company had entered into capital contracts amounting to £4.0m (FY20 H1: £5.9m; FY20: £3.1m).

16 Announcement

The interim report was approved by the Board on 10 February 2021. Copies are available from www.corporate.dunelm.com.

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