



**Dunelm**  
Preliminary Results Presentation  
Year ended 29<sup>th</sup> June 2013



**David Stead**

Finance Director

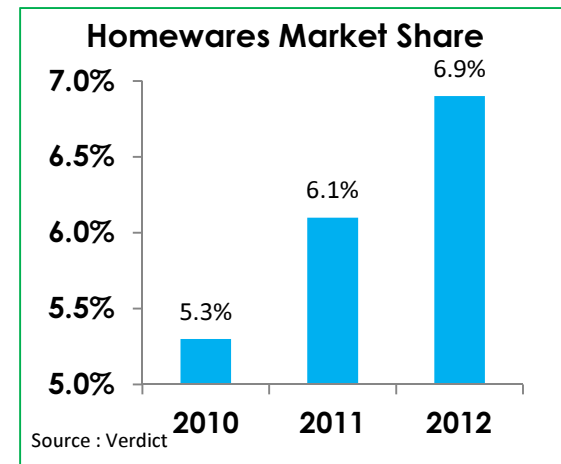
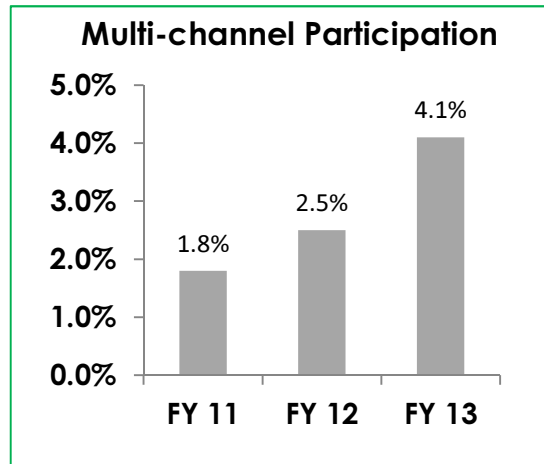
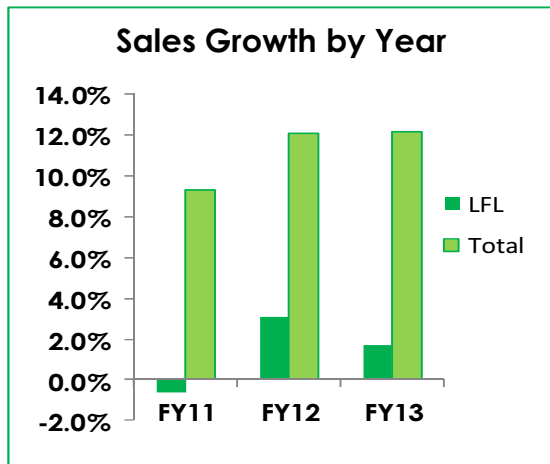
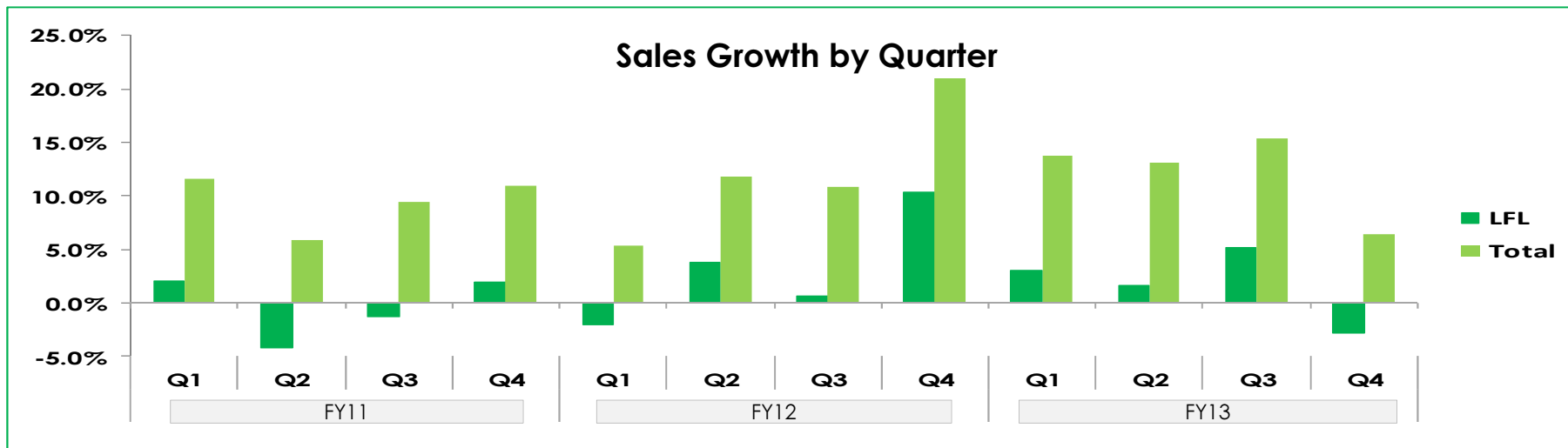
# Financial Highlights FY13

	FY13	FY12	Year on year change
Sales	<b>£677.2m</b>	<b>£603.7m</b>	+12.2%
LFL Sales growth	<b>+1.7%</b>	<b>+3.1%</b>	
Gross margin	<b>48.7%</b>	<b>48.3%</b>	+40bps
Operating profit	<b>£106.5m</b>	<b>£95.2m</b>	+11.9%
Profit before tax	<b>£108.1m</b>	<b>£96.2m</b>	+12.3%
EPS (fully diluted)	<b>40.0p</b>	<b>35.1p</b>	+14.0%
Ordinary dividend	<b>16.0p</b>	<b>14.0p</b>	+14.3%

**Special dividend of 25.0p per share payable in October**

# Sales Trend

Continued growth in turnover, online participation and market share

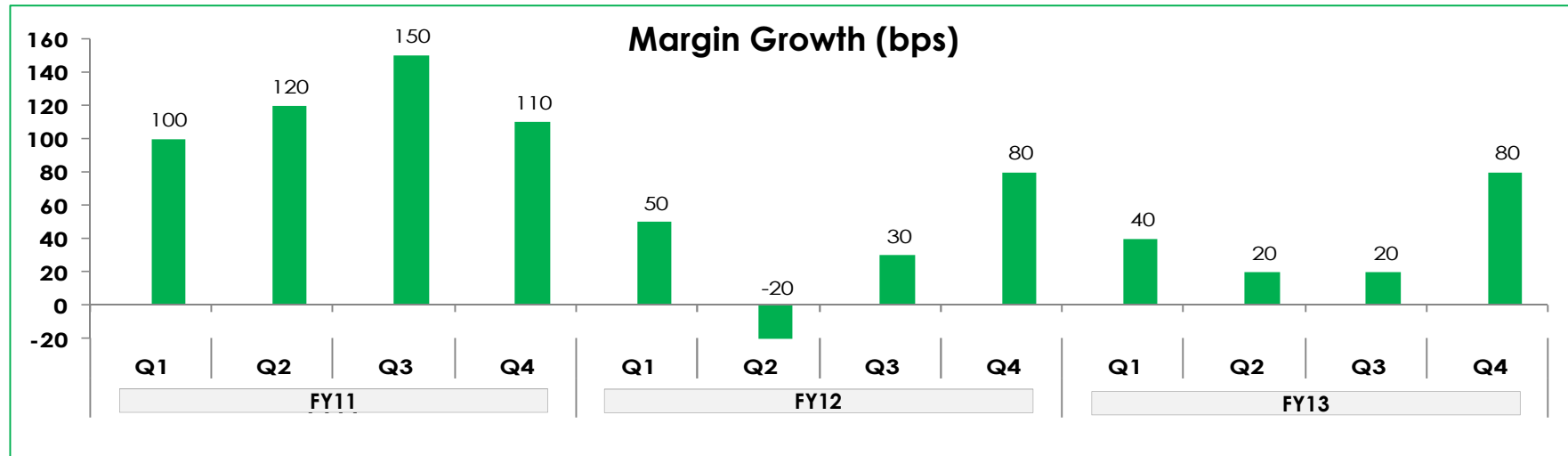


# Sales Drivers

FY13	Outlook
<ul style="list-style-type: none"><li>• 14 stores opened</li><li>• Multi-channel growth &gt; 80%</li><li>• A&amp;P investment<ul style="list-style-type: none"><li>- Press</li><li>- Catalogues</li><li>- Digital/social media</li></ul></li></ul>	<ul style="list-style-type: none"><li>• 10 new stores committed</li><li>• Continuing multi-channel growth</li><li>• Increasing brand investment</li></ul>

# Gross Margin Trend/Drivers

## Long term pattern of growth in gross margin

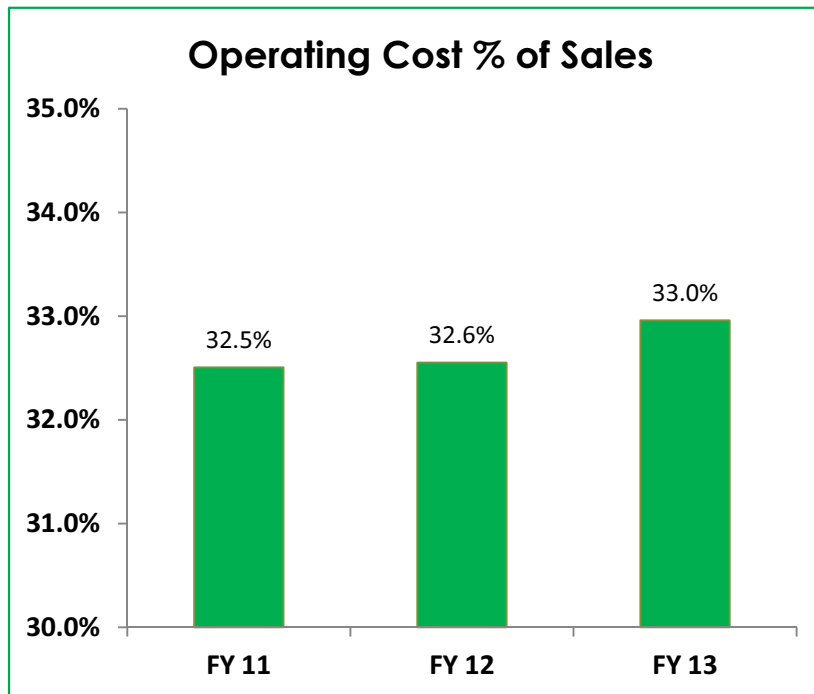


### Key drivers

- Direct sourcing
  - 16.2% of purchases in FY13 (up from 14.3% in FY12)
  - programme continues
- Clearance management
  - focus on clearance of special buys in FY13
  - some (limited) further opportunity
- Uncertainties - exchange rates, input costs, freight rates

# Operating Cost Trend

Operating cost trend reflects continuing investment in growth



	FY13	FY12
Wages & salaries	14.1%	14.0%
Rent	4.5%	4.7%
Depreciation	3.0%	3.1%
Other	11.4%	10.8%
<b>Total</b>	<b>33.0%</b>	<b>32.6%</b>

# Operating Cost Drivers

	FY13	Outlook
<b>New space</b>	<ul style="list-style-type: none"> <li>• 12.5% additional space, impacting all cost lines</li> </ul>	<ul style="list-style-type: none"> <li>• 10 new stores committed</li> </ul>
<b>Multi-channel</b>	<ul style="list-style-type: none"> <li>• Higher cost to serve drives opex %</li> <li>• IT enhancements expensed</li> </ul>	<ul style="list-style-type: none"> <li>• More efficient fulfilment operation from pre-peak</li> <li>• New IT platform capitalised</li> </ul>
<b>Direct sourcing</b>	<ul style="list-style-type: none"> <li>• 13% increase in activity</li> </ul>	<ul style="list-style-type: none"> <li>• Further increases planned</li> </ul>
<b>Core Systems</b>	<ul style="list-style-type: none"> <li>• POS system upgrade</li> </ul>	<ul style="list-style-type: none"> <li>• ERP upgrade to be completed</li> <li>• New made-to-measure system in roll-out</li> </ul>
<b>Dorma brand</b>	<ul style="list-style-type: none"> <li>• Amortisation charge £1.0m</li> </ul>	<ul style="list-style-type: none"> <li>• Fully amortised from July 2013</li> </ul>
<b>A&amp;P</b>	<ul style="list-style-type: none"> <li>• Increased investment</li> </ul>	<ul style="list-style-type: none"> <li>• Further increase, notably £3.0m TV campaign</li> </ul>



# Profit after Tax

(£m)	FY13	FY12	
<b>Operating Profit</b>	<b>106.5</b>	<b>95.2</b>	Operating margin 15.7% (FY12: 15.8%)
Financial items			
- Interest receivable	0.9	0.8	
- Foreign exchange gain	0.6	0.2	
<b>Profit before tax</b>	<b>108.1</b>	<b>96.2</b>	
Tax	(26.6)	(25.0)	Effective rate 24.6% (FY12: 26.0%)*
<b>Profit after tax</b>	<b>81.5</b>	<b>71.2</b>	
<b>EPS (fully diluted)</b>	<b>40.0p</b>	<b>35.1p</b>	
<b>Ordinary dividend</b>	<b>16.0p</b>	<b>14.0p</b>	Dividend cover 2.5x

\*Effective tax rate is expected to run at c.100bps premium to headline corporation tax rate going forward

# Working Capital Movement

(£m)		Key Drivers
Inventory increase	(6.7)	New stores
Debtors increase	(1.3)	Rents prepayment
Creditors increase	4.6	Deferred income – lease incentives
<b>Overall increase</b>	<b>(3.4)</b>	

# Operating Cash Generation

## Cash conversion remains strong

(£m)	FY13	FY12
Operating Profit	106.5	95.2
Depreciation and amortisation	20.5	18.7
Other non-cash movements	2.7	2.0
Working capital movement	(3.4)	(0.3)
Net interest	0.9	0.8
Tax paid	(26.8)	(24.5)
<b>Net cash from operations</b>	<b>100.4</b>	<b>91.9</b>
<b>Cash conversion</b>	<b>94%</b>	<b>97%</b>

# Capital Investment

## Continuing investment in growth

(£m)	FY13	FY12
<b>Ongoing investments</b>		
New store fit-outs	15.4	16.9
Refits and other store investments	5.5	6.3
Stoke fit-out	0.1	1.0
IT	4.0	1.0
Other	1.4	0.1
Sub Total	26.4	25.3
<b>Major investments</b>		
Freehold store acquisitions	-	10.1
New Head Office	-	3.2
<b>Total</b>	<b>26.4</b>	<b>38.6</b>

# Capital Investment – FY14 Drivers

- New stores – average fit out cost £1.2m per store
- Refits – major (£0.6m per store) / medium (£0.1m per store)
- IT investments, including major system upgrades – estimated £5-6m
- Freehold opportunities?



# Net Cash Generation

(£m)	FY13	FY12
Net cash from operations	<b>100.4</b>	91.9
Capital expenditure	<b>(26.4)</b>	(38.6)
Dividends paid	<b>(29.4)</b>	(24.2)
Return of capital	<b>(65.8)</b>	-
Other	<b>0.6</b>	0.9
Change in net cash	<b>(20.6)</b>	<b>30.0</b>
Year end net cash	<b>44.7</b>	<b>65.2</b>
Daily average net funds	<b>66.2</b>	<b>57.6</b>

**Cash surplus enables special dividend in October 2013**

# Nick Wharton



Chief Executive

# FY13 Overview

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## **Robust trading and strong progress against operational and strategic objectives**

- Like for like market share gains in a large and consolidating market
- Strengthened customer proposition, with further opportunities
- 14 openings increased footprint to 126 superstores
- 80% growth in multi-channel revenues
- Efficiencies from enhanced organisational and process capability
- Investment in customer offer to protect long term market position



# Growth Strategy

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Consistent and effective growth strategy since IPO

Further develop specialist position

Expand store portfolio

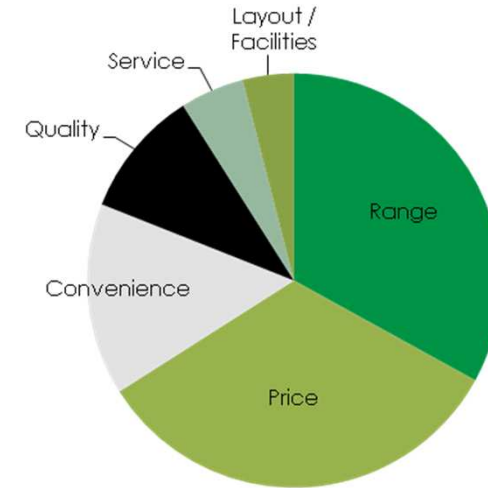
Grow multi-channel

Develop and exploit infrastructure

# Specialist Position: Offer Development

Our strengths reflect what matters to customers

Drivers of customer choice  
(source – Verdict)



- Market leading choice and value
  - 20,000 homewares products
  - Broadest price/range positioning in market
    - Entry: Grocer price, higher quality
    - Exit: Branded quality, lower price
  - Strong own brands: Dunelm, Dorma, Spectrum, Hotel
  - Trusted EDLP proposition

 <p><b>Dunelm</b> Own brand offer</p> <p>Aluminium 8 sizes 18cm Pan - £6.99</p> <p><b>cookshop</b> COLLECTION</p>	 <p><b>SPECTRUM</b></p> <p>Aluminium 8 sizes 18cm Pan - £7.99</p>	 <p><b>Dunelm</b></p> <p>Stainless Steel 10 sizes, 18cm Pan - £15.99 Also Aluminium - £14.99 and Hard Anodised - £21.99</p>	 <p><b>infinity</b> ADVANCED HOMEWARE</p> <p>Copper base 9 sizes 18cm Pan - £39.99</p>
<p><b>Competitor offer</b></p> <p>Lower quality – weight and coating 20% more expensive</p> <p>Grocer</p>		<p>Comparable quality but fewer features 30% more expensive</p> <p>Mid Tier Department Store</p>	<p>Comparable quality Fewer sizes offered 50% more expensive</p> <p>Premium Department Store</p>

# Specialist Position: Offer Development

## Growing service and convenience advantage

- Convenience
  - One stop Homewares destination
  - Edge of Town store portfolio with free parking
  - Multi-channel proposition
    - Research at home
    - Same day Reserve & Collect
  - Strong in store stock depth



- Service as point of difference
  - Targeted service training programme
  - High net promoter score
  - Home Consultation: rolling out nationally
  - New made to measure IT system

# Specialist Position: Brand Evolution - objectives

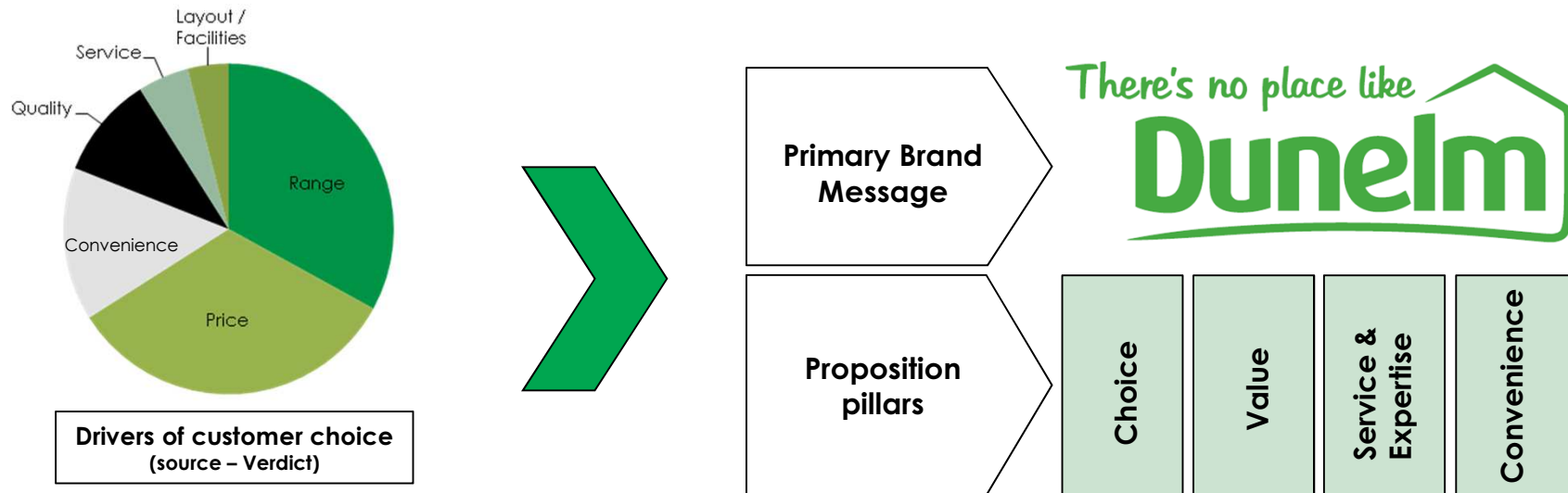
- Confident positioning as homewares market leader
- Communicate strengths in value, choice and service
- Reflect customers' emotional connection with the home
- Increase brand 'cut-through'



There's no place like  
**Dunelm**

# Specialist Position: Brand Evolution - execution

- Dunelm (no longer Dunelm Mill)
- “There's no place like Dunelm”



- Key brand messages
  - **Choice:** Something for everyone, everything for someone
  - **Value:** Simply value for money
  - **Service & Expertise:** Be inspired
- [www.dunelm.com](http://www.dunelm.com)
- Increased advertising investment – c.£3m TV campaign in current financial year

# Specialist Position: Brand Evolution-communication

## Cross-media approach ensures broad customer coverage

- Regular exposure via national and specialist press
- Targeted digital activity delivers strong returns
- Social media deepens customer relationship
- Catalogue 'coffee table' longevity and inspiration  
(1m circulation: Autumn and Spring)



*"I found things for £10 that I wouldn't have blinked at paying £400 for. There's a chain called Dunelm that's unbelievable."*



- Growing PR programme

# Specialist Position: Brand Evolution-communication

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TV advertising trial to increase brand awareness from low national base

- TV completes media programme
- Brand focused 30 second execution
- Autumn trial: 9 TV regions 87 stores
- Easter 2014 roll out opportunity



# Store Portfolio: New Stores

## Significant portfolio growth opportunity, with attractive returns

- Portfolio Opportunity / Progress

- Target of c.200 UK superstores
- Development & competition limited
- FY13 Progress
  - 14 stores, including 2 relocations
  - 10 stores legally committed
- Tactical use of freeholds



- Attractive Returns

- Recent payback: 28 months<sup>1</sup>
- Targeted Payback:
  - Large Catchment: 36 months
  - Small Catchment: 48 months

- Refit Programme

- Ensures contemporary look and feel
- Protects brand standards
- Optimal range selection introduced
- Sales opportunity from new ranges

1. Discounted payback after tax anticipated from stores opening in FY11-FY13



# Multi-Channel

## Multi-channel provides further growth opportunity

- Clear and growing customer preference
- Recent developments
  - Convenience
    - Same day reserve & collect
    - Tablet optimised
    - PayPal
  - Experience
    - Buying guides
    - Alternative images

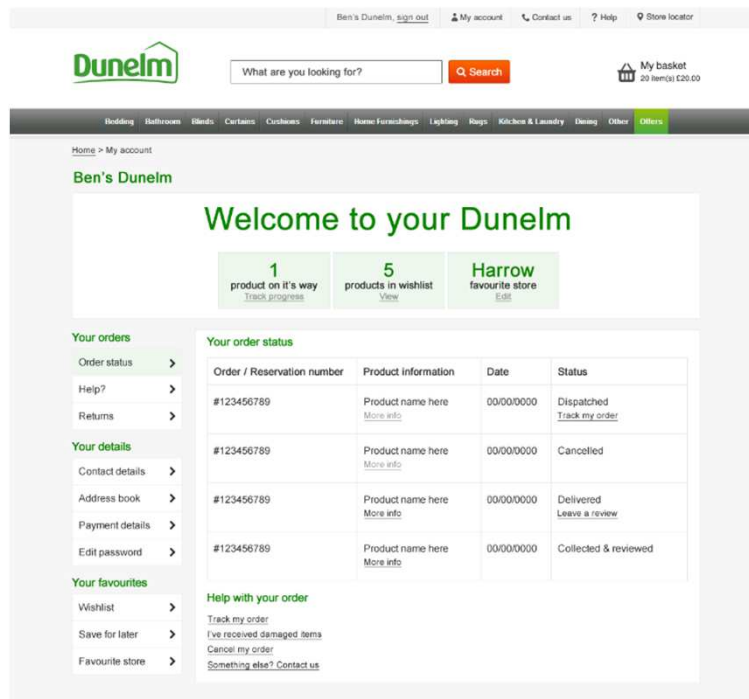


- Current position
  - Growing participation
    - FY13 average = 4%
    - 80% year on year growth
    - Higher frequency of visit and average spend
  - Encouraging web extension trial
  - Profitable at current scale
  - 850,000 active customer database (FY12: 400,000)

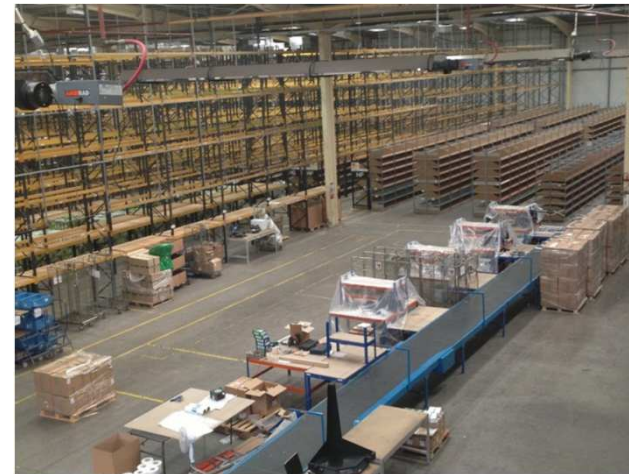
# Multi-Channel

## Clear development plan to drive multi-channel penetration

- H1 FY14
  - New fulfilment operation
    - Full offer available for home delivery
    - Enhanced delivery options
  - Compelling content (e.g. Inspiration Hub)



Bromford Gate Multi-Channel Warehouse



- H2 FY14
  - Platform refresh
    - Intuitive modern feel
    - Improved business integration
    - My Dunelm
- Medium Term
  - Web exclusive range expansion
  - eBay store
  - International delivery

# Develop and Exploit Infrastructure

## Infrastructure and process development key to strategic progress

- Growth enablers
  - Quality IT backbone with clear upgrade path
  - Flexible supply chain
  - Strengthened management cadre
- Margin enablers
  - Direct sourcing
  - Range & Space management

**Shanghai Consolidation Facility**



- Customer service enablers
  - Automated replenishment
  - Centralised checking
  - Single pick/direct to shelf

# Summary

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## Strong foundation for continued growth

- Robust growth in sales and earnings
- Substantial new store opportunity with good pipeline
- Brand evolution supported by TV advertising
- Two significant multi-channel developments to be delivered in FY14
- Strengthened systems, processes and management in place
- Strong cash generation and returns to shareholders

# Appendices



# Market Overview

## Leader in sizeable fragmented market

### Large market

- £11 bn consumer market
- Value stable post 2008

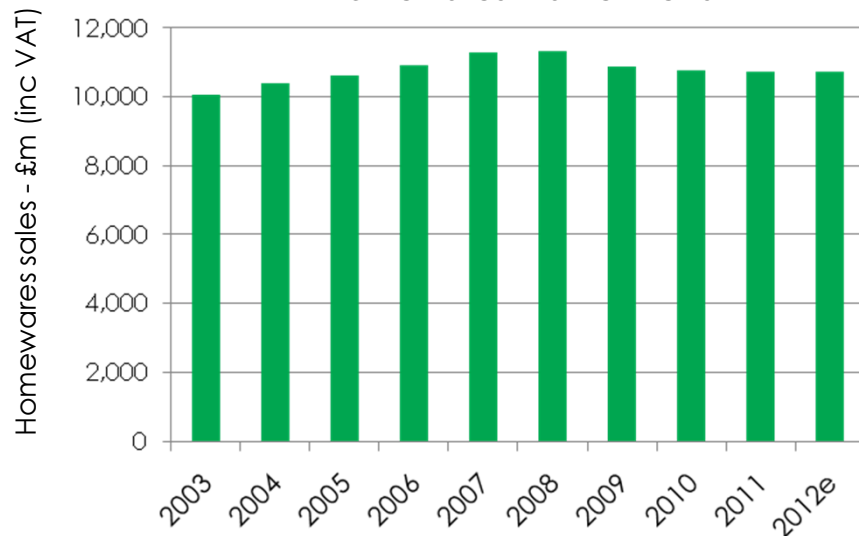
### Classically fragmented

- Top 3 retailers less than 20%
- Top 10 less than 50%
- Independents c.25% & shrinking

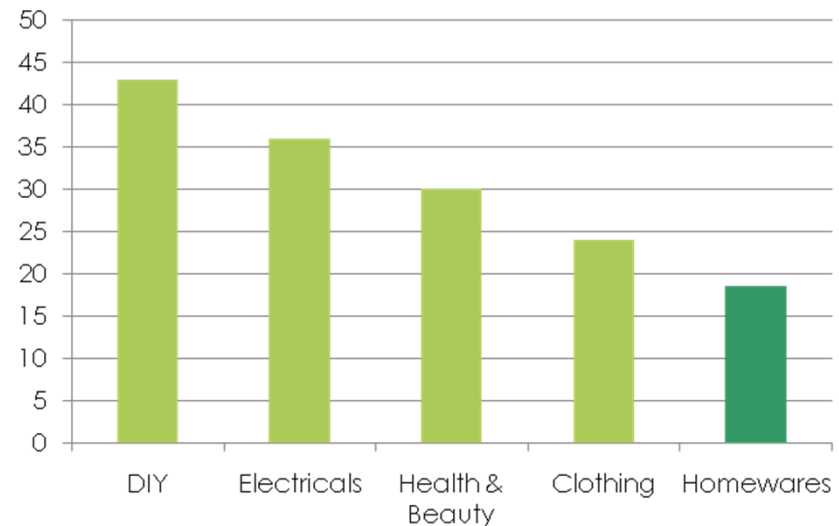
Homewares Market Shares

	2012	Change vs 2008
Dunelm	6.9%	+2.9%pts
John Lewis	6.8%	+1.7%pts
Argos	4.9%	-0.4%pts
<b>Top 3</b>	<b>18.6%</b>	<b>+3.7%pts</b>
<b>Top 10</b>	<b>48.4%</b>	<b>+7.9%pts</b>
<b>Independents (&lt;0.5%)</b>	<b>22.9%</b>	<b>-12.4%pts</b>

Homewares Market Trend

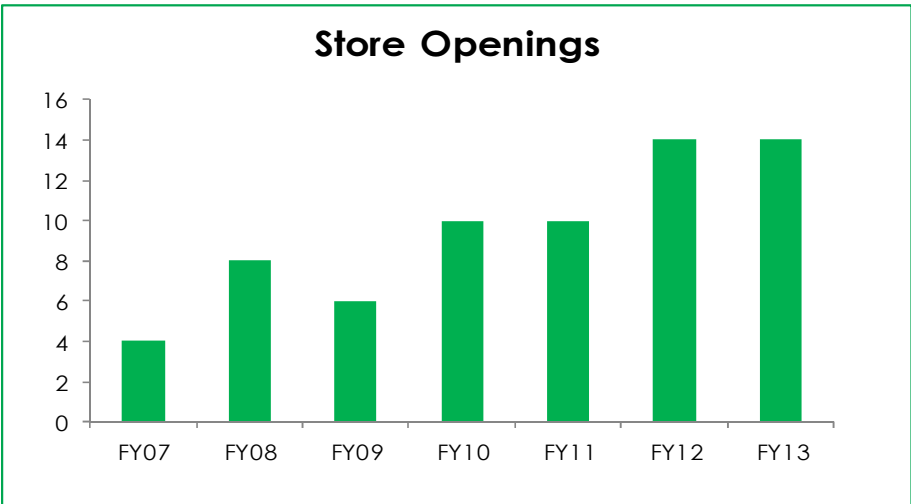
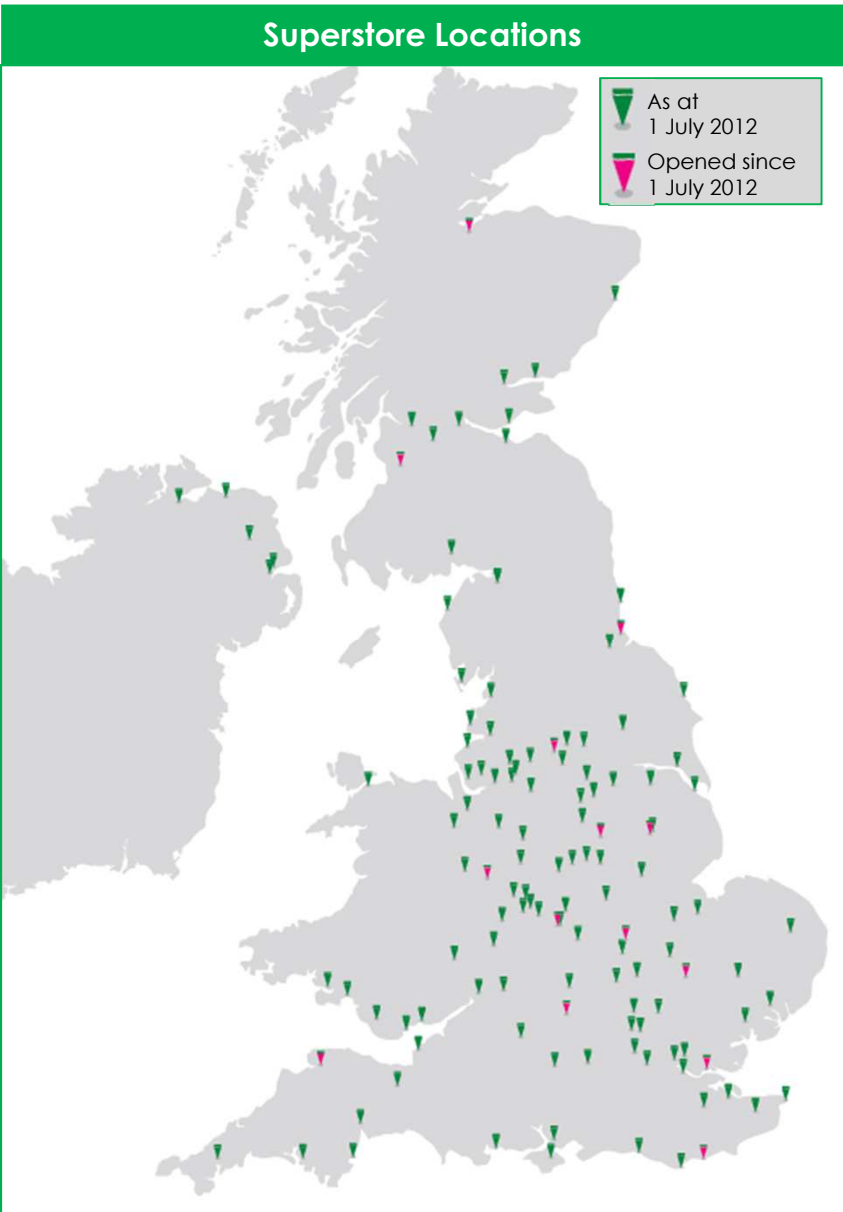


Shares of Top 3 Retailers (by Market)



# Store portfolio

New Stores Opened FY13	
H1	H2
Cambridge	Hastings
Oxford	Lincoln
Telford	Thurrock
Barnstaple	Hartlepool
Kettering	
Mansfield	
Coventry	
Halifax	
Kilmarnock	
Inverness	



# 'There's no place like Dunelm' – New Advertising

**NOW ON**

**Summer Sale**

**20% OFF**  
Jakarta Plum Fully Lined Eyelet Curtains  
NOW FROM £15.99

**20% OFF**  
OVER 100 RED LINEN RANGES

**20% OFF**  
ALL TOWELS  
SoSoft  
100% Cotton Towels  
NOW FROM £3.19

**20% OFF**  
Nina Duck Egg Double Duvet Cover  
NOW £27.99

**20% OFF**  
ALL  
Richmond Living & Bedroom Furniture  
NOW FROM £159.99

**20% OFF**  
ALL SPECTRUM DINING, COOKSHOP UTENSILS, ELECTRICALS & KITCHEN ACCESSORIES

**20% OFF**  
ALL  
Slumber Rugs  
NOW FROM £39.99

**20% OFF**  
ALL  
Cotton Pillow Pair  
NOW £7.99  
10.5 Tog Duvet  
NOW FROM £19.99

**20% OFF**  
ALL  
Morphy Richards  
Accents 4 Slice Toaster & Kettle  
NOW £35.99 EACH

1000s more great offers in-store and online

There's no place like **Dunelm**

136 stores nationwide | Reserve online & collect in-store | dunelm.com

100s of pillows, duvets and mattress toppers

Something for everyone, everything for someone

There's no place like **Dunelm**

136 stores nationwide | Reserve online & collect in-store | dunelm.com

Visit us in-store or online at dunelm.com for more details or call 0844 346 0020. We will take all reasonable care to ensure that all details, descriptions and prices of products are correct at time of publication. Some items only available in larger stores. All items are subject to availability.



# Strong Balance Sheet

(£m)	29 June 2013	30 June 2012
Total non-current assets	156.8	149.6
Inventories	92.9	86.2
Receivables	18.3	17.1
Cash	44.7	65.2
Other	0.4	-
Total assets	156.4	318.0
Current liabilities	(115.5)	(110.7)
Non-current liabilities	-	(0.3)
<b>Net assets</b>	<b>197.7</b>	<b>207.0</b>
Share capital	2.0	2.0
Share premium	1.6	1.0
Other reserves	43.5	43.1
Retained earnings	150.6	160.9
<b>Total equity</b>	<b>197.7</b>	<b>207.0</b>