

Simply value for money



## INTERIM RESULTS

26 weeks to 01 January 2011

# Geoff Cooper

Chairman

**David Stead**

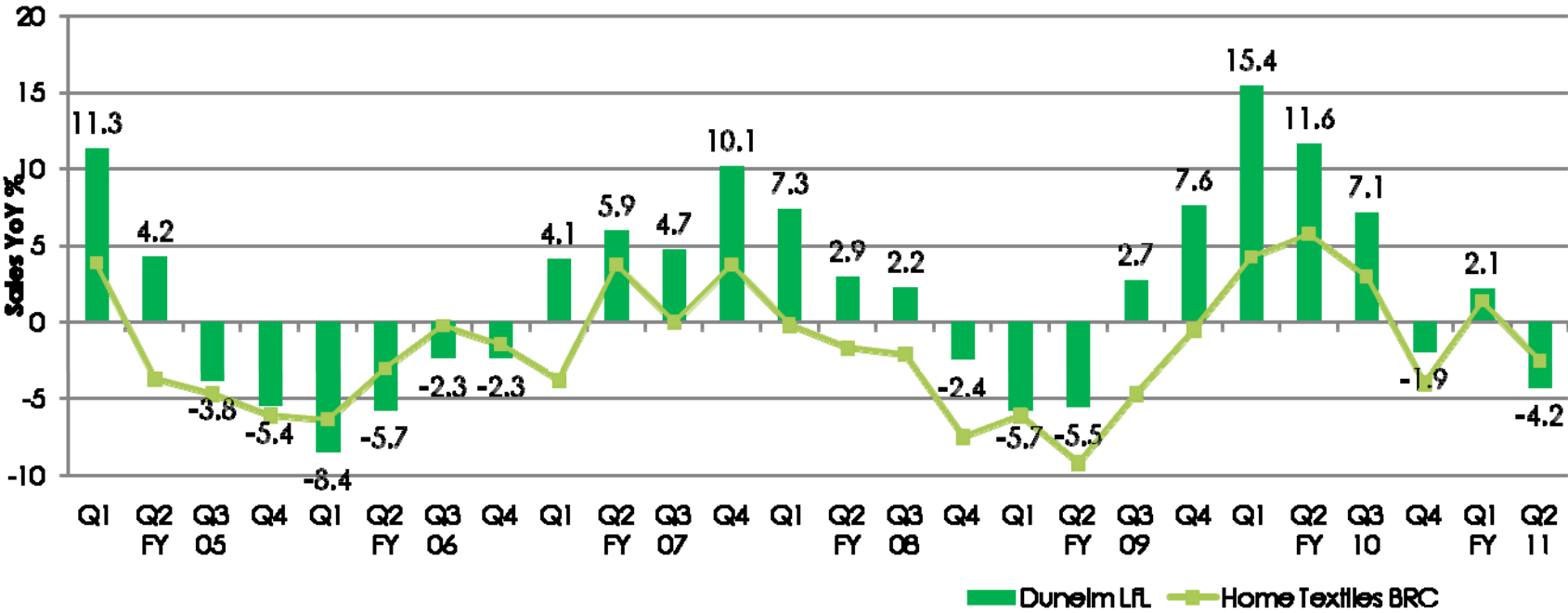
Finance Director

# Financial highlights

	FY11 H1	FY10 H1	Year on year change
Sales	£275.7m	£254.2m	+8.5%
LFL Sales (decline) / growth	-1.2%	+15.4%*	
Gross margin	49.1%	48.0%	+110bps
Operating profit	£48.4m	£45.9m	+5.4%
Profit before tax	£48.5m	£46.2m	+5.0%
EPS (fully diluted)	17.1p	15.9p	+7.5%
Dividend	3.5p	3.0p	+16.7%

\* Underlying LFL in FY10 H1 (adjusted for calendar effect) was 13.4%

# Like-for-like sales trend



NB all figures are based on sales excluding VAT; FY10 Q2 and Q3 figures reflect underlying performance (i.e. adjusted for calendar effect)

# Gross Margin Drivers

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- Improved clearance
- Cost price inflation
- Selling price management

# Operating Costs

## Increases in cost base driven by business growth

	£m	Comments
Operating costs FY10 H1	76.2	
Increases due to:		
• LFL stores*	0.9	Includes web development
• Non LFL stores**	8.4	Average selling space up by 350k sq ft
• Other	1.6	Includes warehouse expansion and onerous lease charge
<b>Operating costs FY11 H1</b>	<b>87.1</b>	

\* 83 superstores, 10 high streets, Dunelm Direct

\*\* 17 superstores (openings since July 2009)

# Profit after Tax

(£m)	FY11 H1	FY10 H1	
Operating Profit	48.4	45.9	
Financial Items	0.1	0.3	
Profit Before Tax	48.5	46.2	
Tax	(13.7)	(13.8)	Effective rate 28.2%
<b>Profit After Tax</b>	<b>34.8</b>	<b>32.4</b>	
<b>EPS (fully diluted)</b>	<b>17.1p</b>	<b>15.9p</b>	<b>+7.5%</b>
<b>Dividend</b>	<b>3.5p</b>	<b>3.0p</b>	<b>+16.7%</b>



# Operating cash generation

(£m)	FY11 H1	FY10 H1
Operating Profit	48.4	45.9
Depreciation and amortisation	6.7	5.4
Other non-cash movements	0.5	0.6
Working capital movement	7.9	8.8
Net interest	0.3	0.2
Tax paid	(11.7)	(8.4)
<b>Net cash from operations</b>	<b>52.1</b>	<b>52.5</b>
<b>Cash conversion</b>	<b>108%</b>	<b>114%</b>

# Working capital movement

(£m)	FY11 H1	FY10 H1	Comments
Inventory increase	(6.1)	(3.5)	Reduction in LFL stores
Receivables increase	(2.4)	(0.6)	Various items
Payables increase	16.5	12.9	Payables cycle; deferred lease incentives
<b>Overall reduction</b>	<b>7.9</b>	<b>8.8</b>	

# Capital investment

(£m)	FY11 H1	FY10 H1
<b>Major transactions</b>		
Freehold acquisitions	7.7	-
New Head Office	1.7	-
	<b>9.4</b>	-
<b>On-going investments</b>		
New store fit-outs	8.6	5.7
Refits and other store investments	3.2	2.8
IT investment	0.5	0.5
Other	1.4	0.6
	<b>13.7</b>	<b>9.6</b>
<b>Total</b>	<b>23.1</b>	<b>9.6</b>

- 2 freehold units acquired
- 7 new stores fitted out in FY11 H1, 6 in comparable period
- 3 major refits completed in FY11 H1, 4 in comparable period

# Net cash generation

(£m)	FY11 H1	FY10 H1
Net cash from operations	52.1	52.5
Capital expenditure	(23.1)	(9.6)
Dividends paid	(10.1)	(8.0)
Other	0.1	0.1
<b>Change in net cash</b>	<b>19.0</b>	<b>35.0</b>
<b>Period end net cash</b>	<b>34.3</b>	<b>59.2</b>
<b>Daily average net cleared funds</b>	<b>29.1</b>	<b>40.1</b>

# Guidance

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- Sales and gross margin
  - LFL comparatives Q3, Q4
  - Cost inflation
- Operating costs
  - New space
  - Depreciation
  - New Head Office
- Tax
  - Rate reduction
- Capex
  - New store fit outs
  - Refits
  - New Head Office
  - Freeholds
  - Other

**Will Adderley**

Deputy Chairman

# H1 - Summary

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- Solid financial performance
- Continuing portfolio growth
- Strong balance sheet
- New Chief Executive

# Deputy Chairman role

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- Stores
- Competitors
- Supplier relationships
- Internal consultant – support Nick and David
- Culture and staff



# Cotton price inflation

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- Major increases in cotton prices
- Security of supply
- Protection for the future
- Flexible trading policies

# Nick Wharton

Chief Executive

# Dunelm growth strategy

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Further develop specialist position

Store portfolio

Grow multi-channel

Develop and exploit infrastructure

# Specialist position

## Core ranges

- Extensive range of homewares
- Great authority - depth and choice
- Strong availability
- Own brand

c.80% of sales

## Special buys

- Frequently changing ("Miss it Miss out")
- Powerful displays
- Core homewares and related products
- "Treasure-hunt" feel

c.20% of sales



*Simply value for money*

## Service

- Specialist knowledge
- Extensive fabric range
- Made to measure
- "Dunelm at Home"



# Range authority – ready made curtains

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- 186 different designs, over 2,000 SKUs
- Price points from £14.99 to £229.99
- Range supplemented by custom made options



Dunelm Havana Curtains  
From £14.99



Heritage Collection Glava Curtains  
From £69.99

# Leveraging our heritage

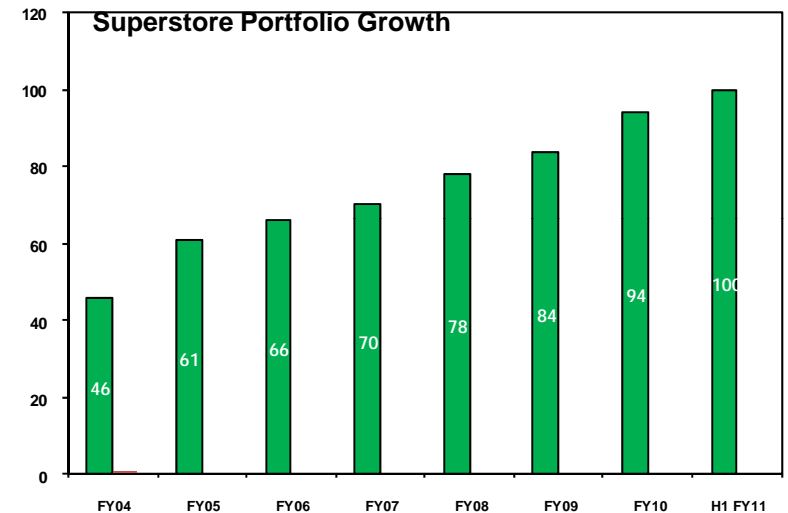
- Unique trading approach
  - Stores
  - Central teams
- Developing core departments
  - Bedding
  - Window treatments
- Introducing new concepts
  - Arts and crafts (78 stores)
  - Dorma shop (38 stores)
  - Expanded kitchen offer (32 stores)



# Store portfolio

## Superstore format provides significant growth opportunity

- Opportunity for 150-200 superstores
- Attractive financial payback
- Refits introduce latest customer offer
- Contemporary store portfolio
- Large footprint and strong covenant underpin favourable lease terms



New store economics	
Cash Investment	£1.9m
Discounted Payback	25 months



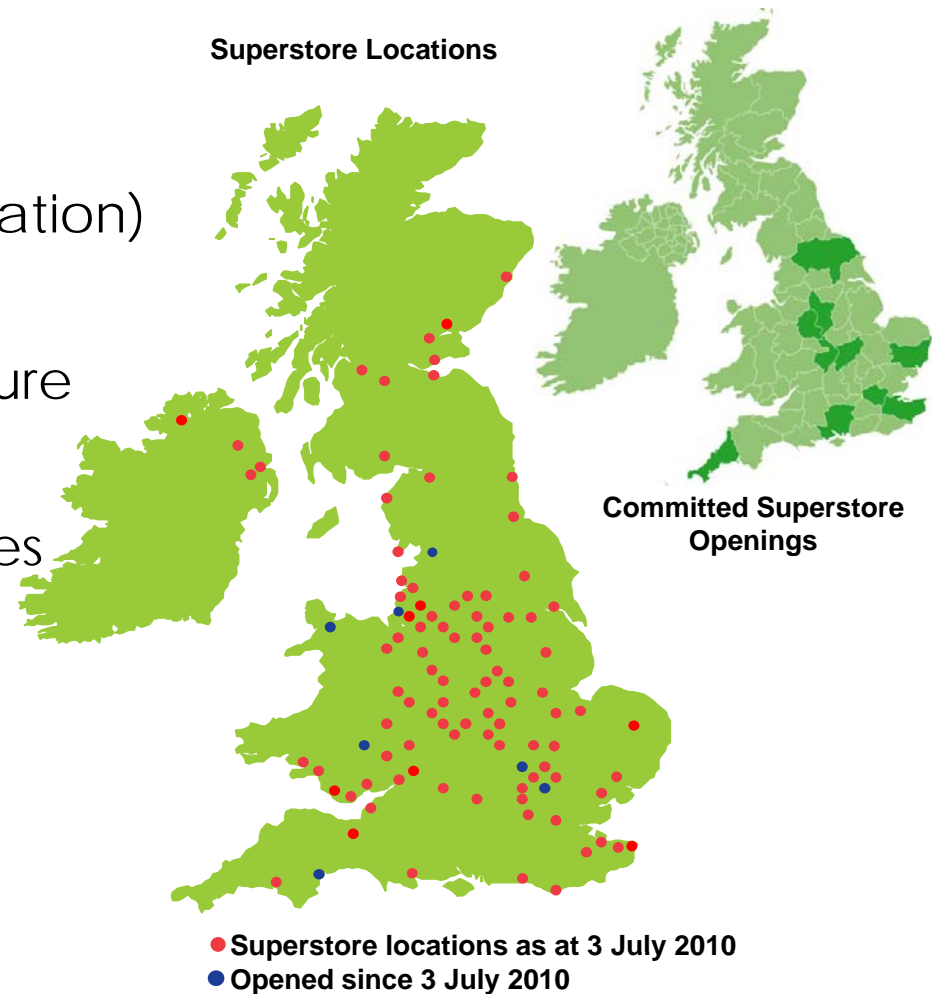
# Store portfolio

## Superstores (100 stores)

- 7 stores opened in period (1 relocation)
- Consistent financial returns
- Freehold purchases to secure tenure and avoid restrictions
- Strong pipeline of committed stores
  - 3 in H2
  - 7 in FY11 (inc 2 relocations)

## High Street Stores (10 Stores)

- Profitable locations
- Long-term relocation opportunities

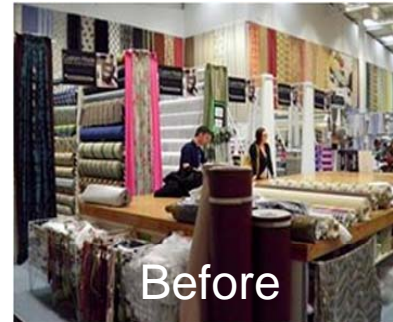




# Store portfolio

## Range of store refit solutions drive value

- Sales improvement through:
  - New range introduction
  - Improved adjacencies
  - Enhanced customer environment
  - Release of surplus stockroom space



- Tailored refit programme ensures appropriate ROIC
  - Major – c.£650k investment
  - Medium – c.£100k investment
  - Small – c.£10k investment
- 10-15 major/medium refits per year going forward



# Multi-channel – Dunelm Direct

## Significant future growth upside from Dunelm-mill.com

Clear opportunity

- Accesses web only customers
- Higher frequency of visit and spend
- 'Shop Window' to Dunelm
- High return on on-line advertising
- Own brand penetration protects margin

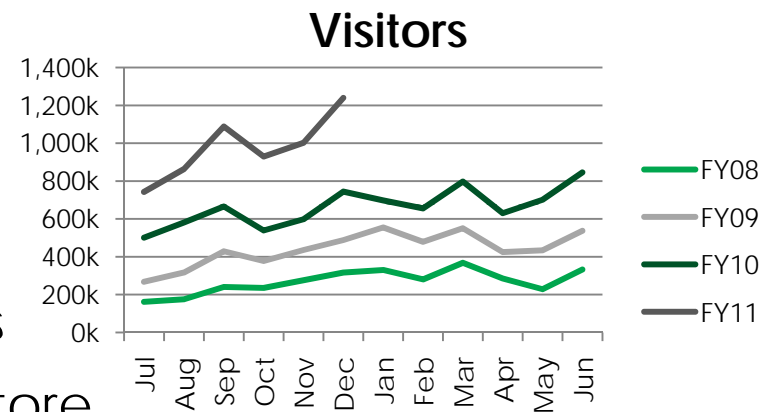
The screenshot displays the Dunelm Direct website interface. At the top, the Dunelm mill logo is accompanied by the tagline 'Simply value for money'. Navigation links include 'Store Locator', 'My Basket' (0 items, £0.00), 'Sign In', 'My Account', 'Contact Us', and 'Wish List'. A search bar is located on the right. Below the header is a horizontal menu with categories: New, Dorna, Arts and Crafts, Bathroom, Bedding, Beds and Mattresses, Blinds, Curtains, Cushions and Throws, Duvelts and Pillows, Fabric and Sewing, Furniture, Home Decor, Kitchen, Laundry, Lighting, Made to Measure, Pictures and Mirrors, Rugs and Doormats, and Storage. A green banner promotes 'Collect Instore' with the text 'ORDER ONLINE COLLECT INSTORE FOR FREE!' and 'FREE RETURNS ON ALL ORDERS'. The main content area features a large image of 'Natural Scattered Flowers Curtains' with a 'NEW Spring 2011' badge and a price of 'From £29.99'. A 'SHOP ALL New Curtains and Blinds' button is visible. On the right, a 'Delivery Options' table lists: Collect Instore (FREE), Standard Delivery (£3.95), Next Day Delivery (Order before 2pm Mon - Thurs) (£5.95), Made to Measure (£5.95), and Large Items\* (£24.95). Below this is a 'Store Locator' section with a map and the text 'With over 100 stores in the UK, find the store nearest to you.' and a 'Liverpool Superstore now open!' badge. At the bottom right, there is a 'Newsletter Sign Up' button with an 'email me' icon.

Delivery Option	Price
Collect Instore	FREE
Standard Delivery	£3.95
Next Day Delivery (Order before 2pm Mon - Thurs)	£5.95
Made to Measure	£5.95
Large Items*	£24.95

# Multi-channel - Dunelm Direct

## Multi-channel development roadmap evolving

- Worthwhile profit opportunity
  - 60% visitor growth
  - Strong revenue growth
  - ATV significantly higher than stores
  - Participation equivalent to top 5 store
- Development plan
  - Collect in store convenience
  - Fulfilment efficiency
  - Increase on-line SKU count (currently 16,500)
  - Increase customer engagement
  - Search engine / Pay per click optimisation



*"I bought these cushions for my kitchen dining table, they are really gorgeous with a fantastic stylish design!" CJ, Edinburgh*



# Multi-channel – Dunelm At Home

## Strategic differentiation through in-home consultation

- Opportunity
  - Deeper customer relationship
  - Specialist proposition
  - Competitive advantage:
    - Vertical integration
    - Ancillary products
  - High customer acceptance & ATV in trial
- Next steps
  - Simplify processes
  - Improve consistency
  - Grow: Store by store



**FREE**  
**HOME CONSULTATION**  
Choose Custom Made curtains, blinds & accessories in the comfort of your own home.

Made at our very own Manufacturing Centre in Leicestershire

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**0800 093 0928**  
or ask in-store for details

Custom Made  
CURTAINS • BLINDS • ACCESSORIES

**Dunelm**  
at home



**FREE**  
**HOME CONSULTATION**

Our trained Advisor can offer expert guidance on getting the Custom Made curtains blinds and accessories all in the comfort of your home.

- FREE Home Visit
- FREE Practical Help and Advice
- FREE Quotation with no obligation

**MEASURING SERVICE**

Let us measure up – our trained Advisor can help by measuring your windows accurately to ensure a perfect fit first time. £25 redeemable against first order.

Choose vibrant colours and use them to enhance dark furniture

This modern wide mesh blind is available in Mack nickel and chrome finishes

Pick fabrics in account colours for a modern, high fashion look

Our vast array of fabric tones are great for those finishing touches!

Dress your table in style with an elegant fancy and platemats made from sumptuous chintz

Tapel Fabrica

Tanberry Fabrica & Lime

Dayton Mirrors

For your nearest Custom Made store visit:  
[www.dunelm-mill.com](http://www.dunelm-mill.com)

**Dunelm**  
mill  
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recycle

Terms & Conditions - All items are subject to availability. Images are for illustration purposes only. These services are only available in a selection of our stores. All curtain & blind prices are quoted on a standard fabric price and will vary dependent on your fabric choice. All prices are correct at time of going to print and we reserve the right to withdraw or change these at anytime. ©2012.

# Develop and exploit infrastructure

## Infrastructure in place to support greater scale

- Management capability
  - Strengthened structure in place
- Manufacturing capability
  - Source of competitive advantage
  - Increased scale – summer 2010
  - Centralise store based processes
- Head office
  - Transition – late summer 2011
  - Significant workflow upside





# Develop and exploit infrastructure

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## Infrastructure in place to support greater scale

- Logistics development
  - Stoke warehouse (special buys)
    - Expanded footprint to 500k sq ft
    - Capacity to support store growth and direct sourcing
  - Nominated carrier DC (ranged lines)
- IT Infrastructure
  - Focus on simplifying store operations



# Summary

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## **Strong position in attractive market**

- Category-killing choice across homewares
- Great value proposition
- Established service differentiation

## **Clear growth potential**

- Opportunity to expand to 150 – 200 superstores
- Refit opportunity in balance of portfolio
- Growth potential in existing and new categories
- Significant further upside from multi-channel

## **Strong Financial Model**

- Highly profitable, scalable model: FY10 operating margin 15.3%
- Excellent capital return on new stores
- Excellent cash generation: all growth internally funded
- Contemporary store portfolio and support infrastructure

**Strong foundation for continued growth**

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## INTERIM RESULTS

26 weeks to 01 January 2011

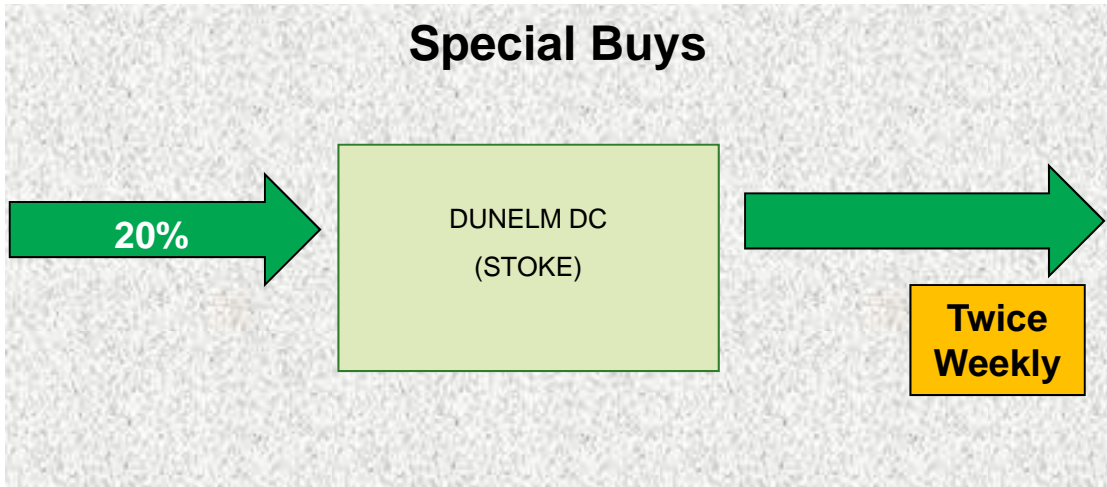
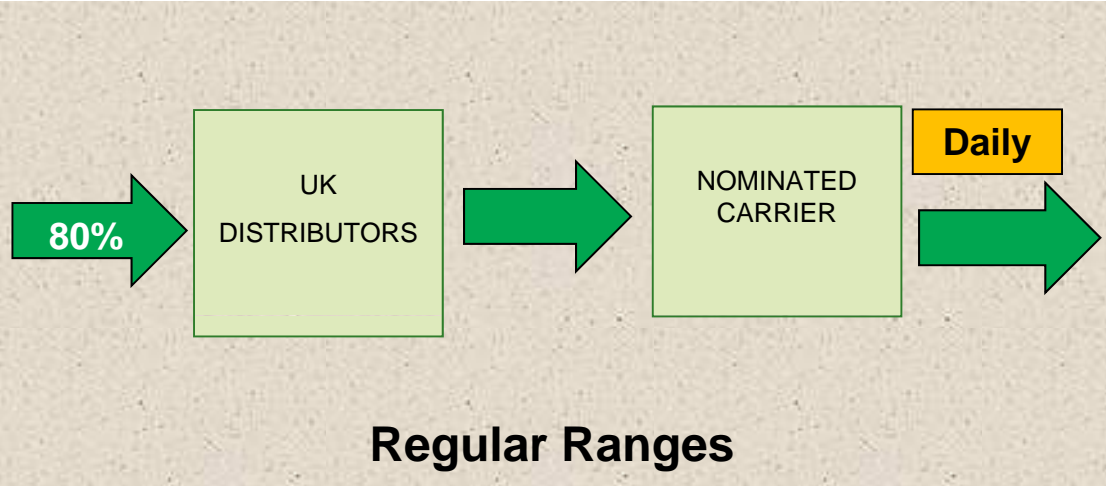


# Appendices





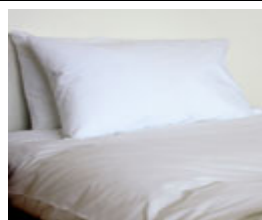
# Supply chain

Overseas  
Manufacturers



Store

# Simply value for money

	Competitor	Dunelm
	Hotel 400 Thread Count Pillowcase £12.00	Hotel 400 Thread Count Pillowcase £7.99
	50/50 Polycotton Pillowcase Pair £6.00	Dunelm 50/50 Polycotton Pillowcase Pair £4.99
	Value Pillowcase Pair (Non Iron) £4.00	Value Pillowcase Pair (Non Iron) £2.49



Bill Adderley

- Founded Dunelm in 1979
- Managing Director, then Chairman, then NED
- Retired from the Board in 2008



Will Adderley

- Chief Executive from 1996
- Executive Deputy Chairman from February 2011



Nick Wharton

- NED of Dunelm since 2009
- Chief Executive from February 2011
- Previously Finance Director of Halfords Group plc

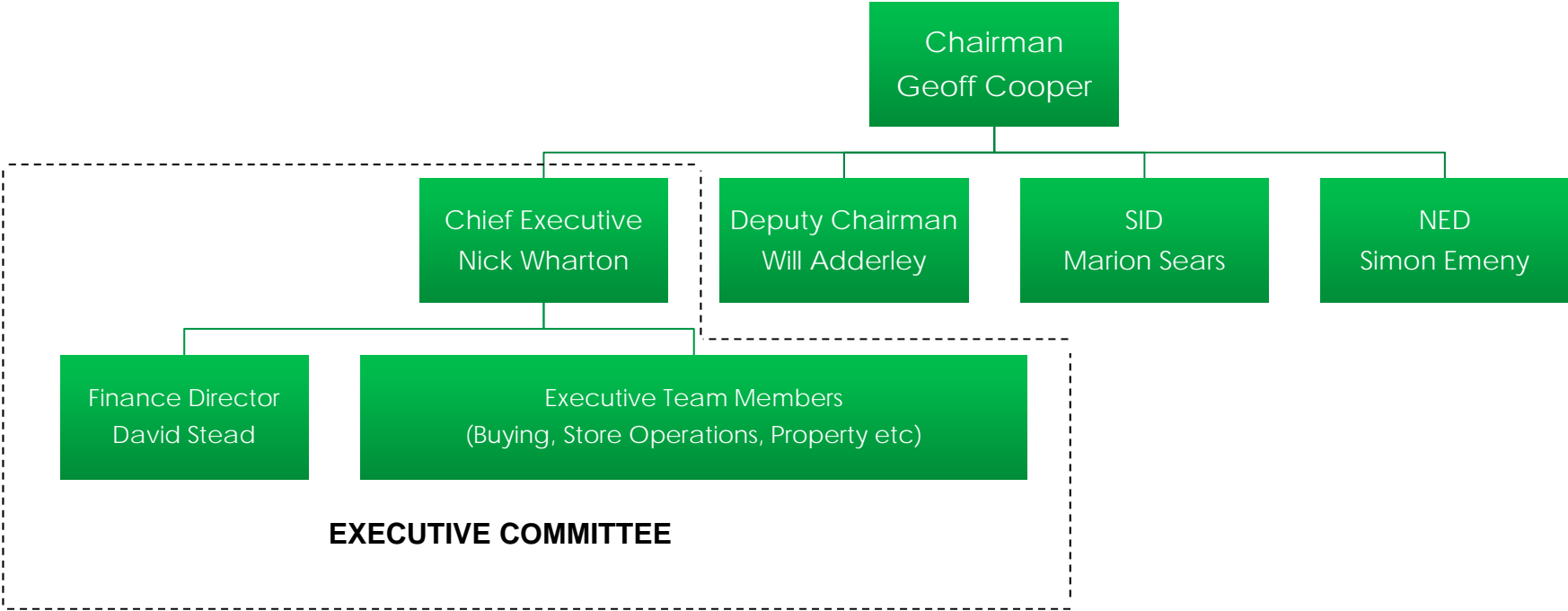


David Stead

- Finance Director since 2003
- Previous financial and commercial experience with KPMG and Boots Group

Adderley family shareholding 59%

# Board structure



# Summary balance sheet

(£m)	1 <sup>st</sup> January 2011	2 <sup>nd</sup> January 2010
Total non-current assets	124.0	99.1
Inventories	68.7	61.4
Receivables	12.8	11.3
Cash	34.3	59.2
<b>Total assets</b>	<b>239.8</b>	<b>231.0</b>
Current liabilities	(101.7)	(92.9)
Non-current liabilities	(0.1)	-
<b>Net assets</b>	<b>138.0</b>	<b>138.1</b>
Share capital	2.0	2.0
Share premium/other reserves	43.5	0.3
Retained earnings	92.5	135.8
<b>Total equity</b>	<b>138.0</b>	<b>138.1</b>