



Dunelm

The Home of Homes

Dunelm Group PLC

Interim Results Presentation

26 weeks to 31 December 2016

John Browett

Chief Executive

Growth

We have set out our target for growth and where the opportunities lie

- Medium term 50% sales growth target
- Opportunity 1 – Online
- Opportunity 2 – New stores
- Opportunity 3 – LFL growth

Trading Summary

- Total sales up 2.8%. LFL down 1.6%
- Qtr 1 impacted by warm weather
- Qtr 2 improved performance
- Christmas/seasonal worked well
- Supply chain issues
- Costs up 6.7% due to infrastructure investment

Worldstores Acquisition

- Exciting acquisition
- Pre-packaged administration
- Stabilisation of business
- Paying suppliers and customers
- Trading loss of £1.8m
- Exceptional items of £9.3m

Worldstores Opportunity

- Accelerate online development
- Integrate home-delivery networks
- Sharing product ranges
- Harmonising terms
- Kiddicare multichannel opportunity
- Achica access to affluent market
- Accelerate furniture proposition

Growth Strategy

- Transitional period
- Invest in infrastructure and processes
- Increase estate to 200 stores
- Attractive stores
- Online growth ongoing
- Genuine multichannel opportunity
- Maintain low cost operating model

Growth

8 key initiatives underpin growth and are self-help opportunities. The online initiative has been considerably strengthened by the acquisition of Worldstores.

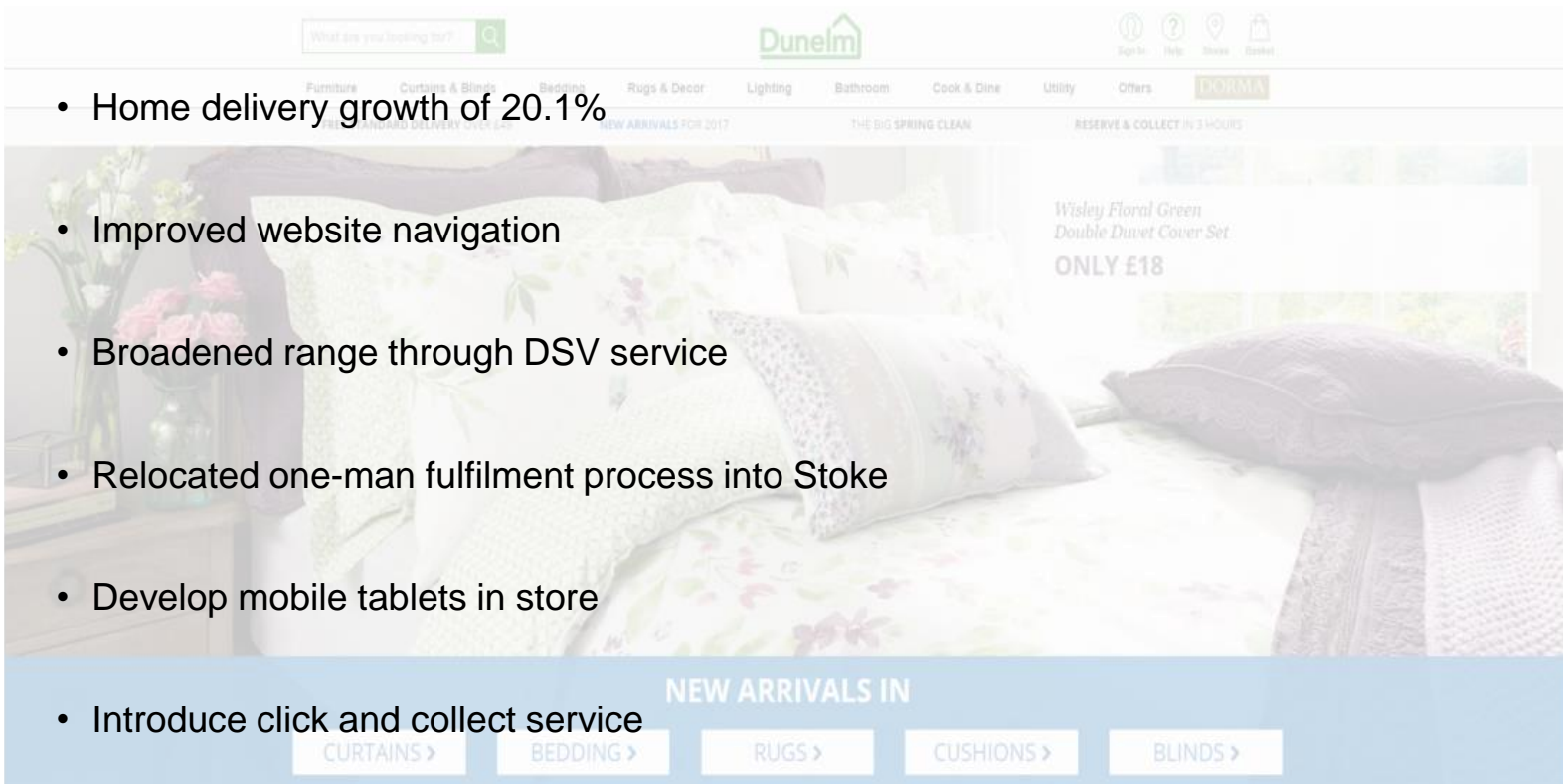
	Online	London	Product	Store Operations	Store Format	Made to Measure	Furniture	Supply Chain
Online	✓	✓	✓	✓	✓	✓	✓	✓
New stores		✓		✓	✓			✓
LFL growth	✓		✓	✓	✓	✓	✓	✓

Key Initiatives – Dunelm Online

The screenshot shows the Dunelm Online website interface. At the top, there is a search bar with the placeholder text "What are you looking for?". To the right of the search bar is the Dunelm logo. Further right are navigation icons for "Sign In", "Help", "Stores", and "Basket". Below these is a horizontal menu with categories: Furniture, Curtains & Blinds, Bedding, Rugs & Decor, Lighting, Bathroom, Cook & Dine, Utility, Offers, and a "DORMA" badge. A secondary navigation bar contains promotional text: "FREE STANDARD DELIVERY OVER £49", "NEW ARRIVALS FOR 2017", "THE BIG SPRING CLEAN", and "RESERVE & COLLECT IN 3 HOURS". The main content area features a large image of a bed with a floral duvet cover and pillows. Text overlay on the image reads: "Wisley Floral Green Double Duvet Cover Set ONLY £18". At the bottom of the image is a blue banner with the text "NEW ARRIVALS IN" and five buttons: "CURTAINS >", "BEDDING >", "RUGS >", "CUSHIONS >", and "BLINDS >".

Key Initiatives – Dunelm Online

- Home delivery growth of 20.1%
- Improved website navigation
- Broadened range through DSV service
- Relocated one-man fulfilment process into Stoke
- Develop mobile tablets in store
- Introduce click and collect service

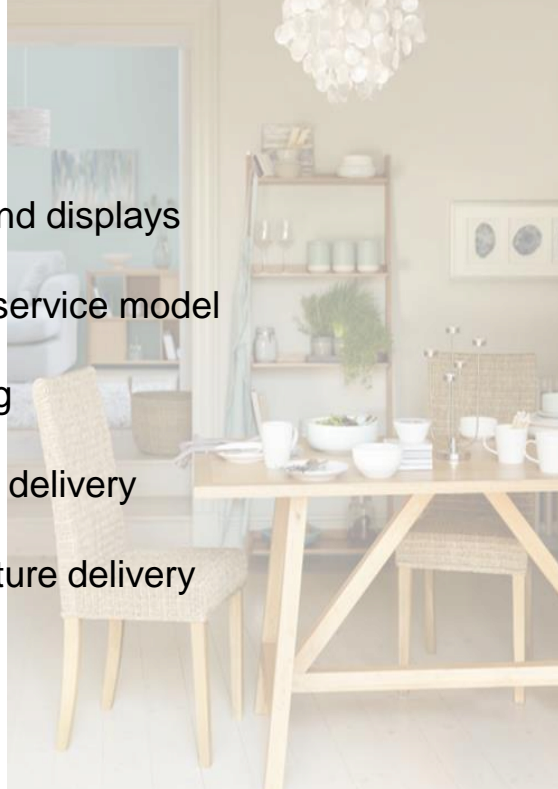
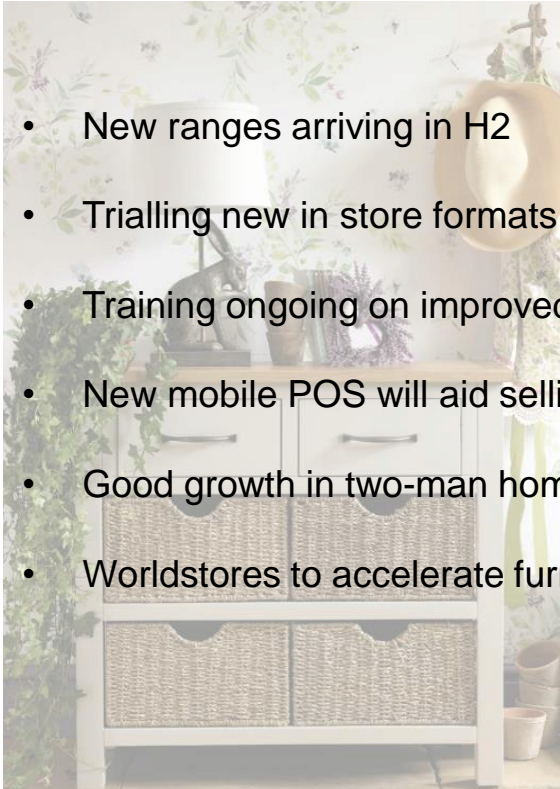


Key Initiatives - Furniture



Key Initiatives - Furniture

- New ranges arriving in H2
- Trialling new in store formats and displays
- Training ongoing on improved service model
- New mobile POS will aid selling
- Good growth in two-man home delivery
- Worldstores to accelerate furniture delivery



Key Initiatives – Store Format



Key Initiatives – Store Format

- Latest openings traded better than forecast
- Three store refits completed – first indications promising
- Rolled out seasonal space In-line tills rollout progressing
- Refit at least eight stores in second half



Key Initiatives - Product



Key Initiatives - Product

- Improve product design
- Increase innovation
- Improve sourcing
- Investment in capability



Key Initiatives – Supply Chain



Key Initiatives – Supply Chain

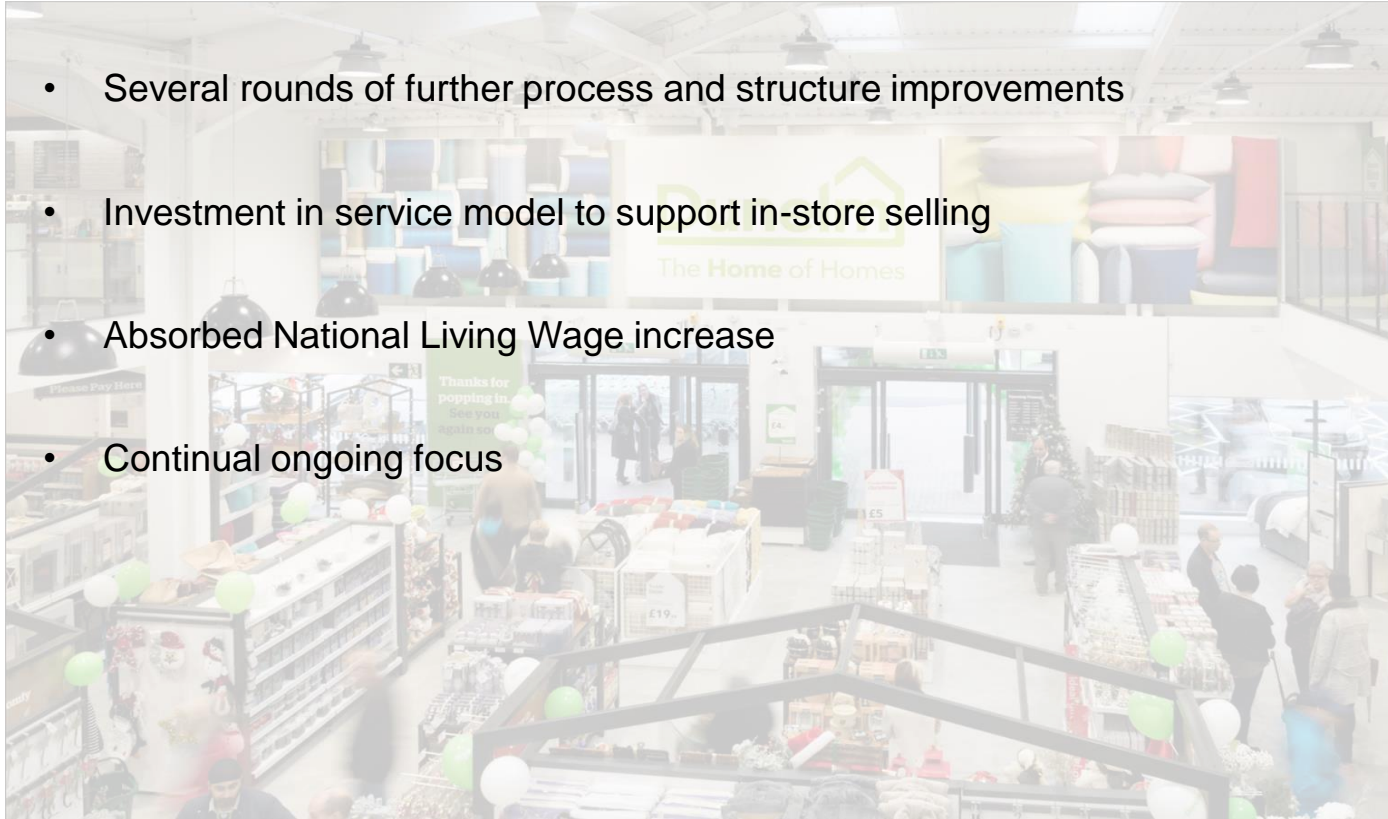
- Reorganised stock between warehouses
- Harmonised logistics suppliers
- Short-term disruption to store and home delivery availability
- Incremental transitional costs of £3m
- Integrate ecommerce and direct-to-store distribution over time
- Incorporate Worldstores network into model

Key Initiatives – Store Operations

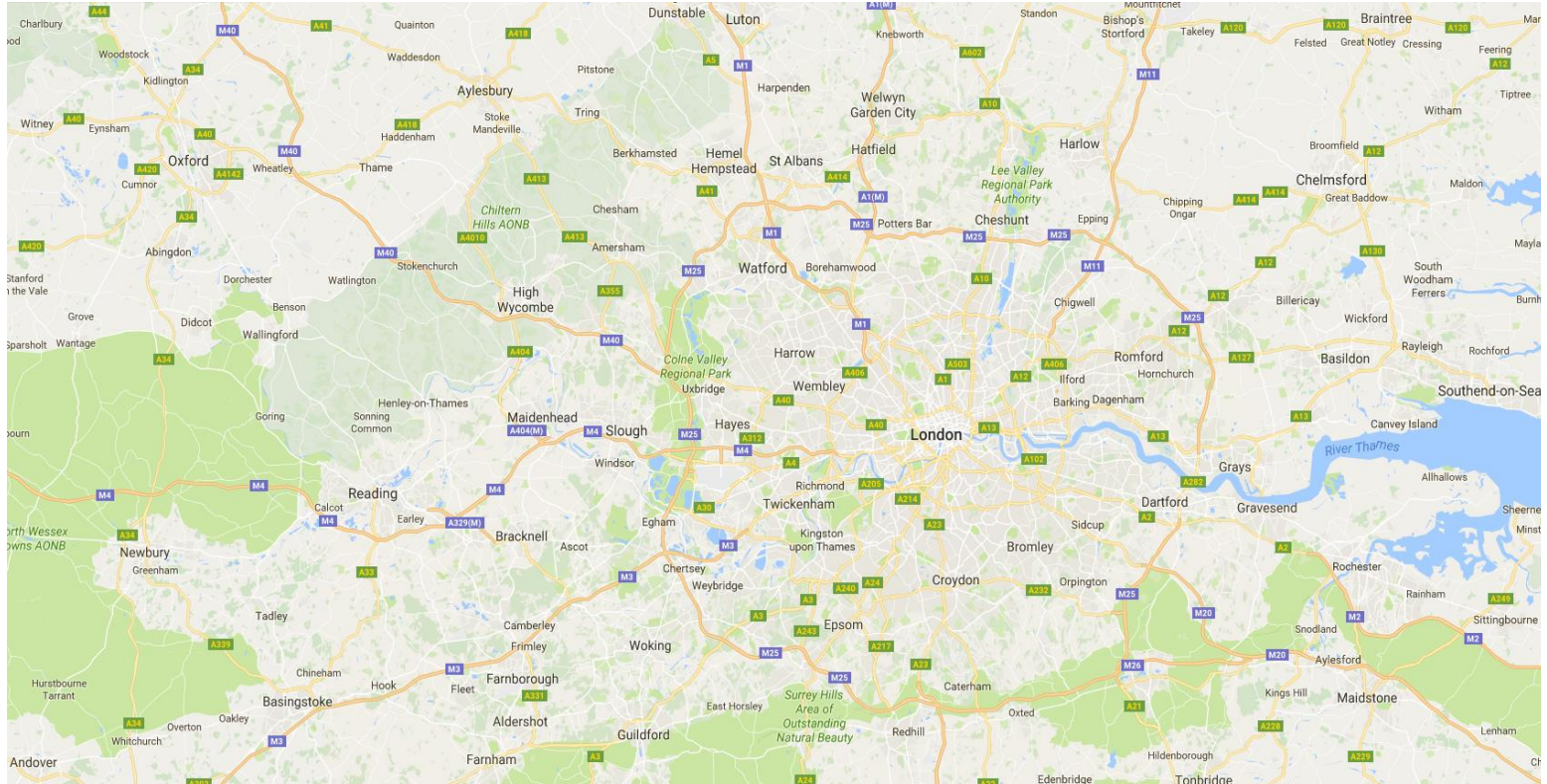


Key Initiatives – Store Operations

- Several rounds of further process and structure improvements
- Investment in service model to support in-store selling
- Absorbed National Living Wage increase
- Continual ongoing focus

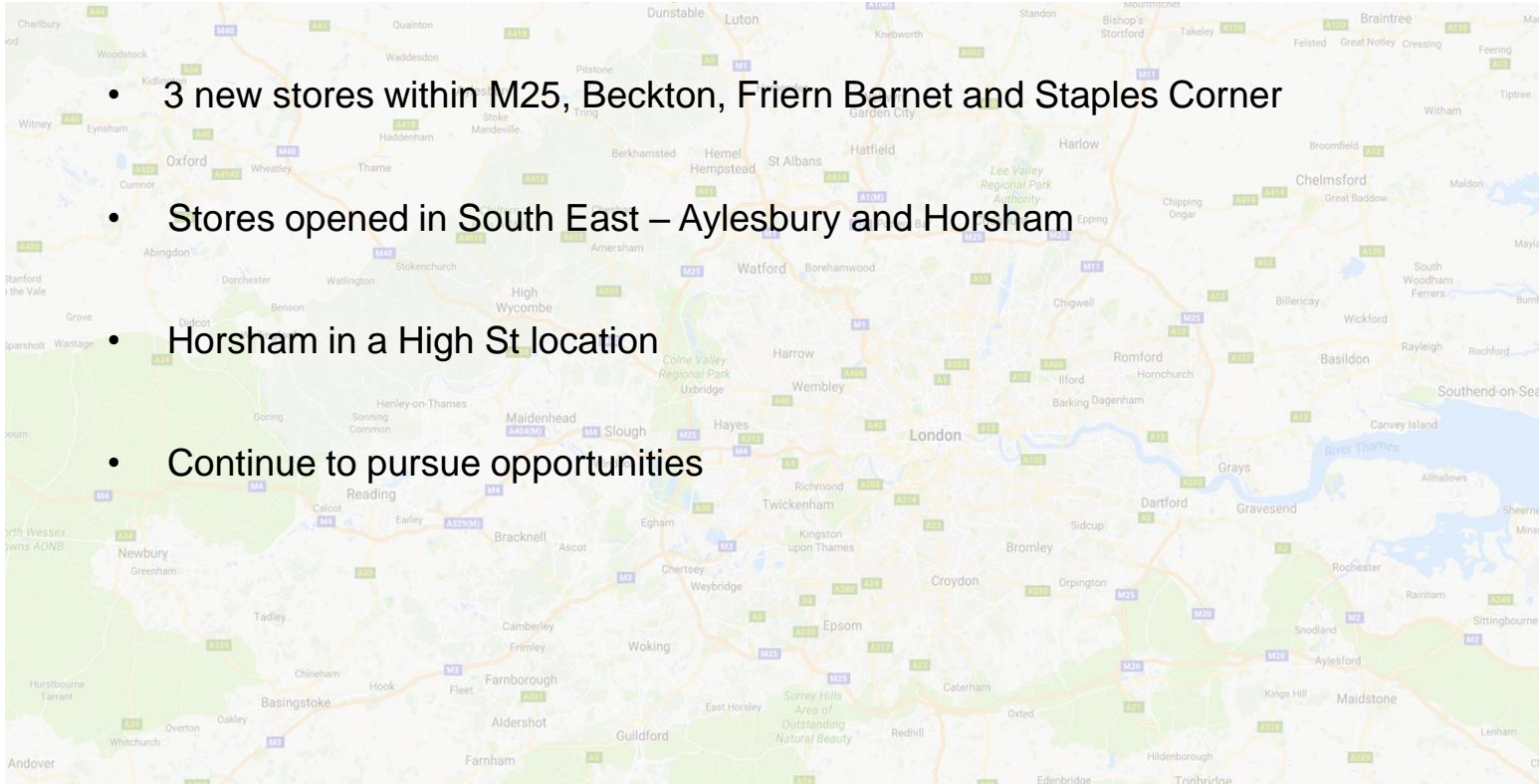


Key Initiatives – London and South East



Key Initiatives – London and South East

- 3 new stores within M25, Beckton, Friern Barnet and Staples Corner
- Stores opened in South East – Aylesbury and Horsham
- Horsham in a High St location
- Continue to pursue opportunities



Key Initiatives – Made to Measure



Key Initiatives – Made to Measure

- Reorganising business model to bring consultants in store
- Reduced discounting
- Improved profitability
- Recruiting more in store consultants
- Sales training



Outlook

- Transitional year
- Market conditions challenging
- Investment in initiatives
- Continuing to win market share
- Worldstores brings major opportunities
- Lean operating model
- Significant long term growth
- Strong balance sheet and cash generation

Keith Down

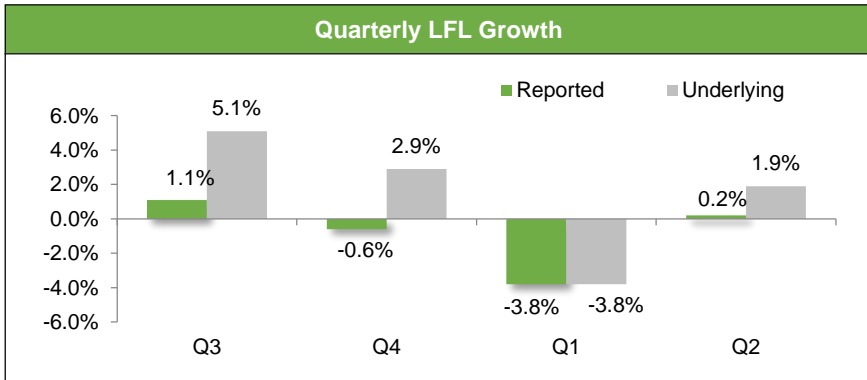
Chief Financial Officer

Financial Highlights

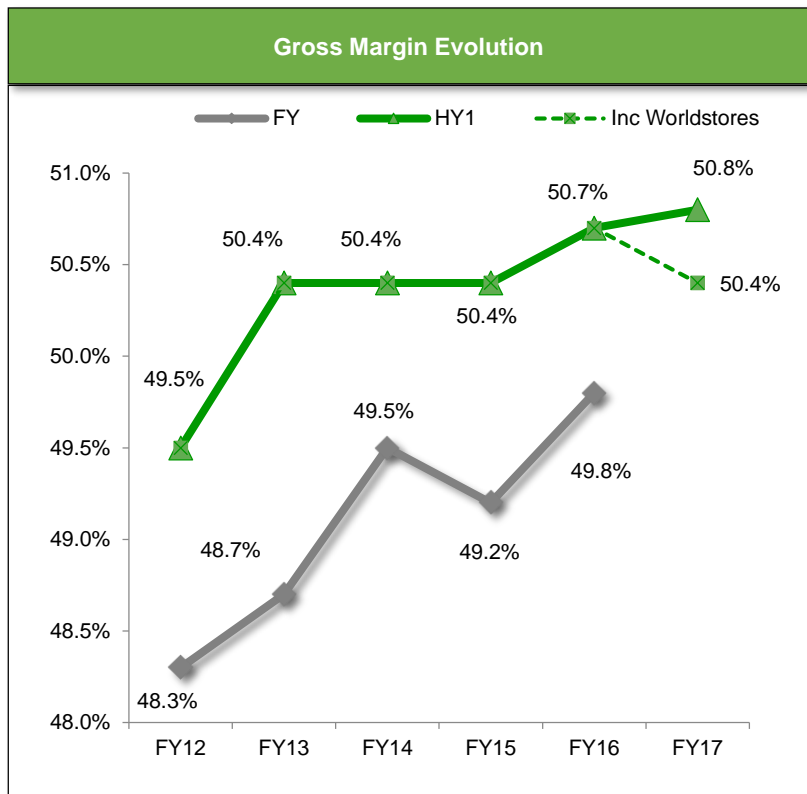
	FY17 HY1			FY16 HY1	Growth	
	Dunelm	Worldstores	Total Group		Dunelm	Total Group
Sales	£452.4m	£8.1m	£460.5m	£448.1m	+1.0%	+2.8%
LFL sales growth	-1.6%	n/a	n/a	+4.6%	n/a	n/a
Gross margin	50.8%	29.6%	50.4%	50.7%	+10bps	-30bps
EBITDA before exceptional costs	£82.3m	−£1.6m	£80.7m	£88.7m	-7.2%	-9.0%
Operating profit before exceptional costs	£68.1m	−£1.8m	£66.3m	£75.6m	-9.9%	-12.3%
Exceptional operating costs	-	−£9.3m	−£9.3m	-	n/a	n/a
Operating profit	£68.1m	−£11.1m	£57.0m	£75.6m	-9.9%	-24.6%
Financial items	−£1.1m	-	−£1.1m	−£0.1m	-1000%	-1000%
Profit before tax	£67.0m	−£11.1m	£55.9m	£75.5m	-11.3%	-26.0%
Tax	−£13.9m	£2.2m	−£11.7m	−£16.0m	+13.1%	+26.9%
Effective tax rate	-20.75%	+19.80%	-20.90%	-21.20%	+0.45%	+0.30%
Profit After Tax	£53.1m	−£8.9m	£44.2m	£59.5m	-10.8%	-25.7%
Dividend	6.5p	-	6.5p	6.0p	+8.3%	+8.3%
EPS (fully diluted)/excl. exceptional costs	26.2p	-	25.6p	29.3p	-10.6%	-12.6%

Sales Growth

	FY17 HY1	Growth, £	Growth, %
LFL stores	£389.4m	-£12.5m	-3.1%
Home Delivery	£33.7m	+£5.6m	+20.1%
Total LFL	£423.1m	-£6.9m	-1.6%
Non-LFL stores	£29.3m	+£11.2m	n/a
Total Dunelm excl. Worldstores	£452.4m	+£4.3m	+1.0%
Worldstores	£8.1m	+£8.1m	n/a
Total	£460.5m	+£12.4m	+2.8%



Gross Margin Trends/Drivers

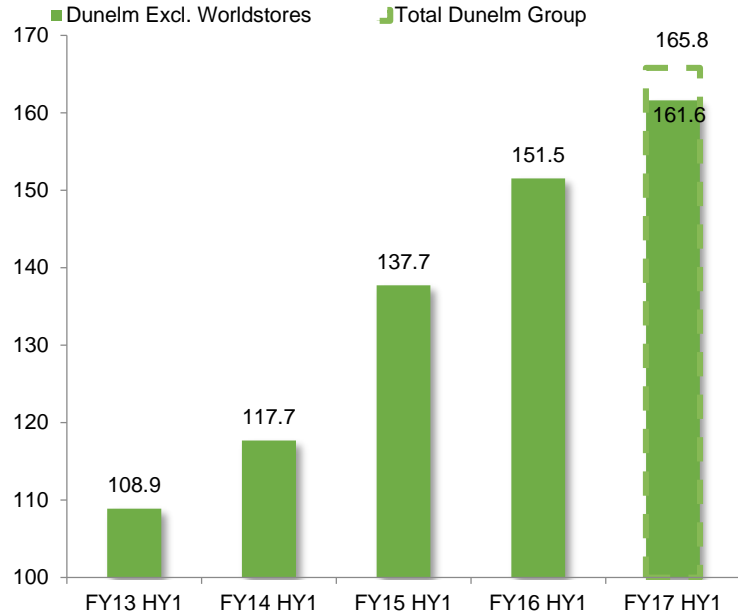


- ### Key Drivers
- Hedges on directly imported products starting to unwind
 - Some cost increases from direct to store suppliers
 - Retail price increases on small amount of products
 - Margin dilutive impact of Worldstores

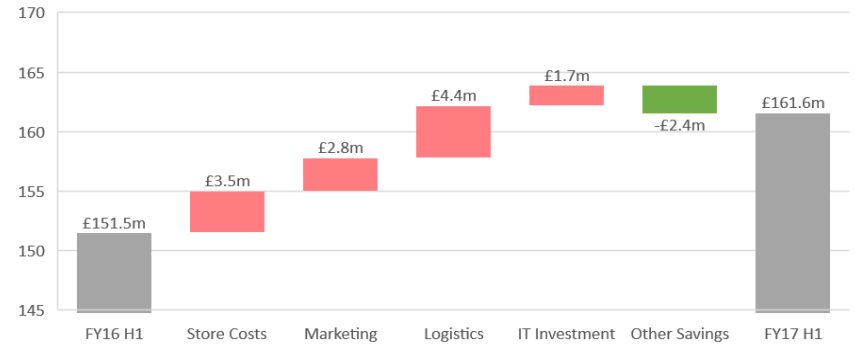


Operating Costs (excluding exceptionals)

Operating Costs - £m



FY17 Key Drivers (Dunelm excl. Worldstores)



Store costs - reflect inflation, 5 new stores and 3 refits

Marketing - Increase in marketing for brand launch and seasonal campaign

Logistics - Logistics costs due to Stoke 2 changes and seasonal impact on productivity. Increased volumes from home delivery.

IT - Continued investment in recruitment and systems

Other - Cost savings reflect lean approach outside specific investment

Operating Costs – FY17 HY2

FY17 HY2 - Key Drivers

- Increase store costs due to store openings
- Smaller YoY increase in marketing
- Logistics cost growth due to fixed costs
- Similar level of cost savings in 2nd half



Exceptional Operating Costs

	FY17 HY1	
Acquisition costs - professional fees	£1.3m	£1m part of £8.5m consideration
Welcome payments for continuation of supply	£7.3m	Expected working capital outflow
Impact of Fair Value adjustment of acquired inventory	£0.2m	Non cash write-off
Key management retention plans	£0.5m	Up to 3 year package
	£9.3m	

Further c£3m expected in HY2 re retention plans. Further exceptional items to be advised

Financial Items / Tax / EPS

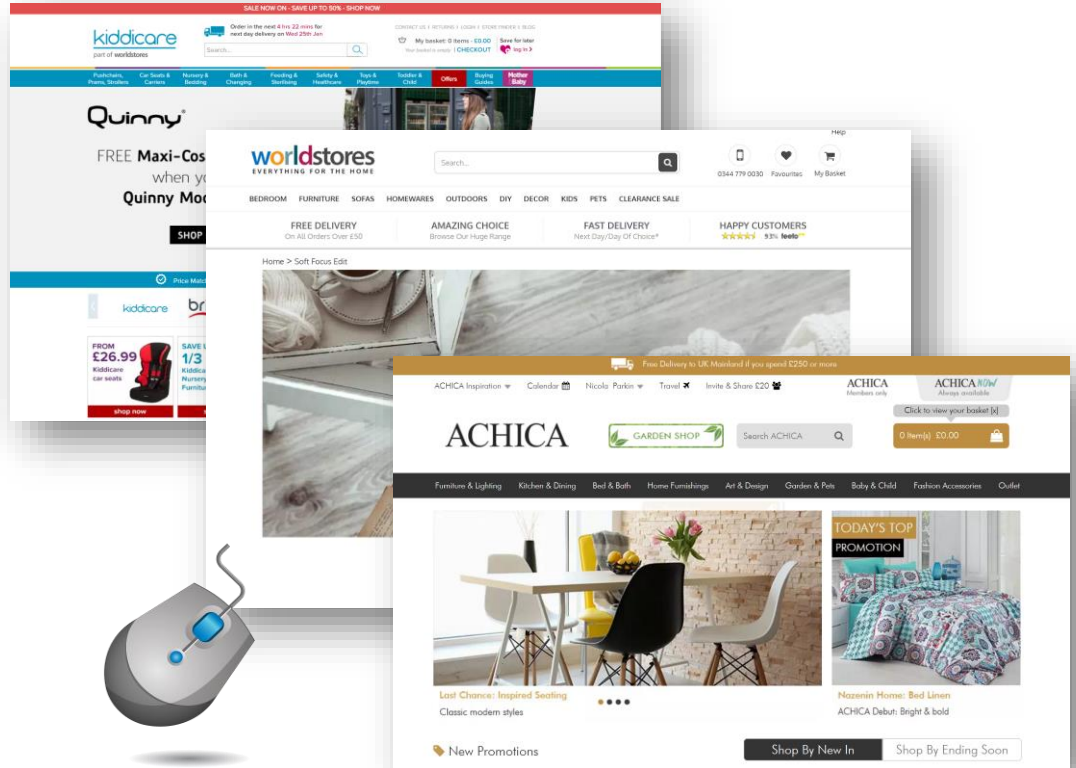
	FY17 HY1	FY16 HY1	Year on year change
Interest	-£0.8m	-£0.7m	-5%
Forex	-£0.3m	£0.6m	-150%
Financial Items	-£1.1m	-£0.1m	-1000%
Taxation	-£11.7m	-£16.0m	+26.9%
Effective tax rate	20.9%	21.2%	0.3%
Earnings per Ordinary Share - basic	21.9p	29.4p	-25.5%
Earnings per Ordinary Share - basic before exceptional costs	25.6p	29.4p	-12.9%
Earnings per Ordinary Share - diluted	21.8p	29.3p	-25.6%
Earnings per Ordinary Share - diluted before exceptional costs	25.6p	29.3p	-12.6%

Key Drivers

- Adverse £0.9m movement on foreign exchange translation
- Dunelm only tax rate 1.0% above statutory tax rate of 19.75% due to ineligible expenses

Worldstores

- **Consideration of £8.5m;** £1.0m exceptional professional fees & £7.5m paid to 3rd party secured creditor on 31st Jan 2017
- Initial working capital outflow of c£10.0m. £7.3m treated as exceptional item for welcome payments. £3.0m of payments for fulfilling pre administration orders
- £4.0m of working capital benefit in December 2016
- Further £3.0m-£4.0m expected to benefit in second half
- Losses of c£10.0m expected in FY17



Operating Cash Generation

	FY17 HY1	FY17 HY1 (Excl. Worldstores)	FY16 HY1
Operating Profit (inc exceptional items)	£57.0m	£68.1m	£75.6m
Depreciation and amortisation	£14.4m	£14.2m	£13.1m
Working capital movement	£-5.4m	£-9.0m	£20.5m
Other non-cash movements	£0.2m	£0.1m	£0.5m
Net interest	-	-	£0.1m
Tax paid	£-13.2m	£-13.2m	£-13.0m
Net cash from operations	£53.0m	£60.2m	£96.8m
Capital expenditure	£-34.0m	£-33.7m	£-20.0m
Free cash flow	£19.0m	£26.5m	£76.8m
Free cash flow : PBT	34%	40%	102%
Cash conversion ¹	93%	88%	128%

¹ Net cash from operations as a proportion of operating profit

Working Capital Movement

	FY17 HY1	FY17 HY1 (Excl. Worldstores)	FY16 HY1
Stock decrease / (increase)	-£16.1m	-£15.9m	£14.7m
Receivables decrease / (increase)	-£1.1m	-£1.1m	£1.0m
Payables increase	£11.8m	£8.0m	£4.8m
Overall movement	-£5.4m	-£9.0m	£20.5m

Key Drivers

- Underlying Dunelm inventories increased by +£15.9m as a result of new store openings, 2 days less Winter sale in FY17, a higher volume of residual seasonal stock YoY, and lower than expected sales
- Payable increase partially reflects build up of Worldstores creditors as we move to standard supplier terms
- Small working capital outflow expected to continue into second half of the year

Capital Investment

(£m)	FY17 HY1	FY16 HY1
New store fit-outs	£6.3m	£3.3m
Refits and other store investments	£6.9m	£6.0m
IT investment	£4.6m	£2.3m
Fogarty acquisition	-	£4.8m
Freehold investment	£11.8m	-
Warehouse	£3.3m	£3.6m
Other	£0.1m	
Worldstores	£0.3m	
Total	£33.3m	£20.0m

Capital Investment – FY17 Drivers

FY17 Key Drivers

- 10 new stores in FY17 (FY16: 4 net of closures). 5 new stores fitted out in FY17 HY1; 3 in comparable period LY
- 11 major refits in FY17 (FY16: 7). 3 major refits completed in FY17 HY1; 1 in comparable period LY
- Purchased the freehold on 2 stores – Shoreham and St. Albans:
- Investment in warehousing; both refurbishment of existing depot and fit out of new depot.
- Continued investment in IT architecture, projects and support capability
- Around £55m expected in FY17



Net Cash Generation

	FY17 HY1	FY16 HY1
Free cash flow	£19.0m	£76.8m
Ordinary dividends paid	-£38.5m	-£32.4m
Purchase of treasury shares	-£4.2m	-
Other	-£0.6m	-£0.3m
Change in net debt	-£24.3m	£44.1m
Opening net debt	-£79.3m	£73.6m
Half Year net debt	-£103.8m	£29.4m
Daily average net debt	-£77.6m	-£47.5m

Net Debt

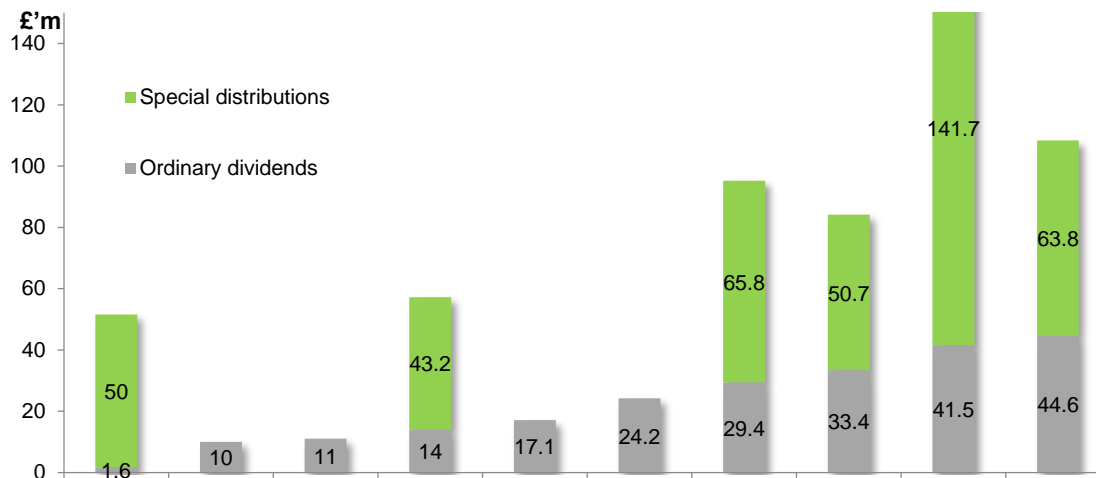
- Board is targeting net debt in the range of 0.25 – 0.75 x net debt/EBITDA
- 12 month EBITDA:
 - £146.3m before exceptional costs
 - £137.0m after exceptional costs
- Period end net debt of £103.8m. This equates to 0.71 x EBITDA [0.76 after exceptional costs]
- We will regularly review the net debt positions and return surplus capital as appropriate

RCF

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



Cash Returns to Shareholders



- Interim dividend increased 8.3% to 6.5p
- Dividend policy within range of 1.75 – 2.25 x cover excluding exceptional items

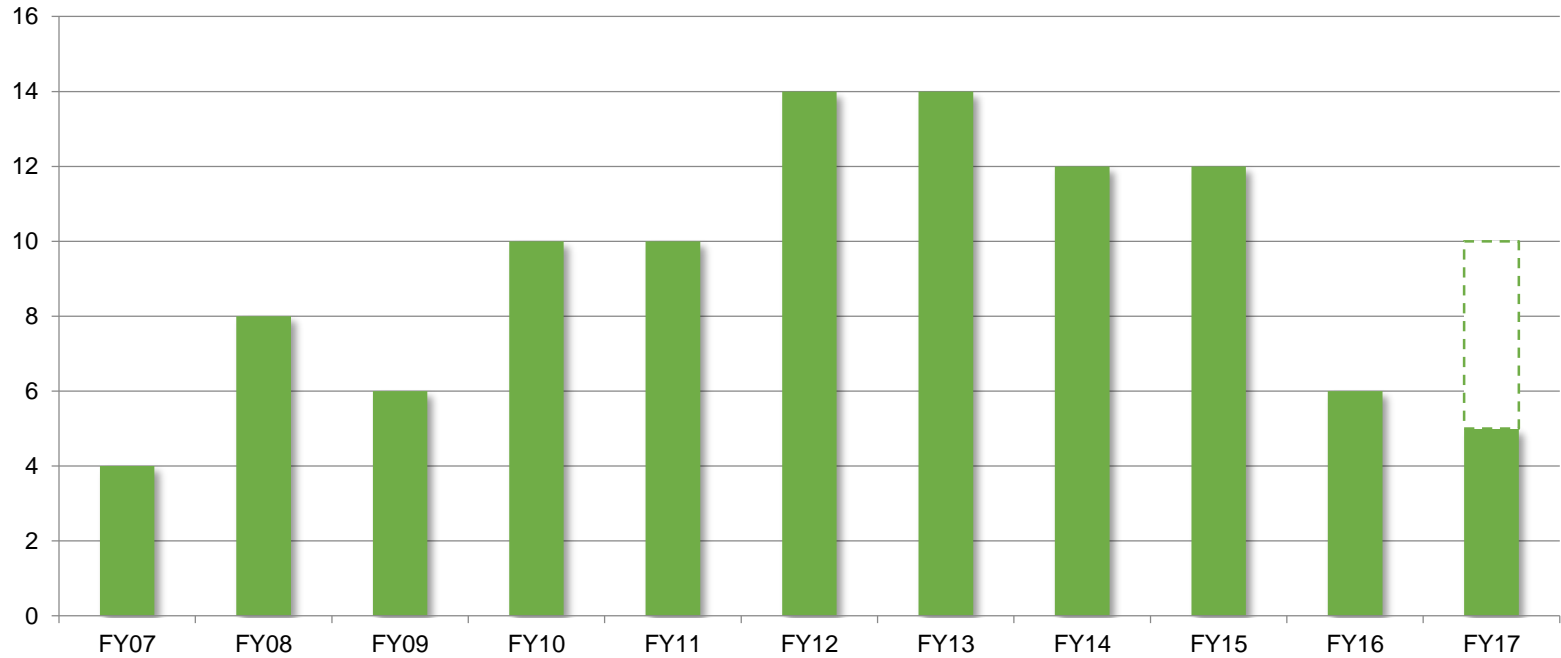
	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Ordinary dividend cover	3.2x	3.0x	3.1x	3.4x	2.5x	2.5x	2.5x	2.2x	2.2x	2.0x	
Dividend yield*	13.4%	3.2%	3.4%	8.4%	2.6%	3.0%	6.7%	4.8%	10.5%	6.2%	
Interim dividend	0.8p	2.0p	2.0p	3.0p	3.5p	4.0p	4.5p	5.0p	5.5p	6.0p	6.5p
Final dividend	3.0p	3.5p	4.0p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

Chart shows actual cash payments in each financial year *Based on average share price for FY07-FY16

Total cash returns since IPO = £642m (317.8p per share)

Appendices

Store Openings By Year



Summary Balance Sheet

	31 st December 2016	31 st December 2016 (Excl. Worldstores)	2 nd January 2016
Total non-current assets	£215.0m	£206.6m	£180.8m
Inventories	£136.9m	£132.5m	£118.4m
Receivables	£23.1m	£20.3m	£16.9m
Cash	£20.5m	£15.3m	£39.6m
Financial instruments	£6.6m	£6.6m	£2.8m
Total assets	£402.1m	£381.3m	£358.5m
Current liabilities	-£133.9m	-£104.3m	-£111.1m
Non-current liabilities	-£167.2m	-£167.2m	-£111.9m
Net assets	£101.0m	£109.8m	£135.5m
Share capital	£2.0m	£2.0m	£2.0m
Share premium/other reserves	£50.3m	£50.3m	£46.8m
Retained earnings	£48.7m	£57.5m	£86.7m
Total equity	£101.0m	£109.8m	£135.5m

LFL Historic Growth (excl. Worldstores)

