Dunelm
The Home of Homes

Interim Results – FY18

20 February 2018

Dunelm

The Home of Homes

Andy Harrison

Introduction

Our vision

Dunelm

The **Home** of Homes

The customer's number one choice for homewares and furniture.

Famous for style, value, quality and ease of shopping.

Capital Markets Day – Recap

Dunelm £2 Billion

30-40% sales online

Stores

- Complete the roll out to 200 stores
- Drive footfall, conversion, ATV by:
  - Improved homewares ranges with broader appeal
  - Value and quality at all price points
  - New offer in furniture, M2M, Kiddicare
  - Strong brands in Dorma, Fogarty, Kiddicare
  - Increased brand awareness
  - More attractive stores
  - A window on the full range

Online

Build on existing Dunelm developments

- M2M online
- Mobile POS in stores with chip & pin
- Increasing personalisation
- Developing Click & Collect

Worldstores benefits

- Extended range
- Furniture expertise
- 2 man delivery network
- Improved DSV management
- Agile website technology

Attractive market opportunity

Homewares	Furniture

• £12bn+ market
• Stable and steady secular growth
• Share gain opportunity
  • Strong market leader
  • Homewares market remains fragmented
  • Over 8% share
  • c.30 extra stores to go
  • Significant online opportunity
	• £11bn+ market
	• Share gain opportunity
	  • Relatively recent focus
	  • Around 1% share
	  • Dunelm brand and store network
	  • Customer overlap
	  • Enhanced product range
	  • Improved delivery economics

Stores are critical for trials, look, touch & feel

Over time all channels should create shareholder value

	Delivered Gross Margin	Operating Leverage	Capital Employed	Cash Generation
Store	Good	Lower	High	Good
1 man	Good	Higher	Lower	Strong
2 man	Lower	Higher	Lower	Good

Each channel has different attributes but <u>all</u> should generate good cash returns

Our business goals

Goal One Creating **new reasons** for **customers** to shop with Dunelm

Goal Two **Easy and inspiring** for **customers** to shop (both instore and online)

Goal Three A **simple** and **low cost** operating model

Goal Four A **great** place to work **for colleagues**

Highlights – first half

- 6.0% LFL sales growth, including store LFL sales growth of 3.5%, and 18.4% total growth
- 10 new stores, including one relocation, successfully opened in the half
- Continued market share gains in a broadly static homewares market
- Good strategic progress, with 36.8% LFL sales growth on Dunelm.com. Total online sales now at 18.5% of our total revenues, up from 11.7% last year
- Gross margins in H1 were reduced by the addition of lower margin Worldstores' sales and a higher mix of end of season and seasonal sales
- The integration of Worldstores is progressing well, with cost and efficiency programmes on track, and extended ranges benefiting sales on Dunelm.com
- The opportunity to fully integrate Worldstores' capabilities into Dunelm remains compelling but performance of legacy Worldstores has been weaker than expected

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Keith Down

Business Review

Goal One

Creating **new reasons** for **customers** to shop with Dunelm

FY18 H1 Key achievements

- Total market share increased by c.1%; our WIN categories (sleep, soft furnishings and bathroom textiles) performing well
- Furniture trials: good start to new format incorporating beds & mattresses, upholstery and occasional furniture
- Bigger and better Seasonal ranges: 25% LFL growth in H1

FY18 H2 Key objectives

- Continue range improvements broadening appeal through newness and style
- Continue range extensions on Dunelm.com
- Launch extended range of M2M blinds online

Goal Two

Easy and inspiring for customers to shop (both instore and online)

FY18 H1 Key achievements

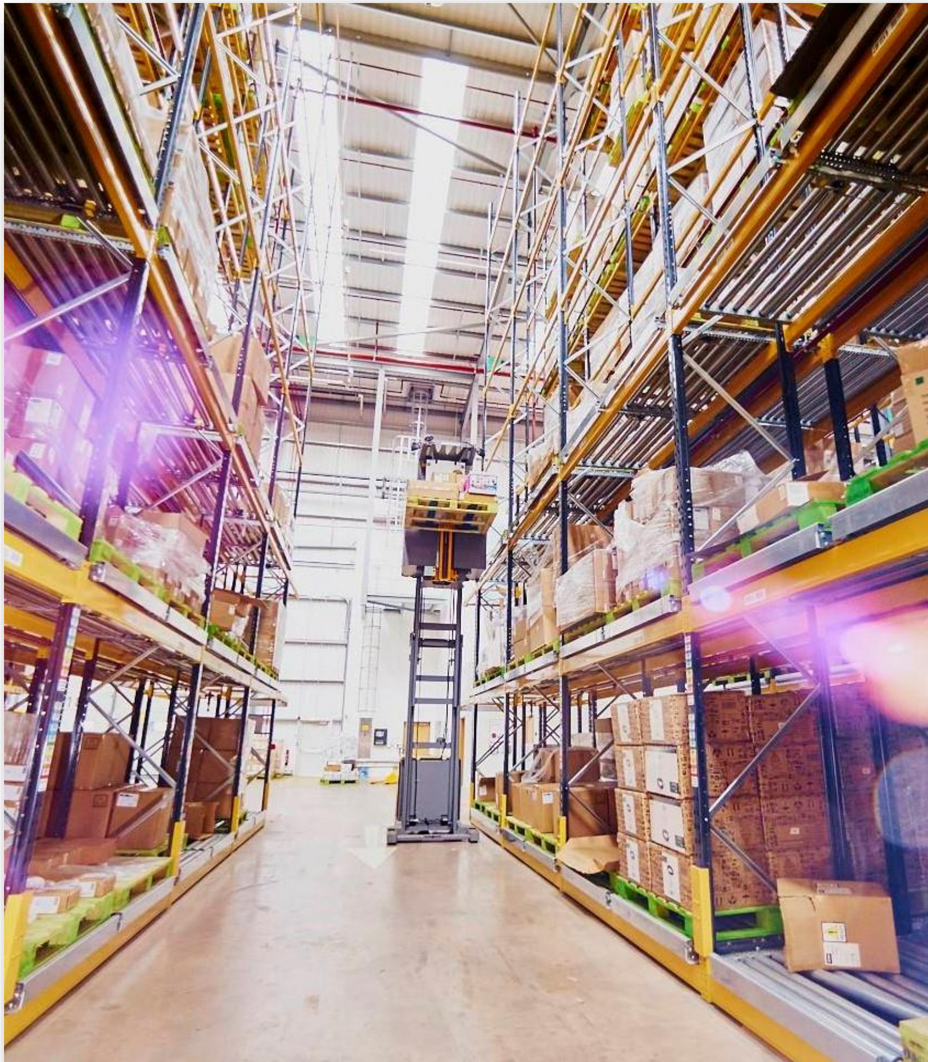
- 10 new stores in latest format; 4 major refits complete
- 14,000 Worldstores SKU's now listed on Dunelm.com
- E-receipts capability rolled-out to 94 stores

FY18 H2 Key objectives

- Begin roll out of Mobile POS with chip & pin, offering the whole range in every store
- Launch new website for Kiddicare
- Continue trialling and testing new departmental concepts; e.g. Furniture & M2M

Goal Three

A **simple** and **low cost** operating model



FY18 H1 Key achievements

- Improved Stoke productivity
- Largely mitigated impact of NLW through productivity savings
- Transition to a new London Digital support centre complete

FY18 Key H2 objectives

- Continue improvements in store operating model, particularly around stock processes
- Deliver new M2M Manufacturing Centre
- Improve productivity in 2-Man Home delivery network

Goal Four

A **great** place to work **for colleagues**

FY18 H1 Key achievements

- Significantly improved colleague NPS
- Step change in internal communication
- Continued investment in leadership and talent planning
- 88% of Store Management roles internally filled

FY18 Key H2 objectives

- Extend homegrown talent opportunities
- Launch new benefits programme
- Continue engagement focus

Worldstores – supporting our multichannel growth ambition

Expected benefits of the Worldstores acquisition

- Product range, sourcing agility and Furniture focus
- Home Delivery quality for 2-man deliveries
- Technology assets including DSV / fleet management and websites
- Kiddicare growth opportunity

The future

- A fully integrated website unlocking the full benefit of the Dunelm brand and reducing customer acquisition cost
- Harmonised supply chain systems and processes - once we are fully integrated into one business, performance will continue to improve and we will turn unprofitable WS into profitable Dunelm sales
- Drive volume/ scale in Online Furniture, leveraging our 2-man delivery capability
- Accelerated innovation of our customer proposition including click and collect and true omni-channel functionality

Worldstores integration benefits – Latest position

Anticipated benefits	Latest view FY18 Profit	Latest view FY19 Profit	Original target FY18 Profit	Original target FY19 Profit
Delivered				
Cost, efficiency and margin	7.5	11.0	7.0	12.0
In-flight				
Online Channel Integration	1.0	3.0	4.0	8.0
Grow Kiddicare	0.0	0.5	1.0	2.0
	8.5	**14.5**	**12.0**	**22.0**

- **Cost, efficiency and margin** programmes are on track
- **Online channel integration;** extended ranges have benefited sales on Dunelm.com; other benefits awaiting website integration
- **Kiddicare** benefits delayed due to warehouse disruption and new website development
- Worldstores acquisition, including integration benefits, expected to reduce this year's profit by c.£7m-£8m, compared to c.£2m-£3m previously advised (H1 losses c.£5.6m)
- Annualised (run rate) losses of Worldstores reduced from c.£20m at the acquisition to nearly breakeven by the end of the financial year, including integration benefits
- It will become increasingly difficult to disclose separately the Worldstores' impact as we integrate the businesses

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Finance Review

Financial highlights

	FY18 H1 Underlying	FY18 H1 Exceptional items	FY18 H1 Reported	FY17 H1 Underlying	FY17 H1 Exceptional items	FY17 H1 Reported	YoY change Underlying	YoY change Reported
Sales	£545.4m		£545.4m	£460.5m		£460.5m	*18.4%*	*18.4%*
LFL sales	*£469.3m*		*£469.3m*	*£442.6m*		*£442.6m*	*6.0%*	*6.0%*
Gross margin	*48.6%*		*48.6%*	*50.4%*		*50.4%*	(180) bps	(180) bps
EBITDA	£79.1m	(£2.7m)	£76.4m	£80.7m	(£9.3m)	£71.4m	*(2.0%)*	*7.0%*
Operating profit	£61.3m	(£3.7m)	£57.6m	£66.3m	(£9.3m)	£57.0m	*(7.6%)*	*1.1%*
Financial items	(£1.3m)		(£1.3m)	(£1.1m)		(£1.1m)	*9.2%*	*9.2%*
Profit before tax	**£60.0m**	**(£3.7m)**	**£56.3m**	**£65.2m**	**(£9.3m)**	**£55.9m**	***(8.0%)***	***0.7%***
Tax	(£11.8m)	£0.5m	(£11.3m)	(£13.5m)	£1.8m	(£11.7m)	*(12.6%)*	*(3.4%)*
Effective tax rate	*19.7%*		*20.1%*	*20.7%*		*20.9%*	103 bps	86 bps
Profit after tax	£48.2m	(£3.2m)	£45.0m	£51.7m	(£7.5m)	£44.2m		*1.8%*
Free cashflow			£27.8m			£19.0m		*46.0%*
Net debt			(£134.3m)			(£103.8m)		*(29.4%)*
EPS (fully diluted)	23.8p		22.2p	25.6p		21.8p	*(7.0%)*	*1.8%*
Dividend per share			7.0p			6.5p		*7.7%*

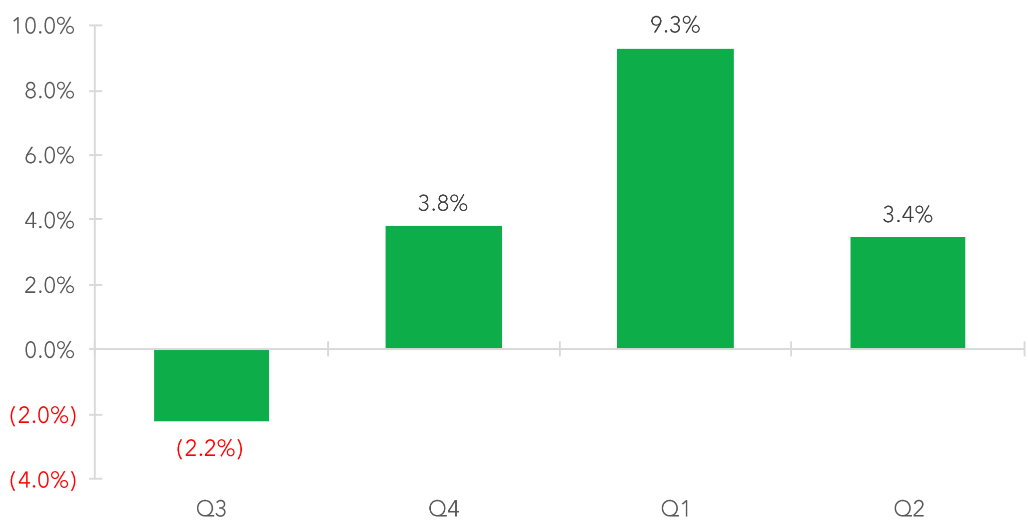
Note: Underlying includes Worldstores

Sales growth

	FY18 H1	Growth, £	Growth, %
LFL stores	£423.2m	£14.3m	*3.5%*
LFL Online	£46.0m	£12.4m	*36.8%*
Total LFL	**£469.3m**	**£26.7m**	***6.0%***
Non-LFL stores	£35.2m	£25.0m	*n/a*
Non-LFL Online	£41.0m	£33.1m	*n/a*
Total Dunelm Group	**£545.4m**	**£84.9m**	***18.4%***

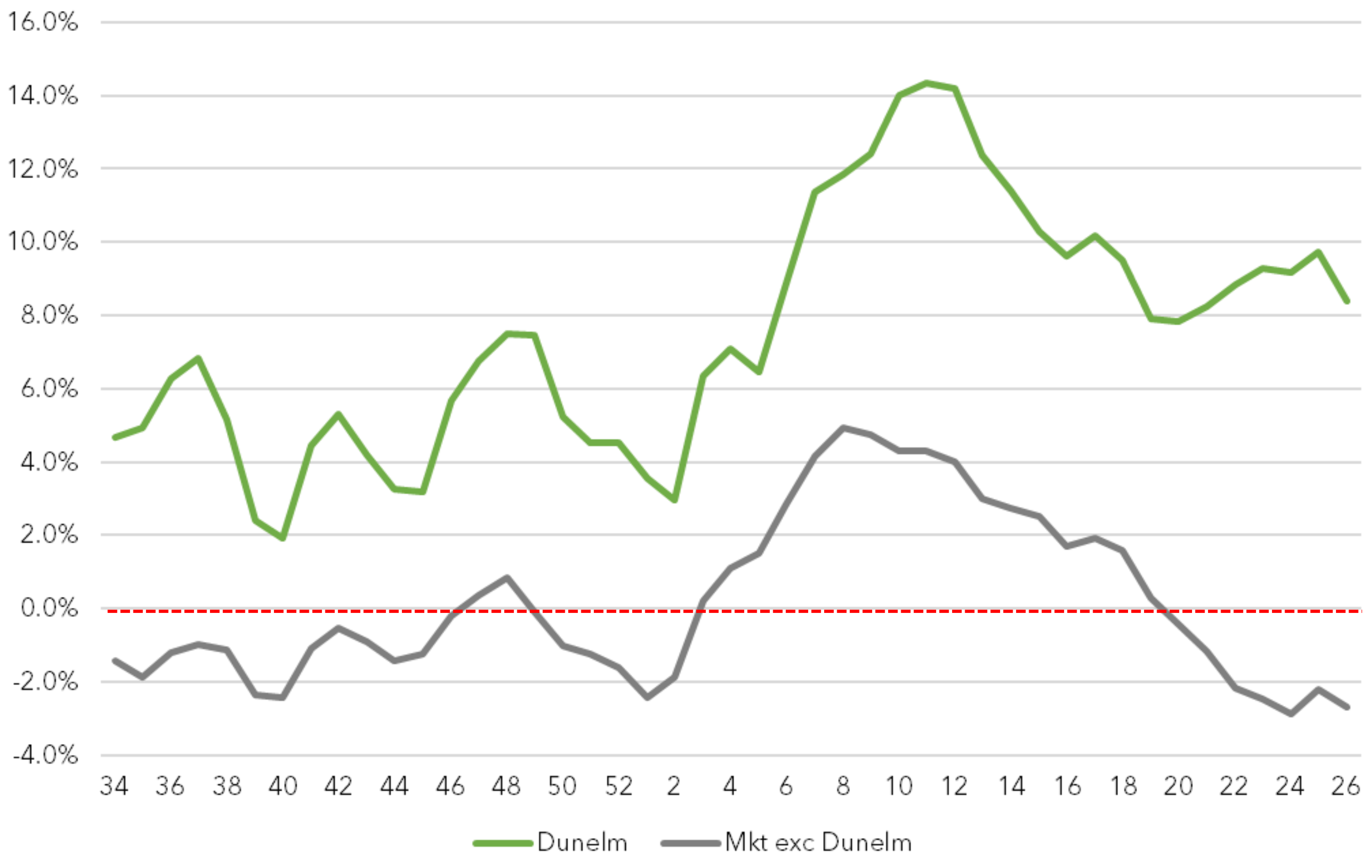
- Third consecutive quarter of LFL store growth
- Rapid LFL Online growth continues, accelerated by extended ranges
- Net nine new stores successfully opened in the half
- Q1 - boosted by favourable weather
- Q2 - outperformance of market accelerated

Quarterly LFL growth



Market Outperformance

Year on year growth %*

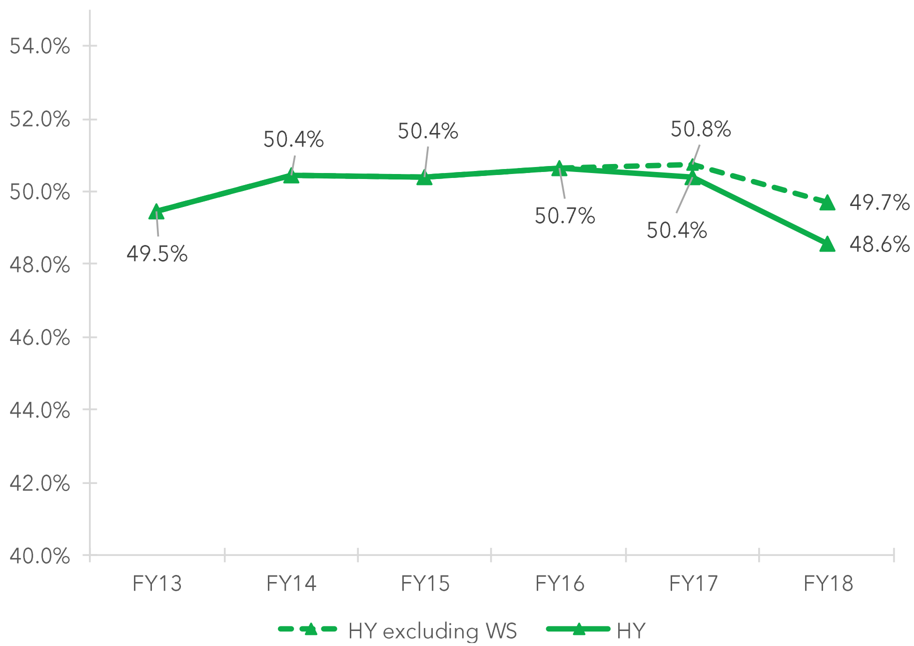


Taking market share in a challenging homewares market

- Rolling 8 week data
- Internal analysis based on GFK Homewares data

Gross Margin trends & drivers

Gross Margin Evolution

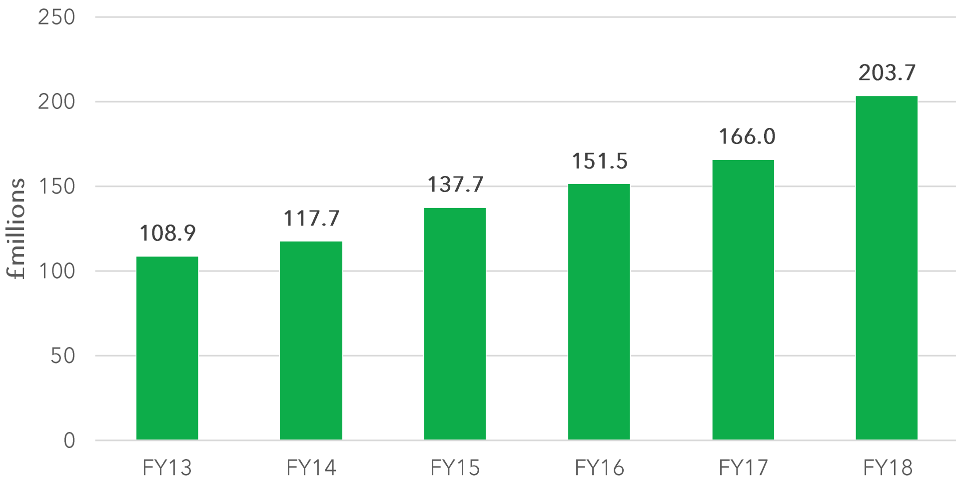


Key drivers

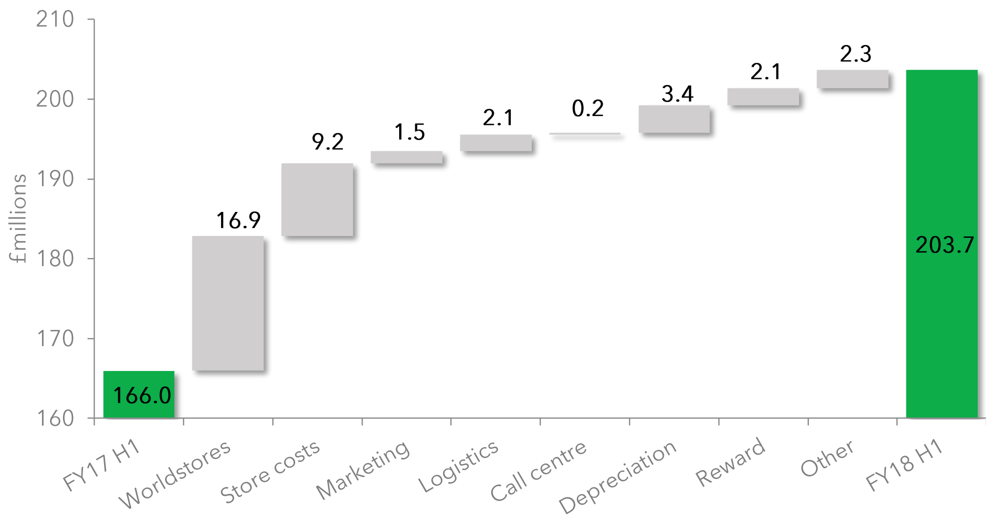
- Worldstores margin dilution of 80bps; five months in H1 FY18 compared to one month in prior year
- Core margin down by 100bps impacted by mix effect of:
    - Increased newness introduced in prior year generating higher end of season markdown
    - Seasonal sales growth on Summer, Christmas and Winter Warm ranges at lower margin
- Gross margins expected to be more stable in the second half, with the annualisation of the Worldstores acquisition
- We expect gross margins in the second half to be similar to the first

Operating costs (excluding exceptional items)

Operating cost trend – H1



FY17 H1 to FY18 H1 bridge

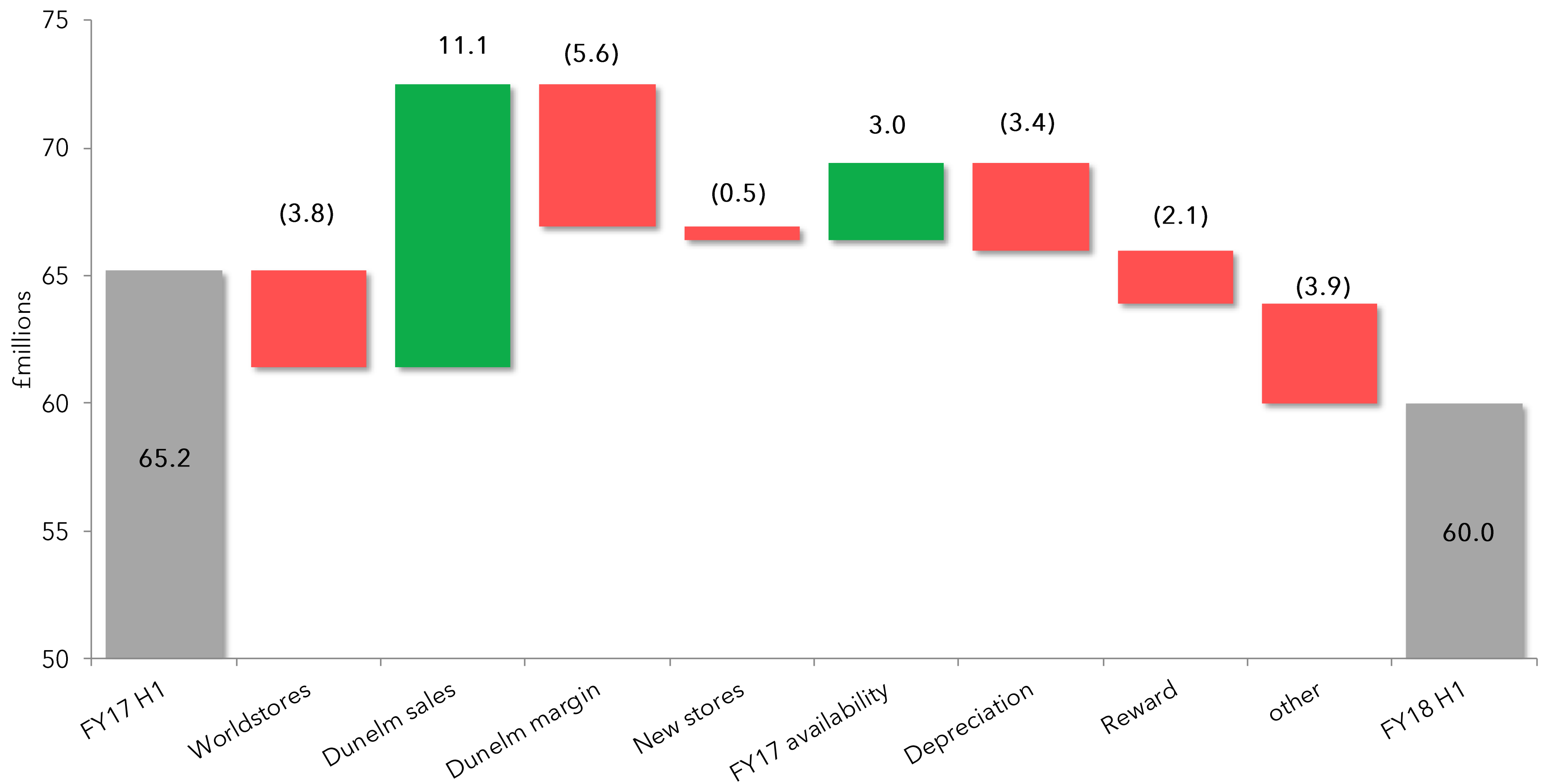


Key drivers

- Cost growth in H1 ahead of sales, largely driven by Worldstores operating costs for five additional months in H1 year on year
- Store costs, Logistics and Call Centre costs all flat on Cost : Sell % basis
- Marketing – PPC marketing spend driving LFL online growth
- Depreciation – increase reflects capital investment in prior years
- Full year expectation: operating costs will grow slightly ahead of sales

H1	FY15	FY16	FY17	FY18
Sales growth, %	14.0%	10.3%	2.8%	18.4%
Operating cost growth, %	17.0%	10.0%	9.6%	22.7%

YoY profit bridge (excluding exceptional items)



NOTE: Total Worldstores losses of £5.6m across the half, compared to £1.8m in prior year for 1 period post acquisition

Exceptional operating items

	FY17			FY18 HY1		
Exceptional Item	Cash	Non-cash	FY	Cash	Non-cash	HY1
Acquisition costs - administrator fees	£0.9m		**£0.9m**			
Acquisition costs - other professional fees	£0.4m		**£0.4m**			
Welcome payments for continuation of supply	£7.3m		**£7.3m**			
Fair value adjustments in respect of acquired inventory		£0.5m	**£0.5m**			
Key management retention bonuses	£0.4m	£2.3m	**£2.7m**	£0.5m	£0.9m	**£1.4m**
Asset write-offs, impairments and accelerated depreciation		£2.9m	**£2.9m**		£1.0m	**£1.0m**
Other integration costs	£2.2m		**£2.2m**	£0.9m	£0.4m	**£1.3m**
Total Exceptional costs	**£11.2m**	**£5.7m**	**£16.9m**	**£1.3m**	**£2.4m**	**£3.7m**

- We anticipate that approximately £3m of exceptional costs will be incurred in respect of these items in the second half of the year. Of this £3m, approximately £2m will be cash.
- On 15 February we completed the disposal of the Achica business for a cash consideration of £600,000. The above excludes the exceptional costs associated with the loss on disposal of Achica, which is anticipated to be in the region of £0.5m to £1.0m.

Financial Items/ Tax/ EPS

	FY18 H1	FY17 H1
Interest	(£1.1m)	(£0.8m)
Forex	(£0.2m)	(£0.3m)
Financial Items	**(£1.3m)**	**(£1.1m)**
Taxation	(£11.3m)	(£11.7m)
Effective tax rate	*20.1%*	*20.9%*
Earnings per Ordinary Share – basic	22.3p	21.9p
Earnings per Ordinary Share - basic before exceptional costs	23.9p	25.6p
Earnings per Ordinary Share – diluted	22.2p	21.8p
Earnings per Ordinary Share - diluted before exceptional costs	23.8p	25.6p

Operating Cash Generation

	FY18 H1	FY17 H1
Operating Profit before exceptional items	**£61.3m**	**£66.3m**
Depreciation and amortisation	£17.8m	£14.4m
EBITDA before exceptional items	**£79.1m**	**£80.7m**
Working capital movement	(£11.3m)	(£5.6m)
Other non-cash movements	£0.5m	£0.2m
Tax paid	(£7.2m)	(£13.2m)
Exceptional items	(£1.3m)	(£9.1m)
Net cash from operations	**£59.7m**	**£53.0m**
Capital expenditure	(£32.0m)	(£34.0m)
Free cash flow	**£27.8m**	**£19.0m**
Free cash flow : Operating profit	*48%*	*33%*
Operating cash flow: Operating profit	*104%*	*93%*

Working capital movement

	FY18 H1	FY17 H1
Stock (increase)	(£1.9m)	(£16.3m)
Receievables (increase)	(£0.3m)	(£1.1m)
Payables (decrease) / increase	(£9.1m)	£11.8m
Total	**(£11.3m)**	**(£5.6m)**

- Stock increase driven by net nine new stores opened in the year (£7.0m) largely offset by:
  - Continued end of season clearance
  - Lower remaining seasonal stock due to improved in-flow year on year
- Payables have decreased since year end primarily due to timing of seasonal stock in-flows and new range launches
- Prior year payables reflected the build-up of Worldstores creditors post acquisition, as well as a £7.5m secured creditor which was paid early in H2 2017
- Small working capital improvement expected by the end of the financial year

Capital Investment

	FY18 H1	FY17 H1	Comments	FY18 expectation
Refits & small works	£8.1m	£6.9m	H1 includes 4 Large refits and Inline till roll out	£20.0m
IT	£6.3m	£4.9m		£15.0m
Stoke	£0.2m	£3.3m		
Other	£0.6m			£1.0m
Maintainence capex	**£15.2m**	**£15.1m**		**£36.0m**
New stores	£13.6m	£6.3m	H1 includes 9 new stores and 1 relocation	£15.0m
Freehold Properties	£2.1m	£11.8m	H1 relates to Darlington new store build	£2.5m
Investment capex	**£15.7m**	**£18.2m**		**£17.5m**
Total	**£31.0m**	**£33.3m**		**£50.0m - £55.0m**

Net Cash Generation

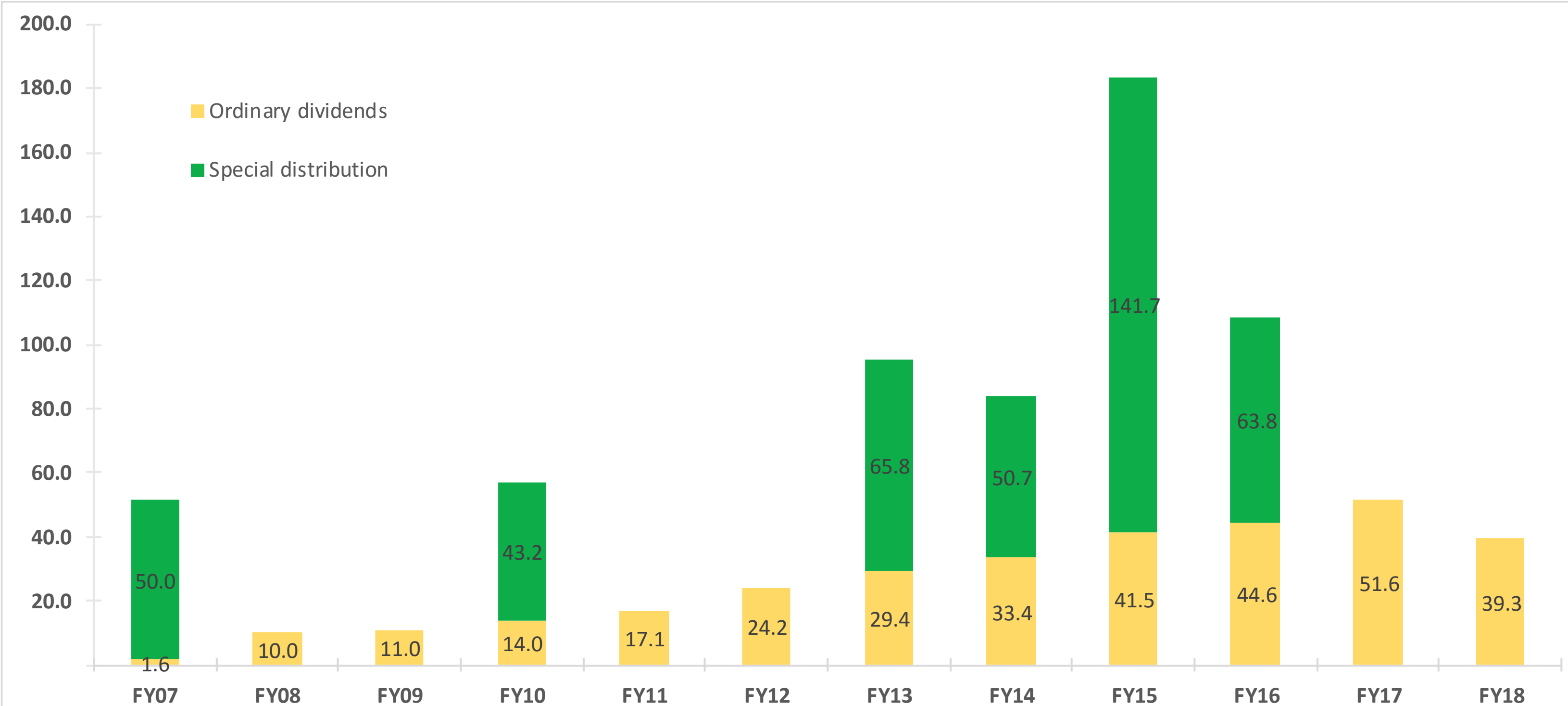
	FY18 H1	FY17 H1
Free cash flow	**£27.8m**	**£19.0m**
Ordinary dividends paid	(£39.3m)	(£38.5m)
Special distribution paid		
Purchase of treasury shares		(£4.2m)
Other	(£0.6m)	(£0.6m)
Change in net debt	**(£12.1m)**	**(£24.3m)**
Opening net debt	(£122.1m)	(£79.3m)
Closing net debt	**(£134.3m)**	**(£103.8m)**
Daily average net debt	(£117.0m)	(£77.6m)

Net Debt

- The Board's long term target for net debt is to be in the range of 0.25 – 0.75x net debt/ EBITDA
- 12 month EBITDA:
    - £140.6m before exceptional costs
    - £133.2m after exceptional costs
- Period end net debt of £134.3m. This equates to 0.96x EBITDA before exceptional costs
- Expect net debt/EBITDA to be within the targeted range at year end
- We will regularly review the net debt position and return surplus capital as appropriate

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

Cash Returns to Shareholders



	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18 to date
Ordinary dividend cover	3.2x	3.0x	3.1x	3.4x	2.5x	2.5x	2.5x	2.2x	2.2x	2.0x	1.4x	
Dividend yield*	13.4%	3.2%	3.4%	8.4%	2.6%	3.0%	6.7%	4.8%	10.5%	6.2%	3.6%	
Interim	0.8p	2.0p	2.0p	3.0p	3.5p	4.0p	4.5p	5.0p	5.5p	6.0p	6.5p	7.0p
Final	3.0p	3.5p	4.0p	5.0p	8.0p	10.0p	11.5p	15.0p	16.0p	19.1p	19.5p	
Special	25.0p			21.5p			32.5p	25.0p	70.0p	31.5p		

Chart shows actual cash payments in each financial year

**Based on average share price for FY07-FY18*

Total cash returns since IPO = £693.6m (362.9p per share) before FY18 dividends

Dunelm – An exciting future

Summary & Outlook

- Continued sales growth
- Continue to win market share in a difficult market
- Our gross margins are expected to be more stable in the second half, with gross margins in the second half to be similar to the first
- Weakness in the legacy Worldstores businesses and the continued investment in our infrastructure means that we expect costs to grow slightly ahead of sales in the full year
- However, the opportunity to fully integrate Worldstores' capabilities into Dunelm remains compelling
- Well positioned for good full year profit growth
- Improved cash generation, expected to be stronger again in the second half
- Making good progress on our journey to becoming the leading multichannel retailer in our space

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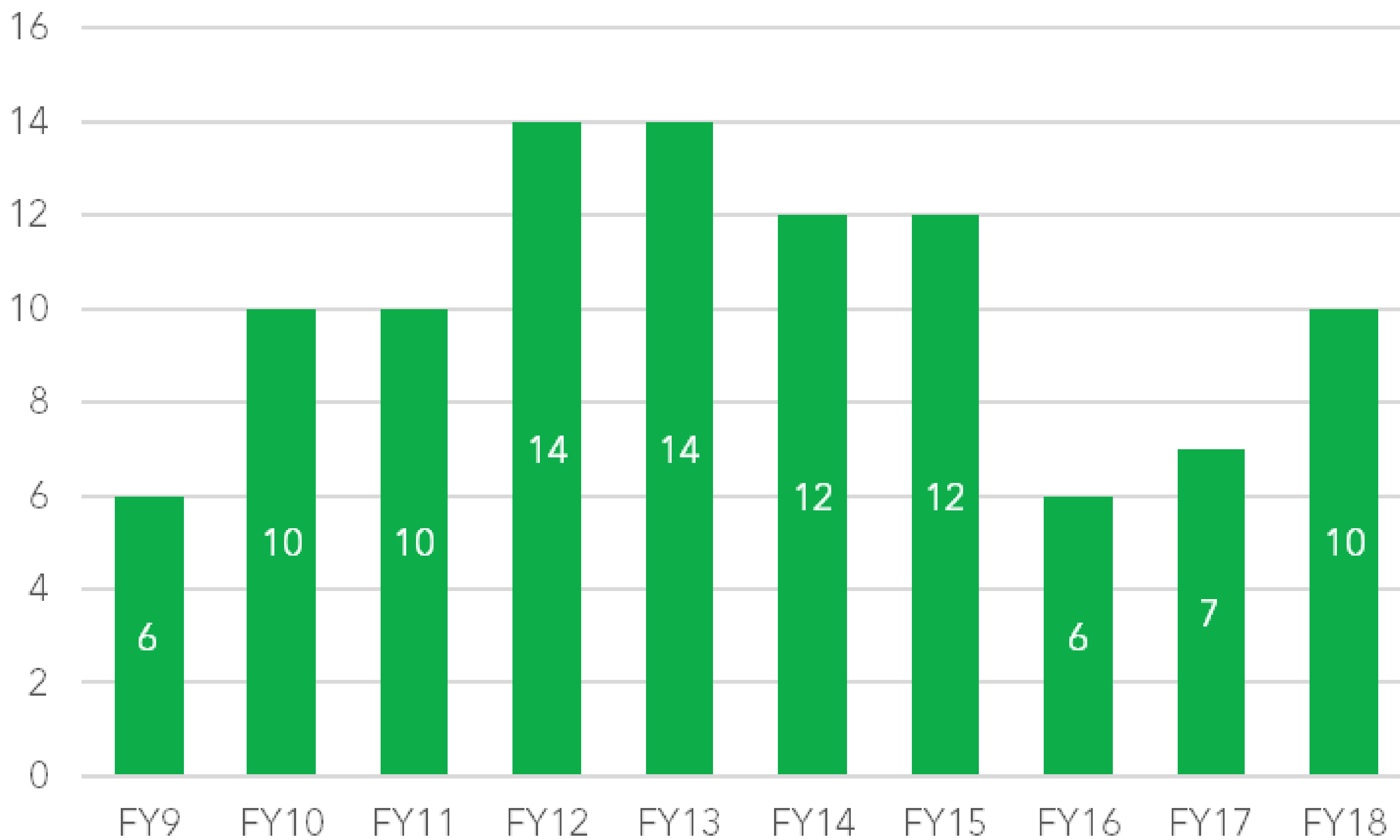
Appendix

Store Openings by Year



Balance Sheet Summary

	FY18 H1	FY17 H1
Total non-current assets	£236.2m	£215.0m
Inventories	£167.2m	£136.9m
Receivables	£26.5m	£23.1m
Cash	£15.3m	£20.5m
Financial instruments	£0.1m	£6.6m
Total assets	**£445.3m**	**£402.1m**
Current liabilities	(£138.5m)	(£133.9m)
Non-current liabilities	(£192.7m)	(£167.2m)
Net assets	**£114.1m**	**£101.0m**
Share capital	£2.0m	£2.0m
Share premium/other reserves	£41.4m	£50.3m
Retained earnings	£70.7m	£48.7m
Total equity	**£114.1m**	**£101.0m**

LFL Historic Growth

Appendix