




Dunelm

Dunelm Group plc
Interim Results Presentation
26 weeks to 2nd January 2016



John Browett

Chief Executive



Growth

We are building on a good business

- Product

- Design
- Seasonal
- Special buys and deals
- Extensive range

- People

- Development of senior team
- Customer service

- Stores

- Refits
- Standards

- Systems

- Continuous improvement
- Enhanced capability

Growth

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

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



Growth

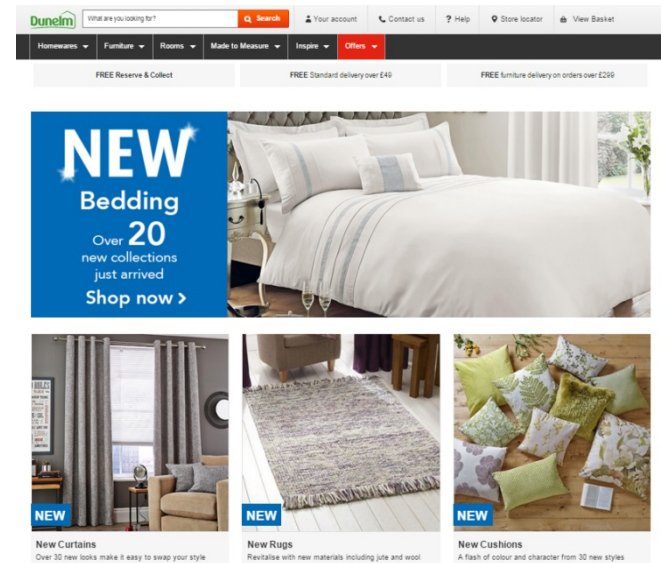
We believe that there are 8 core projects that underpin growth

	Online	London	Stock Management	Store Operations	Store Format	Made to Measure	Furniture	Supply Chain
LFL growth	✓		✓	✓	✓	✓	✓	✓
New stores		✓		✓	✓			✓
Home delivery	✓		✓	✓		✓	✓	✓

Core Projects

Online

- New platform is robust and enabling quicker improvement of offer
- Fully integrated with the business – store, category and supply chain
- Extended online range
- Leverage investment in new platform
- Engage with customers across all channels



Core Projects

London

- Currently eight stores in the Greater London area
- Sharper focus on catchment potential
- Improve brand awareness
- Build fulfilment capability
- Significant part of our 200 superstore target



Core Projects

Stock Management

- Improved stock control processes in store
- Improve on shelf availability
- Better control of replenishment
- Smoother flow through depot



Core Projects

Store Operations

- Free up store colleagues from non-value adding tasks
- Spend more time in front of the customer, focussing on areas that benefit from better service e.g. furniture and Made to Measure
- Increase productivity to re-invest in store wages
- Create a culture of continuous improvement



Core Projects

Store Format

- Improve visual merchandising
- Room sets and inspiration
- Make shopping easier for customers
- Improve sales densities
- To trial a new store format



Core Projects

Made to Measure

- Service that differentiates us from our competitors
- Grow our overall market share of curtains and blind market
- Define and implement revised structures in store including rework mechanisms
- Develop ordering system across all channels



Core Projects

Furniture

- Improve the customer experience by improving layout and service
- Continue to improve and develop range across all channels
- Improve supply chain with greater delivery options and better service in 1-man and 2-man delivery
- Increase sales, build scale and improve profitability



Core Projects

Supply Chain

- Double warehouse capacity in Stoke
- Enable lower cost logistics platform
- Better ordering and forecasting
- Improve performance around end of season clearance
- Improve warehouse productivity



Overall Objectives

- Improve the shopping trip for customers both in store and online
- Improve the supply chain to provide a better service at a reduced cost
- Improve the operating model both in store and in the Store Support Centre
- Improve sales density



Outlook

- Key infrastructure projects in place
- Right team recruited
- Continued focus on product and people
- After a solid first half, we had a strong sale after Christmas
- Expect good progress in remainder of the year



Keith Down

Chief Financial Officer



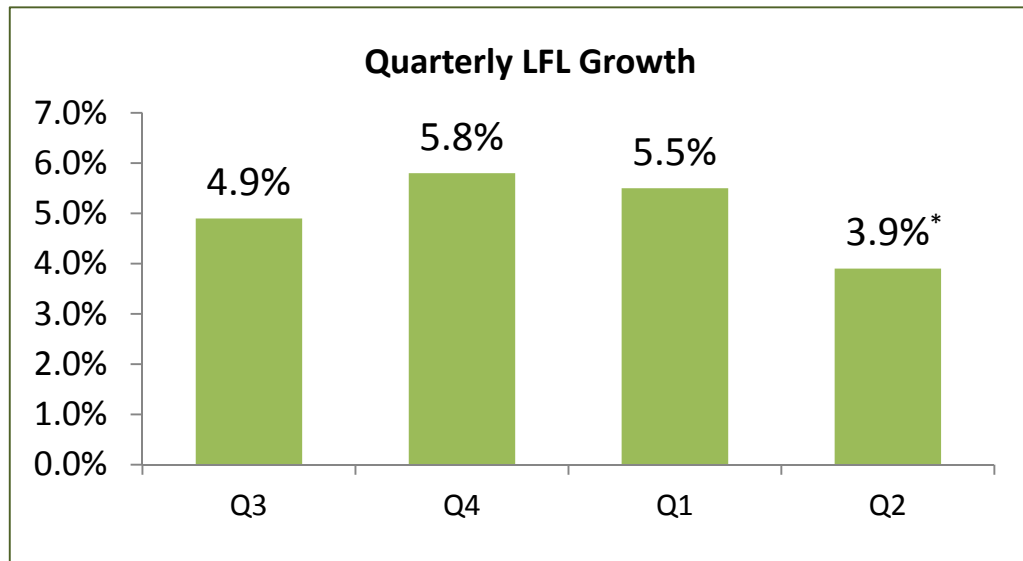
Financial Highlights

	FY16 H1	FY15 H1	Year on year change
Sales	£448.1m	£406.4m	+10.3%
LFL sales growth*	+4.6%	+6.2%	
Gross margin	50.7%	50.4%	+30 bps
EBITDA	£88.7m	£77.6m	+14.3%
Profit before tax	£75.5m	£68.2m	+10.7%
EPS (fully diluted)	29.3p	26.4p	+11.0%
Free cash flow	£76.7m	£46.1m	+66.4%

*Adjusting for calendar impact of the 53rd week included in the last financial year, LFL sales growth is +2%

Sales Growth

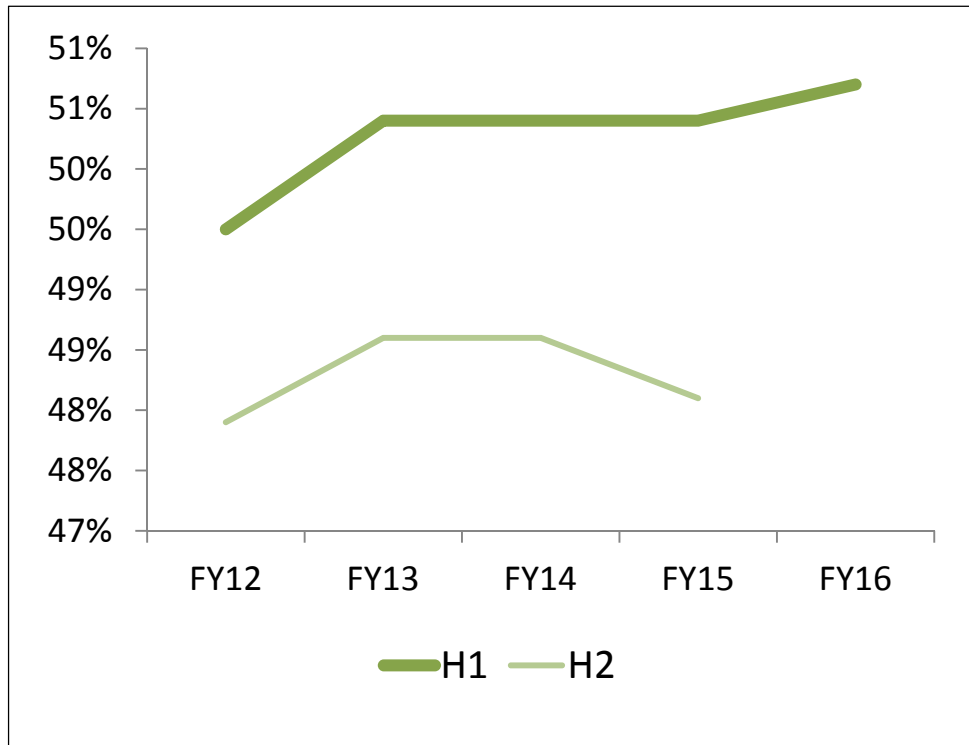
	FY15 Sales £m	Growth £m	Growth %
LFL stores	376.9	12.4	3.4%
Home Delivery	28.0	5.5	24.4%
Total LFL	404.9	17.9	4.6%
Non-LFL stores	43.2	23.8	n/a
Total	448.1	41.7	10.3%



* -0.8% taking account of 6 extra days of Winter Sale



Gross Margin Trend/Drivers

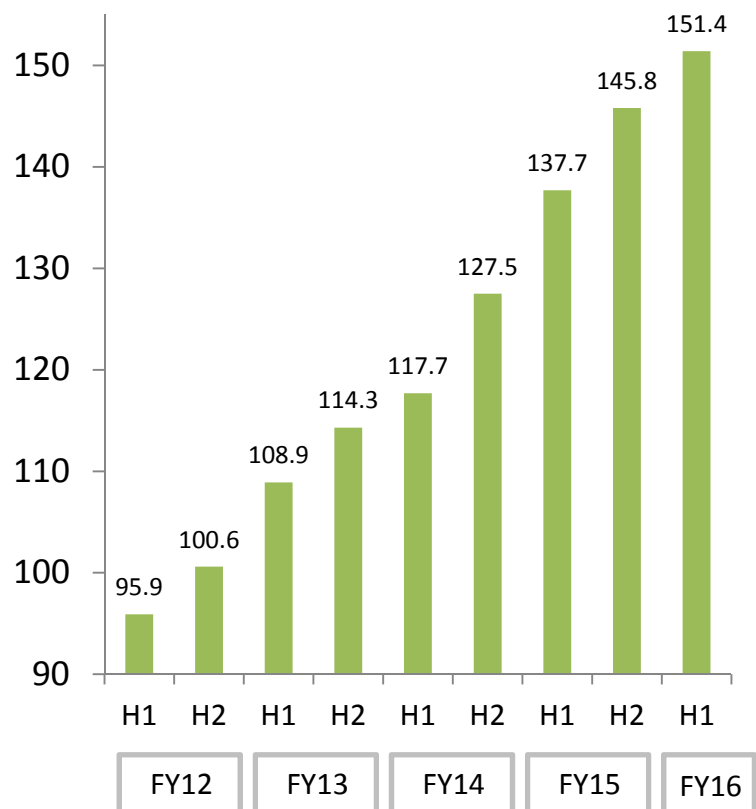


- Better buying
- Less promotional clearance
- Small forex gain
- Increase in direct sourcing to 19.4%



Operating Costs

Operating costs - £m



Cost drivers

Stores

- 3 new stores
- Average selling space +7.7% year on year
- DAH – 90 stores vs. 80 last year

Home Delivery

- Increased volumes

Logistics

- Investment in new warehouse

IT

- Significant recruitment
- Depreciation of web re-platform

Exec

- Investment in senior management

Profit After Tax

(£m)	FY16 H1	FY15 H1
Operating Profit	75.6	67.1
<i>Operating margin</i>	16.9%	16.5%
Financial Items	(0.1)	1.1
Profit Before Tax	75.5	68.2
Tax	(16.0)	(14.7)
<i>Effective tax rate</i>	21.2%	21.5%
Profit After Tax	59.5	53.5
EPS (fully diluted)	29.3p	26.4p
Dividend	6.0p	5.5p

Operating Cash Generation

(£m)	FY16 H1	FY15 H1
Operating Profit	75.6	67.1
Depreciation and amortisation	13.0	10.5
Other non-cash movements	0.6	(0.4)
Working capital movement	20.5	(5.1)
Net interest	0.1	0.3
Tax paid	(13.0)	(13.6)
Net cash from operations	96.8	58.7
Cash conversion¹	128%	88%

¹ Net cash from operations as a proportion of operating profit

Working Capital Movement

(£m)	FY16 H1	FY15 H1	Comments
Stock decrease / (increase)	14.8	(19.8)	<ul style="list-style-type: none"> Improved intake planning and stock control 1 week of Winter Sale
Receivables decrease / (increase)	1.0	(0.8)	<ul style="list-style-type: none"> Impact of 53rd week
Payables increase	4.7	15.5	<ul style="list-style-type: none"> Impact of 53rd week
Overall movement	20.5	(5.1)	

Capital Investment

(£m)	FY16 H1	FY15 H1
New store fit-outs	3.7	5.8
Refits and other store investments	5.8	2.5
IT investment	3.3	3.3
Fogarty acquisition	4.8	-
Other	2.4	1.0
Total	20.0	12.6

- 3 new stores fitted out in FY16 H1, 6 in comparable period
- 1 major refit completed in FY16 H1, 4 major in comparable period

Net Cash Generation

(£m)	FY16 H1	FY15 H1
Net cash from operations	96.8	58.7
Capital expenditure	(20.0)	(12.6)
Free cash flow	76.8	46.1
Dividends paid	(32.4)	(30.3)
Repayment of loans	(21.0)	-
Other	(0.4)	-
Change in net cash	23.0	15.8
Period end net (debt) / cash	(29.4)	38.3
Daily average net cleared funds	(47.5)	49.4
Free cash flow conversion*	87%	59%

*Free cash flow: EBITDA

Net Debt

- Board is targeting net debt in the range of 0.25 – 0.75x net debt/LTM EBITDA
- LTM EBITDA: £155.2m
- Period end net debt of £29.4m
- Daily average cleared funds in H1 of (£47.5m), equates to 0.3x EBITDA
- 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

Special Distribution

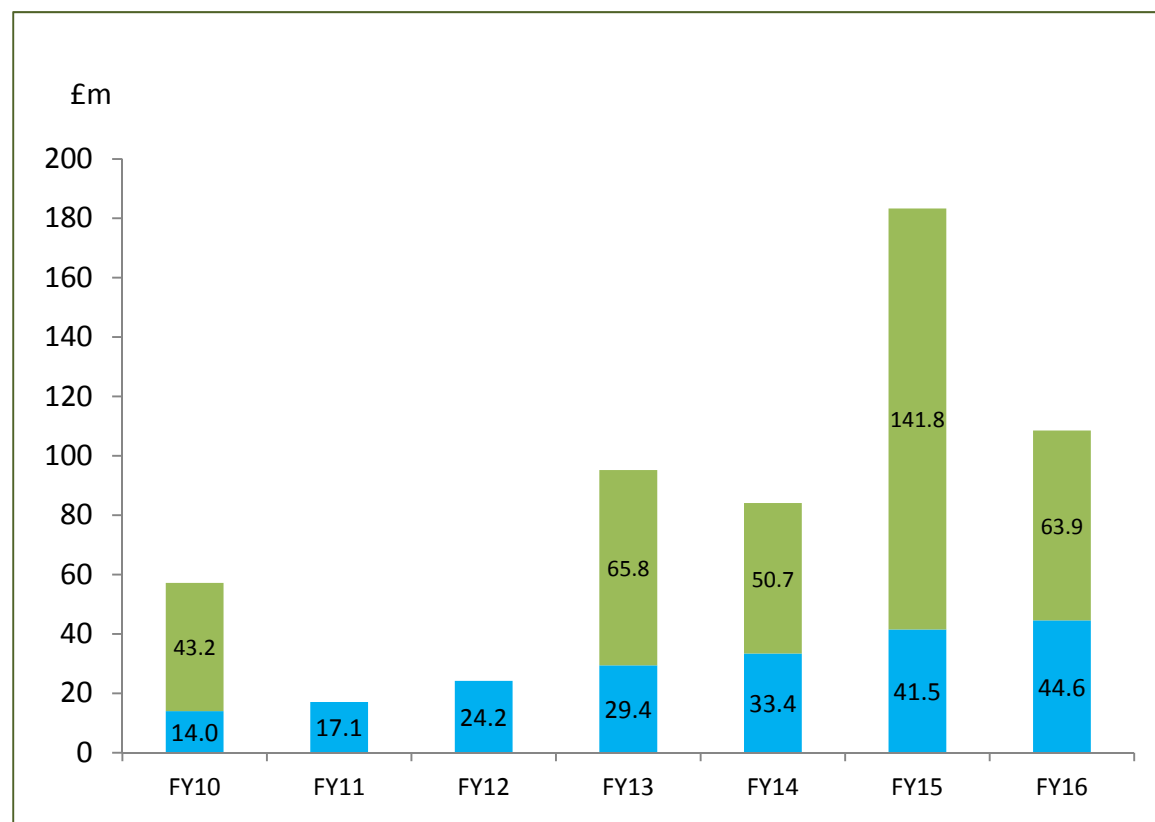
Capital policy: maintain net debt at 0.25 x – 0.75 x EBITDA

Last 12 months EBITDA	£155.2m
Target maximum net debt (0.75 x EBITDA)	£116.4m
Actual daily average cleared funds July – December	(£47.5m)
“Excess cash”	£68.9m

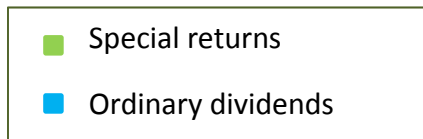
Special distribution: 31.5p per share (£63.9m)*

* Payment on 24 March 2016 to shareholders on the register at 4 March 2016

Cash Returns to Shareholders FY10 to FY16



- Chart shows actual cash payments in each year
- FY16 includes a 31.5p special distribution and 6p interim dividend, both to be paid in H2



	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Ordinary Dividend Cover	3.4x	2.5x	2.5x	2.5x	2.2x	2.2x	
Dividend yield *	8.2%	1.9%	2.5%	6.5%	4.5%	10.4%	6.5%

* Based on average share price for FY10-15 and latest share price of 820.5p for FY16

Total cash return since IPO = £590.5m (298.0p per share)

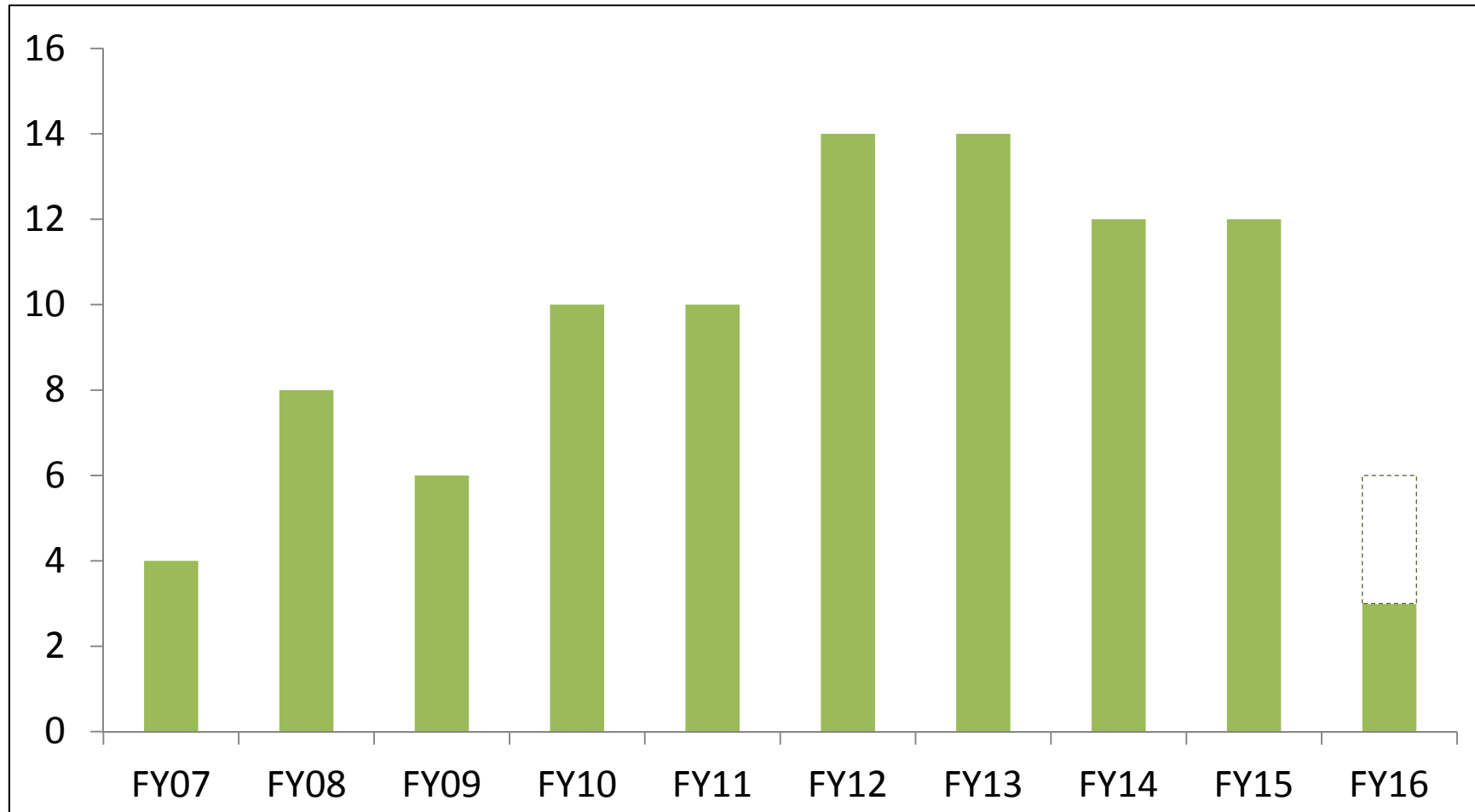



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Appendices

Store Openings By Year



Summary Balance Sheet

(£m)	2 nd January 2016	27 th December 2014
Total non-current assets	180.8	165.8
Inventories	118.4	135.3
Receivables	16.9	20.3
Cash	39.6	38.3
Financial instruments	2.8	2.2
Total assets	358.5	361.9
Current liabilities	(111.1)	(98.7)
Non-current liabilities	(111.9)	(47.0)
Net assets	135.5	216.2
Share capital	2.0	2.0
Share premium/other reserves	46.8	46.5
Retained earnings	86.7	167.7
Total equity	135.5	216.2