



## Capital Markets Day

11 October 2017



**Andy Harrison**

Introduction

# **Dunelm. The Home of Homes.**

**The number one choice for homewares and furniture.**

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

## Our ambition



**The biggest and best multi channel retailer in homewares and furniture**

**30-40% sales online**

## Our business goals



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



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



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



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

# Introducing the team here today



**Andy Harrison**  
**Chairman**

Andy joined Dunelm in 2014. He chairs the Board, which is responsible for Group strategy, performance, risk oversight and good governance. He also chairs the Nominations Committee

Andy was Chief Executive of RAC plc between 1996 and 2005, Chief Executive of easyJet plc from 2005 to 2010 and Chief Executive of Whitbread plc from 2010 to 2016. He was also Non-Executive Director and Chair of the Audit Committee at EMAP plc from 2000 to 2008



**Will Adderley**  
**Deputy Chairman**

Will joined the business on a full time basis in 1992 having gained a degree in Industrial Economics from Nottingham University. He has worked for Dunelm for his whole career and is familiar with all major areas of the business. Will took over the day-to-day running of the Group from his father, Bill Adderley, in 1996. He remained as Chief Executive through the Group's IPO in 2006 until 2011, when he became Deputy Chairman



**Keith Down**  
**CFO**

Keith joined Dunelm in December 2015. Keith leads Dunelm's finance team and sits on the Executive Board. He participates in Audit and Risk Committee meetings by invitation. He is also Non-Executive Director of Topps Tiles plc

Keith qualified as a Chartered Accountant at KPMG and went on to hold a number of senior finance roles in convenience retailing and at Tesco PLC. He was Finance Director of JD Wetherspoon PLC from 2008 to 2011 and CFO at The Go Ahead Group PLC from 2011 to 2015

# Introducing the team here today



**Fiona Lambert**  
**Product Director**

Fiona joined Dunelm in January 2017. Fiona leads Dunelm's buying, design and technical teams

Prior to this, Fiona worked alongside George's founder, George Davies, to set up and launch George as the first fashion supermarket brand in 1990. She then became the Womenswear Product Director at Next for 7 years, before returning to George in June 2007 as George's Brand Director.



**Leonie Foster**  
**Customer Director**

Leonie joined Dunelm in September 2015. Leonie leads Dunelm's insight, marketing, store format and web teams.

Prior to this, Leonie held various roles within retail before moving to OC&C Strategy Consultants where she progressed to Associate Partner. She went on to join Tesco as Insight Director in 2010 and went on to lead the Customer Strategy, Price, Brand Communications and Clubcard teams.



**Gavin Chappell**  
**Supply Chain and Merchandising Director**

Gavin joined Dunelm in December 2015. Gavin leads Dunelm's merchandising, distribution and import teams.

Prior to this, Gavin worked for several companies including Accenture, where he worked on a variety of UK and European retailers and left as a partner in the Global supply chain practice in 2003. Gavin joined Boots, as Supply Chain Director, and led one of the UK's biggest transformation programmes before moving to Asda, ultimately as Vice President – e-Commerce.

# Introducing the team here today



**Joe Murray**  
**Digital Director**

Joe joined Dunelm in December 2016, with the acquisition of the Worldstores Group, of which he was a founder. Joe leads Kiddicare.com, Achica and Worldstores and the integration of Worldstores with Dunelm.

Prior to this, Joe was in corporate finance advisory (Deutsche Morgan Grenfell / Rothschild) specialising in M&A and Project Finance. In 1999 he left to found the first of 3 start-ups – Atmyside, Optelligence Europe and Worldstores. Worldstores grew from 0 to >£100m revenue in 8 years through 4 rounds of VC/PE funding.



**Amanda Cox**  
**People and Services Director**

Amanda joined Dunelm in March 2015. Amanda leads Dunelm's people and service teams

Prior to this, Amanda's career began on the Marks & Spencer's graduate scheme, where she worked for 10 years before moving to Asda. Starting at ASDA as a Store Manager, Amanda progressed over the next 15 years to Vice President – People.



**Pete Bowrey**  
**Retail Director**

Pete joined Dunelm in September 2015. Pete leads Dunelm's retail operation, M2M business and Pausa coffee shops

Prior to this Pete worked for 30 years at Tesco across many parts of the business including operations director for the central of the UK and then COO for the business in China before becoming the operating model director in the U.K.



# Introducing the team here today



**Chris Shaw**  
**CIO**

Chris joined Dunelm in July 2013. Chris leads Dunelm's technology teams across all channels

Prior to this, Chris worked at Carphone Warehouse where he held a number of senior IT positions over 13 years including leading the development of the first TalkTalk websites and most recently serving as Director of IT Services.



**Steve Barton**  
**Property Director**

Steve joined Dunelm in 2002. Steve leads Dunelm's property team

Prior to Dunelm, Steve held property roles for Next and Levi Strauss. Steve is accountable for all the Group's property matters and has overseen the acquisition of over 150 of the current superstores.

## Not able to be here today



**Dawn Durrant**  
**Company Secretary**

Dawn joined Dunelm in 2007. Dawn's accountabilities include corporate governance, corporate social responsibility, compliance, mergers and acquisitions, commercial contracts, intellectual property, litigation and share schemes

Dawn qualified as a solicitor with City law firm Allen & Overy in 1990, specialising in corporate and intellectual property law. In 1994 she took a role at FTSE250 food manufacturer Geest, and in 1999 was appointed Company Secretary.

# Today's Agenda

12.35	<b>Keith Down</b> CFO	Q1 Trading update	
12.45	<b>Fiona Lambert</b> Product Director	Our goals	Creating new reasons to shop
13.00	<b>Leonie Foster</b> Customer Director		Easy and inspiring to shop
13.15	<b>Gavin Chappell</b> Supply Chain and Merchandising Director		A simple and low cost operating model
13.30	<b>Joe Murray</b> Digital Director		How Worldstores helps
13.45	<b>Keith Down</b> CFO	Financial plan and Q&A	
14.30	Tea		
15.00	<b>Gavin Chappell</b> Supply Chain and Merchandising Director	Tour of Stoke 2	
16.00	Close		



## **Keith Down**

Q1 trading update

# Q1 Trading Update

	13 weeks to 30 September 2017		
	Revenue (£m)	YoY Growth (£m)	YoY Growth (%)
LFL stores	194.4	11.9	6.5%
LFL Online	19.9	6.3	46.2%
<b>Total LFL</b>	214.3	18.2	9.3%
Non-LFL stores	12.8	10.3	-
Non-LFL Online	20.7	20.7	-
<b>Total Dunelm Group</b>	247.9	49.2	24.8%

## Summary

- The integration of the Worldstores business continues on plan
- Maintained the good momentum from the final quarter of last year
- Strong sales, especially Online
- Gross margin in line with our expectations

# Q&A



**Fiona Lambert**

Our Goals – Creating **new reasons** for **customers** to shop with Dunelm

## Why customers love Dunelm today



- Affordability – whatever your budget
- Fantastic range
- Strong availability – certain they will get what they came for
- Great brands like Dorma and Fogarty

## Goal One

# Broadening our appeal, reaching more customers

**Strong today:**  
Classic &  
Content



**Opportunity:**  
Confident  
Nest Builder



**Strong today:**  
Stylish &  
Settled



**Fair share:**  
Savvy  
Home Lovers



- Four Home Lover segments in the market – comprising 70% of sales
- Strengths today in three segments, big opportunity to grow share of Confident Nest Builders



Goal One

# Developing contemporary product ranges



**Goal  
One**

# Growing share in Homewares

<b>WIN</b>	Sleep	BE FAMOUS FOR Aim for minimum 20% market share, up to 50% in Curtains
	Soft Furnishings	
	Bathroom Textiles	
<b>PLAY</b>	Tabletop	MATCH THE MARKET Aim for minimum 10% market share, up to 30% in Rugs
	Utility	
	Cook	
	Home Accessories	
<b>SHOW</b>	Electricals	COMPLETE OUR OFFER Aim for 1% share – but be disruptive!
	Consumables	

**Ambition: from 8% share to 13%**

## Goal One

# Winning market share in Soft Furnishings



- To win share in Bed Linen we will:
  - Develop our brands – Dorma and Fogarty
  - Broaden in-house textile design to cover more contemporary product
  - Continue strong supplier partnerships
  - Extend our better and best ranges to compete at the higher end
  - Extend choice online to support in-store ranges

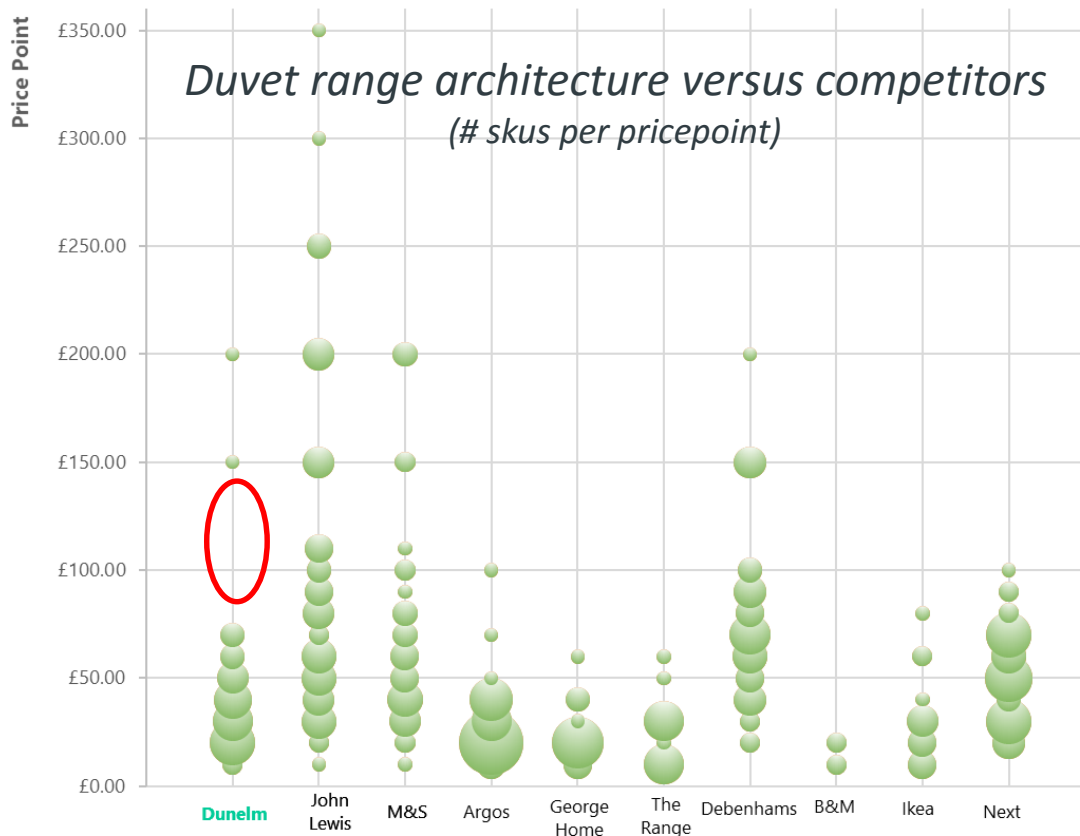
# Goal One

## Delivering great value: good, better, best

Tier	Product	Features & Benefits	Price
GOOD		<ul style="list-style-type: none"> <li>Naturally hypoallergenic</li> <li>Easy to care for with hollowfibre filling</li> <li>Available in a variety of togs all year round</li> </ul>	£22
BETTER		<ul style="list-style-type: none"> <li>Filled with duck feather and down</li> <li>100% cotton cover and 230 thread count</li> <li>Finished with double stitched piping.</li> <li>Manufactured in the UK</li> <li>Machine Washable</li> </ul>	£55
BEST		<ul style="list-style-type: none"> <li>Luxurious Hungarian Goose Down filled with 70% down and 30% feather with a 300 thread count 100% cotton jacquard cover</li> <li>Delicate down clusters group together to form air pockets, trapping air to insulation and providing softness</li> <li>Manufactured in the UK</li> </ul>	£175

- Value seen as a mix of price, quality & design
- Goal is to offer breadth of choice for customers at all price points through
  - Good (20% of range)
  - Better (60%)
  - Best (20%)
- Benchmarking against broad competitor set, at either end of the market, on and offline
- Extensive promo and star buy programme

# Delivering great value: good, better, best



- In duvets, we have identified three opportunities to improve our offer and grow share:
  - Development of products at the upper end of the market (£75+)
  - Addition of entry price point product at key times of year through promotional star buys
  - Extension of range online to offer more choice at all pricepoints

# Goal One

## Furniture: winning in target segments

### Focus 1

#### Beds & Mattresses

- Sleep zones in store
- Own label range
- Fast, consolidated delivery



### Focus 2

#### Occasional

- Simplified range
- Flat pack
- Take home today



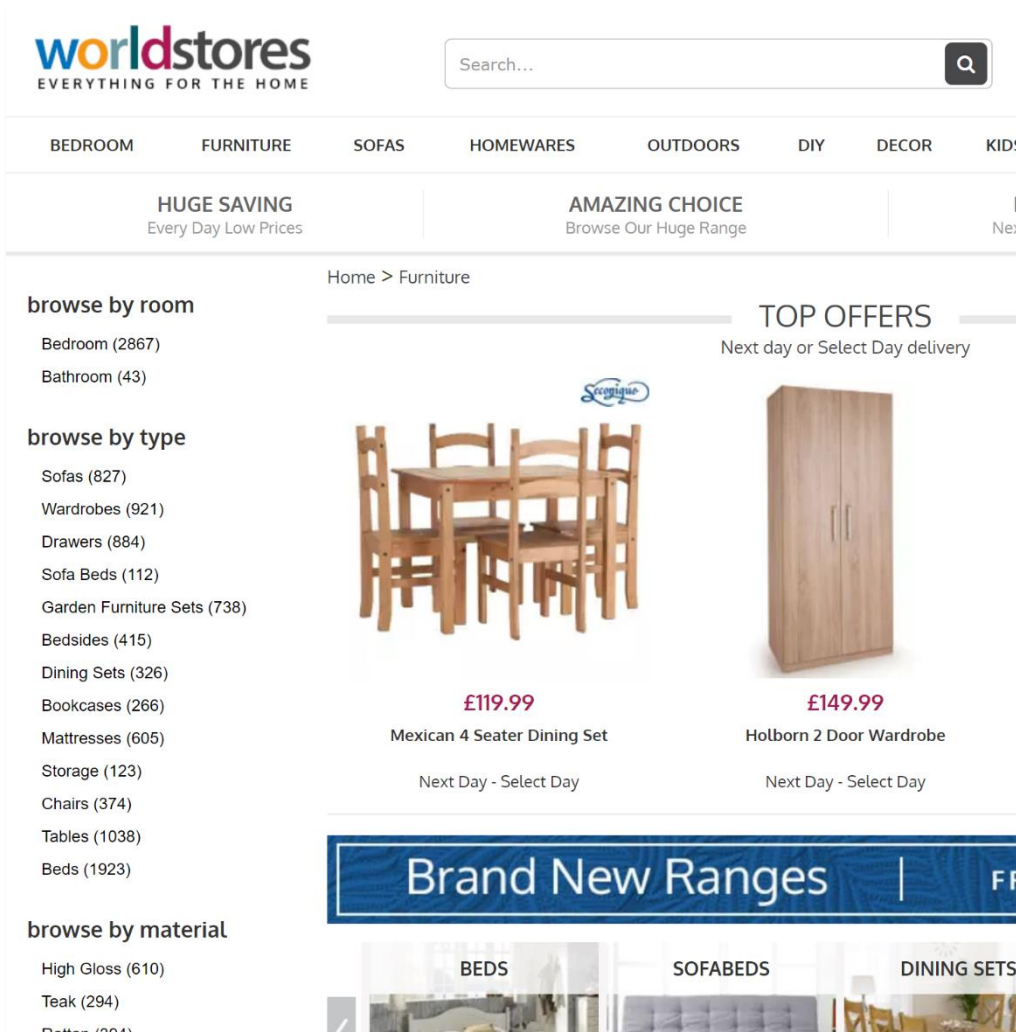
### Focus 3

#### Upholstery

- Made to order
- Range expansion
- Key price points
- Fast delivery



# Furniture: Worldstores step change



- Largest furniture catalogue in the UK
- Strength in Beds & Mattresses and quick delivery Upholstery
- Extensive supply base
- Efficient and low risk approach to stock holding with DSV
- Market-leading 2 man next day delivery service
- Will help us to test and learn

## Kiddicare: adjacent category, new customers

### New Kiddicare Greenford Concession



- Broaden our appeal with younger age groups
- Drive store footfall and online traffic
- Improve margin mix with own label sourcing capability
- Test and learn store concepts
- 50K square feet estimated by end FY18
- Aim to go from 2% share to 10% over time





**Leonie Foster**

Our Goals – [Easy and inspiring](#) for [customers](#) to shop (both instore and online)

## Goal Two

# Why customers love Dunelm today



- Friendly service (NPS 74%)
- Knowledgeable colleagues
- Comprehensive in-stock range
- Easy access & convenient facilities
- Easy browsing and delivery online



## Improving the customer journey

### Easy to find and access Dunelm

- Improved brand awareness and salience
- Content-led marketing, including digital and social
- Building customer relationships
- Increased personalisation

### Easy and inspiring to browse and shop Dunelm

- New store format
- Extended range
- Mobile POS with chip & pin for selling extended range
- Website that is easy to search and inspiring to browse

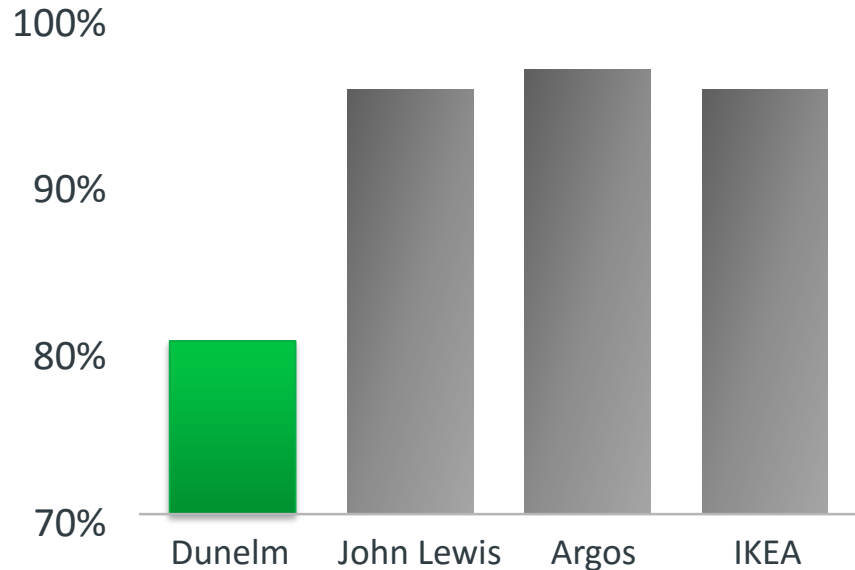
### Easy to get product

- Choice of home delivery options
- Own home delivery network
- Collection in store

## Goal Two

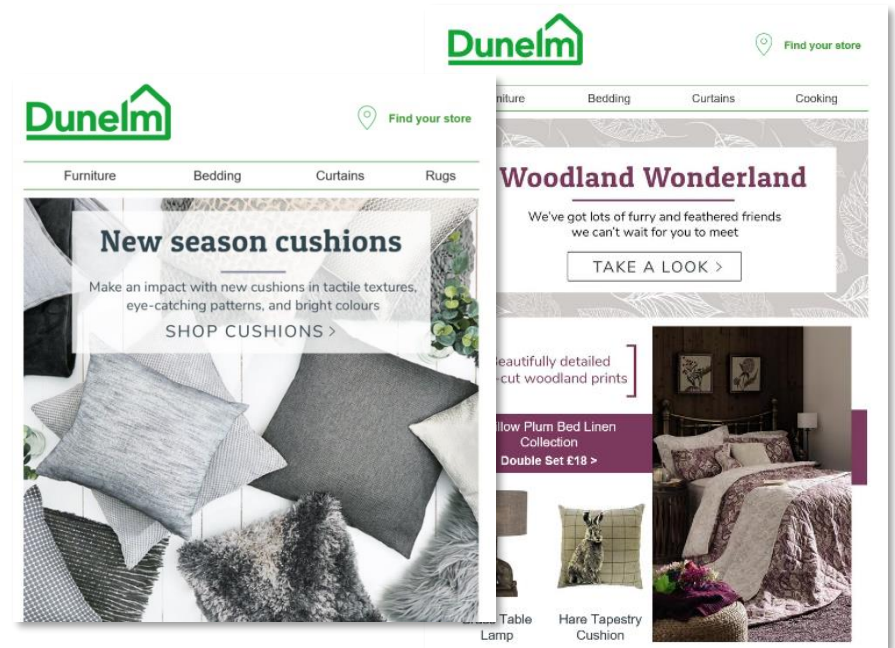
# Growing brand awareness and building customer relationships

## Brand Awareness



- Customers permanently in market
- Provide inspiration and choice
- Invest higher up the purchase funnel
- Grow brand awareness and salience

## Building Customer Relationships



- Build conversation with customers
- More relevant, targeted content
- Drive loyalty and engagement
- e-receipts build customer database

Goal  
Two

## Making the most of our brands

# kiddicare



**DORMA**  
ESTABLISHED 1921



*fogarty*

### New Dorma concession in Greenford

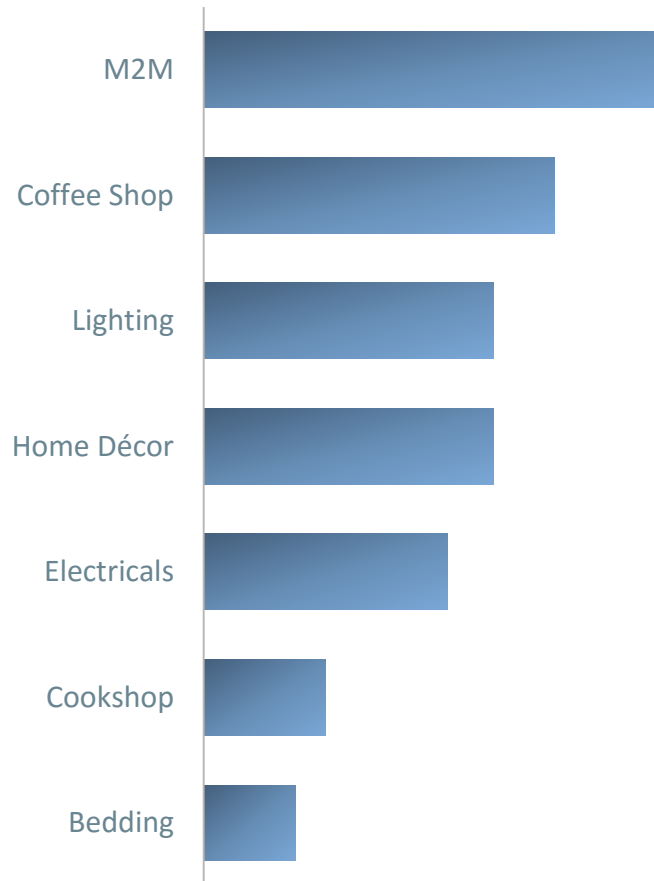


- Product brands ever more important in creating reasons to visit
- Dorma and Kiddicare store concessions currently being trialled
- Online presence being expanded on Dunelm.com
- Standalone presence still to be explored for Dorma

## Goal Two

# More inspiring stores, easier to navigate

### Department uplifts post refit: examples



- Ten or more stores a year refitted with our latest concepts
- Remixing space to drive profit and support new opportunities
- Trial and roll out of new concepts
  - Seasonal
  - In line tills
  - Furniture
  - Kiddicare
  - M2M
- Cost-engineered format
- A long-term plan for every store

Goal  
Two

# More inspiring stores, easier to navigate

## Impactful seasonal areas at front of store



## M2M easier to shop with broader appeal

Goal  
Two

# More inspiring stores, easier to navigate

Lower level fixtures, improving sightlines



Tables for more inspiring product display

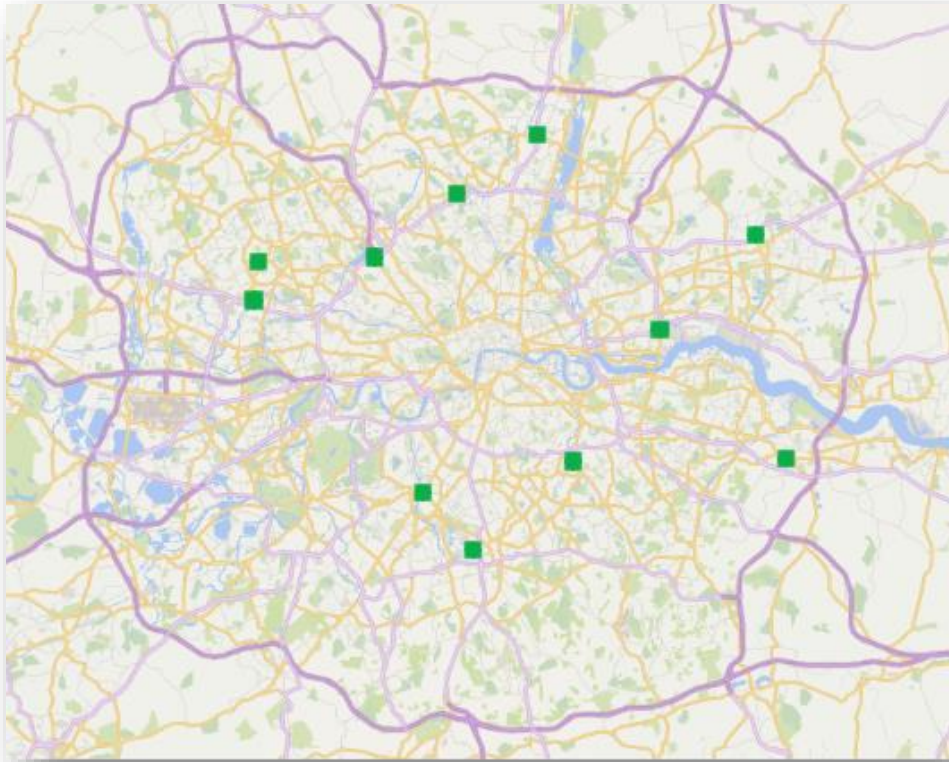




## Goal Two

# Building our London presence, in store and online

### Stores within the M25

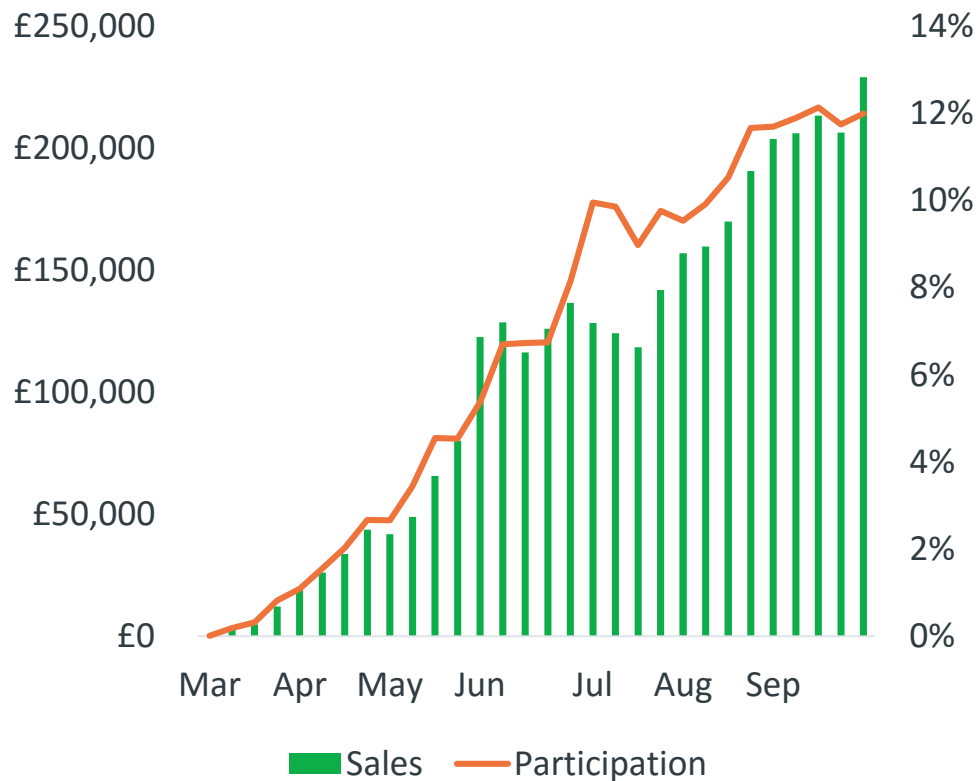


- Building brand awareness in London – still under-represented in a high growth area
- 5 new stores opened within 2 years, bringing us to 11 within M25
- Strong home delivery participation in London – improved with Worldstores
- FY17 sales growth of 2.9% vs other areas 0.6%
- Able to develop London as a multi-channel network going forward

## Goal Two

# Extending choice, building sales

### Contribution of Worldstores range on Dunelm.com



- Rapidly growing the choice we offer customers
- Dunelm.com online range now 50k products
- Full Worldstores catalogue to select from – lots of new categories:
  - Beds & Mattresses
  - Quick delivery upholstery
- Incremental sales, participation of Dunelm.com sales reached 12%
- Will be available via mobile POS and C&C

## Goal Two

# Extending choice, building sales

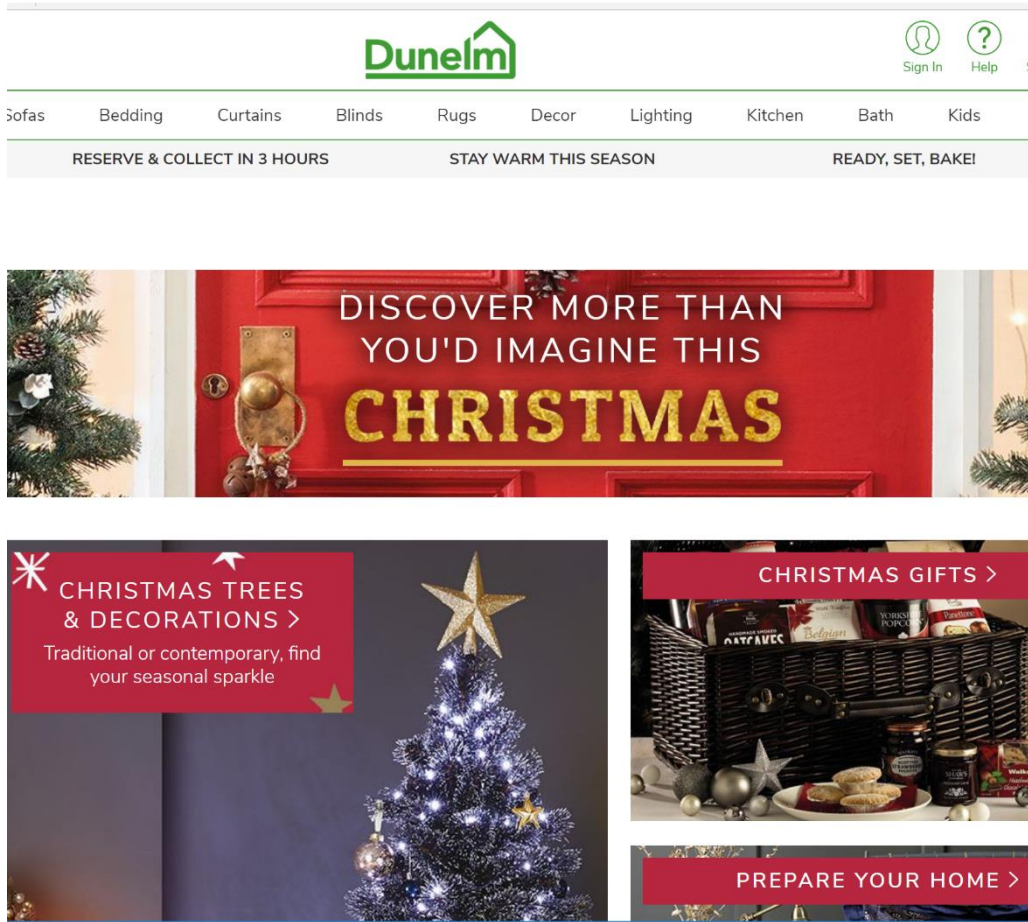


**There's more than  
what's in store  
dunelm.com**

- Roll out of Mobile POS with chip & pin to all stores in FY18
- Extended range available for all colleagues to explore with customers
- Home Delivery fulfilment, with C&C to follow

## Goal Two

# More inspiring Dunelm.com



- Curated, extended range – easy to search
- Seasonally relevant and trend-led collections
- Inspirational photography and video content
- Useful buying guides
- Choice of collection and delivery options

## Goal Two

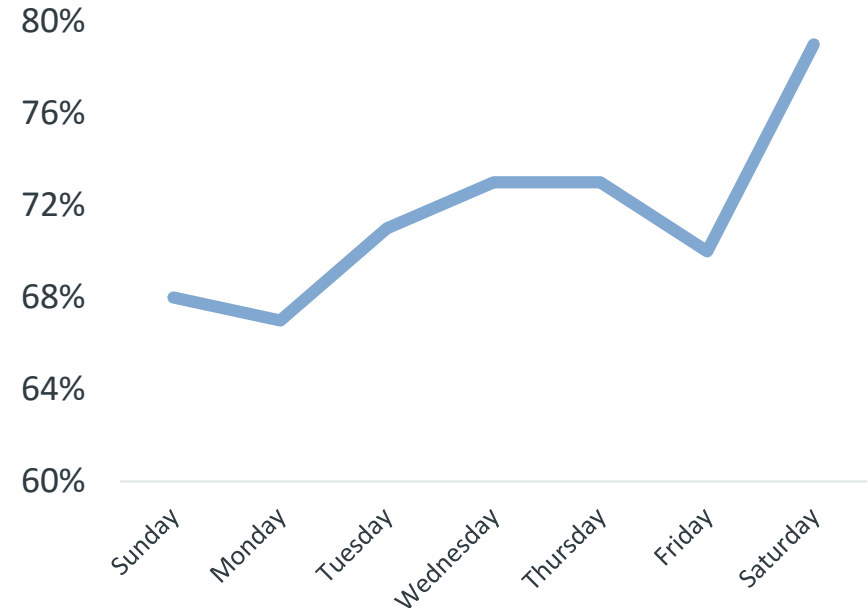
# Listening to customers, improving their experience



friendly friendliness  
helpful  
polite attitude  
great store  
behaviour  
price  
general  
service  
range

- Listen closely to customers to improve their shopping experience
- Single tool across all channels
- No KPI without the Why

Insight in action: daily store NPS



- Clear opportunity to improve service on our busiest day – Sunday
- Moved management time to weekend and removed task – 5% improvement



## Gavin Chappell

Our Goals – A **simple** and **low cost** operating model

## Goal Three

# Our strengths today



- A low cost store base
- Lean support functions
- Strong supplier relationships – 80% of sales value from UK based suppliers
- Efficient direct to store model
- Investment in Stoke infrastructure

## Goal Three

# Improving store productivity to invest in service and pay



- Reduced task through an end to end review of store processes
- Created best practice for stock ordering, receipting, replenishing and maintaining
- Reduced cash processes to 1 day a week and exception reporting
- Introduced technology to help stores
- Simplified structures to invest in hours for service and training



## Goal Three

# Step changing our infrastructure



- Invested £20m
- 500,000 sq ft DC plus 2x 89,000 Mezzanines
- Doubled internal capacity
- Refurbished Stoke 1
- Both DC's achieving better than business case productivities

## Goal Three

# Leveraging the investment in our distribution infrastructure



- Consolidated e-fulfilment operations
- Migrated product back to suppliers for direct shipping to customers (DSV)
- Supported significant growth in seasonal
- Delivered savings:
  - £2m through closure of other facilities
  - £4 to £6m through the removal of outside storage, offset by fixed cost overheads of £3M

## Goal Three

# Improving delivery and collection options for customers



- Day of choice delivery on Dunelm.com for 2 man product – next day delivery to follow
- Reserve & Collect in all stores, 80% of store range, available from 3 hrs:
  - Growing ahead of store LFL
  - Drives footfall
  - Drives add on purchases
- Click & Collect (fulfilled centrally) in development and to be trialled on Kiddicare in FY18

## Goal Three

# Improving customer service with our own delivery fleet



- Dunelm Home Delivery Network established following Worldstores acquisition
- Unique service proposition at low cost – collection and delivery
- Real competitive advantage in 2 man delivery:
  - Speed of delivery
  - Control over damage and customer experience
- Able to optimise journey and capacity fill
- Reduced Dunelm delivery cost by over 15% per order to date – more to come
- Team integrated, rebranding in progress (*illustrative*)



## Goal Three

# Simplifying our central teams



## Contact centre

- Consolidation of Worldstores, Kiddicare, Achica
- Better customer experience – IVR, quicker resolution

## One business

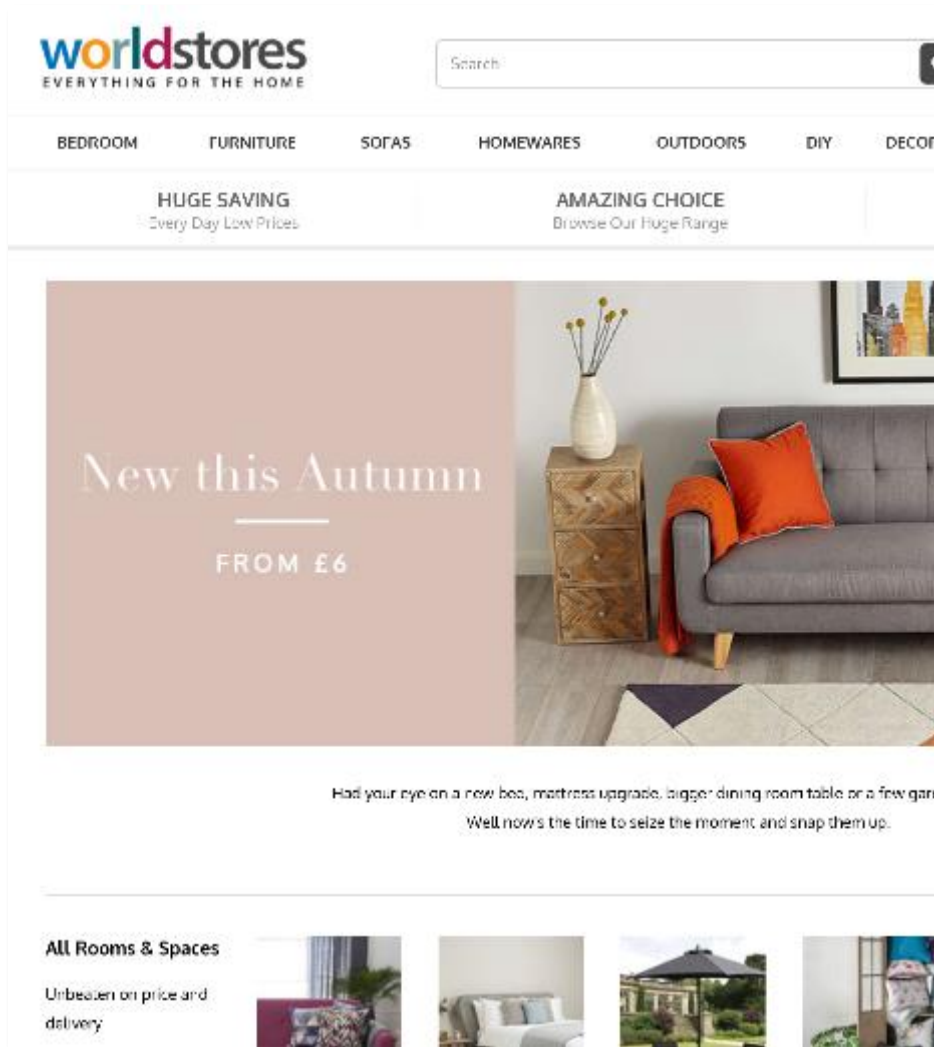
- Best talent integrated into Dunelm
- Clarity on role of support centres
- Downsized London property
- Focus on cultural integration



**Joe Murray**

How Worldstores helps

# Worldstores standalone challenges

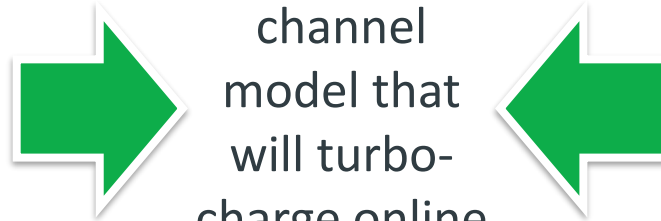


- High cost of acquisition and low conversion due to lack of brand
- Sub-scale so unable to cover fixed costs
- Low gross margin due to no own label
- Cumulative cash investment of £60m as a standalone business

# Combining our strengths



- ✓ Lower cost of customer acquisition
- ✓ Better web experience – easy to search, plenty of inspiration
- ✓ Strength in Homewares
- ✓ Access to store network for collection and returns
- ✓ Efficient infrastructure



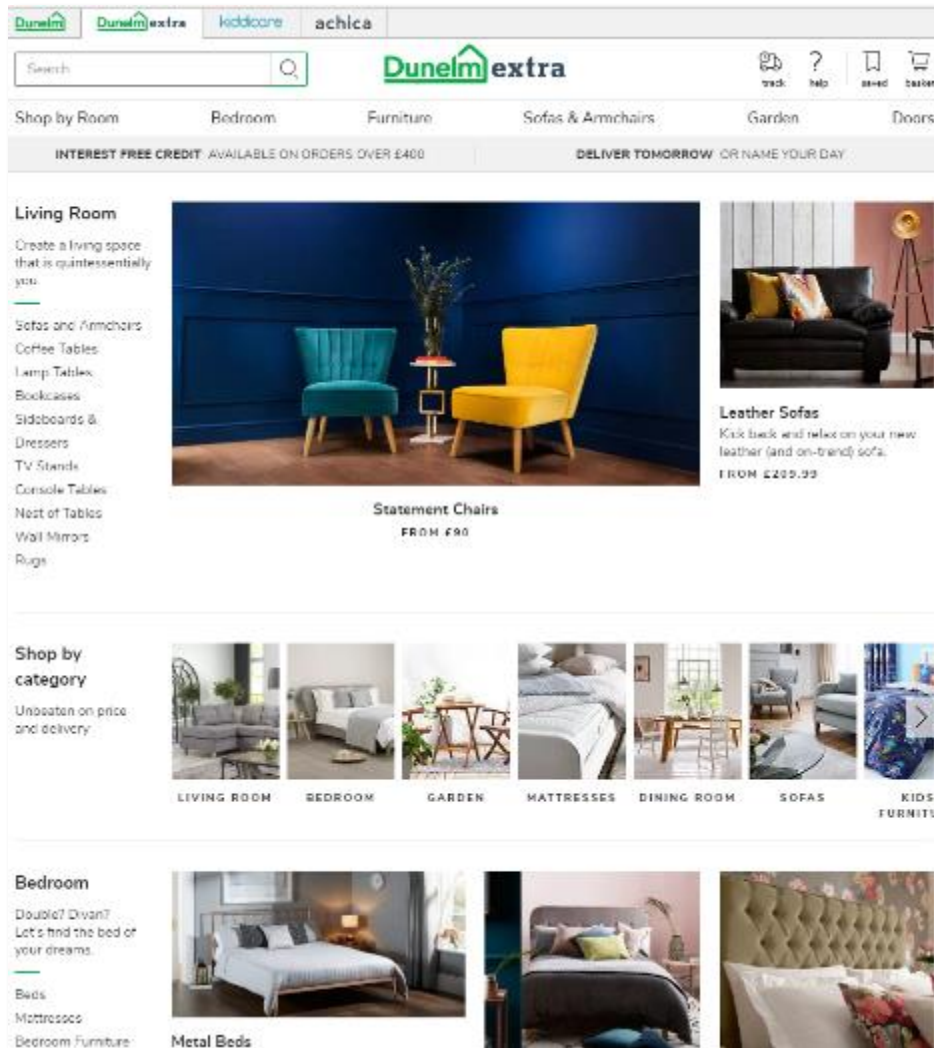
A multi-channel model that will turbo-charge online sales



- ✓ Large curated range – up to 10 times Dunelm today
- ✓ Sourcing agility and DSV approach
- ✓ Strength in Furniture
- ✓ Web dev expertise – agile, test and learn approach
- ✓ Start up culture

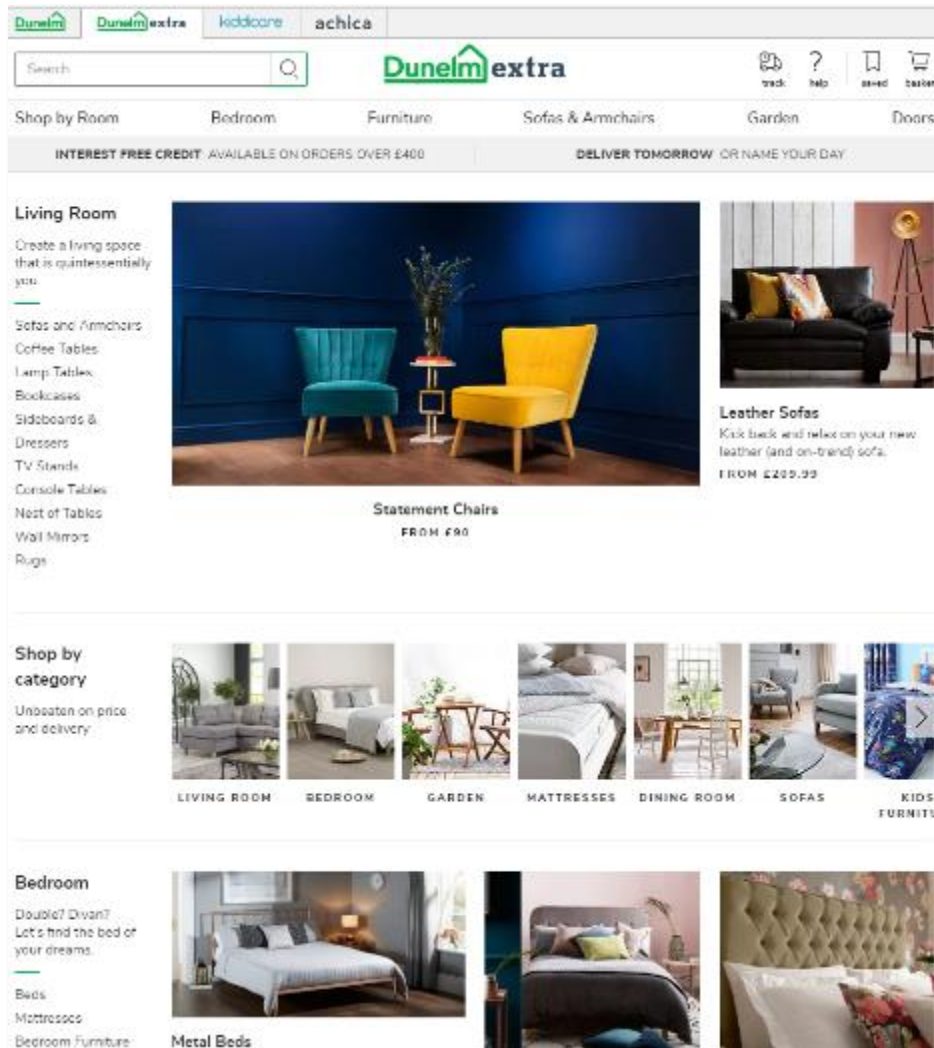


# A single integrated platform



- Bringing together the best of Dunelm.com and Worldstores.co.uk
- A staged programme
  - Extending our range on Dunelm.com
  - Driving marketing efficiencies
  - Launching Dunelm Extra as a stepping stone to test platform and impact of Dunelm brand
  - Careful transition of websites
- 12-18 month development of full site
- Protecting customer experience and commercial delivery

# Improved Agility



- London-based IT team building proprietary systems:
  - Focused on front end web systems and bespoke DSV tech platform
  - Able to quickly layer on new functionality
- The mind-set extends beyond web development into the way we are structuring our supply chain
- Worldstores unlocks an agile and flexible mentality

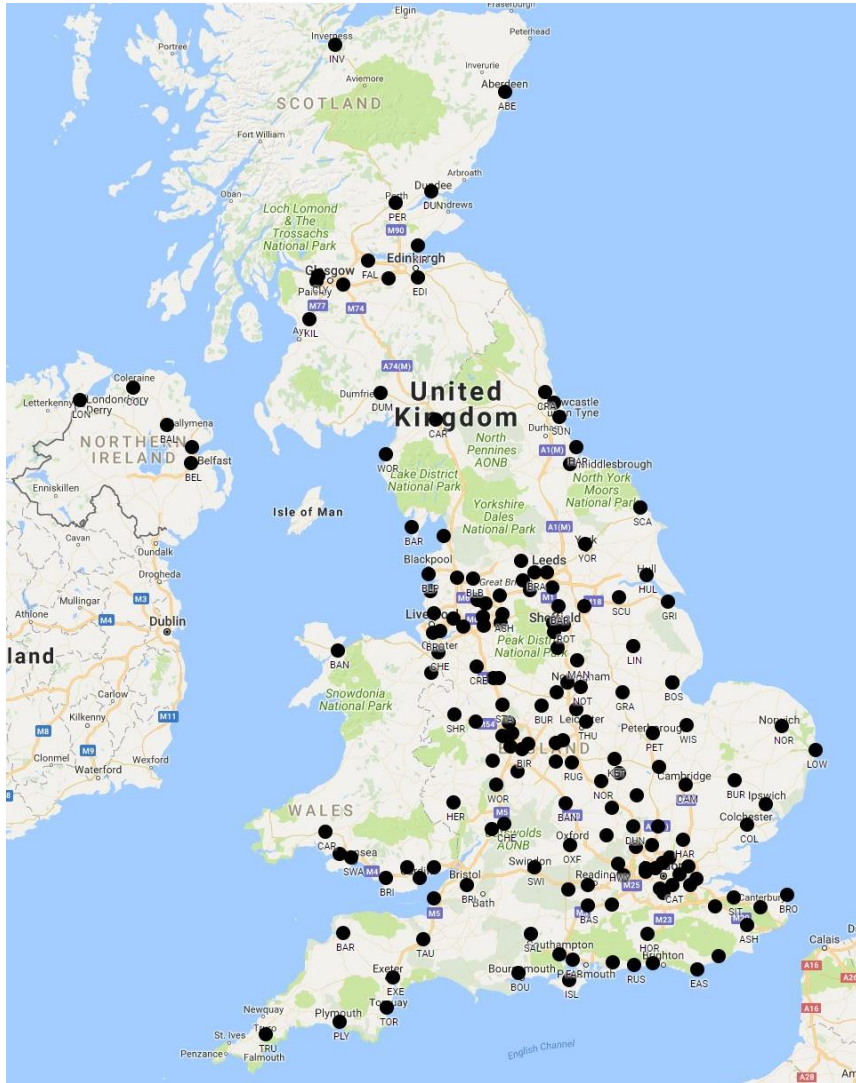


**Keith Down**

**Our ambition**

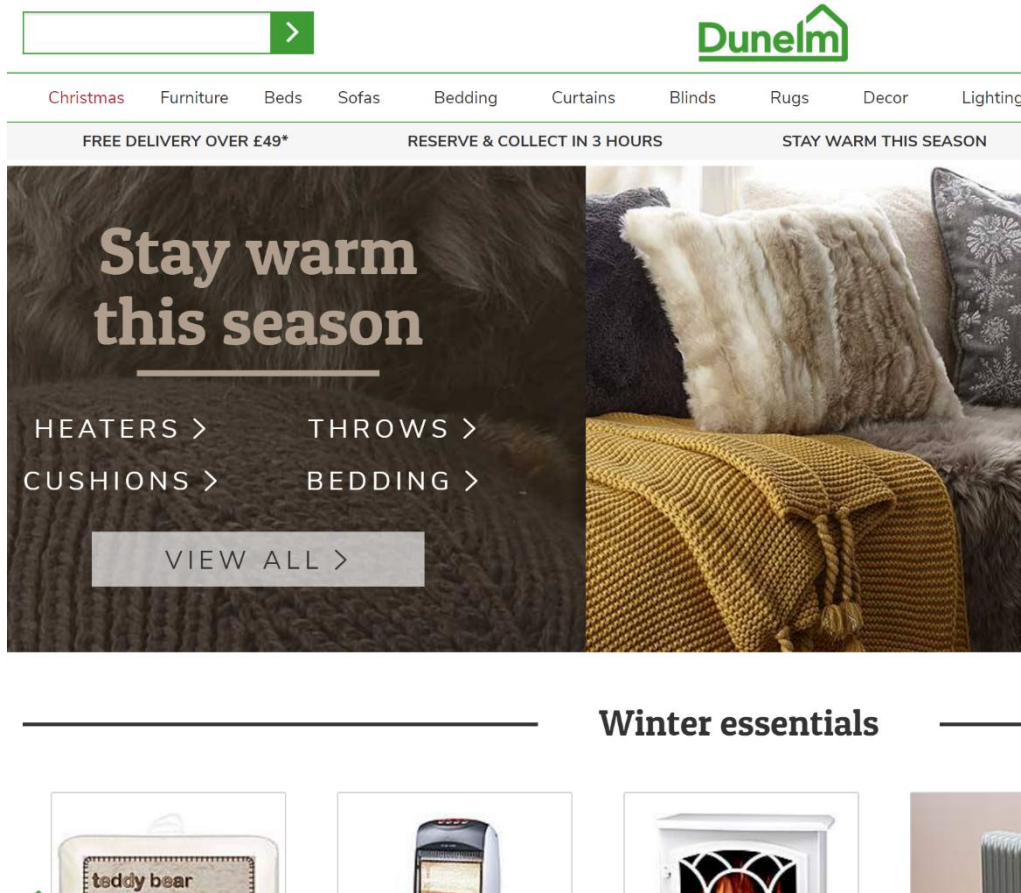


# Stores: an integral part of multi-channel offer



- 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: an acceleration



## Worldstores benefits

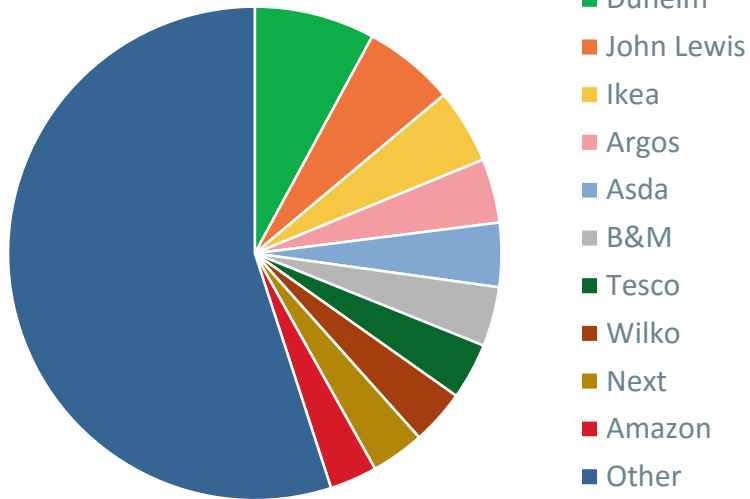
- Extended range
- Furniture expertise
- 2 man delivery network
- Improved DSV management
- Agile website technology

## Build on existing Dunelm developments

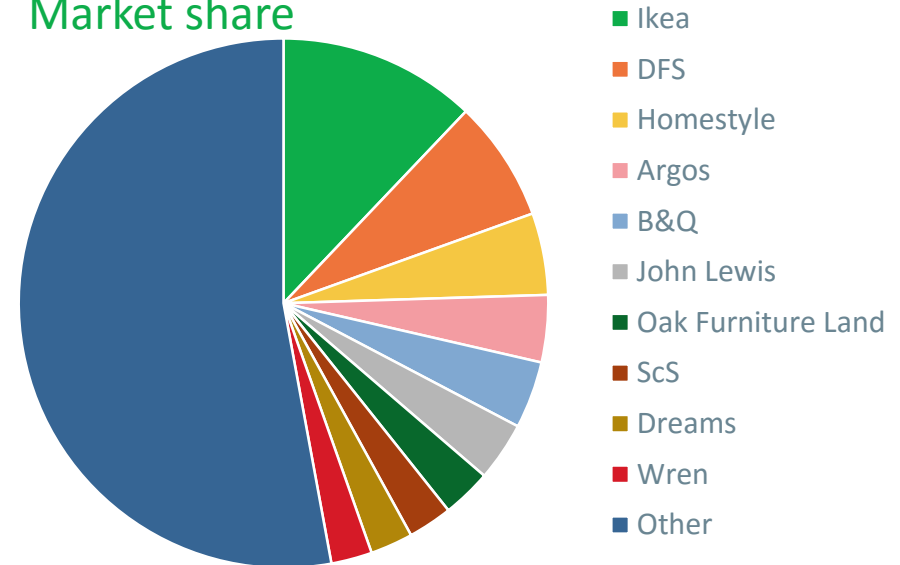
- M2M online
- Mobile POS in stores with chip & pin
- Increasing personalisation
- Developing Click & Collect

# Fragmented markets in Homewares and Furniture – share available

Homewares – £12bn  
Market share

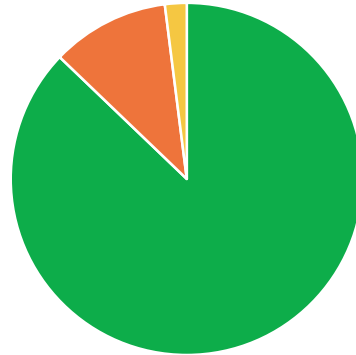


Furniture - £11bn  
Market share



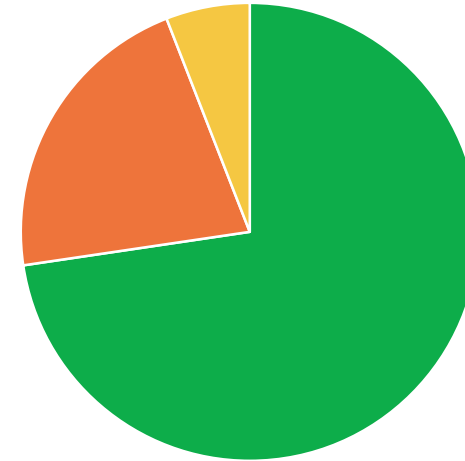
# Possible shape of £2bn

Today: £1bn



■ Homewares ■ Furniture ■ Kiddicare

Goal: £2bn



■ Homewares ■ Furniture ■ Kiddicare

	£1bn	£2bn
Homewares	8%	13%
Furniture	1%	4%
Kids	2%	10%

- £2bn sales
- 200 stores
- 30%-40% of sales online



## All channels 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 all generate good cash returns**

# Excellent cash generative characteristics

		Comments
Refits & small works	£15.0 - £20.0m	Mixture of small and large refits
IT	£10.0m - £15.0m	Investment in largest store / website and investment to improve productivity
<b>Maintenance Capex</b>	<b>£25.0m - £35.0m</b>	<b>To support existing asset base</b>
New stores	£10.0m - £15.0m	5 to 10 new stores per annum over next 5 years
Other	£5.0m - £10.0m	Possible investment in one-off capability
<b>Investment Capex</b>	<b>£15.0m - £25.0m</b>	<b>To drive future growth</b>
<b>Total</b>	<b>£40.0m - £60.0m</b>	<b>Over next 5 years until store roll out completed</b>

- Maintenance capex of £25m - £35m relative to a business today generating in excess of £150m operating cashflow
- Investment capital to create sufficient returns to payback in around 4 years
- Store roll out expected to be completed in c.5 years
- Business will remain highly cash generative

## In summary

- Strong leading player in homewares – ambitions in Furniture
- Substantial growth opportunity
- Leading multi-channel retailer
- All channels create shareholder value
- Strong underlying cashflow

# Q&A

# Today's Agenda

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