Dunelm

The Home of Homes

Interim Results FY22

9 February 2022

Interim Results FY22

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Introduction

Nick Wilkinson - CEO

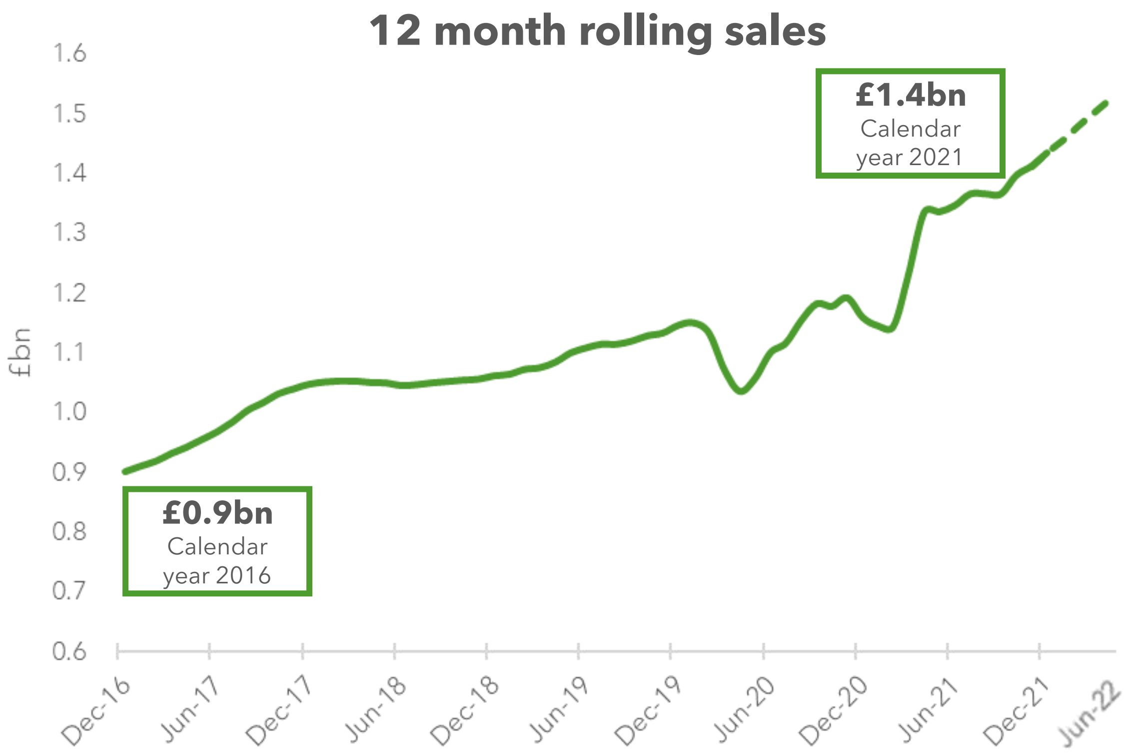
H1 highlights

+10.6%	+36.0%	+121%	+6.3%
Total sales growth	2YoY total sales growth[1]	2YoY digital sales growth[2]	Active customer growth[3]
+80bps	+25.3%	£106m	51p
Gross margin increase	Profit before tax growth	Free cash flow[4]	Interim and special dividends

[1] Due to the store closure periods in H1 FY21, a comparison to H1 FY20 is also provided
[2] Digital includes home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store
[3] Unique active customers who have shopped in the 12 months to December 2021, based on management estimates using Barclays data
[4] Free cash flow is defined as net cash generated from operating activities less capex (net of disposals), net interest paid and loan transaction costs, interest on lease liabilities and repayment of lease liabilities

Delivering accelerated growth

- Our plans to digitise the business are delivering accelerated growth
- Our digital platform is extending the reach of our brand and product offer
- Improving product design, development and supply
- Physical shopping experience, including refits and new stores, continuing to differentiate
- Fulfilment capacity increasing through own and partner operations
- A bigger and better business, well placed to continue to grow market share



Our Ambition
To become *our customers' 1st choice for home*

Financial Review

Laura Carr - CFO

Financial summary

	H1 FY22	H1 FY21	YoY
Sales	**£795.6m**	**£719.4m**	**+10.6%**
Gross margin	52.8%	52.0%	+80 bps
Operating cost % sales	34.8%	35.5%	(70) bps
Profit before tax	**£140.8m**	**£112.4m**	**+25.3%**

Free cash flow[1]	£106.3m	£98.0m	+£8.3m
Net cash[2]	£47.7m	£140.6m	(£92.9m)
Diluted earnings per share	55.4p	44.1p	+25.6%
Interim dividend	14.0p	12.0p	+16.7%
Special dividend	37.0p	-	n/a

[1] Free cash flow is defined as net cash generated from operating activities less capex (net of disposals), net interest paid and loan transaction costs, interest on lease liabilities and repayment of lease liabilities

[2] Excluding lease liabilities

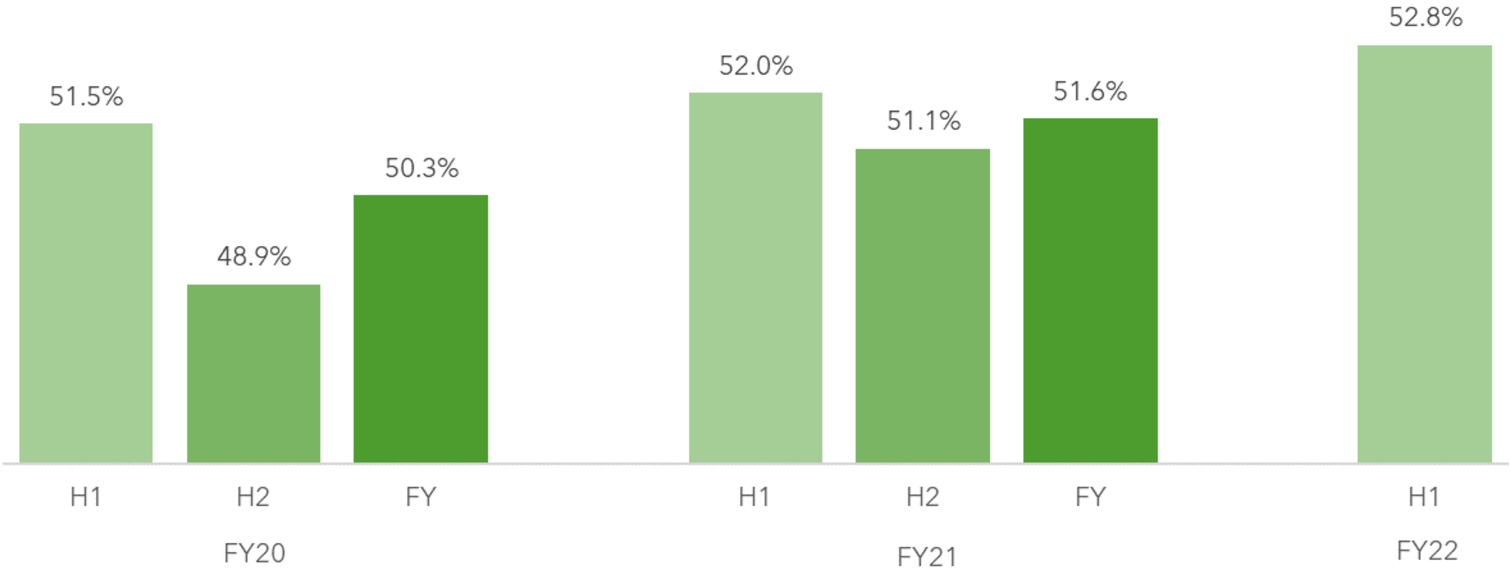
Sales growth

	H1 FY22	YoY	2YoY
Total sales[1]	£795.6m	+10.6%	+36.0%
Digital % total sales[2]	*33%*	*(2)%pts*	*+13%pts*

- Strong growth across channels, especially store sales
- Digital sales of £263m, more than double H1 FY20
- Q1 growth supported by non-LFL Summer Sale
- Higher growth in furniture categories driven by improved availability and new ranges
- Outperformed GfK homewares panel by 14%pts, also grew furniture market share[3]

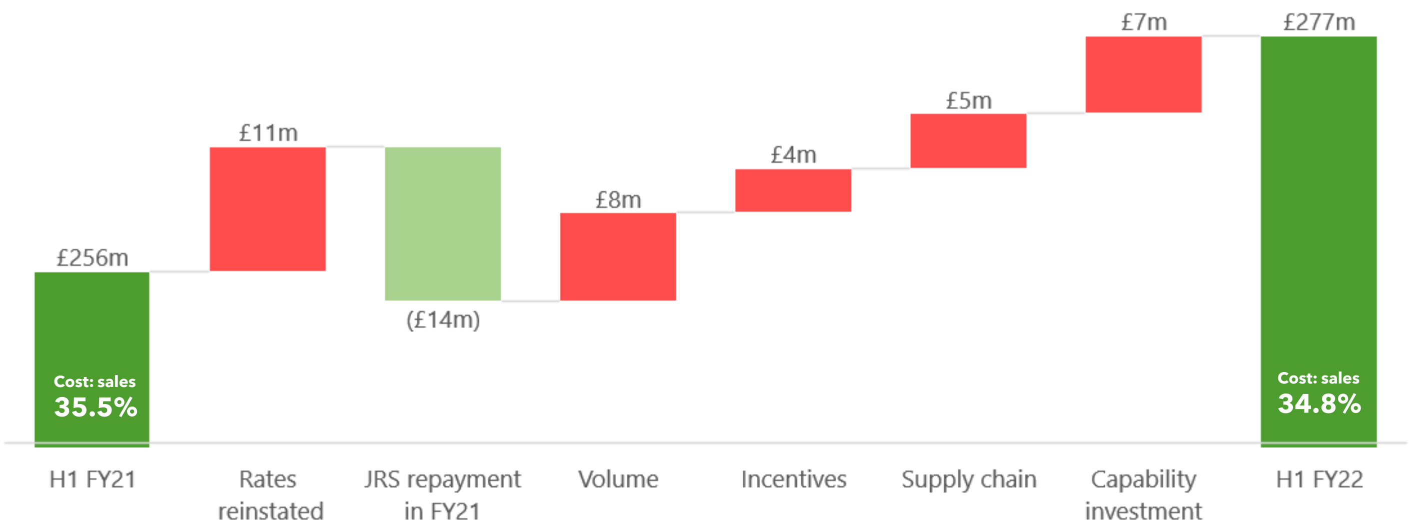
[1] Due to the store closure periods in H1 FY21, a comparison to H1 FY20 is also provided
[2] Digital includes home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store
[3] Based on GfK weekly homewares and furniture panel

Gross margin



- Gross margin +80bps compared to H1 FY21
- Improvement driven by high full price sell through of seasonal ranges and provisions taken in comparative period relating to store closures
- H2 margin likely to be impacted by two Sale events as we revert to historic calendar. FY22 expected ~30-50bps lower than FY21
- Ongoing mitigation and management of cost headwinds and retail pricing

Operating costs



	H1 FY22	H1 FY21	YoY
Selling & distribution costs	£220.3m	£211.8m	+4.0%
Administration costs	£56.7m	£43.8m	+29.5%
Total operating costs	**£277.0m**	**£255.6m**	**+8.4%**
Total sales	**£795.6m**	**£719.4m**	**+10.6%**
Operating costs % sales	*34.8%*	*35.5%*	*(70) bps*

- Better than expected operating leverage in H1 driven by strong performance in stores
- Benefit of JRS repayment in FY21 substantially offset by reinstatement of rates this year
- Accrued incentives in H1 FY21 impacted by Covid closures
- Supply chain investments will improve lead times and enable growth in furniture category
- Confidently investing in capability which is delivering growth:
  - £5m digital and tech
  - £2m product development and supply

Interest, tax and EPS

	H1 FY22	H1 FY21
Financial income and expenses	(£1.9m)	(£5.9m)
Profit before tax	**£140.8m**	**£112.4m**
Tax	(£27.4m)	(£22.2m)
Effective tax rate	*19.5%*	*19.7%*
Profit after tax	**£113.4m**	**£90.2m**

Basic earnings per share	55.9p	44.6p
Diluted earnings per share	55.4p	44.1p

- Financial income and expenses returns to more usual level (FY21 impacted by appreciation in GBP vs USD)
- Effective tax rate 50bps higher than headline rate due to disallowable expenditure and 20bps lower than H1 FY21 due to higher availability of capital allowances
- Diluted EPS growth of 25.6%

Cash generation

	H1 FY22	H1 FY21
Operating profit	£142.7m	£118.3m
Depreciation & amortisation[1]	£38.1m	£38.8m
Working capital (outflow) / inflow	(£21.0m)	(£1.3m)
Share-based payments	£3.2m	£1.1m
Tax paid	(£15.0m)	(£19.4m)
Net cash generated from operating activities	**£148.0m**	**£137.5m**
Capex (net of disposals)	(£14.2m)	(£6.4m)
Net interest and loan transaction costs	(£1.6m)	(£0.4m)
Interest on lease liabilities	(£2.4m)	(£2.8m)
Repayment of lease liabilities	(£23.5m)	(£29.9m)
Free cash flow	**£106.3m**	**£98.0m**
Net cash / (debt)	**£47.7m**	**£140.6m**
Memo: dividends paid	(£178.7m)	-

- Strong cash generation with free cash flow: operating profit ratio of 74% (H1 FY21: 83%)
- Working capital outflow due to decision to build inventory levels to mitigate against supply chain disruption
- Capital investment at more normalised level and includes supply chain investments and store refits
- Repayment of lease liabilities returned to more normalised level, with H1 FY21 impacted by Covid deferrals in FY20
- New £185m sustainability-linked RCF to align with our ambitions and plans for a Net Zero Pathway

[1] Including impairment and loss on disposal

Shareholder returns

- Interim ordinary dividend of 14 pence (FY21: 12 pence) reflecting strong H1 performance and confidence in the future
- Given the strength of the business performance, latest outlook and net cash position, announcing today a further special dividend of 37 pence to return to a modest level of leverage
- We retain a level of prudence given the macro-economic outlook but expect to remain highly cash generative and are committed to our published policies

Capital and dividend policies

- Target average net debt between 0.2× and 0.6× the last 12 months' EBITDA (post IFRS 16 basis)
- Ordinary dividend cover of between 1.75× and 2.25× earnings per share during the financial year to which the dividend relates
- Return surplus cash if net debt consistently falls below the minimum target of 0.2× EBITDA

FY22 guidance

- H2 comparatives impacted by closures in Q3 FY21 and strong re-opening in Q4 FY21
- FY gross margin 30-50bps lower than FY21 – reverting to historic Sale calendar
- Expect H2 investments to accelerate compared to H1 levels as new supply chain facilities are fully operational and we invest further in digital & tech capabilities
- Anticipate full year operating cost ratio to sales to be slightly below medium term guidance of 38% given strong H1 profitability
- Building inventories to maintain availability and mitigate against supply chain disruption
- FY capex c.£30m: expect 2 new stores and 5 major refits in H2
- Share buyback c.£10m in H2 for employee share options
- 53rd week for statutory purposes

Moving forward

Nick Wilkinson - CEO

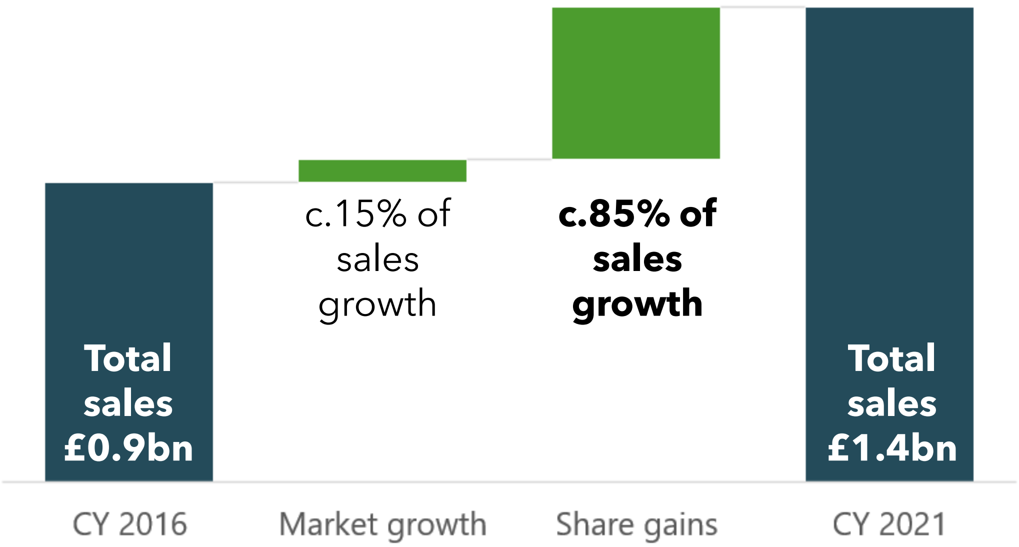
Moving forward with Purpose

To help create the joy of truly feeling at home. Now and for the generations to come

- For all home-lovers: all tastes and budgets, without judgement
- Underpins the extraordinary steps necessary to achieve our carbon targets
- Committed to our colleagues 'feeling at home, wherever they work'
- Delighted that nearly 1,000 colleagues share £10.8m from the latest sharesave scheme
- Ambitious about our brand, being a good company and delivering profitable growth

Long term market share gains

In the five years to calendar year 2021, c.85% of our growth has come from market share gains



Long term sales CAGR of 10%

CAGR	2Yr	5Yr	10Yr
Market	+2.2%	+1.5%	+1.4%
Dunelm	+12%	+10%	+10%

Market growth based on internal analysis using GlobalData homewares, furniture and decorative DIY markets for calendar years 2021 vs 2016. Excludes bathroom and kitchen furniture.

Moving forward

How we are delivering market share gains

Long term market share gains driven by continuously and sustainably improving our customer proposition

Compounding effect of:

- Growing our Product offer
- ✖
- Growing our Brand
- ✖
- Growing our Total Retail System

→ **Digitising the business**

Growing our product offer

Broad based growth with significant opportunity for further growth across all categories

Dunelm

Customer missions (in home)	**Everyday necessities…** *used day to day but not on show*	**Rewarding essentials…** *where comfort matters*	**Decorative enhancements…** *that enhance the look*	**Room refreshes…** *to keep the home up to date and refreshed*	**Considered permanents…** *to make the home comfortable and secure*
Product examples	Pots & pans, utensils, everyday crockery & glassware	Duvets & pillows, bed linen, towels & bath mats	Cushions & throws, candles, vases & dried flowers, pictures	Ready made curtains & blinds, rugs, mirrors, occasional chairs	Dining, living & bedroom furniture, made to measure
Average item value	£6	£13	£8	£25	£120
Contribution to 5Yr sales growth[1]	11%	17%	16%	33%	23%
Current market share[2]	<5%	>10%	5-10%	>10%	<5%

[1] Contribution to sales growth calendar years 2016 to 2021
[2] Market share based on internal analysis using calendar year 2021 GlobalData report. Categorisation into home missions based on Dunelm research and analysis

Growing our brand

We are broadening our appeal across *all* UK home lovers

13 million
Active customers[1]
(**+3 million** since 2016)

>90%
Brand awareness[2]
(**+c.10%pts** since 2016)

>0.9 million
followers of local Facebook community groups

Age groups

***All** age groups[3]*

Under 34s: +34%
Over 50s: +35%

Regions

***All** regions[3]*

London and south east: +47%

Income levels

***All** income levels[3]*

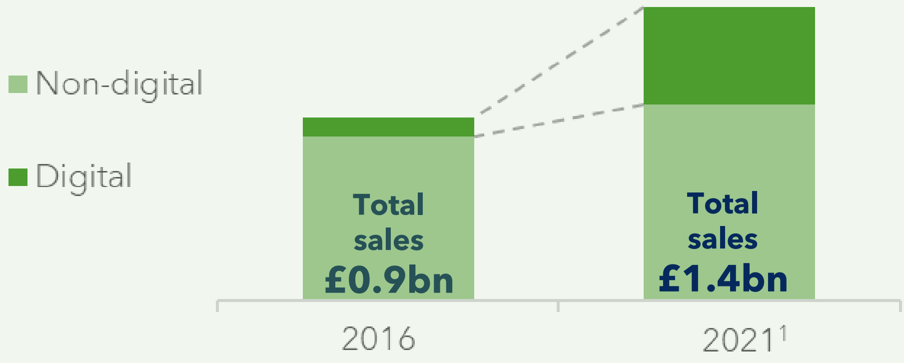
£20k-£40k: +32%
>£100k: +36%

[1] Internal analysis based on Barclays data
[2] Prompted awareness 3-month rolling average to December 2021 (BrandVue); note that prior to 2019 brand awareness was reported from BrandIndex
[3] Analysis of Dunelm customers 2016 to 2021, source: Barclays

Growing our 'total retail system'

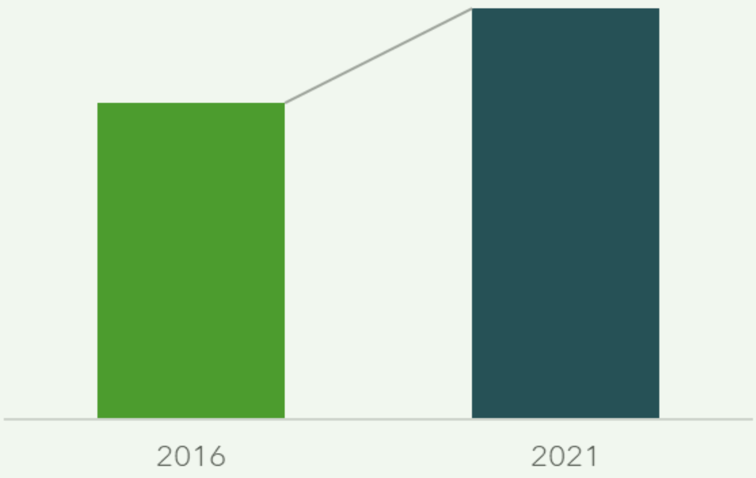
Digital growth is incremental…

Digital sales have grown 5x in 5 years



…and is fuelling store sales

+30% increase in average store sales[2]



- **37% of customers now shop online or multi-channel[3]**
- **Multi-channel, multi-category customers shop 5x as often and spend 6x as much[4]**

[1] Sales January to December; digital sales mix from July to December 2021 to exclude impact of store closures
[2] Comparison based on July to December 2021 vs the same period in 2016. Store sales include cash & carry, Click & Collect and in-store tablet sales
[3] Internal analysis based on Barclays data. Mix of total active customers for the 12 months to December 2021
[4] Internal analysis based on Barclays data. Represents active customers in the 12 months to June 2021

Moving forward – Product

Churchgate (est. 1984) branded free-standing furniture

Promo	Continuous innovation of specification and design	
Regular range: **Good**		New lower price point
Regular range: **Better**		More choice at great prices
Regular range: **Best**		50% better value than comparable products

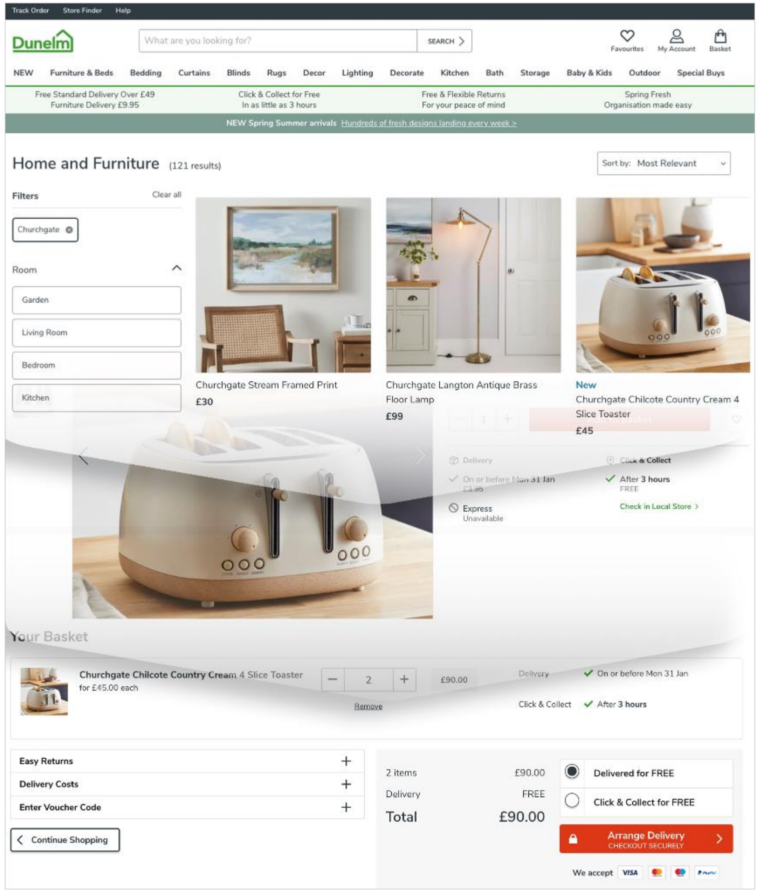
Constant innovation across all our product ranges

New collaboration – designed for sustainability and to inspire all generations

Moving forward – Services and experiences

Take-back textile service introduced into all stores

Newly refitted Eastbourne store and Pausa kitchen café



Maturing capability in digital and tech

Investing in capability and capacity

- Strong returns delivered by investments we are making and the capabilities we are building
- Capacity investments the result of confidence in long term growth opportunities
- Digital and tech capabilities becoming well established, and we will continue to develop further
- Investing in product development and supply capabilities, with an exciting programme underway to upgrade commercial processes and technology
- Confident to continue to invest to drive long-term sustainable growth

Summary and outlook

- Strong H1 performance across all key metrics
- H2 has started well with a strong Winter Sale
- Macro-economic outlook remains uncertain
- Well placed to maintain value proposition for customers
  - Largely own brand range with high proportion of continuity
  - Close collaboration with committed suppliers
  - Tight operational grip
- Confident in market outlook given increased importance of home
- A bigger and better business, well placed to continue growing market share

Q&A

Appendices

Appendix

Income statement

	H1 FY22	H1 FY21	Change
Revenue	£795.6m	£719.4m	£76.2m
Cost of Sales	(£375.9m)	(£345.5m)	(£30.4m)
Gross Profit	**£419.7m**	**£373.9m**	**£45.8m**
Gross margin %	*52.8%*	*52.0%*	+80 bps
Operating costs	(£277.0m)	(£255.6m)	(£21.4m)
Operating profit	**£142.7m**	**£118.3m**	**£24.4m**
Financial income	£0.9m	£0.1m	£0.8m
Financial expenses	(£2.8m)	(£6.0m)	£3.2m
Profit before tax	**£140.8m**	**£112.4m**	**£28.4m**
PBT margin %	*17.7%*	*15.6%*	+210 bps
Taxation	(£27.4m)	(£22.2m)	(£5.2m)
Profit after tax	**£113.4m**	**£90.2m**	**£23.2m**
Effective tax rate	*19.5%*	*19.7%*	(20) bps
Basic earnings per share	55.9p	44.6p	11.3p
Diluted earnings per share	55.4p	44.1p	11.3p

Appendix

Balance sheet

	H1 FY22	H1 FY21
Right-of-use assets	£264.4m	£291.5m
Other non-current assets	£190.0m	£196.5m
Inventories	£204.4m	£166.9m
Cash	£47.7m	£140.6m
Other current assets	£22.5m	£15.3m
Total assets	**£729.0m**	**£810.8m**
Lease liabilities	(£295.5m)	(£322.6m)
Bank loans	-	-
Other current liabilities	(£214.3m)	(£226.7m)
Other non-current liabilities	(£4.4m)	(£5.5m)
Total liabilities	**(£514.2m)**	**(£554.8m)**
Net assets	**£214.8m**	**£256.0m**

Hedging reserve	£1.5m	(£5.5m)
Share capital/share premium/other reserves	£46.8m	£46.8m
Retained earnings	£166.5m	£214.7m
Total equity	**£214.8m**	**£256.0m**

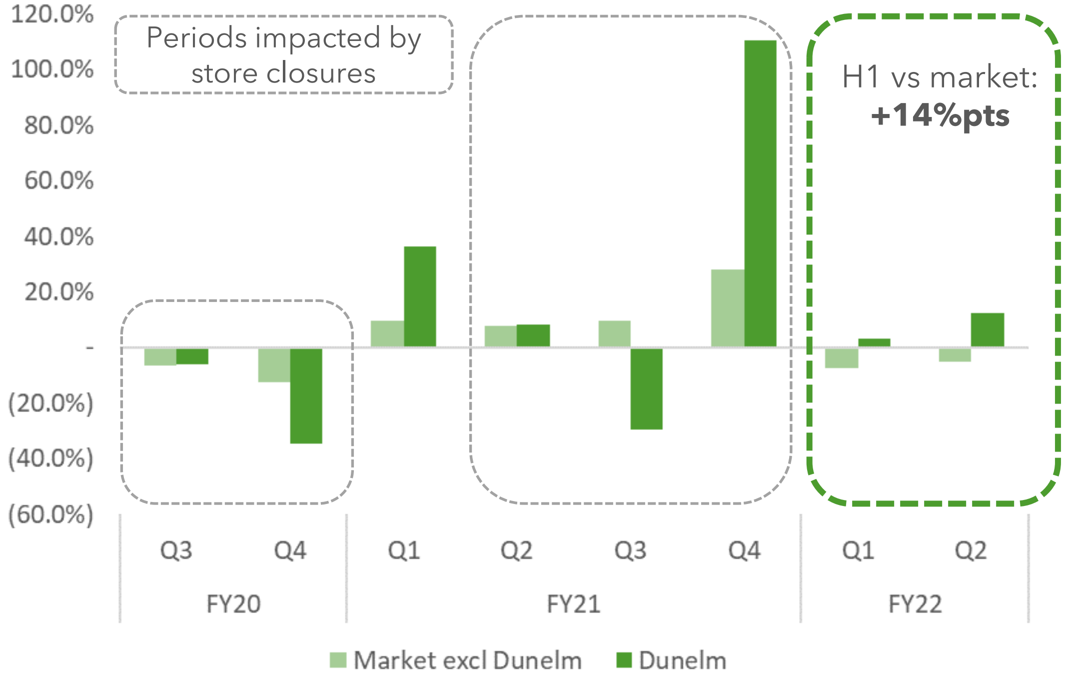
5-year financial summary

	FY17	FY18	FY19	FY20[1]	FY21	FY21 H1	FY22 H1
Total sales	£955.6m	£1,050.1m	£1,100.4m	£1,057.9m	£1,336.2m	£719.4m	£795.6m
Total sales growth	8.5%	9.9%	4.8%	(3.9%)	26.3%	23.0%	10.6%
Gross margin %	48.9%	48.0%	49.6%	50.3%	51.6%	52.0%	52.8%
Profit before tax[2]	£109.3m	£102.0m	£125.9m	£109.1m	£157.8m	£112.4m	£140.8m
Free cash flow[3]	£12.8m	£51.0m	£152.8m	£174.7m	£108.5m	£98.0m	£106.3m
Net cash / (debt)[4]	(£122.1m)	(£124.0m)	(£25.3m)	£45.4m	£128.6m	£140.6m	£47.7m
Diluted EPS[2]	42.8p	40.0p	49.9p	42.9p	62.9p	44.1p	55.4p
Dividends paid	£51.6m	£53.4m	£54.6m	£106.0m	£24.3m	-	£178.7m

[1] FY20 and subsequent periods reported on an IFRS 16 basis. All prior years reported under IAS 17
[2] FY17 and FY18 presented before exceptional items
[3] Free cash flow is defined as net cash generated from operating activities less capex (net of disposals), net interest paid and loan transaction costs, interest on lease liabilities and repayment of lease liabilities
[4] Excluding lease liabilities. Definition updated in December 2021 to exclude unamortised debt issue costs. The new definition has been applied prospectively to FY22 and FY21 comparative information only

Appendix

Performance vs GfK homewares panel



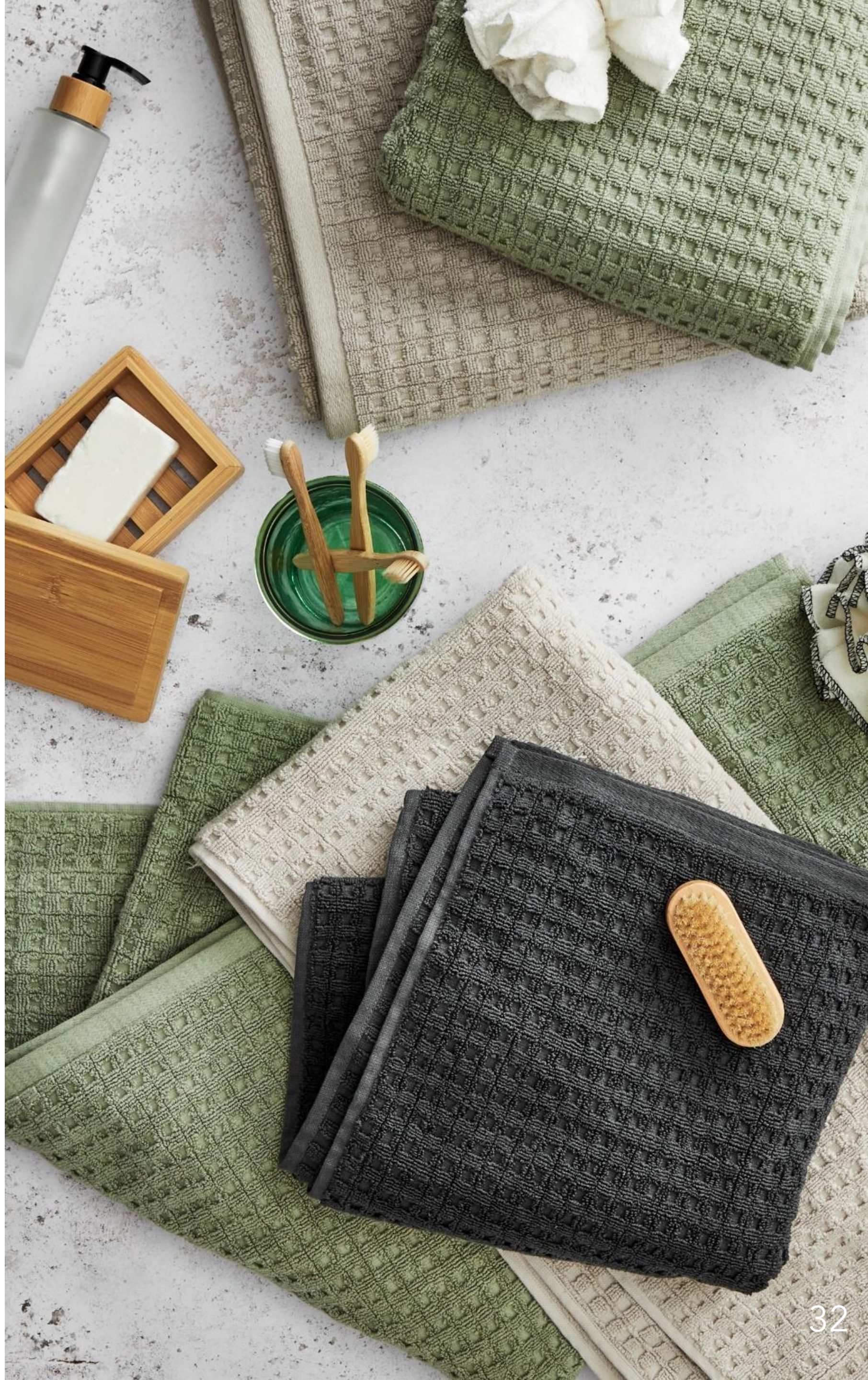
GfK weekly homewares panel excluding Dunelm. Represents just over half of the market size as reported by GlobalData. Dunelm growth shown for comparable categories

Appendix

New sustainable financing

- Refinanced our revolving credit facility (RCF) in December
- New £185m sustainability-linked RCF to align with our ambitions and plans for a Net Zero Pathway
- Annual targets covering:
    - Reducing greenhouse gas emissions
    - Responsible cotton sourcing
    - Plastic packaging reduction
    - Provision of take-back schemes to our customers
- 2.5bps premium or reduction to the base margin based on performance
- Net cash of £48m at 25 December; facility undrawn at the end of the period

Facility	Limit	Expiry	Covenants	
Revolving credit facility (RCF)	£185m	December 2025	Leverage: Fixed charge cover:	<2.5× >1.75×
Overdraft (uncommitted)	£10m			



Our financial model

Sales	Strong revenue growth and market share gains from multichannel approach, acquiring more customers and increasing their frequency
Gross margin	Maintain c.50% gross margin through leveraging supplier relationships, relentless focus on sourcing and disciplined approach to promotions
Operating costs	Invest in the proposition to drive growth and focus on productivity improvements to offset inflation, c.38% ratio with higher digital mix
PBT margin	Aim to maintain c.12% margin over the medium term with absolute returns growing as the business scales
Cash	High cash generation to allow investment for future growth and to deliver strong shareholder returns

Dunelm ESG highlights

Guided by our purpose, ambitions and shared values			
Act like owners	**Keep listening and learning**	**Long term thinking**	**Stronger together**

Colleagues • Best practice Covid-safe protocols maintained to protect colleagues and customers • Continued our 'This is me' inclusion & diversity programme, including more training and colleague network groups to support specific communities • Mental health and wellbeing buddies in place throughout the business • Continued to invest in colleague personal safety protection • Domestic abuse campaign launch in partnership with Retail Trust and Domestic Abuse Alliance • Hybrid working adopted for support teams - 'feeling at home, wherever you work' • Remit of Colleague Support Fund extended • One or more NEDs engage with National Colleague Voice 6x p.a.	**Climate change and environment** • Sustainability and commitment to Net Zero Pathway integrated into company purpose, ambitions, plans and measures • Stretching science-based scope 1, 2 and 3 targets – 50% reduction by 2030 vs 2019 base • Full TCFD reporting on climate change for FY22 • Sustainability linked RCF signed in December 2021 • Supporters of Textiles 2030 – industry approach to reduce carbon, water emissions and increase circularity in textile production • Working with suppliers to design and produce lower impact products – continued increase in more responsibly sourced materials (e.g timber and cotton), reducing packaging and lowering manufacturing emissions • Offering products to help customers repair and upcycle • Rolled out textiles take-back scheme in stores, electricals take-back extended
Communities • New national charity partner Mind, chosen by colleagues, raising awareness and providing links to the charity's resources and support as well as fundraising • Stores and support sites helping their local communities through campaigns such as 'delivering joy', with the support of our customers	**Suppliers** • Strong supplier relationships, fair trading terms built on mutual trust • Working closely to manage supply chain disruption • Robust ethical trading, anti-slavery, anti-bribery policies and audits, including unannounced visits, greater supply chain transparency
Governance • Code compliant Board, Chair plus 6 independent, 4 non-independent (from 1 March 2022) • Continually refreshed – 2 additional NEDs in FY22 • Diverse gender, nationality, ethnicity, background and experience – 36% female (from 1 March 2022)	• Strong support for all AGM resolutions, including Rule 9 waiver • Executive and senior management variable pay linked to financial / non-financial KPIs and sustainable long-term value creation • Sustainability KPIs in FY22-24 management LTIP • Continuing to strengthen stakeholder engagement, talent and succession, and risk management

Investment proposition

Brand purpose	A brand appealing to a wide range of customers, market leader in a large fragmented market, with a challenger brand mentality
Product proposition	A distinctive and specialist product portfolio - offering quality, value and style - largely own brand and sourced from long-term committed suppliers
Total retail system	A total retail system that combines the advantages of digital and local shopping experiences to better serve UK homewares shoppers, and benefits from our convenient, low-cost store portfolio
Financial position	A highly cash generative business with agility to invest
Shared values	Shared values, strong relationships and a commitment to *doing the right thing* for the long term, for all our stakeholders
Future growth	A clear runway for attracting more customers and increasing their frequency


Thank you
Dunelm
The **Home** of Homes