Dunelm

The Home of Homes

ANNUAL RESULTS FY20

10 September 2020

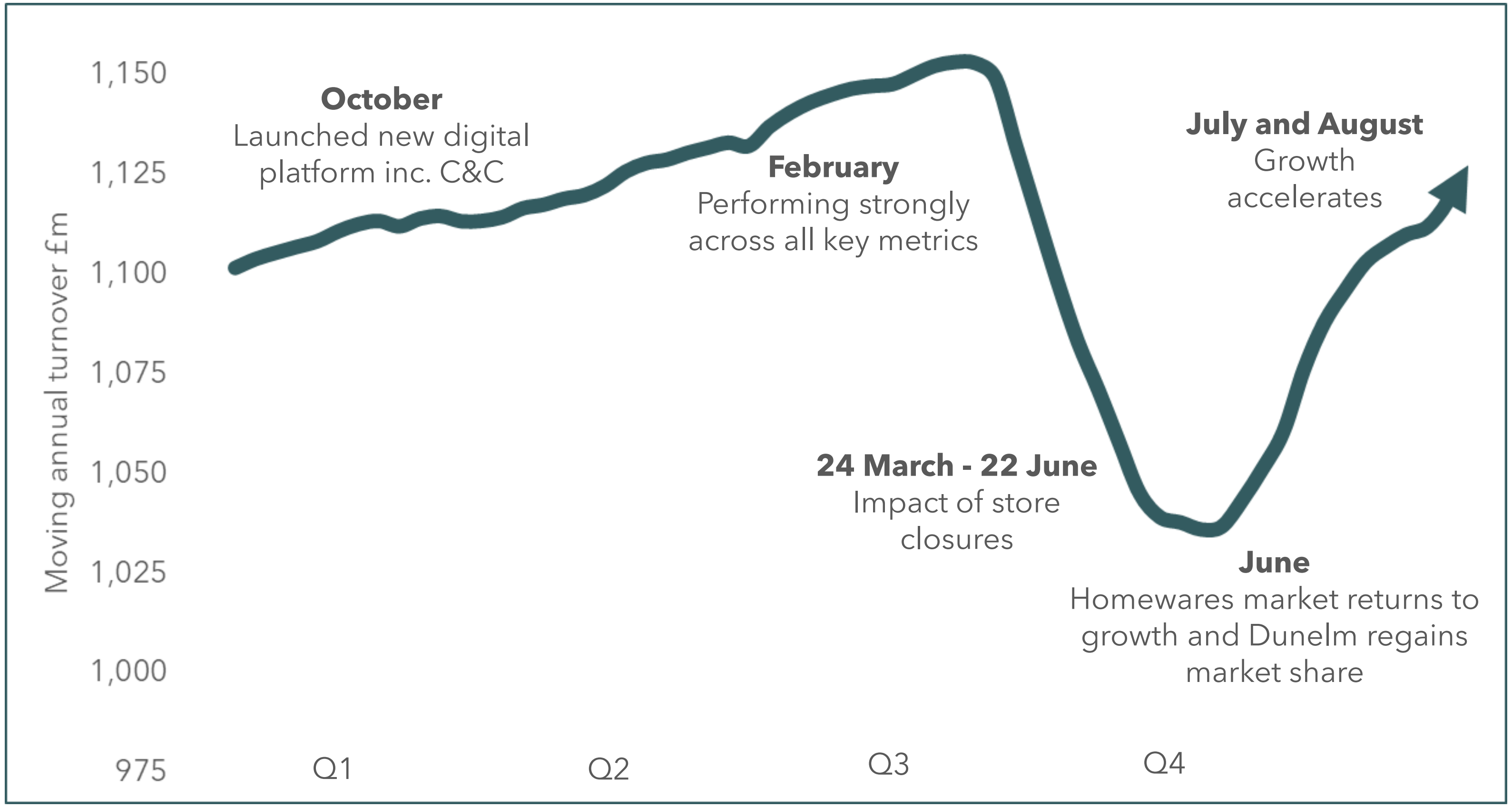
ANNUAL RESULTS FY20

- FY20 review
- Financial review and outlook
- Accelerating our transition
- Q&A

FY20 REVIEW

Nick Wilkinson - CEO

AN EXTRAORDINARY YEAR



Digital % total sales[2]

20%	21%	27%	31%
FY19	8m to Feb	FY20	FY21 QTD

Performance highlights

8 months to February	**+6.8%** Total sales growth	**+8.8%** Unique active customers[1]
Q4	**+105.6%** Online sales growth	
FY21	**July +59% August +24%** Total sales growth	

[1] 12 months to Feb-20: unique active customers who have shopped with us in the last 12 months, based on management estimates using Barclays data

[2] Digital sales defined as home delivery, Click & Collect (formerly Reserve & Collect) and tablet-based selling in store

STRATEGIC PROGRESS

Advanced our digital capabilities

- Launched digital platform in October – improved speed, search and checkout
- Introduced Click & Collect service – higher conversion and store efficiency
- Released new functionality at pace since launch

Q4 FY20 online (home delivery) growth

+105.6%

Extended product choice and value

- Broadened range across categories
- Growing range of sustainable products including more made from recycled materials
- Rebalanced price architecture, with more choice at lower price points

Furniture growth[1]

>40%

[1] Furniture growth was over 40% in the 8 months to end of February and in the final weeks of the year when the full range was available after stores re-opened

STRATEGIC PROGRESS

Broadened and deepened our customer base

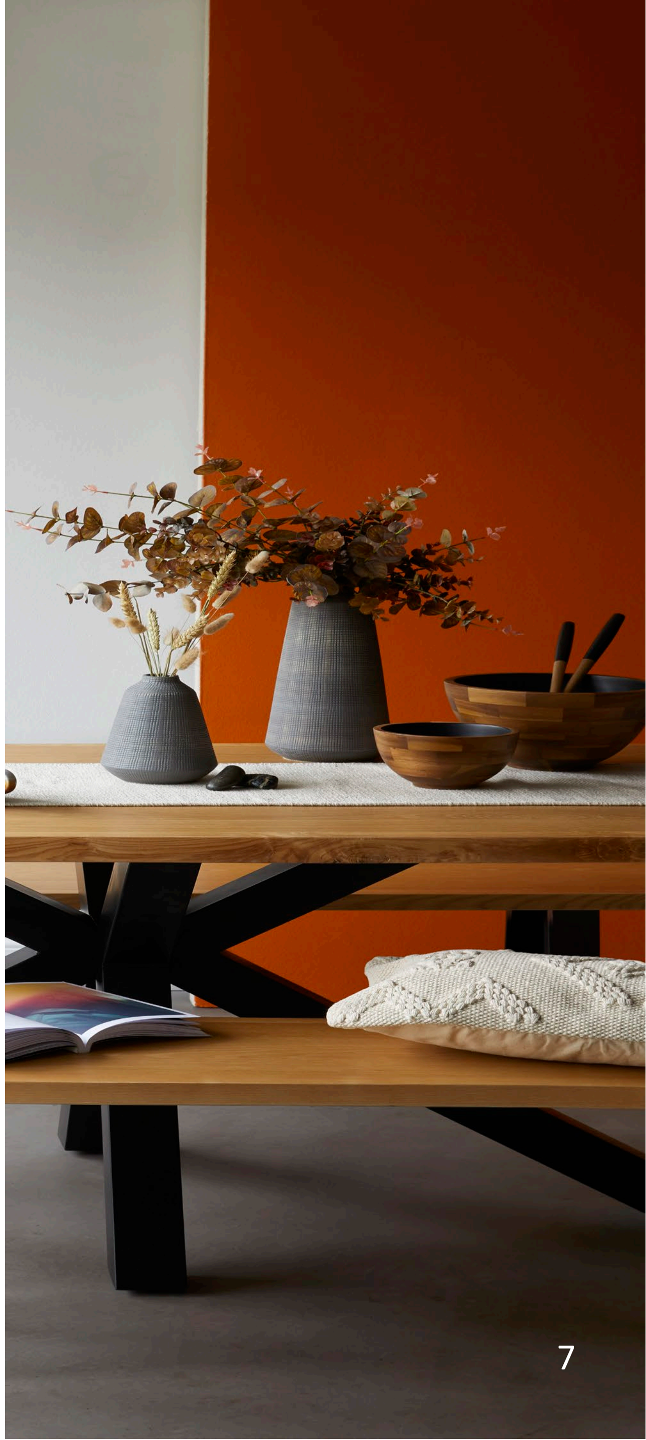
- *This Morning* sponsorship averaged 900k viewers across 290 episodes
- Continued *Home of Homes* marketing campaign
- New 12 month partnership as sponsor of Channel 4's *First Dates*
- In Q4, we saw a doubling of customers in our online channel[1]

Analysis of growth in online customer numbers in Q4

[1] Online customer analysis based on management estimates using Barclays data

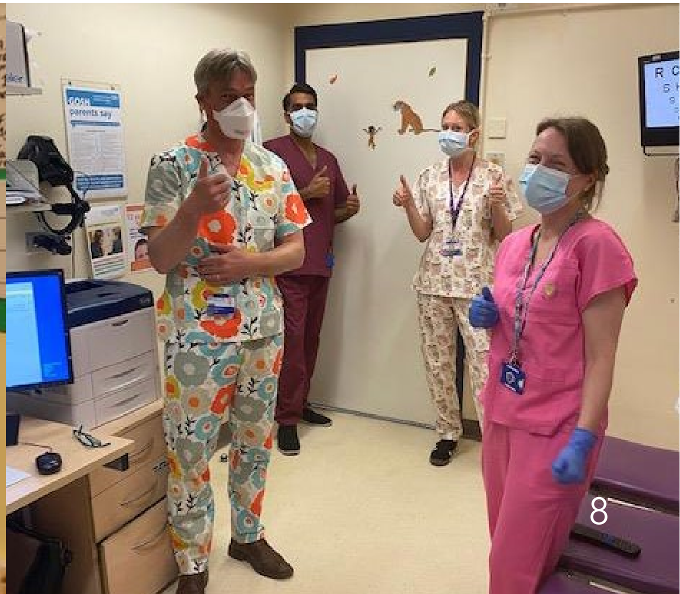
EMERGING STRONGER: BUSINESS MODEL

- Integrated online platform and local out-of-town superstores
- Long-term supplier relationships and flexible supply chain
- Broad product range and strong value credentials
- Focus on operational grip and able to respond quickly with mitigating actions
- Highly cash generative
- Strong balance sheet and prudent financial policies



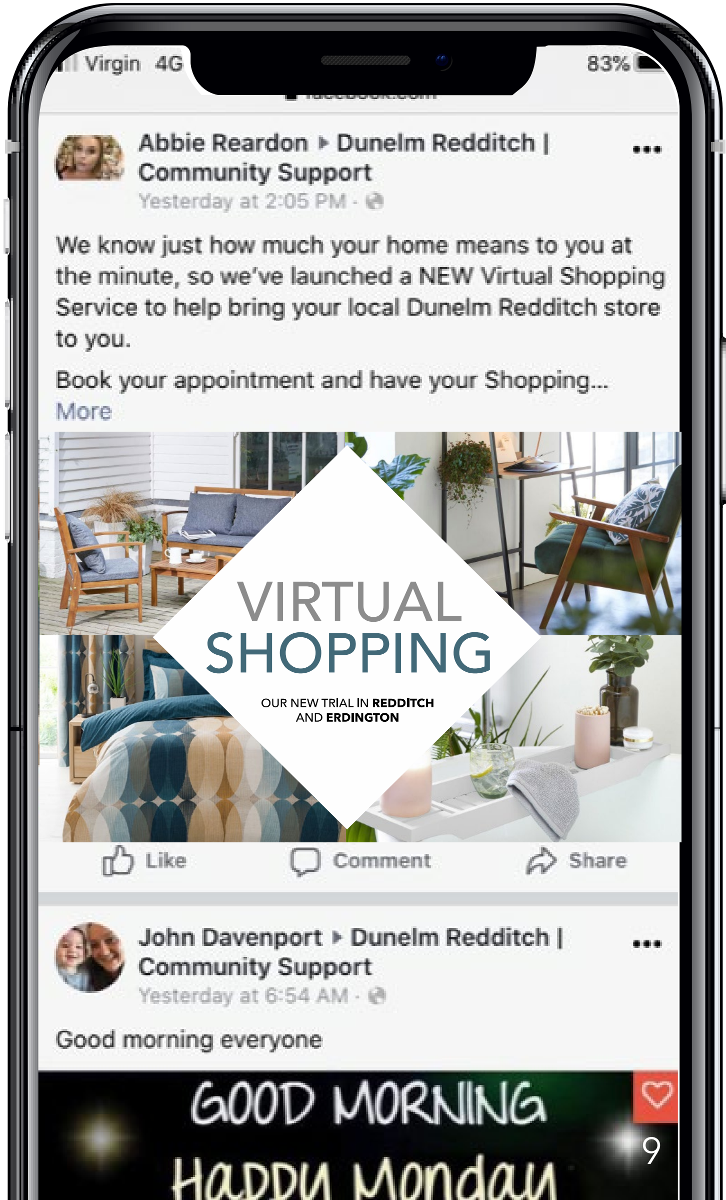
EMERGING STRONGER: SHARED VALUES

- Guided by our business principles to do the right thing for all our stakeholders
- Strengthened connections to our communities, supporting local NHS, care workers and charities
- Stronger together during an emotionally challenging period – reinventing how we communicate and support each other
- Special “thank you” payment of £250 to each of our 10,000 colleagues to recognise their exceptional commitment, resilience and adaptability



EMERGING STRONGER: INNOVATION

- Increased rate of technical releases to rapidly change proposition
- Introduced new ways to safely deliver products to customers e.g. 2 van/2 man delivery and contact free Click & Collect
- Introduced new ways to serve customers e.g. virtual made-to-measure service and virtual shopping
- Supported by agility and innovation of key suppliers
- Learnt from customer feedback, opened our eyes to opportunity to improve post-sale experience



FINANCIAL REVIEW & OUTLOOK

Laura Carr - CFO

FY20 FINANCIAL SUMMARY

	FY20	FY19	YOY
Sales	**£1,057.9m**	**£1,100.4m**	**(3.9%)**
LFL sales growth	(4.5%)	+10.7%	
Gross margin	50.3%	49.6%	+70 bps
Profit before tax[1]	**£109.1m**	**£125.9m**	**(13.3%)**
Free cash flow[2]	£174.7m	£152.8m	£21.9m
Net cash / (debt)	£45.4m	(£25.3m)	£70.7m
Diluted earnings per share	42.9p	49.9p	(14.0%)

[1] The impact of IFRS 16 on FY20 profit before tax is £(2.3)m. For more details see slide 34

[2] To ensure comparability following the implementation of IFRS 16, free cash flow is defined as net cash generated from operating activities less capex (net of disposals), net interest paid, interest on lease liabilities and repayment of lease liabilities

FY20 SALES

	FY20	FY19	YOY %	Pre Covid-19 **8 months to Feb %**
LFL stores	£816.2m	£935.3m	(12.7%)	+2.5%
Online (home delivery)	£211.1m	£140.3m	+50.5%	+32.7%
Total LFL	**£1,027.3m**	**£1,075.6m**	**(4.5%)**	**+6.2%**
Total Core Dunelm	£1,057.9m	£1,096.9m	(3.5%)	+7.4%
Total Group	**£1,057.9m**	**£1,100.4m**	**(3.9%)**	**+6.8%**
Digital % total sales [1]	*27.0%*	*19.6%*	*+7.4 %pts*	*20.9%*

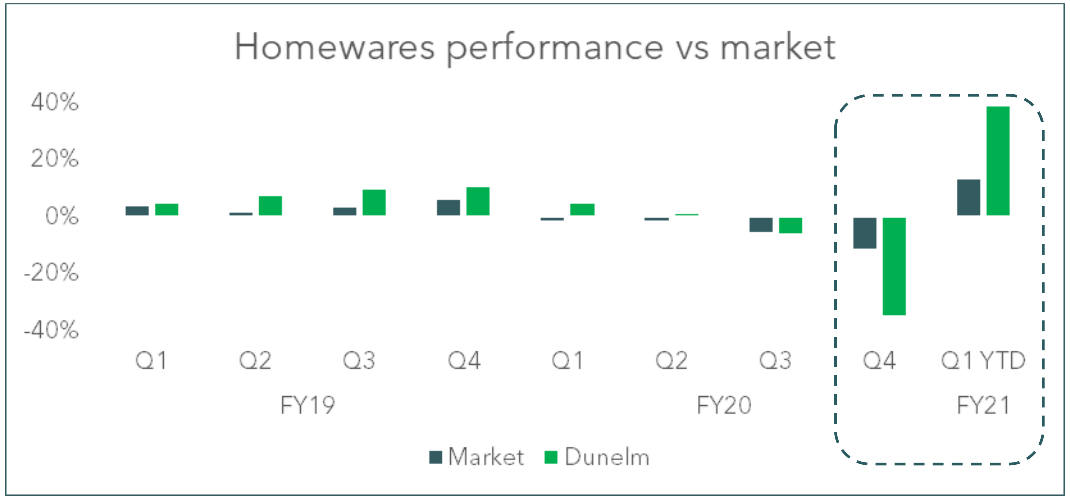
- Strong performance pre Covid-19 disruption – total sales grew 6.8% in the 8 months to February
- New digital platform facilitated online (home delivery) sales growth of 50.5% for the full year, up 105.6% in Q4
- Growth pre-Covid-19 and since stores re-opened across product categories
- Three new stores and two relocations during the year

Sales disclosures for FY21

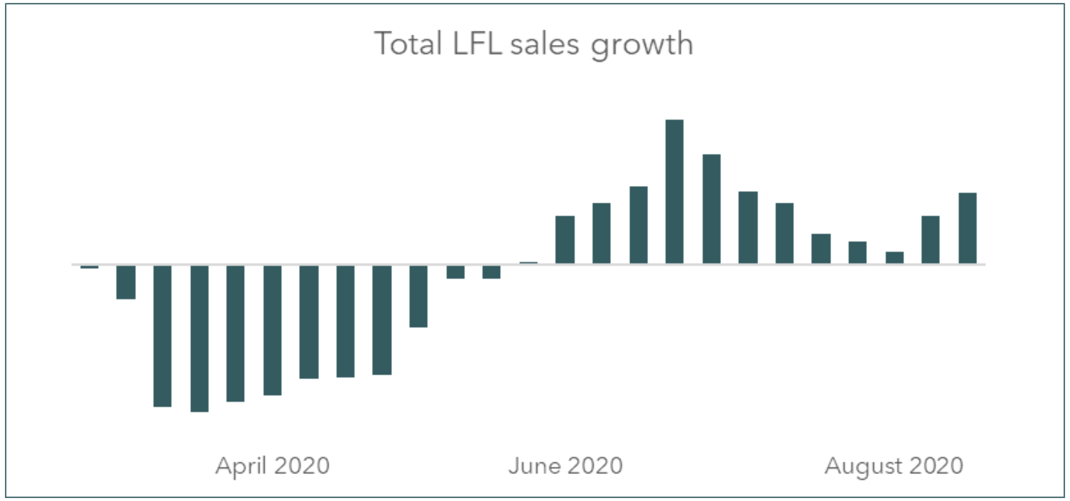
- Total sales replaces channel splits as more meaningful measure of performance of our total retail system

[1] Digital sales are defined as home delivery, Click & Collect (formerly Reserve & Collect) and tablet-based selling in store

STRONG RECOVERY SINCE STORES RE-OPENED



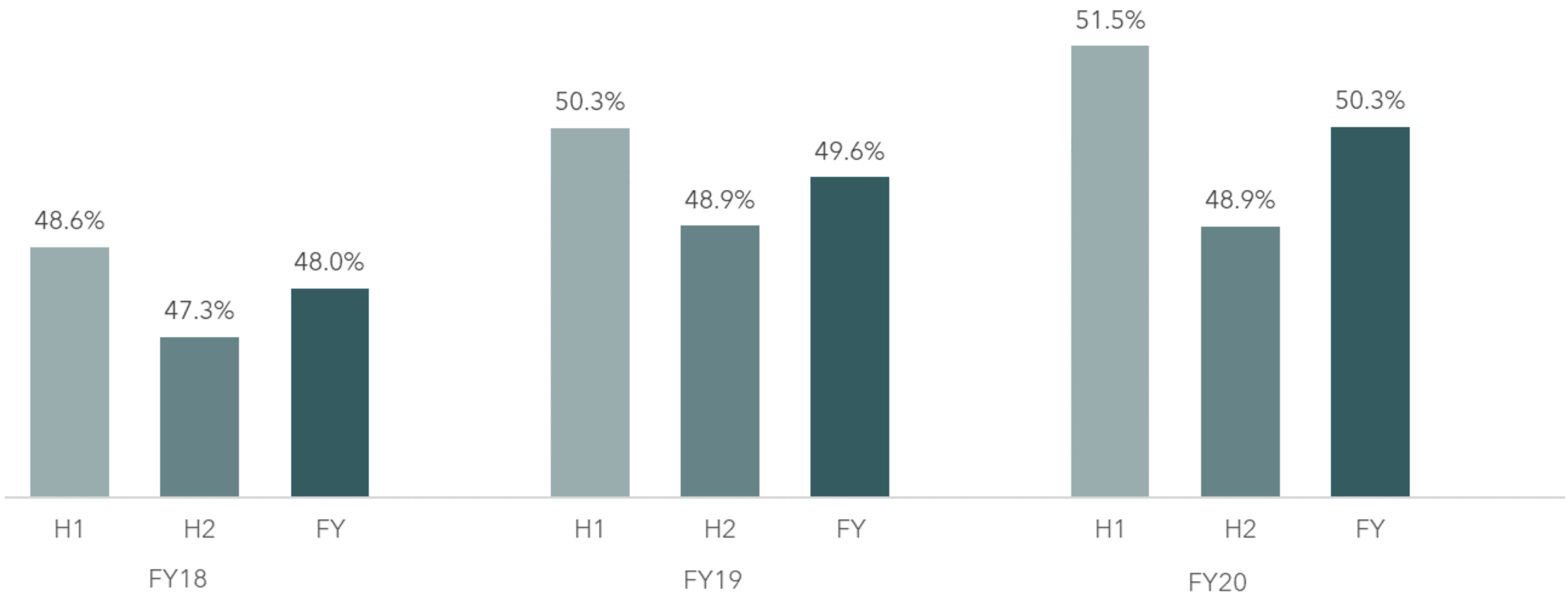
Source: Internal analysis based on GfK homewares data – sales growth % for certain categories



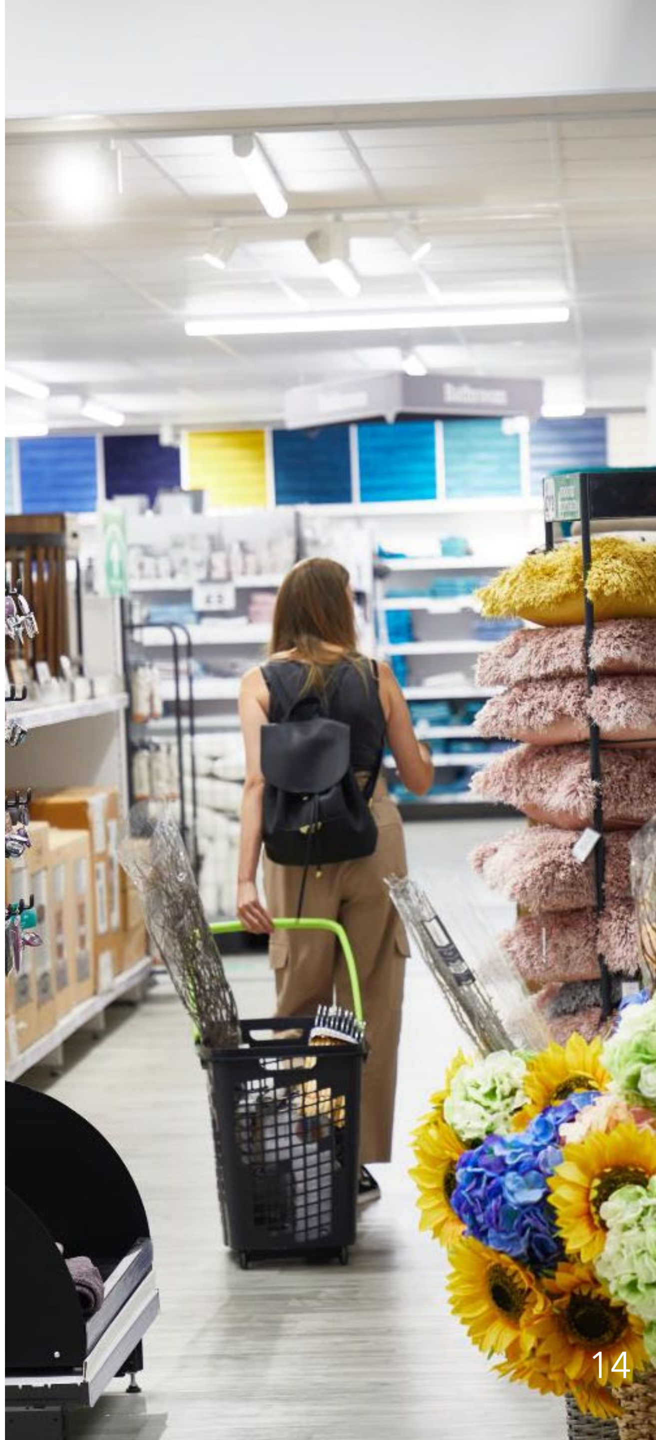
- In the 8 months to February, we outperformed the market and grew market share
- With our stores closed, we underperformed the market
- Once our stores re-opened, the market returned to growth and we began to regain share

- Stores and dunelm.com close (24 March)
- 1-man delivery restarts (30 March)
- 2-man delivery restarts (20 April)
- Click & Collect restarts (12 May)
- England and NI stores reopen (22 May)
- All stores open (22 June)

FY20 GROSS MARGIN



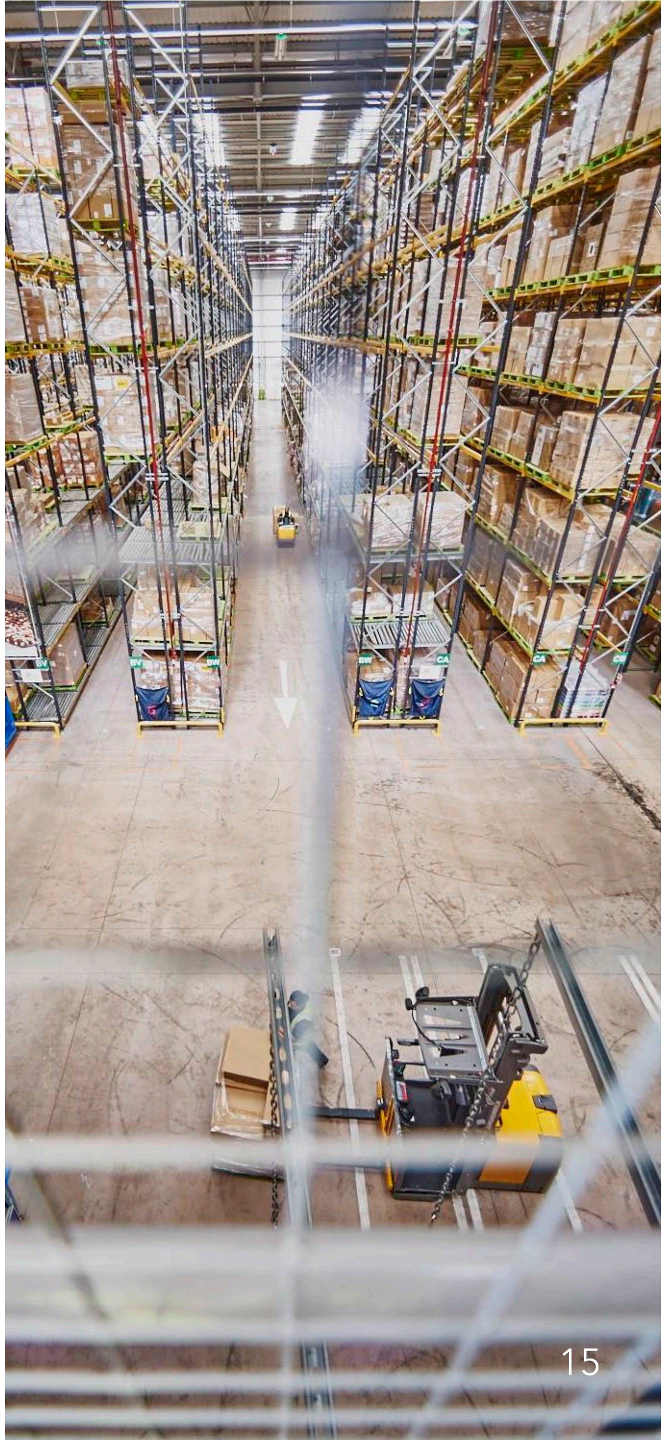
- Full year gross margin +70 bps compared to FY19
- +120 bps in H1 due to sourcing gains and lower product markdowns
- Flat in H2, as sourcing benefits offset by additional clearance activity following store closures
- H2 margin is historically lower than H1 due to timing of Winter and Summer sales



FY20 OPERATING COSTS

- Cost : sales ratio tracking in line with FY19 for first 8 months
  - Increases from online volume growth
  - Investment in tech and digital
  - Productivity gains offsetting wage inflation

- Full year cost : sales ratio 39.4% vs. 38.0% FY19
  - Operating costs of £416.4m vs £418.7m FY19
  - Significant impact from store closure period
  - Job Retention Scheme +£14.5m and rates holiday +£7m
  - Cost of social distancing (stores and supply chain)
  - Management actions to save costs +£4m
  - Head office reorganisation costs (£2m)
  - Change in treatment of digital development costs (capex to opex) (£5m)



FY20 CASH GENERATION

	FY20 IFRS 16	FY19 IAS 17
Operating profit	£116.0m	£126.9m
Depreciation & amortisation	£80.2m	£39.4m
Working capital inflow	£80.1m	£26.5m
Share-based payments	£2.1m	£1.4m
Tax paid	(£34.3m)	(£20.5m)
Interest received (FY19 only)	-	£0.3m
Net cash generated from operating activities[1]	**£244.1m**	**£174.0m**
Capex (net of disposals)	(£24.9m)	(£19.6m)
Net interest[2]	(£1.3m)	(£1.6m)
Interest on lease liabilities	(£5.5m)	-
Repayment of lease liabilities	(£37.7m)	-
Free cash flow	**£174.7m**	**£152.8m**

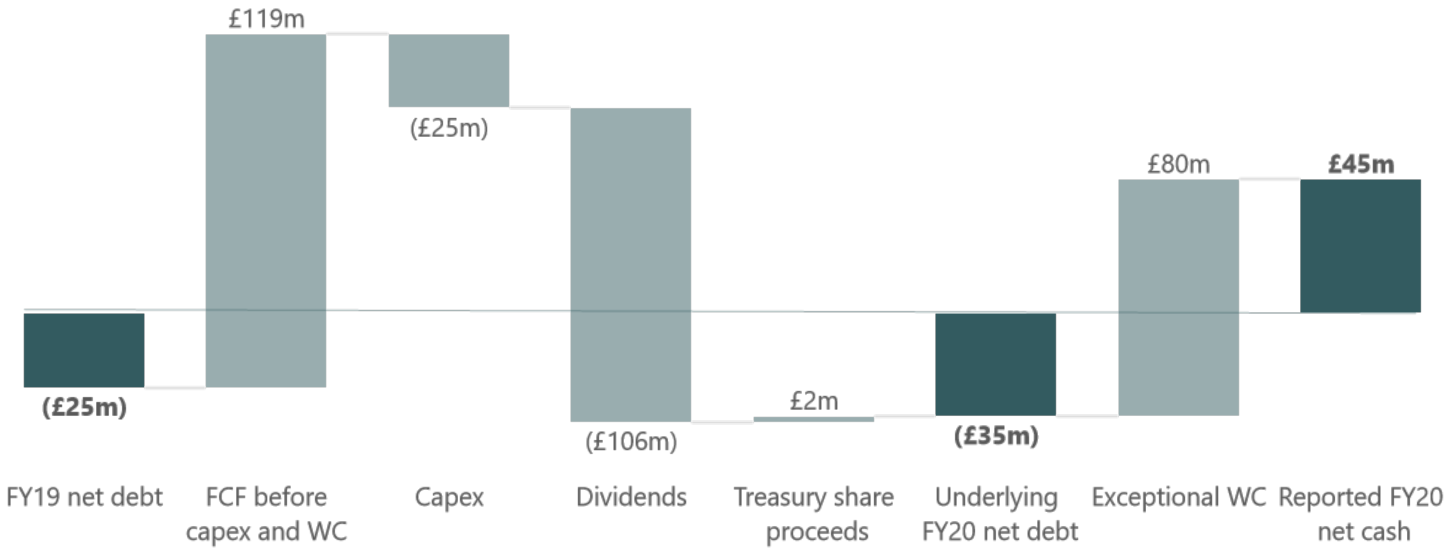
[1] Net cash generated from operating activities in FY20 is higher as a result of the implementation of IFRS 16. Lease repayments are presented separately. There is no net impact on cash as a result of the implementation of IFRS 16

[2] FY19 represents interest paid only, with interest received included within net cash generated from operating activities

- Actions taken to conserve cash at the start of the crisis
- Exceptional working capital inflow of c.£80m:
  - Delayed stock purchases and higher sales in June c.£40m
  - Deferred VAT £19m
  - Other creditors including rent (paid in full but on monthly basis)
- Tax paid impacted by one-off change in timing of corporation tax payments on account
- Capital investment £25m:
  - New stores and refits - £19m
  - Technology and digital infrastructure - £5m

NET DEBT AND LIQUIDITY

Net debt[1] reconciliation



Liquidity

Facility	Limit	Expiry	Covenants	
Revolving credit facility (RCF)	£165m	March 2023	Leverage: Fixed charge cover:	<2.5x >1.75x
Overdraft (uncommitted)	£10m			

- In addition, the Group has an accordion option within the RCF with a maximum facility of £75m

[1] Net debt excludes lease liabilities

- Reported net cash of £45m includes £90m cash and £45m RCF drawdown
- Underlying net debt of £35m at year end (excluding c.£80m exceptional working capital benefit)
- RCF covenants comfortably met at 27 June 2020
- Successful application for CCFF at start of the crisis but do not expect to draw funds
- FY19 final dividend and special dividend paid in year
- RCF now fully repaid

DIVIDENDS

- Interim dividend of 8 pence was cancelled at the end of March when we needed to preserve cash
- Whilst current trading is very strong, the outlook is highly uncertain, and the Board has decided not to recommend a final dividend for FY20
- Maintaining maximum liquidity ahead of peak winter trading season
- In the absence of further material impact from Covid-19, anticipate resuming dividends at FY21 Interims
- Will also review surplus cash position in line with published policies at that time

Capital and dividend policy

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

FY21 OUTLOOK

- Sales and gross margin
  - Strong total sales growth in first two months: July (+59%) and August (+24%), and online (home delivery) growth of c.130% in the same period
  - Very difficult to predict future consumer demand and extent of further lockdowns but confident in ability to win market share
  - In the absence of further closures we expect gross margin to be broadly flat for FY21
- Costs
  - Expect operational leverage improvements from higher sales
  - Partially offset by social distancing costs (c.£125k per week) and NLW inflation (c.£5m)
  - c.£15m additional opex investment in data, digital and supply chain to support focus areas (incl. £3m annualisation impact of digital dev costs)
  - Rates holiday in FY21 (Q1-Q3) equal to Q4 FY20 rates/JRS (£21m)
- Cash flow
  - FY20 working capital benefit largely expected to reverse, mainly in H2
  - Capex spend similar to FY20

ACCELERATING OUR TRANSITION

Nick Wilkinson - CEO

WELL POSITIONED IN A RESILIENT MARKET

- Large addressable market with £26bn[1] of combined homewares and furniture sales
- Importance of home as a place of "safety" and multi-use
- Dunelm brand is being considered by *more* customers across *more* categories
- Evidence of increasing price consciousness in consumer attitude
- Customers willing to use digital technology to connect with physical stores and local colleagues

Brand awareness[2]

86.8%

+2.0%pts vs FY19

Average item value in store

c.£10

[1] GlobalData combined homewares and furniture market, January to December 2019
[2] Brand awareness as measured by YouGov, up from 84.8% in FY19

STRENGTHENING OUR TOTAL RETAIL SYSTEM

- 173 stores, mainly out-of-town retail parks, are well placed and highly profitable
- New store paybacks remain very strong and expect to open 3-5 superstores a year (including relocations)
- Target remains c.200 superstores, reaching >65% of UK in 20-minute drive times
- Anticipate 2-3 store refits in FY21 and a more normal run rate of 5-10 refits a year from FY22 onwards
- Continuing development of superstore format, as Click & Collect and tablet-based selling grows
- *Dunelm edit* high street format providing insight into use of in-store technology and sales densities

OUR AMBITIONS

AMBITIOUS ABOUT PROFITABLE GROWTH

Grow our business for the long term, at pace but always with an efficient use of resources to optimise profitability and value creation

AMBITIOUS ABOUT OUR BRAND

Be the #1 homewares destination, brilliant at service and experience as well as product

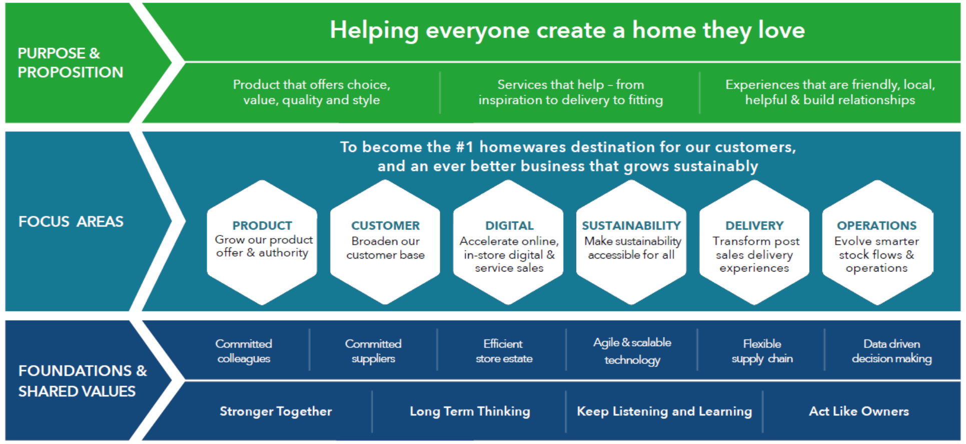
AMBITIOUS ABOUT BEING A GOOD COMPANY

Be a company that operates responsibly in all our communities, is leading on sustainability in homewares, and is a great place to work for everyone

EVOLUTION OF OUR CUSTOMER 1st PLANS

PURPOSE & PROPOSITION	**Helping everyone create a home they love**					
	Product that offers choice, value, quality and style		Services that help – from inspiration to delivery to fitting		Experiences that are friendly, local, helpful & build relationships	
FOCUS AREAS	**To become the #1 homewares destination for our customers, and an ever better business that grows sustainably**					
	PRODUCT Grow our product offer & authority	**CUSTOMER** Broaden our customer base	**DIGITAL** Accelerate online, in-store digital & service sales	**SUSTAINABILITY** Make sustainability accessible for all	**DELIVERY** Transform post sales delivery experiences	**OPERATIONS** Evolve smarter stock flows & operations
FOUNDATIONS & SHARED VALUES	Committed colleagues	Committed suppliers	Efficient store estate	Agile & scalable technology	Flexible supply chain	Data driven decision making
	Stronger Together	**Long Term Thinking**	**Keep Listening and Learning**	**Act Like Owners**		

EVOLUTION OF OUR CUSTOMER 1st PLANS



Our six focus areas

PRODUCT
Grow our product offer & authority

CUSTOMER
Broaden our customer base

DIGITAL
Accelerate online, in-store digital & service sales

SUSTAINABILITY
Make sustainability accessible for all

DELIVERY
Transform post sales delivery experiences

OPERATIONS
Evolve smarter stock flows & operations

FOCUS AREAS

PRODUCT

Grow our product offer & authority

What we will do next:

- Deepen and add to our long-term supplier partnerships
- Focus on continuous product innovation
- Increase emphasis on affordability and extend choice in newer categories
- Help our customers to “care and repair” in every category

CUSTOMER

Broaden our customer base

What we will do next:

- Maintain brand awareness through brand campaigns and *First Dates* sponsorship
- Scale customer acquisition as we build understanding of customer lifetime value
- Build local community base around each store

FOCUS AREAS

DIGITAL

Accelerate online, in-store digital & service sales

What we will do next:

- Continue to develop dunelm.com into the best site for home lovers
- Enhance the checkout experience and add credit payment capability
- Improve search, navigation and browse
- Pilot new ways of selling supported by local stores

SUSTAINABILITY

Make sustainability accessible for all

What we will do next:

- Introduce more products to help customers live sustainably
- Set up local pilots to encourage re-use and repair
- Partner with Carbon Trust to set long term carbon reduction target
- Continue to build on strong ethical sourcing, colleague engagement and wellbeing fundamentals

FOCUS AREAS

DELIVERY

Transform post sales delivery experiences

What we will do next:

- Reduce post-sale customer friction
- Enhance performance management of home delivery
- Improve visibility and communication of order status
- Develop more responsive customer services tools (e.g. live chat)

OPERATIONS

Evolve smarter stock flow & operations

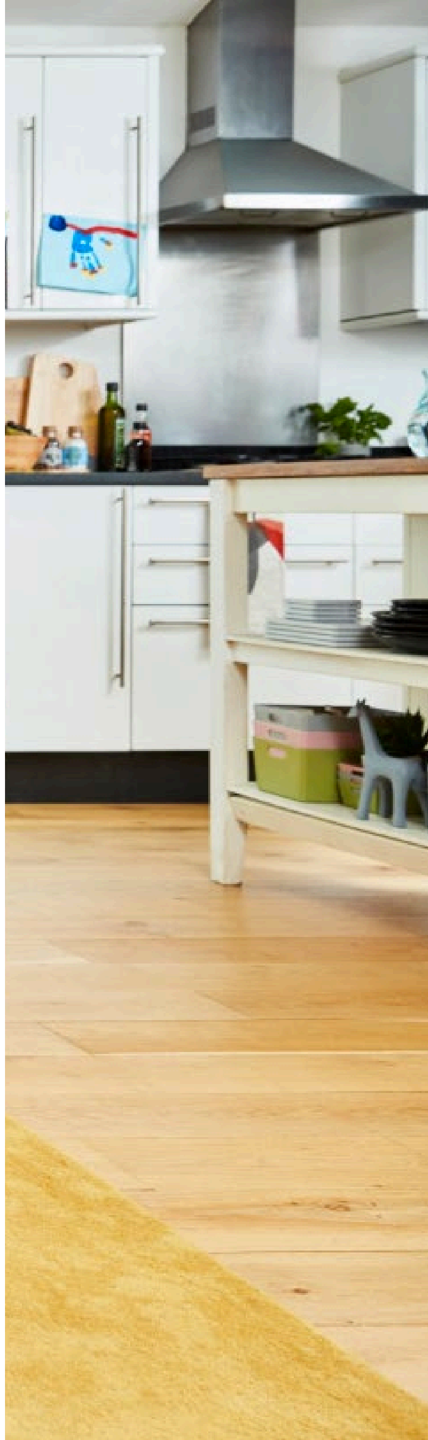
What we will do next:

- Develop supply chain infrastructure to increase capacity and optimise flow of goods
- Increase home delivery capacity and breadth of choice on C&C
- Streamline in-store stock processes
- Continue to invest in data and insight capabilities

SUMMARY – WELL POSITIONED FOR SUSTAINABLE GROWTH

- Good strategic progress during the year
- Strong foundations and shared values enabled us to navigate the crisis
- Spending on the home is expected to be resilient and we are well placed to gain further market share
- Strong sales growth in the first two months of FY21
- Cautious regarding economic and consumer outlook and uncertainty of year ahead
- Prudent cash retention while uncertainty remains. Anticipate declaring an interim dividend in FY21
- Emerging as a stronger business, with renewed confidence to accelerate our transition to deliver the next chapter of growth

Q&A



APPENDICES

INVESTMENT PROPOSITION: WELL POSITIONED FOR SUSTAINABLE GROWTH

Brand purpose	A brand appealing to a wide range of consumer segments, with potential for significant market share gains in a large, fragmented market
Customer offer	A distinctive and specialist offer – quality, value and style from a product portfolio that is largely own brand and sourced from long-term committed suppliers – available to browse, buy and fulfil across channels
Total retail system	Our online platform and physical stores are integrated and complementary. We have built agile and scalable technology, a flexible supply chain and an efficient store estate. A significant opportunity to grow through digital capabilities integrated with our local store colleagues
Financial position	A highly cash generative business with a strong balance sheet, no legacy issues (no DB pension and low cost lease commitments), agility to invest and a track record of returning surplus cash
Shared values	Entrepreneurial origins alive and well with a total commitment to doing the right thing for the long term, and to being a good company and a great place to work

DUNELM ESG HIGHLIGHTS

Guided by our shared values

Long term thinking	Keep listening and learning	Stronger together	Act like owners

Colleagues
- Engagement survey 2x p.a. – NPS part of bonus criteria
- NED attends National Colleague Voice forums, and the forum meets the Board annually
- Focus on mental health – awareness training, buddies and newly launched app during Covid-19 crisis
- Widespread share ownership via ShareSave schemes

Suppliers and sourcing
- Deep, long term supplier relationships
- Robust ethical trading, anti-slavery, anti-bribery and policies and audits – KPIs reported to Board
- More responsibly sourced materials e.g. timber and cotton
- Annual supplier seminar, apply Prompt Payment Code

Community
- Charity partnership with Macmillan, over £900k raised since February 2019
- Employee volunteering days (and matched funding)
- Local community activity around stores – during Covid-19 crisis our teams have supported NHS, care workers

Environment
- Partnering with Carbon Trust to conduct climate change risk assessment and set ambitious long-term carbon reduction target
- Commitment to report against TCFD by FY22
- Removing single use plastics and reducing packaging
- Reducing energy, waste and emissions

Governance
- Recently refreshed Board – 4 Non-independent ex Chair, 4 independent, one third female
- Balanced scorecard of KPIs – customer and colleague as well as operational and financial
- Independent internal audit function (outsourced to KPMG)
- Executive and senior management remuneration based on long-term sustainable value creation

INCOME STATEMENT

	FY20 Pre IFRS 16	Impact of IFRS 16	FY20 Post IFRS 16	FY19 IAS 17	Change
Revenue	£1,057.9m	-	£1,057.9m	£1,100.4m	(£42.5m)
Cost of Sales	(£525.5m)	-	(£525.5m)	(£554.8m)	£29.3m
Gross Profit	**£532.4m**	-	**£532.4m**	**£545.6m**	**(£13.2m)**
Gross Margin %	*50.3%*	-	*50.3%*	*49.6%*	+70 bps
Operating costs	(£419.6m)	£3.2m	(£416.4m)	(£418.7m)	£2.3m
Operating profit	**£112.8m**	**£3.2m**	**£116.0m**	**£126.9m**	**(£10.9m)**
Financial income	£0.4m	-	£0.4m	£0.9m	(£0.5m)
Financial expenses	(£1.8m)	(£5.5m)	(£7.3m)	(£1.9m)	(£5.4m)
Profit before tax	**£111.4m**	**(£2.3m)**	**£109.1m**	**£125.9m**	**(£16.8m)**
PBT margin %	*10.5%*		*10.3%*	*11.4%*	(110) bps
Taxation	(£21.9m)	£0.5m	(£21.4m)	(£24.6m)	£3.2m
Profit after tax	**£89.5m**	**(£1.8m)**	**£87.7m**	**£101.3m**	**(£13.6m)**
Effective tax rate	*19.7%*		*19.6%*	*19.5%*	+10 bps
Basic earnings per share	44.3p	(0.9p)	43.4p	50.2p	(6.8p)
Diluted earnings per share	43.8p	(0.9p)	42.9p	49.9p	(7.0p)

IFRS 16 transition

- FY20 PBT reduced by (£2.3m):
  - Removal of rent from operating expenses – £48.7m
  - Deprecation charged on right of use asset – (£45.5m)
  - Interest charged on lease liabilities – (£5.5m)
- No impact to free cash flow
- Note: FY19 comparative is not restated

BALANCE SHEET

	FY20 IFRS16	FY19 IAS17
Non-current assets	£203.9m	£209.7m
Right-of-use-assets	£283.3m	-
Inventories	£118.2m	£157.7m
Receivables	£15.6m	£25.6m
Cash	£90.0m	£19.0m
Financial instruments	£5.0m	£5.1m
Total assets	**£716.0m**	**£417.1m**
Current liabilites	(£179.8m)	(£149.8m)
Non-current liabilities	(£48.4m)	(£81.5m)
Lease liabilities	(£314.4m)	-
Net assets	**£173.4m**	**£185.8m**
Share capital	£2.0m	£2.0m
Share premium/other reserves	£50.1m	£49.8m
Retained earnings	£121.3m	£134.0m
Total equity	**£173.4m**	**£185.8m**

5 YEAR FINANCIAL SUMMARY

	FY16	FY17	FY18	FY19	FY20[1]
Total sales	£880.9m	£955.6m	£1,050.1m	£1,100.4m	£1,057.9m
Total sales growth	7.1%	8.5%	9.9%	4.8%	(3.9%)
Gross margin %	49.8%	48.9%	48.0%	49.6%	50.3%
Profit before tax[2]	£128.9m	£109.3m	£102.0m	£125.9m	£109.1m
Free cash flow[3]	£108.8m	£12.8m	£51.0m	£152.8m	£174.7m
Net cash / (debt)	(£79.3m)	(£122.1m)	(£124.0m)	(£25.3m)	£45.4m
Diluted EPS[2]	50.3p	42.8p	40.0p	49.9p	42.9p
Dividends paid	£108.4m	£51.6m	£53.4m	£54.6m	£106.0m

[1] FY20 reported on an IFRS 16 basis. All prior years reported under IAS 17
[2] FY17 and FY18 presented before exceptional items
[3] To ensure the measure is comparable after the implementation of IFRS 16, free cash flow is defined as net cash generated from operating activities less capex (net of disposals), net interest paid, interest on lease liabilities and repayment of lease liabilities


THANK YOU