



Dunelm Group plc

Interim Results Presentation

26 weeks to 28th December 2013



David Stead

Finance Director

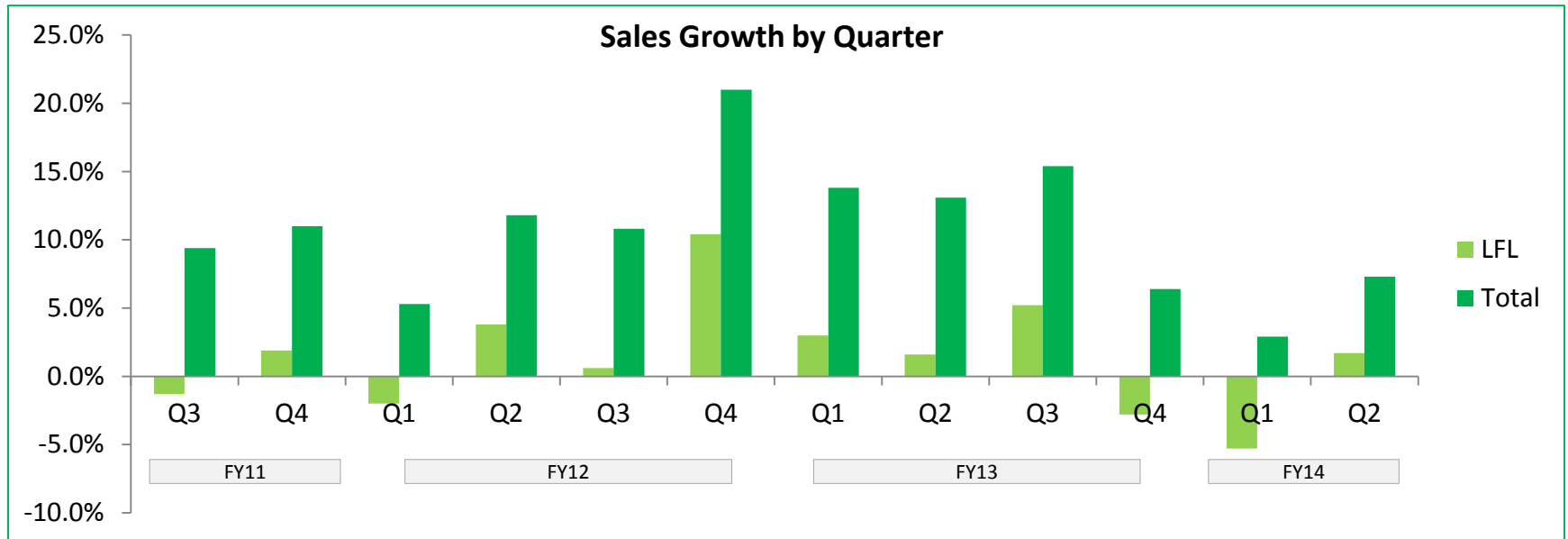


Financial Highlights

Profitable growth continues

	FY14 H1	FY13 H1	Year on year change
Sales	£356.3m	£340.1m	+4.8%
LFL Sales growth/(decline)	(-0.9%)	+2.2%	
Gross margin	50.4%	49.5%	+90bps
Operating profit	£62.0m	£59.3m	+4.5%
Profit before tax	£61.6m	£59.8m	+2.9%
EPS (fully diluted)	23.1p	22.1p	+4.5%

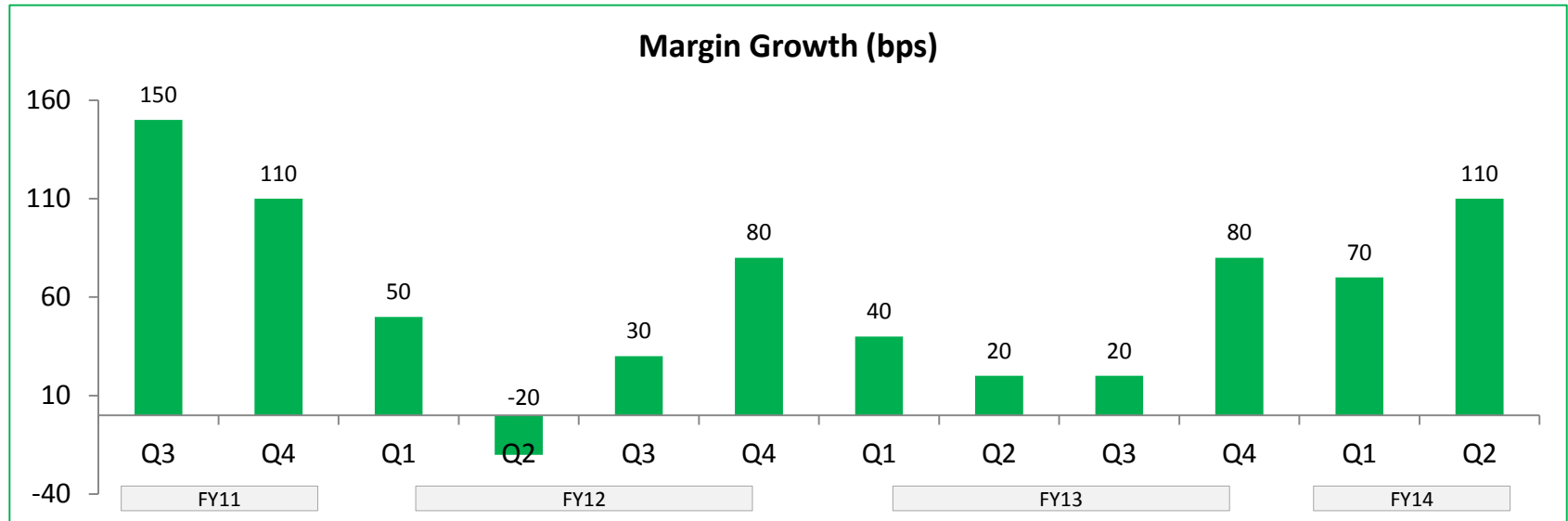
Sales Trend



Drivers

- Q1 impacted by July heat wave
- 10 new store openings since FY13 H1 (including 2 relocations)
- Multi-channel sales growth >50%
- Multi-channel sales participation c.6% in Q2

Gross Margin Trend



Ongoing benefits

- Direct sourcing
- Increasing scale

Non-recurring benefits

- FY13 clearance of old special buy stock

Uncertainties

- Currency exchange rates
- Commodity costs, freight rates, labour rates
- Consumer price movements

Operating Costs

	£m
Operating costs FY13 H1	108.9
LFL stores costs	0.2
New space	5.3
Increased marketing investment	1.8
Other	1.5
Operating costs FY14 H1	117.7

	FY14 H1	Outlook
New space	<ul style="list-style-type: none"> • 7.6% increase in selling space yoy 	<ul style="list-style-type: none"> • Continuing store opening programme
Marketing	<ul style="list-style-type: none"> • TV trial, enhanced catalogue 	<ul style="list-style-type: none"> • Continuing investment
Other	<ul style="list-style-type: none"> • Multi-channel <ul style="list-style-type: none"> - Increased scale - New fulfilment centre • Direct sourcing <ul style="list-style-type: none"> - Increased activity • Core IT systems <ul style="list-style-type: none"> - ERP upgrade 	<ul style="list-style-type: none"> • Continuing multi-channel growth • Continuing progress on direct sourcing • Continuing IT investment

Profit After Tax

(£m)	FY14 H1	FY13 H1	Comments
Operating Profit	62.0	59.3	Operating margin 17.4%
Financial Items	(0.4)	0.5	Currency exchange
Profit Before Tax	61.6	59.8	
Tax	(14.4)	(14.8)	Effective rate 23.4%
Profit After Tax	47.2	45.0	
EPS (fully diluted)	23.1p	22.1p	
Dividend	5.0p	4.5p	11.1% increase

Operating Cash Generation

Strong cash conversion

(£m)	FY14 H1	FY13 H1
Operating Profit	62.0	59.3
Depreciation and amortisation	10.1	10.0
Other non-cash movements	1.9	1.1
Working capital movement	14.0	5.4
Net interest	0.2	0.6
Tax paid	(13.1)	(13.0)
Net cash from operations	75.1	63.4
Cash conversion¹	121%	107%

¹ Net cash from operations as a proportion of operating profit

Working Capital Movement

(£m)	FY14 H1	FY13 H1	Comments
Inventory increase	(9.3)	(8.1)	<ul style="list-style-type: none"> • Net 5 additional superstores • Increased direct sourcing
Receivables increase	(1.1)	(1.9)	
Payables increase	24.4	15.4	<ul style="list-style-type: none"> • Seasonal increase in trade creditors • Seasonal increase in VAT
Overall reduction	14.0	5.4	

Capital Investment

(£m)	FY14 H1	FY13 H1
New store fit-outs	5.9	11.6
Refits and maintenance capital	2.9	2.0
IT investment	3.0	0.8
Other	0.6	0.5
Total	12.4	14.9

- 6 new stores fitted out in FY14H1, 10 in comparable period
- 2 major refits completed in FY14 H1, 2 in comparable period

Capital Investment – Future Drivers

New stores – average fit-out cost remains c.£1.2m per store

Refits/maintenance capex – estimated c.£5m p.a.

IT investments

- MI upgrade (c£1m)
- Web re-platform (c£5m)
- Continuing systems development

Other infrastructure

- Expansion of central warehouse
- Head office expansion

Freehold acquisitions - opportunistic

Net Cash Generation

(£m)	FY14 H1	FY13 H1
Net cash from operations	75.1	63.4
Capital expenditure	(12.4)	(14.9)
Dividends paid / return of capital	(74.0)	(86.1)
Purchase of treasury shares	(6.9)	-
Other	0.5	(0.1)
Change in net cash	(17.7)	(37.6)
Period end net cash	26.4	27.4
Daily average net cleared funds	37.4*	N/A**

• Since special dividend

** Not applicable due to timing of capital return in FY13

Nick Wharton

Chief Executive



Accelerating offer differentiation and robust trading after difficult summer

- Further market share gains
- Strengthened, clearly differentiated customer offer
- Encouraging response to brand repositioning and TV advertising
- Strong returns from new stores and robust pipeline
- Growing multi-channel revenues with strong forward plan
- Further strengthening of infrastructure

Consistent and effective growth strategy

Further develop specialist position

Expand store portfolio

Grow multi-channel

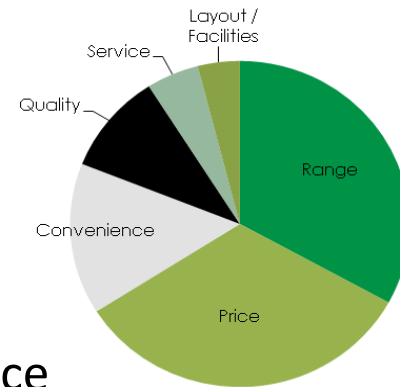
Develop and exploit infrastructure

Core proposition meets key customer requirements

Market leading choice and value

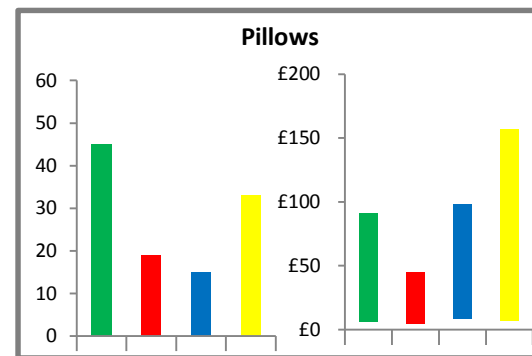
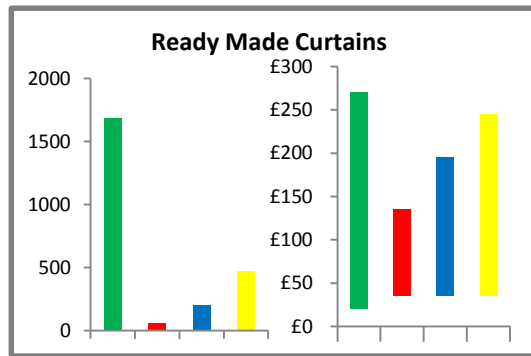
- 20,000 homewares products across 21 home categories
- Targeted range extension adds further choice
- Broadest price/range positioning in market
 - Entry: Grocer price, higher quality
 - Exit: Branded quality, lower price
- Strong own brands:
 - Dunelm, Dorma, Spectrum, Hotel
- Trusted EDLP proposition, high Sale integrity

Verdict: Homewares Customer Selection Criteria



Convenience

- Growing Edge of Town store portfolio
- Multi-channel flexibility
- Strong in store stock depth



Left graph = no of SKU's

Right graph = in store price range

■ Dunelm

■ Grocer

■ Mid Tier Dept Store

■ Premium Dept Store

Specialist Position : Offer Development

Service as key point of difference

Service and added value services

- Three year service training programme
- High and improving net promoter score
- Increased external recognition (e.g. Which?)
- In store emphasis of Made To Measure
- Home Consultation: national by summer 2014



Store layout and environment

- Consistent, easier to navigate store layout
- 100 Pausa Coffee shops
- Expertise communicated via Point of Sale
- Technology enablement:
 - New Made To Measure IT system
 - On-line order point

Clear priority to increase brand understanding and awareness

Low national brand awareness

- Positive brand association
 - Trust
 - Value for money
- Good prompted recall
- Historically low advertising spend



Brand repositioning delivering on objectives

- communicates offer strength in value, choice and service
- mirrors customers emotional connection with their home
- increased “cut-through” with consumers + media



Cross-media approach to build awareness

Established media:

- National press provides exposure frequency
- Extensive digital programme
- Social media targeted to build brand relationship
- Catalogue: In-home longevity, offer extension and inspiration



Spring 2013
152 pages



Spring 2014
196 pages

TV Trial

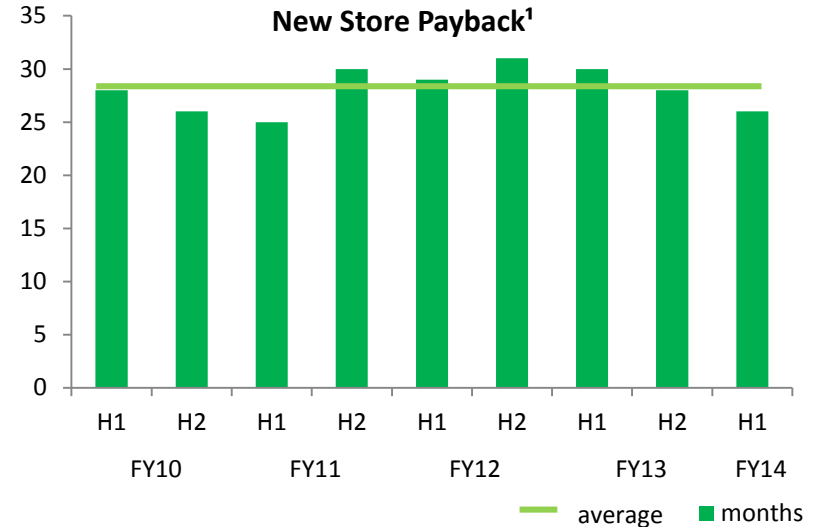
- Positive customer response
 - Revenue ahead of expectation
 - Positive movement in brand awareness
- Trial extended:
 - 90% of stores covered in Spring
 - Single execution to build recall

Store Portfolio: New Stores

Significant portfolio growth opportunity, with attractive returns

Portfolio Opportunity / Progress

- Target of c. 200 UK superstores
- Supply and competition remains limited
 - Large footprint
 - Strong covenant
- FY14
 - H1: 6 stores, including 1 relocation
 - 10 stores legally committed (FY13: 6)
- Tactical use of freeholds



Attractive Returns

- Recent payback: 26 months¹
- Average payback FY08 – FY14: 28 months
- Targeted Payback:
 - Large Catchment: 36 months
 - Small Catchment: 48 months

Refit Programme

- Protects brand standards

1. Discounted payback after tax anticipated from stores opening in the last 36 months

Strong multi-channel progress focused on enhanced delivery

Opportunity

- Clear customer preference
- 'Shop window' expands reach
- Higher frequency of visit and spend
- Market differentiation vs. independents
- Own brand & R&C participation protects margin



Delivery proposition	FY14	FY13
Products on-line: R&C	20,000	20,000
R&C lead time	3 hrs	Next day
Products on-line: Home Delivery	17,500	11,500
Available for next day delivery	14,500	3,000
Standard delivery lead time	3 days	5-6 days
Standard delivery Xmas cut off	18 th Dec	12 th Dec

Focus on Convenience

- New Fulfilment Operation in October
 - Complete offer available for home delivery
 - Quicker more flexible delivery
 - Scale efficiencies
 - Scalable incl. larger web exclusive ranges
- Shorter R&C lead-time
- Paypal introduced

Clear development plan to drive multi-channel

Current Position

- Improving customer experience
- Growing participation:
 - FY14 average: 5.2% (FY13: 3.6%)
 - FY14 Quarter 2: 6%
- Profitable at current scale
- Migrated to www.dunelm.com
- 1.1m active database (+60% yr on yr)



Development Plan

- Platform refresh (Summer 2014)
 - Intuitive modern feel
 - Improved business integration
 - My Dunelm
- Medium Term
 - Web exclusive range expansion
 - eBay store
 - International delivery

Infrastructure and process development underpins growth

Growth enablers

- Quality IT backbone with recent upgrades
- Flexible supply chain
- Strengthened management team
 - Commercial Director and CIO added to senior team



Margin enablers

- Direct sourcing
- Range & Space management

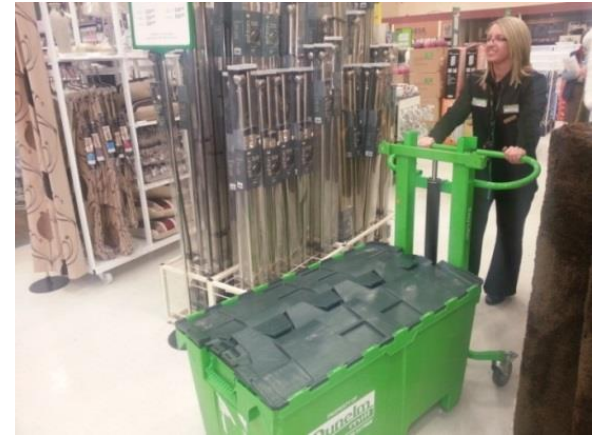
Customer service enablers

- Automated replenishment
- Inventory management
- Direct to shelf deliveries

Infrastructure and process development underpins growth

Growth led investments

- IT
 - Upgrades to SAP & Store EPOS complete
 - New web platform in 2014
- Warehousing and distribution (W&D)
 - DC capacity for growth (Store and Direct sourcing)
 - Flexibility on other key W&D infrastructure
- Central Resource
 - Selected investment continues (e.g. Direct Sourcing)
 - HO expansion



Continued progress in trading and strategic development

- Further growth in sales and earnings
- Customer offer development gaining pace
- Significant store roll-out opportunity with improved pipeline
- Multi-channel offer, revenue and earnings momentum
- Strengthened management, upgraded systems and improved retail processes
- Strong cash generation and returns to shareholders

Strong foundation for continued growth



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Interim Results Presentation

26 weeks to 28 December 2013



Market Overview

Leader in sizeable fragmented market

Large market

- £11 bn consumer market
- Value stable post 2008

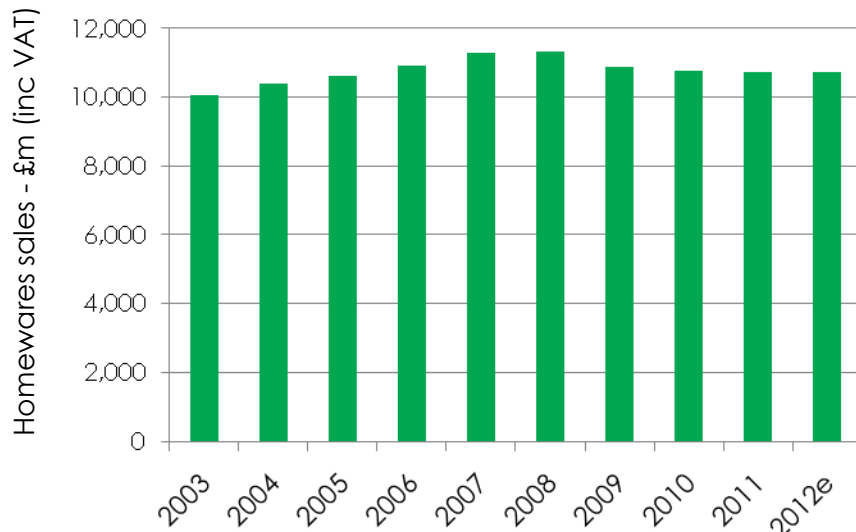
Classically fragmented

- Top 3 retailers less than 20%
- Top 10 less than 50%
- Independents c.25% & shrinking

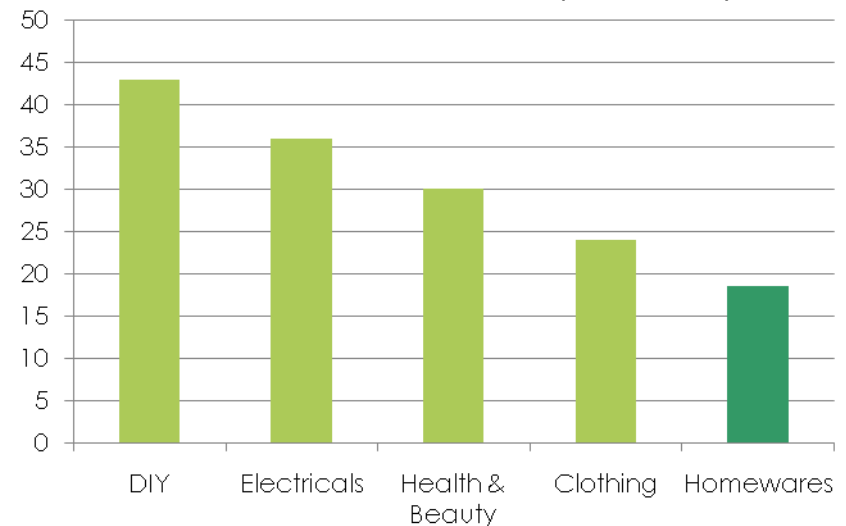
Homewares Market Shares

	2012	Change vs 2008
Dunelm	6.9%	+2.9%pts
John Lewis	6.8%	+1.7%pts
Argos	4.9%	-0.4%pts
Top 3	18.6%	+3.7%pts
Top 10	48.4%	+7.9%pts
Independents (<0.5%)	22.9%	-12.4%pts

Homewares Market Trend



Shares of Top 3 Retailers (by Market)



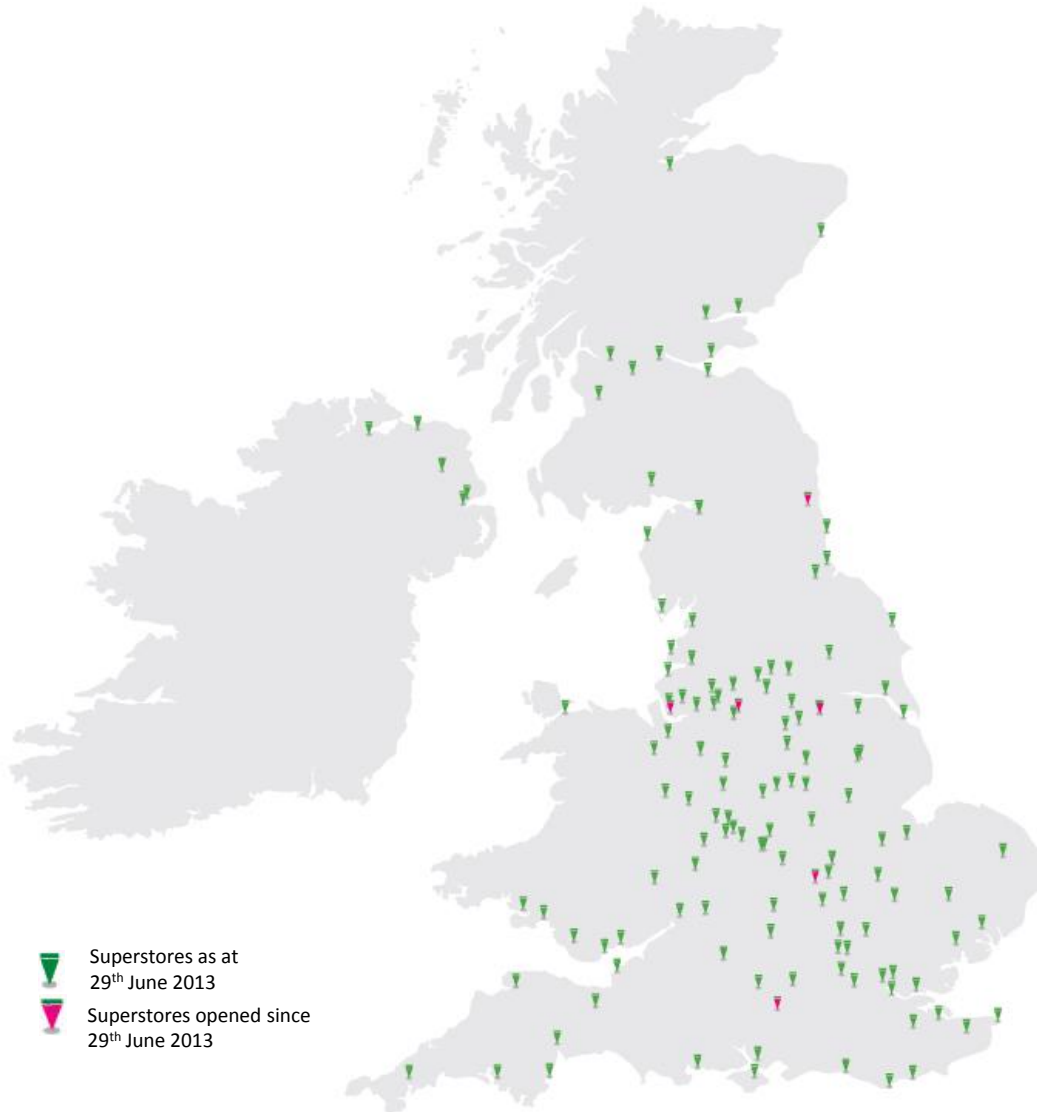
Specialist Position

<p>Offer – Autumn 2013</p> 	 <p>Aluminium 7 sizes 18cm Pan - £6.99</p> 	 <p>Aluminium 8 sizes 18cm Pan - £7.99</p> 	 <p>Stainless Steel 10 sizes, 18cm Pan - £15.99 Also Aluminium - £14.99 and Hard Anodised - £21.99</p> 	 <p>Copper Tri Ply 9 sizes 18cm Pan - £39.99</p> 
<p>Competitor offer</p>	<p>Lower quality – weight and coating 20% more expensive</p> <p>Grocer</p>	<p>Comparable quality but fewer features 30% more expensive</p> <p>Mid Tier Department Store</p>	<p>Comparable quality Fewer sizes offered 50% more expensive</p> <p>Premium Department Store</p>	

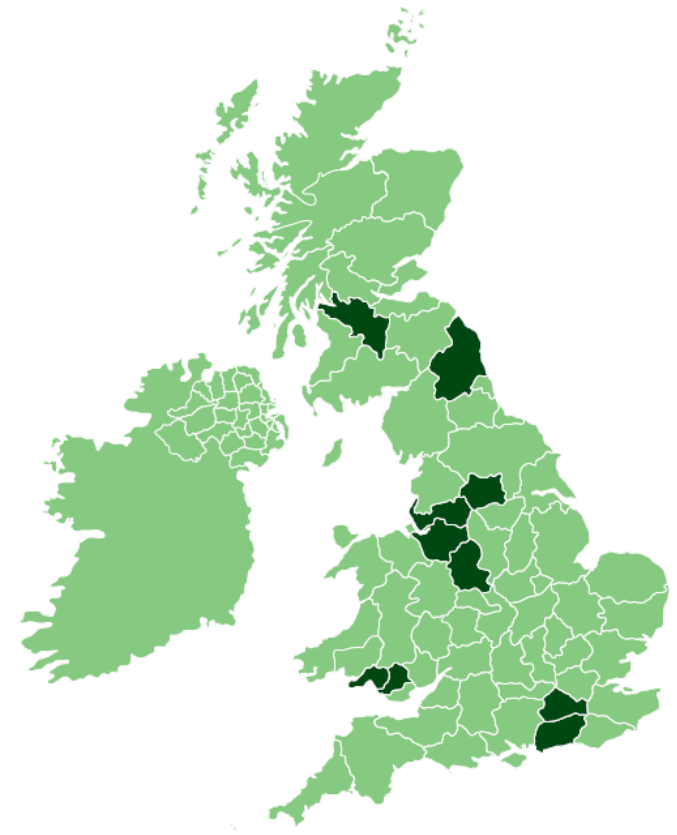
<p>Offer Spring 2013</p> 	 <p>Simply 4 Colours £3.99 Bath Towel</p>	 <p>So Soft 10 Colours £8.99 Bath Towel</p>	 <p>Egyptian 30 Colours £9.99 Bath Towel</p>	 <p>Hotel 7 Colours £14.99 Bath Towel</p>	 <p>Dorma 6 Colours £17.99 Bath Towel</p>
<p>Competitor offer</p>	<ul style="list-style-type: none"> • Lower quality • Sold as bale only • 25% more expensive <p>Grocer</p>	<ul style="list-style-type: none"> • Lower quality • 18 colours • 20% more expensive <p>Mid Tier Department Store</p>	<ul style="list-style-type: none"> • Comparable quality • 6 colours • 50% more expensive <p>Premium Department Store</p>		

Store Portfolio: New Stores & Committed Stores

Superstore Locations



Committed Superstore Locations



Summary Balance Sheet

(£m)	28 th December 2013	29th December 2012
Total non-current assets	160.0	155.6
Inventories	102.2	94.3
Receivables	19.5	19.0
Cash	26.4	27.4
Total assets	308.1	296.3
Current liabilities	(104.1)	(91.4)*
Non-current liabilities	(39.6)	(37.8)*
Net assets	164.4	167.1
Share capital	2.0	2.0
Share premium/other reserves	42.8	43.9
Retained earnings	119.6	121.2
Total equity	164.4	167.1

* restated