Dunelm

Preliminary Results Presentation

Year ended 2 July 2016

John Browett

CEO

Strength

Our underlying business has key strengths

Product and Range

- ‘Simply Value for Money’
- Wide product ranges
- Increasingly seasonal
- Market leader

Low Cost

- Low property rents
- Modern, flexible IT systems
- Lean approach

Stores

- Well located
- Flexible space
- Efficient mezzanines

Financial

- Operating margin
- Cash generation
- Low leverage
- High returns

Growth

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

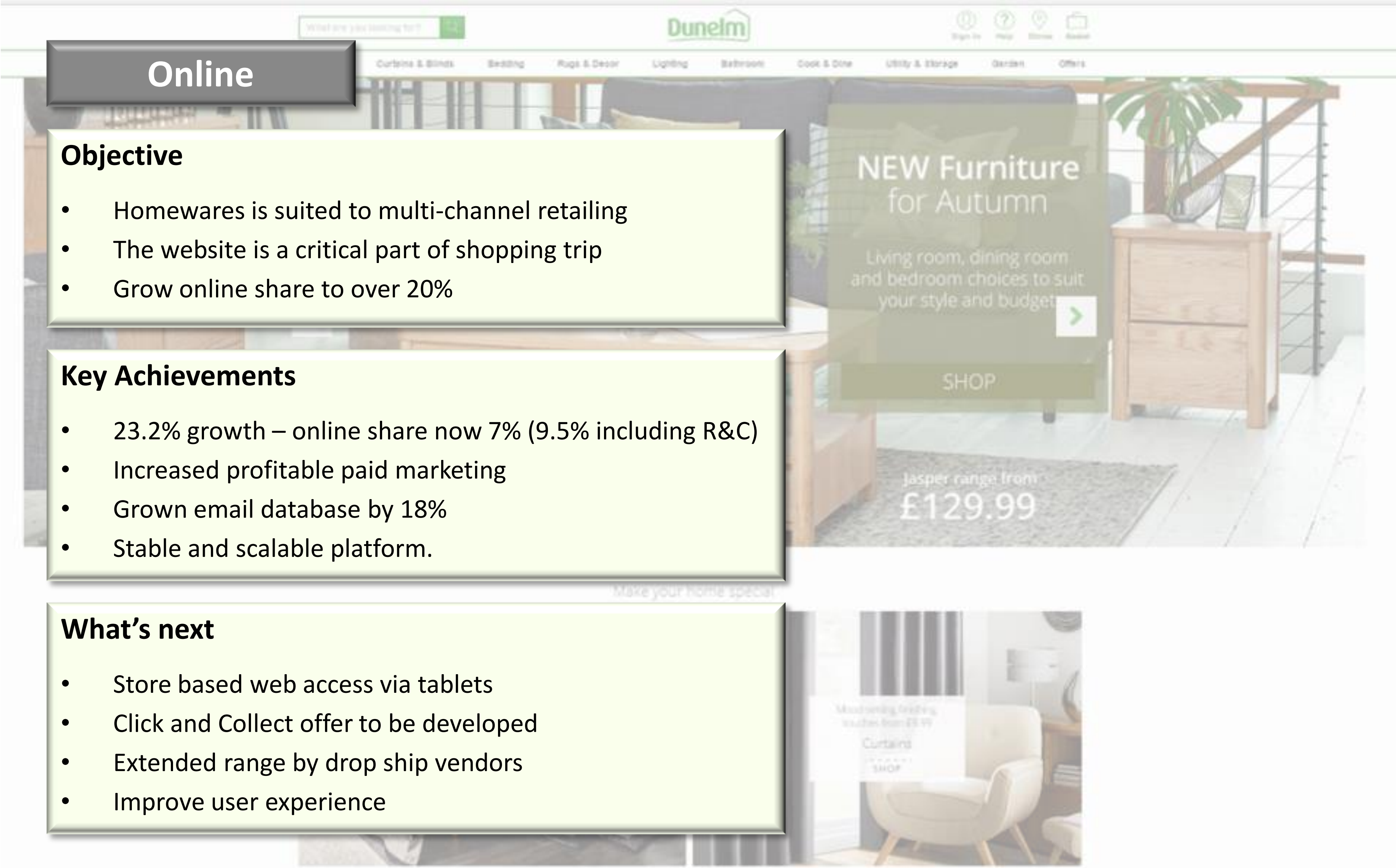
- Medium term 50% sales growth target
- Opportunity 1 – LFL store growth
- Opportunity 2 – New stores
- Opportunity 3 – Home delivery

Growth

8 key initiatives underpin growth and are self-help opportunities

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

Key Initiatives



Online

Objective

- Homewares is suited to multi-channel retailing
- The website is a critical part of shopping trip
- Grow online share to over 20%

Key Achievements

- 23.2% growth – online share now 7% (9.5% including R&C)
- Increased profitable paid marketing
- Grown email database by 18%
- Stable and scalable platform.

What’s next

- Store based web access via tablets
- Click and Collect offer to be developed
- Extended range by drop ship vendors
- Improve user experience

Key Initiatives

London

Objective

- Key part of growth to 200 stores
- Under represented

Key Achievements

- 3 out of 9 committed openings within M25
- Other South East opportunities in pipeline

What's next

- Continue to pursue opportunities
- Focus on capability
- Increase web participation and brand awareness

Key Initiatives

Stock Management

Objective

- Improve stock control processes in store
- Improve availability
- Reduce stockholding

Key Achievements

- Reduced stock by £16.5m (12.4%)
- Better retail discipline – pack sizes, order quantities etc.
- Release hours on non-value added activity

What's next

- Continual improvement
- Becomes business as usual

Key Initiatives

Store Operations

Objective

- Free up store colleagues from non-value adding tasks
- Improve service
- Culture of continuous improvement

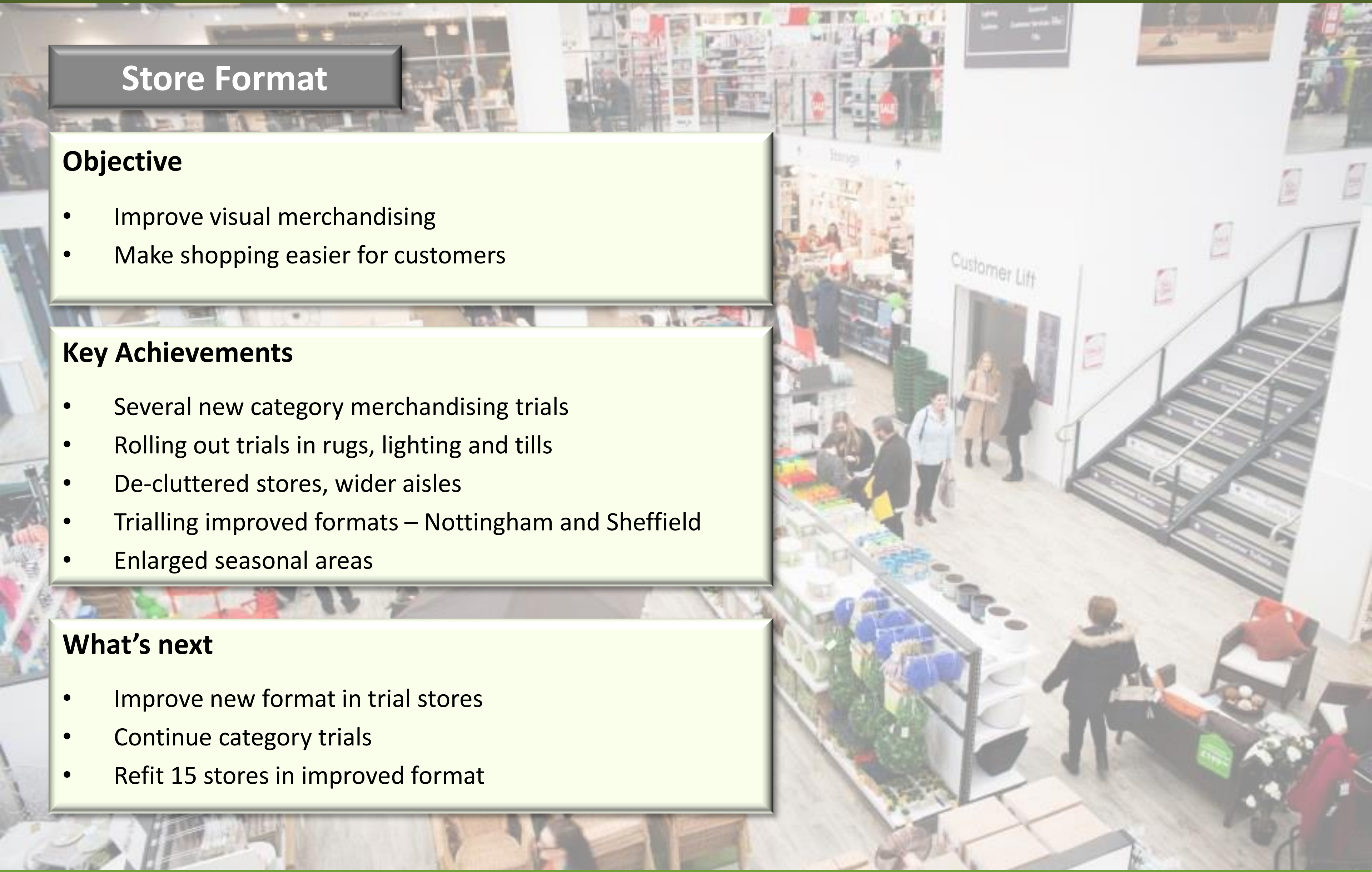
Key Achievements

- Improved stock and cash processes
- Free up hours to invest directly in service
- Absorbed National Living Wage increase

What’s next

- Identify further productivity opportunities
- Extend work into all store processes
- Greater collaboration between store support and stores

Key Initiatives



Store Format

Objective

- Improve visual merchandising
- Make shopping easier for customers

Key Achievements

- Several new category merchandising trials
- Rolling out trials in rugs, lighting and tills
- De-cluttered stores, wider aisles
- Trialling improved formats – Nottingham and Sheffield
- Enlarged seasonal areas

What’s next

- Improve new format in trial stores
- Continue category trials
- Refit 15 stores in improved format

Key Initiatives

Made to Measure

Objective

- Grow overall market share
- Differentiate service from competitors

Key Achievements

- Trialling new operations in stores
- Improved productivity at manufacturing centre

What's next

- Enhanced service, presentation and range in store
- Continue to improve speed and accuracy of manufacturing
- New IT system to manage customer order
- Easier to shop online and in store

Key Initiatives

Furniture

Objective

- Improve and develop range across all channels
- Improve service and layout
- Greater delivery options

Key Achievements

- Launched new room set trials
- Improved display mechanisms

What's next

- Improved range
- More supply chain options
- Improved web assisted sales in store
- Investment in sales training

Dunelm

Key Initiatives

Supply Chain

Objective

- Enable lower cost logistics platform
- Improve warehouse productivity
- Closer integration of online and store supply chain

Key Achievements

- Successfully opened new warehouse in Stoke
- Eliminated third party stock requirements
- Transitioned 1-man delivery operation into Stoke

What's next

- Further integrate e-commerce and direct to store distribution
- Increase availability and delivery performance
- Improvements to retail planning systems

Dunelm

Key Initiatives

Product

- New strategic project replacing stock management
- Maintain and improve our key strength in product
- Accelerate range development
- Create environment for innovation
- Improve design and style to meet customer tastes
- Better sourcing

Other Projects and Business Enablers

- IT roadmap – world class retail systems to improve customer experience and develop lean efficient processes
- Improve customer service and reduce contacts
- Continuous improvement in Head Office – ‘Keep it Simple’ initiatives
- Investment in capability and training at all levels
- Improved customer insight
- Clearer brand articulation and communication to customers

Overall Objectives

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

Outlook

- Hot weather dampening footfall in new financial year
- Market outlook may be uncertain
- Difficult economy enables us to take share
- Value for money proposition
- Plenty of self-help
- Should open up opportunities
  - Property
  - Trading

Keith Down

CFO

Financial Highlights

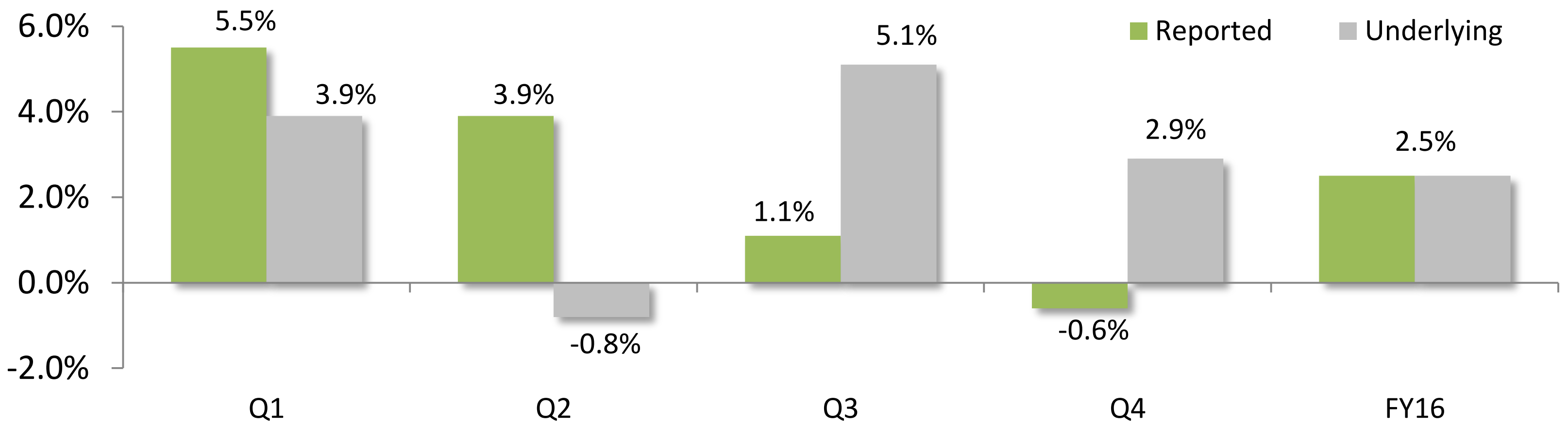
	FY16 52 weeks	FY15 52 weeks	Year on year change	FY15 53 weeks	Year on year change
Sales	**£880.9m**	£822.7m	+7.1%	£835.8m	+5.4%
LFL sales growth	**+2.5%**	+5.8%			
Gross margin	**49.8%**	49.2%	+60 bps	49.2%	+60 bps
EBITDA	**£154.3m**	£142.6m	+8.2%	£144.2m	+7.1%
Profit before tax	**£128.9m**	£121.4m	+6.2%	£122.6m	+5.1%
EPS (fully diluted)	**50.3p**	46.8p	+7.5%	47.3p	+6.3%
Free cash flow	**£110.4m**	£86.5m	+27.6%	£87.0m	+26.9%

Dunelm

Sales Growth (52 weeks)

	FY16 Sales £m	Growth £m	Growth %
LFL stores	729.0	7.4	1.0%
Home Delivery	61.9	11.7	23.2%
Total LFL	**790.9**	**19.1**	**2.5%**
Non-LFL stores	90.0	39.1	n/a
Total	**880.9**	**58.2**	**7.1%**

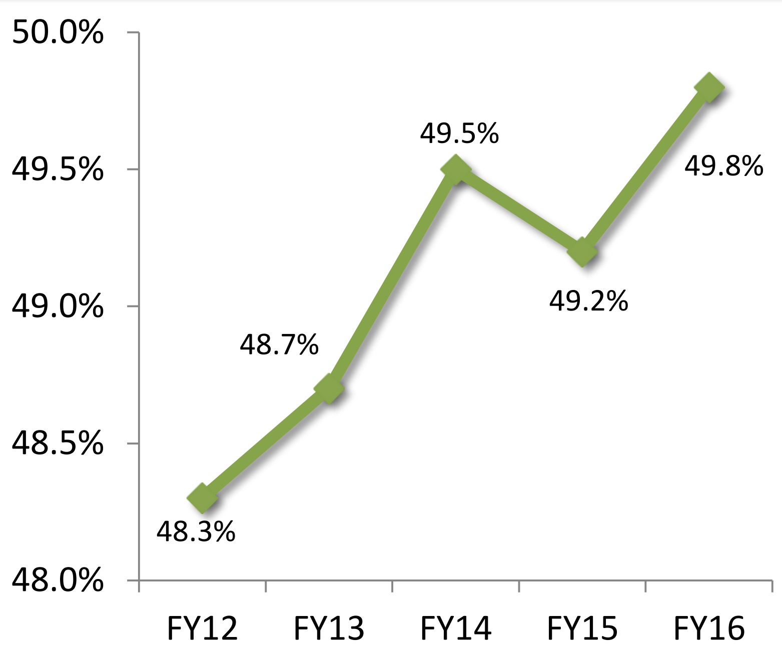
Quarterly LFL Growth



Dunelm

Gross Margin Trend/Drivers

Gross Margin Evolution

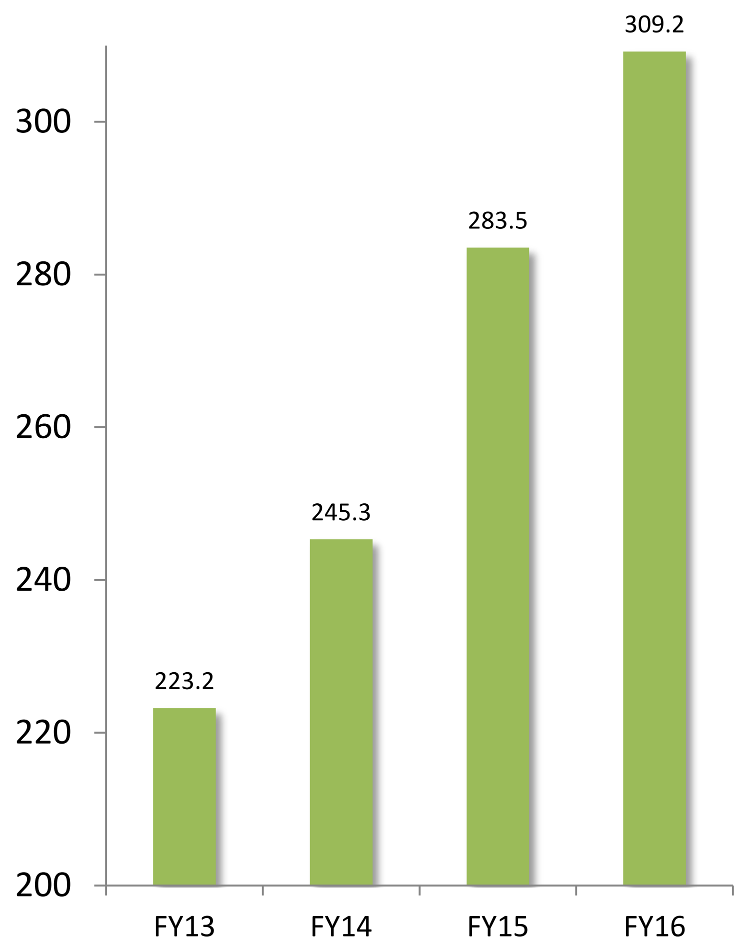


Key Drivers

- Stable selling prices
- COGS reductions due to
  - Increase scale
  - Direct sourcing increase to 21%
- Improved clearance and product life cycle

Operating Costs (52 weeks)

Operating Costs - £m



FY16 Key Drivers

Stores

- New store openings (6 openings less 2 closures)
- Increase in National Living Wage offset by productivity savings

Home Delivery

- Increased volumes

Logistics

- Investment in new warehouse - £3m of transition costs

IT

- Significant recruitment
- Depreciation of web re-platform

Marketing

- Increased spend on digital marketing

Exec

- Invested in senior management

Dunelm

Operating Costs – FY17

FY17 Key Drivers

Stores
- c. 9 new stores opening
- 15 refits into new format
- National Living Wage continuing to be offset by productivity

Home Delivery
- Volume growth

Marketing
- Investment in customer insight and brand

Logistics
- Transition of iForce
- Further Stoke improvements

IT
- Further capability investment
- Further investment in systems

Exec
- Full year impact of new appointments

Overall, expect operating cost growth to be higher than sales growth

Profit After Tax (53 weeks)

(£m)	FY16	FY15
Operating Profit	**129.3**	122.5
Operating margin	***14.7%***	*14.7%*
Financial Items	**(0.4)**	0.1
Profit Before Tax	**128.9**	122.6
Tax	**(26.6)**	(26.5)
Effective tax rate	***20.6%***	*21.6%*
Profit After Tax	**102.3**	**96.1**
EPS (fully diluted)	**50.3p**	**47.3p**
Dividend	**25.1p**	**21.5p**

Operating Cash Generation (53 weeks)

(£m)	FY16	FY15
Operating Profit	**129.3**	122.5
Depreciation and amortisation	**25.0**	21.7
Working capital movement	**18.3**	0.1
Share based payments expense	**1.4**	0.3
Net interest	**0.1**	0.5
Tax paid	**(25.9)**	(26.9)
Net cash from operations	**148.2**	118.2
Capital expenditure	**(39.8)**	(31.2)
Proceeds on disposal of property	**2.0**	-
Free cash flow	**110.4**	87.0
Free cash flow : PBT	**86%**	71%
Cash conversion[1]	**115%**	96%

[1] Net cash from operations as a proportion of operating profit

Working Capital Movement (53 weeks)

(£m)	FY16	FY15
Stock decrease / (increase)	**16.5**	(17.6)
Receivables (increase) / decrease	**(1.2)**	1.5
Payables increase	**3.0**	16.2
Overall movement	**18.3**	**0.1**

Key Drivers
Improved intake planning and stock control

Dunelm

Capital Investment

(£m)	FY16	FY15
New store fit-outs	7.6	14.1
Refits and other store investments	10.4	5.2
IT investment	7.2	6.2
Fogarty acquisition	4.8	-
Freehold investment	-	4.3
Warehouse	11.9	-
Other	0.6	1.7
Total	**42.5**	**31.5**

- 6 new stores fitted out in FY16, 12 in comparable period
- 7 major refits completed in FY16
- Continued investment in IT systems to support initiatives

Capital Investment – FY17 Drivers

- c.9 new stores – average fit at £1.2m per store
- 15 refits – estimated investment c.£20m in total reflecting new format
- IT investments – continued development, estimated £6m in total
- Continued investment in Stoke re transfer of services, estimated £5m
- Potential freehold opportunities – one site committed, £5.5m investment
- Total expected capital expenditure c.£50m

Dunelm

Net Cash Generation (53 weeks)

(£m)	FY16	FY15
Free cash flow	**110.4**	**87.0**
Ordinary dividends paid	(44.6)	(41.5)
Special distribution paid	(63.8)	(141.7)
Purchase of treasury shares	(7.8)	-
Other	0.5	(0.3)
Change in net debt[1]	**(5.3)**	**(96.5)**
Year end net debt[2]	**(79.3)**	**(73.6)**
Daily average net debt	**(50.0)**	**(75.4)[3]**

[1] Excludes movement in prepaid loan fees of £0.4m
[2] Includes balance of prepaid loan fees - FY16: £0.8m, FY15: £1.2m
[3] Over period from special distribution (20 March 2015) to 4 July 2015

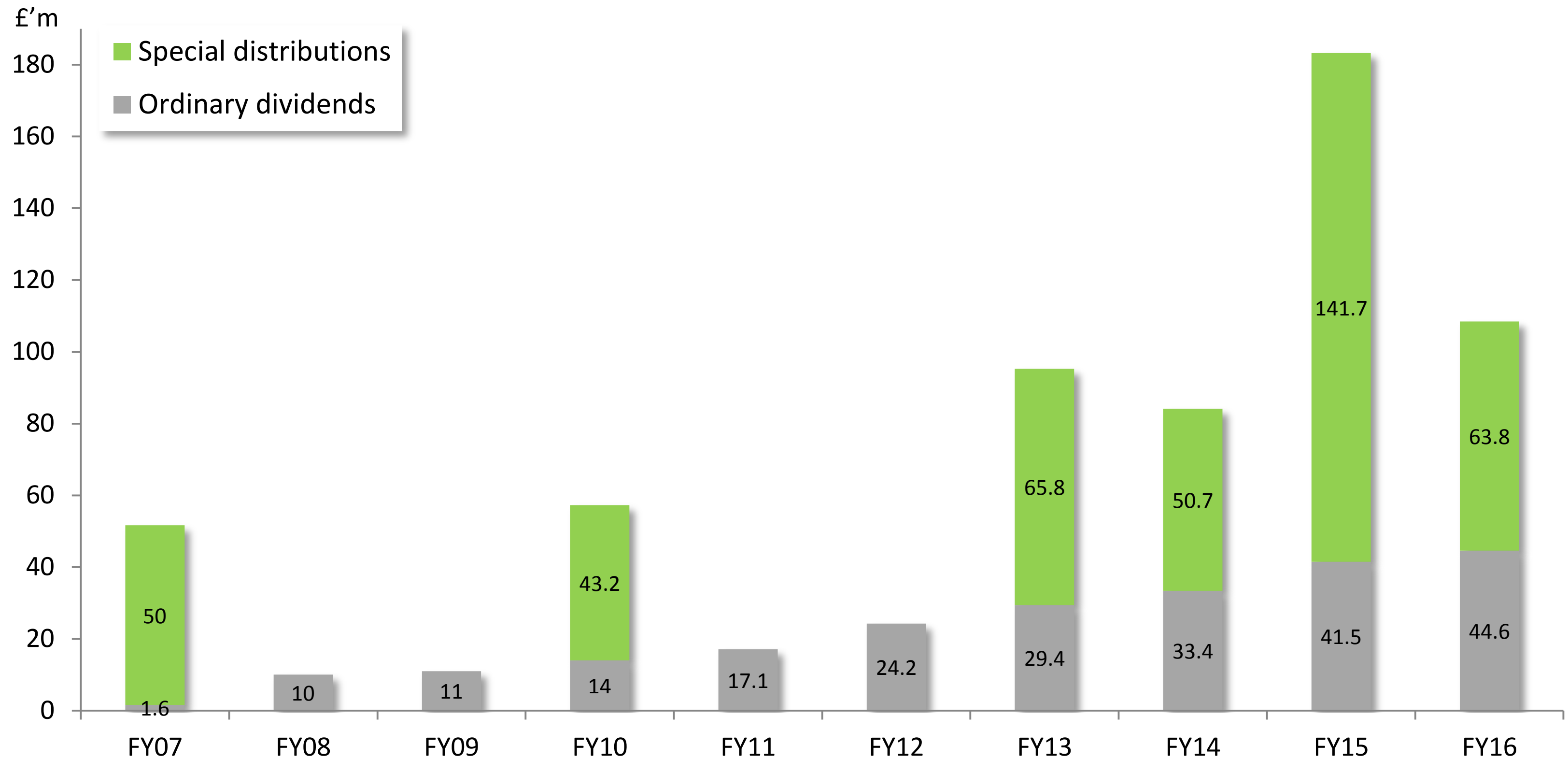
Dunelm

Net Debt and Dividend Policy

- Board is targeting net debt in the range of 0.25 – 0.75 x net debt/EBITDA
- EBITDA: £154.3m
- Period end net debt of £79.3m. This equates to 0.51 x EBITDA
- We will regularly review the net debt positions and return surplus capital as appropriate
- Dividend policy moved to range of 1.75x to 2.25x dividend cover

RCF	
Facility	£150m RCF
Expiry	February 2020
Covenants • Leverage • Fixed charge cover	 < 2.5x > 1.75x

Cash Returns to Shareholders



	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Ordinary dividend cover	3.2x	3.0x	3.1x	3.4x	2.5x	2.5x	2.5x	2.2x	2.2x	2.0x
Dividend yield*	13.4%	3.2%	3.4%	8.4%	2.6%	3.0%	6.7%	4.8%	10.5%	6.2%

Total cash returns since IPO = £642m (317.8p per share)

Chart shows actual cash payments in each financial year

*Based on average share price for FY07-FY16

Dunelm

Preliminary Results Presentation
Year ended 2 July 2016

Appendices

Store Openings By Year

Dunelm

Summary Balance Sheet

(£m)	2nd July 2016	4th July 2015
Total non-current assets	**188.9**	173.9
Inventories	**116.6**	133.1
Receivables	**19.2**	18.0
Cash	**14.9**	16.2
Financial instruments	**6.8**	-
Total assets	**346.4**	341.2
Current liabilities	**(108.2)**	(100.8)
Non-current liabilities	**(138.6)**	(135.3)
Net assets	**99.6**	**105.1**
Share capital	**2.0**	2.0
Share premium/other reserves	**50.7**	44.6
Retained earnings	**46.9**	58.5
Total equity	**99.6**	**105.1**

LFL Historic Growth