

RNS Half-year/Interim Report

INTERIM RESULTS**DUNELM GROUP PLC**

Released 07:00:04 15 February 2023

RNS Number : 9344P
Dunelm Group plc
15 February 2023



15 February 2023
Dunelm Group plc

Interim Results for the 26 weeks ended 31 December 2022

Strong performance and seizing the opportunity for sustainable growth

Dunelm Group plc ("Dunelm" or "the Group"), the UK's leading homewares retailer, today announces its interim results for the 26 weeks to 31 December 2022.

	FY23 H1	FY22 H1	YoY
Total sales	£835.0m	£795.6m	+5.0%
Gross margin	51.1%	52.8%	-170bps
Operating costs:sales ratio	36.6%	34.8%	+180bps
Profit before tax (PBT)	£117.4m	£140.8m	-16.6%
Digital % total sales ¹	34%	33%	+1ppt
Free cash flow ²	£102.1m	£106.3m	-£4.2m
Net cash ³	£18.2m	£47.7m	-£29.5m
Diluted earnings per share	45.8p	55.4p	-17.3%
Ordinary dividend per share	15p	14p	+7.1%
Special dividend per share	40p	37p	n/a

Highlights

- Strong sales growth of 5%, with total sales 43% higher than H1 FY20 (pre-pandemic), as we helped customers manage their household budgets
- Customers responded well to the Dunelm offer across our categories, with a significantly increased range on Dunelm.com, where we launched c.10,000 new SKUs
- 160bps market share gain in homewares and continued share gains in furniture⁴
- Active customers 5.7% higher than last year⁵, with 4.8% increase in shopping frequency⁶
- Three new stores opened, including one relocation
- Tripled our 'Delivering Joy' campaign, with over 60,000 Christmas gifts donated to local causes

Financial highlights

- Tight commercial discipline and operational grip delivered gross margin of 51.1%
- PBT of £117.4m, down on the prior year as expected, reflecting impact of Sale timing and strong post-pandemic demand in the prior year, and inflationary impacts
- £17m of investment in digitalisation, capability and capacity to support future growth opportunity
- Free cash flow of £102.1m, an excellent cash conversion of operating profit of 84%
- Interim dividend of 15p (FY22 H1: 14p), an increase of 7.1%
- Special dividend of 40p declared to return to target leverage range of 0.2x - 0.6x net debt:EBITDA⁷

Outlook and current trading

- Strong performance in the first half and a strong Winter Sale
- Whilst customers have been resilient to date, the consumer outlook remains unpredictable
- Our expectations for FY23 PBT remain unchanged⁸

Nick Wilkinson, Chief Executive Officer, commented:

"We are all learning to live in a new, complex and rapidly evolving economic reality. Recognising this, our focus has been on ensuring that we continue to offer outstanding value to our savvy customers through a proposition which is committed to quality, at the right price, across an expanding range of relevant products. We believe that this is why we have continued to grow our sales, customer numbers and market share.

"In this environment, agility, creativity and innovation are more important than ever and we have endeavoured to make every pound count, both for ourselves and for our customers, helping to mitigate the impact of inflation. While we do this, it is important that we also maintain our long-term thinking, invest for sustainable growth and continue to ensure we are in a position to seize the significant opportunities ahead of us.

"Much like during the pandemic, our customers, colleagues and the communities we operate in will remember how businesses behaved when times were tough, and we are confident that our approach of offering outstanding value and choice for all will enable us to - once again - emerge from this challenging period stronger than ever."

¹ Digital includes home delivery, Click & Collect and tablet-based sales in store

² Free cash flow is defined as net cash generated from operating activities less capex (net of disposals) and business combinations, net interest paid (including leases) and loan transaction costs, and repayment of principal element of lease liabilities. A reconciliation of operating profit to free cash flow is included in the CFO review

³ Excluding lease liabilities. Full definition provided in the table of alternative performance measures in the CFO review

⁴ GlobalData UK homewares and furniture markets, January 2022 to December 2022. Furniture excludes kitchen and bathroom furniture

⁵ Unique active customers who have transacted at least once in the 12 months to December 2022. Management estimates using Barclays data

⁶ Number of visits per retained customer in the 12 months to December 2022. Retained customers defined as those who have shopped with Dunelm in the 12 months to December 2021 and the 12 months to December 2022. Source: Barclays

⁷ Operating profit plus depreciation and amortisation of property, plant and equipment and intangible assets plus loss on disposal and impairment of property, plant and equipment and intangible assets plus depreciation on right-of-use assets

⁸ At our Preliminary results in September 2022, we confirmed that we were on track to deliver FY23 PBT in line with analysts' expectations. In September 2022, the company compiled consensus average of analysts' expectations for FY23 PBT was £178m, with a range of £130m to £193m. The current company compiled consensus average of analysts' expectations for FY23 PBT is £176m, with a range of £131m to £188m

Analyst Presentation:

There will be an in-person presentation for analysts and institutional investors this morning at 9.30am, hosted at Peel Hunt LLP, 100 Liverpool Street, London, EC2M 2AT, as well as a webcast and conference call with a facility for Q&A. For details, please contact pauline.guenot@mhpgroup.com. A copy of the presentation will be made available at <https://corporate.dunelm.com>

For further information please contact:**Dunelm Group plc**

Nick Wilkinson, Chief Executive Officer

Karen Witts, Chief Financial Officer

investorrelations@dunelm.com**MHP**

Simon Hockridge / Rachel Farrington / Pete Lambie

07710 032 657

dunelm@mhpgroup.com**Next scheduled event:**

Dunelm will release its third quarter trading update on 20 April 2023.

Quarterly analysis:

	52 weeks to 1 July 2023						
	Q1	Q2	H1	Q3	Q4	H2	FY
Total sales	£356.7m	£478.3m	£835.0m				
Total sales growth	-8.3%	17.6%	5.0%				
Digital % total sales	33%	35%	34%				

	53 weeks to 2 July 2022						
	Q1	Q2	H1	Q3	Q4	H2	FY
Total sales	£388.8m	£406.8m	£795.6m	£399.0m	£386.7m	£785.7m	£1,581.4m
Total sales growth	8.3%	12.9%	10.6%	68.6%	1.7%	27.4%	18.4%
Digital % total sales	33%	33%	33%	35%	37%	36%	35%

	52 weeks to 26 June 2021						
	Q1	Q2	H1	Q3	Q4	H2	FY
Total sales	£359.1m	£360.4m	£719.4m	£236.6m	£380.2m	£616.8m	£1,336.2m
Total sales growth	36.7%	11.8%	23.0%	-16.8%	101.7%	30.4%	26.3%
Digital % total sales	30%	41%	35%	93%	37%	59%	46%

Notes to Editors:

Dunelm is the UK's market leader in homewares, with a specialist offering for customers across multiple categories via its 179 predominantly out-of-town superstores and website, dunelm.com.

The business was founded in 1979 as a market stall, selling ready-made curtains. The first shop was opened in Leicester in 1984, with the first superstore opening in 1991. With a vision to become the 1st Choice for Home, Dunelm offers quality, value and style throughout its extensive product range, alongside services such as Home Delivery, Click & Collect and Made to Measure window treatments. From its textiles heritage in areas such as bedding, curtains, cushions, quilts and pillows, Dunelm has broadened its range into categories including furniture, kitchenware, dining, lighting, outdoor, craft and decoration. Its c.60,000 product lines include specialist own brands and labels such as Dorma and Fogarty, sourced from long-term committed suppliers.

Dunelm's purpose is *'To help create the joy of truly feeling at home, now and for generations to come'*. The business is headquartered in Leicester and employs over 11,000 colleagues. It has been listed on the London Stock Exchange since October 2006 (DNLM.L) and has a current market capitalisation of approximately £2.3bn.

CHAIR'S STATEMENT

These are the first set of Interim results since I became Chair of Dunelm and I am very pleased to be able to report that the business has delivered another strong performance in the first half of FY23. Dunelm's outstanding offer continues to resonate with customers in these challenging and uncertain times, by providing them with value, choice and relevance. I would like to thank all of our 11,000 colleagues for their hard work and dedication and for continuing to deliver an outstanding service to our customers every day.

Sustainability and community are at the heart of what we do, and are increasingly integrated with our day-to-day working practices. We are making good progress on our 'Pathway to Zero', for example in our Conscious Choice ranges, where we will soon have the first products in store using materials like those recycled through our own textiles take-back scheme. We were very pleased with our 'Delivering Joy' campaign, which saw more than 60,000 gifts - three times as many as in the previous year - donated by our customers and colleagues to support local causes over the festive period.

We have continued to strengthen our position as the UK's leading homewares retailer with further market share gains in both homewares and furniture. Our sales increased by 5% to £835.0m (FY22 H1: £795.6m) in the first half of our financial year, despite a strong comparative period. We generated profit before tax of £117.4m (FY22 H1: £140.8m), and delivered free cash flow of £102.1m (FY22 H1: £106.3m), a cash conversion rate of 84%.

The Board has declared an ordinary dividend of 15 pence per share (FY22 H1: 14 pence), reflecting our strong financial performance and our confidence in future growth. With our continued strong cash generation, healthy balance sheet, and an ongoing commitment to our published capital policy, the Board has also declared a special dividend of 40 pence per share.

I would like to thank and congratulate my predecessor, Andy Harrison, for his considerable achievements in his time at Dunelm. Having joined the Board in 2014, Andy has left a strong legacy with the business developing significant new capabilities during his tenure, which provide us with a strong base on which we can build for the future.

I am delighted to have taken on the Dunelm Chair role in January this year, having joined the Board last September. I have long admired Dunelm as a customer and over the last few months I have thoroughly enjoyed visiting many of our stores and sites as well as meeting some of our excellent suppliers. This is a business with very special colleagues, who are ambitious and passionately demonstrate their commitment to the company and its values.

The Board is fully committed to our strategy to become the 1st Choice for Home and believes in the significant growth opportunities ahead. Whilst we recognise ongoing uncertainty in the macroeconomic and consumer environment, we are performing well and will focus on being adaptable and maintaining strong operational grip.

We will invest in providing outstanding products, service, value and choice for our customers, gaining market share and continuing to deliver for colleagues, communities, suppliers and shareholders.

Alison Brittain

Chair

15 February 2023

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

The first half of FY23 was characterised by more external uncertainty, during which inflationary pressure on consumers was high. It is in these ongoing turbulent times that our ability to act with agility whilst continuing to listen and learn from our customers really shines through and makes Dunelm's offer as relevant as ever. Our increasing range of products across multiple homewares and furniture categories, combined with outstanding value, was able to play a key role in helping our customers both manage their household budgets and feel good in their homes.

Ambition and adaptability are equally important in such a challenging environment. We are ambitious about profitable growth and, alongside the delivery of another set of strong financial results, we continue to focus on digitalising the business and building our capability and capacity as a platform for our future growth. We see a lot of opportunity in a large market where - in a number of categories - we are still in the early stages of our development, with low shares. As we learn, build our capabilities and expand our product range in these areas, we see a significant runway for growth.

As the difficult economic climate continues to impact consumers and businesses, we continue to adapt to these changes, both as a business, and in response to our customers' evolving needs. We learn as we adapt, and I am confident that Dunelm will continue to develop as a stronger and better business as a result.

I offer my sincerest thanks to all my Dunelm colleagues, who continue to serve our customers and support each other brilliantly. Dunelm's continued success is testament to their hard work, commitment and resilience in these challenging times.

H1 Review

A resilient performance with strong operational grip

We were pleased to deliver another strong performance in H1, with total sales 5% higher than FY22 and 43% higher than the comparable period in FY20 (pre-pandemic). While the year-on-year comparatives reflect some shifts in the timing of our Sale events⁹ we saw good rates of underlying growth throughout the half.

Our growth continues to be broad-based across our categories and we continue to offer customers a wide choice of relevant products at outstanding value. Items that helped savvy customers to manage their budgets, such as heated airers and thermal curtains, were particularly popular. We saw good growth in customer numbers which increased by 5.7%¹⁰, and shopping frequency grew by 4.8%¹¹. Our market share in homewares improved by 160bps, and we also gained share in the furniture market¹², where we continue to build our offer, particularly online. Sales increased in both stores and digital channels, once again reflecting the strength of our total retail system.

Our gross margin of 51.1% (FY22 H1: 52.8%) was consistent with previous guidance. We have forward buying and hedging policies in place that give us good visibility and provide a degree of certainty over our input costs, helping us to manage our overall margin structure across our categories and good/better/best pricing hierarchies. Better visibility of some of the larger operating costs also helped us to manage the impact of inflation. The combination of robust sales and tight operational grip delivered PBT of £117.4m, with a strong PBT margin of 14.1%. As expected, this was lower than the FY22 H1 PBT of £140.8m, which benefitted from a rescheduled Summer Sale and particularly high levels of store sales, as stores reopened post pandemic.

In addition to this, strong free cash flow of £102.1m enabled us to declare a special dividend of 40 pence per share alongside our interim dividend of 15 pence per share, reflecting our confidence in the future performance of the business and returning leverage to within our target range.

⁹ The Q1 comparative benefitted from the rescheduled Summer Sale in 2021. Due to the 53rd week at the end of FY22, six days of the Winter Sale fell into Q2 this year (the Sale began in Q3 last year)

¹⁰ Unique active customers who have transacted at least once in the 12 months to December 2022. Management estimates using Barclays data

¹¹ Number of visits per retained customer in the 12 months to December 2022. Retained customers defined as those who have shopped with Dunelm in the 12 months to December 2021 and the 12 months to December 2022. Source: Barclays

¹² GlobalData UK homewares and furniture markets, January 2022 to December 2022. Furniture excludes kitchen and bathroom furniture

Seizing the opportunity

Our purpose as a company is to help create the joy of truly feeling at home, now and for generations to come. This purpose, along with our ambitions and values, were set out before the pandemic, reinforced during the pandemic and remain as relevant as ever today. They have guided us as we have adapted quickly to a rapidly evolving landscape, helping us to deliver continued market share gains and profitable growth. Alongside being adaptable, we have been confident enough to continue investing, to strengthen our proposition for the long term, enabling us to digitalise and transform. It is this adaptability and long-term focus that has allowed Dunelm to thrive and demonstrate healthy returns on these investments.

We have made great progress in recent years but are more excited about the opportunities that lie ahead. There is enormous scope for us to gain further market share across the homewares and furniture landscapes and deliver profitable, sustainable growth long into the future.

Market share runway

Dunelm operates in the large and fragmented markets of homewares and furniture, with each featuring a significant number of sub-categories. The combined market size is c.£23bn, with our share of this total market being c.7%¹³. We have higher market shares (in excess of 10%) in our longer-established homewares categories, such as window dressings and bedding, which account for c.£5bn of the total market. We believe we will continue to grow share in these categories. There is further opportunity to optimise our ranges, and for our brand and channels to reach more customers and for their shopping experience to be easier and more convenient.

The remaining homewares categories represent a market of c.£9bn where our share is less than 10%. We are confident in achieving higher share in all of these categories as our relatively lower product maturity gives significant headroom for further growth and share gain. The £9bn¹³ furniture market, where we currently have a very low share, is another substantial opportunity.

Our broad range of categories, combined with our deep product knowledge, provide an exciting runway for growth.

We have identified three priorities to seize this opportunity and drive profitable and sustainable growth:

- 1) Strengthening our customer offer to provide unbeatable value and choice;
- 2) Digitalising the total business; and
- 3) Bringing together our marketing ecosystem in order to acquire and develop customers cost effectively.

¹³ GlobalData UK homewares and furniture markets, January 2022 to December 2022. Furniture excludes kitchen and bathroom furniture

1. Strengthening our customer offer

Product mastery is at the heart of the Dunelm business. Our colleagues are passionate about offering our customers outstanding value and quality for every space, style and budget. We are constantly improving and innovating across our ranges.

We are increasingly seeing innovation in more sustainable materials as an opportunity for further differentiation, particularly when offered at affordable price points. We are already making good progress, having launched our Conscious Choice range last year. Conscious Choice offers sustainably-focused own-brand lines, with each product being made from at least 50% more sustainable materials (by weight) compared to conventional alternatives. We recently extended this range to include our polycotton bedding, which is now all made from recycled polycotton.

We have also been innovating in product design, to offer customers a broader range while maintaining value. For example, changing the mix of raw materials to maintain a desired price point without sacrificing quality, offering self-build alternatives in furniture to offer customers more choice, and innovating in the design of packaging to reduce transport costs.

The power of our total retail system gives us the opportunity to extend and broaden our ranges beyond the physical limitations of our store estate, while maintaining a curated offering. Our 'supplier to site' programme has allowed us to quickly test new product and increase the choice available to customers with limited commitment. This programme has gathered momentum in the first half, with the introduction of c.10,000 additional SKUs into the product range, and offers significant opportunity for further range extension.

Our ambition is to continue to offer customers great value and choice, and to achieve significant market share across all the categories in which we operate. We are focused on developing our capabilities and supplier relationships in our less mature categories in order to achieve the same levels of product mastery as we have in our heritage categories.

2. Digitalising the total business

We have been investing in technology for a number of years. We refer to this as 'digitalisation', which means not just efficient digital experiences on Dunelm.com, but also the wider introduction of technology across the business and leveraging the data generated to further improve our proposition and operations.

We have made great progress in building strong foundational capabilities to provide a platform for future development and have been strengthening our data capability and digitalising our total business across five key areas:

1. Data and insight: Data platforms and capabilities for decision optimisation
2. Commercial operations: Product data, forecasting and range planning
3. Customer marketing: Personalised customer experience based on attitudes and behaviours
4. Shopping experience: Easy, seamless online and instore customer and colleague experience
5. Post-sales experience: Personal, high quality and efficient delivery, service and support

The foundational technology for our data platform is now in place, and we are beginning to leverage the customer data and marketing technology stack and our data and digitalisation capability to power growth. We see a significant and exciting opportunity ahead to both enhance our customer proposition and improve our productivity.

In the first half, our work in this area delivered a number of improvements to our proposition. We diversified our payment options, introducing Apple Pay and 'Pay in 3', using functionality from our new online payment platform. We introduced more convenient delivery options, with a trial of parcel shop collections in London and the Midlands. We are also trialling bookable consultations and live chat, to give more customers access to the expert help available from our store colleagues. We are excited about the significant opportunities in our plan; over the next 12 months we will introduce long term credit, achieve higher 'perfect order' rates by shortening lead times and improving communications, and we will also use our data to inform our plans for new stores and refits.

Data and digitalisation are helping us to become more productive. We launched self-help tools for customers for order tracking, which provide both a better experience for our customers and reduce calls to our customer care centre. We have worked hard to reduce the number of separate home delivered parcels for single orders by stocking products in multiple locations across our distribution network. There are significant opportunities for further improvement here, which we expect to progress over the next year. We are well into a multi-year programme to improve our commercial operations by introducing new tools for master data management, forecasting and replenishment, and a new portal to help us collaborate even more effectively with our suppliers. Once complete, we will be able to bring products to market more quickly, improve availability for our customers and reduce manual work for our colleagues. As our customer data matures over time we have a significant opportunity to offer customers more personalised communications and experiences, further increasing the efficiency of our marketing spend. We will begin using our single customer view to test and learn over the coming year.

3. Marketing ecosystem evolution

Alongside product mastery and digitalisation, we are evolving our marketing ecosystem to enable more cost effective customer acquisition and development, which we believe offers a significant competitive advantage. Our customer data platform is taking shape and will continue to be progressed over the next 12 months. Our online payment platform will be extended to our store estate, enabling the matching of transactions to identify single customer behaviour across all channels. We will supplement this transactional data to gain deeper insight through a variety of other data sources, including customer demographics, engagement with marketing content and understanding of interactions with customer services.

In recent years we have scaled up in brand, digital, and, most recently, community marketing. The next stage of evolution is to begin building on these strong foundations through personalised content and activity. We recently introduced personalised recommendations in our email campaigns and used a new model to predict when customers will churn, enabling us to intervene with appropriate communications.

The omni-channel combination of a national brand, digital reach and local community of followers makes our ecosystem structurally different to most competitors. Our largely exclusive product range offers further differentiation, alongside the ability of our colleagues to deliver on our brand purpose of helping create joy.

Doing the right thing

We continue to strive to make decisions that are guided by our values and deliver for all of our stakeholders in a balanced way. We have much to learn but we are becoming bolder in our ambition and delivering meaningful initiatives in support of our ambitions.

In FY22 we rolled out our textiles take-back scheme nationwide, allowing customers to return unwanted items, whether or not they were purchased from Dunelm. We recently launched a new product range, in our Conscious Choice assortment, using up to 100% recycled fibres, with at least 40% of those materials coming from pre-loved textiles like those generated from our take-back scheme. The range reflects our commitment to creating a more circular future, by recycling returned materials and developing products from end-of-life items. The new range includes waffle cushion covers, waffle throws, muslin throws and printed cushions. The products feature at competitive price points, because we believe sustainability should be accessible to all, and is a further example of innovative product development in our heritage categories.

Since 2020 we have been running our 'Delivering Joy' campaign in the period up to Christmas, offering colleagues and customers the chance to donate gifts which we distribute to local good causes. This year we significantly increased awareness of the campaign via social media and partnerships with national and local radio stations. As a result we more than tripled the number of gifts donated to over 60,000, in support of over 550 good causes.

Summary and Outlook

We delivered another strong performance in the first half, with strong sales, tight operational grip, robust profits and cashflow, and more customers who are shopping more often.

We remain committed to making sure our broad product ranges continue to resonate, offering outstanding value for all styles and budgets. We have a clear customer 1st plan for growth that will enable us to strengthen our customer offer as a value retailer for savvy home lovers, through product mastery, innovation and outstanding execution. We now see an even bigger opportunity for digitalisation, and using the data created to drive growth and efficiency. We are developing a marketing ecosystem which is cost effective at attracting and developing customers, and which we are beginning to personalise. We continue to invest in these areas to seize the opportunities for growth.

Whilst customers have been resilient to date, the outlook remains unpredictable as consumers are still adapting to the new economic reality. Our expectations for FY23 PBT remain unchanged from previous results announcements¹⁴.

We are more excited than ever about the significant growth runway ahead to grow market share and deliver sustainable growth for all our stakeholders.

¹⁴ At our Preliminary results in September 2022, we confirmed that we were on track to deliver FY23 PBT in line with analysts' expectations. In September 2022, the company compiled consensus average of analysts' expectations for FY23 PBT was £178m, with a range of £130m to £193m. The current company compiled consensus average of analysts' expectations for FY23 PBT is £176m, with a range of £131m to £188m

Nick Wilkinson

Chief Executive Officer

15 February 2023

CHIEF FINANCIAL OFFICER'S REVIEW**Revenue**

Total sales for the 26-week period to 31 December 2022 increased by 5.0% to £835.0m (FY22 H1: £795.6m). Compared to FY20 (the last fully comparable period), total sales grew by 42.7% (FY20 H1: £585.0m).

	26 weeks to 31 December 2022		
	FY23	YoY	3YoY
Total Group sales	£835.0m	+5.0%	+42.7%
Digital % total sales	34%	+1ppt	+14ppts
Homewares market share ¹⁵	10.8%	+1.6ppts	
Furniture market share ¹⁵	2.1%	+0.2ppts	

Our trading performance was robust, despite a strong comparative period, with Q1 last year benefitting from pent up demand and our rescheduled Summer Sale¹⁶. The YoY growth rate included a benefit of c.2ppts from the timing of our Winter Sale, with this impact due to reverse in the second half¹⁷.

We saw growth both in stores and online, with digital sales now making up 34% of total sales, up 14ppts since H1 FY20. Digital sales growth was particularly strong in the late Autumn and run-up to Christmas. These growth rates reflect our highly relevant product range and continued focus on delivering exceptional value for money during a time when customers are facing high inflationary pressures.

We continue to see broad-based growth across categories. Customers responded well to our 'Winter Warm' and Christmas ranges. As people try to find ways to mitigate heating costs, lines such as rugs, thermal curtains and heated airers proved popular. Our make and mend and haberdashery categories have also performed well as customers look to repair and upcycle. Our offer is relevant all year round and as the weather gets warmer, customers will find products related to outdoor drying, spring cleaning the home, and living and eating outdoors.

Our approach to retail pricing remains dynamic, and we have implemented not just retail price increases, but also price reductions in different categories as we balanced input cost pressures with offering exceptional value.

For the calendar year 2022, the homewares market declined by c.2% while we reported good growth for the year. In homewares, our market share increased by 160bps to 10.8%¹⁵. We also gained share in the furniture market, from a smaller base¹⁵.

¹⁵ GlobalData UK homewares and furniture markets, January 2022 to December 2022. Furniture excludes kitchen and bathroom furniture

¹⁶ The 2021 Summer Sale was rescheduled and took place in Q1 FY22 (the Summer Sale usually takes place in Q4)

¹⁷ Due to the 53rd week at the end of FY22, six days of the Winter Sale fell into Q2 this year (the Sale began in Q3 last year)

Gross margin

Gross margin of 51.1% was strong and in line with our expectations that it would reduce from the temporarily higher level seen during the pandemic period, with a reduction of 170bps in H1 FY23 (FY22 H1: 52.8%). There was also a modest gross margin headwind of c.30bps from the timing of our Winter Sale.

We seek good visibility of input costs as we plan our purchasing for each season and this helps to manage changes in raw material prices, freight costs and foreign exchange within our margin rates. Looking ahead, we expect H2 gross margin to be lower than H1 due to the impact of the two Sale events and our full year gross margin expectation is in line with our previous guidance of around 50%.

Operating costs

Total operating costs were £305.2m (FY22 H1: £277.0m), representing an operating cost ratio of 36.6% (FY22 H1: 34.8%). The operating cost ratio benefitted from the timing of the Winter Sale, which increased sales in the half with relatively little additional operating cost. The prior year operating cost:sales ratio was also low, reflecting exceptionally strong sales, particularly in stores.

Inflationary pressures, mainly on wages, increased operating costs by c.£8m. We maintain a tight operational grip on costs and worked hard to mitigate the impact of these increases through operational efficiencies in stores and the supply chain. We invested £11m in digitalisation and building new capability in data, tech and insight and analytics. We are realising the benefits of these investments through our sales growth, providing us with confidence to continue to invest. The

annualisation of the supply chain capacity we invested in during FY22 and new store openings added £6m to operating costs in the half. The expected withdrawal of business rates relief, introduced in response to the pandemic, increased operating costs by £3m.

We expect further inflationary cost pressures in the second half and will continue to invest in capability to drive growth as we digitalise the business. These increases will be partially offset by lower stockholding costs as we reduce our inventory levels.

Profit and earnings per share

Operating profit of £121.8m was 14.6% lower than FY22 H1 (FY22 H1: £142.7m), reflecting the Summer Sale and store reopening impacts in the comparative period.

Net finance costs of £4.4m (FY22 H1: £1.9m) included interest on IFRS 16 lease liabilities of £2.6m (FY22 H1: £2.4m). FY22 H1 included foreign exchange gains on the revaluation of USD balances which did not recur this year.

Profit before tax in the period was £117.4m (FY22 H1: £140.8m), a reduction of £23.4m year on year. Profit after tax of £93.0m (FY22 H1: £113.4m) reflected an effective tax rate of 20.8% (FY22 H1: 19.5%). The increase in the effective tax rate is broadly in line with the increase to the UK headline rate of corporation tax. The effective tax rate was 30bps higher than the UK headline rate, due to certain disallowable expenditures. We expect the effective tax rate to continue to trend slightly above the headline rate.

Basic earnings per share (EPS) for the period were 46.1 pence (FY22 H1: 55.9 pence). Diluted earnings per share were 45.8 pence (FY22 H1: 55.4 pence).

Cash generation and net cash

In the period, the Group generated £102.1m of free cash flow (FY22 H1: £106.3m), with strong conversion of operating profit to free cash flow of 84% (FY22 H1: 74%).

	FY23 H1 £m	FY22 H1 £m
Operating profit	121.8	142.7
Depreciation and amortisation ¹⁸	38.9	38.1
Share-based payments	2.0	3.2
Net movement in working capital	(1.9)	(21.0)
Tax paid	(17.9)	(15.0)
Net cash generated from operating activities	142.9	148.0
Capex and business combinations	(12.5)	(14.2)
Net interest and loan transaction costs ¹⁹	(0.9)	(1.6)
Interest paid on lease liabilities	(2.6)	(2.4)
Repayment of principal element of lease liabilities	(24.8)	(23.5)
Free cash flow	102.1	106.3

¹⁸ Including impairment and loss on disposal

¹⁹ Excluding interest on lease liabilities

There was a small working capital outflow of £1.9m in the period (FY22 H1: £21.0m outflow). The FY22 H1 outflow reflected the decision to build inventory in order to mitigate against the risk of further supply chain disruption. Inventories at the end of the period were £233.4m (FY22 H1: £204.4m), £29m higher than H1 FY22, mainly due to inflation in the cost of inventories. We are comfortable with the quality of our inventory, but we do expect stock holding to reduce during H2. For the full year, we expect a modest working capital inflow due to the lower stockholding.

Total capital investment was £12.5m (FY22 H1: £14.2m). This included £11m spent on the three new stores opened in the period, as well as refits of seven existing stores and decarbonisation initiatives. We expect capital investment for the full year to be c.£20-25m, depending on the timing of new store openings.

Cash tax paid was £17.9m (FY22 H1: £15.0m). FY22 H1 included cash receipts in relation to research and development claims made at the end of FY21.

In the period, the Group spent £7.0m (FY22 H1: £9.6m) purchasing shares to be held in treasury to satisfy future obligations under its employee share schemes. The Group held 2.1m shares in treasury as at 31 December 2022.

After total dividend payments in the period of £52.4m (FY22 H1: £178.7m), the Group ended the year with net cash of £18.2m (FY22 H1: £47.7m).

Banking agreements

In December 2021 the Group agreed a new £185m sustainability-linked unsecured revolving credit facility ("RCF"). The facility had an initial term of four years, with an option to extend by a maximum of a further two years at Dunelm's request, subject to lender consent. In December 2022 the first option was agreed, extending the facility until December 2026. The RCF incorporates four sustainability-linked performance targets which align with our ambitious sustainability plans, including our commitment to pursue a Net Zero Pathway. We will report on our achievements against these targets in our results announcement in September 2023; we remain confident that we will achieve our long-term targets. The terms of the RCF include covenants in respect of leverage (net debt²⁰ to be no greater than 2.5× adjusted EBITDA²¹) and fixed charge cover (EBITDAR²² to be no less than 1.75× fixed charges²³), both of which were met comfortably as at 31 December 2022. In addition, the Group maintains £10m of uncommitted overdraft facilities.

²⁰ Excluding lease liabilities. Full definition provided in the table of alternative performance measures in the CFO review

²¹ Adjusted EBITDA defined as EBITDA less depreciation on right-of-use assets

²² EBITDAR defined as EBITDA plus rent

²³ Fixed charges are defined as net interest costs plus right-of-use asset depreciation plus rent

Capital and dividend policies

The Board policy on capital structure targets an average net debt level (excluding lease obligations and short-term fluctuations in working capital) of between 0.2× and 0.6× the last 12 months' EBITDA²⁴. The Group's dividend policy targets ordinary dividend cover of between 1.75× and 2.25× earnings per share during the financial year to which the dividend relates.

The Board will continue to consider returning surplus cash to shareholders if average net debt, excluding lease liabilities, over a period consistently falls below the minimum target of 0.2× EBITDA²⁴, subject to known and anticipated investment plans at the time.

The Group's full capital and dividend policies are available on our website at www.corporate.dunelm.com.

²⁴ EBITDA defined as operating profit plus depreciation and amortisation of property, plant and equipment and intangible assets plus loss on disposal and impairment of property, plant and equipment and intangible assets plus depreciation on right-of-use assets

Dividends

Reflecting the strong performance in the first half of FY23 and confidence in the full year outlook, the Board has declared an interim ordinary dividend of 15 pence per share, totalling £30m. The interim dividend will be paid on 11 April 2023 to shareholders on the register on 17 March 2023.

Strong cash generation in the period has enabled the Board to also declare a special dividend of 40 pence per share, totalling £81m, returning the Group to its target leverage range. The special dividend will be paid on 11 April 2023 to shareholders on the register on 17 March 2023.

Principal risks and uncertainties

The Board regularly reviews and monitors the risks and uncertainties which could have a material effect on the Group's results. The principal risks and uncertainties that could lead to a material impact have not significantly changed from those listed in the FY22 Annual Report. A summary of the principal risks has been provided below:

Risk	Impact
Competition, market and customers	Failure to respond to changing consumer needs e.g. the shift towards online sales, personalisation, rental versus ownership, sustainability and customer experience, and to maintain a competitive offer (range, quality, value and ease of shopping) could impact profitability and limit opportunities for growth. A downturn in the economy and consumer spending, aggressive competitor activity (especially with cost price pressures) could impact sales and profit.
Catastrophic business events	Failure to withstand the impact of an external event or combination of events that severely disrupts markets and causes significant damage to all or a substantial part of the Group's sales or operations (e.g. pandemic).
Brand damage	Our customers expect us to deliver products that are safe, compliant with legal and regulatory requirements, and fit for purpose. Increasingly, customers also want to know that products have been responsibly sourced and that their environmental impact is minimised. We must also ensure that our suppliers share and uphold our approach to business ethics, human rights (including safety and modern slavery) and the environment. Failure to do so could result in harm to individuals with the potential for customers, colleagues and other stakeholders to lose confidence in the Dunelm brand.

People and culture	The success of the business could be impacted if it fails to attract, retain and motivate high-calibre colleagues. Maintaining and evolving the culture of our business (embodied in our shared values) is essential to delivering our strategy and ensuring the long-term sustainability of our business.
IT systems, data and cyber security	Operations impacted by failure to develop technology to support the strategy, lack of systems availability due to cyber attack or other failure, and reputational damage/fines due to loss of personal data.
Regulatory and compliance	Fines, damages claims, and reputational damage could be incurred if we fail to comply with legislative or regulatory requirements, including consumer law, health and safety, employment law, GDPR and data protection, Bribery Act, or competition law.
Climate change and environment	Failure to anticipate and address the strategic, regulatory, and reputational impact of climate change and environmental matters, and governmental, consumer and media action in response to it.
Supply chain disruption	Changes in global supply chain capacity, labour shortages, ongoing disruption from Covid-19 and geo-political instability may cause interruption to the supply of stock to our stores and fulfilment of online orders which could impact sales. Inflationary pressures linked to these challenges could impact profitability.
Business efficiency	Profitability could be impacted by failure to operate the business efficiently or to manage margin volatility.
Finance and treasury	Progress against business objectives constrained by a lack of short-term funding and long term capital.

Alternative performance measures (APMs)

APM	Definition, purpose and reconciliation to statutory measure
Unique active customers growth	12-month rolling growth in unique active customers who have shopped in the 12 months, based on Barclays transactional data. Note that Barclays data represents approximately 10% of total Dunelm transactions. To measure whether we are continuing to grow our active customer base - from both new customers and retention of existing customers.
Total sales	Equivalent to revenue (from all channels). This is net of customer returns.
Digital sales	Digital sales include home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store.
Digital % total sales	Digital sales (as defined above) expressed as a percentage of revenue. This is not a measure that we seek to maximise in itself, but we measure it to track our adaptability to changing customer behaviours.
Gross margin %	Gross profit expressed as a percentage of revenue. Measures the profitability of product sales prior to operating costs.
Operating costs to sales ratio	Operating costs expressed as a percentage of revenue. To measure the growth of costs relative to sales growth.
EBITDA	Earnings before interest, tax, depreciation, amortisation and impairment. Operating profit plus depreciation and amortisation of property, plant and equipment, right-of-use assets and intangible assets plus loss on disposal and impairment of property, plant and equipment and intangible assets. Used in our capital and dividend policy.
Adjusted EBITDA	EBITDA less depreciation on right-of-use assets. To measure compliance with bank covenants
EBITDAR	EBITDAR is calculated as EBITDA plus rent. To measure compliance with bank covenants
Effective tax rate	Taxation expressed as a percentage of profit before taxation. To measure how close we are to the UK corporation tax rate and understand the reasons for any differences.
Capex (net of disposals)	Acquisition of intangible assets and acquisition of property, plant and equipment less proceeds on disposal of property, plant and equipment and intangibles.
Free cash flow	Free cash flow is defined as net cash generated from operating activities less capex (net of disposals) and business combinations, net interest paid (including leases) and loan transaction costs, and repayment of principal element of lease liabilities. Measures the cash generated that is available for disbursement to shareholders.
Net cash/(debt)	Cash and cash equivalents less total borrowings (as shown in note 14). Excludes IFRS 16 lease liabilities.
Cash conversion	Free cash flow expressed as a percentage of operating profit.

Karen Witts

Chief Financial Officer
15 February 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first 26 weeks and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining 26 weeks of the financial year; and
- material related-party transactions in the first 26 weeks and any material changes in the related-party transactions described in the last annual report.

The maintenance and integrity of the Dunelm Group Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that might have occurred to the interim financial statements since they were initially presented on the website.

The directors of Dunelm Group Plc are listed in the Company's annual report for 2 July 2022. A list of current directors is maintained on the Company's website: www.corporate.dunelm.com.

By order of the board

Nick Wilkinson
Chief Executive Officer
15 February 2023

Karen Witts
Chief Financial Officer
15 February 2023

INDEPENDENT REVIEW REPORT TO DUNELM GROUP PLC

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Dunelm Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the Interim Results of Dunelm Group plc for the 26 week period ended 31 December 2022 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Results of Dunelm Group plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ("ISRE (UK) 2410"). A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

INDEPENDENT REVIEW REPORT TO DUNELM GROUP PLC (CONTINUED)

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Interim Results, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Results based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this

conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
15 February 2023

CONSOLIDATED INCOME STATEMENT

(UNAUDITED)

For the 26 weeks ended 31 December 2022

	Note	26 weeks ended 31 December 2022 £'m	26 weeks ended 25 December 2021 £'m	53 weeks ended 2 July 2022 £'m
Revenue	5	835.0	795.6	1,581.4
Cost of sales		(408.0)	(375.9)	(772.0)
Gross profit		427.0	419.7	809.4
Operating costs		(305.2)	(277.0)	(591.7)
Operating profit		121.8	142.7	217.7
Financial income		0.2	0.9	1.2
Financial expenses		(4.6)	(2.8)	(6.1)
Profit before taxation		117.4	140.8	212.8
Taxation	6	(24.4)	(27.4)	(41.6)
Profit for the period		93.0	113.4	171.2
Earnings per Ordinary Share - basic	8	46.1p	55.9p	84.5p
Earnings per Ordinary Share - diluted	8	45.8p	55.4p	83.6p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

For the 26 weeks ended 31 December 2022

	26 weeks ended 31 December 2022 £'m	26 weeks ended 25 December 2021 £'m	53 weeks ended 2 July 2022 £'m
Profit for the period	93.0	113.4	171.2
Other comprehensive (expense)/income:			
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of cash flow hedges	(1.0)	5.7	32.4
Deferred tax on hedging movements	1.7	(1.4)	(5.3)
Other comprehensive income for the period, net of tax	0.7	4.3	27.1
Total comprehensive income for the period	93.7	117.7	198.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(UNAUDITED)

As at 31 December 2022

	Note	31 December 2022 £'m	25 December 2021 £'m	2 July 2022 £'m
Non-current assets				
Intangible assets	9	7.7	12.1	9.9
Property, plant and equipment	9	175.0	169.3	173.7
Right-of-use assets	10	241.9	264.4	248.5
Deferred tax assets		4.6	7.7	4.1
Derivative financial instruments		1.1	0.9	4.6
Total non-current assets		430.3	454.4	440.8
Current assets				
Inventories	11	233.4	204.4	223.0
Trade and other receivables		21.2	20.1	22.9
Current tax asset		-	-	1.1
Derivative financial instruments		13.4	2.4	19.9
Cash and cash equivalents		40.2	47.7	30.2
Total current assets		308.2	274.6	297.1
Total assets		738.5	729.0	737.9
Current liabilities				
Trade and other payables	12	(231.2)	(204.8)	(223.2)
Lease liabilities		(53.4)	(51.8)	(52.8)
Current tax liability		(4.8)	(8.3)	-
Derivative financial instruments		(1.8)	(1.2)	-
Total current liabilities		(291.2)	(266.1)	(276.0)

Non-current liabilities

Bank loans	14	(20.7)	-	(52.8)
Lease liabilities		(217.5)	(243.7)	(225.3)
Provisions		(5.5)	(4.2)	(5.5)
Derivative financial instruments		(2.3)	(0.2)	-
Total non-current liabilities		(246.0)	(248.1)	(283.6)
Total liabilities		(537.2)	(514.2)	(559.6)
Net assets		201.3	214.8	178.3
Equity				
Issued share capital		2.0	2.0	2.0
Share premium account		1.7	1.6	1.7
Capital redemption reserve		43.2	43.2	43.2
Hedging reserve		7.8	1.5	20.2
Retained earnings		146.6	166.5	111.2
Total equity		201.3	214.8	178.3

Karen Witts

Chief Financial Officer

15 February 2023

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

For the 26 weeks ended 31 December 2022

	Note	26 weeks ended 31 December 2022 £'m	26 weeks ended 25 December 2021 £'m	53 weeks ended 2 July 2022 £'m
Cash flows from operating activities				
Profit before taxation		117.4	140.8	212.8
Net financial expense		4.4	1.9	4.9
Operating profit		121.8	142.7	217.7
Depreciation and amortisation of property, plant and equipment and intangible assets	9	14.6	14.6	30.5
Depreciation on right-of-use assets	10	24.2	23.4	48.6
Loss on disposal and impairment of property, plant and equipment and intangible assets		0.1	0.1	0.3
(Gain) on disposal of right-of-use assets		-	-	(0.1)
Share based payments expense		2.0	3.2	4.8
Operating cash flow before movements in working capital		162.7	184.0	301.8
Increase in inventories		(10.4)	(32.0)	(40.3)
Decrease/(increase) in receivables		1.7	(7.1)	(7.7)
Increase in payables		6.8	18.1	33.2
Net movement in working capital		(1.9)	(21.0)	(14.8)
Tax paid		(17.9)	(15.0)	(35.2)
Net cash generated from operating activities		142.9	148.0	251.8
Cash flows from investing activities				
Acquisition of intangible assets		(0.2)	(0.5)	(0.7)
Acquisition of property, plant and equipment		(12.3)	(13.7)	(23.3)
Acquisition of business combination		-	-	(17.7)
Interest received		0.2	-	0.1
Net cash used in investing activities		(12.3)	(14.2)	(41.6)
Cash flows from financing activities				
Proceeds from exercise of share options		0.2	0.2	3.9
Purchase of treasury shares		(7.0)	(9.6)	(28.3)
Drawdowns on revolving credit facility		80.0	-	85.0
Repayments of revolving credit facility		(112.0)	-	(31.0)
Interest paid and loan transaction costs		(1.1)	(1.6)	(2.2)
Interest paid on lease liabilities		(2.6)	(2.4)	(4.8)
Repayment of principal element of lease liabilities		(24.8)	(23.5)	(50.2)
Dividends paid	7	(52.4)	(178.7)	(282.1)
Net cash flows used in financing activities		(119.7)	(215.6)	(309.7)
Net increase/(decrease) in cash and cash equivalents		10.9	(81.8)	(99.5)
Foreign exchange revaluations		(0.9)	0.9	1.1
Cash and cash equivalents at the beginning of the period		30.2	128.6	128.6
Cash and cash equivalents at the end of the period		40.2	47.7	30.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(UNAUDITED)

For the 26 weeks ended 31 December 2022

	Note	Issued share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Hedging reserve £'m	Retained earnings £'m	Total equity attributable to equity holders of the Parent £'m
As at 2 July 2022		2.0	1.7	43.2	20.2	111.2	178.3
Profit for the period		-	-	-	-	93.0	93.0
Movement in fair value of cash flow hedges		-	-	-	(1.0)	-	(1.0)

Deferred tax on hedging movements	-	-	-	1.7	-	1.7
Total comprehensive income for the period	-	-	-	0.7	93.0	93.7
Proceeds from issue of treasury shares	-	-	-	-	0.2	0.2
Purchase of treasury shares	-	-	-	-	(7.0)	(7.0)
Share based payments	-	-	-	-	2.0	2.0
Deferred tax on share based payments	-	-	-	-	(0.7)	(0.7)
Current tax on share options exercised	-	-	-	-	0.3	0.3
Movement on cash flow hedges transferred to inventory	-	-	-	(13.1)	-	(13.1)
Dividends paid	7	-	-	-	(52.4)	(52.4)
Total transactions with owners, recorded directly in equity	-	-	-	(13.1)	(57.6)	(70.7)
As at 31 December 2022	2.0	1.7	43.2	7.8	146.6	201.3
As at 26 June 2021	2.0	1.6	43.2	(4.3)	238.7	281.2
Profit for the period	-	-	-	-	113.4	113.4
Movement in fair value of cash flow hedges	-	-	-	5.7	-	5.7
Deferred tax on hedging movements	-	-	-	(1.4)	-	(1.4)
Total comprehensive income for the period	-	-	-	4.3	113.4	117.7
Proceeds from issue of treasury shares	-	-	-	-	0.2	0.2
Purchase of treasury shares	-	-	-	-	(9.6)	(9.6)
Share based payments	-	-	-	-	3.2	3.2
Deferred tax on share based payments	-	-	-	-	(1.1)	(1.1)
Current tax on share options exercised	-	-	-	-	0.4	0.4
Movement on cash flow hedges transferred to inventory	-	-	-	1.5	-	1.5
Dividends paid	7	-	-	-	(178.7)	(178.7)
Total transactions with owners, recorded directly in equity	-	-	-	1.5	(185.6)	(184.1)
As at 25 December 2021	2.0	1.6	43.2	1.5	166.5	214.8

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the 26 weeks ended 31 December 2022 (UNAUDITED)

1 General information

Dunelm Group plc and its subsidiaries ('the Group') are incorporated and domiciled in the UK. Dunelm Group plc is a listed public company, limited by shares and the company registration number is 04708277. The registered office is Watermead Business Park, Syston, Leicestershire, LE7 1AD.

The primary business activity of the Group is the sale of homewares through a network of UK stores and online.

The Group's financial results and cash flows are subject to seasonal trends between the first and second half of the financial period. Traditionally, revenue and profit are higher in the first half of the financial period due to the performance of seasonal lines and the timing of sale events.

2 Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2022 has been prepared in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 2 July 2022, which has been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

3 Going concern basis

The interim financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board of Directors have considered the current financial position of the Group, its strategy, the market outlook, and its principal risks. The Directors have also considered the Group's current cash position and its available facilities, including the Group's Revolving Credit Facility ('RCF') committed until 9 December 2026, which may be extended by a further year at Dunelm's request, subject to lender consent. Furthermore, cash flow forecasts have demonstrated that covenants will continue to be comfortably met even in downside scenarios such as a general economic downturn resulting in consumers switching away from spending on homewares. Following this review, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis of accounting in preparing these interim financial statements.

4 Accounting policies

The condensed financial statements have been prepared under the historical cost convention, except for derivative financial instruments and share based payments which are stated at their fair value.

The accounting policies adopted, as well as significant judgements and key estimates applied, are consistent with those in the annual financial statements for the period ended 2 July 2022, as described in those financial statements, except as described below:

- Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the 26 weeks ended 31 December 2022 (UNAUDITED)

5 Revenue

The Group has one reportable segment, in accordance with IFRS 8 - Operating Segments, which is the retail of homewares in the UK.

Customers access the Group's offer across multiple channels and often their journey involves more than one channel. Therefore, internal reporting focuses on the Group as a whole and does not identify individual segments.

6 Taxation

The taxation charge for the interim period has been calculated on the basis of the estimated effective tax rate for the full year of 20.8% (26 weeks ended 25 December 2021: 19.5%, 53 weeks ended 02 July 2022: 19.5%).

7 Dividends

		26 weeks ended 31 December 2022 £'m	26 weeks ended 25 December 2021 £'m	53 weeks ended 2 July 2022 £'m
Final dividend for the period ended 26 June 2021	- paid 23.0 pence	-	46.8	46.8
Special dividend for the period ended 26 June 2021	- paid 65.0 pence	-	131.9	131.9
Interim dividend for the period ended 2 July 2022	- paid 14.0 pence	-	-	28.3
Special dividend for the period ended 2 July 2022	- paid 37.0 pence	-	-	75.1
Final dividend for the period ended 2 July 2022	- paid 26.0 pence	52.4	-	-
		52.4	178.7	282.1

The Directors have declared an interim dividend of 15.0 pence per Ordinary Share for the financial year ending 1 July 2023. This equates to an interim dividend of £30.2m. The dividend will be paid on 11 April 2023 to shareholders on the register at the close of business on 17 March 2023. The Directors have also declared a special dividend of 40.0 pence per Ordinary Share for the period ending 1 July 2023 which equates to £80.6m. This will be paid on 11 April 2023 to shareholders on the register at the close of business on 17 March 2023.

The interim and special dividends have not been recognised as a liability in these interim financial statements. They will be recognised in the Consolidated Statement of Changes in Equity in the period ending 1 July 2023.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the 26 weeks ended 31 December 2022 (UNAUDITED)

8 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period excluding ordinary shares purchased by the Company and held as treasury shares.

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary Shares during the period.

Weighted average numbers of shares:

	26 weeks ended 31 December 2022 '000	26 weeks ended 25 December 2021 '000	53 weeks ended 2 July 2022 '000
Weighted average number of shares in issue during the period	201,802	202,899	202,722
Impact of share options	1,044	1,806	2,135
Number of shares for diluted earnings per share	202,846	204,705	204,857

	26 weeks ended 31 December 2022	26 weeks ended 25 December 2021	53 weeks ended 2 July 2022
Profit for the period (£'m)	93.0	113.4	171.2
Earnings per Ordinary Share - basic	46.1p	55.9p	84.5p
Earnings per Ordinary Share - diluted	45.8p	55.4p	83.6p

9 Intangible assets and property, plant and equipment

	Intangible assets £'m	Property, plant and equipment £'m
Cost		
At 2 July 2022	64.1	403.2
Additions	0.1	13.7
Disposals	(0.2)	(7.1)
At 31 December 2022	64.0	409.8
Accumulated amortisation / depreciation		
At 2 July 2022	54.2	229.5
Charge for the financial period	2.3	12.3
Disposals	(0.2)	(7.0)
At 31 December 2022	56.3	234.8
Net book value		
At 2 July 2022	9.9	173.7
At 31 December 2022	7.7	175.0

All amortisation and depreciation charges have been included within operating costs in the Consolidated Income Statement.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the 26 weeks ended 31 December 2022 (UNAUDITED)

10 Leases

Right-of-use assets included in the Consolidated Statement of Financial Position at 31 December 2022 were as follows:

	Land and buildings	Motor vehicles, plant and equipment	Total
	£'m	£'m	£'m
At 2 July 2022	240.4	8.1	248.5
Additions	17.2	5.9	23.1
Disposals	(5.4)	(0.1)	(5.5)
Depreciation	(22.3)	(1.9)	(24.2)
At 31 December 2022	229.9	12.0	241.9

Lease liabilities included in the Consolidated Statement of Financial Position at 31 December 2022 were as follows:

	Land and buildings	Motor vehicles, plant and equipment	Total
	£'m	£'m	£'m
At 2 July 2022	(270.1)	(8.0)	(278.1)
Additions	(18.0)	(5.9)	(23.9)
Disposals	5.3	0.1	5.4
Interest	(2.5)	(0.1)	(2.6)
Repayment of lease liabilities	26.3	2.0	28.3
At 31 December 2022	(259.0)	(11.9)	(270.9)

The discount rate applied to lease liabilities ranged between 0.9% and 5.1% (FY22 H1: 0.9% and 2.1%, FY22: 0.9% and 2.8%).

The following amounts have been recognised in the Consolidated Income Statement:

	26 weeks ended 31 December 2022	26 weeks ended 25 December 2021	53 weeks ended 2 July 2022
	£'m	£'m	£'m
Depreciation of right-of-use assets	24.2	23.4	48.6
Loss on disposal of right-of-use assets	(0.1)	-	(0.1)
Interest expenses (included in financial expenses)	2.6	2.4	4.8
Expense relating to short-term leases	0.7	0.3	0.6

The total cash outflow for the leases during the financial period was £27.4m (FY22 H1: £25.9m, FY22: £55.0m).

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the 26 weeks ended 31 December 2022 (UNAUDITED)

11 Inventories

	31 December 2022	25 December 2021	2 July 2022
	£'m	£'m	£'m
Raw materials	1.7	-	1.7
Work in progress	1.3	-	1.6
Goods for resale	230.4	204.4	219.7
	233.4	204.4	223.0

Goods for resale includes a net realisable value provision of £23.2m (FY22 H1: £17.1m, FY22: £21.4m). Write-downs of inventories to net realisable value in the 26 weeks to 31 December 2022 amounted to £11.5m (26 weeks ended 25 December 2021: £8.4m, 53 weeks ended 02 July 2022: £20.1m). These were recognised as an expense during the period and were included in cost of sales in the Consolidated Income Statement.

12 Trade and other payables

	31 December 2022	25 December 2021	2 July 2022
	£'m	£'m	£'m
Current			
Trade payables	107.3	87.2	98.3

Accruals	65.6	62.5	74.3
Deferred income	16.9	12.0	12.5
Taxation and social security	39.0	42.8	34.0
Other payables	2.4	0.3	4.1
Total trade and other payables	231.2	204.8	223.2

13 Financial risk management and financial instruments

Financial risk factors

The Group's activities expose it to a variety of financial risks including foreign currency risk, fair value interest rate risk, credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 2 July 2022. There have been no changes in any risk management policies since the year end.

Fair values

The fair value of the Group's financial assets and liabilities are equal to their carrying value. The fair value of foreign currency contracts are amounts required by the counterparties to cancel the contracts at the end of the period.

Fair value hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

All derivative financial instruments carried at fair value have been measured by a Level 2 valuation method, based on observable market data.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the 26 weeks ended 31 December 2022 (UNAUDITED)

14 Bank loans

	31 December 2022 £'m	25 December 2021 £'m	2 July 2022 £'m
Total borrowings	22.0	-	54.0
Less: unamortised debt issue costs*	(1.3)	(1.4)	(1.2)
Net borrowings	20.7	(1.4)	52.8

* Unamortised debt issue costs included in other receivables as at 25 December 2021.

Net cash/(debt) represented by

	31 December 2022	25 December 2021	2 July 2022
Cash and cash equivalents	40.2	47.7	30.2
Total borrowings	(22.0)	-	(54.0)
Net cash/(debt)	18.2	47.7	(23.8)

The Company has medium term bank facilities of £185m (FY22 H1: £185m; FY22: £185m) committed until 9 December 2026, which may be extended by a further year at Dunelm's request, subject to lender consent. This is with an associated accordion facility of £75m, subject to lender consent (FY22 H1: £75m; FY22: £75m). As at 31 December 2022 £22m of this facility was drawn down (FY22 H1: nil; FY22: £54m). The Group also has an uncommitted overdraft facility of £10m.

15 Capital Commitments

As at 31 December 2022 the Company had entered into capital contracts amounting to £9.5m (FY22 H1: £2.0m; FY22: £4.7m).

16 Announcement

The interim report was approved by the Board on 15 February 2023. Copies are available from www.corporate.dunelm.com.

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

IR USRARONUUAUR

London Stock Exchange plc is not responsible for and does not check content on this Website. Website users are responsible for checking content. Any news item (including any prospectus) which is addressed solely to the persons and countries specified therein should not be relied upon other than by such persons and/or outside the specified countries. [Terms and conditions](#), including restrictions on use and distribution apply.

© 2023 London Stock Exchange plc. All rights reserved.