



# Annual Results - FY18

12 SEPTEMBER 2018





FY18

# Annual Results

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- Strategy update
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# Financial Review

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David Stead – Interim CFO





FINANCIAL REVIEW

# Financial summary

	FY18	FY17	Growth
<b>Sales</b>	<b>£1,050.1m</b>	<b>£955.6</b>	<b>+9.9%</b>
LFL Sales growth	+4.2%	-0.5%	
Gross margin	48.0%	48.9%	-90bps
<b>PBT Pre Exceptionals</b>	<b>£102.0m</b>	<b>£109.3m</b>	<b>-6.7%</b>
Exceptional charges	-£8.9m	-£16.9m	
PBT reported	£93.1m	£92.4m	+0.8%
<b>Net debt</b>	<b>-£124.0m</b>	<b>-£122.1m</b>	<b>-1.5%</b>
EPS (diluted, after exceptionals)	36.2p	36.1p	0.3%
Dividend	26.5p	26.0p	+1.9%

# Worldstores impact

			Dunelm		
	Existing	WS transfer	Total	WS	Total Group
<b>Sales</b>	£971.7m	£12.4m	£984.1m	£66.0m	£1,050.1m
Gross profit	£476.0m	£5.0m	£481.0m	£22.6m	£503.6m
Operating costs	-£362.9m	-£2.4m <sup>1</sup>	-£365.3m	-£33.6m	-£398.9m
<b>Operating profit</b>	<b>£113.1m</b>	<b>£2.6m</b>	<b>£115.7m</b>	<b>-£11.0m</b>	<b>£104.7m</b>
Financial items	-£2.7m	-	-£2.7m	-	-£2.7m
<b>PBT pre exceptionals</b>	<b>£110.4m</b>	<b>£2.6m</b>	<b>£113.0m</b>	<b>-£11.0m</b>	<b>£102.0m</b>

- The overall profit impact during the year of Worldstores was -£8.4m before exceptional items
- Total anticipated cash investment in Worldstores remains at £30m net of tax impact

1. Operating costs attributed to Worldstores transfer include the benefit of certain cost synergies

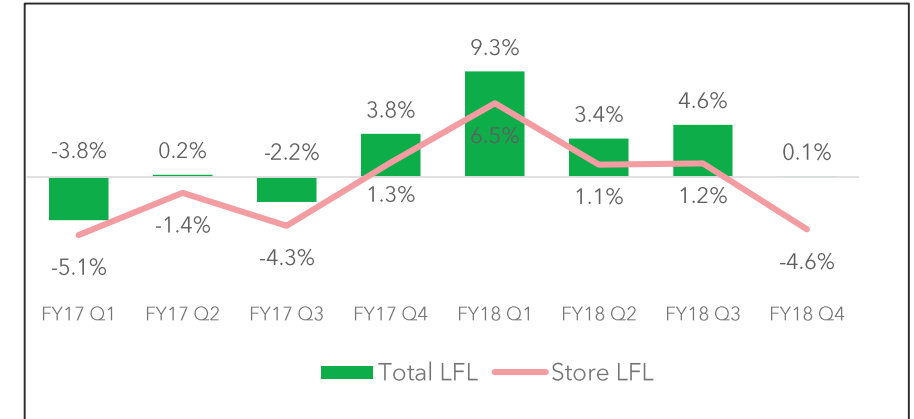
# Sales growth

	FY18	Growth £	Growth %
LFL Stores	£805.0m	+£8.2m	+1.0%
Dunelm.com	£105.4m <sup>1</sup>	+£28.9m	+37.9%
<b>Total LFL</b>	<b>£910.4m</b>	<b>+£37.1m</b>	<b>+4.2%</b>
Non-LFL Stores	£73.7m	+£43.7m	
<b>Total Core Dunelm</b>	<b>£984.1m</b>	<b>+£80.8m</b>	<b>+8.9%</b>
Worldstores	£66.0m	+£13.7m	
<b>Total Group</b>	<b>£1,050.1m</b>	<b>+£94.5m</b>	<b>+9.9%</b>

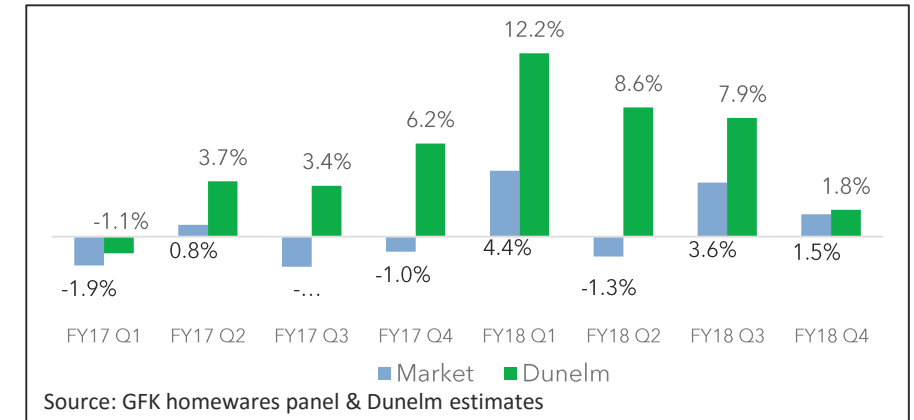
1. Includes sales of lines transferred from Worldstores per page 5

- Dunelm.com sales (including Reserve and Collect) represented 13.5% of total Dunelm sales in FY18 (FY17:11.2%)
- Ten superstores opened in FY18, including one relocation (FY17: seven new superstores)
- Market leader with 8.1% (FY17 8.0%) share in UK homewares (Source: Global data)

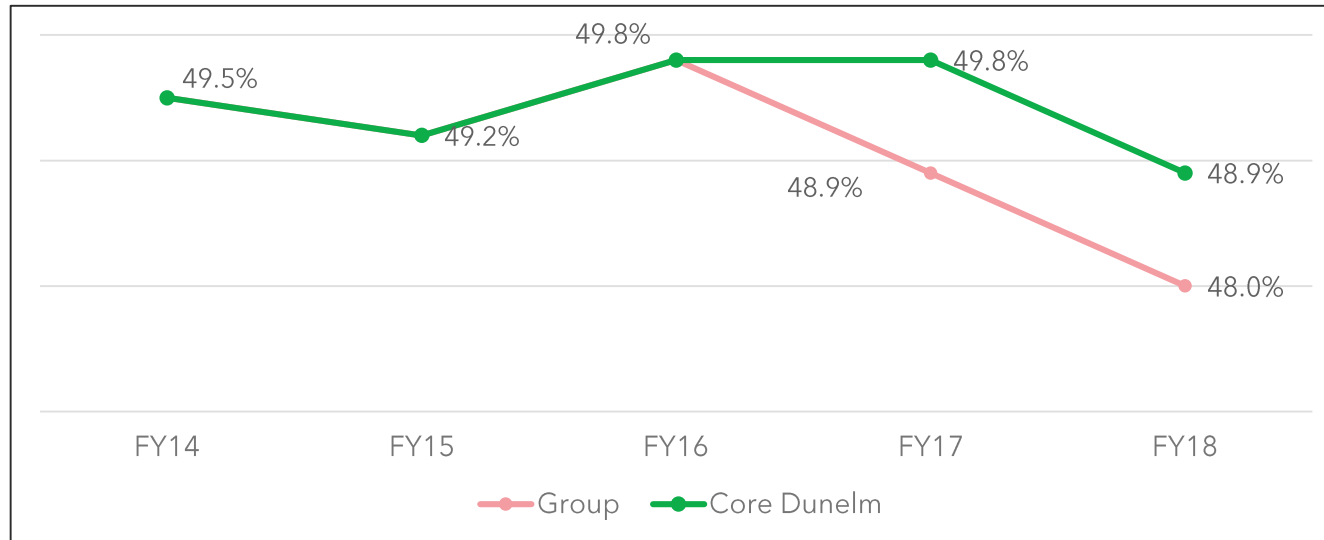
## Quarterly LFL growth



## Quarterly homewares performance vs market



# Gross margin



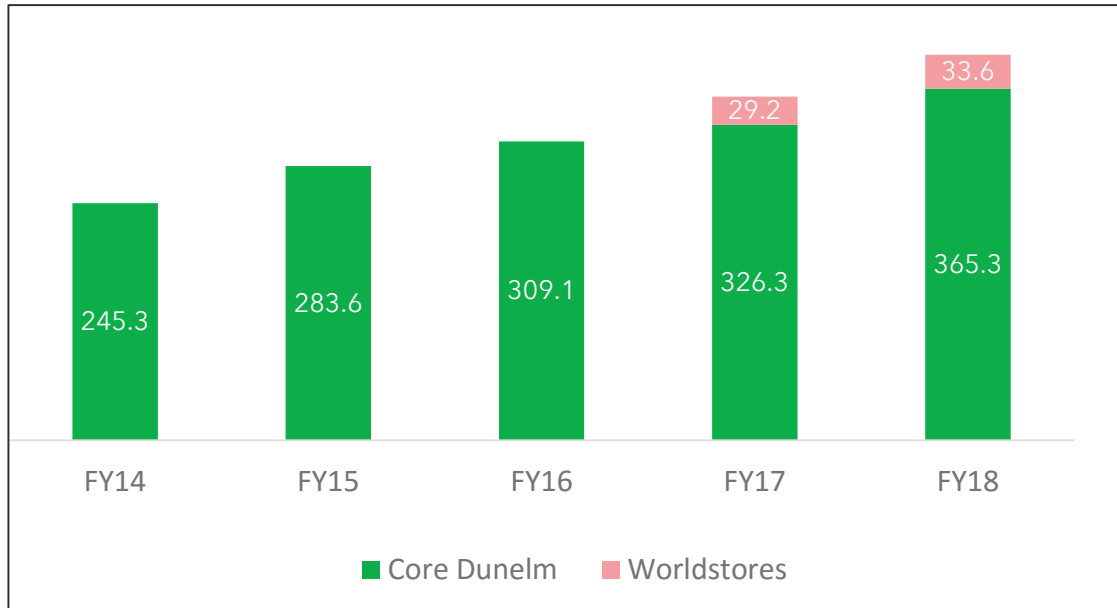
## Core Dunelm margin drivers

- Dilutive impact of FX on direct sourced goods of -110 bps in FY18 (FY17: -80bps)
- -20 bps impact from increase in FY18 year-end obsolete stock provision
- FY18 year on year performance strengthened in H2

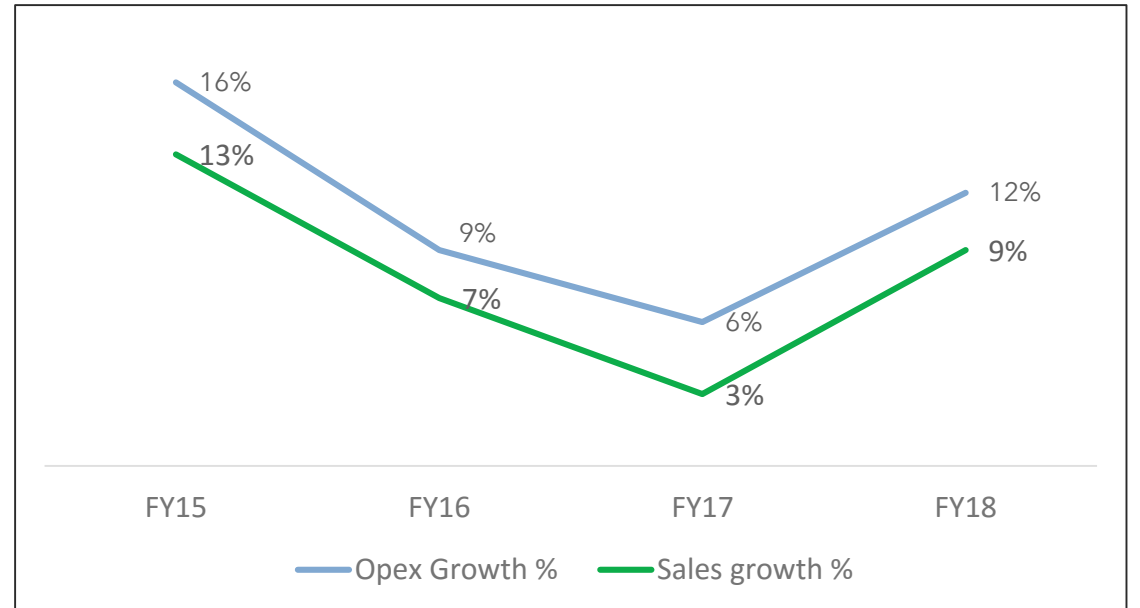


# Operating costs (before exceptional items)

Group Operating cost trend

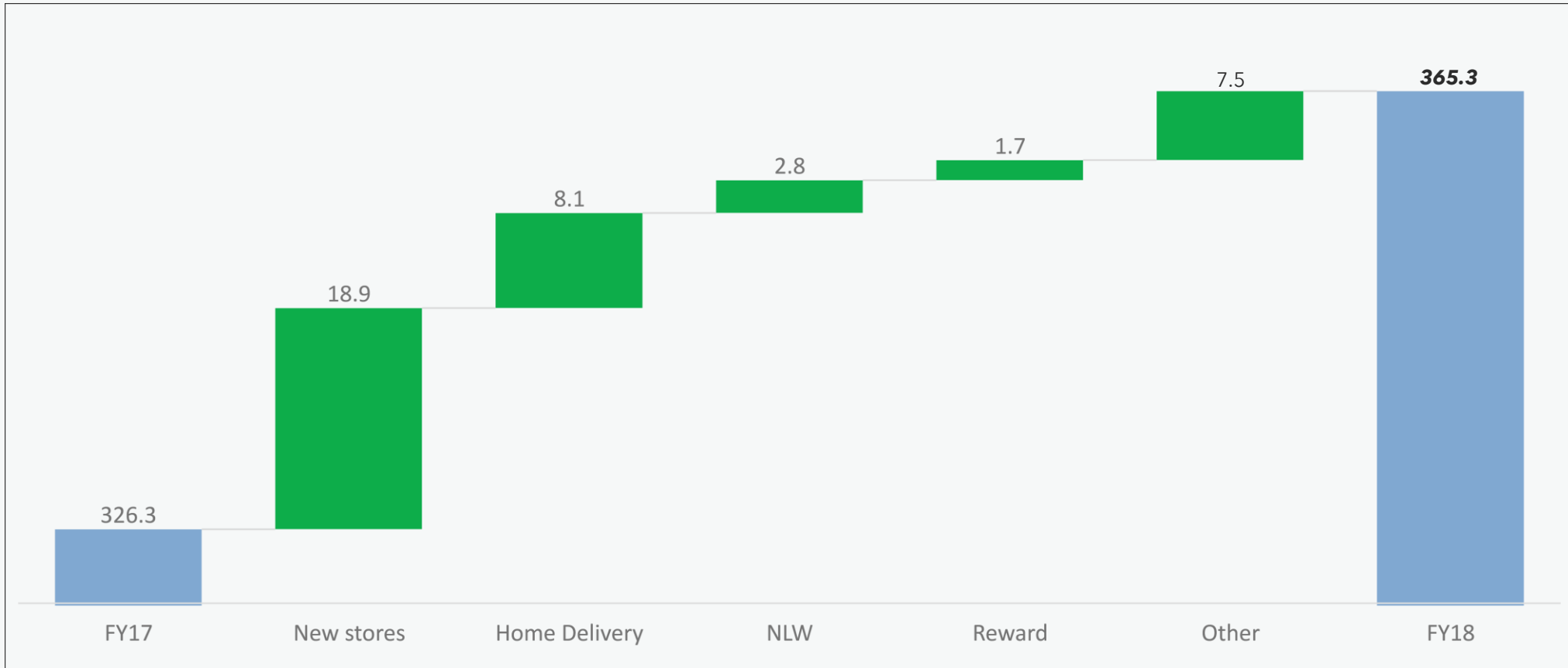


Core Dunelm - Sales and Operating cost growth





# Core Dunelm - FY17 to FY18 Operating cost bridge



# Exceptional items

	FY18	FY17
Fair value adjustments in respect of acquired inventory	-	-£0.5m
Acquisition costs	-	-£1.3m
Welcome payments for continuation of supply	-	-£7.3m
Retention and redundancy payments	-£1.2m	-£2.7m
Loss on disposal, asset write off's, impairments and accelerated amortisation	-£5.8m	-£2.9m
Other integration costs	-£1.9m	-£2.2m
<b>Total exceptional items</b>	<b>-£8.9m</b>	<b>-£16.9m</b>
Non-cash	-£7.3m	-£5.7m
Cash	-£1.6m	-£11.2m
<b>Total exceptional items</b>	<b>-£8.9m</b>	<b>-£16.9m</b>

- All exceptional items are non-recurring costs relating to the acquisition, integration and/or disposal of Worldstores businesses
- No further exceptional items anticipated in FY19



# Financial items

	FY18	FY17
Operating profit before exceptionals	£104.7m	£111.7m
Exceptional items	-£8.9m	-£16.9m
Operating profit after exceptionals	£95.8m	£94.8m
Financial items	-£2.7m	-£2.4m
<b>PBT (after exceptionals)</b>	<b>£93.1m</b>	<b>£92.4m</b>
Tax	-£19.8m	-£19.3m
<i>Effective tax rate</i>	21.3%	20.9%
PAT	£73.3m	£73.1m

Effective tax rate impacted by higher than normal disallowables (mainly exceptional charges relating to asset write-offs)



# EPS and Dividends

	<b>FY18</b>	<b>FY17</b>
EPS (basic, before exceptionals)	40.1p	43.1p
EPS (basic, after exceptionals)	36.3p	36.3p
EPS (diluted, before exceptionals)	40.0p	42.8p
EPS (diluted, after exceptionals)	<b>36.2p</b>	<b>36.1p</b>
Interim dividend paid	7.0p	6.5p
Final dividend proposed	19.5p	19.5p
Total Dividend	26.5p	26.0p
Dividend cover (before exceptionals)	1.5x	1.6x

Target cover range 1.75x to 2.25x







## FINANCIAL REVIEW

# Free cash flow

	FY18	FY17
<b>Operating profit before exceptional items</b>	<b>£104.7m</b>	<b>£111.7m</b>
Depreciation and amortisation	£34.9m	£30.5m
<b>EBITDA before exceptional items</b>	<b>£139.6m</b>	<b>£142.2m</b>
Working capital movement	-£20.2m	-£26.2m
Other non-cash movements	£0.3m	-£0.2m
Tax paid	-£18.9m	-£25.0m
Exceptional items - operating activities	-£2.2m	-£11.3m
<b>Net cash from operations</b>	<b>£98.6m</b>	<b>£79.5m</b>
Capital expenditure	-£46.2m	-£58.0m
Exceptional items - investing activities	£0.6m	-£7.3m
<b>Free cash flow</b>	<b>£53.0m</b>	<b>£14.2m</b>
Free cash flow : Operating profit (after exceptionals)	55%	15%
Net cash from operations : Operating profit (after exceptionals)	103%	84%

# Working Capital movement

	FY18	FY17
Stock decrease / (increase)	£8.6m	-£45.0m
Receivables decrease	£2.5m	£4.6m
Payables (decrease) / increase	-£31.3m	£23.4m
<b>Total</b>	<b>-£20.2m</b>	<b>-£26.2m</b>

## Stock

- New stores
- Timing of seasonal stock flow
- Reduced cover

## Payables

- Lower stock purchases in final quarter
- Later inbound seasonal merchandise
- Reduced capital accruals
- Reduced accruals for exceptional costs





## FINANCIAL REVIEW

# Capital investment

	FY18	FY17	Comments
New stores	£13.8m	£11.7m	9 new stores, 1 relocation (FY17: 7 new stores)
Refits & small works	£10.6m	£19.7m	6 major refits in FY18 (FY17: 11)
IT	£14.3m	£12.7m	Includes new web platform, MPOS, M2M website
Stoke	£0.9m	£3.3m	
Other	£2.3m	-	Relocation of bespoke curtain manufacturing centre
Freehold properties	£2.1m	£13.1m	1 freehold store (FY17: 3)
<b>Total</b>	<b>£44.0m</b>	<b>£60.5m</b>	

- Payback on recent new stores generally strong, refits performance mixed
- Fewer store openings and refits anticipated in FY19

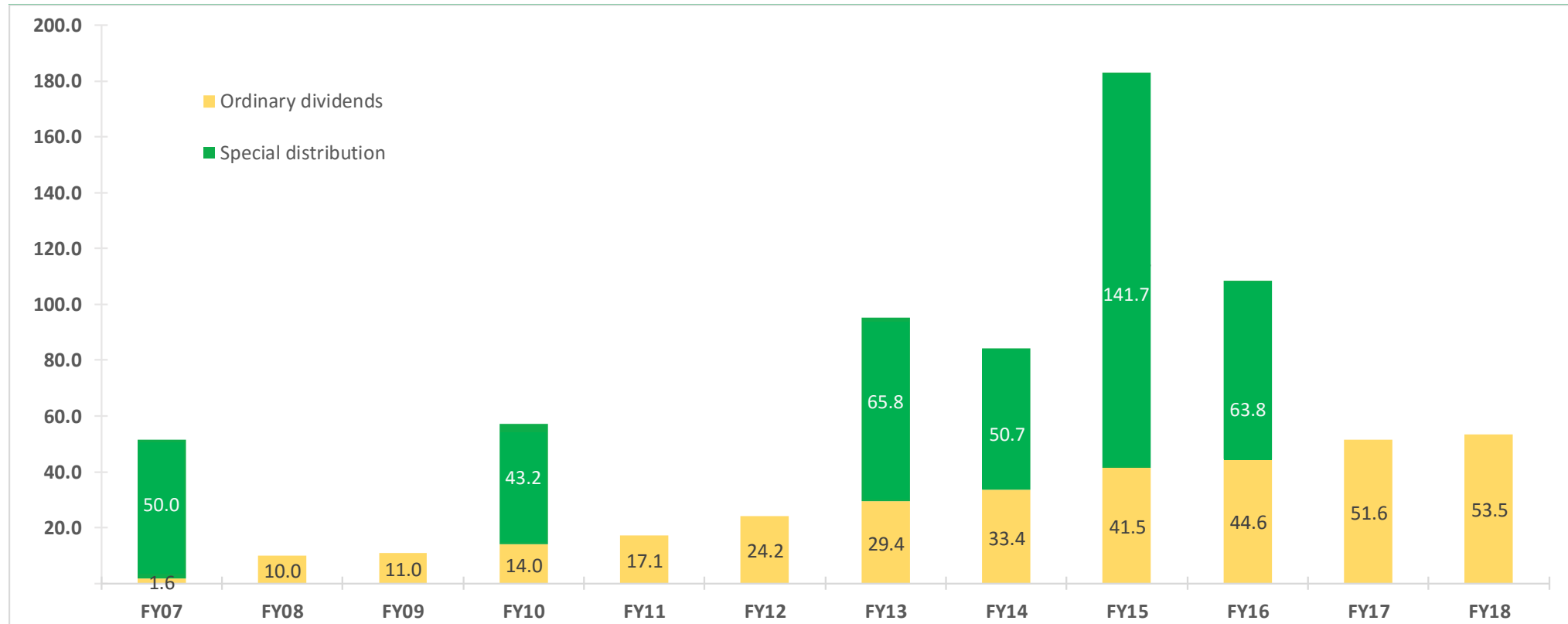
# Net cash generation

	FY18	FY17
<b>Free cash flow</b>	<b>£53.0m</b>	<b>£14.2m</b>
Dividends paid	-£53.5m	-£51.6m
Purchase of treasury shares	-	-£4.2m
Interest	-£1.9m	-£1.4m
Other	£0.5m	£0.3m
<b>Change in net debt</b>	<b>-£1.9m</b>	<b>-£42.7m</b>
<b>Year-end net debt</b>	<b>-£124.0m</b>	<b>-£122.1m</b>
Daily average net debt - year	-£112.4m	-£92.2m
Daily average net debt - Q4	-£110.2m	-£108.0m

	RCF
Facility	£165m
Expiry	March 2023
<b>Covenants:</b>	
Leverage	<2.5x
Fixed charge cover	>1.75x

- Net debt target range of 0.25 - 0.75x EBITDA
- Period end net debt of £124.0m equates to 0.89x EBITDA before exceptional costs
- We will regularly review the net debt position and return surplus capital as appropriate

# Cash returns to Shareholders



Total cash returns from FY07 to date of £747.1m



# FY19 Guidance - Focus on core Dunelm

## Sales

- Transfer of profitable Kiddicare and Worldstores lines to Dunelm.com
- New web platform from Q3
- Small number of store openings

## Gross Margin

- Favourable currency impact
- Good momentum going into the year
- Core Dunelm margin will reflect transferred Worldstores lines

## Tax

- Effective rate c100bps above statutory rate

## Costs

- Continued investment in new stores and online growth
- Increased investment in brand marketing and technology
- Focus on productivity and overhead cost control
- No exceptional costs anticipated

## Capex

- Small number of new stores anticipated
- Continuing refit programme
- Continuing systems investment
- Total capex estimated £30m - £35m





# Seizing opportunities in a digital world

Nick Wilkinson – CEO



FIRST IMPRESSIONS

# Strengths Confirmed

- ✔ Deep customer and product knowledge in Homewares
- ✔ Committed suppliers, with high levels of integration
- ✔ Prudently financed and highly cash generative
- ✔ Good store portfolio, with attractive locations and rents
- ✔ Strong business principles and committed colleagues



WE ARE PLAYING  
CATCH UP AS A  
'MULTICHANNEL  
RETAILER' -  
**THERE IS SO  
MUCH TO GO  
AFTER**



## FIRST IMPRESSIONS

# Worldstores

### A challenging journey, but key ingredients for our digital future

- Unsustainable Worldstores business model
- Kiddicare concept interesting, but trials were unsuccessful
- Profitable SKUs transferred to Dunelm.com
- Technology platform an asset to be leveraged
- More advanced digital development capability

### The Plan

- July: Kiddicare site closed
- Sept: Worldstores sites closed - all colleagues focused on Core Dunelm
- Feb-Mar: Dunelm.com new platform to be introduced





## FIRST IMPRESSIONS

# Opportunities

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- Evolve to a leading multichannel offer
- Re-invigorate our *Value for money* credentials
- Continue to develop our furniture proposition
- Establish renewed grip in core operational disciplines
- Continue to invest in new stores and targeted refits, selectively





# Store portfolio - The plan

- **200 stores target** remains appropriate for UK coverage
- Current average store size (**30k sq. ft.**) is appropriate for format needs
- **Flexible on location:** standalone, retail parks and town centre
- Opening programme continues, **expect c. 3-5 p.a.** new stores over the medium term
- Targeted refit programme continues as we test and learn, expect **£5-10m capex p.a.**












CUSTOMER FIRST

# How the UK shops homewares

- Four 'Home Lover' segments represent c.60% of market
- Dunelm presence is good in all four, with scope for significant growth in *Confident Nest Builders*
- Also opportunity to grow presence in *Necessity Buyers*
- Product development, value and offers key to increasing appeal in these segments
- Multichannel ease and inspiration important in all target segments

UK Consumer Segments		Average annual spend / customer	Segment % share of market	Dunelm presence in segment
Classic & Content		£427	14%	Strong today
Stylish & Settled		£693	16%	Strong today
Savvy Home Lovers		£488	15%	Fair share today
Confident Nest Builders		£1,062	17%	Opportunity
Necessity Buyers		£469	18%	Opportunity
Quality Replacers		£451	13%	Lower share
Price Replacers		£197	7%	Lower share

Footnote: Internally commissioned customer research; 4 Home Lover Segments shaded green; segments with greatest growth opportunity in red

## OUR PURPOSE

# Helping everyone create a home they love

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- Ambitious purpose, reflecting our potential as the leading specialist multichannel retailer
- Our customer proposition will evolve significantly
  - Choice extended to 100k products
  - Stores will become service and experience orientated
  - Market-leading virtual and physical services will inspire, advise & help
  - Value and affordability will be embedded into ranges and deals
- Significant headroom to grow customer base, shopping frequency, and basket size



CUSTOMER FIRST

# The Leading Multichannel Specialist

## OUR PURPOSE

**Helping everyone create a home they love**

## OUR BUSINESS GOALS

Reaching **more customers** with our **brand**

Create **new reasons** for **customers** to shop

**Easy** and **inspiring** **multichannel** shopping

**Simple** and **low cost** and **good** **housekeepers**

A **great** place to work **for colleagues**

## OUR FOUNDATIONS

A customer first culture

Committed colleagues

The best store portfolio

Agile and scalable digital platform

Lean and efficient supply chain

Committed supplier partners

## OUR KEY BUSINESS PRINCIPLES

**Sell more**

**Be committed**

**Do things our own way**

**Keep it simple**





# Reaching more customers with our brand

**Integrated marketing programme to build brand & acquire new customers**

## **Strategic Objective**

Increase the number of shoppers at Dunelm

- Growing our customer base is now a key focus
- FY18 unique customer growth: online +18% and stores + 5%
- New brand building campaign begins in September
- Accelerated digital investment under Dunelm brand
- More personalised content to more customers via own channels
- Excited about potential impact on growth across all channels in medium term



# Creating new reasons for customers to shop

Improving our product proposition by offering the best choice, quality, value and style

## Strategic Objective

Increase visit frequency & basket size

- Product is and will be our key point of difference
- Confident in ability to grow share in core categories
- Building more differentiation into our furniture ranges
- Re-invigorating our promotional ranging and campaigns
- Seasonal ranging offers more scope for development





# Easy and inspiring multichannel shopping

Be the leading multichannel brand in homewares for customer experience

## Strategic Objective

Increase conversion and basket size

- Our customers want ease and inspiration, however they shop
- Total range growing, but remains highly curated and largely exclusive
- Step change in proportion of range available to shop via channel of choice
- Opportunity to accelerate pace of proposition development post re-platform

Dunelm.com Roadmap	18 months ago	Now	+ 6 months	+18 months
Choice on Dunelm.com	40k	55k	60k	75k
Choice in store (stocked/to order)	30k/nil	30k/full range	30k/full range	30k/full range
Collection & delivery options	R&C, limited day of choice delivery		C&C, day of choice delivery on 2-man	
Technology	IBM platform, largely outsourced dev		In house platform & in house teams	





# Simple, low cost and good housekeeping

Leverage infrastructure that is efficient, scalable and agile. Instil the good housekeepers' mindset

## Strategic Objective

Improve operating leverage and efficiency

- Focus is on leveraging one brand, one platform and our transformed supply chain
- Management team now fully focused on channel economics:
  - 'Order online/deliver to home' (1 man) and 'Buy and take-out from store' transaction achieved the same fully allocated net contribution % in FY18
  - Reality today is these transactions have a marginal channel contribution difference of c.15%
  - If 10% points of online sales growth in FY19 is due to channel shift, we would have to grow our store sales by 0.3% to compensate for the profit dilution
- Opportunity to improve core operational discipline (eg stock loss and procurement)
- Investment in marketing and technology continues in a measured way



# A great place to work for colleagues

**Make Dunelm an even better place to work - engaged colleagues provide better service to customers**

## **Strategic Objective**

Retain our culture as we embrace a digital future

- Highest recorded levels of internal promotion to management roles
- Created 1,200 customer host roles in stores to enhance customer service
- Restructured the Technology and Commercial teams to improve engagement and innovation
- Strongly committed to retaining our culture





## Seizing opportunities in a digital world

- **Simplify the business** – one brand on one platform – to drive profitable growth and agility
- **Ambitious about growth** as we adapt to a changing and volatile retail landscape
- The **leading specialist multi-channel retailer**, *helping everyone create a home they love*
- A new chapter as we **fully embrace digital retailing**



# Q&A

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# Appendix

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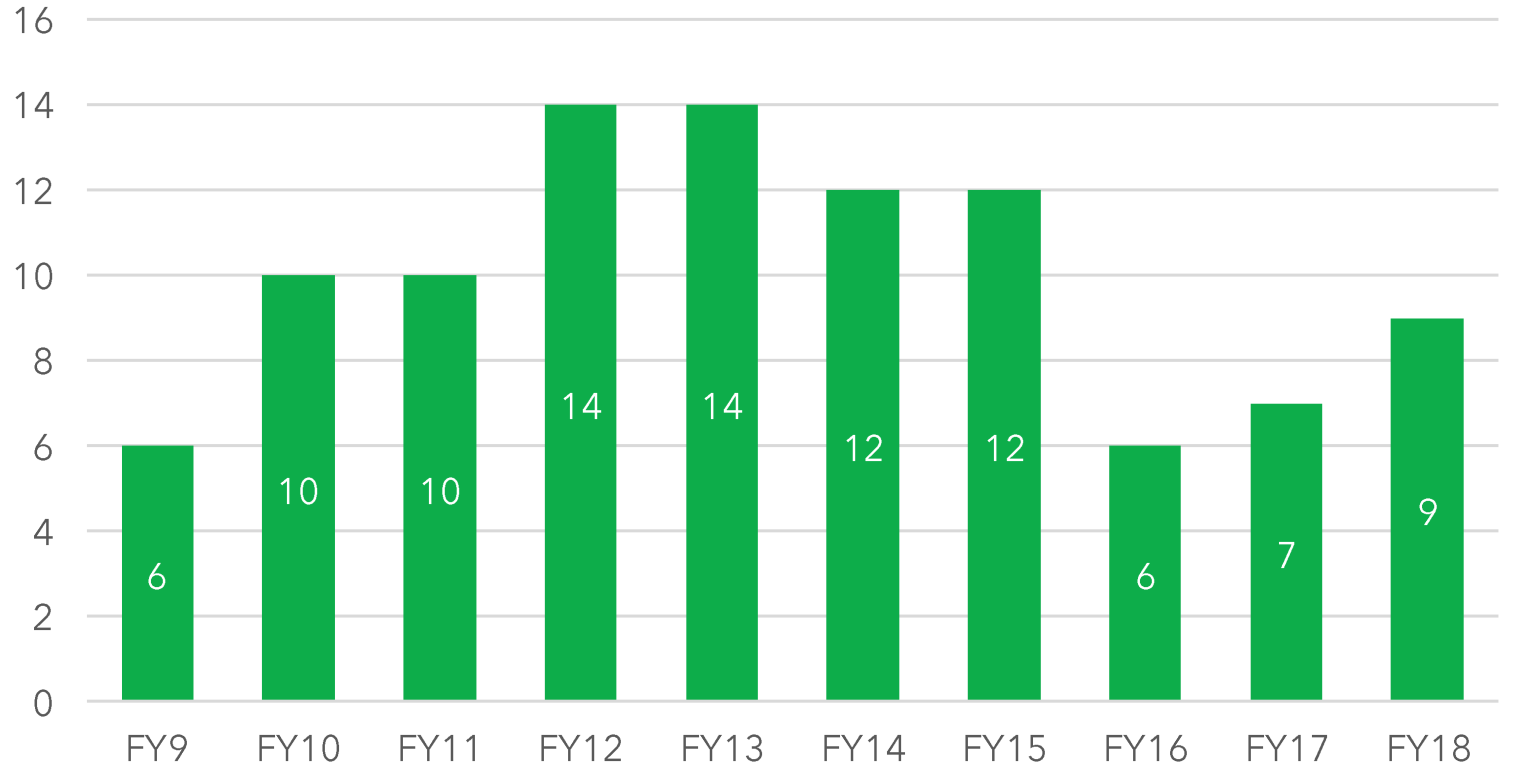
- Net store openings by year
- Cash returns to shareholders
- Balance sheet summary
- Worldstores – cash cost of acquisition





APPENDIX

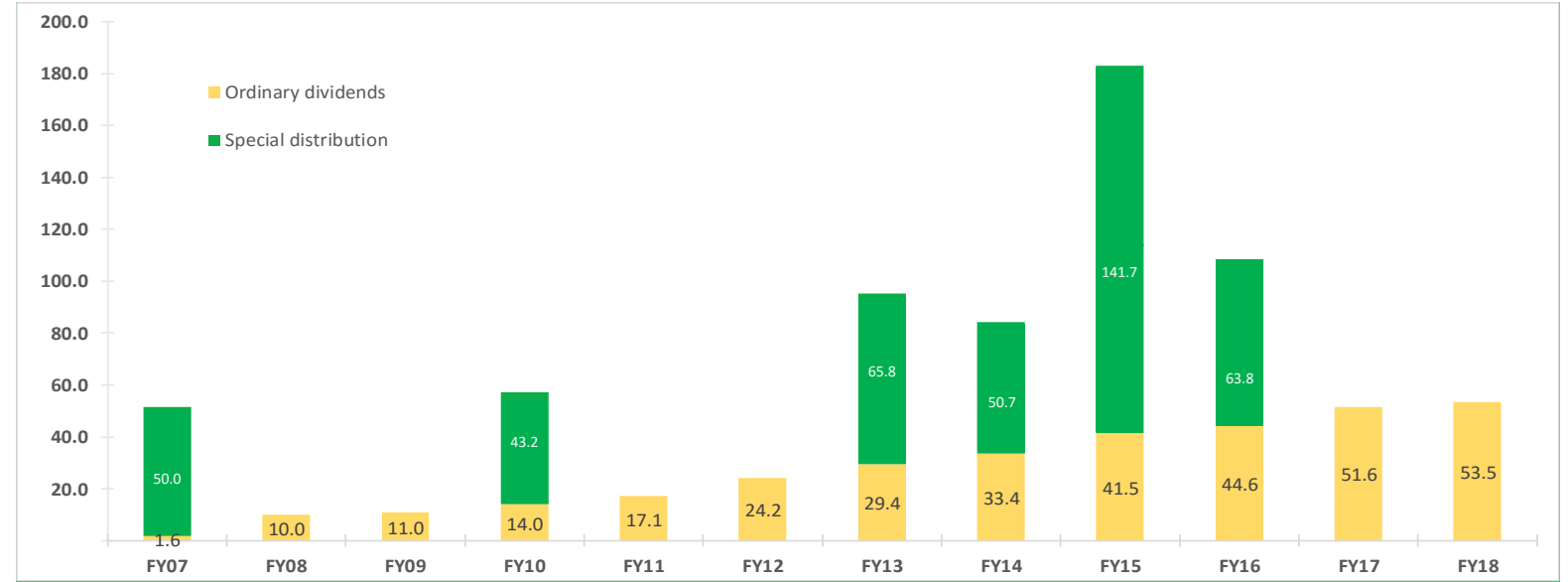
# Net Store openings by year





APPENDIX

# Cash returns to shareholders



	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Ordinary dividend cover **	3.2x	3.0x	3.1x	3.4x	2.5x	2.5x	2.5x	2.2x	2.2x	2.0x	1.6x	1.5x
Dividend yield*	13.4%	3.2%	3.4%	8.4%	2.6%	3.0%	6.7%	4.8%	10.5%	6.2%	3.6%	4.4%
Interim	0.8p	2.0p	2.0p	3.0p	3.5p	4.0p	4.5p	5.0p	5.5p	6.0p	6.5p	7.0p
Final	3.0p	3.5p	4.0p	5.0p	8.0p	10.0p	11.5p	15.0p	16.0p	19.1p	19.5p	19.5p
Special	25.0p			21.5p			32.5p	25.0p	70.0p	31.5p		

Chart shows actual cash payments in each financial year, table references dividends associated with year

\*Based on average share price in each year \*\*Before exceptional items

Total cash returns from FY07 to date = £747.1m





APPENDIX

## Balance Sheet summary

	FY18	FY17
Total non-current assets	£228.6m	£223.0m
Inventories	£154.7m	£165.3m
Receivables	£23.9m	£26.4m
Cash	£15.0m	£17.4m
Financial instruments	£2.8m	£1.1m
<b>Total assets</b>	<b>£425.0m</b>	<b>£433.2m</b>
Current liabilities	-£110.9m	-£140.5m
Non-current liabilities	-£179.4m	-£182.6m
<b>Net assets</b>	<b>£134.7m</b>	<b>£110.1m</b>
Share capital	£2.0m	£2.0m
Share premium/other reserves	£47.6m	£44.1m
Retained earnings	£85.1m	£64.0m
<b>Total equity</b>	<b>£134.7m</b>	<b>£110.1m</b>

## APPENDIX

# Worldstores - Cost of acquisition

	FY17	FY18	Total
Trading loss (net of benefits to Dunelm)	£10.7m	£8.4m	
Tax on trading loss	(£2.2m)	(£1.8m)	
	<b>£8.5m</b>	<b>£6.6m</b>	<b>£15.1m</b>
Exceptional items (cash)	£11.3m	£1.6m	
Tax on exceptional items	(£2.4m)	(£0.3m)	
	<b>£8.9m</b>	<b>£1.3m</b>	<b>£10.2m</b>
Working capital benefit/ unwind on creditor terms	(£8.1m)	£1.4m	
Payment of secured creditor	£7.5m	-	
Fixed Asset investment - IT Systems and warehouse	£1.6m	£0.4m	
	<b>£1.0m</b>	<b>£1.8m</b>	<b>£2.8m</b>
<b>Cash Outlay</b>	<b>£18.4m</b>	<b>£9.7m</b>	<b>£28.1m</b>
FY19 expected working capital unwind			£1.5m
<b>Total Cash Outlay</b>			<b>£29.6m</b>