

8 September 2021

Dunelm Group plc

Preliminary Results for the 52 weeks ended 26 June 2021

Moving forward and becoming the 1st choice for home

Dunelm Group plc ("Dunelm" or "the Group"), the UK's leading homewares retailer, today announces its preliminary results for the 52 weeks to 26 June 2021.

	FY21	FY20	YoY
Total sales	£1,336.2m	£1,057.9m	+26.3%
Gross margin	51.6%	50.3%	+130bps
Profit before tax (PBT)	£157.8m	£109.1m	+44.6%
Digital % total sales ¹	46%	27%	+19%pts
Free cash flow ²	£108.5m	£174.7m	£(66.2)m
Net cash/(debt) ³	£128.8m	£45.4m	+£83.4m
Diluted earnings per share	62.9p	42.9p	+46.6%
Ordinary dividend	35.0p	-	+35.0p
Special dividend	65.0p	-	+65.0p

FY21 Highlights

- Very strong sales growth of 26% (21% vs FY19), despite stores being closed to customers for more than a third of the financial year, reflecting the strength of our total retail system
- Significant market share gain, with FY21 UK homewares market share up 1.6%pts to 9.1%⁴
- Active customer growth of 8.5%⁵, driven by strong growth across digital channels
- Digital sales grew by 115%, with successful scaling of technology and operations to respond to the increase in demand, including significant expansion of our Click & Collect offer
- Gross margin +130bps, benefiting from a smaller Winter Sale due to store closures, sourcing gains and the delayed timing of our Summer Sale (into FY22)
- PBT of £157.8m, +45% (FY20: £109.1m, FY19 £125.9m) reflecting ongoing focus on operational grip, despite the impact of store closures
- Free cash flow of £108.5m, including working capital outflow of £35.0m (FY20 working capital inflow £80.1m), with net cash at period end of £128.8m (FY20: £45.4m)
- Commitment to a Net Zero Pathway, targeting a 50% reduction in greenhouse gas emissions by 2030
- Final dividend of 23.0p, taking the full year ordinary dividend to 35.0p, reflecting our strong performance and confidence in future growth
- In addition, and noting that no dividends were paid to shareholders in respect of FY20, the Board has declared a special dividend of 65.0p in line with our published capital policy, maintaining a prudent approach to leverage given the uncertain macroeconomic outlook

Current Trading

Sales growth in the first ten weeks of the new financial year has been encouraging, including a positive response from customers to our Summer Sale in July and continued outperformance versus the homewares market⁶. This strong start to the year, showing further growth against a tough comparative period, has been better than anticipated. Whilst there remains some macro level uncertainty relating to further demand and supply impacts from Covid-19, in the absence of any trading restrictions, the Board expects that FY22 PBT will be modestly ahead of the top of the range of analysts' expectations⁷.

Nick Wilkinson, Chief Executive Officer, commented:

"We delivered an excellent performance in FY21, despite our stores being closed for more than a third of the year, demonstrating the strength and resilience of our business model and the adaptability and commitment of our colleagues and suppliers.

"The digital investments we had made enabled us to rapidly adapt to the changing environment and deliver strong growth and an improved customer experience. We are emerging from the pandemic as a stronger and better business, having transitioned from being a physical retailer with digital aspirations to being a proven, digital first, multichannel retailer.

"We have renewed purpose, bold ambitions and an increased opportunity to attract more customers and grow their frequency. We aim to be our customers' 1st choice for home, helping everyone to create the joy of truly feeling at home, now and for the generations to come. Our business plans will deliver for all our stakeholders, and include our commitment to a Net Zero Pathway, with an absolute reduction in emissions of 50% by 2030.

"Whilst the macro-outlook remains uncertain and we are seeing some industry-wide issues such as ongoing supply chain disruption and inflationary pressures from raw materials, freight costs and driver shortages, we feel well placed to continue managing these challenges.

"Trading in the first ten weeks of the new financial year has been encouraging, with growth against strong comparatives and continued market outperformance."

¹ Digital includes home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store

² Free cash flow is defined as net cash generated from operating activities less capex (net of disposals), net interest paid, interest on lease liabilities and repayment of lease liabilities

³ Excluding lease liabilities, including unamortised debt issue costs

⁴ GlobalData UK homewares market, July 2020 to June 2021

⁵ Unique active customers who have shopped in the 12 months to June 2021, based on management estimates using Barclays data

⁶ Homewares market (excluding Dunelm) calculated using GfK data and management estimates. Dunelm growth for comparable categories

⁷ Management understand the range of analysts' estimates (which have been updated since the Q4 trading statement on 14th July 2021) for FY22 Profit Before Tax is £153-£175m

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 charlotte.anstey@mhpc.com.

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Next scheduled event:

Dunelm will release its first quarter trading update on 14 October 2021.

Notes

Quarterly sales analysis:

	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 LFL growth ⁸	35.8%	11.3%	22.3%	-15.9%	100.0%	30.4%	25.9%
Total Group growth	36.7%	11.8%	23.0%	-16.8%	101.7%	30.4%	26.3%
Gross margin improvement	+100bps	+10bps	+50bps	+30bps	+460bps	+220bps	+130bps

	52 weeks to 27 June 2020						
	Q1	Q2	H1	Q3	Q4	H2	FY
Total sales	£262.6m	£322.4m	£585.0m	£284.4m	£188.5m	£472.9m	£1,057.9m
Total LFL growth	6.4%	5.0%	5.6%	-1.3%	-29.0%	-14.6%	-4.5%
Total Group growth	5.8%	6.2%	6.0%	0.0%	-28.6%	-13.8%	-3.9%
Gross margin improvement	+130bps	+110bps	+120bps	+130bps	-210bps	+0bps	+70bps

⁸ Total LFL: Excludes new stores and stores which have had a significant change of space, which have been trading for less than one full financial year prior to 27 June 2020

Notes to Editors:

Dunelm is the UK's market leader in homewares, with a specialist offering for customers across multiple categories via its 175 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.50,000 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 the generations to come'*. The business is headquartered in Leicester and employs over 10,000 colleagues. It has been listed on the London Stock Exchange since October 2006 (DNL.M.L) and has a current market capitalisation of approximately £2.6bn.

CHAIRMAN'S STATEMENT

This financial year was dominated by the Covid pandemic, which provided an enormous multi-dimensional challenge for our business, our colleagues and our partners. Our deeply rooted Dunelm shared values have continued to guide our actions and I am very proud of how the business has met these challenges, delivering to the very best of our abilities for all our stakeholders. Personally, and on behalf of the Board, I would like to thank all our Dunelm colleagues, leaders and our supplier partners for their hard work, dedication and agility.

Dunelm is emerging from the pandemic as a stronger business, with a clear and engaging purpose, ambitious to deliver for all our stakeholders and an even more exciting future ahead. As the pandemic began we were developing our digital platform and have emerged as a proven multichannel retailer. Our enhanced customer proposition means we are fully equipped to continue to win market share.

The investments we had made to develop our digital capabilities enabled us to respond quickly to the increased demand online, including through our successful Click & Collect proposition, which continued to offer customers safe, local, convenient and friendly service throughout most of the restricted trading periods.

Overall, Dunelm delivered a remarkably strong performance during FY21, with good progress across all our financial and non-financial performance indicators, despite the extended periods of store closures.

Delivering for all our stakeholders

Living and working through the pandemic has reaffirmed our belief that being a purpose-led business that delivers for all our stakeholders is critical for our continued success.

The Board has been particularly mindful that our decisions and actions must always balance the needs of our customers, colleagues, communities, suppliers and shareholders, as well as wider society and the environment.

Through the year our customer experience was significantly enhanced, whilst maintaining the health and safety of colleagues and customers as the number one priority. We have provided job security, training and development for over 10,000 colleagues and created over 700 new roles as we enact our ambitious plans for the future. We paid a second special 'thank you' bonus to colleagues in August 2021, reflecting the significant role they played in driving exceptional performance against this challenging backdrop. We worked closely with our committed and long-term suppliers to enable significant growth, supporting our ambitions as the 1st choice retailer for homewares in the UK.

We deepened our relationships with local communities mainly through our store community Facebook groups, but also through our charitable partnerships with Macmillan at a national level and many other local organisations.

We have continued to pay all our suppliers and landlords in full, throughout the Covid crisis. We also took the decision to repay the monies we received in FY20 under the Job Retention Scheme and did not make any claims under that scheme during this financial year, operating a company-funded furlough scheme for colleagues to whom we could not provide work when our stores were closed. We have also committed to repay the local Covid relief grants that we received. In making decisions around government Covid support, the Board has carefully considered both the respective interests of all of our stakeholders and a range of other factors, including the strong recovery of the business, the fact that our stores were closed to customers for a third of the financial year and the competitive imbalances arising from the boundaries between essential and non-essential retail.

Our plans and ambitions for sustainability have taken a big leap forward. Our Net Zero Pathway commitment is now integrated into our wider thinking and is developing at pace. Our Chief Executive Officer talks in more detail in his review about the targets we have set ourselves. There is much to do. As a Board, we are united and determined to ensure we play our part in reducing carbon emissions and making our environment a better and more sustainable place.

Dividends

Reflecting our strong performance in the year and our confidence in future growth, the Board has proposed a final dividend of 23 pence per share. This takes the full year ordinary dividend to 35 pence per share. We did not pay any dividends in respect of FY20.

Additionally, reflecting our stated intention to return to our published capital policies, the Board has announced a special dividend of 65 pence per share.

We remain committed to our published policies. This total dividend of 100 pence in respect of FY21 returns us to the bottom of our published target leverage range, reflecting a prudent approach given the current macro-outlook.

Board

Paula Vennells stepped down from the Board in April 2021 and we thank her for her contributions. During the year, we welcomed Arja Taaveniku as a new Non-Executive Director and were pleased to announce that Vijay Talwar will join the Board as Non-Executive Director on 1st October 2021. Arja and Vijay's experiences in international and digital retail businesses make them great additions to our Board.

Forward together

Dunelm has a long history of profitable growth and market share gains, based on great products, great service and excellent value for money. We are continuing to invest in our existing strengths and the new capabilities needed to be a digital first retailer. We look to the future with ambition, a commitment to learning and developing new capabilities, and are determined to deliver ever higher standards of performance for our customers, our colleagues, our communities, the environment, and of course for our shareholders.

Andy Harrison

Chairman

8 September 2021

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

FY21 was a year that tested the strength of our business model and the resilience and adaptability of our colleagues. I am pleased that Dunelm responded exceptionally well to the most challenging of times. We have emerged from the pandemic as a far stronger business, with clear digital capabilities to complement our existing retail strengths.

Our learnings during the pandemic have reaffirmed our purpose, our strategy and our ambitions. We are clear on the opportunities to accelerate our growth and have the right plans in place to achieve our goals.

I would personally like to thank my amazing colleagues and supplier partners who have worked together to deliver an enhanced customer experience, an excellent financial performance and a stronger business for the future. We have lived our shared value of being '*stronger together*' and I am hugely grateful for their commitment to the business and each other.

FY21 Review

Strong trading performance

We delivered excellent sales growth of 26.3% compared to FY20 despite facing major trading restrictions during extended periods. Our trading performance in the year was impacted by two significant periods of enforced closures, when Dunelm's 'non-essential' retailer status meant that we were not allowed to let customers into our stores. Our online business continued to thrive, with digital sales penetration of 46% (FY20: 27%).

The flexibility of our digital platform and supply chain allowed us to respond to high levels of customer demand, leading to growth in digital sales of 115% in the year, which included significant growth in Click & Collect. When fully open, our stores proved equally popular, with high levels of demand for our products and good growth being sustained during both initial re-opening periods and subsequently.

The appeal of our proposition enabled us to grow our active customer base by 8.5% year over year, with growth of 106% in digital and multichannel customers, partially offset by a decline in the store-only customer base as a result of periods of store closure. Market insight from GlobalData shows that we increased our share of the UK homewares market to 9.1%, up 160bps year over year.

Gross margin improved by 130bps, mainly due to a reduced Winter Sale and the postponement of the usual Summer Sale into FY22. Additionally, we continued to focus on driving sourcing gains to offset emerging cost price pressures from raw materials and freight. We maintained our focus on operational grip across our cost base and delivered record profit before tax of £157.8m, up 45% compared to FY20, despite the very challenging conditions.

Performance driven by digital investments

Investments made in our digital proposition, including the new platform which launched in October 2019, meant that we have been able to scale in response to the increased digital demand, expanding our online experience, home delivery services and our contactless, local and friendly Click & Collect service. Our focus in FY21 was also to further improve the quality of our customers' experience, with customer satisfaction scores increasing across all digital fulfilment channels.

We continued to develop our proposition rapidly throughout the year. We extended the range available for Click & Collect through fulfilment from our central warehouse and improved the speed of order fulfilment. As we scaled to meet the increased demand for home delivery, we significantly shortened lead times, as well as enhanced our post-sales communications to improve the customer end to end journey and remove friction. We made it easier for customers to shop our Made to Measure ranges by introducing a significant proportion of the product range online and offering customers a choice of virtual or physical consultations with experienced colleagues.

Improvements to our [dunelm.com](https://www.dunelm.com) site drove an increase in organic search traffic and we also optimised our paid search marketing by implementing profitability-based bidding. When stores re-opened in April, we were able to offer an enhanced in-store tablet selling experience, allowing customers to shop the full Dunelm range.

Delivering for all our stakeholders

As well as enhancing the experience of our customers, we have ensured that our decisions and actions this year have delivered for all our stakeholders.

During the year, we created over 700 new roles across the business, reflecting the confidence in our growth plans. Colleagues received a second special 'thank you' bonus in recognition of their dedication in delivering exceptional performance against a challenging backdrop.

In progressing our inclusion & diversity strategy, we signed up to the British Retail Consortium's Charter and committed to its six pledges. We also developed our own inclusion & diversity strategy, called 'this is me', with the aspiration that all our colleagues are able to be their true self at work without fear of discrimination. We provided specialist training to all senior leaders across the business and have recently established a series of colleague network groups designed to support and acknowledge diverse communities throughout our business. We also provided mental health training for all our store colleagues during the year, to support them in looking after themselves and each other.

Having successfully transitioned all our previously office-based support centre colleagues, including the Customer Care Centre, to working from home at the start of the pandemic, we have been thoughtful about how we respond to the relaxing of restrictions. We have listened closely to our colleagues throughout the crisis and have adopted a goal of 'feeling at home wherever you work' for those colleagues who do not need to be in a store or in a distribution centre to fulfil their role. We have redesigned our central office locations to provide more collaboration space and are encouraging teams to adopt the appropriate hybrid arrangements that work for them. We will continue to listen and learn and remain flexible to ensure we continue to be a great place to work and an employer of choice.

We have found new ways to continue to offer support to charities and our communities during the year, despite the challenges presented by Covid-19. Macmillan has been our main charity partner since February 2019. During this partnership our colleagues have taken part in a range of fundraising activities and we are proud that we have raised a total of £1.3m.

When choosing our new national charity partner for the next two years, we consulted with our colleagues and they overwhelmingly chose Mind, reflecting the increasing importance of mental health. Our ambition through this new partnership is to create a positive impact that is broader than just fundraising.

As mentioned above, we are deepening our connection with the communities around our stores. We ran campaigns through the year to support our local communities, including our 'delivering joy' campaign which resulted in over 18,000 Christmas gifts being donated through our stores and support sites.

Committed to Net Zero Pathway

Sustainability is becoming integrated into our thinking at all levels and in all parts of the business, and we have moved forward substantially with our plans in this area. Our ambition to 'Be a Good Company' means that our commitment to net zero emissions is integrated into our company purpose, metrics and management incentives.

We have established science-based targets for scopes 1, 2 and now scope 3 carbon emissions. Over 97% of our emissions fall into scope 3, which represents emissions outside of our direct control. We have committed to reduce scope 1 emissions by 50% in absolute terms by 2030; under scope 2 we will continue to purchase only renewable electricity; and for scope 3 we are announcing our intention to reduce emissions by 50% in absolute terms by 2030⁹.

Recognising the need for collaboration to ensure we achieve global emission reduction targets, we are supporting the BRC's Climate Action Roadmap which aims to achieve net zero by 2040. Additionally, we are members of *Textiles 2030*¹⁰, which is designed to limit the impact clothes and home textiles have on climate change and includes targets for water and carbon reduction.

To help us achieve our ambitious targets we are building capabilities and partnerships to accelerate both circular sourcing and customer engagement. We are also making progress on practical improvements, with the introduction of more sustainable product ranges and trialling of services to support our customers to live more sustainably. We are offering more choices in our product ranges to help customers care for (and repair) products, and we are developing a number of customer take-back trials. We have set ourselves targets to reduce the amount of packaging that we use and ensure that our packaging is more sustainable. As an example, the packaging which we use for the mailing bags of our courier-delivered home delivery items is moving to over 95% (from 30%) recycled content, as well as being 100% recyclable.

⁹ Scopes 1 and 2 cover emissions from owned sources as well as emissions associated with purchased electricity. Scope 3 includes all other emissions. The baseline year chosen for comparison is FY19

¹⁰ *Textiles 2030* is a voluntary agreement, backed by government. Signatories will collaborate on carbon, water and circular textile targets

Strategic Update - Becoming the 1st choice for home

Well positioned with a clear runway for growth

As we look forwards, we are confident and also mindful of the work required to grow our business sustainably. Having been a successful physical retailer for many years, we are now both a capable digital player and the operator of great stores, run by colleagues with better links to their local communities. We intend to use this enhanced market leading position to become the 1st choice for home for more customers and to increase shopping frequency.

We have a distinctive and specialist product portfolio - offering quality, value and style - that is largely own brand and sourced from long-term committed suppliers. Our total retail system combines the advantages of integrated digital and local shopping experiences to best serve UK homewares shoppers. Dunelm remains a highly cash generative business, which provides the agility to invest in opportunities for growth, and is built on solid foundations with deep-rooted shared values, strong relationships and a commitment to *doing the right thing* for the long term, for all our stakeholders.

The digital transition we have been on influences how we now think about growth, and the runway ahead of us for attracting more customers and increasing their frequency. Our brand will increasingly reach new customers through digital content and performance marketing. Similarly, digital capabilities allow us to offer more choice, more reach, more convenient services, and more effective marketing, all of which will enable us to grow frequency.

Moving forward with renewed purpose

Our experiences during the pandemic caused us to reflect on the broader role that we play in the lives of our customers, communities and other stakeholders. In the first lockdown, when our stores were closed, we began to get to know our local communities better and listened hard to better understand what customers wanted from their homes. This led to a highly collaborative journey with our customers, colleagues and communities to renew and clarify our company purpose.

Our renewed purpose is founded on the insight that *truly* feeling at home is one of the greatest joys in life. *'To help create the joy of truly feeling at home. Now and for the generations to come.'* This is a purpose that goes beyond offering our customers the means to make their homes comfortable, beautiful, organised and secure: touching on how inclusive and respectful we are in operating our business, and how well we respond to the challenges of sustainable living. This renewed purpose is creating energy and focus and deepening the engagement of our colleagues and customers.

Significant headroom in a large market

The UK homewares and furniture markets are large (estimated to be over £25bn combined¹¹) and fragmented. GlobalData publishes the most comprehensive assessment of the homewares and furniture markets and estimates that both markets declined (vs. the prior year) in FY20 and recovered back to FY19 levels in FY21. There is a potential inflationary tailwind likely in the short to medium term. The market is predicted to grow in low single digits over the coming years.

The pandemic has created a renewed focus on the home both practically, as it serves many new purposes, and emotionally, as it provides safety, security and sanctuary. In addition, new needs are emerging which are fuelling demand for innovative products and services, with consumers returning to 'wholesome' home making activities and focussing on wellbeing and more sustainable living. Our customer segmentation¹² shows that 'Home Lovers', classified as those who are highly engaged with improving, styling and shopping for their homes, make up over 50% of UK households.

As the homewares market leader, but with only 9.1% market share, and with only 1.3% share of the furniture market, we have significant headroom to grow market share. We expect that share gains will be driven equally from acquiring new customers and increasing their purchase frequency.

¹¹ GlobalData homewares and furniture markets. Market size is quoted including VAT

¹² Internal analysis based on Dunelm market segmentation research, February 2019 and August 2020

Growing customer base and increased engagement

In addition to growth in our overall active customer base of 8.5% and in digital and multichannel customers of 106%, the levels of customer engagement with digital content also increased. We grew our engaged contactable email base by 30%¹³ year on year and each of our stores now has a local community Facebook group. Membership of these groups has grown to over 700,000 followers, with 78% of them believing that Dunelm makes a positive contribution to their local community¹⁴. We also experienced substantially higher levels of engagement through social media channels throughout the year, with our own and customer or influencer posts showcasing products and 'how to' content regularly receiving over 5,000 likes.

¹³ Active email customers who have opted-in to marketing in last 30 days and customers who have opened an email in the last 90 days

¹⁴ Source: Community Insight question in NPS survey, May-June 2021

The frequency opportunity

We classify 12% of our customer base as 'high value' and these customers contribute 40% of our sales and are likely to shop across more product categories, and across both our digital and physical channels. In addition, these customers have a deeper emotional connection with Dunelm, and are more likely to say they 'love' the brand¹⁵. We know that a customer shopping multi-category and multichannel with us shops almost five times more frequently in a year than a single-category, single-channel customer and that their average spend with us over 12 months is approximately six times as much¹⁶.

We are focusing on growing the number of high value customers by improving the consistency of execution in order to reduce customer friction and churn, for example through growing our rate of 'perfect orders', focusing on a 'fast & friendly' store experience and improving issue resolution. We are developing our insights and capabilities to understand more about our customers. We are also expanding our proposition in a way that will encourage frequency as well as building further emotional connection and engagement with our brand.

¹⁵ Dunelm customer survey, March 2021, 68% of 'high value' customers love or like Dunelm vs. 54% of other customers

¹⁶ Source: Internal analysis based on Barclays Analytics, FY21 data

Customer proposition development drives growth

To become the '1st choice for home' we are focused on developing our proposition in terms of products, services and experiences.

1) Products proposition

We have a comprehensive product offer in homewares and furniture, with over 50,000 SKUs across more than 30 sub-categories, which are largely own brand, including specialist exclusive to Dunelm brands such as Dorma and Fogarty. Our range is curated for choice across price tiers and styles, with strong (and growing) value and quality credentials understood by our customers¹⁷. Our close relationships with our suppliers enable us to offer customers excellent product innovation and availability. We offer Made to Measure curtains, roman blinds and cushions made in our own UK factory.

Going forward, we will develop our product proposition further by raising the bar on range development. We are adapting our mix of good/better/best price points and the size of our promotional buys. We are now using online customer insight to increase choice and fill in gaps in those categories that we know are more frequently shopped. We will continue to extend our range in new and developing categories, such as Decorate, Outdoor Lighting and Sofas & Chairs. Additionally, we will introduce new collections and sub-brands created by our in-house designers, for example NHM in collaboration with the National History Museum, and the expansion of Churchgate, a timeless brand which draws on Dunelm's heritage.

We are committed to introducing more sustainable products and are building capability to accelerate the introduction of new materials and circular sourcing into the design and manufacturing process. We will also be broadening our sustainable '*The Edited Life*' range to more categories, following the launch of our made to order sofa range (made from recycled materials, and designed for longevity with a 25-year guarantee).

These product proposition developments are supported by investments we are making into our commercial systems to better leverage product data, accelerate the product onboarding process and add capacity for range expansion.

¹⁷ BrandVue Retail, 3 months rolling to June 2021: 26% of customers chose Dunelm as 'Good value' (up 1.3%pts vs. FY20) and 36.6% of customers chose Dunelm as 'Quality' (up 2.4%pts vs. FY20).

2) Services proposition

We service our customers through our integrated digital and physical shopping channels. Our Click & Collect service, which offers a three-hour promise for local store stock, has proven very popular since its launch in Autumn 2019. We offer a national home delivery service, with the majority of our 'heavy and bulky' items delivered by our own home delivery network offering high quality 'room of choice' options. In addition, we offer a full Made to Measure curtains and blinds service, including in-person or virtual consultation and fitting.

Going forwards, we will develop our services proposition further by increasing the breadth and availability of products for Click & Collect, thereby encouraging cross-channel shopping. We will increase home delivery capacity and improve systems to reduce home delivery lead times, provide more consistent service and grow the 'perfect order' rate. This will be supported by our new dedicated e-commerce facility.

We will also improve the range of furniture available for quick delivery and grow the geographic coverage of our own home delivery network. This will be enabled by our new furniture warehouse (in Northamptonshire) as well as investments into supporting supply chain and transport systems. We will also be extending customer support hours and offering shorter response times.

We have begun offering customers opportunities to recycle products and will continue to pilot and test these schemes. In FY21 we introduced an electricals take-back scheme in our stores and we are currently developing a take-back scheme for textiles, quilts and pillows. In addition, we have started introducing local take-back schemes, organised by store colleagues and advertised via our local community Facebook groups.

3) Experiences proposition

We offer our customers convenient shopping online and in stores, through dunelm.com and our store estate of 175 mainly out-of-town superstores. Our colleagues in stores offer personal 'friendly and helpful' advice¹⁸ and provide access to the total product range via in-store tablets. Our displays in store inspire customers and enable them to touch and feel our products and we have growing engaged local communities supporting local causes and national charity partners. In addition, our Pausa cafes in 152 stores enhance the shopping experience for customers and offer our own range of food and drinks in a friendly environment.

Going forwards, we will develop our experiences proposition further by expanding our digital and data capabilities to deliver insight-driven proposition enhancements. We are building a single view of our customers across channels, both to maximise our acquisition of 'high value' customers and to improve marketing communications in order to grow frequency and retention.

We will continue our new store roll-out to our remaining target catchments, including testing smaller formats. Following reduced store refit activity over the last 18 months, we will be accelerating our store refit and refresh programme, improving store layout and optimising the shopping experience.

¹⁸ For Q4 FY21, following re-opening of stores, customers assessed their experience on average in store as 9.4/10 for 'Friendly' service

Summary and outlook

We delivered an excellent performance in FY21, despite our stores being closed for more than a third of the year, demonstrating the strength and resilience of our business model and the adaptability and commitment of our colleagues and suppliers.

The digital investments we had made enabled us to rapidly adapt to the changing environment and deliver strong growth and an improved customer experience. We are emerging from the pandemic as a stronger and better business, having transitioned from being a physical retailer with digital aspirations to being a proven, digital first, multichannel retailer.

We have renewed purpose, bold ambitions and an increased opportunity to attract more customers and grow their frequency. We aim to be our customers' 1st choice for home, helping everyone to create the joy of truly feeling at home, now and for the generations to come. Our business plans will deliver for all our stakeholders, and include our commitment to a Net Zero Pathway, with an absolute reduction in emissions of 50% by 2030.

Whilst the macro-outlook remains uncertain and fast changing, with ongoing risks relating to Covid-19, supply chain disruption and inflationary pressures from raw materials, freight costs and driver shortages, we feel we are well-placed relatively to manage these challenges. We continue to focus on what we can control - namely maintaining good stock levels and mitigating cost pressures, working closely with our long-term committed suppliers and partners.

Sales growth in the first ten weeks of the new financial year has been encouraging, including a positive response from customers to our Summer Sale in July and continued outperformance versus the homewares market. This strong start to the year, showing further growth against a tough comparative period, has been better than anticipated. In the absence of any further trading restrictions, the Board now expects that FY22 PBT will be modestly ahead of the top of the range of latest analysts' expectations.

Nick Wilkinson
Chief Executive Officer
8 September 2021

CHIEF FINANCIAL OFFICER'S REVIEW

Revenue

	52 weeks to 26 June 2021		
	FY21 £m	FY20 £m	YoY Growth %
Total Group revenue	1,336.2	1,057.9	+26.3%
<i>Digital % total revenue</i>	<i>46%</i>	<i>27%</i>	<i>+19%pts</i>
Homewares market share	9.1%	7.5%	+1.6%pts

Total revenue for the 52 weeks to 26 June 2021 increased by 26.3% to £1,336.2m (FY20: £1,057.9m). Compared to FY19 sales grew by 21.4%. During this financial year, performance was impacted by the two periods of store closure. In the first quarter, when stores were fully open, revenue grew by 36.7%. During the second quarter, which included the lockdown in November 2020, when our stores were only permitted to offer Click & Collect, sales growth softened to 11.8%. The most significant impact was in the third quarter when stores were closed for most of the period. Despite the closures, sales only declined by 16.8% due to the strength of our digital offer. In the fourth quarter, revenue grew by 101.7% compared to FY20, and 44.0% compared to FY19, despite the delay of our Summer Sale event, in part reflecting pent up demand.

Our digital offer performed strongly throughout the year, and especially during the periods of store closure when Click & Collect revenue covered c.30% of prior year store sales. FY21 digital revenue of £616m was up by 115% compared to FY20 and accounted for 46% of total Group sales (FY20: 27%).

From the annual estimate of the UK Homewares market by GlobalData, we understand that we grew market share by 160bps in FY21. Furthermore, from our analysis of data from a weekly GfK homewares panel (which represents just over half of the market size as defined by GlobalData), we can see that we significantly outperformed the market when we were able to open our stores. Conversely, when we were forced to close our stores to customers, we underperformed the market.

Sales growth in the first ten weeks of the new financial year has been encouraging, with growth against the strong comparative period in Q1 FY21 and continued outperformance versus the homewares market. Quarterly sales growth in FY22 will reflect the volatility in the prior year trading, with particularly strong comparatives in Q1 and Q4 and closures in Q2 and Q3.

Gross margin

Gross margin of 51.6% was 130bps higher than the prior year. Gross margin benefited from a lower level of discounting throughout the year, including during our Winter Sale when Covid-19 restrictions meant that stores were closed for most of the planned event. Furthermore, the delayed store re-openings in April 2021 led us to postpone the Summer Sale into FY22.

We continue to focus on driving sourcing gains by working closely with our suppliers. In FY21 and in the short- to medium-term outlook, we are seeing notable cost price inflation arising from commodity price increases and global pressures on freight costs. Where appropriate, we are increasing some retail prices to offset cost price pressures, however we remain committed to offering our customers great value products at each price point. We will also augment our standard ranges with increased special buys and review price architecture to maintain competitiveness.

We expect gross margin in FY22 to decrease by c.50-75bps as the trading calendar normalises. We expect to mostly mitigate the impacts of raw material and freight inflationary pressures through better sourcing and increasing prices where appropriate.

Over the medium term we aim to maintain gross margin of c.50%, leveraging our strong committed supplier relationships, with a relentless focus on sourcing and a disciplined approach to promotional activity and markdowns, whilst continuing to invest in great value and quality for our customers.

Operating costs

Total operating costs were £522.5m (FY20: £416.4m), representing an operating cost ratio of 39.1% (FY20: 39.4%). This growth in costs was largely driven by the higher sales volume. Both FY21 and FY20 were impacted by Covid-19.

Costs in FY21 were adversely impacted by the non-recurrence of benefits in FY20 that arose from the closure of the stores in the first lockdown. This included £14.5m relating to the Job Retention Scheme which we claimed in Q4 FY20 at the start of the pandemic. The Board subsequently decided to repay these monies and the repayment cost impacted FY21. We also experienced £8m higher costs to serve in FY21 relating to Covid-19 restrictions. These costs mainly related to the additional roles required in stores to maintain social distancing and capacity requirements, which ensured a safe environment for our colleagues and customers. The business benefited from business rates relief which continued throughout FY21. The lack of rates charges resulted in a year-on-year benefit of £22m, which partially offset the loss of business during the various restricted trading periods during the year.

Our investments in digital, data, insights and supply chain capacity increased by £12m year over year (including £3m of digital costs that would previously have been classed as capital expenditure rather than operating costs). These investments supported the business growth and customer proposition development.

Due to the strong business performance this year, operating costs were impacted by £10m of higher management and colleague incentive costs, given that the majority of FY20 incentive schemes did not pay out as a result of the unexpected impacts of Covid-19 in Q4 FY20.

We anticipate that, over time, our operating cost to sales ratio will remain around 38%, with increased scale offsetting ongoing investments in the proposition. Additionally, we will continue to focus on driving productivity and efficiency improvements to offset cost pressures and labour inflation. In FY22 we will invest in supply chain capacity, expand our teams in digital and data engineering and build new capabilities, for example in product management, insight & analytics and sustainability.

Profit and earnings per share

Despite making losses in the third quarter when stores were closed, operating profit for the year increased significantly to £166.4m (FY20: £116.0m). This partially reflects the leverage of our home delivery fixed cost base due to strong demand, as well as the higher gross margin. Costs were tightly controlled throughout the year despite the significant disruption caused by the periods of lockdown and the specific cost increases required to operate safely under Covid-19 restrictions.

There was a net cost of £8.6m (FY20: £6.9m) in respect of financial items in the period. This included interest on IFRS 16 lease liabilities of £5.3m (FY20: £5.5m), interest payable and amortisation of arrangement fees relating to the Group's Revolving Credit Facility amounting to £1.0m (FY20: £1.8m) and losses of £2.4m (FY20: £0.3m gain) resulting from foreign exchange differences on the translation of dollar denominated assets and liabilities. Interest received on cash deposits was £0.1m (FY20: £0.1m).

PBT in the period was £157.8m (FY20: £109.1m), an increase of £48.7m year-on-year. Profit after tax of £128.9m (FY20: £87.7m) reflected an effective tax rate of 18.3% (FY20: 19.6%). The effective tax rate is lower than the previous year due to the timing of R&D claims and the benefit from the change in future corporation tax rate on the deferred tax asset.

Basic earnings per share (EPS) for the period were 63.7 pence (FY20: 43.4p). Diluted earnings per share were 62.9 pence (FY20: 42.9p).

We anticipate maintaining a PBT margin of c.12% over the medium term, meaning absolute returns will grow as the business scales.

Cash generation and net cash

In the period, the Group generated £108.5m of free cash flow (FY20: £174.7m).

	FY21 £m	FY20 £m
Operating profit	166.4	116.0
Depreciation and amortisation ¹⁹	80.8	80.2
Working capital (outflow) / inflow	(35.0)	80.1

Share-based payments	7.5	2.1
Tax paid	(35.5)	(34.3)
Net cash generated from operating activities	184.2	244.1
Capex (net of disposals)	(15.7)	(24.9)
Net interest ²⁰	(0.7)	(1.3)
Interest on lease liabilities	(5.3)	(5.5)
Repayment of lease liabilities	(54.0)	(37.7)
Free cash flow	108.5	174.7

¹⁹ Including impairment and loss on disposal

²⁰ Excluding interest on lease liabilities

There was a working capital outflow of £35.0m in the period (FY20: £80.1m inflow). The inventory balance at the end of FY20 was unusually low due to the strong sales in the final quarter so the working capital outflow reflected a return to a more usual stockholding. Inventory at the end of the period was £172.4m (FY20: £118.2m). This impact was partially offset by an increase in the VAT payable due to the strong trading since stores re-opened in Q4 FY21. We estimate a further working capital outflow of c. £15-25m in FY22.

Total capital investment of £15.7m (FY20: £24.9m) was lower than historic levels, due in part to delays in store development caused by Covid-19 restrictions as well as our policy to expense digital development spend and the absence of any freehold acquisitions. FY21 capital expenditure included one new store and two relocations (£4.7m), refits in existing stores (£5.5m), technology and digital infrastructure developments (£3.6m) as well as investment in supply chain operations (£1.5m). Moving forwards over the medium term, we expect capex levels of between £30-40m per annum.

In FY22 approximately half of the capital investment will be in stores where we expect to open three to five new stores, including smaller store trials, and accelerate our store refit programme and decarbonisation initiatives. The remaining capex will be split between investment in supply chain capacity (new furniture warehouse and dedicated e-commerce facility) and technology, which includes upgrades to commercial and supply chain systems to enable long term growth.

Tax paid of £35.5m (FY20: £34.3m) was similar to FY20 despite the higher profits. FY20 included two additional payments on account in order to adopt the new rules on the timing of corporation tax payments.

Repayments of lease liabilities of £54.0m (FY20: £37.7m) were higher than the prior year due to the deferral of the June 2020 rent payments into FY21 and a full year of payments this year.

After total dividend payments in the period of £24.3m (FY20: £106.0m), the Group ended the year with a net cash position of £128.8m (FY20: £45.4m).

Banking agreements

The Group has in place a £165m syndicated Revolving Credit Facility (RCF) which matures in March 2023. The terms of the RCF are consistent with normal practice and include covenants (both calculated on a pre-IFRS 16 basis) in respect of leverage (net debt to be no greater than 2.5x EBITDA) and fixed charge cover (EBITDAR to be no less than 1.75x fixed charges), both of which were met comfortably as at 26 June 2021.

In addition, the Group maintains £10m of uncommitted overdraft facilities and has an accordion option within the RCF for a maximum facility of £75m.

Going concern and viability statement

At the time of approving the financial statements, the Board of Directors is required to formally assess that the business has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the 'Going Concern' basis of accounting. The Board is also required to state that it 'has a reasonable expectation that the Group will continue in operation and meet its longer-term liabilities as they fall due' (the 'Viability Statement'). To support this statement, the Board is required to consider the Group's current financial position, its strategy, the market outlook and its principal risks. In FY20, a three-year period was chosen due to the uncertainty arising from the

pandemic. However, in FY21, the Group has chosen to review viability over a five-year period reflecting the confidence the Board have in the future growth of the business. This is aligned to the 'central case' five-year plan approved by the Directors in May 2021, with two 'severe but plausible downside' scenarios and two reverse stress tests.

The Group ended the financial year with £129m cash at bank. The financial covenants are tested semi-annually in line with our December Interim reporting and June year-end reporting. These covenants are normally met with significant headroom. In both downside scenarios, the Group continues to forecast compliance with all financial covenants throughout the going concern and viability period.

In both downside scenarios Dunelm has sufficient liquidity to continue trading, including maintaining the payment of dividends in line with its dividend policy and comfortably meet its financial covenants. The reverse stress modelling has demonstrated that a prolonged sales reduction of 30% from Q2 FY22 is required to breach covenants by the end of FY23 and a 50% sales reduction is required to breach the RCF limit by the end of FY23.

In such an event, management would follow a similar course of actions to those initially undertaken in March 2020, which include but are not limited to:

- Reducing discretionary spend (e.g. marketing and maintenance)
- A reduction in capital investment (e.g. new stores and refits)
- Manage stock levels closely to demand
- Suspension of ordinary dividends, and no special dividends
- Reduce operating model costs (e.g. reduced store opening hours, lower technology spend with third-party developers)
- Delay in payments, including landlords and other suppliers
- Reduction in support centre headcount.

In addition, similar to during FY20 and FY21, the government could reintroduce actions to address specific closure periods (Job Retention Scheme; rates holidays, delay in VAT payments) from which the Group could choose to benefit. As a result, the Board believes that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

Capital and dividend policy

The Board policy on capital structure targets an average net debt level (excluding lease obligations and short-term fluctuations in working capital) of between 0.2x and 0.6x of the last 12 months' EBITDA (on a post IFRS 16 basis). The Group's capital and dividend policy targets ordinary dividend cover of between 1.75x and 2.25x 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 over a period consistently falls below the minimum target of 0.2x EBITDA, subject to known and anticipated investment plans at the time.

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

Dividends

An interim dividend of 12p per share was paid in April 2021 (FY20: nil). It is proposed to pay a final dividend of 23p per share (FY20: nil). The total ordinary dividend of 35p gives a dividend cover of 1.8x. This cover level is within our policy as described above. Subject to approval by shareholders at the AGM, the final dividend is payable on 19 November 2021 to shareholders on the register on 29 October 2021.

In line with our capital policy, and as a result of the strong cash flow and net cash position at the end of the year, the Board has declared a special dividend of 65p. The special dividend will be paid on 8 October 2021 to shareholders on the register at the close of business on 17 September 2021.

The payment of this special dividend will return us to the bottom of our target leverage range (0.2x), maintaining a prudent approach given the current macro-outlook.

Treasury management

The Group Board has established an overall Treasury Policy, day-to-day management of which is delegated to the Chief Financial Officer. The policy aims to ensure the following:

- Effective management of all clearing bank operations
- Access to appropriate levels of funding and liquidity
- Effective monitoring and management of all banking covenants
- Optimal investment of surplus cash within an approved risk/return profile
- Appropriate management of foreign exchange exposures and cash flows

Principal risks and uncertainties

The Board carried out a review in September 2021 of the principal risks that could threaten the Group's business model, future performance, solvency or liquidity. The full assessment will be included in the 2021 Annual Report. A summary is provided below:

Risk	Impact
Competition, market and customers	Failure to respond to changing consumer needs (personalisation, rental vs. purchase, sustainability and customer experience) and to maintain a competitive offer (range, quality, value, ease of shopping) could impact profitability and limit opportunities for growth. A downturn in consumer spending could impact sales and profit
Resilience	Failure to withstand the impact of an event or combination of events that significantly disrupts all or a large part of the Group's sales or operations
Brand damage	Harm to individuals or reputational damage due to product safety issues or ethical, slavery, bribery, environmental or sustainability issues in the supply chain
People and culture	Unable to deliver strategy and sustainable long-term business performance due to failure to attract, retain and motivate high calibre employees, and to maintain our culture and business principles
IT systems, data and cyber security	Operations impacted by failure to develop technology to support the strategy, lack of availability due to cyber-attack or other failure, and reputational damage/fines due to loss of personal data
Regulatory and compliance	Fines, damages and reputational risk incurred due to failure to comply with legal and regulatory requirements relating to health and safety
Climate change and environment	Failure to anticipate and address the strategic, regulatory and reputational impact of climate change and environmental matters, as well as 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 impacted by failure to operate the business efficiently or to manage cost price volatility
Finance and treasury	Growth constrained by lack of access to capital and financial resources

Laura Carr
Chief Financial Officer
8 September 2021

	Note	2021 52 weeks £'m	2020 52 weeks £'m
Revenue	1	1,336.2	1,057.9
Cost of sales		(647.3)	(525.5)
Gross profit		688.9	532.4
Operating costs	2	(522.5)	(416.4)
Operating profit	3	166.4	116.0
Financial income	5	0.1	0.4
Financial expenses	5	(8.7)	(7.3)
Profit before taxation		157.8	109.1
Taxation	6	(28.9)	(21.4)
Profit for the period		128.9	87.7
Earnings per Ordinary Share - basic	8	63.7p	43.4p
Earnings per Ordinary Share - diluted	8	62.9p	42.9p

Consolidated Statement of Comprehensive Income For the 52 weeks ended 26 June 2021

	Note	2021 52 weeks £'m	2020 52 weeks £'m
Profit for the period		128.9	87.7
Other comprehensive income/(expense):			
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of cash flow hedges		(17.7)	6.8
Deferred tax on hedging movements		2.2	(0.1)
Other comprehensive income for the period, net of tax		(15.5)	6.7
Total comprehensive income for the period		113.4	94.4

Consolidated Statement of Financial Position As at 26 June 2021

	Note	26 June 2021 £'m	27 June 2020 £'m
Non-current assets			
Intangible assets	9	14.8	22.7
Property, plant and equipment	10	162.6	175.4
Right-of-use assets	11	262.0	283.3
Deferred tax assets		11.4	4.2
Derivative financial instruments		0.3	1.6
Total non-current assets		451.1	487.2
Current assets			
Inventories		172.4	118.2
Trade and other receivables		11.8	15.6
Current tax asset		2.4	-
Derivative financial instruments		0.4	5.0
Cash and cash equivalents		128.6	90.0
Total current assets		315.6	228.8
Total assets		766.7	716.0
Current liabilities			
Trade and other payables		(181.8)	(177.2)
Lease liabilities	11	(49.0)	(48.0)

Current tax liability		-	(2.6)
Derivative financial instruments		(5.1)	-
Total current liabilities		(235.9)	(227.8)
Non-current liabilities			
Bank loans		-	(44.6)
Lease liabilities	11	(244.3)	(266.4)
Provisions		(4.5)	(3.8)
Derivative financial instruments		(0.8)	-
Total non-current liabilities		(249.6)	(314.8)
Total liabilities		(485.5)	(542.6)
Net assets		281.2	173.4
Equity			
Issued share capital		2.0	2.0
Share premium account		1.6	1.6
Capital redemption reserve		43.2	43.2
Hedging reserve		(4.3)	5.3
Retained earnings		238.7	121.3
Total equity attributable to equity holders of the Parent		281.2	173.4

Laura Carr
Chief Financial Officer
8 September 2021

Consolidated Statement of Cash Flows For the 52 weeks ended 26 June 2021

	Note	2021 52 weeks £'m	2020 52 weeks £'m
Cash flows from operating activities			
Profit before taxation		157.8	109.1
Net financial expense	5	8.6	6.9
Operating profit		166.4	116.0
Depreciation and amortisation of property, plant and equipment and intangible assets	3	31.8	33.2
Depreciation of right-of-use assets	3	45.7	45.1
Loss on disposal and impairment of property, plant and equipment and intangible assets	3	2.3	1.5
Impairment of right-of-use assets	3	1.0	0.4
Operating cash flows before movements in working capital		247.2	196.2
(Increase)/decrease in inventories		(54.2)	39.5
Decrease/(increase) in trade and other receivables		4.1	(1.2)
Increase in payables		15.1	41.8
Net movement in working capital		(35.0)	80.1
Share-based payments expense		7.5	2.1
Tax paid		(35.5)	(34.3)
Net cash generated from operating activities		184.2	244.1
Cash flows from investing activities			
Acquisition of intangible assets		(0.6)	(4.4)
Acquisition of property, plant and equipment		(15.1)	(20.5)
Interest received		0.1	0.1
Net cash used in investing activities		(15.6)	(24.8)

Cash flows from financing activities			
Proceeds from issue of treasury shares		1.8	2.0
Drawdowns on Revolving Credit Facility		-	165.0
Repayments of Revolving Credit Facility		(45.0)	(165.0)
Interest paid		(0.8)	(1.4)
Interest on lease liabilities	11	(5.3)	(5.5)
Repayment of lease liabilities		(54.0)	(37.7)
Ordinary dividends paid	7	(24.3)	(106.0)
Net cash used in financing activities		(127.6)	(148.6)
Net increase in cash and cash equivalents		41.0	70.7
Foreign exchange revaluations	5	(2.4)	0.3
Cash and cash equivalents at the beginning of the period	15	90.0	19.0
Cash and cash equivalents at the end of the period	15	128.6	90.0

Consolidated Statement of Changes in Equity For the 52 weeks ended 26 June 2021

	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 30 June 2019		2.0	1.6	43.2	5.0	134.0	185.8
Profit for the period		-	-	-	-	87.7	87.7
Movement in fair value of cash flow hedges		-	-	-	6.8	-	6.8
Deferred tax on hedging movements		-	-	-	(0.1)	-	(0.1)
Total comprehensive income for the period		-	-	-	6.7	87.7	94.4
Proceeds from issue of treasury shares		-	-	-	-	2.0	2.0
Share-based payments		-	-	-	-	2.1	2.1
Deferred tax on share-based payments		-	-	-	-	1.3	1.3
Current tax on share options exercised		-	-	-	-	0.2	0.2
Gain on cash flow hedges transferred to inventory		-	-	-	(6.4)	-	(6.4)
Ordinary dividends paid	7	-	-	-	-	(106.0)	(106.0)
Total transactions with owners, recorded directly in equity		-	-	-	(6.4)	(100.4)	(106.8)
As at 27 June 2020		2.0	1.6	43.2	5.3	121.3	173.4
Profit for the period		-	-	-	-	128.9	128.9
Movement in fair value of cash flow hedges		-	-	-	(17.7)	-	(17.7)
Deferred tax on hedging movements		-	-	-	2.2	-	2.2
Total comprehensive income for the period		-	-	-	(15.5)	128.9	113.4
Proceeds from issue of treasury shares		-	-	-	-	1.8	1.8
Share-based payments		-	-	-	-	7.5	7.5
Deferred tax on share-based payments		-	-	-	-	2.9	2.9
Current tax on share options exercised		-	-	-	-	0.6	0.6
Loss on cash flow hedges transferred to inventory		-	-	-	5.9	-	5.9
Ordinary dividends paid	7	-	-	-	-	(24.3)	(24.3)
Total transactions with owners, recorded directly in equity		-	-	-	5.9	(11.5)	(5.6)
As at 26 June 2021		2.0	1.6	43.2	(4.3)	238.7	281.2

Accounting Policies

For the 52 weeks ended 26 June 2021

Basis of preparation

The annual report and financial statements for the period ended 26 June 2021 were approved by the Board of Directors on 8 September 2021 along with this preliminary announcement, but have not yet been delivered to the Registrar of Companies.

The financial information contained in this preliminary announcement does not constitute the Group's statutory accounts within the meaning of Section 434 of the Companies Act 2006.

The auditor's report on the statutory accounts for the period ended 26 June 2021 was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The statutory accounts of Dunelm Group plc for the period ended 27 June 2020 have been delivered to the Registrar of Companies. The auditor's report on the statutory accounts for the period ended 27 June 2020 was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

1. 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 their journey often involves more than one channel. Therefore, internal reporting focuses on the Group as a whole and does not identify individual segments.

The Chief Operating Decision-maker is the Executive Board of Directors of Dunelm Group plc. The Executive Board reviews internal management reports on a monthly basis and performance is assessed based on a number of financial and non-financial KPIs as well as on profit before taxation.

Management believes that these measures are the most relevant in evaluating the performance of the Group and for making resource allocation decisions.

All material operations of the Group are carried out in the UK. The Group's revenue is driven by the consolidation of individual small value transactions and as a result, Group revenue is not reliant on a major customer or group of customers.

2. Operating costs

	2021 52 weeks £'m	2020 52 weeks £'m
Selling and distribution costs	423.9	330.6
Administrative expenses	98.6	85.8
	522.5	416.4

3. Operating profit

Operating profit is stated after charging the following items:

	2021 52 weeks £'m	2020 52 weeks £'m
Cost of inventories included in cost of sales	638.5	519.3
Amortisation of intangible assets	7.3	7.3
Depreciation of owned property, plant and equipment	24.5	25.9
Depreciation of right-of-use assets	45.7	45.1
Loss on disposal and impairment of property, plant and equipment and intangible assets	2.3	1.5
Impairment of right-of-use assets	1.0	0.4
Expense related to short-term leases	1.8	2.3

The cost of inventories included in cost of sales includes the impact of a net increase in the provision for obsolete inventory of £5.3m (2020: £0.5m increase).

The analysis of the auditor's remuneration is as follows:

	2021 52 weeks £'000	2020 52 weeks £'000
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual financial statements	29	28
Fees payable to the Company's auditors and their associates for other services to the Group		
- Audit of the Company's subsidiaries pursuant to legislation	225	201
-Other assurance services	40	29

The prior year audit fees include £55,800 which was billed after the FY20 year end.

4. Employee numbers and costs

The average monthly number of people employed by the Group (including Directors) was:

	2021 52 weeks Number of heads	2021 52 weeks Full time equivalents	2020 52 weeks Number of heads	2020 52 weeks Full time equivalents
Selling	9,039	5,390	8,359	5,050
Distribution	829	812	794	778
Administration	704	695	702	691
	10,572	6,897	9,855	6,519

The aggregate remuneration of all employees including Directors comprises:

	2021 52 weeks £'m	2020 52 weeks £'m
Wages and salaries (including termination benefits)	190.8	148.7
Social security costs	13.0	10.5
Share-based payment expense	7.5	2.1
Pension costs - defined contribution plans	4.5	4.0
	215.8	165.3

In the prior year, the Group claimed £14.5m under the UK government's Coronavirus Job Retention Scheme which was netted off against payroll costs. Following the Board's decision to repay the Coronavirus Job Retention Scheme claims, the current year payroll costs include the £14.5m repayment.

5. Financial income and expenses

	2021 52 weeks £'m	2020 52 weeks £'m
Financial income		
Interest on bank deposits	0.1	0.1
Net foreign exchange gains	-	0.3
	0.1	0.4
Financial expenses		
Interest on bank borrowings	(0.8)	(1.5)
Amortisation of issue costs of bank loans	(0.2)	(0.3)
Net foreign exchange losses	(2.4)	-
Interest on lease liabilities	(5.3)	(5.5)
	(8.7)	(7.3)
Net financial expense	(8.6)	(6.9)

6. Taxation

	2021 52 weeks £'m	2020 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	32.7	24.7
Adjustments in respect of prior periods	(1.7)	(1.1)
	31.0	23.6
Deferred taxation		
Origination of temporary differences	(1.3)	(2.0)
Impact of change in tax rate	(0.8)	(0.2)
	(2.1)	(2.2)
Total tax expense	28.9	21.4

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2021 52 weeks £'m	2020 52 weeks £'m
Profit before taxation	157.8	109.1
UK corporation tax at standard rate of 19.0% (2020: 19.0%)	30.0	20.7
Factors affecting the charge in the period:		
Non-deductible expenses	1.4	2.0
Adjustments in respect of prior periods	(1.7)	(1.1)
Impact of change in tax rate	(0.8)	(0.2)
Tax charge	28.9	21.4

The taxation charge for the period as a percentage of profit before tax is 18.3% (2020: 19.6%).

During the year the UK government substantively enacted an increase in the corporation tax rate to 25.0% effective from 1 April 2023. The deferred tax asset as at 26 June 2021 has been calculated based on the rate of 25.0% unless the asset/liability is expected to be realised or settled before the rate increase in which case the rate of 19.0% has been used.

7. Dividends

The dividends set out in the table below relate to the 1 pence Ordinary Shares:

		2021 52 weeks £'m	2020 52 weeks £'m
Special dividend for the period ended 29 June 2019	- paid 32.0 pence	-	64.6
Final dividend for the period ended 29 June 2019	- paid 20.5 pence	-	41.4
Interim dividend for the period ended 26 June 2021	- paid 12.0 pence	24.3	-
		24.3	106.0

The Directors are proposing a final dividend of 23.0 pence per Ordinary Share for the period ended 26 June 2021 which equates to £46.6m. Subject to shareholder approval at the AGM this will be paid on 19 November 2021 to shareholders on the register at the close of business on 29 October 2021. The Directors are also proposing a special dividend of 65.0 pence per Ordinary Share for the period ended 26 June 2021 which equates to £131.7m. This will be paid on 8 October 2021 to shareholders on the register at the close of business on 17 September 2021.

8. Earnings per Ordinary 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:

	2021 52 weeks '000	2020 52 weeks '000
Weighted average number of shares in issue during the period	202,445	202,106
Impact of share options	2,445	2,113
Number of shares for diluted earnings per share	204,890	204,219

	2021 52 weeks £'m	2020 52 weeks £'m
Profit for the period	128.9	87.7
Earnings per Ordinary Share - basic	63.7p	43.4p
Earnings per Ordinary Share - diluted	62.9p	42.9p

9. Intangible assets

	Software development and licences £'m	Rights to brands and customer lists £'m	Total £'m
Cost			
At 30 June 2019	49.8	11.0	60.8
Additions	3.0	-	3.0
Disposals	(1.1)	-	(1.1)
At 27 June 2020	51.7	11.0	62.7
Additions	0.6	-	0.6
Disposals	(0.3)	-	(0.3)
At 26 June 2021	52.0	11.0	63.0
Accumulated amortisation			
At 30 June 2019	22.5	11.0	33.5
Charge for the financial period	7.3	-	7.3
Disposals	(0.8)	-	(0.8)
At 27 June 2020	29.0	11.0	40.0
Charge for the financial period	7.3	-	7.3
Disposals	(0.3)	-	(0.3)
Impairment	1.2	-	1.2
At 26 June 2021	37.2	11.0	48.2
Net book value			
At 30 June 2019	27.3	-	27.3
At 27 June 2020	22.7	-	22.7
At 26 June 2021	14.8	-	14.8

All amortisation is included within operating costs in the Consolidated Income Statement.

The impairment of £1.2m (2020: nil) relates to tablet-based sales enabling software that was impaired following the development and roll out of new functionality in this area.

Within software development and licences there were no additions (2020: £0.8m) related to internally generated assets.

10. Property, plant and equipment

	Freehold land and buildings £'m	Leasehold improvements £'m	Plant and machinery £'m	Refit improvements £'m	Fixtures and fittings £'m	Total £'m
Cost						
At 30 June 2019	92.1	158.9	5.8	7.4	112.0	376.2
Additions	5.6	7.3	0.2	1.6	7.2	21.9

Disposals	-	(14.6)	(0.2)	-	(5.1)	(19.9)
At 27 June 2020	97.7	151.6	5.8	9.0	114.1	378.2
Additions	-	3.1	1.9	0.7	7.1	12.8
Disposals	-	(6.7)	(0.1)	-	(4.6)	(11.4)
At 26 June 2021	97.7	148.0	7.6	9.7	116.6	379.6
Accumulated depreciation						
At 30 June 2019	14.2	83.4	4.7	2.1	91.2	195.6
Charge for the financial period	1.6	12.2	0.4	1.1	10.6	25.9
Disposals	-	(14.4)	(0.2)	-	(5.1)	(19.7)
Impairment	0.6	0.4	-	-	-	1.0
At 27 June 2020	16.4	81.6	4.9	3.2	96.7	202.8
Charge for the financial period	1.7	11.8	0.3	1.4	9.3	24.5
Disposals	-	(6.2)	(0.1)	-	(4.2)	(10.5)
Impairment	-	0.1	-	-	0.1	0.2
At 26 June 2021	18.1	87.3	5.1	4.6	101.9	217.0
Net book value						
At 30 June 2019	77.9	75.5	1.1	5.3	20.8	180.6
At 27 June 2020	81.3	70.0	0.9	5.8	17.4	175.4
At 26 June 2021	79.6	60.7	2.5	5.1	14.7	162.6

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

The impairment of £0.2m (2020: £1.0m) relates to store impairment as well as the prior year impairment of the Group's head office. The recoverable amount has been determined as the value in use applying a discount rate of 10.0% (2020: 10.0%).

11. Leases

Right-of-use assets included in the Consolidated Statement of Financial Position at 26 June 2021 were as follows:

	2021	2021	2021	2020
	Land and buildings	Motor vehicles, plant and equipment	Total	Total
	£'m	£'m	£'m	£'m
At the beginning of the period	275.6	7.7	283.3	294.3
Additions	22.6	2.9	25.5	34.9
Disposals	-	(0.1)	(0.1)	(0.4)
Impairment	(1.0)	-	(1.0)	(0.4)
Depreciation	(42.5)	(3.2)	(45.7)	(45.1)
At the end of the period	254.7	7.3	262.0	283.3

Right-of-use additions include £1.3m of lease modifications (2020: £0.4m).

Lease liabilities included in the Consolidated Statement of Financial Position at 26 June 2021 were as follows:

	2021	2021	2021	2020
	Land and buildings	Motor vehicles, plant and equipment	Total	Total
	£'m	£'m	£'m	£'m
At the beginning of the period	(306.7)	(7.7)	(314.4)	(325.0)
Additions	(23.9)	(3.0)	(26.9)	(36.4)
Disposals	-	0.1	0.1	0.4
Interest	(5.2)	(0.1)	(5.3)	(5.5)
Repayment of lease liabilities	49.7	3.5	53.2	52.1
At the end of the period	(286.1)	(7.2)	(293.3)	(314.4)

The discount rate applied across all lease liabilities ranged between 1.0% and 2.1% (2020: 1.6% and 2.4%).

The maturity analysis of the lease liabilities is as follows:

	2021	2020
	£'m	£'m
Current	(49.0)	(48.0)
Non-current	(244.3)	(266.4)
	(293.3)	(314.4)

The remaining contractual maturities of the lease liabilities, which are gross and undiscounted, are as follows:

	2021	2020
	£'m	£'m
Less than one year	(53.7)	(51.6)
One to five years	(170.9)	(174.2)
More than five years	(88.3)	(118.6)
Total undiscounted lease liability	(312.9)	(344.4)

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

	2021	2021	2021	2020
	52 weeks	52 weeks	52 weeks	52 weeks
	Land and buildings	Motor vehicles, plant and equipment	Total	Total
	£'m	£'m	£'m	£'m
Depreciation of right-of-use assets	42.5	3.2	45.7	45.1
Impairment of right-of-use assets	1.0	-	1.0	0.4
Interest expenses (included in financial expenses)	5.2	0.1	5.3	5.5
Expense relating to short-term leases	1.7	0.1	1.8	2.3

The impairment of £1.0m (2020: £0.4m) relates to store impairment. The recoverable amount has been determined as the value in use applying a discount rate of 10.0% (2020: 10.0%).

The total cash outflow for leases during the financial period was £59.3m (2020: £43.2m).

Cash repayment of lease liabilities includes the deferred payment into this financial year of two months' rent which would normally have been paid in June 2020. From September 2020 onwards, we reverted to paying rents quarterly in advance.

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