Dunelm Group plc
Interim Results 2025

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Transcript

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Nick Wilkinson: Well, good morning and a particularly colourful welcome to the Dunelm Interims presentation, covering the first half of our financial year to the end of December. My name is Nick Wilkinson, and Alison Brittain and Karen Witts and I are delighted to welcome you to the offices of Peel Hunt in London. Whether you are here in person or joining virtually, I hope you are well and thank you for your continuing interest in the story of Dunelm.

We'll use this presentation to bring some colour to how we are developing the business and the results we are achieving. It's our normal running order. I'll introduce the highlights. Karen will then go through the first half financials and guidance, and I'll be back to share more on our plans as we carry on unlocking our full potential as the UK's home of homes.

So with an image from our Edited Life range to show that even if colour isn't your thing, we can still give joy to your home, I will get started. But before I do that, I would just like to acknowledge the other announcement this morning that at some point, I'll be stepping back from full-time executive life and retiring from Dunelm.

As you'd expect, we'll be ensuring a first-class transition, smooth and orderly. No dates, just a recognition from me that as I start my eighth year, this is the right time, personally, to be making a transition and allow myself to do more than one thing, including to better support the many charities and projects that are close to my heart. This is quite simply the best job in the best company with the best team that I've ever known, and I will be forever green. And those of you who know me well, will know I'd far rather be talking about the business and our plans and results than about myself, so let's just do that.

There will obviously be a comprehensive process to appoint my successor, and Alison and the company will keep you informed of progress.

So, it was a good half, more for the quality of the growth we achieved than the quantum. Sales driven by volume growth at strong gross margins with good cost grip and continued progress in market share and customer numbers, up over 4% in the rolling 12-month view that we're showing here.

Underlying free cash flow generation was good and affords our interim dividend of 16.5 pence and a special of 35 pence. Mindful of the times, many businesses are expressing caution, but we also know from our history that it's in times like this, that by being clear-sighted and purposeful, that we can build a bigger and better business, which is exactly what we are doing. So while we'll always be level-headed and disciplined, first and foremost, we are excited and active in improving our customer offer and strengthening our advantaged business model.

We drive good growth and good returns first and foremost, by seeking to understand our customers better than anyone else. We saw in the first half an increasingly diverse set of consumer missions. While some saw growth in real wages, others were more worried about job security and/or housing costs. While others still sought to distract themselves from their concerns and worries with occasional treats. Staying relevant as consumers rapidly cycled through Halloween, Black Friday gifting, and Christmas hosting missions, played to many of our strengths: outstanding value, breadth of choice, complementary digital and store channels.

Understanding our customers allows us to become more differentiated as a specialist, and we do see the playing field splitting here. We are elevating our product through design and our channels, and at the same time, ease and convenience is becoming increasingly important and we saw a significant improvement in our Click & Collect growth rates when we became a better one-stop shop for those customers.

Karen will explain the approach we're taking to labour cost headwinds, harnessing our operational strengths to drive good growth and returns. We've offset a significant proportion of labour inflation over the last five years through continuous improvement, and we now also see opportunity for technology and process change to drive further operational efficiency through targeted investment.

Pure productivity initiatives alone won't fully offset all of the labour cost headwinds that we see coming, but we have other levers to increase our cost leverage through our growing scale and skills. So you find us mindful of the environment, close to our customers, continuing to invest with discipline, growing our appeal in differentiation specialist and excited about the opportunities ahead. More on that shortly, but I'll now hand over to Karen to continue the story by updating you on the half.

Karen Witts: Thank you, Nick. Morning everyone, and thanks very much for taking the time to be with us this morning. So as usual, I'll start with a summary of our half-year financial results, then I'll take you through the performance in more detail. As Nick said, we are pleased to be reporting another good set of results demonstrating progress and growth in a challenging market.

We grew sales in the first half by 2.4% to £894 million. Our growth was again driven by volume as we continue to offer customers an even better proposition, combining choice, value and relevance in store and online. We kept a good grip on our gross margin and expanded gross margin percentage by 10 basis points year-on-year to 52.8%, keeping prices broadly stable, being disciplined on promotional activity and managing input costs closely.

This management grip continues to be really important in an environment of rising costs, particularly driven by labour cost inflation. We're balancing inflationary pressures alongside our investment plans for the near term and the future, all the while ensuring that we continue to deliver productivity gains.

Profit before tax of £123.2 million was very slightly up in the half with earnings per share growth of 1%, reflecting a normalisation of our effective tax rate after a one-off adverse impact last year. Our cash generation remains strong. We're reporting a headline number of £168.5 million and a half-year net cash position of £57 million. However, as I'll explain in more detail, these figures include a very temporary favourable timing difference on payables of about £90 million.

With healthy cash generation and confidence in our business model and prospects, the board has declared an interim ordinary dividend of 16.5 pence, up just over 3% year-on-year, and we are also announcing another special dividend of 35 pence per share.

Let me now take you through a view of our market share gains, which we've delivered by growing sales, customers and digital penetration, all of which we've been investing in. Sales grew by 2.4% in a soft market. Digital sales made up 39% of our total, up three percentage points year-on-year. As a reminder, digital sales include Click & Collect sales, which are ordered online and fulfilled in store. Click & Collect sales grew significantly in the first half.

Our market share at the end of H1 was 7.8%, up 30 basis points year-on-year against a challenging backdrop, and we also saw 4.3% growth in customers. Active customer growth is a good data point to show that our plans are working. The growth in customers is consistent with our demographics, very broad based, and we believe that we're very well-positioned to take advantage of consumer recovery when it comes.

We were pleased with the quality of our sales, which were delivered with a focus on bringing more of our range more conveniently to more of our customers, for example, through our expanded Click & Collect offer, all the while maintaining our outstanding value proposition and our focus on our good, better, best offer.

As well as sales growth, we delivered gross margin growth, expanding our gross margin percentage by 10 basis points year-on-year. The freight cost environment is rather less volatile for now. Red Sea surcharges remain, but costs in the half were relatively stable and we're managing what is for us a slight FX headwind through other input cost control. We've maintained our outstanding value proposition and kept retail prices broadly stable.

We were also disciplined around our approach to promotional activity in order to underpin the quality of sales growth. We're now guiding full year gross margin percentage to the upper end of our previous guidance, which was 51 to 52%.

The pressure on costs in the retail environment is well-documented. I'd like to show you here how we've made our decisions around investment and efficiency in this ongoing inflationary environment. And on the slide after this one, I'd like to explain our approach to managing costs.

In the first half of this year, our operating cost base grew through a combination of volume-driven cost growth, inflation and investment partly offset with efficiency and productivity gains. Volume growth of £7 million included the variable costs associated with digital sales, including Click & Collect expansion.

Sales, marketing and distribution costs are the most impacted by hourly rate wage inflation. Aside from this, we're tightly managing inflation in our non-wage base to limit the overall impact to £9 million over this time last year.

The £8 million increase in investment includes investment in the customer proposition, for example, in improving search, which Nick will speak about, and continued investment in our made-to-measure capability both in manufacturing and in store as this is a category where we see lots of opportunity.

As you can see, we offset our incremental investment spend with increased productivity benefits amounting to £11 million. Some of this was tactical and aimed at mitigating wage cost inflation as we optimised work patterns in stores and worked on continuous improvement plans. And we also saw the results of investment already made in digital functionality and capability, which, along with scale, enabled savings from marketing efficiency.

Over the last five to six years, we've already managed the impact of significant wage inflation, which we've done through a combination of tactical and operational initiatives and leverage from our increasing scale and capabilities. As a result, we've been able to hold out our investment roadmap and maintain broadly stable margins. We believe that it's important to continue to find and deliver on these continuous improvement initiatives which pay back quickly.

As I flagged at our prelims presentation in September, we're also targeting investment in longer-term efficiencies like self-serve checkouts. We're optimising capabilities that we've already invested in and we're working on bringing our processes closer to our systems. This approach will ensure that we maintain an appropriate balance of investment and returns in any one year.

Last but not least, in order to deliver long-term sustainable growth, we must continue to prioritise our value proposition through leveraging the advantages of our business model on input costs and through our rigorous approach to our 'good, better, best' strategy. By doing this, we would still expect to maintain broadly stable operating margins.

Profit before tax of £123.2 million grew slightly year-on-year. You will see that our effective tax rate of 25.6% is back within our guidance of 50 to 100 basis points above the headline rate of tax. This has had a positive effect on diluted EPS of 45 pence which grew by nearly 1%.

Cash generation remained strong in the half. As I explained, we are reporting a headline free cash flow of £168.5 million. However, this includes a timing difference on working capital, which created a very temporary inflow of £88 million because of a payment in transit at the end of the period, which cleared on the first working day of the second half. There was nothing unusual about the payment.

Inventory was well-controlled and we ended the half with inventory down £3 million versus the prior year. CapEx is higher than we've seen recently as early in the financial year, we acquired a freehold site in a white space location that we've been looking at for a while. The property is currently occupied and will be converted to a Dunelm store in the future. These opportunities are unpredictable and unusually, we're working through another acquisition in another target area. This transaction has not yet completed, but assuming that it does, we're now guiding CapEx for the year higher at £60 to £70 million.

We still remain a CapEx light business, and we take significant amounts of investment through our P&L while still managing a broadly stable margin.

We ended the period with a headline net cash position of £57.1 million, which is more like an underlying net debt of around £31 million after adjusting for the payment, which cleared just after the period end. As I said, we're a capital-light business with a capital allocation methodology that returns surplus cash to shareholders after prioritising investment in the business for growth.

And in this half, we're continuing our strong track record of shareholder returns. The board has declared an interim dividend of 16.5 pence per share, up 3% year-on-year. And the board has also declared another special dividend of 35 pence per share. These distributions reflect our view of the strength of the underlying business and our confidence in its future prospects.

I'll finish by summarising our guidance for FY25. We believe that the consumer outlook will remain challenging. However, we're confident that with our outstanding customer offer of value, choice and relevance, we'll continue to gain market share in line with our expectation that we'll reach a 10 per cent share over the medium term.

We've delivered a strong gross margin over the last six months, and we expect to finish the year towards the upper end of our guidance, so between 51.5 and 52%. We're working hard on mitigating inflationary pressures, especially wage inflation in a sustainable way. We expect our effective tax rate to be 50 to 100 basis points above the headline rate of corporation tax.

From a cash perspective, we expect a small working capital inflow at the end of the year. We're raising our CapEx guidance to £60 to £70 million to reflect investment in five new super stores, which is in line with previous guidance, and assuming our second freehold acquisition completes in H2. Our PBT expectations remain unchanged and are in line with market expectations. Thank you for your attention, and I'll now pass back to Nick.

Nick Wilkinson: Great. Thanks, Karen. Let me bring some more colour then to our plans for the second half and beyond. This image from our current television commercial is the visible tip of the iceberg of that work to grow our market share. In a fragmented market with so many consumer and technology dynamics playing out, we have many levers in our hands to grow a high-quality and sustainable market position.

So how do all those levers fit together? We have three broad focus areas which frame our priorities and investments. These focus areas, as I shared in September, are an evolution of the strategy we have followed over many years. In a nutshell, and written out on the right-hand side, we drive sustainable growth through the combination of elevated product, the development of our channels to offer better shopping experiences to more customers, and the harnessing of our operational capabilities to create productivity as we grow.

These pillars bring compounding benefits, and a number of our initiatives straddle two or even three different pillars, which necessitates a high degree of cross team collaboration, something which our values and culture sets us up well-to-do.

You can also think about this growth in terms of progressing along multiple product category runways, and in each runway we have significant headroom in terms of awareness, consideration, and purchase conversion. The weighting of these opportunities between awareness, consideration, and purchase conversion varies by category, and therefore we pull different levers by category. If you like, we're becoming a multicategory specialist.

As our system grows, we're able to attract more customers and increase our share of the purchases of existing ones, hence the home of homes and the expectation to drive our market share to 10% in the medium term. As we head towards that milestone, it's been a busy half, with progress on both familiar themes and the start of some big new moves for the longer term. So let's go into each of the focus areas, and I'll give you a couple of examples on each.

As you know, we are relentless as a specialist about offering better value to our customers, and better value means you'd need to pay more to get the same quality in another retailer. Our average item value is under £11 across the business, but our ranges are very broad. So how does that work? Here are two examples from our textiles heartland.

We describe our ranges of spanning price quality tiers from good, to better to best, and there can be upwards of a dozen different tiers where the scope for genuine differentiation allows.

In this towels example, we offer nine price quality tiers between the £4 good tier special buy, and the £24 highest price tier soon to be launched. Those prices for a standard size bath towel. Right in the middle of this assortment is our best-selling Egyptian cotton towel range, where we have recently increased quality to offer better value. The upgrade includes a higher weight fabric, a finer yarn, more durability, and more stitching in the hem. We're also increasing the choice of colours over the next two seasons to reach a staggering 50.

That in turn creates opportunities. As I said, we'll shortly introduce our highest ever weight towels at the top of the range, and at the good entry tier, we're increasing the size of our special buys to take advantage of mill capacity.

The second example is for curtains and blinds, tracks and poles. Here, our ranges extend from a flat pack ready-made curtain pair from £15, to a professionally fitted made-to-measure curtain or blind. Again, we are busy up weighting value for our consumers.

Luna is a best-selling collection in the core of the range, made up of beautiful plain colours. We are upgrading the colour choice, extending by autumn /

winter to 37 different colours, and those colours now coordinate across many categories, including cushions and bedding.

Meanwhile, in tracks and poles, we've simplified choice at the good and better tiers, we're improving packaging, and for the first time, elevated our metal poles range into the best tier, with new metal finishes of the highest quality at prices significantly below the equivalent quality in a department store.

Elevating our product is also about creating products and collections whose style delights and surprises our customers. And we have been surprised ourselves by the positive impact of braver designs on sales. But with so many of our products first being seen in a Google shopping ad thumbnail or from a friend or influencer on social media, it sort of makes sense. But elevation through design has to be built over time with deep capabilities.

In our core textiles categories, that expertise lies in the combination of our long-term committed suppliers and our own design team. Dorma being a case in point, which recently received a Royal warrant from His Majesty the King. Meanwhile, in furniture, we've built design skills in-house alongside a growing network of UK and Asian-based factories. In the left-hand picture, the five-day delivery Beatrice sofa has now broadened into other products, including in seven bold woven stripe colourways.

We also seek collaborations which elevate our product further that we can reach ourselves. This collaboration on the right-hand side with Sophie Robinson, the Queen of Colour, is a unique Maximalist collection which has just launched. For designers like Sophie, the appeal of working with us is the ability to create and coordinate across multiple categories, from bedding and curtains, to lighting and furniture, to home accessories, and even into stationery.

This year, we're also elevating some of our long-term collaborations, notably with the Natural History Museum, and extending designs from the William Morris Archive into finished products, in addition to fabrics.

Connecting with more customers means improving channel reach and experiences. We do this best when we optimise each channel as part of our total retail system. Our customers indeed don't talk about channels, they just go shopping across them.

So let's start online. Our products are the key to digital optimisation because they make personalisation meaningful for consumers. Put simply, to serve you relevant content, we personalise search results, we personalise as you browse, and recommendations for complementary products. And we took a big step-up on this with new AI-powered tooling on the site, which we are still tuning and expanding across our ranges.

The left-hand picture shows an example, interpreting the intent of the search words here, that soft relates to colour, and ordering results based on what we think is most appealing to you as an individual.

Social proofing is also newly added, and working well in the very first use cases we're putting it to. That's the right-hand side image, giving affirmation to our customers about popularity and quality. And while social proofing isn't new, it is for us, and we're using it to give confidence rather than to create fear of missing out. Whilst each example may feel small, this aggregate impact of optimisation is significant and is now an enduring value driver for us.

Different to optimisation, a big new move for us will be our app, which will be fully functional as a transactional shopping experience for launch this summer. We're excited about this opportunity, providing a cost-effective route for reaching more customers at more stages of their shopping journeys, from inspiration at the very start, to functionality that improves in-store and online browsing.

Westfield store is also an example of optimising, in this case for an urban store, our first in London, in a large fashion-oriented shopping centre. Its job is to build awareness for consumers who haven't heard of us yet, and to build consideration for those who've heard of us but don't really know us. So the store is merchandised to surprise, with the quality and value of individual products, and the ease of coordinating across categories to create a stylish interior. It's early days and we are pleased with performance, including the proportion of customers who are new to us and the degree to which customers, are using the store in conjunction with our digital offer for home delivery and to collect online orders.

All of this reaffirms for us the appeal of our products to Londoners, and the opportunity to reach them through our digital channels and a portfolio of different store formats, a few smaller ones in inner London, and more and better super stores in outer London.

Our confidence in a multi-format approach to our store portfolio is giving renewed impetus to our store rollout plans. In the second half, we expect to open up to five new stores, which will be a mix of smaller ones of about 10,000 to 15,000 square foot selling area, and larger ones of 30,000 square foot. We're still pursuing catchments we've targeted since we began rolling out super stores over 25 years ago. And to this, we're now adding smaller catchments, Merthyr Tydfil is an example in the second half, and some in-fill in densely populated areas. Bracknell opening this Friday, an example of that.

Now, Ireland. Our first chance to talk to you about the acquisition of Home Focus, which took place last November. It's a soft furnishings retailer focused on textiles, specialising in ready-made and made-to-measure curtains, with 13 stores in high-quality locations across Ireland. Smaller stores for us, none larger than 10,000 square foot. We like the quality and the values of the business, and we see an opportunity to connect our product with customers in the £1 billion Irish homewares market.

Since owning the business, we're pleased with what we've seen. We've started selling Dunelm products, but it's early days, as you can see from the pictures. There's lots to do, and a multi-stage, multi-year journey to raise the bar on the customer offer and on operations. That will include setting up our digital platform to serve customers in Ireland. And the approach we take, will in due course, give us the capability to connect our product to customers in other countries, too. We're taking things step by step, starting with building profitable sales growth in Ireland in stores and then online.

Back to the UK and our third focus area, harnessing our operational capabilities. I'm going to start by talking about Click & Collect because it's a good example of initiative that drives both growth, cost leverage, and some new efficiency opportunities. So what's happened with Click & Collect? On the left-hand side is what customers have seen, a dramatic change in their online basket to make many more lines available for collection in their local store.

We're now much better at being a one-stop shop, if you like, rather than expecting customers to manage a fragmented order, with some items only available for home delivery and others only available for collection in store. We've done that by setting up far more of our non-store stocked ranges to be available for collection, so that now over three quarters of our range by sales value, of suitable products, can be collected in your local store.

That in turn creates opportunities for efficiencies, which we're now focused on. High volumes make it more efficient to pick, those items that are being sent to the store and are already in the store. So we're picking by department rather than by customer order. And Click & Collect customers can now self-serve. Texting a code when they arrive in store, we bring their items to a collection point, which we're now moving closer to our tills. A further opportunity is to flow the items that are being sent to our stores for collection through lower cost fulfilment channels. And finally, we've got the opportunity to select the most popular lines for collection and put those into our store ranges in every store across the country.

Now, two examples of productivity initiatives that illustrate the approach that Karen described earlier.

The first is in performance marketing, where we are leveraging the growth and the skills we're building in our digital channel. To give you a sense of scale, the efficiency of our digital channel continues to improve, and this work is a strong contributor to the £11 million productivity improvements that Karen showed you earlier. How are we achieving that? Well, we're now optimising our performance marketing spend, using our data analytics and our skills across more of the customer journey, from the top of the funnel to the bottom, and across more channels.

At the same time, our site performance is improving conversion, and thus our paid advertising efficiency. Site performance covers many things from speed to quality, and on the left-hand side is example of better search results from our new tooling on the site, compared to its predecessor. With confidence in our capabilities, we're now extending our data science and experimentation into other areas. The next being personalised incentives to customers that can be used in stores and online.

The second example is more tangible. We're rolling out self-checkouts into our stores. We've had trials in place for over a year in a small number of locations, during which time, we've optimised the equipment and the processes for customers and colleagues alike. Many customers prefer to have the choice to self-checkout. We're now rolling out to stores our largest ones this year, and we'll get to a hundred by the end of next financial year, remodelling the space and design of stores in the area of the tills at the same time. With the technology well-developed and labour costs rising this program will pay back in less than three years.

Examples like this across our stores and supply chain in particular blend continuous improvement and larger change programs. Harness our scale and skills and give us confidence that we can increase productivity significantly while further strengthening our unique proposition and business model.

Now I began by talking about our ability to understand and serve our customers. So let's end and round things up by talking about growth and the outlook.

We grew our sales in the half. The quality of growth in this environment was particularly good. I'm pleased that we grew volume at the same time as delivering strong gross margins, and that we also grew market share and customer numbers across the breadth of UK regions, age groups and income bands.

We remain highly ambitious, fully focused on driving high quality growth and returns by elevating our product, extending and optimising our channels and harnessing our operation capabilities. Our model, own brand and specialist, allows us to raise the bar on giving customers outstanding value and create new growth platforms like the app and a multi-format approach to store rollout in parallel with good financial discipline.

We're also encouraged by early trading during the second half. Consumers are not letting go of the range just yet, but we've had a good Sale and growth rates have carried on being strong since then. Our new ranges have landed well and the weather is cold, which we like at this time of year. Our expectations for the full year are unchanged and in line with consensus.

As you know we are still a far from mature business. We've only been national with stores and on the pitch with a good digital offer for about five years. There's so much more high-quality growth that we see ahead of us. Our next milestone 10% market share in the medium term is firmly in our sights.