

# Dunelm Group plc Interim Results 2026

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Transcript



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Clo Moriarty:

So welcome to Dunelm's Interim Results. I know I've met many of you before, but for those I haven't, I'm Clo Moriarty and I joined us four months ago, having spent 15 years with Sainsbury's and almost a decade with Bain before that. Now over the last four months, it has been tremendous to validate for myself all the things that I believed to be true about this business. And I've been able to do that through a deep onboarding, now having visited almost 60 of our shops, many of our logistics sites, engage with our dedicated partners and of course spend time with our teams in the centre. And look, this really is a beautiful business, right? We are product centric with something for everyone, carefully crafted with our longstanding suppliers across that end-to-end supply chain. This is a business that really understands the role of the physical store, and how it can be complemented with the role of digital.

And it also has something that is really difficult to build from scratch. We have colleagues who really care, and all of that is in service of our customers. Now over the course of this morning, between Karen and I, we're going to walk through our H1 results, many of which have already been well trailed. Thank you for all of your questions and some provocations post our trading statement. What we've endeavoured to do is actually weave the answers to those questions through our presentation to keep us all in check, but we have plenty of time in Q&A if there's anything that we don't cover. And then uniquely on this occasion, given that it has been a number of months, I'd love to share my initial reflections on where I and we see the opportunities for now and for all the years to come. Word of warning, this is not a capital markets day undercover, right? This is a data share of those insights for us to be able to bring it to life.

So let's start with the half that was. We demonstrated a very solid H1 start to this financial year with 3.6% growth year-on-year. It very much was a half of two quarters with strong growth of 6.2% in the first quarter and softer growth of 1.6% in the second quarter, from which we're now rebounding. But our strong focus on our gross margin demonstrated further margin enhancement of 60 bps now up to 53.4%. And we have consolidated our market share position. Again, up a further 0.2%pts, now at 7.9% market share. Now we have endeavoured through this transition to ensure that we've kept all of our measures and metrics really consistent to enable you to best follow our business. But today we are introducing one additional measure for the purposes of this session, and that's all around the customer, CSAT customer satisfaction.

And from a really strong base, and I wouldn't expect to see this level of increase year-on-year given the base, we have demonstrated a 2.6%pt increase, which really reflects the focus that this team and this business is putting on our customers and noting that our customers are noticing.

As well trailed in our trading statement, Karen will go into a lot more detail, I promise, on our £114 million outturn and particularly around the phasing of our costs. But we've also had very strong cash flow, so free cash flow of £171 million, which is relatively stable year-on-year.

Now, in this business, we have a very clear capital allocations policy and one that I really buy into. And it is as a result of that, that we're able to share our interim dividend and also announce our special dividend for this financial year.

So let's get into a bit more detail on the growth from the half. So we demonstrated 3.6% year-on-year growth over the half, in what was a relatively subdued market. But worthy of note is actually the shape of our business. So as I look across our total year-on-year sales from year to year, that's broadly consistent, but we do see variances between the quarters, and that's driven by seasonality, it's driven by discounting, and it's driven by eventing. And we do typically see a lower Q2. Some of that is external. Some of that is a choice as to how we run our business, but we do want to spend a little bit more time on Q2 this time around, because it still was softer than we anticipated.

We know that consumer confidence has remained very subdued and has done so now for a number of quarters. So every single penny or pound that a customer spends is hard earned. Equally, through this period of time, we saw much deeper levels of discounting, and the discounting lasting for longer. This is an area that we chose to not further engage in, and that did impact our participation.

And lastly, as again, trailed in our trading statement, whereas furniture has been providing tailwinds for us over the last number of quarters, it didn't fare well in this environment, and part of that was driven by a miss on our side from an availability standpoint. We introduced a new system and it didn't forecast for the demand that we saw later in the year. Now, I'm going to go pains to labour that when we introduced F&R, so our forecasting and replenishment tool, and we rolled it out across the different categories, it is performing exceptionally well for us. It is driving up availability and it's driving down stockholding, exactly what we wanted to do. It didn't work as effectively in furniture. Lessons learned, we've embedded those learnings and we've moved on.

And in the spirit of moving on, we are confident for the half to come. So we've started the year with a strong Sale, and it was great to see our customers buy into that event, buy into Dunelm, and buy into our products. And for the record, the highest selling item yet again was Dorma Full Forever Pillows. So

if you haven't got one, this is basically the UK market telling you that you should.

We equally took a good bit of time focusing on newness, those full price sales, and we could see our customers engage in those products. So we are bang on expectations when we look at all of those new season lines.

And lastly, though there was a bit of a soft launch pre-Christmas, there were 130,000 customers who managed to find our app and download it organically and have continued to do so. But at the end of this month, we will have our official customer launch of the Dunelm App. And whilst we're relatively late, we'll acknowledge that to the digital space, we are seeing really high levels of engagement with these early adopters, and in particular, around the basket building and the basket size. So more on that later, but before we go into that detail, I'm going to hand over to Karen to take us through the numbers for the half.

Karen Witts:

Thank you for taking the time to join us. As usual, I'm going to start with a summary of the half year financial results and then take you through our financial performance in more detail, as Clo said.

We grew the business over the six months and continued to take market share despite some periods of softer sales in Q2. Our gross margin was strong at 53.4%, up 60 basis points year-on-year. Our net operating costs were higher this half, as previously flagged, driven by the relative balance of investment, productivities, and inflation, with some phasing of costs into H1 rather than H2. We expect the year-on-year increase in costs to moderate significantly in H2. Profit before tax of £114 million was £9 million lower than last year, primarily due to operating cost dynamics, which I will explain in more detail.

Our cash generation remains strong. We're reporting a headline free cash flow of £171 million, and a half year net cash position of £13 million. Similar to this time last year, these figures included a temporary favourable timing variance on payables of £93 million, which cleared very shortly after the end of the reporting period.

With healthy cash generation and confidence in our business prospects, the board has declared an interim ordinary dividend of 17p per share, up 3% year-on-year, and we're also announcing another special dividend of 25p per share.

We had a solid overall first half of trading with sales up by 3.6% to £926 million. Year-on-year, our digital participation increased by 2%pts to 41%. Quarter one sales were strong and grew at more than 6%, but we were

disappointed with the Q2 performance of 1.6% growth, with external data pointing to the end of the quarter being particularly challenging for UK retail.

Sales growth was driven by core categories from heritage areas like soft textiles to newer areas of specialism such as lighting. However, as Clo explained, in furniture, as well as macro pressures and while several subcategories performed well, we had availability issues of some key product lines. This was caused by challenges in how we managed forecasting and ordering, where we had a lot of newness. The issue has now been resolved and availability has significantly improved. Across the half, we saw growth in average item values driven by product and category mix whilst volumes were broadly flat.

We expanded gross margin percentage by 60 basis points year-on-year to 53.4% with the upside mainly driven by favourable foreign exchange rates. We kept retail prices broadly stable, we were disciplined on promotional activity, and we managed input costs closely. We expect a foreign exchange tailwind to continue over the remainder of the year.

It is important for me to explain how the profile of our operating costs will work across the year. In H1, net operating costs of £375 million were £32 million higher year-on-year. In the first half of this year, our operating cost base increased through a combination of volume-driven cost growth, inflation, and investment, partly offset with productivity gains. Volume related growth of £11 million related to the variable costs associated with digital sales, so that's logistics and performance marketing costs. The pressure on costs in the retail environment is well documented. Sales, marketing, and distribution costs are the most impacted by the hourly wage rate inflation from the national living wage and national insurance contribution increases. Aside from this, we're tightly managing inflation in our non-labour cost base to limit the overall impact to £11 million versus this time last year, or just over 3% on the total operating cost base.

We're reporting an incremental £9 million of investment in the business in H1. This was driven by the full impact of costs associated with the new stores opened in H2 of the prior year, and that's including the cost of our store openings in Ireland. As you can see, we offset some of the cost growth in the half with productivity benefits amounting to £6 million. These came from further optimisation of performance marketing and from work on store and other labour costs, and the latter included some of the early benefits from the rollout of self-serve checkouts.

Our other items totalling £7 million contributed to the H1 year-on-year increase in costs. So we'll always have some other year-on-year cost ups and downs in any time period, and in H1, the biggest of these were year-on-year

cost increases relating to share-based payments, including the CEO buyout cost and a pull forward of brand marketing from H2 into H1.

We continue to balance inflationary pressures alongside our investment plans, all the while ensuring that we continue to deliver productivity gains. And now here, you can see how we expect costs to moderate significantly in the second half of the year by looking at the relative year-on-year movements in the blocks of spend that I've described for the first half of the year.

So we still expect to see volume growth and costs in line with sales channel mix, and inflation will continue to be driven by labour costs, but we expect this to have peaked in H1 and we expect a lower national living wage increase in April 2026, which will impact our Q4 costs.

Whilst we continue to invest, investment spend growth will be lower in H2, largely because we started to incur new store related costs in H2 last year, and therefore they've annualised.

Our productivity gains will accelerate in H2, primarily as we deliver more benefits from work on our operating models, including further gains from the rollout of self-serve checkouts, and also as we continue to deliver our efficiency gains in performance marketing.

And in H2, we expect a reduction in other items year-on-year, and that's including the relative benefit from the phasing of the brand advertising pulled forward into the first half, and a small benefit in business rates.

Reflecting the softer trading in Q2 and the timing of certain costs, PBT of £114 million declined by £9 million year-on-year. Higher gross profit was more than offset by the cost profile that I've just explained, and this results in a reduction in EPS from 45p to 41.7p. A reflective tax rate of 25.6% was stable and within our guidance of 50 to 100 basis points above the headline rate of tax. We're confident that our plans for the second half, including those on costs, will result in a PBT for the full year in line with consensus expectations.

Cash generation remains strong in the half with a 65% conversion ratio. As I explained upfront, we're reporting a headline free cash flow of £171.4 million. However, the same as last year, this includes a timing difference on working capital, which created a very temporary inflow of £93 million due to supplier payments in transit at the end of the period, which cleared on the second day of H2. Again, there was nothing unusual about the payments, they were normal course of business payments to suppliers and for services, and the impact is neutral over the full year.

Inventory was well controlled, and we ended the half with inventory levels consistent with the prior year. Total CapEx in H1 of £23.2 million was materially lower than the prior year, which included a free hold store purchase. This year's first half CapEx spend primarily relates to store state spend, including our regular program of refits, small works, and decarbonisation activity. CapEx also includes spend associated with self-checkout rollout and capitalised tech spend, including the app. We were pleased to reopen our Yeovil store, which had been closed since the end of August 24 due to fire damage, and we also opened our second inner London store in Wandsworth and it's trading well. Store openings have been slower this year, and two stores will likely now open early in FY27, but our pipeline for FY27 is stronger, and we see plenty of opportunity for future store openings to drive growth, and Clo will give more colour on this.

We ended the period with a headline net cash position of £13 million, equating to an underlying net debt position of around £80 million after adjusting for the payments, which cleared just after the period end. We have a capital allocation methodology that states that after prioritising investment in the business for growth, we'll return surplus cash to shareholders, and in this half, we're continuing our strong track record of shareholder returns.

With confidence in the prospects of the business, the board has declared an interim ordinary dividend of 17 pence per share, up 3% year-on-year. Although the underlying net debt to EBITDA position at the end of the period was within policy range at 0.3 times, the ratio was outside of the range at the end of most months in the period, and the board has therefore declared a special dividend of 25 pence per share.

And this morning, we also announced one of our periodic intentions to buy back up to 1.6 million shares to satisfy the requirements of employee share option schemes.

So I'll finish by summarising the outlook and guidance for FY26. We've been encouraged with trading in the early part of quarter three. Customers responded well to our Winter Sale, and sales growth to date has been similar to the overall growth for H1. We're working hard on mitigating inflationary pressures, especially wage inflation, with value creating initiatives. We're therefore confident in our plans to deliver full year PBT in line with market consensus. We expect our effective tax rate to be 50 to 100 basis points above the headline rate of corporation tax, and from a cash perspective, we expect a broadly neutral working capital position at the end of the year, and we're reducing our CapEx guidance to around £40 million this year, down from our previous view of about £50 million, and that reflects the timing of new store openings. So thank you for your attention, and I'll now pass back to Clo.

Clo Moriarty:

Thank you.

Okay. So this really is a brilliant business. And over the last period of time, as I've been meeting with some of you and others, that's what also you've been telling me, right? There is lots to like about Dunelm and I agree. So what we're going to do over the next 10 minutes is talk through six of the data driven insights that we as a team are now using to build the strategic evolution over the coming weeks, months, and years. And as we should, let's start with customers.

We have universal appeal, and we're not going to shy away from that. So as I look at our customer base, our customer base broadly reflects the UK population. Here at Dunelm, we have something for everyone, and we have really high levels of awareness, so the UK customer knows who we are, but when I look at the consideration to buy, that drops off.

Now, there's nothing massive here, right? That's totally in line with benchmarks. It's absolutely in line with averages, but as the market leader, I and we do expect more. And then secondly, when I think about where we stand out for customers, and we do, there are equally opportunities for us to grow. So what you're looking at on the right hand side, across the top are a subset of our categories and our sub-cats. From top to bottom, we're looking at the key buying factors. These are the factors that customers consider when they're picking where to buy and what to buy, and they're ranked in order of importance. As you can see, Dunelm is number one across many of them, but not across all. So we can see a real opportunity for us to match the perception with the true reality of what we offer.

And this week we announced externally that we're bringing in some new capability into Dunelm to be able to supercharge this. So I'm thrilled that Laura Harricks will be joining us as our Chief Customer Officer. And when she joins us in a couple of weeks at the beginning of March, her two key priorities are going to be around our brand positioning and moving the dial on that perception.

We also have deeply loyal customers, and those loyal customers are on a growing customer base. But critically, we understand those customers better, and hence we're able to respond to their needs.

So now recognising that a third of our customers make up two thirds of our sales, but even for those most loyal customers, we still only capture 15% of their homewares wallet, so there is so much more headroom for us. And as we think about how we do that, it is about the connection, it is about the contact, and it is about the personalisation. Over the last quarter, we have been trialling these omnichannel communications and incentives, and we've

trialled them in store and online, and we're seeing across the board high levels of incrementality with an opportunity, given we've got relatively low redemption rates. But whether it is in store or online, we are seeing a mix of basket build or frequency.

So over the coming trading periods, we're going to take those learnings and make them even more personalised.

And we all know this, but our products at Dunelm are just brilliant. And in any given year, we've got over a hundred thousand items live for our customers. One of the things that we're really proud of is our product brand as Dunelm. We've now got about 70% of our products going out the door under the Dunelm brand, but there's more that we can do to help our customers understand our good, better, and best. Because when I look at the packaging across some of those ranges, sometimes it's hard to distinguish. So we're going to create greater clarity so our customers can always opt in to whichever tier works for them. We'll also be thoughtful of our owned brands and national brands and where they have a role to play. Where they create cost for us as a business, or where they create complexity or confusion for a customer, we're going to remove them. We've already started doing that, and we've already retired from the start of this financial year, Elements and Edited Life to name two.

This last chart on the right hand side really caused us reflection, because we are a specialist and what you should expect for us and will expect for us going forward is that we will continue to have great ranges. We will continue to bring newness to the market, but we're equally going to ensure that each and every one of those SKUs works really hard for us and really hard for customers. And right now, half our SKUs contribute most of our sales, so we've got some work to do, but again, we're going to use that insight across our good, better, and best to help inform our ranges even more. And I guess case in point, our starter for ten is ensuring that all of our best selling lines are in each and every one of our stores. We're moving fast, in our smaller stores, we only have 70% of our top selling SKUs, so we're changing that now and we'll have that embedded before the end of the financial year.

This is a digital world. We all know that, but even in that digital world, and particularly in homewares, the role of the physical really matters. To be able to touch, feel, and see product really matters. So we are going to double down our focus on our existing estate, because candidly, they're not growing fast enough. But at the same time, in spite of us having access to customers, so 60% of the UK population can reach us within 15 minute drive, that's high, but it's not high enough. So we're going to go again at our store expansions. We've reappraised the market, so looked at where the demand is, our presence, our competitor's presence, and ultimately the different formats that

we're able to bring to bear, and we can see an even bigger opportunity than we've showcased before.

And lastly, again, as I alluded to earlier, we have come late to digital, but now at 41% participation, we are holding our own. But interestingly for us, we benchmark really highly on many digital journeys and in particular, search engine optimisation. But there are still countless opportunities for us to go after, whether that is in the social commerce space or generative engine optimisation or the app that we've just referred to.

When we launch the app at the end of this month, we will be able to bring shop the look, shop the range. We'll be able to bring, find your local store, find the products within the store, find the stock within the store, and critically we'll be able to release products fresh to that market well ahead of any other customer. So again, my call to action is if you haven't downloaded the app, I strongly recommend you download it now.

This is a business that has strong customer satisfaction. Of course, there is always room for improvement, but in addition to the strong customer satisfaction, when we notice something, when we see something, this is a business that can move at pace.

So let's take an example of home delivery. We have nationwide reach in home delivery. It is a large and growing part of our estate, so one we need to pay attention to. But when I look at CSAT, so our customer satisfaction, customers who rate us five out of five on their experience, you can see a meaningful difference between our home delivery two person, large items, and our home delivery one person, smaller items. And when we interrogated that further, you could see that a big driver of that CSAT was damages. Of course, everyone here will know the costs associated with damages, not only the lost sales and the fact that that customer may not return, but equally, you've high costs associated with the contact centre, return of the product, replacement of the product, refund of the product, redelivery of the product, and potentially goodwill.

We addressed that and before Christmas, we've changed our packaging. And now we've already reduced our complaints across the board in one person home delivery by 20%. So for a little bit of extra cost in our packaging, we have delivered significant value across the value chain and we'll expand from there. So my key takeaway for you on this slide is we are going to be obsessed with our customers and what our customers tell us, but we are going to, as system owners and as system thinkers, follow the value across the value chain and as such, return value.

And last, but definitely not least, we have great colleagues, 12,500 amazing colleagues with great capabilities, and we have been investing as have others, across the front end and back end, for a number of years. But you'd expect me to say this. The job's not done.

The job in this space will never be done, but what we are looking to do is as we make those choices on tech, we're being really thoughtful about moving from best in breed to best in suite, so working with fewer bigger partners, which will make our integrations more seamless and less costly. It'll ensure we have access to the biggest and best thinking and for us to be present on their roadmaps, and it'll also provide more context in our business so that for every penny we're spending, we're ensuring we're getting more impact for that investment. Building capabilities for the future is a big part of the route ahead across people, processes, and systems.

So you ask me, do I think there are strengths and assets in this business? Absolutely. Do I think there are significant opportunities on the back of those existing strengths and opportunities? Absolutely.

We have universal appeal, but we're going to maximise that appeal through a clearer brand proposition. We already have really loyal customers, but we're going to engage and delight those customers at each and every opportunity to drive share of their wallet.

We know we've got outstanding product choice. We have a big opportunity to be able to use that master brand and ensure we make our amazing ranges more shoppable.

We've got physical and digital reach, but we're going to double down on the existing and ensure that we maximise each and every ounce of that white space.

We've got great colleagues and platforms. And as a result, we're going to stand on the shoulders of giants and ensure that we are future fit across all.

And we have strong customer satisfaction by ensuring that we unleash the best of what Dunelm has from end-to-end experience. I believe that we're going to be able to drive repeat business, repeat purchases again and again and again.

We are the market leader. We only have 7.9% market share in a highly fragmented market. There is so much more to go for. As we've discussed, we have lots of assets across customer, across brand, across products, across channels. But each and every one of those assets presents a large and growing opportunity for us. And we have a proven track record of discipline

and strong cash generation. And we're not going to move away from that, but we're going to build on it with additional efficiency and productivity opportunities.

You might have gathered, I am out and about a lot, and I'm talking to customers all the time, but one reflection really stuck with me from a customer.

When I said, "Dunelm, what do you think?", and they said, "Dunelm, it's actually very good." And I agree. We are actually very good. And the job of work for us is to remove that actually sentiment because I do believe the UK core opportunity remains compelling and we are best placed as the market leader to be the home of homes. Thanks a million.

What we'll do now is hand over some Q&A in case you have one or two questions that you'd like to ask and we'll ensure we cover them off.

John Stevenson:

John Stevenson from Peel Hunt. Two questions to get us going. You sort of mentioned undertaking a review of store. Can you give us a bit more detail on that in terms of how big the opportunity you think is from a space point of view, the types of store and how quickly you're going to be able to get after that space?

And second question, just on customer and personalisation, sort of on use of data and the customer journey. It feels like it's still very, very early, can you talk about how early we actually are on that? And looking back in, I appreciate that the Chief Customer Officer hasn't started yet, but looking back in say 18 months' time, what would you hope to have achieved from a sort of personalisation customer viewpoint, and what that sits against best practice?

Clo Moriarty:

Brilliant. Okay. Thanks a million. So let's start with the space opportunity, right? And it's twofold. The space opportunity is in our existing estate as well as the white space.

And when we think about the existing estate, this is about us looking across our multi-category authority, across each of our categories, and understanding the right macro and micro space for that to be able to ensure our ranges are more shoppable and more findable. So that is one of the big opportunities that we do see. And you can see it reinforced with the SKU efficiency numbers that we shared today. Equally, as we roll out some of those efficiency levers on the walkway and welcome and our self-checkout, we'll be able to repurpose some of the space to ensure it works really hard for us. So that's one, and we can do that on a rolling basis.

The second element of new store space, again, the opportunity for me is we should be 90% of the UK population within a 15-minute drive, not 60% of the UK population.

And what we'll need to do is of course look at the demand and we've got to, you saw the map, right? We've got a sense of the sites that we are going after, but us being really thoughtful about the different formats that we can use that will work better in different locations. And that's kind of the pivot that we'll use for that next stage.

On your second question around the use of data, yeah, you're right. It is early, but actually our data journey hasn't been, that's not early. We've been investing in that for a number of years and got a really strong data lake and we use Snowflake and they are really best in class from that perspective. So the job of work is being able to surface all of that data in the most meaningful way to reach our customers. The omnichannel communications was the first sense of it. The next stage will be ensuring that that drives hyper personalisation and next best message, but even in the early stages of that data, we saw the incremental behaviour.

So what does great look like over the next kind of 18 months and beyond? We should see a growing loyalty base in our total customer base.

David Hughes:

Hi, David Hughes from Shore Capital. Thanks for taking my questions. First of all, I think coming back to your final point on 'actually quite good', there's obviously a clear difference between awareness and consideration. What do you view as the key factors in terms of bridging that gap? Is it the brand marketing to get people to try them once? Is it the product and the proposition? Where do you think the kind of opportunity is there? And then secondly, just on a technical point, in terms of the CapEx being £10 million lower for this year, would you imagine that that kind of flows through into next year with those two store openings coming at the start of next year?

Clo Moriarty:

Okay. Thanks a million, David. Well, why don't I take the first two and then I'll defer to my learned friend on the right on the third one. So in terms of the first question, this is about brand positioning.

It is really important to know who you are and what you stand for, and us acknowledging that we have universal appeal and being really proud of that and ensuring that our journeys reflect it is going to be the next stage of the journey. And Laura doesn't start for a number of weeks, but we equally have a very strong team in place that is already starting on that work.

In terms of moving the dial, we can see across our kind of customer base where we have an element of spearfishing, very prevalent in the digital world.

And our opportunity there is as we see that spear fishing and we delight a customer, using our communications to be able to ensure the repeat purchase. That's the job of work that we've got to work on with that part of our customer base. And when I look at our highly loyal customers who do shop very frequently across most of our ranges, it's continued to improve their repertoire by basket building. So they're the elements that we'll focus on first and foremost.

Karen Witts: On the CapEx, some of it will flow through to next year, but we're not giving any guidance on what our CapEx in total is going to be for next year. And it's usually a combination of property related CapEx and then tech related CapEx, whether that's hardware or the capitalised labour. We're not changing our medium-term guidance for store rollouts. So even if the pipeline is stronger than we've seen this year, we're still sticking with 5 to 10 openings for next year, but clearly our guidance for this year started off at 5 to 10 and we've opened 2. So there will be some CapEx that will roll over into next year, primarily related to the two that are just on the cusp of this year and next.

Georgina Johanan: Hi, thanks. It's Georgina Johanan from JP Morgan. Just three quick ones from me, please. First of all, just following on from the CapEx question, Clo, given what you were saying about sort of reworking some of the ranges in store and maybe store layouts and so on, is that something where we should actually expect maybe a short term sort of step up in CapEx to be able to support that? Or is actually, is it quite minimal in terms of execution to do that? Second, just on the OpEx side, I think in terms of the kind of volume related costs, you called out that was exacerbated by the channel shift. Given the launch in the app and the marketing that's going to go behind that, within your guidance, have you accounted for like an incremental step change in the second half, please? And then finally, you mentioned about considering changes to Q2 trading and how you're going to trade the business, presumably you kind of need to start thinking about that fairly soon? So just any colour on what you're thinking about sort of discounting activity or catalysing the customer in that quarter would be interesting to hear. Thank you very much.

Clo Moriarty: Perfect. Thanks a million, George. How about I top and tail? And you can be the rows in the middle. Yeah. Okay. So from a CapEx and ranges perspective, we already have an opportunity to look at the existing range and within the current master range make some changes within the good, better and best. Those are things that we can roll in relatively easily. We've got, I was going to say high...we have a strong level of churn because we do want to be bringing in newness, so we have very clear windows across our estate to be able to make those changes. So I think that's probably, in terms of disruption and impact, that's probably the first one.

Shall I cover off the Q2 question and then we can talk about OpEx? So as we look at Q2, you're right. It has historically been consistently a lower level of growth. Now, we have two very strong Sale windows at Dunelm. Our customers understand those windows and they trade into them. The question that we are asking ourselves is whether they are sufficient or whether we do want to go deeper into Black Friday. If and as we do, we will do it our way, with the continued discipline that we manage over the full financial year. So we'll update and due course, but of course we're considering the trading pattern for next year.

Karen Witts: Yep. And just in terms of your OpEx questions, George, in the schematic that we've drawn the waterfall for the second half of the year OpEx, we've clearly not put any numbers against the different blocks of cost, but we've tried to sort of shape them in the way that we think that they will come through. And therefore any incremental spend that we might need on the app, for instance, will be included in the volume related box there. And we are reiterating, and confirming our commitment to a PBT in line with consensus. So that's all factored in. Clearly at the end of the day, it actually is as a function of channel mix and also the number of products that actually go through our logistics operation.

Anne Critchlow: Thanks. It's Anne Critchlow from Berenberg. And I've got two questions, please. The first is on the location opportunities. So I noticed lots of green dots over Central London, for example, and just wondered, what do you think of the small urban concept format in terms of the potential to roll it out and how easy is it to find those sort of smaller stores, which I think are around sort of 5,000 to 7,000 square feet? And then the second one was just an update on the Designers Guild acquisition that you made last year. So just wondering how you might use the design assets and the business in the future? Thanks.

Clo Moriarty: Brilliant. Thanks a million. And so on those smaller formats, and you'll know we have two of our micro, both in Westfield and Wandsworth. They're trading well for us, with a very strong trading intensity.

And you'll also have seen that we had a move on from our Westfield store to our Wandsworth, where we actually increased more seasonality and more newness, which did drive further enhancement and sales. So we quite like these. Our customers quite like these, so we'll be going after more of them. So the green dots, that's exactly what it's about.

And then on Designers Guild, as we look about the ranges, as we're looking at the range architecture, it has a clear role to play for us when we think about best, right? It is something that does stand out and while we're

embedding that into our thinking, it does in the meantime continue to contribute royalties to our business on an ongoing basis.

Do you have anything else?

Karen Witts: I think that's perfect. Thank you.

Tim Ramskill: Thank you. It's Tim Ramskill from Bank of America. I've got three questions, please. We've already spent a little bit of time talking about the space opportunity, but Karen was very keen to point out, it's 5 to 10, it's not changing. So, but just help us out a little bit, kind of give us a sense - Clo, you talked about it's not being quick enough, so what would quick enough look like perhaps with a number to go alongside that? Second question around gross margin where clearly that the FX dynamics have been helpful. I think that's looking set to continue, but maybe just some early sense as to ... I also think that might well continue into 2027. So kind of maybe give you the chance to dissuade me from that perspective?

And then the third question was, again, an extension of the conversation around Black Friday and discounting. Maybe just interested to hear your thoughts on which categories in particular that seems to be sort of sharpest in, in terms of what your competitors are doing. And then I guess just on the same topic, it's fair to observe that discounting has definitely moved away from being a twice a year type event to an almost ever present. So is this just about Black Friday or is it about, are there other things to think about through the course of a calendar year?

Clo Moriarty: Thank you. Brilliant. Thanks a million, Tim. I'll take the first. Karen, take the second and then we'll tag team on the third. Okay? So in terms of the space, we're not moving away from the 5 to 10 guidance. However, we will explore as many opportunities that come our way in the disciplined way that we always have done. On the quick enough point. There are going to be stronger years and there are going to be slower years, right? So I think the way I would think about this is balancing it over time. What we are seeing though is the opportunity that we would have shared at kind of the IPO and beyond. It would be 50 plus, and I think our message today is, and then some. That's probably the key message. On gross margin?

Karen Witts: On gross margin, we've flagged in the half that we've reported on, the upside is largely driven by foreign exchange tailwind. And Tim, I'm not going to try to dissuade you that some of this will continue into 2027 because we hedge out over quite a long period and we're already hedged for some, but not all of 2027. We'd just emphasise that FX is only one element of what goes into our cost of sales and we need to think about the cost of raw materials, the cost of freight, how much factory capacity there is, things like the inflation rate in the

UK where we're buying from UK suppliers. And then also actually we like to have the flexibility to do the right kind of eventing to appeal to our customers. So you kind of put all of that in a package I'm saying, 'Yep, on the FX, and we'll see how the other things play out over time.'

Clo Moriarty: And then on Black Friday, so areas where we definitely saw deep discounting, it was across all categories. We saw deep discounting in furniture, right? You saw deep discounting in electricals, right? We could see that across the board. But when we think about how we respond to that, you're right, we do have those two sale windows that are actively participated in, all the time we are using our walkway to be able to showcase the best of deals, while still having our zones to be able to give the best of the entire selection. And I think that is one of our advantages, having moved from market stall to market leader, never lose the market stall element, right? So our customers know that when they come into our shops, they will always be able to find some deals.

Karen Witts: And we want to make sure that we are not buying sales. Our sales have to be profitable, and you saw there are other sort of garish detail of some of the discounting that Clo showed that had been going on through that Black Friday period. And some of that, frankly, we just didn't want to indulge in. It's not right for the long term profitability of the business.

Clo Moriarty: Yeah, we're not buying share.

Ben Hunt: You've obviously held guidance today, and it seems to me that you've got to do some pretty significant reduction of that second half OpEx to hit that guidance, assuming your sales growth trends in line with, as you say, that H1. I suppose my question is, you've had a lot of productivity over the last two, three years anyway. Is there a worry here that we're beginning to cut into the muscle? You've also sort of mentioned there was some marketing spend brought forward. To what extent is this going to start to maybe impact the top line if we carry on having to take some of that cost out as it were?

Karen Witts: Okay. So just the first point is that the second half is about moderating the rate of increase in the cost base. We're not saying that we're going to reduce. And it is really important to look at these buckets one by one because they all have different dynamics attached to them, including the fact that we expect to get more productivity in the second half of the year than we got in the first half of the year, and that's due to the timing of some of the productivity rollout plans. For instance, the self-service checkouts, where by the end of this year, we'll have self-serve checkouts in more than a hundred stores. Absolutely, we do not intend to cut into the muscle of the business.

You'll have heard me speak before about the fact that when it comes to investment, I don't like putting my foot sharply on the accelerator and then slamming on the brake. We like a nice rhythm of investment and the same thing about productivity. So when we think about productivities, we almost have two streams of productivity going. We've got what we call continuous improvement, which every responsible manager in the business has a responsibility to deliver by really being focused on their cost base. And if they do need to invest a bit in continuous improvement, that has a fast return.

And then more recently, we started to take a more programmatic approach. So investing in things that might take a little bit longer to deliver a return on. But I'd say we've got lots of opportunities still to go for, which is healthy opportunity and will be sustainable in terms of the productivity that it's delivering. Clo's example about changing the way that we're wrapping products so that your reduced damages is just one of the things that we can do.

And on that particular example, it's important to take a holistic approach to what you're seeing. So if we just looked at the cost of packaging, we might not have taken this move. You've got to look at the cost of packaging relative to the other costs that you incur if you create customer dissatisfaction. I think we've also spoken about the fact that our business isn't very automated. Now, that comes from the customer touching parts of the business or engaging parts of the business. That's why we decided that we would roll out self-service checkouts. The business case for that became really clear when the cost of labour got so, so high. We don't have a lot of automation in our supply chain. We've got things like auto-bagging, but we've not gone much further than that. And I also think about automation when I'm thinking about processes, and we've still got a lot of processes that we can bring to system. So again, automation, more efficient, more effective use of data. So I could go on for a while, probably best to stop there.

Clo Moriarty: But what I think you can take away is we don't believe we're anywhere near cutting into muscle. We're honing the muscle. That's what we're at now and shifting away from this way of thinking to system-wide thinking. Thanks, Ben.

Richard Chamberlain: Richard Chamberlain, RBC. Just three quick ones from me, if that's okay. So you talked near the beginning of the presentation about lessons learned from the furniture availability issues. And what are you referring to specifically there? Is that around colleague training or better procedures or whatever. And then the second one is, maybe you can just touch on how you improve the efficiency of performance marketing and the kind of returns you're familiar with there. And then finally maybe give us an update on Ireland and the stores there and the future plans that outside and just general sort of international thoughts on international growth I suppose. Thanks.

Clo Moriarty: All right. Thanks a million, Richard. So in terms of lessons learned, so with furniture, we rolled out a new system, we rolled it out systematically across each of our categories. When there was a high level of newness, the system that we have learns from previous data. When you don't have previous data, it pulls on some 'looky likeys' to be able to define what the demand should be. Those input signals weren't good enough. The second chance to catch it was to use all of our internal expertise to sense check, does that look and feel right? And we moved in the system of trust the system and the rest will follow, rather than challenging what the outputs were. So our two big learnings were check the inputs to make sure we're really confident, check the outputs to make sure we're really confident. And if you're confident on those two things, then absolutely let the system fly. And that's what we've embedded now going forward. And you can see with furniture, we've already seen a recovery. We're now north of kind of 95% availability, so we've got that in place. Okay. On performance marketing?

Karen Witts: Efficiency of performance marketing. We've been improving the efficiency of performance marketing for a few years now. That kind of started off by developing capability in the organisation. So investing in people and then as these people became more confident and competent, working within some quite strict guidelines around returns on performance marketing expenditure, that's where you get the efficiency. So when we talk about efficiency, we don't say we're trying to reduce the overall quantum of the performance marketing spend because we will spend it where we think we're going to get the best return.

Clo Moriarty: Okay, do you want to start in Ireland?

Karen Witts: On Ireland. Yeah, I was just jutting down the things that we've done so far on Ireland, still in a relatively short space of time, so we've rebranded, we've refitted some of our stores, we are successively bringing more Dunelm branded product into those stores, and we're getting a nice response from customers. Still a lot to do because it is early days.

And one of the nice things about Ireland is that it's going to inform the learning that we'll take to some of these green dots on the map because the Irish stores are actually quite small compared with the rest of our portfolio. So getting them really humming is important so that then we can just take that and do it in other places.

Clo Moriarty: There are many nice things about Ireland.

Karen Witts: I don't know why you gave that question to me.

Grace Gilberg: Just a few questions for me because quite a few of them were already taken, but just maybe a little bit of colour around the competitive landscape and anything that you've noticed since taking the helm a couple months ago. Obviously there's a big opening in terms of increasing share of wallet, where are the other costs of customer shopping besides you? And do you notice that there's openings, even looking at some of the SKUs as well, if there's certain SKUs that maybe they're shopping over here, but you could take it if you had a few more available over at Dunelm, would that be more helpful? What have you noticed?

Clo Moriarty: Yeah, look, I mean, I think the big thing about the competitive landscape is because we have universal appeal and because we are a market leader, every other entity is a competitor and that's how we're treating them. So with a double down of focus on the physical and complimenting it with the digital, we believe we're going to be able to address all parts of the market.

Karen Witts: And I think Clo's given some examples that show that we can respond in what is quite a challenging competitive environment, not just by taking from others, but by helping ourselves. So the example of having our best sellers in all of our stores is an example where people will come to us if we've got the best sellers in the store.

Grace Gilberg: Thank you.

Charles Allen: Charles Allen from Bloomberg Intelligence. The percentage of sales that are digital keeps on going up, do you see a limit to that number? And obviously also it means that the amount of cash gross profit you're generating just from in-store sales is either flat or going down unless you can improve the rate of sales growth there. So does that mean that you have to constantly improve gross margin to keep the store operating profit moving ahead?

Clo Moriarty: Okay. So I am very happy for the digital percentage to keep growing, but I'm much happier if the total pie grows bigger, right? So we are an omnichannel business and therefore the role of walk-in, the role of click and collect and the role of home delivery play different roles for different customer bases. When we report, and when we report in our sales, we typically talk about walk-in, but click and collect is a huge footfall driver for us into our stores and as that continues to increase, it continues to bring more and more customers in and we've got a very clear halo impact of every customer who's coming in, the impact it has and what else they pick up because you can't help but be inspired when you walk around our shops. So you do see that halo impact as a result of the digital meeting the physical.

So we'll continue with an overall omnichannel approach because that's going to give us the best returns across the full channels.

Karen Witts: And with that omnichannel approach, we're not compromising profitability because both channels are profitable. We're quite agnostic as to where and how our shoppers want to shop.

Charles Allen: So can I just follow up and what's the relative cost base in each of the channels?

Karen Witts: Well, we haven't actually disclosed what the relative cost base is. They've got different dynamics, which was one of the reasons why when we were talking about the cost profile for H2, I was pulling out some costs that sit below the gross margin, but which are costs that will vary more with digital sales than they will with store sales. So we've clearly got, about 40% of our cost is labour cost and that primarily comes from the cost of our store colleagues and the cost of colleagues in distribution centres. There's much less labour that's attached to a digital sale, but it gets logistics costs and it gets performance marketing costs.

Clo Moriarty: I'm getting a very clear signal from the back which says there's time for one more question. Did I read that right, James?

Richard Taylor: Okay. Okay. The pressure's on. Richard Taylor from Barclays. Just interested to hear if you're seeing the way in which consumers are searching for Dunelm or the homewares market in general, whether it's started to change? I hear your comments about SEO performing well, but social less so in generative engine sort of watch this space. But yeah, keen to hear thoughts about how quickly you can prepare demand for changes and how consumers may search and purchase and whether you feel are currently losing out to many others who are more advanced in those areas.

Clodagh Moriarty: Yeah, super question. So firstly, on social, I don't think it's underperforming. I just think we haven't pushed it yet, but yet being the operative word, because that's where we'll go next. It's really critical that we show up where customers are rather than expecting them to come to us. And that's a big shift.

But specifically on SEO, the brilliant thing about SEO is we are benchmarking very highly on search engine optimisation. To do that, your data integrity and how you surface that data has to be exceptional. And those are the ground roots for every other form of GEO type shopping. If you have your data right, then whoever or whatever is searching or perusing your site will be able to find the best of what's there. So we actually believe whilst we're not exploiting generative engine optimisation yet, we've got all the foundations in place to be able to do that rapid fire. Thank you.

Well, thank you very much. Appreciate all the questions, all the energy, and looking forward to seeing you all again very soon. Take care. Thank you.