Profits down at Dunelm as inflation continues to bite

Profits at homewares giant Dunelm dropped by a sixth in the second half of last year, partly due to inflationary pressures.

The business reported pre-tax profits of £117.4 million for the half year – down from £140.8 million a year before. That came despite its sales rising 5 per cent to £835 for the same period.

Margins were slightly down at the Leicestershire-headquartered group and operating costs were slightly higher, it said.

The business said the drop in pre-tax profits reflected the timing of its winter sale, "strong post-pandemic demand in the prior year, and inflationary impacts".

The business also put £17 million into digitalisation, and growing capability and capacity.

Russ Mould, investment director at online stockbroker AJ Bell, said the figures were nothing to worry about.

He said: "A drop off in first-half profit at Dunelm isn't causing undue alarm.

"The impact of inflationary pressures was hardly an unknown for investors and the company was competing with strong post-Covid trading as well as being affected by the timing of its big sale.

"More importantly the company is sticking with its full-year forecast and delivered meaningful sales growth during the period – suggesting it is picking up market share from struggling rivals.

“Dunelm’s proposition is not particularly complicated but it has been honed over time and is now very well attuned to consumer needs and trends.

“Its products are affordable but not so low quality as to prove a false economy. In recent years it has sorted out the digital side of its business – just in the nick of time before the pandemic hit as it turned out.

“It has also got the basics of retail right. Things like making sure it has the right stock in the right place and carefully managing its cash.

“Undoubtedly the consumer backdrop is challenging, but Dunelm’s strengths should help cushion any cost-of-living blow.”

Dunelm said sales from its 179 shops and online store were actually up 43 per cent on the equivalent pre-pandemic six months in 2019 thanks to its proposition of helping customers “manage their household budgets”.

But it warned: “Whilst customers have been resilient to date, the consumer outlook remains unpredictable.”

Chief executive Nick Wilkinson said the business was learning to operate in “complex and rapidly evolving economic reality”.

He said: “Recognising this, our focus has been on ensuring that we continue to offer outstanding value to our savvy customers through a proposition which is committed to quality, at the right price, across an expanding range of relevant products.

“We believe that this is why we have continued to grow our sales, customer numbers and market share.

“In this environment, agility, creativity and innovation are more important than ever and we have endeavoured to make every pound count, both for ourselves and for our customers, helping to mitigate the impact of inflation.

“While we do this, it is important that we also maintain our long-term thinking, invest for sustainable growth and continue to ensure we are in a position to seize the significant opportunities ahead of us.

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

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