



**HOWDENS**

**JOINERY CO.**

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Making kitchens work for you

# 2010 Half Yearly Report

21 July 2010



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**Matthew Ingle**  
Chief Executive Officer

# Overview

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- ⇒ A good first half
  - Sales and margin up
  - Operating profit up
  - Strongly cash generative
  - Trading well
- ⇒ A soundly based business
- ⇒ Well placed to take advantage of many opportunities

A robust platform for growth



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**Mark Robson**  
Chief Financial Officer

# Context of financial results

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- ⇒ Good performance in gross margin, operating profit and operating cash flow
- ⇒ Cash flow finances legacy issues
- ⇒ Legacy property portfolio diminishing
- ⇒ No exceptional items or discontinued operations

# Highlights

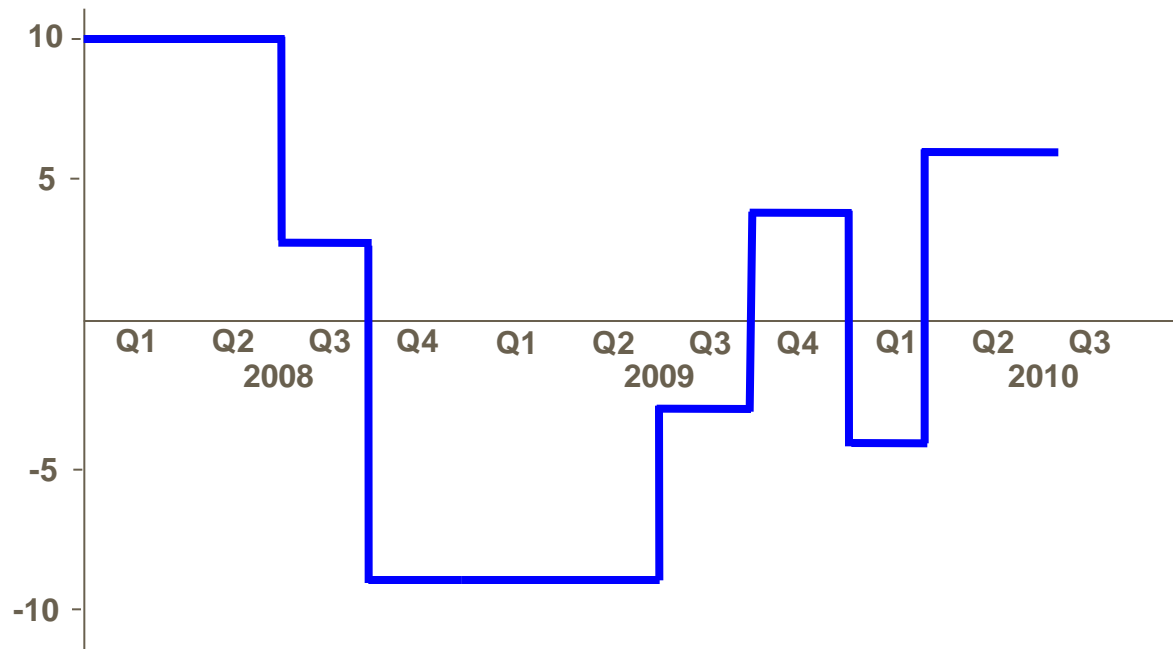
£m Continuing operations	H1 2010	H1 2009
<b>Revenue</b>		
Howden Joinery	<b>319.2</b>	310.1
Group	<b>324.7</b>	316.8
Gross profit margin	<b>58.1%</b>	54.1%
Operating profit	<b>24.5</b>	10.0
Profit before tax	<b>21.6</b>	4.7

£m	12 June 2010	26 Dec 2009	13 June 2009
Net (borrowings)/cash	<b>(2.7)</b>	2.4	(50.3)
<ul style="list-style-type: none"> <li>• £5.1m net cash flow in H1 2010 includes pension deficit (£13m) and legacy properties payments (£22m)</li> </ul>			

# Howdens revenue

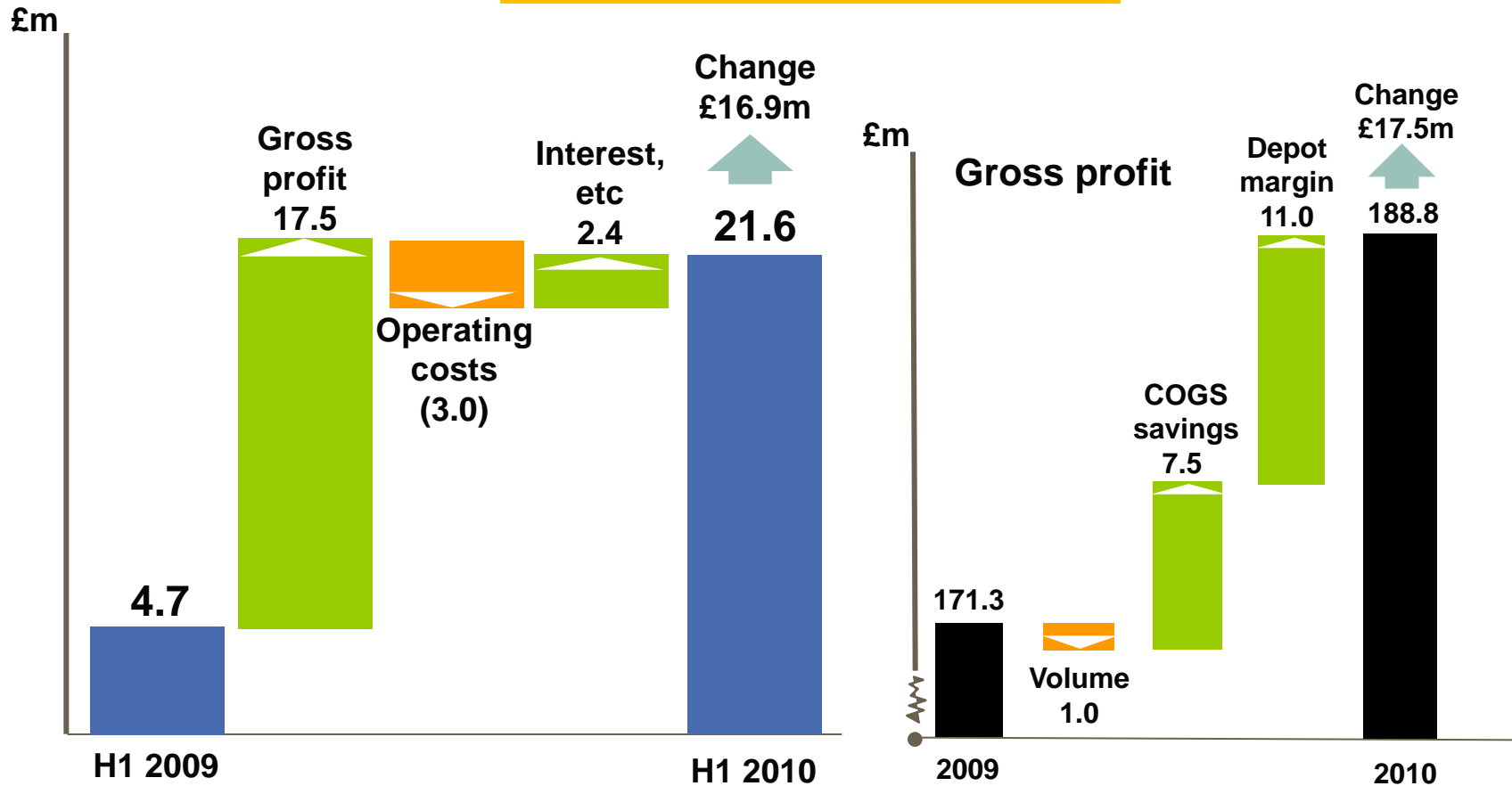
**H1 2010 revenue £319.2m**  
• total +3.2% • LFL +2.5%  
**P3 – 6 & 7 +6%**

% change



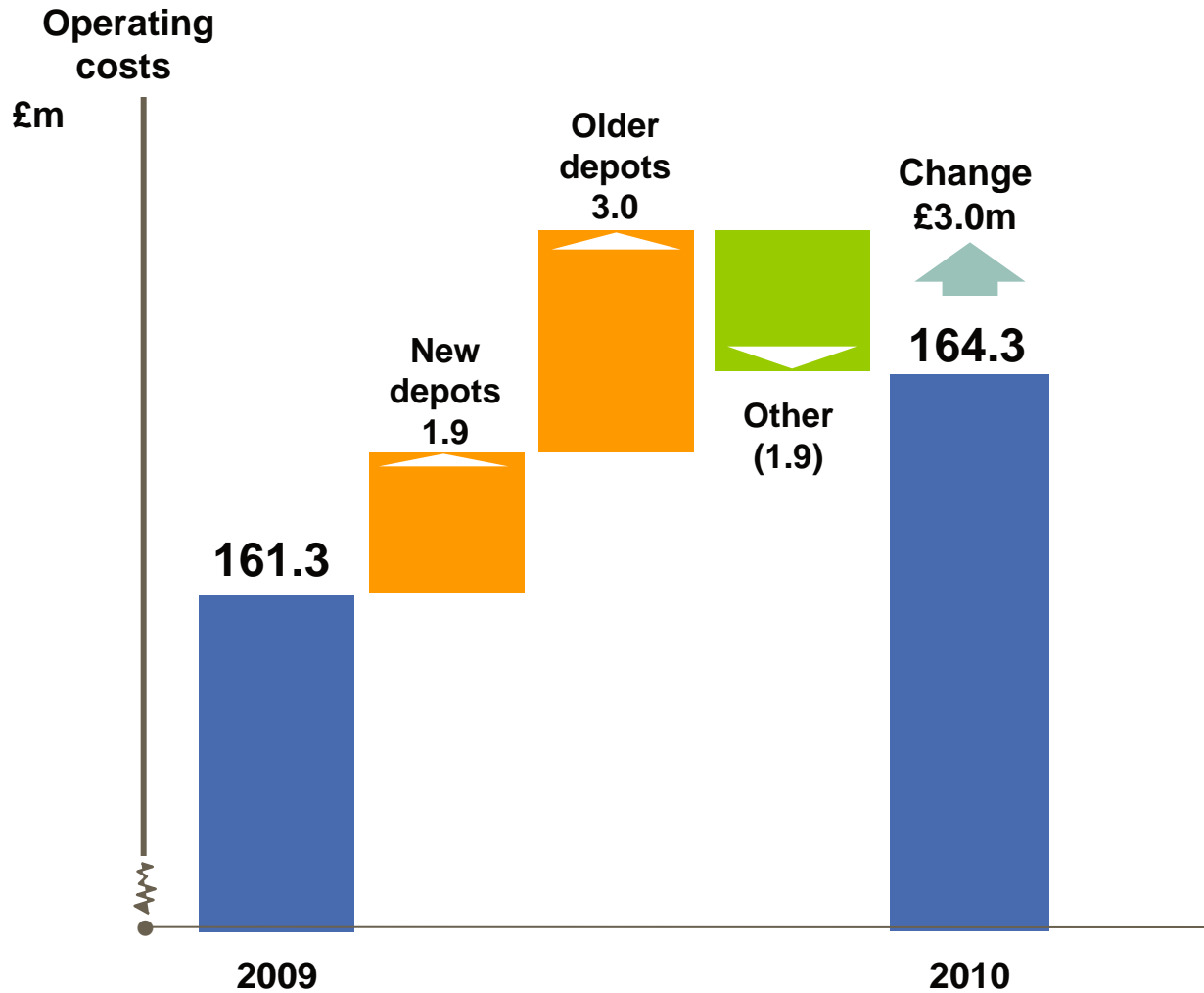
# Profit before tax

**Group gross profit margin**  
 • 2010: 58.1% • 2009: 54.1%





# Operating costs



# Income statement

£m	H1 2010	H1 2009
<b>Continuing operations:</b>		
Profit before tax	<b>21.6</b>	4.7
Tax	<b>(7.4)</b>	(1.7)
Profit from continuing operations	<b>14.2</b>	3.0
<b>Discontinued operations:</b>		
Exceptional items before tax	-	(4.4)
Tax	-	-
Loss from discontinued operations	-	(4.4)
Profit/(loss) for the period	<b>14.2</b>	(1.4)

# Net cash/borrowings and cash flow

£m	H1 2010	H1 2009
Opening net cash/(borrowings)	2.4	(61.2)
Operating cash flows before movements in working capital	33.8	19.9
Working capital	8.4	23.2
Capital expenditure	(6.7)	(3.8)
Asset disposals	-	1.0
Interest (net)	(0.5)	(1.8)
Tax paid	(5.2)	-
Legacy properties	(21.7)	(15.0)
Pension deficit contribution	(13.2)	(13.4)
Other	-	0.8
Closing borrowings	(2.7)	(50.3)

**Net cash inflow excluding legacy property  
and pension deficit costs: £29.8m**

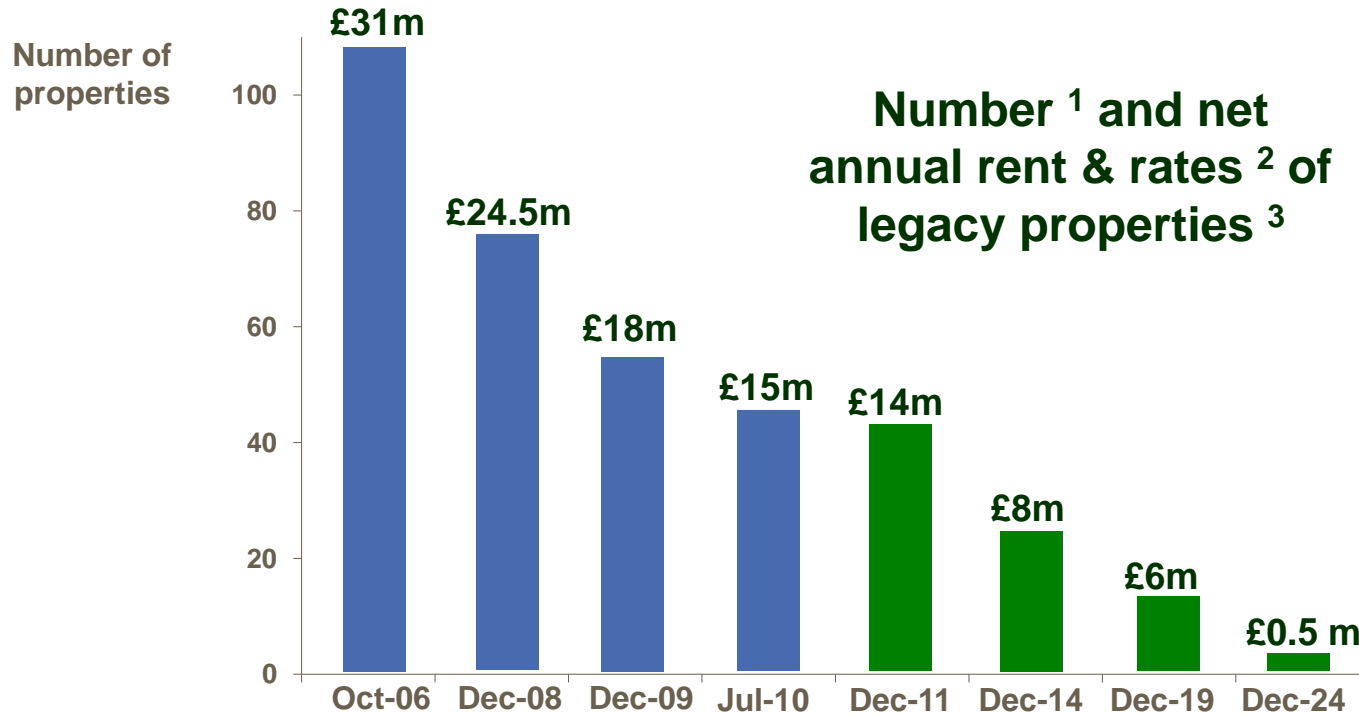
# Working capital

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⇒ Working capital down £8.4 m

- stock down £3.0m
- debtors up £7.0m
- creditors up £12.4m

# Reducing our legacy property liabilities



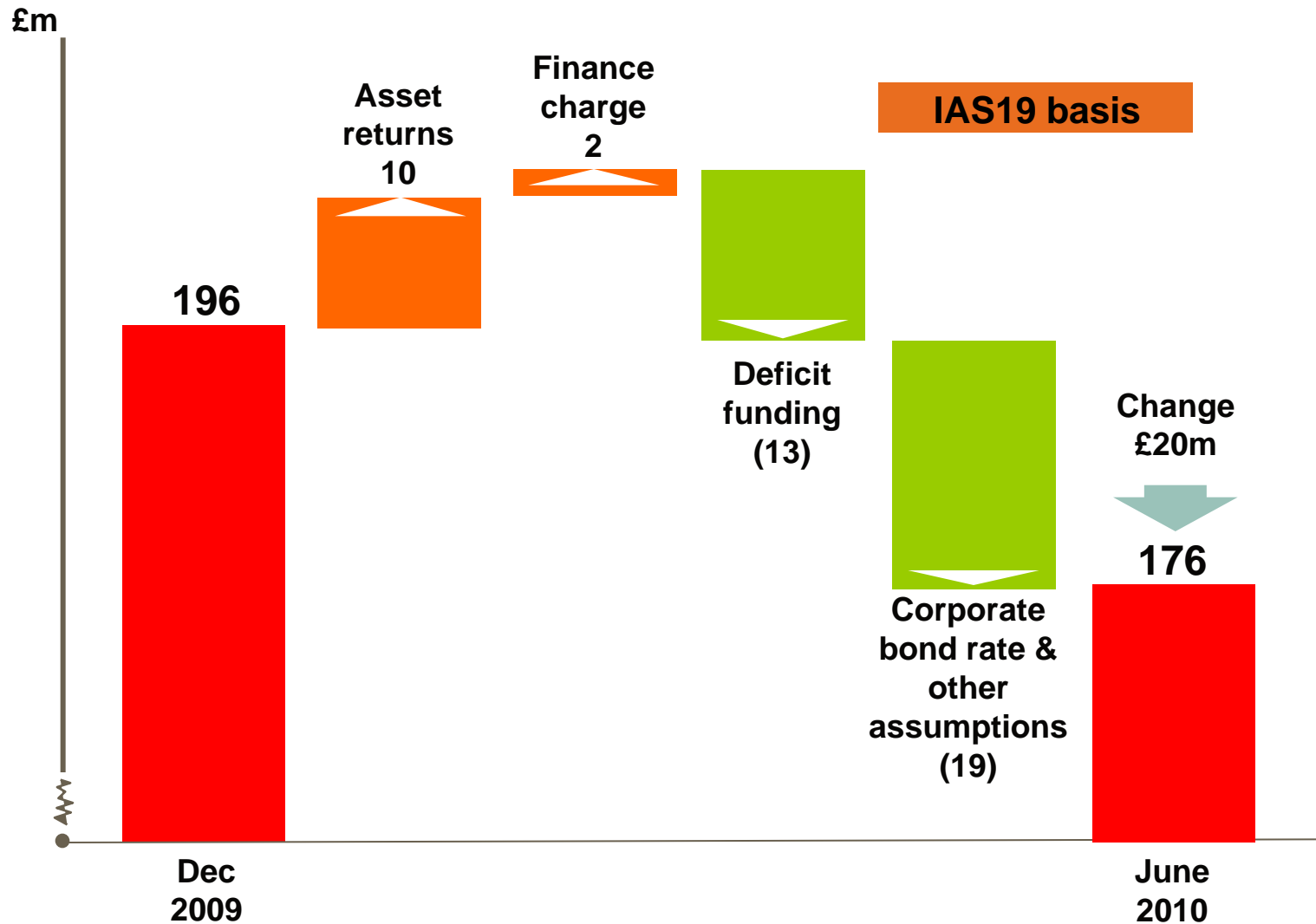
- ⇒ 7 legacy property deals so far this year
  - £14.5 m exit cost (£10m in H1) - £50m liability extinguished

1 Vacant and tenanted.

2 Gross rent & rates less payments by tenants.

3 Figures for Dec 2011 and beyond are before any further mitigating action that may be taken.

# Pension scheme deficit



# Outlook for remainder of 2010

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- ⇒ Sales in first period of second half +5.7%
- ⇒ Depot openings on track
- ⇒ Expect market to remain challenging
- ⇒ Will manage business prudently and take necessary actions
- ⇒ Operating costs impacted by depot openings and 2009 one-off savings
- ⇒ Cash flow to reflect further property deals



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Chief Executive Officer



# Howdens mission

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“To supply from local stock, nationwide, the small builder’s ever-changing routine joinery/kitchen requirements, assuring no call back quality and best local price”

# The value of Howdens offer

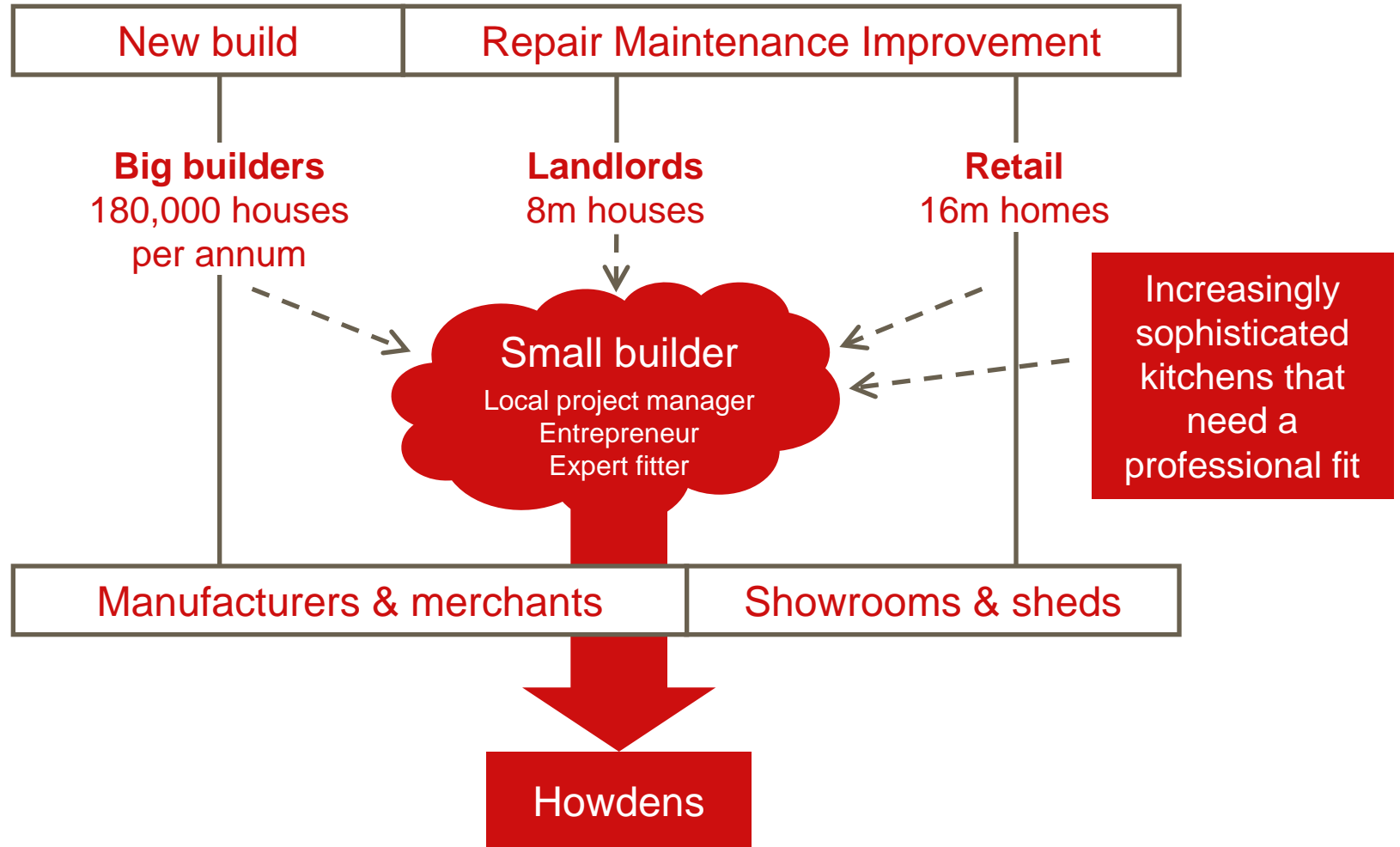
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**Viability  
of the  
small builder**

# A business built on recommendation



Simple but good and very well done

# Building on solid foundations

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- ➔ New product and design
- ➔ Highly efficient systems
- ➔ Responsive manufacturing
- ➔ Expanding depot network

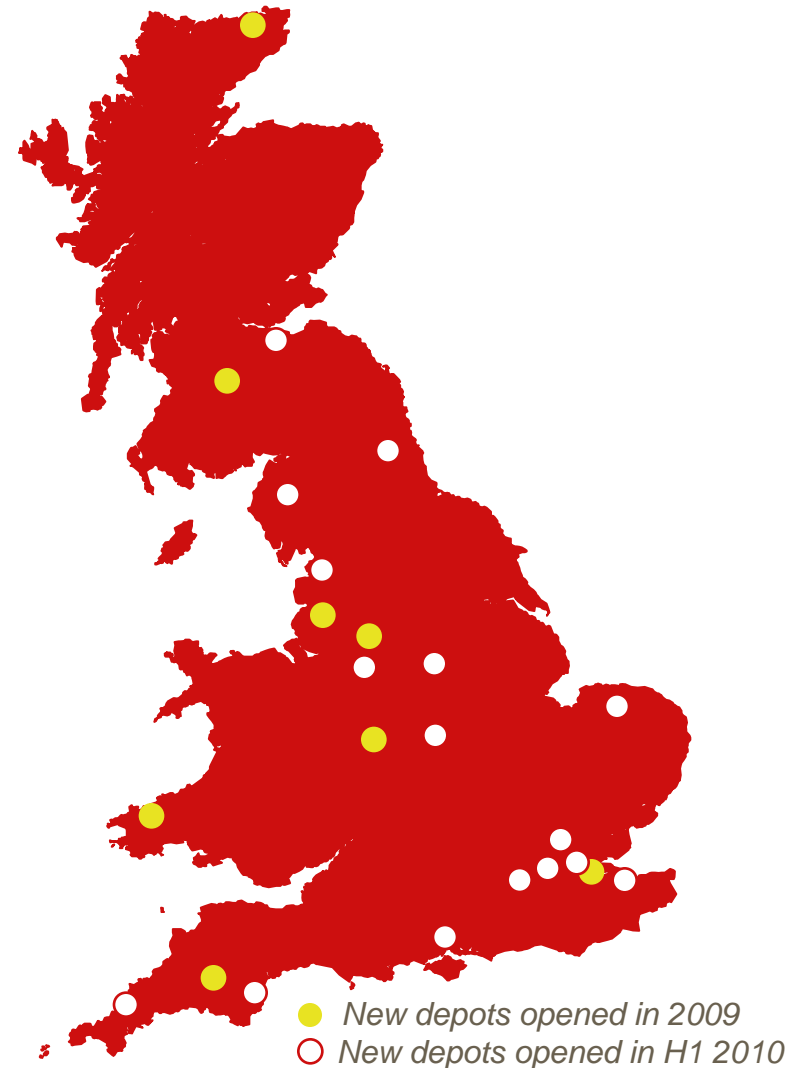


Proven track record

A strong platform for growth

# Successfully growing our depot network

- ⇒ 478 depots
  - 16 new depots opened this year
- ⇒ New depots performing significantly ahead of plan
- ⇒ Revising potential total upwards
- ⇒ Strong pipeline of new sites
  - Proven depot opening process
  - 10,000 sq ft @£5 / sq ft
- ⇒ Long maturity profile of depots
  - Continue to grow for 7 years +



# Opportunities to improve performance (1)

Criterion	Opportunity
Sales 2010 (est)	£5.5m gap between best and worst
Sales growth* by region*	10% gap between best and worst
Sales growth* by area**	15% gap between best and worst
Sales* per person per wk	£6,000 gap between best and worst

Range in areas with similar demographics = more opportunities

\* For Q2 2010

\*\* An area is a subset of a region and contains between 17 and 25 depots

# Opportunities to improve performance (2)

Criterion	Opportunity
Cabinet sales*	Best performing depot sells 10 x more cabinets**
Door sales*	Best performing depot sells 3 x average
Appliance sales*	Best performing depot sells 4.5 x average

Range in areas with similar demographics = more opportunities

\* For YTD 2010

\*\* Than the depot selling least in this category

# Opportunities to improve performance (3)

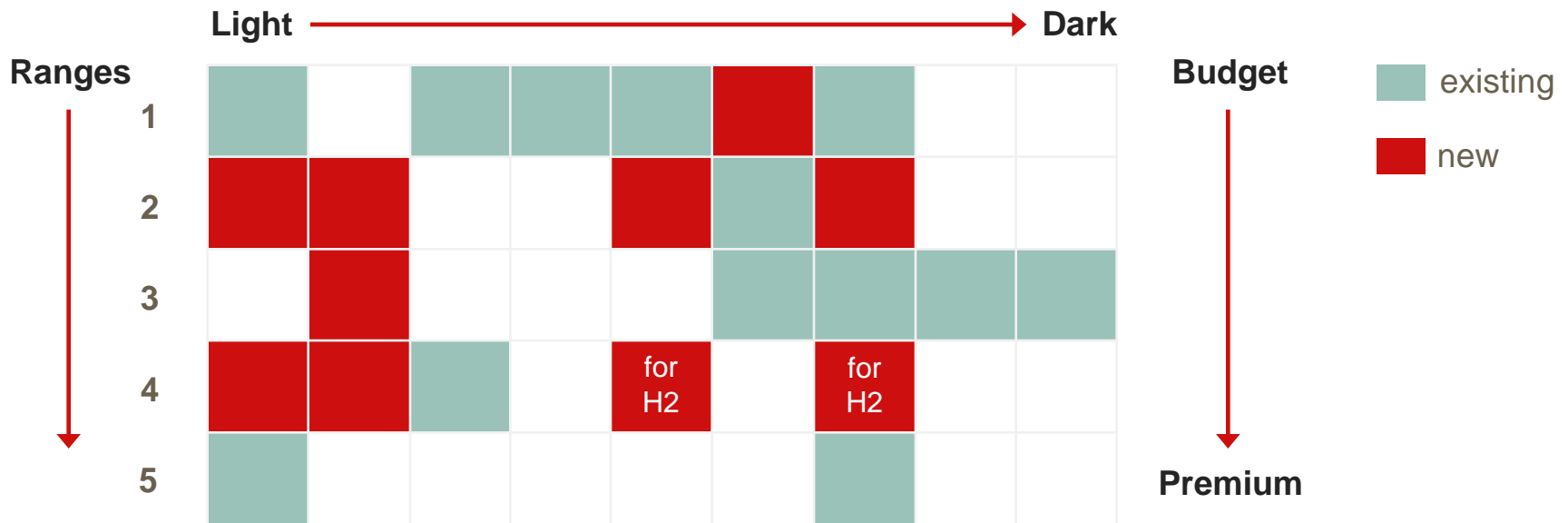
Total	H1 09	H1 10
Credit accounts	181,000	196,000

- ⇒ Effective management of credit accounts
    - Continuous monitoring to maintain viable accounts
    - Opportunity to grow number of accounts per depot
- 
- ⇒ French trial continues: depots at breakeven

Significant further sales and margin potential in many areas



# Maximising the potential of best selling kitchens



- ➔ New additions to product families performing well
  - Easier for our planners to plan and sell
  - Better choice, value and service as kitchens become more sophisticated

# A focused and exclusive supply chain

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## ⇒ Focused on:

- Speed of response
  - Continuity of supply
  - Consistency of quality
- } at lowest possible cost

⇒ Streamlined manufacturing and distribution

⇒ Continuously improving processes and logistics

⇒ Underpins rollout of new product and expansion of depot network

Supporting Howdens at scale

# Robust, industry-leading systems

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- ⇒ Outstanding kitchen design system
  - Successfully installed across our depot network
- ⇒ Tailored stock and sales system
  - Tight local stock control
- ⇒ Successful rollout of SAP
  - To all manufacturing locations
- ⇒ New warehouse control system

Systems in place to support growth

# Ongoing investment in growth

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## ⇒ New depots

- Property, stock, staff

## ⇒ New product

- Work with product 'families' continues
- Supporting our offer to the small builder

## ⇒ Manufacturing and systems

- Up to £10m p.a. for the next 5 years

## ⇒ People

- Critical to Howdens' success

Enabled by  
strongly cash  
generative  
model

Well placed to seize many opportunities



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Focused on growth



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