



HOWDENS
JOINERY CO.

Making kitchens work for you

2011 Interim Results

21 July 2011



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Matthew Ingle
Chief Executive Officer

Strong performance sustained in H1 2011

- Sales up by 5%
- Operating profit up to £25.5m
- Gross margin up to 59.3%
- £20m investment in supply base announced
- Increased efficiencies
- Greater speed to market

Morale high throughout the business



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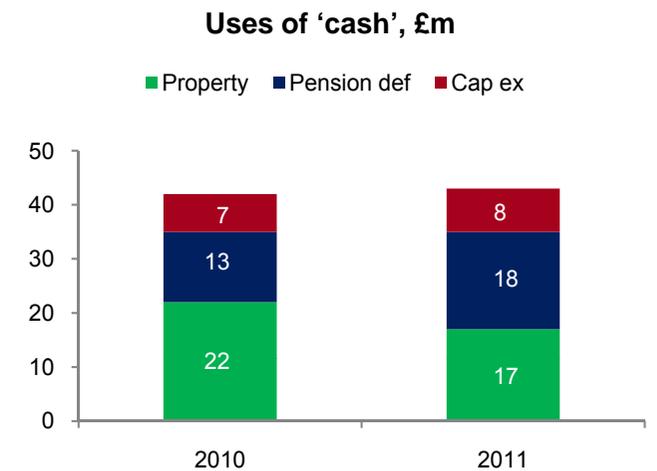
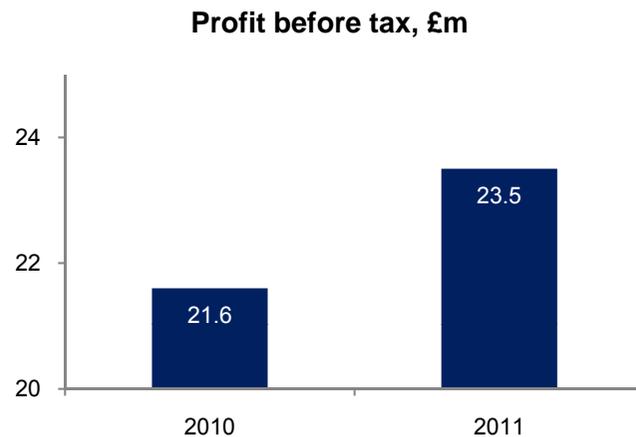
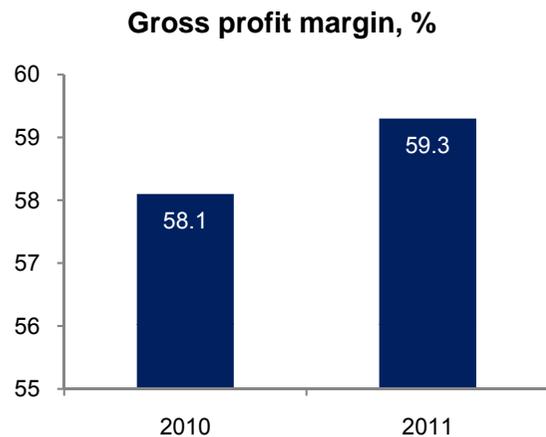
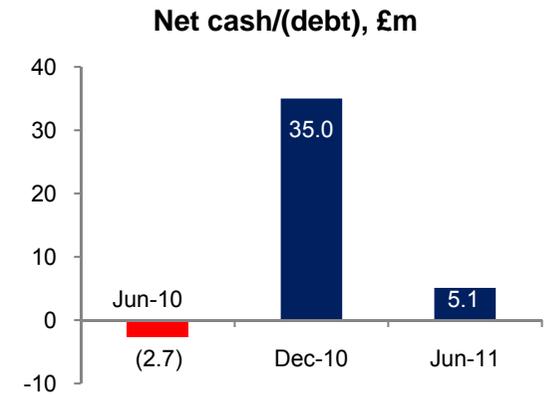
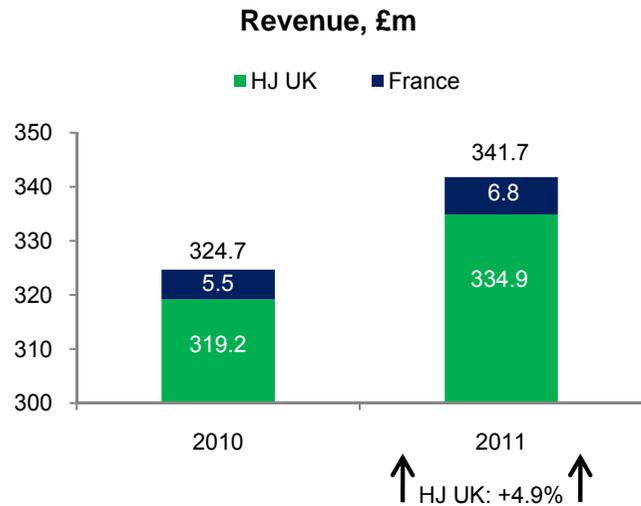
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Mark Robson
Chief Financial Officer

Context of financial results

- Good performance in turnover, gross margin and profit
- Cash flow finances growth of business and legacy issues
- Legacy property portfolio continues to diminish

Highlights



Howdens revenue

H1 2011 revenue £334.9m
• total +4.9% • LFL +2.4%

Growth in total sales:

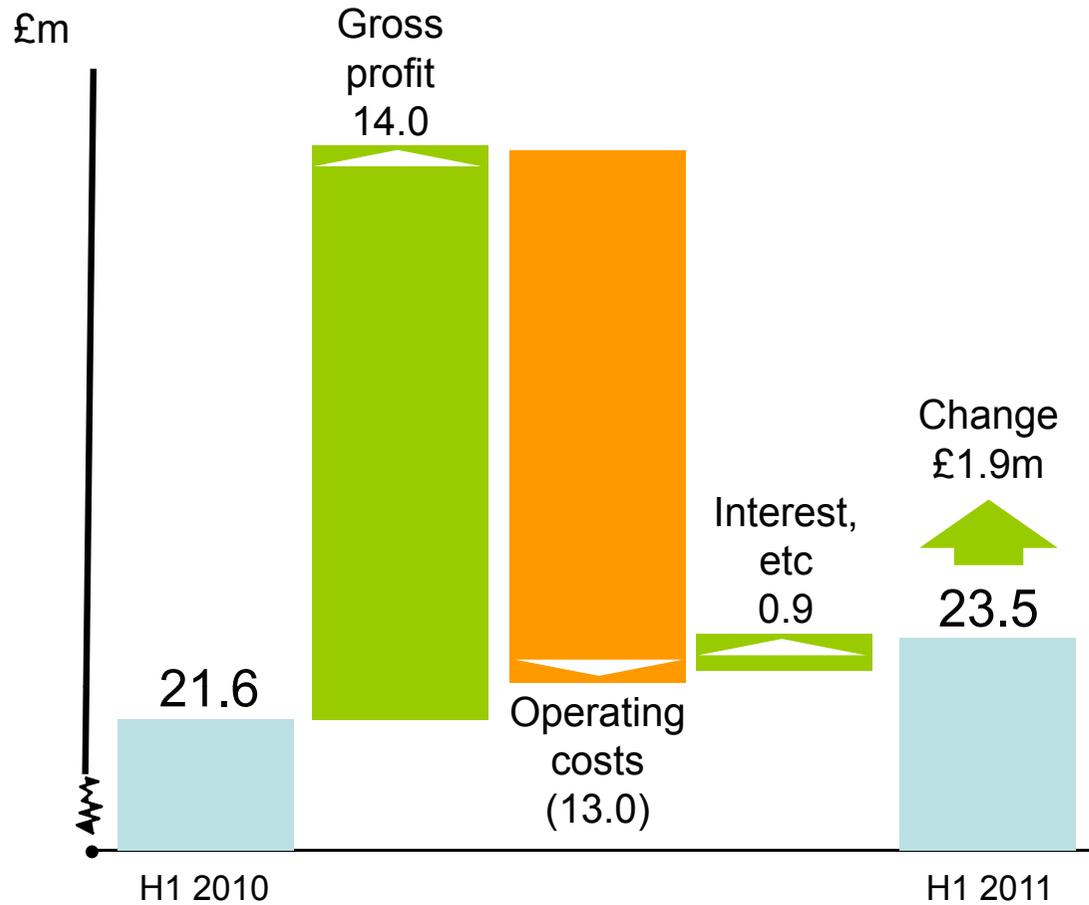
- 2010 fyr: +5.1%
- 2011 Q1: +6%
- 2011 Q2: +4% - no year-on-year benefit from Mar 2010 price increase

Profit before tax

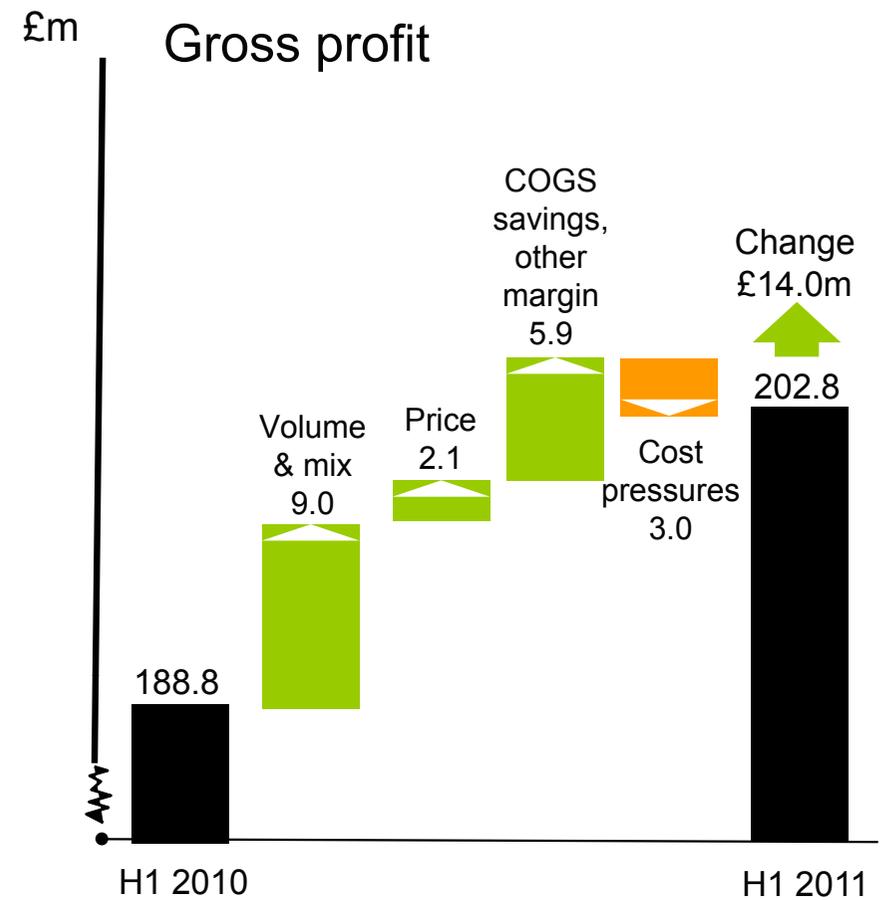
Group gross profit margin

- H1 2011: 59.3%
- H1 2010: 58.1%

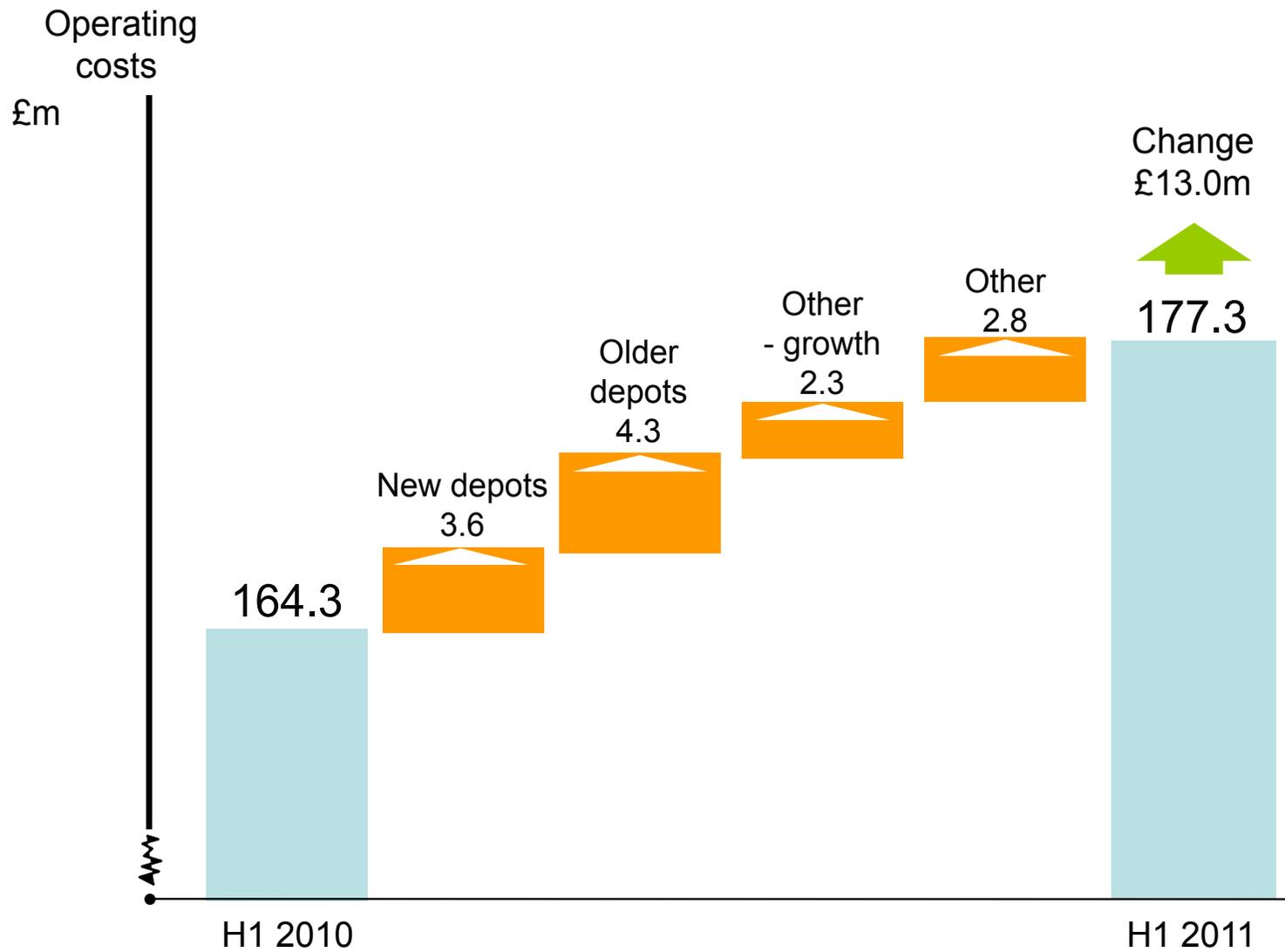
Profit before tax



Gross profit



Operating costs



Income statement

£m	H1 2011	H1 2010
Revenue	341.7	324.7
Cost of goods sold	(138.9)	(135.9)
Gross profit	202.8	188.8
Operating costs	(177.3)	(164.3)
Operating profit	25.5	24.5
Net interest	(2.0)	(2.9)
Profit before tax	23.5	21.6
Tax	(6.5)	(7.4)
Profit for the period	17.0	14.2
EPS	2.8p	2.3p

Net cash/borrowings and cash flow

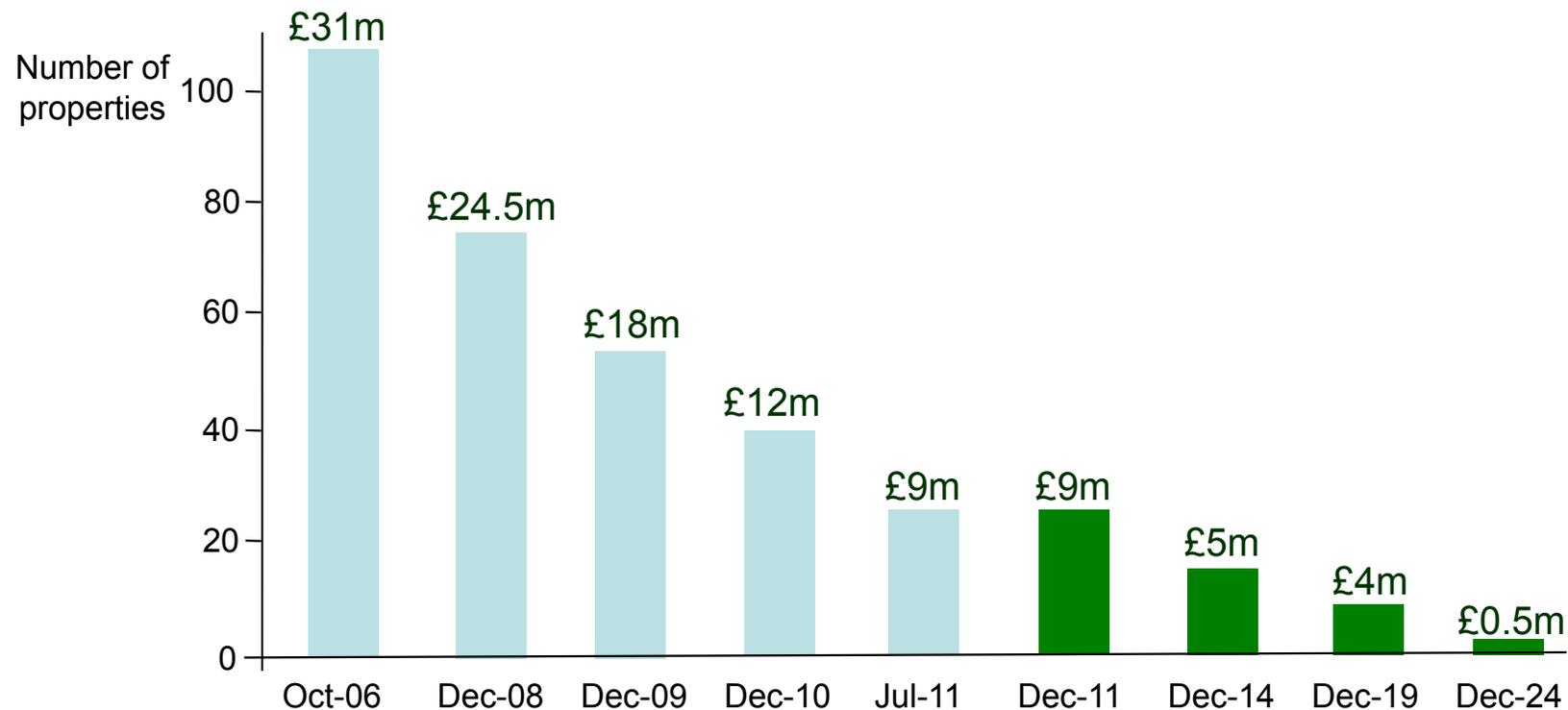
£m	H1 2011	H1 2010
Opening net cash	35.0	2.4
Operating cash flows before movements in working capital	35.9	33.8
Working capital	(10.7)	8.4
Capital expenditure	(7.9)	(6.7)
Interest (net)	(0.5)	(0.5)
Tax paid	(11.6)	(5.2)
Legacy properties	(17.2)	(21.7)
Pension deficit contribution	(17.9)	(13.2)
Closing net cash/(borrowings)	5.1	(2.7)

Net cash inflow excluding legacy property and pension deficit costs: £5.2m

Working capital

- Working capital up £10.7m
 - stock up £5.5m
 - debtors up £17.3m
 - creditors up £12.1m

Reducing our legacy property liabilities



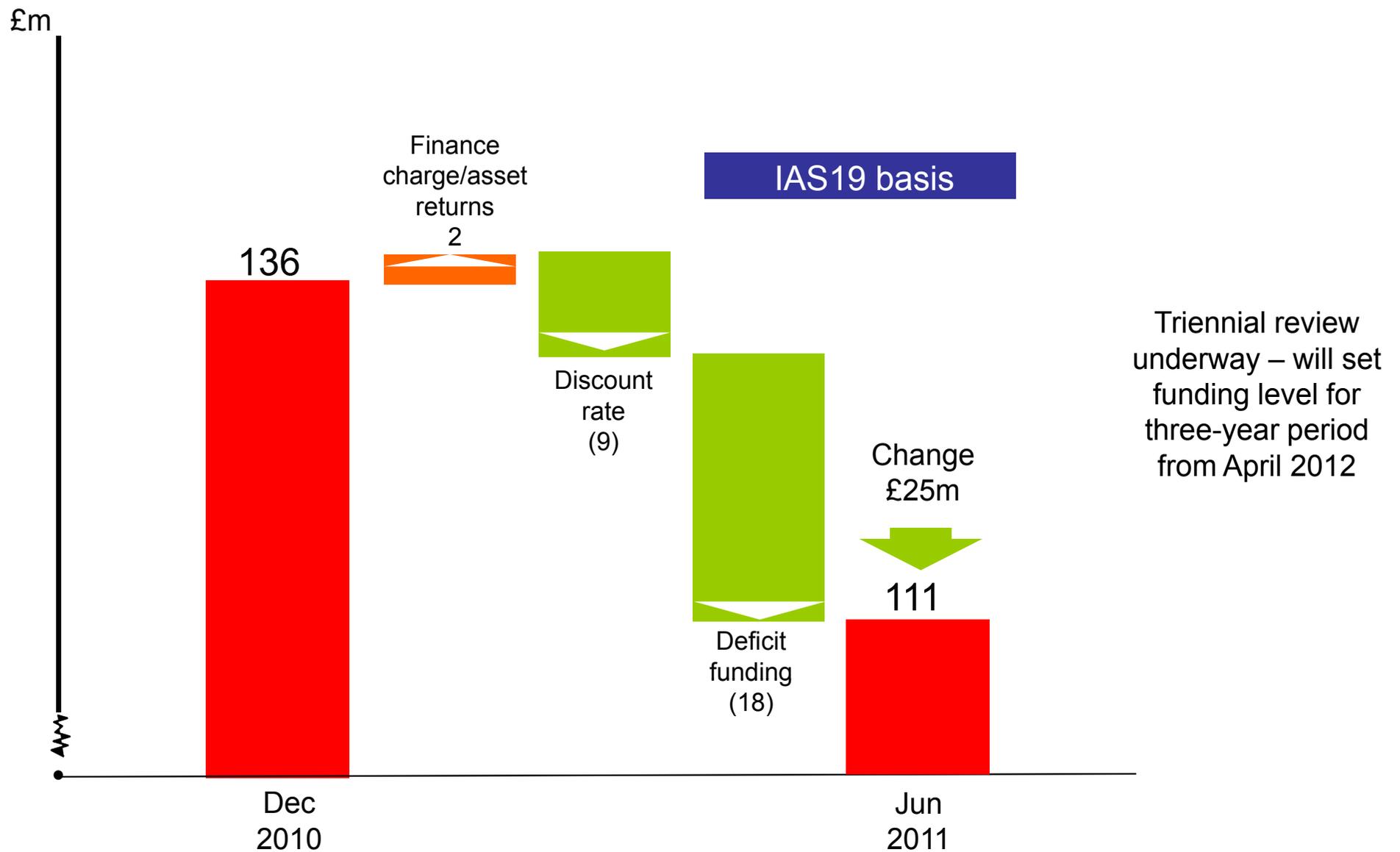
12 legacy property deals so far in 2011: £11.4m exit cost - £37m liability extinguished

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 2011

- Sales in first period of second half up 10.5%
 - price rise initiated + pull-through of sales
- Outlook for rest of year:
 - sales performance YTD consistent with expectations for full year
 - aiming to offset continuing input price pressures
 - continue to invest in growth
- Market to remain challenging - expectations for the year unchanged
- Will manage business prudently and take necessary actions



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Two critical questions

1. What is it that makes Howdens capable of consistent, strong performance across economic cycles?
2. Where will Howdens continuing growth come from?

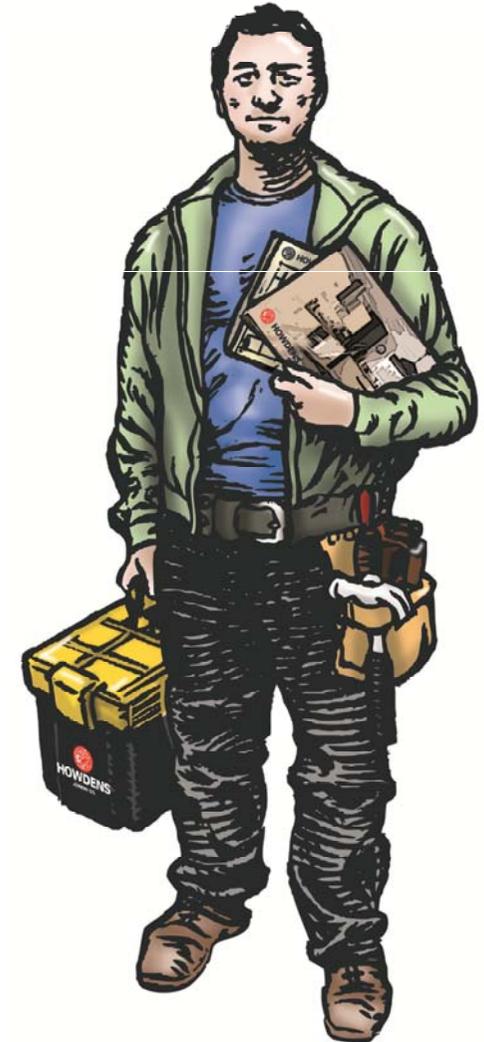
Howdens' mission

“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 key features of the Howdens model

Model

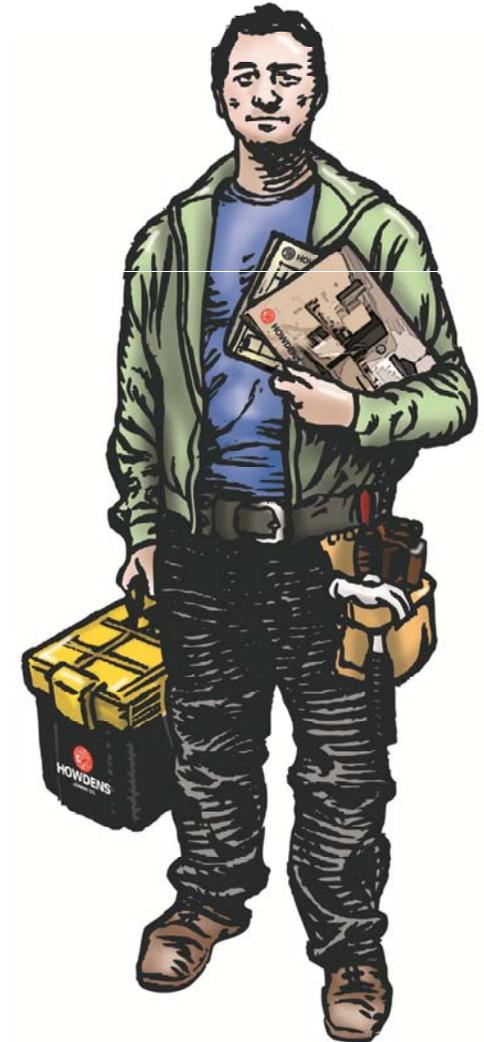
- Wholly focused on the small builder
- No conflicts of interest in respect of
 - Product
 - Pricing
 - Service



The key features of the Howdens model

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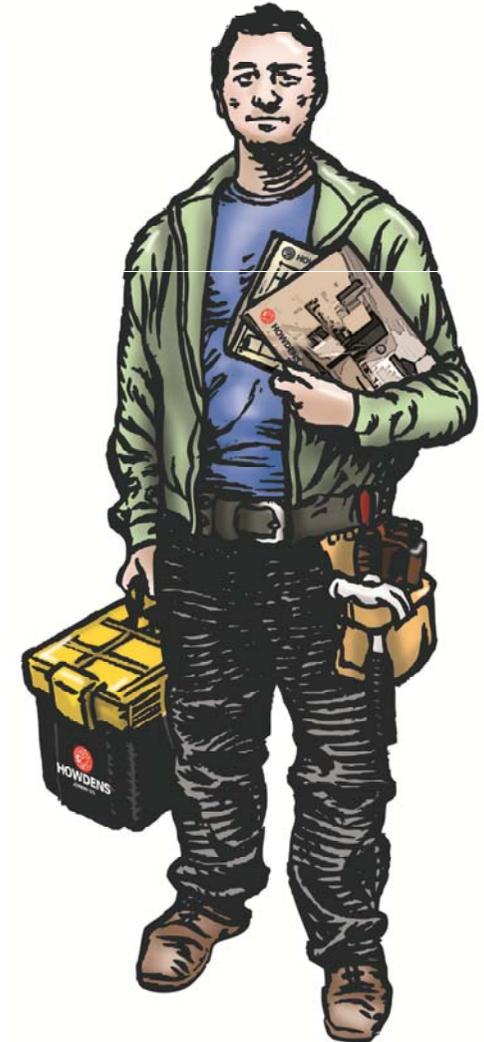
- Considered product range
- Helps the builder sell to all parts of the market
 - Easy to understand “families” platform
 - Rigid, not flatpack
 - Designed to be easy to fit
 - Robust – “no call back” quality
- Saves the builder time
 - Enhances his margin



The key features of the Howdens model

Model

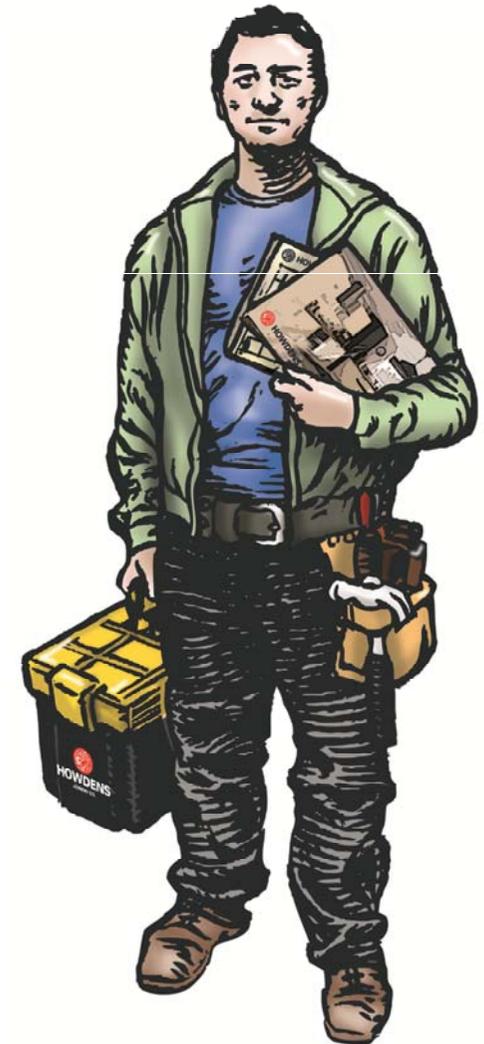
- Available from local stock
 - All products
 - All the time
- Builder can plan his week
 - Schedule the work
 - Complete the job
 - Get paid by his customer
 - Pay Howdens



The key features of the Howdens model

Model

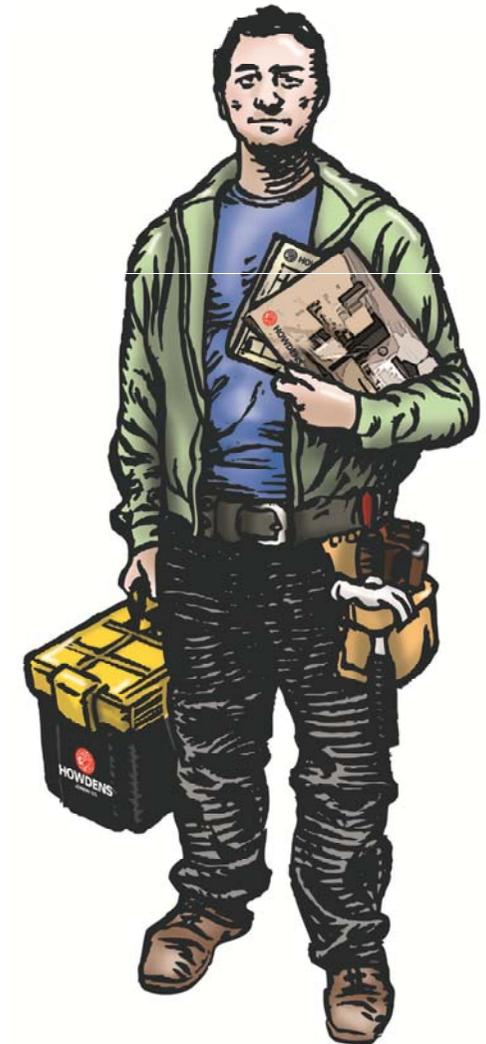
- **Business proposition for account holders**
- Confidential discount
 - Margin opportunity
- Nett monthly terms
 - Cash flow opportunity



The key features of the Howdens model

Model

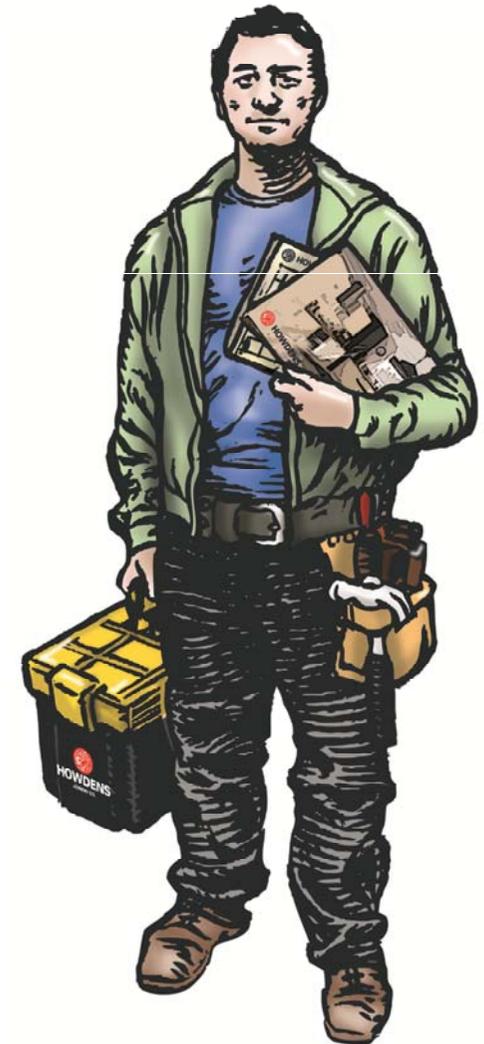
- Local accounts, local relationships
- No national accounts
 - Limits exposure to any one customer
- Highly efficient credit control
- Cost of managing accounts = 1.5% of sales
 - Includes debt recovery & bad debts



The key features of the Howdens model

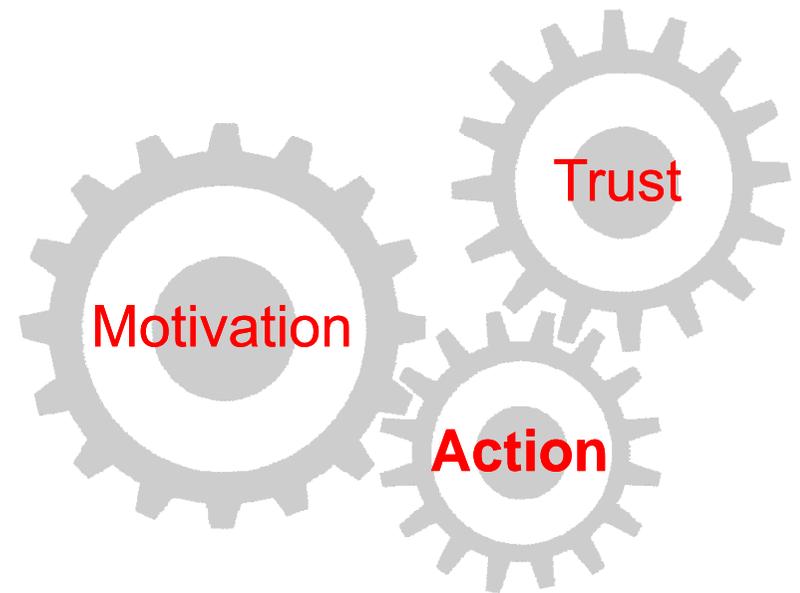
Model

- An inherently low-cost model
 - High volumes
 - Long runs
 - Low-cost sourcing
 - Optimised logistics
 - Scalable systems
 - Low-cost trade depots
- Always lower cost than retail



Implementation requires trust

- Individual, local accountability
- Depot managers empowered to:
 - Run their own P&L
 - Hire local staff
 - Refine stock and pricing
 - Drive local marketing
- Incentive model maximises profit opportunity for all
 - Minimises stock loss

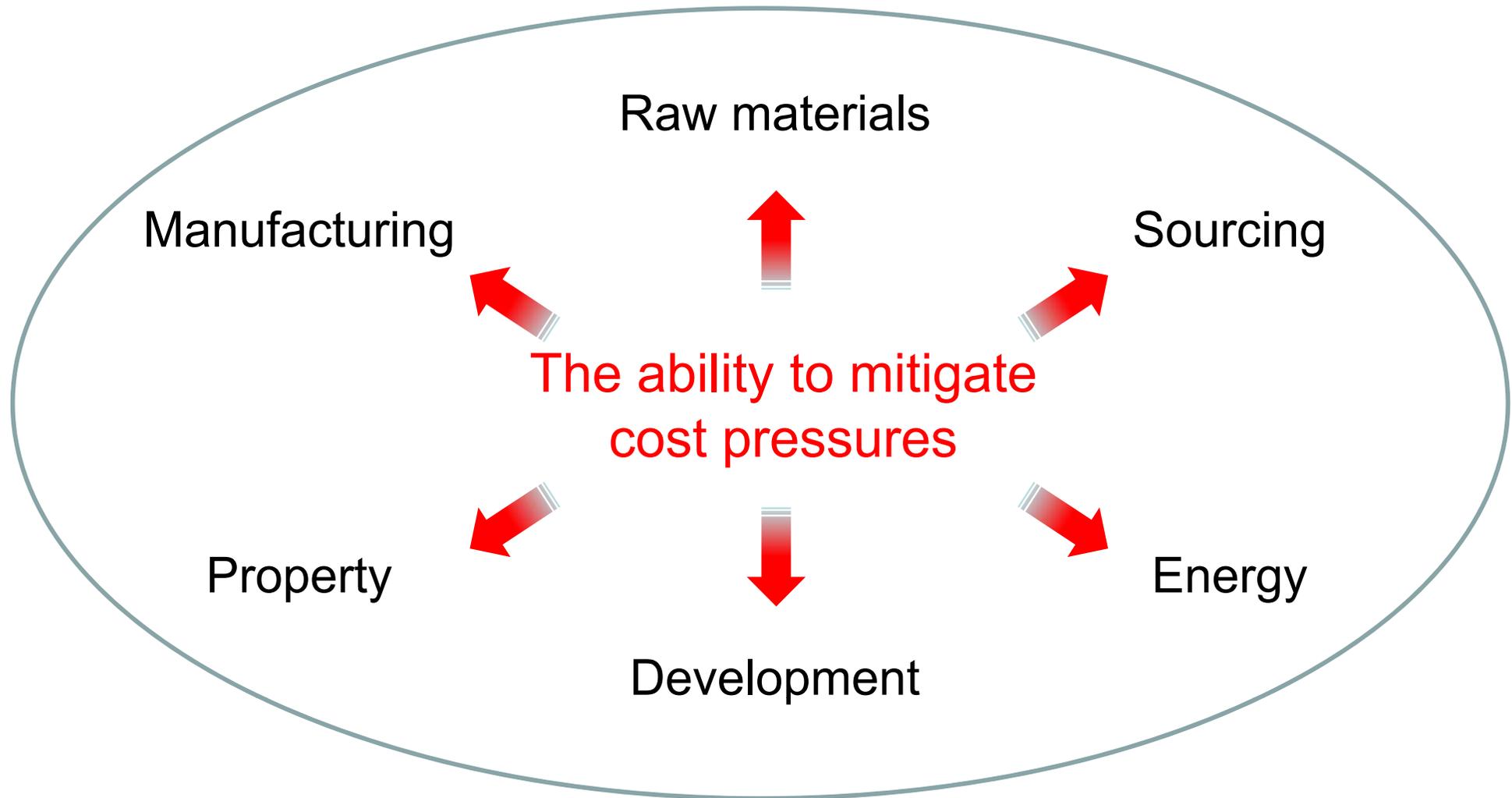


Trusted individuals repay trust

- Progress is personally driven
- Ideas can be acted on immediately
 - Optimised quickly
 - ...or stopped right away
 - Risk is limited
 - No blame, but no hiding place



A further key benefit of focus



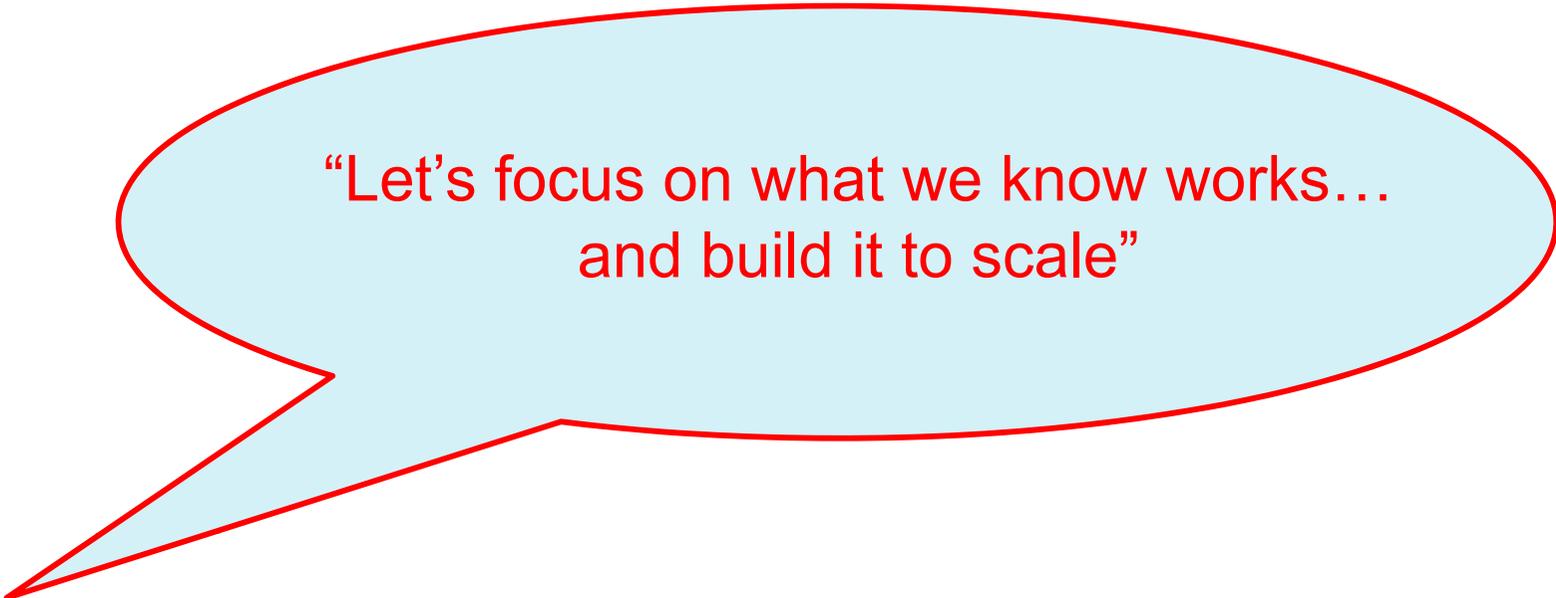
Disciplined implementation of the model



All of the elements
of the Howdens model
are non-negotiable

2006: Rough Diamond

- Identifying the gems present within the business
- Retaining and investing in what was precious to drive value



“Let’s focus on what we know works...
and build it to scale”

Focus on what works, and build it to scale

Investment

- Product development
 - Experimentation
 - Customer needs
 - Build quality
 - Materials
- Product “families”

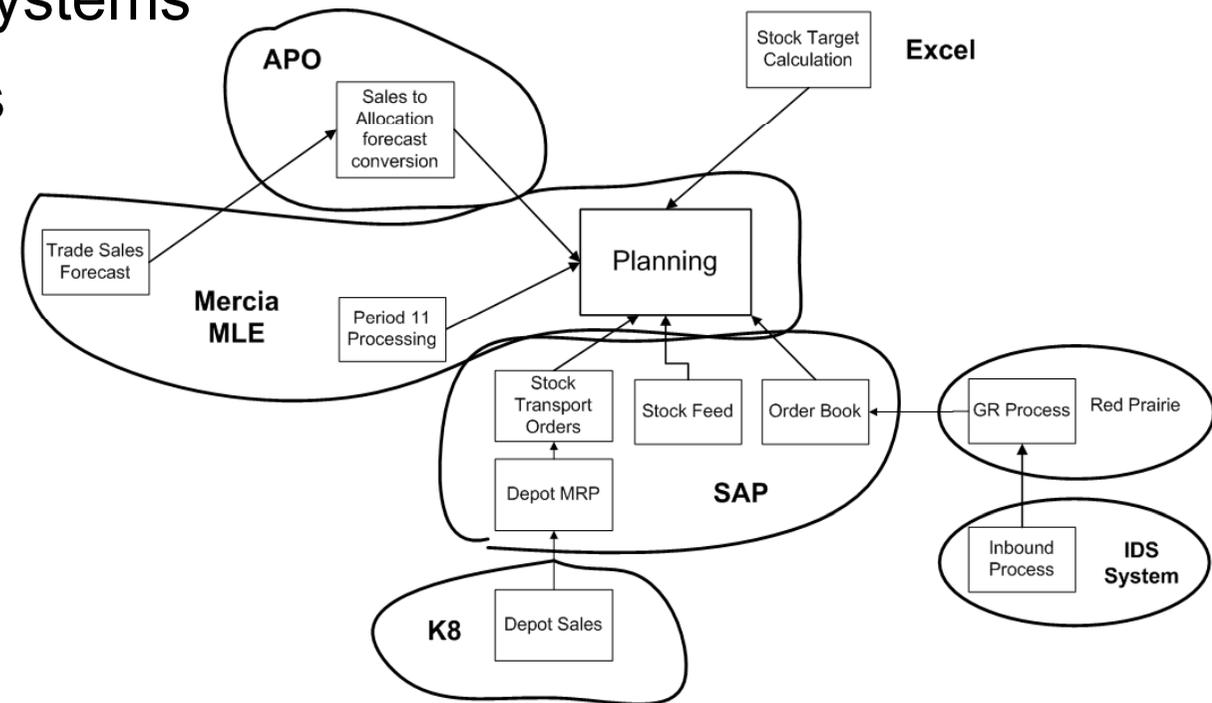


Knowledge and relationships

Focus on what works, and build it to scale

Investment

- Systems to guarantee availability of stock
 - Manufacturing control systems
 - Warehousing & logistics
 - Transport & distribution
 - Depot systems
 - Product information
 - POS
 - CAD planning
- Management information



Knowledge and relationships

Focus on what works, and build it to scale

Investment

- Manufacturing capability
 - Runcorn
 - Howden
- Distribution centre in Northampton
- New production lines
- Ongoing benefits of restructuring
- Improved flexibility, quality, speed
- Access to best global suppliers



Knowledge and relationships

Focus on what works, and build it to scale

Investment

- Margin incentive
- Getting people together
 - Meetings
 - Dinners
 - Conferences
 - Roadshows
 - Sports, social events, etc.
- Health & Safety



Knowledge and relationships

Focus on what works, and build it to scale

Investment

- Extensive depot network
 - 14 → 500 depots
 - 0 → 230,000 credit accounts
 - 28 → 4,400 depot staff
- Better service for the builder
 - Trustworthy brand
 - Reputation



Knowledge and relationships

A cash-generating business

- Enabled extensive investment in all areas
- AND
- Allowed us to manage the MFI legacy, including:
 - Properties
 - Failure of MFI business
 - Pension deficit

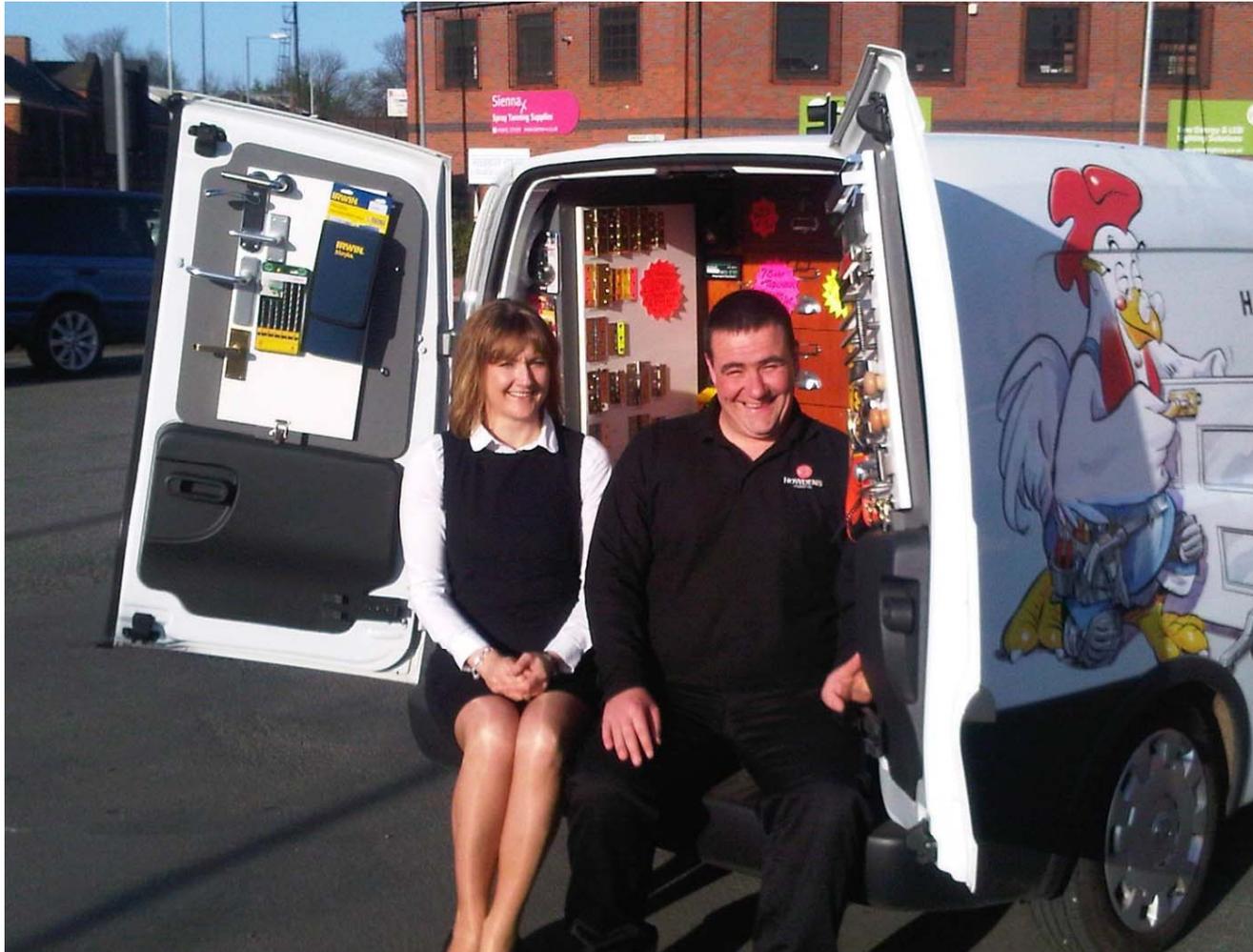
Creating value in Howdens

Depot development

Growth

- **New depots**
 - Further opportunities to open depots
 - Potential for 650+ depots
- **Existing depots**
 - Opportunities to:
 - Extend c.40 depots
 - Increase sales and margin
 - Open more accounts
 - Develop new sales techniques





Building
knowledge
and
relationships

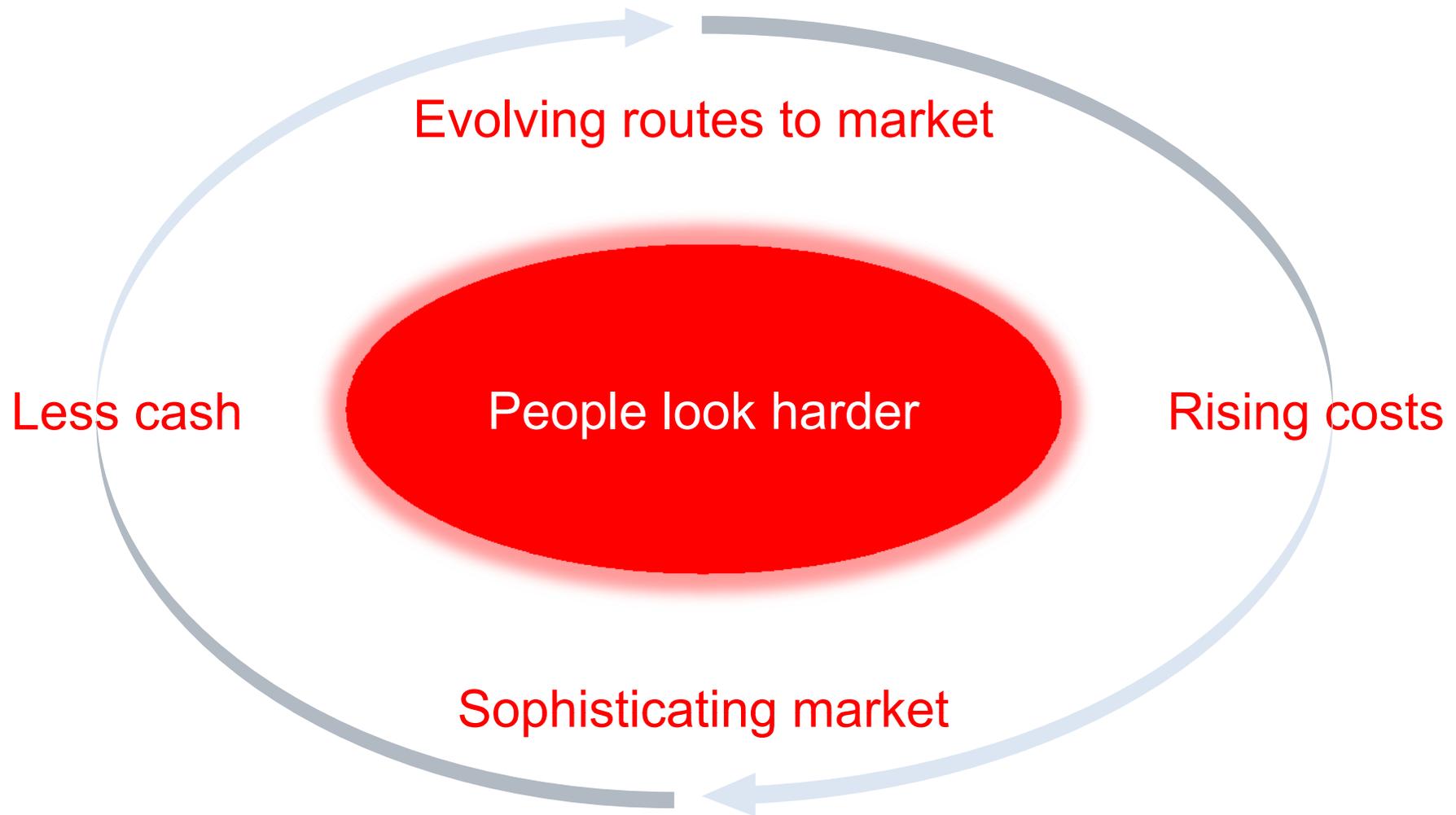
Worcester manager Lisa Palmer with salesman David Gregg and hardware van

- Constantly sophisticating market
 - New challenges
 - Space
 - Time
 - Safety
 - Regulation
 - Cost
 - Ecological soundness



- Rapidly evolving routes to market, including the internet
 - About more than price
 - More information on more topics
 - More comparison
 - More investigation
- Knowledge spreading at an accelerating pace





- Building further knowledge
 - Joinery Lab
 - Kitchen Lab
 - Worktops
 - Splashbacks



- Building on the success of the product “families”
 - 4 new ranges launched
 - Complementary joinery doors
 - Hardware



- Extending the Lamona franchise
 - 500,000 Lamona appliances sold p.a.
 - Britain's biggest integrated brand
 - Two-year warranty as standard from September



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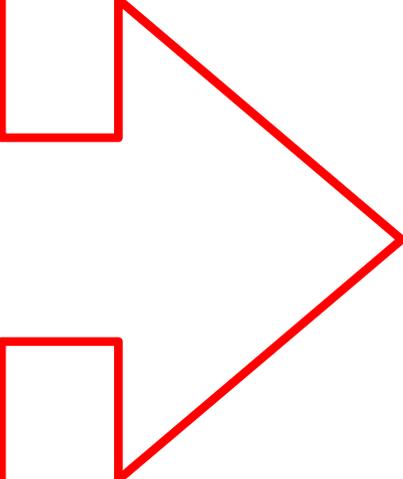


- Focused on the need to guarantee, at scale, control over:
 - Manufacturing
 - Design
 - Quality
 - Availability
 - Range
 - Price
 - Knowledge

A commercial approach to make vs. buy

... and greater speed to market

- New depots
- Depot performance
- More accounts
- Building relationships
- New product
- Product innovation
- Improving efficiency
- Enhancing supply base



A market-beating
proposition

“More of the same” means...

Doing things in the same way

NOT

Doing the same things

The consideration is...

What is the appropriate pace of growth?

Harnessing the power of individuals to drive growth

- Each individual is important
- Trusted
- Motivated
- Allowed to act
- Daring to face challenges

The best way to drive growth





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