



HOWDENS

JOINERY CO.

Making kitchens work for you

2013 HALF – YEARLY REPORT

25 July 2013



HOWDENS

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Making kitchens work for you

Matthew Ingle
Chief Executive Officer

The business is performing well

- ➔ Proven Howdens model delivering results:
 - Sales up by £26m
 - Operating profit up by £15m
 - PBT up by £17m
 - Strong cash generation
- ➔ Benefits of continuing investment in people, products, property, manufacturing and systems
- ➔ **Interim dividend of 1.0p declared**



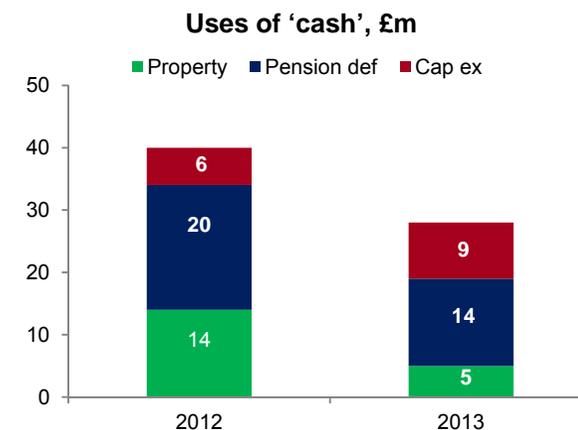
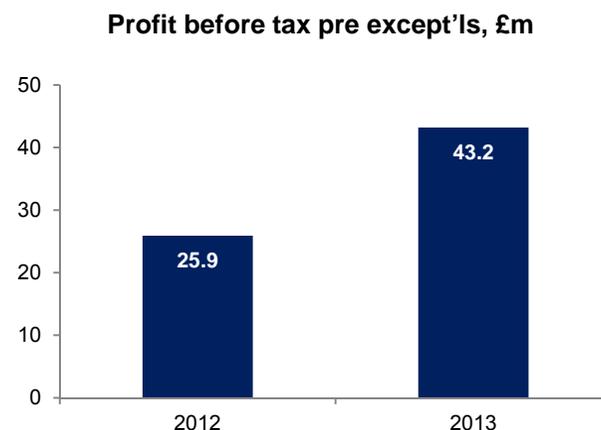
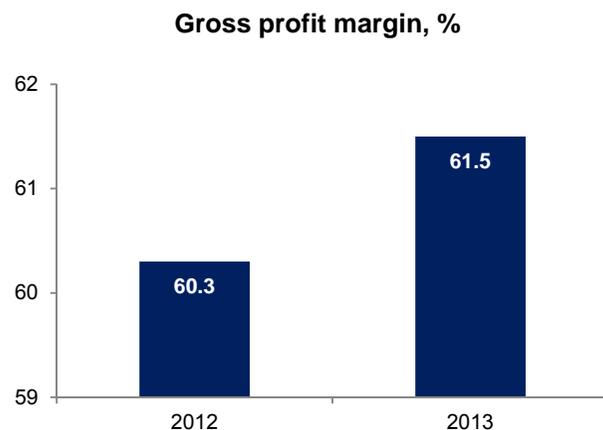
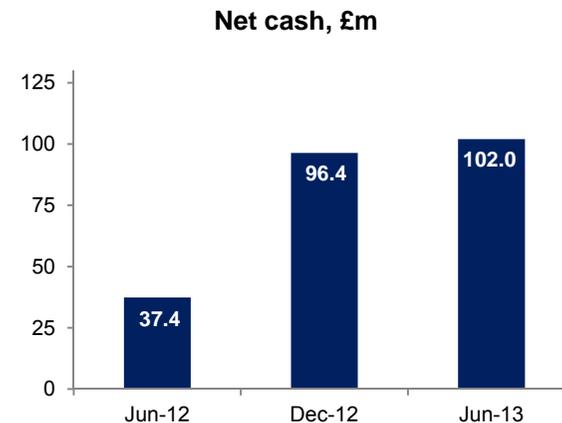
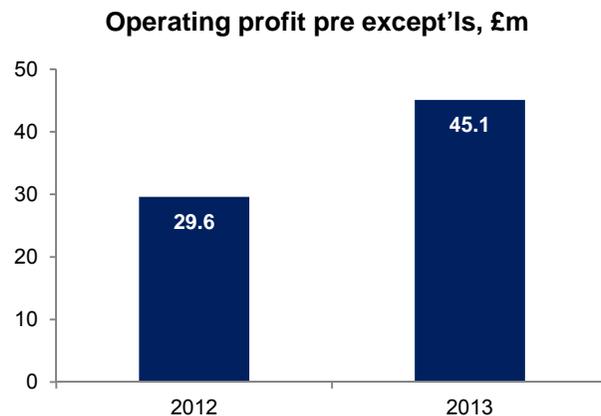
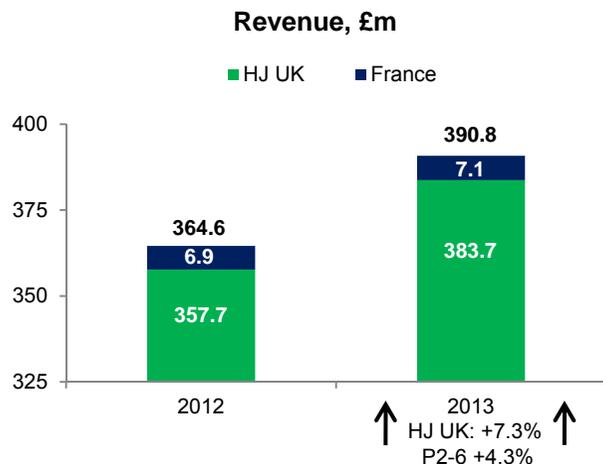
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Mark Robson
Chief Financial Officer

Highlights



The information presented here relates to the 24 weeks to 15 June 2013 and the 24 weeks to 9 June 2012. The later start to the 2013 financial year means that there was an extra trading week in the first four-week period of the year compared with the same period in 2012. This benefitted turnover, profit and cash flow in the first half of 2013. This gain will be reversed at the end of the second half of the year.

Revenue

2013 UK depot revenue £383.7m

- total +7.3% • LFL +5.5%
- periods 2 to 6 total +4.3%

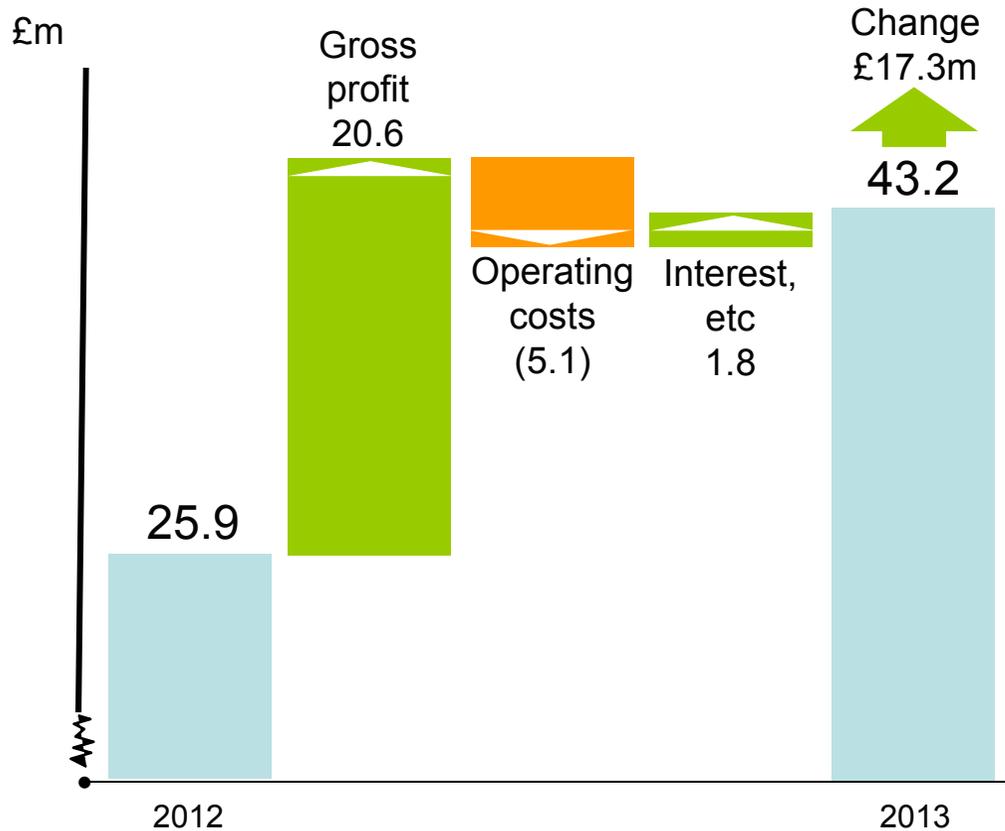
2013 French depot revenue £7.1m

-0.7% in LFL €s

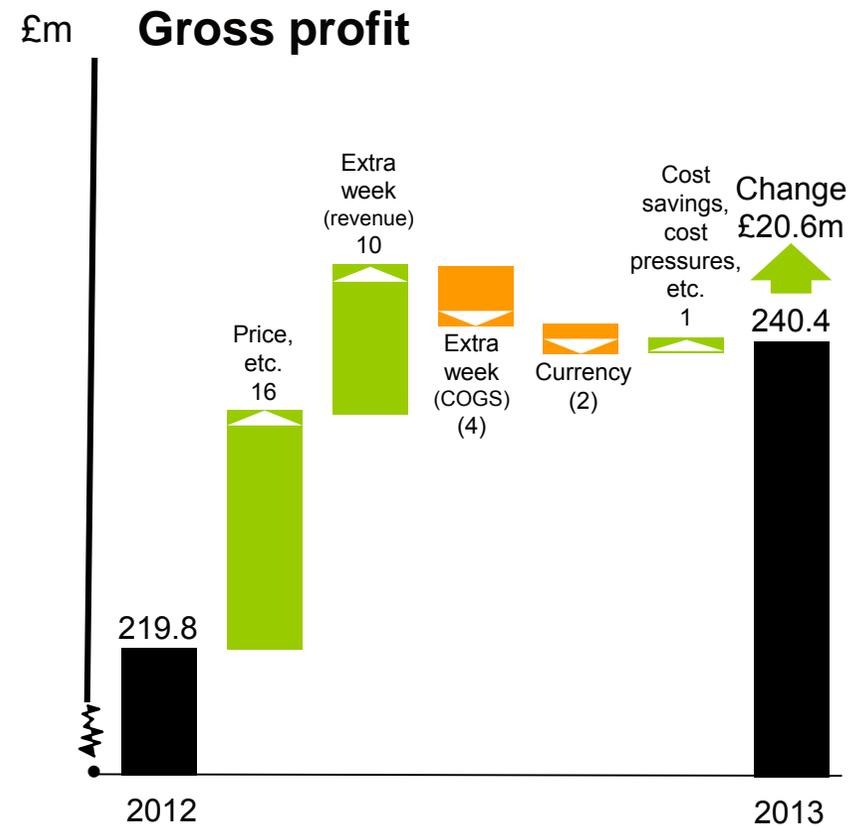
Profit before tax

Group gross profit margin
 • 2013: 61.5% • 2012: 60.3%

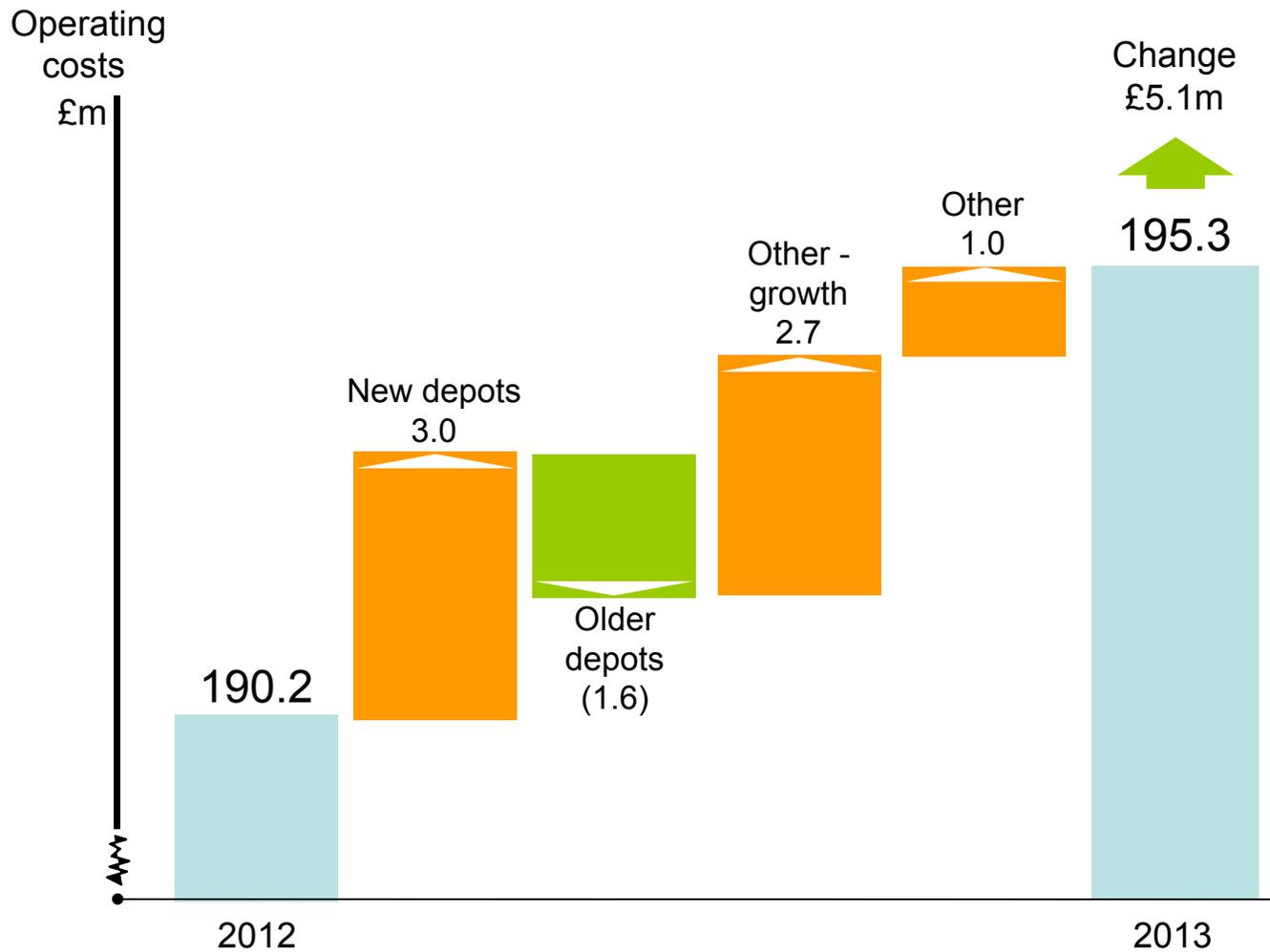
Profit before tax



Gross profit



Operating costs



Income statement – pre exceptionals *

Continuing operations, £m **	H1 2013	H1 2012
Revenue	390.8	364.6
Cost of goods sold	<u>(150.4)</u>	<u>(144.8)</u>
Gross profit	240.4	219.8
Operating costs	<u>(195.3)</u>	<u>(190.2)</u>
Operating profit	45.1	29.6
Net interest	<u>(1.9)</u>	<u>(3.7)</u>
Profit before tax	43.2	25.9
Tax	<u>(11.2)</u>	<u>(5.8)</u>
Profit for the period	32.0	20.1

* An exceptional pre tax operating cost of £4.5m was incurred in 2013. ** There were no discontinued operations in 2013.

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Earnings per share and dividend

	H1 2013	H1 2012
Earnings per share pre except'ls	5.0p	3.2p
Interim dividend per share	1.0p	0.3p

Net cash and cash flow

£m	H1 2013	H1 2012
Opening net cash	96.4	57.1
Operating cash flows before movements in working capital	55.6	37.9
Working capital	(11.3)	(10.4)
Capital expenditure	(8.8)	(6.5)
Interest (net)	0.1	(0.1)
Tax paid	(11.3)	(9.0)
Legacy properties	(5.3)	(13.9)
Pension deficit contribution	(13.6)	(20.1)
Exceptional items	(3.9)	-
Other	4.1	2.4
Closing net cash	102.0	37.4

Working capital

➔ Working capital up £11.3m

- stock up £4.7m

- debtors up £25.0m

- creditors up £18.4m

Reducing our legacy property liabilities

➡ Two early exits announced in February

➡ Since then, five more exits:

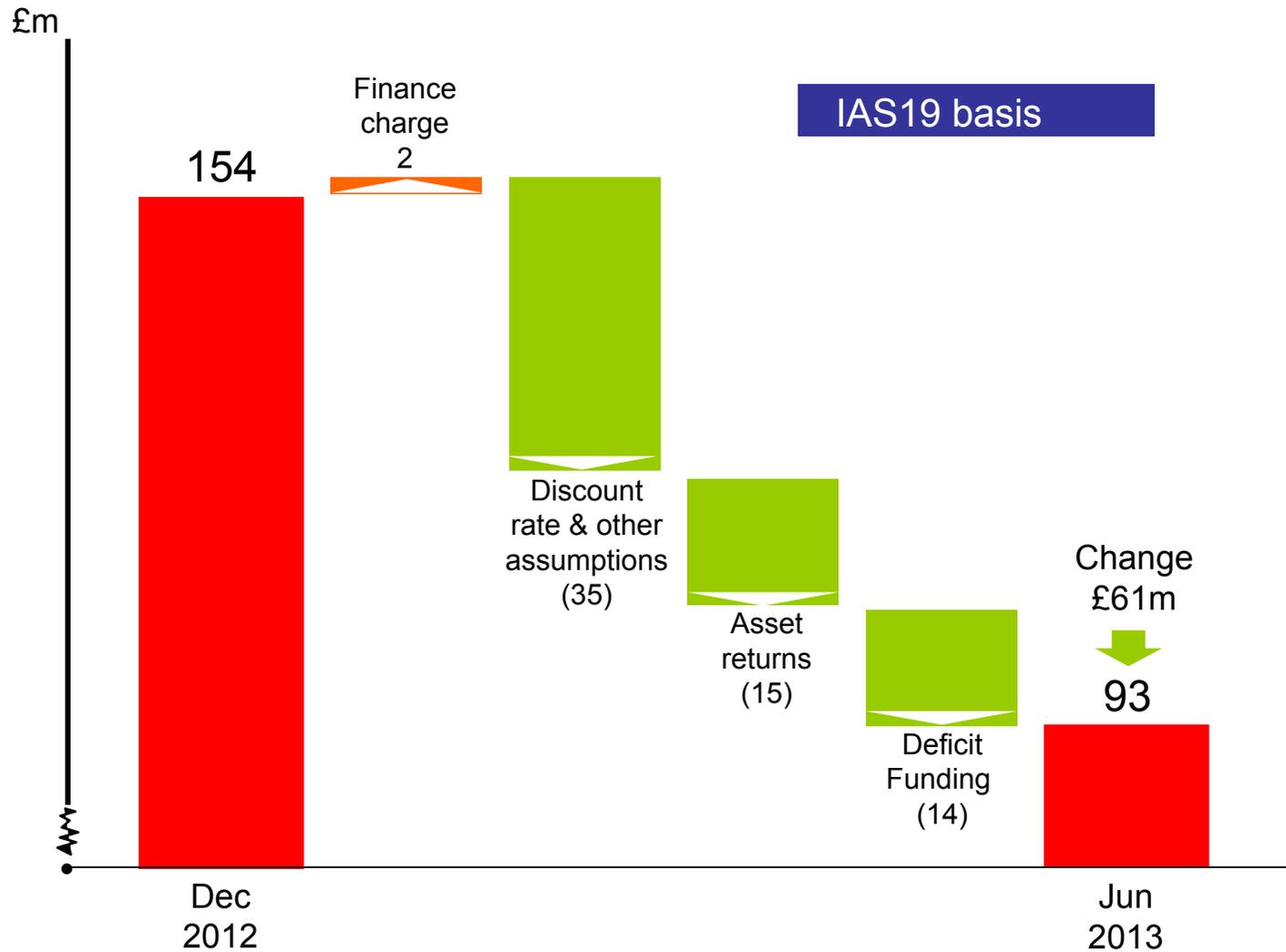
- two early exits
- two terminations
- one expiry

➡ £7.5m exit cost so far this year

➡ Nine legacy properties remaining

- net annual rent & rates < £2m

Pension scheme deficit



Recent trading and outlook for remainder of 2013

➔ Sales in first four-week period of H2 up 7.6%

- not evidence of improvement in market conditions, which remain uncertain

➔ Expectations for the rest of the year unchanged

- gain from extra week's trading in H1 reverses out in H2
- important period 11 still to come
- operating cost increases anticipated
- H2 gross margin similar to H1

➔ Continue to invest – up to 30 new depots

➔ On track and see continued growth – market conditions still uncertain – will take timely action, in whatever direction



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Matthew Ingle
Chief Executive Officer

Continuing focus on one customer

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

Principles of the Howdens model

- ➔ Absolute focus on the small builder
- ➔ Trade only
- ➔ Good product
- ➔ Local stock
- ➔ Low-cost manufacturing
- ➔ Incentivised local management



Designed for resilience

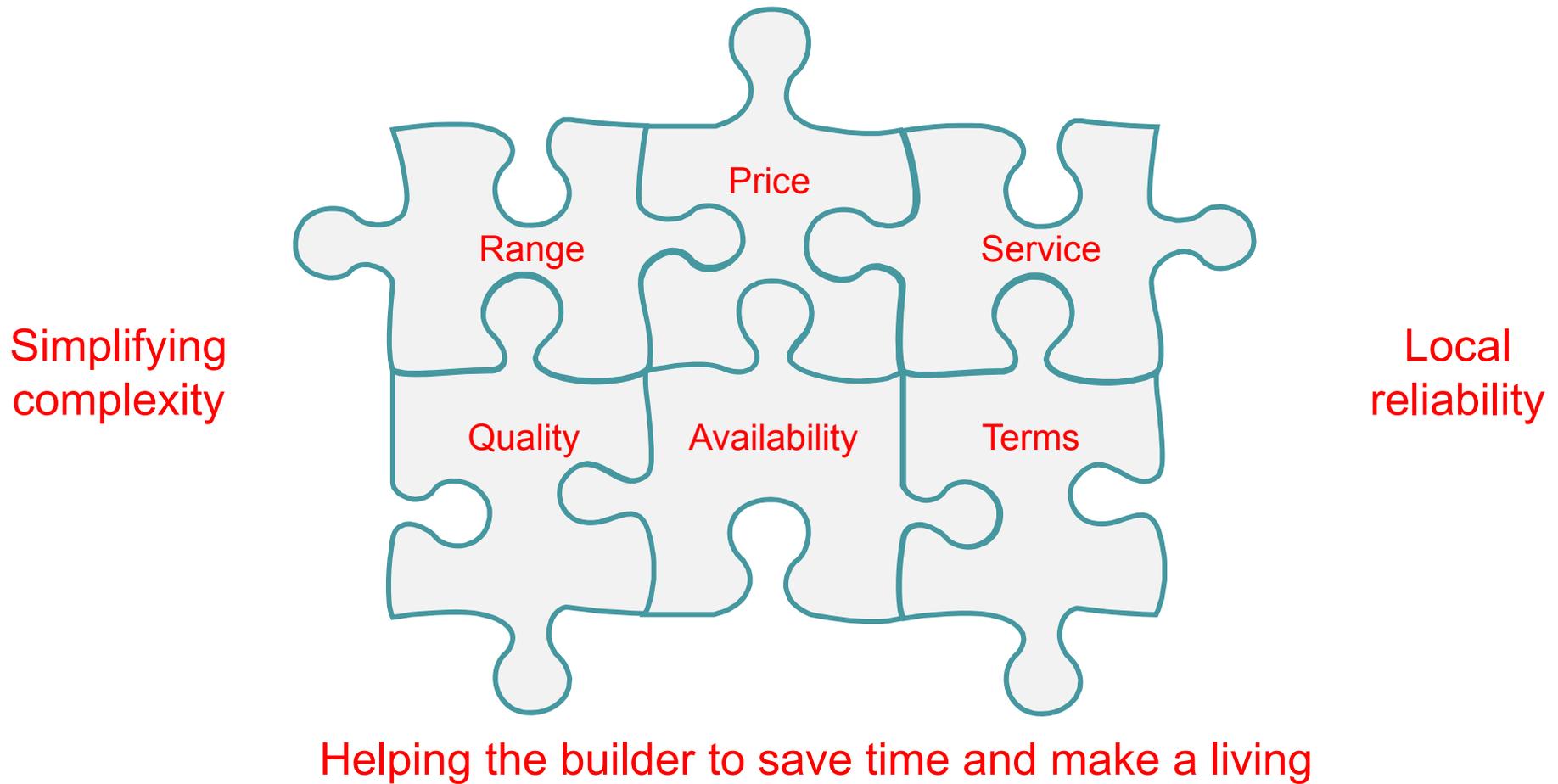
The small builder's daily challenge

- ➔ Customers who change their plans
- ➔ Securing the right product
 - At the right time
 - In the right place
 - At the right price
- ➔ Time (£) taken to complete a job
- ➔ External factors, e.g. weather
- ➔ Getting paid on time



A very
complex
task

Howdens' integrated offer to the builder



Helping the builder to sell

- ➔ Relevant, well-designed range of kitchens
- ➔ Matching joinery, hardware and accessories
- ➔ Varied styles and price points
- ➔ Rigid cabinets
 - Easy to install
 - Robust
- ➔ Full range of Lamona appliances



Making the builder's life easier

Lamona supports the Howdens brand

- ➔ Ovens, hobs, extractors, microwaves, dishwashers, refrigeration and laundry
- ➔ Designed to look good and work well
- ➔ Competitively priced
- ➔ Beating industry 'failure rates'
- ➔ 2-year warranty as standard
- ➔ 5-year guarantee on oven door glass
- ➔ Scale + credibility = awareness + growth



The UK's top-selling conventional oven

Making the builder's life easier

Everything always in stock locally

- Very local depot
- No lead times
- No need for builder to store
- Trade only
- Expert staff
- Product knowledge
- Customer knowledge



Making the builder's life easier

Making the builder's life easier

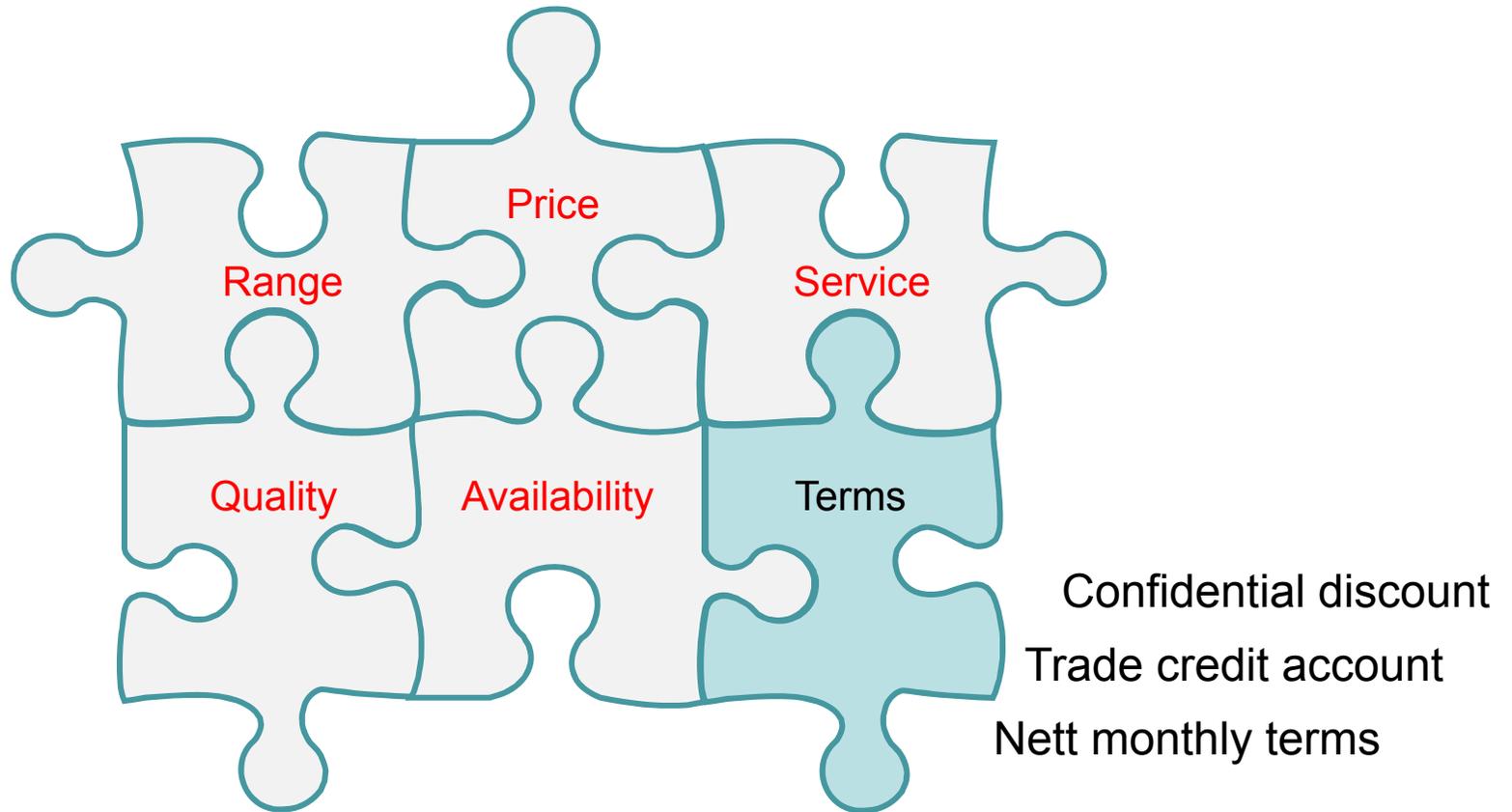
➔ Investing in the best:

- Designers
- CAD software
- Projectors
- 52" screens
- 3D visualisations
- Videos
- Cookbooks



Helping the builder to sell, plan and install

Focused on the small builder's needs



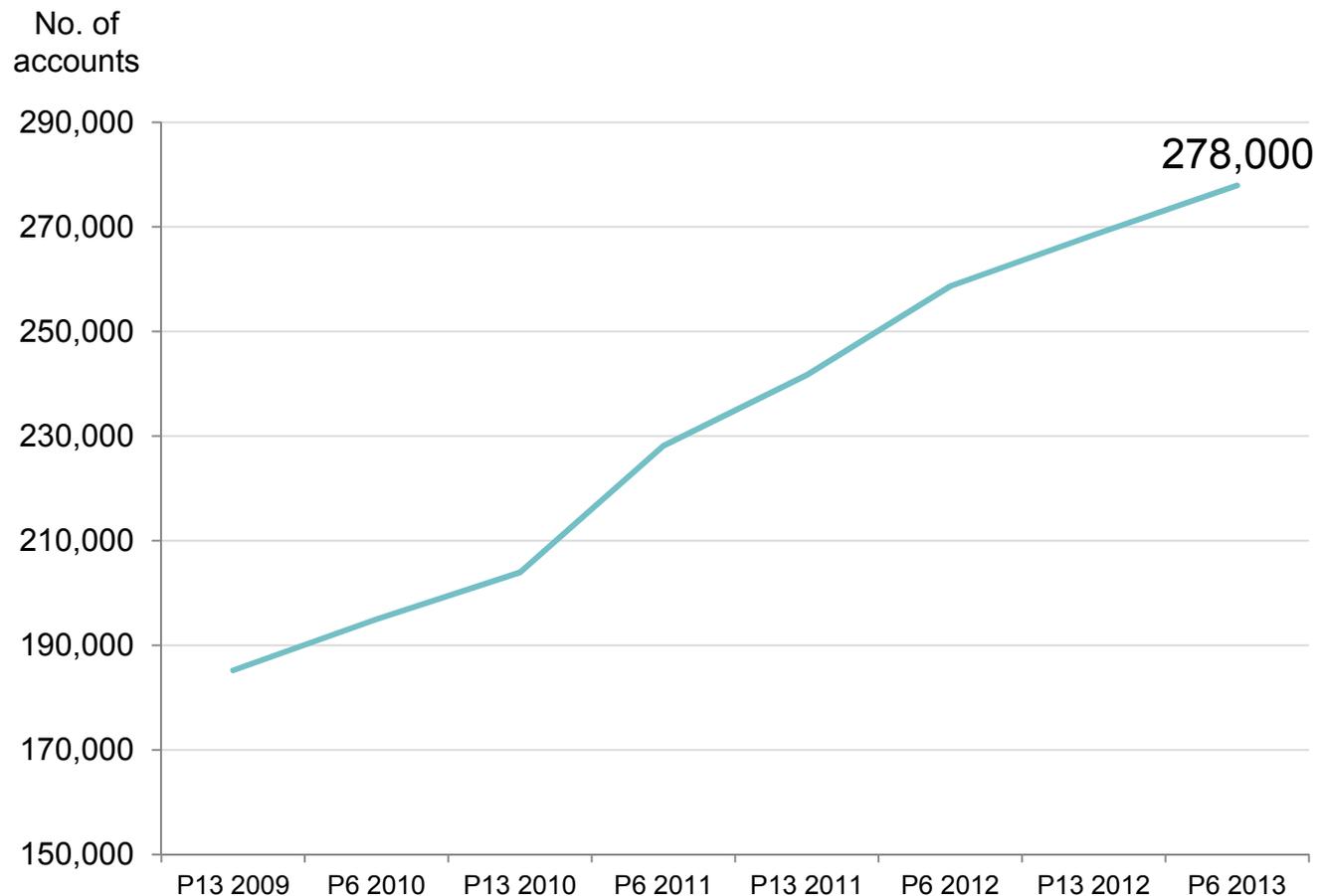
Helping the builder to manage margin and cash flow

Howdens' integrated offer to the builder



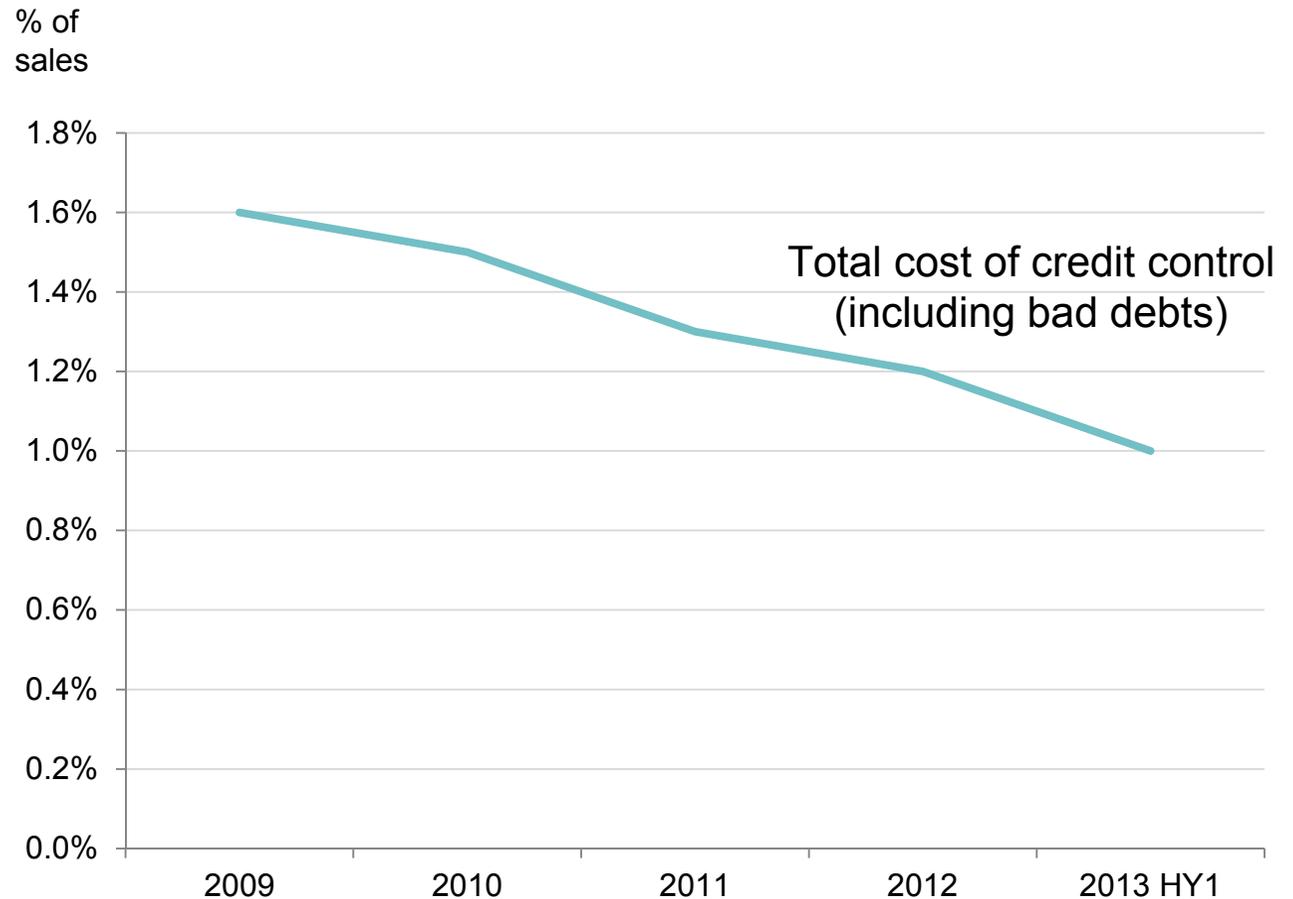
Growth in credit account customers

- 10,000 net new accounts in H1
- Depots focus on opening and trading accounts



Customers are prepared to pay for Howdens service

- Tight credit management
- Accounts that have not traded for 15 months are deleted



How the depot generates margin (1)

➔ Low cost

- 10,000 square feet
- Trade location
- Rent < £5.50 per sq ft
- Fit-out c.£170,000



Howdens Newbury



How the depot generates margin (2)

- ➔ High motivation
 - Local accountability
 - Local staff
 - Local marketing
 - Manager and staff incentivised on share of profit less stock loss
 - Further incentives



Howdens Cleethorpes

Key depot performance indicators

➔ Each depot's P&L meeting focuses on:

- Sales
- Margin
- Account openings
- Sales per account
- Sales per head per week
- Appliance penetration
- Local cost recovery
- Stock management
- Sales forecasting

Margin supported by focused supply chain

➔ Dedicated manufacturing at Howden and Runcorn

- Scale and predictability
- Large volumes
- Long runs
- Accurate forecasting
- One customer



Industrial design
Security of supply
Quality
Availability
Low cost



Minimising waste

Investing in an efficient, responsive supply chain

➔ Howden and Runcorn

- £20m investment
- New lines on stream
- Flexibility to increase cabinet capacity by 50%
- Full disaster recovery capability
- Significant improvements in quality, accuracy and productivity



Lowest cost, better quality – at scale

Minimising waste

Business underpinned by robust systems

➔ No limits on our systems capacity in respect of:

- Manufacturing processes
- Number of depots requiring support
- Stock management
- Warehousing
- Logistics
- Point of sale
- Management information

Simplifying complexity

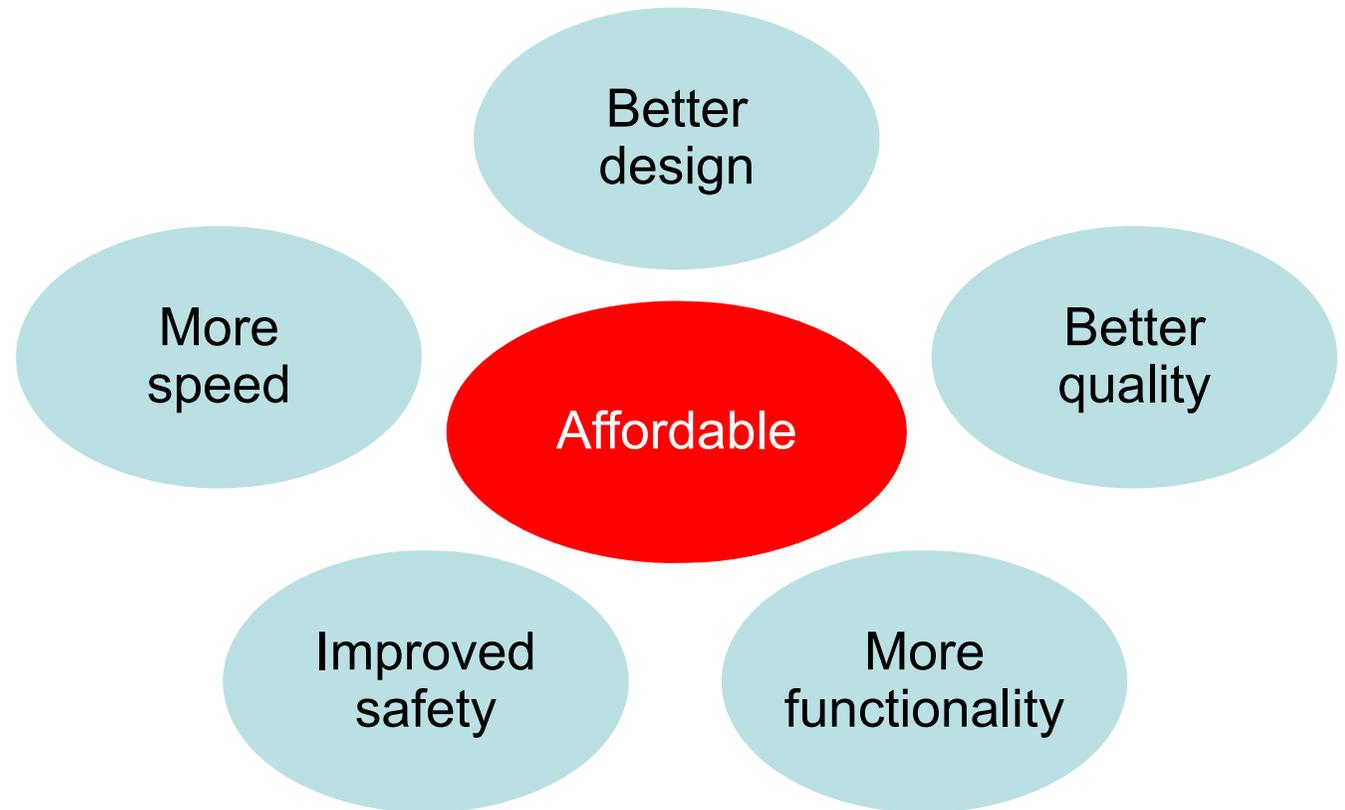
Simplifying complexity



- Helping the builder to get the kitchen fitted and working in the home

More of the same

➔ Constantly improving product



Maximising potential of new trends

- ➔ Gloss finish
- ➔ Solid colours
 - White, grey, cream
- ➔ Demand for good design at all price points



Integrated Handle Gloss White

New kitchen ranges to support growth

➔ Greenwich

- Competitively priced
- Gloss White launched end of 2012, now our fastest-growing range
- 3 new Greenwich options launched H1 2013

➔ Glendevon

- Gloss Graphite launched H1 2013



Greenwich Gloss White

Highly competitive at entry level

- ➔ Local
- ➔ Available
- ➔ Robust
- ➔ Value

WE WON'T BE BEATEN ON PRICE!
HOWDENS JOINERY CO. TRADE ACCOUNT HOLDERS ONLY

Greenwich White Smooth Rigid Kitchen

Net **£399.89**

***GREENWICH WHITE SMOOTH 11 UNIT PRICE COMPRISES:**
300mm Hi-Line Base Unit x 1, 500mm Hi-Line Base Unit x 1, 1000mm Hi-Line Base Unit x 1, 1000mm Hi-Line Corner Base Unit x 1, 600mm Built-Under Oven Housing Unit x 1, 500mm 4 Drawer Base Unit x 1, 300mm Full-Height Wall Unit x 1, 500mm Full-Height Wall Unit x 1, 600mm Hob Wall Unit x 1, 1000mm Full-Height Wall Unit x 2

ALL ITEMS SOLD FROM LOCAL STOCK
Available to trade account holders only. All prices exclude VAT. Subject to availability.
www.howdens.com

WE WON'T BE BEATEN ON PRICE!
TRADE ACCOUNT HOLDERS ONLY

- Net **£99.99**
Lamona Single Conventional Oven LAM3200
- Net **£20.99**
White / Granite Style Worktop WOH0564 / WOH0864 UK F
- Net **£19.99**
Howdens Laminate Flooring
- Net **£3.99 per sqm**
Beech SDH2095 P
- Net **£3.99 per sqm**
Rustic Oak SDH2092 UK P
- Net **£3.99 per sqm**
Oak SDH2096 P

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Saving the builder time and money

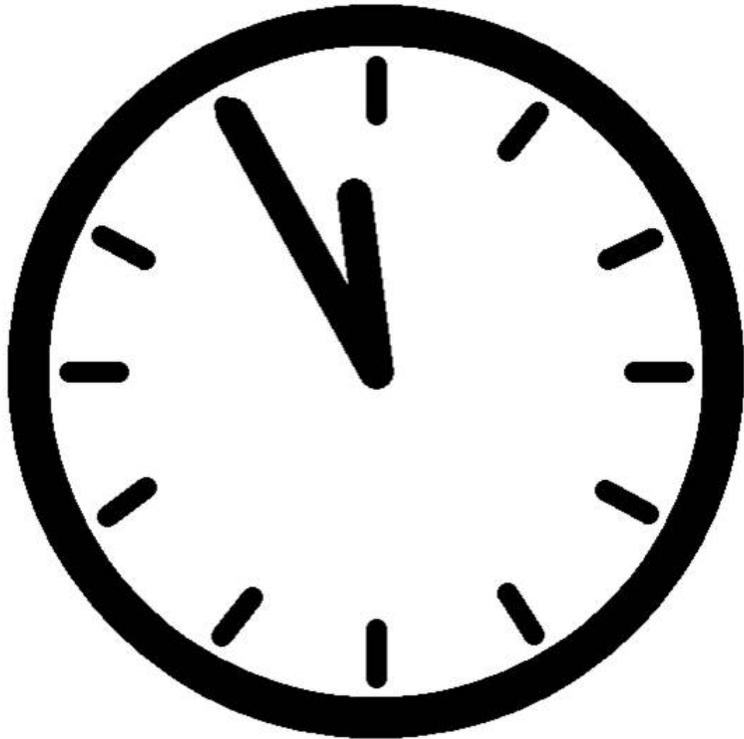
Establishing Lamona at the forefront of its market

- ➔ 550,000 Lamona appliances sold in 2012
- ➔ Constantly improving range – design, quality and availability
- ➔ New sinks and taps
- ➔ New oven finishes



The Lamona deluxe dishwasher

Improving service to builders



- Less time
- Less tolerance
- More awareness

Our growing network of local depots

- ➔ 537 depots
 - 8 opened to date in 2013
 - Expect to open up to 30 by year end
- ➔ Flexible opening programme
 - Suited to market conditions
- ➔ Scope for at least 700 depots in the UK



Continuing to grow Howdens business

- ➔ Clear strategy
- ➔ Proven model
- ➔ Cash generative
- ➔ Many opportunities

Being
very good at
what we are
good at

Clearly focused on
the small builder

A robust and flexible business suited to an uncertain environment



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