



**HOWDENS**

**JOINERY CO.**

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Making kitchens work for you

**2010 Preliminary Results**

**3 March 2011**



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**Matthew Ingle**  
Chief Executive Officer

# 2010: Howdens moves forward

- Sales up by 5%
- Gross profit margin up by 3.6 percentage points
- 27 new depots opened
  - 20,000 net new accounts
- 12 new kitchen ranges
  - Increased range of appliances
  - Improved product quality
- Continued to invest in manufacturing and systems
- Created 350 new jobs



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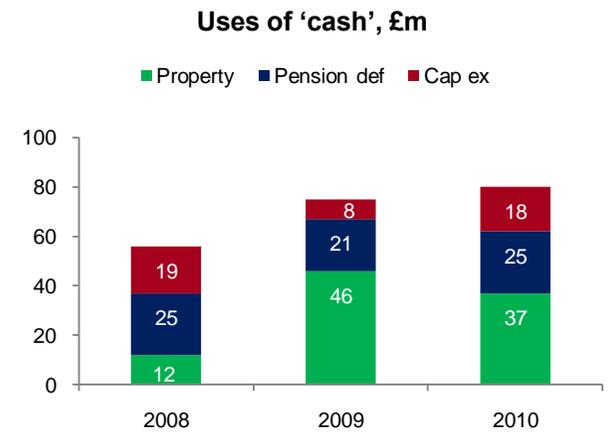
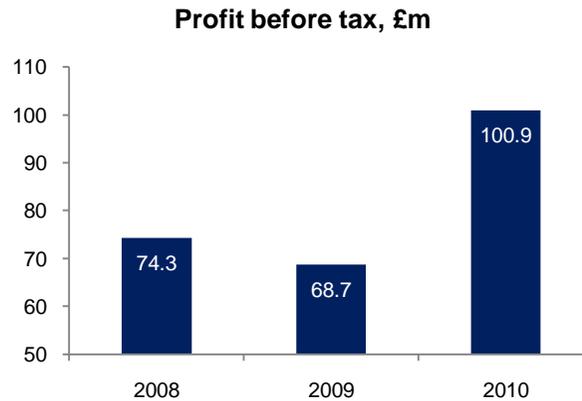
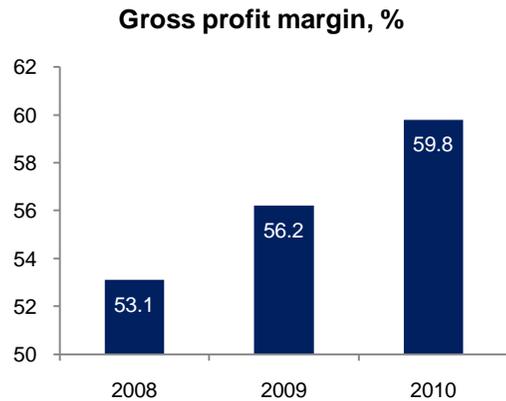
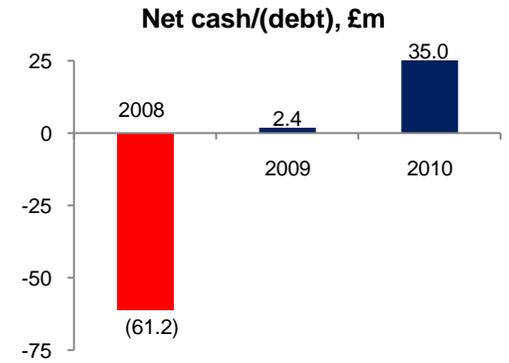
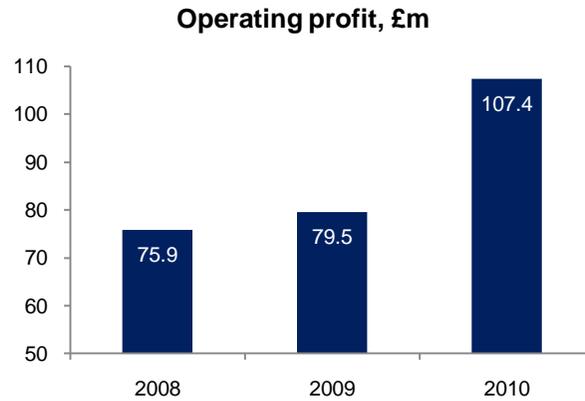
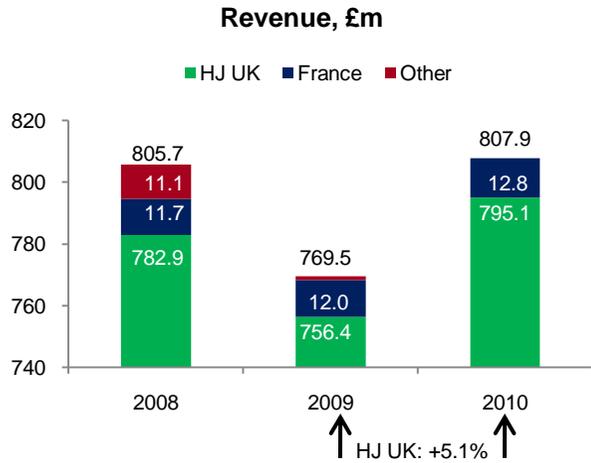
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**Mark Robson**  
Chief Financial Officer

# Context of financial results

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

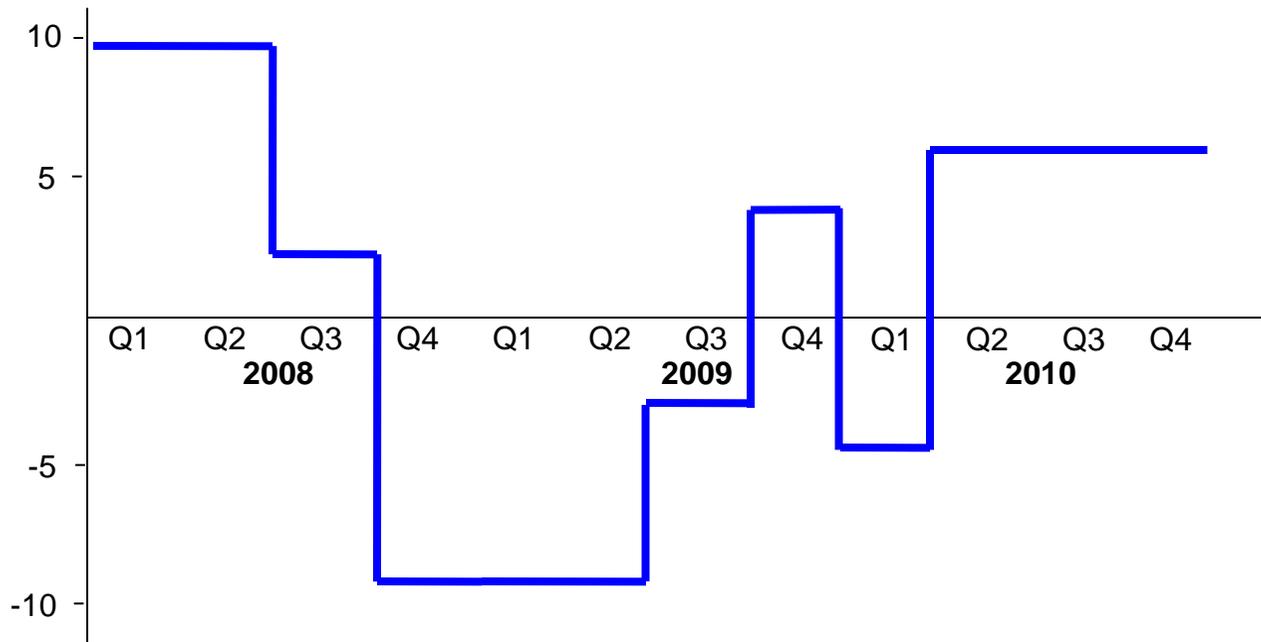
# Highlights



# Howdens revenue

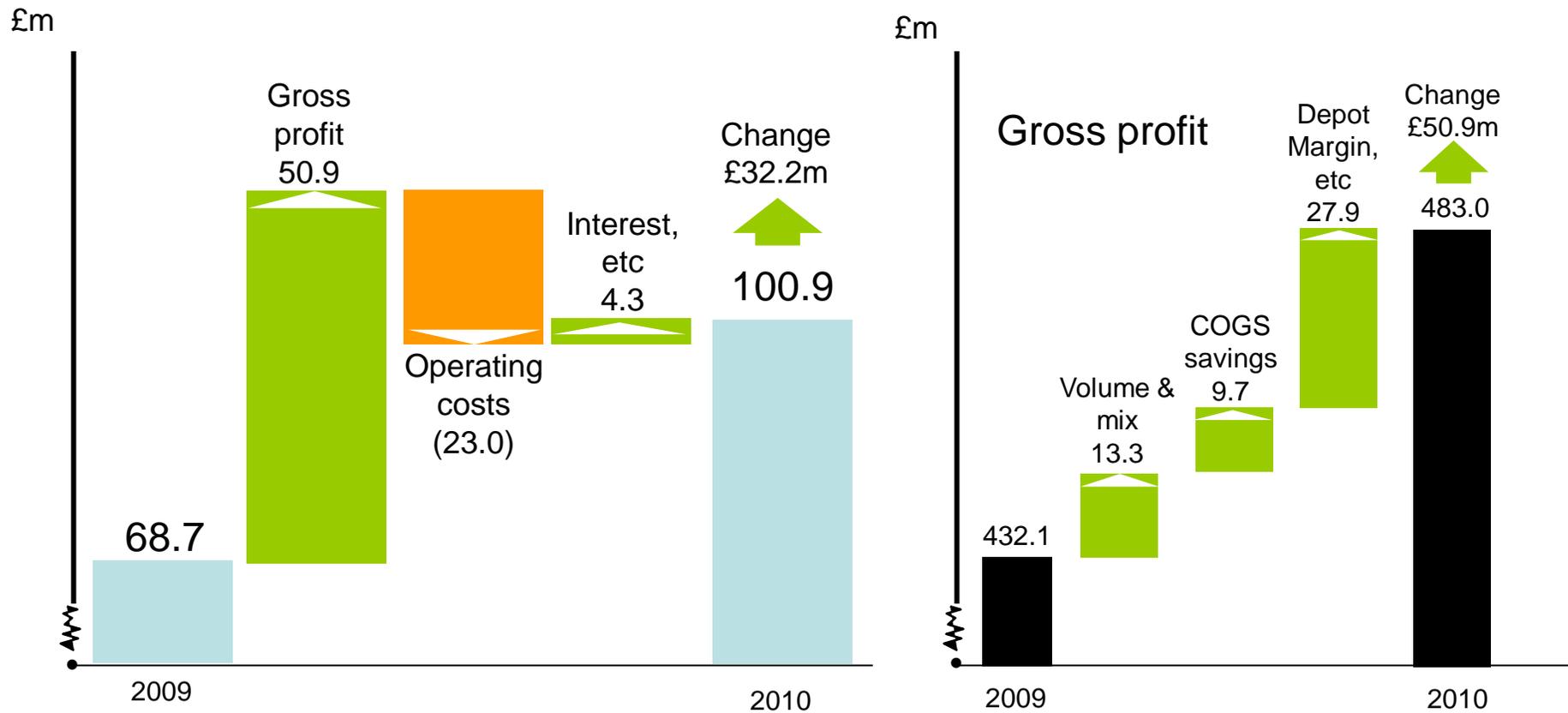
2010 revenue £795.1m  
• total +5.1% • LFL +3.6%

% change

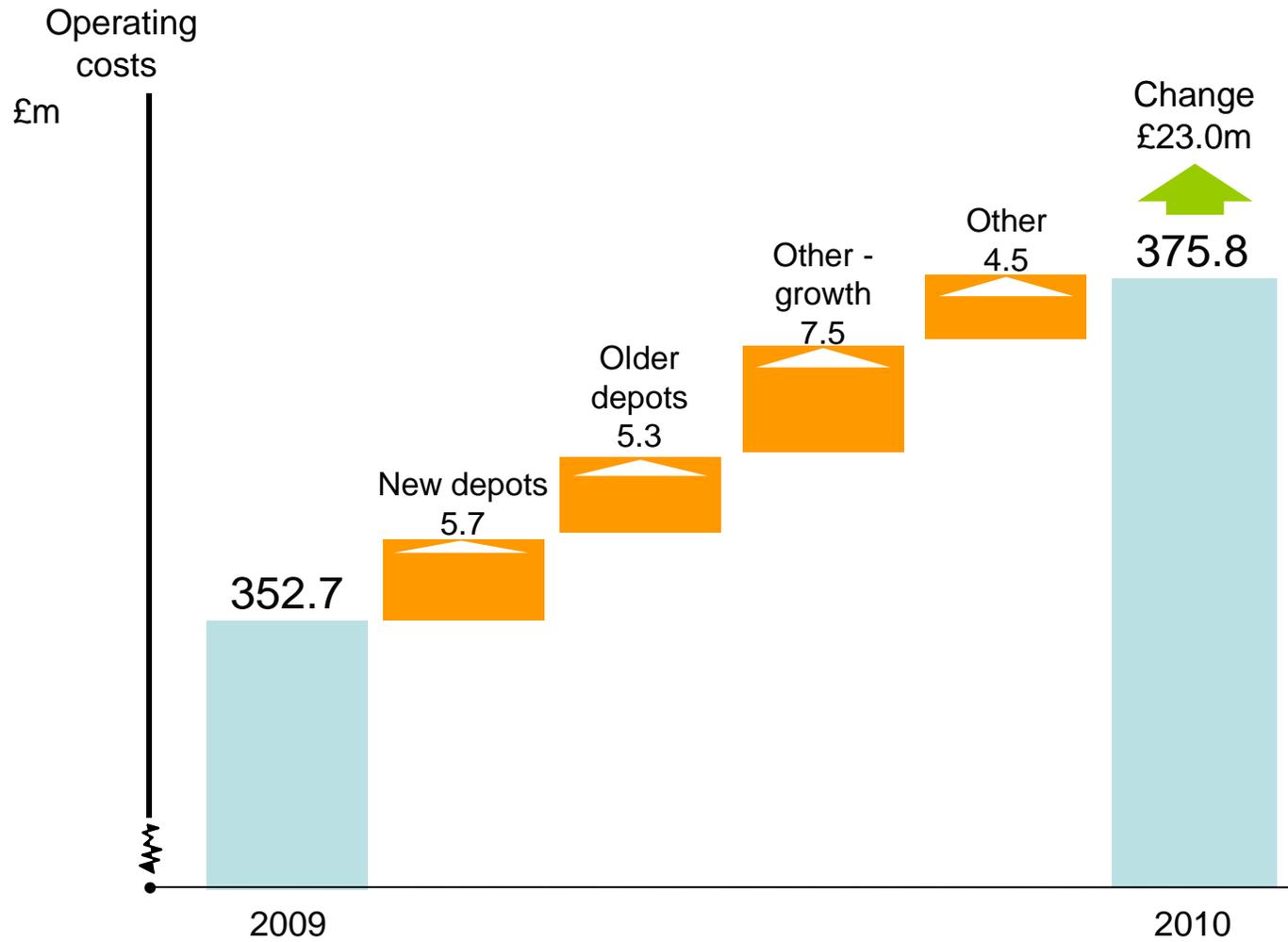


# Profit before tax

**Group gross profit margin**  
 • 2010: 59.8% • 2009: 56.2%



# Operating costs



# Income statement

£m	2010	2009
Continuing operations:		
Profit before tax	100.9	68.7
Tax	(34.0)	(18.5)
Profit after tax before exceptional items	<u>66.9</u>	<u>50.2</u>
Exceptional items before tax	-	(0.1)
Tax	<u>-</u>	<u>-</u>
Profit from continuing operations	66.9	50.1
Discontinued operations:		
Exceptional items before tax	-	(4.4)
Tax	<u>-</u>	<u>-</u>
Loss from discontinued operations	-	(4.4)
Profit for the year	66.9	45.7

# Net cash/borrowings and cash flow

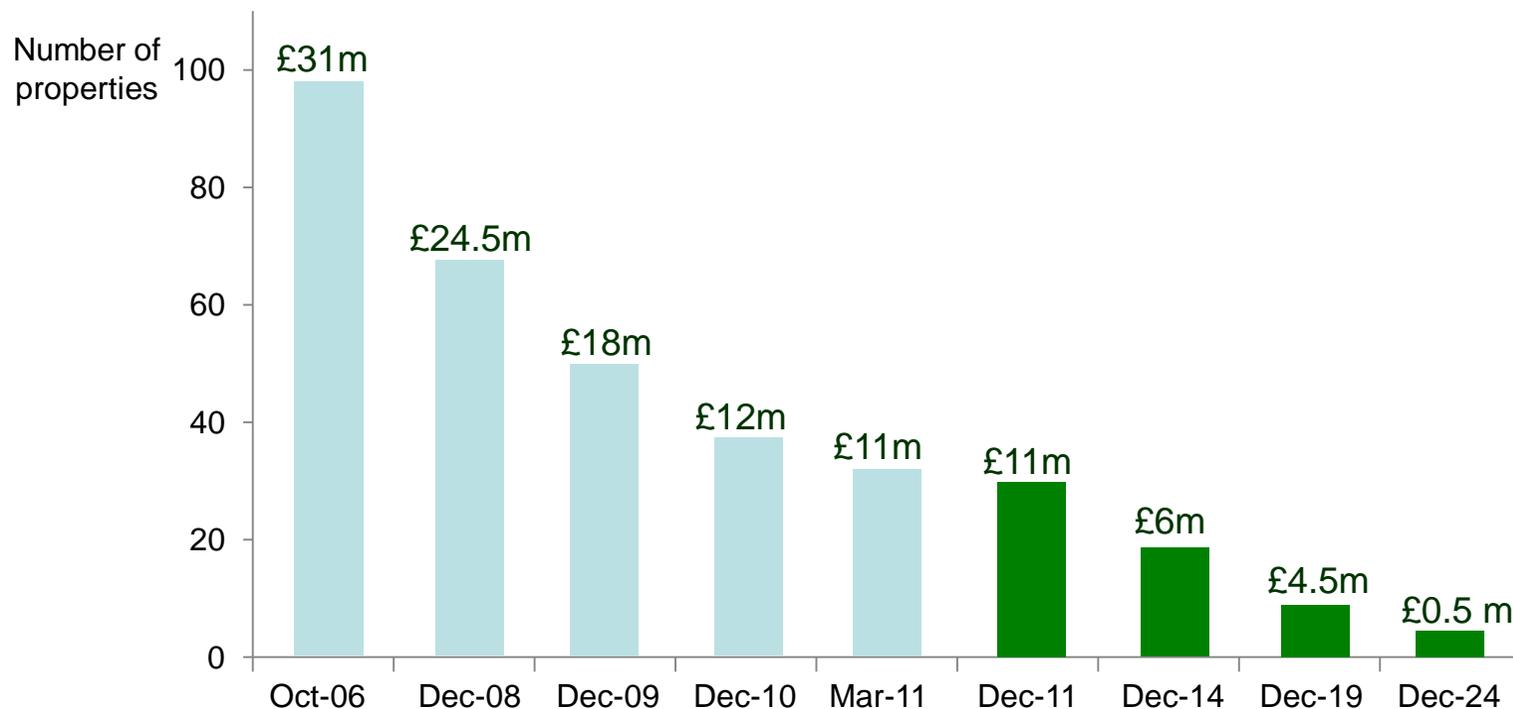
£m	2010	2009
Opening net cash/(borrowings)	2.4	(61.2)
Operating cash flows before movements in working capital	127.0	97.2
Working capital	3.4	46.8
Capital expenditure	(18.2)	(8.1)
Asset disposals	0.3	1.2
Interest (net)	(1.0)	(2.9)
Tax paid	(16.0)	(5.0)
Legacy properties	(37.5)	(46.3)
Pension deficit contribution	(25.4)	(20.9)
Other	-	1.6
Closing net cash	35.0	2.4

Net cash inflow excluding legacy property and pension deficit costs: £95.5m

# Working capital

- Working capital down £3.4 m
  - stock up £19.2m
  - debtors down £0.4m
  - creditors up £22.2 m

# Reducing our legacy property liabilities



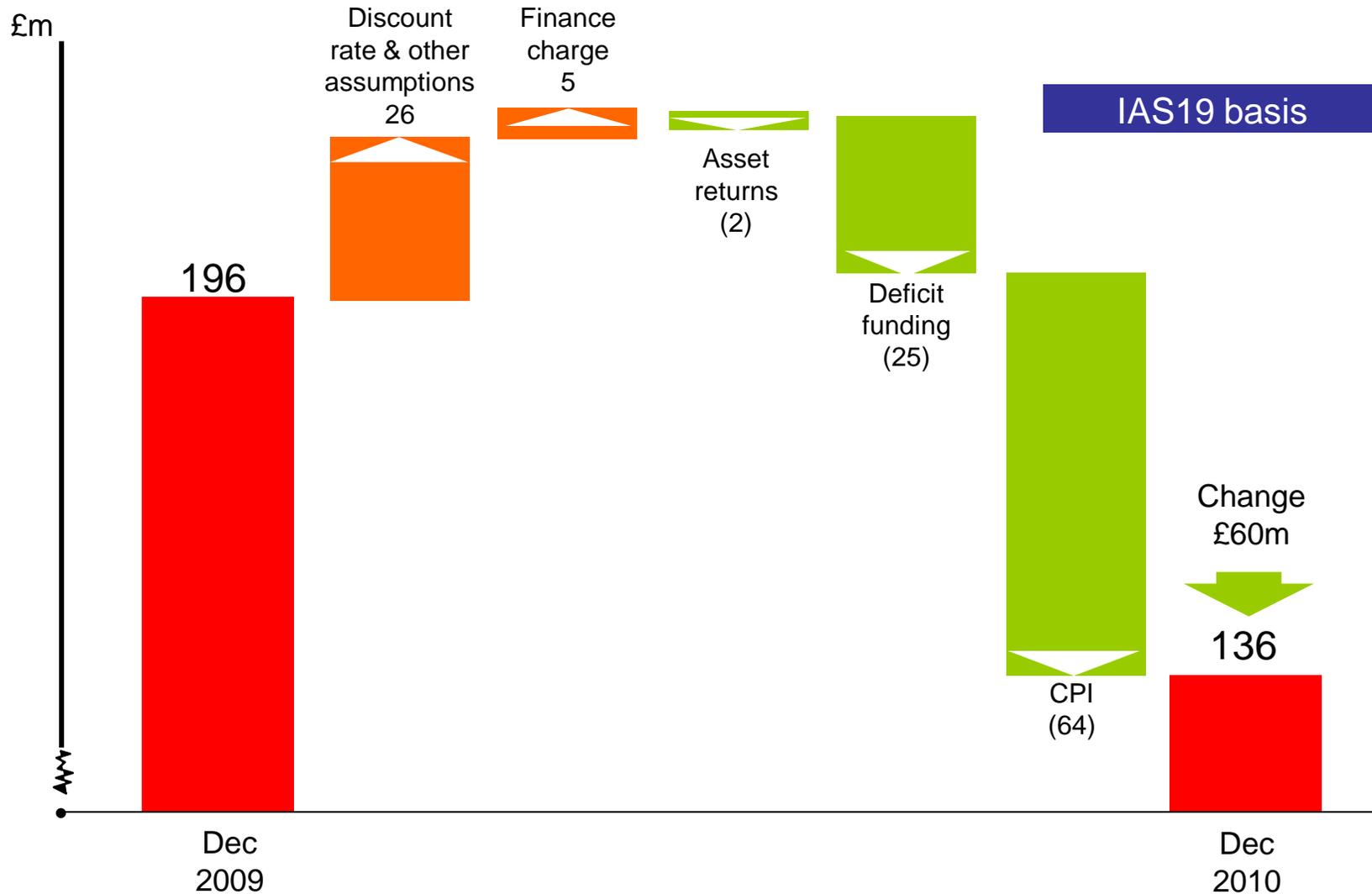
- ⇒ 12 legacy property deals in 2010: £19.4m exit cost - £75m liability extinguished
- ⇒ 3 legacy property deals so far in 2011: £3.9m exit cost - £12m liability extinguished

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



# Current trading and outlook for 2011

- Sales in first two periods<sup>1</sup> of 2011 up 14.2% (LFL +11.6%)
  - material impact of cold weather at start of 2010
  - benefit from initiative to capitalise on busy post-Xmas non-trade kitchen market
  - estimate underlying growth of around 5%
- Plan to open 30 new depots
- Hope to be able to offset input price pressures
- Cash flow guidance:
  - capital expenditure, pension deficit contribution and tax expected to increase
- Expect market to remain challenging
- Will manage business prudently and take necessary actions to do

1. To 19 February 2011



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Chief Executive Officer

# 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”

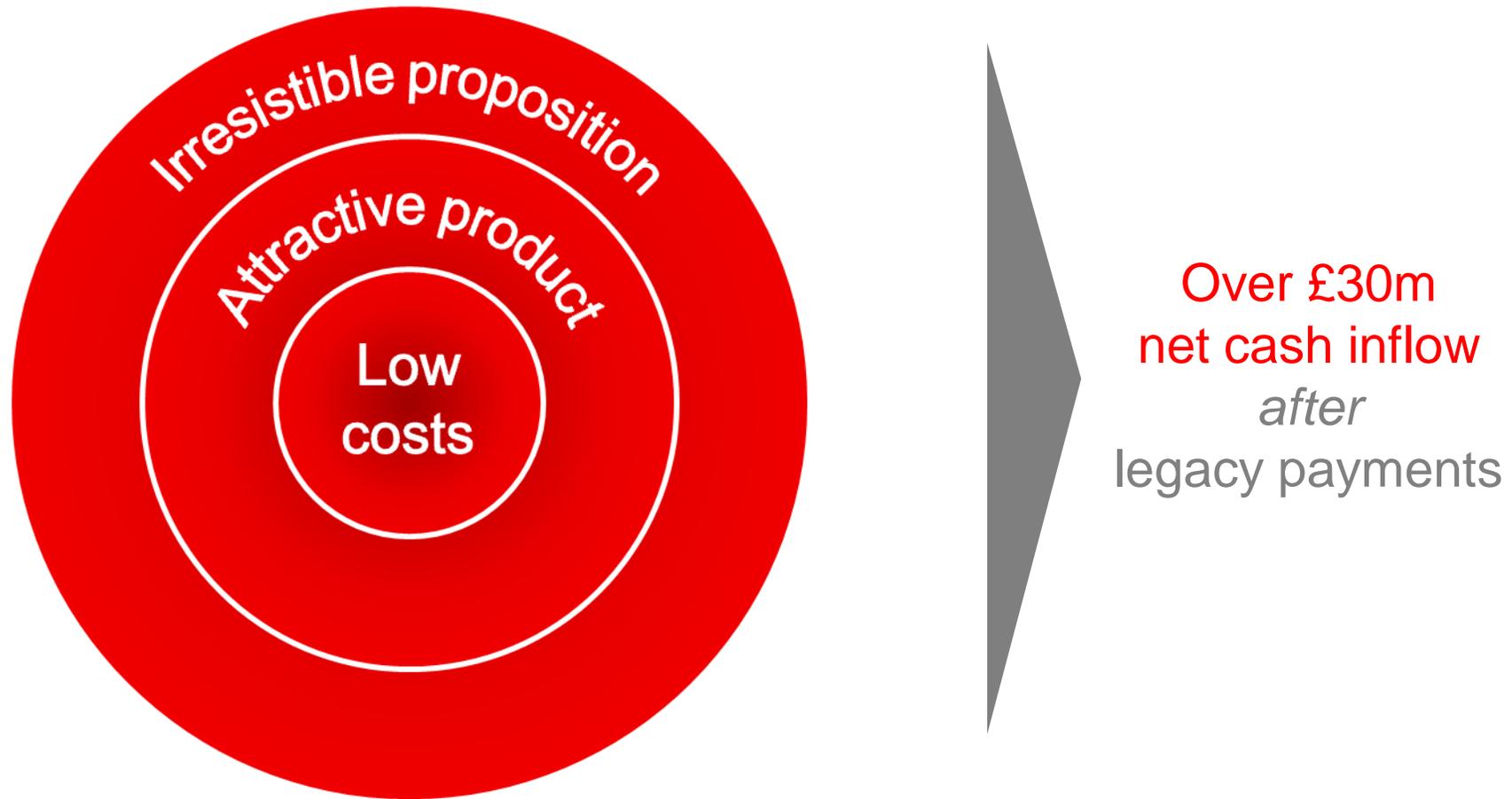
# The key features of Howdens

Focused  
entirely  
on the  
small  
builder

Cash-generative  
Market-beating  
Vertically functioning  
Low-cost  
Growth prospects

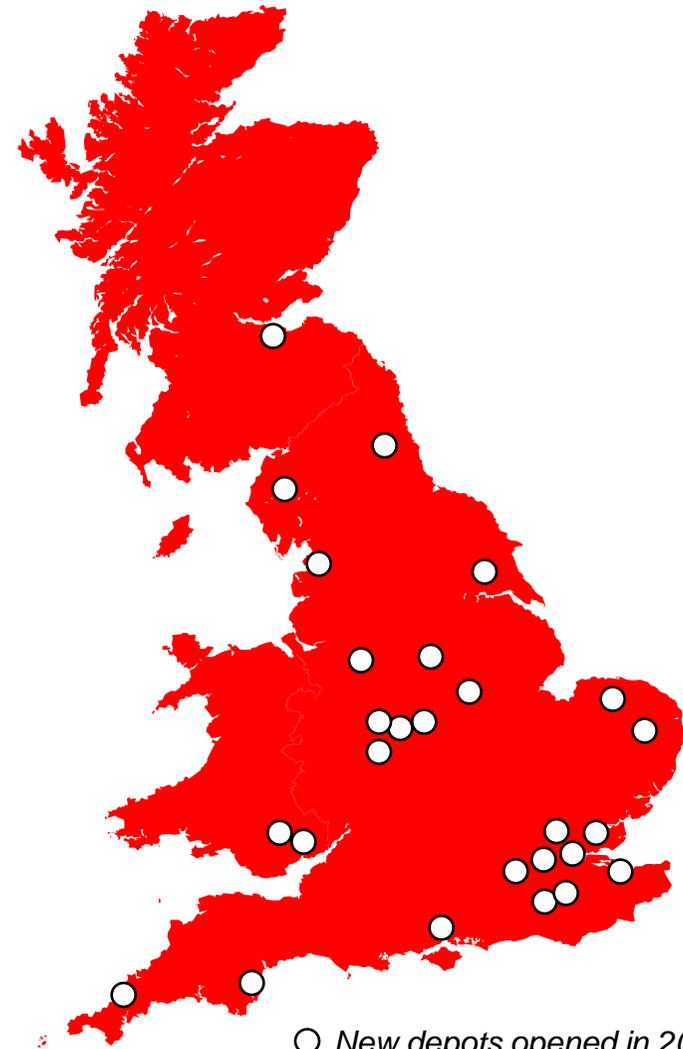
A defining  
culture

# The importance of cash generation



# Successful depot openings

- 27 new depots opened in 2010
- 489 total depots
- Locally managed
- Locally staffed
- Locally incentivised



○ *New depots opened in 2010*

# Active management of trade accounts



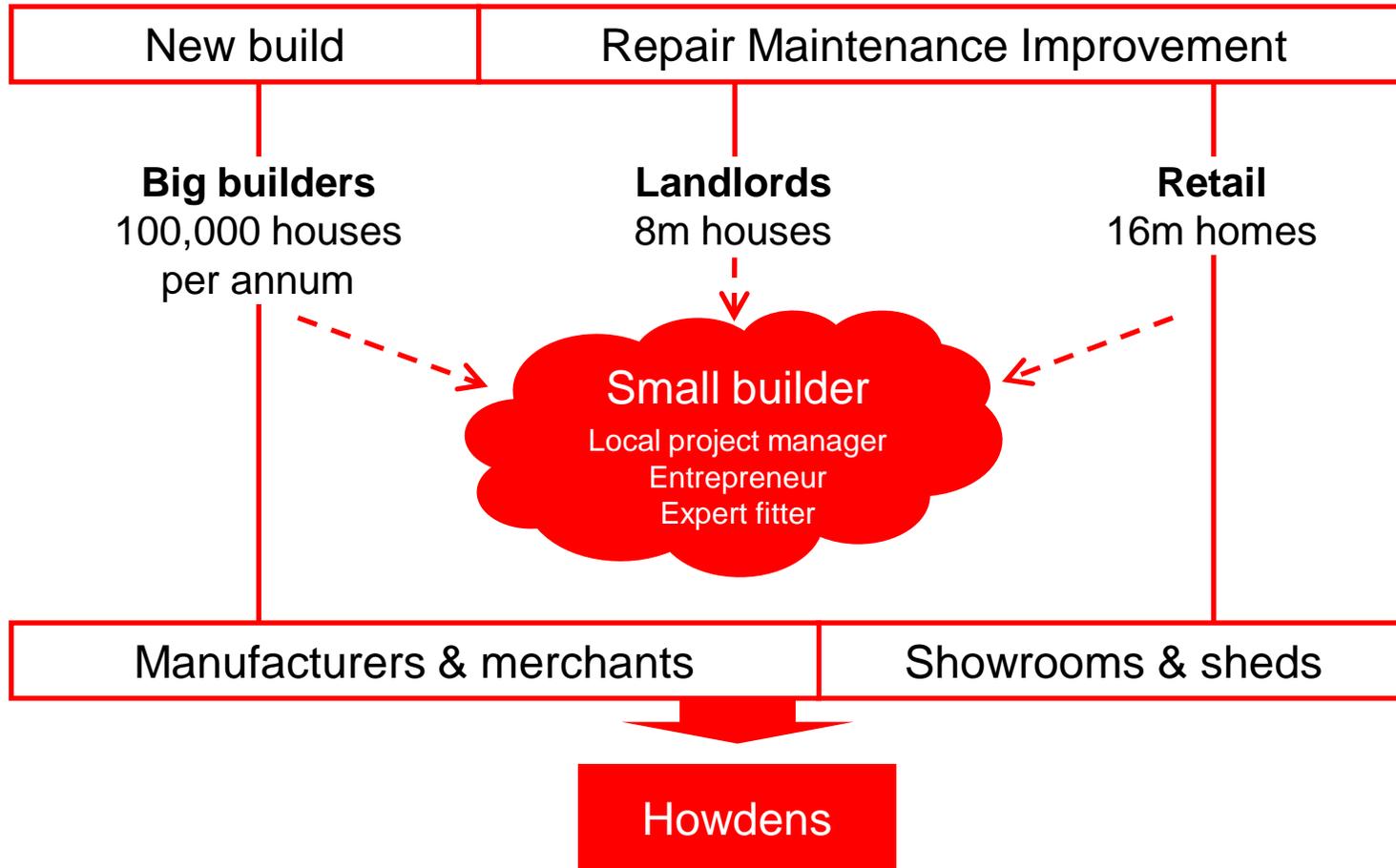
- Focus on opening trade accounts
- 20,000 net new accounts
- 200,000 active credit accounts
- Accounts closed after 15 months of inactivity
- Limited exposure to any one customer
- Cost of managing accounts, including bad debts = 1.5% of sales

# Supplying what the small builder wants

- ➔ Well designed
- ➔ Easy to sell
- ➔ Attractive
- ➔ Good quality
- ➔ Robust
- ➔ Relevant
- ➔ Available
- ➔ Credit terms
- ➔ Well-priced



# The builder serves all parts of the market



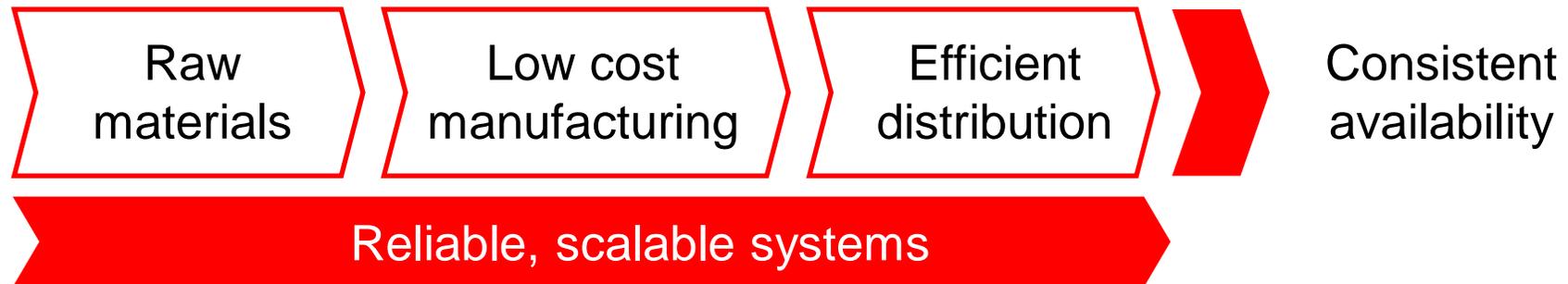
Simple but good and very well done

# New product introduced in 2010

- ➔ 12 new kitchens
- ➔ Product families
- ➔ Standardised range content
- ➔ Improved cabinetry
- ➔ Waste solutions
- ➔ Worktops
- ➔ Appliances
- ➔ Joinery & hardware
- ➔ Flooring
- ➔ **Leading and influencing the market**

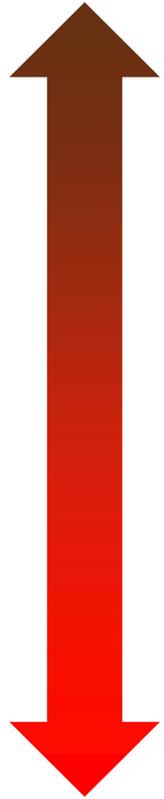


# An effective operation



- ➡ New manufacturing & warehouse management systems
- ➡ Improved stock accuracy
- ➡ Market-leading kitchen design software
- ➡ Sophisticated information systems

# A vertically functioning business



- Continuing to benefit from ownership of manufacturing
  - Source of competitive advantage
- Monitoring further opportunities to improve access to LCP
  - Enhanced margin opportunities
- Ensuring low cost and availability
  - Underpins value to builder

# Howdens is not a retail business



- ➔ High Street rents
- ➔ National advertising
- ➔ Delivery costs
- ➔ Fitters
- ➔ 7-day working
- ➔ Showrooms
- ➔ Stock write-off
- ➔ Stock loss

# The Howdens road to growth

- More of the same
  - More trade accounts
  - More depots
  - Scope for at least 650 depots in all areas
- Long maturity profile offers further opportunities
  - Sales per head
  - Margin
  - Accounts

# Extending the “families” concept

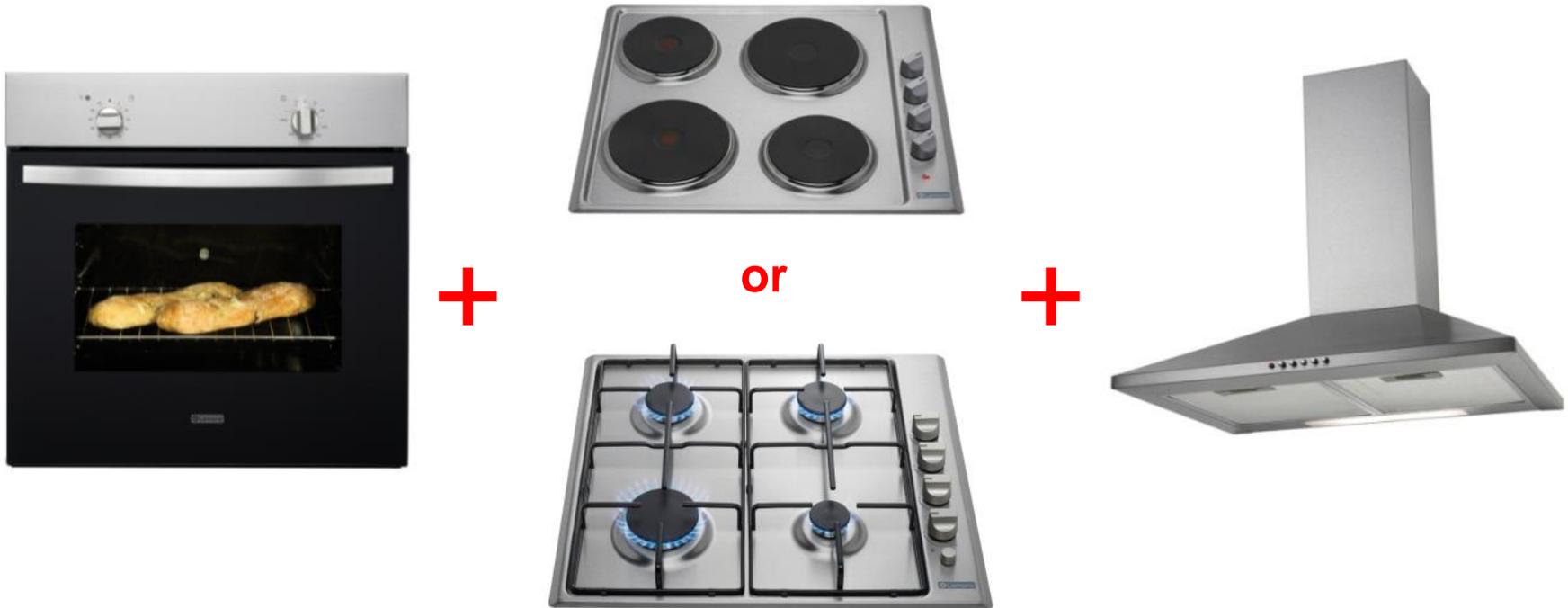
## ➤ Matching product

- Joinery doors
- Architrave
- Skirting
- Hardware



# Developing Lamona, our own brand

➡ Encouraging results from new appliance packs



# The Lamona roadshows



- ➔ Selling a competitive product with confidence
- ➔ Margin opportunity for the builder

Chef John Topham with the basic Lamona oven

# Extending our appliance ranges in 2011



Taps

Sinks

Worktops

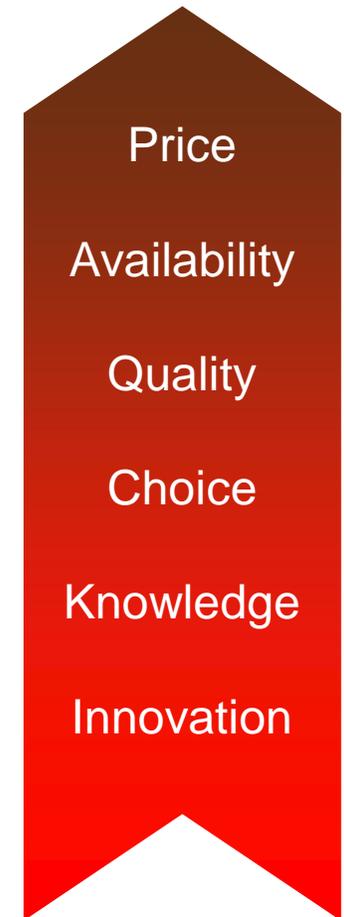
Lighting

Flooring

Waste

# Principles of new product introduction

- ➡ Is it wanted and needed in the home?
- ➡ How does it help the builder?
  - ➡ Is it easy for him to sell and fit?
  - ➡ Does it help him make money?
- ➡ How does it complement our existing product?
- ➡ Can we guarantee consistent:
  - ➡ Quality?
  - ➡ Availability?
  - ➡ Value?
- ➡ Can we make and sell it in volume?



# Further opportunities to enhance value

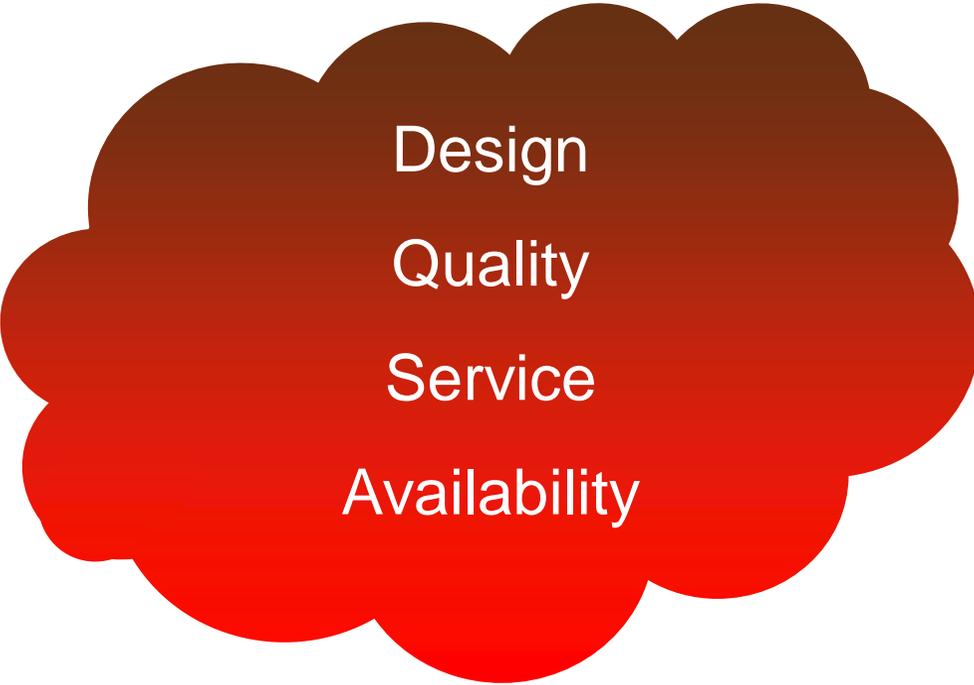
- Use cash to eliminate legacy
- Strengthen position of business as it emerges from restructuring
- Continuing to invest to secure growth
  
- Understand why focus on builder has proved so successful
  - Any other areas must possess similar margin and cash characteristics

# Howdens' culture is the key to continuing growth

- ➔ Each **individual** is important
- ➔ Everyone must be **clear** about the objective
- ➔ Everyone is **motivated** to achieve it
- ➔ Everyone is **allowed** to work out the best way of doing so
- ➔ Networks of partnerships harnessed to drive growth



# Summary



Design  
Quality  
Service  
Availability



Supply efficiencies  
Margin development



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