



HOWDENS

JOINERY CO.

Making kitchens work for you

2013 Preliminary Results

27 February 2014



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Matthew Ingle
Chief Executive Officer

A proven strategy underpins our success

➤ The Howdens model works:

- Highly profitable
- Cash-generative

➤ Focus on what we do well:

- Local service and value
- Consistently delivered
- By individuals



Our mission is our model

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



HOWDENS

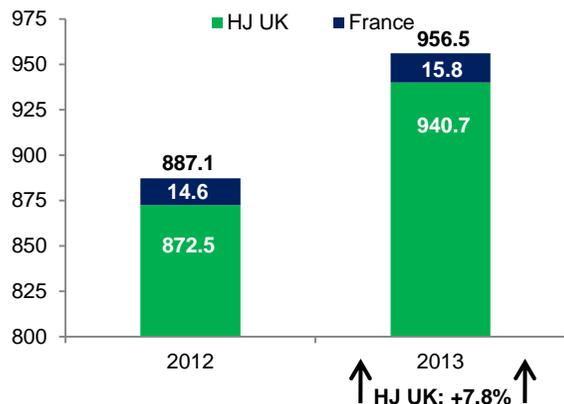
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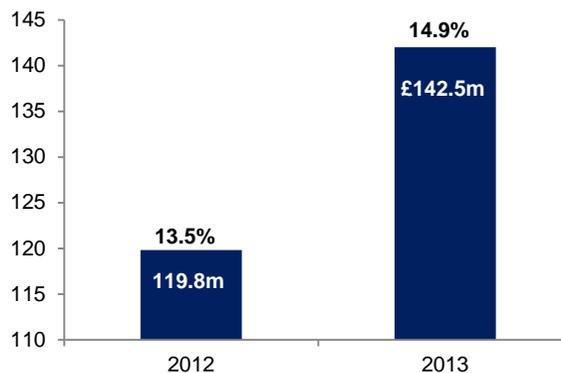
Mark Robson
Chief Financial Officer

Highlights

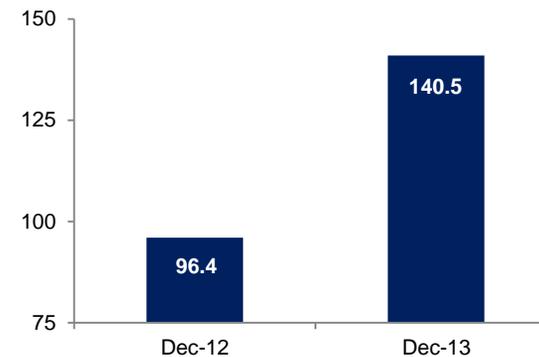
Revenue, £m



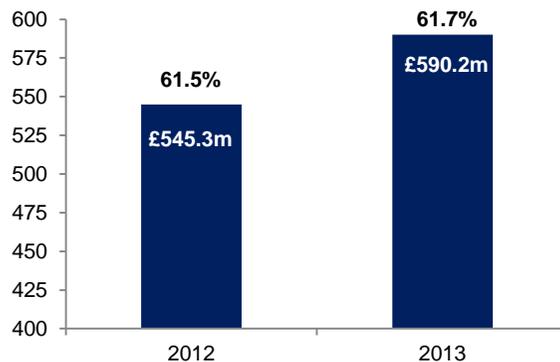
Operating profit



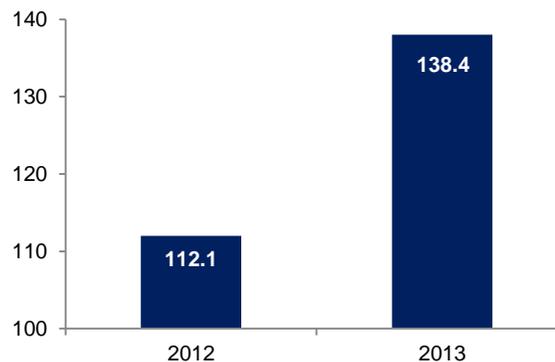
Net cash, £m



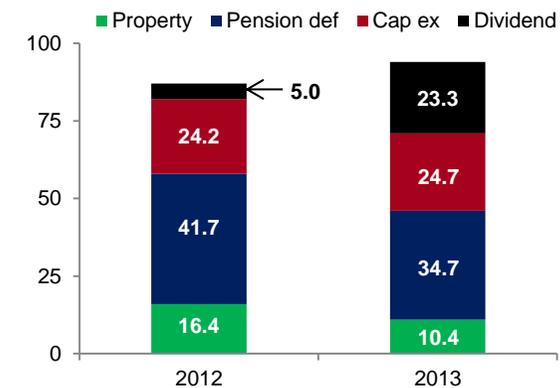
Gross profit



Profit before tax, £m



Uses of 'cash', £m



Full year dividend of 5.5p per share recommended (2012: 3p)

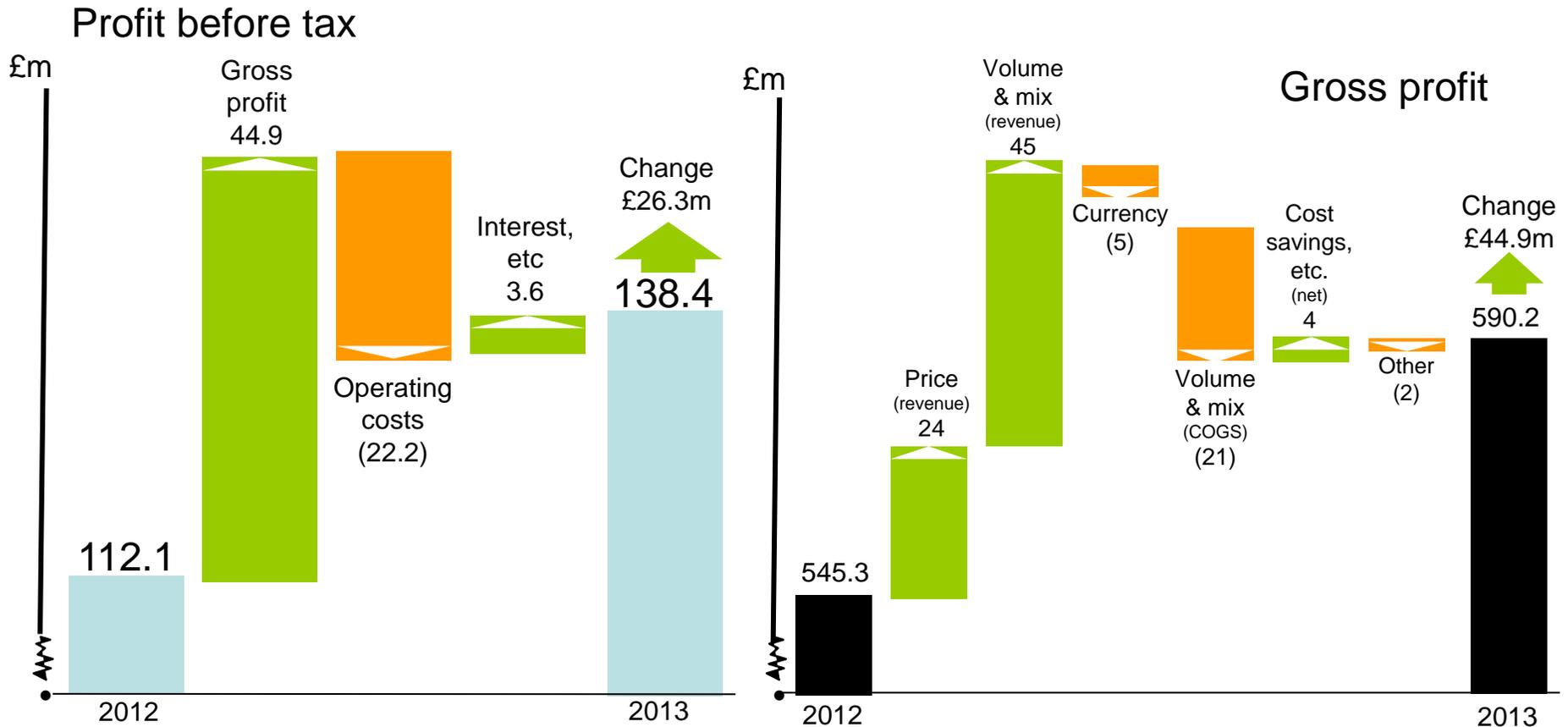
Revenue

2013 UK depot revenue £940.7m
• total +7.8% • LFL +5.6%

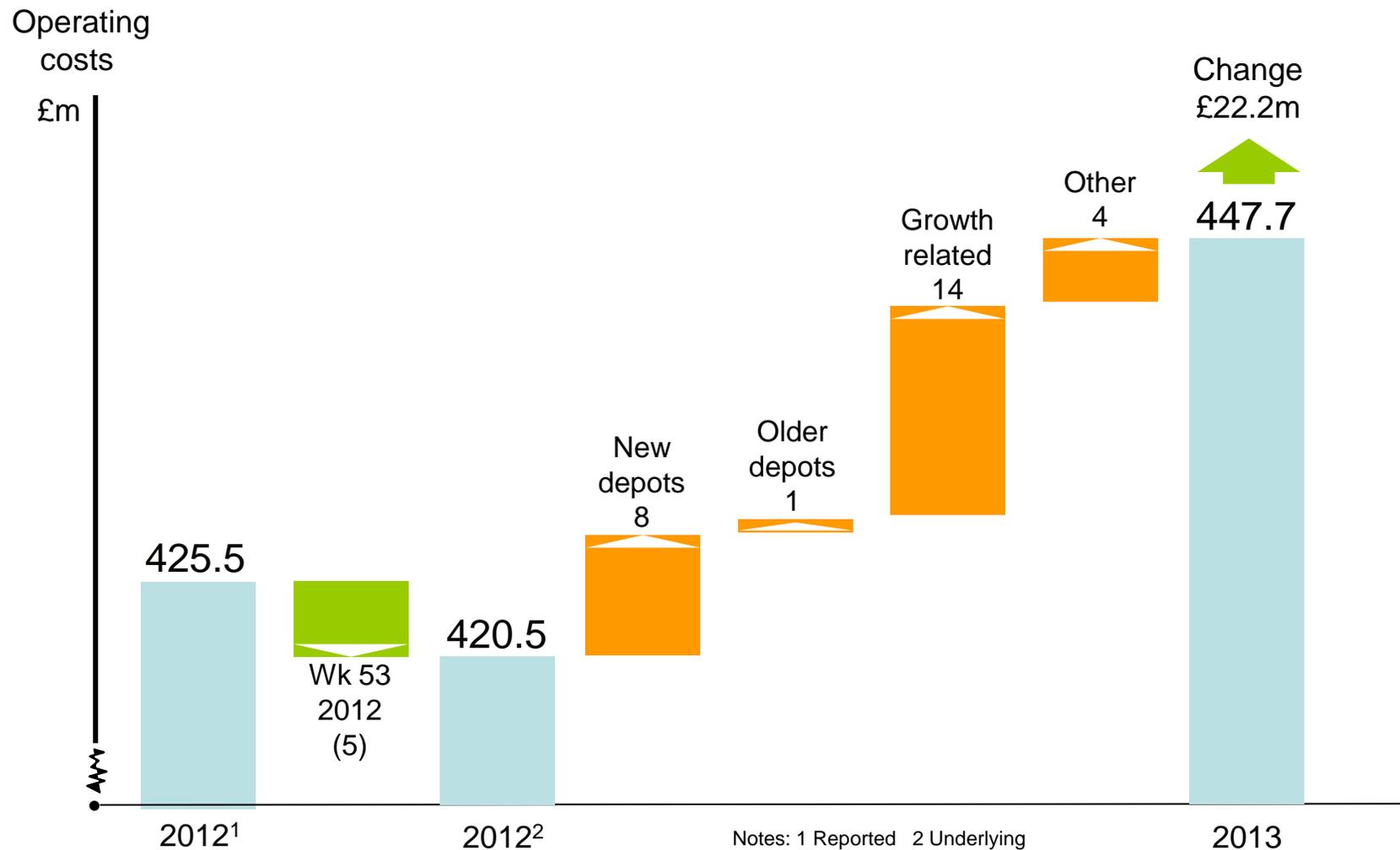
2013 French depot revenue £15.8m
• +0.7% LFL in €s

Profit before tax (continuing operations)

Group gross profit margin
 • 2013: 61.7% • 2012: 61.5%



Operating costs



Income statement (continuing operations, pre exceptionals^{1 2})

£m	2013	2012
Revenue	956.5	887.1
Cost of goods sold	(366.3)	(341.8)
Gross profit	590.2	545.3
Operating costs	(447.7)	(425.5)
Operating profit	142.5	119.8
Net interest	(4.1)	(7.7)
Profit before tax	138.4	112.1
Tax	(34.6)	(24.1)
Profit for the period	103.8	88.0

1 An exceptional pre tax operating cost of £4.5m was incurred in 2013 - there were no discontinued operations in 2013.

2 In 2012, there was a loss from discontinued operations before tax of £4.4m.

Earnings per share and dividend

£m

2013

2012

Earnings per share before exceptional items

- from continuing operations **16.3p** 14.0p

Dividend

- 2.5x to 3x eps cover

- final (recommended) **4.5p** 2.7p

full year **5.5p** 3.0p

- 2013 final dividend costing £28m

Net cash and cash flow

£m	2013	2012
Opening net cash	96.4	57.1
Operating cash flows before movements in working capital	169.6	138.3
Working capital	(11.8)	2.1
Capital expenditure	(24.7)	(24.2)
Tax paid	(21.0)	(16.9)
Dividends	(23.3)	(5.0)
Legacy properties	(10.4)	(16.4)
Pension deficit contribution	(34.7)	(41.7)
Exceptional items	(4.5)	(0.5)
Other	4.9	3.6
Closing net cash	140.5	96.4

Working capital

▶ Working capital up £11.8m

- stock up £7.5m
- debtors up £26.4m
- creditors up £22.1m

Reducing our legacy property liabilities

➡ Six leases terminated in 2013

- £7.5m cost

➡ One lease expired in 2013 + one expired in 2014

➡ Eight properties remain

- <£2m net annual rent and rates

Pension scheme deficit



Current trading and outlook for 2014

➡ Sales in first period two periods up 7.3%

➡ Outlook for rest of year:

- improvement in market conditions continues
- expectations for the year unchanged

➡ Continue to invest in growth

- up to 30 new depots

➡ Will take timely actions



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Life happens in the kitchen

- Cooking...
- Eating...
- Washing up...
- Rubbish...
- Laundry...
- Mending...
- Decorating...
- Teaching...
- Reading...



Life happens in the kitchen

- Computer...
- Shopping...
- Plans...
- Tickets...
- TV...
- Music...
- Discussion...
- Decisions...



Focused on the needs of small, local builders

- ➔ Very local depots
 - Saving time and money
 - Trade environment
 - Familiar faces
 - Everything in stock all the time
 - Rigid cabinets
 - Good design and quality at all price points



Expert kitchen planning service

➔ Differentiated by quality

- Over 1,000 experienced designers
- Industry-leading CAD planning software
- Detailed visualisation of kitchen
- Accessible to builder and end-user



Reliable, local service

- ➔ Fitting advice
- ➔ Individual service
- ➔ Help with delivery
- ➔ Can swap items
- ➔ Discount = margin
- ➔ Credit = cashflow



Serving customers in St. Helen's depot

Local autonomy is the key to depot success

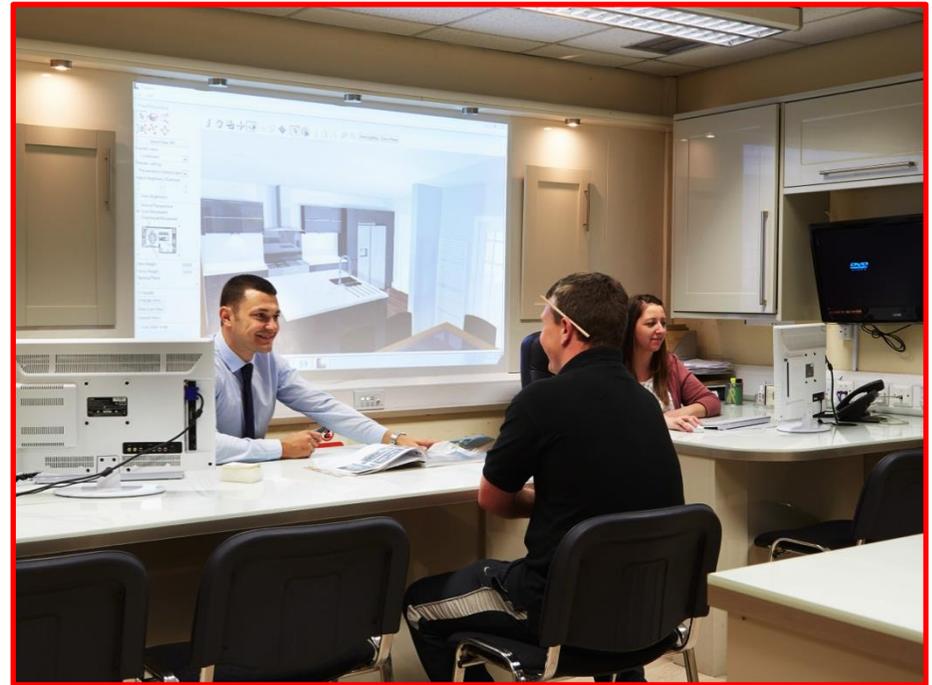
- ➔ Managers run their own businesses
 - Highly incentivised
 - Profit-sharing for depot teams, plus targeted initiatives
- ➔ Focused incentives throughout Howdens
- ➔ Incentives aligned with overall business objectives



The Blyth depot team

The typical Howdens depot

- ➔ 10,000 sq ft
 - 80% warehousing, plus:
 - Displays
 - Trade counter
 - Planning office
- ➔ Newly fitted CAD offices
 - HD projectors
 - Large screens
 - A3 printers



New CAD planning office in St. Helen's depot

The importance of customer accounts

- ➔ 290,000 credit accounts
 - 20,000 net new accounts opened in 2013
- ➔ Actively managed
 - Accounts closed after 15 months of inactivity
- ➔ Tight credit control
 - Total cost of credit control (including bad debts) = 1% of sales



At the counter in Kettering depot

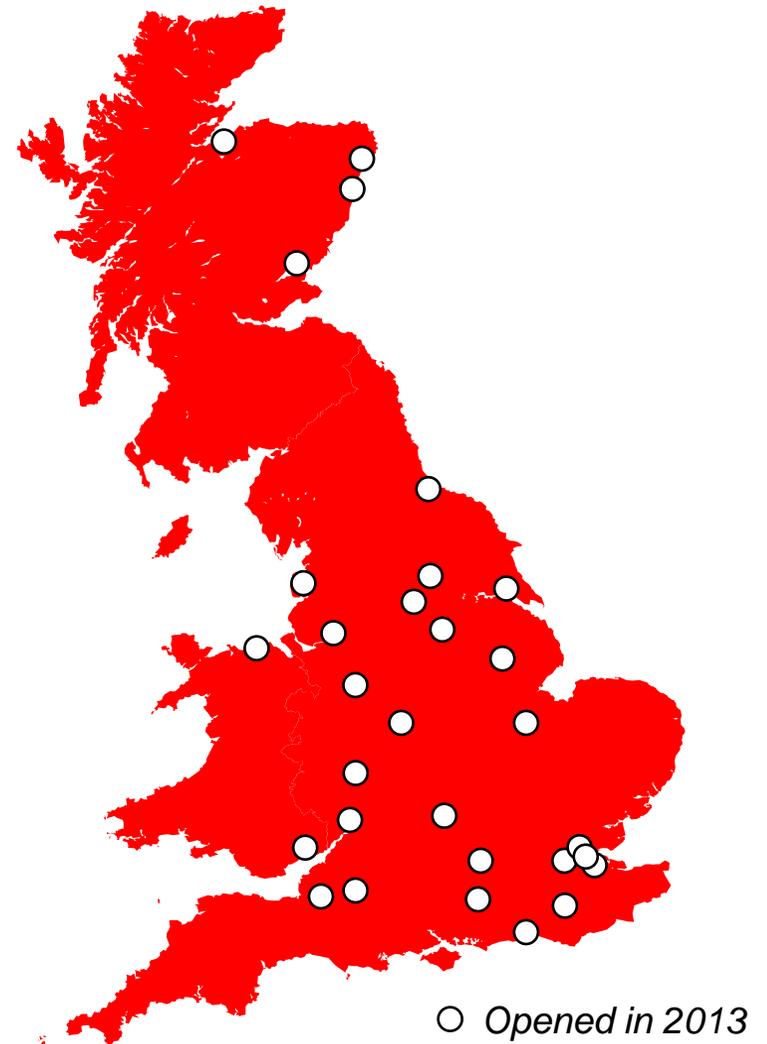
Our growing network of local depots

➤ 559 depots

- 30 opened in 2013
- Up to 30 more planned for 2014

➤ Low-cost model

- Average rent c. £5.50 per sq.ft
- One-off fit-out, c. £180k - £300k, now including:
 - Mezzanine level
 - Better racking
 - New CAD office
- Depots break even at sales of c.£650,000 p.a.



Howdens King's Cross depot



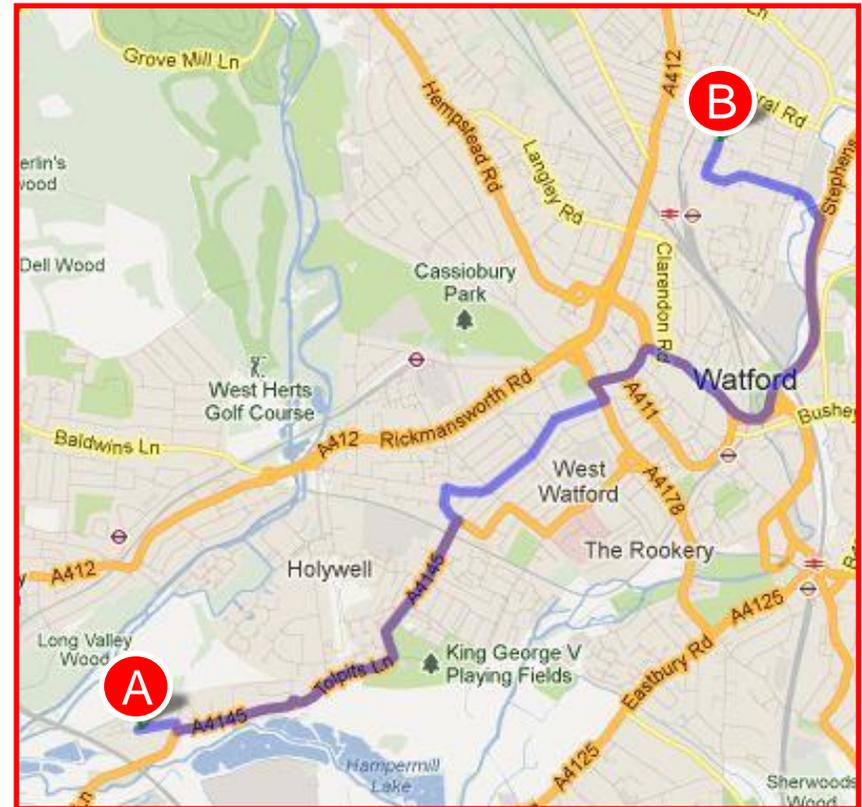
- *Opened late 2013*
- *Complex site*
- *One-off fit-out cost £400k*

The value of best demonstrated practice (BDP)

- ➡ Opportunities for growth within each depot' s P&L account
 - Sales
 - Profit
 - Sales per head
 - Sales per account
 - Appliance penetration
 - Cost recovery
 - Etc...
- ➡ Performance comparison across similar size catchment areas
- ➡ Staying focused on what works

Tapping into latent, local demand

- ➔ More depots = more sales and profits from one area
 - E.g. Watford (1995), plus North Watford (2011)
 - After two full years of trading:
 - Sales + 54%
 - Profit contribution + 45%
- ➔ Continuing to invest in local service



A: Howdens Watford
B: Howdens North Watford

Test depots in France progressing well

- ➔ 11 depots in the Paris region and the North East
 - Profitable at depot level
 - Monitoring effects of new price / discount structure
- ➔ Continuing to learn more about the French market



A constant flow of new product

Relevant = will sell

- 17% of 2013 sales came from product launched since the start of 2012

Product roadshows

- 1,000 designers
- 559 depot managers
- Direct feedback



Howdens product roadshow, January 2014

Increasing popularity of gloss finishes

40% of sales by value

- New, lower-cost gloss technologies
- Success of our competitively priced Greenwich Gloss
 - Sustaining margin growth
 - Trend to solid colours (75% of all kitchen sales)
 - Rollout of more gloss colours in H1 2014



Greenwich Gloss Cream

Joinery doors at all price points

Genoa door rolled out to all depots in April 2013

- Immediately popular
- Complements our best-selling Dordogne model
- Ensures the builder can continue to serve all parts of the market



*Dordogne
Slab door, 35 kg
10mm deep grooves*



*Genoa
Stile and rail door, 25 kg
4mm deep grooves*

Building on Lamona's strong position

Full range of appliances

- 2-year warranty as standard

No.1 UK sellers:

- Single oven (70,000 sold in 2013)
- Dishwasher
- Fridge-freezer
- Built-under fridge



Stainless steel oven



Stainless steel extractor



Stainless steel hob

Increasing brand awareness

Lamona / Howdens cookbooks

- 637,000 copies of 7 books distributed since May 2011

- Popular with builders and end-users

- New series for 2014

Brand associations

- E.g. Emma Bridgewater



Emma Bridgewater for Howdens



Our own cookbooks

An efficient, low-cost supply operation

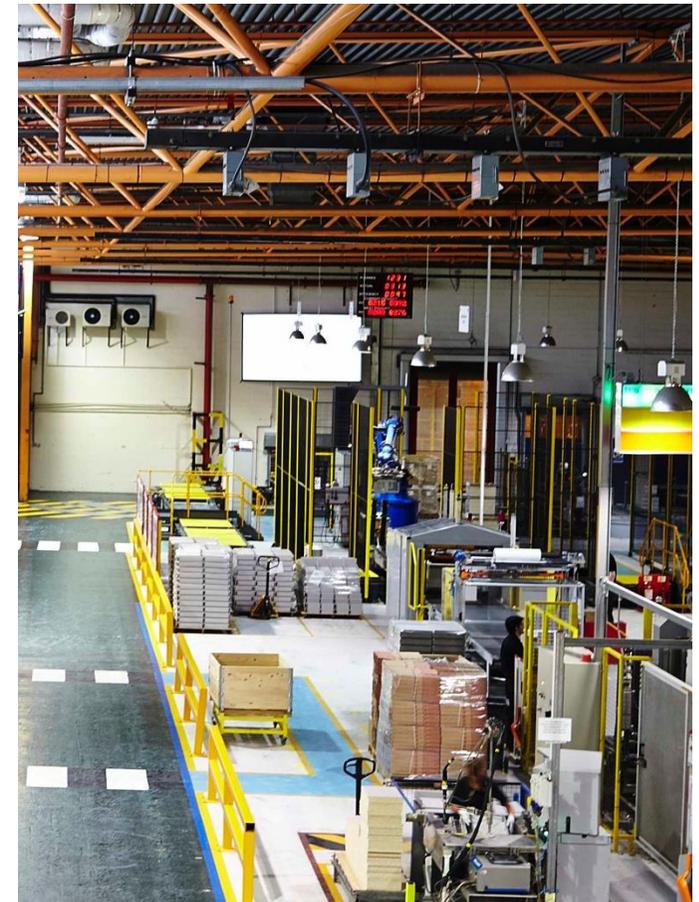
- ➔ Sourcing raw materials and bought-in product
- ➔ Product design and development
- ➔ Manufacturing
- ➔ Logistics
- ➔ Warehousing
- ➔ Distribution to 559 depots
- ➔ The builder is paying for service he can rely on



Make and buy in
large volumes =
lowest cost
supply and
service

The benefits of our £20m manufacturing investment

- ➔ New lines fully commissioned
- ➔ Control of our own manufacturing at significant scale
 - Capacity
 - Low cost
 - Availability
 - Quality
 - Margin
 - Service

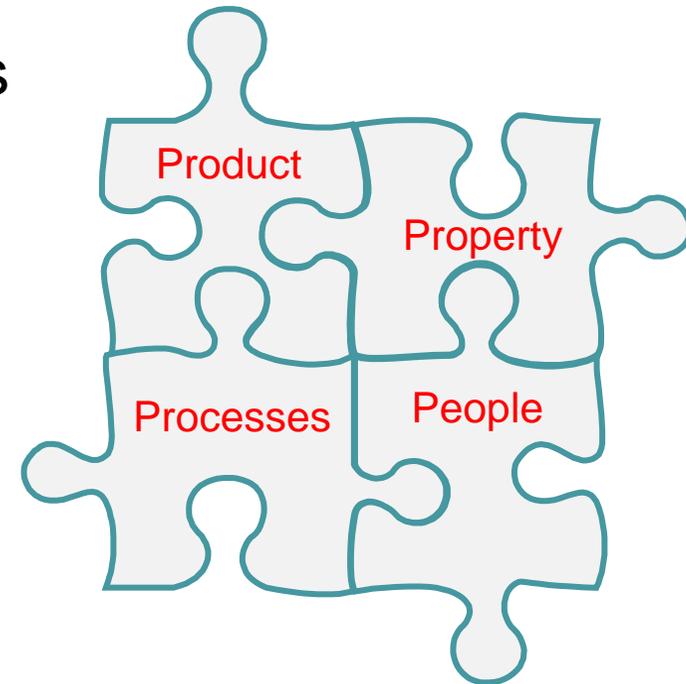


Runcorn

Continuing investment to support growth

- ➔ Long term supplier agreements
- ➔ Robust, scalable, flexible systems

Continuing to invest in:



- ➔ Managing complexity at scale in a sophisticating market

Managing stock as Howdens grows

- ➡ Invest in the **right** stock to support Howdens service proposition
- ➡ Making arrangements for new national distribution capacity beyond 2019
 - Expect to remain in Northampton area
 - reflecting weighting to South rather than North
 - Major infrastructure project
 - careful planning under way

Further investment in people

- Local service is a powerful source of competitive advantage
- Continuing to invest in:
 - Recruitment
 - Talent development
 - Understanding
 - Incentivisation
- “As good as it ever was...” – an innovative concept



“As good as done!”



Worthwhile for all concerned

Howdens is growing because its strategy works

- Clear strategy
- Proven model
- Value of local service
- Profitable and cash-generative

**Prepared
for further
growth**

Doing what we do well, and doing it even better



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