# HOWDEN JOINERY GROUP PLC

## 2017 PRELIMINARY RESULTS

HOWDENS
JOINERY CO.

## SUMMARY OF GROUP RESULTS[1]

| £m | **2017** | 2016 |
|---|---|---|
| Revenue | | |
| - Group | **1,403.8** | 1,307.3 |
| - Howden Joinery UK depots | **1,372.0** | 1,281.7 |
| Gross profit | **888.4** | 839.9 |
| Gross profit margin, % | **63.3** | 64.2 |
| Operating profit [2] | **234.4** | 237.2 |
| Profit before tax | **232.2** | 237.0 |
| Basic earnings per share | **29.9p** | 29.5p |
| Dividend per share | **11.1p** | 10.7p |
| Net cash at end of period | **241.1** | 226.6 |

[1] *The information presented here relates to the 53 weeks to 30 December 2017 and the 52 weeks to 24 December 2016, unless otherwise stated.*
[2] *Howdens' 2017 financial year included an extra 53rd week from 25 December to 30 December, which increased operating costs by approximately £8.0m, but did not contribute to revenue due to the Christmas period.*

### Chief Executive, Matthew Ingle, said:

"Howdens delivered a positive set of results in 2017, with sales increasing by 7.4% to £1.4bn. Although gross profit increased year-on-year, as expected, we saw currency headwinds and additional operating costs, including those related to a 53rd week, impact year-on-year profitability.

"The service proposition that Howdens provides to our small builder customers is supported by the unique combination of our locally empowered depots and our supply operations. In 2017, our supply chain enabled us to bring 26 new kitchen ranges to market and refresh our ranges of appliances and fittings, providing a key driver for our sales growth in our depots during the year. We also saw a strong volume response to our sales initiatives as we continue to adapt our pricing to meet a changing market.

"We continue to invest in all aspects of the business to ensure their resilience and in order to have sufficient capacity to take advantage of the opportunities we see before us. We upgraded our manufacturing capabilities in Howden and Runcorn during the year. Our new distribution facility at Raunds was operational for bulk storage in our key trading period in October and will be fully ready for our peak trading period this year. We will continue to refresh our product offering and expect to bring 19 new ranges to market during 2018.

"At present, we see the robust sales performance of the second half of 2017 continuing into 2018. We believe that current market conditions are stable, although we remain watchful given continuing economic uncertainties."

### Financial highlights[1]:

- Howden Joinery UK depot revenue increased by 7.1% to £1,372.0m (up 5.2% on same depot basis[3]). Group revenue was £1,403.8m (2016: £1,307.3m);
- Gross profit margin 63.3% (2016: 64.2%), including £15m of currency impact;
- Operating profit £234.4m (2016: £237.2m), reflecting expected additional costs due to new product introductions, our new distribution centre at Raunds, additional depreciation, pensions and 53rd week operating costs;
- Profit before tax £232.2m (2016: £237.0m)
- Basic earnings per share of 29.9p (2016: 29.5p);

- Net cash of £241.1m at year-end (24 December 2016: £226.6m), after £116.3m was returned to shareholders by way of a share repurchase programme and dividends;
- A further £60m share repurchase programme to take place during next two years; and
- Final dividend of 7.5p recommended, with full year dividend of 11.1p per share (2016: 10.7p) an increase of 3.7% year-on-year.

**Business developments**

- 19 new depots opened in the UK during 2017, with one opened in early 2018, bringing total to 662; and
- Capital expenditure of £48.5m (2016: £63.5m) as we continued to invest in supply operations to support further growth and increase resilience.

**Current trading**

- Howden Joinery UK depots have seen a continuing good sales performance in the first two periods of our new financial year.

[3] This excludes depots opened in 2016 and 2017.

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**Note to editors:**

Howden Joinery Group Plc is the parent company of Howden Joinery (Howdens). In the UK, Howdens is engaged in the sale of kitchens and joinery products to trade customers, primarily small local builders, through approximately 660 depots. Around one-third of the products it sells are manufactured in the company's own factories in Runcorn, Cheshire, and Howden, East Yorkshire. The business also has nascent operations in France, Belgium, Holland and Germany.

Please see for more information: www.howdenjoinerygroupplc.com

# FINANCIAL REVIEW

## FINANCIAL RESULTS FOR 2017[1]

### REVENUE

| Revenue £m | 2017 | 2016 |
|---|---|---|
| Group: | **1,403.8** | 1,307.3 |
| Howden Joinery UK depots | **1,372.0** | 1,281.7 |
| Howden Joinery continental Europe depots | **31.8** | 25.6 |

*[1] The information presented here relates to the 53 weeks to 30 December 2017 and the 52 weeks to 24 December 2016, unless otherwise stated.*

Total Group revenue increased by £96.5m to £1,403.8m. Howden Joinery UK depot revenue rose by 7.1% to £1,372.0m (2016: £1,281.7). UK revenue increased by 5.2% on a same depot basis to £1,340.6m in 2017 (2016: £1,274.6m). This excludes the additional revenue from depots opened in 2016 and 2017 of £31.4m in 2017 (2016: £7.0m).

Revenue growth in the UK reflected the growth in maturing and new depots, in addition to sales growth from mature depots. We saw weakness in the London area being offset by stronger performance elsewhere during the first half of 2017, while we saw stronger revenue growth in all areas during the second half of the year, in part reflecting the weaker comparatives from a period of slower trading that was seen in the second half of 2016.

Sales in continental Europe rose by £6.2m to £31.8m, reflecting same depot growth, the benefits of foreign exchange and the contribution of the new outlets opened during 2016. In Euros, sales of the French depots increased 11.1% and by 6.4% on a same depot basis.

### GROSS PROFIT

Gross profit increased by £48.5m to £888.4m. The gross profit margin for the year was 63.3% (2016: 64.2%) and reflected the impact of our sales initiatives, inflationary pressures and the impact of adverse currency movements (one third of our cost of goods sold being denominated in Euros or US dollars).

### OPERATING PROFIT

Selling and distribution costs and administrative expenses (SD&A) were £654.0m (2016: £602.7m). As expected, costs increased due to new product introductions and new services, our new distribution centre at Raunds, additional depreciation due to our investment programme, pension costs, and extra operating costs due to a 53rd week of trading. We also saw the impact of inflation in our cost base.

For 2017, Howdens reports 53 weeks of trading, including the week between Christmas and New Year, when depots are closed while incurring ongoing costs. The inclusion of a 53rd week in 2017 increased operating costs by approximately £8.0m, but did not contribute to revenue.

As a result, our operating profit declined slightly to £234.4m (2016: £237.2m).

### PROFIT BEFORE AND AFTER TAX

The net interest charge was £2.2m (2016: £0.2m), reflecting a £2.4m finance expense in respect of pensions. Profit before tax was £232.2m (2016: £237.0m).

The tax charge on profit before tax was £47.2m (2016: £51.4m), representing an effective rate of tax of 20.3% (2016: 21.7%). The tax rate has declined mainly due to a reduction in the statutory rate.

Reflecting the above and the reduced share count following share repurchases, basic earnings per share were 29.9p (2016: 29.5p).

## PENSIONS

At 30 December 2017, the pension deficit shown on the balance sheet was £109.3m (24 December 2016: £106.0m). The increase in the deficit was due to higher liabilities arising primarily from a decrease in the discount rate of £79.0m, partly offset by both the Group's £41.4m contribution to fund the deficit and by positive asset returns.

In July 2015, we announced that agreement had been reached with the Trustees in relation to the schedule of payments towards the funding of the Group's defined benefit pension scheme's deficit from April 2015. It was agreed that the Group would continue to make deficit contributions equivalent to £35m per annum until 30 June 2017. It was also agreed that the Group would make an 'interim' payment of £25m over the period July 2017 to June 2018, which resulted in a total deficit contribution of £30m in the 2017 financial year.

The last completed triennial actuarial review of the defined benefit pension scheme was carried out as at April 2014 and the valuation as at April 2017 is in progress and expected to complete in 2018.

## SHARE REPURCHASE

As part of the £80m share repurchase programme announced in February 2017, the Group acquired 11.2m shares, to 30 December 2017, for a consideration of £48m.

## CASH

There was a net cash inflow from operating activities of £176.7m (2016: £207.2m), after the cash contribution to the Group's defined benefit pension scheme.

Working capital increased by £26.9m, mainly due to an increase in stock following the increased roll out of new ranges in 2017. In addition, net tax paid totalled £41.8m (2016: £28.8m).

Payments to acquire fixed assets totalled £48.5m (2016: £63.5m). Fixed asset spending was less than anticipated during 2017 due to the timing of some projects (which will now be undertaken in early 2018) and fewer than expected depot rollouts.

Reflecting the above, together with dividend payments referred to below, there was a net cash inflow of £14.5m in 2017, the Group having net cash of £241.1m at the end of the year (24 December 2016: £226.6m net cash).

## DIVIDEND

The Group's dividend policy is to target a dividend cover of between 2.5x and 3.0x, with one third of the previous year's dividend being paid as an interim dividend each year.

Given the operational performance of the business in 2017 and taking account of the additional costs due to the 53rd week, the Board has recommended to shareholders a final dividend of 7.5p (2016: 7.4p), giving a total dividend for the year of 11.1p (2016: 10.7p), an increase of 3.7%, equating to a dividend cover of 2.7x.

The final dividend payment of 7.5p per share will, if approved by shareholders, be paid on 22 June 2018 to shareholders on the register at close of business on 25 May 2018.

## CASH BALANCE

As previously stated, the Board intends to target a capital structure that is both prudent and recognises the benefits of operational and financial leverage, and that, after considering our capital requirements, will return surplus cash to shareholders as appropriate. The Group has significant property leases for the depot network and continues to have a material deficit in the Group pension fund. Taking into account this underlying level of gearing, the Board believes it is appropriate for the Group to be able to operate through the annual working capital cycle without incurring bank debt.

The Board has reviewed the cash balances in light of the Group's future investment opportunities, expected peak working capital requirements, trading outlook and increased dividend payment. As a result, it has decided to complete the remaining £32m of the £80m share buyback programme announced in February 2017 and to implement a further share buyback programme of £60m to be completed during the next two years.

Shares that were bought in the market by our brokers during 2017 were cancelled.

# OPERATIONAL REVIEW

The business model of Howden Joinery is: "To supply from local stock nationwide the small builder's ever-changing, routine, integrated kitchen and joinery requirements, assuring best local price, no-call-back quality and confidential trade terms … and to provide the builder's customer with enough choice, advice and aftersales to make a home to be proud of".

We continue to invest in all aspects of the growth and performance of the business, including new depots and depot operations, new and existing employees, product development, and manufacturing and distribution. We continue to see the opportunity to increase the scale of the business and see scope for up to 800 depots in the UK.

## UK DEPOT ROLLOUT AND OPERATIONS

During 2017, 19 new depots were opened, bringing the total number of depots trading at the end of the year to 661. In addition, eight depots were relocated and 14 were extended. A number of other depots are at various stages of the acquisition/shopfitting process and we expect to open up to 30 new depots in total during 2018.

Our account base was flat on the year, standing at approximately 464,000 at year end, while revenue per account grew. Our debt collection performance continues to be robust.

## PRODUCT AND MARKETING

We continue to enhance our product offering and introduced 26 new kitchen ranges during 2017. These included 11 new grey kitchens (across four different shades of grey) as the trend for this colourway continues. We have 56 current ranges on offer in our depots at the end of February 2018.

New product initiatives and launches in 2017 included:

- Clerkenwell ranges in gloss and matt colourways;
- a new Allendale family, a lower priced alternative to the successful Fairford (textured shaker) collection;
- an enhanced rigid cabinet platform and Technik (flat pack) offering;
- an updated design of our Lamona appliance range;
- a continued roll-out of quartz worktops;
- an extended collection of pre-finished doors;
- improved quick fit hardware; and
- new vinyl flooring products.

We expect to bring 19 new ranges to market during 2018, including five new kitchen families across various price points, finishes and colours, as well as a new grey oak cabinet to complement these new ranges.

## MANUFACTURING AND LOGISTICS

Our UK-based manufacturing and logistics operations are vital in enabling us to supply our small builder customers from local stock nationwide at all times. This requires us to have the scale, space and flexibility to respond to each depot's individual needs, especially during our critical 'Period 11', when sales are more than double the level in other periods.

During 2017 a number of the investment projects progressed as follows.

- **Manufacturing operations**

  At our Howden site, our new cabinet production facility and assembly lines were fully installed and commissioned, as was our new cabinet component line at Runcorn. We expect to complete the production ramp-up at both sites during 2018.

- **Logistics**

  A 650,000 sq ft warehouse near Raunds, which is to the east of our current national distribution centre in Northampton, was handed over to us in 2016. During 2017, we completed IT systems integration and undertook tests to distribute product from Raunds to a number of depots. The facility is currently being used for bulk storage and was utilised during Period 11 in 2017.

  We expect to migrate the majority of distribution capabilities to this site during 2018 and will use our previous distribution facility at Northampton for bulk storage once the transfer has been completed.

  We have received full planning permission for a further two distribution facilities at Raunds totaling 950,000 sq ft, which we expect to become operational during 2020. This will enable us to exit the current national distribution centre at Northampton during 2020/2021, while providing Howdens with a strategic replacement asset. We do not expect to incur any capital expenditure on the new facilities until 2019.

- **Information systems**

  We have continued to enhance our deployment of our SAP strategy and have upgraded our core system to run on the latest SAP Hana technology.

## CONTINENTAL EUROPE

We have 20 depots in France, one in each of Germany and The Netherlands, and two in Belgium. Revenue growth in France increased by 6.4% in Euros on a same depot basis and our nascent operations in the other regions are enabling us to gain a greater understanding of each local market.

## CEO RETIREMENT AND APPOINTMENT

On 7 July 2017, it was announced that Howdens' founder and CEO, Matthew Ingle, had decided to retire in the first half of 2018 after 23 years with the Group, to be succeeded by Andrew Livingston, previously CEO of Screwfix Direct Ltd, a division of Kingfisher Plc. Andrew Livingston joined Howdens as CEO Designate on 29 January 2018.

Following a successful transition period, the Board has agreed that Andrew Livingston will become CEO on 2 April 2018. At that date, Andrew will be appointed director of Howden Joinery Group Plc and Matthew Ingle will retire from the Board. Matthew will remain involved with the business until his retirement on 1 August 2018, and beyond in his role as Honorary Lifetime President.

Andrew Livingston is also an independent Non-Executive Director at LondonMetric Property Plc.

Save as noted, there are no disclosures to be made pursuant to Listing Rule 9.6.13 R.

## CURRENT TRADING AND OUTLOOK FOR 2018

Howden Joinery UK depots have seen a continuing good sales performance in the first two periods of our new financial year (to 24 February).

Given the material timing impact of the 53rd week in the 2017 financial year on this reporting period, the pattern of trading year-on-year is not directly comparable, as there is an extra week of trading in the first period of 2018.

Howden Joinery UK depot sales in the first two periods of 2018 increased by 12.5% on the same period last year, excluding the first two weeks of trading. The average annual revenue growth for the same period of trading from 2016 to 2018 was 7.9%.

This sales growth has been driven by an increase in volumes, as we did not implement an annual price increase at the start of 2018, and by the weaker comparative from the prior year period.

### OUTLOOK

The Group believes that the number of depots in the UK can be increased from the 661 operating at the end of 2017 to up to 800 depots. During the course of 2018, we plan to open around 30 depots in the UK, one already having been opened.

We expect inflationary pressures on the costs of goods sold.

In addition to ongoing operational costs including inflationary pressures, we expect further operating costs of around £20m from continued investments in areas across the business including digital upgrades, the effects of moving from our older distribution centre to Raunds and additional depreciation.

We note that we had fewer depot openings in 2017 compared to 2016, which reduced costs year-on-year. We expect the costs of new depots in 2018 to increase compared to 2017.

We manufacture in the UK around one third of the products that we sell, primarily cabinets and worktops, and provide warehousing and delivery to our depots of manufactured and bought-in products. Investment in the resilience and capacity of manufacturing, new depots and digital upgrades, plus some expenditure initially planned for 2017, will result in expected capital expenditure of around £60m in 2018.

We believe that current market conditions are stable although we remain watchful given economic uncertainties.

## GOING CONCERN

The Group meets its day to day working capital requirements through cash generated from operations. If required, the Group also has access to an asset backed lending facility of £140m until the facility expires in July 2019.

The Group's forecasts and projections have been stress-tested for reasonably possible adverse variations in trading performance. The results of this testing show that the Group should be able to operate within the level of its current net cash balances and its committed bank facility, and that it would not breach the facility covenants.

After making due enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

## PRINCIPAL RISKS AND UNCERTAINTIES

Our approach to risk is adaptive. We aim to protect what we have while responding to opportunities to grow and create value.

The following describes our principal risks, the possible impact arising from them and what we do to mitigate them. We indicate below if the risk has increased or decreased, otherwise there is no change to the risk.

### Failure to maximise growth potential of the business

Risk and impact

- We see a significant potential for growth. This brings both opportunities and challenges.
- If we don’t recognise, understand and exploit our growth opportunities in line with our business model and risk appetite, or if we don’t align current structures and skills to meet the challenges of growth, we won’t get maximum benefit from our growth potential.

Mitigating factors

- The opportunities and challenges related to growth are a major area of focus throughout the business, and at all levels of the business.
- We continue to invest in our people, service, and systems, and our manufacturing and distribution capabilities to equip them for growth.
- Growth activities are reviewed in the light of our business model and risk framework.

### Deterioration of business model and culture

Risk and impact

- Our future success depends on continuing to successfully implement our unique business model and our locally-enabled, entrepreneurial culture.
- If we lose sight of our model and culture we will not successfully service the needs of the local small builder and their customers, and our long-term profitability may suffer.

Mitigating factors

- Our values, business model and culture are at the centre of our activities and decision-making processes, and they are led by the actions of the Board, Executive Committee and senior management.
- The Board and Executive Committee regularly visit our depots and factories, our logistics and support locations and hold events to reinforce the importance of our values, model and culture.

### Changes in market conditions

Risk and impact

- We buy a significant proportion of raw materials and finished products in euros and US dollars. If sterling weakens, our input costs increase.
- Our products are mostly sold to small builders and installed in owner-occupied and private and public sector rented housing, mainly in the repair, maintenance and improvement markets. If activity falls in these markets, it can affect our sales.
- Over 2017 our assessment of this risk has increased due the continuing volatility of foreign currency.

Mitigating factors

- We have proven expertise in managing both selling prices and costs of production. This continues to be a main area of focus.
- We have a good track record of dealing with changes in market conditions. We monitor activity in our depots closely and we have good relationships with our customers. This can give us early warning of changing conditions, so we can take swift mitigating action, including managing costs.

### Interruption to continuity of supply

Risk and impact

- Howdens is an in-stock business. Our business model requires depots to be able to supply at once from local stock. Our customers expect this, and rely on it.
- Any disruption to our relationship with key suppliers or interruption to manufacturing and distribution operations could affect our ability to deliver our in-stock business model and to service our customer's needs. If this happened, we could lose customers and sales.
- In 2017 our assessment of this risk has increased, due to the disruption in the marketplace as a result of uncertainty caused by Brexit.

Mitigating factors

- We build strong relationships with our suppliers, focused on integrity, fairness and respect, and which are worthwhile for all concerned.
- Where appropriate we enter into long-term contracts to secure supply of key products, services and raw materials.
- Wherever possible we have multiple-sourcing strategies for our key products to reduce the effect of a supply failure.
- We have invested heavily in our manufacturing operations and this investment gives us an enhanced disaster recovery capability.
- We are also investing in new warehouse space to support our distribution capabilities and equip them for growth.

### Loss of key personnel

Risk and impact

- The skills, experience and performance of key members of our management team make a major contribution to the success of the business.
- The loss of a key member of the Group's management team could adversely affect the Group's operations.

Mitigating factors

- We use the Remuneration Committee to ensure that key team members are appropriately compensated for their contributions and incentivised to continue their careers with us.

- We will continue to focus on leadership development and succession planning.

## Health and safety

Risk and impact

- Howdens is about people and relationships. We have more than 660 depots, 9,000 employees, more than 460,000 total customer accounts, and suppliers all over the world.
- Care for the health and safety of employees, customers, suppliers and everyone who comes into contact with Howdens is integral to our values and to our behaviour.
- If we do not ensure safe ways of working across the business, this could compromise the safety and wellbeing of individuals and the reputation and viability of the business.

Mitigating factors

- Since the beginning of our business, we have invested in safe ways of working. We have developed dedicated health and safety teams and formalised systems that help us stay safe.
- We monitor, review and update our practices to take account of changes in our environment or operations and in line with best practice and changing legislation.
- Most importantly, we make sure we keep talking about health and safety at every level of the business.

## Cyber security incident

Risk and impact

- We depend on a core set of critical IT systems which are fundamental to the day-to-day running of the business. These systems are at risk from increasingly-sophisticated security threats.
- If we experienced a major security breach, this could result in a key system being unavailable causing operational difficulties, and/or sensitive data to be unavailable or compromised. This could also lead to breach of customer data.

Mitigating factors

- We recognise that IT security risks are not always technical, so our first point of control is staff awareness. We place focus on training our people in cyber security.
- We employ complex technical IT security controls to protect our information and our key systems. We regularly engage external specialists to validate the effectiveness of our controls against industry best practice.
- We have robust disaster recovery and business continuity plans, and we test them regularly.
- We adopt a continuous improvement approach to IT security and continue to invest in the security of our systems.

## Product design relevance

Risk and impact

- Ensuring that we have products that meet the design, price and quality needs of the small builder, and their customer, is a key focus of the business model and is a critical element of our future success and growth aspirations. Kitchen technology and design do not stand still, and our products must reflect that.
- If we do not support the builder with new products that their customers want, we could lose customers and sales.
- In 2017 our assessment of this risk has reduced, following a significant refresh of our kitchen ranges and appliances.

Mitigating Factors

- Our dedicated product team regularly refresh our range of kitchens and appliances to meet builders' and end-users' expectations for design, price and quality.

- We work with external design and brand specialists and attend product design fairs to monitor likely future trends.
- Our local depot staff have close relationships with their account holders and end-users, and we actively gather feedback from them about changes in trends.
- We work with our suppliers, to develop new and improved products for the future, some of which are unique to Howdens. A number of new products were introduced during the year across all product categories and more are already planned for 2018.

### Credit control failure

#### Risk and impact

- When a builder comes into one of our depots for the first time, we offer them a nett monthly account, so they can complete the job before paying Howdens. Our customers rely on our trade account facilities, as cash flow is often critical to small businesses.
- Failure to provide, or service these facilities could affect our ability to continue to support our customers and potentially our ability to collect debt. This could have a direct impact on both our revenue and our working capital.

#### Mitigating factors

- We have an effective trade account policy used to agree terms with our customers and efficient debt collection processes, which we monitor closely and regularly.
- We have robust systems and tested business continuity plans.
- We maintain good personal relationships with our customers, both at depot level and within the credit control department.
- Our concentration of debt is limited, as our exposure is spread across approximately 400,000 nett monthly customer accounts.

## CAUTIONARY STATEMENT

Certain statements in this Preliminary Results announcement are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

## DIRECTORS' RESPONSIBILITY STATEMENT

The 2017 Annual Report and Accounts which will be issued in March 2018, contains a responsibility statement in compliance with DTR 4.1.12 of the Listing Rules which sets out that as at the date of approval of the Annual Report on 28 February 2018, the directors confirm to the best of their knowledge:

- the Group and unconsolidated Company financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company, and the undertakings included in the consolidation taken as a whole; and

- the performance review contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and the undertakings including the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

| | |
|---|---|
| M Ingle | M Robson |
| Chief Executive | Deputy Chief Executive and Chief Financial Officer |

28 February 2018

# Consolidated income statement

| | Notes | 53 weeks to 30 December 2017 £m | 52 weeks to 24 December 2016 £m |
|---|---|---|---|
| Revenue – sale of goods | | **1,403.8** | 1,307.3 |
| Cost of sales | | **(515.4)** | (467.4) |
| **Gross profit** | | **888.4** | 839.9 |
| Selling & distribution costs | | **(564.5)** | (513.5) |
| Administrative expenses | | **(89.5)** | (89.2) |
| **Operating profit** | | **234.4** | 237.2 |
| Finance income | | **0.2** | 0.8 |
| Other finance expense - pensions | | **(2.4)** | (1.0) |
| **Profit before tax** | | **232.2** | 237.0 |
| Tax on profit | 3 | **(47.2)** | (51.4) |
| **Profit for the period attributable to the equity holders of the parent** | | **185.0** | 185.6 |
| **Earnings per share:** | | | |
| Basic earnings per 10p share | 4 | **29.9p** | 29.5p |
| Diluted earnings per 10p share | 4 | **29.8p** | 29.4p |

# Consolidated statement of comprehensive income

| | 53 weeks to 30 December 2017 £m | 52 weeks to 24 December 2016 £m |
|---|---|---|
| Profit for the period | **185.0** | 185.6 |
| **Items of other comprehensive income** | | |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Actuarial losses on defined benefit pension scheme | **(22.1)** | (86.4) |
| Deferred tax on actuarial losses/gains on defined benefit pension scheme | **4.2** | 16.3 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Currency translation differences | **-** | 0.8 |
| Other comprehensive income for the period | **(17.9)** | (69.3) |
| **Total comprehensive income for the period attributable to equity holders of the parent** | **167.1** | 116.3 |

# Consolidated balance sheet

| | Notes | 30 December 2017 £m | 24 December 2016 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | **15.4** | 7.3 |
| Property, plant and equipment | | **180.0** | 167.9 |
| Deferred tax asset | | **25.8** | 26.0 |
| Long-term prepayments | | **0.1** | 0.4 |
| | | **221.3** | 201.6 |
| **Current assets** | | | |
| Inventories | | **208.3** | 183.7 |
| Trade and other receivables | | **137.8** | 135.9 |
| Investments | | **55.0** | 87.3 |
| Cash and cash equivalents | | **186.1** | 139.3 |
| | | **587.2** | 546.2 |
| **Total assets** | | **808.5** | 747.8 |
| **Current liabilities** | | | |
| Trade and other payables | | **(212.1)** | (214.2) |
| Current tax liability | | **(20.6)** | (19.8) |
| | | **(232.7)** | (234.0) |
| **Non-current liabilities** | | | |
| Pension liability | | **(109.3)** | (106.0) |
| Deferred tax liability | | **(1.8)** | (1.8) |
| Provisions | 6 | **(10.5)** | (9.0) |
| | | **(121.6)** | (116.8) |
| **Total liabilities** | | **(354.3)** | (350.8) |
| **Net assets** | | **454.2** | 397.0 |
| **Equity** | | | |
| Share capital | | **62.8** | 63.9 |
| Share premium account | | **87.5** | 87.5 |
| ESOP reserve | | **(10.7)** | (0.2) |
| Treasury shares | | **(36.2)** | (52.8) |
| Retained earnings | | **350.8** | 298.6 |
| **Total equity** | | **454.2** | 397.0 |

# Consolidated statement of changes in equity

| | Called up share capital £m | Share premium account £m | ESOP reserve £m | Treasury shares £m | Other reserve £m | Retained profit £m | Total £m |
|---|---|---|---|---|---|---|---|
| At 26 December 2015 | 65.2 | 87.5 | 11.0 | (45.3) | 28.1 | 275.2 | 421.7 |
| Accumulated profit | - | - | - | - | - | 185.6 | 185.6 |
| Other comprehensive income | - | - | - | - | - | (70.1) | (70.1) |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **115.5** | **115.5** |
| Current tax on share schemes | - | - | - | - | - | 1.5 | 1.5 |
| Deferred tax on share schemes | - | - | - | - | - | (2.1) | (2.1) |
| Currency translation differences | - | - | - | - | - | 0.8 | 0.8 |
| Net movement in ESOP | - | - | 5.0 | - | - | - | 5.0 |
| Buyback and cancellation of shares | (1.3) | - | - | - | - | (55.0) | (56.3) |
| Buyback of shares into treasury | - | - | - | (23.7) | - | - | (23.7) |
| Transfer of shares from treasury into share trust | - | - | (16.2) | 16.2 | - | - | - |
| Dividends declared and paid | - | - | - | - | - | (65.4) | (65.4) |
| Transfer of distributable other reserve into retained earnings | - | - | - | - | (28.1) | 28.1 | - |
| **At 24 December 2016** | **63.9** | **87.5** | **(0.2)** | **(52.8)** | **-** | **298.6** | **397.0** |
| Accumulated profit | - | - | - | - | - | 185.0 | 185.0 |
| Other comprehensive income | - | - | - | - | - | (17.9) | (17.9) |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **167.1** | **167.1** |
| Current tax on share schemes | - | - | - | - | - | 0.4 | 10.4 |
| Deferred tax on share schemes | - | - | - | - | - | (0.1) | (0.1) |
| Net movement in ESOP | - | - | 6.1 | - | - | - | 6.1 |
| Buyback and cancellation of shares | (1.1) | - | - | - | - | (46.8) | (47.9) |
| Transfer of shares from treasury into share trust | - | - | (16.6) | 16.6 | - | - | - |
| Dividends declared and paid | - | - | - | - | - | (68.4) | (68.4) |
| **At 30 December 2017** | **62.8** | **87.5** | **(10.7)** | **(36.2)** | **-** | **350.8** | **454.2** |

The ESOP Reserve includes shares in Howden Joinery Group plc with a market value on the balance sheet date of £36.5m (2016: £20.8m), which are held by the Group's Employee Share Trusts in order to satisfy share options and awards made under the Group's various share-based payment schemes. The item "Movement in ESOP" consists of the share-based payment charge in the year, together with any receipts of cash from employees on exercise of share options.

At the current period there were 7,420,580 shares held in treasury, each with a nominal value of 10p (2016: 10,828,842 shares).

# Consolidated cash flow statement

| | Notes | **53 weeks to 30 December 2017 £m** | 52 weeks to 24 December 2016 £m |
|---|---|---|---|
| Group operating profit before tax and interest | | **234.4** | 237.2 |
| **Adjustments for:** | | | |
| Depreciation and amortisation included in operating profit | | **28.0** | 24.0 |
| Share-based payments charge | | **4.0** | 4.0 |
| Loss/(profit) on disposal of property, plant and equipment, and intangible assets | | **0.2** | (0.1) |
| **Operating cash flows before movements in working capital** | | **266.6** | 265.1 |
| **Movements in working capital** | | | |
| Increase in stock | | **(24.6)** | (6.6) |
| Increase in trade and other receivables | | **(1.9)** | (6.4) |
| (Decrease)/increase in trade and other payables, and provisions | | **(0.4)** | 14.5 |
| Difference between pensions operating charge and cash paid | | **(21.2)** | (30.6) |
| | | **(48.1)** | (29.1) |
| Cash generated from operations | | **218.5** | 236.0 |
| Tax paid | | **(41.8)** | (41.5) |
| Tax refund received | | **-** | 12.7 |
| **Net cash flow from operating activities** | | **176.7** | 207.2 |

# Consolidated cash flow statement - continued

| | Notes | **53 weeks to 30 December 2017 £m** | 52 weeks to 24 December 2016 £m |
|---|---|---|---|
| **Net cash flows from operating activities** | | **176.7** | 207.2 |
| **Cash flows used in investing activities** | | | |
| Payments to acquire property, plant and equipment, and intangible assets | | **(48.5)** | (63.5) |
| Receipts from sale of property, plant and equipment, and intangible assets | | **-** | 0.2 |
| Interest received | | **0.2** | 0.8 |
| **Net cash used in investing activities** | | **(48.3)** | (62.5) |
| **Cash flows used in financing activities** | | | |
| Payments to acquire own shares | | **(47.9)** | (80.0) |
| Receipts from release of shares from share trust | | **2.1** | 1.0 |
| Increase in long term prepayments | | **0.3** | 0.2 |
| Dividends paid to Group shareholders | | **(68.4)** | (65.4) |
| **Net cash used in financing activities** | | **(113.9)** | (144.2) |
| **Net increase in cash and cash equivalents** | | **14.5** | 0.5 |
| Cash and cash equivalents at beginning of period | | **226.6** | 226.1 |
| **Cash and cash equivalents at end of period** | 7 | **241.1** | 226.6 |

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Basis of presentation and preparation

The Group's accounting period covers the 53 weeks to 30 December 2017. The comparative period covered the 52 weeks to 24 December 2016.

The Group's consolidated financial statements have been prepared in accordance with the IFRSs adopted for use in the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. They therefore comply with Article 4 of the EU IAS Regulation.

The accounting policies, presentation methods and methods of computation followed are the same as those detailed within the 2016 Annual Report and Accounts, which is available on the Group's website (www.howdenjoinerygroupplc.com).

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Sections 434 to 436 of the Companies Act 2006 and is an abridged version of the Group's financial statements for the year 53 weeks to 30 December 2017. The statutory accounts for the 52 weeks to 24 December 2016 have been filed with the Registrar of Companies. The statutory accounts for the 53 weeks ended 30 December 2017 will be filed in due course. The auditors' report on both the 2017 and 2016 accounts was not qualified or modified and did not contain any statement under sections 498(2) or (3) of the Companies Act 2006 or any preceding legislation.

## 2 Segmental reports

### (a) Basis of segmentation

Information reported to the Group's Executive Committee is focused on one operating segment, Howden Joinery. The information required in respect of the profit or loss, and assets and liabilities can all be found in the consolidated income statement and consolidated balance sheet.

The Howden Joinery business derives its revenue from the sale of kitchens and joinery products.

### (b) Other information

| | **53 weeks to 30 December 2017 £m** | 52 weeks to 24 December 2016 £m |
|---|---|---|
| Capital additions | **48.5** | 66.7 |
| Depreciation and amortisation | **(28.0)** | (24.0) |

## 3 Tax

### (a) Tax in the income statement

| | **53 weeks to 30 December 2017 £m** | 52 weeks to 24 December 2016 £m |
|---|---|---|
| **Current tax:** | | |
| Current year | **43.3** | 44.9 |
| Adjustments in respect of previous years | **(0.4)** | (0.1) |
| **Total current tax** | **42.9** | 44.8 |
| **Deferred tax:** | | |
| Current year | **4.5** | 7.2 |
| Adjustments in respect of previous years | **(0.2)** | (0.6) |
| **Total deferred tax** | **4.3** | 6.6 |
| **Total tax charged in the income statement** | **47.2** | 51.4 |

UK corporation tax is calculated at 19.25% (2016: 20.0%) of the estimated assessable profit for the period. Tax for other countries is calculated at the rates prevailing in the respective jurisdictions.

### (b) Tax relating to items credited to equity

| | **53 weeks to 30 December 2017 £m** | 52 weeks to 24 December 2016 £m |
|---|---|---|
| Deferred tax credit to other comprehensive income on actuarial loss on pension scheme | **(4.2)** | (16.3) |
| Deferred tax charge to equity on share schemes | **0.1** | 2.1 |
| Current tax credit to equity on share schemes | **(0.4)** | (1.5) |
| | **(4.5)** | (15.7) |

### (c) Reconciliation of the total tax charge

The total tax charge for the year can be reconciled to the result per the income statement as follows:

| | **53 weeks to 30 December 2017 £m** | 52 weeks to 24 December 2016 £m |
|---|---|---|
| Profit before tax | **232.2** | 237.0 |
| Tax at the UK Corporation tax rate of 19.25% (2016: 20.0%) | **44.7** | 47.4 |
| IFRS2 share scheme charge | **(0.9)** | (0.4) |
| Expenses not deductible for tax purposes | **1.6** | 2.2 |
| Overseas losses not utilised | **1.2** | 1.6 |
| Change of tax rate* | **-** | 0.4 |
| Non-qualifying depreciation | **1.2** | 0.9 |
| Other tax adjustment in respect of previous years | **(0.6)** | (0.7) |
| **Total tax charged in the income statement** | **47.2** | 51.4 |

The Group's effective rate of tax is 20.3% (2016: 21.7%)

* In September 2016, Parliament approved the Finance Bill which reduces the UK standard rate of Corporation Tax from 20% to 19% with effect from 1 April 2017 and 19% to 17% from 1 April 2020. All deferred tax assets and liabilities have been recognised at 17% with the exception of items expected to reverse before the rate reduces to 17%.

## 4 Earnings per share

| | **53 weeks to 30 December 2017** | | | 52 weeks to 24 December 2016 | | |
|---|---|---|---|---|---|---|
| | **Earnings £m** | **Weighted average number of shares m** | **Earnings per share p** | Earnings £m | Weighted average number of shares m | Earnings per share p |
| Basic earnings per share | **185.0** | **619.1** | **29.9** | 185.6 | 629.6 | 29.5 |
| Effect of dilutive share options | **-** | **2.1** | **(0.1)** | - | 1.9 | (0.1) |
| Diluted earnings per share | **185.0** | **621.2** | **29.8** | 185.6 | 631.5 | 29.4 |

## 5 Dividends

| | **53 weeks to 30 December 2017 £m** | 52 weeks to 24 December 2016 £m |
|---|---|---|
| **Amounts recognised as distributions to equity holders in the period** | | |
| Interim dividend for the 53 weeks to 30 December 2017 - 3.6p/share | **22.2** | - |
| Final dividend for the 52 weeks to 24 December 2016 - 7.4p/share | **46.2** | - |
| Interim dividend for the 52 weeks to 24 December 2016 - 3.3p/share | **-** | 20.6 |
| Final dividend for the 52 weeks to 26 December 2015 - 7.1p/share | **-** | 44.8 |
| | **68.4** | 65.4 |
| **Dividends proposed at the end of the period (but not recognised in the period)** | | |
| Proposed final dividend for the 53 weeks to 30 December 2017 – (7.5p/share) | **46.0** | |
| Proposed final dividend for the 52 weeks to 24 December 2016 - (7.4p/share) | | 46.1 |

The directors propose a final dividend in respect of the 53 weeks to 30 December 2017 of 7.5p per share, payable to ordinary shareholders who are on the register of shareholders at 25 May 2018 and payable on 22 June 2018.

Dividends have been waived indefinitely on all shares held by the Group's employee share trusts, which have not yet been awarded to employees.

The proposed final dividend for the current period is subject to the approval of the shareholders at the 2018 Annual General Meeting and has not been included as a liability in these financial statements.

## 6 Provisions

| | Property £m | Warranty £m | Other £m | Total £m |
|---|---|---|---|---|
| At 26 December 2015 | 5.5 | 4.2 | 0.2 | 9.9 |
| Additional provision in the period | 3.8 | 3.6 | 0.1 | 7.5 |
| Provision released in the period | (0.4) | - | - | (0.4) |
| Utilisation of provision in the period | (4.2) | (3.8) | - | (8.0) |
| At 24 December 2016 | **4.7** | **4.0** | **0.3** | **9.0** |
| Additional provision in the period | 1.5 | 3.6 | 2.0 | 7.1 |
| Provision released in the period | (0.9) | - | - | (0.9) |
| Utilisation of provision in the period | (1.0) | (3.7) | - | (4.7) |
| At 30 December 2017 | **4.3** | **3.9** | **2.3** | **10.5** |

**Property provision**

The property provision covers two main area: (i) onerous leases on any non-trading leased properties, and (ii) obligations to make dilapidations payments to landlords of leased properties.

The timing of outflows from the provision is variable and is dependent on property lease expiry dates, on opportunities to surrender leases, and on the timing of dilapidations assessments and works.

**Warranty provision**

The warranty provision relates to amounts due in respect of product warranties. As products are sold, the Group makes provision for claims under warranties. As claims are made, the Group utilises the provision and then uses this historical data to periodically revise the basis on which it makes further provision.

## 7 Notes to the cash flow statement

### Analysis of net cash

| | Cash at bank and in hand £m | Short term investments* £m | Cash and cash equivalents, and net cash £m |
|---|---|---|---|
| As at 24 December 2016 | 139.3 | 87.3 | 226.6 |
| Cash flow | 46.8 | (32.3) | 14.5 |
| **As at 30 December 2017** | **186.1** | **55.0** | **241.1** |

* The short term investments have a maturity of less than three months and, as such, are considered to be cash equivalents for the purposes of the cash flow statement.

## FINANCIAL CALENDAR

| **2018** | |
|---|---|
| Trading update | 2 May |
| Half Year Report | 26 July |
| Trading update | 8 November |
| End of financial year | 29 December |