

Chairman's statement



RICHARD PENNYCOOK
Chairman



Since its foundation in 1995, Howdens has grown steadily to become the leading supplier of kitchens in the UK, by focusing closely on the needs of our builder customers and providing value to all concerned.

CONTINUED GROWTH

I am pleased to report that 2019 saw further progress for Howdens. Against a backdrop of muted consumer sentiment and political uncertainty, we continued to grow the business while investing for the future. Sales increased by 4.8% compared to 2018, with an improvement in gross margin to 62.3%, from 61.7% in 2018, reflecting good discipline on pricing. Volumes also started to pick up in the second half. We successfully absorbed the additional costs that resulted from volume growth and general cost inflation.

Our sales growth, improvement in gross margin and focus on operating costs resulted in profit before tax increasing to £260.7m, from £238.5m in the prior year. This was pleasing, given that the figures include the costs of starting to upgrade our digital capability and closure costs following our decision to discontinue our trials in Germany and the Netherlands.

The management team spent a considerable amount of time in 2019 preparing for the possibility of Brexit occurring at various points in the year and under various scenarios from 'hard' to 'soft' Brexit. Whilst, ultimately, nothing happened, shareholders can be reassured that the Company was ready for any eventuality and will be again as clarity emerges through 2020.

Our business model allows us to be agile in an uncertain and changing market environment. We performed well against our financial and non-financial key performance indicators (KPIs), as shown on pages 32 to 34. Andrew Livingston

discusses our performance in more detail in his review of the year on pages 22 to 31 and Mark Robson in his financial review on pages 35 to 39. We talk about What Howdens Stands For and our Culture on pages 14 and 15.

INVESTMENT PROGRAMME

In order to continue providing high levels of service to local builders and innovative products to our end-consumers, we believe that we must steadily invest in the business – both in our manufacturing and supply chain capability and in our national footprint. The Board believes that there are considerable opportunities for further growth, and that in order to fulfil that potential we must continue to invest in both capacity and capability through the economic cycle.

Howdens has undertaken a major capital expenditure programme in the past five years, investing around £264m in the business.

During 2019, we opened 39 new depots and continued to invest in the next phase of our distribution strategy focused on Raunds in Northamptonshire. We significantly improved our digital services, both to our trade customers and to the end consumer. As a result, our new website is achieving more direct hits, increasing brand awareness and enabling end consumers to have a better dialogue with their builders and our designers.

We anticipate that our capital expenditure for 2020 will be approximately £80m as we continue to open new depots and two further distribution facilities at Raunds.

RETURNS TO SHAREHOLDERS

Earnings for the year were 35.0p per ordinary share, an increase of 11.8% on the prior year (2018: 31.3p) as a result of the profit improvement and the cancellation of shares bought back over the year.

In line with our stated dividend policy, which is set out in detail in the Financial Review on page 36, the Board is recommending a final dividend of 9.1p, resulting in a total dividend for the full year 2019 of 13.0p, an increase of 12% on the prior year (2018: 11.6p). This increase reflects the Board's confidence in the prospects for the business.

We announced a two year £60m share repurchase programme in February 2018, which we completed during the first half of 2019. In February 2019, we announced a further two-year programme of £50m, half of which was completed during 2019. We expect to complete the remainder of the February 2019 programme during 2020. Together with £71m in dividend payments, Howdens returned £126m to shareholders in the year.

The Board is mindful of the changing economic landscape and change in tone in many areas of the UK consumer market. We do have cash surplus above and beyond our requirements for working capital and the final dividend for 2019, and will carry out a further £85m share buyback programme over the next two years.

BOARD

We welcomed Louise Fowler to the Board as an independent Non-Executive Director in November 2019. Louise is currently a non-executive director of Assura Plc. She has also previously served as a non-executive director at Benenden Health, Stockport Hydro Ltd and Britannia International. Louise has over 25 years' marketing, customer and digital experience at a senior level in the travel and financial services industries. Following her appointment, Louise became a member of the Audit and Remuneration Committees and, following the completion of a formal induction programme, a member of the Nominations Committee.

Tiffany Hall retired from the Board in September, having served three terms as a Non-Executive, the last four years as Remuneration Committee Chair and two years as Senior Independent Director. In December, Mark Allen retired from the Board, having served as a Non-Executive Director since May 2011, being a member of the Remuneration, Audit and Nominations Committees. We are grateful to both Tiffany and Mark for their service and contribution to Howdens. Following Tiffany's retirement, Geoff Drabble has become our Senior Independent Director and Karen Caddick our Remuneration Committee Chair.



FURTHER READING

See my introduction to our Governance Report	Page 66
See our Sustainability Report	Page 48
See our Board of Directors	Page 68

Chairman's statement continued

The Board believes there are many opportunities ahead, and the strength of the Company will allow us to look through the economic cycle and to deliver relative outperformance in any downturn.

GOVERNANCE AND SUSTAINABILITY

Howdens has a clear governance framework and we strive to operate with integrity in all we do. It is vital to maintain the trust of investors, customers, our colleagues and other stakeholders in an environment where expectations, as well as regulations, continue to grow. Our corporate governance framework and a summary of the work of the Board during 2019 can be found in our Corporate Governance Report, starting on page 66. Our Sustainability Report, which begins on page 48, talks to our aim of being a good corporate citizen and living our ethos of being worthwhile to all concerned. Fundamentally, each of our depots represents a place in a local community and our people are encouraged to participate in community life. In 2019, the Group donated around £2.25m to good causes.

We are pleased to report that the Company applied all the Principles of the UK Corporate Governance Code (the 'Code') throughout the period and we have reported how we have done so in summary starting on page 80. We are also pleased to report that, in the first year in which the new Code applied, we were compliant with all Code Provisions except for Provision 38. Provision 38 provides that Executive Director pension contribution rates (or payments in lieu) should be in line with those available to the workforce. Our Remuneration Policy ('Policy'), which was approved by shareholders in 2019, stipulates that Executive Director new joiners' pension contribution rates must match that available to the wider workforce. Our incumbent Executive Directors' pension provision rates, while in line with Policy for existing Directors, do not yet match the wider workforce. This is because the reduction of fixed, contractual remuneration must be done carefully and

proportionally over time. Both Andrew and Mark, our two Executive Directors, are fully supportive of their respective rates tapering as set out on page 93 of the Remuneration Committee Report and the Board confirms that existing Executive Director pension provision rates will be in line with the wider workforce by the AGM in 2022.

Board meetings conducted in 2019 were structured, as normal, to address the Board's collective responsibilities in relation to strategy, performance and governance. In our Corporate Governance report this year, we have set out the highlights of the matters the Board considered during the year. Inevitably, time was also spent considering mitigating actions that may be required in the event of a disruptive period following the UK's exit from the European Union.

MARKET ENVIRONMENT AND RISKS

Howdens has a strong track record of dealing with change and facing the challenges of the evolving marketplace. The Board is mindful of the challenges that lie ahead and we continue to evaluate the potential and emerging risks that could impact the Group. We address these matters in more detail on pages 40 to 47. As in previous years, we monitor our market situation closely, in order to ensure timely responses to changing conditions.

LOOKING AHEAD

The Board believes there are many opportunities ahead, and the strength of the Company will allow us to look through the economic cycle and to deliver relative outperformance in any downturn.

These opportunities to grow our business represent a further step change in our ambition. The implementation of new generation depot designs, the ability to rollout smaller depots, as well as the potential for international growth, will, I expect, provide Howdens with strong opportunities to create value in the coming years. We expect to be able to grow to around 850 depots in the UK, and will be opening around five new depots in France during 2020.

Following 39 UK depot openings in 2019, we anticipate around 30 in 2020.

At the same time as we see good opportunities for expansion and creating value, I note that there is continuing uncertainty surrounding the UK consumer and the economic outlook, as the UK moves into a post-Brexit world. We remain confident in the Group's potential and believe that the business has the financial capability, the culture and the skills to enable us to plan for the future from a position of stability and strength. Above all else, Howdens is a people business and it gives me great pleasure on behalf of the Board to thank our colleagues for delivering another fine performance in 2019.

Richard Pennycook
Chairman

26 February 2020

