

Chief Executive's statement



ANDREW LIVINGSTON
Chief Executive Officer



To help our trade customers achieve exceptional results for their customers and to profit from doing so.

Revenues, margin and sales per customer all increased.

PERSPECTIVES ON 2019

2019 was a year of progress for Howdens and I am pleased with how the business has performed.

Both revenue and gross margin increased, and profitability improved, with operating profit increasing at a higher rate than revenues.

This in part reflects the timing of the price increase, which in 2019 was implemented in January, as compared with April in 2018, and maintenance of the improved depot margin discipline we exhibited in the second half of 2018.

In the first half of 2019 we found a more profitable balance between volume and price as compared with the first half of 2018, when a significant increase in volumes came at some cost to margin. This trend continued in the second half, against a stronger margin comparator.

In 2020, we will continue to evaluate how best to balance volume and price, to the benefit of overall profitability, in the light of prevailing market conditions as we see them.

Trading in the peak Period 11 weeks has set a new benchmark for us. Our depot teams were well incentivised and achieved record sales in the period, underpinned by the level of stock availability delivered by our supply chain and an IT infrastructure which performed without incident.

At the same time we continued to make investments in a number of strategic initiatives during the year. I will talk about these later, but first I would like to talk about our customers.

Our overall customer base in 2019 was stable and ended the year at around 470,000 credit and cash accounts. Two areas of focus were to improve our customer loyalty and the returns from our customer acquisition programme.

Sales per customer increased, as total transactions and total spend grew, with our core customers buying more often and spending more with us.

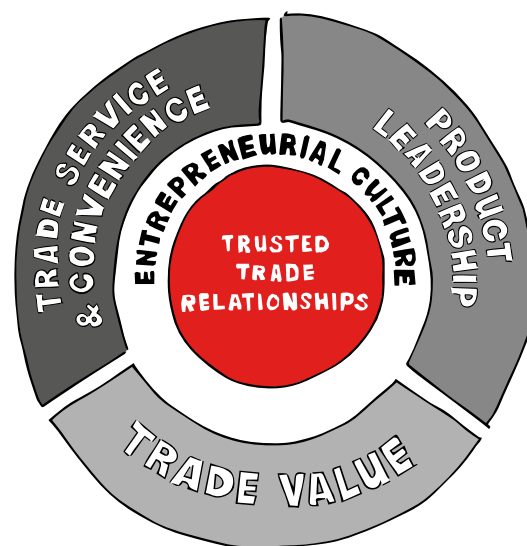
With a similar number of new credit accounts being opened as last year, new customer spend increased significantly as did profit per new account, reflecting the higher level of sales and lower acquisition costs.

WHAT HOWDENS STANDS FOR

I believe these results show that Howdens knows what it stands for:

To help our trade customers achieve exceptional results for their customers and to profit from doing so. When our customers succeed, we succeed.

OUR BUSINESS MODEL



Our 'trade only' model is a powerful combination of locally empowered depot management teams served by a dedicated supply chain, which is both cost effective and critical to the success of our in-stock offer.

Depot managers hire their own staff, manage their own local relationships, set local pricing and manage their own stock levels to suit their own local customers. Profit-sharing is calculated locally, not centrally. Everyone is strongly incentivised to grow a profitable, local business.

Whilst the Supply operation serves only Howdens, it has more than 700 depot customers, each with individual and changing day to day requirements. Our Supply operation has scale, space and flexibility to respond to these needs, and meet demand in our peak weeks of 'Period 11' trading, when sales are typically more than double the level in other periods.

STRATEGIC INITIATIVES

We introduced a number of initiatives with potential to increase volumes and profits across the business, based around our core building blocks of Trade Service & Convenience, Trade Value and Product Leadership. These were:

Evolving our depot model to use space more efficiently and to create the best depot environment in which to do business and to support our customers.

Improving range and supply management to help customers' buying decisions, to access supply chain benefits and to make productivity gains.

Using **digital** to raise brand awareness, to support the business model and to free up time for depot staff and customers to use more productively.

Together with the **development our operation in France** by way of a City-based approach.

Listening to our customers - builder forums



A key feature of Howdens success is that we're trade-only. Building trusted relationships with trade customers is central to everything we do.

We hold regular feedback sessions with our trade customers so that we can identify any areas where we need to improve our offer.

These sessions are always fully subscribed, which shows that our builders appreciate that we're listening to them.

They view our relationship as a business partnership, so it's in their interests to invest their time to help us make it even easier for them to serve their customers.

We take builder feedback very seriously and we have used it to make specific improvements to products and service levels.

Chief Executive's statement continued

Better customer environment.
Increased efficiency.

Around **30** new UK depots planned for 2020.

DEPOT EVOLUTION
During 2019 we progressed our testing of a new depot format, aimed at creating the best depot environment in which to do business with our customers, at no material change to the fit-out costs of a new depot.

By racking product vertically in the warehouse section of the depot, we believe there are ways to make space utilisation improvements, with the potential to make productivity gains from reduced picking times.

By reallocating space, in the new format we can provide a more open front area to bring depot staff closer to customers, improve both the visibility and the standard of our design facilities and nearly double the space available to display a wider range of kitchen designs.

There is also room for a small items picking area behind the counter with an improved range of everyday essential products, including hardware and ironmongery, to add incremental profit and as a way of encouraging footfall and incremental kitchen sales.

We are confident that this format is an improvement, at the same cost, on the traditional one. It was adopted for all UK depots opened in 2019, and all UK depots opened in 2020 will also be formatted in this way.

The improved densities offered by re-racking vertically have also enabled us to put our full offering into a smaller space.

We opened 8 smaller footage depots this year and intend opening more such depots in 2020. With the smaller size depots, we continue to believe there is potential for around 850 depots in the UK.

In 2019 we opened a total of 39 UK depots, including five in Northern Ireland, with openings weighted towards the latter part of the year. This represents an increase in the number of openings as compared an average of 25 per year in the previous three years.

In 2020 we plan to open around 30 more UK depots.

As I explained last year, we put in place a test to understand the rollback opportunity of the updated format in the existing depot estate.

We initially converted three older depots, and these have now been trading in the updated format for eight months or so. These depots continue to show signs of improved performance relative to depots of similar vintage, type and location since conversion.

We then converted a further eight older depots prior to the start of our peak trading period, using variations of the format.

Managing the disruption a reformat causes to a depot's day to day operations and trading patterns is a key part of the process and our experiences with these depots have helped us improve our skill base, our planning for a reformat and our understanding of when in the year to implement them. They have also helped us to develop our thinking about how to scope, structure and execute a reformat, which we are now able to complete in eight weeks. We have also refined the reformat to incorporate a smaller hardware area, reducing refurbishment and ongoing running costs.

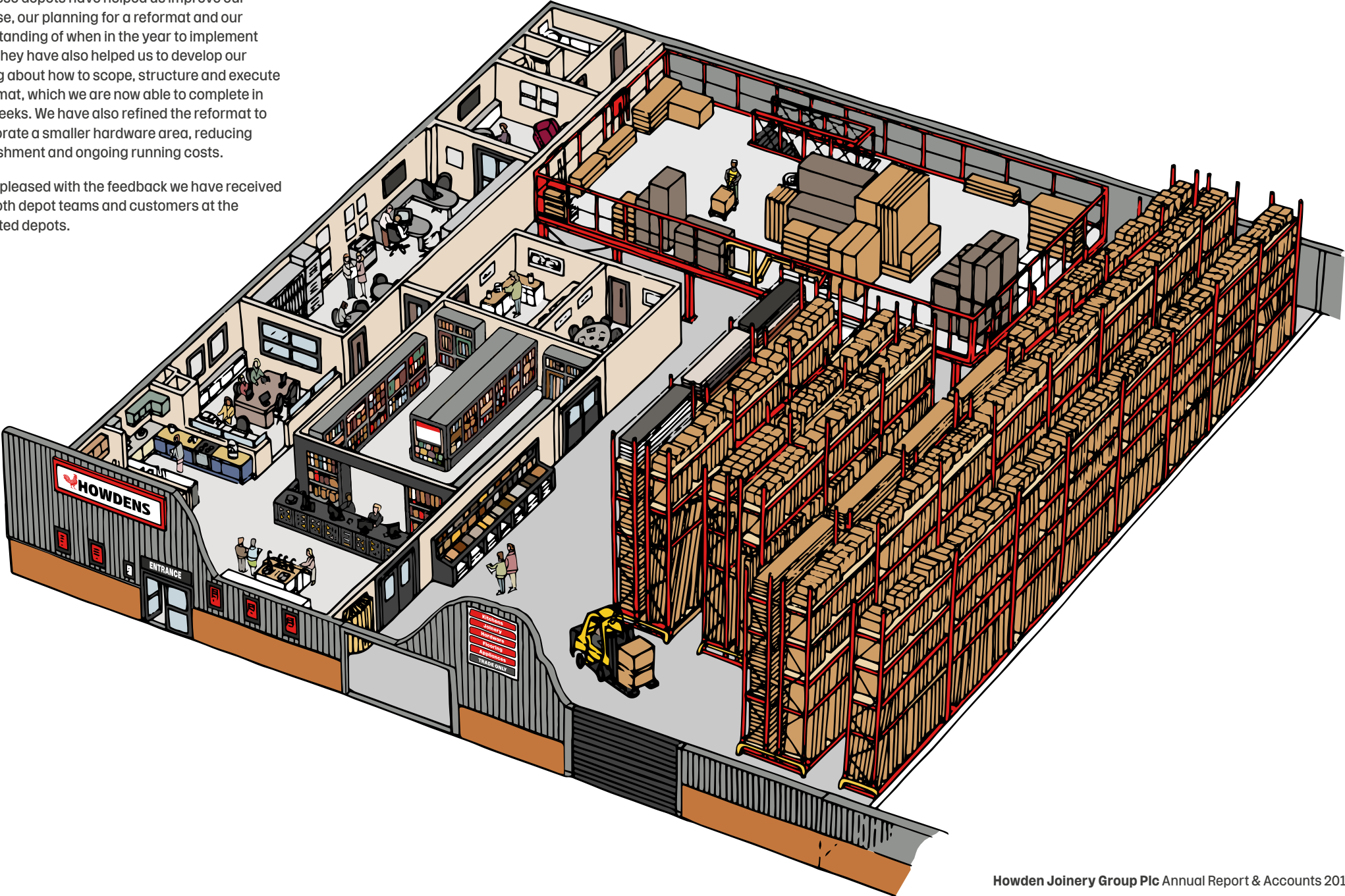
We are pleased with the feedback we have received from both depot teams and customers at the converted depots.

We have been sufficiently encouraged by their performance to date and the expectations of Depot Teams for them in 2020, to extend the test. We intend to convert around 30 more depots across the country so that we can continue to learn how best to apply this opportunity within the existing depot estate.

In 2020 we are budgeting for an average re-format spend of £225,000, as we apply the learnings from depots converted to date. We also plan to re-rack around a further 50 depots without other modifications in 2020.

At the end of 2019, we had a total of 71 new format depots, comprising 60 new ones and 11 refurbished ones, and we had had re-racked a further 62 depots without other modifications.

By the end of 2020, assuming our depot plans for 2020 are implemented as I have described, we will have a total of 131 new format depots, comprising 90 opened in the new format plus 41 refurbished ones. We will also have re-racked a further 112 without other modifications.



Chief Executive's statement continued

12
new kitchen
ranges.

RANGE AND SUPPLY MANAGEMENT
New kitchen ranges each year represent a significant portion of sales as product lifecycles shorten.

During the year we introduced 12 new kitchen ranges to all depots, with average sales per range above those of 2018.

These ranges are characteristic of the trends we are seeing for straight lines in modern kitchens, which accentuate the sense of space, contrasting colours and a cleaner look in shaker-style kitchens, and matt textures that benefit from the latest industrial technology advances that prevent finger marks.

During 2019 we:

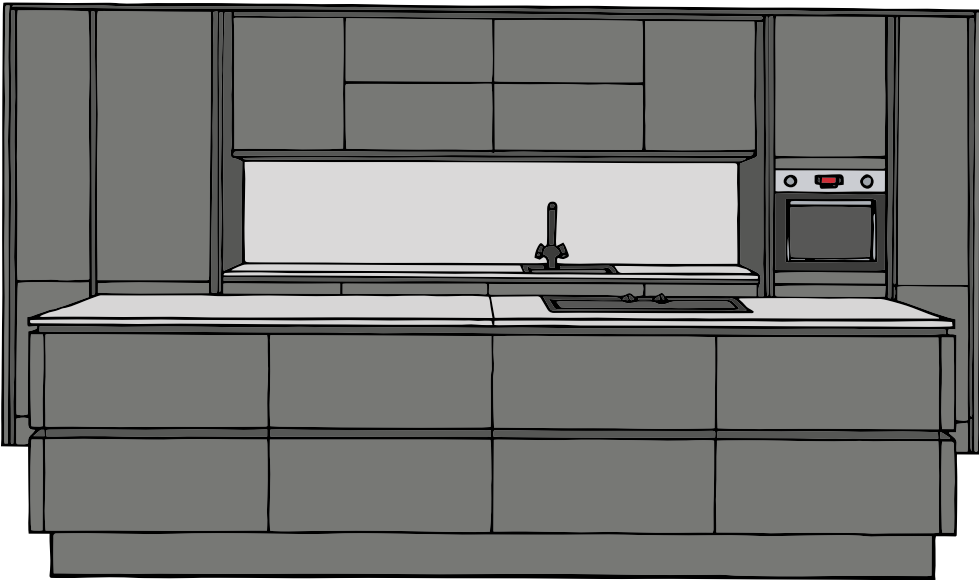
- Updated our light oak cabinet to a more natural oak tone.
- Led the mass market roll-out of anthracite-coloured storage systems which help define our mid and premium ranges.
- Extended our worktop range by 11 laminate worktops, and seven solid surface worktops.
- Added 25 appliances to our Lamona range, introducing new technologies in cooking, laundry and dishwashing products, while strengthening our core Lamona oven choice with the introduction of a new low-price-point fan oven.

- Strengthened the Lamona brand through the introduction of a three year warranty.
- Selected around 250 of the fastest sellers from the new hardware lines we trialled, for roll-out across the estate.
- Continued to support our customers by introducing pre-finished internal doors across the different styles, helping them save fitting time.
- Introduced three new flooring decors, manufactured with new technology which makes vinyl flooring quicker and easier for builders to fit.

In 2020, we plan to introduce 13 new kitchen ranges of which 11 have been launched to date. Features include:

Two new styles:

- A modern slab range, offering a trade up from our popular entry-priced Greenwich Gloss range. The new door has seamless edges and is available in three colours with a mirror gloss finish and two colours with super matt finishes featuring anti-fingerprint technology.
- An updated painted timber shaker range, which is a versatile design that can be dressed to achieve both modern and traditional looks, available in two new colours from January 2020, with an additional colour to follow in April.



More colours in more ranges:

- A new Green in our successful mid-priced Fairford shaker range.
- Pebble and Navy colours extended across three kitchen families, including the addition of Pebble to the Greenwich Gloss family, strengthening our entry price point offer.

New handleless cabinet:

- We have developed a new handleless cabinet platform to meet demand for a 'Linear' look. The cabinet can be used with our current ranges, which enables us to increase customer choice without a commensurate rise in our range count.
- We now offer 27 styles, and we have the flexibility to change the number of styles on offer in response to customer demand.
- With the handleless cabinet we can now provide a more affordable way for our customers to achieve the straight-line look, including in our entry price point Greenwich family.

Clearer choice:

- Introduction of the new cabinet also enabled us to redefine our range architecture into 'Modern', 'Linear' and 'Shaker', making it easier for customers to choose the kitchen that suits them best.

- New worktops for this year focus on lighter shades and thinner profiles, which in particular complement our new Linear kitchen range.
- We are extending the range of Lamona new technology appliances, including self-cleaning ovens, to lower price points. Design-led refrigeration is also being introduced at what we think are very affordable prices.

Managing the number of kitchen ranges efficiently is crucial for both best availability, which is highly valued by our customers, and profitability. We have made progress in getting back to the discipline of fewer deeply-stocked higher-performing ranges in the depots.

A key part of range discipline is the timely discontinuation of underperforming ranges and the management of clearance stock from the business.

- During the year, 19 ranges were cleared from the business, and by the end of 2019, we had around 67 current kitchen ranges, including initial stock of some of the ranges scheduled for launch in 2020.
- We believe about 65 current ranges is the right number for the market at present.
- In 2020 we are aiming to remove at least the number of ranges we add.

Chief Executive's statement continued

New structure increases efficiency and customer value.

NEW COMMERCIAL TEAM

During 2019, as part of our focus on range management, we combined the divisional commercial functions into a single commercial team, organised in categories. This structure provides clearer accountabilities for ranging decisions and accessing supply chain benefits.

The changes remove duplication of effort, easing communication and bringing our commercial team closer to depot managers.

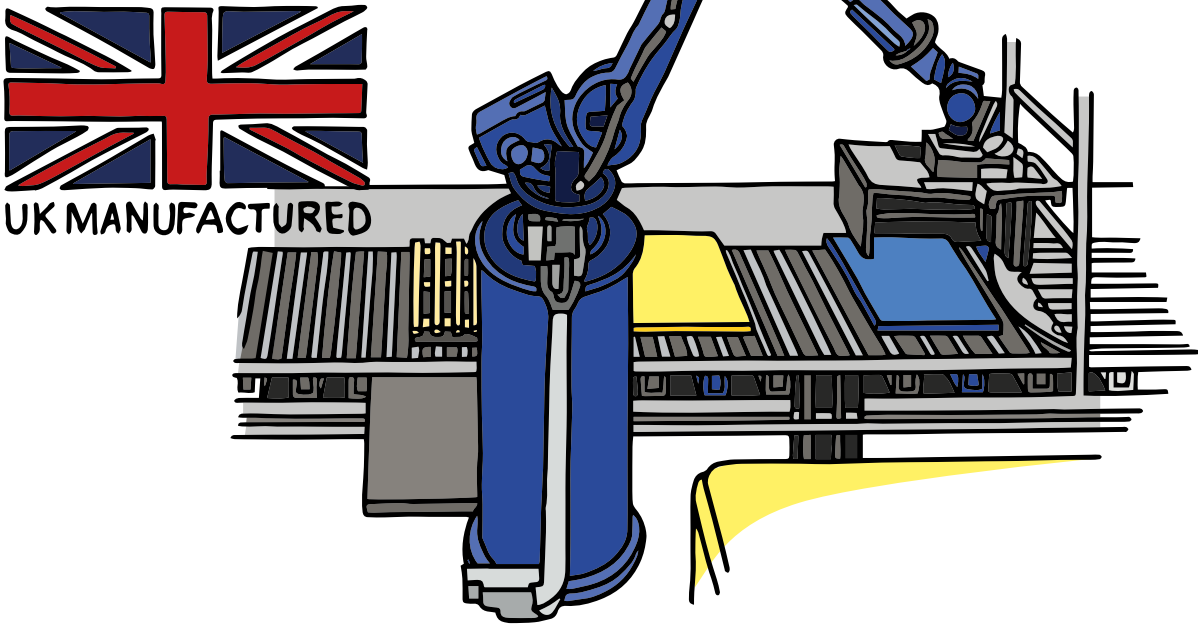
We have seen the benefit of clearer accountabilities and closer working practices between Trade, Commercial and Supply which enabled:

- Our new kitchen brochure and Trade Book to be launched in week three of 2020 (the first of three editions during the year, synchronised with our promotional 'Rooster' offers).
- The stock for all new kitchens to be in depots before the Trade Book and brochure were published.

Through this structure, we also aimed to ensure that the business is well planned at least 18 months out with our suppliers, that we are being offered innovative product first and that we are offering the best value to our customers.

We have benefitted from significant engagement with our supply base in support of our 2020 plans for improved product range, availability and price.

Use of digital to reinforce the Howdens model.



UK MANUFACTURING

We keep under review what we believe it is best to make or to buy.

In 2019 investment in manufacturing technology enabled us to make the doors for five of our new kitchen ranges, reducing the cost of these doors and increasing supply chain flexibility.

We also installed a small batch line to make low volume but important items which third party vendors cannot supply at competitive prices.

In December we were awarded the Manufacturing Guild Mark, a reflection of the excellence in our manufacturing operations, and we were delighted to be re-awarded the Royal Warrant during the year.

Our Supply operation achieved certification under the new International Health and Safety Standard, ISO45001, which replaces the certification we held under the incumbent UK standard (OHSAS18001).

As well as recognising the effectiveness of our formal safety management systems, the audit process for certification demonstrated that we have a leadership and workforce positively engaged and committed to getting everyone home safe, every day.

USE OF DIGITAL

We see digital as a means to reinforce the Howdens model of strong local relationships between depots and their customers. We are building a digital capability with three objectives:

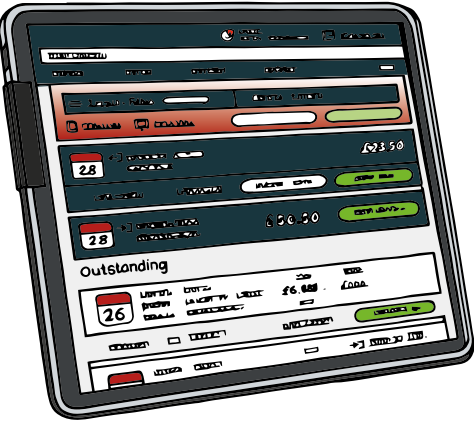
- Increase builder and consumer awareness of Howdens to help our customers sell Howdens product.
- Improve the communications between Howdens, tradespeople and their customers.
- Streamline and improve operating processes, freeing up time for depot staff and customers to use more productively.

Our new web platform offers customers improved product search and information, and has moved Howdens.com into more prominent positions, raising brand awareness with consumers.

Since June 2019:

- Howdens.com 'impressions' present in 1.5 million more search results a month.
- Visits to the site have seen growth of 22% year on year, exceeding an average of 3,000,000 visitors a week for the first time.
- Contacting of depots through the website has increased by 35%.

We also completed a programme to restructure and digitise our content. A new hierarchy, enriched product content and new advisory and editorial material make it easier and quicker for the user to find the information they want to view.



Around 80% of visitors are now entering the site via pages relating to specific search queries or terms, underpinned by search engine optimisation improvements targeting search terms most relevant to our products.

Views of product categories have increased both in kitchens, where visits to kitchen pages have risen by 43%, and in under-represented product categories such as hardware (up 76%) and doors (up 77%).

Refining style and product selections is now easier as we have provided the capability for each user to tailor these to their own requirements, enabling a more focussed discussion of consumers' needs with their builders and our designers.



In the second half of 2019, we tested ways of developing our digital offering further, in line with our aim to 'put a tradespersons' local depot in their pocket'.

- Working with account holders to understand their key requirements we developed and tested a secure trade-customer-only area of the website where they can manage their accounts and interface more efficiently with Howdens and their chosen depot in particular.
- Customers, behind a secure login, can view their credit details, make payments and access account details and download invoices and information at any time.
- During the test period 44% logged in outside of depot hours, 60% made a payment, and half downloaded documents. Average payments per customer were also well above the average company level.

Chief Executive's statement continued

5
new depots in
France in 2019

In January 2020 we instituted full roll-out of these trade account facilities which are now available to all customers. User feedback has been favourable, with usage rates rising.

We will be supporting our depots with on-boarding their customers to our new Trade platform, which we believe will enhance the strong local relationships the depots have with their builder customers.

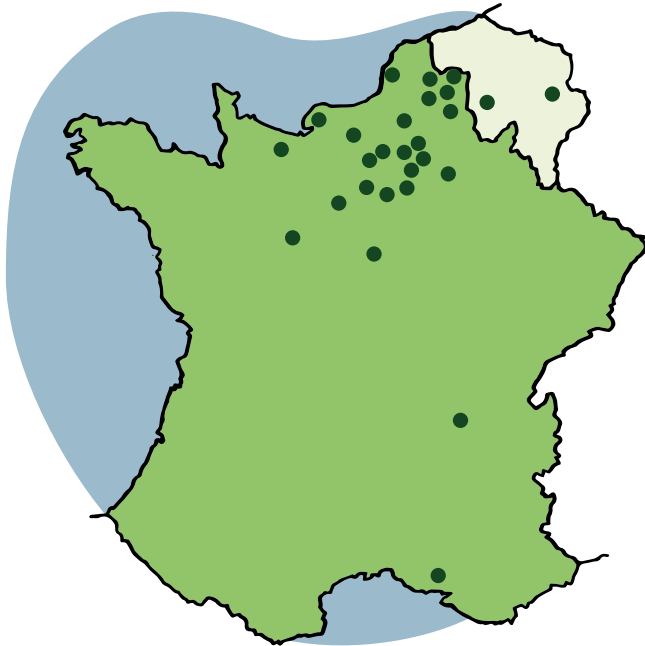
In 2020 we will continue to improve content and add more capabilities to our platform. We aim to develop further account and project management features together with functionality which assists local communications between depots and their customers.

We aim to test a new more efficient on-line account opening process for new customers. Having 'digitised' our product and marketing content in 2019 we can deploy these cost effectively across multiple channels and programmes and add fresh content efficiently.

INTERNATIONAL

Last year I explained why we believe there is potential for a viable city-based business in France. In 2019 we:

- Opened five new depots, four around Paris and one in Lille).
- Completed the rebranding of our international business from Houdan to Howdens which should enable the business to gain advantage from the UK brand equity, online search reputation and business efficiencies.
- Appointed a French national to lead our City based business in France, who has been in post since Autumn 2019.
- Completed the closure of our operations in Germany and the Netherlands with closure costs being in line with our expectations.
- The 22 depots opened before 2019 are now sufficiently profitable to cover all central costs, which are scaled for a larger business. Total sales of the depots opened in 2019 are in line with expectations.



We have identified further sites which would enable us to open more depots in France in 2020. Consistent with our policy of staffing new depots with 'Howden trained' teams, and assuming our business in France continues to perform in line with our expectations, we are targeting around five depot openings in 2020.

TURNING TO 2020

We aim to retain a profitable balance, in the light of prevailing market conditions, between price and volume , whilst working with suppliers to keep product and input costs down.

We plan to open around 30 depots in the UK, five in France and intend to convert around 30 existing depots to the new format.

We have a right-sized line up of new product for the first half which has been launched and is in-stock earlier than in 2019, which we believe will benefit sales across this year.

We also have a well-planned programme of second and third phase product introductions in place for later in the year, together with a series of Rooster promotions to encourage further footfall.

This year we will be making more of the product we sell in our UK factories.

Our new online trade account facilities are now available to all customers and in 2020 we will continue to improve content and add more capabilities to our digital platform.

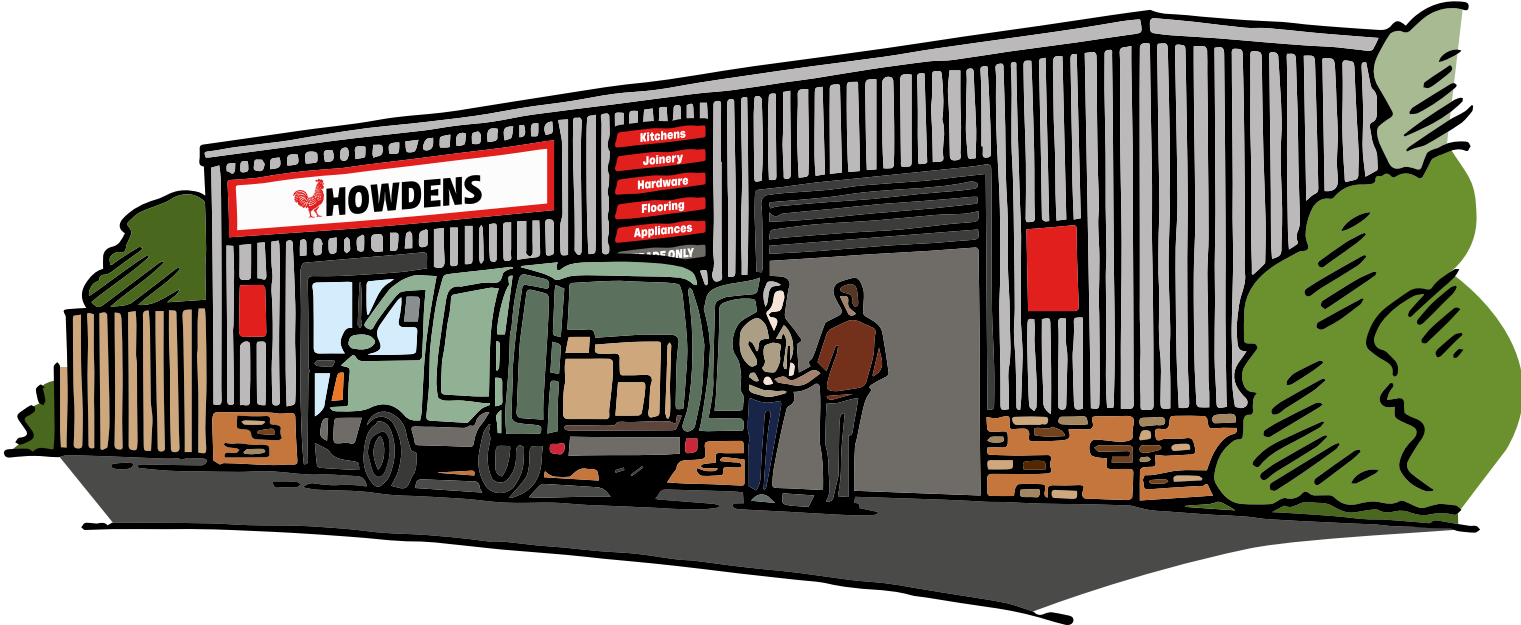
We remain cautious on market conditions given economic uncertainties, including the UK's exit from the EU, the impact that forthcoming trade negotiations may have, and the consequences of Coronavirus outbreaks in a number of countries.

With respect to coronavirus, we are monitoring our supply chain closely and have increased forward stock levels for product sourced from China, whilst reviewing alternative sources and means of supply.

Whilst we are aware of the economic uncertainties that we face, we remain confident in our business model through changing economic conditions and of the benefits our initiatives will bring to our performance.

Andrew Livingston
Chief Executive Officer

26 February 2020



Around
5
new French
depots planned
for 2020.