

# Galiform

**2008 Interim Results**

23 July 2008

# Galiform

**Mark Robson**

Finance Director

# Highlights

£m * Before exceptionals	H1 2008	H1 2007
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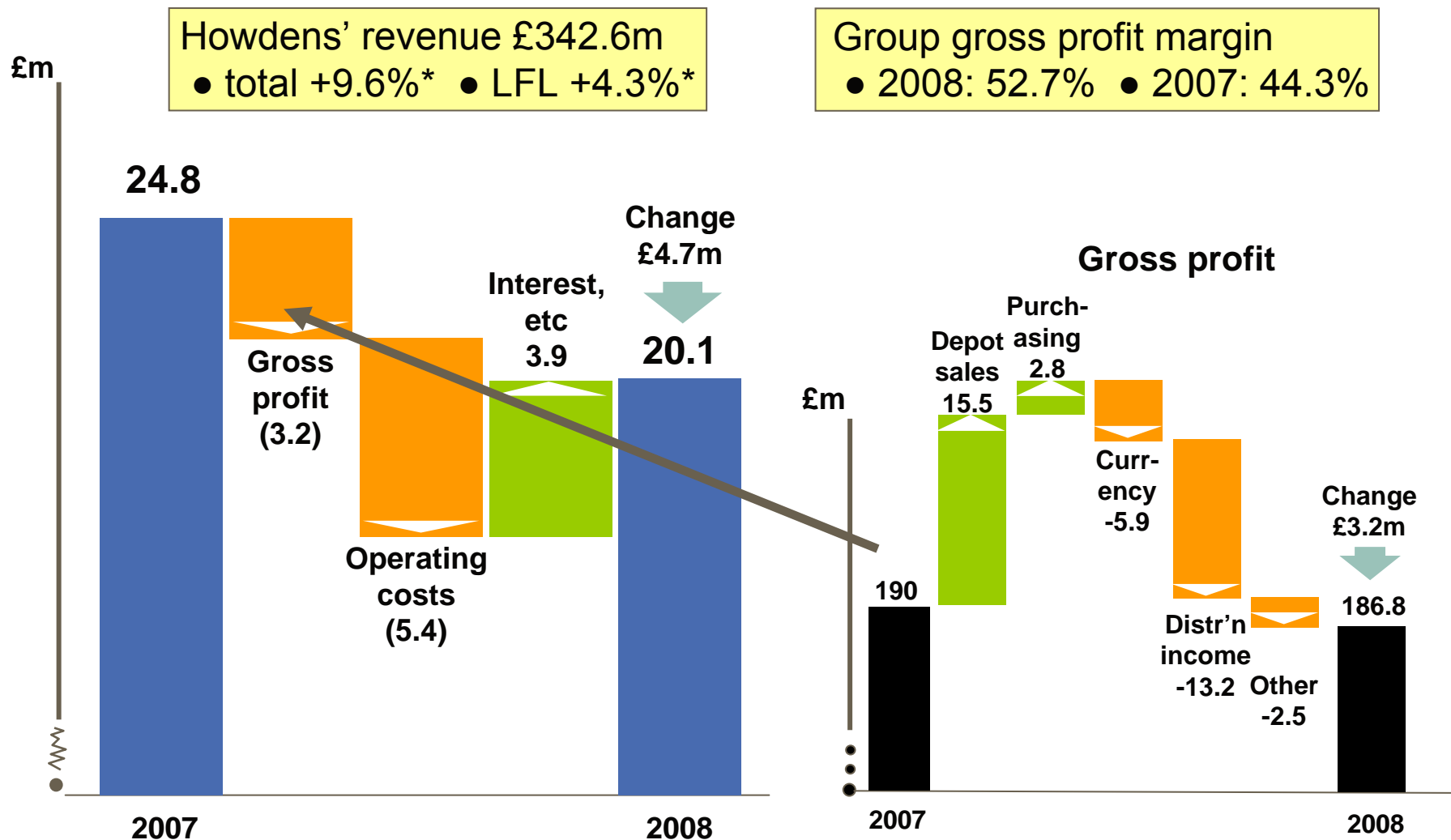
## Revenue

Howden Joinery	342.6	314.5
MFI/Hygena Cuisines	7.1	111.1
Group	354.6	429.0
Gross profit*	186.8	190.0
Operating profit*	20.8	29.5
Profit before tax*	20.1	24.8

£m	14 Jun 2008	29 Dec 2007
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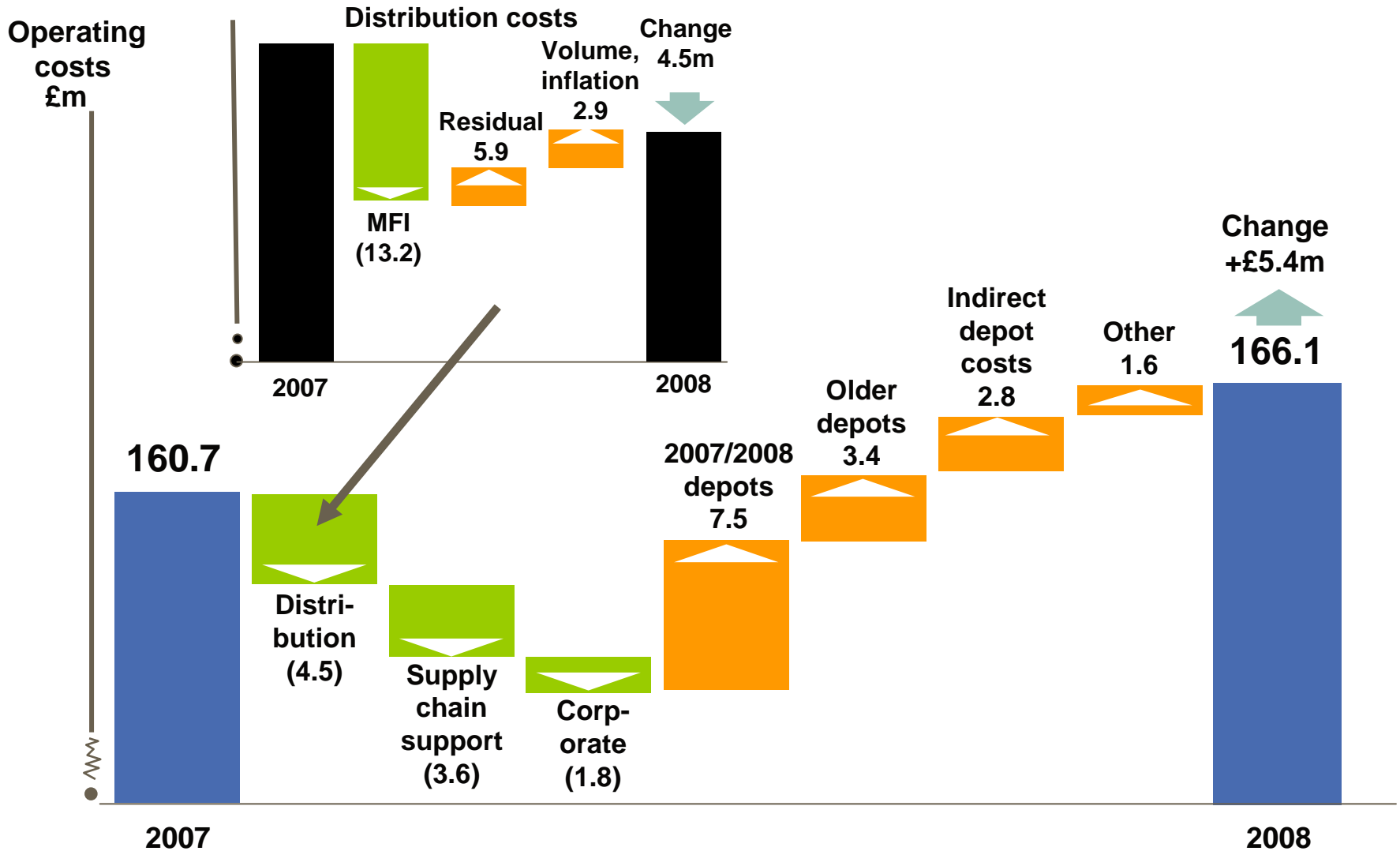
Net borrowings after one-off payments and contribution to pension deficit	40.9	<b>3.3</b>
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# Profit before tax and exceptional items\*



\* 2007 sales adjusted for extra trading day

# Operating costs



# Income statement

£m	H1 2008	H1 2007
Profit before tax and exceptional items	<b>20.1</b>	24.8
Tax *	<b>(7.5)</b>	(8.4)
Profit after tax before exceptional items	<b>12.6</b>	16.4
Exceptional items before tax	<b>1.5</b>	(0.7)
Exceptional tax credit	-	26.0
Profit for the period	<b>14.1</b>	41.7
Basic eps		
-excluding exceptionals	<b>2.1p</b>	2.7p
-including exceptionals	<b>2.4p</b>	7.0p
* Effective rate of tax (underlying rate 32%)	<b>34.6%</b>	

# Borrowings and cash flow

£m	H1 2008	H1 2007
Opening net borrowings	(3.3)	(4.1)
Operating cashflows before movements in working capital	32.3	37.8
MEP creditor	(26.8)	-
Supply restructuring creditor	(7.4)	-
'Underlying' working capital	(6.5)	(20.6)
	(40.7)	(20.6)
Capital expenditure	(10.0)	(6.6)
Asset disposals	3.5	0.1
Pension deficit contribution	(13.3)	(7.1)
Interest	(4.5)	(1.7)
Tax	(5.2)	-
Dividend	(3.0)	-
Other	3.3	5.9
Closing net (borrowings)/cash	(40.9)	3.7

# Working capital

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‘Underlying’ working capital up £6.5m

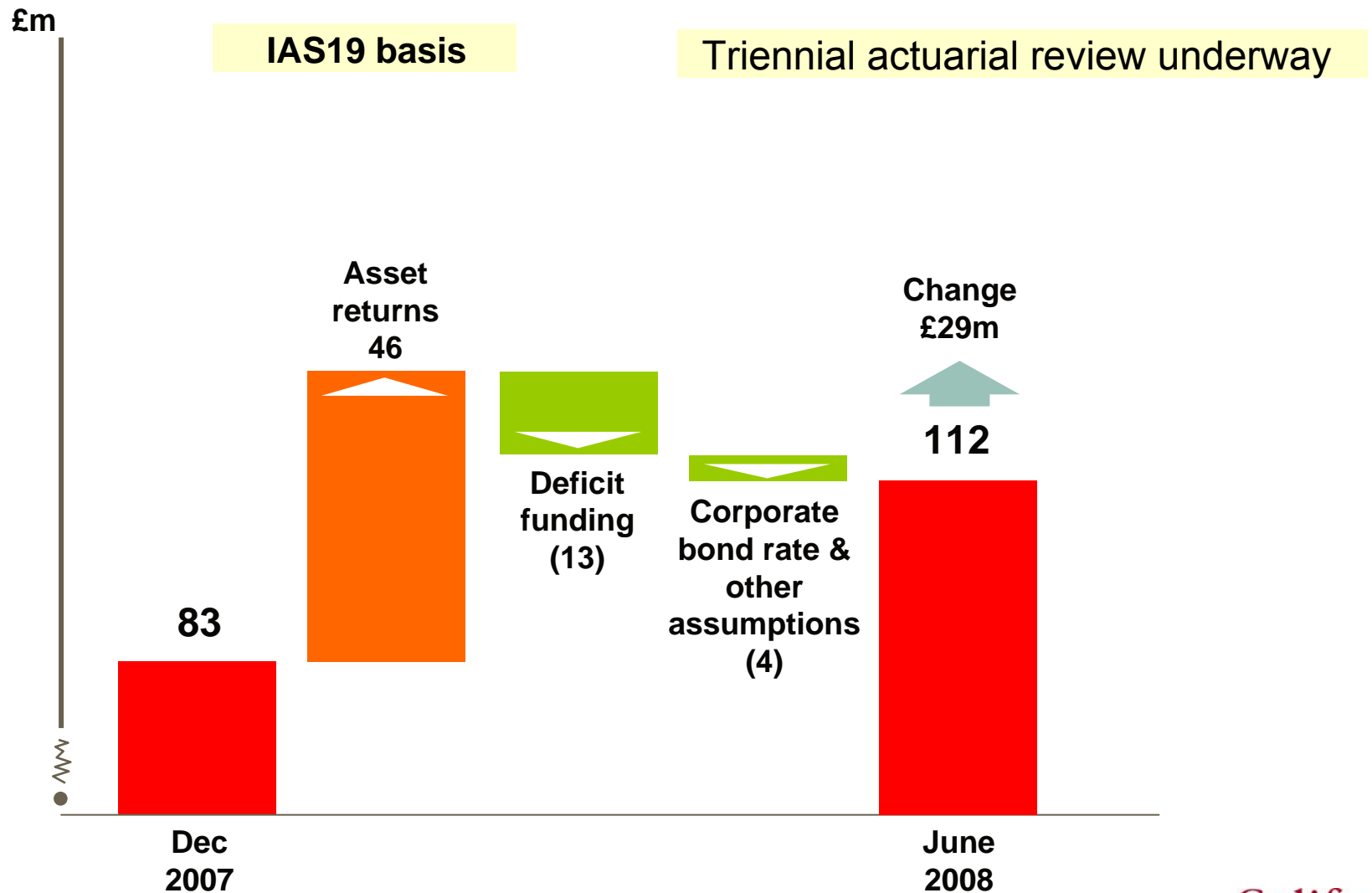
- stock up £15.2m
- debtors down £6.2m
- trade creditors up £2.5m

Reported working capital up £40.7m

incl. MEP and restructuring payments (£34.2m)



# Pension scheme deficit



# Remainder of 2008

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Exchange rate still weak vs. last year

Residual logistics costs

Sales in first period of H2 on a par with last period of H1

- rate of growth (3.3%) reflects strong performance in same period last year

No improvement in market conditions in short term

Continue to manage business in light of prevailing conditions

# Cost structure

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Cost base in excess of £700m

Major elements:

- Finished products c. 40%
- Payroll >20%
- Manufactured goods >10%  
(more than half raw materials)
- Property <10%
- Vehicle fuel and energy < £20m

# Residual costs

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Initial residual cost almost halved to c. £15m by logistics restructuring

Legacy of unused warehouse space and transport fleet

Traffic sharing agreement - £3m annualised benefit

Significant reduction expected over time:

- Other initiatives
- Howdens growth

# Bank facility

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Originally arranged in February 2006

- to May 2009
- £150m ceiling increased to £175m

Extended and renegotiated in early 2008

- to May 2011
- available ceiling significantly increased

# MEP claim

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Unlikely to reach Court until spring / summer 2009

Reduced to £53 million

88 individual items

- each one individually assessed

Some items entirely without merit

Now conceded that offsetting items should be considered


# Galiform

**Matthew Ingle**  
Chief Executive

# Overview

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➔ The Howdens business model is delivering results:

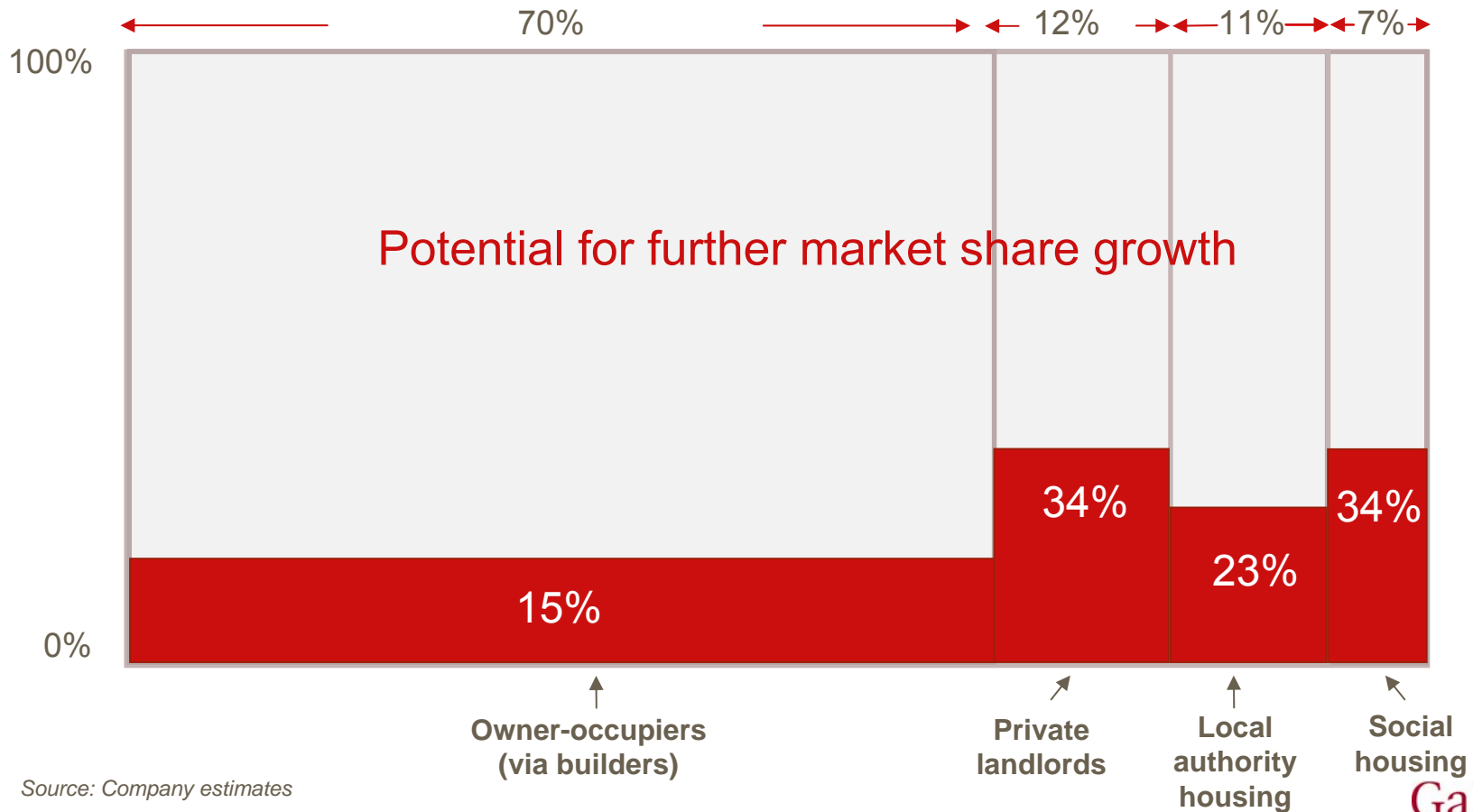
- Good performance in difficult economic environment
  - Effective account management
  - Local control enables clear focus on costs
  - New product development opportunities
  - Demographic potential
  - Reliable supply chain
  - Proactive, growing business
- 



# Howdens UK market share

Very limited exposure to new build

- Sales to top 10 house builders only £1.4m in 07, £0.7m in H1 08



# A clear purpose

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Howdens is a

**focussed**

business

supplying small builders with kitchen & joinery

it's based on

**relationships and service**

and on a

**reliable supply chain**

# What we're good at...

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- ➔ Being entrepreneurial
- ➔ Sophisticated account management
- ➔ Focussed product development
- ➔ Effective credit management

The Howdens business model is an integrated whole,  
developed over time and with experience

# Being entrepreneurial means... (1)

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## ⇒ Being very important to our customers

- 54% don't buy kitchen cabinetry elsewhere\*
- 94% say they would recommend us\*
- Most are regular visitors

## ⇒ Delivering much more than price

- Builders are business people – their time is money
- They value the service we offer even more highly than price\*
  - Rigid boxes, available from stock, locally, in a helpful environment

## ⇒ Having a commercial mindset

- Profit-based depot incentive model
- Local control of pricing and marketing
- Stock control (depots are c.10,000 sq ft)

\* Source: Survey commissioned by Galiform, June 2008

# Being entrepreneurial means... (2)

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➔ Having powerful margin and market share drivers

- Price
- Advertising
- Local delivery
- Local costs
- Credit control
- Staffing
- Stock control



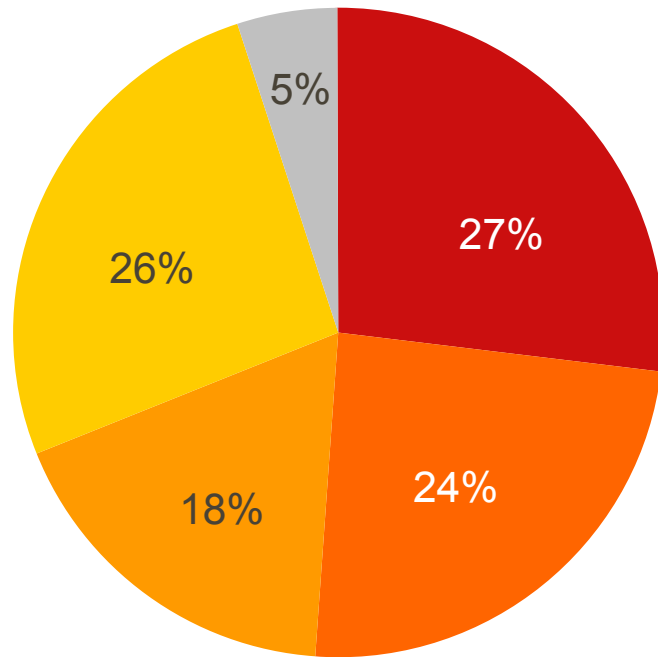
Margin  
Market share  
Costs

# Sophisticated account management...

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- ⇒ **234,000 registered account holders**
  - 182,000 credit accounts
- ⇒ **Sustained frequency of spend**
  - 69% traded in H1 08 (H1 07: 69%)
- ⇒ **Average spend per account increasing**
  - H1 08 + 4% vs. H1 07
  - 2008 + 7% (MAT) on kitchens only
- ⇒ **Growth of spend underpinned by model**
  - Good quality products available from local stock
  - Strong customer relationships with motivated staff

# Visits per customer

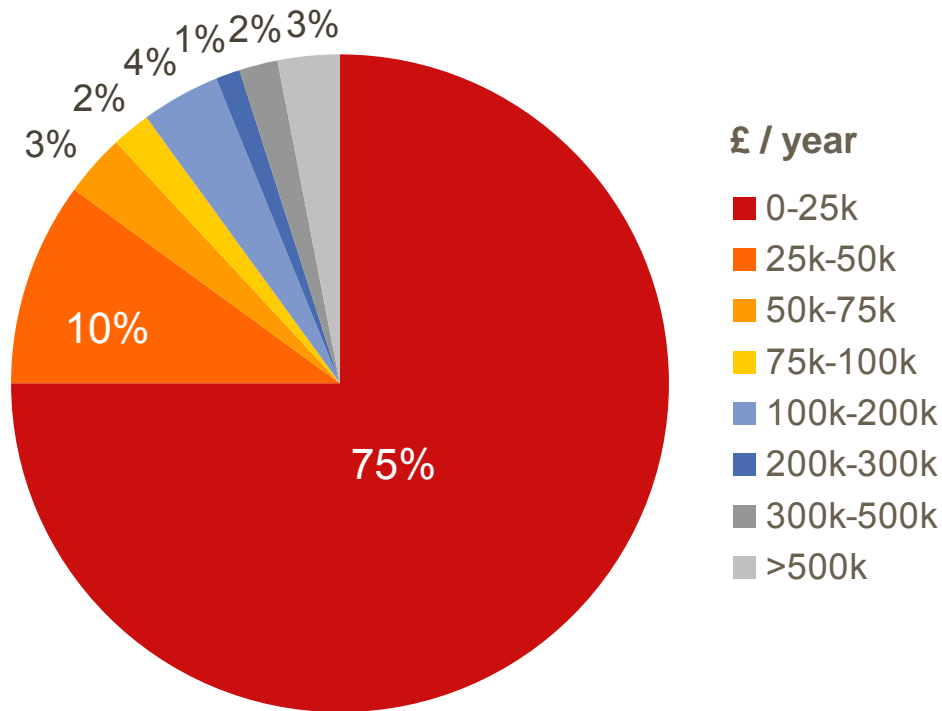


- At least once a week
- A couple of times a month
- Once a month
- Every couple of months or less
- Don't know / not sure

- 70% of customers visit a depot at least once a month
- Over a quarter of them visit a depot at least once a week

A good opportunity to grow sales to existing customers

# Spend per customer



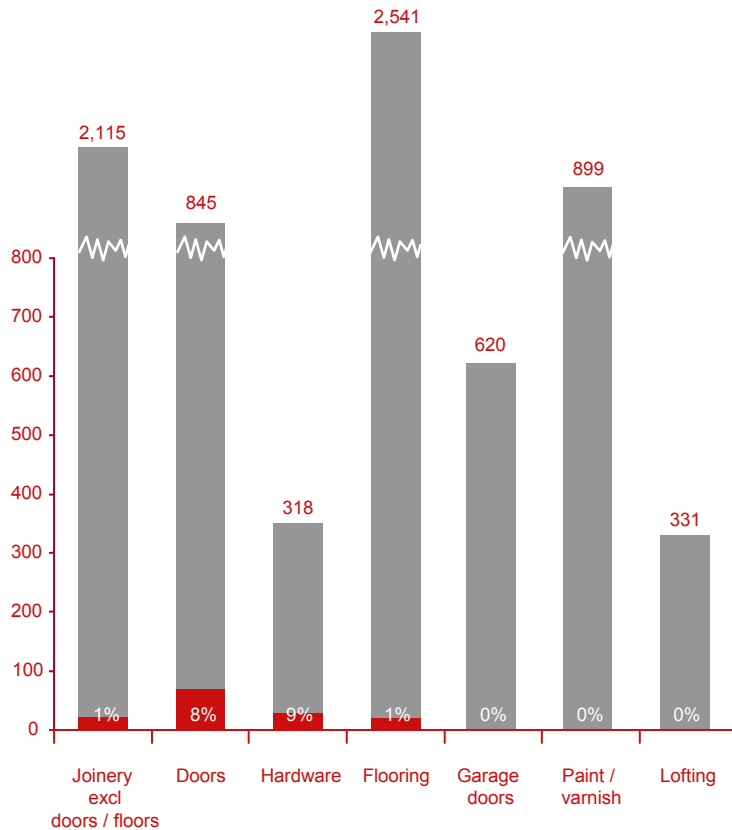
- Many customers buy joinery and hardware from us before they buy complete kitchens
- Only 10% spend more than £100k p.a.

Strong potential for further growth in average spend

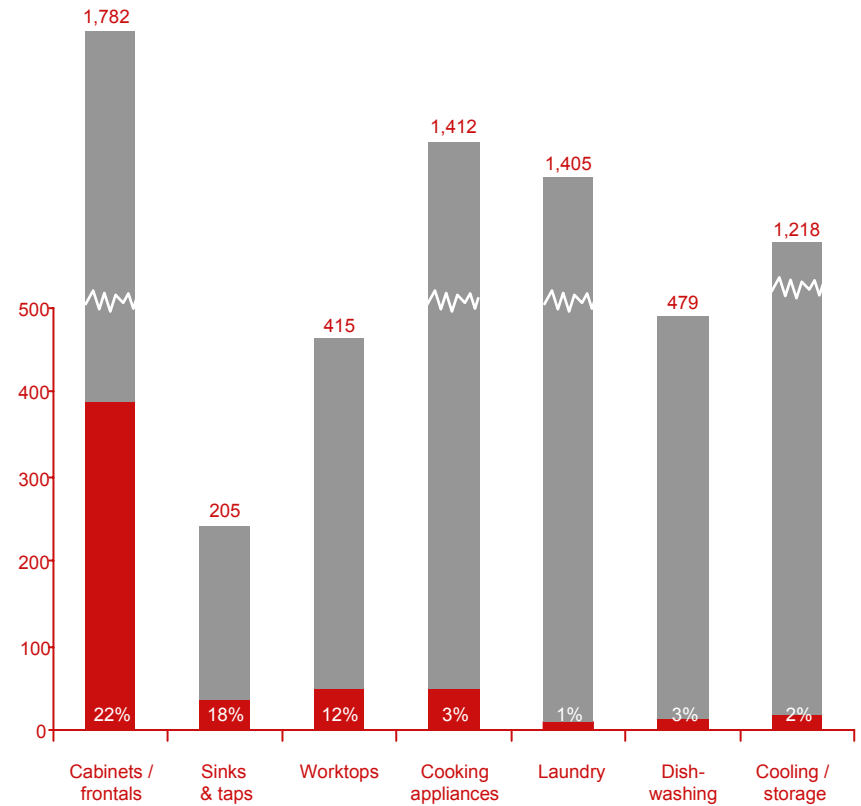


# Our product sales in the UK marketplace

## Joinery (£m)

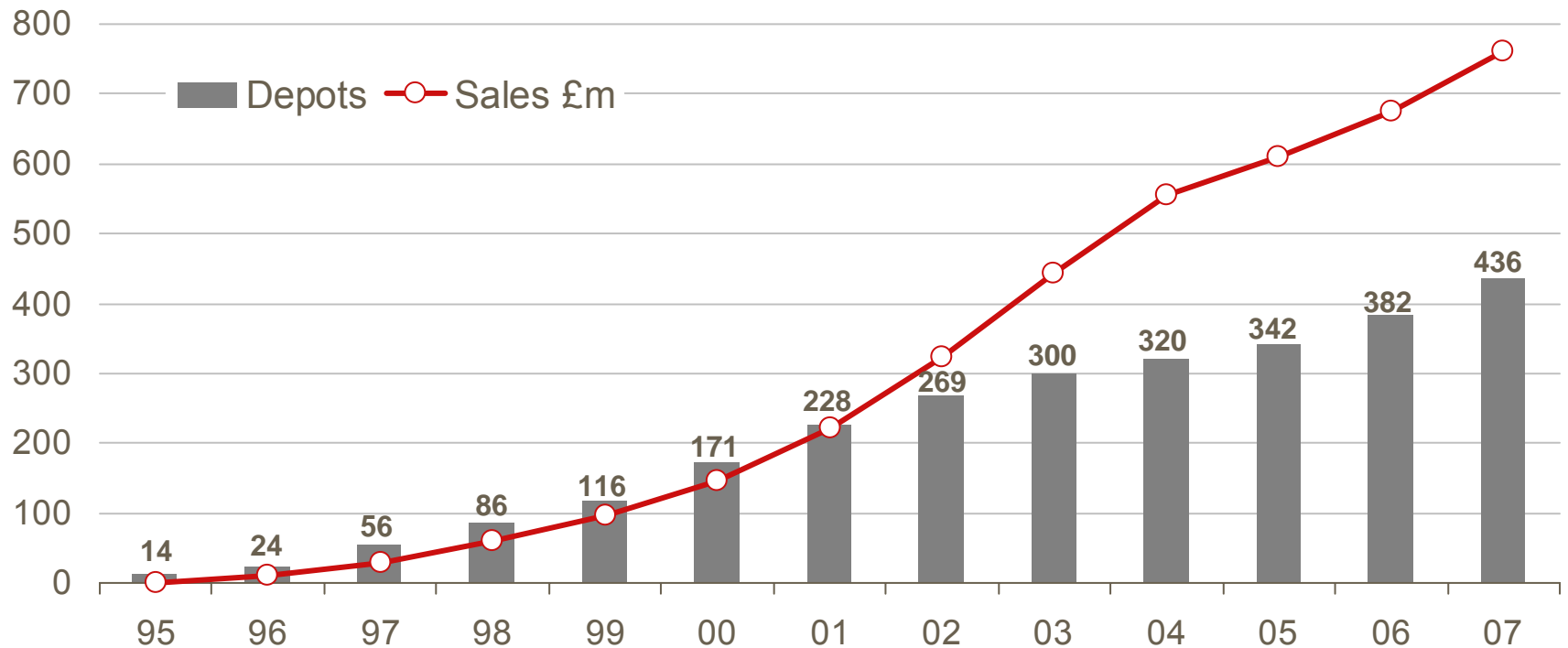


## Kitchens (£m)



Source: Company accounts and industry estimates. Total market size based on retail selling price

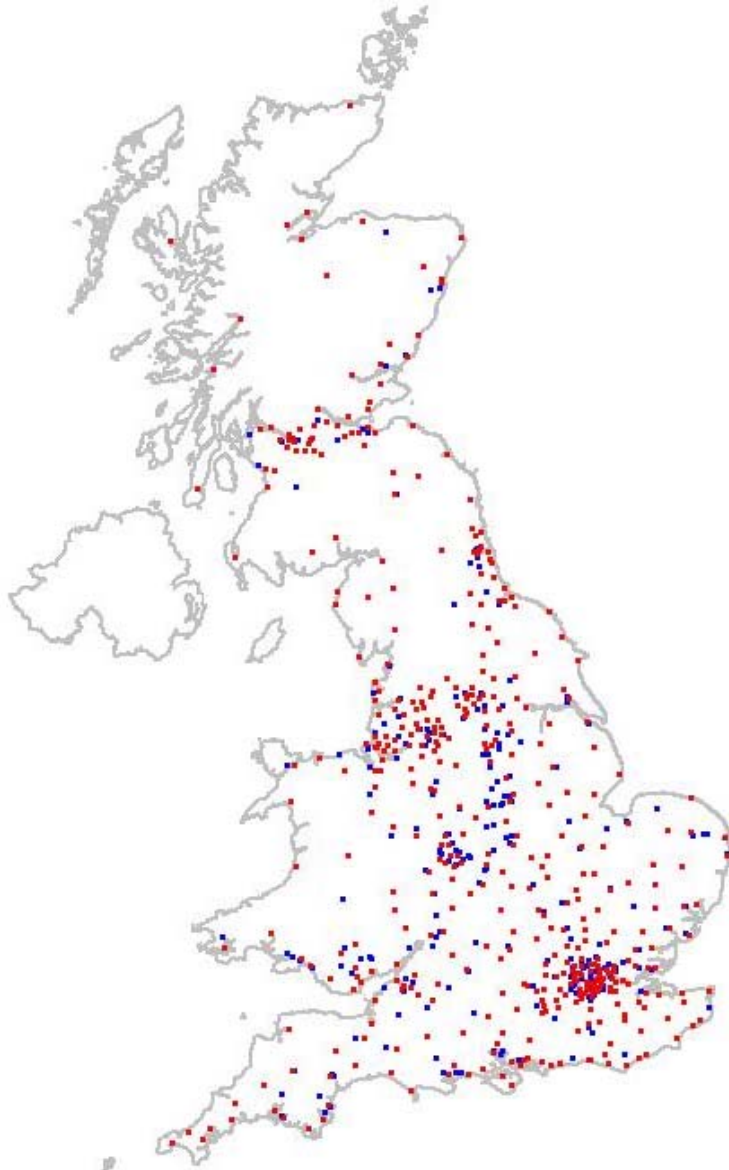
# Continuing depot growth



- Sales per mature depot c.£2m p.a.
- 7-year depot maturity curve

# A local business with further market opportunities

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- Scope for at least 600 depots
- Easy to find and fit out
- Rollout programme adapted to market conditions
  - Limiting 08 openings to c.20
  - Increasing benefits of 109 depots opened since Jan 06

■ current  
■ projected

# Effective credit management means...

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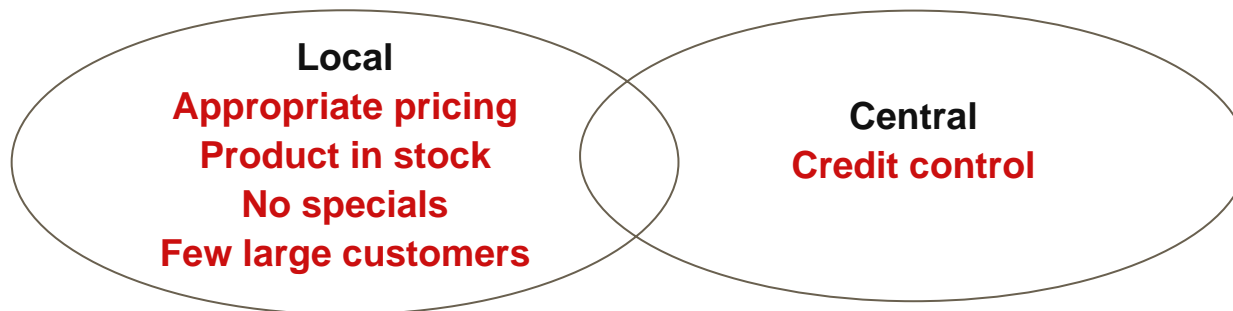
## ⇒ More scope for growth

- Over 180,000 credit accounts
- Combined credit availability £1.6bn

## ⇒ Monthly terms, tightly enforced

- *Total* cost of credit control, including write-offs and bad debts = 1% of sales
- Debt profile as % of sales unchanged since 07

## ⇒ Our local model – a key differentiating factor



# Managing the legacy of restructuring

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- ⇒ Restructuring allowed a clearly focused business to emerge
- ⇒ Successfully managing reduction of MFI residual costs
- ⇒ Opportunity to transform spare capacity
- ⇒ Strong logistics and property management skills

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## ⇒ Legal claim:

- 88 separate items (originally 94)
- One cash claim (originally £24m) determined at £8.4m after 18 months
- Substantial counter-claims by Galiform
- Earliest Court date spring / summer 09

## In summary...

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- ➔ Good performance driven by sound business model
- ➔ Operating successfully at scale
- ➔ Well-financed and cash-generative
- ➔ Successfully managing legacy of restructuring
- ➔ Taking appropriate actions in economic environment
- ➔ Significant further opportunities ahead

A focussed business built on relationships and service

# **Appendix**

**23 July 2008**

# Our product sales in the UK marketplace

	Category	Sales 2007, £m	As a % of total market	Total market 2007, £m (e)
Kitchens	Cabinets and frontals	390	22	1,782
	Worktops	51	12	415
	Cooking appliances	48	3	1,412
	Sinks & taps	37	18	205
	Cooling / storage	18	2	1,218
	Dishwashing	14	3	479
	Laundry	11	1	1,405
	Lighting	3	0	1,540
	<b>Total</b>	<b>572</b>	<b>-</b>	<b>8,456</b>

	Category	Sales 2007, £m	As a % of total market	Total market 2007, £m (e)
Joinery	Doors	68	8	845
	Hardware	30	9	318
	Flooring	24	1	2,541
	Joinery excl. doors & floors	18	1	2,115
	Garage doors	1	0	620
	Paint/varnish	0	0	899
	Lofting	0	0	331
		<b>Total</b>	<b>141</b>	<b>-</b>

Source: Company accounts and industry estimates. Total market size based on retail selling price



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