

Galiform

2009 Half Yearly Report

22 July 2009

Galiform

Matthew Ingle

Chief Executive

Overview

- ➔ The Howdens model is continuing to perform well:
 - Margins increased
 - Stock levels reduced
 - Depot and supply costs reduced
 - Focused supply chain delivering further efficiencies
 - Robust maturity curve
- ➔ ... enabling us to manage the legacy issues successfully
- ➔ ... and prepare for the next phase of development

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Mark Robson

Finance Director

Context of financial results

- ⇒ Resilient performance by Howdens business seen in operating results, particularly % gross margin and cash flow
- ⇒ Cash flow continues to be impacted by legacy issues
 - Pension deficit funding and properties
- ⇒ Further progress on dealing with legacy issues
 - Release from 'guaranteed' properties leases
 - Pensions agreement

Highlights

£m * Before exceptionals	H1 2009	H1 2008
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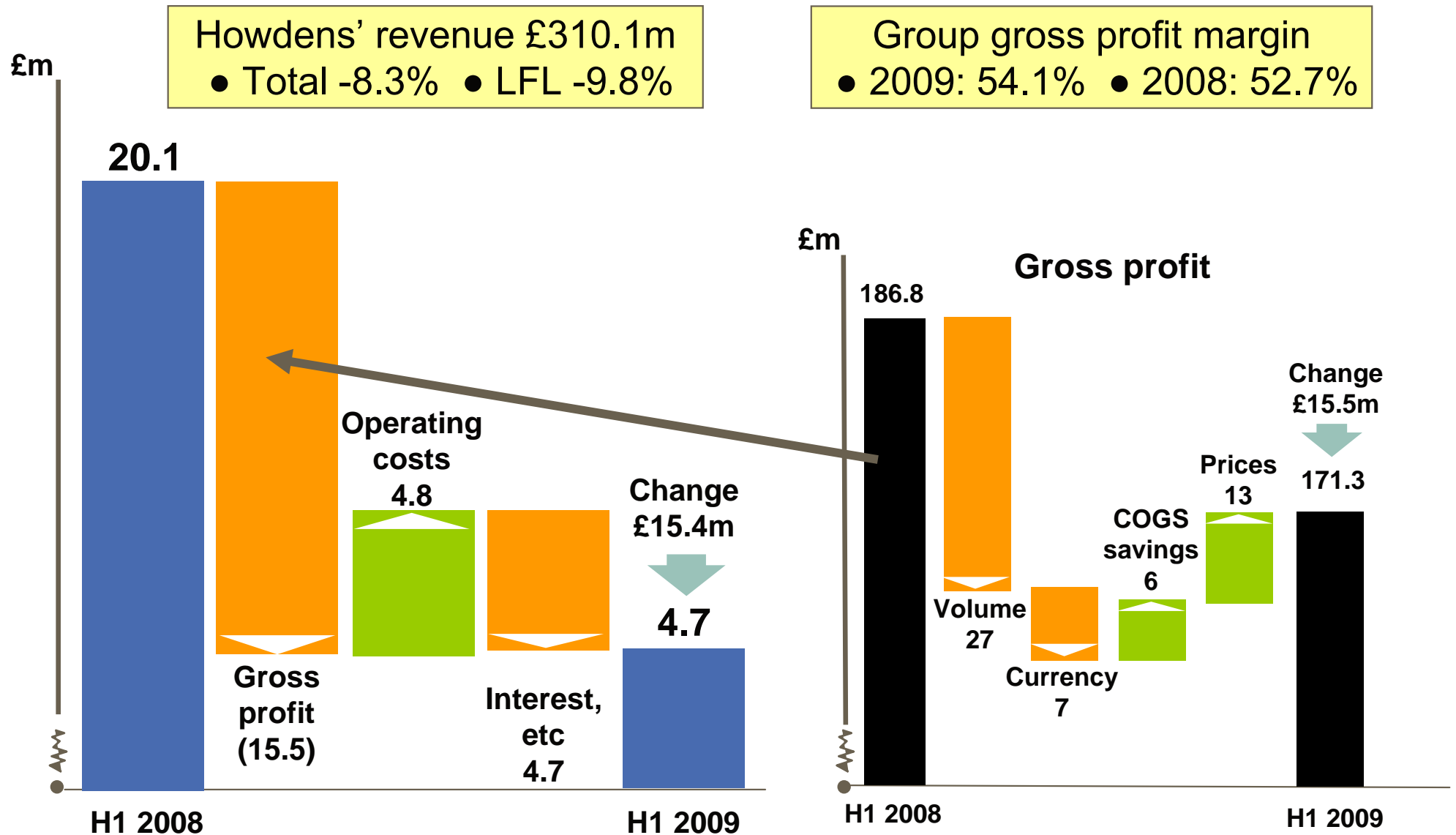
Revenue

Howden Joinery	310.1	342.6
Group	316.8	354.6
Gross profit margin	54.1%	52.7%
Operating profit*	10.0	20.8
Profit before tax*	4.7	20.1
Exceptional charge (discont'd operations)	(4.4)	-

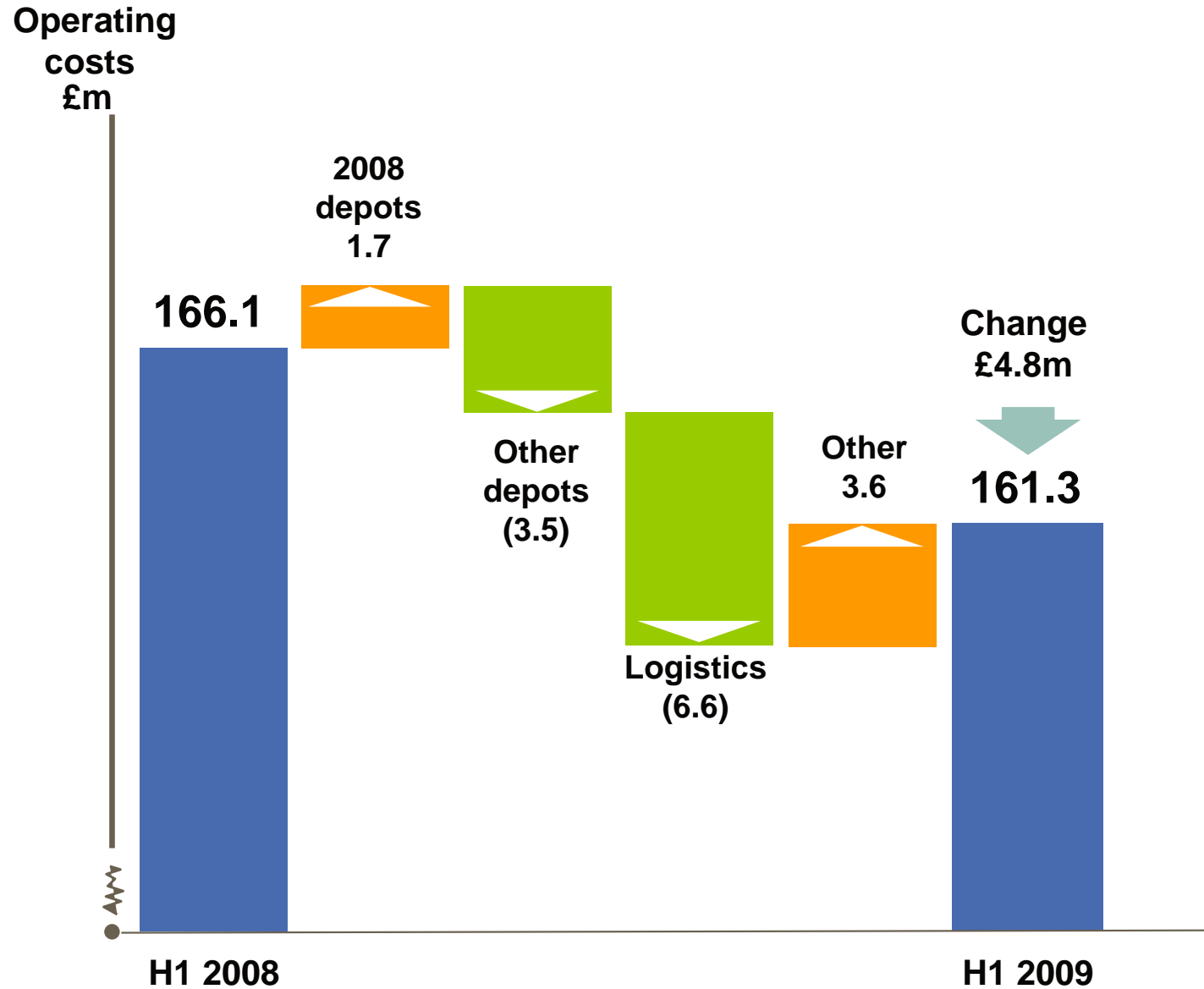
£m	13 June 2009	27 Dec 2008
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Net borrowings	50.3	61.2
after contribution to pension deficit (£13.4m) and 'legacy' properties payments (£15.0m)		

Profit before tax and exceptional items



Operating costs



Income statement

£m	H1 2009	H1 2008
Continuing operations:		
Profit before tax and exceptional items	4.7	20.1
Tax	(1.7)	(7.5)
Profit from continuing operations before exceptional items	3.0	12.6
Exceptional items	-	1.5
Profit from continuing operations	3.0	14.1
Discontinued operations:		
Exceptional items before tax	(4.4)	-
Tax	-	-
Loss from discontinued operations	(4.4)	-
(Loss)/profit for the period	(1.4)	14.1

Borrowings and cash flow

£m	H1 2009	H1 2008
Opening net borrowings	(61.2)	(3.3)
Operating cashflows before movements in working capital	19.9	32.3
‘Underlying’ working capital	23.2	(3.4)
‘Legacy’ properties	(15.0)	(3.1)
Other ‘exceptional’ creditors	(0.8)	(34.2)
	7.4	(40.7)
Pension deficit contribution	(13.4)	(13.3)
Other exceptional items	(0.4)	-
Capital expenditure	(3.8)	(10.0)
Asset disposals	1.0	3.5
Interest	(1.8)	(4.5)
Tax paid	-	(5.2)
Dividend	-	(3.0)
Other	2.0	3.3
Closing net borrowings	(50.3)	(40.9)

Legacy costs – c.£30m

Working capital

⇒ 'Underlying' working capital down £23m

- Stock down £22m
- Debtors up £1m
- Trade/other creditors up £2m

⇒ Legacy property payments totalling £15m

⇒ Reported working capital cash inflow of £7.4m

Reducing our property liabilities

	1 October 2006		22 July 2009	
	No of properties	Net rent and rates liability £m	No of properties	Net rent and rates liability £m
Guaranteed (gross)	56	25	32	16
Guaranteed (net)				
Residual				
Vacant	15	4	5	1
Tenanted	18		11	
HDCs				
Vacant	2	5	5	4
Tenanted	5		1	
	96	34	54	21

Notes:

1) Sofa Workshop stores currently in administration – net rent & rates c. £1m

2) Excludes MFI rental income

Legacy property developments

- ➔ £15m cash payments to landlords in H1 2009
 - £0.5m lease exit – two ‘deals’
- ➔ Five guaranteed property deals since end of H1
 - £6m exit cost – c. twice annual cost
 - c. £22m liability extinguished
 - Original 46 properties now 32 – liability reduced by c. £65m
- ➔ Future cash payments to landlords spread over life of remaining leases

As at	Sept 2008	Current	1 Jan 2012	1 Jan 2015	1 Jan 2020	1 Jan 2025
Guaranteed properties	46	32	29	15	10	-
Net annual rent & rates, £m*	21.4	15.7	14.7	7.5	4.6	-

* Before mitigating action

Pension scheme deficit – funding agreement

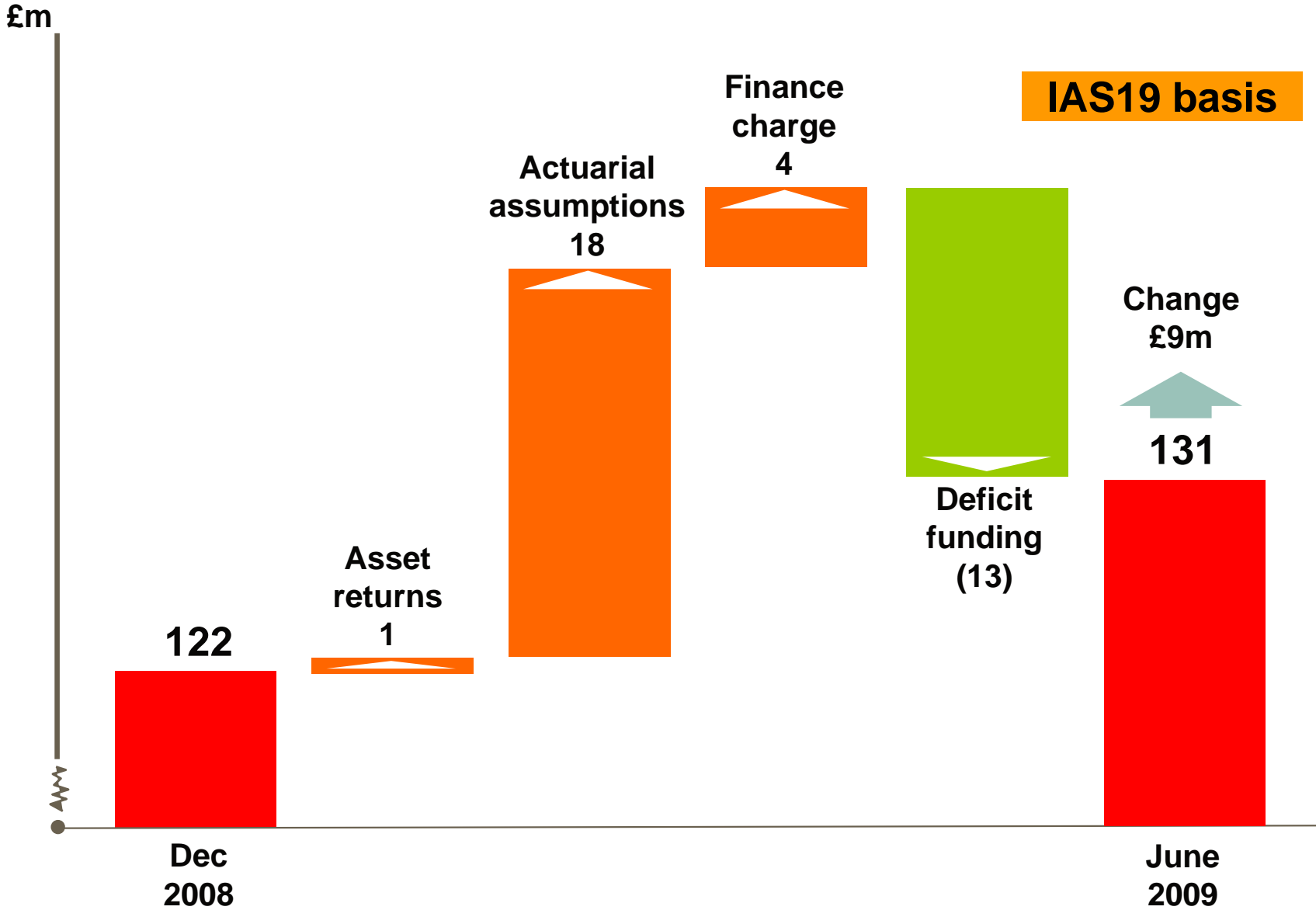
- ➔ Schedule of payments agreed for three-year period ending April 2012
 - Reduced if agreed level of performance not achieved

Year ending 5 April	2010	2011	2012
	£19m	£28m	£33m
Contingent payment*	£5m	£8m	£8m

* reduction from above payments

- ➔ Cash contribution in current financial year (to 26 Dec 2009) of £21m

Pension scheme balance sheet deficit



Outlook for 2009

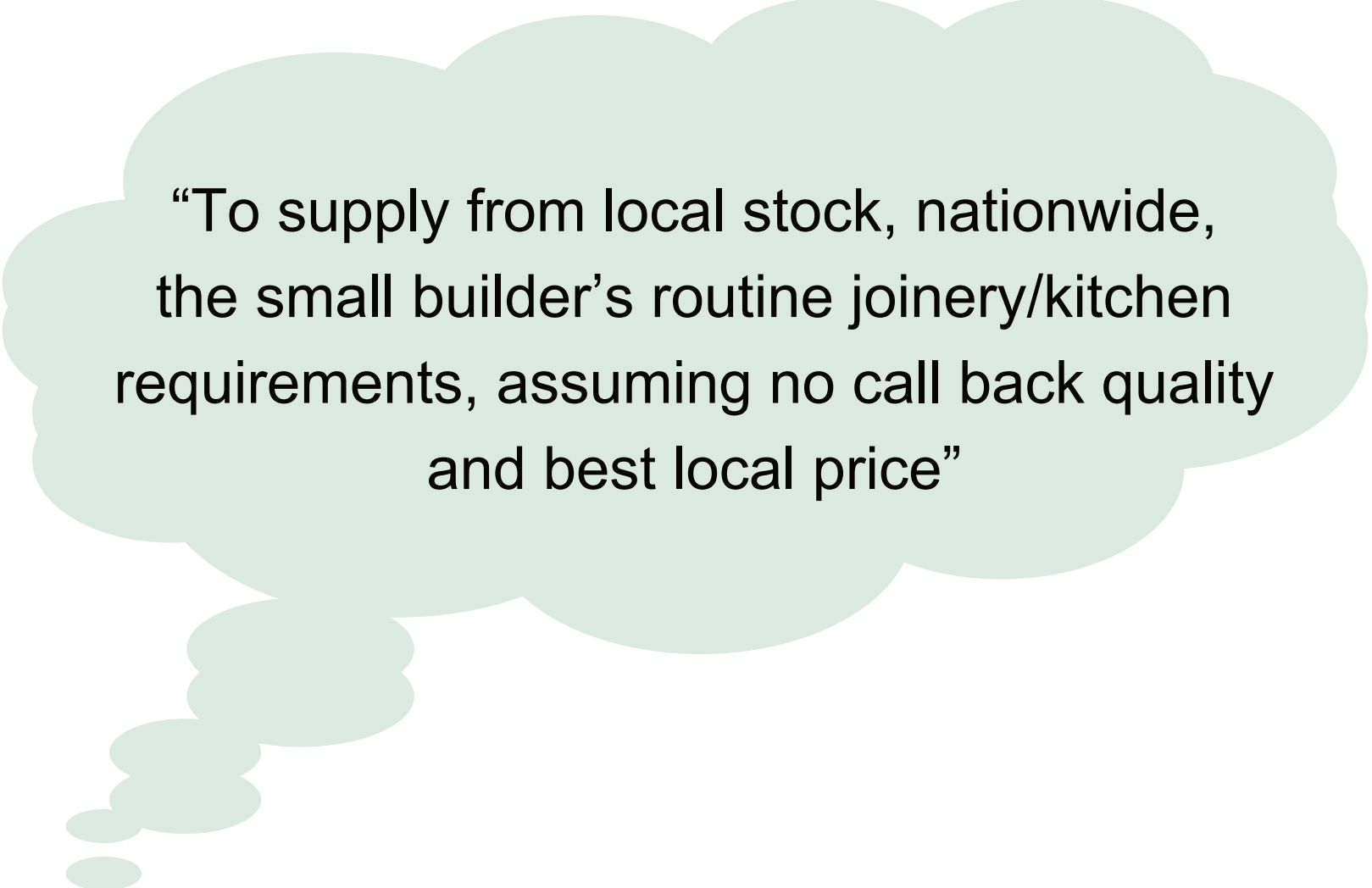
- ⇒ Sales remain consistent with last quarter of 2008
 - Period 7 (4 weeks ending 11 July) down 5.2%
- ⇒ Expect market to remain challenging
 - Will manage business accordingly
 - Prudent approach to capital expenditure: no new depots – yet
- ⇒ Exchange rate remains weak vs last year

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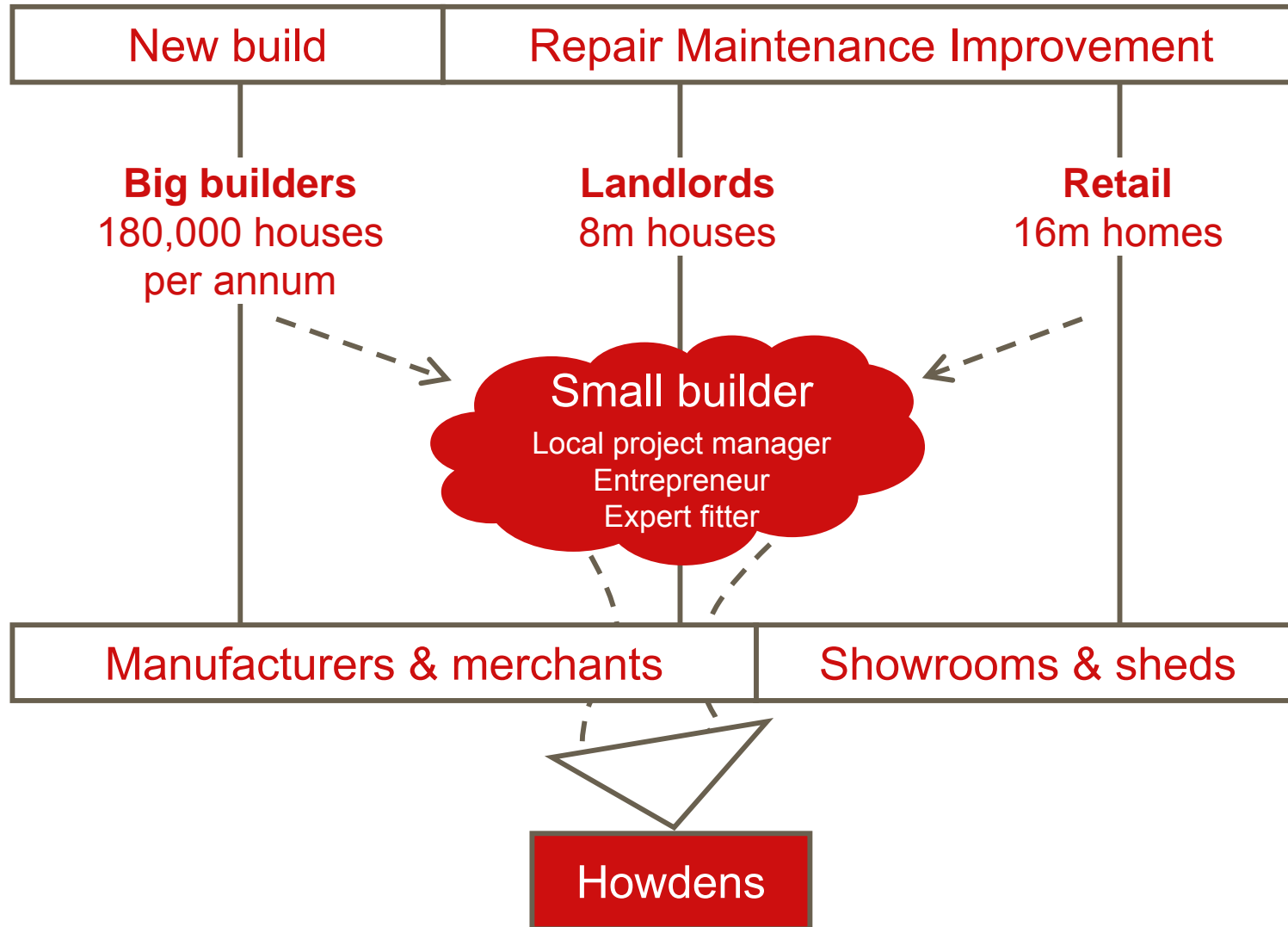
Chief Executive

Howdens mission



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

A business built on recommendation



Simple but good and very well done

Retail without the costs

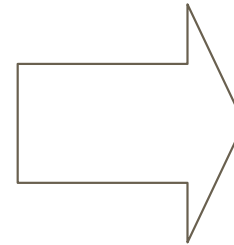


- ➔ Showrooms
- ➔ National advertising
- ➔ Retail rents
- ➔ Teams of fitters
- ➔ Home delivery
- ➔ Call centres

Retail comes to us via the local builder

Improving depot profitability

⇒ Significantly improved depot margins driven by:



- Better planning
- Lower stock levels
- Better service
- Sales per head

Better value for customer and end-user → drives market share

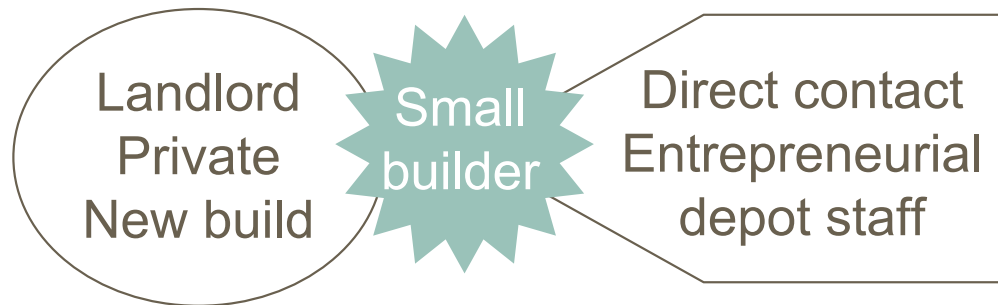
Effective account management

- ⇒ Monitoring the value of new accounts to clients
 - Credit terms → improved cash flow
 - Progressive discounts → enhanced margin
 - Invitations to trade → higher sales per head

} for the builder
} for Howdens
- ⇒ Rigorous central screening
- ⇒ Efficient 'pruning' of accounts
 - Ensures up-to-date credit assessments
- ⇒ Tightly managed, centralised credit control
 - Total cost of credit control = 1.5% of sales
- ⇒ Total credit accounts at end of H1 09 = 181,000
 - 22,000 accounts opened; 19,000 accounts closed during period

Focused on customers

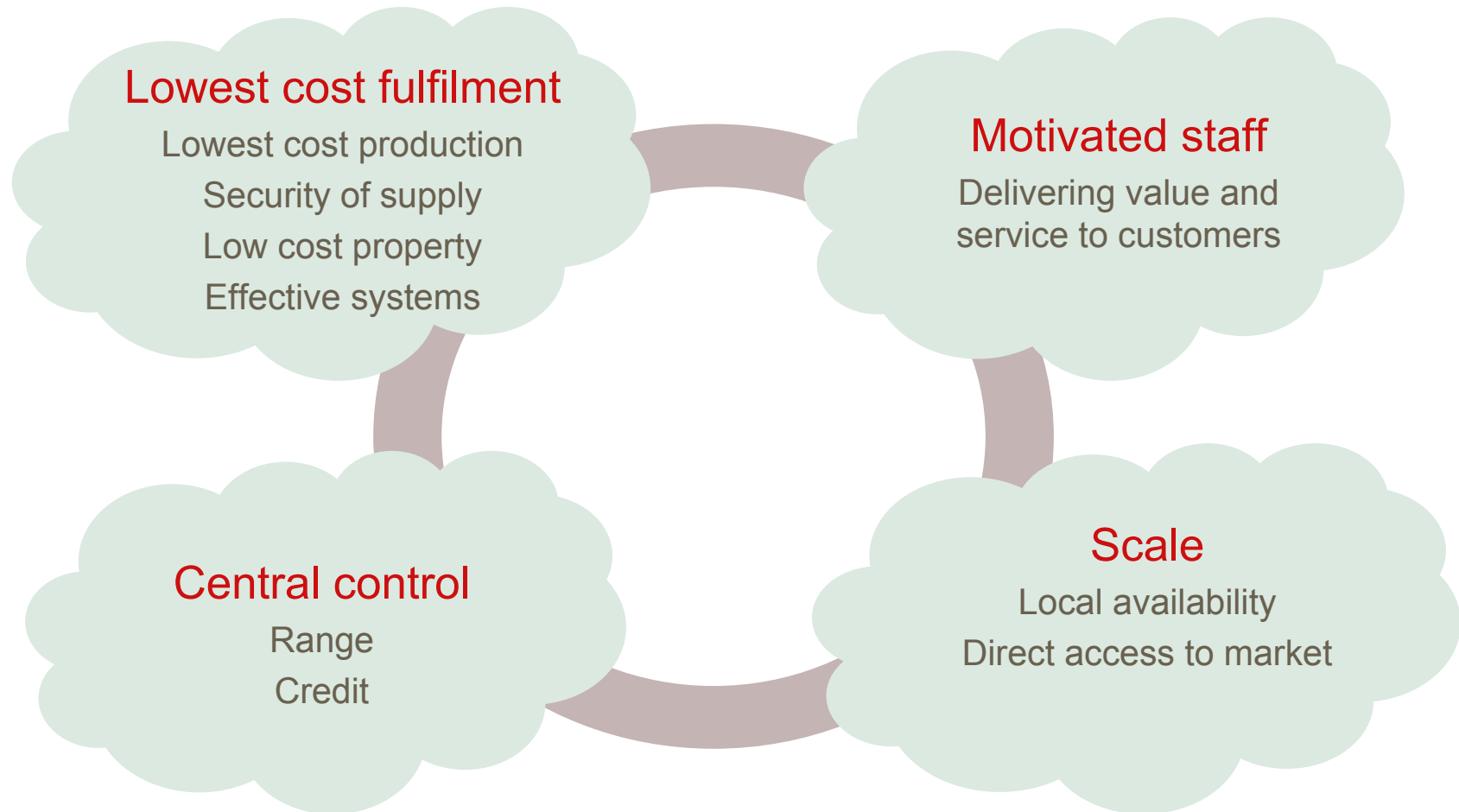
RMI kitchen market



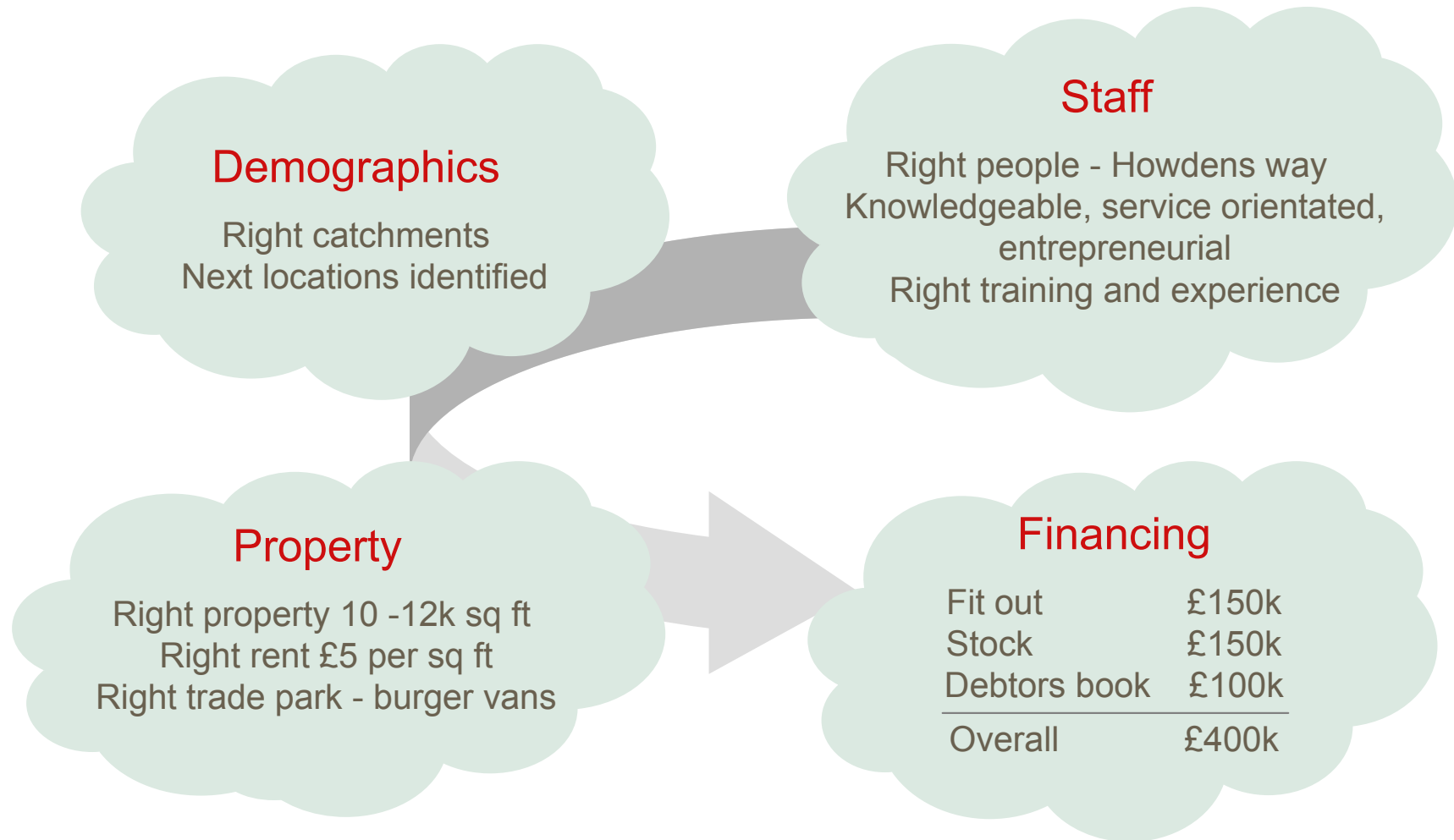
Specification	Availability
Range Reassuring + Exciting	Stock Local Now (telepathic)
Quality Rigid No call-back	Price Value to: • small builder • end-user

X

Underpinned by critical factors



Depot expansion



All the critical elements are in place

Robust maturity curve

Average annual sales by opening year group

	Year 1	Year 2	Year 3
Sales (£m)	0.2	0.8	1.0
Range (£m)	0.2 - 0.3	0.6 - 1.0	0.9 - 1.3

- ⇒ Recent openings follow same track as all previous year groups
- ⇒ Autumn trading yet to come
- ⇒ Successful autumn → reassurance for decision-making on depots

In summary ...

- ➔ The Howdens trade model performs in all environments
- ➔ Competitive advantage based on a unique combination:
 - Lowest cost fulfilment
 - Local availability everywhere
 - Entrepreneurial, motivated staff
 - Tight central control of credit and range
- ➔ The MFI legacy is being actively addressed
- ➔ A well-financed and cash-generative business, poised for the next phase of expansion

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