

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.

COVID-19

2020 will unfortunately be remembered for the impact that COVID-19 had on all aspects of our lives. At Howdens, our priority continued to be the health and wellbeing of our employees, customers and the communities that we operate in. We closed our factories and depots on 23 March 2020 when the UK went into lockdown and acted quickly to preserve cash, including withdrawing our recommendation to pay a 2019 final dividend and postponing all non-essential capital expenditure, only gradually re-opening our business when we could operate in a safe, socially-distanced way.

I am immensely proud of the way that your Company reacted to the pandemic, from the initial provision during lockdown of emergency products to the NHS, care workers and vulnerable people and the way the teams quickly introduced new processes and procedures in manufacturing and depots to ensure a safe return to operation. We also worked continuously with suppliers around the world, ensuring we had products available in stock ready for when trading recommenced. This hard work made a significant contribution to our performance in the second half.

Continued growth

Following the decline in sales of 28.7% in the first half of 2020, we saw a strong recovery in the second half with sales up 16.2% as businesses were encouraged to return to work. Overall, 2020 sales were down 2.3% compared with 2019, with gross margin lower at 60.1% (2019: 62.3%), reflecting product mix, pricing and the impact from needing to close operations during lockdown. The first half loss before tax of £14.2m, benefitted from £22m

of Government furlough payments and £8m of business rates relief which were subsequently repaid in the second half, once the Board had determined that the Group did not require financial support from Government.

We were one of a number of companies who felt a societal obligation to repay the furlough moneys received from Government once we had had a chance to evaluate the impact of the crisis on our financial resources. More particularly, we were the first to also repay the business rates relief which had been provided by Government. We felt strongly that this was the right thing to do and have been delighted to note that many others have now followed suit, returning over £2bn to the Treasury which is much needed elsewhere.

Profit before tax was £185.3m, compared with £260.7m in 2019. This was pleasing, considering the impact COVID-19 had on our ability to trade and on our operations.

The excellent response to the logistical/supply-chain issues brought by the COVID-19 pandemic was testament to the Brexit planning that your management team put in place in recent years.

Our business model allows us to be agile in an uncertain and changing market environment. Considering the circumstances, we performed well against our financial and non-financial key performance indicators ('KPIs'), as shown on pages 30 to 32. Andrew Livingston discusses our performance in more detail in his review of the year on pages 22 to 29 and Paul Hayes in his financial review on pages 33 to 37. We talk about our Purpose and our Culture and values 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 six years, investing more than £330m in the business.

Although our 2020 plans were interrupted by COVID-19, we opened 16 new depots, refurbished 30 older depots and continued to invest in our Raunds distribution facilities, in Northamptonshire. We continued to improve 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 capital expenditure for 2021 will be approximately £80m as we continue to open new depots, refurbish some of the older ones and invest in our manufacturing capability.

Returns to shareholders

Earnings for the year were 24.9p per ordinary share, a reduction of 28.9% on the prior year (2019: 35.0p).

As previously stated, the Board responded quickly to COVID-19 by withdrawing its recommendation for the 2019 final dividend of 9.1p per share and suspending other shareholder returns. As a consequence, no interim dividend was paid in 2020 and only £9.8m of shares were purchased as part of the outstanding £50m 2019 share repurchase programme.

Following the strong performance in the second half of 2020 and in line with our stated dividend policy, which is set out in detail in the Financial Review on page 36, the Board has decided to resume dividend payments. This includes, paying a special dividend of 9.1p in lieu of the 2019 final dividend that was cancelled during the peak period of COVID-19 uncertainty and recommending a final dividend for 2020 of 9.1p. The Group expects to announce an interim dividend for 2021 with its half year results in July.

Board

Paul Hayes joined Howdens as CFO designate in November and was appointed to the Board as Chief Financial Officer and an Executive Director at the end of the year. Paul is a seasoned listed company finance executive with complementary experience in consumer and manufacturing businesses. I am pleased to welcome Paul to the Board looking forward to working with him and Andrew through the next phase of Howdens' development.



Further reading

See my introduction to our Governance Report	Page 70
See our Sustainability Report	Page 48
See our Board of Directors	Page 72

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.

Paul replaced Mark Robson who stood down from the Board at the end of the year. Mark joined the Board as Chief Finance Officer in April 2005 and, in addition to this role, was appointed Deputy CEO in May 2014. In his early years, Mark was integral in the restructuring and refinancing of the Group, strengthening its balance sheet whilst ensuring that there was sufficient capital for the Howdens business to grow into the strong, sizeable and successful business it is today. His careful, thoughtful and prudent management of the Company's finances has been a key element of our ability to weather the storm of the COVID-19 pandemic. We are grateful to Mark for his service and contribution to Howdens.

The Board's response to COVID-19 is set out in more detail in the Corporate Governance Report, starting on page 68. Due to the unprecedented events of 2020 the Board were required to meet more regularly both on a formal and informal basis. It also significantly impacted the Board's agenda and focus. I'm pleased with the Board's response to the challenges which have arisen, and continue to arise, from the pandemic. Its impact can be felt in every section of this annual report and accounts.

Governance

Howdens has a clear governance framework and we 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 2020 can be found in our Corporate Governance Report, starting on page 70.

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 88. We are also pleased to report that 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') was approved by shareholders in 2019 and stipulates that Executive Director new joiners' pension contribution rates must match that available to the wider workforce. A flight path for reducing our incumbent CEO's pension contributions is set out in more detail on page 106 of the Remuneration Committee Report.

Board meetings in 2020 inevitably focused on the impact of the COVID-19 crisis and a majority of meetings were held by video conference. Throughout the crisis, the Board ensured three areas of consideration were covered at each meeting: the health and safety of our colleagues and customers, cash retention and generation, and recovery planning. However, the Board was careful not to lose sight of other crucial areas such as ESG and corporate governance. Our Corporate Governance Report (which begins on page 70) sets out in more detail how the Board responded to the COVID-19 crisis throughout the year (pages 80 to 81).

Sustainability

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 for all concerned. Howdens is a growing business and sustainable behaviour will help us continue to grow in a way that preserves our culture, supports our business model, mitigates our risks and addresses the needs of our stakeholders.

During 2020, the Group carried out a wide-ranging strategic review of its ESG priorities, identifying four main commitments, including zero waste to landfill and carbon neutral manufacturing, which each have Executive Committee member ownership. The review also identified a range of other additional focus areas and research projects as well as selecting and aligning our targets to the UN Sustainable Development Goals (UNSDGs).

Fundamentally, each of our depots represents a place in a local community and our people are encouraged to participate in community life. In 2020, the Group donated around £1.2m to good causes.

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 38 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 open around 35 new depots in the UK and around eleven new depots in France, during 2021 as well as investing in our manufacturing capability and digital offering.

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. 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 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 2020.

Richard Pennycook

Chairman

24 February 2021

