

Chief Executive's statement



Andrew Livingston Chief Executive Officer

Howdens has performed well in a challenging year that has been significantly impacted by COVID-19. We have adapted to COVID trading conditions whilst investing and progressing our strategic plans.

Perspectives on 2020 results

The result for the year reflects the spring lockdown period, followed by a year on year increase in 2nd half sales and profit. Sales for the full year were down 2% at £1,548m with profit before tax of £185m, £75m lower than 2019.

Howdens has performed well in a challenging year that has been significantly impacted by COVID-19. We adapted to COVID trading conditions while investing in the business and progressing our strategic plans.

Our performance shows the strength of our trade-only business model and how we've continued to evolve while prioritising the health and wellbeing of our staff and customers.

- First half UK sales were 29% lower than 2019, with all of the shortfall happening in the second quarter, coinciding with the start of the UK spring lockdown.
- UK second half sales increased by 16% on 2019, with the increase trending upwards across the half, exceeding our expectations in latter periods.

I believe this performance reflects the measures we put in place to enable safe working across the business and to support our customers with new services, lower prices, high stock availability and a safe place to trade.

With people by necessity spending more time at home and with concerns about further lockdowns we also believe people were choosing to spend more on their homes.

We extended our traditional 'P11' sale period across Periods 10 & 11.

- We saw signs of pent-up demand. We heard reports of extended delivery times amongst our competitors and there were end-user concerns about further lockdowns, so we extended our sale period to help builders to book in more kitchen fits over a longer time.
- Period 10 & 11 sales were above our original target, with Period 11 alone still returning a record result compared to previous years.
- It also benefitted supply chain management and the ability of depots to service demand.

Importance of our Culture and Business Model in 2020

The strength of our culture and business model - the unique way we serve our customers and go about our work - are at the heart of Howdens' success. I am pleased with how the business responded, and continues to respond, to the challenges of COVID-19.

First, we took care of staff and customer wellbeing.

- Safety-first, consensual approach when returning to work. Following government guidance, listening to our Health & Safety Team Leaders, our staff and our customers.
- Specific online employee resource for COVID-19 issues.
- Financial support for staff on furlough.



We deferred or reduced cash expenditure where possible, whilst protecting essential areas.

- Made sure depots stayed in stock, and continued with the works at our new warehouse.
- Initially deferred new depot openings, refurbishments and refits, but restarted them later in the year.

We supported our customers and local communities.

- Re-opened depots and factories safely, with new working practices, as soon as we could.
- Increased stock levels to supply customers' immediate needs. This also meant we supported our supply partners.
- Lowered some prices, giving depot teams more flexibility on margin and incentivising them to maximise sales.
- Launched new services including 'call and collect' and an online kitchen design service.

Learnings in 2020

We applied learnings from trading under COVID conditions to the ways we do business and how we operate.

- Lockdown increased online shopping. Our new online services are pathfinders for future upgrades.
- Operating under COVID helps us see if there are surplus costs and inefficiencies in the business, and how we can use IT to free up time and increase productivity.
- We now know how to deal with varying degrees of lockdown and social distancing across all our operations. We have seen that these may be put in place at short notice and may have different rules in different areas.

Responsible stakeholder relations

COVID-19 had a significant impact on all our lives and our priority remains the health, safety and wellbeing of our employees and customers, while acting fairly and responsibly in all our other stakeholder relationships.

- During the spring lockdown we kept up an emergency provision to support the NHS, care providers and vulnerable people. We have continued to support local and national charities throughout the year.
- We continued to pay our landlords in full. We honoured, and in some cases increased, our orders from suppliers, and they supported us with high stock availability.
- Thanks to our strong balance sheet and our trading performance, we repaid all our 2020 furlough funding before the year end and settled a number of other payments that we initially deferred, including taxes, pension deficit contributions and business rates waived by local councils.
- We have subsequently been able to recommend paying a dividend to shareholders in respect of 2020 and also a special dividend in recompense for the cancelled 2019 dividend.

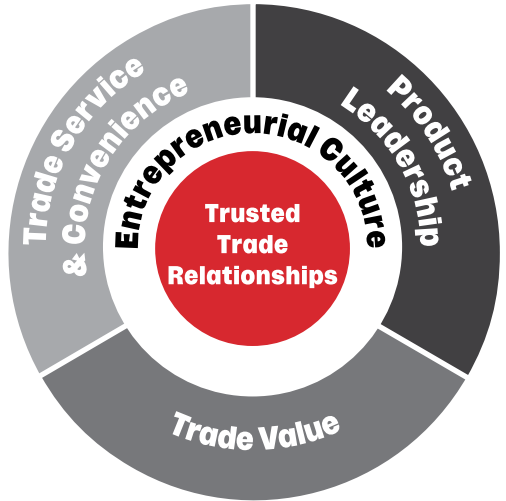
Chief Executive's statement continued

Based around our core building blocks of Trade Service & Convenience, Trade Value and Product Leadership, we have initiatives in place to exploit opportunities in a challenging market.

Update on strategic initiatives

The market remains challenging and may be further impacted by COVID-19, Brexit and underlying consumer confidence. We believe we are well positioned with our in-stock, local model, providing we reinforce the differentiation of our offer profitably.

Based around our core building blocks of Trade Service & Convenience, Trade Value and Product Leadership, we have initiatives in place to do this.



Our 4 strategic initiatives are:

- 1) Evolving our depot model to use space more efficiently and to provide the best depot environment for our staff and customers.
- 2) Improving range and supply management to help customers' buying decisions, to access supply chain benefits and to make productivity gains.
- 3) Using digital to raise brand awareness, to support the business model with new services and to free up time for depot staff and customers to use more productively.
- 4) Developing our international operations, based in France, using a city-based approach.

1) Depot evolution

We are opening depots in an updated format to provide the best environment to do business in, with no material change to fit-out costs.

This year we opened fewer depots than planned.

- In the 1st half we put our opening programme on hold.
- In the 2nd half, we opened 16 new depots.

We are targeting around 35 UK depot openings in 2021, including some more in Northern Ireland.

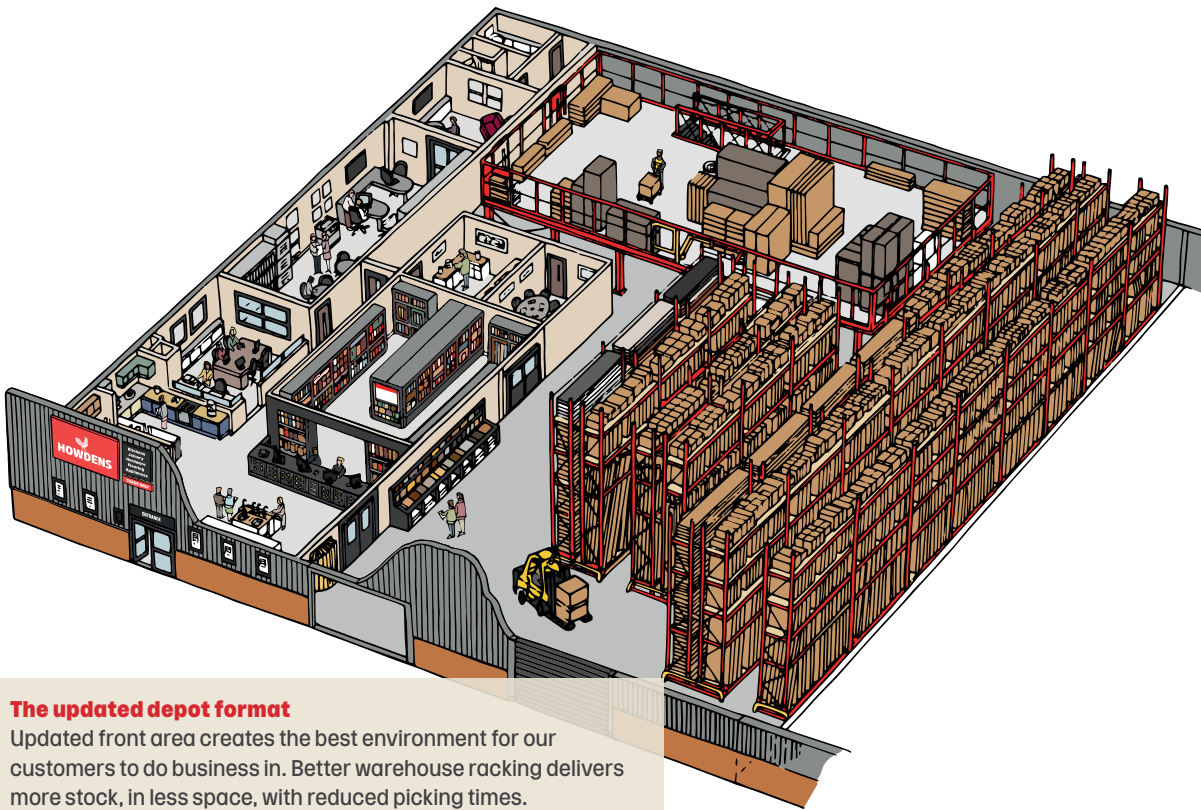
We also re-formatted some more of our older depots. We continue to learn how best to apply this opportunity to our existing depots.

In 2020 we converted 30 depots to the updated format, in line with our budgeted average cost of £225,000.

In 2021 we plan to reformat a further 40 depots. We are budgeting an average cost similar to the 2020 level, and we continue to refine the scope of refurbishments.

We also re-racked the warehouse areas of 17 existing depots without other modifications in 2020 and we plan to re-rack a further 20 in 2021.

By the end of 2020, we had 117 UK Depots in the updated format, and we had re-racked the warehouses of a further 79 depots. By the end of 2021 we are planning to have 192 UK depots in the updated format, as well as a further 99 that have been re-racked.



The updated depot format

Updated front area creates the best environment for our customers to do business in. Better warehouse racking delivers more stock, in less space, with reduced picking times.

2) Range and supply management

Range management

New kitchen ranges represent a significant portion of sales each year, as product lifecycles shorten and our customers want new product from us.

Our 2020 new product featured 18 new kitchens in two new styles plus more colour options.

We began using our new handleless cabinet platform to meet demand for a Linear look at more affordable price points.

Because we launched our new kitchen ranges earlier than last year, we were well-positioned with product as we returned to all-depot trading. New product sales were ahead of 2019.

2021 new product features 16 new kitchen ranges, new lines and products to promote sales of complete kitchens, and to enable customers to accessorise kitchens for a more bespoke look.

For 2021 we are introducing a new more traditional style timber shaker range that will strengthen our £4,000-plus offering.

We are adding more choice, with new colourways in some of our most popular ranges, together with a number of added value accessories so that customers can create a more personalised look.

All our new kitchen ranges for 2021 will be in-stock by the start of the 2nd Quarter, well ahead of our peak sales period and 4 weeks earlier than in 2020.

Disciplined range management is crucial to both best availability and profitability.

At the end of 2019, we had 67 current kitchen ranges and we ended 2020 with 63, having cleared more ranges than we added during the year.

We believe around 65 current ranges is the right number for our market at present and will be managing range introductions and clearances accordingly.

Chief Executive's statement continued

Improving stock management, protecting our in-stock offer, investing in making more of the product we sell and in our digital offering.

Improving stock management - XDCs

We are making an improvement to stock replenishment by supplementing the depot's core weekly delivery with a next day service from a regional cross-docking centre (or 'XDC').

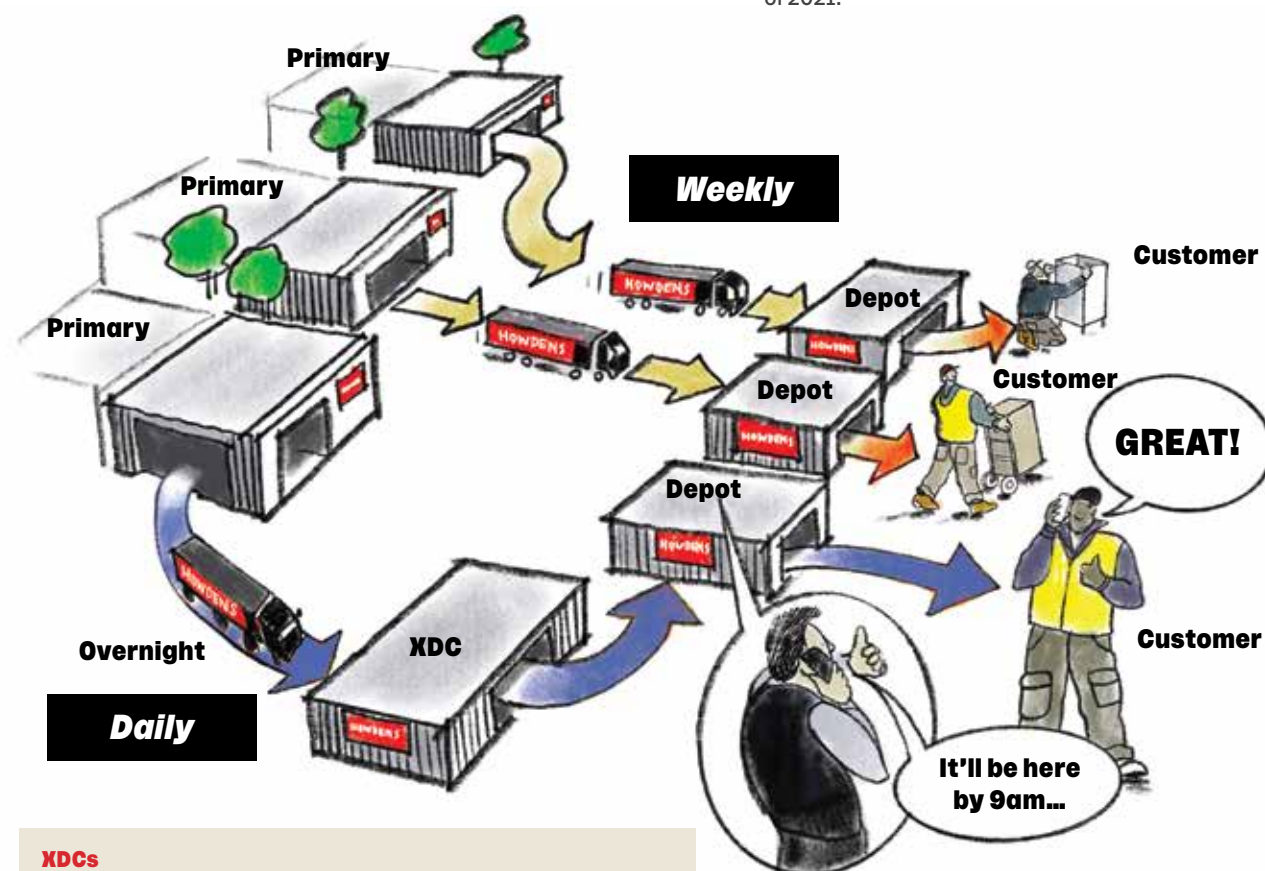
Howdens is an in-stock business. Builders tell us that our high level of stock availability is one of the key reasons they buy from us.

Our traditional stock replenishment model is based on weekly delivery to depots. It is cost-effective and is particularly suited to fast moving product and product with relatively predictable demand patterns.

Using XDCs to rebalance where we hold stock and changing the delivery pattern of some lines means that depots can, for example, allocate more warehouse space to faster-selling lines and reduce contingent stocks of slower-moving ones.

This makes it simpler and more efficient for depots to deliver the superior service levels and product availability that our customers expect. It frees up time and resources spent on stock management, for example on inter-depot stock transfers.

We are developing the XDC capability with 3rd party logistics partners and in the main we are using their existing infrastructure. The service is available to 120 depots at present and we expect to increase this to around 250 depots during the 2nd Quarter of 2021.



XDCs

Maintaining our in-stock offer, delivering superior customer service, and freeing up time and resources in our depots.

Safeguarding our manufacturing & distribution under COVID conditions

Our dedicated manufacturing & supply chain is critical to the success of our in-stock offer. It supplies all the product to all our depots, which each have individual and changing day to day requirements. Operating under COVID conditions meant finding ways to re-engineer how our factories operate and how we supply and distribute to depots.

When lockdown started, we initially closed substantially all our manufacturing and supply facilities.

- With employee consultation, we then designed a series of social distancing measures, work processes and practices as we prepared for a phased return to work.
- With added safety measures in place, we re-opened our factories and warehouses, making sure that depots remained in stock as demand and the number of depots trading changed.
- Since re-opening in April, we have continued to work with appropriate COVID-compliant processes.
- We can now manufacture all products whilst maintaining social distancing.
- Our efficiency, whilst below pre-COVID levels, has progressively improved, and we were able to accommodate the significant rise in 2nd Half volumes.

Protecting our in-stock offer

We acted to protect our in-stock offer against supply chain disruption and to accommodate irregular patterns of demand. We increased levels of safety stock and used back-up sources of supply. We will continue to do so as needed.

We first did this as part of our Brexit planning and again ahead of the spring lockdown. Our ability to use our disaster recovery capacity, together with the extra space at our new warehouse in Raunds, which came on stream as scheduled in September 2020, helped us to maintain stock availability.

Our stock strategy has also benefitted from significant engagement with our supply base.

- We have long-term relationships and agreements with many of our suppliers. Being a manufacturer ourselves has helped us anticipate the potential COVID risks in our supplier factories.
- We operate on 'Ex works' rather than 'Delivered' terms with the majority of our suppliers, which means we can work directly with our shipping partners to resolve logistical issues and provides us with earlier warning of orders that might be running late.

Stock availability is fundamental to our offer. We have prioritised this in 2020 and will continue to do so in 2021.

- For 2021 we are extending our holdings of safety stock as a contingency against unexpected demand patterns and interruptions to supply.
- We have broadened the range of SKUs we protect in this way and increased the number of weeks cover we have on some lines.

More investment in our UK manufacturing

We keep under review what is best to make or buy, both in terms of cost and overall supply resilience and flexibility.

In 2019 we invested in manufacturing technology enabling us to make the doors for our new Hockley kitchen ranges.

Based on the success of that, we have now committed to a further investment.

- We intend to manufacture the frontals for some of our top selling kitchen ranges at a lower cost and a reduced lead time. We will still keep the benefits of sourcing from external suppliers, who will continue to provide around half of our frontals. The new investment will be at our Howden site. We expect that it will come on stream in the second half of 2022.
- We are also commissioning a second architrave and skirting line as our first line is now at full capacity. We expect this to be up and running in the first half of 2022.

Chief Executive's statement continued

We are clear on our prospects and priorities for 2021. We are confident in our business model through changing economic conditions and in the future benefits of our strategic initiatives.

We identified the need to upgrade our offer in solid surface worktops. In 2020 we took the opportunity to buy the assets of a large UK solid surface worktop maker from the administrator.

- We bought a 16-acre site near our factory at Howdens, including a recently-commissioned factory and new manufacturing plant and machinery.
- We acquired the assets at a competitive price, with significant savings in lead time versus building from scratch. We expect them to be operational in 2021.

3) Use of digital

We use digital to reinforce our model of strong local relationships between depots and their customers.

Our digital investments were instrumental in supporting our model in 2020, when relationships and ways of doing business were disrupted.

2020 saw increased activity on our web platform and growth in our social media presence, which also stimulates interest in viewing our products and services on Howdens.com.

- Howdens.com 'impressions' were present in 48% more organic search results a month.
- Site visits increased by 53% year on year.
- Depot leads via the website increased by 88% and brochure requests by 39%.
- Across social media sites our follower base, at 213,000, was up 119%. We reached 8 million users a month, and those who actively engaged with us were up 165%.

In 2020 Howdens.com provided a key customer access point to the business. We extended our range of online services to support builders and end-users.

We rolled out the online account facilities so that users can manage their accounts and make payments at any time.

- By the end of the year, 30% of our credit account holders had registered to use the service, with around 43% of them using it to make a payment and 68% downloading documents.

We launched a call-and-collect service through our website, providing an additional way for customers to trade safely with us following the onset of lockdown.

When we couldn't have kitchen planning meetings in depots or in homes, we developed a personal online kitchen design service.

- As well as enabling people to plan kitchens without the need for a depot or home visit, the service helps put Howdens front of mind earlier in the procurement process.
- Feedback has been positive, and we are continuing to offer the service.

We continue to add new digital capabilities and content to support the local relationships depots have with their customers.

Starting from February 2021, we are offering 'Anytime Ordering' for the first time on our trade website. This will be a major upgrade of our 'call-and-collect' service, providing efficiencies for both depots and customers.

Features of the service include:

- Bespoke pricing for each customer. Account holders can see their own prices, order product and quote for individual jobs out of hours.
- A scheduler for customers to select a depot collection or delivery time of their choosing.
- Integration with our depot lead management system, helping depots manage their customer relationships even more efficiently.

4) Developing our international operations

The 2020 International performance gives us the confidence to open more depots in France.

International delivered a step change in performance post-lockdown. 2nd Half sales increased significantly year on year.

- In France, lockdown occurred a little earlier than the UK. When lockdown started, sales were up around 3% year on year.
- We took a similar approach to re-opening as in the UK with depots initially re-opening in call & collect mode on a phased basis.
- During May, as lockdown ended, depots were able to trade in more normal ways, with appropriate safety protocols in place.
- Whilst sales in the 1st Half were down around 18% year on year because of the onset of lockdown, sales increased significantly year on year in the final two periods of the 1st Half.
- Sales in the 2nd Half increased by 38 % in constant currency terms and were up 13% for the year as a whole.

We believe customers are increasingly recognising the advantages of our trade-only in-stock model, our service levels and competitive pricing.

We opened 4 depots in the 2nd Half of 2020, ending the year with a total of 30.

We are planning 11 depot openings for 2021, which is around the number of new depots we could staff with 'Howden trained' teams.

Prospects for 2021

Our priority remains the safety of our people and customers and we have contingency plans to enable us to trade under the range of COVID conditions we have seen to date.

We have increased prices, having lowered some during 2020, and we aim to keep a profitable balance between price and volume, whilst aligning operating costs and working with suppliers to keep product and input costs controlled.

We believe high stock availability was a major contributor to our performance in 2020. We will continue to manage our stock levels to protect availability of both manufactured and bought-in product.

We will have all our 2021 new kitchen product on sale earlier than last year, aligned with depot promotions to keep Howdens at the front of our customers' minds.

We will make improvements to service and availability by utilising XDCs.

We are making investments in our kitchen door, solid surface and skirting manufacturing capabilities.

We will continue to add capabilities to our digital platform with 'Anytime Ordering' as the centre piece.

We plan to open around 35 depots in the UK, to open 11 new depots in France and to refurbish around 40 existing UK depots to the updated format.

We remain cautious on underlying market conditions given the ongoing COVID-related economic uncertainties and the impact of the result of the recently concluded Brexit trade negotiations.

We remain confident in our business model through changing economic conditions and of the benefits our initiatives will bring to our performance.

I am very pleased with our achievements in 2020, in particular how we both adapted to COVID trading conditions and progressed our strategic plans, which make us well prepared for what we expect to be a challenging market in 2021. All this is made possible by the character, skills & commitment of our people and I thank them for all for what they have done.

Andrew Livingston
Chief Executive Officer
24 February 2021

