HOWDEN JOINERY GROUP PLC

2019 PRELIMINARY RESULTS

SUMMARY OF GROUP RESULTS[1]

£m	2019	2018	% change
Revenue			
- Group	**1,583.6**	**1,511.3**	4.8
- Howden Joinery UK depots	**1,550.3**	**1,477.3**	4.9
Gross profit	**986.2**	**932.2**	5.8
Gross profit margin, %	**62.3**	**61.7**	60bp
Operating profit	**260.0**	**240.1**	8.3
Operating profit margin, %	**16.4**	**15.9**	50bp
Profit before tax	**260.7**	**238.5**	9.3
Basic earnings per share	**35.0p**	**31.3p**	11.8
Dividend per share	**13.0p**	**11.6p**	12.1
Net cash at end of period	**267.4**	**231.3**	15.6

[1] *The information presented relates to the 52 weeks to 28 December 2019 and the 52 weeks to 29 December 2018, unless otherwise stated.*
[2] *Same depot basis for any year excludes depots opened in that year and the prior year. See Financial Review on page 4.*

Financial highlights[1]:

- Howden Joinery UK depot revenue increased by 4.9% to £1,550.3m (up 2.5% on a same depot basis[2]). Group revenue was £1,583.6m (2018: £1,511.3m);
- Gross profit margin of 62.3% (2018: 61.7%), reflected a price increase in January 2019 and a more disciplined balance between volume and price achieved in depots;
- Profit before tax was £260.7m (2018: £238.5m);
- Final dividend of 9.1p recommended, giving a full year dividend of 13.0p per share (2018: 11.6p);
- A further £85m share repurchase programme to take place over the next two years.

Chief Executive Officer, Andrew Livingston, said:

"2019 was a year of progress for Howdens and I am pleased with how the business performed. We increased Group revenue by 4.8% to £1.6bn, with profit before tax, up 9.3%, increasing faster than sales, and gross margin also improving. We ended the year with £267m in cash, after investing £61m in the business and returning £126m to shareholders. We opened 44 new depots during the year, including our first five in Northern Ireland and five in France.

"We have initiatives underway to improve business performance further, focussed on depot format efficiencies, improving range management and the development of our digital platform. We have a new depot format which is designed to enable us to use depot space more efficiently and give us the option to open smaller depots in new locations. Consequently, we see the opportunity for around 850 UK depots. Our investment in digital will both reinforce the strong local relationships we have with builders and improve awareness of the Howden offer with consumers.

"We are encouraged by the progress we made in 2019 and remain confident in our business model for the future."

Operational developments:

- 39 new depots opened in the UK during 2019, including our first five in Northern Ireland, bringing the total to 732 at year end, having closed one depot during the period;
- Five new depots opened in France, while the operations in the Netherlands and Germany were closed in January 2019;
- 12 new kitchen ranges introduced, with average sales per range above those of 2018; five of the new ranges have cabinet doors manufactured by Howdens;
- 19 kitchen ranges were cleared from the business, as part of our ongoing range management programme;
- New Howdens.com web platform is improving brand awareness and leading to increased website visits and depot contacts;
- Capital expenditure of £61.1m (2018: £44.3m) included new depots, digital upgrades and investment in the next phase of our Raunds distribution centre;
- Initiatives underway to improve business performance, focussed on a new depot format aimed at providing the best environment to do business and which utilises space more effectively, product range management and development of the digital platform, including on-line account management facilities.

CURRENT TRADING AND OUTLOOK FOR 2020

Howden Joinery UK depots sales in the first two periods of the new financial year (to 22 February), increased by 1.6% (-0.2% on a same depot basis[2]), with one fewer trading day than in 2019. Excluding the first week of trading (which this year had 2.5 trading days), sales in the first two periods of 2020 were up 3.5% (1.6% on a same depot basis[2]).

The Group believes that there is the potential for the number of depots in the UK to be increased from the 732 operating at the end of 2019, to around 850 depots. During the course of 2020, we plan to open around 30 new depots in the UK and five in France. We also intend to extend our depot test by refurbishing 30 older depots to the new format, during the year, and introduce vertically racked product to a further 50 depots, without further modifications.

In 2020, we expect additional operating costs of £20m to be incurred in respect of: the one-year impact of running the old National Distribution Centre whilst also incurring the costs of the second phase of our new Raunds distribution facility; digital upgrades; increased pension charges; and additional depreciation. These are in addition to the impact of on-going growth in the business, inflationary pressures, new depots and any impact of foreign exchange rates. Compared to 2019, we will benefit from not bearing the £5.8m costs of closing our operations in the Netherlands and Germany. Capital expenditure of around £80m is expected, including the final phase of the Raunds distribution centre, together with further investment in digital and new depots.

The Group will adopt IFRS 16 for the year to 26 December 2020. The first report under IFRS 16 will be the June 2020 half-year report, released on 23 July 2020. Further details can be found in the Notes to the Financial Statements, below.

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 for the future.

[2]Same depot basis for any year excludes depots opened in that year and the prior year. See Financial Review on page 4.

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Note to editors:
Howden Joinery Group Plc is the parent company of Howden Joinery (Howdens). In the UK, Howdens is engaged in the sale of kitchens and joinery products to trade customers, primarily small local builders, through approximately 730 depots. Around one-third of the products it sells are manufactured in the company's own factories in Runcorn, Cheshire, and Howden, East Yorkshire. The business also operates a total of 27 depots in France and Belgium.

There will be a live audio webcast at 10.00am GMT, 27 February 2020. For details and more information, please see: www.howdenjoinerygroupplc.com

FINANCIAL CALENDAR

2020	
Trading update	30 April
Annual General Meeting	7 May
Half Year Report	23 July
Trading update	5 November
End of financial year	26 December

FINANCIAL REVIEW

FINANCIAL RESULTS FOR 2019[1]

REVENUE

Revenue £m	2019	2018
Group:	**1,583.6**	1,511.3
Howden Joinery UK depots - same depot basis	**1,507.1**	1,470.9
UK depots opened in previous two years	**43.2**	6.4
Howden Joinery UK depots – total sales	**1,550.3**	1,477.3
Howden Joinery Continental European depots	**33.3**	34.0
Revenue €m		
France and Belgium – same depot basis	***37.4***	*36.3*
Depots opened in previous two years	***0.3***	-
France and Belgium – total sales	***37.7***	*36.3*

[1] *The information presented relates to the 52 weeks to 28 December 2019 and the 52 weeks to 29 December 2018, unless otherwise stated.*
[2] *Same depot basis for any year excludes depots opened in that year and the prior year.*

Total Group revenue increased £72.3m to £1,583.6m. Howden Joinery UK depot revenue rose 4.9% to £1,550.3m (2018: £1,477.3m). UK revenue increased by 2.5% on a same depot basis[2] to £1,507.1m (2018: £1,470.9m); this excludes the additional revenue from depots opened in 2018 and 2019 of £43.2m (2018: £6.4m).

Depot revenue in Continental Europe was £33.3m (2018: £34.0m), reflecting the closure of our depots in the Netherlands and Germany in January 2019. On a local currency basis, sales at our depots in France and Belgium increased by 3.8% and by 3.1% on a same depot basis[2]. The profit earned by the depots opened before 2019 covered all European central costs in the year.

GROSS PROFIT
Gross profit increased to £986.2m (2018: £932.2m). The gross profit margin of 62.3% (2018: 61.7%) reflected the impact of a price increase in January 2019. This resulted in an improved balance between price and volume.

OPERATING PROFIT
Operating profit rose to £260.0m (2018: £240.1m), giving an operating profit margin of 16.4% (2018: 15.9%).

Selling and distribution costs and administrative expenses were £726.2m (2018: £692.1m). Costs increased, as expected, due to continued investments in areas across the business, including new depots, digital upgrades and the additional depreciation arising from recent investments. There were also the one-time costs associated with the closure of our depots in Germany and the Netherlands of £5.8m, and the absence of the £3.8m GMP equalisation charge, incurred in the prior year.

PROFIT BEFORE AND AFTER TAX
Net interest income was £0.7m (2018: charge of £1.6m), reflecting the lower finance expense in respect of pensions of £0.4m (2018: £2.3m). Profit before tax was £260.7m (2018: £238.5m).

The tax charge on profit before tax was £51.7m (2018: £48.1m), representing an effective rate of tax of 19.8% (2018: 20.2%). As a result, profit after tax was £209.0m (2018: £190.4m).

Reflecting the above and the reduced share count following share repurchases, basic earnings per share were 35.0p (2018: 31.3p).

DIVIDEND

The Group's dividend policy is to target a dividend cover of between 2.5x and 3.0x, with one third of the previous year's dividend being paid as an interim dividend each year.

The Board has recommended to shareholders a final dividend of 9.1p (2018: 7.9p), giving a total dividend for the year of 13.0p (2018: 11.6p), an increase of 12.1%. This equates to a dividend cover of 2.7x (2018: 2.7x).

The final dividend payment of 9.1p per share will, if approved by shareholders, be paid on 19 June 2020, with an ex-dividend date of 21 May 2020 and a record date of 22 May 2020.

CASH

There was a net cash inflow from operating activities of £221.4m (2018: £163.2m).

Net working capital increased by £6.3m, mainly due to debtors that were up by £7.1m. This was due to Period 11 trading ending in early November, allowing payments to fall into the 2020 financial year, which started on 29 December 2019. Stock increased £5.5m due to depot openings, offset by creditors, up £6.3m.

Capital expenditure on assets including new depots, digital upgrades and investment in the next phase of our Raunds distribution centre, totalled £61.1m (2018: £44.3m). Net tax paid was £46.2m (2018: £45.4m), dividends paid were £70.6m (2018: £68.3m) and share repurchases totalled £55.2m (2018: £62.2m).

Overall, there was a net cash inflow of £36.1m, leaving the Group with net cash of £267.4m at year end (29 December 2018: £231.3m net cash).

SHARE REPURCHASE

The Board targets a capital structure that is both prudent and recognises the benefits of operational and financial leverage, and that, after considering our capital requirements, will return surplus cash to shareholders as appropriate. The Group has significant property leases for the depot network and continues to have a material deficit in the Group pension fund. Taking into account this underlying level of gearing, the Board believes it is appropriate for the Group to be able to operate through the annual working capital cycle without incurring bank debt.

The Board regularly reviews the Group's cash balances considering future investment opportunities, expected peak working capital requirements, trading outlook and dividend payments.

In March 2018, we announced a £60m share repurchase programme, of which £30.0m was remaining at the start of 2019. In February 2019, we announced a further share buyback programme of £50m to be completed during the following two years.

During 2019, the Group acquired 10.8m shares for a consideration of £55.2m. This completed the 2018 share repurchase programme and £25.0m of the February 2019 programme remains. Shares that were bought in the market during 2019 were cancelled.

Following the Board's recent review, it has been decided to complete the remaining £25.0m of the £50m 2019 share buyback programme in 2020 and return a further £85m to shareholders through another share purchase programme over the next two years.

PENSIONS

At 28 December 2019, the pension deficit shown on the balance sheet was £56.6m (29 December 2018: £36.0m). The increase in the deficit was due to a £196.9m increase in liabilities (the main elements of which are a £244.8m increase in liabilities primarily due to a reduction in the net discount rate, and a £47.9m decrease in liabilities due to adopting updated longevity assumptions), partly offset by an increase in asset returns of £149.8m and a £46.9m cash contribution.

On 28 June 2018, we announced that, following the triennial actuarial valuation of the scheme as at 5 April 2017, we had reached agreement with the Trustees of the defined benefit pension scheme in relation to the schedule of payments required to fund the scheme deficit. We agreed to make annual deficit contributions of £30m per annum for up to five years until June 2023.

The funding position will be monitored on an ongoing basis, and deficit contributions will be suspended should the scheme's funding position improve to at least 100 percent of the scheme's funding basis for two consecutive months and resumed if the funding position subsequently falls back below 100 percent.

The contribution to the pension deficit in the financial year ended 28 December 2019 was £30.0m (2018: £27.5m).

OPERATIONAL REVIEW

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 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. A key feature of Howdens success is our trade customer focus, which underpins everything we do.

Our account base remains stable at approximately 470,000 customers. Although this is similar to the prior year, we are improving customer loyalty and are seeing sales per customer grow with our core customers buying more often from us. The number of new credit accounts opened in 2019 was similar to the prior year, with new customer spending up and profit per new account increasing, reflecting lower acquisition costs.

UK DEPOT ROLLOUT AND OPERATIONS

During 2019, 39 new depots were opened (2018: 33 new depots) and one depot was closed, bringing the total number of depots trading at the end of the year to 732. All of the new depots are in our new format, described below, aimed at creating the best depot environment in which to do business with our customers.

New depot format and roll-out

Howdens depots typically have an average size of around 10,000 square feet. The new depot format, using vertical racking in the warehouse section, has the potential to make productivity gains from reduced picking times and reduces required storage space.

Where this new racking has been tested, the space has been reallocated to provide a more open front area, bringing depot staff closer to customers, and approximately doubling the space available to display a wider range of kitchen designs. There is also space for a small goods picking area behind the counter with an improved range of everyday essential items, including hardware, to add incremental profit and as a way of encouraging footfall and incremental kitchen sales. The fit-out cost of a new format depot is around £350,000, broadly in line with the cost of our previous format.

The new format also offers the potential to open new, smaller, infill depots of around 6,000 square feet, in rural locations and big cities. During the year, eight of those opened were of this smaller size. Including the smaller sized depots, the number of UK depots could potentially reach around 850.

Eleven older depots have also been converted and are now trading in the new format. By the end of 2019, we had a total of 133 depots with vertically racked product storage, comprising 60 new depots opened and 11 re-furbished in the new format, together with a further 62 depots which were re-racked without other modifications.

We are pleased with the feedback we have received regarding the refurbished depots, from both depot teams and customers. We have been sufficiently encouraged by their performance to date and the depot teams' expectations for them in 2020, that we are extending the test by converting a further 30 of the older depots to the new format during the year, at an expected average cost of £225k. We also plan to introduce vertically racked product to a further 50 depots, without further modifications, and open around 30 new UK depots.

By the end of 2020, assuming our depots plans for this year are implemented, around one third of depots will have vertical racking, comprising 41 refurbished depots, 90 new depots and 112 depots that have been re-racked without other modifications.

PRODUCT AND MARKETING

We introduced 12 new kitchen ranges in 2019, with average sales per range above those in 2018. New product initiatives and launches during the period included:

- an update of our light oak cabinet and frontals to a more natural oak tone;
- the roll-out of anthracite storage systems which help define our mid and premium ranges;
- adding eleven laminate and seven solid surface worktops, nine of which are lighter decors which complement the increased number of darker kitchen colours;
- introducing 25 Lamona appliances, adding 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;
- strengthening the Lamona brand through the introduction of a three-year warranty;
- introducing pre-finished internal doors across a number of styles to save customer fitting time; and
- rolling out around 250 of the fastest selling new hardware lines that were trialled.

We continue to enhance the marketing of our products and services, enabling our builder customers and their customers to see and appreciate the full breadth and depth of the Howdens offer. Building on the success of the Trade Book, which was first printed in 2017, new Trade Books and Kitchen Brochures were published in February, May and September.

Range management

Managing the number of kitchen ranges efficiently is crucial for both our customers, who want best availability, and also for our own profitability, as the number of ranges and the products within a range add significant complexity to our supply chain and the inventory that we hold.

A key part of this is the timely discontinuation of underperforming ranges and the management of clearance stock from the business. During 2019, 19 ranges were cleared from the business.

At the end of 2019, there were 67 current kitchen ranges available, including initial stock of some ranges scheduled for launch in 2020. We think around 65 current ranges is the appropriate number for our market at present. In the first half of 2020, we plan to launch 13 new kitchen ranges, of which 11 have been launched to date, and aim to remove at least as many ranges as are added.

Commercial structure

As part of our focus on range management, we have merged the divisional commercial functions into a single commercial team, organised into product categories. This structure provides clearer accountability for product range decisions as well as supply chain benefits.

The changes were aimed at removing duplication of effort, easing communication and bringing our commercial team closer to depot managers. We have already seen the benefits of clearer accountabilities and closer working between Trade, Commercial and Supply, with our new kitchen brochure and trade book launched in week 3 of 2020 and the stock of all new kitchens available in depots before the trade book and brochure were published. Through this structure we also aim to ensure that the business is well planned at least 18 months out with our suppliers, that we are being offered innovative products first and that we are offering the best value to our customers. This approach is already supporting our 2020 plans for improved range, availability and price.

DIGITAL

We are continuing to develop the new platform for our website as we enhance our digital capability to reinforce the Howdens model. Our investment in digital will enhance the strong local relationships and improve communications between depots and their builder customers, including through offering streamlined operating processes to free up depot staff and customers' time.

The new web platform, which has enriched product content and improved search optimisation, has moved Howdens.com into more prominent search positions, raising brand awareness with consumers. As a result, traffic to the site is up 22% year on year with an average of over 300,000 visitors per week for the first time. Furthermore, depot contacts made via the website have increased 35%.

In the second half of 2019, further improvements were made to our digital offering in line with our aim to put "a tradesperson's local depot in their pocket". A secure customer-only area of the website was tested, where builders can manage their accounts, make payments and interface more efficiently with their local depot. This was trialled with a number of trade customers and, in January 2020, was rolled-out to be available to all customers.

MANUFACTURING AND LOGISTICS

Our UK-based manufacturing and logistics operations are vital in enabling us to supply our small builder customers from stock available locally. This requires us to have the scale, space and flexibility to respond to each depot's individual needs, especially during our peak 'Period 11' trading when sales are more than double the level in other periods.

During 2019, a number of projects progressed and milestones were achieved, as follows:

- investment in manufacturing technology enabled us to make the doors for our new Hockley kitchen ranges, at a reduced cost;
- introduced a small batch line to make low volume but important products which suppliers cannot supply at competitive prices;
- awarded a Manufacturing Guild Mark for excellence in our manufacturing operations, recognising our capability as the UK's largest kitchen manufacturer;
- our Supply operation achieved certification under the new International Health and Safety Standard, ISO45001; and
- The Royal Warrant was re-awarded.

CONTINENTAL EUROPE

At the end of 2019, there were 27 depots across France (25) and Belgium (2), with the Belgian depots continuing to be run within the French field structure. Rebranding to Howdens was completed during the period. As previously reported, the single depot operations in the Netherlands and Germany were closed in January 2019.

We believe there is the potential for a viable business based in France and we have appointed a French national to lead our business there. The French market has low penetration rates of integrated kitchens and most kitchens are purchased through DIY outlets and specialist shops, which is similar to the way the UK market was structured when Howdens was founded.

Based on the way current depots perform in their local areas we think both the French trade customer and end consumer can see the benefits of buying a kitchen though the trade. We also believe that depots in small clusters within cities perform better, partly due to word of mouth between builder customers and also because of our ability to build a local and trusted brand. Clustering also helps to build the Howdens culture within our business teams. We are therefore developing our operation in France by way of a City-based strategy, with five depots (four around Paris and one in Lille) opened in 2019. We expect to open a further five depots in France, in 2020, subject to our business in France continuing to perform in line with expectations.

GOING CONCERN

The Group meets its day-to-day working capital requirements through cash generated from operations. If required, the Group also has access to an asset-backed lending facility of £140m, which expires in December 2023.

The Group's forecasts and projections have been stress-tested for reasonably possible adverse variations in economic conditions and trading performance. The results of this testing show that the Group should be able to operate within the level of its current net cash balances and its committed bank facility, and that it would not breach the facility covenants.

After making due enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

Our approach to risk is adaptive. We aim to protect what we have while responding to opportunities to grow and create value.

Brexit risks

In line with the way we manage risks within the business, we have not presented a separate principal risk relating to Brexit. Brexit will impact a number of our existing risks, with the severity and timeframes varying significantly, depending on the nature of the UK's withdrawal from the EU.

The following table summarises the key risk areas. It also shows which of our principal risks these elements are managed under and gives examples of key mitigating actions.

What are the Brexit risks	What this could mean	What we are doing	Managed within principal risks no:
Trade and Customs Risks • No longer inside the EU Single Market/Free Trade Area • Exit from the EU Customs Union • No agreed regulatory co-operation	• Tariffs could lead to higher prices for product and raw materials sourced from EU • Supply chain delays as goods sourced from outside the UK come through a new customs regime • Regulatory uncertainty as recognition of UK standards and regulations ceases across the EU	• Modelling the challenges and opportunities across the supply chain • Ensuring the way in which we obtain our products is the most cost effective after Brexit • Obtained preferred importer/ exporter status to reduce potential customs delays • Carefully monitoring our stock position to ensure it remains optimum for the most likely Brexit scenarios • Reviewing contracts to ensure product supply remains sustainable after Brexit	1,2,3,4
People and Immigration Risks • No facilitation of free movement between the UK & EU	• Possible shortage of migrant labour for us • Labour shortages for our stakeholders, particularly in the supply chain • Our customers could also be affected	• Evaluating our workforce composition both internally and externally with suppliers • Reviewing how we can help migrant workers to understand their rights and with working visa applications	1,4
Strategy and Business Plan Risks • Consumer uncertainty • Investor uncertainty • Currency and Stock Market uncertainty	• Customer uncertainty may impact on our sales and future strategic growth decisions • Increased costs due to currency fluctuations	• Modelling the challenges and opportunities across the entire business, to ensure we optimise strategic plans given the various scenarios	1,2,3,4

Principal risks

The following describes our principal risks, the possible impact arising from them and what we do to mitigate them.

1. Failure to maximise growth potential of the business

Risk and impact

- We see a significant potential for growth. This brings both opportunities and challenges.
- If we don't innovate, recognise and exploit our growth opportunities in line with our business model and risk appetite, or if we don't align structures and skills to meet the challenges of growth, we won't get maximum benefit from our growth potential.

Mitigating factors

- The opportunities and challenges related to growth are a major area of focus throughout the business, at all levels.
- We continue to invest in our depot environment, people, services, and systems, and our manufacturing and distribution capabilities to equip them for growth.
- Growth activities are reviewed in the light of our risk appetite, values, business model and culture.

2. Deterioration of business model and culture

Risk and impact

- Our future success depends on continuing to maintain our values, our unique business model and our locally enabled, entrepreneurial culture.
- If we lose sight of our values, model or culture we will not successfully service the needs of the local small builder and their customers, and our long-term profitability may suffer.

Mitigating factors

- Our values, business model and culture are at the centre of our activities and decision-making processes, and they are led by the actions of the Board, Executive Committee and senior management.
- The Board and Executive Committee regularly visit our depots and factories, our logistics and support locations and hold events to reinforce the importance of our values, model and culture.

3. Changes in market conditions

Risk and impact

- We buy a significant proportion of raw materials and finished products in euros and US dollars. If sterling weakens, our input costs increase.
- Our products are mostly sold to small builders and installed in owner-occupied and private and public sector rented housing, mainly in the repair, maintenance and improvement markets. If activity falls in these markets, it can affect our sales.

Mitigating factors

- We have proven expertise in managing both selling prices and costs. This continues to be a main area of focus.
- We have a good track record of dealing with changes in market conditions. We monitor activity across our supply change and depots closely, using the good relationships we have to give us early warnings of changing conditions. This enables us to take swift mitigating action, such as those discussed in relation to Brexit.

4. Interruption to continuity of supply

Risk and impact
- Howdens is an in-stock business. Our customers expect this and rely on it.
- Any disruption to our relationship with key suppliers or interruption to manufacturing and distribution operations could affect our ability to deliver the in-stock business model and to service our customer's needs. If this happened, we could lose customers and sales.

Mitigating factors
- We build strong relationships with our suppliers, focused on integrity, fairness and respect, and which are worthwhile for all concerned.
- Where appropriate we enter into long-term contracts to secure supply of key products, services and raw materials.
- Wherever practical we have multiple-sourcing strategies for our key products, to reduce the effect of a supply failure.
- We have invested in our manufacturing operations and this investment gives us an enhanced disaster recovery capability.
- We are also investing in new warehouse space to support our distribution capabilities and equip them for growth.
- Brexit uncertainty has led us to increase stock holding of at-risk products to help ensure continuity of supply.

5. Loss of key personnel

Risk and impact
- The skills, experience and performance of key members of our management team make a major contribution to the success of the business.
- The loss of a key member of the Group's management team could adversely affect the Group's operations.

Mitigating factors
- We use the Remuneration Committee to ensure that key team members are appropriately compensated for their contributions and incentivised to continue their careers with us.
- Work is ongoing to ensure that appropriate continuity and succession plans are in place. We will continue to focus on leadership development and succession planning.

6. Health and safety

Risk and impact
- Howdens is about people and relationships. We have over 700 depots, 10,000 employees, around 470,000 total customer accounts, and suppliers all over the world.
- Care for the health and safety of employees, customers, suppliers and everyone who comes into contact with Howdens is integral to our values and to our behaviour.
- If we do not ensure safe ways of working across the business, this could compromise the safety and wellbeing of individuals and the reputation and viability of the business.

Mitigating factors
- Since the beginning of our business, we have invested in safe ways of working. We have developed dedicated health and safety teams and formalised systems that help us stay safe.
- We monitor, review and update our practices to take account of changes in our environment or operations and in line with best practice and changing legislation.
- Most importantly, we make sure we keep talking about health and safety at every level of the business.

7. Cyber security

Risk and impact

- We depend on a core set of critical IT systems which are fundamental to the day-to-day running of the business. These systems are at risk from increasingly sophisticated security threats.
- If we experienced a major security breach, this could result in a key system being unavailable causing operational difficulties, and/or sensitive data to be unavailable or compromised. This could also lead to breach of customer data.

Mitigating factors

- We place focus on training our people in cyber security, as we recognise that these risks are not always technical and awareness is our first point of control.
- We employ complex technical IT security controls to protect our information and our key systems. We regularly engage external specialists to validate the effectiveness of our controls against industry best practice.
- We have robust disaster recovery and business continuity plans, and we test them regularly.
- We adopt a continuous improvement approach to IT security and continue to invest in the security of our systems.

8. Product design relevance

Risk and impact

- Ensuring that we have products that meet the design, price and quality needs of the small builder, and their customer, is a key focus of the business model and is a critical element of our future success and growth aspirations. Kitchen technology and design do not stand still, and our products must reflect that.
- If we do not support the builder with new products that their customers want, we could lose their loyalty and sales could diminish.

Mitigating Factors

- Our dedicated product team regularly refresh our offerings to meet builders' and end-users' expectations for design, price, quality and availability.
- We work with external design and brand specialists and attend product design fairs to monitor likely future trends.
- Our local depot staff have close relationships with their customers and end-users, and we actively gather feedback from them about changes in trends.
- We work with our suppliers, to develop new and improved products for the future, some of which are unique to Howdens. A number of new products were introduced during the year across all product categories.

9. Credit control failure

Risk and impact

- When a builder comes into one of our depots for the first time, we offer them a trade account, so they can complete the job before paying Howdens. Many of our customers rely on our trade account facilities, as cash flow is often critical to small businesses.
- Failure to provide or service these facilities could affect our ability to continue to support our customers, and potentially our ability to collect debt. This could have a direct impact on both our revenue and our working capital.

Mitigating factors

- We have an effective trade account policy used to agree terms with our customers and efficient debt collection processes, which we monitor closely and regularly.
- We have robust systems and tested business continuity plans.
- We maintain good personal relationships with our customers, both at depot level and within the credit control department.
- Our concentration of debt is limited, as our exposure is spread across 400,000 customer trade accounts.

CAUTIONARY STATEMENT

Certain statements in this Preliminary Results announcement are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

DIRECTORS' RESPONSIBILITY STATEMENT

The 2019 Annual Report and Accounts which will be issued in March 2020, contains a responsibility statement in compliance with DTR 4.1.12 of the Listing Rules which sets out that as at the date of approval of the Annual Report on 26 February 2020, the directors confirm to the best of their knowledge:

- the Group and unconsolidated Company financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company, and the undertakings included in the consolidation taken as a whole; and

- the performance review contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and the undertakings including the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

Andrew Livingston	Mark Robson
Chief Executive Officer	Deputy Chief Executive and Chief Financial Officer

26 February 2020

Consolidated income statement

	Notes	52 weeks to 28 December 2019 £m	52 weeks to 29 December 2018 £m
Revenue – sale of goods		**1,583.6**	1,511.3
Cost of sales		**(597.4)**	(579.1)
Gross profit		**986.2**	932.2
Selling & distribution costs		**(621.7)**	(594.4)
Administrative expenses		**(104.5)**	(97.7)
Operating profit		**260.0**	240.1
Finance income		**1.1**	0.7
Other finance expense - pensions		**(0.4)**	(2.3)
Profit before tax		**260.7**	238.5
Tax on profit	3	**(51.7)**	(48.1)
Profit for the period attributable to the equity holders of the parent		**209.0**	190.4
Earnings per share:			
Basic earnings per 10p share	4	**35.0p**	31.3p
Diluted earnings per 10p share	4	34.8p	31.2p

Consolidated statement of comprehensive income

	52 weeks to 28 December 2019 £m	52 weeks to 29 December 2018 £m
Profit for the period	**209.0**	190.4
Items of other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on defined benefit pension scheme	**(47.1)**	59.3
Deferred tax on actuarial losses/gains on defined benefit pension scheme	**8.0**	(11.3)
Change of tax rate on deferred tax	**(0.7)**	-
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**(1.9)**	(0.2)
Other comprehensive income for the period	**(41.7)**	47.8
Total comprehensive income for the period attributable to equity holders of the parent	**167.3**	238.2

Consolidated balance sheet

	Notes	28 December 2019 £m	29 December 2018 £m
Non-current assets			
Intangible assets		**24.9**	23.1
Property, plant and equipment		**212.4**	187.1
Deferred tax asset		**13.5**	11.2
Long term prepayments		**0.9**	-
		251.7	221.4
Current assets			
Inventories		**231.8**	226.3
Trade and other receivables		**193.1**	186.0
Cash and cash equivalents		**267.4**	231.3
		692.3	643.6
Total assets		**944.0**	865.0
Current liabilities			
Trade and other payables		**(241.4)**	(232.9)
Current tax liability		**(20.3)**	(20.2)
		(261.7)	(253.1)
Non-current liabilities			
Pension liability		**(56.6)**	(36.0)
Deferred tax liability		**(1.5)**	(1.5)
Provisions	6	**(9.0)**	(7.3)
		(67.1)	(44.8)
Total liabilities		**(328.8)**	(297.9)
Net assets		**615.2**	567.1
Equity			
Share capital		**60.5**	61.5
Share premium account and capital redemption reserve		**92.2**	87.5
ESOP reserve		**(6.3)**	(8.8)
Treasury shares		**(29.3)**	(32.9)
Retained earnings		**498.1**	459.8
Total equity		**615.2**	567.1

Consolidated statement of changes in equity

	Called up share capital £m	Capital redemption reserve £m	Share premium account £m	ESOP reserve £m	Treasury shares £m	Retained profit £m	Total £m
At 30 December 2017	62.8	-	87.5	(10.7)	(36.2)	350.8	454.2
Accumulated profit	-	-	-	-	-	190.4	190.4
Other comprehensive income	-	-	-	-	-	47.8	47.8
Total comprehensive income	-	-	-	-	-	238.2	238.2
Current tax on share schemes	-	-	-	-	-	0.1	0.1
Deferred tax on share schemes	-	-	-	-	-	(0.1)	(0.1)
Movement in ESOP	-	-	-	5.2	-	-	5.2
Buyback and cancellation of shares	(1.3)	-	-	-	-	(60.9)	(62.2)
Transfer of shares from treasury into share trust	-	-	-	(3.3)	3.3	-	-
Dividends declared and paid	-	-	-	-	-	(68.3)	(68.3)
At 29 December 2018	61.5	-	87.5	(8.8)	(32.9)	459.8	567.1
Accumulated profit	-	-	-	-	-	209.0	209.0
Other comprehensive income	-	-	-	-	-	(41.7)	(41.7)
Total comprehensive income	-	-	-	-	-	167.3	167.3
Current tax on share schemes	-	-	-	-	-	0.3	0.3
Deferred tax on share schemes	-	-	-	-	-	0.2	0.2
Movement in ESOP	-	-	-	6.1	-	-	6.1
Buyback and cancellation of shares (Note 1)	(1.0)	4.7	-	-	-	(58.9)	(55.2)
Transfer of shares from treasury into share trust	-	-	-	(3.6)	3.6	-	-
Dividends declared and paid	-	-	-	-	-	(70.6)	(70.6)
At 28 December 2019	60.5	4.7	87.5	(6.3)	(29.3)	498.1	615.2

The ESOP reserve includes shares in Howden Joinery Group Plc with a market value on the balance sheet date of £38.7m (2018: £27.1m), which are held by the Group's Employee Share Trusts in order to satisfy share options and awards made under the Group's various share-based payment schemes. The item "Movement in ESOP" consists of the share-based payment charge in the year, together with any receipts of cash from employees on exercise of share options.

At the current period end there were 6,015,580 ordinary shares held in treasury, each with a nominal value of 10p (2018: 6,738,280 shares).

Note 1: This includes a re-presentation of the cancellation of shares to retained earnings and capital contribution reserve for the shares bought back and cancelled before 29 December 2018, under which retained earnings has been reduced by £3.7m and the capital contribution reserve has been increased by £3.7m. This line also records the shares bought back and cancelled in the current period, which had an aggregate nominal value of £1m and a cost of £55.2m.

Consolidated cash flow statement

	Notes	**52 weeks to 28 December 2019 £m**	52 weeks to 29 December 2018 £m
Operating profit before tax and interest		**260.0**	240.1
Adjustments for:			
Depreciation and amortisation included in operating profit		**34.5**	30.2
Share-based payments charge		**4.9**	4.3
Loss on disposal of property, plant and equipment, and intangible assets		**1.4**	-
Operating cash flows before movements in working capital		**300.8**	274.6
Movements in working capital			
Increase in stock		**(5.5)**	(18.0)
Increase in trade and other receivables		**(7.1)**	(48.2)
Increase/(decrease) in trade and other payables, and provisions		**6.3**	16.5
Difference between pensions operating charge and cash paid		**(26.9)**	(16.3)
		(33.2)	(66.0)
Cash generated from operations		**267.6**	208.6
Tax paid		**(46.2)**	(45.4)
Net cash flow from operating activities		**221.4**	163.2

Consolidated cash flow statement – continued

	Notes	52 weeks to 28 December 2019 £m	52 weeks to 29 December 2018 £m
Net cash flows from operating activities		**221.4**	163.2
Cash flows used in investing activities			
Payments to acquire property, plant and equipment, and intangible assets		**(61.1)**	(44.3)
Receipts from sale of property, plant and equipment, and intangible assets		**0.3**	0.1
Interest received		**1.1**	0.7
Net cash used in investing activities		**(59.7)**	(43.5)
Cash flows used in financing activities			
Payments to acquire own shares		**(55.2)**	(62.2)
Receipts from release of shares from share trust		**1.1**	0.9
Increase in long term prepayments		**(0.9)**	0.1
Dividends paid to Group shareholders		**(70.6)**	(68.3)
Net cash used in financing activities		**(125.6)**	(129.5)
Net increase in cash and cash equivalents		**36.1**	(9.8)
Cash and cash equivalents at beginning of period		**231.3**	241.1
Cash and cash equivalents at end of period	7	**267.4**	231.3

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of presentation and preparation

The Group's accounting period covers the 52 weeks to 28 December 2019. The comparative period covered the 52 weeks to 29 December 2018.

The Group's financial statements have been prepared in accordance with the IFRSs adopted for use in the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. They therefore comply with Article 4 of the EU IAS Regulation.

The accounting policies, presentation methods and methods of computation followed are the same as those detailed within the 2018 Annual Report and Accounts, which is available on the Group's website (www.howdenjoinerygroupplc.com).

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Sections 434 to 436 of the Companies Act 2006 and is an abridged version of the Group's financial statements for the year 52 weeks to 28 December 2019. The statutory accounts for the 52 weeks to 29 December 2018 have been filed with the Registrar of Companies. The statutory accounts for the 52 weeks ended 28 December 2019 will be filed in due course. The auditors' report on both the 2019 and 2018 accounts was not qualified or modified and did not contain any statement under sections 498(2) or (3) of the Companies Act 2006 or any preceding legislation.

Impact of IFRS 16 (Leases) on the 2020 financial statements

Balance sheet

Using the Group's leases on the transition date, 29 December 2019, the pre-tax impact of IFRS 16 will be:

- recognition of an opening right of use asset of £549m
- recognition of an opening lease liability of £568m
- an adjustment to opening reserves in the 2020 financial statements which will reduce them by £31m.

The amount of the adjustment to opening reserves does not equal the difference between the right of use asset and the lease liability because it also includes items such as rent prepayments and rent-free balances which were being carried on the balance sheet under IAS 17, and which are also required to be taken to opening reserves on adopting IFRS 16.

Income statement

If we took the leases at 29 December 2019 and rolled them forward to the end of the 2020 financial year, the income statement would include:

- IFRS 16 lease depreciation of £73m, which will be charged in arriving at operating profit, and
- IFRS 16 lease interest of £9m, which will be included as a finance charge, below operating profit

Under IAS 17, the projected rent payable for these leases in the year would be £81m, which would all be charged to operating profit. This means that that the effect of IFRS 16 would be to increase operating profit by £8m, to increase finance charges by £9m and therefore to decrease profit before tax by £1m.

It should be noted that the 2020 income statement estimates above will differ from the actual 2020 figures because the estimates do not include assumptions for any new leases, lease renewals or rent reviews in 2020.

There are also a number of properties whose lease renewals are in negotiation at 29 December and which are therefore prevented from being treated as leases under IFRS 16 and excluded from the figures above. The rent for these properties will be charged to operating profit until the new leases are signed, at which point they will be recognised as leases under IFRS 16.

2 Segmental reports

(a) Basis of segmentation

Information reported to the Group's Executive Committee is focused on one operating segment, Howden Joinery. The information required in respect of the profit or loss, and assets and liabilities can all be found in the consolidated income statement and consolidated balance sheet.

The Howden Joinery business derives its revenue from the sale of kitchens and joinery products.

(b) Other information

	52 weeks to 28 December 2019 £m	52 weeks to 29 December 2018 £m
Capital additions	**63.6**	45.2
Depreciation and amortisation	**(34.5)**	(30.2)

3 Tax

(a) Tax in the income statement

	52 weeks to 28 December 2019 £m	52 weeks to 29 December 2018 £m
Current tax:		
Current year	**47.9**	44.8
Adjustments in respect of previous years	**(1.3)**	0.3
Total current tax	**46.6**	45.1
Deferred tax:		
Current year	**5.3**	3.0
Adjustments in respect of previous years	**(0.2)**	0.0
Total deferred tax	**5.1**	3.0
Total tax charged in the income statement	**51.7**	48.1

UK corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the period. Tax for other countries is calculated at the rates prevailing in the respective jurisdictions.

(b) Tax relating to items credited to equity

	52 weeks to 28 December 2019 £m	52 weeks to 29 December 2018 £m
Deferred tax (charge)/credit to other comprehensive income on actuarial loss on pension scheme	**8.0**	(11.3)
Change of rate effect on deferred tax	**(0.7)**	-
Deferred tax charge to equity on share schemes	**0.2**	(0.1)
Current tax credit to equity on share schemes	**0.3**	0.1
	7.8	(11.3)

(c) Reconciliation of the total tax charge

The total tax charge for the year can be reconciled to the result per the income statement as follows:

	52 weeks to 28 December 2019 £m	52 weeks to 29 December 2018 £m
Profit before tax	**260.7**	238.5
Tax at the UK Corporation tax rate of 19% (2018: 19%)	**49.5**	45.3
IFRS2 share scheme charge	**0.2**	(0.6)
Expenses not deductible for tax purposes	**1.9**	0.9
Overseas losses not utilised	**0.4**	1.0
Non-qualifying depreciation	**1.2**	1.2
Other tax adjustment in respect of previous years	**(1.5)**	0.3
Total tax charged in the income statement	**51.7**	48.1

The Group's effective rate of tax is 19.8% (2018: 20.2%)

4 Earnings per share

	52 weeks to 28 December 2019			52 weeks to 29 December 2018		
	Earnings £m	**Weighted average number of shares m**	**Earnings per share p**	Earnings £m	Weighted average number of shares m	Earnings per share p
Basic earnings per share	**209.0**	**596.9**	**35.0**	190.4	608.3	31.3
Effect of dilutive share options	**-**	**3.0**	**(0.2)**	-	2.5	(0.1)
Diluted earnings per share	**209.0**	**599.9**	**34.8**	190.4	610.8	31.2

5 Dividends

	52 weeks to 28 December 2019 £m	52 weeks to 29 December 2018 £m
Amounts recognised as distributions to equity holders in the period		
Interim dividend for the 52 weeks to 28 December 2019 - 3.9p/share	**23.2**	
Final dividend for the 52 weeks to 29 December 2018 – 7.9p/share	**47.4**	
Interim dividend for the 52 weeks to 29 December 2018 - 3.7p/share	**-**	22.4
Final dividend for the 53 weeks to 30 December 2017 – 7.5p/share	**-**	45.9
	70.6	68.3

Dividends proposed at the end of the period (but not recognised in the period)

	52 weeks to 28 December 2019 £m
Proposed final dividend for the 52 weeks to 28 December 2019 – (9.1p/share)	**54.9**

The directors propose a final dividend in respect of the 52 weeks to 28 December 2019 of 9.1p per share, payable to ordinary shareholders who are on the register of shareholders at 22 May 2020 and payable on 19 June 2020.

Dividends have been waived indefinitely on all shares held by the Group's employee share trusts which have not yet been awarded to employees.

The proposed final dividend for the current period is subject to the approval of the shareholders at the 2020 Annual General Meeting, and has not been included as a liability in these financial statements.

6 Provisions

	Property £m	Warranty £m	Other £m	Total £m
At 30 December 2017	4.3	3.9	2.3	10.5
Additional provision in the period	0.4	3.5	0.3	4.2
Provision released in the period	(0.6)	-	(1.1)	(1.7)
Utilisation of provision in the period	(0.7)	(3.8)	(1.2)	(5.7)
At 29 December 2018	**3.4**	**3.6**	**0.3**	**7.3**
Additional provision in the period	3.1	5.3	5.5	13.9
Provision released in the period	(0.9)	-	-	(0.9)
Utilisation of provision in the period	(2.2)	(3.8)	(5.3)	(11.3)
At 28 December 2019	**3.4**	**5.1**	**0.5**	**9.0**

Property provision

The property provision covers two main areas: (i) onerous leases on any non-trading leased properties, and (ii) obligations to make dilapidations payments to landlords of leased properties.

The timing of outflows from the provision is variable and is dependent on rent payment dates, lease expiry dates, opportunities to surrender leases, and on the timing of dilapidations assessments and works.

Warranty provision

The warranty provision relates to amounts due in respect of product warranties. As products are sold, the Group makes provision for claims under warranties. As claims are made, the Group utilises the provision and then uses this historical data to periodically revise the basis on which it makes further provision.

Other provision

Movement in the year relates to the closure of the Group's trials in Germany and The Netherlands. The closure of these businesses was substantially completed in 2019, with a final £0.2m of further closure expenses expected in 2020.

7 Notes to the cash flow statement

Analysis of net cash

	Cash at bank and in hand £m	Short term investments £m	Cash and cash equivalents, and net cash £m
As at 29 December 2018	231.3	-	231.3
Cash flow	(12.8)	48.9	36.1
As at 28 December 2019	**218.5**	**48.9**	**267.4**

The short term investments had a maturity of less than three months and, as such, were considered to be cash equivalents for the purposes of the cash flow statement.