



HOWDENS
JOINERY CO.

2016 HALF-YEARLY REPORT

21 July 2016



HOWDENS
JOINERY CO.

Matthew Ingle
Chief Executive Officer

A successful business, performing well



Flexible
Profitable
Cash-
generative

- ➡ Proven business model
 - Tested in different market conditions
- ➡ Inherently low-cost
- ➡ Intrinsically profitable
- ➡ Well-invested manufacturing and systems
 - Lowest cost of production
- ➡ 390,000 nett monthly accounts and growing
- ➡ Maximising opportunities for Autumn trading



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Mark Robson

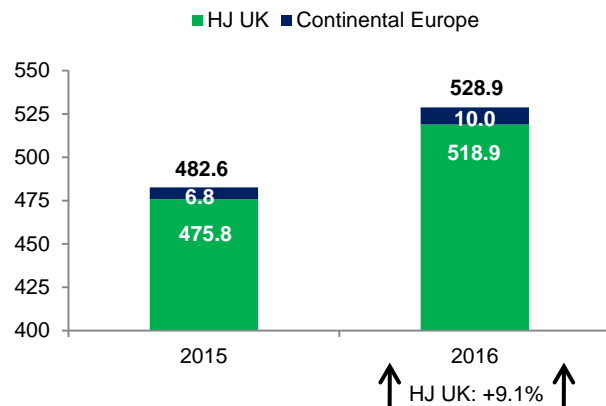
Deputy CEO and Chief Financial Officer

Business developments

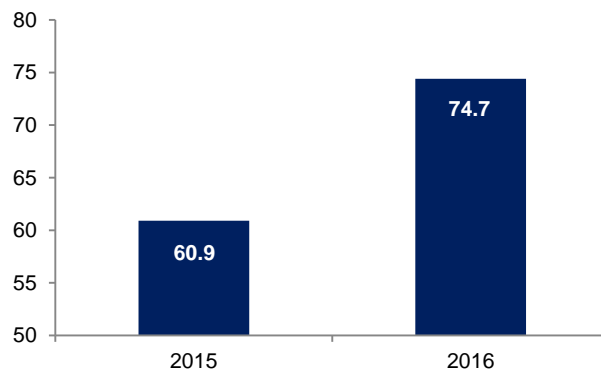
- 10 UK depots opened so far – on track for around 30
- Supply
 - Howden: new factory built, assembly lines being installed
 - Runcorn: cabinet component line being commissioned
 - Raunds: 650k sq ft warehouse fit-out underway
- Investment in product, including two new kitchen ranges

Highlights

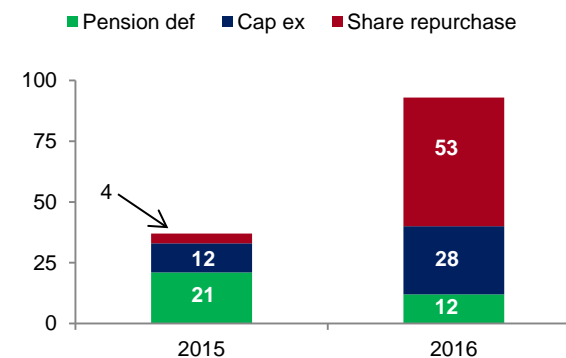
Revenue, £m



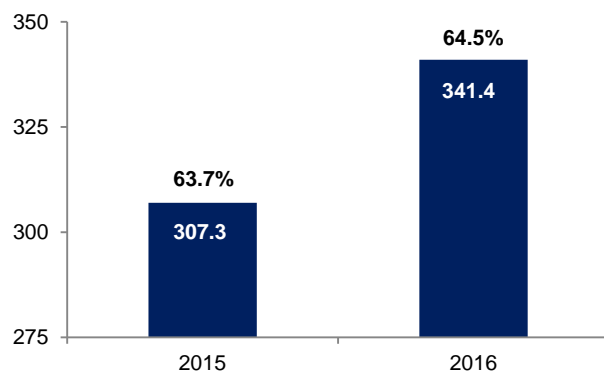
Operating profit continuing ops, £m



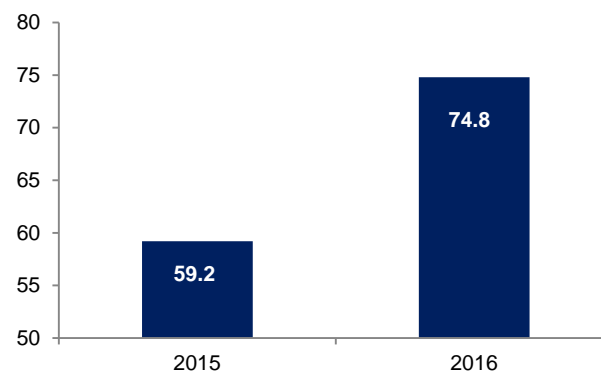
Uses of 'cash', £m



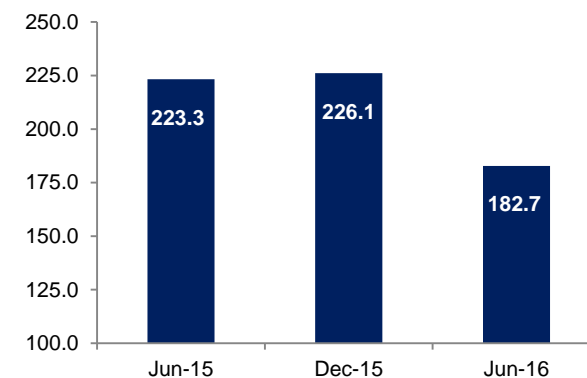
Gross profit, £m, and margin, %



Profit before tax continuing ops, £m



Net cash, £m



Interim dividend of 3.3p per share recommended (2015: 2.8p)

Revenue

2016 UK depot revenue £518.9m

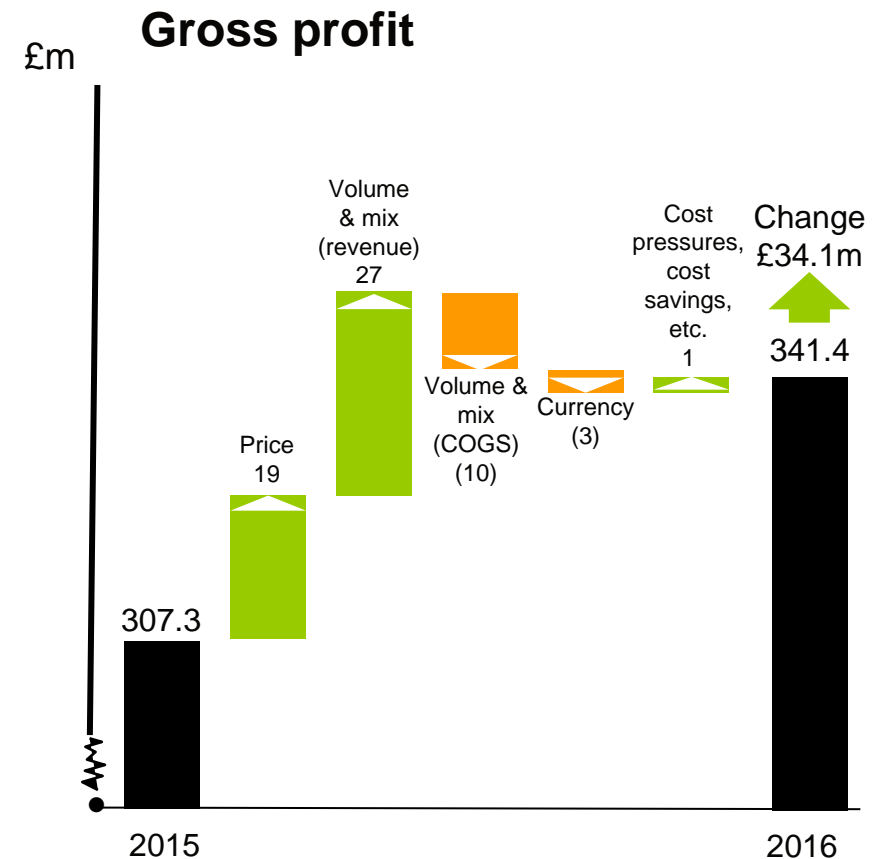
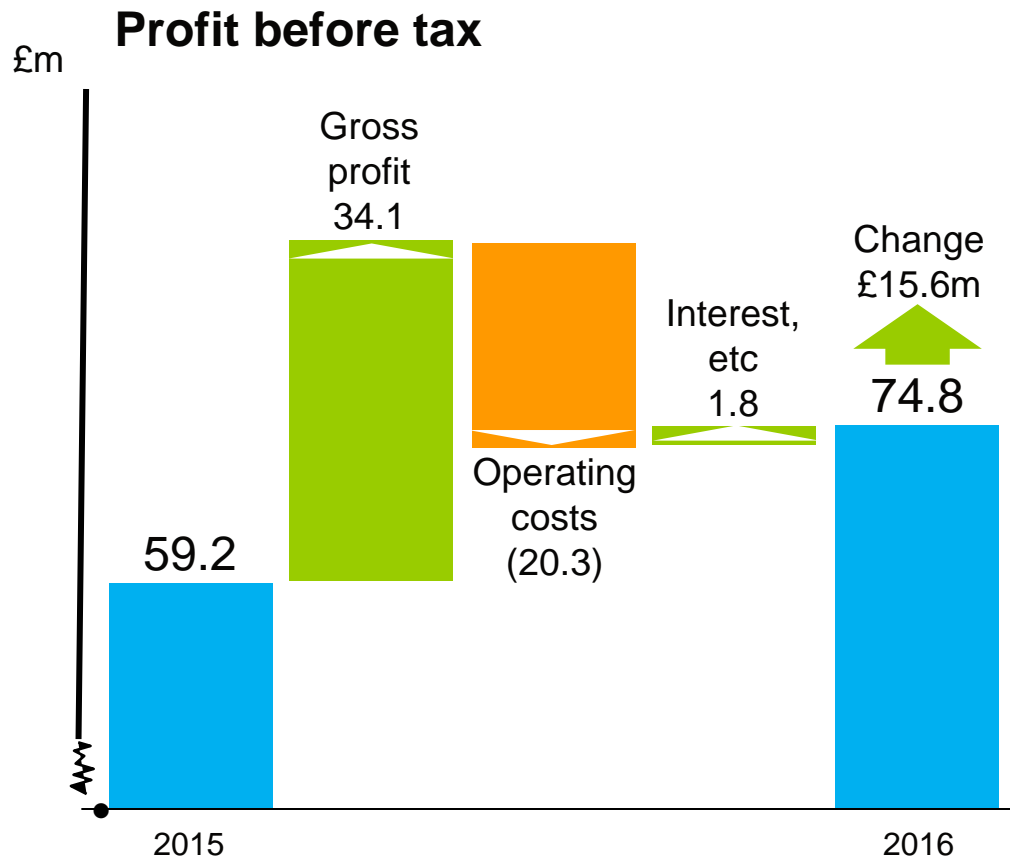
- total +9.1% • LFL +6.7%

2016 continental Europe revenue £10m

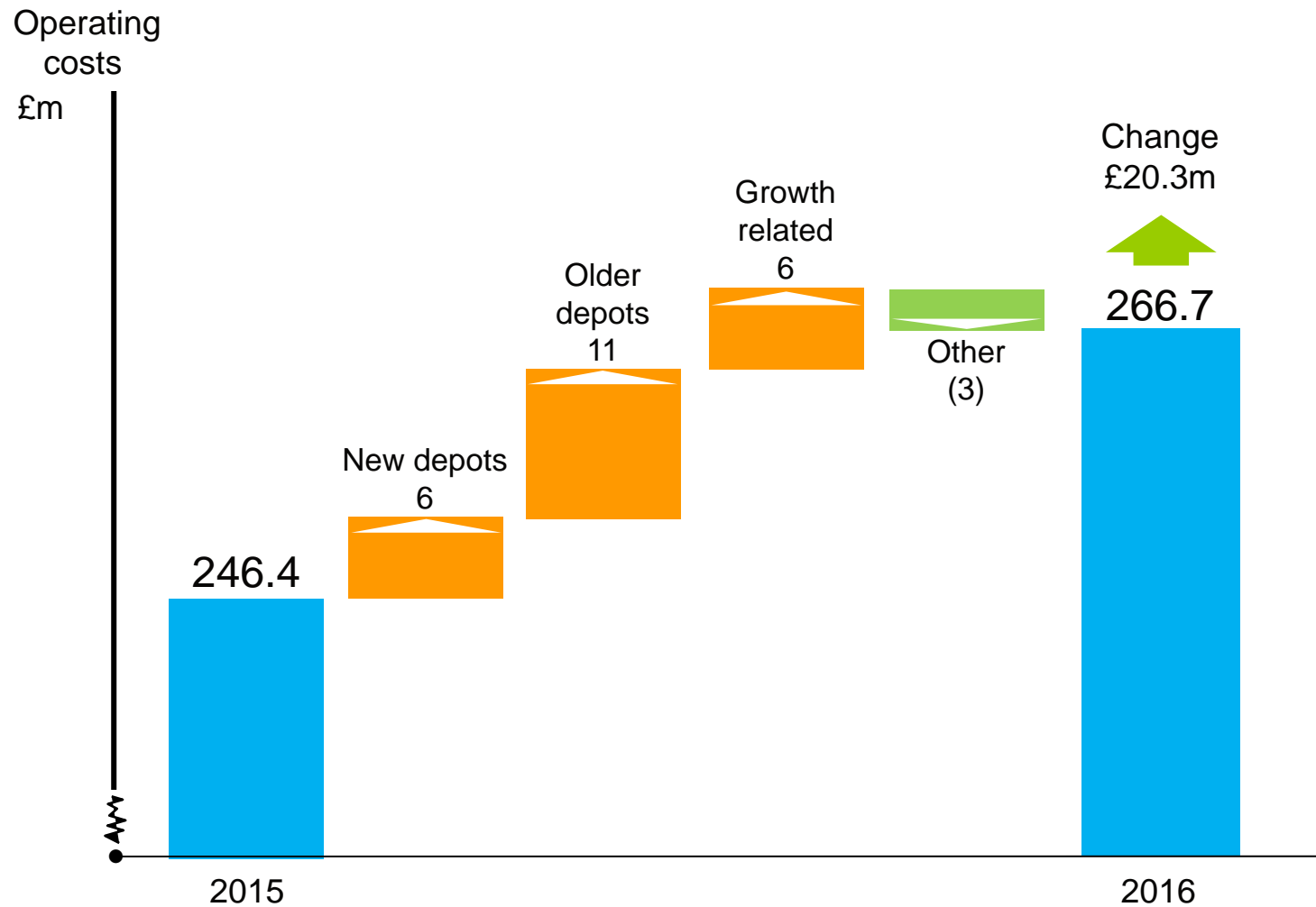
- sales in original French depots up 3% in €s

Profit before tax

Group gross profit margin
• 2016: 64.5% • 2015: 63.7%



Operating costs



Income statement

£m	H1 2016	H1 2015
Revenue	528.9	482.6
Cost of goods sold	<u>(187.5)</u>	<u>(175.3)</u>
Gross profit	341.4	307.3
Operating costs	<u>(266.7)</u>	<u>(246.4)</u>
Operating profit	74.7	60.9
Net interest	<u>0.1</u>	<u>(1.7)</u>
Profit before tax	74.8	59.2
Tax	<u>(17.0)</u>	<u>(13.2)</u>
Profit for the period	57.8	46.0

Earnings per share, dividends and share repurchase

	H1 2016	H1 2015
Earnings per share	9.1p	7.1p
Interim dividend per share	3.3p	2.8p

- Share repurchase expenditure of £53m
 - £25m outstanding from 2015
 - half of new £55m repurchase announced in Feb 2016

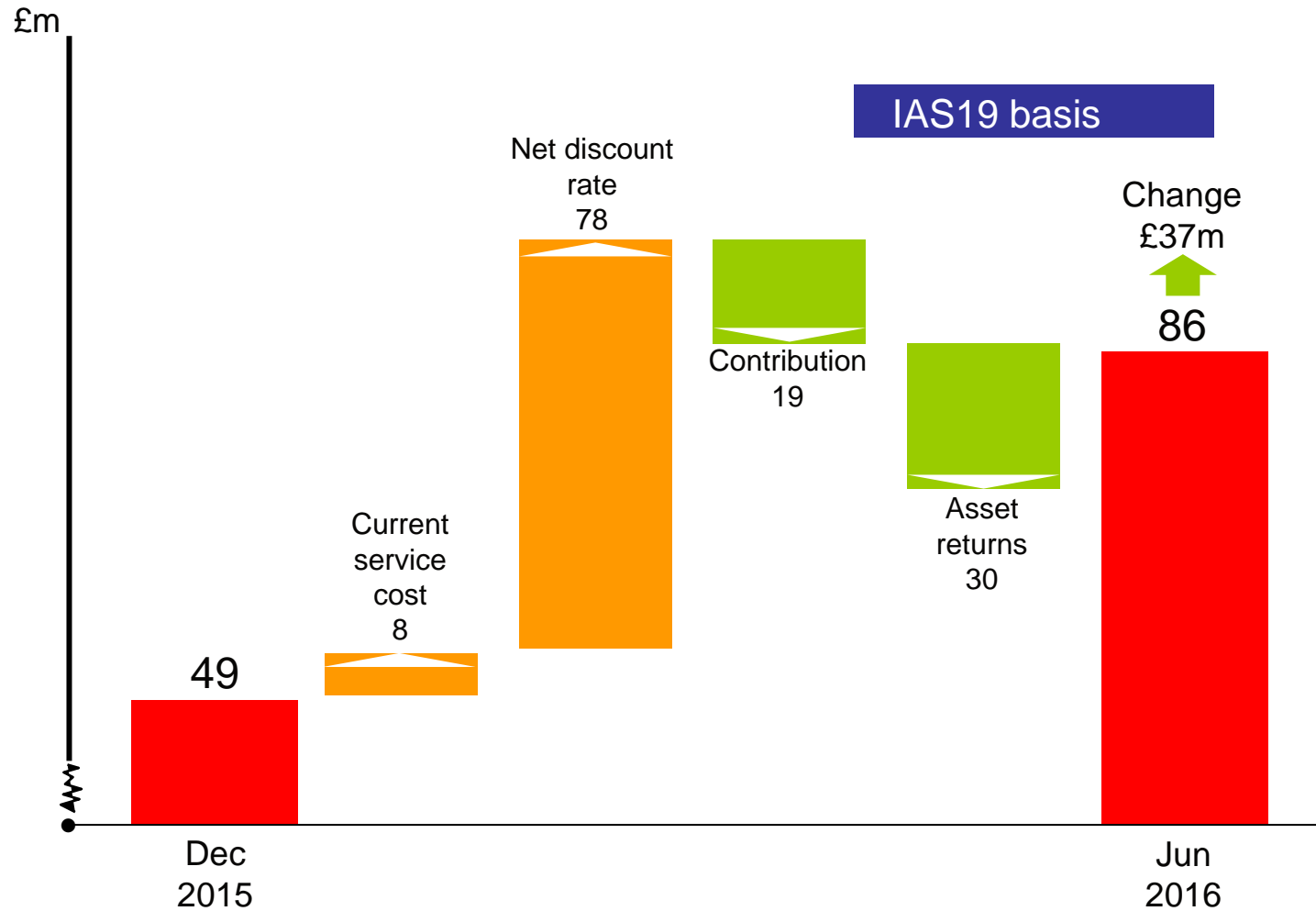
Net cash and cash flow

£m	H1 2016	H1 2015
Opening net cash	226.1	217.7
Operating cash flows before movements in working capital	88.3	74.9
Working capital	(30.6)	(18.0)
Capital expenditure	(28.0)	(11.7)
Interest (net)	0.6	0.3
Tax paid	(10.2)	(15.8)
Share repurchases	(52.8)	(4.1)
Pension contribution	(11.6)	(20.8)
Other	0.9	0.8
Closing net cash	182.7	223.3

Working capital

- Working capital up £30.6m
 - stock up £7.4m
 - debtors up £30.5m
 - creditors up £7.3m

Pension scheme deficit



Recent trading and outlook for remainder of 2016

- UK depot sales in first four week period of H2 up 5.2%
 - EU referendum in middle of period
- Remainder of 2016
 - too early to see any impact of referendum result or judge what it might be
 - continuing with plans, but remain watchful
 - £ has weakened: rates seen so far this year and current rate for rest of year increase COGS by around £20m

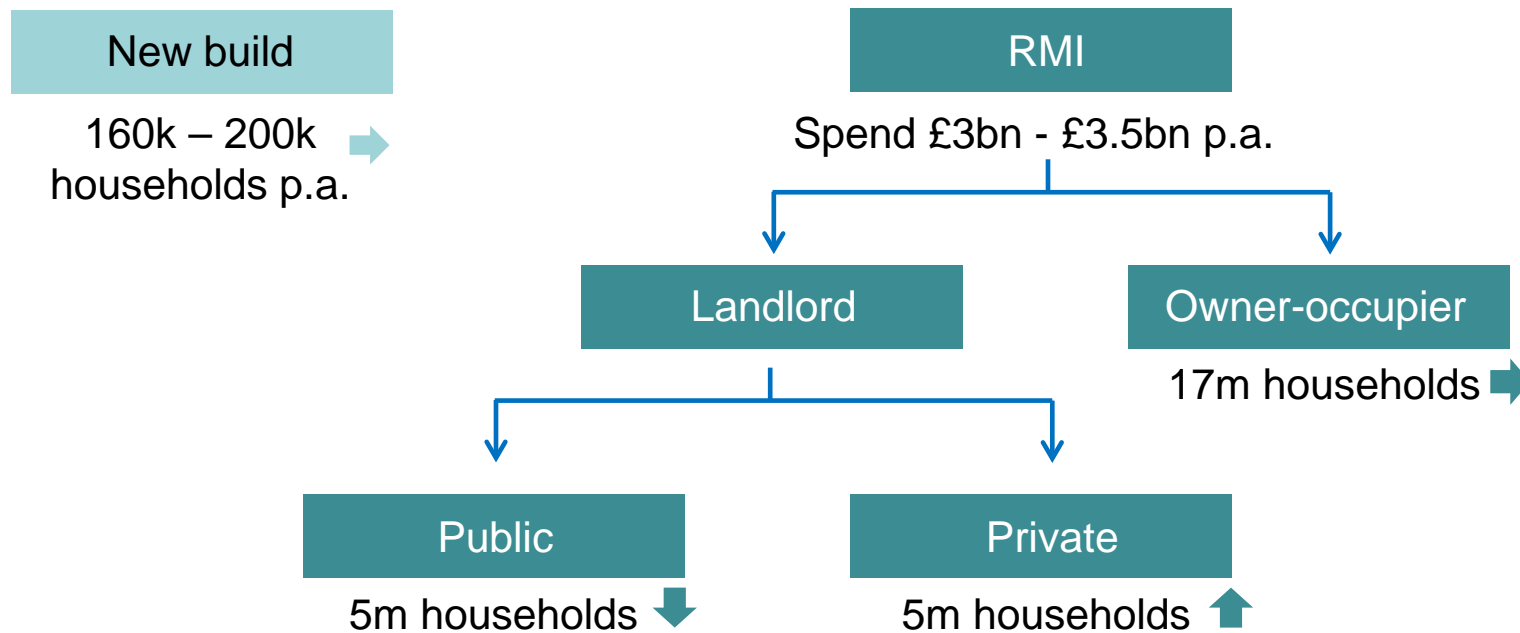


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Matthew Ingle
Chief Executive Officer

A trade-only business

Domestic fitted kitchens and prepared joinery **fitted by the builder**



*Improve,
don't
move*

Small builders service all channels and are decision makers or influencers in all of them

What the builder wants



- ➡ A suitable product range
 - Looks good
 - Doesn't break
 - Easy to fit
 - Meets standards
 - Always available from local stock
- ➡ Local manager can make decisions
- ➡ Account terms = cash flow + margin

The builder relies on Howdens

Low-cost, local depots and a growing account base

➡ c.390,000 nett monthly accounts

- +7% in H1

➡ 629 depots

- On track for 30 this year

➡ Low cost

- c.10,000 sq.ft
- Rent c.£5.50 / sq.ft
- Fit out c.£280,000 (vs. retail)
- Breakeven point c.£650,000
- Typical depot breaks even by end of Year 2



Profitable, local depots across the UK



Swansea
2015 sales c. £3.7m
20 staff



Campbeltown
2015 sales c. £800,000
6 staff

**It makes sense to continue to open depots
at the pace that suits prevailing conditions**

The local manager is in charge



Manager Becci Theakston and some of her team at Fleetwood depot

- ➡ Local P&L
 - Local profit shared by staff
- ➡ Manager responsible for hiring staff
- ➡ Individual accountability
- ➡ Do what we say
- ➡ Incentivised to deliver better service

Worthwhile for all concerned

Well-invested supply chain

- ➡ Wholly focused on the builder
- ➡ Efficient processes
- ➡ Robust systems
- ➡ Renewed assets
- ➡ **More flexibility**
- ➡ **Capacity to meet demand**



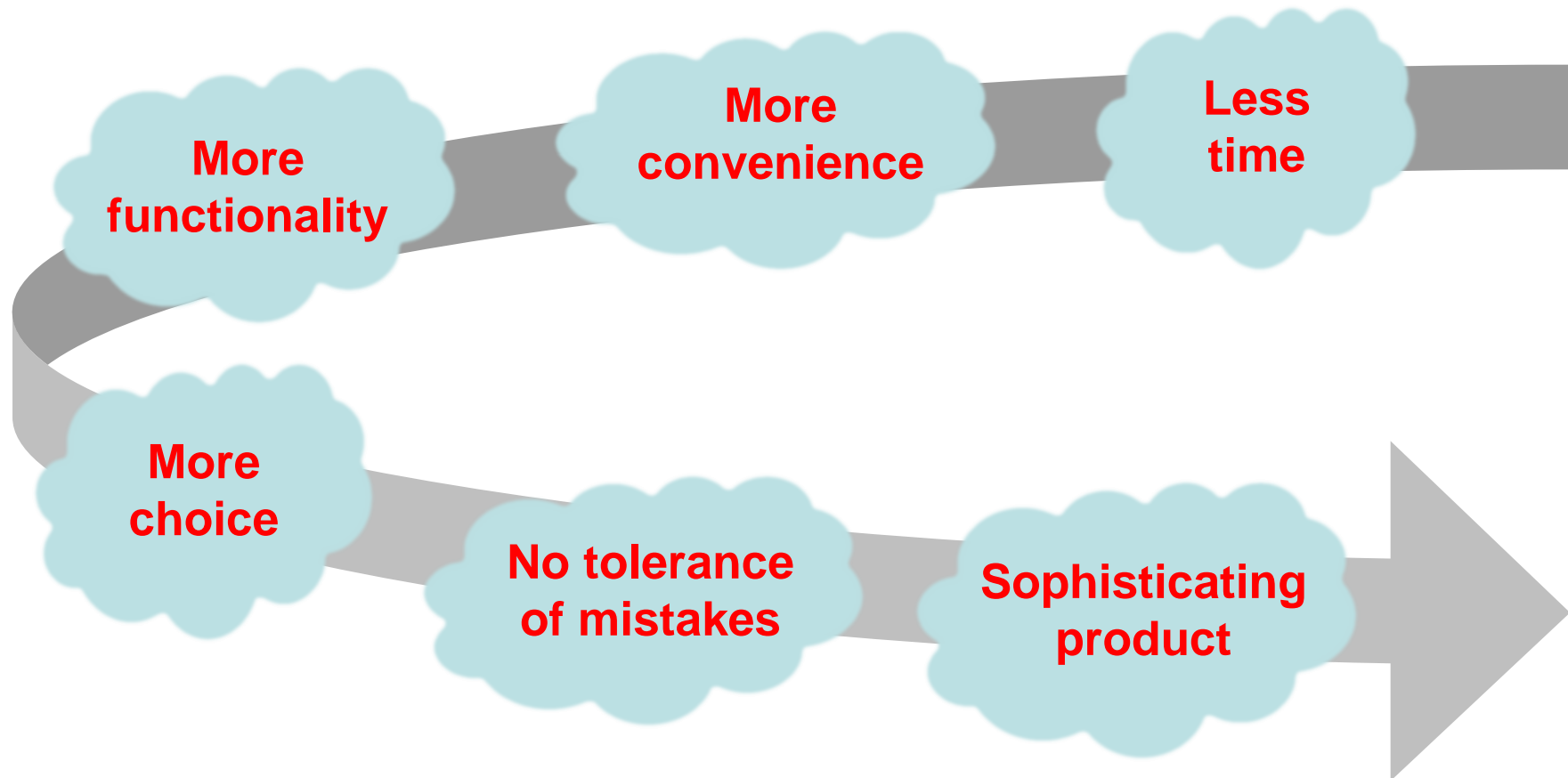
The “I” line at Howdens’ Runcorn factory

Flexible manufacturing

- ➡ Practical working agreements
 - 285 staff in P2 ➔ 585 staff in P11
- ➡ Flexible machine utilisation
 - 55,000 cabinets p.w. ➔ 110,000 cabinets p.w. at Runcorn
- ➡ Long experience of flexing production and logistics to meet complex demand
 - Period 11

Highly responsive supply chain

Continuing market evolution



Continuing to introduce and test new products



**Granite
from
stock**

Continuing to introduce and test new products



**Branded
appliances**

Continuing to introduce and test new products



**New
finishes**

Continuing to introduce and test new products



**Push to
open
drawers**

Continuing to introduce and test new products



New
Lamona
appliances

Affordable newness



**Greenwich
Gloss
Graphite
and Cream**

A suitable product range

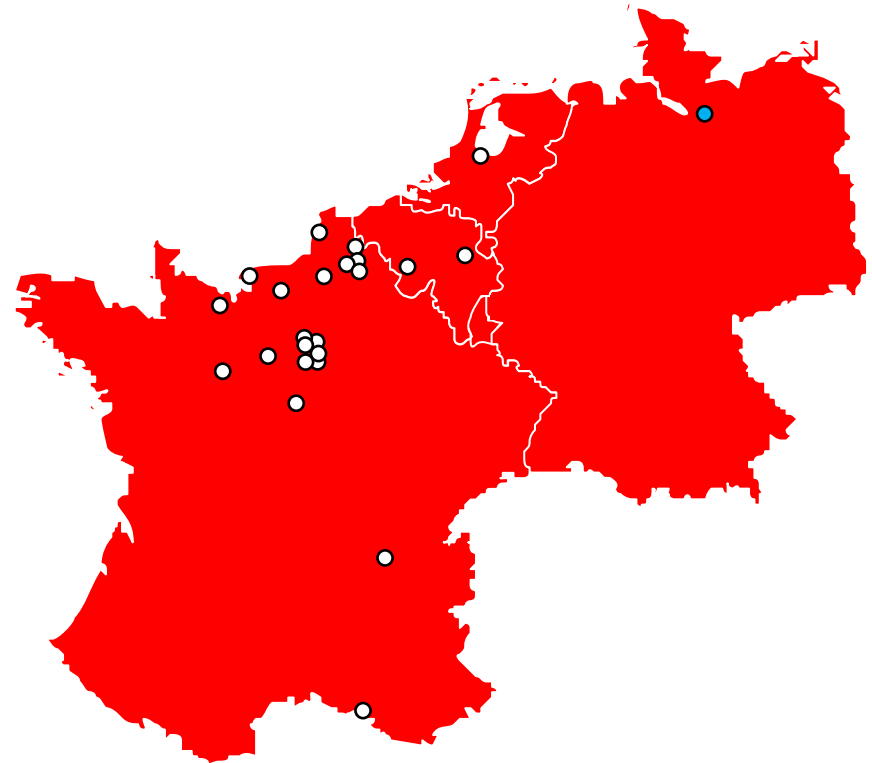
- ➡ 50 kitchen ranges at different price points
- ➡ Average kitchen price c.£2,500
 - Tewkesbury c.£4,000
 - Greenwich c.£700
- ➡ New materials technology = affordable newness
- ➡ Local availability and service

**Routine
kitchens and
joinery**

Howdens meets a wide range of needs

Ongoing tests in continental Europe

- ➡ Continuing progress in France
 - 20 depots now open
 - Two formats, Lamona and Houdan
 - Depot profitability improved
- ➡ Further trials under way
 - France
 - Belgium
 - Holland
 - Germany
- ➡ Ability to make choices



- Depots at July 2016
- To open in Q3 2016

Andy Witts, COO Trade

➡ Flexible depot operations

- Managers and counter staff have experience of other roles, e.g. design, loading / unloading
- Depot staff work as a team

➡ Autonomy of local managers

- Ability to set local pricing and determine depot margin
- Highly motivating for managers and staff


➡ Low variable costs

- Local contractors

**Incentivised,
flexible and
focused**

Rob Fenwick, COO Supply

- ➡ Significant part of cost base is variable
 - Bought-in products + raw materials = up to 90% of COGS
 - Scale buyer with good supplier relationships
- ➡ Around 75% of supply base in UK / Europe
 - Short lead times
 - Highly responsive to demand from depots
- ➡ Flexible manufacturing
 - Agency staff = c.23% of labour costs
 - Variable shift patterns and line utilisation



**Incentivised,
flexible and
focused**

Theresa Keating, Finance Director

- ➡ Strong and flexible balance sheet
 - £180m cash at half year end
 - £140m asset-backed lending facility
- ➡ Rigorous debt collection and account management procedures
- ➡ Limited exposure to large individual debtors
- ➡ Supply chain with ability to moderate the pace of future capex
- ➡ Low cash outlay on depot fit-out
- ➡ Legacy liabilities virtually eliminated
 - £0.5m p.a.

**An agile and
responsive
organisation**

A proven mission and model

To supply from local stock nationwide
the small builder's ever-changing, routine, integrated
kitchen and joinery requirements, assuring best local
price, no-call-back quality and confidential trade terms

Managing scale **and** complexity
to generate margin and cash

Howdens is a successful, balanced business...

- ➡ Well-invested, prudent and sensible
- ➡ Strong culture
- ➡ Prepared for all circumstances
- ➡ Low production costs
 - Flexible production
 - Growing trade account base
 - More low-breakeven depots
 - Motivated and incentivised staff
 - Affordable kitchens from local stock

**Doing
more of
what works**



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