



**HOWDENS**  
JOINERY CO.

---

Making kitchens work for you

# 2012 HALF YEARLY REPORT

19 July 2012



**HOWDENS**  
JOINERY CO.

---

Making kitchens work for you

**Matthew Ingle**  
Chief Executive Officer

# Howdens continues to perform well

- ➡ H1 2012:
  - Solid trading: sales up by 6.8%
  - Operating profit up to £29.1m (2011: £25.5m)
  - Gross margin up to 60.1% (2011: 59.3%)
  - Cash position improved vs. H1 2011
- ➡ Sustained focus on proven model
- ➡ 0.3p interim dividend declared

A robust business in an uncertain environment



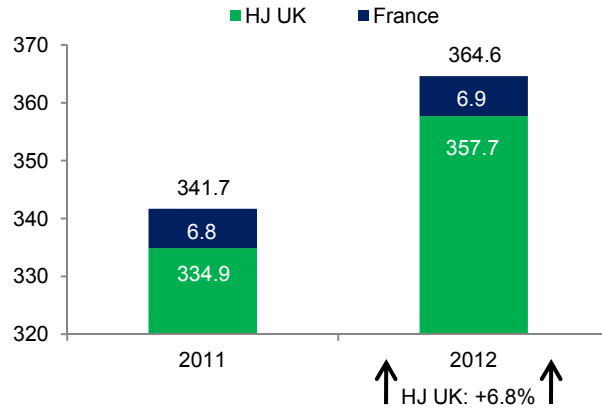
**Mark Robson**  
Chief Financial Officer

# Context of financial results

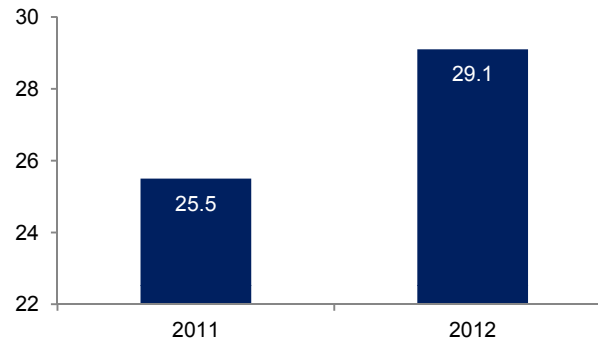
- Increased turnover and profit
- Cash flow finances legacy issues and growth of the business
- Legacy property portfolio continues to diminish

# Highlights

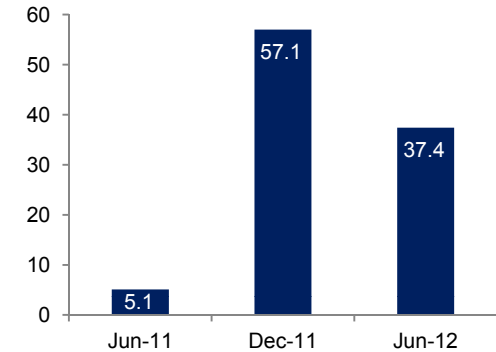
Revenue, £m



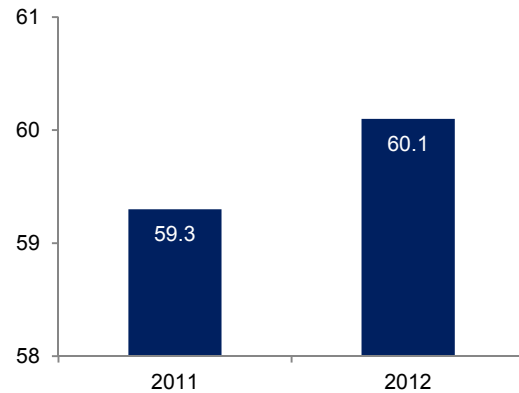
Operating profit, £m



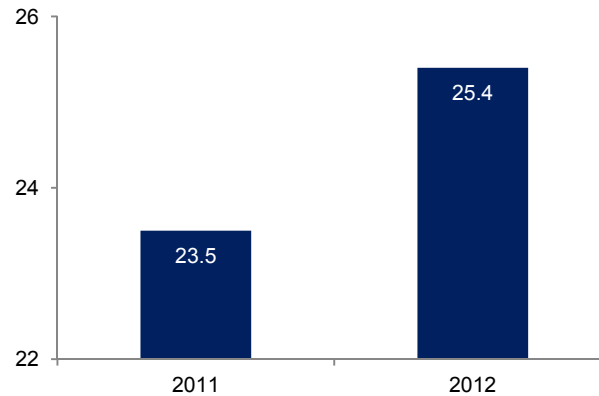
Net cash, £m



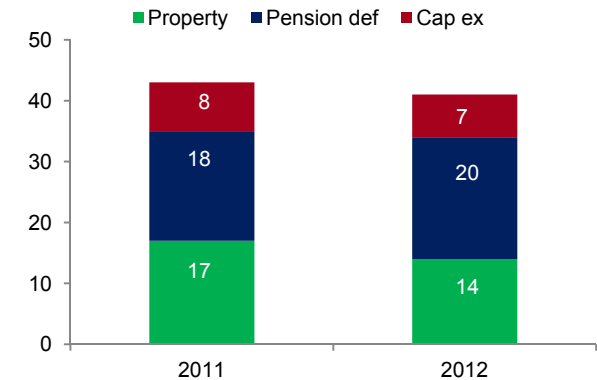
Gross profit margin, %



Profit before tax, £m



Uses of 'cash', £m



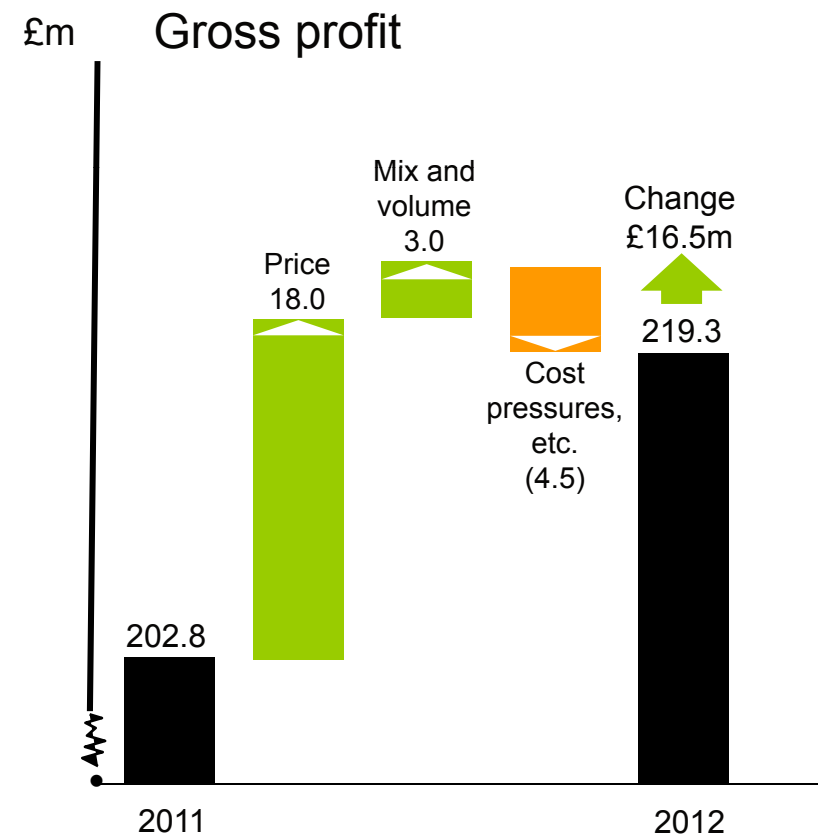
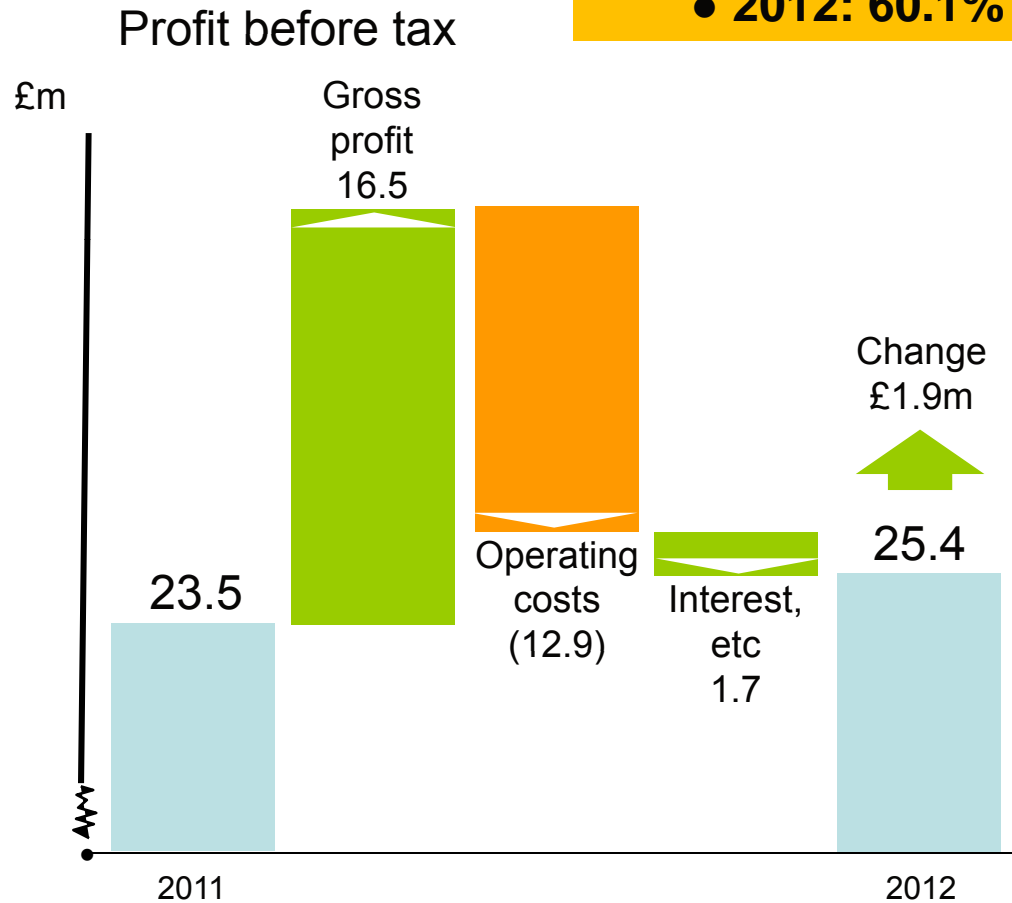
# Revenue

2012 UK depot revenue £357.7m  
• total +6.8% • LFL +5.0%

2012 French depot revenue £6.9m  
+ 5% in €s

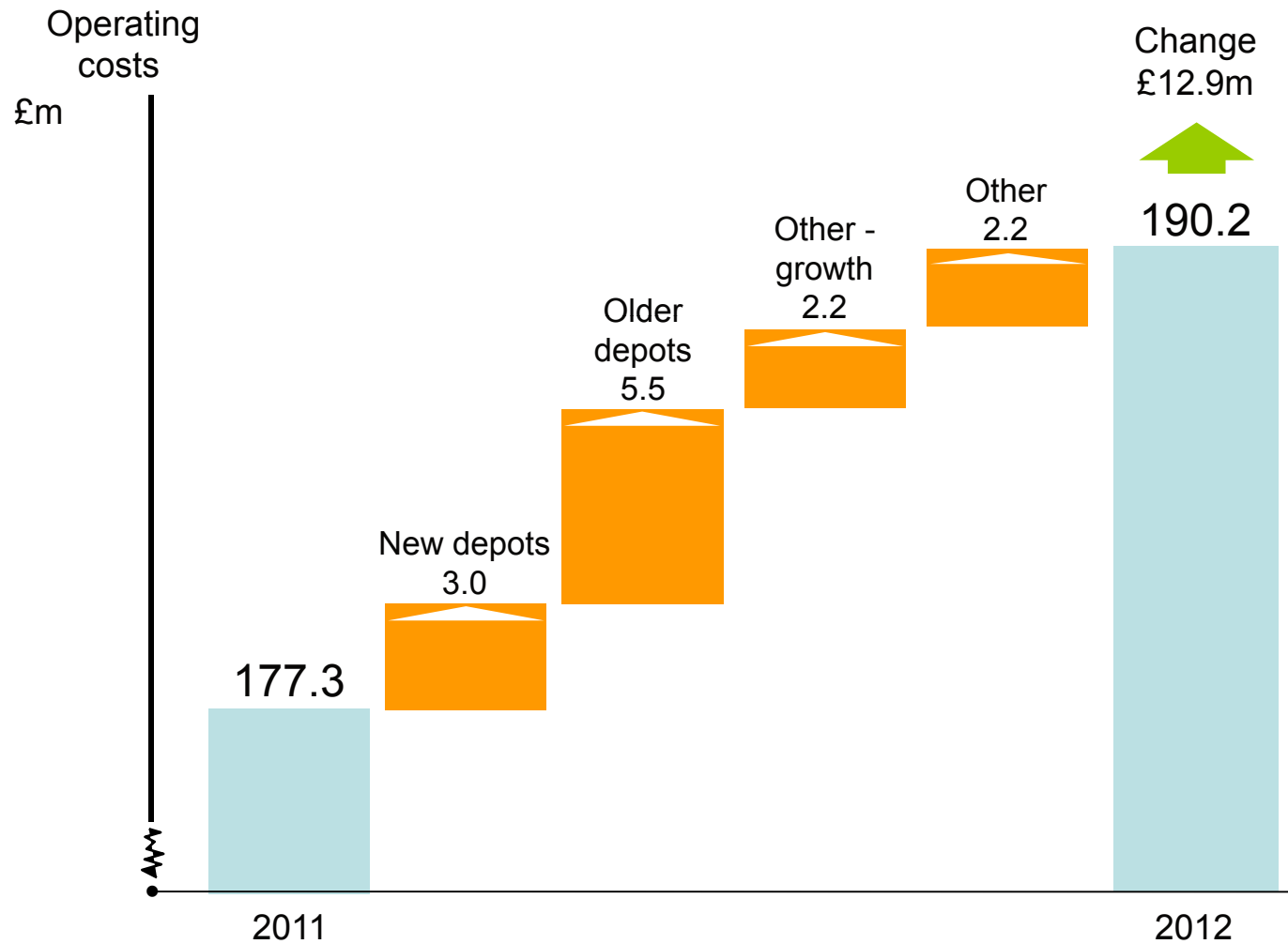
# Profit before tax

**Group gross profit margin**  
• 2012: 60.1% • 2011: 59.3%





# Operating costs



# Income statement

£m	H1 2012	H1 2011
Revenue	<b>364.6</b>	341.7
Cost of goods sold	<b><u>(145.3)</u></b>	<u>(138.9)</u>
Gross profit	<b>219.3</b>	202.8
Operating costs	<b><u>(190.2)</u></b>	<u>(177.3)</u>
Operating profit	<b>29.1</b>	25.5
Net interest	<b><u>(3.7)</u></b>	<u>(2.0)</u>
Profit before tax	<b>25.4</b>	23.5
Tax	<b><u>(5.6)</u></b>	<u>(6.5)</u>
Profit for the period	<b>19.8</b>	17.0

# Earnings per share and dividend

	H1 2012	H1 2011
Earnings per share	<b>3.2p</b>	2.8p
Interim dividend per share	<b>0.3p</b>	nil

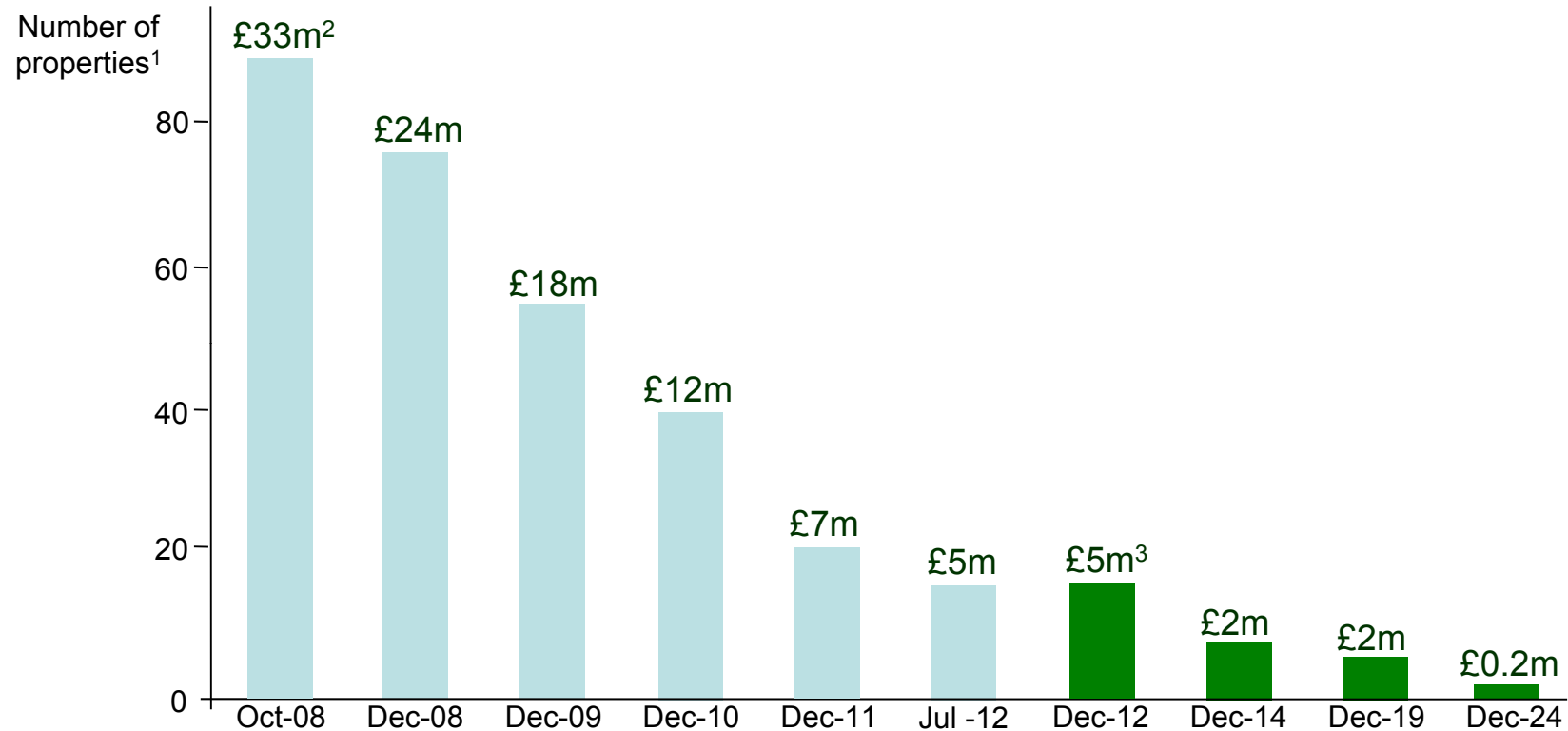
# Net cash and cash flow

£m	H1 2012	H1 2011
Opening net cash	<b>57.1</b>	35.0
Operating cash flows before movements in working capital	<b>37.9</b>	35.9
Working capital	<b>(10.4)</b>	(10.7)
Capital expenditure	<b>(6.5)</b>	(7.9)
Interest (net)	<b>(0.1)</b>	(0.5)
Tax paid	<b>(9.0)</b>	(11.6)
Legacy properties	<b>(13.9)</b>	(17.2)
Pension deficit contribution	<b>(20.1)</b>	(17.9)
Other	<b>2.4</b>	-
Closing net cash	<b>37.4</b>	5.1
Net cash inflow excluding legacy property and pension deficit costs: £14.3m		

# Working capital

- Working capital up £10.4m
  - stock down £6.0m
  - debtors up £24.6m
  - creditors up £8.2m

# Reducing our legacy property liabilities



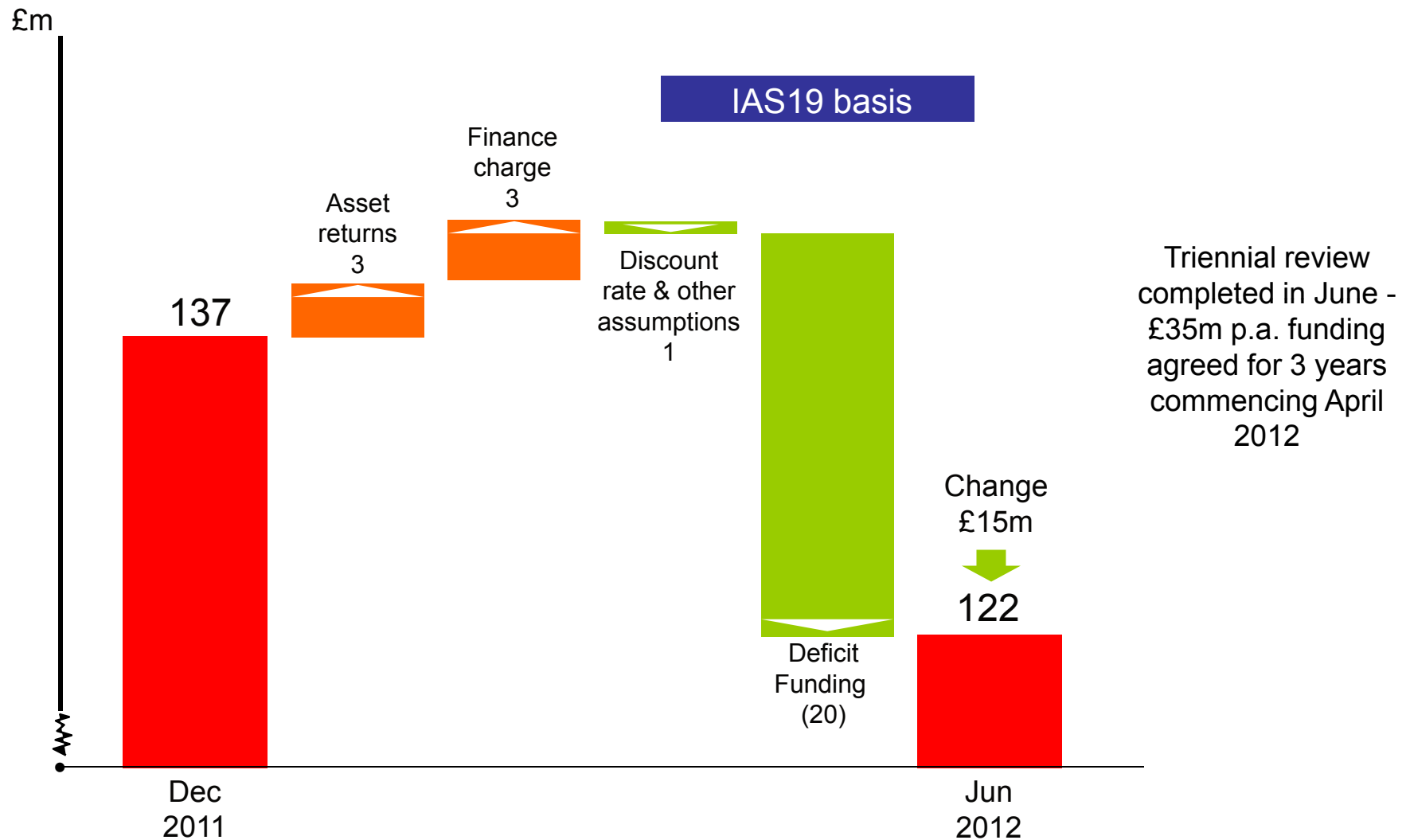
- 5 legacy property deals in so far 2012: £11.7m exit cost → £27m liability extinguished

1 Vacant and tenanted.

2 Gross rent & rates less payments by tenants.

3 Figures for Dec 2012 and beyond are before any further mitigating action that may be taken.

# Pension scheme deficit



# Outlook for remainder of 2012

- Sales in first four weeks of second half down 0.9%
  - reflects strong comparator from same period in 2011
- Rest of year:
  - no change in expectations
  - cautious about the outlook
  - continue to invest in growth
- Will take timely actions, as required





**HOWDENS**

**JOINERY CO.**

---

Making kitchens work for you

**Matthew Ingle**  
Chief Executive Officer

# A proven and adaptable business model

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

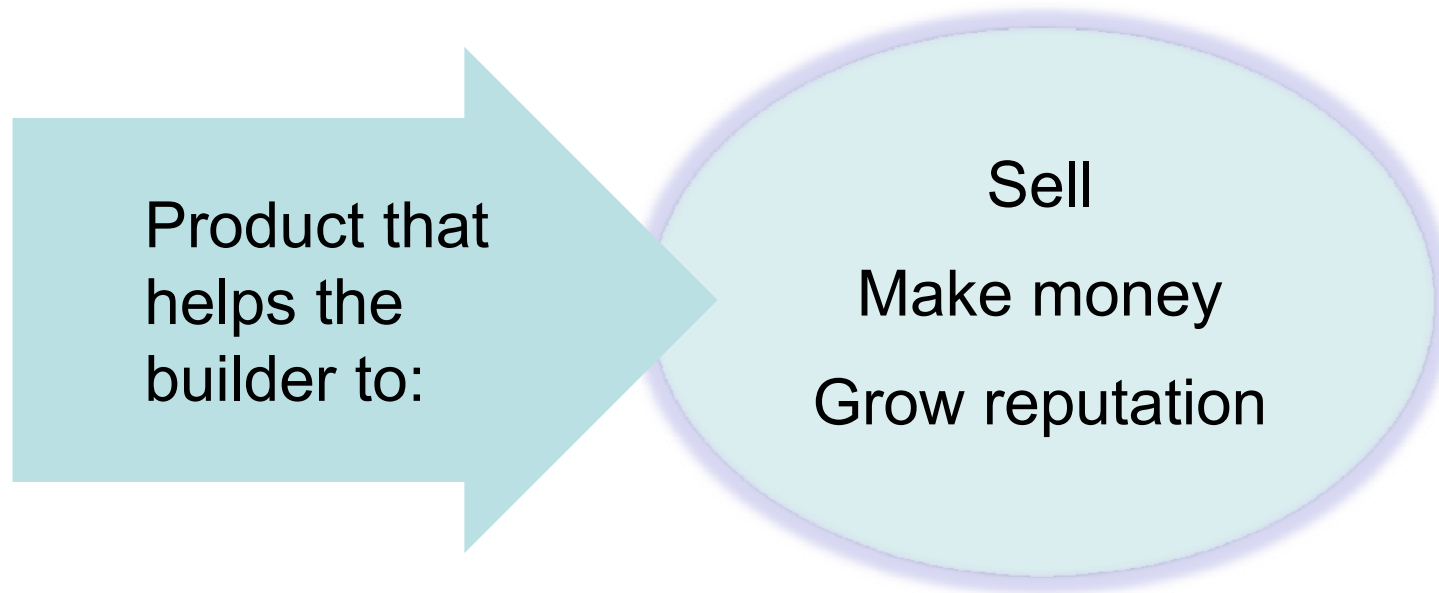
# A proven and adaptable business model

## ➡ Trade only

- ➡ In stock all the time
- ➡ Very local depot
- ➡ Ability to swap things immediately
- ➡ Opening hours to suit builders
- ➡ Confidential discount – builder's margin
- ➡ Nett monthly account – builder's cash flow
- ➡ No retail pricing = no confusion

# A proven and adaptable business model

## ➡ Focus on one customer



Business geared to needs of builder = greater efficiency at least cost

# A proven and adaptable business model

- Considered range of kitchens and joinery
- Up-to-date designs, traditional and modern
- Product “families”
- Matching joinery, accessories and hardware
- Range of price points



# A proven and adaptable business model

- Supporting the builder's sale
  - Industry-leading catalogues
  - Cookbooks, lookbooks, etc
  - Selective lifestyle advertising
  - Hardware and flooring vans
  - Excellent kitchen planning service



# A proven and adaptable business model

## ➤ Reliable product

- Easy and quick to fit
- Rigid box
- Does not break
- Manufactured to consistent standards
- Meets legislation
- Environmentally sound

Enhancing the builder's reputation with his customers

# A proven and adaptable business model

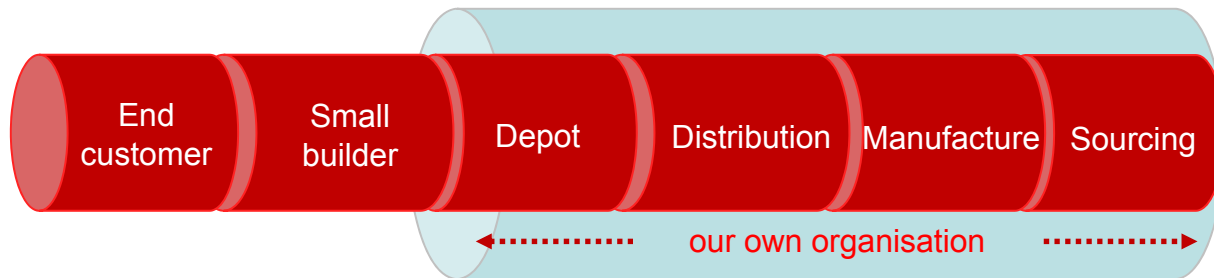
## ➡ Stable, focussed supply chain

- ➡ Ownership and control of manufacturing process
- ➡ Well-invested, bespoke facilities
- ➡ Specialised products exclusive to Howdens
- ➡ Quality + availability
- ➡ Integrated systems supporting business processes
  - Manufacturing, warehousing, distribution, depot sales, marketing, management information, etc



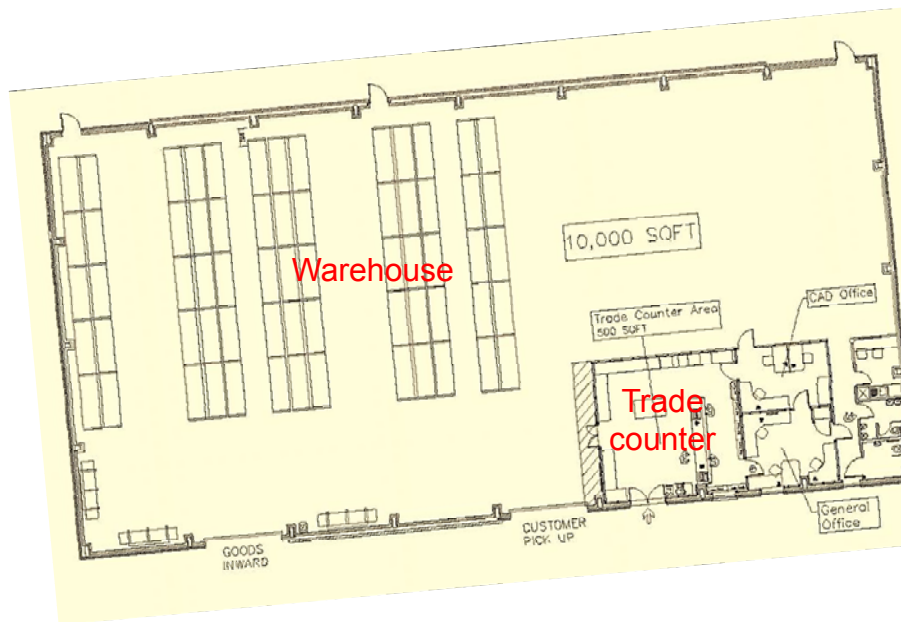
# A proven and adaptable business model

- ➡ **Manufacturing efficiently at least cost**
  - ➡ Improving productivity and reducing waste
  - ➡ Supporting margin
  - ➡ Ensuring security of supply



# A proven and adaptable business model

## ➡ Efficient and effective depot model



**Floorplan of a typical depot**  
**Rent c.£5 per square foot**



**Staff outside Cleethorpes depot, 10,500 sq ft**  
**Opened January 2012**

# A proven and adaptable business model

- ➡ **Local accountability**
- ➡ Depot managers responsible for:
  - Local sales and margin
  - Hiring local staff
  - Local stock levels
  - Local marketing
- ➡ Manager and staff incentivised on local profit
- ➡ Focus on opening and trading new accounts



**Kettering depot**

# Adapting to changing circumstances

1995 – 2004

Established model, rolled out to 300+ depots

2004 - 2006

MFI in crisis

2005 - 2008

Corporate reconstruction

- ➡ Disposal of MFI
- ➡ “Rough Diamond”
- ➡ Unlocked route to profit and value
  - Re-engineered supply chain
  - Renewed systems
  - Resumed active product development

# Adapting to changing circumstances

2008

Economic crisis

- MFI collapses
- Legacy obligations

Meanwhile,  
from 2006  
onwards

Rapid and continuing development of Howdens

- Product “families”, quality and design
- Lamona brand launched
- New systems implemented
- Use of BDP to drive improved performance

Continually searching for growth opportunities

# Adapting to survive and thrive

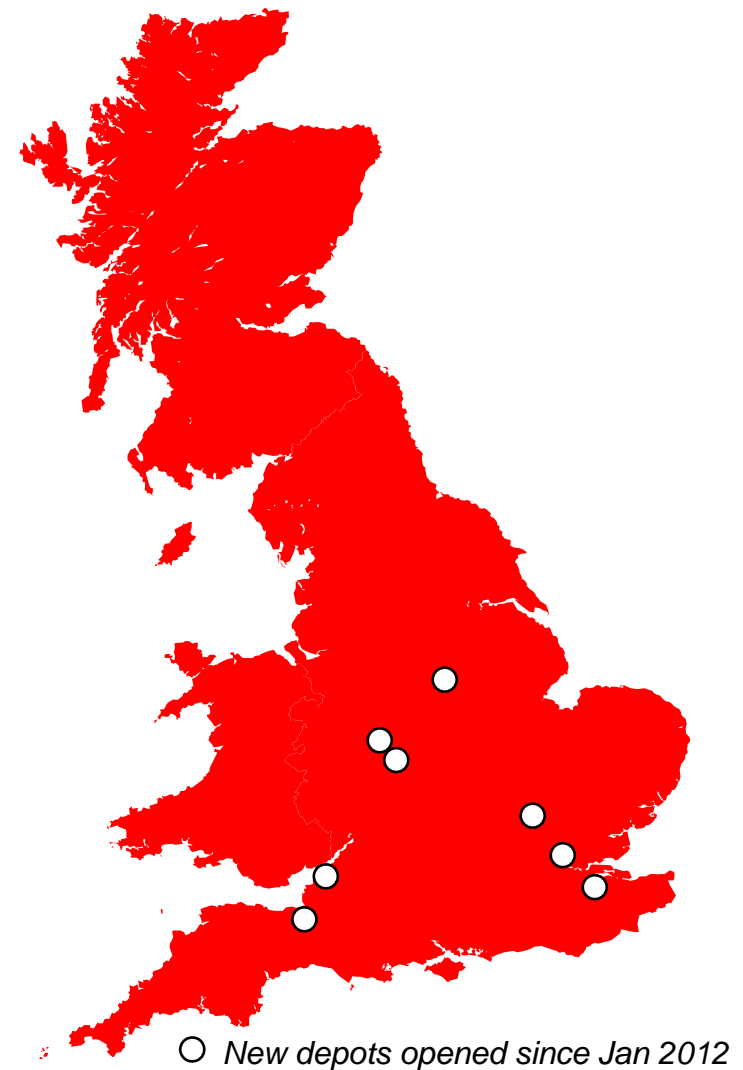
## ➡ Accelerating pace of change



Ongoing product development is critical to growth

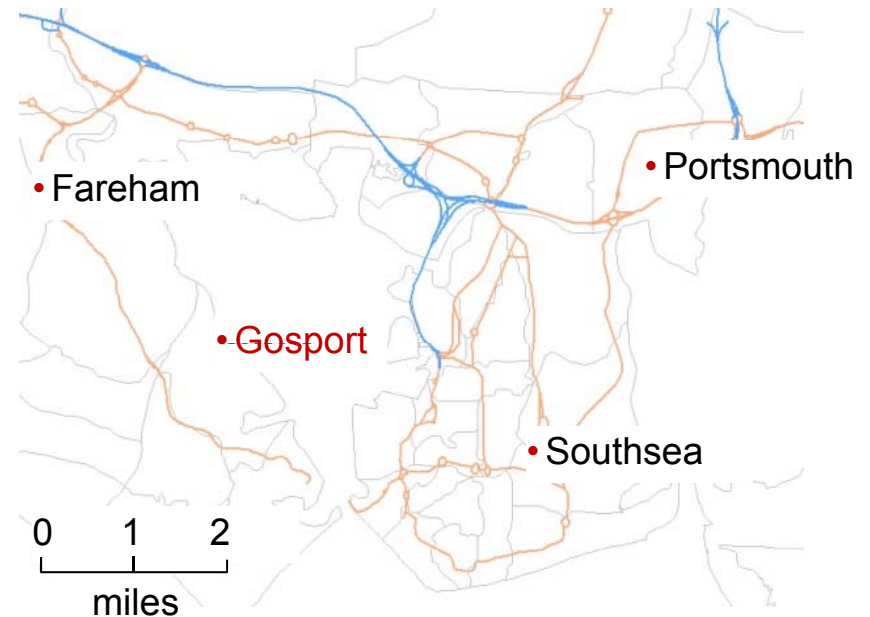
# Continuing to develop the business

- Opening new depots
  - 517 depots now open
    - On track to open 20 in 2012
- French pilot continues
  - 2 additional depots in 2012
- Opening new accounts
  - 40,000 accounts opened in H1
    - 17,000 net new accounts
    - 260,000 total credit accounts



# Continuing to develop the business

- **New depots do not cannibalise established ones**
- **Builders require “very local”**
  - Minimal drive time
  - Low cost of fit-out
  - Low breakeven
  - Responsive to market conditions



**Gosport opened in 2011**  
**Local area sales +25% in H1 2012**



# Continuing to develop the business

## New product

- ➡ 3 new kitchens
- ➡ Filling in gaps
  - *Integrated Handle* was immediately successful on introduction in 2011



Gloss Flint Grey Integrated Handle kitchen

# Continuing to develop the business

## New product

- ➡ 3 new kitchens
- ➡ Filling in gaps
  - *Burford* is an established best-seller, now available in 10 different finishes



**Burford Gloss Flint Grey kitchen**

# Continuing to develop the business

## New product

- ➡ New cabinets
- ➡ Tall wall units
- ➡ Concave curves
- ➡ Filling gaps in range



**Glendevon Flint Grey concave curve base unit**

# Continuing to develop the business

## New product

- ➡ 7 new worktops
- ➡ Square-edged
- ➡ New materials
- ➡ New trends



Travertine 'natural stone' worktop

# Continuing to develop the business

## New product

- ➡ 11 new sinks
- ➡ Complete range review



**Lamona round bowl sink and drainer**



# Continuing to develop the business

## New product

- ➡ Hardware “families”
- ➡ Easier to sell



Elements of the Garda family

# Continuing to develop the business

- 
- Constant product review
    - Analysing sales
  - Continuous updating
    - Monitoring trends / materials
  - Introductions
  - Discontinuations
    - Stock control

£60m sales  
generated from  
product launched  
in the past year

The importance of new product development

# Continuing to develop the business

- ➡ Dedicated product testing facility
- ➡ Practical tests simulating real-life situations
- ➡ Our appliances must be:
  - No-call-back quality
  - Easy to sell
  - Easy to fit
  - Easy to use





# Continuing to develop the business

## Building the Howdens brand

- ➡ Supporting the builder's sale

John Topham, Head Chef and owner of The Grange, Tarncliffe Inn, Yorkshire

*The perfect kitchen recipe*

**HOWDENS** JOINERY CO. | MAKING SPACE MORE VALUABLE

Creating the perfect kitchen is like cooking good food; it relies on having the right ingredients, together with the right knowledge and the right experience.

At Howdens we know our kitchens have to work everyday - all the time - that is why we only supply them via the small builder or tradesman, because we understand they are best placed to give you the reassurance of a professional installation.

We also know that our Lamona range of cooking appliances has to be reliable and perform perfectly each time they are used. That's why we teamed up with award-winning chef, John Topham, to put our appliances through their paces.

Howdens have over 500 depots throughout Britain supplying kitchens and joinery products from stock. Each of our depots has experienced designers who will plan your kitchen using our range of over 35 styles and be on hand throughout to help you and your builder.

To find your nearest depot and to request a brochure call 0800 5888 167 or visit [www.howdens.com](http://www.howdens.com)

To view John cooking these recipes and to download the recipe cards visit [www.howdens.com/cookery-demonstration](http://www.howdens.com/cookery-demonstration)

Depot opening hours: Monday-Friday 9am-5pm, Saturday 9am-12 noon.

**FREE** Lamona Cookbook when you have your kitchen planned

July advertising

# Continuing to develop the business

## Building the Howdens brand

- ▶ Supporting the  
builder's sale



Third edition of successful cookbook



# Continuing to develop the business

## Building the Howdens brand

- ▶ Supporting the  
builder's sale



Inspirational 'lookbooks'

# Continuing to develop the business

## £20m investment at Runcorn and Howden

- Installation progressing to plan
  - Runcorn Phase 1 complete; starting production
  - Installing Howden Phase 1
- Increasing capacity
- Improving productivity
- Enhancing quality
- Increasing efficiency



# Continuing to develop the business

Ownership of  
our own  
first-class  
manufacturing  
facilities



**Howden,  
East Yorkshire**



# Continuing to develop the business

Highest safety  
awards for all  
3 of our sites

- ➡ Runcorn
- ➡ Howden
- ➡ Northampton

**Runcorn,  
Cheshire**



# Howdens' approach to growth

- ➡ Continuous adaptation and measurement
- ➡ Flexible organisation that can act very quickly
- ➡ Process creates new opportunities as business moves forward
  - Levers of opportunity include:
    - New depots
    - Maturing depots
    - Continuing use of BDP to close gaps and improve efficiency

A highly responsive business

# Howdens' approach to growth

- ➡ Clear strategy
- ➡ Proven model
- ➡ Cash generative
- ➡ Many opportunities

**The true  
value of  
Howdens  
offer**

Wholly focussed on  
growing trade  
customer base

**A robust business suited to an uncertain environment**





**HOWDENS**  
JOINERY CO.

---

Making kitchens work for you

# 2012 HALF YEARLY REPORT

19 July 2012