



HOWDENS

JOINERY CO.

2015 HALF-YEARLY REPORT

23 July 2015



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JOINERY CO.

Matthew Ingle
Chief Executive Officer

A working kitchen should be installed by a professional

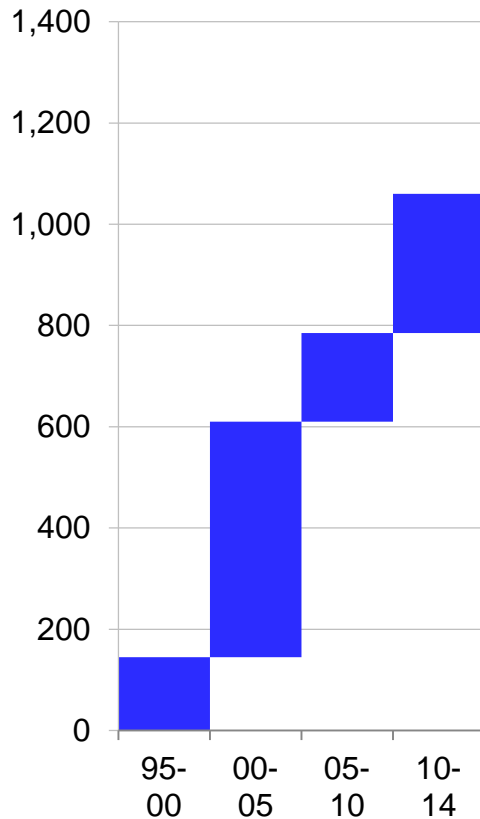


- ➡ DIY → DFY
- ➡ Sophisticating demand
- ➡ Changing lifestyles
- ➡ The professional builder needs real service

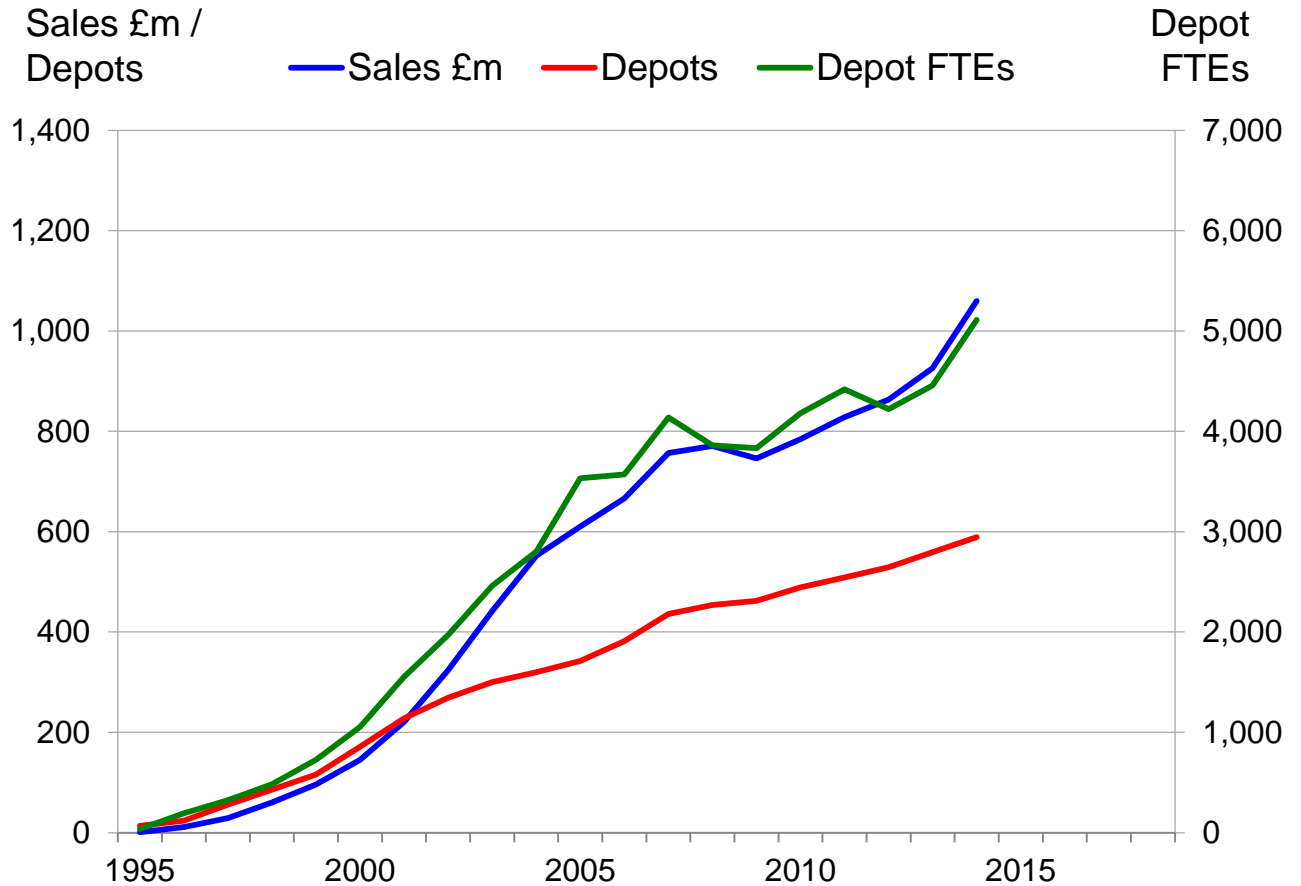
The market has moved our way

A proven, local business with history and vast horizons

Sales growth in 5-year periods since 1995, £m



Sales, depots & staff 1995 – 2015



Strategic investment in growth opportunities



- ➡ 1995 → 2015 → 2030
- ➡ Potential in time, scale and value
- ➡ Capacity of a different order
- ➡ Investing in clear values and behaviours:
 - Manufacturing that delivers
 - Systems that work
 - Staff who look after customers



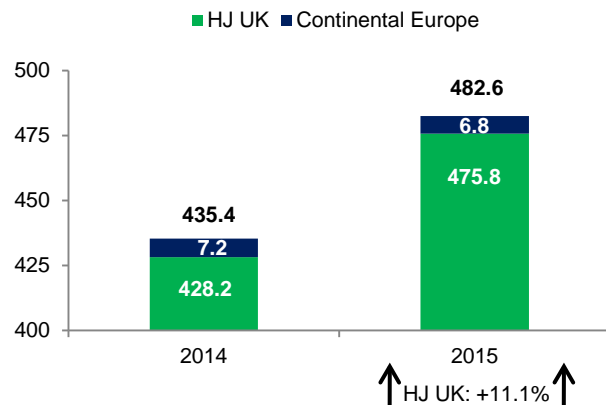
Mark Robson
Deputy CEO and Chief Financial Officer

Business developments

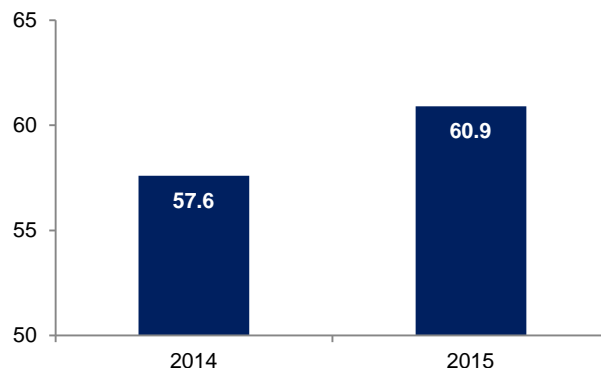
- 14 UK depots opened so far – on track for 30
- Investment in product, including thirteen new kitchen ranges
- Granite and premium brand appliances roll-outs
- Kitchen design process innovation
- Supply
 - replacing 'trailer' units of lorry fleet
- Three new depots opened in northern France

Highlights

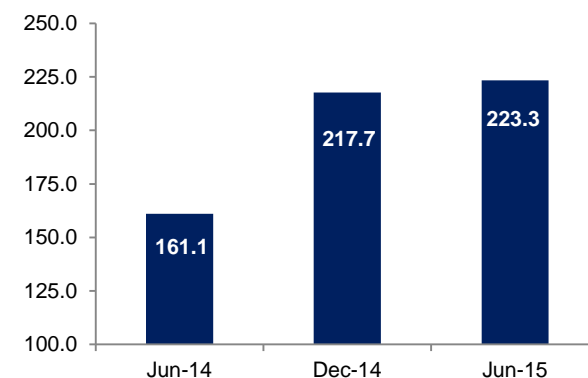
Revenue, £m



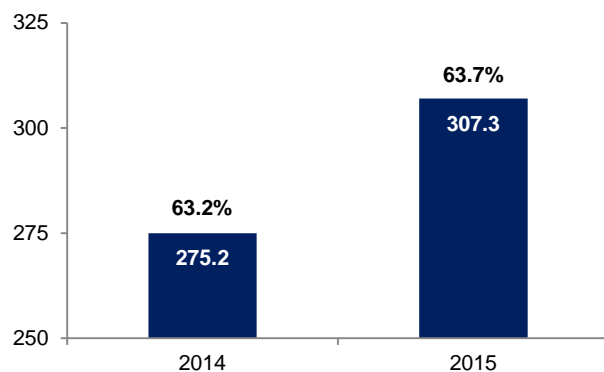
Operating profit continuing ops, £m



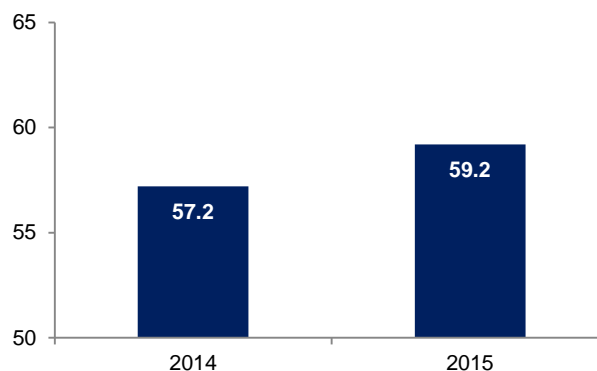
Net cash, £m



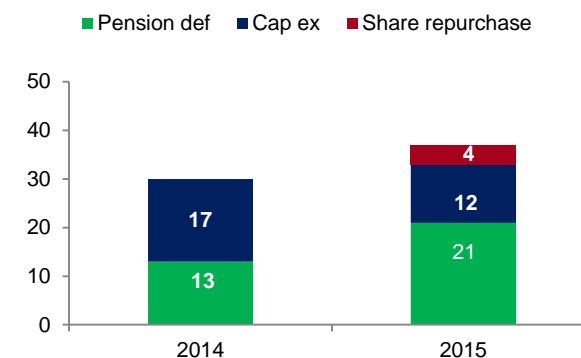
Gross profit, £m, and margin, %



Profit before tax continuing ops, £m



Uses of 'cash', £m



Interim dividend of 2.8p per share recommended (2014: 1.9p)

Revenue

2015 UK depot revenue £475.8m

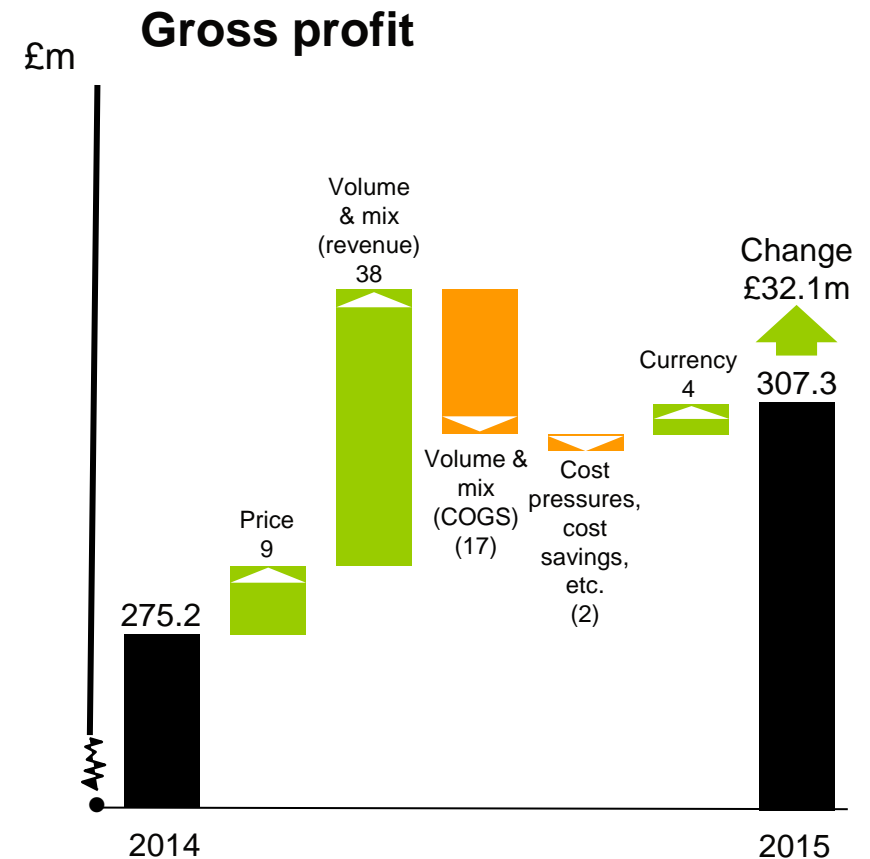
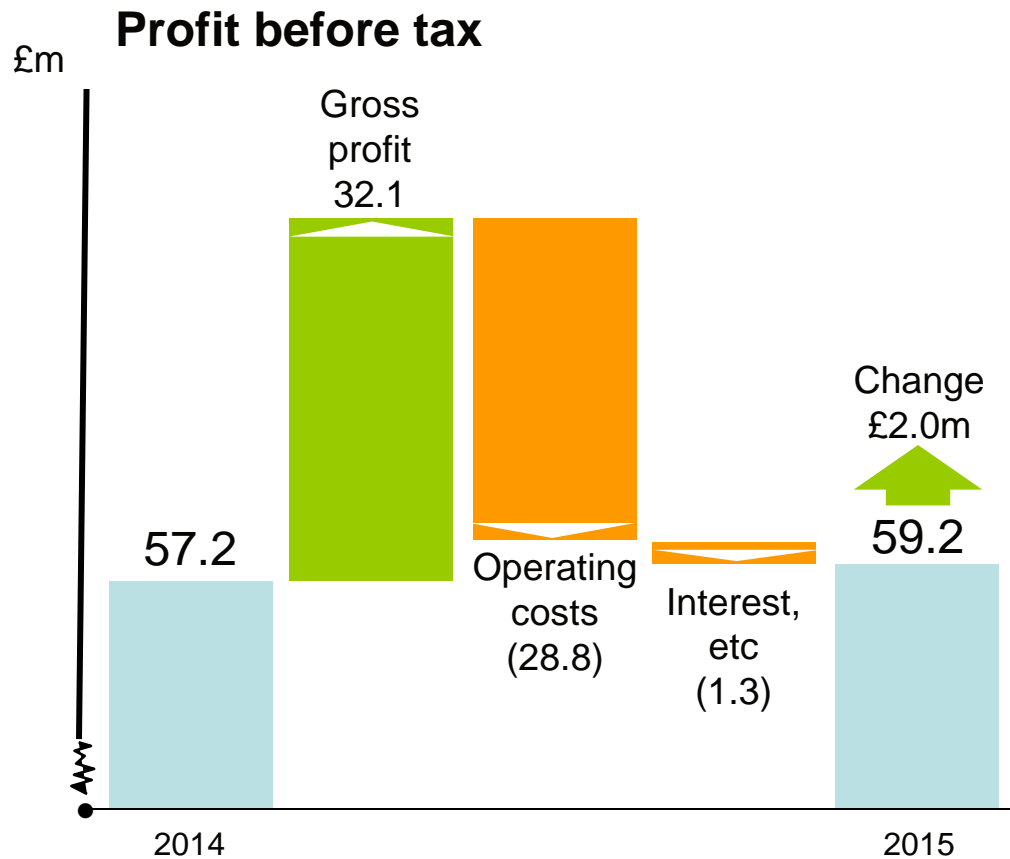
- total +11.1% • LFL +8.6%

2015 continental Europe revenue £6.8m

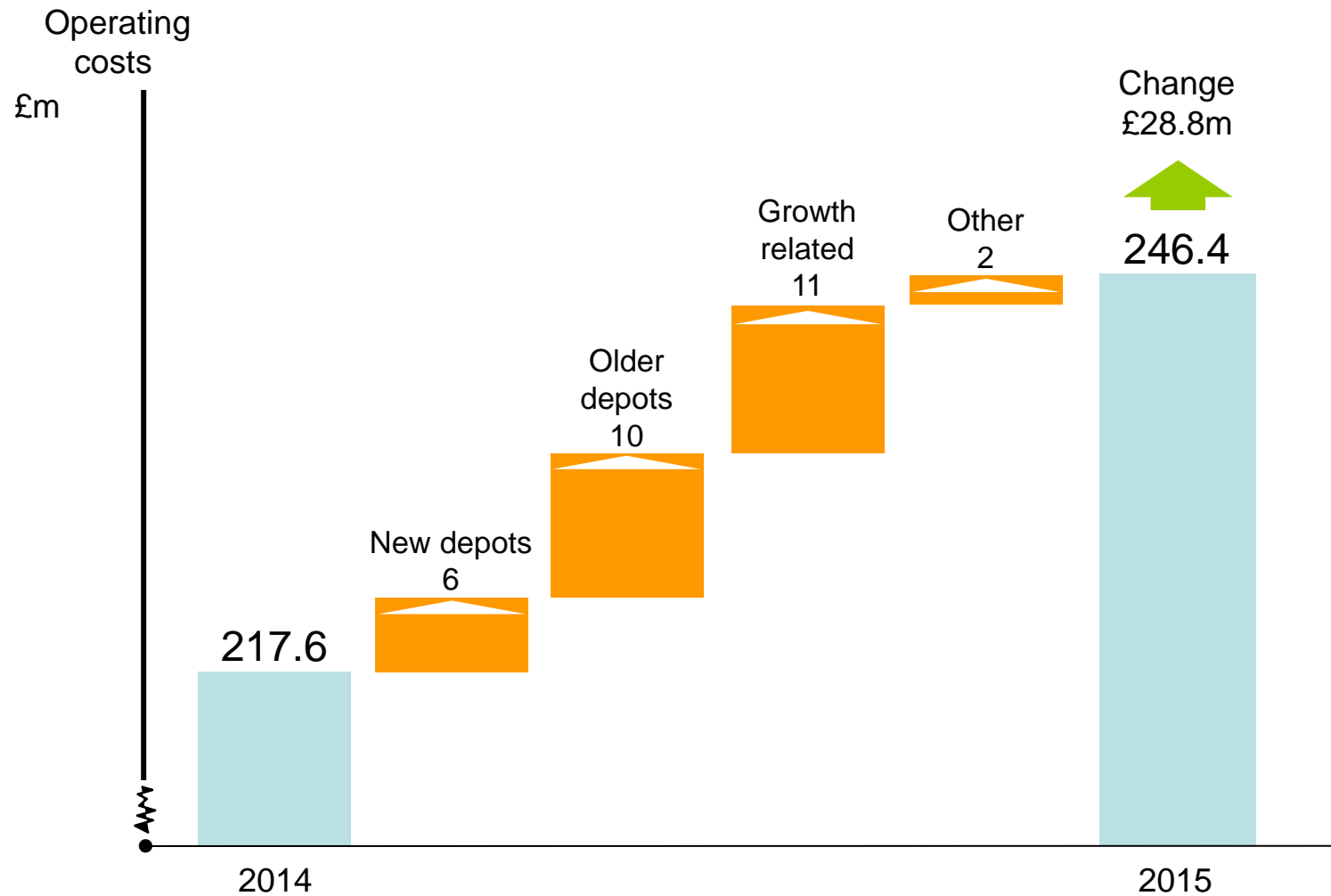
- underlying sales in original French depots up slightly in €s

Profit before tax

Group gross profit margin
 • 2015: 63.7% • 2014: 63.2%



Operating costs



Income statement

Continuing operations*, £m	H1 2015	H1 2014
Revenue	482.6	435.4
Cost of goods sold	<u>(175.3)</u>	<u>(160.2)</u>
Gross profit	307.3	275.2
Operating costs	<u>(246.4)</u>	<u>(217.6)</u>
Operating profit	60.9	57.6
Net interest	<u>(1.7)</u>	<u>(0.4)</u>
Profit before tax	59.2	57.2
Tax	<u>(13.2)</u>	<u>(14.9)</u>
Profit for the period	46.0	42.3

* There was a profit after tax on discontinued operations of £9.8m in 2014. There were no discontinued operations in 2015.

Earnings per share, continuing operations, and dividend

	H1 2015	H1 2014
Earnings per share	7.1p	6.6p
Interim dividend per share	2.8p	1.9p

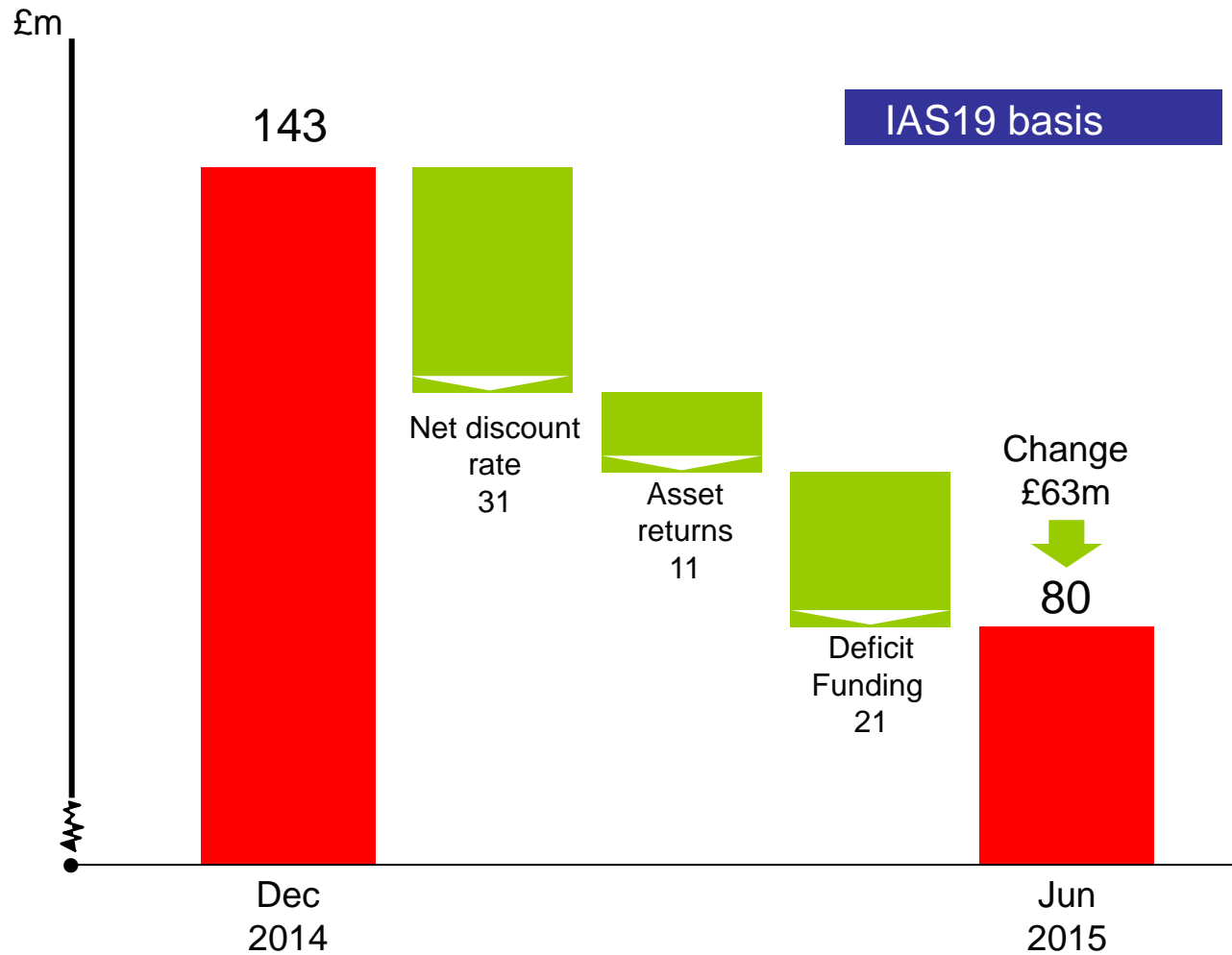
Net cash and cash flow

£m	H1 2015	H1 2014
Opening net cash	217.7	140.5
Operating cash flows before movements in working capital	74.9	70.2
Working capital	(18.0)	(8.1)
Capital expenditure	(11.7)	(17.2)
Interest (net)	0.3	0.2
Tax paid	(15.8)	(13.9)
Pension deficit contribution	(20.8)	(12.6)
Share repurchases	(4.1)	-
Other	0.8	2.0
Closing net cash	223.3	161.1

Working capital

- Working capital up £18.0m
 - stock up £13.9m
 - debtors up £16.7m
 - creditors up £12.6m

Pension scheme deficit



Recent trading and outlook for remainder of 2015

- Sales in first four week period of H2 up 13.1%
 - feedback from depot remains positive
- Remainder of 2015
 - tougher comps
 - period 11 still to come
 - investing in operations to support growth
 - capital expenditure increasing
- Well placed to achieve expectations for the year



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JOINERY CO.

Matthew Ingle
Chief Executive Officer

Kitchen installation is complex



The Howdens model is designed to address complexity



- ➡ A proven model
- ➡ Operating at scale
- ➡ In complexity we find:
 - Value
 - Margin
 - Service

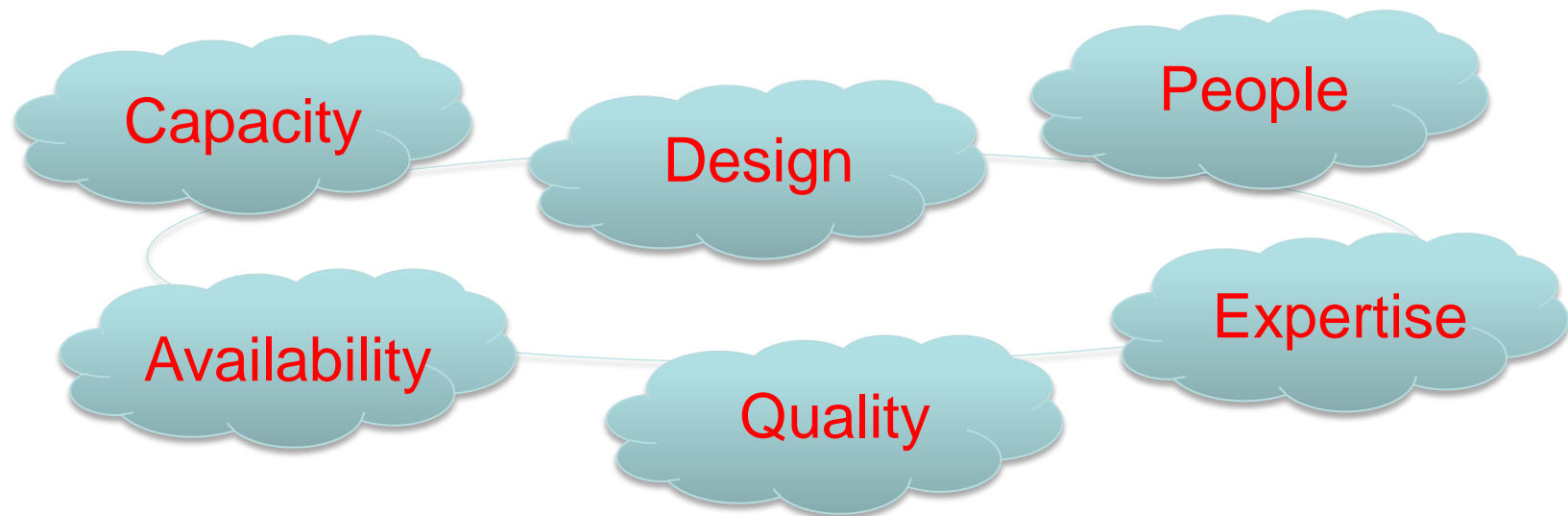
We already have a huge opportunity

- ➡ In-stock, locally driven business
- ➡ Over 600 local depots, typically c.10,000 sq.ft
 - Each managing 100s of accounts, 1000s of SKUs
- ➡ Top 55 depots = average sales of £3.7m p.a.
- ➡ All depots = average sales of £1.8m p.a.
- ➡ Managing complexity is about replication, not discovery

Builders choose to buy from Howdens

Increased demand requires increasing investment

- ➡ Howdens is looking to a bigger future
- ➡ Investing in the things that have made us successful:



More new product to meet growing demand

➡ 13 new kitchen ranges

- Gloss finishes now represent 50% of all kitchen sales
- 29 new kitchen ranges introduced since Jan 2014
- Sophisticating kitchens, at all price points



*Clerkenwell Gloss White
Introduced in 2014, now in our top 5 bestsellers*

Continuing investment in Lamona

➡ New Lamona appliances

- 5-zone ceramic hob
- More new extractors
 - Touch-control chimney
 - 70cm stainless steel
 - Black curved glass
- Several new products for H2, including touch-control double ovens



*Lamona 5-zone touch-control ceramic hob
Two year guarantee as standard*

Further investment in product testing

- ➡ Trialling a range of branded appliances alongside Lamona
 - AEG
 - Neff
 - Miele
 - Beko
 - Rangemaster
 - Wider range of Bosch



Development of a premium cabinet

- ➡ Pre-fitted LED sensor lighting
- ➡ Deeper wall units
- ➡ Acoustic edges
- ➡ Concealed hanging brackets
- ➡ Discreet shelf pegs
- ➡ Modular drawer dividers
- ➡ Sink base liner
- ➡ Premium accessories

*Sink
liner*



*Internal
drawer*



Testing opens up new opportunities

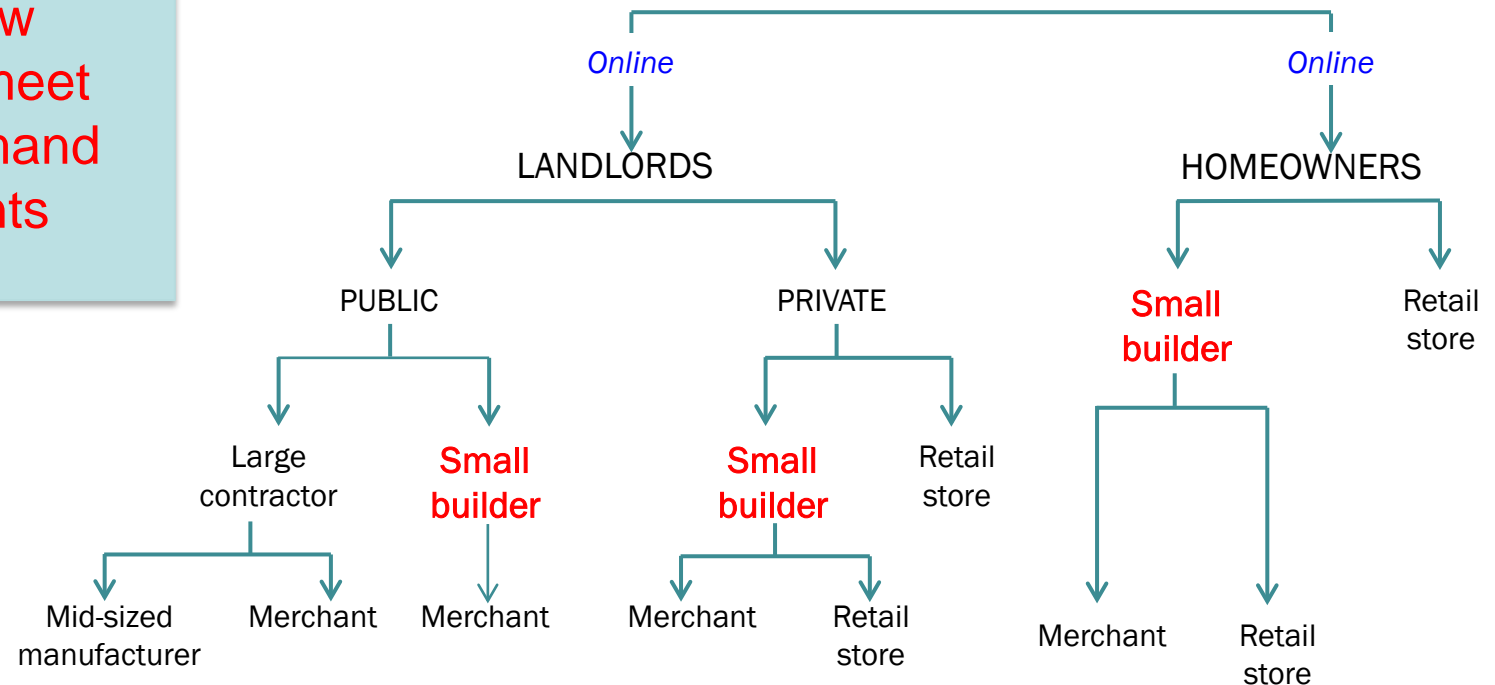
- ➡ Selling granite from stock
 - Workable for the builder
 - Affordable for the end-user
 - Allows us access to further sales opportunities



Builders cutting Howdens granite on site

Howdens serves all parts of a sophisticated market

Howdens' focus is on going to market quickly with new products that meet increasing demand at all price points



Increasing expectations

- ➡ Same price
- ➡ Increased functionality
- ➡ Less energy consumption
- ➡ Longer guarantee
- ➡ Greater convenience
- ➡ More engagement



I want to
be involved

Increasing investment in service



Keeping our
promises to
the builder

Expanding our depot network

- ➡ Currently 603 depots
 - 14 depots opened in H1 2015
 - On track to open a further 16 depots in H2 2015
- ➡ Low breakeven point
 - c.£650,000
- ➡ 361,000 credit accounts
 - Net increase of 31,000 accounts in H1



More skilled staff in our depots

- ➡ More builders with more work = more accounts
- ➡ Our aim is to offer constantly improving service
- ➡ Highly incentivised, entrepreneurial depot teams



Thurmaston depot counter, June 2015

Reliable, knowledgeable, local

Increasing scale and sophistication

- ➡ Faster product lifecycles
- ➡ Better service
- ➡ More frequent deliveries
- ➡ Better use of space
- ➡ More space requirements

Investing in capacity to ensure continuity of supply

Howdens is a low-cost manufacturer

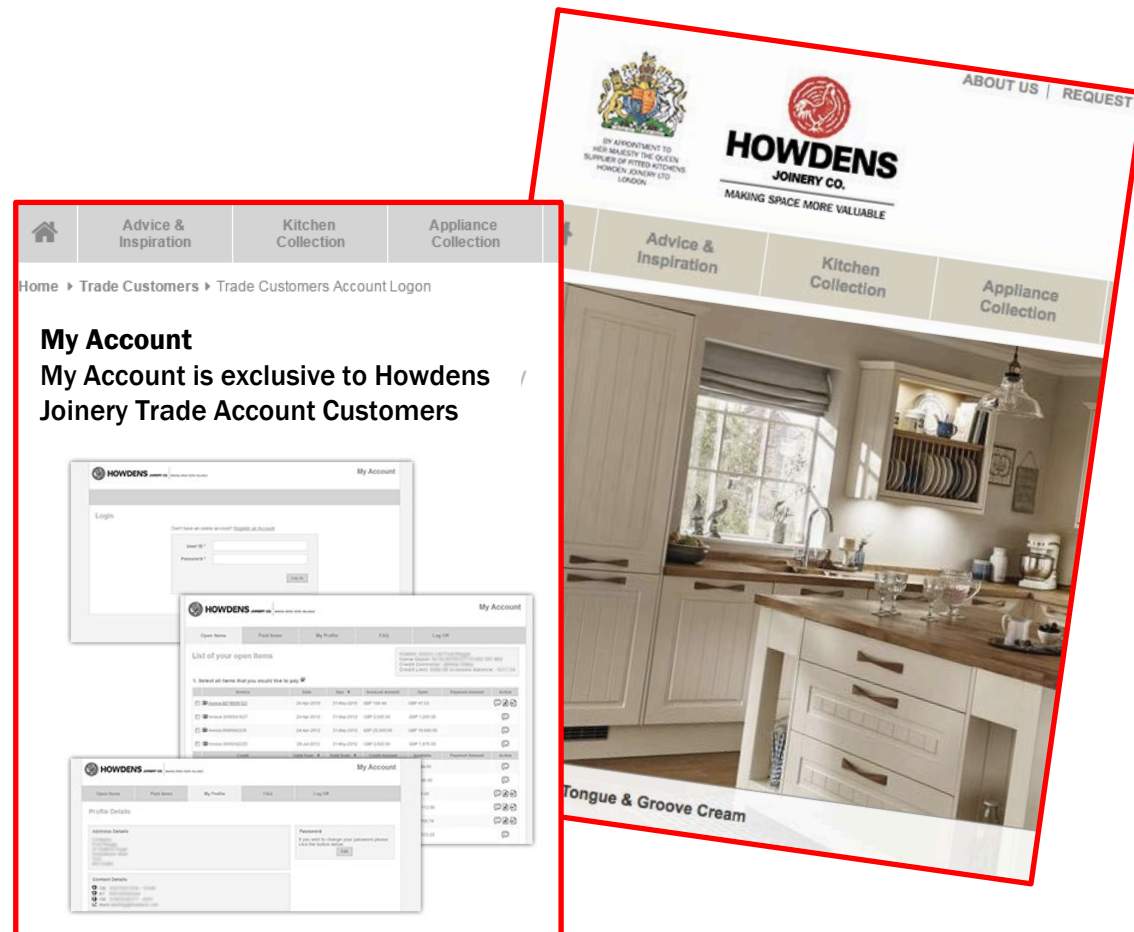
- ➡ Long-term supply agreements
- ➡ Efficient production methods and working practices
- ➡ Manufacturing solely for the depot
- ➡ Increased investment in line with increasing scale



Howdens' Runcorn factory

Investing in design and innovation

- ➡ Always good design
- ➡ Smart appliances
- ➡ Connected systems
- ➡ Digital communication
- ➡ Online services



The Howdens model is increasingly relevant

- ➡ Ready to serve the builder, every day
- ➡ Helping to turn complexity into order
- ➡ Howdens is about people and development
- ➡ Continuing focus on reliable, personal service

Some things never change

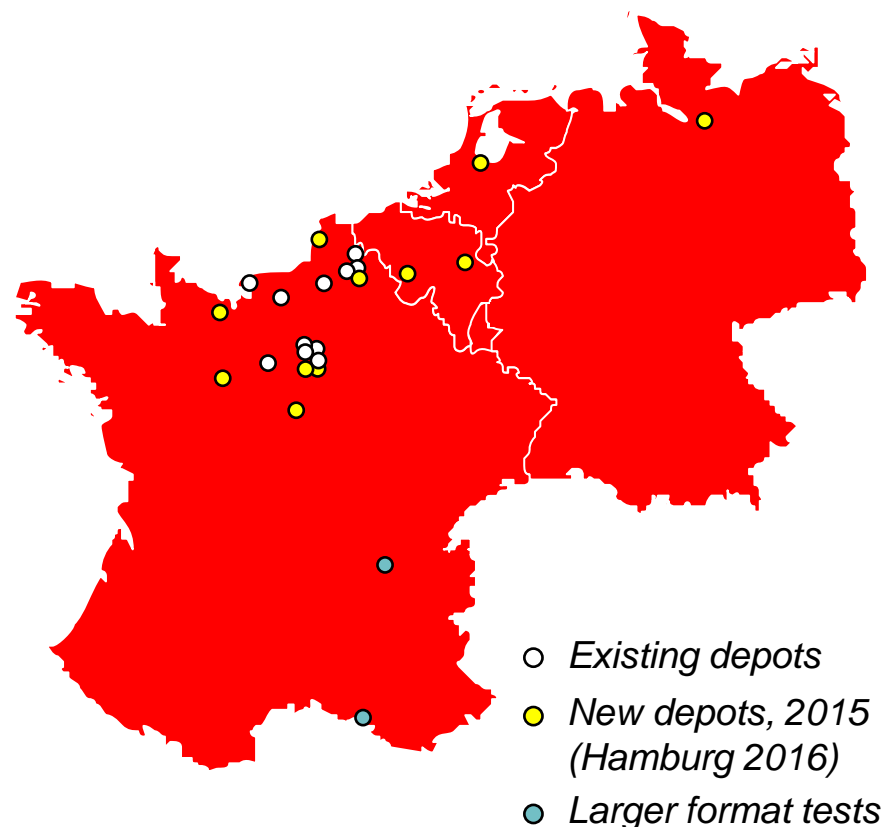
Ongoing tests in continental Europe

➡ Continuing progress in France

- Breakeven point c.£700,000
- 3 further depots opened in H1, 4 more to open in H2
- Testing larger format (Lyon)
- Will shortly open another (Marseille)

➡ Further trials under way

- 2 depots opened in Belgium
- 1 depot in Holland in H2 2015
- 1 depot in Germany in Q1 2016



Preparing our organisation for a bigger future

Investing in depots to meet increased demand

- ➡ More accounts = more surveys
- ➡ More frequent revisions to plans
 - Greater involvement of end-users
 - Faster, easier digital communication
 - People want more for their money at all price points
 - Successfully bringing new products to market
- ➡ Increased demands on designers and depot staff
 - Recruiting additional depot staff

Managing increased expectations in a connected world

Investing in supply to support continuous availability

- ➡ More space required
 - Many new products are space-hungry – optimise warehousing
 - Capital investment in new facilities to cope with demand
- ➡ Production methods configured for flexibility
 - Strong supplier relationships
 - Investing in supply chain systems and processes
- ➡ Significant investment in connected design / innovation

An adaptive supply chain to address
scale, seasonality, innovation and complexity

Investing in stock to meet increasing demand

- ➡ Renewing and replacing stock
 - 7,600 SKUs
 - Guaranteed availability **from stock**
- ➡ Greater choice of product
 - Protects our margin
 - Competitive advantage
 - Better planning tools
 - Improved forecasting



Keeping our promises to the builder

Delivering value for the future



- ➡ Clear business proposition
- ➡ Unique, proven model
- ➡ Embedded high margin
- ➡ Highly cash-generative

Investing in
growth and
development

Builders want to pay for Howdens service

Our mission is our 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



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