



HOWDENS
JOINERY CO.

Making kitchens work for you

2011 Preliminary Results

1 March 2012



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Matthew Ingle
Chief Executive Officer

Howdens has continued to outperform

- ➔ Sales up by 5.5%
- ➔ Operating profit up to £114m
- ➔ Gross margin steady at 59.5%
- ➔ Year end cash up from £35m to £57m
- ➔ Sustained focus on proven model
- ➔ Continuing investment in business development
- ➔ Resumption of dividend

Howdens is a growing business



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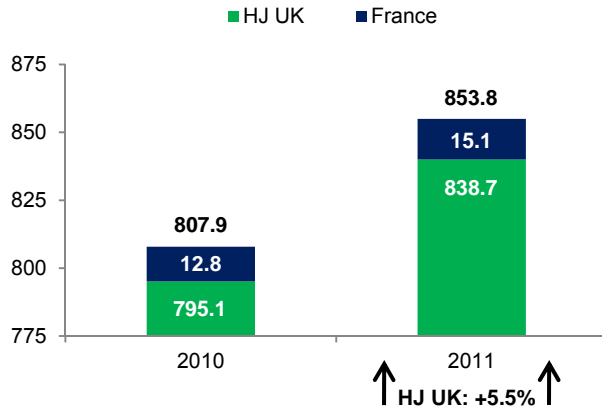
Mark Robson
Chief Financial Officer

Context of financial results

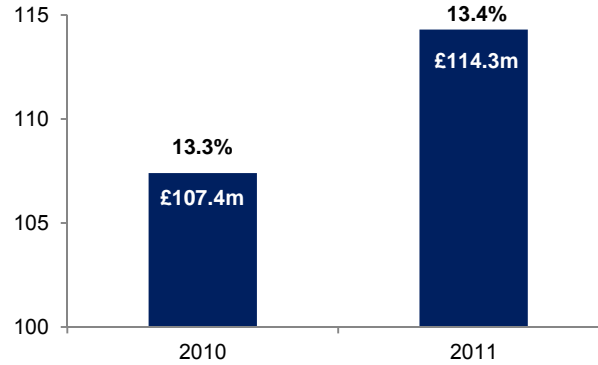
- Increased turnover and profit
- Cash flow finances growth of business and legacy issues
- Legacy property portfolio continues to diminish

Highlights

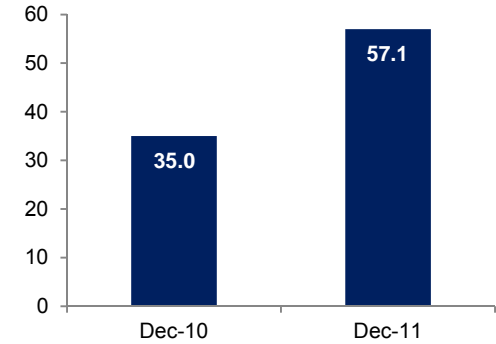
Revenue, £m



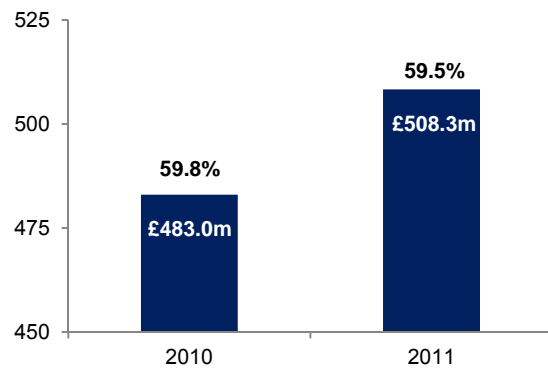
Operating profit



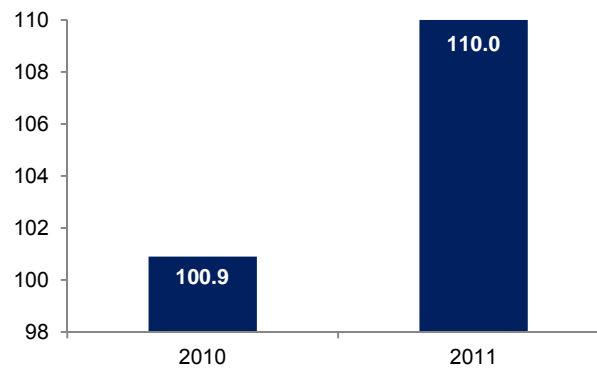
Net cash, £m



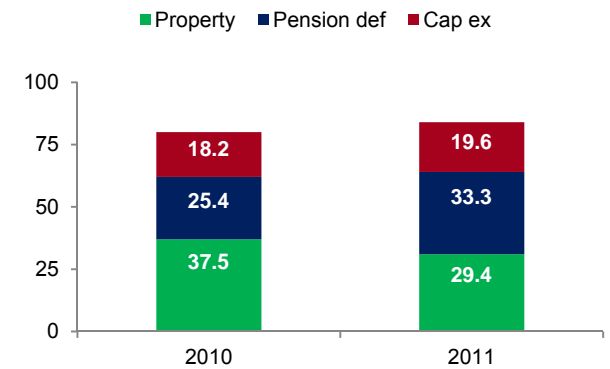
Gross profit



Profit before tax, £m



Uses of 'cash', £m



Revenue

2011 UK depot revenue £838.7m
• total +5.5% • LFL +3.1%

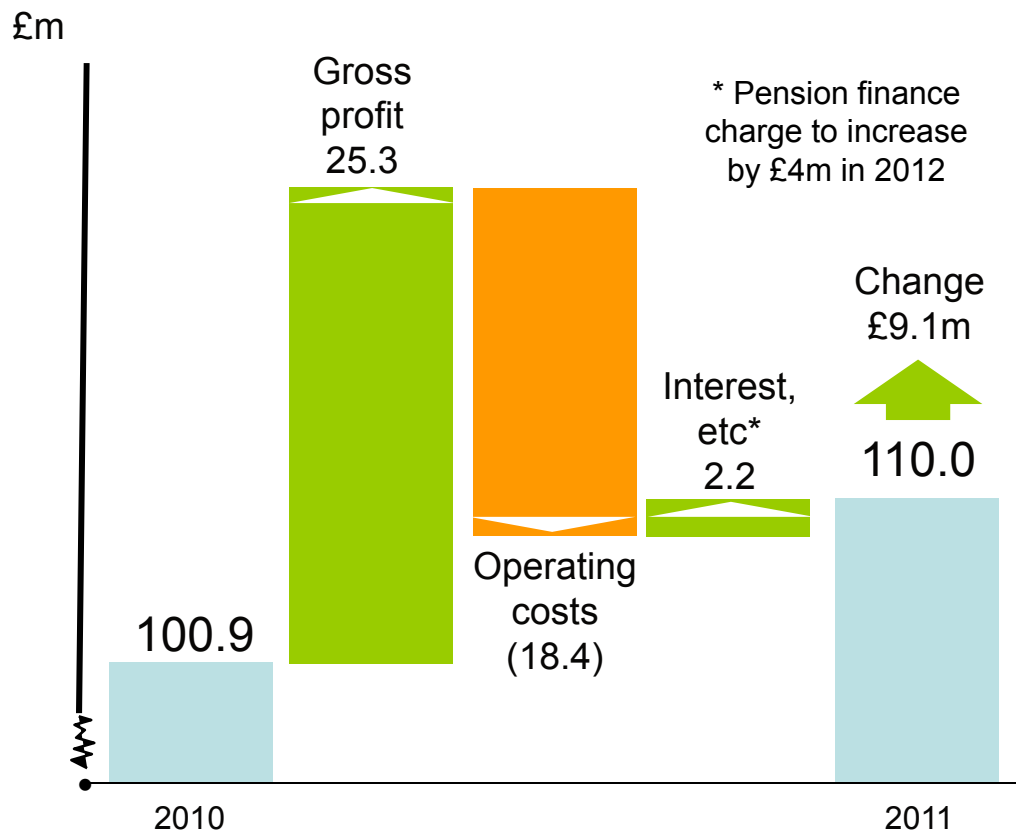
2011 French depot revenue £15.1m
+16.7% in €s

Profit before tax (continuing operations)

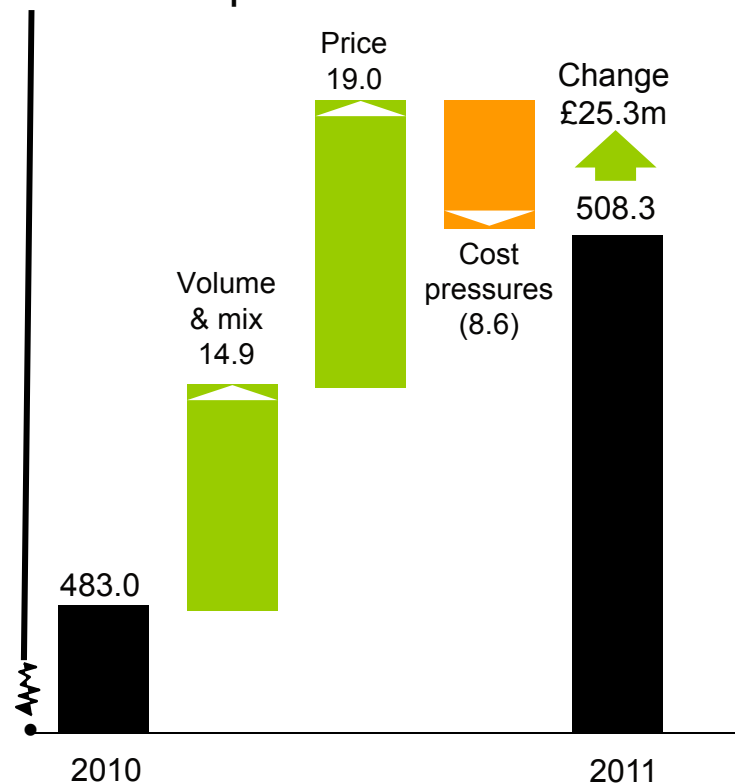
Group gross profit margin

• 2011: 59.5% • 2010: 59.8%

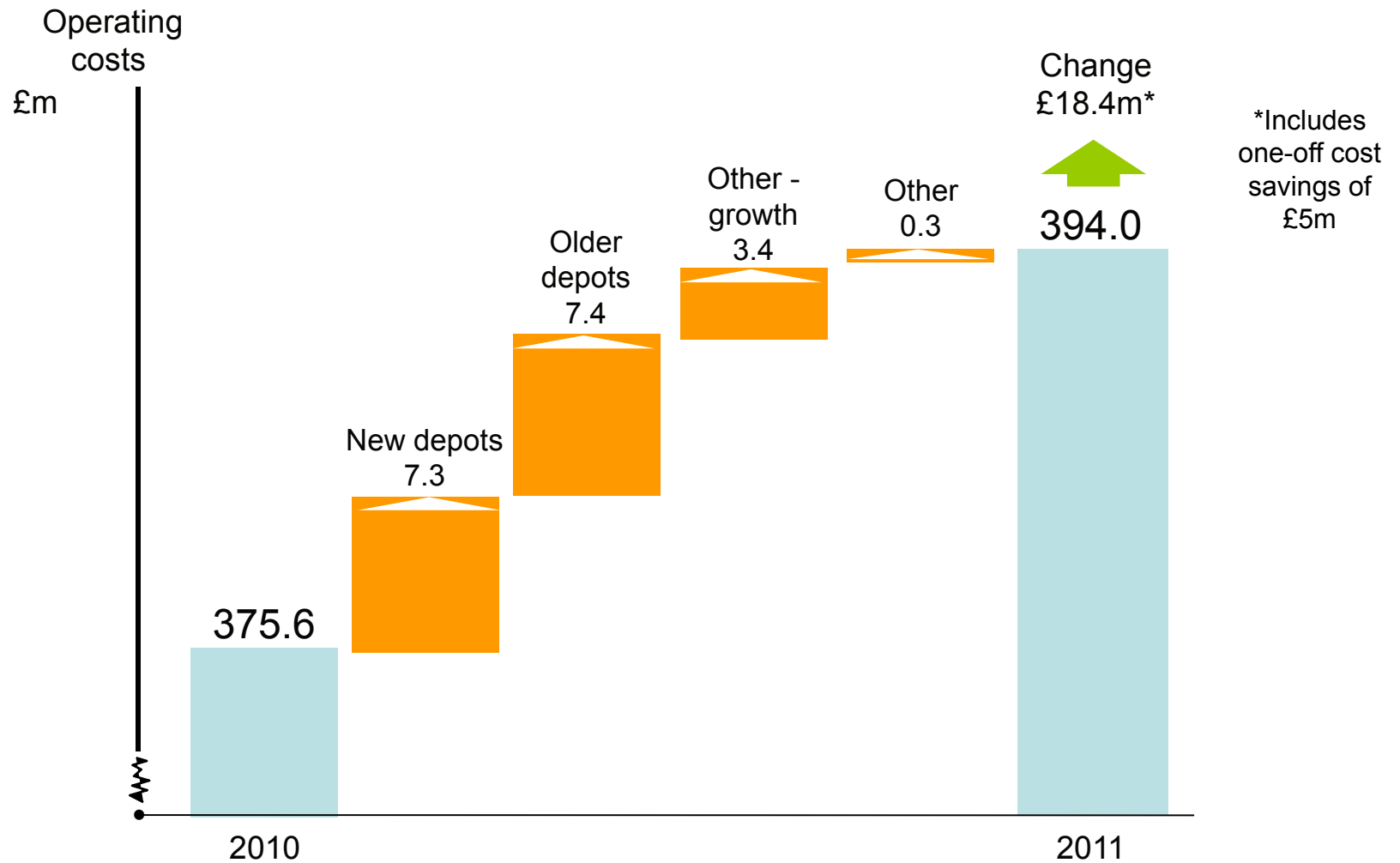
Profit before tax



£m Gross profit



Operating costs



Income statement (continuing operations except *)

£m	2011	2010
Revenue	853.8	807.9
Cost of goods sold	(345.5)	(324.9)
Gross profit	508.3	483.0
Operating costs	(394.0)	(375.6)
Operating profit	114.3	107.4
Net interest	(4.3)	(6.5)
Profit before tax	110.0	100.9
Tax	(28.9)	(34.0)
Profit for the period	81.1	66.9
Loss from discontinued operations after tax *	(7.8)	-

Earnings per share and dividend

£m

2011

2010

Earnings per share

- from continuing operations **13.4p** 11.1p
- from continuing and discontinued op's **12.1p** 11.1p

Dividend

- last dividend paid in 2008
- final dividend of 0.5p per share recommended

Net cash and cash flow

£m	2011	2010
Opening net cash	35.0	2.4
Operating cash flows before movements in working capital	134.8	127.0
Working capital	(9.4)	3.4
Capital expenditure	(19.6)	(18.2)
Interest (net)	(1.0)	(1.0)
Tax paid	(22.5)	(16.0)
Legacy properties	(29.4)	(37.5)
Pension deficit contribution	(33.3)	(25.4)
Other	2.5	0.3
Closing net cash/(borrowings)	57.1	35.0

Net cash inflow excluding legacy property and pension deficit costs: £84.8m

Working capital

- Working capital up £9.4m
 - stock up £13.0m
 - debtors up £0.3m
 - creditors up £3.9m

Investing in growth and performance

- **Capital expenditure: £20m**

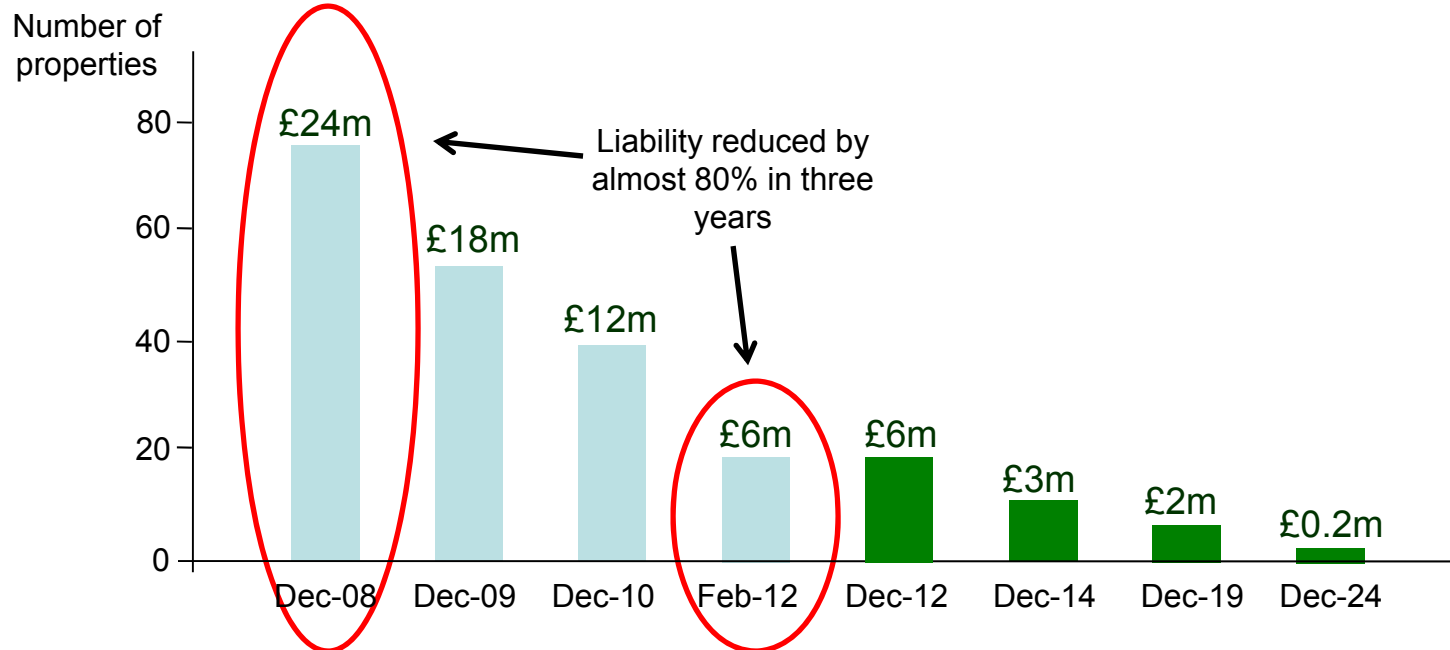
- depots and related areas: £8m
- supply operations: £7m*
- IT: £5m

*Significant increase expected in 2012 in respect of cabinet production line project

- **Operating costs: £15m**

- new depots: £7m
- existing depots: £4m
- other (product development, marketing, etc.): £4m

Reducing our legacy property liabilities



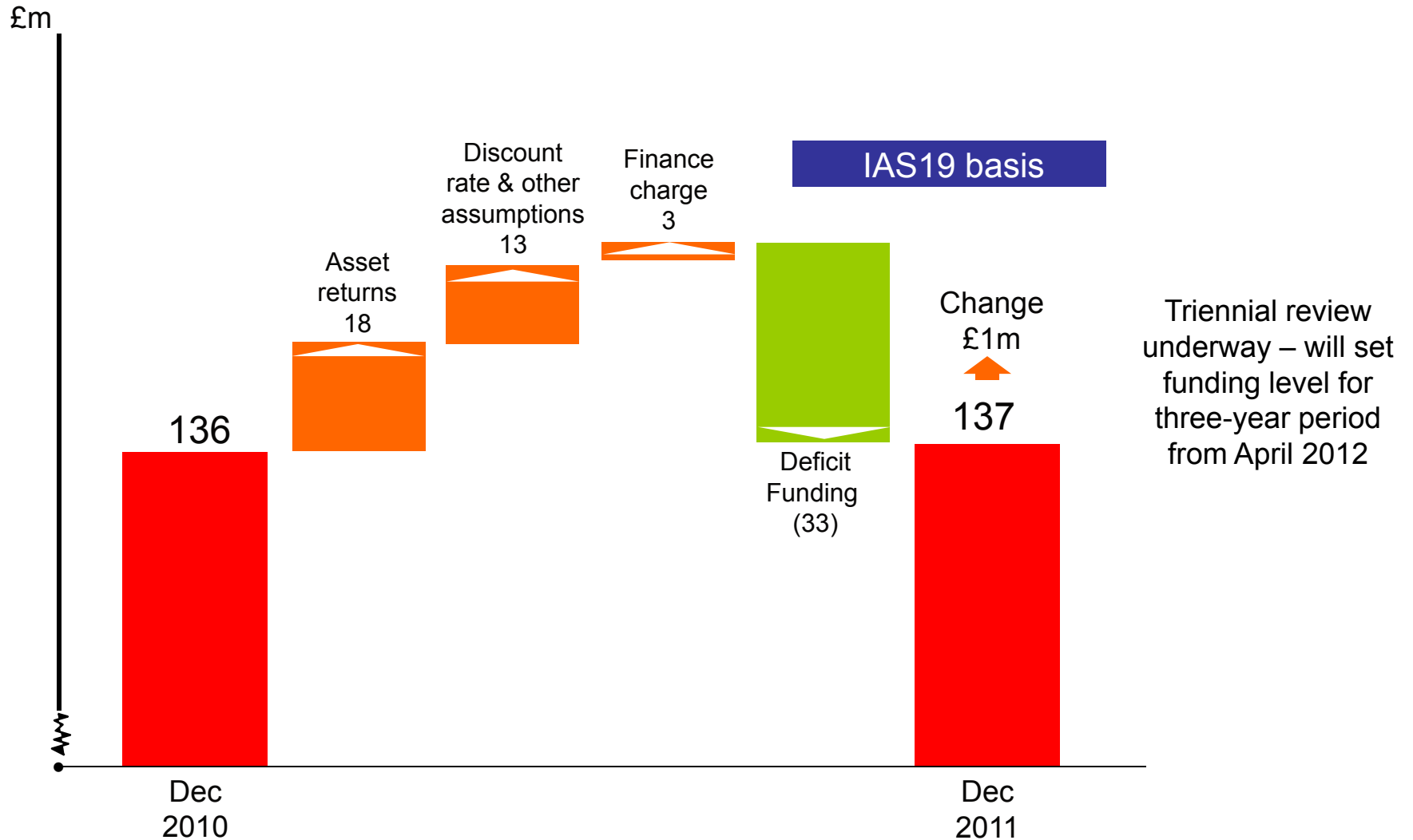
- 17 legacy property deals in 2011: £17.9m exit cost → £58m liability extinguished
- 2 legacy property deals so far in 2012: £7.6m exit cost → £20m liability extinguished

1 Vacant and tenanted.

2 Gross rent & rates less payments by tenants.

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

Pension scheme deficit



Current trading and outlook for 2012

- Sales in first period two periods up 1.6% (LFL: +0.1%)
 - reflects strong comparator from 2011
 - other evidence indicates no change in market conditions
- Outlook for rest of year:
 - market to remain challenging, so cautious about outlook at this early stage of year
 - continue to invest in growth
- Will take timely actions



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Three themes for today

- 1 Reasons for success of the Howdens model
- 2 Aims for the business
- 3 Outlook for 2012

Howdens is focused on serving one customer

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

- Trade only
- Offer tailored to the small builder’s needs:
 - Well-designed range
 - Rigid cabinets, easy to fit, look good, don’t break
 - ‘Fitability’
 - Confidential discount = the builder’s margin
 - Nett monthly account = the builder’s cash flow

Howdens is focused on serving one customer

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

- Offer tailored to the small builder’s needs:
 - All products in stock locally all the time
 - Means builder can do the job when he is ready
 - He gets paid = we get paid
 - Local depot = minimal drive time
 - Local staff know the builder = quick, accurate service
 - Saves time and money

Howdens is focused on serving one customer

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

- Motivated, incentivised staff
 - Depots responsible for their own sales and margin
 - Incentivised on share of local profit less stock loss
 - Strong motivation to open new accounts
 - 38,000 net new accounts in 2011
 - Almost 250,000 credit accounts today

Howdens is focused on serving one customer

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

- Large sales force that includes builders
 - 509 depots
 - + 1,000 kitchen planners
 - + 600 depot-based telesales staff
 - + 700 sales reps
 - + 250,000 customers

Howdens is focused on serving one customer

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

- Low cost model
 - High volumes
 - Predictable sales
 - No waste
 - Trade depots = 10,000 sq ft @ c.£5 per sq ft
 - On trading estates, not retail parks
 - No glossy showrooms
 - 5½ day working

Disciplined implementation of the model



All of the elements
of the Howdens model
are non-negotiable

Finding solutions to complexity

The Howdens way

In stock locally

509 locations

5½ days a week

6,000 SKUs

Low cost warehousing

EDLP

Credit terms: nett monthly account

The other way

Home delivery, 4 – 6 weeks

400,000 delivery addresses

7 days a week

Very many permutations of SKUs

Retail rent and rates

Seasonal discounts

Cash upfront

Finding solutions to complexity

The Howdens way

Local service recovery

No lead time

Accurate forecasting

Long runs

Less pressure on purchaser

No confusion

Keeping simplicity
Exporting complexity

A resilient and proven model

- 1995 – 2006: rapid growth
- 2006 – 2008: survived restructuring, legacy and recession
- Since 2008:
 - Markets uncertain
 - Kitchens constantly sophisticating
 - Regulation increasing
 - Increase in average selling price of kitchens
 - Shift from public to private

A model well-suited to changing times

What have we invested in?



What have we invested in?

1. Customer awareness

- 250,000 accounts
 - + c.150 per day
- Catalogues
- DVDs
- Samples
- Plans
- Focused advertising
- 200,000 cookbooks



John Topham

What have we invested in?

2. People

- Jobs
 - Dedicated sales roles
 - Product development
 - 300 new jobs
- Motivation
 - Responsibility
 - Incentives



What have we invested in?

3. Product

- Innovation
- Quality
- Range
- Availability



Burford Grey

What have we invested in?

3. Product

- New kitchen ranges
- Successful new designs



Integrated handle

What have we invested in?

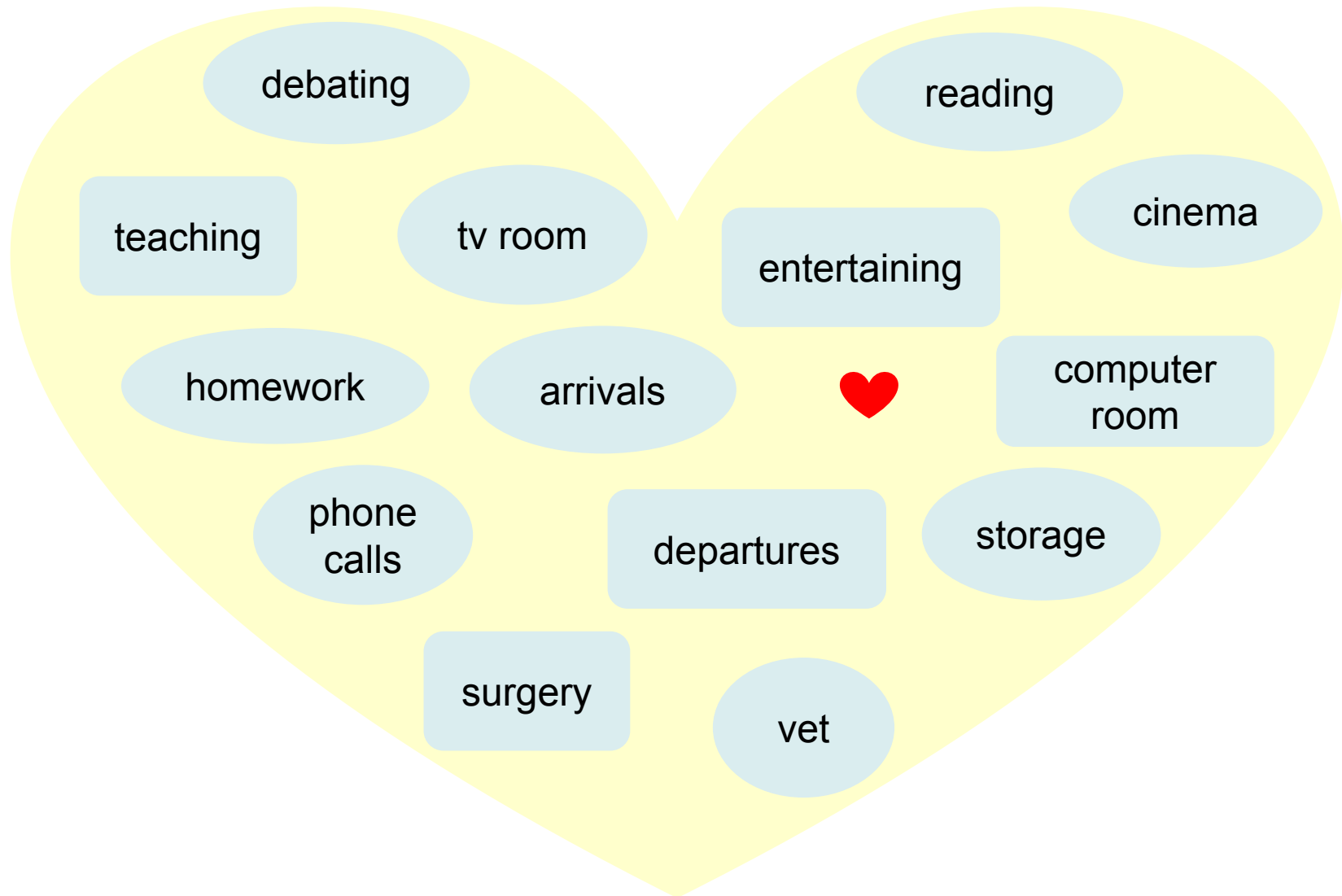
3. Product

- Own-brand Lamona appliances
- Two year warranty
- 130,000 Lamona ovens sold
- Basic oven pack
(oven + hob + extractor)
sells for £170



Conventional white Lamona oven

The kitchen as the heart of our homes



What have we invested in?

3. Product

- Improved cabinet interior
- Concave curves
- Tall wall units
- Better flooring



Professional V Groove

What have we invested in?

3. Product

- Joinery doors co-ordinated with our kitchen ranges
- Exclusive to Howdens



Burford joinery door, half glazed

The sophisticating kitchen

Sophistication is not the same as complication

- Range
- Design
- Quality
- Functionality
- Availability
- Price

Simple elements, efficiently
made, technically advanced

Combined by the builder in the
home to produce a highly
desirable result

The importance of manufacturing to Howdens

Control of the manufacturing process

- Greater speed to market
- Bespoke machinery and tooling + specialised knowledge
- Producing exclusively for Howdens
- No waste
- Accuracy for precision fit
- Supports our reputation with builders
- Supports margin
- Security of supply

The importance of manufacturing to Howdens



What have we invested in?

4. Process

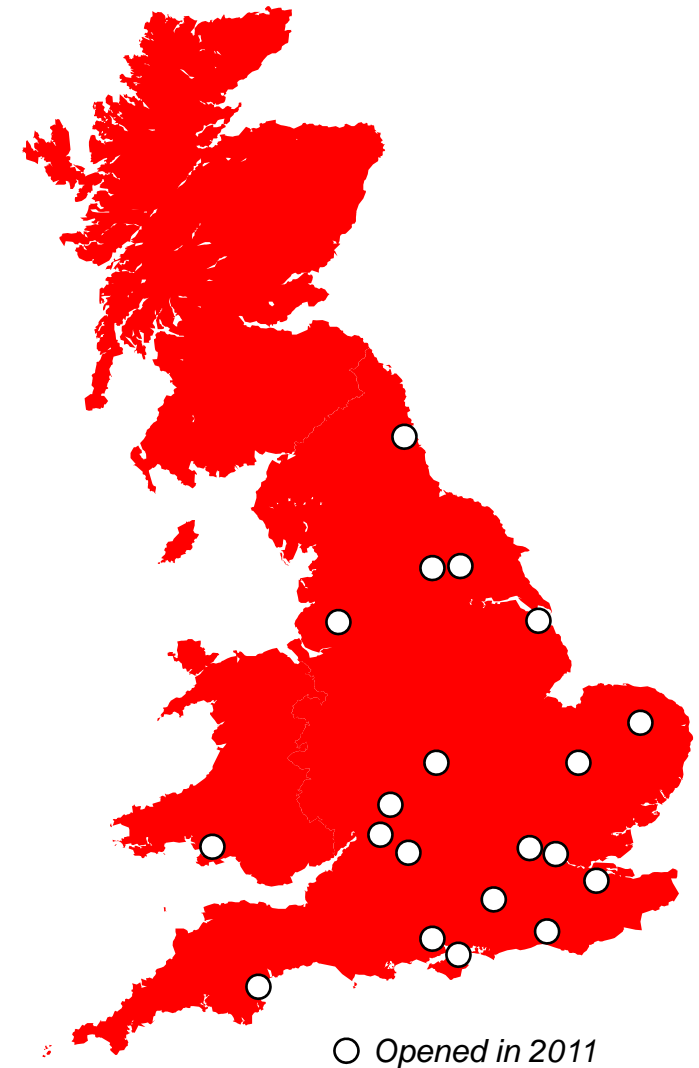
- Systems that work
 - Manufacturing control systems, including robots
 - Industry-leading CAD planning tools
 - Tailored communications technology
 - Robust, large-capacity sales systems
 - Efficient intranet



What have we invested in?

5. Space

- 509 depots
 - 20 opened in 2011
 - 55 opened in last 3 years
- New depots
 - Low fit-out costs
 - Low rent
 - Low breakeven point



Vigilance

- Constant, close monitoring of:
 - Sales
 - Margin
 - Stock
 - Cash
 - Performance

Flexible and responsive

Focus and investment have driven outperformance

- Clarity of purpose

Professional

- product
- fit
- fitter
- terms

Legacy

- Excellent progress with property portfolio
- Significant pension obligations remain
- Require high margins and consistent cash generation

A proven model with growth opportunities

- Scope for around 700 depots
 - No significant cannibalisation from new depots
- Improved depot performance via BDP
 - Better service
- New product development
 - Product innovation
- Manufacturing to support and grow margin



France

- 10 test depots in France performed well in 2011:
 - Improved sales
 - Launched new product
 - Acquired skills
- Aim to replicate success more quickly
- France unlikely to be as profitable as UK, but potential for market share gains

Outlook for 2012

- ➔ Sensible approach to development in uncertain times
 - ➔ Open depots in tranches
 - ➔ Maximise potential of best-selling product
 - ➔ Keep slower-selling ranges under review
 - ➔ Improve stock efficiency
 - ➔ Keep operating and capital costs under review

Flexible and responsive

Howden is a growing business

- ➔ Sound product offer
- ➔ High margins
- ➔ Low cost
- ➔ Cash generative
- ➔ Well invested

service
+
efficiency

A growing business with a reputation ... and prospects



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