



**HOWDENS**  
JOINERY CO.

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Making kitchens work for you

# 2013 Preliminary Results

27 February 2014



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Making kitchens work for you

**Matthew Ingle**  
Chief Executive Officer

# A proven strategy underpins our success

## ➡ The Howdens model works:

- Highly profitable
- Cash-generative

## ➡ Focus on what we do well:

- Local service and value
- Consistently delivered
- By individuals



# Our mission is our model

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



**HOWDENS**

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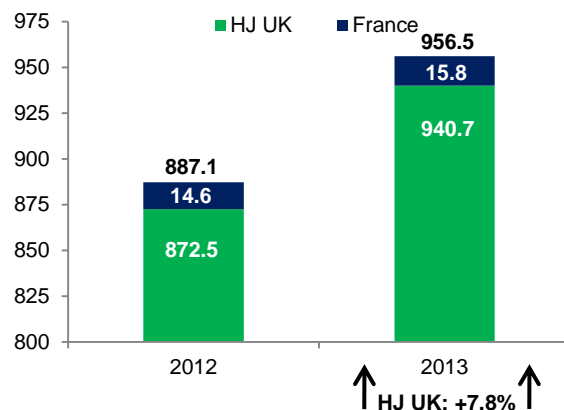
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Making kitchens work for you

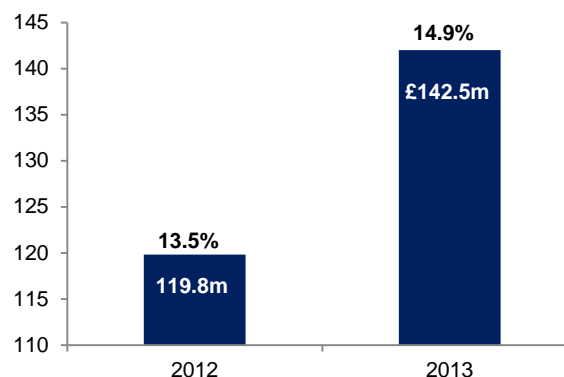
**Mark Robson**  
Chief Financial Officer

# Highlights

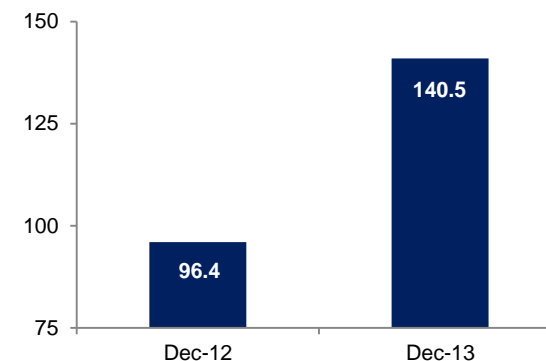
Revenue, £m



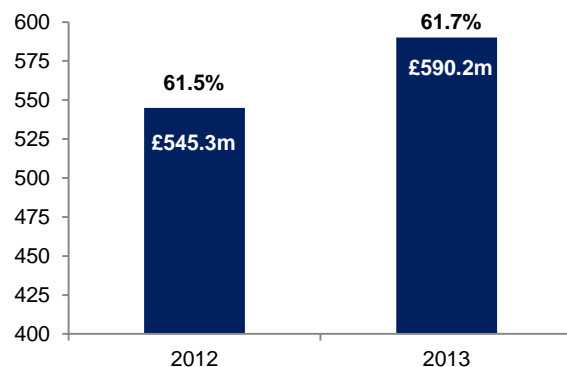
Operating profit



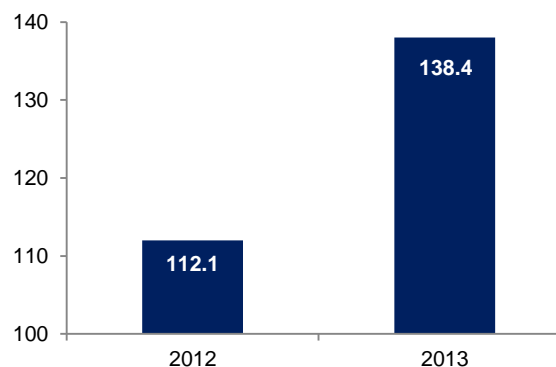
Net cash, £m



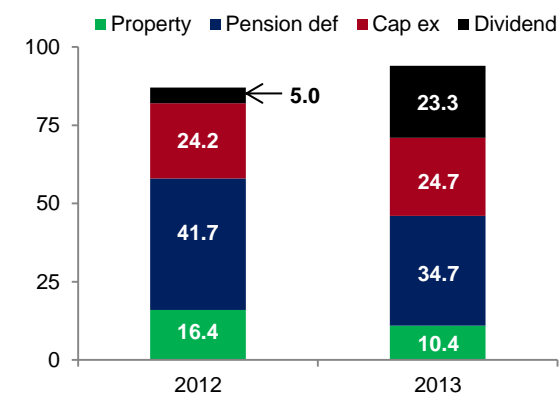
Gross profit



Profit before tax, £m



Uses of 'cash', £m



Full year dividend of 5.5p per share recommended (2012: 3p)

# Revenue

2013 UK depot revenue £940.7m

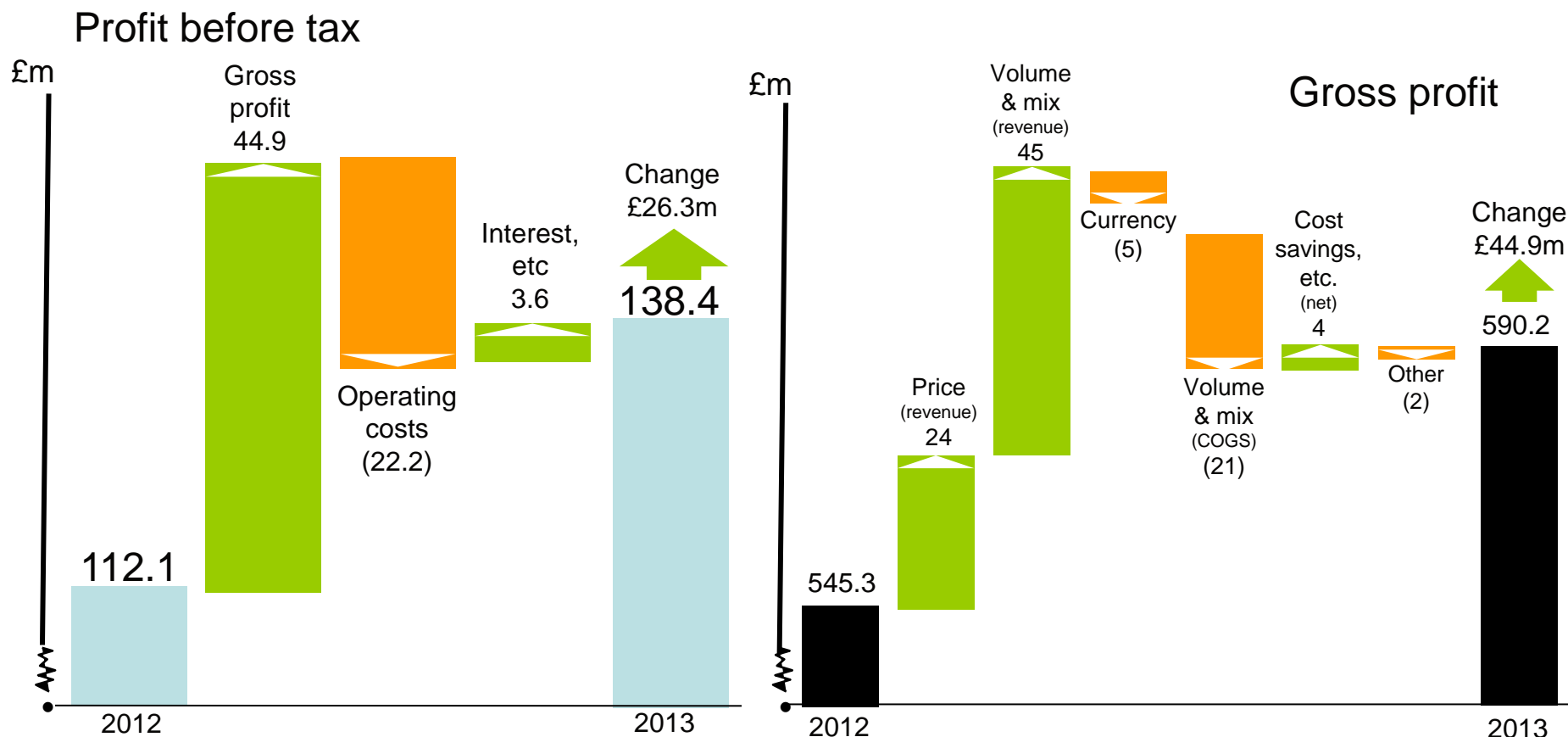
• total +7.8% • LFL +5.6%

2013 French depot revenue £15.8m

• +0.7% LFL in €s

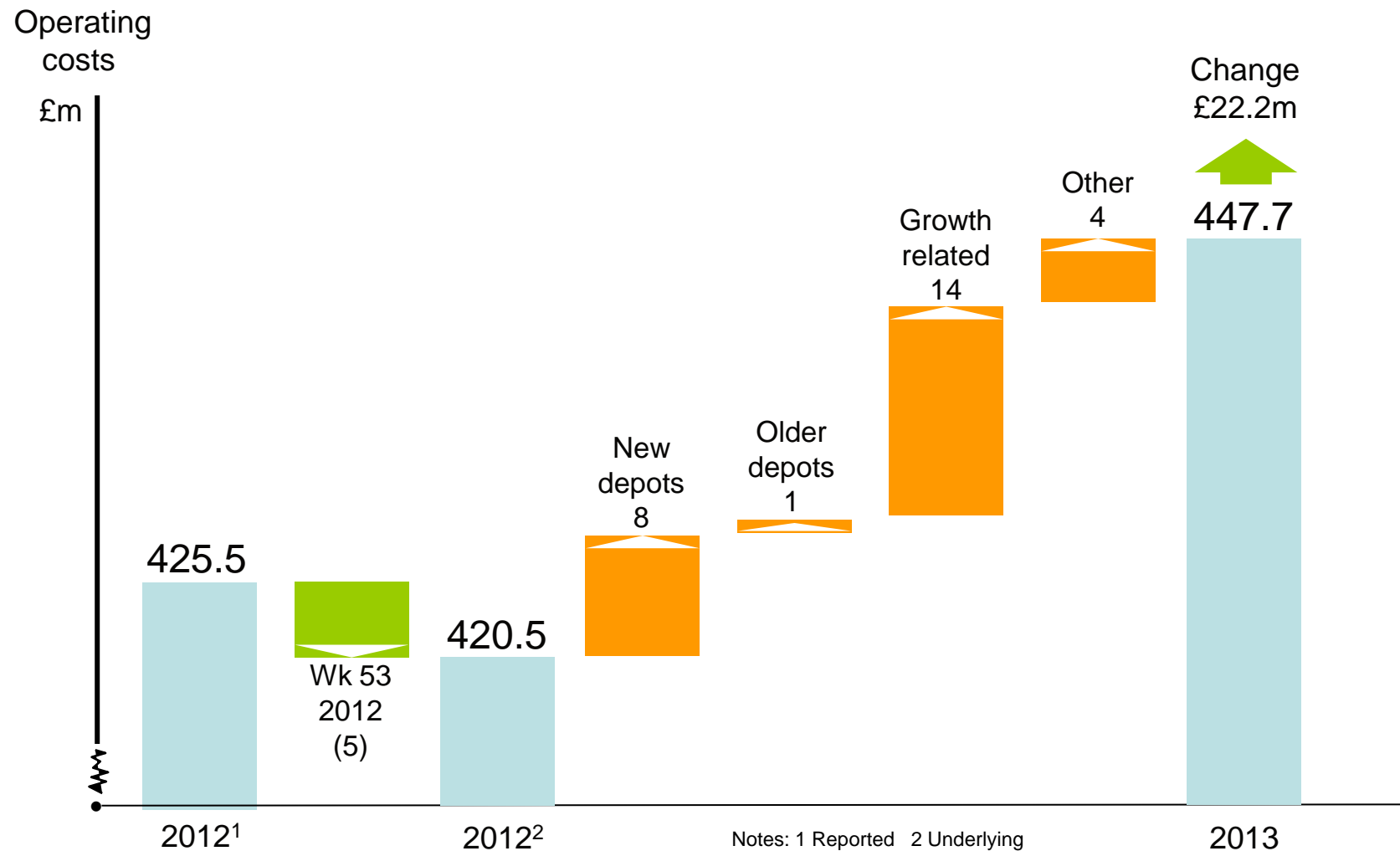
# Profit before tax (continuing operations)

**Group gross profit margin**  
 • 2013: 61.7% • 2012: 61.5%





# Operating costs



# Income statement (continuing operations, pre exceptionals<sup>1 2)</sup>)

£m	2013	2012
Revenue	<b>956.5</b>	887.1
Cost of goods sold	<b>(366.3)</b>	(341.8)
Gross profit	<b>590.2</b>	545.3
Operating costs	<b>(447.7)</b>	(425.5)
Operating profit	<b>142.5</b>	119.8
Net interest	<b>(4.1)</b>	(7.7)
Profit before tax	<b>138.4</b>	112.1
Tax	<b>(34.6)</b>	(24.1)
Profit for the period	<b>103.8</b>	88.0

1 An exceptional pre tax operating cost of £4.5m was incurred in 2013 - there were no discontinued operations in 2013.

2 In 2012, there was a loss from discontinued operations before tax of £4.4m.

# Earnings per share and dividend

£m

2013

2012

## Earnings per share before exceptional items

- from continuing operations **16.3p** 14.0p

## Dividend

- 2.5x to 3x eps cover
- final (recommended) **4.5p** 2.7p
- full year **5.5p** 3.0p
- 2013 final dividend costing £28m

# Net cash and cash flow

£m	2013	2012
Opening net cash	<b>96.4</b>	57.1
Operating cash flows before movements in working capital	<b>169.6</b>	138.3
Working capital	<b>(11.8)</b>	2.1
Capital expenditure	<b>(24.7)</b>	(24.2)
Tax paid	<b>(21.0)</b>	(16.9)
Dividends	<b>(23.3)</b>	(5.0)
Legacy properties	<b>(10.4)</b>	(16.4)
Pension deficit contribution	<b>(34.7)</b>	(41.7)
Exceptional items	<b>(4.5)</b>	(0.5)
Other	<b>4.9</b>	3.6
Closing net cash	<b>140.5</b>	96.4

# Working capital

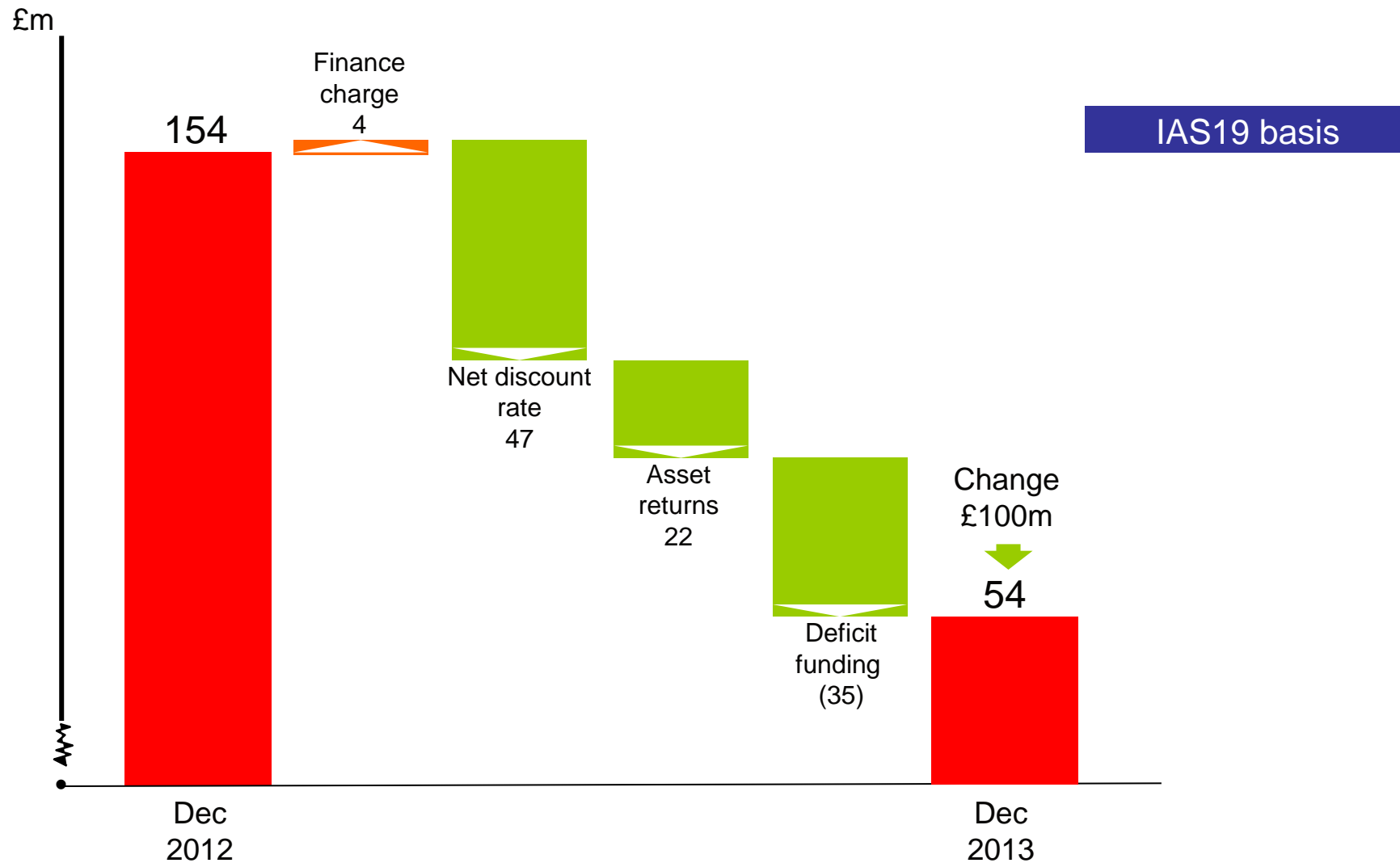
## ► Working capital up £11.8m

- stock up £7.5m
- debtors up £26.4m
- creditors up £22.1m

# Reducing our legacy property liabilities

- ▶ Six leases terminated in 2013
  - £7.5m cost
- ▶ One lease expired in 2013 + one expired in 2014
- ▶ Eight properties remain
  - <£2m net annual rent and rates

# Pension scheme deficit



# Current trading and outlook for 2014

➡ Sales in first period two periods up 7.3%

➡ Outlook for rest of year:

- improvement in market conditions continues
- expectations for the year unchanged

➡ Continue to invest in growth

- up to 30 new depots

➡ Will take timely actions





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Chief Executive Officer

# Life happens in the kitchen

- Cooking...
- Eating...
- Washing up...
- Rubbish...
- Laundry...
- Mending...
- Decorating...
- Teaching...
- Reading...



# Life happens in the kitchen

- Computer...
- Shopping...
- Plans...
- Tickets...
- TV...
- Music...
- Discussion...
- Decisions...



# Focused on the needs of small, local builders

- ➡ Very local depots
  - Saving time and money
  - Trade environment
  - Familiar faces
  - Everything in stock all the time
  - Rigid cabinets
  - Good design and quality at all price points



# Expert kitchen planning service

## ➡ Differentiated by quality

- Over 1,000 experienced designers
- Industry-leading CAD planning software
- Detailed visualisation of kitchen
- Accessible to builder and end-user





# Reliable, local service

- ➡ Fitting advice
- ➡ Individual service
- ➡ Help with delivery
- ➡ Can swap items
- ➡ Discount = margin
- ➡ Credit = cashflow



*Serving customers in St. Helen's depot*

# Local autonomy is the key to depot success

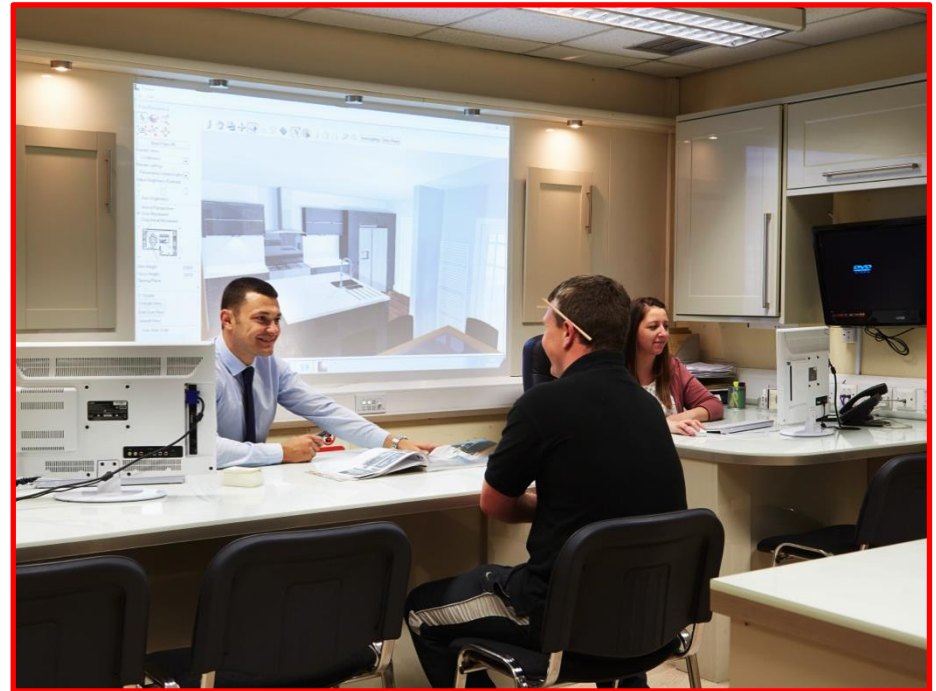
- ➡ Managers run their own businesses
  - Highly incentivised
  - Profit-sharing for depot teams, plus targeted initiatives
- ➡ Focused incentives throughout Howdens
- ➡ Incentives aligned with overall business objectives



*The Blyth depot team*

# The typical Howdens depot

- ➡ 10,000 sq ft
  - 80% warehousing, plus:
    - Displays
    - Trade counter
    - Planning office
- ➡ Newly fitted CAD offices
  - HD projectors
  - Large screens
  - A3 printers



*New CAD planning office in St. Helen's depot*



# The importance of customer accounts

- ➡ 290,000 credit accounts
  - 20,000 net new accounts opened in 2013
- ➡ Actively managed
  - Accounts closed after 15 months of inactivity
- ➡ Tight credit control
  - Total cost of credit control (including bad debts) = 1% of sales



*At the counter in Kettering depot*

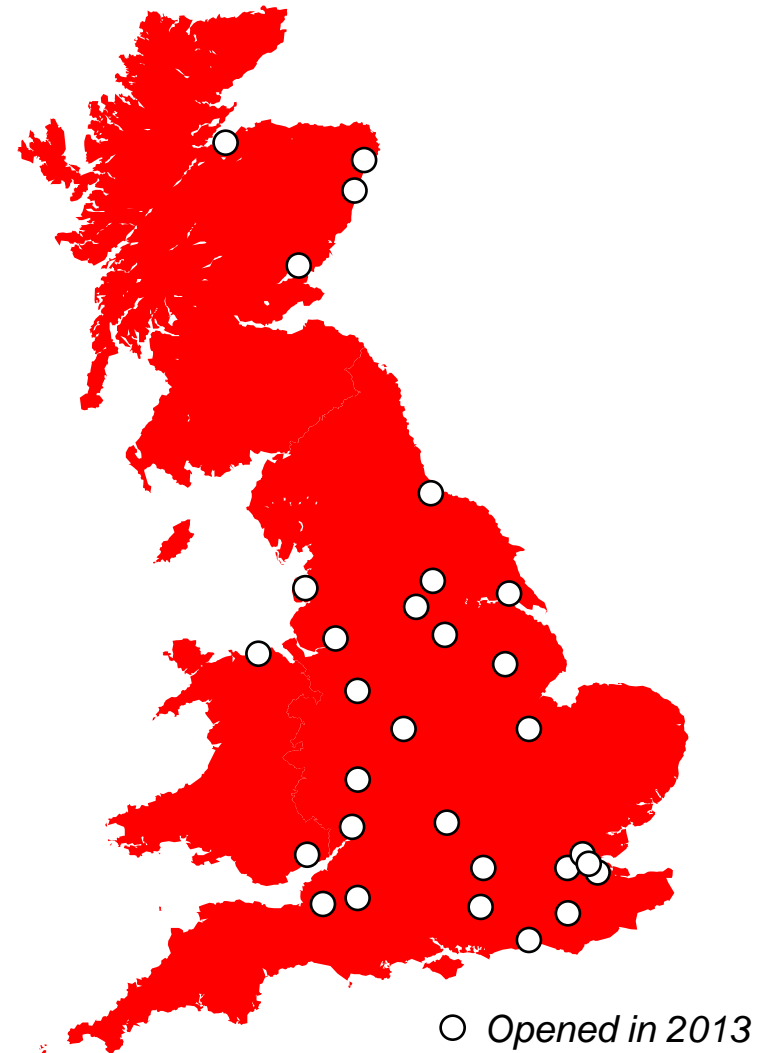
# Our growing network of local depots

## ➡ 559 depots

- 30 opened in 2013
- Up to 30 more planned for 2014

## ➡ Low-cost model

- Average rent c. £5.50 per sq.ft
- One-off fit-out, c. £180k - £300k, now including:
  - Mezzanine level
  - Better racking
  - New CAD office
- Depots break even at sales of c.£650,000 p.a.



# Howdens King's Cross depot



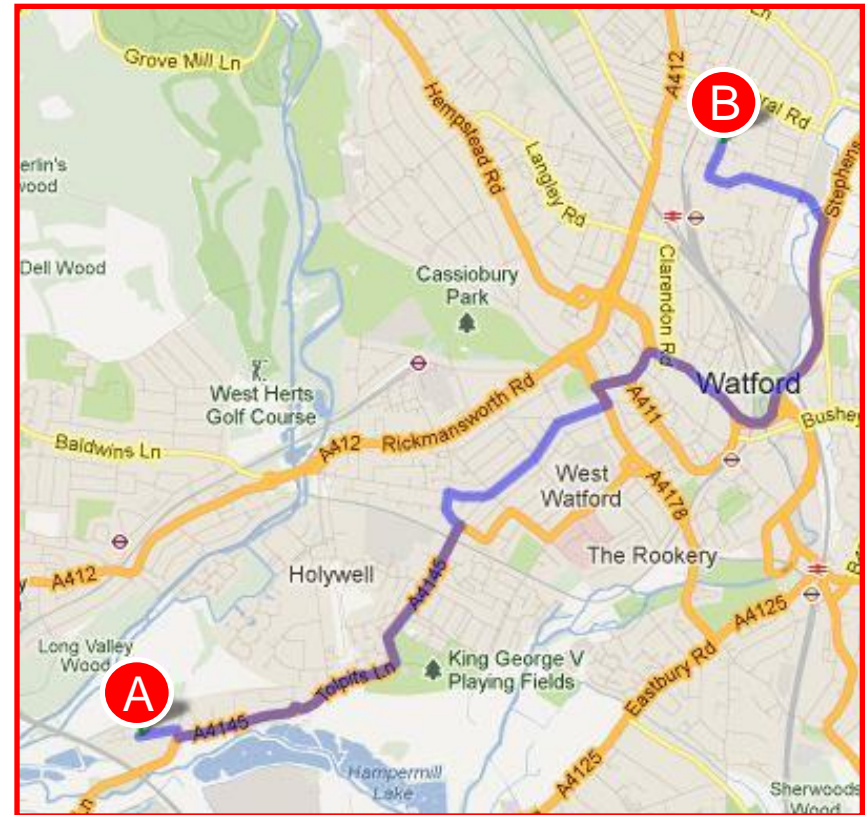
- *Opened late 2013*
- *Complex site*
- *One-off fit-out cost £400k*

# The value of best demonstrated practice (BDP)

- ➡ Opportunities for growth within each depot' s P&L account
  - Sales
  - Profit
  - Sales per head
  - Sales per account
  - Appliance penetration
  - Cost recovery
  - Etc...
- ➡ Performance comparison across similar size catchment areas
- ➡ Staying focused on what works

# Tapping into latent, local demand

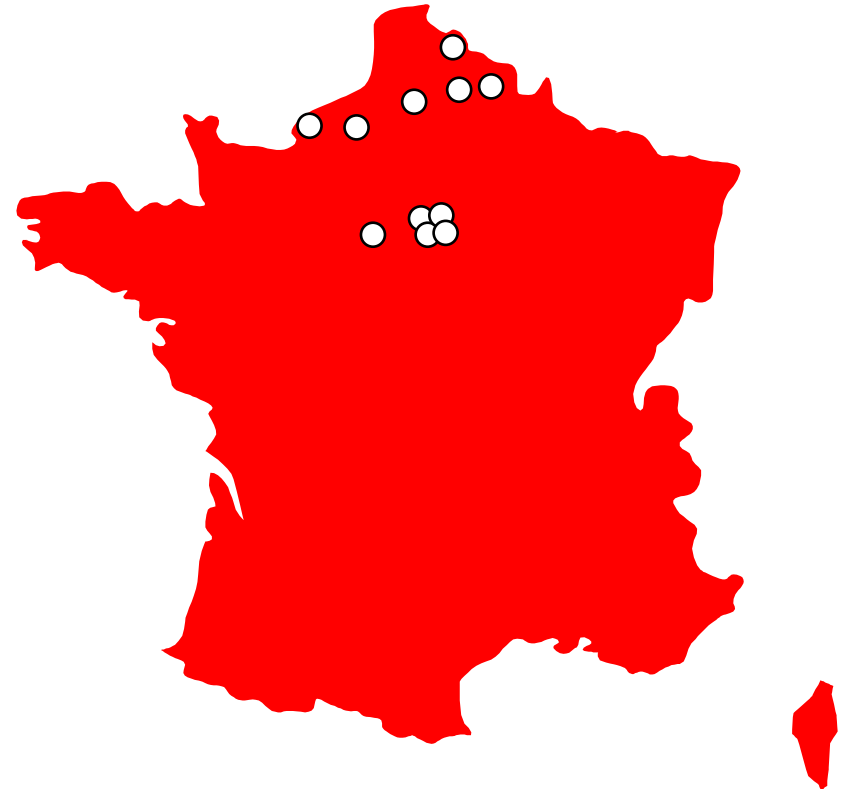
- ➡ More depots = more sales and profits from one area
  - E.g. Watford (1995), plus North Watford (2011)
  - After two full years of trading:
    - Sales + 54%
    - Profit contribution + 45%
- ➡ Continuing to invest in local service



A: Howdens Watford  
B: Howdens North Watford

# Test depots in France progressing well

- ➡ 11 depots in the Paris region and the North East
  - Profitable at depot level
  - Monitoring effects of new price / discount structure
- ➡ Continuing to learn more about the French market





# A constant flow of new product

Relevant = will sell

- 17% of 2013 sales came from product launched since the start of 2012

Product roadshows

- 1,000 designers
- 559 depot managers
- Direct feedback



*Howdens product roadshow, January 2014*

# Increasing popularity of gloss finishes

40% of sales by value

- New, lower-cost gloss technologies
- Success of our competitively priced Greenwich Gloss
  - Sustaining margin growth
  - Trend to solid colours (75% of all kitchen sales)
  - Rollout of more gloss colours in H1 2014



*Greenwich Gloss Cream*



# Joinery doors at all price points

Genoa door rolled out to all depots in April 2013

- Immediately popular
- Complements our best-selling Dordogne model
- Ensures the builder can continue to serve all parts of the market



*Dordogne  
Slab door, 35 kg  
10mm deep grooves*



*Genoa  
Stile and rail door, 25 kg  
4mm deep grooves*

# Building on Lamona's strong position

## Full range of appliances

- 2-year warranty as standard

## No.1 UK sellers:

- Single oven (70,000 sold in 2013)
- Dishwasher
- Fridge-freezer
- Built-under fridge



*Stainless steel oven*



*Stainless steel extractor*



*Stainless steel hob*

# Increasing brand awareness

## Lamona / Howdens cookbooks

- 637,000 copies of 7 books distributed since May 2011
- Popular with builders and end-users
- New series for 2014

## Brand associations

- E.g. Emma Bridgewater



*Emma Bridgewater for Howdens*



*Our own cookbooks*

# An efficient, low-cost supply operation

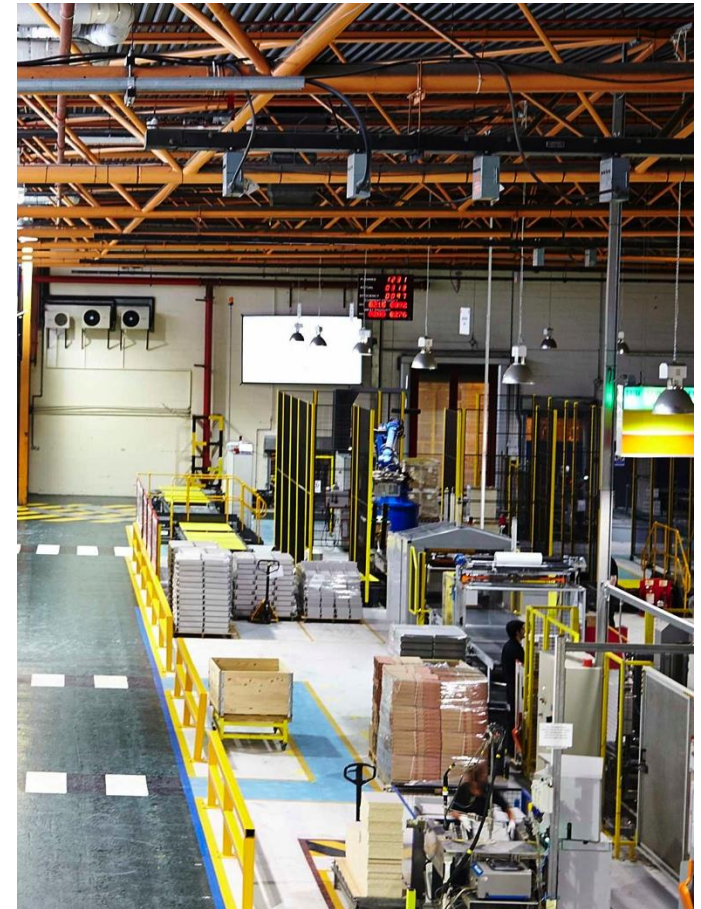
- ➡ Sourcing raw materials and bought-in product
- ➡ Product design and development
- ➡ Manufacturing
- ➡ Logistics
- ➡ Warehousing
- ➡ Distribution to 559 depots
- ➡ The builder is paying for service he can rely on



Make and buy in  
large volumes =  
lowest cost  
supply and  
service

# The benefits of our £20m manufacturing investment

- ➡ New lines fully commissioned
- ➡ Control of our own manufacturing at significant scale
  - Capacity
  - Low cost
  - Availability
  - Quality
  - Margin
  - Service



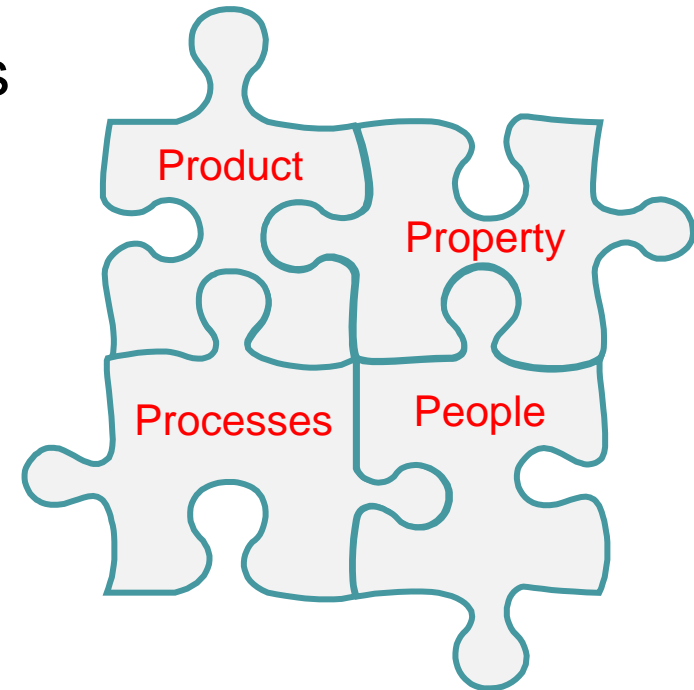
*Runcorn*



# Continuing investment to support growth

- ➡ Long term supplier agreements
- ➡ Robust, scalable, flexible systems

Continuing to invest in:



- ➡ Managing complexity at scale in a sophisticating market

# Managing stock as Howdens grows

- ➡ Invest in the **right** stock to support Howdens service proposition
- ➡ Making arrangements for new national distribution capacity beyond 2019
  - Expect to remain in Northampton area
    - reflecting weighting to South rather than North
  - Major infrastructure project
    - careful planning under way

# Further investment in people

- ➡ Local service is a powerful source of competitive advantage
- ➡ Continuing to invest in:
  - Recruitment
  - Talent development
  - Understanding
  - Incentivisation
- ➡ “As good as it ever was...” – an innovative concept



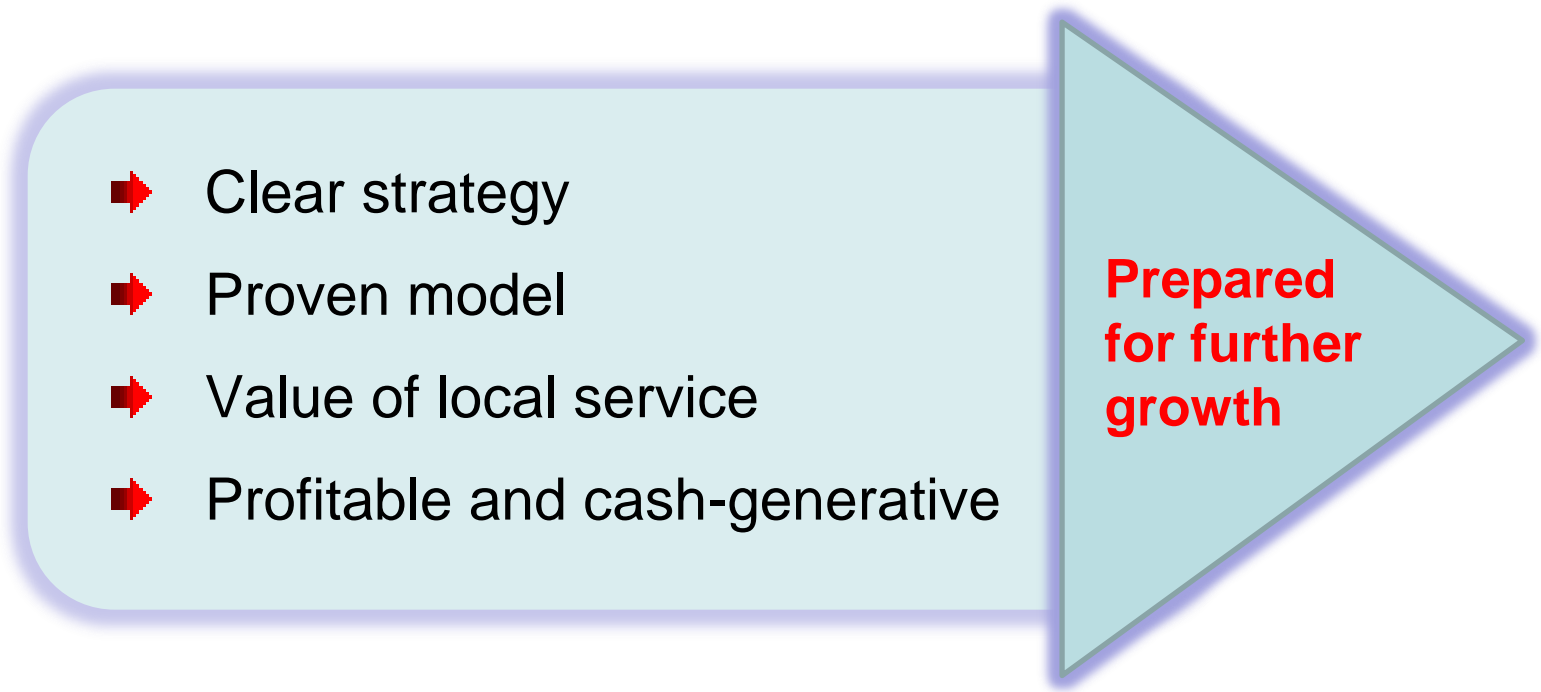
“As good as done!”



Worthwhile for all concerned



# Howdens is growing because its strategy works

- 
- ➡ Clear strategy
  - ➡ Proven model
  - ➡ Value of local service
  - ➡ Profitable and cash-generative

**Prepared  
for further  
growth**



Doing what we do well, and doing it even better



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