



**HOWDENS**  
JOINERY CO.

# 2014 Preliminary Results

26 February 2015



**HOWDENS**  
JOINERY CO.

**Matthew Ingle**  
Chief Executive Officer

# Delivering value to all concerned



**20 years**

- £1bn sales, £190m operating profit
- > 7,000 full-time employees
- c.8m square feet
- 2 factories, 1 distribution centre
- 590 local depots
- 50 kitchen ranges
- > 6,500 SKUs
- > 350,000 account holders...

# A successful business with prospects

- Significant improvement in sales, profits and cash
- A trade business, always in stock locally
- Successfully managing **scale + complexity**
  - ➡ Delivering **direct, personal service** to the local builder

Strategy has created opportunities for further growth



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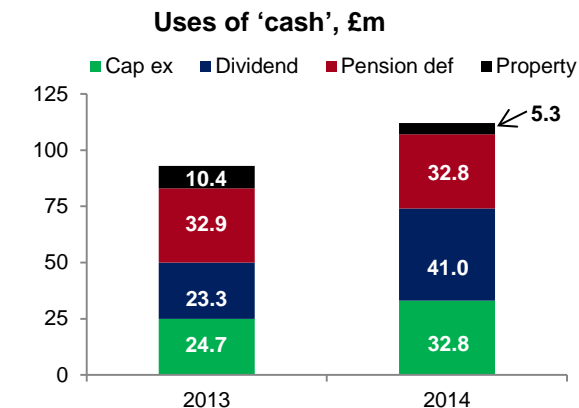
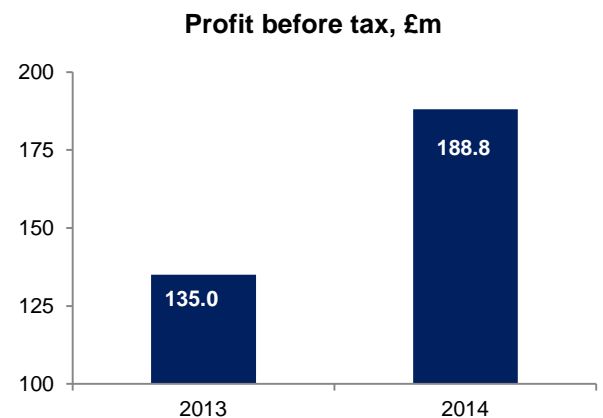
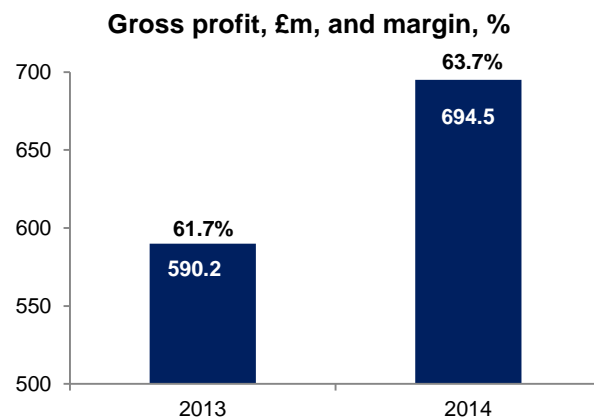
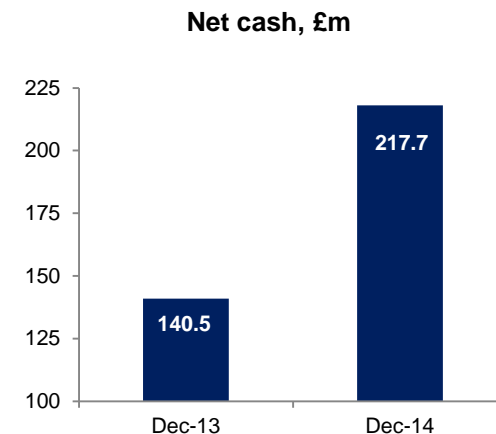
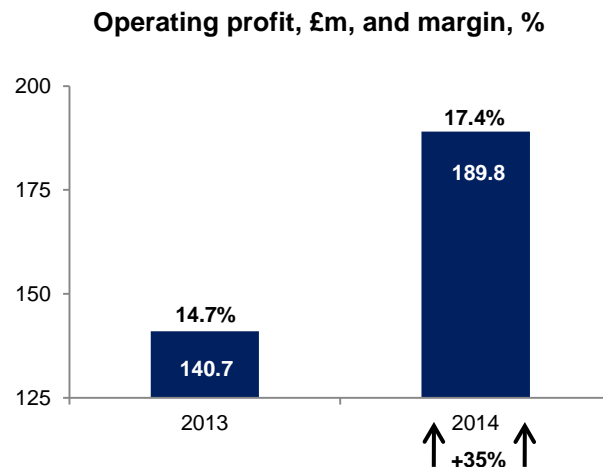
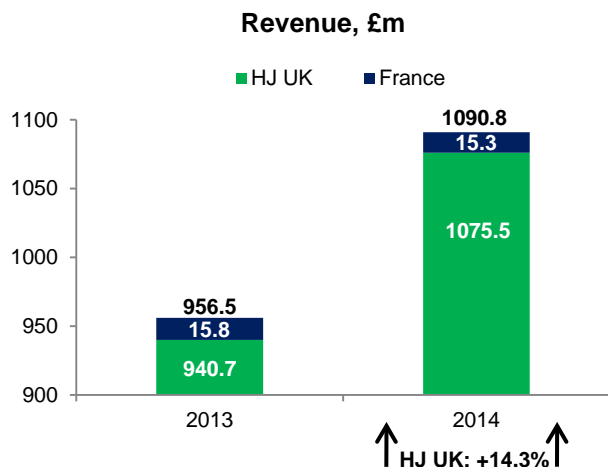
**Mark Robson**

Deputy CEO and Chief Financial Officer

# Business developments

- 30 new depots
- Investment in product, including eighteen new kitchen ranges
- Existing depots
  - ‘virtual showroom’ project; A3 printer roll-out
- Supply
  - replaced ‘tractor’ units of lorry fleet – trailer replacement imminent
- Howden site heating boilers
- Central IT hardware refreshed
- 2 depots in Belgium and new format store in France opened

# Highlights



Full year dividend of 8.4p per share recommended (2013: 5.5p)

# Revenue

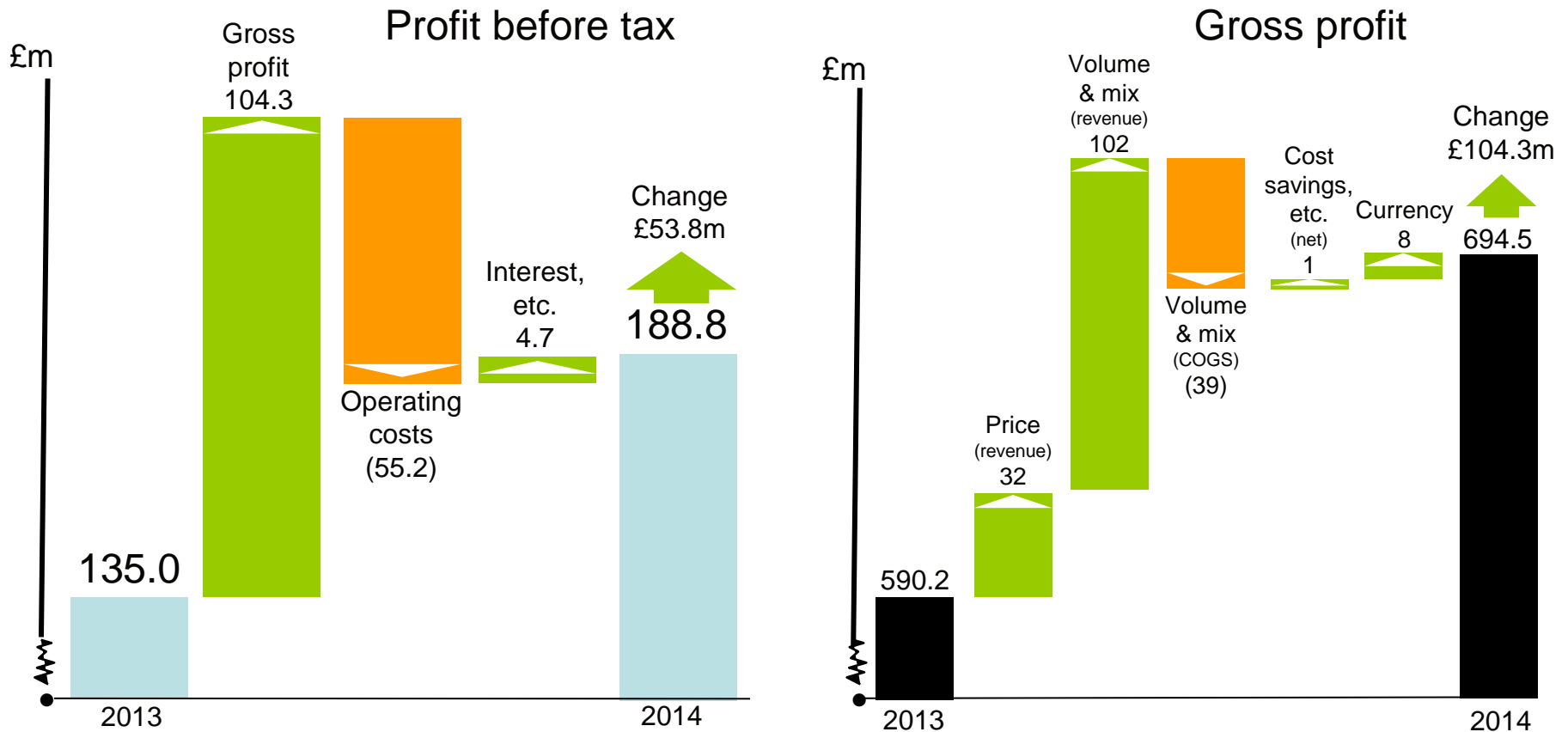
2014 UK depot revenue £1075.5m  
• total +14.3% • LFL +10.8%

2014 French depot revenue £15.3m  
+2% LFL in €s

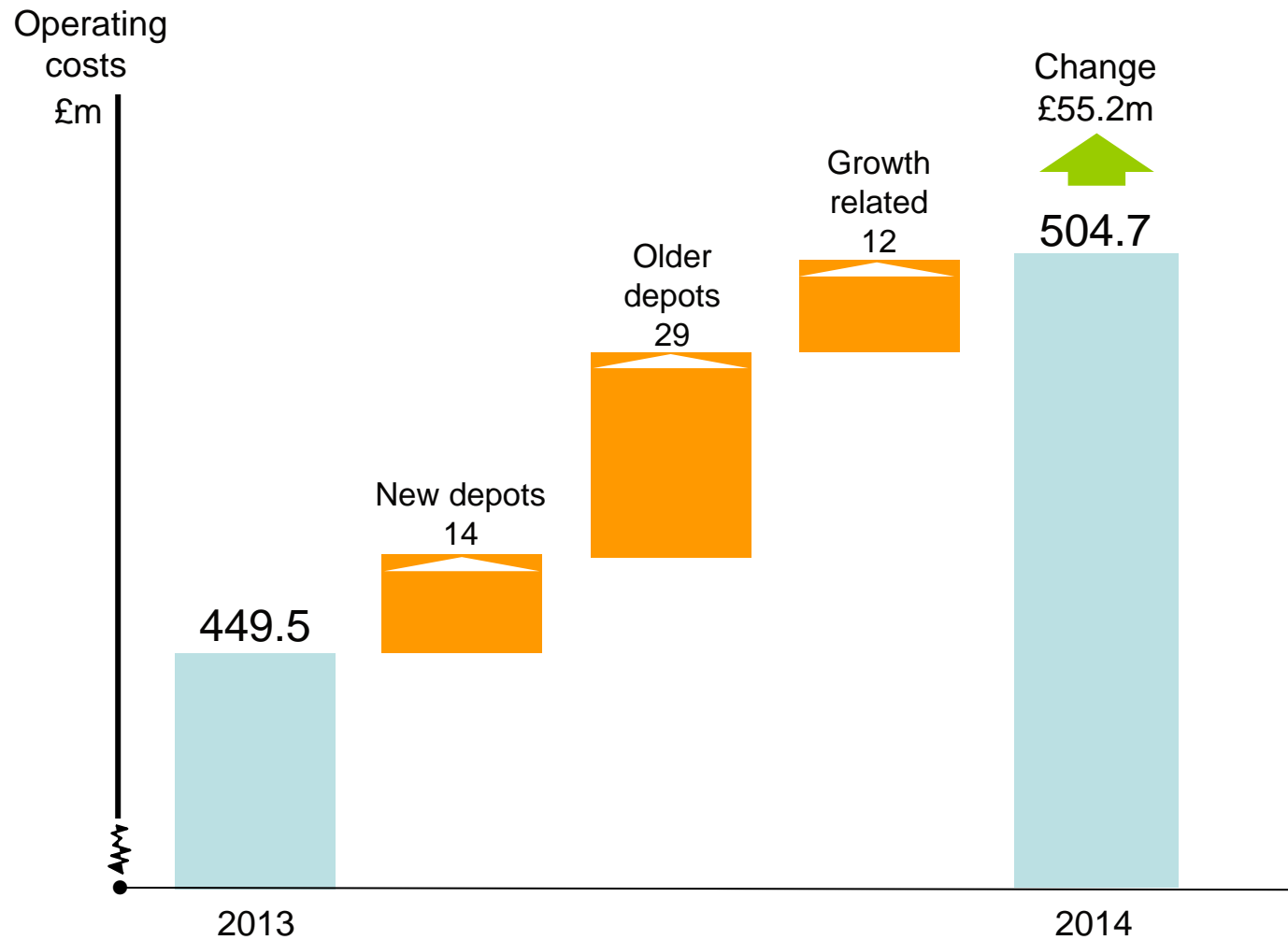


# Profit before tax (continuing operations)

**Group gross profit margin**  
 • 2014: 63.7% • 2013: 61.7%



# Operating costs



# Income statement – pre exceptionals \*

Continuing operations unless stated, £m	2014	2013
Revenue	<b>1090.8</b>	<b>956.5</b>
Cost of goods sold	<b>(396.3)</b>	(366.3)
Gross profit	<b>694.5</b>	590.2
Operating costs	<b>(504.7)</b>	(449.5)
Operating profit	<b>189.8</b>	140.7
Net interest	<b>(1.0)</b>	(5.7)
Profit before tax	<b>188.8</b>	135.0
Tax	<b>(40.1)</b>	(33.7)
Profit for the period	<b>148.7</b>	101.3
Profit after tax on discontinued operations	<b>9.1</b>	-

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

# Earnings per share and dividend

£m

2014

2013

## Earnings per share before exceptional items

- from continuing operations **23.2p** 15.9p

## Dividend

- final (recommended) **6.5p** 4.5p
- full year **8.4p** 5.5p
- 2014 final dividend costing £41.6m

# Net cash and cash flow

£m	2014	2013
Opening net cash	<b>140.5</b>	96.4
Operating cash flows before movements in working capital	<b>217.4</b>	167.8
Working capital	<b>(1.2)</b>	(11.8)
Capital expenditure	<b>(32.8)</b>	(24.7)
Tax paid	<b>(30.3)</b>	(21.0)
Dividends	<b>(41.0)</b>	(23.3)
Legacy properties	<b>(5.3)</b>	(10.4)
Pension deficit contribution	<b>(32.8)</b>	(32.9)
Exceptional items	-	(4.5)
Other	<b>3.2</b>	4.9
Closing net cash	<b>217.7</b>	140.5

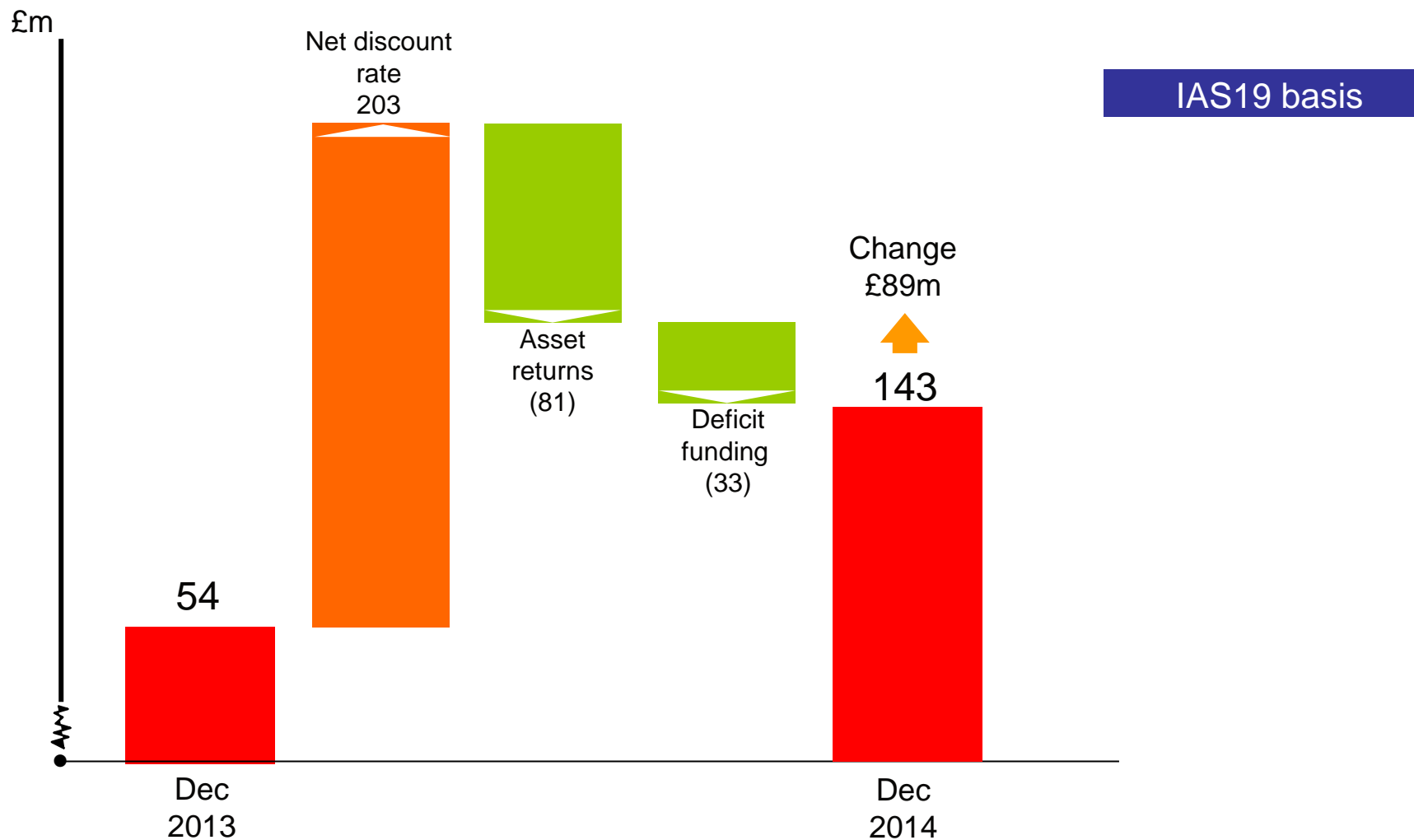
# Working capital

- Working capital up £1.2m
  - stock up £19.7m
  - debtors up £10.7m
  - creditors up £29.2m

# Return of cash to shareholders

- £70m of cash to be returned to shareholders
- Share repurchase programme to be implemented over course of next two years

# Pension scheme deficit





# Current trading and outlook for 2015

- Sales in first period two periods up 9.9%\*
- Expectations unchanged
- Things to note:
  - additional operating costs  
(French depots, interim warehousing, pension charge)
  - increased capital expenditure
- Will take timely actions

\* Excludes first week, which had one less trading day in 2014.



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Chief Executive Officer

# The importance of being in stock

Nothing to pay for up to 60 days –  
Howdens credit account

Builder saves time  
and money

Builder collects  
from local stock

Gets paid by  
customer

**Pays Howdens**

**Total cost of credit control, including bad debts = c.1%**

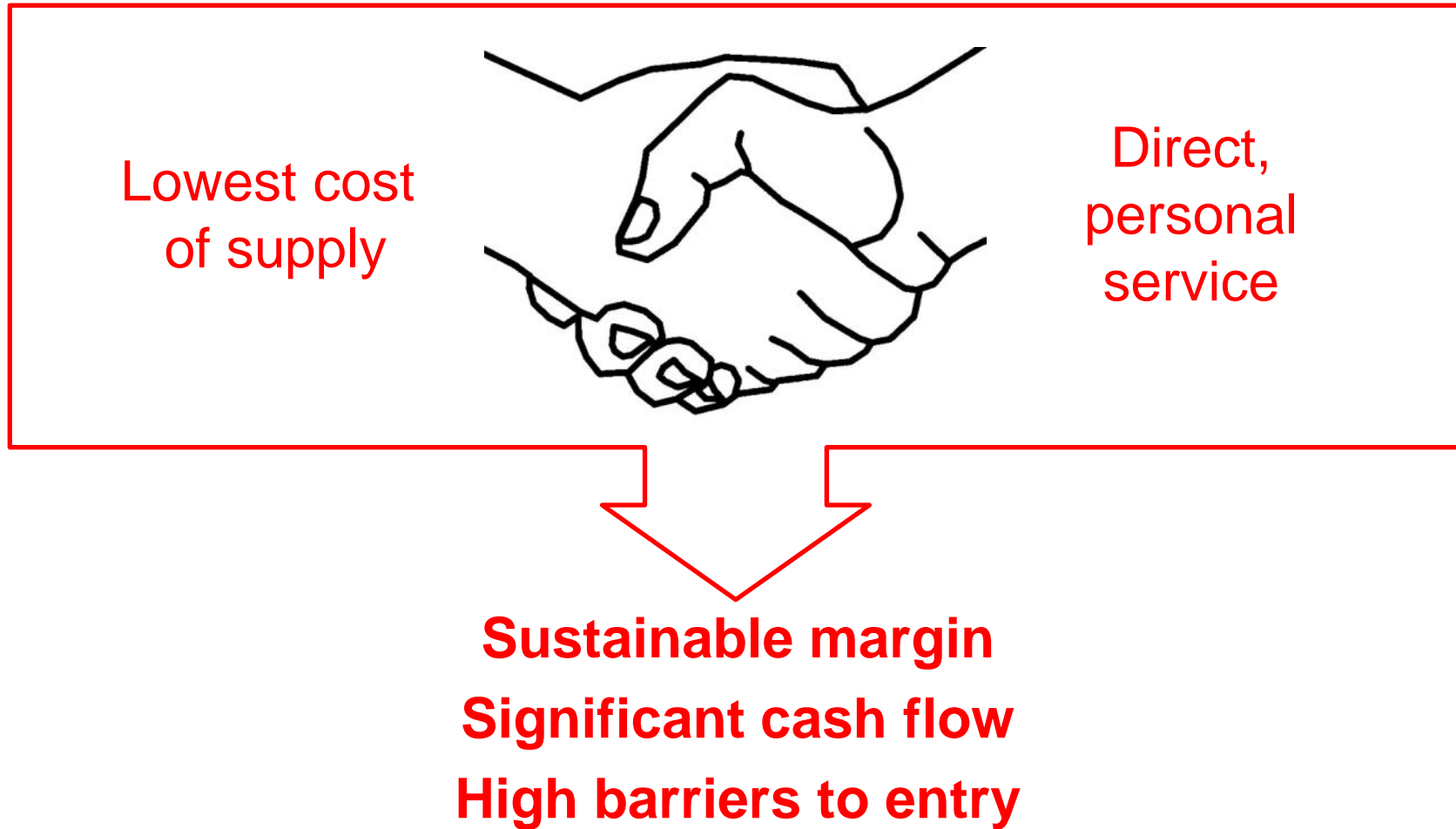
# Experiments open up opportunities

- ➔ Granite from stock
  - Testing began in H2
  - Valuable learning
  - Sophisticating kitchens, at all price points
  - Leads to ideas and opportunities for the future



*Black granite worktop and upstand*

# The Howdens customer proposition



# The depot manager holds critical relationships



- ➔ Actual and potential customers
- ➔ Depot staff
- ➔ Local suppliers
- ➔ Design and manufacturing
- ➔ Logistics and distribution
- ➔ End-users
- ➔ Local communities

Constantly changing lives

# Efficient supply and distribution

## ➔ Manufacturing relevant, robust products

- Large volumes
- Long runs
- No waste
- Accountability
- Motivated staff

Scale and complexity



*The "I" line at our Runcorn factory*

# Managing scale and complexity

Period 11, 2014





# Many opportunities for organic growth

- ➔ More depots
  - More accounts
- ➔ Improved performance
  - Incentivisation
- ➔ More products
  - New designs
- ➔ More staff
  - Better service



# A typical French trade depot



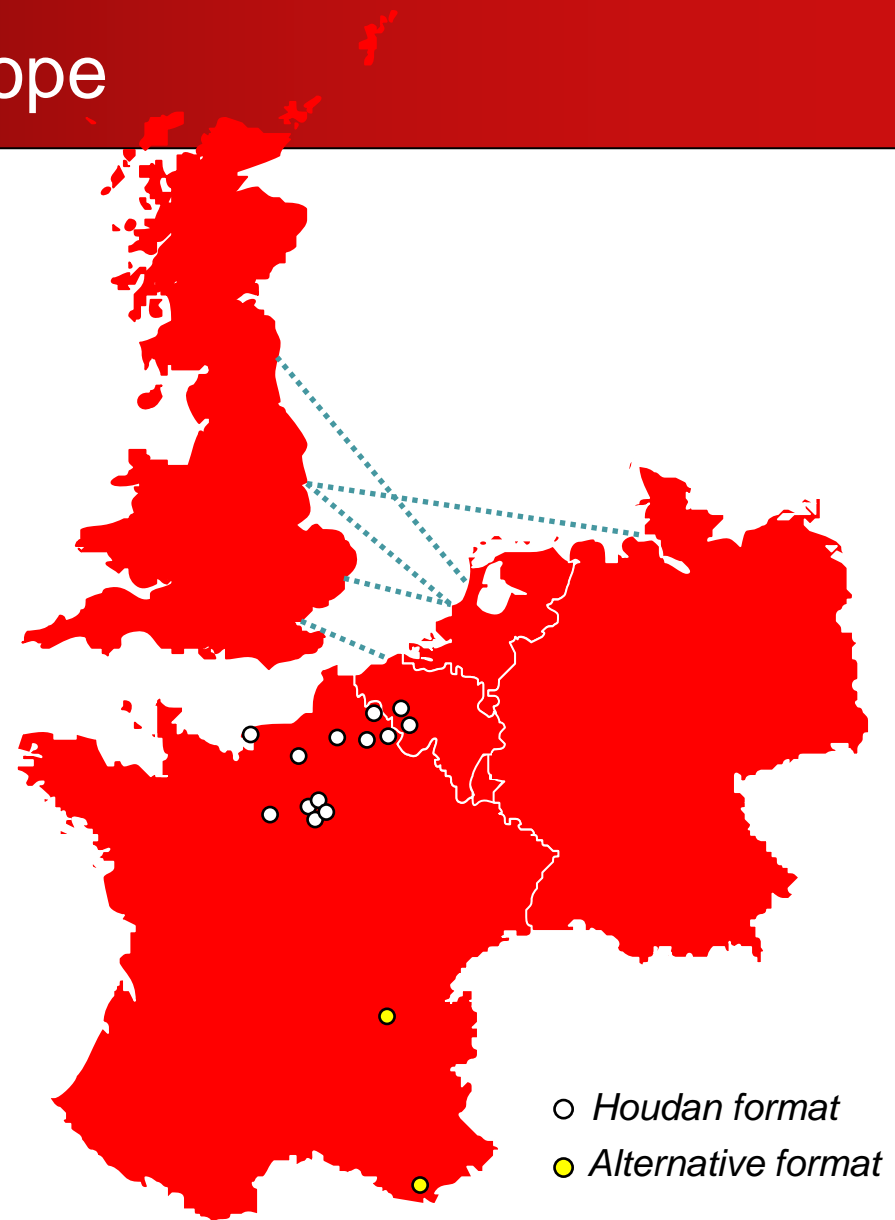
# Further tests in continental Europe

## ➔ Continuing progress in France

- 11 profitable trade depots
- Plan to open 7 more in H2

## ➔ Ongoing testing

- New format near Lyon and Marseille
- 2 trade depots in southern Belgium
- Trial in Holland
- Exploring possibilities in Germany



# Stepping up investment to address more opportunities

- ➔ Product design
- ➔ Innovation
- ➔ Manufacturing efficiency
- ➔ Warehousing & distribution
- ➔ Systems
- ➔ Skilled people
- ➔ Robust organisation



The Howdens model at scale  
Volume, value, complexity

# The importance of incentives in the Howdens model

- ➔ A business with prospects and credibility, where people at all levels can engage with senior management
- ➔ Pay and local, profit-related commission
- ➔ 5½ day working week, bank holidays, long service awards
- ➔ Specific incentives:
  - Account openings, product sales, stock accuracy, Period 11, H&S, highest depot profitability, etc.

Aligned to our performance, culture and values

# Investing in scale + complexity

- ➔ Access to lowest cost supply is key
- ➔ Commercial approach to make vs. buy
- ➔ A flexible, adaptive supply chain with the capacity to handle significant growth and continuous change
- ➔ Investing time and effort in relationships with suppliers
- ➔ Managing the increasing complexity of the kitchen
- ➔ Capital investment in ensuring security of lowest cost supply

Managing complexity and seasonality

# A model for effective stock management

- ➔ “In stock” is a real differentiator for Howdens
- ➔ Depot managers play a critical role in stock management
  - Bonus based on local depot profitability
  - Product roadshows
  - Accurate forecasting
  - Frequent deliveries tailored to each depot’s requirements

Local empowerment + focus on one customer

# Delivering value for the future



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

Continued  
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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