

## Howden Joinery Group plc (LSE:HWDN): Long

5.1.18 Local Dominance to Continue – 70% UPSIDE (19% IRR) Adam M. Schloss, CFA

			2017	2017 FCF	% Up /	Up/Down	2021	2021	2021		
Current Price	£4.77	Rationale	IRR	P/E	Yield	Down	Ratio	EPS	FCF/Sh.	EBIT %	
Target Price	£8.09	13.0x '21 EBIT (Base Case)	19.3%	27.4x	2.5%	69.7%	3.1x	£0.53	£0.50	19.8%	
Downside Price	£3.71	9.0x '21 EBIT (Bear Case)	-8.1%	12.6x	5.5%	-22.3%		£0.31	£0.30	16.1%	
<b>Margin of Safety</b>	<b>41.1%</b>		<b>Historicals Ended December</b>				<b>Forecast</b>				
<i>(£ in millions)</i>			<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Price	£4.77	<b>Revenue</b>	<b>£957</b>	<b>£1,091</b>	<b>£1,220</b>	<b>£1,307</b>	<b>£1,404</b>	<b>£1,502</b>	<b>£1,613</b>	<b>£1,719</b>	<b>£1,830</b>
FD Shares Out. (mm)	607.8	% Growth	7.8%	14.0%	11.9%	7.1%	7.4%	7.0%	7.4%	6.6%	6.5%
Market Cap	£2,899	EV/Sales (trailing)	2.1x	2.2x	2.6x	1.7x	2.0x	1.9x	1.7x	1.6x	1.5x
Net Debt	-£109	<b>EBIT</b>	<b>135</b>	<b>188</b>	<b>218</b>	<b>236</b>	<b>232</b>	<b>266</b>	<b>304</b>	<b>336</b>	<b>363</b>
<b>Enterprise Value</b>	<b>£2,790</b>	EBIT Margin	14.1%	17.3%	17.8%	18.1%	16.5%	17.7%	18.8%	19.6%	19.8%
EV/EBIT (2017)	12.0x	EV/EBIT (trailing)	15.1x	13.0x	14.3x	9.4x	12.0x	10.5x	9.2x	8.3x	7.7x
Dividend Yield	2.3%	<b>EBITDA</b>	<b>152</b>	<b>208</b>	<b>238</b>	<b>258</b>	<b>258</b>	<b>293</b>	<b>333</b>	<b>368</b>	<b>400</b>
ROE (2017 post-tax)	43.4%	EV/EBITDA	13.3x	11.8x	13.1x	8.6x	10.8x	9.5x	8.4x	7.6x	7.0x
ROTC (2017 pre-tax)	77.4%	<b>EBITDAR</b>	<b>207</b>	<b>264</b>	<b>304</b>	<b>332</b>	<b>336</b>	<b>377</b>	<b>424</b>	<b>466</b>	<b>505</b>
5 yr. Beta	1.0	EV/EBITDAR	9.8x	9.3x	10.3x	6.7x	8.3x	7.4x	6.6x	6.0x	5.5x
Price/Book	6.4x	<b>EPS</b>	<b>£0.15</b>	<b>£0.24</b>	<b>£0.27</b>	<b>£0.29</b>	<b>£0.30</b>	<b>£0.35</b>	<b>£0.41</b>	<b>£0.47</b>	<b>£0.53</b>
Gross Debt/Capital	-31.6%	Net Debt/Share	(0.13)	(0.11)	(0.27)	(0.19)	(0.21)	(0.30)	(0.34)	(0.39)	(0.46)
Net Debt/EBIT (2017)	-0.5x	P/E	21.9x	16.5x	19.0x	13.0x	15.7x	13.7x	11.7x	10.2x	9.1x
Net Debt/EBITDAR (2017)	-0.3x	P/E Consensus						15.4x	14.2x	14.4x	n/a
Int. Cov. (2017 EBIT/int.)	n/a	<b>FCFE/Share</b>	<b>£0.10</b>	<b>£0.18</b>	<b>£0.17</b>	<b>£0.23</b>	<b>£0.20</b>	<b>£0.37</b>	<b>£0.37</b>	<b>£0.44</b>	<b>£0.50</b>
Avg. Daily Volume (mm)	3.29	FCF Yield	3.3%	4.7%	3.5%	6.4%	4.5%	7.8%	7.8%	9.2%	10.4%
Shares Short (mm)	0.0	<b>ROIC (pre-tax)</b>	<b>87.0%</b>	<b>106.4%</b>	<b>103.0%</b>	<b>97.1%</b>	<b>84.8%</b>	<b>92.4%</b>	<b>103.4%</b>	<b>106.2%</b>	<b>107.4%</b>

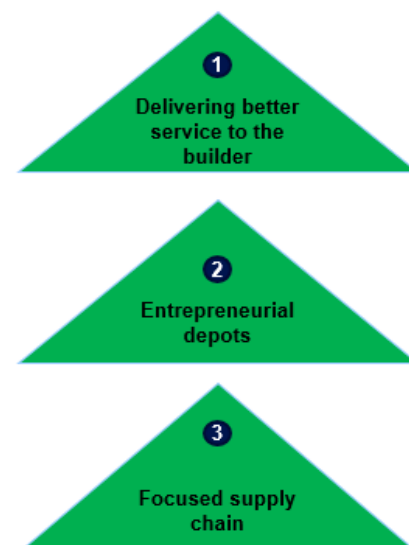
### INVESTMENT THESIS:

Howdens Joinery (trading at ~£4.75) has intrinsic value of £8 per share (19% IRR) based on 13.0x TTM 2021 EBIT of £363m. The firm's model is predicated on building depots which save local builders time and money, creating strong relationships. Their depots require minimal capital to open and generate strong returns (Howdens has returns on capital of >70%). A new depot has a post-tax IRR of >20% and the cost of a new depot is ~£500k. Under a base case, revenue should grow at a 7% CAGR from 2017 to 2021 while EBIT will grow at a 12% CAGR over the same period. Under such a scenario, Howdens will continue their local dominance in the UK. Additional upside remains from management's slow, calculated expansion into Continental Europe, which is showing promise, particularly in France.

### BUSINESS DESCRIPTION:

Howdens is the leading provider of kitchen and joinery products to small builders who primarily remodel kitchens (new construction only ~15% of demand). The business is overwhelmingly UK-based (450k accounts with trade professionals), but the firm has been slowly expanding into Continental Europe. Howdens sells 4m kitchen cabinets, >2m doors, and 1m worktops/breakfast bars annually. The firm's value proposition is saving their customers – small builders – time and money. The model is similar to Sherwin-Williams' Paint Stores business, which focuses on servicing local painters. The company was established in 1995 and has grown to 25% market share of their addressable market in the UK. They build their depots in high traffic areas and keep them well-stocked with inventory, reducing wait times. Howdens cuts out the middlemen, acting as a manufacturer, distributor, and retailer. The depot managers act like owners: managers receive 5% of EBIT while the rest of a specific depot's employees split 5% of gross profit. Each depot runs its own P&L and makes their own decisions on pricing and extending credit to builders to pay for the materials for their jobs. Competitors include Magnet, Homebase, Wren, B&Q, and Benchmarx. Benchmarx and Howdens are the only players that sell exclusively to local builders.

#### 3 Core Tenants of the Business





### KEY THESIS POINTS:

- **Strong customer loyalty built on superior service:** Howdens saves customers time and money with convenient locations, superior product availability, and low prices
- **Depot model creates an entrepreneurial organization with minimal capital needs and strong returns** (returns on capital >70%)
- **Tailwind from maturation of newer stores as they ramp (takes 7-8 years);** growing depots at 3%-4% per year
- **Recession resistant model** (only year revenue shrank in company history was in 2009; -3% sales growth) due to focus on remodeling (>80% of revenues)
- **Ironclad balance sheet** (no debt; net cash of over £100m after adjusting for pension)

### MANAGEMENT & INCENTIVES:

- Incoming CEO Andrew Livingston (will take over in June 2018)
  - CEO of Screwfix (since 2013), a leading provider of tools to trade workers
    - Generated strong organic growth by developing relationships in the trade industry in Continental Europe and through online channels
- Outgoing CEO Matthew Ingle
  - Founded the business in 1995 after he left the Magnet Trade Operation to join MFI Furniture and start what is now Howdens Joinery
  - Grew the business from 15 depots to >650 by driving scale and reinvestment
  - 2016 compensation: £3.1m (salary £0.6m)
- Deputy CEO & CFO Mark Robson
  - CFO since 2005; Deputy CEO since 2014
  - Former Finance Director at Delta plc.
  - 2016 compensation: £2.2m (salary £0.4m)
- Incentives
  - Major metric: 3-yr. PBT growth of 3%-15%
  - Secondary metric: Cash flow
  - 2017 awards reduced by 50% of salary (maximum is now 220%, down from 270%)
  - Awards have mandated 2-yr. holding period

**KEY RISKS:**

- Brexit in UK has created uncertainty for many UK companies
  - *Mitigate: every home needs a kitchen and 25% of deposes are still maturing (any weakness is likely to be short-lived; maturation from ramping of store base to add 200 bps annually to revenue growth)*
- New CEO creates uncertainty
  - Andrew Livingston (former CEO of Screwfix Direct) taking over from founder Matthew Ingle (announcement was in July 2017; Ingle to retire in June 2018)
  - *Mitigate: Livingston brought in because of his expertise in Continental Europe and in trade relationships*
- Concerns over approaching LT goal of 800 depots in UK (at 650 now)
  - *Mitigates: incremental returns have not deteriorated; still growth runway in UK*
- Doubts over ability to operate successfully outside of the UK
  - *Mitigate: Acceleration of investment indicates the company is happy with progress outside UK*
- Weak pound could hurt gross margins (~30% of COGS is based in USD/EUR)
  - *Mitigate: Shown an ability to maintain gross margins despite the weak pound*

**VALUATION:**

- **13x 2021 base case EBIT of £363m = £8.09 price target (70% upside; 19% IRR)**

- Majority of upside is dependent on increase in profitability
  - Profitability increase driven more by revenue growth than margin expansion
  - Continental Europe represents differential in growth expectations in forecast vs. consensus
- Strong capital allocation
  - Dividend (2.3%) provides additional upside
  - Howdens has been aggressively buying back stock (over £150m in last three years)
  - Heavy capital expenditure period is almost over; could see larger return of capital to shareholders
- Target multiple is well within historical 10-year range (near 50th percentile)

	Base Case
Current Share Price	£4.77
2017 EBIT	£232
2021 EBIT	£363
2017-2021 EBIT Growth	56.4%
Multiple	13.0x
Target Price	£8.09
Upside	69.7%

- **9x 2020 bear case EBIT of £219m = £3.71 price target (22% downside; -8% IRR)**

- Bear case assumes a slightly positive topline and lower margin
  - Represents a combination of less success in Continental Europe and softness in the UK
  - UK weakness likely requires continued macro housing pressures in the UK, a weak pound, and cannibalization in the UK from new store openings
- Balance sheet (>£100m in net cash after deducting for pension obligation) helps cushion downside
  - Poor results would force the firm to dial down growth and return more capital to shareholders
- Target multiple is closer to lower end of historical 10-year range since the business was streamlined

	Bear Case
Current Share Price	£4.77
2017 EBIT	£232
2021 EBIT	£219
2017-2021 EBIT Growth	-5.5%
Multiple	9.0x
Target Price	£3.71
Upside	-22.2%

**CATALYSTS:**

- Demonstrated success in Continental Europe would reset expectations of investors
  - Market does not believe returns outside the UK will be fruitful
  - Continental Europe TAM is several times larger than UK TAM

- Continued strong performance in UK would instill confidence in Howdens
  - Despite weak housing environment in UK, results have been good for the company
  - Continued high incremental margins in UK would show there is still growth runway in UK
- Execution in the face of FX pressure would reinforce pricing power and efficiency gains
- Gross margin improvements from new distribution facilities would drive free cash flow higher
- Expansion beyond the UK could widen the company’s reach among investors

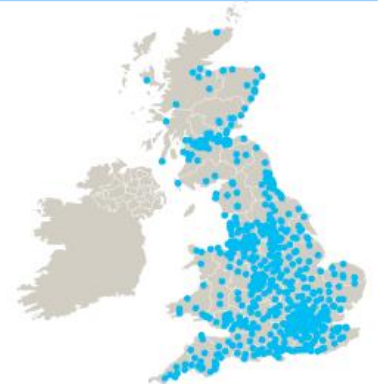
**WIN-WIN RELATIONSHIPS WITH STAKEHOLDERS:**

- Strong win-win relationship with suppliers
  - Treat suppliers fairly, electing not to abuse their scale
  - Packaging supplier built a factory next to Howdens’ Runcorn site
- Help customers grow and improve their businesses
  - Allow customers to reduce travel time by locating conveniently throughout their territories and having abundant supply
  - Offer services (i.e. design) that most builders cannot afford on their own
- Strong culture of promotion from within and employee retention
- Collaborate with partners
  - Worked with Norma Doors to design an internal door that was a quick fit (50% faster installation)
  - Won British Woodworking Federation’s award for product innovation

**OPERATIONAL OVERVIEW:**

- Manufacturing
  - Appliances
    - Started Lamona appliance brand in 2009
    - Sells over 650k of own branded units per year, #1 in fridges, ovens, and dishwashers in the UK
  - Outsource 2/3 of products but make building blocks of kitchens themselves (i.e. cabinets, doors); decisions to outsource or manufacture internally made according to maximum value-add
- Believe in being fully stocked at depots so builders can get what they want, when they want it → enables them to be the first choice for builders
- Dense depot network ensures builders never have to drive more than 30 min to reach a depot
- The company employs design consultants who work with end customers (builders don’t have the budget to offer design services)
- Depot managers have immense discretion over their business; run own P&L
  - Extend credit to builders to finance jobs, decide pricing
- Frugal owner’s mentality (i.e. depots didn’t used to have hot water)
- Have >650 depots in the UK
  - Long-term target of 800
  - Have a history of increasing the long-term target depot figure as they approach the prior target
- Minimal capex requirements for new depots
  - £500k to open and only £25k in annual maintenance capex
  - Avg. depot reaches breakeven in year two and matures in year seven with £2.2m in sales

**UK Depots**



**Distribution Footprint**



- Each depot is ~10k sq. feet and has a staff of 8-10 employees
- A new depot has a post-tax IRR of in the low 20% range
- Logistics and process
  - 1) Source wood from Scotland and Wales
  - 2) Timber goes to two manufacturing facilities: Howden, Yorkshire and Runcorn, Cheshire
  - 3) Finished products head to warehouse in Northampton and then to the depots
- In the process of migrating to two new facilities that will be more efficient (investment in new facilities weighed on margins in 2017 because the firm is operating multiple facilities during the migration)
- Howdens reduces install time with rigid construction design, allowing builders to get jobs done faster

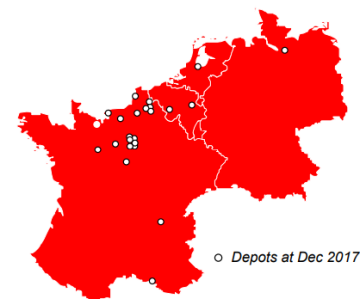
**PROVEN EXECUTION:**

- Cost advantages vs. peers
  - Low cost leases (£5 per square foot vs. £20 per square foot for competitors) typically in industrial parks
  - >80% of each facility is warehouse space; tiny ‘front-end’ for customers
  - Spend no money on advertising (local builders essentially advertise for Howdens for free)
  - Vertical integration allows them to pass on savings to customers
- Remarkable share gains
  - Gone from new entrant with 0% share in 1995 to nearly 50% share in their markets
- Strong pricing power – customers are small, local builders
- Improved gross margins from 46% in 2005 to 63% in 2017
- Dramatic transformation in returns
  - ROTC expanded from 34% in 2008 to 77% in 2017
  - 14% EBIT CAGR since 2008

**TAM:**

- UK opportunity
  - 25 million homes; 20-year replacement cycle implies 1.25m kitchens renovations per year
  - £3,000 in kitchen economics to Howdens → £3.75B TAM
- Continental Europe opportunity
  - Continental EU revenue +22% y/y in 2017; growth to accelerate as the new depots age
  - France has close to 25 million homes → implies similar TAM to UK
    - France 11% y/y growth in 2017; +6% SSS
  - Germany has 37 million homes → implies >£5B TAM
  - Early markets for Howdens: France – largest by far (Belgium, Germany, and Netherlands too)

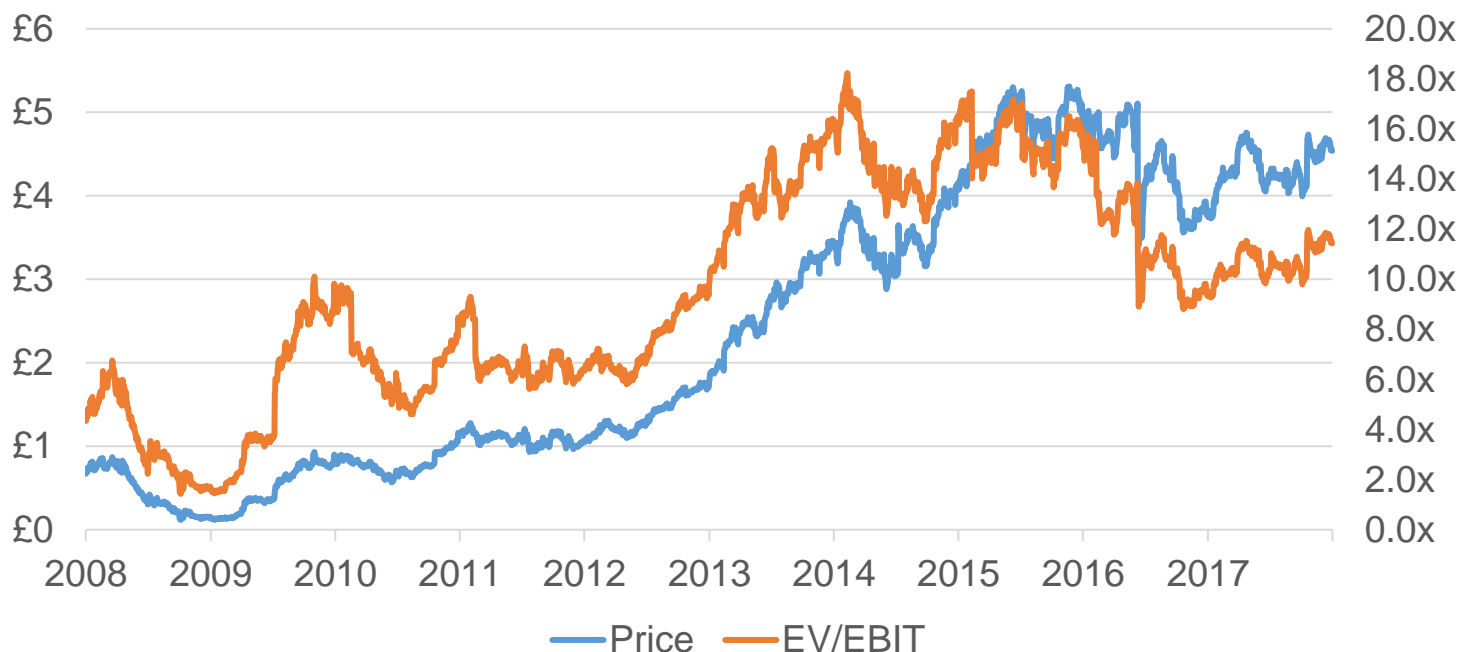
**French Depot Footprint**





**APPENDIX 1: KEY VISUALS**

**Exhibit 1: Stock chart and valuation; pre-2013 the business was plagued with legacy liabilities from other business lines; weakness in 2016 after Brexit vote**

**Exhibit 2: Company history**

- **1995:** Howdens begins inside of MFI Furniture Group (furniture retailer in UK); Matthew Ingle leads group
- **Late 1990s:** Opened more depots in London & Southeast England
- **2005:** Over 340 depots; represent almost 40% of MFI revenue and all of its profits; MFI struggling
- **2006:** MFI Retail business sold for £1 though they retain certain liabilities; existing entity (now Galliform) still owns both supply and trade business
- **2007:** Made an effort to cut debt; MFI Retail goes bankrupt, Galliform on the hook for leases; restructuring begins
- **2008-2009:** Slow depot openings; work to reduce MFI Retail liabilities; weak retail environment
- **2010:** Revenue growth returns, margins improve as operations become more efficient, cash conversion improving; Galliform now called Howdens Joinery
- **Early 2010s:** UK housing recovers, accelerate depot openings, gain share (now ~20%), demonstrate pricing power, continue manufacturing improvements, improve margins
- **2012:** Reinstigate dividend
- **2014:** Ramp up depot count and capacity, legacy issues now a small concern
- **2015:** Share repurchases begin, major three-year capex initiative, expand into Continental Europe
- **2016:** Brexit vote; stock falls 33% before recovering; gross margins flat despite pound weakness
- **2017:** UK housing market weakens

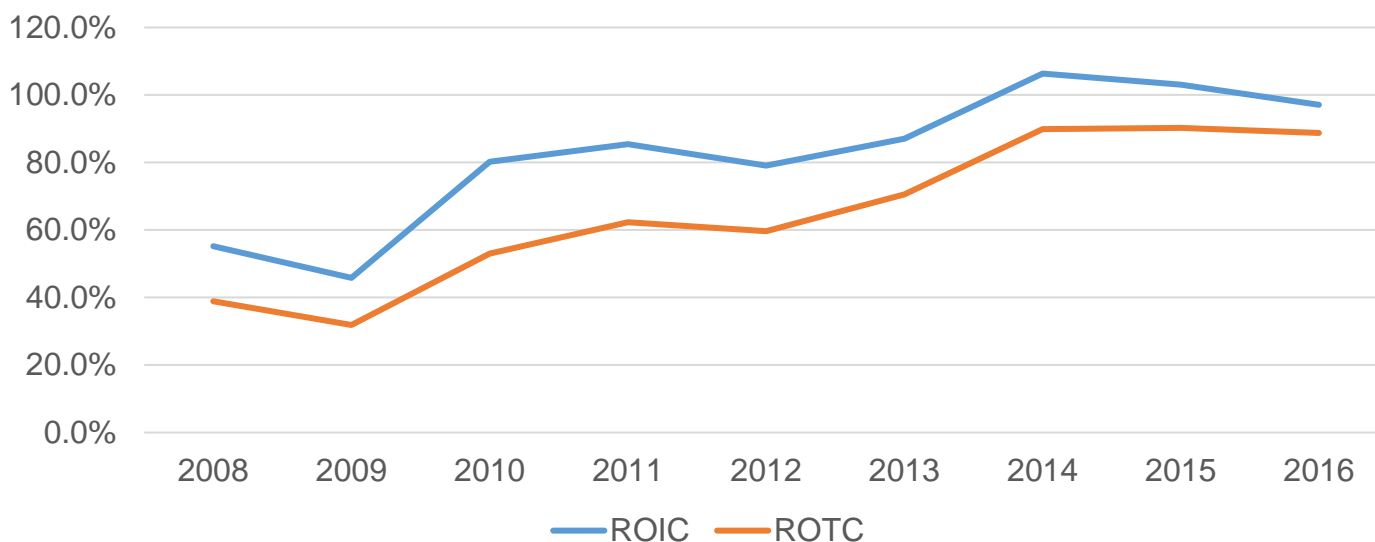
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### Exhibit 3: Impressive depot growth and margin expansion

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	08-'17 CAGR
Depots	465	472	499	519	540	570	603	639	666	685	4.4%
Growth	4.0%	1.5%	5.7%	4.0%	4.0%	5.6%	5.8%	6.0%	4.2%	2.9%	
<b>Revenue</b>	<b>795</b>	<b>769</b>	<b>807</b>	<b>854</b>	<b>887</b>	<b>957</b>	<b>1,091</b>	<b>1,220</b>	<b>1,307</b>	<b>1,404</b>	<b>6.5%</b>
Growth	2.4%	-3.3%	4.9%	5.8%	3.9%	7.8%	14.0%	11.9%	7.1%	7.4%	
Gross Profit	417	432	482	509	545	590	695	784	840	888	8.8%
Margin	52.5%	56.2%	59.7%	59.7%	61.5%	61.7%	63.7%	64.3%	64.2%	63.3%	115 bps
<b>EBIT</b>	<b>69</b>	<b>71</b>	<b>101</b>	<b>112</b>	<b>113</b>	<b>135</b>	<b>188</b>	<b>218</b>	<b>236</b>	<b>232</b>	<b>14.4%</b>
Margin	8.7%	9.2%	12.5%	13.1%	12.7%	14.1%	17.3%	17.8%	18.1%	16.5%	84 bps
<b>EBIT Per Depot</b>	<b>148</b>	<b>150</b>	<b>202</b>	<b>216</b>	<b>208</b>	<b>237</b>	<b>312</b>	<b>341</b>	<b>355</b>	<b>339</b>	<b>9.6%</b>

### Exhibit 4: Remarkable returns on capital



### Exhibit 5: As Howdens has matured, it has been increasing its distributions

	2011	2012	2013	2014	2015	2016	2017
Share Buyback	(1)	(4)	(5)	(2)	44	79	46
Dividends	-	5	23	41	60	65	68
Net Interest (AT)							
Change in Debt	(2)	(2)	(0)	-	(0)	-	-
<b>Net Distribution</b>	<b>(2)</b>	<b>(1)</b>	<b>18</b>	<b>39</b>	<b>104</b>	<b>144</b>	<b>114</b>
NOPAT	75	85	102	157	174	185	185
Retained	103%	102%	82%	75%	40%	22%	38%
<b>3 Yr. Avg.</b>							<b>33%</b>

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### Exhibit 6: Earnings power indicates shares are available at a bargain

Earnings Power Value		
	<b>2017</b>	
Revenue	1,404	
EBIT	232	
% Margin	16.5%	
SG&A Add-Back	53	P&L investments in new depots + facilities; 8% of SG&A
Adj. EBIT	285	
Adj. EBIT Margin	20.3%	
Taxes	57	20% tax rate
Adj. NOPAT	228	
Depreciation	26	
Maintenance Capex	(34)	Assumes spending \$15m per year on growth capex
Earnings Power	220	
Earnings Yield	7.9%	
Distribution %	74.8%	
<b>Cash Return</b>	<b>5.9%</b>	
Dividend Yield	2.3%	
Expected Buybacks	3.6%	
<b>Value Increase</b>	<b>11.8%</b>	Revenue 7%, margin 5% (31% incr. margin) annually through 2021
<b>Total Return</b>	<b>17.7%</b>	
Buffet Target	13.0%	

### Exhibit 7: Reproduction value

Reproduction Value	Value on BS	Adj.	Adj. Value	Notes
Cash	241		241	
Receivables	138	(28)	110	80% of BS value
Inventory	208	(42)	167	80% of BS value
PP&E	180	21	201	Net Value + 10% Acc. Depr. (young assets)
Customer Relationships	-	284	284	50% of annual selling and distribution expense
Intangibles	15	(8)	8	50% of BS Value
Other Assets	26	(5)	21	80% of BS Value
<b>Total Assets</b>	<b>808</b>	<b>223</b>	<b>1,031</b>	
A/P	89		89	
Debt	-		-	
Pension Liability	109		109	
Other Liabilities	156		156	Payables and accruals
<b>Reproduction Value</b>	<b>454</b>	<b>223</b>	<b>677</b>	
<b>Reprod. Value per Share</b>			<b>£1.11</b>	



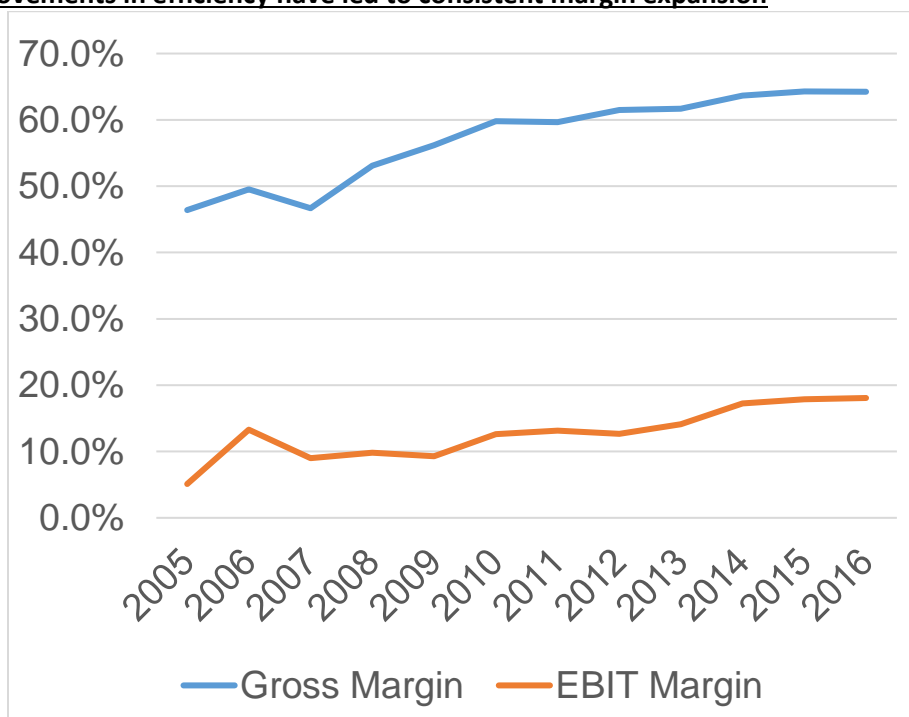
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### Exhibit 8: Steady improvements in efficiency have led to consistent margin expansion

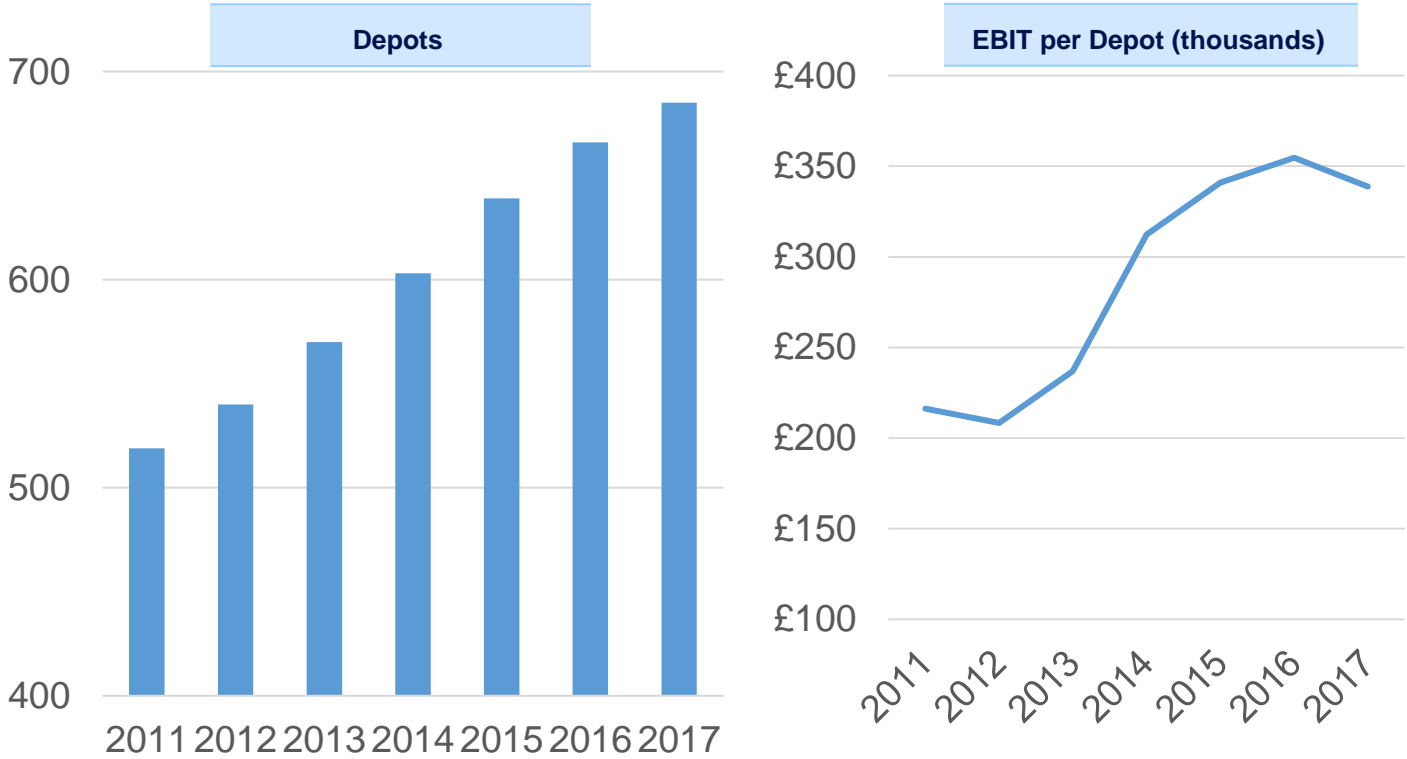


### Exhibit 9: Strong returns from building a new depot; tailwind as the depot base matures

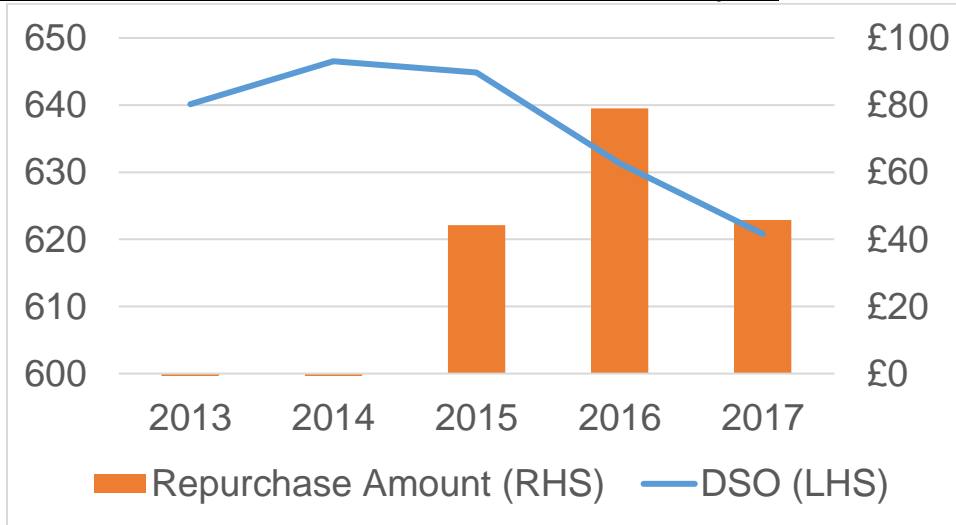
Year	1	2	3	4	5	6	7	8
Investment	(400)	(25)	(25)	(25)	(25)	(25)	(25)	(25)
Revenue	393	1,080	1,512	1,769	1,981	2,179	2,288	2,380
Growth		175.0%	40.0%	17.0%	12.0%	10.0%	5.0%	4.0%
EBIT	(196)	11	121	212	297	436	526	559
Margin	-50.0%	1.0%	8.0%	12.0%	15.0%	20.0%	23.0%	23.5%
Incr. EBIT Margin		30.1%	25.5%	35.5%	40.0%	70.0%	83.0%	36.0%
Tax	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
After-tax EBIT	(157)	9	97	170	238	349	421	447
CF	(557)	(16)	72	145	213	324	396	422
<b>IRR</b>	<b>21.9%</b>							

Note: assumes no terminal value

**Exhibit 10: Profitability per depot has expanded as the base has grown**



**Exhibit 11: Share repurchases have reduced the share count over the last three years**



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### APPENDIX 2: FINANCIALS

Howden Joinery	Actual						Base				
	2011	2012	2013	2014	2015	2016	2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
<b>Revenue Build by Geography</b>											
<u>Sales</u>											
UK	839	873	941	1,076	1,204	1,282	1,372	1,454	1,542	1,619	1,700
Continental Europe	15	15	16	15	16	26	32	48	72	100	130
<b>Total</b>	<b>854</b>	<b>888</b>	<b>957</b>	<b>1,091</b>	<b>1,220</b>	<b>1,307</b>	<b>1,404</b>	<b>1,502</b>	<b>1,613</b>	<b>1,719</b>	<b>1,830</b>
<u>Growth</u>											
UK	5.5%	4.1%	7.8%	14.3%	11.9%	6.4%	7.1%	6.0%	6.0%	5.0%	5.0%
Continental Europe	25.0%	0.7%	6.0%	-6.3%	6.7%	59.4%	24.7%	50.0%	50.0%	40.0%	30.0%
<b>Total</b>	<b>5.8%</b>	<b>4.0%</b>	<b>7.8%</b>	<b>14.0%</b>	<b>11.8%</b>	<b>7.1%</b>	<b>7.4%</b>	<b>7.0%</b>	<b>7.4%</b>	<b>6.6%</b>	<b>6.5%</b>
<u>% of Total</u>											
UK	98.2%	98.3%	98.3%	98.6%	98.7%	98.0%	97.7%	96.8%	95.6%	94.2%	92.9%
Continental Europe	1.8%	1.7%	1.7%	1.4%	1.3%	2.0%	2.3%	3.2%	4.4%	5.8%	7.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Ending UK Depots	509	529	559	589	619	642	661	680	701	719	734
Ending European Depots	10	11	11	14	20	24	24	35	49	66	86
Ending Depots	519	540	570	603	639	666	685	715	750	785	820
New Stores	20	21	30	33	36	27	19	30	35	35	35
<i>Growth</i>	4.0%	4.0%	5.6%	5.8%	6.0%	4.2%	2.9%	4.4%	4.9%	4.7%	4.5%
New Store Capex	(6)	(10)	(10)	(15)	(15)	(15)	(15)	(15)	(18)	(18)	(18)
Per Store	(300)	(476)	(333)	(455)	(417)	(556)	(789)	(500)	(514)	(514)	(514)
Existing Store Capex	(14)	(14)	(15)	(18)	(31)	(49)	(34)	(40)	(17)	(17)	(22)
Per Store	(27)	(27)	(27)	(31)	(51)	(76)	(41)	(58)	(24)	(23)	(28)
<u>Sales per Depot</u>											
UK	1,648	1,650	1,683	1,827	1,945	1,996	2,076	2,139	2,199	2,251	2,316
Continental Europe	1,500	1,373	1,455	1,071	800	1,063	1,325	1,363	1,460	1,518	1,514
<b>Total</b>	<b>1,645</b>	<b>1,645</b>	<b>1,679</b>	<b>1,809</b>	<b>1,909</b>	<b>1,962</b>	<b>2,049</b>	<b>2,101</b>	<b>2,151</b>	<b>2,190</b>	<b>2,231</b>
<i>Growth</i>	1.7%	-0.1%	2.1%	7.8%	5.5%	2.8%	4.4%	2.5%	2.4%	1.8%	1.9%
<u>EBIT per Depot</u>											
UK	218	210	239	317	349	369	350	386	425	453	473
Continental Europe	105	110	131	107	80	(21)	40	82	117	167	182
<b>Total</b>	<b>216</b>	<b>208</b>	<b>237</b>	<b>312</b>	<b>341</b>	<b>355</b>	<b>339</b>	<b>371</b>	<b>405</b>	<b>429</b>	<b>442</b>
<i>Growth</i>	6.8%	-3.6%	13.7%	31.8%	9.2%	4.1%	-4.5%	9.6%	9.0%	5.9%	3.2%

## Howden Joinery Group plc (LSE:HWDN): Long

5.1.18
Local Dominance to Continue – 70% UPSIDE (19% IRR)
Adam M. Schloss, CFA

Income Statement	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	854	887	957	1,091	1,220	1,307	1,404	1,502	1,613	1,719	1,830
% growth	5.8%	3.9%	7.8%	14.0%	11.9%	7.1%	7.4%	7.0%	7.4%	6.6%	6.5%
COGS	345	342	366	396	436	467	515	536	560	586	619
% of sales	40.3%	38.5%	38.3%	36.3%	35.7%	35.8%	36.7%	35.7%	34.7%	34.1%	33.8%
Gross Profit	509	545	590	695	784	840	888	966	1,053	1,132	1,211
% margin	59.7%	61.5%	61.7%	63.7%	64.3%	64.2%	63.3%	64.3%	65.3%	65.9%	66.2%
Opex	397	433	455	506	567	604	656	700	749	796	848
% of sales	46.5%	48.8%	47.6%	46.4%	46.4%	46.2%	46.8%	46.6%	46.5%	46.3%	46.4%
EBITDAR	179	184	207	264	304	332	336	377	424	466	505
% of sales	20.9%	20.8%	21.7%	24.2%	24.9%	25.4%	23.9%	25.1%	26.3%	27.1%	27.6%
% growth	51.9%	3.2%	12.5%	27.1%	15.2%	9.4%	1.2%	12.1%	12.5%	9.8%	8.4%
EBITDA	129	128	152	208	238	258	258	293	333	368	400
% of sales	15.1%	14.5%	15.9%	19.0%	19.5%	19.7%	18.4%	19.5%	20.7%	21.4%	21.9%
% growth	9.4%	-0.2%	18.8%	36.2%	14.5%	8.6%	4.0%	13.7%	13.7%	10.4%	8.7%
EBIT	112	113	135	188	218	236	232	266	304	336	363
% of sales	13.1%	12.7%	14.1%	17.3%	17.8%	18.1%	16.5%	17.7%	18.8%	19.6%	19.8%
% growth	11.1%	0.3%	20.0%	39.5%	15.7%	8.4%	5.7%	14.4%	14.4%	10.8%	7.8%
EBT after Unusual Items	112	113	135	188	218	236	232	268	307	340	368
% growth	11.1%	0.3%	20.0%	39.5%	15.7%	8.4%	-1.8%	15.5%	14.7%	10.7%	8.1%
Taxes	38	28	33	31	44	51	47	55	63	69	75
Tax Rate	33.6%	24.8%	24.6%	16.5%	20.3%	21.8%	20.3%	20.3%	20.3%	20.3%	20.3%
Net Income	75	85	102	157	174	185	185	213	245	271	293
% of sales	8.7%	9.5%	10.6%	14.4%	14.2%	14.1%	13.2%	14.2%	15.2%	15.8%	16.0%
% growth	11.2%	13.6%	20.3%	54.5%	10.4%	6.5%	3.8%	15.5%	14.7%	10.7%	8.1%
NI to Common Shareholders incl. Ex	75	85	102	157	174	185	185	213	245	271	293
EPS	0.12	0.13	0.16	0.24	0.27	0.29	0.30	0.35	0.41	0.47	0.53
Shares Outstanding	624.6	633.2	640.1	646.5	644.9	631.3	620.8	607.8	588.3	567.8	548.0
Balance Sheet	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Cash	59	97	140	217	226	227	241	292	306	331	364
A/R	74	73	98	105	99	101	138	115	124	132	140
Inventory	119	116	123	143	177	184	208	210	225	240	256
Other Current Assets	21	23	25	29	31	35	-	-	-	-	-
<b>Total Current Assets</b>	<b>273</b>	<b>309</b>	<b>386</b>	<b>494</b>	<b>533</b>	<b>546</b>	<b>587</b>	<b>617</b>	<b>656</b>	<b>703</b>	<b>760</b>
Net PP&E	82	89	96	107	129	168	180	208	213	217	220
Intangible	5	4	4	3	5	7	15	15	15	15	15
Other Assets	43	47	24	41	19	26	26	26	26	26	26
<b>Total Assets</b>	<b>406</b>	<b>449</b>	<b>509</b>	<b>645</b>	<b>686</b>	<b>748</b>	<b>808</b>	<b>865</b>	<b>910</b>	<b>961</b>	<b>1,021</b>
A/P	68	60	70	80	86	94	89	107	112	117	124
ST Debt	1	1	-	-	-	-	-	-	-	-	-
Other Current Liabilities	88	94	107	114	117	140	144	144	144	144	144
<b>Total Current Liabilities</b>	<b>157</b>	<b>155</b>	<b>177</b>	<b>194</b>	<b>203</b>	<b>234</b>	<b>233</b>	<b>251</b>	<b>256</b>	<b>261</b>	<b>268</b>
LT Debt	1	-	-	-	-	-	-	-	-	-	-
Capital Leases	-	-	-	-	-	-	-	-	-	-	-
Pension Liability	137	155	54	143	49	106	109	109	109	109	109
Other LT liabilities	40	27	16	13	12	11	12	12	12	12	12
<b>Total Liabilities</b>	<b>335</b>	<b>336</b>	<b>247</b>	<b>350</b>	<b>264</b>	<b>351</b>	<b>354</b>	<b>373</b>	<b>378</b>	<b>383</b>	<b>389</b>
Common Stock	63	64	64	65	65	64	63	63	63	63	63
Additional Paid-In Capital	85	87	88	88	88	88	88	88	88	88	88
Retained Earnings	(84)	(48)	88	112	275	299	351	489	654	840	1,043
Treasury Stock	-	-	-	-	(45)	(53)	(36)	(136)	(261)	(401)	(551)
Other	5	9	22	31	39	(0)	(11)	(11)	(11)	(11)	(11)
<b>Total Shareholder Equity</b>	<b>70</b>	<b>113</b>	<b>262</b>	<b>295</b>	<b>422</b>	<b>397</b>	<b>454</b>	<b>493</b>	<b>532</b>	<b>579</b>	<b>631</b>
<b>Liab + Shareholder Equity</b>	<b>406</b>	<b>449</b>	<b>509</b>	<b>645</b>	<b>686</b>	<b>748</b>	<b>809</b>	<b>866</b>	<b>910</b>	<b>961</b>	<b>1,021</b>
Check	-	-	-	-	-	-	-	-	-	-	-
<b>Working Capital</b>											
AR Days	31.8	30.0	37.4	35.1	29.6	28.1	35.8	28.0	28.0	28.0	28.0
Inventory Days	50.7	47.7	47.1	47.9	53.0	51.3	54.2	51.0	51.0	51.0	51.0
AP Days	72.2	64.5	70.2	73.8	71.8	73.3	62.7	73.0	73.0	73.0	73.0
Cash Conversion	10.3	13.2	14.3	9.2	10.8	6.0	27.2	6.0	6.0	6.0	6.0
Working Capital \$	125	128	151	168	190	190	258	218	237	255	272
Working Capital % of Sales	14.6%	14.5%	15.8%	15.4%	15.6%	14.6%	18.3%	14.5%	14.7%	14.8%	14.9%

## Howden Joinery Group plc (LSE:HWDN): Long

5.1.18

Local Dominance to Continue – 70% UPSIDE (19% IRR)

Adam M. Schloss, CFA

Cash Flow Statement	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<u>Cash Flow from Operations</u>											
Net Income	75	85	102	157	174	185	185	213	245	271	293
D&A	16	16	17	19	20	22	26	27	29	31	37
Other	4	3	14	8	10	6	4				
Other Operating Activities	19	19	18	2	11	23	8	-	-	-	-
Ch. in Working Capital	(72)	(57)	(60)	(39)	(58)	(29)	(48)	40	(19)	(18)	(18)
Ch. in A/R	(0)	(1)	(26)	(11)	4	(6)	(2)	23	(9)	(8)	(9)
Ch. in Inventory	(13)	3	(8)	(20)	(34)	(7)	(25)	(2)	(16)	(15)	(16)
Ch. in A/P	(26)	(16)	12	24	11	15	(0)	19	5	5	6
Ch. in Other Assets	(33)	(42)	(37)	(33)	(39)	(31)	(21)	-	-	-	-
<b>Cash Flow from Operations</b>	<b>41</b>	<b>65</b>	<b>92</b>	<b>147</b>	<b>157</b>	<b>206</b>	<b>174</b>	<b>280</b>	<b>255</b>	<b>285</b>	<b>312</b>
<u>Cash Flow from Investing</u>											
Capital Expenditures	(20)	(24)	(25)	(33)	(46)	(64)	(49)	(55)	(35)	(35)	(40)
Sale of Property, Plant, and Equipm	-	0	-	0	-	0					
Other Investing Activities	-	0	0	1	1	1	-	-	-	-	-
<b>Cash Flow from Investing</b>	<b>(18)</b>	<b>(24)</b>	<b>(24)</b>	<b>(32)</b>	<b>(45)</b>	<b>(63)</b>	<b>(49)</b>	<b>(55)</b>	<b>(35)</b>	<b>(35)</b>	<b>(40)</b>
<u>Cash Flow from Financing</u>											
Changes in Debt	(2)	(2)	(0)	-	(0)		-	-	-	-	-
Changes in Equity	1	4	5	2	(44)	(79)	(46)	(100)	(125)	(140)	(150)
Dividend	-	(5)	(23)	(41)	(60)	(65)	(68)	(75)	(80)	(85)	(90)
Other	(1)	(1)	(1)	-	0	0	0	-	-	-	-
<b>Cash Flow from Financing</b>	<b>(2)</b>	<b>(4)</b>	<b>(20)</b>	<b>(39)</b>	<b>(104)</b>	<b>(144)</b>	<b>(114)</b>	<b>(175)</b>	<b>(205)</b>	<b>(225)</b>	<b>(240)</b>
<b>Net Change in Cash</b>	<b>22</b>	<b>38</b>	<b>48</b>	<b>77</b>	<b>7</b>	<b>(0)</b>	<b>12</b>	<b>50</b>	<b>15</b>	<b>25</b>	<b>32</b>
<b>Levered FCF (CFO - capex)</b>	<b>22</b>	<b>41</b>	<b>67</b>	<b>115</b>	<b>111</b>	<b>143</b>	<b>126</b>	<b>225</b>	<b>220</b>	<b>250</b>	<b>272</b>
<b>FCF / share</b>	<b>\$ 0.03</b>	<b>\$ 0.06</b>	<b>\$ 0.10</b>	<b>\$ 0.18</b>	<b>\$ 0.17</b>	<b>\$ 0.23</b>	<b>\$ 0.20</b>	<b>\$ 0.37</b>	<b>\$ 0.37</b>	<b>\$ 0.44</b>	<b>\$ 0.50</b>
FCF conversion (% of NI)	29.3%	48.6%	65.8%	72.8%	63.7%	77.3%	68.0%	105.7%	89.8%	92.2%	93.0%
<u>Unlevered FCF</u>											
NOPAT	75	85	102	157	174	185	185	211	242	268	289
D&A	16	16	17	19	20	22	26	27	29	31	37
Capex	(20)	(24)	(25)	(33)	(46)	(64)	(49)	(55)	(35)	(35)	(40)
Ch. In Working Capital	(72)	(57)	(60)	(39)	(58)	(29)	(48)	40	(19)	(18)	(18)
<b>Unlevered FCF</b>	<b>(1)</b>	<b>20</b>	<b>35</b>	<b>104</b>	<b>89</b>	<b>114</b>	<b>114</b>	<b>224</b>	<b>217</b>	<b>247</b>	<b>268</b>

## Howden Joinery Group plc (LSE:HWDN): Long

5.1.18 Local Dominance to Continue – 70% UPSIDE (19% IRR) Adam M. Schloss, CFA

Assumptions	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Depreciation	16	16	17	19	20	22	26	27	29	31	37
% of sales	1.9%	1.8%	1.8%	1.8%	1.6%	1.7%	1.8%	1.8%	1.8%	1.8%	2.0%
Amortization	-	-	-	-	-	-	-	-	-	-	-
% of sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Capex % of sales	2.3%	2.7%	2.6%	3.0%	3.8%	4.9%	3.5%	3.7%	2.2%	2.0%	2.2%
Depreciation/Capex	83.2%	64.9%	70.0%	58.5%	43.1%	34.5%	52.8%	49.8%	84.0%	89.6%	92.6%
<b>ROIC</b>											
EBIT	112	113	135	188	218	236	232	266	304	336	363
Invested Capital	138	146	164	190	233	254	293	281	306	327	348
Avg. Invested Capital	131	142	155	177	211	243	273	287	294	317	338
Net Fixed Assets	82	89	96	107	129	168	180	208	213	217	220
NWC	57	57	69	83	104	86	113	74	93	111	128
Current Assets	273	309	386	494	533	546	587	617	656	703	760
Current Liabilities	157	155	177	194	203	234	233	251	256	261	268
Excess Cash	59	97	140	217	226	227	241	292	306	331	364
<b>ROIC</b>	<b>85.4%</b>	<b>79.1%</b>	<b>87.0%</b>	<b>106.4%</b>	<b>103.0%</b>	<b>97.1%</b>	<b>84.8%</b>	<b>92.4%</b>	<b>103.4%</b>	<b>106.2%</b>	<b>107.4%</b>
<b>ROTC</b>											
EBIT before Amort & Restr. Expense	112	113	135	188	218	236	232	266	304	336	363
Tangible Capital											
Total Assets	406	449	509	645	686	748	808	865	910	961	1,021
Unrestricted cash	59	97	140	217	226	227	241	292	306	331	364
Goodwill	3	-	-	-	-	-	-	-	-	-	-
Other intangibles	5	4	4	3	5	7	15	15	15	15	15
Net tangible assets	339	348	366	425	455	514	552	559	588	615	642
Total current liab	157	155	177	194	203	234	233	251	256	261	268
Current portion LTD	1	1	-	-	-	-	-	-	-	-	-
Net current liab	156	154	177	194	203	234	233	251	256	261	268
Net tangible capital	183	194	188	231	252	280	319	307	332	353	374
Avg. tangible capital	180	189	191	209	241	266	300	313	320	343	364
<b>ROTC</b>	<b>62.3%</b>	<b>59.7%</b>	<b>70.6%</b>	<b>89.9%</b>	<b>90.3%</b>	<b>88.8%</b>	<b>77.4%</b>	<b>84.8%</b>	<b>95.0%</b>	<b>98.2%</b>	<b>99.8%</b>
<b>ROE</b>	159.7%	92.5%	54.4%	56.5%	48.5%	45.1%	43.4%	45.1%	47.8%	48.8%	48.4%