

Kingfisher plc 2021-2022 half year results Q&A edited transcript – 21 September 2021

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Note: text in square brackets indicates edits made directly by Kingfisher for clarification purposes

WARWICK OKINES: Good morning. Thank you very much for the presentation. I've got two questions, please. Firstly, can you give some more detail on future cost efficiencies that are available in France, perhaps how much more supply chain space is there to take out and headquarter efficiencies.

Secondly, you said that in the first half you mitigated cost inflation effectively. What sort of inflation are you seeing at the moment? Could you give us some examples of some mitigation? Thank you.

TG: Thank you Warwick. To start with logistics in France, we started two years ago with two different networks, one totally for Casto, the other Brico, and with a lot of external spaces, additional spaces. We have a very clear programme - first of all, better forecasting managing our logistics efficiency. We have already reduced our square metres by 13%. We consider there are clearly further jobs to do in the coming 12 months. As I said, we consider in the coming 12 months, this should be fixed and done.

We consider as well part of the business that we call cross-docking. Cross-docking is when you have a flow of merchandise directly from supplier to your DC, but that those palletes are redirected

directly to store with no stocking in the DC. That's a very efficient way of working and we can combine Casto and Brico together on these fields.

Clearly, we are confident and on logistics, by good practices, combining sometimes the network of the banners, we have the efficiency to notice in the coming 12 months.

On inflation, when you're a retailer inflation is probably part of your life. We are organised for it. First of all, remind you, we consider ourselves as a mass market retailer, even though a discount retailer in some fields, therefore price index is our number one priority. I'm happy to say that today, all across our group, especially B&Q and Screwfix, but really all across our different markets, we have a very good price index versus peers. We are looking at that, more or less, on a weekly basis.

We have as well eight sourcing offices across the world. Very early on, we can feel the trends, talking to suppliers. We have decided early, end of 2020 and early 2021 to adjust our forecast to plan for growth for 2021. Very early this year, we decided to buy additional containers. Therefore, even though we have slightly lower availability of product than a normal year, we have a better availability in July than we had in January [2021].

BB: Maybe Warwick, if I can add some of the other initiatives that we have in France, as you can imagine, we've got a company-wide programme, but France is very much part of that. Supply chain is one of the elements that we're touching, but there are many more. Just to mention a few.

We're trialling SCOs [self-checkout terminals] in France, also in some other entities. That will be a good initiative in terms of productivity. With an improved supply chain also comes better logistics and better stock health. We've seen quite a good movement in terms of the overall stock provisions, but also in some areas like shrinkage.

GNFR [goods for not resale] is always a constant [focus]. For example, we did a point-of-sale tender in France, which had some very good results and overall, there [are other programmes] such as IT and telecoms. Again, we re-tendered, bringing through benefits. It's always difficult to pinpoint any one point, but there's quite a raft of initiatives that we're working on that will bring benefits.

MN: Let's go to Adam, please.

ADAM COCHRANE: Three questions, if I may. Firstly, you talked about younger customers. Can you just give us some examples of what you're doing to engage with these younger customers who might be looking at DIY more than they were? From your in-store data, you talked about surveys with younger customers. Is your credit card data showing the same thing, that younger customers are continuing to buy more product?

Secondly, you didn't really talk much about market share. It was a great performance. Were there market share gains across the different territories?

Then thirdly, given what you know now, do you see there's any fundamental reason for a difference in EBIT margin between France and the UK? Thanks.

TG: Thank you Adam. Maybe I start with the first two questions and leave for Bernard the third one. Yes, we are working on how to engage more proactively with this younger generation. I think it's a lot around learning new skills. They are really keen to learn new skills. Online with more diverse social medias, we are now proactively bringing new skills to them. That's a key priority as well for the coming months and years.

We have a lot of data, and a high online participation. We have loyalty cards. We can use some credit card data. We are, as well, running regular surveys. These showed that we have a high retention so far from the customers we acquired in 2020. Again, we do not dream to keep 100% of them, but we are pretty happy with the retention.

On market share, two comments, first on the UK. There is no formal, I would say, market share standard for the UK. But we look at [data from the] BRC [British Retail Consortium], GfK [Growth from Knowledge], we have Barclaycard data, and obviously we have the reports of our competitors.

When you look at B&Q and Screwfix, they are clearly outperforming the market and winning in the past few months, and we are happy with that. I would say, it's true for our DIY customers and the trade.

France, we are looking at Banque de France data like probably many of you. Again, for H1, we are very happy with the competitive position. Even if you look at the month of August, I think we are outperforming the market in August on a one-year and two-year basis. We are very happy with the improvements of market share.

BB: Yes. I know France, I mean, the trick as you see, is really getting your operating leverage right and you see with increased sales, things go a lot better. We had a ROP [retail operating profit] margin of 5.3%, up 220 basis points. That's [increased sales] what we're going to focus on. I think it's been our mantra since the beginning.

The key is to increase sales to get that productivity on your base. We'll continue on that trend. Sometimes investing in gross margin where it's needed, having the cost initiatives I just mentioned, but first and foremost, having that operating leverage that we need in the French business. There's more headroom to go, but we're not guiding on any specific number.

MN: Thanks very much. Let go to Richard.

RICHARD CHAMBERLAIN: Thank you. Morning guys. Can I ask a couple on Poland just to sort of switch tack a little bit? What are your thoughts around the long-term store footprint for Casto in Poland and I guess Screwfix plans as well? And then also on Poland, what sort of underlying opex inflation are you guys seeing at the moment, excluding the impact of new space? Thank you.

TG: Thank you, Richard. I start with the store footprint and Bernard you can comment on the cost topic. We are number one in the market, and a recent survey on brand awareness, NPS [customer net promoter score], and our sales density all show that we keep our very strong position. I said in a previous call that we were probably a bit shy for a few years on our expansion plans [in Poland].

Last year, we opened three stores. Now the plan is to open seven this year. We feel we will be able to open more next year. In Poland I would not really qualify the stores as big boxes. The average size is around 7,000-8,000 square metres. We feel it's the right size. We believe that we still have probably two or three years of additional expansion on this kind of store, 7,000-8,000 square metres.

Therefore, we have opportunities in more what we call 'medium box' stores, around 4,000 square metres. We started to open medium boxes in Poland this year, and that's a plan for the coming year because you have a lot of smaller cities. The market is not saturated.

Then, as with the other parts of the Group, we want to be able to operate compact stores. More around 1,000 square metres. That's more for an urban environment. We feel ready in Poland with a great profit, great return on capital. We really have opportunities ahead of us.

On trade, first of all, with Polish stores about 25% of the sales are already trade, which is very good. But we really believe there are further opportunities on trade starting with our big boxes. Now we can deal with the trade inside the big box in Poland.

I must say that across the Group, we consider trade as an opportunity. We know that our American peers are performing better than us. We can learn, and we feel at TradePoint in the UK, but across the group, there are opportunities for us on trade.

BB: Yes. On inflation, you're right, Poland is a higher inflation [market] than the UK and France, but it also has been and continues to be that [way]. Obviously, that is reflected then in the wider market, in terms of the price positioning there.

MN: Let's go to Simon.

SIMON IRWIN: Hi. Three for you. Can you just talk a little bit about what you've seen from Screwfix in France so far in the, whatever it is, five months it's been open? Can you just talk a little bit about the cost and accounting of the 9,000 people who you've issued those shares to, as to how that flows through the opex during the first half. And just how far out do you feel confident around demand: trade surveys and things. I mean, are we talking kind of confidence through until year-end, or beyond that into the spring?

TG: Thank you, Simon. I start with Screwfix. We have started in April [2021] our pureplay online proposition, really starting to understand the market. And today, I can report that, let's say, every week we see growth. [There are] several key areas of work, but we keep increasing our ranges. So, we are every month increasing the number of products. We are increasing our search. At the beginning, we did not really push Google search or this kind of advertising. So, we are now increasing gradually our advertising and improving our IT operations. So, we see growth in the number of customers, in values. One of the key things we're happy to see is that these [customers] are French people. It's not only British people living in France. That could be a critical point. So that's really tradespeople in France that are buying with us. So overall, really good progress. Clearly there is a lot ahead of us, so that's according to plan.

Maybe a few words on demand. We start with Screwfix. We are running weekly surveys, and we are asking the same question more or less every week to trade. Are you busy? Are you busy in two months? How do you see five months from now? And we see today, trade people being very busy in our surveys. At least for the coming couple of months in the trade in the UK, we feel we're pretty confident. Another indication is, if you want to install a kitchen today, you may have to wait a few weeks because it's difficult to find fitters. So that shows the tension in the market. So, on this field, we are confident.

Then on DIY, you saw the quarter to date at +16.1% to now. Again, it's very strong. I will not say anything in the short-term. You saw our guidance for the second half. It's very strong guidance in our view. Then it's more on the medium term. We believe in the trend I mentioned [in the presentation], more working from home. I think everybody in this room is probably convinced that we'll have more working from home. We are happy to have retained a good part of the new customers we acquired last year. We see the housing markets are active and we, as well, are working on our side on green renovations. That's another area for the medium term where we believe it's supportive for us. So again, in the medium term, we feel that there are supportive trends. Maybe Bernard to the share plan.

BB: You don't want to answer the accounting question?

TG: I leave it you.

BB: No? Good. I'll cover it. So, the accounting is on an accrual's basis. Basically, the program started in November last year. It will vest in July of 2022. So, it's based on a month-by-month measure. It's absorbed by the banners. And let's say, it's not a humongous amount if you spread it out over the banners.

MN: We're going to go to Pam. So just give us a second.

PAM LIU: Thank you very much. It's Pam from Morgan Stanley. I have three questions. Number one is about margins, and I'll be asking both near term margin and medium to long term. In the short term, I know you mentioned the need to balance between maintaining the competitive pricing, perhaps with promotion, and also with higher cost. But my question is, given the demand is very strong, particularly in the UK and France with the building activities, can you push quite a lot of that through, and what do you think the market is doing?

In terms of medium term or long term, you talk about new, own exclusive brand ranges, which obviously is good for margin. You talk about e-commerce, which again should be good for margin too. So, can you give us some guidance on where you see these new initiatives' penetration in three or five years' time? Therefore, what is the margin implication?

Number two question is on Screwfix France. So how many more stores are you planning to open? What other start-up costs are you expecting? And any commentary you could give in comparison with Toolstation's development in France?

Number three is Poland. Very shortly, I know that you intend to open more physical stores. A question here is, we also know that in Poland, online is doing really well, particular with the likes of Allegro and Amazon. So, can you talk to us about, again, your strategy in Poland and why physical stores are so important for you? Thank you.

TG: Thank you, Pam. Great questions. I will try to answer fast and together with Bernard. So just on price and price inflation. And on margin I will let Bernard comment further. Here, again, to be honest, inflation is part of a retailer's life. That's topic number one. And topic number two is, we consider ourselves as a discounter. So, first priority is price index. Then, you have your pricing routine. It's high on our agenda. Personally, I have that on my desk every week for the Group. So, we know where we are, but starting with price index and because we have, when you are in China, in Vietnam, in Central Europe, very early on, you have the small signals on inflation, so you are able to manage it to talk to suppliers, to buy. Again, therefore, you see our set of results for H1 with a good gross margin. And at the same time, to give you another anecdote, I think we have had a Which? survey in the UK. B&Q is number one for price. Go ahead Bernard.

BB: On the margin short-term and long-term questions, in the short term, if you look at the first half, that was exceptional. We're up a hundred basis points, with [benefits from full] pricing and some benefits in supply and logistics. The Russia margin, which was dilutive, is out. So, if we then look at what's going to happen in H2, we think we're going to do a little bit more promo also in support of sales and then here and there, some investments we want to do in areas like logistics, which may depress the margin. For the year as a whole, we would be looking to be slightly ahead of the prior year.

Then in the longer term, it's always the puts and takes under the banner of, we want to push the like-to-like sales. So, OEB, and increasing OEB share will help. We also are actively negotiating with our key international suppliers to make sure we get the best prices there. Supply and logistics, which is a constant in trying to be more efficient. That's all on the plus side. Then on the other side, we want to continue to trade and do promotions. So, it's puts and takes. We're not guiding to a specific area because ultimately, we look at the absolute margin that we generate in the combination of the margin rate and the like for like sales we generate.

TG: And on, Screwfix in France, to follow up on the question of Simon, we are confident now that stores should be a success in France. We have learned from Ireland, we have as well studied our peers in France that you mentioned, and we consider it's interesting. And learning from those areas, we consider it will be the right time for us to open stores in 2022. For Screwfix what is critical when you start to create stores is to have a distribution centre and not to spread your stores across a large geography. So, you can expect us to have some kind of distribution centre and to start in some of the regions. And as you can guess, I will not tell you more because it's not only for you, but as well our competitors in France. So, I would not tell you more around regions, timing, number of stores, because I think it's too early.

On Poland, you're right that it's a great country for online. So, what we did already in the past months, first, is to have more store hubs. So now, because of the geography of Poland, every store is a hub and delivering to an area around the store, allowing us to operate faster, and [provide] a faster delivery. We are operating a one-hour click & collect in Poland. Poland is a country that is very special because it relies a lot on lockers. It's one of the European countries where the number of lockers is the most developed. It's really a habit. We did already a test last year on lockers, and we were happy, so we are currently rolling out 4,000 lockers in Poland.

Finally, we have decided to invest more on technology. We have inside the Group a technology stack called 'Next-Gen'. It's a standard stack. It has been rolled out in France, in the UK, and we are currently rolling out Next-Gen in Poland and we are expecting it to be ready between Q1 and Q2 2022.

Then there is another area. We continue to explore what could be a marketplace for us. We have not made any decisions, but we consider the important question, and we continue to look at it. And it is a key question for all our markets, including Poland.

BB: Just to give you one stat on Poland. The online penetration is about 7% and that's three and a half times what it was two years ago. So great progress, but obviously more to go.

MN: Our last question from the floor.

CHARLES ALLEN: Sorry, just to develop your last comment on marketplaces. You've already got obviously the services marketplace, but do you see any particular product areas where a marketplace would benefit Kingfisher and where you maybe feel you're not as competitive as you might be just even with your OEB and other things, and where a marketplace would really help?

TG: Our general strategy on online is around speed and choice. So, speed, you see where we are with more click & collect, more last mile delivery. And just a second comment on Screwfix Sprint - I think we are probably the only non-food retailer in the world that is able to deliver to home in one hour. And to be honest, in the tests we are doing, we are able probably to do a bit better than that in many, many cases. So that's very impressive what Screwfix is doing on speed.

Then on choice, again, no decision has been made. We are looking at that. But on product, when you have such large brands and traffic, you could consider if it could bring value to you to enlarge the choices in some categories. But we are still thinking about it. No decision has been made. It's very early stages.

MN: Okay. With no more questions from the floor, I'm going to open up the call for any of the analysts dialling in.

OPERATOR: Thank you. If you would like to ask a question, please signal by pressing star, then one on your telephone keypad. We will pause for a moment to assemble the queue.

Thank you. Then the first question is from Anne Critchlow from Société Générale. Please go ahead.

ANNE CRITCHLOW: Good morning. Thank you. My question is about the installation services and how that's helping to drive conversion, what you've seen so far. And how excited are you about installation as a sales driver for the future? Could you talk about any challenges you have on say monitoring quality and ensuring quality? Thank you.

TG: Thank you, Anne. It's a great question. We clearly see today at B&Q after having relaunched our installation services for kitchens that, first of all, you are able to sell more. You have extended ranges

and extended categories you could sell when you are talking to a customer on kitchens. Another technical thing we discovered for example, is if a customer wants credit, if he's able to have altogether the cost of the installation and the cost of your kitchen in the credit proposition, it helps. So, all those are critical things to develop the basket and, overall, we are very happy with the basket, with the profit, with all the programmes of B&Q.

On quality, it's very much a question of model and execution. In the past, we had own colleagues doing installation and managed centrally. [We are now doing] exactly the opposite. We are using third-party, and it's managed locally. And therefore, you have a small number of fitters, of trade people managed by a store team, creating strong relationships. And today we are very, very happy with the result. I don't see emerging issues of quality or delays on services. I think we found a very good model.

ANNE CRITCHLOW: Thank you.

TG: Maybe just one [more] comment on services. I think it's an area that is critical for us. We're speaking about installations. We [also] have a new [showroom] design tool. We are investing in new virtual design tools, better technology. You saw as well that B&Q is trialling tool hire. We are as well doing the same kind of test in France. We are renting trucks, renting vans. So, there are a large series of services that could be added to our product proposition. It's important for us.

OPERATOR: Thank you. Just as a reminder, if you do have a question, it is just star and then one on your telephone keypad now.

Okay. There aren't any further questions from the telephones, I will hand back now to Maj there. Please go ahead.

MN: Thank you very much operator. Can I just check it for any final questions from the floor here? Paul? Sorry, just wait one second, Paul.

PAUL ROSSINGTON: Thank you. Paul Rossington, HSBC. You talked about a robust housing market outlook, but if you look at the lead indicator stats for the UK or France, they are volatile at best. There are reasons for that obviously in the UK, but they do appear to have dropped off more recently. I know you talked about there being a 12 to 18-month benefit of the housing market transaction activity going forward, but how are you looking at housing volumes in the various markets where you operate? If there were to be a more sustained drop-offs in housing market activity, what would be your strategic response to that? Thank you.

TG: Let me start and for the data, Bernard will share additional data. I think first of all, what we see from our customer surveys, Paul, is that a large number of people after COVID - and you know that

from many surveys - want larger spaces, and they are looking for outdoor space. And we strongly see through our surveys that, across Europe, it's a trend - and we do believe it will stay with us for a while.

The second thing we learned from surveys is, clearly, when you move, well, you are a super good customer for our businesses. You want probably a new kitchen, new bathroom, or you have a general DIY job to do. So, it's a period of time when you see clearly a peak in the spending. So then on the data on the short term versus medium term, I leave it to Bernard.

BB: I'll give you the numbers, but they're a little bit backward looking, but if you look at the last 12 months in Q2, housing transactions in the UK were up 25%. I think if I look at Q1 in France, it was up 7%. So, it's still very strong. The other element is, prices are up and typically, what we see, if you've got more value in your home, you also take better care of it. So, I think those will continue. If you see a drop off, if we look at far back in history that if there's a little bit less transaction, the spend does move to more of the repair, the upkeep, even if there's less transactions spent on DIY. People do spend then a little bit more on just keeping it up.

MN: Just a final check for any questions. Excellent. Well, that does cover it. Let me now pass back to Thierry for some concluding remarks.

TG: Thank you, Maj. I'm really happy to see all of you finally in a room and some time to see new faces. Again, we are happy with this set of results. You see the business is in a good place, and therefore, clearly for us it's continuing to invest for growth, find new growth opportunities that will ultimately deliver better profits. So very happy to be with you today and happy to keep in touch in the coming days and weeks. Thank you everyone.