Kingfisher plc 2021-22 half year results presentation transcript – 21 September 2021

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6 months ended 31 July 2021

Speakers:

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Slide: Divider slide (TG)

Good morning everyone and thank you for joining us. I'm Thierry Garnier, CEO of Kingfisher, and I'm here with our CFO, Bernard Bot. Also in the audience we have our Chair Andy Cosslett. Welcome Andy.

We are together this morning at the London Stock Exchange. Having been at Kingfisher for nearly 2 years now, this is our first in-person results presentation, and so I'm very happy some of you are able to join us in the room today. For those of you who are joining virtually, I hope we will get the opportunity to meet in person soon.

Slide: Welcome & agenda (TG)

Before I start, I would like to thank all our teams for their continued efforts. Our colleagues have been through unprecedented challenges, and remain as engaged and committed as ever. For this I am extremely thankful to each and every one of them.

Our presentation today will start with an update on our operations and strategic progress, as well as a look ahead to market trends and our growth drivers.

Bernard will then present our financial performance, capital allocation framework, and outlook before we open the meeting for Q&A.

Slide: Key Messages (TG)

To the key messages on slide 5, and we have had a very strong first half of the year, driven by rapid progress against our strategic priorities. This is resulting in higher customer engagement and an improved competitive position in our key markets.

We remain focused on managing efficiently the challenges faced by all retailers around supply, logistics and cost inflation. During H1, we kept the situation under tight control, retaining good product availability at competitive prices, and operating safely.

We have addressed many of Kingfisher's historical issues, with 'fixes' now complete in the UK and Poland, and on track in France.

And our 'Powered by Kingfisher' strategy is moving ahead of pace, ahead of schedule.

With our business in a strong position, and our industry benefiting from new longer-term trends, we are now ready to accelerate our investments in multiple areas of the business which have attractive longer-term growth opportunities.

And finally, we are also in a position to return surplus capital to our shareholders, with £300 million to be returned via share buyback, alongside an interim dividend of approximately £80 million. These attractive returns reflect our strong cash generation, as well as our confidence in the outlook.

Slide: Strong H1 financial performance (TG)

On slide 6, I am pleased to report a strong financial performance for the period.

In line with our financial priorities, we continue to prioritise top line growth – with like-for-like sales in H1 up 22.8%, representing 2-year growth of over 21%. This performance was supported by strong demand in all categories, across retail and trade customers.

Group e-commerce sales in H1 were over £1.3 billion, up by 216% vs 2019, with penetration maintained year on year at 19% of total sales, compared to 7% in 2019.

And we've had a good start to the second half of the year, with resilient demand across all markets. Like-for-like sales for Q3 to date are up by 16.1% on a 2-year basis.

Adjusted Pre-Tax Profit increased 62% to £669 million, twice the level of 2019. And our Free Cash Flow remained very strong, over three times the level of 2019.

Finally, alongside our share buyback, we have also announced an interim dividend of 3.80 pence, which is higher than both our notional interim dividend last year, and the interim dividend of 2019.

Slide: Effective management in H1 of the operational impacts of COVID (TG)

Turning now to slide 7. Throughout the pandemic, our actions have centred around 'doing the right thing' for our colleagues, customers and communities, as well as protecting our business for the long term.

We also accelerated many elements of our strategy and, as a result, we are far stronger.

However, like many other businesses, we have also had to deal with significant operational challenges in the last several months, which I'm pleased to say have been managed effectively in H1. These challenges included product supply and availability, shipping and logistics, and cost price inflation, which I'll now describe in more detail.

Firstly, we have collaborated closely with suppliers and logistics providers, improved our forecasting processes, and placed orders significantly ahead of peak trading periods. As a result, product availability has gradually improved during H1. Furthermore, the challenges around the cost and availability of shipping containers and HGV drivers have been well managed to date.

We will continue to focus on rebuilding inventory levels in the second half, ahead of next year's peak trading periods and an earlier Chinese New Year. As a result we expect inventory levels to be higher, year on year, at the end of January. Despite the focus on supply and availability we are also seeing a good improvement in inventory health and inventory turn, reflecting structural improvements in the supply chain and forecasting efficiency.

We have not experienced any major issues around recruitment or colleague absence, and we continue to monitor this closely.

On inflation, in line with the wider industry, we are seeing higher than normal cost price increases. However, the impact of this has been well managed in H1.

We expect inflationary pressures to persist through H2 as higher-cost inventory is sold through. But as demonstrated in H1, we are committed to managing the cost implications effectively.

Finally, we are maintaining our strong competitive price index, assisted by better buying of product.

Slide: Rapid progress made with 'fixing' (TG)

Moving on to slide 8, and we have made significant progress on 'fixing' Kingfisher's historical issues.

Our 'fixes' for the UK and Poland are done, and our range and supply & logistics changes in France are on track to complete within the next 12 months – more on that on the next slide.

We have now finalised fundamental reorganisations of both our commercial and our technology & digital operating models, enabling agility and speed to market. We have also completed the roll-out of our SAP platform in all relevant banners except Brico Dépôt France, which is targeted for completion towards the end of next year.

We have added significant talent this year to the key business areas of digital, technology and data, further reinforcing our e-commerce capability and technology-driven development plans.

And new trading approaches have been implemented in all retail banners, enabling us to serve customers more efficiently, while maintaining and improving our price positioning across the Group.

Slide: France - 'repair and modernise' on track (TG)

Focusing on France on slide 9, I am happy to report that our repair actions are largely complete.

We have strong new leadership and teams in place; we have rebalanced the relationship between our two banners and Kingfisher Group; and at Castorama we have addressed the SAP 'pain points' from previous years and implemented the new Group digital technology stack. E-commerce sales have grown by more than four times at Castorama in two years.

As we highlighted in March, the next step was to progress with repairing the ranges of both banners, and optimising the supply and logistics network in France. Castorama's range is improving significantly, with now more than 6,000 SKUs introduced since February 2020. The business has cut back on non-critical range reviews, and is leveraging Kingfisher's OEB products to extend customer choice, while also reintroducing popular local brands. At Brico Dépôt we are moving ahead with plans to reduce SKUs to focus on key discount products, while also differentiating from Castorama and general DIY peers through our tailored OEB products. We are also progressing well with a fundamental reorganisation of the logistic network in France. Work is ongoing to optimise the distribution centre network, and we have reduced space in distribution centres by 13% in the last 12 months. Furthermore we are creating a single cross-dock logistic network for both banners, which is a way of moving product from a manufacturer to our stores, with little or no storage in between. With this programme we plan over the next 12 months to significantly reduce the distance required to service our stores, with shorter lead-times, better customer service, lower levels of inventory and a reduction of greenhouse gas emissions.

And finally our modernisation phase is also moving at pace. As well as the fast click & collect services introduced in 2020, our e-commerce business in France is now supported by a new store ‘hub’ model at Castorama, similar to that successfully implemented at B&Q last year. This hub model is allowing us to leverage store picking for faster home delivery around all stores, while in parallel using some of our stores for wider-coverage home delivery. Customer growth has been strong in France, especially online, and we are happy with strong levels of revenue retention of customer cohorts acquired in 2020. On services, we have strengthened and expanded our partnership with NeedHelp – Kingfisher’s online services marketplace that connects tradespeople to customers who need home improvement help. And for the first time in France we are testing rightsizing, along with compact store tests at Castorama. Brico Dépôt will also conduct its first compact store test in H1 next year. As a results of these actions, LFL sales and e-commerce sales are strong compared to 2019, our competitive position in France has clearly improved, and retail profit has more than doubled in the last 12 months. Our range repair and logistics optimisation programme will complete in the next 12 months, which will support profitable long-term growth in France.

Slide: Delivery against strategic priorities ahead of schedule (TG)

Slide 10 outlines how delivery against our strategic plans is ahead of schedule in many areas.

On e-commerce, our priority is to deliver growth through providing speed, convenience and choice to our customers. In H1 we continued to focus on store-picked orders and last-mile delivery – more on this in the next slide.

Our own exclusive brands – or OEB – continue to perform strongly, providing a strong source of differentiation for our retail banners in terms of design, functionality, sustainability, and value for money, as well as carrying a higher gross margin. I will review our strong OEB performance in more detail shortly.

More than ever, mobile is at the centre of retail. The new Screwfix app is an example of our innovation in this area, with over one million downloads to date. We are also rolling out self-checkouts to over 100 B&Q stores before the end of the year, and our mobile ‘Scan & Go’ technology is now fully live in Brico Dépôt Iberia as well as being trialled in B&Q stores. We are enhancing showroom services with a new 3D design tool which will be rolled out across the UK and Romania in H2.

Customer engagement around installation services is also growing, with steady growth in the percentage of customers choosing kitchen and bathroom installations. Following successful trials, we’re also rolling out our NeedHelp services marketplace in the UK and in Poland, leveraging Kingfisher’s strong relationships with tradespeople.

We are continuing to test compact stores and adapt our store footprint, following encouraging results from our tests last year. This year we have opened 5 new compact stores at B&Q along with our first test in Poland. Screwfix opened 20 new outlets in H1 in the UK and Ireland, and is targeting over 70 by the end of the financial year. We are also planning more rightsizing tests at both B&Q and Castorama France, following a successful relaunch at B&Q Canterbury earlier this year. We are expanding B&Q’s tool hire partnership with Speedy Hire, as well as our store-in-store partnership with ASDA. And we are on track to open the first two B&Q-franchised stores in the Middle East in H2. The stores and support office functions will be operated and staffed by the Al-Futtaim Group.

We also continue to source and buy better, while reducing costs & inventory days. We have multiple cost reduction programmes in place, including store productivity, supply chain, technology and GNFR spend, lowering of energy costs, and lease re-gearings – where we completed 10 B&Q lease renegotiations in H1 for a combined rent reduction of around 25%. We are in the process of renewing strategic partnerships with our top 15 international brands and are benefiting from improved inventory health, driven by lower delisted and slow-moving stock. This has led to a big improvement in our net stock days, which are down by 15% year on year.

Finally, we remain committed to making a positive impact on our colleagues, customers, communities and the planet. I will cover our progress against these four priorities shortly. During the period we also arranged a new £550 million sustainability-linked revolving credit facility, which enables Kingfisher to benefit from a lower interest rate if we deliver on ambitious sustainability and community-based targets.

Overall, our strategic actions are driving our strong trading as well as clear improvements in our competitive position. And there is a lot for us to be encouraged by.

Slide: E-commerce sales now three times higher than in 2019 (TG)

Turning to slide 11, and a closer look at e-commerce.

This channel continues to transform and grow fast, with e-commerce sales up 21% on last year, and up by 216% versus the same period in 2019. Overall sales in this channel now represent almost a fifth of Group sales, compared to 7% in 2019.

This growth has been enabled by our move to a store-based picking and fulfilment model, with 90% of the Group's online orders picked in store in H1, both including and excluding Screwfix. 57 of our B&Q stores are currently being used as 'digital hubs' for fulfilling home deliveries, serving nearly 100% of all UK postcodes. We have started to implement a similar model at Castorama France in H1, which now covers all stores. The same model is also now in place in all stores in Poland. In the UK, we are reorganising our distribution and fulfilment capacity with three new sites opening within the next six to 12 months, which will allow faster store replenishment, an expanded available range for home deliveries, and wider coverage of fulfilment.

Click & collect remains by far our most significant online fulfilment channel, responsible for 73% of all e-commerce sales. We are now offering car park collections in France, as well as contactless 'drive-thru' collection in both France and Poland. Following a successful trial in Poland, up to 4,000 click & collect lockers will be rolled out nationally from H2. We have also started trials of lockers at B&Q.

Our most disruptive recent development is Screwfix's launch of its 'Sprint' service, offering delivery of orders direct to site within one hour. Sprint will be available in more than 30 cities across the UK by November, covering one third of UK postcodes, with further roll-out planned in 2022. This underlines Screwfix's focus on speed and convenience, building on its industry-leading one-minute click & collect proposition. Lessons from these tests are being shared with other retail banners that are also testing same-day delivery.

And finally, we continue to review the best options to further expand product choice, including an e-commerce marketplace proposition.

Slide: Industry-leading OEB providing differentiation and value (TG)

Moving on to slide 12, this has been another successful period for our Own Exclusive Brands, both in terms of development and performance.

OEB sales were up 22.8%, and by 24.6% versus 2019, outperforming non-OEB ranges. OEB penetration is stable at 46% of total sales, which is a good achievement considering the reintroduction of many branded products.

The kitchen range change is one of the largest and most disruptive implementations for Kingfisher, and so I'm pleased to report our new OEB kitchen range has landed successfully in the UK, in France, Poland and Romania, without significant disruption. Our new range is supported by our market-leading price positioning, new installation services, and innovative in-store and online design tools. Like-for-like sales of this range in H1 was double-digit for the Group, despite COVID-related restrictions in the first few months of the year.

Our key focus with OEB is to cover more of our customers' needs, and to support our multiple banner formats in becoming more differentiated.

To date, ten new own exclusive brands have been created, with a further 18 own brands redeveloped. All are ready for implementation from H2. To illustrate the power of this differentiation, sales volumes of the new Titan pressure washer OEB range at Screwfix is already outperforming our sales volumes of major branded competitors.

In H1 we launched our new Magnusson ranges (for building, plumbing and plastering) and garden hand tools range. Magnusson's general hand tools range is now the number one hand tools brand across Kingfisher. Our GoodHome products continue to receive recognition across the industry, with prestigious design awards received for many of our products. We also saw a successful launch in France of our new Atomia wardrobe and space management solutions.

We are pleased with our progress with OEB, which is providing significant power to our banners in meeting customer needs, as well as driving profitable sales growth.

Slide: Responsible Business update (TG)

On to slide 13, and an update on Responsible Business.

Taking each of our four priorities in turn.

Our commitment to 'doing the right thing' for our colleagues remains a key priority. We have continued to focus on serving our customers' needs as effectively as possible, while protecting the safety of all, especially our colleagues on the frontline. We have also ensured the right mechanisms are in place to listen and capture feedback. Following our annual engagement survey, I was happy to see a strong Employee NPS score, ranking within the top 10% of global retailers.

In addition, over 9,000 colleagues recently became shareholders of Kingfisher through our all-colleague share plan, of which nearly 75% are store-based colleagues.

Turning to our planet targets, in June we announced that the Science-Based Targets Initiative had now formally approved our new carbon reduction targets. These targets are consistent with the reductions needed to keep global warming to 1.5°C, the most ambitious goal of the Paris Climate Agreement. We are now one of a small number of retailers worldwide to have such an approved commitment.

And as part of our commitment to becoming ‘forest positive’ by 2025, several projects have now commenced in some of the world’s most at-risk areas for deforestation.

With regards to customers, last year over 40% of Group sales came from products that create greener, healthier homes. This year we are accelerating our focus on ‘Sustainable Home’ product development, through our OEB ranges. We are also exploring ways in which we can support government initiatives around greener homes.

Finally on communities, we remain fully committed to helping improve homes and community spaces. We have now doubled our previous ambition by committing to help at least two million people who live in unfit housing, having already supported 800,000 people to date.

All of this is set out in more detail in our latest Responsible Business Report published in June.

Slide: New longer-term industry trends creating growth opportunities (TG)

Turning now to slide 14, and the COVID crisis has brought forward and established four new trends that we believe are supportive over the long term.

Although we are seeing a continued return to the office, both workers and businesses have adapted to new ways of working which will result in more working from home than before. With an estimated 50% of the developed world’s workforce being office workers, this trend will continue to drive a need to adapt homes and address incremental ‘wear and tear’. Our research shows that half of those working from home during the pandemic expect to do more DIY in the future.

Over the last 18 months we have also seen DIY activity increase significantly among 18 to 34 year-olds. Our research from this age group shows that 64% believe they have improved their DIY skills, 71% feel more confident with DIY, and 75% enjoyed it. This age group is a very important development for the long term growth of our industry.

The impact of lockdowns continues to bring a huge increase in people’s focus on the home and outdoor space. Therefore, for now, the pipeline of activity in the UK and French housing markets looks robust. Historically, house moves have created significant incremental demand for our industry in the 12 to 18 months following a move – as new owners invest in kitchens, bathrooms and general DIY.

Finally, the ‘race to zero’ is high on political agendas around the world. Housing is a significant contributor to climate change, and in the UK and France around 75% of houses are deemed energy inefficient. Around 9% of our total sales currently come from energy and water-saving products, and so our foundation for growth in ‘green renovations’ is solid, backed up by our powerful OEB capabilities.

Overall, with our strategic execution and these supportive market trends, we are excited about the growth opportunities that lie ahead.

Slide: Now ready to accelerate our investments for growth (TG)

And this leads to slide 15. With our business in a strong position, we are now ready to accelerate investments for growth in multiple areas of the business.

We will be stepping up our digital investments with new initiatives around faster fulfilment and broader choice, including Screwfix's disruptive one-hour delivery proposition.

Screwfix has been a phenomenal growth story, delivering an exceptionally high return on capital employed. The business is ready to move to the next stage of its journey.

Following the identification of further opportunities in certain catchment areas, we now see a medium-term roadmap to over 1,000 stores in both the UK and Republic of Ireland, versus the previous target of 900.

Furthermore, as part of its broader international expansion plans, the business launched Screwfix as a pure-play online retailer in France in April 2021, and initial results are encouraging. Investment in expansion will now be accelerated, and we expect to open Screwfix's first stores in France in 2022.

In Poland, which has also exhibited strong growth in previous years with a high return on capital, we have developed more ambitious expansion plans to build on our number one position in the market. We are on track to open seven new stores in Poland by the end of this financial year, and expect to open even more stores next year.

And finally, TradePoint, which is 19% of B&Q's sales, has a significant growth opportunity. TradePoint's relaunch in the UK is underway, to be supported by a new website and a new loyalty experience for our trade customers. The business is also currently trialling a small number of new store layouts.

To summarise, we are making strong progress on our core strategic priorities, with delivery ahead of schedule in many areas. This is allowing us to now accelerate investments to capitalise on several attractive growth opportunities.

With my update now concluded, let me hand over to Bernard.

Slide: Divider slide (BB)

Thank you, Thierry and good morning, everyone.

Slide: Key financials (BB)

On to slide 17 and the key financials for the half.

As you can see, the financial performance was strong.

Sales were up 22.2% to £7.1bn which is 22.8% on LFL and 21.3% on a 2-year basis.

We generated gross profit of £2.7bn, driven by strong sales growth and by a 100 basis points increase in the gross margin. This increase was the result of range initiatives, supply & logistics efficiencies, effective management of inflation and the disposal of our Russian business.

Retail profit increased by 45.1% to £767m, with the retail profit margin up 170 basis points to 10.8%.

Adjusted pre-tax profit increased by 61.6% to £669m.

Free cash flow was strong at £723m. The year-on-year reduction reflects, as expected, the reversal of the large positive working capital movement in H1 of last year.

Our strong cash position reduced net debt to £908m, with net leverage at 0.5 times the last 12 months' EBITDA.

Slide: Geographic summary (BB)

Moving to slide 18, and the performance of our major geographies.

Starting with the UK and Ireland, where sales grew by 29.7% including a 1.6% contribution from net space growth.

LFL sales at B&Q grew by 28.8%, and 34% on a 2-year basis. TradePoint outperformed the rest of B&Q, with LFL sales up 39%. Larger ticket categories, like kitchens and bathrooms, performed well, despite showroom restrictions impacting the first three months of this year. Demand for outdoor products remained consistently strong.

LFL sales at Screwfix grew by 26.8%, and by 25.4% on a 2-year basis, reflecting continued strong momentum, in particular from trade customers.

UK & Ireland retail profit increased by 40.8% to £579m. Retail profit margin increased 130 basis points to 16.2%. This was the result of an increase in gross margin and a better operating costs-to-sales ratio.

Gross margin rate increased by 10 basis points, reflecting higher volume rebates earned and effective management of inflation. This was partly offset by category mix and, at Screwfix, more promotions and somewhat higher supply & logistics costs.

Operating costs increased by 23.9%, largely due to higher costs associated with strong trading, store openings and the impact of prior year non-recurring cost savings. These savings included business rates and furlough relief that we repaid in the second half of the year.

In France, sales grew by 23.3%, including the negative impact from the closure of eight Castorama stores in the prior year. LFL sales grew by 24.4%, and by 17.1% on a 2-year basis.

COVID-related temporary store closures, mostly at Castorama, impacted LFL sales negatively by around 3%. LFL sales also benefited from the gradual opening of more stores on Sundays.

Retail profit more than doubled to £129m, with a 220 basis points increase in retail profit margin and a better operating cost ratio.

The Gross margin rate increased by 80 basis points, reflecting range initiatives, supply & logistics efficiencies, and effective management of inflation. This was partially offset by more trading events and category mix.

Operating costs increased by 18.3%. As in the UK, this was mainly due to higher costs associated with strong trading, and the impact of non-recurring cost savings in the prior year.

Performance in Poland was impacted by temporary store closures for over five weeks in the first quarter. LFL sales decreased by 5% and were down by 1.7% on a 2-year basis. The store closures had a net impact of around 9% on LFL sales. Space growth contributed 4.4% to sales.

Despite the LFL decline, gross profit increased year on year due to margin rate increasing by 70 basis points, largely from range initiatives and effective management of inflation.

Retail profit in Poland decreased by 16.1% to £58m, this was due to store closures and an increase in operating costs of 8.4%. Higher operating costs were driven by space growth and store opening costs, in addition to operating cost inflation.

In Iberia, LFL sales increased by 45.5%, and by 13% on a 2-year basis. Retail profit of £11m was £10m higher year on year.

Romania reduced its retail loss by 46% to £6m, driven by strong trading. Note that Romania's sales and retail loss include one extra month of results, as we align the business to Kingfisher's reporting calendar.

Slide: Group retail profit bridge (BB)

To slide 19 and the movement in Group retail profit. In constant currency this was up £238m or 45%.

LFL sales growth and the increase in gross margin rate contributed £521m.

Net space growth contributed a further £15m, mainly driven by the permanent closure of eight Castorama France stores last year and the disposal of our loss-making Russian business.

We managed to contain inflation-related operating cost increases to £24m, or 1.4%.

Excluding operating costs related to the net space change and non-recurring net cost savings in the prior year, operating costs increased 9.3%. This is versus a 22.8% increase in LFL sales.

Included in this are higher costs associated with increased sales levels, partially offset by cost savings, in line with our focus on cost reduction.

The next three bridge items relate to the reversal of COVID-related net cost savings in the prior year.

Firstly, last year saw £13m of COVID-related supply and logistics costs which did not recur this year.

Conversely, last year, the UK and Republic of Ireland benefited from furlough and business rates relief, totalling £67m, which was subsequently repaid in H2.

Finally, other non-recurring net cost savings in H1 last year totalled £89m. This included discretionary savings such as marketing, advertising and travel, as well as employment support programmes in France and Iberia. These savings were partially offset by COVID-related costs such as PPE and additional bonuses to frontline store staff.

Slide: Summary cash flows (BB)

Slide 20 highlights another period of strong cash generation for the Group.

We generated EBITDA of circa £1bn in the period. The working capital inflow of £157m is the result of a net £460m increase in payables, partially offset by a £303m increase in inventory.

The net increase in payables largely reflects the timing of inventory purchases and higher VAT creditors associated with continued strong sales.

The increase in inventory is largely due to the ongoing rebuild of stock levels. As Thierry mentioned, we expect to continue to rebuild inventory levels in H2, ahead of peak trading periods and an earlier Chinese New Year. As a result, we expect inventory levels to be lower than the seasonal peak of 31 July, but higher, year on year, at the end of January.

Free cash flow for the period was £723m. The 'adjusting & other' outflow of £102m includes a £64m payment to HMRC in relation to a European Commission state aid challenge. Together with many other corporates and the UK government, we are contesting this payment and it is recorded as a receivable. Dividends of £174m were paid in relation to the FY 20/21 interim and final dividends, resulting in an overall net cash movement in the period of £447m.

Slide: Net debt and liquidity (BB)

Moving to slide 21, and our current liquidity and financial position.

As of the 31st of July we had over £2bn of total liquidity available, including over £1.5bn of cash and an undrawn credit facility of £550m. The new credit facility expires in May 2024 and is linked to sustainability and community-based targets.

Our financial debt was £105m as of July 31st. Included in this is a €50m (Euro) fixed term loan which will be repaid in full this month.

Net leverage was 0.5 times EBITDA at the end of the first half. In the second half, we expect net leverage to move up as working capital normalises, we increase capex in line with our original guidance, pay our interim dividend, and commence our share buyback programme.

Slide: Capital allocation framework (BB)

Slide 22 provides an overview of the Group's capital allocation framework.

Our primary focus is to invest in compelling organic or inorganic growth opportunities that strengthen and accelerate our strategy. Our target gross capex remains unchanged at 3 to 3.5 percent of sales per year on average. The growth initiatives that Thierry highlighted earlier may result in us being at the top end of that range, or slightly higher, as investments in these opportunities accelerate over the next two years.

To ensure a solid investment grade credit rating our medium term target is circa 2 times net debt to EBITDA. We also aim to maintain sufficient liquidity and have currently set our headroom level at £1bn. Our headroom includes our committed credit facilities and cash.

In March 2021, the Board announced a new dividend policy with a target ordinary dividend cover range of 2.25 to 2.75 times, based on adjusted basic earnings per share. The aim is for sustainable growth of the ordinary dividend over time. Therefore, we anticipate our dividend cover may be a little bit above 2.75 times in this financial year.

If, after considerations of these objectives, there remains surplus capital, the Board will evaluate returning this to shareholders in addition to the ordinary dividend.

Applying this framework, in addition to the interim dividend of circa £80m, we are pleased to announce the return of £300m via a share buyback programme. This programme will commence soon.

Slide: FY 21/22 outlook and guidance (BB)

Finally, moving to slide 23, and our outlook and guidance for the full year. Further technical guidance can be found in the appendix on slide 30.

These expectations assume there is no adverse change in COVID-related confinement measures.

Looking at the second half, we have made a good start, with resilient demand across all markets. Like-for-like sales for Q3 to date are down 0.6%, but up 16.1% on a 2-year basis.

As a result, we have increased our sales expectations for the second half, although we expect to see a progressive reduction of our 2-year growth rates in H2.

Our planning scenarios for H2 show a LFL sales range of -7 to -3%, which was previously -15% to -5%. On a 2-year basis, these equate to LFLs of +9% to +13%.

Applying these LFL scenarios, we now anticipate full year adjusted PBT to be in the range of £910m to £950m.

With the delivery of our strategic priorities ahead of schedule and the very supportive long-term trends in our industry, we remain confident of continued outperformance of our wider markets.

With that, let me now hand back to Thierry to summarise.

Slide: Summary (TG)

Thank you, Bernard.

To summarise, we have delivered a strong financial performance in the first half of the year. Q3 has started well, and we are raising our sales expectations for H2.

We have managed efficiently the operational issues widely faced by our industry, retaining good product availability at competitive prices, and operating safely.

We are making rapid progress in fixing historic issues, and we are delivering ahead of plan on the strategic priorities we set out 15 months ago. This strategic progress is enabling us to outperform in our key markets.

We are also benefiting from several new trends which we believe will support future growth of our industry.

Finally, we are now ready to accelerate investment in several areas of the business in order to deliver further long-term growth. And we announced today a £300 million share buyback, reflecting our strong cash generation as well as our confidence in the outlook.

Thank you all for listening this morning. Bernard and I would now be happy to answer any questions. Over to you Maj.