Kingfisher plc 2018-19 half year results Q&A transcript

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6 months ended 31 July 2018

Speakers:

Veronique Laury (VL), CEO

Karen Witts (KW), CFO

Steve Willett, (SW), CTO

GR: Hi, this is Geoff Ruddell from Morgan Stanley. Can you talk us through please - you've got a gross margin benefit of 40 basis points on the unified ranges so far? Obviously, the target is essentially, it's a 500 basis point improvement in the COGS when the unified ranges are fully implemented. That seems a big jump from where you are at the moment. Can you talk about how that's going to be delivered please?

KW: Sure, so actually, I think when we talked about equivalents, we said that the equivalent in terms of both margin uplift to actually get to the £350 million was more like 300 basis points. And I think the first thing that I should really point out because you may or may not have this in your mind is thinking about what we said at the end of last year when on a smaller base of unified COGS, we said that we had grown the margin by 180 basis points and now we're looking at something that's 40. But the two figures aren't actually comparable. We will be able to give you a more comparable and cumulative figure at the year end and the reason for not being comparable is because you're talking about different bases. A half year versus a full year and about 20% of COGS and about 40% COGS. But that's just kind of the maths of why you can't just add the two things up.

So why are we confident? It's worth just stepping back and sort of thinking about what is important in terms of the things that need to happen in order to grow the margins. What we're looking at is a question of maturity, a question of mix, a question of clearance and a question of price. Until you get all of these things kind of cleaned, you don't get to the full opportunities that you've got - that we believe in. Let's start thinking about maturity. One of the things that gives us confidence is the way that we have seen our Wave One implementation from the early part of the plan actually mature through the plan. So, what happens is when you start off, you don't actually get a lot of benefit because the benefit that you're getting from the cost price reduction gets offset by clearance costs and any price reset that you might want to do.

Once you've positioned your price correctly and you've got through the clearance, then that leaves you with a cleaner number and just to give you an illustration of that, our Wave One implementations are already achieving more than 300 basis points of margin. So, what I'm saying globally we need to get to the 300 basis point uplift. The early ranges that we've already unified are already showing us an uplift of that magnitude.

Now, those ranges actually have a small weight in the first half of the year. The first half of the year actually includes a small weighting of the mature, if you like, implementations and some less mature implementations which we will see the benefits of in the second half of the year and into next year. I think the second element that's important again when you're looking at, particularly at the first half of this year, is what happens with mix. So, the first half of this year has a very heavy mix of outdoor products in it. And I said across our seven categories, there's actually 25 full percentage points of margin difference between the highest margin category and the lowest margin. So, again, simple arithmetic will tell you that if you're heavily weighted towards the lower margin, then that is going to suppress what you see in the margin. By the time we get to the end of this year, you will see a more normalised spread of the categories. That in itself will improve the margin that we're getting.

And then the third thing that I think is worth remembering is that I started talking about what we call the procurement maturity curve and we are very low down still on the procurement maturity curve because we've only unified 40% of our COGS. So, what does that mean being low down on the procurement maturity curve? That means that all we are giving our suppliers at the moment are consolidated volumes. But for sure, we're getting cost price reduction and the cost price reductions that we are getting and we've given you some examples over the last year and a half, are very much in line with what we need to achieve to get our 300 basis points. But at the moment, we haven't moved onto, if you like, very far up step two of the procurement maturity curve, step two being actually, I'm going to give you more reliable sales forecasts and the more reliable I can make my sales forecasts again, the better cost price reduction you get, the better stock management possibilities you get. And then just to complete the picture of the procurement maturity curve, the higher end of that is when you really have an established relationship with suppliers, an established history and you start deconstructing your bill of materials and you know even better what things should cost.

So that was a pretty long answer from me but I was expecting the question and I think what I'm hoping you're hearing is that we are already seeing, through our very complicated spreadsheets and reporting systems, that the margin uplift is coming through, but it just needs the time to mature to come through and we are only half way through.

GR: That was very comprehensive. Just to follow up, would your spreadsheets change at all if there's a hard Brexit? Because obviously, you know, then you move to WTO terms and then you can end up with import tariffs I would imagine on products coming to the UK as opposed to coming from France. Does that change anything?

KW: Well, I mean, you know, our spreadsheet could change because of a lot of reasons. We've already said that, you know, we're operating in quite a tough market - a tough operating environment and also, I did refer to cost price inflation. We tend to get a lag effect when we're negotiating with suppliers on commodity price increases and over the last two years, commodity price increases have gone up a lot. So, it's not just Brexit that could change our spreadsheets. It could be what's happening in commodity prices, it could be what's happening from the foreign exchange perspective. Brexit itself, when we've had a look at kind of worst-case scenarios, and actually even if you kind of went with WTO tariffs on the kind of basket of products that we are actually selling customers, they're at the lower end of the tariff range in general.

GR: So, would joint sourcing still make sense in that situation?

KW: Absolutely, absolutely. Yes.

RC: Morning. Richard Chamberlain, RBC. A couple of questions please. Vero, you talk about the plans to improve the performance of Castorama going forward.

I think one of the things you mentioned is changing the customer communication approach from the third quarter. Can you give a bit more colour on that? Is that about telling your customers to sort of notice the new ranges more? Is that a problem for Castorama more recently?

VL: I'm going to give you as much answer as I can to be… to protect us from competition because, as you know, we have quite a strong competitor in France and I already give away quite a lot in this presentation because I thought it was important to give you the confidence that we about what we are doing. I think to be fair even more than anywhere else but actually, we started in B&Q. So, as I said, we've been in the cave building a lot of things. At a point in time when you think we are ready enough, we are not ready 100%, that's for sure. We just need to start to show to the customer what you've done and that things are improving. So, a part of that is of course to win more the new ranges, to be fair in communication and in stores.

We haven't talked about it but we've appointed John Colley as a trading director. It's his role in the organisation sitting on the Exec so he is dedicated to that. How we magnify for the customer what we've been doing. How we have a trading plan that is really making the emphasis on what is new. So, this is true in stores this is true in communication, this is true on our digital. But, you know, to do that in France we needed to have all those things, put it in a line, what is it to push newness on a website that is not working. Now we are getting there so we will. We are going to be able to communicate on prices as well because you need to be in the competition before you say, "Hello, I'm back". You know, we're back right now. And I think again, I think we are moving into that EDLP strategy which has been what we want to do from the start. Remember, you know, two years and a half ago, we started with this. People are not buying a bath because there's a promotion on a bath. They are buying the shower because they need a shower. So how we are going to offer to every customer the shower at the right price all day long. And this is what we do right now. But we can start to talk about it. It was impossible to talk about it even six months ago. So, this is what we are going to do.

RC: Thank you. The other one is on the other international side, just in broad brush terms can you talk about what needs to be done to get the losses down in Russia and Romania.

VL: I said I wouldn't answer this question.

RC: Maybe just in broad brush terms.

VL: I'm sorry. I think there are different realities as Karen said, I think.

KW: I'll give you a straightforward example then perhaps around Romania. We actually haven't integrated the Praktiker business into Brico Depot. We know that Brico Depot are continuing to do well. We're just starting to get the same offer into the Praktiker stores. So, we have to clear out the old stock and get the new ranges in place and that is the plan for Romania.

VL: And again, I think we haven't been emphasising that it was about Other International. I think what we said we would do as we did. We've closed some stores in the UK, we've closed few stores this year in France. It's that we are tracking losses everywhere in the business. And this is just to show our commitment as an executive team to deliver this plan. And in this changing environment, to do everything we can do to commit to our…

RC: I just wondered in Russia, for example, are there any sort of quick fixes or any of these self-help that you can bring in in the second half?

VL: I will tell you in six months from now. Good try, good try.

NH: It's Nick Hawkins at Cenkos. I just wanted to follow up on Richard's question on pricing which you say is one of the three main drivers of underperformance in France. But you've managed to get the index down to 101 and still lost a chunk of market share. So, I wonder to what extent you need to push your pricing down further to re-engage with customers or you think you can do it by better communication, in-store and the website and stuff. Do you have a backlog of negative pricing sentiments amongst the key customers that you need to address more aggressively?

VL: I think we will do what needs to be done. I think what is very important to us is that this is not only true with France. I think we have - our starting point in France was in Castorama actually, not in France, was worse tha what it was when we started the journey anywhere else. I think our commitment to the customer is the - to make home improvements accessible for everyone. We have a very clear pricing policy that I'm going to tell publicly which is different if you talk about commodity products, if you talk about international brand products and if you talk about own brand.

I think the percentage of own brand, we started this journey we were around 20. We are now over 35. It gives you the opportunity to create price difference and price preference without reducing all prices. So, we are on a journey, you know. We are not where we need to be but we are progressing and, to be fair, it takes time for the customer and you need to tell the customer that you've been improving, you know. It's not like food, though. We are not - you are not buying coffee or you are not buying a shower every week like you are buying coffee. So, the price perception of customers in our improvement sector is in a very different way than it is in, you know, clothing or food retail. So it takes time.

TJ: Tushar Jain from Goldman Sachs. Just on Castorama, how many Castorama stores are loss-making for you on a group level, I mean, on a Castorama level, when do you see the trading sort of stabilising on a like-for-like? Is it next year or is it in the second half you will start to see things really shaping up for Castorama?

KW: I think on the trading stabilising, it’s not something we can put a date on that. I think Vero said it's not a quick fix but we certainly, the action plan that we've got that we've described is to improve the performance in the second half of the year. And on the stores, you know, we don’t have a lot of loss-making stores.

TJ: And just Arja’s departure does it change the shape of unification of products in terms of execution. I mean, exit rate is still 90% but does it change anything?

KW: No, no.

TJ: And just a final question on digital. The digital growth was only 8% in B&Q. Is that in line with your expectations, the digital sales growth that's happening in the business or you think you can accelerate the online channel a little bit more?

SW: Sorry, on B&Q it is, yes. Sorry, no, we're actually slightly behind what we think we can do to be fair. We're pushing - sorry, in every country there's a different story to be fair, so if you take B&Q, basically we're pushing to port our new generation platforming which is effectively step changing. So, it's already in the mobile app, it's in the tablet. We're about half way through desktop as I speak. To be honest, we should have finished it by the end of the week. So that actually will be a step change in B&Q but we're slightly behind where we thought. So, we believe we can push B&Q much harder. If you go back to - sorry, B&Q is still only a 4% penetration. So, if you look at France and Poland, it's circa one. So, we've still got a long, long way to go on digital and we're pushing very hard.

KW: You know, we've now got the one hour click and collect everywhere in B&Q and the click and collect sales went up 55%.

TJ: Thank you.

TS: Tony Shiret, easy question. I just wonder, bearing in mind your comments about not pushing big trolleys around stores in five years' time. You've got lots of big stores and lots of trolleys. I just wondered if you are currently doing any sort of property reviews. I think, you know, clearly one might think about that in France but, you know, also maybe the UK and maybe you comment on the Screwfix tail may be you can talk about that.

VL: Yeah. This is a fair comment. I think we are doing property review as always, I would say. I think it's real time. I think we - and we will continue to do this. I think what we are doing as well is proper work on format which, you know, we are not ready to talk now as we speak, but we've been - and I've been talking about that even six months ago. We've launched work internally and, as I said, looking outside as well, what is happening outside on to what is going to be the right format for the customer in the future. I think again, without talking too much about it, I think I'm not saying that I'm saying that our stores are going to disappear actually. It's really interesting to see that in the US, the kind of normal, you know, old retailers are seeing the sales to store going up again after that very difficult period. So I think the future is a combination of store and digital. I think we are very well placed in that format work with Screwfix in our portfolio as well because actually we know what the convenient format is. We know how it works and we know what it does to the customer when it works well and to be fair as well, we know how to do good big store. So I think with that probably unique combination in the home improvement sector, I think we can think of something that be relevant to the customer in the coming year.

TS: So just to follow up on that. When will you tell us what the results of your deliberations are? And secondly, bearing in mind you've got 1% of sales in France online or in the UK, do you feel that you're properly positioned for the new digital age? And should you maybe put a bit more grunt behind your digital presence?

VL: We will update you after year end, next year, normally, that's the plan. On what our thinking about that, maybe April, let's see. But you know, not that long, we are not going to wait for ages before a date. So I think on the digital side, I think we're starting from nearly nothing except Screwfix. I think we are using our knowledge, our digital knowledge that is proven in Screwfix to the rest of the group. We are pushing as hard as we can. We are where we are. To be fair if you look at Europe we are not dissimilar from the rest of the competition. And we are pushing really hard, that's why the capex, the investment in digital are not reducing than if we are having to look at that. Do you want to say something?

SW: Yes it's all right. I think to be fair there's an enormous amount of grunt already on digital, I think is a point. I think one of the problems with digital is that people don't recognise is that actually the hard stuff isn't the presentation stuff. It's actually all the plumbing behind the scene, you've got the content and whatever. So taking Vero's point from earlier, what we're trying to do is make sure that actually we've got all the right infrastructure and the right processes behind the scenes that says "When you actually get a market leading proposition then it's sustainable and it will be market leading". And if you go and look at the mobile app that I was talking about in B&Q or mobile web in

B&Q that is market leading in terms of navigation, speed, and I won't say it's better than Amazon but it could be.

VL: But as you know Tony this is a huge structural change internally as well.

SW: I think the point is Tony you're absolutely right is we're at the start of a journey. Have we gone far enough with digital? No.

VL: But we are pushing.

AC: Anne Critchlow from Soc Gen. I've got a question on the unique ranges. Where is the price of those settling compared to the closest brand of competitors now? And also looking at the three categories that weren't seeing sales growth what sort of action do you need to take - is it easily fixable to turn those around and what have you learned as well?

VL: So first I was saying I'm not going to disclose our pricing strategy but as you have understood I think in the unique offer we are really, keeping our promise to the customer which is really making home improvement accessible. So there is a gap between what would be the standard proposition in the market and our proposition. From a price point of view but not only, from a quality perspective, from the design perspective and from a functionality point of view, this is what unique is about. I think that was a story we think about these bathroom furniture. They are, I would say cheap because they are cheap. They are functional, they are high-quality and they are really bringing something to the customers that didn't exist in the market. And that's why they are flying. So there is a substantial price differentiation in the unique offer and this is our strategy. It has always been the strategy. I think what can we do if your question is can you fix this category, yes definitely we can.

I think those three categories haven't a lot of uniqueness, to be fair, as we said the unique story is just at the beginning. And why is that, because it takes more time than unified. Unified is, you know you reduce your number of suppliers, you reduce your number of, you take the ones that are working and you double the volume. It was not easy to do but it takes less long. When you do unique you are to start on the customer needs, really understand what the customer, you need to understand the market, you need to design to cost, you need to sell differently. We are as we say, and with all the implication we are really doing from the very beginning to the end journey, it takes time. We are going to do more, in this category like everywhere else. But definitely we can fix them.

AH: Andy Hughes from UBS. Another one on unified if I may. Karen, I'm just going back to your answers to Geoff's questions at the start and it sounded really positive. I just wanted to check a couple of things there. Those Phase One ranges where you are getting 300 basis points are they representative, there's no bigger reason why they aren't?

KW: No, no. they are representative yes.

AH: That's good and on the second thing on that, in terms of the… whether you need to get sales gains to get that £350 million you're sort of implying that you might need to get sales gain to get that, whereas I think at the start of the programme, 350 was quite a steady state of improvement. Is there any movement in the goal posts there?

VL: No, again I think we need to come back to the origin of this journey. I still remember very well my first meeting with investors when I started. If I would have said that we were getting sales growth of that new offer let me remind you, no-one was believing that we can sell the same stuff across geographies. That was the common starting point. If I would have started this journey I'm going to get to the 350 million with sales growth people would have laughed. What we said is if you want an equivalent, it is 7 billion pounds of purchasing power, multiplied by 5% CPR. That was the easiest way to make people, to give people the confidence that we can deliver it because it's cost price reduction. We are seeing these cost price reduction coming through, we've explained, hopefully clearly, why this was not coming through as we speak. We've always said that this plan would be back-end loaded. And to be fair you'll see sales growth coming in. And that's why we talk about it, it's not because we need it to deliver the 350 million it's because first, it's there so why we wouldn't talk about and it's making the proof that we can sell the same stuff across geographies. This is the only reason why we are talking about it. And to be fair if people thought "Oh the old ranges were better; the old local ranges were better" they were not. They are declining. The new stuff is growing.

AH: So it's fair to say the 350 we shouldn't get hung up about, 300 basis points at gross margin because we might get premium sales growth in those ranges, is that?

VL: You know what, with everything happening outside I'm not going to bet to more than £350 million delivery. I'm sorry but you know what I mean? You can do what you want but I don't know. We need to stick to this plan and really work hard to deliver it.

KW: Just very simplistically though, our plan says that we can get there with cost price reduction. But you know lots of things are changing. I have said there's been quite a lot of cost price increase that we will need to manage through. So plans say we will get there with cost price reduction but what you're also seeing is some sales growth coming through as well.

AH: One other, I can't remember which results meeting it was you alluded to the fact that you might not need two separate chains in France when they are selling unified ranges. Now given what's happened at Castorama, if you were thinking of pushing the button on removing one of the brands are you closer to pushing the button?

VL: As I said and that was my first word in this presentation we will do what needs to be done when it needs to be done. I think to date we have an issue in France, we are addressing it, we want to show you the progress. We know that the ONE Kingfisher plan is addressing the problem that we're have in France. As we go, as I've tried to explain today as we go along as the environment is evolving we will take any decision that is required to deliver this plan. At this stage I'm not going to say more than that.

AH: Thank you.

VL: What you can be sure of is we are not afraid of anything, we've demonstrated it since we've started this journey.

AC: It's Adam Cochrane, Citi, on the unique that generates a good opportunity for you. Given the long lead times can you give us a sort of guidelines as to how much unique product you would expect to be coming in through the ranges in the next couple of years? And then in terms of unique can you just remind us how sales uplift versus the unified product. I think previously they were seeing much better customer perception than just unified product. Is that continuing?

VL: Yes it is. I can't give you a number about how much unique and when unique is going to hit the floor for the customer. I think what we've seen and what we've done and I think this is the biggest thing in this presentation at this moment instead of the transformation is we have enough evidence and enough scale, which means this is not cherry picking about what works. And we've made some mistakes, we've been very, as ever, very transparent about that. I think what we can see is that, to be fair that was always expecting from the start, we were not expecting sales growth from unification. From unification you expect CPR. Where we were expecting sales growth without telling it was around unique. What I can tell you is in the unique programme that we've been launching we get that growth. Actually I spent some time on the categories because you see one of those categories is double digit growth. Honestly guys in this environment with everything happening in retail to get double digit growth in one full category, this is meaningful, as I've said. The seven categories is the whole business. And then if you are looking at, you have a few others which were high single digit growth. I think it's good stuff and as I said some of them are not good enough and we are going to fix it but we know how to deliver it. I think we will get unique as we go because some of the unique development has been hitting the floor especially in bathroom but not only. I think we were in Farnborough last week with all the leadership team to the event, the meetings, you've been invited a year ago, but we are doing that every year internally. And we took all the new developments that are going to hit the floor next year, there is some unique products, not going to tell but there are some amazing in categories that you would be surprised. You will discover that as we go along. So, and it's not going to finish, you know I was reading an article in the press I think this week, I can't remember which and I'm not going to say which newspaper is saying that we are not Ikea, our products are not unique enough to generate growth. Hey that's not true. The scale of it is not big enough and to be fair to those people who wrote that article from a customer point of view is it really visible? No it's not. Next year is the year, with this trading plan, with John Colley coming in and taking that in charge with the Trading Director within the operating companies, we are going to shout about it.

AC: You mentioned that double digit on that category chart. I wasn't quite sure if some of those categories were benefitting from external market conditions or is that plus eleven percent…?

VL: If you see some of the positive market conditions I'm happy to hear them.

AC: I thought the warm weather might have helped seasonal for example and that may have been …

VL: Honestly seasonal hasn't been helped by market conditions because if you take the, of course we had a very good Q2 and you know still some good sales in the end of the season for seasonal, but Q1 has been a drama. All in all, I don't think seasonal has been helped.

AC: So when you look down those category numbers the positive ones would probably reflect market share gains you would expect?

VL: Yes of course.

AC: Thank you.

JG: Over here, it's James Grzinic from Jefferies. One very quick one and then a second one perhaps requiring a lengthier answer. Can you perhaps disaggregate the half one to Q1 and Q2, you said Q2 was better. So what did the gross margin do in Q2 rather than Q1 may help in terms of the…?

KW: What will happen to the gross margin in Q2 rather than Q1? Yes so what I said was we're not assuming that the backdrop of cost pressure will go away. So we'll have a bit of a headwind there and we will deal with that. But what we will say is some price, we've got to do some work on the price hierarchies in France which means that we didn't get all our pricing right. So that means that whereas we took a net profit price cost investment hits in the first half of the year all other things being equal not expecting that in the second half of the year. The phasing of the implementation is actually more heavily weighted for the second half of the year.

So the cost price reduction will come through more in the second half of the year than the first and that's what we saw last year. The mix will be a richer margin mix in the second half of the year and then we're working on those logistics and inefficiencies.

JG: My question was actually what the half one of minus 40 basis points… How you split that, the indicator was that Q2 was better. I just want to understand how much...

KW: Q2 was better. I'm not saying any more than that that since we've started we've seen Q on Q progression.

JG: Okay just going back to Castorama France, from 108 to 101, that such a big improvement in pricing but I'm still puzzled as to how market share gets worse for the fascia when pricing gets so much better. So I'm just wondering if you can explain whether there were issues, execution issues of customer, whatever had to suffer in the stores may be linked to the first attempts to take cost out of stores? Just give me the reassurance because I don't think I've seen a parallel where I've seen pricing improve so much and actually customer behaviour pitching off even more.

VL: When I'm talking about price I'm talking about price index. Price perception hasn't moved yet accordingly. Because, to be fair, we haven't communicated properly about this. And as I said it takes long, in this sector it takes long for customers to realise that we are back in the competition. And to be fair as well we couldn't tell before because we were not at that point. This 101 is just the most recent research, analysis that we've been doing. Honestly from an execution in-store I'm on the ground as you know, quite often, there was nothing that I would say that is worse in Castorama than it has been in any of the other operating companies. And I think to be fair we are looking at customer perception in-store. So let me be very clear, customers that are going into store they are happy with the service, they are happy with everything. We don't have enough. The problem we've got is the traffic and this is why I am starting my presentation by the brand perception. It's because people are not considering us as the first choice, they go somewhere else. So this is what we need to achieve, we need to bring them back, but the ones that are there, they have seen the services, better than it was, the pricing is better, the quality of the product is better. So again, there is no problem as I've seen in some of the press as well about the fact that the new offer is not working in Castorama, that's the point, we don't sell enough. And the problem we have got is the traffic and the traffic is worse on the web because it is improving, digitally and in-store and that's what we need to improve.

JG: Thank you.

SI: Hi, Simon Irwin. Just to follow-up on France. Can you give us a bit of help around phasing in France in the second half of the year given the cost with staff? And obviously Castorama seems to be in a slightly unique position of kind of getting harmed by weather in the first half but not seeing any benefit from weather in the second half because of the rain. I mean how much of the footfall declines do you think, kind of market or environment-related, and how much do you think are format related?

KW: Shall I answer the first one on the cost phasing?

Karen: So maybe two points to look at. We did say that the increase in costs in the first half of the year, a large part of that was attributed to the advertising phasing to support the Brico Dépôt anniversary. And that doesn't mean that we are not going to do any advertising in the second half of the year but that was phased into the first half. The positives that will be saved, the other positives that will be saved into the second half come from the France action plan. And that's around the point that I made about flexing the store hours better, i.e. taking people out of stores to better reflect what's being sold, that's already started, those are the two things.

SI: Generally do you think, that France, Castorama is simply, a kind of… an element of this was at least being a victim of circumstance in the first half of the year or do you actually think the problems are deeper?

VL: As I said previously I tried not to say that the performances is because … I think the overall environment in France is not as positive as it was. I think as you may have seen the customer confidence and the rest … but I think it's just the end of the situation that have been going on for quite a while and I think, as I said, this customer perception thing is… people are not going to us, especially those big spenders as a first choice, that's what we need to change, but to be able to change this you need to have facts for the customer. I don't think it was worse in the first half than at any time. But it's just that the more you go the less you are relevant and I think we are where we are.

SI: Karen, can I just ask about the cost reduction programme. You've done a chunk going into Poland with France to come? What do the next couple of years look like? Do we have more departments and more sections going into Poland or a Poland-like equivalent? Is there a kind of big next chunk to go?

KW: So you're talking about the finance shared services?

SI: Yes.

KW: So at the moment what's gone in is mostly B&Q and a bit of Kingfisher corporate centre. France goes in shortly and then Poland would follow. Because what we want to do is take advantage of the more consistent processes that you get from the unified IT system. So, the financial transactional work will go in after on the back of the IT rollout. We're always looking for new things to do. In fact, it's a very small number of people but we've put in some people because actually, we thought that as we looked to the GNFR programme there was some opportunity to be had from looking at the long tail of spend. And, actually, you work on that long tail of spend through compliance. It's not very sexy, you get people to fill in their purchase orders properly etc. And we've created a business case for that and thought it was worth putting some more people into Poland. So things are going well there just now and we're looking for opportunities but we're not making any commitments like that.

GR: Again to Karen. On the Kingfisher website showing consensus figures. There's a very big increase in the adjusted profit before tax next year by about £200 million, the largest increase mainly coming from transformation costs coming right down, I think from £135 million last year to about £20 million next year. Can I take it from your comments earlier about having to sort of reallocate some of that £800 million that those numbers need to change quite significantly?

KW: We're not making any comment on that at the moment, we've still got £300 million of cash transformation costs left, two years of the transformation to go. So I think that's enough, exactly how they will be phased and split, we'll update on more at the year end.

CA: It's Charles Allen, Bloomberg Intelligence. I think at the beginning of the programme you said you wanted to take about 200,000 SKUs out of the business and out of the 400,000 said at the time. Can you say how many of those have now been completely cleared?

VL: I think on what have been unified we've decreased by 80% the number of SKUs. On the 42% that have been unified, we reduced by 80%.

CA: So there would still be less than 100,000 that have been taken out of the business?

VL: It would be what it would be. I think we are doing it on the basis of the spend and the customer needs. But it should reduce them.

KW: I don't think we actually gave a number. We pointed out just how many SKUs we had but not an objective to…

CA: There was a pie chart in one of the things that said, I think it was 197,000 to be exact. It said that you were going to take out.

VL: I don't remember. What I remember me saying….

SW: It was the cut the tail.

KW: Of the SKUs that we had in the system, we actually had this tail of old and de-listed stuff and one of our, what we called ‘sharp initiatives’, was to get that out of the system. And we finished that about 18 months ago and actually changed the processes in the business to make sure that that didn’t come back again. So that’s quite important because even though at the moment we’ve got higher levels of inventory, it’s good inventory, it doesn’t have that kind of layer of de-listed in it.

VL: Any more? Good, thank you very much for your time this morning.