Kingfisher plc 2018-19 half year results presentation transcript

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6 months ended 31 July 2018

Speakers:

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Slide: Kingfisher plc 2018-19 half year results (VL)

Good morning everyone. Welcome to all of you this morning. Today is an important moment in our transformation. We are half way through. Today I am going to talk about four things.

The first one is why our transformation is vital, probably even more than when we started this journey.

The second one is why our transformation is going to deliver the expected benefits.

The third one is why our transformation is tough and what are the issues we are currently facing, because we are facing issues.

And the fourth one is what are the decisions that we are taking to deliver this plan and to create long-term value?

Slide: The extent and pace of recent change in retail has been profound (VL)

The first idea I would like to share with you this morning is that our transformation is the survival of this organisation and, to be fair, it is the same thing for every single retailer.

It's not an evolution. It is a revolution that we are living in. Just few numbers. I am sure you know those numbers but I think it is fine to be reminded of them altogether. In the UK, over the last three years, 100,000 people lost their job in retail. Since the beginning of this year, 2,000 stores have closed. This is the reality we are living in.

It is starting in France and it is far from over.

You need to look outside, not to complain about anything but just to understand how deep the change needs to be, how profound the revolution is. So, the change needs to be profound. We need to engage the right level of transformation.

Does anyone in this room, or outside of this room to be fair, think that in five years, six years, seven years, eight years from now, I don't know, that customers will be pushing big trollies in stores? I personally don't believe so. The number of queues, the number of promotions, and the number of stores are no longer retail fundamentals. This is a huge structural change for all of us. This is a total paradigm shift.

If I go deeper into the home improvement sector, the customer experience hasn't changed over the last twenty years. If you go to a shop right now and you went to a shop fifteen years ago, has it changed really from a customer point of view? No, it hasn't.

The biggest change we have in our sector is the growth of Amazon and a few other pure players. So, of course, some companies are adapting but very little are mobilising their entire supply chain. What does that mean? It's right the first movers will win and they will win big. And, you will bear with me because I think it's the start of a journey, as I have just described. We didn't know what we know right now. The outlook is tough, as well, and I hate to refer to it as you know, but it's there. We are living in it. So, that's the first idea.

Slide: The potential of our transformation is huge (VL)

The second idea I wanted to share with you today is that our transformation is going to deliver huge benefits.

Slide: We have ambitious 5 year transformation targets (VL)

Why? Because, we are creating a long-term competitive advantage for the company. There are four different elements.

The first one being sales and purchasing power.

The second one being a differentiated offer.

The third one is strong digital capabilities and the fourth one is affordable prices and you will see more of that in this presentation.

I am convinced we have got the right strategy and that, in fact, the benefits that we can expect are bigger than what is in this current plan even if we are doing it in a very challenging environment as we all know.

Why do I believe in it?

Slide: On track to deliver our FY18/19 strategic milestones for the third year in a row (VL)

The first thing, which is not the smallest one is that, we are doing what we said we would. I remember when we started that journey, the investors asked me, "It isn't going to fall through your numbers in the first period of that transformation so what can you give us to make sure that we can, not control but, look at the fact that you are doing what you said we would." This is why we set up those strategic milestones.

I am not sorry to say that for the third year in a row we are going to deliver them, so we deliver against our plans. I am not going to take all of those milestones, you know them, they are written on this slide but we have already achieved 42% COGS. Being really honest, who would have believed two years and a half ago that we would do this?

There was a lot of scepticism in the room. We have almost rolled out our unified IT platform in less than three years across nine geographies. I don't know many companies that have done that without any big car crash. Somebody once told me SAP equals profit warning. And I want to pick that one because it's really important. We have a much higher engagement than the retail sector. We are doing everything we've proposed and how is our organisation is feeling, and the last results were in June, so not even a month ago, in the middle of this transformation and we were ten points higher than the retail average. These are facts.

The second reason why I believe in it is that our strategies are now proven. Why I say 'now' is because it was not the case a year ago. I couldn't have said that a year ago. We didn't have the scale to be so sure about it. So, let me take them; operational efficiency; our GNFR programme is working. We are delivering big improvements.

The second one is digital. We are starting to deliver our plan. We are implementing that IT platform that is the base. We are creating new websites. We have been launching the new B&Q app and we are doing it in France as we go along. And, now digital sales are growing.

The third one is the offer. Of course, it's the most important pillar of our plan. £350m out of the £500m.

Slide: Unified & unique sales growth improving (VL)

So, let me dive deeper a little into this. I am sure it is important to you. So, what are you seeing on this screen? The first thing is, as I said already, we have unified over 42% of our sales. It's done. It is done. We are delivering positive sales growth now. It hasn't been the case in the first instance and what you see on that chart, which is the most important thing, is the trend. We are improving as we grow. The sales growth is gaining momentum and by the end of this year we will have unified more than half of our sales.

Slide: Unified & unique outperforming non-unified (VL)

Now, it's an important slide and I am going to take a bit of time to take you through it.

What does it tell us?

First of all, it is the final piece of evidence, if any were needed, that we can sell the same stuff, I am used to saying, across different geographies so please don't ask me at the end of this session, "Can you sell the same stuff everywhere?" Yes, we can! Yes, it works!

Our unique and unified offer is growing. In fact, it is growing much more, as you can see, than our old ranges, again. The other thing that you can see on this slide is the seven categories. I have been accused a little bit of doing some cherry picking in the numbers. This is not cherry picking guys. Those seven categories are representing the whole business, the business as a whole and we are getting strong positive growth in most categories, as you can see. The other element that is on this slide is that in five categories out of seven, even if we are not generating growth, we are getting profit increase, profit growth and this profit growth is a combination of sales growth and CPR but you might notice that in one category you don't get any sales growth and we get profit uplift which means that the CPR is there.

What it is also telling you, being very honest, is that we haven't got it right everywhere. So, three categories are not growing but we know how to do it and we are going to get this right everywhere.

So, I hope I have convinced you that our three pillars are now proven. Let me now look at our transformation from a different angle. People often ask me why I am so confident in our plan and from the beginning we have been very confident in the size of the potential of this transformation and the fact that the benefit will be back-end loaded.

Slide: We are seeing the benefits and they will come through as we leverage our scale and drive efficiency (VL)

Let me explain why in reality it is going to be the case. Bear with me for a moment. This slide is an illustration of the profit contribution by the end of this year for the three first years of our transformation.

What you can see on this slide is that the benefit of one Kingfisher, the benefits we've generated with the one Kingfisher plan, are substantial. Let me give you more colour on this. You know that the GNFR and operational efficiency will be £90m by the end of this year. What I can tell you is that the benefit from digital and the new offer are considerably greater on top of the operational efficiency. It gives you some indication about this bar.

But, there are three main reasons why this increased profit has not broken through the bottom line as we speak.

The first one being clearance. As you know, by the end of the plan we would have changed 90% of our offer. This means that we are managing an unprecedented amount of clearance. Let's be honest. We have been incredibly diligent in this exercise, really. We have managed a bit of clearance, customer impact and P+L impact. You know, you have to juggle a little bit with all those things but still it has a cost. Once the transformation is finished, this profit drag will normalise. The second being price investment. Pricing is a core element of our strategy. We want to make home improvement accessible for everyone. This is key. In fact, we have applied little new investment into price. What we have done is we have achieved our price position improvement because we have improved massively by reducing promotions. We are going to talk a little bit about that when we talk about France later on. So, unless the market worsens, we have no plans for price investment to increase significantly. We won't need to.

The second profit drive are costs. The costs in OSC and digital are bigger than they need to be at this stage because we have built capabilities for much higher volumes. Part of this is intentional. When you build a motorway, you don't build one lane, even though at the beginning you don't have much traffic. As we deliver profit uplift, these costs will be more proportional to our benefits and equally it will be both. We will look at efficiency as we always have and we will scale those costs to our volumes.

So what does that mean? It means that the overall result is that we have generated significant financial benefits but the observable profit of the transformation is small just as we had planned from the start.

If now we roll forward to the end of the transformation, what is going to happen?

Slide: We are seeing the benefits and they will come through as we leverage our scale and drive efficiency (VL)

We will have further financial benefits rising and moving from 42% of the new offer to 90% and the development of unique. That is going to be more growth. And, the digital sales growth. This is the plan. Again, there are benefits. Clearance will reduce massively, we will have limited price investment even if we do have price investment and we will size digital and OSC organisations costs according to the level of activity. And, the impact on the bottom line will be huge.

So, obviously the picture we see in the results is more complex than this, as you know.

Slide: Transformation on this scale is tough (VL)

There are other impacts outside of the transformation but both negative and positive to be fair. From all the ordinary cost management, which is positive and we are used to it, to challenging trading of the old ranges where you have seen in this slide it is -1.8%. This is life and it brings me to the third idea I want to share with you.

It's that this transformation is tough, it is tough because of the scale of it, it is tough because of the pace of it we are delivering the milestone. We are halfway through it. I have just started today with this. We are half in the old world and half in the new world.

I promise you it is really difficult to manage and even if we are delivering our milestones, we are facing some issues. There are areas we need to improve.

Let me cover those areas. Margin; I have touched a little bit on it. Karen will cover it in more detail how this is going to work. Working capital; that was a big issue last time we spoke together. Karen will be covering that in her session. What I want to do right now is to focus on France.

Slide: France – three main drivers of underperformance (VL)

So, let me talk about France. To be fair, those issues were the same six months ago. It's not changing. In France, I told you last year, there was no quick fix. I was right. The message I want to give you is that we really understand the purpose of that, which is the most important thing. If you want to solve something, you have to understand what is going on. We are lagging behind in all aspects of customer perception in France and the gap is even bigger when you look at all the big spenders. Who are the big spenders? They are the 25% of people that are generating 80% of the spend. This is where we are.

Price; this is not new news. I am going to update you on the progress but price, and you know you will see that the first point is related. Of course, price is one element of the customer perception.

Digital proposition; we've always said that we were lagging behind in that space and the work that is probably new is the level of transformation that has happened. Likewise B&Q last year, Castorama France has been the operating company this year that has been most affected by the transformation.

Then, the IT system. They launched their new digital website, we have moved into financial services with some people, in fact, all of it and of course like any other OpCo, they have to change a lot of ranges.

The second thing I would like to remind you of with France is that we have the right plan, as we say. The One Kingfisher plan is addressing the French issues. Let me update you on where we are in terms of progress today.

Slide: France – right plan, taking time to re-energise Castorama (VL)

First of all, the unified offer is starting to generate growth. To date it's more in Brico than in Casto but it's progressing more in Casto than the old ranges as well.

Price has for a very long time been one of the biggest problems for Castorama in France. We are getting there. We started with a pricing net of 108. We are as we speak at 101 so we are back in the market. We are back in competition and we have launched our new website. We've had some issues as well, like you do when you launch something new, but we are progressing, we are solving this issue and we did research in France with customers. They can see that our website is faster than the rest of the competition and it has better ergonomy so that will come through and the customer will notice that.

I think the third idea I would like to remind you about France is that we need to start to saying what we have done for the customer. We haven't yet because to do this, you have to be pretty prepared. We are right now so we are going to start to communicate and to be more visible in our actions. Meaning that will improve in H2. Karen is going to take you through the detail of the action plans for H2 in France.

Slide: Making the right decisions for the business long-term (VL)

The fourth idea I would like to share with you today is that we are taking any decision required to deliver this plan and deliver a long-term sustainable growth for this business. It's not 'or'. It's 'and'. It has to be 'and'. This is our commitment as an executive team with the support of the Board. We are making this business more efficient as we go and as the environment changes.

Slide: Making the right decisions for the business long-term (VL)

Let me go through a few decisions that we have been taking or we are going to take in the next coming months. As you may notice, I made some operational changes. I made some changes to the management in the operational field. I am not going to comment on that but you have seen them. They have been there since the beginning of September. This morning, and I want to pause a little on this, you will have seen the announcement that we are saying that Arja will be leaving Kingfisher and that she would be replaced by Henri Solere. This is a positive move. This is just a manifestation that we are taking the right decision as we move. Arja came in to build OSC.

She has done it. OSC is a machine that is working. She came to deliver those COGS numbers that I have been talking about all along this morning. 42%. It is done. Now we are moving onto the second phase and unified is almost finished. It's all about unique development. What do I mean? Let me remind you of what I mean by this. It's really creating a different offer based on customer needs. It's about designing products with solutions for the customer at an affordable price and having it from end-to-end. We decided with Arja that Henri was uniquely placed to do that. He has done it on our bathroom category which is the most successful one. We get double digit like for like growth and big margin improvements and we are going to do that. He is going to lead that in every category. We are moving on guys. We are moving on. As we go along, as we evolve in our transformation, we are taking the right decisions.

The second thing we are going to look at is we have losses in this business. This is not new news to you. We are going to look at them. Again, what does that mean? I am not going to update you. Please don't ask what it is about because I am not going to answer you but we are going to look at it and what we are going to look at is trying to bring more efficiency. We are delivering against our efficiency plans. What we are going to look at with the team is can we do more? Why? Because, we are committed to deliver this plan because we are going to look at everything we can do to deliver it.

So, my message is that we adapt as we go. We are not staying still. We are taking the right decisions. We could have increased prices guys, it would have made the margins look better, I promise you. We did not, because this is not what we do. Deliver the plan and making this business sustainable for the long term. That wouldn't be making this business sustainable for the long term. We are making the right judgements like with clearance again. You stop clearance and the margin goes up. You clear more, stock goes down. Would it be the right decision? No. We are managing those things almost every week. Because we want to deliver this plan, we have committed to it but we want this business to be sustainable.

Slide: Summary (VL)

So, in summary, we always knew it was going to be bloody difficult. It is. No question about it. You will be with me that the backdrop doesn't help us, but it is what it is. Let's be honest. We have scored own goals as well. We haven't got it all right the first time. We have always said we would make mistakes. We do a big thing and we don't have a lot of benchmarks but we are learning as we go. But, our transformation is the right thing to do even more than when we started. We are delivering it at pace. To power this transformation, the image I get is that we have been in the cave building the engine first. So, not all of the moves have been visible but they were the right ones and they are making the difference. We are creating scale and momentum. So, if there is one message I would like you to leave this room with, it's that our pillars are proven which was not the case even six months ago. Unique vision works for the customers. We have sales growth. CPR is real. We can be competitive and make home improvement accessible and generate more margin. Digital is even more than when we started the new way to shop and we are building the engine to be a reference for the customer and to help us become more efficient. We are delivering on that front and there is more efficiency to come.

Now, I am going to hand over to Karen for the financials. Thank you.

Slide: Slide: H1 18/19 Financials (KW)

Thank you, Vero. I am not really sure how I follow that. Let me try with the numbers here. So, first of all, good morning everyone and thank you for joining us today. I'm going to take you through the financial performance for the half year. I will pull out the key headlines in each of our major geographies and will then spend a bit more time on France – on both performance and actions. I will then update you on our gross margin performance; and finally on our working capital position.

Slide: H1 18/19 financial summary: income statement (KW)

So, let's start with an overview of the income statement. On a constant currency basis, total Group sales were slightly up at £6.1bn, with like-for-like sales down 1.1%.

At a group level, gross margins were down 40 basis points, as the benefits from unified and unique product were offset by a weaker performance in France and by higher logistics costs in the Group. I will cover this in more detail shortly.

Retail profit of £404m was down 14.3% on a constant currency basis. This reflects a solid performance in the UK and Poland offset by significantly weaker profits in France.

To put this into context, excluding France, profits were down 4.2%, with the profits from our two other major geographies, UK & Ireland and Poland, actually up 1.4%.

Underlying Profit Before Tax was £375m, down 14.8% which was broadly in line with reported retail profit, and included £4m of favourable currency impact.

By way of reminder, all underlying metrics are before transformation costs.

Our effective tax rate was stable at 27%.

And Underlying Earnings per share of 12.8p were down 11.7% driven by the decline in France profits and including the positive impact from the share buyback.

Adjusted Profit before Tax of £323m was down 18.0% in the half year, and we incurred £52m of Transformation costs.

Statutory Profit before Tax is after both transformation costs and exceptional items and was down 30.1% to £281m. We had a £42m Exceptional charge this half year compared with an £8m exceptional credit last year. The charge was driven by planned restructuring activity in France and the UK, including the costs of the move of finance transactional processing, to a shared service centre in Poland to take benefits from our Unified IT roll out.

Slide: FY 18/19 group operational summary (KW)

I will now cover the key results in our major geographies, starting with the UK, Poland and Other International and I will then focus on France.

In the UK & Ireland like-for-like sales were slightly down by 0.5% with a 2.5% like-for-like sales decline at B&Q mostly offset by +4.5% growth at Screwfix.

In the context of a weak UK consumer backdrop, softer housing market and generally uncertain environment, we think this was a credible sales result.

B&Q's negative 2.5% like-for-like performance reflects a story of two very different quarters. Quarter One saw a like-for-like decline of 9%, driven by exceptionally harsh weather. This was followed by a decent recovery in Quarter Two, when like-for-like sales grew +3.6%, helped by much better weather.

Screwfix continues to take market share, using its convenience model, with growth driven by its Specialist Trade desks and strong digital capability. We opened another 21 new outlets during the period, taking the total to 598 although today we are already above the 600 mark at 601.

The UK and Ireland Gross margin was down 30 basis points, mainly, reflecting operating company mix and the opening of Screwfix's 4th distribution centre in Lichfield which is not yet operating at optimal capacity. This was largely offset by good cost control so retail profit was up +1.2%.

I should also highlight, that in the second half of the year, the discontinuation of B&Q showroom installation services is expected to negatively impact H2 like-for-like sales by 1-2 percentage points, but with a broadly neutral impact on retail profit.

Our Polish and Other International businesses reflect some very different operating realities.

We had a good performance in Poland. Like-for-like sales were up 1.5% despite the introduction of the Sunday trading ban. Although it is difficult to accurately estimate the impact of the removal of two Sundays of trading a month, we believe it is about 1.5 percentage points on sales. We are now rolling out our Unified IT Platform in Poland, and this will give us the infrastructure to improve our digital capability and to allow customers to shop at their convenience.

Gross margin performance was strong; up 120 basis points, reflecting improved product mix including a good performance from new unified ranges, but was partly offset by higher staff costs, resulting in a retail profit uplift of 1.9%.

In the rest of Other International, like-for-like sales declined by 1.2% and delivered a loss of £24m, reflecting modest profits in Iberia and Turkey, but losses in Russia, Romania and Screwfix Germany.

In Russia sales declined 1.6% on a like-for-like basis and the business delivered a £9m loss.

Like-for-like sales in Q2 were up 2.1%, and we expect a better overall performance in H2. It should be noted that the operating environment was challenging, but this was nevertheless a disappointing result.

In Romania the business as a whole made a half year loss of £9m driven by the Praktiker stores.

Like-for-like sales were up +3.5%, with the existing Brico Depot Romania continuing to trade well, especially with the new ranges.

However sales performance of Praktiker Romania was weak, reflecting low footfall, as the stores have not yet been integrated with the Brico Depot business.

In Praktiker, old stock is being cleared through and stores are now receiving unified product, so we expect an improved performance in H2.

Sales of Unified offer across both businesses are going very well; a number of categories showing double digit growth.

In Screwfix Germany like-for-like growth was nearly 20%. The business made an £8m retail loss, which was in line with expectations and a slight improvement over the prior year.

For these smaller businesses, excluding Poland we expect a better performance in the second half of the year.

As Vero said, we will update at the Full Year with our plans to stop the losses in our portfolio.

Slide: Actions to support H2 performance in France (KW)

Now looking at France. Vero also commented on the root causes of our weak performance in Castorama France. I will focus on the financial impact of this and the actions we have in place to improve performance.

In France like-for-like sales were down 2.4%, with Castorama down 5.8% whilst Brico Dépôt was up 1.7%.

This compares with a French market that was flat overall in H1, but volatile from month to month. So from a sales perspective, we've actually have narrowed the gap to the market versus last year.

Brico Dépôt's sales result particularly reflected the good performance of the new unified ranges, supported by the phasing of investment in marketing for Brico's 25th Anniversary.

However, Castorama's sales performance was disappointing with continued weak footfall and some execution issues around transformational activity which affected the Offer and Digital initiatives.

Overall France retail profit decreased by 31%, reflecting the weak sales performance at Castorama France, a reduction in total France gross margin of 60 basis points largely reflecting logistics inefficiencies, and higher costs, notably relating to the phasing of marketing activity at Brico Dépôt.

I will explain the logistics inefficiencies when I speak about gross margin.

As Vero said, we remain convinced that the ONE Kingfisher plan is tackling the root causes of our underperformance in France. But in the shorter-term we have put actions in place to support the second half of the year performance. As Vero said, these are actions that absolutely fit with our strategy.

We are accelerating the move towards Every Day Low Pricing, accompanied by more effective customer communication.

And as well as this, we have improvements to make on the price architecture of new ranges – this work is already underway.

We have also already started to deal with some of the additional logistics costs which have been incurred as a result of taking on expensive short-term space to deal with the increased stock in the system as a consequence of stock actions in H2 last year and the slow sales in the first half of this year. Where we can, we are consolidating high cost temporary space into better suited space – which lowers cost per cubic metre and makes more efficient use of space, and reduces transport costs.

And over and above our continued GNFR initiatives we are tackling variable costs - for example, by flexing hours more efficiently. We did this effectively at B&Q last year and we are taking the learnings from there.

Slide: H1 Unified margin benefits offset by inefficiencies which we are addressing (KW)

Now let's look at the margin. Our reported net margin rate at a Group level was down 40 basis points. That's not where we wanted it to be. We have plans in place to improve on this in the second half of the year.

However, I wanted to use this waterfall chart to show what actually happened in the first half of the year, when progress on our Unified offer was offset by higher logistics costs, particularly in France.

You will see from the chart that margin progression on our unique and unified ranges continued - and generated 30bps of improvement after absorbing cost inflation and after clearance and price investment.

We have experienced input cost inflation - partly price increases, and some continued FX headwinds. Our unified approach has been critical to managing the impact of this input cost inflation, helping us to continue to improve our price positioning, whilst growing the unified product margin.

We continued to improve our price index and are now at just below 100 across the Group, with further progress being made in France, on Castorama prices down from 108 when we started, to 104 at the end of last year and now at 101, and with our EDLP work and communications already launched in B&Q, and planned for France.

Like others, we are operating against a challenging backdrop, but we have remained true to our pricing strategy.

The margin on our non-unified offer was slightly down after absorbing similar headwinds to Unified but without the benefit of our Unified approach.

As expected, clearance levels are similar to last year, so they are not impacting the H1 reported margin rate.

You will see later in the presentation that we are doing what we said we would to reduce the Mitigation stock that we brought into our network last year, when we wanted to reduce the impact of transformation related disruption on customers. We are not calling out availability issues as a significant factor in H1 performance because it has improved. However, elevated levels of stock and a slow start to the year in terms of sales have resulted in a 40 basis point margin drag coming from additional logistics costs and stock inefficiencies, particularly in France, where relatively expensive temporary space was secured to keep inventory moving in the network.

We also opened a new warehouse facility in Screwfix, and as this is not yet operating at optimal levels, it is creating some cost absorption impact in the margin.

It is also worth pointing out that as the relatively lower margin Screwfix and Poland business have grown in H1, this has had a negative impact on Group operating mix in the margin.

Slide: Expecting improvement in H2 margin (KW)

We do have plans in place to improve in the second half of the year, in order to deliver a positive reported uplift in margin rate, post clearance, for the full year.

We don't expect the macro backdrop to improve, so we continue to assume similar input cost pressures to those we experienced in H1.

In France, we have some changes to the make up of our price architecture to make. So we do not expect an H2 drag from price investment.

We will also benefit from seasonal mix, as H2 will be less weighted to lower margin outdoor categories. And with more range implementations planned for the second half of the year, we expect cost price reduction benefits to increase. This was what happened last year.

Our categories have very different margins and so if we grow strongly in a high margin category, it can positively skew the Group margin. To illustrate this point, the highest margin category has a margin 25 percentage points above the category with the lowest margin.

We have already started to address the logistics inefficiencies by reducing and optimising warehousing requirements and by continuing to work on the mitigation stock levels that we increased last year.

Slide: Operational Efficiency – GNFR continuing to deliver (KW)

Moving now to update on Operational Efficiency. As you know, we are targeting £100m of operational efficiency benefits by 20/21, largely driven by our Goods Not for Resale initiatives.

To date, we have delivered £72m of benefits of which £14m was achieved in this H1.

£8m came from GNFR benefits, with savings achieved in areas such as professional services and even billboards.

As we said we would, we are starting to work on other areas. In H1, the remaining £6m came from savings mainly related to restructuring in B&Q.

Our Finance Shared Service centre in Poland was established in February 2018 and now has around 150 employees mainly supporting B&Q. Activities will transfer in the second half of the year from France.

We remain on track to deliver £30m of benefits in the full year.

To date our focus has been largely on improving operational efficiency and driving down operating costs but now, we are also working on driving efficiencies in capital expenditure. This could increase the addressable opportunity and should, over time, provide scope to make our capex consumption more effective.

Slide: H1 18/19 financial summary: cash and returns (KW)

Now on to cash and returns. We generated £285m of free cash flow and our half year net cash position was £99m. This was after planned transformation costs of £52m, and £250m returns to shareholders.

This represents a modest increase on our year end net cash position of £68m.

The Board is declaring a flat interim dividend of 3.33p which is consistent with our full year target range of 2-2.5 times dividend cover.

In addition to ordinary dividends of £160m, we returned £90m to shareholders via share buyback.

Of the £600m we committed to return over the first three years of our 5 year plan, £550m of shares have now been repurchased.

Slide: H1 18/19 uses of operating cash-flow (KW)

Now let's look at uses of cash. In the half year, we generated £460m of EBITDA and there was a £77m inflow of working capital. We paid tax and interest of £81m out of this and we invested £165m of this back into the business.

As mentioned we returned £250m to shareholders via ordinary dividends and share buy backs.

Our lease adjusted net debt to EBITDAR ratio increased slightly to 2.5x times from 2.4x at year end. The Group continues to have financial flexibility whilst retaining an efficient cost of capital.

Slide: Working Capital – mitigating stock reducing (KW)

Now let's look at working capital. This has been a key area of focus for the business. As Vero explained earlier, and as you know well, our stock position at year end increased significantly, partly as a result of changes to our operating model, but also as we carried more stock to protect the customer experience during a time of disruption.

We showed the equivalent of this chart at the year end and I'll break down the £77m working capital inflow in the first half of the year into the same moving parts.

We saw a £27m impact from growth - this is a normal aspect of our business.

We have more stock in the business relating to new stores in Screwfix, Poland and our recently acquired business in Romania.

The second element highlighted relates to the move to unified product ranges. In order to sustainably leverage the scale of our group we are changing our operating model and controlling more of the supply chain than we used to. Costs, which used to be in the cost of product we bought from distributors, are now in our supply chain. As expected, and as we unified more ranges, this element increased by £35m.

New unified ranges increased stock by a further £25m. This reflects ongoing first-time purchases of new ranges, as we need to fill the displays and support initial sales for our customers.

We have been working hard on reducing what we call ‘mitigation stock’ - which is the extra non-unified stock in fast selling lines we brought into inventory last year. At last year end this had increased our stock balance by £180m.

I’m pleased to say that the stock reduction plans that we put in place are working effectively and we have already reduced the stock by £90m so far.

Finally, the net of the change in payables and receivables was a positive £74m largely expected to be phasing leading to a £77m overall working capital inflow.

Slide: Disciplined approach to capex (KW)

Let’s now turn to H1 capex and our guidance on our total capital expenditure for this year. The left-hand circle represents the £165m that we invested in the first half of the year.

This shows that we invested about a third of our capex on refreshing and maintaining existing stores; and we invested about the same amount on IT projects. We continue to roll out our Unified IT platform in Castorama France; we are starting to implement in Brico France; and we have completed the store roll out in Poland.

We invested another 13% of the total on our transformation - this included store capex for our new ranges and digital spend.

The right-hand block represents our new, reduced guidance of up to £350m for the full year, down from up to £425m previously.

The £75m reduction includes lower spend on new stores with IT spend preserved and transformation slightly reduced.

Slide: £800m total transformation cost guidance unchanged (KW)

Now let’s look at how we are tracking versus our total transformation costs in the 5 year plan. During the Half we spent £119m of transformation costs in addition to the £271m we spend in the first two years of the plan.

Our full year guidance for this year is £240m, slightly higher than previously guided reflecting small changes to P&L costs and exceptional costs.

We continue to expect that the total Transformation cost of our plan will be around £800m. This leaves close to £300m for years 4 & 5 of the plan.

Although we don’t expect a change to the total, we are likely to see some further rebalancing between transformation P&L costs and exceptional costs. We will update more fully on this at the year end.

Slide: Financial summary (KW)

To summarise, in the first half of the year, Unified and Unique sales and margin continued to grow. However, these margin benefits were outweighed by a weak performance in France, and higher logistics costs.

We have actions underway to improve our H2 performance in France, and also to deliver a better H2 margin performance at a Group level. As we execute on these plans we expect to grow the Group gross margin after clearance in the full year.

Our transformation costs are broadly as expected and our stock reduction plans to deal with increased levels of non-unified stock are progressing well. Our balance sheet remains strong, and we continued to return surplus cash to shareholders.

We are operating in challenging markets which make a tough plan tougher. But we are doing the things we said we would do, and we are on track to achieve our strategic milestones for the third year.

So, thank you for listening to us both and now we'll take questions.