

Kingfisher plc – Investor Relations
Introduction by Ian Cheshire
7 October 2010

Welcome and Introduction

Ian Cheshire

Group Chief Executive, Kingfisher plc

I. Preamble

Welcome to everybody who has made the effort to come. I appreciate many people travelled a long way to be here. This is very much an experiment for us to come together in a sort of reverse roadshow or institutional speed-dating arrangement and to share the afternoon with the top 18 managers in the group, which is hopefully an opportunity for you to get closer to some of the issues perhaps than when it is just Ian, Kevin, or myself. I am very interested in your feedback on what you find useful, how it works. We have a fairly open process; basically it is a series of loose, informal meetings. I would like to make five brief comments about Kingfisher; where we are, and why we believe our future looks particularly strong.

Firstly, we believe our market has great opportunities for us. Second, we think we start with a series of potential within the business. We have historically been asked ‘Why have you not been able to do this before?’, and Lisa and others have berated me for many years with things like ‘You talked about sourcing; why has it not happened?’ We want to explain why we think that although we have great potential, we have not managed to unlock all of it in the past. Then we are going to briefly demonstrate that we have a new approach that is beginning to work, and briefly talk about life after 2012. In some time around March next year we will be talking about life after the seven-point Delivering Value plan, which I keep reminding people is a 3-year process; we are only 18 months through, so halfway. We need to deliver the numbers and particularly the earnings numbers for Delivering Value, but we also need to create the picture of why Kingfisher is a growth story over a five- or 10-year period. We just want to share some very initial top line thoughts, and we will do the full thing in March.

II. Market

Firstly, we believe that the home improvement market worldwide has fundamentally long-term demand built into it. The home improvement drive around the world is something that is not necessarily driven purely by a housing market; it is a more fundamental consumer dynamic of wanting to spend money on improving your home. There are massive unmet demands in Central Europe, in China, and even in the ‘mature’ countries; we think this is fundamentally a good market.

III. Potential

Secondly, these are typically products sets that are common across our geographies, which gives us as an international group a potential scale advantage that we can exploit. In our industry, we have very few major dominant suppliers. We do not have an Apple, we do not have a Sony or a Panasonic, and as a result, the scale opportunity really lies with the retailer. For us, the challenge is how to work as a \$10 billion or \$15 billion company intelligently to exploit that scale, while still having the benefit of our diversity. We also think it is a defensible market. Home improvement is one of the least penetrated by the internet, and least easily attacked by hypermarkets around the world, all of whom have tried, and continue to try. We think that gives us some profit pool opportunities.

IV. Kingfisher plc at Present

We are the number one outside the US by a reasonable distance. We have access to half a billion homes in the eight markets in which we operate, which implies a \$150 billion market, so we are facing a scale opportunity rather than a series of small markets. We already have market leadership in five countries – the UK, France, Poland, China, and Turkey - and we have promising positions in the other three. \$15 billion of sales are split 40:40:20 between the UK, France, and developing countries. Critically, we have on our balance sheet (which has improved significantly over the last two years) \$4.5 billion of freehold property, which gives us a really firm underpinning.

We are trying to demonstrate today – and this is something we used at our top 250 managers conference in Barcelona this year – that we have assembled globally, with the arrival of some new fresh talent - Loeken[?] and Atlanta[?] to name a couple - and the promotion of people within the business, the best home improvement know-how anywhere in the world. Whereas I grew up coming to the States to worship at the altar of US retailing, I believe now that we have as much best practice to exchange with the US players as they have to teach us.

V. Kingfisher plc in the Past

The question then raised is ‘Why was this potential not brought out earlier?’ There are a number of points that are important to understand historically before we can say what we are going to do going forward. Firstly, particularly when Kingfisher was a conglomerate, it was extremely decentralised, run like a bank; it probably had to be given the diversity. For my first strategy review when I came in as strategy director, I had to do 13 separate companies and by the end of it you really cannot get into any depth. As a result, it was run decentralised. That stuck, and perhaps we could not really bring the businesses together intelligently to work out how we could unlock that potential.

We also had quite a lot of coming and going with M&A, mergers and demergers attempted and so on, so there was not really clarity of purpose around being a home improvement player. I think the world changed for us in 2008 - I probably would say that because that is when I took over - but I do think we have made a couple of fundamental steps forward. Three regional CEOs, Kevin, and I are now running the business as a group of five with a shared agenda and a shared objective of creating value at Kingfisher level. That sounds very obvious, but I have to tell you, frankly, that after 13 years at Kingfisher, it was not the case before. The other thing I would say is that the quality of talent in that team is outstanding.

We also committed ourselves to effectively doubling our EPS, so in our incentive plan we set out a growth to 19.6p EPS for next year. At the time, we believed it was stretching, and some of my friends in the City told me it was far too stretching. A year later, they were telling me it was not stretching enough, which I suppose is gratitude, but it was about setting was some clear direction and clear ambition.

We focused on a limited number of things; cash is king. There was a real focus on getting our hard debt down, understanding where we have capital invested, and how we make cash returns. We also set out the Delivering Value seven-step plan, which was not exactly rocket science but it was an attempt to focus the business on doing a few things that really mattered and getting everyone behind it. To take one of the seven steps – reducing our working capital, because we knew that was an opportunity - we said ‘this is a priority; you and each individual business need to figure out how to do it, but this is going to be something we are going to go after’.

I think it is fair to say that just over two years on we are seeing some pretty encouraging signs. We are not finished there, we are not done, but if we look at some of the basic metrics, EPS was up 45% last year, Return on Capital Investment was up 250 basis points and, for me one of the most critical things, we reduced net debt by 1.3 billion. Therefore, we significantly strengthened the balance sheet, and that gives us options while simultaneously maintaining target investment, particularly in areas where we have made good returns. Finally, we have seen the beginning of a dividend increase for the first time in five years, and on the current ratio cover, we would expect our current dividend payments to increase approximately in line with earnings. Since 2008, we have seen the price move ahead of the general retailers and the FTSE, so broadly we think we are on track to deliver Delivering Value. We are possibly ahead in a couple of dimensions, particularly around sourcing. Our sourcing office with Véronique and Anthony is responsible for our group sourcing dimension and is providing encouragement. So we think we are making progress, but we do recognise that there is life after 2012, and as we come into 2011, we have to start painting that picture.

VI. New approach and Kingfisher plc in the Future

We have said that we need to have a big ambition; we need to drive this business forward. It is not going to be good enough to sit there and say ‘we are profitable, we are OK, we are throwing off cash’. Our ambition is to be the world’s leading local home improvement retailer. That does not necessarily mean the biggest in terms of absolute cash. We are not going to try and take over Depot tomorrow – we have looked at leveraging up and it looks a bit challenging at the moment. What we are setting out is an ambition to become a leader, and to be a leader you have to be the best. If you are the best, the revenues and the profits will follow you. If you set out just to be big, I am not sure you will ever do the right thing for your customers, your teams, or your shareholders. Therefore, in each of our operating units we are asking ‘How do we become the leading local home improvement retailer?’ Local is really important because if you do not do it with the customer in the store, on the screen, or on his or her mobile, you are not really doing it, even if you are in some ways assembling a large and successful financial organisation. We want to do it for the retailer.

There a couple of themes that we will talk about a bit more, but one broad theme is that the core of our strategy is going to be building deeper into our DIY heritage. It does not mean we are not going to do other things, but we believe that there is more to come from DIY. As we say in France, the *métier* has got a lot more room for growth. The core theme emerging is that we believe that if we can make it easier for customers to do home improvement, there is an unmet level of demand. Essentially, we are competing with people spending money on cars, holidays, and eating out. One of

the things we are hearing from our customers is that they do not find it easy to do home improvement. So we have the Casto France model of 'do it smart' led by Guy and the team in France, which for example makes paint selection colour-driven, making it easier to find your paint. It is a whole set of initiatives around innovative products like thin tiles, that you can put directly onto existing tiles, meaning that you do not have to go through the whole process of reconstructing the floor base before you lay them. We think there is a lot more to come, and the UK is also thinking around the theme, as is China. Although the theme of 'make it easy' will be a strategic theme, the actual application is slightly different market by market. But we think there is more to come from enlarging this market.

Another theme is that we believe profoundly that this is a market and industry that has been quite boring. On the slide, you will see a really frightening product; a WC with a basin on top. People initially freak out when they see this because they think 'I'm washing my hands in a toilet'. Actually, it is two great things. Firstly, it is an eco-product, because the wastewater from washing your hands goes to fill the cistern. Secondly, it is a space-saving product. If you are in dense cities in Eastern Europe and you do not have the room to put an extra basin in, you get two-for-one. This accounted for nearly 10% of the toilet sales in Casto within 6 months and it is now in B&Q in the UK. Along this broader theme of innovation, we believed profoundly there is a big global opportunity in eco-products and sustainability, of which energy saving is an obvious area. For example, there is a natural paint product that is effectively a powder that you mix up but has no VOCs, and for the supply chain experts in the room, you will notice that you do not have to ship all the way round the country large amounts of liquid; you actually have a much more effective product. We believe innovation is a key way in which we are going to drive the business. We are also going to focus on great value. We believe that we are a mass-market retailer. We will have blindingly good prices and we will use our global sourcing to allow us to continue to invest in price.

Finally, led by Véronique and Peter Hogsted we have just created - and this may not look very revolutionary - 10 major group brands that will be own-label brands across the entire group. Previously we had Castorama, B&Q, and other different brands. We are now saying by category, we will have a group brand, which means we can now have common product in a way that you simply cannot if you have not aligned your existing product opportunities. The various brands include Bloomer for kitchen furniture; Cooke and Lewis will become the kitchen and bathroom brand around the world; and our opening Price Point brand, so we will have price-fighting, entry-price product similar around the group.

The second part of this is we have to align our range calendar so that when we change product we do it at the same time. Starting next year, you will see these brands with multilingual packaging in all our businesses and we will gradually start ramping this up. I know from spending nearly 13 years in Kingfisher that this is one of the more significant breakthroughs that Véronique and Peter have been able to accomplish because it opens the door to the sourcing opportunity. We believe this will drive enormous value for us in the future. What we intend to do is drive a twin track. We are driving for higher returns and we think there is more to come, but we are also looking for profitable growth. Fundamentally, the message is a growth message; 'how do we grow shareholder value going forward?' We will do chapter and verse on this in March and a lot more detail, and we are working now with our top 250 to make sure everyone has bought into this and is properly aligned. I am absolutely convinced we have a 10-year opportunity rather than a two year recovery story.

VII. Conclusion

To recap, we think we have a great market. We think we are starting with Kingfisher in a strong place. We recognise that we have not been able in the past to unlock that potential, but we think we are now doing that. We think that this approach is working and we are thinking hard about life after 2012, which we think is a terrific opportunity to carry on delivering value.

With that, I would like to conclude. The people in the room represent our most important, our most senior managers. I am personally very happy that they are getting a chance to meet you just to find out how difficult it is to stand up in front of shareholders and go through the examination process. However, what I would really encourage you to do is to make a connection here and really take the opportunity because we have relatively fluid time. We are all here specifically, armed with iPads, with pictures, and with stories and it is a great opportunity for us to share the Kingfisher story, so I hope you take full advantage of it. Please do follow up with everyone you want to, and I wish you a really enjoyable rest of the afternoon. Thank you very much.

This Full Transcript was produced by Ubiquis (+44 (0)20 7269 0370)