Kingfisher

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Kingfisher PLC Q1 Trading Update Conference Call

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Philip Dorgan Panmure Gordon - Analyst
Simon Irwin Credit Suisse - Analyst
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Warwick Okines Deutsche Bank - Analyst
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Transcript

Introduction
Operator
Good day, and welcome to the Kingfisher Q1 trading update conference call. For your information, this call is being recorded. At this time, I'd like to turn the conference over to Sarah Levy, Head of Investor Relations. Please go ahead.

Sarah Levy - Kingfisher plc – Head of Investor Relations
Thank you very much. Hello, everyone, from a drizzly London, in a week which, similar to the exit rates in the LFL chart at the front of the release, does show some promise; some sunshine forecast for this weekend.

So welcome to Kingfisher's first quarter trading update conference call for the financial year 2013/'14. Hopefully, you will have all seen our short announcement issued this morning.

To expand on the key messages and answer your questions, I'm joined by Ian Cheshire, Group CEO; Karen Witts, Group CFO; and Ian Harding, Group

Communications Director, who apologizes for not being able to think up any more good weather-related jokes (laughter), and so instead gave me the honour of handing over to Ian Cheshire for a few introductory words before taking your questions. Over to you, Ian.

Ian Cheshire - Kingfisher plc - Group Chief Executive
Sarah thanks. Well, the honour's all mine. I view this as a massive buy signal, if Sarah's decided to take over the introductions at the bottom of the cycle, so this is clearly the start of a big upward tick.

In terms of the quarter, we've talked about it being a difficult quarter, but we're really down to three reasons, which played out across the three major markets. Firstly, we are still seeing, as we saw from Q3/Q4 last year, an underlying softness in the market; possibly less than we saw in Q4, in terms of the core markets, but compounded then by poor weather. And it really was in March and the first two weeks of April, so 6 out of the 13 weeks. And it's particularly strong in LFL terms, because of the strong March we had last year, which was really the last decent month before the weather collapsed for the year.

And I think that leads us to the fact that that obviously hit seasonal sales and footfall, but was reversing when we saw the sun coming out. So we do think it is a pretty clear weather effect. And finally, the other shift from possibly where some of the spread sheets are for the quarter, with the degree of reinvesting our self-help gains, which continue to come through on things like sourcing and cost control, into affordability.

So particularly Russia and Poland saw a significant investment, and some in the UK, that reinvestment is expected to ease off as we either annualize it, or we get the benefits coming through, through the year. So we would expect that certainly two out of the three to be not present in the rest of the year.

The net effect, however, in our smallest quarter was to give us a big percentage decline in terms of year-on-year profit, 28%. But with 80% of the year left to go, we think the numbers out there in the market remain eminently achievable.

So if I talk, really, through the geographies and a quick conclusion. France, for the quarter to date, we saw Banque de France data at minus 7%, so we're comfortable that Kingfisher at 3.8%, in total terms, was up against the -- outperformed the market.

But with Brico still being correlated more with the housing market, although we did see a little tick up in housing market sales in March -- starts, rather, which, if our three to six-month lag effect is in place, gives us, again, a bit of a glimmer of light, possibly, for Brico.

UK, obviously 30% of sales is outdoor and garden. So when you get hit by the cold weather, seasonal sales were down 10%, with some individual highlights, and bedding down 8%, greenhouses down 52%. And the most bizarre statistic that followed fuel sales, coal and fire logs were up 66%. Basically, people went inside. We got a bit more tiling, 2% up; paints up nearly 8%, but not enough to offset that.

One other factor in the quarter, just in the strategy to point out, May 12 we launched Homefit, the B&Q installation services, which builds out from the experience now established, with quality operation in kitchen and bathrooms, into a broad range of installations, which is now national, and some early encouraging signs.

Our other brand in the UK, Screwfix, having a very strong period. Continued openings, eight more sites, and overall sales up 13%; really as the trade market was slightly more robust than the retail market, and obviously less weather driven.

Other international, Q1's always the smallest quarter, really, because we normally get Eastern European winters and Chinese New Year. So you get some big seasonal swings around, virtually, flat. So last year it was GBP7 million profit, and then, by contrast, the second quarter was a GBP16 million profit. So, again, not too worried. And particularly, we saw massive volatility in Poland. The GfK data there went from minus 5% in February, to minus 18% in March, and it's showing a bounce back to positive territory in April. So big, big swings there, and it's worth saying overall for the Group, really the miss that we saw in terms of year-on-year profit was entirely focused in March.

Elsewhere a mix, Turkey, China are growing; Spain and Hornbach going backwards. And obviously, we announced the Romania deal -- just for noting, technically our first direct new market entry for seven years. We are completing that tomorrow.

Net cash, GBP264 million is a positive, but really this is the seasonal pattern unwinding. There's no particular change in cash flow as a result of that.

And so finishing on outlook; despite a grim March I think the outlook remains still reasonably positive. There's really, again, three reasons behind that. We see the housing market, particularly in the UK, but also to a lesser extent in France, beginning to show some signs of future growth. I think the key for us is first and second-time buyers been getting back onto the property ladder and spending. If we see that come through, we will start, potentially, seeing a reversal of the UK housing market, home ownership decline, which we were seeing, and a further growth in the French increase in home ownership.

Secondly, the exit rates on Q1, when we got weather, were pretty encouraging. Summer season's ahead of us. We've had better weather so far, mostly in May, although Tuesday felt like rather a return to December, but the forecast for the weekend is fantastic, so I'm sure we'll be all right.

Then finally, the reinvestment hit that we saw in the quarter is not planned to be played out again in the same way. So the shape of the rest of the year should look a bit different, so we're not extrapolating from this, and we've got the 80% to shoot for. That said, we will continue to do the weather dance on a regular basis because it would be unkind to have two 100-year weather events, but never say never.

As we stand today, I think the self-help program, the internal view of that remains positive, and we remain pretty clear about where we're going. So we think we can look forward rather than backwards, and that's really the message of the day.

So we'll go to Q&A from now, please.

Questions and Answers

Operator

(Operator Instructions). Jamie Merriman, Sanford Bernstein.

Jamie Merriman - Sanford C. Bernstein & Co., LLC – Analyst
Just two questions from me. One is really just about the pricing environment that you're seeing in the UK and the reinvestment that you did this quarter. I guess if you could just talk about whether that was led by seasonal product or whether that's an underlying move in price in the UK.

Then also how that compares to last year because if I remember correctly, with the seasonal weakness in Q1 last year, you held back on any price moves until Q2. So maybe you could just talk about how that played out this year?

Ian Cheshire - Kingfisher plc - Group Chief Executive
Okay, I'll just kick off and if Ian, Sarah or Karen want to jump in on these any time, please do. The pricing investment in the UK is strategically targeted at key KVIs, where we know we can potentially drive elasticity. We also know that it takes 6 to 9 months, or in some cases 12 months, to get that volume back, so this is backend loaded in terms of benefit. We're tracking those on a weekly and monthly basis. Basically, they're not seasonal; they are much more in categories where we see all year round, so some of the plumbing and electrical categories, for example.

We have similarly held off on any form of really aggressive discounts on seasonal, including, for example, last weekend, you had Homebase at 15% off everything, no minimum. We have targeted some of the areas like three for two offers, but we have not gone down that route, simply because we felt, in the depths of freezing March, there was no point cutting those prices. So the majority of the price investment is in that area. I don't know if Sarah's comfortable disclosing the percentage. It's about 60 basis points of sourcing gain being reinvested in the price. As I said, we expect this to be a net return investment over time, so this is not something that fundamentally signals, if you like, a massive shift.

Jamie Merriman - Sanford C. Bernstein & Co., LLC - Analyst
Okay. Thank you.

Operator
Ben Spruntulis, Exane.

Ben Spruntulis - Exane BNP Paribas - Analyst
Two questions from me. Firstly, just building on the question around price investment in Q1; can you just give some colour on the price elasticity you've seen in the markets that you mentioned?

Also, what market conditions would encourage you to further reinvest in price?

Ian Cheshire - Kingfisher plc - Group Chief Executive
Okay. It's probably a bit early in the UK to really call it, but I would describe ourselves as being slightly ahead of our plan. That is something that plays out, as I said, over six to nine months rather than just one month, but early signs okay.

I think the signs in Poland are fairly encouraging. Actually, I think based on GfK data, it looks like we're outperforming the market there. Having tracked with it, or slightly worse at some points last year, I think that is probably down to the price investment. So I think that is returning and we'll start annualising against it shortly. In Russia, we did also a certain amount of price investment, which has helped push that business forward. I think in all of these cases, you get into a very detailed SKU-by-SKU, category-by-category piece. And if we see signs that the elasticities aren't there after a certain while, then we switch off the prices, so it is a dynamic gain rather than a call once and let it run forever.

Ben Spruntulis - Exane BNP Paribas - Analyst
Okay, excellent. The second question I had was just on the UK. It feels like there's a lot going on in terms of government policy from financial lending to help-to-buy schemes. In terms of, obviously with taking weather out of the picture, if that is possible, is there anything you're seeing in terms of underlying demand patterns or macro indicators that would suggest some of that is actually starting to provide some support?

Ian Cheshire - Kingfisher plc - Group Chief Executive
I think it's probably a little bit early to see it in our market yet. But if I look at the leading indicators on mortgage approvals, house buyers' enquiry rates, things like traffic to Rightmove, there are lots of signs of the pent up demand that we feel is out there beginning to start to come through. Our core business was slightly better in Q1 than it had been in Q4, again the non-weather stuff. That is a little bit switching from outdoors to indoors, so it's probably a bit early to say that that's a definite sign. But I think there's a pipeline effect, potentially, beginning to build, which is one of the reasons why we think, going forward in the balance of the year, you will see us. I think we've obviously seen the new home build have the first benefit from the deposit schemes. That kicks in January; I think the market will start picking up before that.

Anecdotally, talking to the banks about the amount of money that they're planning to lend and the deposit requirements, this feels like a very different market to a year ago, and I think that's down to FLS. So I think the world is changing in the UK housing market, and we are probably second or third in the queue in terms of the impact. The home builders definitely first, but I think it is a sense that that is the way the wind is blowing.

Ben Spruntulis - Exane BNP Paribas - Analyst
Fantastic, very clear. Thanks, Ian.

Operator
Philip Dorgan, Panmure Gordon.

Philip Dorgan - Panmure Gordon & Co. - Analyst
I'd like to congratulate you on an excellent first quarter, but obviously, (laughter) that would be a lie.

My question concerns B&Q in the UK. and I hear what you're saying about the housing market, and your confidence that it's going to benefit you, but the underlying profit performance, in what is not an unimportant quarter for them, was still very poor. And if you look out, and I asked this question, I think, at the prelims, do you still remain confident that, looking what's happened in the past, i.e., quarter after quarter more or less of like-for-like declines, that we're not looking at something structural here and perhaps margins will have to move down, rather than up?

Ian Cheshire - Kingfisher plc - Group Chief Executive
At the moment, Philip -- thanks for coming -- the backdrop of what I think this quarter says is, I think -- it's a dangerous thing to say as every quarter's different, but just looking at the look-through on the business, I do expect that when we get the sun to

shine, even a little bit, we do see positive LFLs. I do think the core is looking slightly stronger, and it does feel like the consumers are beginning to unlock some of that pent-up demand. So it does feel like we are not yet in structural issue, because obviously we would react to that.

I think the structural issue that remains is the level of the sales densities, which are what we're trying to attack. There, we've now got actually, probably, I can declare, 15 stores now in solicitors' hands, which have been agreed with tenants doing subdivisions, which starts to attack our space density issue, which is the one structural issue I've absolutely had the business focus on. I think in terms of the other more fundamental question about, well, are margins disappearing; there is clearly margin pressure at the bottom end with the discounters. We need to be doing more in terms of the equivalent of Arrivages and OPP work.

I think, across the industry, I don't see quite that level of systemic price issue. And one of the things that's been interesting in this debate about is trade gaining share is that, for most people, trade is a higher cost channel. And actually, again, in times of customer -- price pressures, actually, the DIY option is a money saver, as well as being something that people actually still enjoying doing. So I look at this and go, do I think we need to fundamentally rebase the margins? Not -- I don't think that's a this-year challenge. Over time, there's going to be continued price pressure from the Internet which we need to take on board, all of which means we have to keep working on the sourcing and the cost work to keep bringing the value proposition, making it stronger every year. But I don't think we're seeing something structural. Now, I'd hope that if we do see a positive quarter of like for like in Q2, we're not going to declare end of trend, but at least it would be nice to be
able to demonstrate that it doesn't have to be mission impossible.

Philip Dorgan - Panmure Gordon & Co. - Analyst
Okay. Thank you very much.

Operator
Simon Irwin, Credit Suisse.

Simon Irwin - Credit Suisse - Analyst
A couple of questions for you. Firstly, can you just talk a little bit about TradePoint, and particularly what response you've seen from the online offer now that's finally got off the ground?

A little bit about the -- following up on what you were saying about the B&Q stores in solicitors' hands, as to how that actually plays out in terms of the do you actually see lower rentals per square foot? It's quite a lot of value being created, and I'm just wondering where this ends up, and potentially how many stores you think you can apply this to. And finally, just any comments you've got on inventory, particularly on the seasonal side.

Ian Cheshire - Kingfisher plc - Group Chief Executive
Firstly, TradePoint continues to perform well; it's growing year on year, and I think is a key part of allowing us to grow share in a market where we are relatively under penetrated. The website we have been running, but not really promoting until last week, so we're probably not yet at the point where we will start to take any of the numbers seriously, because we were really concerned just to do stability testing and a bit of real life user feedback. That's been done, it's going fine, and we'll now start to

ramp that up. And particularly for online recruitment, that's going to be an important channel, but also in terms-- as we know from the Screwfix experience, the mobile platform for that as well is going to be critical. So it will be, I think, over the course of this year before we really see a major contribution from that, but very happy with where it's got to.

I think in terms of the stores, we have said that the first tranche of conversations with the growth focused around up to 20 stores; we've got 15 of those are in process. The speed with which they get to be subdivided depends entirely on the planners. And while I think we've been pleasantly surprised with some of the reactions, and we've selected stores where believe planning should be positively received, you can't predict it. So we'll see what we see. We're then now going around the second round of the portfolio to look at other stores which were out of an original pot of about 50 stores that
we identified. As we look at those, we're taking really two tracks; one is, are those stores that we can subdivide effectively, or are they stores where we would want to take a metropolitan view and actually look at a disposal. Because we've got five stores, say, in the metropolitan area, we could live with four quite happily. So we get slightly different outcomes.

What we're seeing in terms of the rental levels with landlords is, to be honest, rather site specific. So in areas where we know the market's oversupplied you could see quite dramatic rent reductions, but probably in those areas we're looking to exit one or two stores completely. And in other areas, like some of the market towns, we actually want to carry on trading because we're quite often the only store in town. In those, you're seeing maybe 10% to 15% rental reductions.

So this will play out on a case-by-case basis, but it will be a significant shift in B&Q's [KEP] for this year. It's something we want to make sure we deliver, and so we're do a bit more of a dive on that when we get to the interims.

In terms of inventory, no particular reasons to comment on that at the moment. Obviously, if you sell a lot less seasonal at the end of the quarter, you've got rather a lot more stock; if you have then a few sunny weeks, you suddenly find you've got less stock. So I don't think there's any message I would give at the moment that would be any form of concern, but we are going to have a strategic effort to reduce the total stock count, particularly in B&Q with particular emphasis on aged stock, so stock over 12 months old where there's a drag in the system where I think we can unlock some more cash.

Simon Irwin - Credit Suisse - Analyst
Okay. But in terms of particularly very seasonal stuff, bedding plants and stuff like that, there isn't a massive overhang of product that you just have to get rid of in the next few weeks?

Ian Cheshire - Kingfisher plc - Group Chief Executive
No, the spring bedding that we could have sold has been basically shot and cleared and taken out. And I don't think at the moment -- in fact if anything, we've seen the swing has been very much in things like horti, so the stock position there in the last six weeks has improved obviously.

Simon Irwin - Credit Suisse - Analyst
Great. Okay, thank you.

Operator
Chris Chaviaras, Barclays.

Chris Chaviaras - Barclays - Analyst
Some of the questions around trading have already been asked, so I wanted to focus my questions on that comment, on that positive outlook that you give for the rest of the year. And I wanted to try to get a feel of, you had mentioned the last year weather had caused around GBP30 million of a profit loss, but no-one knows how the weather is really going to be this year. It has improved a little bit, but again, this quarter we had a slight reduction. Now, given that you expect consensus to stay where it is roughly, as I see in Reuters, I was wondering how much of a profit recovery do you already factor in from better weather? Could you quantify that this time at all?

Also, you did say that, I know it's too early to judge the help-to-buy scheme and I'm not going to disagree with that, but do you factor in, in your forecast, that you will [have] potentially some improvement in your second half trading because of that? And then my final question would be on the gross margin, and following from previous questions on the reinvestment, is it possible to say how much the underlying gross margin improved due to the self-help initiatives you have?

Ian Cheshire - Kingfisher plc - Group Chief Executive
Okay, I'll try and deal with them in order. Seasonal, and to get back to the consensus, there is some element of seasonal recovery, but actually, the majority of why we believe we could still hit the numbers is underpinned by cost actions which give us some reasons to believe, going through the year, plus some phasing differences on things like the price reinvestment.

We're not banking on fantastic weather for the remainder of the year. Obviously, if we get better weather that'll be a bonus and I think the quarter was a classic microcosm of what happens with this business when you get good and bad. So it's quite highly operationally geared when you get it good, but you can't plan for that. So some catch-up on the fixed seasonals, so things like barbeque and garden sets, but bedding and horticulture is what it is.

In terms of the lending scheme, we're not assuming actually, really, any help from that in the balance of the year. So the market assumption is that it may act as a backstop, it might help but we're not factoring in an explicit amount for it. We have, I think, got a sense of, this is a possible upside for us and it helps provide, if you like, a reason to believe the mid-case rather than something we'll bake into the numbers. But that said, I'll be surprised if the housing market by the end of the year isn't ticking up just because of the fact that people will be aware of the deposit opportunities coming through.

And in terms of reinvestment, we've discussed for the UK, broadly speaking we've put 60 basis points into reinvestment. It was more in Poland and more in Russia because they're starting from very different places. The paybacks on those, as I said earlier, will be monitored very carefully. I think I can already say in Poland it's helping move the dial and it's too early in the UK, but the very early weeks suggest that it's helping as well. So I think we are comfortable with those sorts of quantum. We're also comfortable that the underlying work to improve margin and reduce costs carries on through the year.

Chris Chaviaras - Barclays - Analyst
Actually, that's very helpful. Thank you very much, Ian.

Operator
Warwick Okines, Deutsche Bank.

Warwick Okines - Deutsche Bank Research - Analyst
Sorry, another question on the reinvestment in the UK. I understand, Ian, why some of the reinvestment annualizes in Poland pretty shortly, but why would that 60 bps in the UK annualize in the next couple of -- or fade in the next couple of quarters because, unless I'm wrong, a lot of this is the handy prices ranges which only came in towards the end of last year?

Ian Cheshire - Kingfisher plc - Group Chief Executive
There's probably three answers to that, Warwick. Firstly, there is an early elasticity movement. Some of these you do get back more quickly than others, so you do see a five week type turnaround. Some of it takes longer, so we will see some elasticity feeding in to offset the 0.6%. Secondly, we were looking to fund the price investment in the first nine months with an amount of cost price reduction on other stuff, which was over and above what we would have done. That will take a little time to feed in, but that will provide a counterweight and it was always explicitly being done to fill the timing gap that you need. And finally, I think we will see a different pattern in terms of some of the sourcing self-help kick in. So you get those overlays coming back the other way as opposed to 0.6% price investment, and it's enough to wash it.

Warwick Okines - Deutsche Bank Research - Analyst
Thank you. And just maybe one for Karen. I was just wondering about in France the payroll tax credit, has that kicked in? Have you recognized any benefit in Q1 and, if so, is that offset against operating costs, or will it be booked as a credit to corporation tax?

Karen Witts - Kingfisher plc - Group Finance Director
It's very small, but we have taken it. But as you know, we still don't have ultimate clarity from the government perspective on whether or not this can be kept or reinvested. So I wouldn't be assuming that we'll take a big benefit from this and that can be banked. And there were quite a lot of movements last year on the various payroll and social taxes in France which have not anniversaried out yet, so in fact anything that we put in on the wage tax credit got offset by the increase in national insurance.

Warwick Okines - Deutsche Bank Research - Analyst
Right, but that's in retail profit?

Karen Witts - Kingfisher plc - Group Finance Director
Yes.

Warwick Okines - Deutsche Bank Research - Analyst
Yes, great. Okay. Thanks very much.

Operator
Andy Hughes, UBS.

Andy Hughes - UBS - Analyst
I've got three questions, one on each of the big three.

On the UK, what you're saying about the competitive environment and more work on OPP, could that be the sort of thing which changes the margin profile? And just as a stage left question, whether you think you would be looking at a new format at the discount end of the market in the UK.

On France, just anything perhaps you could give us on shopping habits. What are we seeing in terms of footfall and average basket? Any sign that customers there are getting used to their dollop of austerity?

And finally on Poland, just why you're so confident that the price investment will annualize. Does it not depend on what the [OPPO] does in Poland? Could they take prices down another leg?

Ian Cheshire - Kingfisher plc - Group Chief Executive
UK, I think the comment on the discounters, because I think that is a big shift in the market in the last three years rather than shift to trade. And where is shows up is in the need to have a price challenger at the bottom end of the ‘good, better, best’ structure, which is probably a bit more price competitive than we thought. Providing we attack that from a sourcing point of view, it shouldn't necessarily change the margin. It would probably bring down the average basket slightly, but we have to source against that. So we basically now need to do, are doing and will continue to do with the Group, entry price own label, the sort of job that the supermarkets did with the likes of the Aldi price entry point. And so you're going to have a price fighter brand, rather than probably a price fighter format, Andy, because the key difference for us, and someone like B&M, is the property costs. And we couldn't do a discount format from a high cost property
base.

Now I don't particularly want to then go out and add more space to 25 million square feet we've already got. So I think we would focus on the range being the fighter and then taking the margin challenge on how do we do that without torching the margin or cannibalizing mid-price and better sales. So I think we've got a bit of range development to do to make sure we pitch our opening price points at the right level and cover the margin issue with sourcing.

Second on France. We've really just seen two issues, one of which is underlying market still a bit weak, so non-weather footfall continued from Q4 a bit down. But during the weather period for Casto in particular, big footfall declines. And the pattern is actually average basket up. So I don't think we're seeing a collapse of French confidence, in that sense, for those that want to buy. I think it's more people preferring some purchases and the seasonal effect coming in.

Finally on Poland, I think the answer there is we've been going for a while now on the price investment and I think we've seen some level of price reaction. I think, actually, the market's settling down and maybe we could argue we're back to where we should be. And, as a result, the other guys are not suffering as much, maybe, as they originally thought, but we're certainly getting the outperformance versus the market. So just based on the last four months or so of data, it looks like it's a stable trend and it's pointing the right way.

Andy Hughes - UBS - Analyst
Great. That's very clear. Thank you.

Operator
(Operator Instructions). Richard Chamberlain, Bank of America, Merrill Lynch.

Richard Chamberlain - BofA Merrill Lynch - Analyst
Just going back to the UK promotional environment, I just wondered if you could just clarify exactly what you were doing the quarter versus last year. Sounds like there was quite a lot of three for twos on decorative, and then 20% off some big ticket, but how did that compare with last year? That's my first question.

Then I just wanted to ask you quickly about Romania, the rationale for buying into the number three player. It seems like you're going to need to scale up that business quite a lot, over time. So wondered if you're expecting to see capacity withdrawal in that market, going forward, or was it just an opportunistic deal that came up? They're my two questions, please.

Ian Cheshire - Kingfisher plc - Group Chief Executive
Okay, great stuff. Promotionally, the difference quarter year on year is really that we did fewer 20% off over a certain amount and we did more focus category promotion this year. So three for twos on -- and we were driving primarily indoor projects and paint and decoratives. So trying to basically go where we could see some potential demand and narrow the scope from whole store discount, so we did a few less weekends. By contrast, from what I can see anyway, Homebase, with a mixture of online/offline, did more general promotion than they did last year. And Wickes have become more aggressive in terms of promotion in the last six weeks or so. So there is a sort of slight hotting up, as I think people struggle with the fact that the sales numbers were down. I'm not sure it's structural and, from our point of view, we're more interested in trying to target and manage down the level of discount and get it back into prices. So there's a lot
of effort going on, on mounting that. At the moment, I think that looks like it's working and we're happy. We certainly saw a more promotional, for example bathroom market, in the first six weeks, which was getting a lot of promotion, so we did respond to that and we got the sales back in the second six weeks.

Richard Chamberlain - BofA Merrill Lynch - Analyst
Okay, sorry, just remind me, in the last year, though, also the promotions were holding up weren't they this time? I guess people had to clear in May and so on. The weather was pretty lousy last year as well, so that was the same pattern last year wasn't it, or was it different this year?

Ian Cheshire - Kingfisher plc - Group Chief Executive
May is obviously Q2 rather than Q1, but from our point of view, I would say that you tend to see two things happening. You get people coming into the year and you get what has been historically a big bathroom/kitchen event, and then they take a view on how much they need to promote to finish. So you get variations in Q1, really, round the bathroom and promotional areas around that.

This year, it's probably been a bit more on bathroom, less on kitchen. And I think then, generally overall, people this year -- they had a very good March last year, so they didn't need to put the promotional button on. They put the promotional button on in March. I think as the weather improves people take a step back. So I think it's slightly more promotional rather than massively.

Switching to Romania, we've been talking about taking Brico internationally for a while. Eastern Europe looks like a good place to take a trade orientated, low cost discount format. The idea of Romania, the acquisition of Brico store, is to provide an accelerated opening platform, the combination of stores that we can convert, and existing people. So as opposed to an organic entry, it's a quicker way of getting there. As we've seen with Brico in France, we don't have to be the biggest footfall or space player to have a very profitable business, because the model's a bit different from traditional big box. So we see an opportunity to grow the business obviously beyond the one that we bought. We see, either locally or regionally, it's at least a 50 store opportunity, and we will base our expansion plans on the first conversions. And the final point, there are definitely opportunities for a capacity withdrawal in Romania because the number two player is Praktiker who have just pulled out of, well Turkey, and are pulling out of Luxembourg and rumors of elsewhere. And the other quite big player is bauMax who's – also there are rumors of what they're doing in terms of market departures. So I think it's not a bad time to be coming in and gearing up to expand in that area.

Richard Chamberlain - BofA Merrill Lynch - Analyst
Yes, okay. Okay, that's clear. Thanks.

Operator
Assad Malic, Citigroup.

Assad Malic - Citi - Analyst
Just two questions from me. Ian, your comments on costs or cost actions through the year, and obviously Q1 has been reasonably tight on costs; is it fair to assume that as we get through the year, it's less about lower levels of variable pay, and other strategic initiatives kicking in? Just wondering, given the cost action work you've done on costs last year, maybe you could highlight some of the initiatives that you're looking at this year.

And secondly, I know you updated on Castorama, but generally in France, I was just wondering, in terms of the pricing environment, whether you are seeing any sort of pressure coming through, or competitive pressure, and particularly whether there's any deviation between the markets that Casto is operating in and the competitive markets that Brico is operating in, please.

Ian Cheshire - Kingfisher plc - Group Chief Executive
Yes, okay. There are limits that -- the cost base is typically what the cost base is in a retailer, so you do look at the same old suspects every year, probably with a different set of opportunities. One example in the UK is this is the first full year of forecasting replenishment that should allow us to cut out a fair amount of structural, if you like, labour in terms of back door receiving and things like shrink and distribution costs. So there will be those type of initiatives rolling forward where I think we could see multiyear benefits. Part of the other type of initiative we're doing at the moment is rebalancing, basically, the store rosters; putting a lot more hours out of the existing wage bill into the weekend, and out of the week, so that they more closely match the trading patterns; and looking at the variable cost in the week when the volumes aren't there. And there's no magic bullet on this because it's a series of quite hard yards. But having seen great cost performance then you would sort of say, well, surely we've done everything we can. I think I'm just impressed with the guys responding to the challenge and saying, okay, where do we find offsets, how do we manage this. And I

wouldn't -- it's not the only game because we've got to keep working on margin and also look for sales growth. But the cost work I think is coming from a pretty wide variety of places including store labour, distribution costs, shrink and other store non-operational costs. And when you think you've done everything, then you bump into a venture which we'll be rolling out this year where by replacing store lighting in the UK with LED lighting, we can cut the electricity bill by 50%. So I just keep thinking that there's going to be a series of opportunities there. So we'll keep managing as hard as we can.

On pricing, in France, there's not much sign. I think there's been more aggression recently from Leroy Merlin in terms of promotional ad spend and a little bit on price, but frankly, within normal tolerances. So they're there, but I think they're also coming up against Brico more, so they're having to react to Brico more which is making them a little bit more visible on price.

By contrast, in terms of factors in the market, Brico is definitely more geared to that housing starts effect than Casto is. Now actually, if housing starts have ticked up in March, that is potentially a good news three to six months out if that trend carries on. And it is clear to say that probably the housing construction area in France has probably at least bottomed out. It may not bounce back up, but it's probably stopped declining. So the year-on-year comparatives might begin to get easier for Brico, whereas Casto is much more about store revitalization range change and the general French consumer.

So no discontinuities or major shifts, but clearly, still some uncertainty, courtesy of the government.

Assad Malic - Citi - Analyst
That's very clear. Thank you very much.

Operator
Paul Rossington, HSBC.

Paul Rossington - HSBC - Analyst
On a separate tack, there's been some not terribly flattering press commentary of late about the Green Deal government-backed schemes in the UK. Is there any update there you can provide us? Punitive interest rates on borrowing seem to be the key issue discouraging customers from using those schemes.

Ian Cheshire - Kingfisher plc - Group Chief Executive
7% is not really punitive but anyway, no, the first thing to say is that the Green Deal finance has only just been established, just written its first approval. So what you've got is about 15,000 to 18,000 surveys that have been done, and we've been very active on the affordable warmth program which is basically giving boilers to people in fuel poverty and collecting an eco subsidy for that. And that's got off to a very good start, and it's also got us into training for Green Deal, because you have to be able to do the assessment. So my sense is, the first ones are going to be completed in the country in June/July, so it's a bit early to say, right, this isn't working, because it hasn't really started. My sense is that our early experience is we're able -- the government aren't super subsidizing the Green Deal, so the implicit interest rate is about a 7%. I don't think that's punitive. And for a lot of people, they simply couldn't get a mortgage to do this type of work. So I think we will see this get word of mouth traction once it gets going. But at the moment, it's too early. We're very committed to it, and we're

seeing a good consumer reaction in the areas where we're out marketing this in terms of the B&Q brand versus, say, the energy companies.

Paul Rossington - HSBC - Analyst
Okay. Thank you.

Operator
Geoff Ruddell, Morgan Stanley.

Geoff Ruddell - Morgan Stanley - Analyst
I just wanted to ask a quick question, now that you've opened the Pandora's box on trading within the quarter, how the LFL of minus [11.7%] at B&Q last year varied between the months last year, because I just want to understand whether the improved trading you've seen in April is due to softer comps or due to a genuine pick up.

Ian Cheshire - Kingfisher plc - Group Chief Executive
Basically, the pattern last year was a strong March and a weak April, so you could almost say that what we're seeing this year is reversal of those comps. And that's, I suppose, in some ways some of the message we would be giving is that we're expecting a continued weather reversal through that. I think the main thing, however, is you've still got to take the pound notes through the stores, so the critical bit for me was seeing the numbers actually coming home. So yes, comps are much softer second half of April. Equally, we had a blinding start to last March, and this March was atrocious. So I think the unusual thing about this quarter was that you had such a strong small March last year and such a weak one this year. So the optics of it look more pronounced than they normally would.

Geoff Ruddell - Morgan Stanley - Analyst
And sorry, on a two-year basis in April, would you be up or down, in those last three weeks, the ones that look much stronger?

Ian Cheshire - Kingfisher plc - Group Chief Executive
It would be just slightly flat, I think.

Geoff Ruddell - Morgan Stanley - Analyst
Okay. Thanks very much.

Operator
That will conclude today's telephone Q&A session. I'll now hand back to the host for any closing or additional remarks.

Sarah Levy - Kingfisher plc – Head of Investor Relations
Well, thank you very much, guys, for dialing in today, and if you've got any other questions, feel free to contact me directly. And have a great weekend in the sunshine.

Operator
That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.