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Kingfisher PLC Third Quarter Results conference Call

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Chris Chaviaras Barclays - Analyst
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Jamie Merriman Sanford C. Bernstein & Co., LLC - Analyst
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Rob Joyce Goldman Sachs & Co. - Analyst
Fraser Ramzan Nomura - Analyst
Geoff Ruddell Morgan Stanley – Analyst

Transcript

Sarah Levy – Kingfisher PLC - Director of Investor Relations

Good morning, everyone. Now my first time as Director of Investor Relations, welcome to Kingfisher's third quarter trading update conference call 2013/14. A quarter, which now in keeping with tradition, has to be impacted by weather somewhere; October's high winds leading to storming sales of fence panels at B&Q the week afterwards. Hopefully, you will all have seen our short announcement issued this morning covering our Q3, and also a couple of changes, going forward, to our financial reporting calendar. 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.

Allow me, therefore, now to hand over to Ian Cheshire for a few introductory comments before taking your questions. Over to you, Ian.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Well, thank you very much for the first time introductions, Sarah, and the Ian Harding memorial joke (laughter).

I think the overall message is that, having gone through clearly a mixed first half of 2013, we saw Q3 come through with growth in sales and profits, which is important, given it's one of our big trading periods and sales up in each of the geographic divisions; in overall terms 8% up, or 4.6% in constant currency, based on a 1.4% like for like.

Retail profit up in total; reported basis is nearly 6% to GBP271 million, which is 1.7% in constant currencies, and clearly, the sales and the profit growth is a little less than had been pencilled in, reflecting, I think mostly, the ongoing weakness of the market in France. The economy there really seems to be lagging behind some of the recovery trends we're perhaps seeing in the UK, where I think some of the stimulus over the last 12 months has shown up, certainly in the construction market, and reflected in some of the trade numbers that you've seen.

If we look at the performance by geographic area, just to touch on a few details. Sales were up 1.9%, but retail profit down 5.6% to GBP140 million, against a backdrop where consumer confidence remains weak. The overall Banque de France data we put in the release is 0.2%; it's flat. Actually, DIY is probably doing better than the furniture and other retail markets in France. So it's more resilient, but it's not really going anywhere. And on a 12 month moving basis, with the markets down 2.2%.

So this isn't a buoyant market and I think, as a result of that, in the quarter we saw a high degree of promotional activity, both advertising spend and price action, which has meant there's been again a level of margin impact in this quarter.

Probably also worth pointing out though the GBP4 million to GBP6 million difference in timing and bonus release from last year and development costs this year, which probably mean the profit number for the quarter looks optically a little bit worse, and not what I would describe as the underlying reality.

The Casto sales have clearly outperformed the market; in France I think we're in good structural shape. And Brico, although weaker than the Banque de France data in terms of the data we're looking at, looks to be tracking in line also with the construction estimates. There you are still seeing, if you take the quarter, an over 20% year-on-year decline in permis de construires and the housing market that's in negative territory, as opposed to the UK being in positive territory.

I think both businesses in France have been coping with the environment reasonably well, but the environment is significantly less cheerful.

Turning to the UK; sales and profits up, really turbocharged by a great performance from Screwfix. Overall sales in the UK 2% LFL, 3.7% up, resulting in profit growth in the UK in total of 8.3%, which is a very decent performance for us.

I think the contrast between the two -- really between B&Q and Screwfix underlines this point about trade and consumer. B&Q LFL 0.4% with indoor really picking up. Outdoor products year on year down really because, last year in Q3, we cleared a lot of our seasonal stuff that we hadn't managed to sell in the dreadful spring/summer. This year, we've sold it at a fuller price, so the mix is different and generally, building products and indoor projects seem to have gone well. Flooring sales, pretty strong, and there may have been some been read across there from the earlier numbers we saw from Topps.

And then the one-off factoid is that the storm delivered a 41% surge, as Sarah said, in fence panel sales. We're still selling lots of interesting fashionable products. If you have a desire to have your wall covered with white wallpaper with massive red kiss prints on it, please come to B&Q immediately; it's one of our best sellers and may be selling out.

B&Q, I think it's actually pointing out it's two quarters of positive LFL. You have to go right back to, I think, 2009 to see that. A good solid performance, really helped by TradePoint in the heavy end, rather than the soft end. But consumers probably not spending at the rate that the trade and the business end is, because realistically, real wages have yet to catch up.

Screwfix, LFL of 11%, fantastic; 300th store opening; click and collect is now 50% of the website orders; and we're seeing, particularly individual areas like workwear selling well. So the white vain man is alive and spending and we think Screwfix is well set up for further growth.

On other international, in total terms, sales up 12%, and that's partly helped by including Romania for the first time. And good profit growth, 14% in constant currency.

I think really the highlight, pointing out the positive, is a very good performance in Poland, which is encouraging to see after a difficult few years and Romania chipping in GBP1 million, but offset in the quarter by a continued weakness in the Russian market where we've got single digit LFL now as opposed to double digit at the beginning of the year. I think we are seeing a softer market in Russia, which is leading to that decelerating. Over again the midterm, I don't have any issue with that being a fantastic market, but it's probably changing the shape of our other international.

So in stepping back and saying, where are we? It's good to have delivered sales and profit growth as this is important, but we recognize that the markets in the UK are showing signs of encouragement from the trade end; probably a bit early to call it from the consumer end.

France remains a concern, but I think it is a concern that the business is well-placed to deal with and I certainly wouldn't be turning bearish on France. I think it's just a difficult trading period. If it continues for a bit longer, then there may be opportunities on the upside for us in terms of gaining share.

So I would stay fairly sanguine about France, and particularly if you take out some of the timing distortions, quarter on quarter, year on year, I think the underlying position is reasonably decent. I think what this keeps just coming back to is we need to carry on executing the plan, particularly in terms of driving margin improvement and then choosing how we reinvest it.

We will, I think, continue to benefit from the trade-led recovery in the UK, and we continue to benefit from having a very wide international spread.

So from my point of view, I think we have a lot more self-help to do. Reasonably robust sets of opportunities, and I think greater visibility in France would be a good thing, but I think the underlying position is decent. And we basically look forwarding to rounding out Q4 and finishing the year for setting up for next year.

That's probably all I was going to say, and I suggest we can go straight to questions and the magic system will work us through, as directed by Sarah, you have to be very polite or you'll find you've been demoted down the question queue (laughter).

Questions and Answers

Jonathan Pritchard - Oriel Securities – Analyst
Morning all, very straightforward one from me. Do you think gross margins in France will be up or down in the next five quarters?

Ian Harding - Kingfisher PLC - Group Communications Director
I want to know what the 3:30 at Chepstow's going to be as well (laughter).

Ian Cheshire - Kingfisher PLC - Group Chief Executive
I think, Jon, I'll answer the question in a two-parter, I'm afraid. One is, I'm very confident we will continue to get sourcing and synergy and rebate gains, because I think that is [definitely] happening.

The degree of price promotion over the next any quarter is much harder to predict. I think structurally, France has been a more robust margin environment; we've had little promotional spats in the past.

I would hope for a flat performance rather than a decline, but we will have to play the trading environment that we see in front of us. And it is important that we invest some of our gains to drive top line volume growth. So I'm focused more on driving up the total cash margin rather than worrying about some of the percentages.

Jonathan Pritchard - Oriel Securities – Analyst
Okay. That's fine, thank you.

Andy Hughes - UBS - Analyst
Good morning team. A question just on the UK side. I know you mentioned that indoor was stronger and areas like flooring were better. Any sign that the project-related spend is picking up? So you're seeing more items per basket and higher average transaction value as well at B&Q?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
I'm sorry, by the way everyone, if it sounds like we're having a slight microphone issue in terms of clarity, so if I'm not coming across clearly, please shout, or rather, we'll do more shouting (laughter).

I think, Andy, there are early signs of that coming and particularly, I think flooring's a really interesting category, because it does tend to be the sort of project trigger type piece, as opposed to a bit of touching up paints around the place or the odd pot plant.

I think there are some signs that people are getting into that housing transactions bit and we'll start to drive more of those projects. It's not the main period for kitchens, but that was actually reasonably strong as well. So you look at it and go, it feels like there is a beginning of a bit of a stirring on that front, but it's not yet a big widespread recovery.

Andy Hughes - UBS - Analyst
Right, okay. And just one on Poland as well. I know your gross margin in OpEx was a lot better, the flat like-for-like against a weak comp. What was the issue behind that?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
I think it's fair to say the quarter actually, the Polish retail sales had a pretty soft quarter, and quite whether we draw anything into that or not, not completely convinced.

I think the work that was done on price investment has supported -- as far as we can tell, we're outperforming the market, continue to outperform the market in Poland. It just looked like a slightly softer quarter than probably we might have hoped in terms of the rebound. But good profit performance.

Andy Hughes - UBS - Analyst
Great.

Sarah Levy - Kingfisher PLC - Director of Investor Relations
And actually, Andy, on that, there was probably some of what we saw in B&Q, because we saw quite an uptick in seasonal in Poland in Q2, so that category was a bit softer in Q3 as well.

Andy Hughes - UBS - Analyst
Right, okay. So it's nothing to do with the timing of where you've reduced prices, you get a slow burn elasticity in that.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
No.

Simon Irwin - Credit Suisse – Analyst
Firstly, just go back to the UK; can you just talk a little bit more about the promotional stance that you took in the quarter? You mentioned a little bit in terms of price investment and I think that in showroom, you were also doing some promotions. Is this a change of stance following management changes, etc.?

And also, unless I didn't hear, you didn't appear to mention China. Can you just talk us through how you managed to lose GBP4 million with a 13% LFL?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Okay. First of all on the promotional front, I don't think there was much change actually in the promotional stance. While the earlier work on price investments kicked off right at the beginning of the year with handy prices and the KBB piece was less, if anything possibly slightly less aggressive in that quarter than this quarter last year. So I don't think there's any shift.

Obviously, the new management team are busy looking at how to trade through particularly the January events and the spring into peak set up, and that's really their focus now. But I don't anticipate, if you like, a wholesale shift in pricing approach, and so I don't think that environment has necessarily altered.

In China the answer normally about LFL is, we make all our money in Q4 in China. I don't tend to look too worriedly at the underlying quarter-by-quarter numbers. And if I look at the trends in China, if I take out the cost of the Vivid trial we look like we are turning that core business to something very close to break even for the balance of the year, subject to understanding the cost of this disruption that we mentioned. As I think I've said previously, Simon, we would take a good long look at where we go in China early next year, and that remains on track.

Simon Irwin - Credit Suisse – Analyst
And do you have a feel yet for how much the lost orders from the decoration centre will impact 4Q?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
The honest answer is, we've got a lot of internal estimates and there's quite a range on them. So I think I'd rather get to an actual number and then talk about it rather than try and put a finger out there in the air while we're in the middle of it. There's a range I would say between GBP0 million and GBP3 million that you could have in terms of impact. Now if it's GBP0 million than that won't be much of a conservation, but clearly we will have a conversation.

Simon Irwin - Credit Suisse – Analyst
Great. OK. Thank you.

Warwick Okines - Deutsche Bank Research - Analyst
Hi everybody, just three questions on the UK, please. At B&Q, were you disappointed with your seasonal sales down 8%, or was this what you'd been planning for having seen Q2 so strong?

And I suppose related to that, how clean is your seasonal stock at the end of the period?

Secondly, can you just tell us whether the indoor number of plus 3% is including or excluding TradePoint, I'm not sure whether you split that out?

And then thirdly, I know you mentioned that the new team is looking at its trading stance for the next few periods, but just wondering if you could flesh out any other key priorities the team's looking at like store format or anything else? Thanks.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Firstly, the seasonal sales really does reflect the fact that we sold a lot in Q3 last year at discount and we sold full margin at Q2 this year, so that's pretty sound and settled and we certainly have finished very clean. So from our point of view, although the optics may not look that exciting, that's actually a better, if you like, nine month result for us on seasonal, so happy with that.

Indoor plus 3% does not include TradePoint as I understand it, but I will double check that and come back to you. In terms of key points, Warwick, they are really looking at what I would describe as three areas across the board. One is, focus in terms of how can we do fewer things but really get to the things that move the dial, hence the review on trading; and with a view to, tying to the next point, which is simplicity, trying to simplify the organization so it can go faster and have more impact.

And the final bit, which is not a one week exercise, is a refocus on growth; again how do we unlock growth and that is really ultimately driven by the product offer, but also something to do with the way we drive the business. Format is a very active part of that consideration, so we're working on format plans at the moment, and Kevin will be talking about that when we get to the update at the prelims in March.

Warwick Okines - Deutsche Bank Research - Analyst
That's great. Thanks very much.

Chris Chaviaras - Barclays – Analyst
Good morning guys, two questions from me as well. The first one, in the UK, can you remind us what percentage of sales in the UK is seasonal in 3Q and how does this change into 4Q? The first question.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
About 20% is -- you're talking about just Q3?

Chris Chaviaras - Barclays – Analyst
Yes, and how does this differ to 4Q?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Q4 it declines a little bit, but it's completely different stuff, so it becomes Christmas trees and Christmas decs and it's a slightly lower percentage for very different products.

Chris Chaviaras - Barclays – Analyst
So you said for 3Q, though, it's 20% of the sales roughly?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Correct.

Chris Chaviaras - Barclays – Analyst
Then the second question is on the gross margin. I've noticed that you mentioned that there are self-help initiatives driving the gross margin in all the regions; that's quite feasible in Poland with a big improvement there. But then I guess, in the UK and in France, the promotional activity drives the gross margin down. Could you give a bit more colour, or maybe quantify if we isolate the self-help how much this impacted positively the gross margin in the UK and France?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Firstly, if I take the UK, there's also an increasing structural shift as we do more trade business. The mix of the business produces the -- both the shift and mix produces the percentage gross margin achieved in the UK as a total. So structurally, we will end up, if you like, with a more resilient long-term lower margin trade business element to what we have, and that's quite an important part, whereas in France it was more about the margin was reinvested. But it's, again, a relatively consistent story, which shows continued growth from rebate sourcing synergy work.

The level of reinvestment there is quarter by quarter, and I think, from our point of view, if we can continue to generate 20 to 30 basis points and gains we can decide what we do with it. Now there will be periods and years, frankly, when we can potentially achieve more or less, depending on the timing of range reviews and particular tenders. But I think the consistent pattern is, over the years, we will continue to generate those gains. And the market level of promotion will have quite a big impact on how much we have to reinvest and how much we want to.

Karen Witts - Kingfisher PLC - Group Finance Director
In France, we were actually promoting nationally, we had a big Castomania campaign for Casto and Brico's 20th anniversary, so there was a lot of promotional activity around that.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Which are obviously quarter specific.

Karen Witts - Kingfisher PLC - Group Finance Director
Yes.

Chris Chaviaras - Barclays - Analyst
Okay. That's very helpful. And can I ask a third one that just crossed my mind now? You mention in the release that you have been investing in price both at B&Q and in Screwfix, but Screwfix then returned a plus 11% like for like, which was pretty robust by any standard. Do you think there that you could have promoted less and, more importantly, are you maybe concerned about your long-term position, given some discounters are becoming more aggressive in the market? What are your thoughts there?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
If you look at the Builders Merchant Federation in September it was plus 10.9%, so Screwfix LFL up 11% is great, but it's, I think, more indicative of a general rising of the tide in the light end builders merchant sector. Within that, there's some decent competition, so you need to keep your prices sharp, and I think there's a continual need to keep driving your volumes. So I'm happy we've got the right level of promotional push in Screwfix.

I think, longer term, in terms of price investment for the UK we're being very selective about where we put it; it is to drive elasticity, and we expect it to pay back over 18 months type of period. As far as the discounters go they have a relevance in certain product categories where we need to be suitably careful about, particularly our opening price points, and then think about what it does for the overall range. But I'm extremely confident that the business has got a lot of firepower and can cope with the competitive shifts, as and when they come.

Chris Chaviaras - Barclays - Analyst
Okay. Very helpful. Thank you very much.

Anne Critchlow - Societe Generale - Analyst
I've got two questions on the UK. First of all, B&Q market shares, any information you can give us there on how it's trending. I don't know whether you'll have it for Q3 but perhaps for Q2?

And then secondly on online, where I think you're getting more categories fully up online in terms of the product ranges. What went on there in Q3 and how did it affect the sales of those categories?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Okay. Firstly, it's actually a generically interesting point. In the quarter, out of the total Group profit of GBP271 million, GBP63 million [of that] was made in the UK, but highest market share of the questions, I note the interest. But the two things I'd say is market share, the shed share data for the quarter is that we slightly gained share for B&Q. My feeling is that in the shed market it looks like maybe Wickes was the person who was squeezed a little bit but it's 0.2% market share gain for the quarter, that's Q3.

Again, for the broader market, I think we were probably flat to maybe slightly down, which intakes include the grocers and the various other players in the market. So I think there is probably a slightly more solid market share than we've seen in some of the previous quarters. We are targeting individual areas of market share, and particularly flooring actually, is one I'd pick out as one which had a very good quarter.

Online, we've now got 26,000 transactional products on diy.com; that compares to about 7,000 a year ago. We are growing off a very, very small base, is the way I'd describe it, so year-on-year visits on diy.com are up 40% and, frankly, sales are up from the very small – it's a way of saying we've got very small sales, the sales are up over 100%.

I think for the future that's going to be very important, but right now it's a relatively small slice of the business but increasingly critical. And next year, with the rollout of Darwin, we're going to put a big push behind this area. So I think the trend at least is encouraging.

Anne Critchlow - Societe Generale - Analyst
Thanks. And just remind us of the percentage of sales online, say, in the first half, please.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
I don't think we've actually quoted a number, have we? It's well below 5%. We've not quoted the number yet just because I think, once we get to a consistent offering and we know what we've got, then we'll start disclosing them more routinely.

Anne Critchlow - Societe Generale - Analyst
Yes, thank you.

Jamie Merriman - Sanford C. Bernstein & Co., LLC - Analyst
Good morning, thank you, two questions from me, if I could? The first one is just, on the UK, can you remind us where we are in terms of the store refit program and what you're seeing from the stores that have been converted?

And then with respect to Poland, I think you talked in the past about the potential to take out some of the store costs. Could you just update us on where you are there? Thanks.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Okay. With the UK, if you take a longer-term view, we've just been through a five-, six-year cycle of refitting stores, really to bring them into, if you like, the current level of format. We're at the inflection point of what the next cycle of formats looks like and, again, one of the reasons for making a few changes was we need to just go faster and further in terms of the new format work that we saw earlier this year.

Kevin has got a specific team focused on that. So at the moment, we will be doing expanded refreshes, particularly on the stores where, hopefully, we're subdividing them, we can put refits in. But there isn't a big refit cycle yet that would reflect a new format; we're more trading with what we've got, and it is relatively complete before we start a new cycle.

In Poland, we remain very interested in the opportunities to take out operational cost, which we think we can now see. There's quite a lot of effort going in by the team, but that's probably going to be more next year activity than this year.

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

Assad Malic - Citigroup - Analyst
Morning guys, just two questions from me. Most of mine have been answered, thankfully, but just on costs and coming back to France, I understand the issue with regards to the timing in this quarter, but in terms of your roadmap, do you still see opportunity to take costs out into next year on a flatter, slightly negative like-for-like?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Yes. I think there are still clear opportunities. Some will get a bit more structural which, as you know, France is a bit harder to achieve. And over a midterm basis with things like IT refresh and process change, I think there is no reason to assume we can't generate further cost and benefit.

There is a challenge, as we've seen, with -- it's probably less so in France but more so with, say, the UK where, if you start to see volumes increase, the first thing you'll have to build back in is the bonus, which was obviously taken out when the sales aren't there, and that's a natural self-adjusting process the business model has.

But if I look at things like supply chain, end to end, [re-plan] and the opportunity to look at tasking in the store, there's been good steady progress over several years in France. I don't see any reason why we couldn't continue to improve sales per worked hour and some of the other ratios.

Assad Malic - Citigroup - Analyst
Okay. And just coming back to the UK, can you maybe just update us in terms of your marketing plans? When should we really expect the new themes to really kick off?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
I think we've had four weeks of the new management team, so I think it's a little bit harsh to get them to burst onto our screens with a whole new positioning. Obviously, the key trading period to get right is next Easter, and that's really the time when I think we would start to see some of the more refreshed themes.

In the meantime, we're focused more on marketing effectiveness and then, particularly, driving footfall to store. The store conversion numbers are pretty decent; it's so it's been a challenge in the last year or so it's been really around footfall.

So I would expect something in peak next year rather than anything next week, but you already see changes to what's been pushed on TV and what hasn't and how we're doing that. But, again, I don't particularly want to talk pre-Christmas events, January events for obvious competitive reasons.

Assad Malic - Citi - Analyst
Okay. Thank you.

Rob Joyce - Goldman Sachs & Co. - Analyst
Good morning, a couple from me. Firstly, just on the B&Q space reduction. I don't know if you could tell us how much or what percentage of the space you're now in the process of applying to reallocate towards the supermarkets there and give us a quick update on how those stores, where you have actually done this, are trading?

The second one is just on CapEx, if you could just give us an update on where you see CapEx falling out for the year, given we're three quarters in and maybe an update on where you see that longer term? Thanks very much.

Ian Cheshire - Kingfisher PLC - Group Chief Executive

Okay. Three for one. On rightsize, it's about 4-5% of the space, is in the 18 or 19 stores that we're in the throes of. That's mostly now in the planning stage and so it depends a bit on the planners as to when that falls out and when we can refit it. And that's been a 12 to 18 month process, depending on which planners we're talking about.

That all looks like it's rolling on as we'd hoped, and really the only example we've got of a fully converted, fully trading is now the co-site in Belvidere. The early results for that are extremely positive and reinforce the desire to do more of those grocery-related deals.

So we will absolutely be looking at further tranches of stores where we think we can carry out similar things, but it's just a slow process courtesy of the planners.

On CapEx, I think we've guided on this and it's --

Karen Witts - Kingfisher PLC - Group Finance Director
GBP350 million to GBP400 million.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Yes, about GBP350 million to GBP400 million, and then you get to this part of the year and there's a slightly mad dash to try and get CapEx spent before the budgets get hit next year. So I would have thought it's more at the lower end, but we'd probably stand by where we were.

And then in terms of future CapEx guidance, I think we're comfortablish with those sorts of ranges. The only comment we'd make is that -- which I think we've said to a number of people, if we saw persistent weaknesses in places like France, we would obviously turn down the CapEx tap because if the market's that hard, then returns get harder and we would, if you like, go into slightly more defensive mode, running more of a cash management than trying to inject a lot of capital-led growth.

But that's the case, accelerator/brake, depending on what you're faced with in terms of market conditions.

Rob Joyce - Goldman Sachs & Co. - Analyst
Okay. Thanks very much.

Fraser Ramzan - Nomura - Analyst
Thanks very much good morning, just a question -- well, a couple of questions. Firstly, on France, I'm trying to get a clear picture in my mind of what the underlying cost picture is like there. So what kind of rate of underlying cost inflation should we expect, looking ahead? Obviously, we've got space to consider as we build out our cost assumptions too. But also the bonus position seems somewhat uncertain and, if I've understood correctly, you're saying that, with a focus on cash profit over percentage margin going forward as well, we need to think about that.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Okay. There's a slight distortion in the quarterly numbers. You've got GBP4 million of prior year release which you don't repeat, that's in bonus, and maybe GBP2 million of development costs. I think we roughly said GBP1.5 million or GBP2 million pre-opening, which, again, is not exactly comparable quarter to quarter.

There's about a 1% inflation assumption in terms of the cost base, plus the space growth on top of that, and a lot will depend on the rate of sales achieved to then factor that down to the bottom line. But if you exclude those areas, I think there was, in ratio terms, very little movement in the cost ratios for France in the quarter.

Karen Witts - Kingfisher PLC - Group Finance Director
Just one thing that's probably worth pointing out, and that is it's typical French Government, but when the French Government announced the wage tax credit, we were thinking that that would give us maybe GBP4 million to GBP5 million benefit in each quarter. In actual fact, they've managed to offset about half of that with an eco tax. So that's something that hit the quarter, but that piece will go forward.

Fraser Ramzan - Nomura - Analyst
Right. And are you accruing bonus overall at a kind of level we should think of as being appropriate for the medium-term? Or, if performance improves looking forward, should we be building something more back in for next year because the numbers do bounce around a lot and I completely understand what you're saying on the quarter in terms of the release? But if performance were to improve at all next year, should we be building extra cost back in?

Karen Witts - Kingfisher PLC - Group Finance Director
Yes, you would work it back in.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Yes. Just mathematically, Fraser, I think you would see store bonuses pick up, and it's one of the big swing factors. It is designed that way in the sense that it is a sort of parachute when things go slightly down, and it is designed to be a flex on the way up, so it just will depend rather precisely on the exact amount of recovery.

Fraser Ramzan - Nomura - Analyst
Okay. And then just a slightly more optimistic question. On Poland, obviously gross margin has been quite robust in the third quarter and I think most people are assuming it will continue to be so in the fourth quarter. Should that be something now, given you're well past annualizing your price investments, which you consider will wrap around nicely into next year, and is it all self-help driving the quantum of that gross margin improvement?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Well, firstly, I think we are assuming that's more a normalized margin which would carry on, so we're not expecting further bouts of major price investment.

Secondly, I think there are quite a lot more things to come in terms of own label penetration and volume synergy deals with both Russia and Turkey.

So I would expect we should be continuing to be able to generate margin gains there, and then the question is where do they get put. But I think the margin upside remains there in Poland, not through raising prices.

Fraser Ramzan - Nomura - Analyst
Right, understood. Okay. Thank you. Thanks very much.

Geoff Ruddell - Morgan Stanley - Analyst
Morning everybody, I may be a little bit Kremlinologist about this, but I noticed in the press release this morning, Ian, that you're now enthusiastic about longer-term prospects where you used to be confident. I was wondering if I should read anything into that.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
You're going to have to ask Ian Harding that.

Ian Harding - Kingfisher PLC - Group Communications Director
I got a Thesaurus for my birthday.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
It was probably on the grounds that I think I was worried I'd put exactly the same thing for the last four quarters. And while consistency, I think, is a great virtue, I think it was an attempt to find another verb or adjective. So I'm still feeling much as I was feeling I think is the -- (laughter).

Geoff Ruddell - Morgan Stanley - Analyst
Fine. That's absolutely clear. Great. Thanks very much.

Sarah Levy - Kingfisher PLC - Chief IR Officer
Thank you very much. Annemarie?

Operator
There are no further questions queued at this time.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Good. I think we can close.

Sarah Levy - Kingfisher PLC - Director of Investor Relations
Okay. Well, thanks, guys, and we'll speak to you next year. Have a great Christmas. Bye-bye.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Bye.

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