Kingfisher PLC 2013/14 Preliminary Results Presentation

Results for the year ended 1 February 2014

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Transcript

Ian Cheshire - Kingfisher PLC - Group Chief Executive

Good morning, everyone. Welcome to our preliminary results for 2013/2014, and thank you to Nomura for the loan of the wonderful setting we have here today.

I'm going to start with a couple of slides just to frame the results, before we move on to Karen who will talk us through the financial review for the year past.

I'm then going to give an update on the strategic progress made around Creating the Leader in the last year. And then we're going to ask Kevin to do an update of where he's got to since October, when he's taken over direct control of B&Q and been very busy reshaping the team and the agenda for the next year. Then we'll go to questions, and aim to have this all wrapped up by 11 o'clock.

So in terms of the two slides of introduction, I think if we look at 2013/2014, I would say it was a tough year, particularly grizzly first quarter. It is amazing how quickly people forget the fact that we were under snow in most of Northern Europe this time last year. We had a significant profit hit in the first quarter, really around seasonal, which we then did well to build up through the rest of the year and exited Q4 in good shape, and finished the year with some solid performances across the board.

I think the underlying reality of the consumer didn't improve much in the year, particularly in Europe and particularly in France. So while we saw a return to growth in most of our markets in the UK and Poland, for the first time, the French market was down 1.4%, according to Banque de France, last year, and probably remains the question around consumer confidence for this year.

I think we continue to make progress on the self-help agenda, Creating the Leader, and we have a veritable blizzard of KPIs which have been analyzed and largely met.

It's turning, I think, now into a process of a lot of structured detail activity which we will keep reporting on, but we continue to be very happy with our progress. And really, it's that short-term result underpinning also longer term building the business.

The final thing to say on the numbers, although 4.1% in terms of PBT isn't double digit or massive, it actually, I think, probably underplays the couple of stronger performances.

I'm particularly glad to see us gain share in our three key markets. Importantly also, particularly for those of us who've got incentives attached to this, KEP moved ahead in the year, and I think the generation of cash flow, which we've obviously touched on, we'll come back in the year and later on to talk about cash returns, is really about the cash-generative ability of the business.

And finally, we've moved the full dividend up, broadly in line with the PBT result. So I think numbers-wise, a good result for last year and I would just stress the pattern of the year; that extraordinarily tough Q1 followed by a build back out of the year and a sense of exit into 2014. Obviously, we're aware that that creates some very soft-looking comparatives for Q1 for this year.

What we're then going on to for this year, we need to keep on driving the Creating the Leader program, so we are working on easier, common, expand. The key focus on easier is about omnichannel, driving omnichannel, particularly leveraging some of the learnings and capabilities across the rest of the Group.

On common, extending our sourcing programs and really trying to focus on the reality of how we make money, cash margin achieved out of sourcing rather than just following top line KPIs because we've seen where there are opportunities and there really are opportunities that utilize the scale of the Group to drive further.

We'll also talk for the first time and someone who's been in Kingfisher 16 years, this is the first genuine Group-wide IT program where we're really platforming the business, which will take a while to roll out but represents a step change in Kingfisher's capabilities and one that will be designed as a business change program with the CEOs leading it, supported and led technically by Steve Willet. That is a very important piece which has been gestating in the background over the last three months to six months.

On expand, we will continue to create -- lay down space and then we are actively managing our portfolio. Again, a lot of work has gone on behind the scenes in the last few months.

I'm very pleased to be announcing, and we'll talk about it later, the Hornbach disposal, which was something that was probably harder than it looked on the release today; entry into Portugal and for Screwfix into Germany; and the search for a partner in China, which I'll come back to later.

We'll also keep our eyes open for consolidation opportunities as and when they arise, as we've seen with Romania where we were recently, as a Group exec, to see the opening of the first two Brico stores which we'll show you, which is, I think, shaping up to be a great success and something that we think is illustrative of the opportunities that may be out there.

Very big focus, as Kevin will talk about later, accelerating B&Q really as a leadership brand into the next phase of its growth. I think real opportunities there.

And finally, the multiyear program of surplus capital returns, which Karen will talk about in more detail, but a significant step and I think the first time in Kingfisher's 32-year history we've attempted something like this.

So I think a busy 2013/2014, some real opportunities for 2014/2015. And with that, I'll hand over to Karen to talk us through the numbers for last year. Karen?

Karen Witts - Kingfisher PLC - Group Finance Director
Thanks, Ian, and good morning, everyone. Thank you for coming here today. I should probably get straight into the financial results.

So in the year, 2013/2014, Kingfisher Group sales grew by 3.5% to GBP11.1 billion on a constant currency, 52-week basis. You will remember that, for the UK & Ireland last year, we reported a 53rd week. The impact on profit was immaterial, but the adjustments to sales comparatives is GBP72 million.

And then, as Ian said, we had a year of variable performance. He described quarter 1 as grizzly; I'd say it was very poor across Europe, driven by extreme weather conditions. And then, as the weather changed, we saw some rebalancing in quarter 2. Then in quarter 3 and quarter 4, we continued to deliver like-for-like growth.

The economic background in France remained a bit of a drag factor all year, but in the second half, we saw more favourable signs of recovery in the UK smaller tradesmen markets. We finished the year with quarter 4 Group like-for-like sales growth of 3.3%, driven equally by the UK and our other international businesses. Kingfisher Group's full-year like-for-like sales growth was 0.7%.

On a 52-week basis, all operating companies, except Brico Depot, France, grew sales in the year, and the strongest total sales growth came from Screwfix, Spain, China and Russia. Sales in Romania for the seven months that we reported since acquisition was GBP72 million.

Retail profit, on a constant currency basis, was slightly up at GBP805 million. Adjusted pretax profit benefited from a more favourable foreign exchange environment than last year, and that was up 4.1% to GBP744 million.

Adjusted basic earnings per share was up 4.9% to 23.4p.

Our statutory post-tax profit was up 25.9% to GBP710 million as items that we class as exceptional added GBP131 million to results. These exceptional items primarily related to the resolution of the Kesa French tax case.

Cash generation in the year was strong. The Group generated GBP559 million of free cash flow, up nearly 70% year on year. This was after investing more than GBP300 million in the business to support future growth, but before including our recent acquisition in Romania.

Our net cash position grew from GBP38 million to GBP238 million. This positive result helped inform our view on cash returns, which I'll explain later in the presentation.

As Ian said, we created GBP74 million of Kingfisher economic profit is our measure which charges earnings with an annual cost for the capital the business has invested. This is almost double the Kingfisher economic profit created last year and was driven by a combination of higher reported profit and a lower effective tax rate.

Moving on to tax rates, our effective tax rate fell from 27% to 26%, reflecting changes in the mix of profits and tax rates. The Board is proposing a final dividend of 6.78p, bringing the full-year dividend to 9.9p, a year-on-year increase of nearly 5%, which is again covered 2.4 times by earnings.

Now on to our exceptional items, where we reported a credit of GBP131 million in the year. At the interims, I explained the primary driver of this, which related to the settlement of the French Kesa tax case. This resulted in a non-cash credit of GBP118 million, which was recognized in tax, plus an associated pretax interest repayment supplement of GBP27 million.

Since the half year, the main new exceptional item has been in respect of our decision to dispose of our holding in Hornbach. We permanently resigned from the Board, waived our rights to appoint directors, and announced our intention to sell our investment, so we had to revalue the assets to fair value at the end of 2013/2014.

We're selling our stake for more than we paid for it, but the net result of this from an accounting perspective is an exceptional loss of GBP14 million. And for ease of understanding, we've set out all the accounting entries and also the 2013/2014 adjusted comparatives, excluding Hornbach, on slides in the appendix to this presentation.

Following the end of 2013/2014 financial year, and on March 24, 2014, we agreed to sell our entire 21% stake in Hornbach for approximately GBP195 million. We agreed to sell the non-listed ordinary shares in Hornbach Holdings to the Hornbach family. And we agreed to sell the listed stake in Hornbach Holdings preference shares and Hornbach-Baumarkt shares to international institutional investors in an accelerated book build.

Aside from this, the exceptional credit of GBP7 million reflects the release of provisions recorded in January 2013 when B&Q Ireland entered examinership. This process was successfully concluded in May 2013, with only one store closure rather than the five that were potentially under threat.

The charge for acquisition and integration costs largely relates to Romania, where we've just rebranded and opened our first two Brico Depots. We all went there and the team did a great job.

So now on to France; in France, we added 4% new space and seven net new stores and four revamps. Total sales grew 0.8% to GBP4.4 billion in a still weak market. Despite the tough environment though, Castorama France's sales grew by 2.3% to GBP2.5 billion against Banque de France data showing sales for the DIY market down by 1.4%. Castorama like-for-like sales were up by 0.5%.

The trade market in France was particularly weak with no obvious stimulation of new house build numbers or planning permits. New housing starts for our financial year were down 2% and permits were down 15%.

Brico Depot responded to market conditions with more arrivages special buys, promoting its value credentials, and benefited from new kitchen, bathroom and power tool ranges, which were introduced last year. Nevertheless, sales were down 1% year on year at just under GBP2 billion, with a like-for-like drop of 3%.

Overall like-for-like sales in France were down 1.2% year on year, and the gross margin reduced 30 basis points, as we invested in net margins to promote customer activity, particularly in the latter part of the year. Reported profit moved from GBP397 million to GBP396 million, and that was down 4.7% in constant currency.

Total sales in the UK & Ireland were GBP4.4 billion, up 2.7% on a 52-week basis, and up 1.1% on a like-for-like basis. Sales were driven by a very strong performance in Screwfix and the first full-year positive like-for-like results for B&Q in four years.

In the second half of the year, we began to see more encouraging early signs in the smaller tradesmen markets, although stronger consumer confidence indices have yet to significantly reach our sales.

B&Q sales were up 0.4% to GBP3.7 billion with like-for-like sales marginally up by 0.1%. However, TradePoint sales were up 7%, with the market for smaller tradesmen up only around 2% in the year.

Screwfix continued the momentum we saw last year, growing sales by nearly one-fifth, up 18% to GBP665 million on a 52-week basis. Like-for-like sales grew by 7.3%. Another 60 new trade outlets were opened in the year, taking the total in the UK to 335 and creating nearly 900 new jobs. As well as its industry-leading Click, Pay & Collect offer, Screwfix benefited from new tradesmen-friendly extended opening hours and a strong promotional program.

Overall, we gained market share in the UK, driven by Screwfix. And despite a higher mix of trade sales from Screwfix and TradePoint, gross margin in the UK & Ireland grew by 10 basis points. We offset the impact of price and promotional investment with self-help measures, including better buying and a continued focus on cost efficiency.

At the end of May 2013, we concluded the examinership process for B&Q Ireland. We closed one store, achieved significant rent reductions across the estate, and reduced losses from EUR9 million to EUR1 million, leaving the business breaking even in the second half of the year. Kingfisher UK & Ireland profits grew more than 3% to GBP238 million.

Sales in our other international businesses grew 10.5% to GBP2.3 billion, driven by 17% more [space]. This came from our acquisition of the 15 Brico store business in Romania in quarter 2, which delivered GBP72 million [of sales].

We also opened 15 net new stores; 8 in Turkey, 4 in Spain, 2 in Poland and 1 in Russia. Russia, Turkey, China and Poland all delivered like-for-like growth. The economic backdrop in Spain is still weak but showing signs of slight improvement.

Other international profit grew by more than 11% to GBP171 million, primarily on the back of a strong year of recovery in Poland. And this was despite the fragility of the market there until late in the year.

Castorama Poland's total sales grew by nearly 4% and were up 1.2% like for like to GBP1.1 billion. Poland's gross margin grew 60 basis points, as self-help measures more than offset the investments in price. Productivity initiatives offset cost inflation, and profit grew nearly 11% to GBP123 million.

Ian will speak more about China and our preferred way forward there, but the team has made good progress in the year. Losses reduced to GBP6 million and largely reflect their new format store trial. Despite the shock of industrial action at the end of quarter 3, the core business in China broadly broke even.

And I think, as Ian referred, our year-on-year movement in profit doesn't immediately highlight the strong effort that underpins performance. I've tried to show that in this chart by looking at external impacts and then how we offset those through our self-help measures. So it shows our key profit drivers over the year and the importance of these self-help initiatives, which helped to offset the external headwinds, which were primarily the weakness of markets in France.

As noted, foreign exchange movements were less volatile throughout the year, resulting in a GBP24 million positive impact when comparing with last year.

On the right-hand side of the chart, under self-help measures, we used range review activity, focused on price and value, to drive volume, and we continue to invest in new space. Better sourcing and buying has more than offset the impact of inflation and other increases in our cost of goods sold.

Our cost management activity continues to cover a wide base, including staff and distribution costs and goods not for resale. This kind of cost efficiency more than offset the impact of inflation and other awkward cost pressures. And, again, we benefited from variable pay acting as a natural hedge against sales trends.

Moving on to cash flow; I'm pleased to say that, despite some trading challenges over the year, Kingfisher Group generated GBP559 million of post-CapEx free cash flow in the year, an increase of more than GBP200 million over the previous year. The main driver of this was working capital.

As you can see from this next chart, much of the working capital improvement came from expected unwinds and annualisations of negative impact from the previous years. For example, last year we had an extra week of payments because of week 53. We also unwound the annualisation of LME because of the French supplier payment rules.

Then our stock position last year was a bit higher than normal, as we stocked up to manage an early Easter, and also to get stock in before Chinese New Year. So we finished 2013/2014 with a more normal stock profile. We also benefited from the impact of stronger showroom deposits in B&Q in quarter 4.

Then, from our free cash flow, we paid dividends of GBP224 million; we acquired the Bricostore business in Romania; and we bought back GBP24 million of our own shares in the open market to fund our employee share option plan.

As average foreign exchange rates were more stable this year, yearend closing rates on the euro and the zloty moved by 6% and 8%, respectively, causing a translation movement on our closing net cash position. Closing net cash moved firmly into positive territory and was up from GBP38 million to GBP238 million.

One of our key objectives is to ensure that we have enough financial flexibility to invest in the business in order to grow it. And including the impact of our Romanian acquisitions, we invested GBP367 million of capital to grow the business, in line with our stated medium-term envelope of

GBP350 million to GBP400 million per annum. We invested according to our capital allocation policy, focusing on our higher returning Brico and Screwfix formats, and also on our developing markets.

As planned, from next year we'll increase the proportion of CapEx that we spend on IT and omnichannel, as we continue to modernize our existing infrastructure and start the foundations of our Group-wide IT program. This can still be accommodated within our overall capital expenditure envelope.

Now, I'd like to update you on the status of our capital structure. Ian's already given you the headline that we're announcing the start of a multiyear program of capital returns to our shareholders, which will be in addition to the annual dividend. Last year, I established a framework for uses of cash, set out the conditions under which we would be in a surplus capital position, a position from which that surplus capital would be available to be returned to shareholders.

A solid investment-grade balance sheet gives us the financial flexibility to fund our investment requirements, either through free cash flow or through efficient access to capital markets. A solid balance sheet also gives us the ability to pay a healthy annual dividend, whilst holding a sensible amount of cash for cyclical liquidity.

Our capital structure is strong. Our net debt to EBITDAR ratio has reduced slightly. But just to remind you that, even with more cash than financial debt, we still have significant leverage on the balance sheet, in the form of property operating leases, particularly in the UK.

We believe that our metrics are now consistent with the BBB flat rating, but please note that that doesn't mean that our external rating has moved. It remains BBB- with a stable outlook. As you know, our long-outstanding French tax case was resolved in our favour in the summer.

I don't think we're yet in a position where I would describe our economic operating environment as steady and growing across the entire Group. But in the UK the position is improving, and in France, I'd describe the position as stable.

On this basis, with our continued strong cash generation and the proceeds from selling our Hornbach shares, we do expect to move into a position of capital surplus in the course of the 2014/2015 year.

Given our ongoing confidence in the business, we're proposing a 5% increase in the full-year dividend for 2013/2014. And the Board now believes that we're in a position to start a multiyear capital returns program. We'll begin with the return of around GBP200 million in financial year 2014/2015, which will be incremental to the annual dividend.

We will decide on the exact timings of the return and the mechanics of the return as we go through the year. And I'll continue to update you on the status of our capital structure every six months. At this level of capital return, we still retain the flexibility to invest in the business for growth, and to capitalize on value-enhancing consolidation opportunities, just as we've done in Romania.

Thank you. I'll now pass you back to Ian.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Thank you very much, Karen, and thanks also to the whole finance team, with -- I think I mentioned Caroline Ball, who spent 10 years sorting out the French tax case. Some of us never thought we'd actually still be around to see it concluded, so we're very grateful to her and the teams.

In terms of our review of the strategy, Creating the Leader starts with the concept that what we're actually doing for customers is helping them. Helping them build better homes because they want better lives, and that's the engine that drives the business.

The fact that we sell stuff is not really the motivation from a consumer point of view. And that is the heart and the purpose of the business, expressed in different ways in different countries, through different brands; fundamentally, the core purpose for Kingfisher.

The strategy that we outlined remains the same in terms of the Creating the Leader eight steps. I'm just going to briefly update on each of these. We're probably trying to move away from, again, a blizzard of KPIs that we go through every time, we will provide those in the appendix, to really focus on the main piece.

The first piece on easier that we're focusing on this year is extending omnichannel across the Group. Again, we've got markets in extremely different phases of development. The UK is the most developed ecommerce market, probably in the world now in terms of penetration. Over 20% of non-food retail sales are going through the Internet, and the competitive set is probably the most advanced.

In other countries -- and even then probably for DIY, we're still at 5% or 6% penetration, relatively low. In France, by contrast, we're tracking probably three or four years behind that, but the penetration curve looks the same.

So what we're trying to do is build in appropriate omnichannel investment in each country at each stage. And really going from a preparing phase, mobilizing, and particularly in places like Poland, Russia and China, where there are some interesting opportunities, particularly in China, around mobile Internet, which has leapfrogged.

But really getting ready into testing phase with France. In the early stages of Click, Pay, Collect, and Click & Collect with Casto have been encouraging. We're going to extend that to a further 10 stores this year. We're obviously going into Germany with Screwfix.

The two dial movers for us this year is moving B&Q to mass rollout; we talked project Darwin last year. Steve told us a bit about it. The website will get updated in the summer, and we'll have, I think a best in breed capability. It is an important step forward. And this year, we've doubled the number of products on the website available to buy to just over 29,000, and we're seeing what you would describe in classic dotcom speak as very high growth, which is very small sales going up quite a lot.

I think this year we are beginning to see the transition to a genuine mass proposition, and I think the capability that we're building in B&Q will serve us as we come to talk about the capability to roll this out as a platform across the Group.

But the star pupil is still Screwfix, with the most phenomenal growth in all metrics, and particularly on Click, Pay, Collect and mobile Internet. It just continues to roar away. And I think to have something like Screwfix in the Group, and be able to use the expertise of Steve and his teams in other parts, is the unique advantage that we need to build on. I'm also very excited that we can start taking it into other countries, such as Germany, later this year.

The other aspect on easier was about store format. And really again, the star pupil here I'd focus on is Castorama. The Do it Smart store format most recently seen in Dunkerque, in the flagship store there. But we're now in 11 stores in that format, and we'll continue to roll it out through a process of revitalization and new store operation.

I think the key metric is always sales empathy. We are seeing very good sales performance out of that and big uplifts, primarily driven by higher average basket size. And really people finding that store just easier to shop, more visible, 100% ready to take away that day. So we have seen, I think now in Dunkerque, the iteration which gives us real confidence as we continue to drive the format.

We will take lessons from this to the rest of the Group. Kevin will talk a bit later about the options for developing a format in the UK. There is a reality that you can't simply cut and paste all these formats from one country to another, but you can take the underlying learning; you can take the underlying capability. And I think this gives me a lot of confidence for the future. We're hoping to roll out as many of these as we can over the next two or three years.

In terms of the -- the next element was common, about common ranges, and in the year past we saw a significant improvement in terms of our Colours paint range, which is now around the operating units.

We have also launched in the UK, with a view to internationally going with Valspar, which gives us our own exclusive mixing operation, which gets us away from a virtual dependency on Akzo Nobel. And Valspar have been a big success in the [States with those]; they have a lot of expertise, and very keen to break into Europe. So a big strategic partner for us, and we think it'll go further.

We've also extended, and the team, Benoit and Marc Tenart under Philippe's guidance, have done a tremendous job on extending the common supplier operations in France. And I think, point to stress here is, there are lots of different versions of common. I think one of the things we've learnt is that we have to reemphasize quality over quantity.

So it's not a focus on purely how much -- what's my percentage penetration, because it is quite easy to drive the wrong behaviour. What we're interested in is, how do we make more money; more cash margin achieved, as a result of buying together. And that could be between Castor and Brico in France; it could be between Turkey and Russia; it could be between Screwfix and Brico Depot; or it could be the KSO brand programs.

There are lots and lots of different types of opportunities. And the focus now is to say, how do we get triple net cash margin accurately measured, so we know that we're improving the amount of cash we've got, which we can then reinvest in growth, and reinvest in returns for shareholders.

We're also looking at more in the way of product sourcing; not exactly coming back entirely from China, but certainly developing more near sourcing with supply chain benefits.

Guy Colleau, who's in here today, has reshaped the Kingfisher sourcing and offer organization to become much more embedded in the operating companies, and focusing the sourcing offices on the job of delivering better deals for the OpCo. And this is -- I think we're now seeing people, Valery Cussenot, who used to be in Hong Kong is now down in Southampton, as an example of people who are now right connected with the business, and a part of the organization.

So Kevin's team, and Darren Blackhurst, the new Commercial Director of B&Q have got access to an offer in terms of sourcing that I think is now much more responsive and closely connected.

The other thing we tried in October 2013 was a Group-wide product show for the first time; building on the experience of Castorama's product shows in Lille Grand Palais, and bringing together the people in the business, particularly in the stores, with the new products we're bringing through.

So we had about 6,000 store members, mostly from Casto and B&Q, but also from round the Group, and they were showing 10,000 new products that were the first time we've done it. And I'd like to run out a short video of the event.

(video playing)

To highlight two examples of that, MacAllister the picture I had up there, [with] 500 products, and set at, for example, I think it was the power tool up there, at a capacity which is better than the Bosch brand is, so 25% more drill capacity than the Bosch, at a price which will be 10% cheaper. It's the result of three or four years of development, and quite a lot of exclusive product design work gone on there.

And if we can get it across the totality of the Group, we can build volumes that no-one outside Black & Decker can really touch. We're very excited about that, and it transforms the profitability of the power tool category, which is dominated by a branded flow.

The Blooma gas barbecue range, for those of you who've come to a few of these presentations, this is my routine boring point. It is now 100% common between the UK and France, which was a one of those facts, that again, 5, 10 years ago we thought would never happen.

But it's done that because people are designing these products, and thinking about the range, every year. So the range reviews are synchronized easier for change. But it has taken four or five years to get there, and what we've now done is gone back into the design, and really focused on the ease of use.

So when you see the sort of traditional problem with barbecues that I've certainly had on my [all] weather, is that I then have the chore of trying to clean the (expletive) thing in the sink, and causing chaos and muck everywhere. All of the pieces that you see here will go into the dish-wash. They've been resized and reconfigured, so you can just literally dish-wash your barbecue.

And little things like the design of even things like the warming levels. Quite a lot of warming levels on barbecues are set so low they actually cook the food rather effectively, so you actually need to reset it.

So the team have gone through and absolutely reconfigured that, and I think value-engineered price to some really compelling levels. And I think that is now by far the best range I've seen in 10 years, and it's the same range across the Group.

So I think a lot to go for, and some highlights, and a lot that's [key in the teams in their pursuits].

On the other side of common, we're starting this Group-wide IT program. This is normally the point when finance directors keel over and clutch their hearts and complain about the CapEx cost. I would stress, this is within the CapEx envelope that I think everyone's got out there. So this is not a new and expensive stuff, or rather, it is expensive stuff, but it's not new.

But I think there is an opportunity to step change here IT, and it is traditionally retailers. We hate spending money on IT. It's just seen as a sort of nasty sort of thing that you have to do, as opposed to possibly, could we make the business easier for our colleagues, and easier for our customers, if we could create a really next-generation solution.

That's not being leading edge on [super] business technology, but really trying to be agile, and particularly build applications that we can change very quickly without having to go and rewire and replumb the entire heavy lifting in the basement.

I think what we've now got is that flexibility, and we've got a program that Steve will lead, that will be co-chaired effectively by a number of the CEOs, and trying as ever to balance, we'd love to go fast, but if you go fast you'll probably make mistakes. So we need to have a measure program, and it is, as I said, consistent with our spending plan.

So we will be looking to launch a real working store prototype next year, which will then be rolled out across the Group. And we're also looking at what elements of that we could bring in more quickly, as opposed to having to wait four years to get everything sorted out at the end.

But having lived through many debates about how you get people to work together, how you get things to happen, this is one of those unglamorous but incredibly important bits of change that we've been busy doing for the last six months. And we're now poised, I think, to launch this as a program.

It builds on a lot of learning from Screwfix, a lot of learning from Darwin, and it also involves two aspects.

There's the application platform, which does give a fully integrated, omnichannel play. It also enables selling in-store in a different way, and streamlines ordering and a set of other processes.

But the other piece is just a physical infrastructure refresh. And we know from our store colleagues that the single most depressing thing for them in terms of engagement is the dealing with old, outdated PCs, and we've got a lot of them, exacerbated by the fact that your customer then comes in with better technology in their hand than you've got on your till.

So we've got, I think, about 28,000 PCs to replace across the Group. We'll do that on a rolling program, but it also gives us an opportunity to look at device mixes, so we can replace with tablets, we can shift to more mobile solutions. And I think traditional [curve to] retailers replacing legacy systems is actually also an opportunity, providing we get it right.

But final point is, we have to drive this as a business project. This is not an IT blank check.

On expand, we've got, I think, a clear couple of steps this year coming up. The entry into Portugal, based on the position of Brico in Spain, so we'll be opening in and around Lisbon shortly.

And Screwfix Germany in the summer, I'm really delighted to see Screwfix take its first proper step overseas. I think this is a business model that can travel literally the globe, and we're going into Europe's biggest, and arguably most competitive market as a way of testing that.

But I think there are opportunities in there which we will confirm over the course of the year. I think both Portugal and Screwfix Germany will be interesting opportunities for us, going forward, as well as the continued expansion in the countries that we've already listed.

But in terms of portfolio, I just want to touch on the Hornbach and B&Q China move that we've announced.

The disposal was agreed and is, I think, looking at cash in the bank, is in the next days rather than weeks. So this is a done deal. It's quite a complicated done deal because you have to sell unlisted shares for which there is no public market. But the only real buyer for us there was the Hornbach family. And I think it's a tribute to the relationship over the years that they were willing to agree an exit with us and complete.

So the family have taken back the unlisted which are the voting shares, and then the listed shares have been put through an accelerated bookbuild last night, completing simultaneously now while we're speaking, and together, that raises around GBP195 million. From a business which we really admire and respect and the relationship with the Hornbach family is something that I would really continue to value.

We really do like their business but there's not much point, long term, in us being a 21% shareholder. The issue for us has always been the execution, the capability, to realize that stake for value. And I'm really pleased that the teams have been able to do that, and successfully free up essentially what was trapped cash in terms of minority stake.

In China, the position's slightly different. As Karen said, we've now got the core business to a point where it is break even. That wasn't the case three years ago. And it's also true to say that it's more stable. It has some positive signs in terms of the trends we're now seeing in the recent trading, and it's got to a point now where I think we have a platform.

But it's also clear to me that to succeed in China in the longer term, because I do believe in the longer term opportunity in the market, in terms of the home improvement, I don't believe DIY -- we have some interesting philosophical debates about DIY in China. But to my mind, there is clearly a consumer opportunity. But it's one that I think you probably need to mimic our model in Turkey, which is a combination of local property and consumer expertise, and a management centred particularly round suppliers, combined with technical international retailing.

So we think we are now at a point where we can go and look for a partner, and we're announcing it publicly today so that it is an above-the-board process rather than a quiet behind the scenes, with rumours and all sorts of difficulties of managing it. So I'm confident that there are further opportunities in China. We will be looking for a true strategic partner. We don't know when this will actually happen because this is not a process you can guarantee.

But, over the course of the year, we expect to be in conversations. And we have already had, as you might expect, over the last period of time, an expression of interest from essentially interesting people. So we will explore those, see what we can find, and then see if it fits our longer-term value creation. But over the next six months, I think we'll come back with some answers.

The other thing on expand is technically contract, which is space. We've talked about right size, right place, just a very brief update. I think we've shown this slide before, but that is now is actually the real store that ASDA occupy in Belvedere. And we were able then to sell, just after the yearend we sold the half, i.e., the [65,000] square foot freehold that we owned that ASDA occupy for GBP32 million, which give you a sort of sense of some of the value opportunity.

Now 90% of B&Q space is let, rented, so there are not many of these sorts of opportunities. But it does give us confidence in the model and gives us confidence, if we free up space that we don't use, we can realize that and improve our asset efficiency and keep on driving that.

We're still going with 17 agreements. We've got one in, one denied. I don't think that is a ratio I would apply to the 17 as a whole; I think we will see progress. But it's probably again the next six months when it's really down to the planning process, which isn't really something which we can easily accelerate.

But I think I'm confident that we can do more and we will be looking for further opportunities, further deals, and particularly as Kevin and the team at B&Q clarify some of their format opportunities, and possible allow us to reconfigure space differently, because we remain convinced there are things we can do with the space. And we can certainly trade a very successful business out of less space.

And the other thing mentioned by Karen was that we continue to be interested in bolt-on consolidation opportunities. Koctas picked up two excellent, ex-Praktiker, stores, as Praktiker exits from Turkey, a very major store in Istanbul which we just wouldn't have come up without that sort of consolidation piece.

And then we talked last year about Brico in Romania. We completed it last year. It is an asset, 15-store asset, with freehold property, which has a genuine presence in the market and an infrastructure. That is something that we wanted to transform into Brico Depot. It's also worth saying that, given the sort of prices in the market, this is something that wasn't going to be available three years ago, and now represents good value.

And I think we'll see other opportunities to make those sorts of bolt-on deals. But I think the most exciting thing is when we made our visit to Brico to see the opening, is the transformation of a good DIY store into a fabulous Brico Depot, and a really great result. I've got a short video, I think, of the opening mayhem in Romania.

(video playing)

The last two things before Kevin talks about B&Q, just to pick up on one, was the team there were helped by a team from Brico Spain, as well as Brico France. And it turned out we had a combination of some Romanian emigres working for Brico Depot Spain who came back and spent three weeks helping. So the support from around the Group that made that happen was tremendous.

And the second thing is, it's quite clear that for Eastern Europe the Brico format is generally a powerful format. And I think we'll be, based on the early opening mayhem, we are going to be expecting to accelerate investment as and when the results are proven over the next months. But a great and encouraging start to that process.

So from one of our smallest, newest, OpCos to one of the biggest and more challenging ones. So I'll hand over to Kevin.

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
Morning, everyone. I wanted to start by -- I just want to talk about what we've been doing over the last four months in B&Q, just give you a bit of context for that before we get into the detail.

B&Q is a strong business working in a great sector. If we think of the home improvement sector, home really matters to people. People are very interested in improving and maintaining their homes. Scale matters in the sector, and we can use our Group scale as [the pace] converge across Europe to buy better. And the sector is the sensible, more defensible, against the grocers and the online players, because you need big ranges. You need large stock depth in those ranges. And in many of our areas, customers want to touch and feel the product before they buy.

And in that sector, we've got a very strong brand in B&Q. The brand is loved and trusted by millions of consumers in the UK. We've got 19 million unique visitors to our stores, shoppers in our stores, buying in our stores, every year. That's about two-thirds of the UK population. We've got a brand that's the market leader, with over 60% of the [shared] market in sales and in profits, and has enviable net promoter scores.

And then the most important thing for me when we speak to customers is they talk about our people. And in our people, they talk about people being human, bringing home improvements alive, being very helpful. And that's a real competitive difference that we have, but there's a but.

The market has been difficult and declining; customer needs and behaviours have been changing; and the competitive landscape has been evolving at pace. If we look at the market for a few minutes, the home-improvement market in the downturn decreased by about GBP6 billion. That's about 12%. We saw reduced housing transactions; we saw consumers' incomes being squeezed; and the important area of home equity release loans decreasing. And I suspect we won't see those returning to pre-crisis levels at any point soon.

In that, the retail sector was impacted a little bit more than the trade sector. Now in that period, Kingfisher has actually been very resilient. We've defended our market-leading position well, largely through our trade offer improvements. And we've improved profit in the period. We've had some self-help structural changes that we've made, we've grown Screwfix, and we've taken some short-term cost initiatives.

Now, in any large business, in a downturn, you have to manage your cost base, but if that's over a prolonged period, which you've seen, it starts to impact some staff engagements and it can impact customer service.

So as we start to grow the business again, I will be increasing investment in areas like IT, in areas like essential maintenance and, as we improve the performance, in variable pay and bonuses.

And the pace of change has been increasing as well in the competitive area and with our consumers. If you look at the competitors, first of all, we have seen some notable exits from the market, but we've seen little space actually leaving the market.

The trade players are increasing space and welcoming retail customers. The discounters are increasing space and taking advantage of lower rents, and we've seen some online pure play specialists growing in the marketplace, and these are individually small but there's quite a few of them.

And then, if we look at the consumer side, we've seen consumers becoming more convenience-orientated and definitely looking for more value, being more price conscious. And the growth of technology like mobile and tablets has accelerated those changes.

So we've seen the market changing; we've seen customer behaviours changing; we've seen the competitors evolving at pace. So we recognize that and we know we need to do something to change. We want to change the business so that we can get B&Q growing again, so we can capture the growth as we come out of the downturn.

And then, thinking about that, I have three priorities. The first one is get the right team around the table. Secondly, reenergize the business and fix some trading basics so we can get some momentum back into stores; and, finally, work on credible plans that simplify B&Q so we can grow it over the coming years.

I'd like to just introduce you to the new team. It's very clear to me that to rebuild B&Q and to get it to fulfil its potential, we need a very strong team leading the Group, so that's been a big focus of attention for me over the last four months.

The new team -- 80% of the Board has changed and, in fact, over 30% of the top 200 have changed in the last four months. And around the Board table now, I've got a good mix of very experienced Kingfisher and B&Q executives and some top external talents.

In Chris, who's come in to do marketing, we've got an excellent customer and marketing executive who's launched big brands in the UK before. In Darren, we've got a very experienced commercial director, a buying, trading and commercial background over 25 years in retail. And then in the Kingfisher and Screwfix and B&Q executive, we've got very deep home improvement industry expertise and in-depth omnichannel expertise.

And I'm really pleased that, around the table now, we've got over 80 years of home improvement experience and over 80 years of Board level experience, so it's a real step change in the team.

Now, we all know that in a retail business, momentum is critical. Momentum in the stores is critical. Having focused on the team, the next area of focus was getting momentum back into business. B&Q is the market leader, but B&Q has not been leading the market, and I'm determined that we need to start punching our weight.

I just want to share a few examples of what I mean by reenergizing the business. The first one is price, which you can see on the screen there. We need to make our prices simple, really clear. We need to be really confident about our prices. We need to show the consumer the great value we offer every day.

We also need to make sure our promotional ends are much more impactable. Again, they need to be simpler in the communication; they need to show people the unbeatable value we offer. And in the ends of the stores we're going to increase the level of stock in the ends and also, for all the best-selling [views] across the store range, increasing the levels of stock.

These two things are real retail basics. It's actually the B&Q heritage; it's what we know. And the commercial teams and the store teams are embracing this, as you can imagine.

Now with a big portfolio of stores it takes a lot to roll through almost 360 stores, but you will see these changes in every store in the next three weeks, as we go into the important Easter trading period.

The other area that we've been focusing on is the marketing and just revisiting where we're spending our marketing, how are we spending our marketing. The whole point of our marketing, surprise, surprise, is to drive footfall. So it doesn't need to be clever, it needs to be effective. What we're doing is making some basic changes to the marketing.

One of the things that you've got on your chairs there is the latest leaflets. We started these leaflets in December; this is the latest one that's just gone out. We're delivering them to homes either directly or via the press to millions of customers every month and the leaflet has -- it has three purposes, really.

Obviously, overall, it's to drive footfall, but we want to shout about the great deals in the store and you can see the orchid deal or the Flymo on the back and, by the way, for any of you who don't know, it is Mother's Day on Sunday. If you want to, these are very good value at GBP5 a pack. We sold 48,000 over last weekend, so you'd better move.

So we talk about the deals. We want to communicate the micro seasons because there's micro seasons every four weeks in our business and we have products for those. So just what are the micro seasons that are relevant at that time of the year, and then we want to remind people of the extensive range authority we have across the store.

That's one example of one of the new areas and, to fund that, we've cut other areas; for example, sponsorship on Channel 4 which cost many million pounds a year, sponsoring celebrities, etc. So we're cutting in areas just funding things that we think are more effective.

And the great thing about this, actually, as well is it's bringing a drumbeat -- a trading drumbeat into the business. Every four weeks the team have to deliver this and it's a way for the store manager to walk his store and say, what are the deals, have I got all these deals in my store. So it's very helpful.

It's early days. I'm encouraged by the steps we're taking. We're starting to lead more and I'm encouraged that we're starting to punch our weight.

We've worked hard on the team, working hard on energizing the business. I'd like to now just say a few words on what we're doing to get [credible stance] to simplify the business and grow the business.

One of the concerns I had coming into B&Q was just how complex it is. We've let it get more complex over the years. It happens in lots of big businesses. But complex for our customers, and very importantly, it's complex for our colleagues to work in.

There's two implications of that. It makes it difficult to be agile and change quickly in a market that's changing quickly, and it impacts our cost base. So we're working hard on how do we simplify the business and, again, there's two big areas of focus there; how customers shop in our shops, and our end to end supply chain, from the factory through to the shelf in the store.

I just wanted to share two examples of what's coming out of the work we're doing. One is paint pot. We currently touch or move a paint pot 11 times from the factory door to the shelf. It wouldn't be so bad if we didn't sell 43 million of them every year, and we think we can reduce that by 50%, or less, to about 5 times.

The door handle is another example. We touch it or move it about 20 times and, again, we can take 50% of that out. So you can imagine there's quite a lot of labour tied up in that, and I look forward to -- that work is going on at the moment.

We're doing a lot of in-depth analysis across the store base and the supply chain, doing it end to end with all of the directors working together on it, and I look forward to updating you on the progress of that as we finish that work.

Now, simplifying the business is important, very important, but we all know that the most important thing in a retail business is the offer. The future growth will be dictated by the strength of the offer and that's getting a lot of focus.

In B&Q, we have 19 different businesses and that's the real strength of the brand, 19 businesses under one brand, but only if the 19 businesses are winning in their marketplace. So we're going back and looking in great detail at each of those 19 businesses. We're looking at it from a customer point of view, who is the customer, how is that evolving, and redefining the categories from a customer perspective.

We're looking at it from a competitor point of view and, in many cases, the traditional competitors aren't the competitors that we need to be focused on. So we're looking at the traditional competitors and we're looking in great depth at the new competitors, because each of the 19 businesses have to win against its competitor.

And then we're looking at the economic or the business model because each of the models need to be profitable, and not just now but in five years’ time, as the market evolves. Again, lots of work going on in that. The bulk of that should be completed over the summer, and there's probably three outcomes of that.

We could rearrange how we're using the existing space for a category in the store and just use the existing space better to get better sales density.

We could reallocate the space between categories without actually moving the big racking that you see in the stores.

And then, finally, we could revamp the store and just change all the macro space and increase space in some areas and reduce space and change where things are aligned beside each other.

Clearly, the first one, of rearranging, is the lowest capital and the quickest to do and that's the key area of focus, because we want to make sure that 360 stores are performing. And then, of course, we will trial some new formats, but that will be more time-consuming and is something that will be over a number of years, given the size of the portfolio.

Just to bring that alive a bit, I want to talk about one category, paint. If we look at paint, we know customers shop by colour, not by brand. If we look at the competitor set, it's largely still shared. That's one of the ones that has the least number of new competitors coming in.

And if we look at the profitability, it's driven by the volume of paints we sell but, very importantly, it's driven by the accessories, the paintbrushes, the rollers, the masking tape, which is much more higher margin.

And we've done some work in the Farnborough store. Now these pictures, hopefully, you can see them, it's different. If you'd been in the Farnborough store with us a couple of months ago, this is different. We just put this in, in the last couple of weeks.

We've introduced the colour centre at the centre of the store. We've given more space to paint, so you can shop all the blues in one place, you don't have to go to the Dulux aisle, to the Colours aisle, to the Crown aisle, and all of the tester pots are here in much greater volume, so this is how customers wanted to shop.

If you look behind the colour centre or in the colour centre, there's a Valspar mixing desk where customers can get up to 2 million different colours. So we've really made the shopping journey much more inspirational, easier for people to find the colour.

What you won't be able to see very clearly, wherever you are standing in this paint shop, you can see the accessories, the paintbrushes, the rollers, the masking tape.

We want to make it very difficult for people to walk out of the store without the accessories, so at the end of every aisle there's a wall of accessories and there's accessories in the aisles as well, so that people -- there's two purposes there, obviously. One is, it's good for the customer because they get home and they can complete their project; but very importantly, it really helps the economics in our paint store.

And then finally, we are, at our heart, a volume-value retailer. So we've increased the space at the promotional end, made them much more impactful in the pricing communication and in the volume of stock.

Hopefully, that brings alive what I mean by when we're looking at a category, looking at it from a customer point of view, looking at it from a competition point of view, and looking at it then, obviously, from an economic and profitability point of view.

The final thing I wanted to talk about what just touch on omnichannel. Now, while the offer's key, clearly customers are changing their shopping behaviours, so we need to help them shop in any way they want. And no growth plan over the next few years would be credible without a strong omnichannel plan.

B&Q's not quite where we'd like it to be right now and, hence, some of the changes, bringing in some of the expertise from Screwfix, and I'm delighted Steve is on the team helping lead this area.

We've done some work in 2013. We've launched trade-point.co.uk. We will re-launch diy.com so it's a much stronger platform over the summer, and we'll launch Click, Pay & Collect for 20,000 critical home improvement views over the summer as well.

Now, to get an integrated omnichannel plan is probably going to take us a couple of years. There's quite a lot of work to do, but I'm really pleased we've got the right team and we've got the right focus on it right now.

So in summary, B&Q is a strong business. The market and our customers are evolving fast, so we need to make B&Q simpler. We need to make B&Q being in a position that it can be more agile and it can evolve and take advantage of the changes.

This is a multiyear program, so we'll update you regularly as we go through it, but I'm really pleased with the start in the first four months.

We've got a stronger, more experienced team at the Board level and the next level down. We've started to reenergize the business and really get some trading basics and trading rhythm back into the business, start leading the market and act like the leader.

We've got good plans being worked on to simplify the business and then grow the business over the medium term.

Thank you very much.

Ian Cheshire - Kingfisher PLC - Group Chief Executive

So just to finish off, and thank you very much Kevin, I think the team that is now in place in B&Q is a significant step forward. It really is a heavyweight bunch. And for me, it's got real clarity now about where we're going to focus to make a difference and really building on B&Q. This is a business that can do an awful lot more and I think it is really well positioned now for the next two to three years.

We'll do a further update each time because, obviously, B&Q is not the total business, unlike some journalists who seem to think it is, but what it is, is this really important swing factor in our business, going forward. It's getting a lot of attention and again, I congratulate Kevin on the early steps he's made, particularly around getting a really high quality team together.

So just summing up, we made, I think, good progress despite a difficult year. We remain challenged in the year, mostly in France in terms of total market, but I think we've seen some signs of stability there as we've come out and there was recent PMI data yesterday which looked a bit more encouraging.

The key is that we have to keep the self-help agenda going and we have to keep doing that in a very persistent, retail-detail way. This is not going to be one magic wand that provides an answer; it's going to be a series of key improvements starting, as Kevin and others have said, with the offer.

We've got to make it easier for people to improve their homes, but then working through our cost base or behind it, the supply chain and cost structures, and then thinking hard about expand because there's a lot more we can do.

So the priorities for us, going forward, is really keep driving Creating the Leader; keep working on the B&Q evolution because I think there is a lot more to come there; and then the multiyear program we've talked about.

But what I would say is I walked through the door at Kingfisher 16 years ago and this morning, when the market cap briefly went past GBP10 billion, when I started, it had a 2 in front of it, this feels like a very different place.

I don't think this is anything like the end of the opportunity. So for me, in six years of being CEO, I don't think I've ever been clearer or more excited about our opportunities. I think we've got a next great phase of growth to go for.

So with that, I'd like to open it up for questions. Can we do the normal, please, announce yourself and then we'll direct traffic?

Questions and Answers

Fraser Ramzan - Nomura – Analyst

Fraser Ramzan, Nomura. Actually, just a question for Kevin on price at B&Q. Obviously, you've made some selective price investments in the last year and, in your list of what's needed, you talked about trade [sell into] retail, the growth of discounters, pure plays emerging and consumers needing more value.

So what's your view of the Company's price position, because you talk about sharpening the message on price, but you don't talk about absolute levels? So I just wondered what your views on that whole piece.

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland

It is different business by business across the 19 businesses. In some areas, we're very sharp on price and have no need to change that. We just need to communicate it better, and paint is a good example. I could list a whole bunch of businesses where we just need to be clearer what the value is we're offering and be more confident about sharing that.

There are some areas where we're not happy with the pricing against some of the discounters and clearly, that's something we'll watch. We invested last year in prices. We will invest this year in prices, but it was self-funded last year through elasticity in the product and funding from suppliers. We will continue to do that.

The issue is when we change pricing, you generally don't get a payback for -- it's about 18 months because, if we're out of line on let's say from plumbing, you don't buy four of them because we dropped the price, you buy the one that you wanted. But we are seeing good response from where we invested in pricing, so we'll continue to do that.

But I think the importance of the communication, the importance of telling people about it, there's no point reducing prices and then keeping quiet about it, but we'll continue to do that over the next couple of years.

Fraser Ramzan - Nomura – Analyst
Just one quick follow-on, if I may? On the expanded range plan for B&Q, what are your thoughts around the -- if it is direct to home as opposed to Pay, Click & Collect, the potential incremental pot of offering [that's being made]?

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
Well, again, it's one of those things that we've spent a lot of time, Steve, myself and Dave, looking at there are some things which we've taken off home delivery because it was just too expensive. If you've got a two-man delivery for something on a low margin, it just doesn't make sense, so we're just stopping it.

So again, it's category by category, line by line. It has to be profitable. If we can get basket size up, that helps. Our technology doesn't help us at the moment because we don't have the ability to do differential pricing because clearly, some people are happy to pay for delivery because they want it tomorrow, and then others there's a view that delivery should be free. So we have some technological challenges which we'll need to change over the coming years to help us on that, but we're just getting into that sort of level of detail now.

Simon Irwin - Credit Suisse - Analyst
Simon Irwin, Credit Suisse. Two questions. Just particularly on showroom pricing, Kevin, I think a year ago, you were talking about EDLP plus and, judging from what we've seen over the last six months or the last few months, there's another plus or [2] on that. Can you just describe what the pricing strategy is in EDLP and in showroom?

And, Ian, could you just talk a bit more about what you expect from your partners in China? Does that business still need to grow? So are you looking for investment, are you looking for property, or are you looking for product?

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
Talking about the -- looking at the businesses, you've picked one of the trickier ones. We definitely need to really understand who our customer is and who we're trying to sell to in kitchens. We really need to understand. We're getting into the competitor set; it's IKEA, it's Howdens, it's Wren. Of course, Homebase have a role to play, but that's not the big focus.

And the profitability is a critical one which you've touched on there. If we fully allocate all the costs of our kitchen business, this is not a profitable business right now, so this is one of the more challenging ones, that we will go through and we will absolutely look at the shape of the range.

We've got 49 kitchens right now; it's too many. We've got too many options within the 49. We've got too many carcass types, etc., so we're just getting through that detail and working it through with the team. We've brought in some other expertise from the industry to work with us on that.

You've quite rightly -- I don't think EDLP works particularly in an industry completely, it has to have a plus on it. We're just working through exactly what that plus is. And you're also right that, over Christmas, there was probably a few too many pluses.

Simon Irwin - Credit Suisse - Analyst
And sorry, just while we're still on the subject, is that GBP45 million of additional showroom receipts a direct read-through into 1Q deliveries?

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
It will be more Q1 than Q2, but it will feed into this year. The issue is the profitability of those sales.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
H1 rather than Q. Just on the China partner, I think what we've identified really is three main areas where a Chinese partner could add value. We do see this as a growth opportunity, so the ability to invest in property and growing the business because it's out of scale at the moment where it needs to be either -- frankly, it needs to be bigger.

Secondly, is in product supplier expertise, because I think we have a market in China which is unusually dominated by suppliers, to the extent that they are vertically integrated, they are setting pricing, and I think we probably need a more Chinese face into our suppliers.

And finally, I think it's in terms of being able to keep on attracting the next generation of retail talent which is still relatively early days in China. So one of the huge advantages of the Koctas relationship is they have a fabulous management development pipeline, they have other businesses they can feed really good people with and, if I was constructing the dream list, that would be it.

We have no set views, at this stage, as to what the actual financial arrangement would be in terms of investment or how that would work. And I look forward to narrowing that process down, but I think it's going to take a bit of time.

Simon Irwin - Credit Suisse - Analyst
Thank you.

Geoff Ruddell - Morgan Stanley – Analyst
Geoff Ruddell, Morgan Stanley. If I could ask two questions, please? The first one is I think when you started talking about the down or the rightsizing at B&Q, you said you had -- I think it was 18 stores and that you had supermarkets signed up for all of them. Obviously, the supermarkets are busy backtracking on their space growth plans now. I was wondering if you still had supermarkets signed up.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
The 17 that we've got signed up are signed up; it's purely subject to planning, so --

Geoff Ruddell - Morgan Stanley – Analyst
They haven't got any way out of that now?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
As far as -- we can check that's the case. I am probably -- whereas I thought a year ago, we might attract another wave, I think the temperature has dialled down and I think, as we said at the time, we were quite keen to progress these deals while the appetite was there. Those 17 I think we'll progress. We're probably looking at other retailers and subdivisions in other areas rather than grocers as being the only answer, going forward.

Geoff Ruddell - Morgan Stanley – Analyst
Great, thank you. And then the other question, you mentioned a number of times the soft comp in Q1. I think it's minus 17% at B&Q on a two-year view. Given you've got a better housing market and so on now, is there any reason we shouldn't be pencilling in a 15% to 20% LFL in Q1? (laughter)

Ian Cheshire - Kingfisher PLC - Group Chief Executive
That's an excellent question. All right. What do you think, Kevin?

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
Well, I can't predict Q1 like for likes.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Look, it's clear that you're going to have a big seasonal swing. I think what's not clear with these things and, as Kevin mentioned, B&Q's a multiple shop within a shop piece, there is some evidence that customers have the same amount of money in their budgets and they tend to switch a bit. So I would expect the outdoors and seasonal to gain massively.

Equally, what happened last year is quite a few customers did internal decorative projects which I don't think they'll be doing this year. So I don't think it will be a straight read-across but, yes.

The other thing to say is that Q1 was difficult across Europe. It was particularly true in B&Q because of its strong seasonal mix, whereas Casto France, for example, has much less seasonal bias, less garden and outdoors.

But the extent of that bounce back, we'll be back here disclosing it fairly shortly in May, I think.

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
I think, Geoff, it's going to be difficult to read trends until we get the first half because we had a big bounce back in second quarter. So we'll do our best to help you with it, but I think it will be (multiple speakers).

Ian Cheshire - Kingfisher PLC - Group Chief Executive
But it's clearly easier trading in this than it was in the snow last year.

Jamie Merriman - Sanford C. Bernstein & Co. - Analyst
Jamie Merriman, Bernstein. Just to finish up the conversation about pricing, can you just update us on where you stand now in the non-UK markets on price?

And then also, on the Create the Leader, you noted that you've moved to a net cash margin KPI. Can you tell us what that is (laughter)? I thought I'd ask**.**

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Right. Yes, in terms of pricing outside the UK, we obviously saw significant price investment at first half of the year in Poland, which is now, I think, more or less washed through. We've had, again, some effort in Russia because we saw a very competitive market there with market leader cutting price.

I think we are unlikely to see further big investments in Poland, but there may be some need to push again in Russia, subject to whatever else is going on in Russia.

Then in France, really we saw the second half of the year, Casto being more front foot, more aggressive, and I think that has helped drive the top line; obviously, it's burnt a bit of margin. We're continuing to expect a reasonably strong price message from Casto.

And Brico will depend a little bit on what goes on in that more specialist market before we decide. But I don't think necessarily we'll see quite the same level of price investment that we saw H1 last year.

And in terms of the KPIs, we probably can't publish the net margin targets. That's a bit too obvious. I think what's more important is that we're focusing people on saying, look, it's no good just saying I've got a sourcing gain when, in fact, you've added either a bunch of costs somewhere else in the supply chain or you think you've negotiated a rebate by going direct and actually, your cost price actually is worse.

So what we're trying to get focused on, which is actually technically harder to do than it should sound like, is that triple net, really how much cash margin we're making and then control where we reinvest it.

I think it's just that thing of if you have single KPIs, you can get someone who can convert, as did happen, that the whole bunch of light bulbs own label, technically fit the direct sourcing and actually make less money. So we're trying to move them to saying, look, this is about making money not having a religion.

Geoff Lowery - Redburn Partners - Analyst
Geoff Lowery, Redburn. Two questions, please. On the back of direct and common sourcing, you used to talk to 30, 40 basis points of bought-in margin gain. Now, the penetration seems to be flattening out there, at least percentage-wise. What are the big gross margin levers for you on a Group basis? Is there ongoing opportunity there?

And secondly, in terms of consolidation opportunities, you did Romania in the year. Looking forward, is it more bulking out some of your smaller markets like a Spain or a Portugal or a Romania, or are there opportunities in some of the big established markets like, say, a France?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Okay. I think it's important to say that the buying opportunities remain the key margin upside and, to be honest, in some ways, are key, apart from cost productivity, the key lever that we're going to focus on.

I think what we're trying to be as thoughtful about where we get and so when I said earlier, yes, I'm interested in direct sourcing, we remain convinced the opportunity is there over the longer term and there's no reason why we can't get more benefits out of it.

But I'm very focused on saying, well, what are the areas where we can make money out of this and maybe what are the first opportunities. So things like intra-country synergies to my mind are part of common; it's not part of the direct sourcing piece. And it's about where do we focus, and this is very much led by Guy here, where do we focus to use the Group's scale most effectively, a bit like Kevin's point about the businesses, 19 businesses. There will be product areas where there are more opportunities than others.

And so we're putting together more of a build up from the ground opportunity, but over a five-year period, can we generate cash and reinvest it for the business, absolutely. And it's primary focus along with cost opportunities.

If I talk about consolidation, there are very few very big things out there, and so most of what we are looking at are consolidations. It might be that Koctas has a couple of stores, there might be a chain of small franchisees in France who want to come across, and we are very interested in testing the franchise concept as one way of attracting those people to us.

The problem with consolidation is you never know when it's going to happen or how it pans out and so, I think I said to you last year, having waited seven years for Focus to go bust, I've got very wary about predicting anything on that front. But the key thing Karen was saying, we've got the flexibility in the balance sheet to do that and we think there will be opportunities because given what's going on with Praktiker and Baumax and other people across Europe.

Caroline Gulliver - Jefferies & Co. – Analyst
Caroline Gulliver, Jefferies. Just a couple of questions on B&Q, please. You talked about improving the offer across the 19 different business units or categories. You've obviously done quite a bit over the last few years, from a common sourcing perspective. Which categories do you see as the biggest opportunity for improvement?

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
I didn't get the last one, which categories?

Caroline Gulliver - Jefferies & Co. – Analyst
Which categories do you think have the greatest opportunity for improvement over the next year or so?

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
The short answer, Caroline, is we're still working through it, so I don't have the complete answer, but clearly kitchens, as we touched on earlier, is definitely one where you can see the opportunity to simplify the offer, give us some buying scale, ideally work with Casto on some common ranges across kitchens, common carcasses, etc. So that's an obvious one.

Lighting is probably another one that we haven't completed the work, but I would expect the range is just too broad and we could narrow the range, make it easier for our customers to shop and get greater synergies, again with Group companies, get greater scale. So it is shop by shop really.

In a number areas we'll be simplifying the range so it's easier from a supply chain point of view, easier from a shopping point of view. At the moment we've got some duplication, and it's in there and in the guise of choice, but in fact it doesn't give the customer real extra choice. It's not choice they need. So it will be that type of work that we'll be coming back and talking about.

Caroline Gulliver - Jefferies & Co. – Analyst
Okay. My second question was just on customer data, just wondered if you'd give us an update on how you're improving and managing your customer data in a multichannel world, and how that might impact perhaps on some of these category reviews?

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
Yes, we have lots of data in the business; actually one of the challenges is getting to insight, which we're having a bit of fun with at the moment, but we definitely are rethinking about what we do with our loyalty cards. We've got a diamond card, we've got a B&Q club card, obviously we've got a TradePoint card. Ideally, from a retail point of view, you'd have one card for retail customers, one card for trade customers and we're just working through right now what are the options.

So we're looking at all the different schemes that people have and, again, we've brought in some external expertise as well as the internal expertise and, obviously, Chris and his team are very focused on that.

So as well as getting the basic mechanics of the advertising right and the trading rhythm in the business, we're looking at new advertising campaign and new brand campaign. And then the third leg of the customer work is understand the customer better and then getting the right data so we can communicate with the customers more effectively.

Tushar Jain - BofA Merrill Lynch - Analyst
Tushar Jain, BofA Merrill Lynch. Just wanted to understand, we have seen some improving trends in Poland in terms of both underlying trends, is that more due to market share gains or have seen some inflexion in the underlying market in DIY segment?

And second my question is, in terms of Germany, when can we expect you to do a break even and how fast the growth would be in that particular?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Give you chance to think about the second answer on Screwfix. On Poland, I think it's fair to say we have seen both, the GFK data is trending back up. I think that is broadly in line with some other trends we're seeing in Poland; it's not a fantastic rebrand, but it is generally more positive. Actually, Castorama in Poland has outperformed that market, so I think we are seeing both share gain and a slightly more positive market, which is good.

On Screwfix, we're opening in Germany in Frankfurt in the summer. We would expect, therefore, you've got quite a lot of fixed costs and overheads for there. The actual cost will depend on the rate of rollout, so realistically we'll have to make a decision after six months about what we think the trajectory looks like, and we'll have probably a similar conversation about Romania. After the initial trial stores, we'll set of rollout trajectory and it will be that that determines the shape of the curve.

But we're very clear, we're only interested in having a net NPV positive business there, and if we can't demonstrate that then we won't. I think we're relatively confident we'll have something to talk about this time next year.

Charlie Muir-Sands - Deutsche Bank Research – Analyst
Charlie Muir-Sands, Deutsche Bank. A question for Karen, or perhaps spreading out to the divisional CEOs as well. You showed in your slide pack that you managed to achieve cost savings last year more than offsetting cost inflation; is that something you think the business overall can target in the year ahead?

And then, coupled in with that, Kevin alluded to perhaps putting some more cost back into the business as it returns to growth; how should we be thinking about those sort of three drivers to the OpEx in the year ahead?

Karen Witts - Kingfisher PLC - Group Finance Director
The business has been targeting very similar kinds of cost reductions for years now and, I think as I said last year, it's lots and lots of relatively small things that go into that mix because we know that every year we've got to at least cover inflation. And in the year just finished, the cost reduction

measures were a combination of staff cost reductions of some small reductions in property costs, in distribution costs and in goods not for resale, leafleting costs, better pagination.

So there's a lot that goes into that mix and we'll continue with those kinds of efforts. I think the one thing that I would say is that we've had two years now where we've flagged that we've been paying lower than usual bonuses and we've said actually, that's acted as a bit of a natural hedge in the business. But as and when sales improve, we'll be building back some bonuses into the business, and we saw some of that in quarter 4 with stronger like for likes in Poland, and in B&Q we've started to build back some bonus into the cost structure.

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
I think in B&Q there's probably about 2% of cost as the business starts to grow that's outside of the normal cost inflation, which is along the lines I talked about. We have to replace nine year old IT kits, so you start getting [an appreciation] hit of that. We have to up some of the maintenance that you'd toned down in a tough time. We have to, as the business performs, clearly and if it performs, pay increased variable pay and bonuses, so that's probably a bit of a one-off to reset. And then we do all the work behind the scenes to manage the normal 2%/2.5% inflation that we get with wage increases every year.

Rob Joyce - Goldman Sachs & Co. - Analyst
Rob Joyce, Goldman Sachs. Just one on the capital returns, firstly. In terms of how we look at that on a multiyear basis, should we look at the current levels of base level, given continuing market trends, and what are the metrics around how you look at how that return will manifest itself?

Karen Witts - Kingfisher PLC - Group Finance Director
Well, if I start with the second, how that return will manifest itself then we will -- we're doing this because we want to create shareholder value and we will look at the methodology of return as and when we're ready to make the return. And if we're thinking about having a multiyear program it is likely that, over the multi years, we'll use different methodology, buybacks, special dividends.

Just in terms of the quantum, what we said was this is the first year and it's the first time in our history of a capital return, and we arrived at the GBP200 million figure by using the framework that has been set out. So we're doing this in a very considered way. It's really important to us that we carry on with a strong balance sheet, because that strong balance sheet gives us the flexibility to do the things that we want to do.

So we look at the balance sheet; we look at what we need to invest on a business-as-usual basis. We want to have some flexibility for consolidation opportunities, and we said that the capital return is in addition to the annual dividend, so it's only to have enough for our annual dividend. So that's the way that we will look at whether or not we've got surplus capital on the balance sheet on a year-by-year basis.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Just two points to that. One is, we obviously will look at the metrics of how does it compare in terms of WACC and cost cap. Cash sitting on our balance sheet has pretty zero return at the moment and

it's very KEP disruptive. So we will look at a couple of metrics to try and work out what a buyback valuation looks like versus the special dividend. We'll do this every six months, basically, and we will have to, if we're going to do GBP200 million this year, we're going to have to get weaving on it. So I'd just rather not tell the Goldman Sachs market makers where we're coming. (laughter)

Rob Joyce - Goldman Sachs & Co. - Analyst
Can I ask one very quick one on leases? Just in the UK, what's the kind of average lease length now on the leases, and are you seeing rents falling when they get renegotiated?

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
The big boxes tend to have leases running until 2022, 2024.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
The first big lump roll off in about 2018. Overall, there's about eight, but it's distributed quite unequally, and we are seeing on stuff that we don't want to have reasonable rent reductions, we quoted before about 10%.

Warwick Okines - Deutsche Bank Research - Analyst
Warwick Okines, Deutsche Bank Research. Could I just come back to the Creating the Leader discussion? The targets you set a couple of years ago were pretty clear on OpEx, leverage on gross margin, on sales beating the market, the language has clearly changed in the last couple of years on gross margins. Where are you exactly in your thoughts about the gross margin gains, is it still 30 to 40 bps per year?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Yes, I don't think we've changed the view. I think the two things that changed, one was the market was significantly tougher and more got reinvested in price than possibly was originally planned. Secondly, that the operational cost leverage in a lower volume world made it harder to get some of those upfront.

I think, over five-year period, the logic and the levers, going back to what we were talking before, remain the same; the question is how does it play out year by year. But as I said before, I'm six years into this; I'm pretty convinced there's an awful lot more to come.

Warwick Okines - Deutsche Bank Research - Analyst
So do you feel that you're two-fifths of the way through that program now?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Not in a perfect straight line, but yes.

Warwick Okines - Deutsche Bank Research - Analyst
Okay. And just on the short-term on -- just looking back at Q4 and the B&Q performance, what sort of balance of the improvement quarter on quarter would be split between the TradePoint side of the business and the non-TradePoint?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Well, we disclose 5.3% LFL for the UK; Screwfix and TradePoint were above that top end, but we didn't split out the individual **LFL.**

Warwick Okines - Deutsche Bank Research - Analyst
I suppose what I was driving at was really the extent to which you saw a consumer improvement through the quarter?

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
I don't have the exact number [I can give there].

Ian Cheshire - Kingfisher PLC - Group Chief Executive
The [main thing] would be that the consumers were tiptoeing out in Q4 but the trade was the stronger element; it was more led by that.

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
The alternative, as we've mentioned earlier, you need to keep an eye on the two-year like for like. The wind's a little bit more on our back now rather than in our face, but when you look at the two-year like for like, it doesn't look quite so clever.

Chris Chaviaras - Barclays - Analyst
Chris Chaviaras, Barclays. Two questions from me please as well; the first one on China. How do you plan to proceed with finding a partner, and how imminent that would be?

And the second question on pricing, just to close this, because you do mention that you're going to find price -- you're going to find some route to moving prices, given you expect supply chain efficiencies there. Trying to see what can happen first; do you first expect the supply chain efficiencies and then invest in price, or you're going to go ahead irrespective of whether you find cost reductions or not?

Ian Cheshire - Kingfisher PLC - Group Chief Executive
I'll talk about China and do you want to talk about [pricing]? In China, at the risk of upsetting everyone else in the room, we've appointed another investment bank to help us with the process of running a partnership piece. One of the points of wanting to announce it was to make it public and to clarify that we were interested and, therefore, could do a simpler process than trying to do it all behind the scenes.

And we are doing what you would normally do in that situation, which is preparing information to share with interested parties, putting them through a first screen, and then we will have proper conversations with a handful of serious players. So there will be some very strange people coming out of the woodwork, making strange offers, and we're just going to have to filter them down to people that we want to deal with.

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland

The pricing, there isn't any hard and fixed rule but generally, we're looking to fund it from elasticity and some supplier funding and we tend to try to fund as we go. But there's a period where you need to get the volume, the elasticity, and that takes a bit longer. So we have discussions with suppliers in advance of doing it, because clearly it's easier.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
So the supply chain are sort of standalone in the sense of we want to look at the cost base of the business, and that's true also for other businesses around the Group, is where can we get real process improvements to make it easier for customer, easier for colleague, and deliver cost. And so those that we should pursue anyway and aren't necessarily then being earmarked.

Kevin O'Byrne- Kingfisher PLC - Chief Executive, B&Q UK & Ireland
Yes, and we need to do that, given the trade discount and online that I talked about, it's essential we get our cost base more efficient.

Ian Cheshire - Kingfisher PLC - Group Chief Executive
Okay. Well, ladies and gentlemen, thank you very much. Appreciate the questions and look forward to seeing you for the interims. Thanks.

Karen Witts - Kingfisher PLC - Group Finance Director
Thank you.