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B&Q UK & Ireland Investor Event 21 October 2014

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Corporate Participants

Kevin O'Byrne CEO B&Q UK & Ireland
Darren Blackhurst Commercial Director, B&Q UK & Ireland
Steve Willett CEO Group Productivity & Development, Kingfisher
Dave Lowther Logistics & IT Director, B&Q UK & Ireland
Chris Moss Customer & Marketing Director, B&Q UK & Ireland
Sarah Levy Director of Investor Relations, Kingfisher

Conference Call Participants

Simon Irwin Analyst, Credit Suisse
Geoff Lowery Analyst, Redburn Partners
Geoff Ruddell Analyst, Morgan Stanley
Caroline Gulliver Analyst, Jefferies
Jamie Merriman Analyst, Sanford C. Bernstein
Andy Hughes Analyst, UBS
Chris Chaviaras Analyst, Barclays

Presentation

Kevin O'Byrne CEO, B&Q UK & Ireland

Good afternoon. Welcome to Reading. Thank you very much for taking the time to come and spend some time with us this afternoon. We're really pleased that so many of you have been able to make it out this afternoon. We'd also like to welcome all those who are joining us on the webcast. We've got many people who wanted to be here, but unfortunately we're limited numbers.

We've got a busy afternoon for you. We've got three objectives. The first objective is to meet the new board team and hear from them. The second objective is to share with you a bit more detail on our plans to simplify and grow the business, largely around work on the offer and on productivity. And then the third objective is to bring that to life in the stores when we go around and walk around the Reading store after the presentations in this room. Now we've got a busy agenda. We will have an hour in this room with presentations from Darren, Steve, Dave and Chris. We'll then have some time for some Q&A, but don't worry if you don't finish all the questions here, we are all together in the store for the next two hours anyway, so you can pick up some questions with the directors and the team as you go around the store. We then get around to the store. It's not very far, but we'll need to move reasonably swiftly, get around there, so we've got a couple of hours in the store and,

as Sarah just explained, we'll go through a number of stations where we bring to life some of the discussions that we had in September at the results announcement and today. So a busy afternoon, but we're delighted that you've been able to join us.

The first thing I wanted to do was just introduce the team, because some of you have met some of the team, many of you haven't. So I was just going to ask each director, if they wouldn't mind of standing up for a second. I'll quickly go around. Christian Mazauric, Christian is our Finance Director. Christian has been in the Group for 13 years, 11 years as Finance Director, Castorama, 2 years in B&Q. And Christian started his first job with M&S, in a store in M&S 20 years ago in Exeter of old places. We don't know how he ended up in Exeter, but he did. He thought it was London, I think. And Chris Moss, Chris is our Customer and Marketing Director. Chris brings real passion for customers and for brands to the business. Chris has created some very well known brands like Orange and 118 118 and developed brands like Virgin Atlantic. So great to have Chris in the team. Next we have Darren Blackhurst. Darren is a very experienced Commercial Director. Darren spent many years at Tesco laterally as Commercial Director on the board of their Tesco Thailand business. And then Darren moved on to be Commercial Director for Asda from 2006 to 2010 on the board there, and much of the value credentials that you see Asda benefiting from today were set up under Darren's leadership. Darren then became CEO of Matalan and I was very pleased when Darren joined the board in January this year as Commercial Director for B&Q in the UK. Next we got Damian McGloughlin. Damian is our stores director, retail director. Damian has been in the business for over 25 years, started in stores, store manager, regional manager, divisional director and since 2011 responsible for all the stores in the business. Dave Lowther, Dave has been 15 years in the Group, 7 years in B&Q, then went to Screwfix 7 years on the board there, led logistics, IT and the omniplatform development there. So delighted to have Dave back in B&Q, leading those areas for us again here. And we've got Steve Willett, who a number of you will know. Steve is one of my Group Exec colleagues. Steve wears more hats than anyone in Kingfisher at the moment. So we all get a bit confused. Steve is on the Group Exec, he chairs Screwfix, he was CEO of Screwfix and developed that business for many years and as well as having roles in Kingfisher, he looks after strategy on the board here at B&Q and brings a lot of experience, which is great. Then we've got Guy Eccles. Guy is our Human Resource Director. Again, Guy is 17 or so years in the Group, about 8 years in B&Q, then was on the board of Screwfix. And one of the reasons I wanted Guy to come back into B&Q was, he was instrumental in working with Steve to build a really strong boards team and senior leadership team that have really developed the Screwfix business and taken it from strength to strength. So great to have Guy in the team. And finally, Grahame, there's Grahame. Grahame has just joined us in the last two weeks to look after Property. We didn't have a role on the board a Property Director, we had a Group Property Director and we felt, Karen and I felt it was really important to get a Group, a Property Director on the board of B&Q given the scale of our property portfolio and the changes we want to make. Grahame has tremendous credentials in the property industry and has worked at a number of retailers, including Arcadia with Mr. Green and most laterally as Group Property Director for Carphone Warehouse. And Grahame won't be answering lots of questions today, because he is in the business for about two weeks, but we will update more on Property in future half year and full year announcements. So that's the team, and it's really important to me in setting out on this agenda was to have a really credible experienced team, but what's most important and it frankly was most enjoyable from my point of view is working with a team of aligned people around a shared plan and hopefully you'll see more of that today.

Moving on, when I made the board changes in B&Q about a year ago now, I had four priorities I discussed with the Kingfisher Board. The first priority was to get the team together, both at the

Board level obviously, but also below that we get a team of capable people aligned around a common plan working well together.

The second priority was to re-energize the business, get momentum back in the business, get some confidence back in the business. This was a business that have been losing customers and losing sales over the previous five years and that leads to a loss of confidence and that's critical in a retail business and we've talked about some of that work at other announcements.

The third priority was to have a credible plan to simplify the business, it had got too complex and then grow the business and we'll talk about that. In this, externally we talk about our three point plan around property and you'll see later productivity and offer. Internally, if you speak to store colleagues and feel free to speak to them and you'll see in a short video at the end, we refer internally to a five point plan. We've broken out elements of that plan. It's the same plan, we just use some different language. So, for example, where we talk productivity, in these meetings we talk simplify internally because it's an easier term to work with internally.

And the final point of the priorities was building on all of those things was to reinvent the big box home improvement warehouse for the digital age. All of the plans that we're working on are ultimately to achieve this ambition. When we look at this business, the great thing as we look at as challenge is that the essential elements that made the big box successful still resonate with customers today. Customers still want great value, they still want stock, great availability in the store. They still want all the products for their project under one roof to take away today. They still want knowledgeable, helpful staff and we can see that if we look at the performance of Home Dépôt in the States and other home improvement retailers around the world, the core elements are still as relevant today as they were. However, customers have more choice. They can go and shop with the market gets more competitive every day.

So there's two things we need to do. We need to raise our game in delivering the core elements and we need to improve that. And when we talk about the offer work and the productivity work, you'll see some of the work we're doing there. And the second thing we need to do is, we need to embrace the changes that digital are bringing. We need to have great Click & Collect. We know that when we look at the Screwfix business, 50% of the sales in Click & Collect are incremental. We need to have extended ranges online that complement the ranges in store and we'll hear more about that this afternoon. And, of course, we need great content and the great content will allow customers to identify the products, research their products, buy the products and actually do the project. And whether they then do complete the sale online or in store, we don't mind. These aren't two separate strategies, this is an aligned strategy and definitely the sum of the parts will be greater than the individual parts. This is a big change for the business and this is our overall objective for the next three to five years. To do that and deliver that, we have detailed plans to simplify and grow the business. These plans will take between three and five years to implement. The productivity work I've talked about before, while the core element you never finish doing productivity work, you're always working on that. The productivity work that we'll talk about and Dave will talk about is a two year program. The offer work, which Darren will talk about, is a three year program. And because we're largely a leasehold business and we need to engage with other retailers and landlords to unwind some of the excess property, that's probably more like a five year journey.

Now today, we're going to concentrate on offer and productivity and we'll talk about property, as I said in September, and when we're together again at the full year results. Now at the centre of all these plans is the customer. Everything we talk about today, the customer is at the centre of it, but there's the productivity work or the offer work and we'll hear more about that. And we really are

bringing the customer back into the centre of the business, setting our offer out as customers shop, not as we buy the product. To really do that properly, we need to engage our 30,000 colleagues. We have an army of people who want to be led and want to be engaged. And engaging our 30,000 colleagues and having the right culture is critical to executing and delivering this plan. And the culture that we want to create and that we're building in B&Q is around three core elements. We want to have the customer at the centre of everything we do. We want people in the business to treat the business as their own business, manage the business for the short term and the medium term, treat every pound like it's their own. And very importantly, we want to unleash that real B&Q Can Do spirit. We want to get the pace and energy that B&Q is famous for in everything we do. And when we can rasp those three elements and deliver them alongside the plan, the plan will ultimately allow us to reinvent the business and deliver on our ambition to reinvent the home improvement warehouse for the 21st century. This is really, really important. I'm excited about the plans that we're working on. I'm pleased with the progress that we've made to date, we've got a lot more to do and you'll see that. And I'm looking forward to spending the rest of the afternoon with you in hearing the plans from the team and taking your questions later. I'd now like to hand over to Darren to talk more about the offer. Thank you very much.

Darren Blackhurst Commercial Director, B&Q UK & Ireland

Thanks, Kevin. Good afternoon. Good afternoon everyone. All right, I'm going to talk you through the offer. And effectively I'm going to cover two subjects. I'm going to cover our pricing position and perception. And I'm going to be covering the work we're doing on differentiating our product ranges, our products and our product ranges or assortments. What we are trying to do with our offer is effectively deliver one very simple concept and that is Every Day Great Value to our customers. And Every Day Great Value is effectively these three things and this is something you'll be very familiar with in, you've heard this in the past, I make no apologies for this being extremely simple, but like all businesses for it to be truly effective, it needs to be simple, so that we can deliver this. As I say, I'll focus on what we're doing on pricing and I'll focus on what we're doing on differentiating our product assortments. I'm not going to be covering service today, although you will see some of these service enhancements we're making to our kitchen business when you go around the stores later on this afternoon. So let me delve into price in a bit more detail.

Now I joined the business back in January and four things really struck me when I joined the business and they were these four things.

Firstly, one of the things that excited me about joining B&Q was the fact that it was a warehouse, it's not a corner shop. I've worked in supermarkets, I've worked in hypermarkets, but this is a first opportunity that I'd had to work in a warehouse. And I think the thing that surprised me, as I walked around the stores, I was then looking at, was there was a real lack of confidence in the business in a way that product was being displayed. There was a lack of authority in a way that the product was being displayed. And the essence of being a warehouse had really been ripped from the offer. And so we weren't making the most of the volume opportunity and you can see one or two pictures there or things that I saw when I first joined, the half palletes and stuff, product not available for customers. And it's certainly not the body language of a warehouse. So volume and maximizing the volume opportunity was a key issue.

Secondly, there was a need to be more competitive. With the threat of online, with the threat of the discounts is, a business of this size and scale cannot take its market share for granted and it needs to fight its corner. And so there was a desperate need to be more competitive.

Thirdly, the business was hiding behind claims. And this is an interesting point because a business that hides behind claims is usually a high priced business, because claims is the language of a high

priced retailer. A low priced retailer will always show you his prices and that's very simple when you look around the retailing space today. So we were hiding behind claims and I'll talk about that in a second or two. And all this meant really we were confusing customers. And more importantly, when you look to the point of sale in our stores and the way that we were going to market, there were just too many colour ways. I mean, I think there were six different variations of price communication, whether it be a claim or a price in different colour ways. That always makes customers slightly uneasy, because they think there's different speeds of pricing going on. And actually, if you won't have authority in pricing, you need to have a very simple colour way and it needs to be consistent across the whole of the stores to date, which then means you have authority in something that you want to have authority in. In our case, we wanted authority in price.

So the plan very simply was reversal of that and start acting more like a warehouse, getting much more on to a price footing rather than a claim footing, maximizing our scale, as I say, in driving volume. And you'll see some of that when you're going into store with Damian, the Retail Operations Director, later on and he'll show you what we've been doing. And really tidying up and giving clarity to our whole proposition from the POS perspective.

So looking at a couple of those in more detail, the thing to celebrate really over the past three or four months, this might not mean much to many of you in the room, but this is a massive change for a retail organization given the pipeline that we're working with. We have moved completely from claims to pricing and there is the stark image of the two. On the left, there a lots of things being said to customers and a lot of money being spent on point of sale. So the next question for a customer to be, well, what's the price? The issue with all the messaging on the left is we're not showing our pricing and if our pricing does happen to be cheaper than the competition and the competition are running a similar claim, all the customer sees is the claim. So 3 for 2 is 3 for 2 is 3 for 2 in all retailers. If you are selling your paint on a 3 for 2 at GBP2 to GBP3 less than the competition, then actually by hiding behind the claim, you're doing yourself a disservice. So actually what we have now done is given ourselves freedom to set our pricing wherever we want and that is a lovely position to be in for a business like ours. So we've removed all claims and you'll see a lot of that in store today. Secondly and most importantly, as you show prices, you have to invest in your price because once you've made that decision, quite clearly you cannot be beaten on price. And so we needed to become more competitive. In the first half of this year, we have lowered 3,500 prices. The house driven deflation into our business, which I'll talk about in a second or two. Actually deflation is running at about 1% to 2% at this moment and it's completely changed the shape of the way the business operates. In the last five years or so, this business has operated every year by inflating and accepting volume loss from competitors. This year, we are driving our volume ahead of the market and we are deflating the business, that is a much healthier shape for this business to have as we go forward. And you can see some of the pricing decisions that we made, these are some of the sort of key items. The flexi bucket, for example, we're now selling over 50,000 flexi buckets a week. We've taken GBP1 off them. Our gloves now GBP1.17, we had a 417% uplift just by dropping GBP0.20, GBP0.30. And so by aligning the pricing with the way we implement and execute in stores, which again Damian will refer to and talking through more detail as you around the store, we really are seeing some fantastic volume growth.

So we've invested in price. Within that there's been a couple of key initiatives that I'll probably draw to your attention. One is we call the T50 or the Top 50. These are 50 lines that could or should be in every household in Britain, they're bread and butter lines basically. And you can see from the graph on the left, they're now in one in 10 baskets. You'll see them as you walk around the store later on, they're in the wire baskets. We've invested in the pricing, they're now worth over a million a week. And overall, the volumes have gone up 35%.

We've also launched a program, the doorbusters, which is effectively a weekly stunt that we put in place on a Saturday and a Sunday. Why have we done this? We've done this for a number of reasons. Primarily to drive momentum, because if you have been a bit of a sleeping giant for a number of years, you've got to come out and you've got to show your intent in the marketplace. And so the doorbuster campaign is a way of driving that momentum. You can imagine the interest that that is getting from our vendor base. Because when the big kid in the playground wakes up and sells volume, the volume that they should be selling and should have been selling for the past number of years, it becomes very interesting for a manufacturer, who and one or two of our manufacturers over the past number of years have probably been disenfranchised because we weren't driving the volume with that confidence and driving the business with that confidence. We're now selling, or we have sold in two days 17,000 Flymos. We sold 73,000 orchids in three days. We sold 53,000 sun loungers in a 2.5 hours on a rainy Saturday in the summer.

The thing that I like about this is for me it's a learning curve, because we are learning just what we can do and it's driving a real sense of belief right away through this organization. And go and ask any colleague in store today about the doorbuster program. It has been a major, major impact in the way that vendors see our business and the way that colleagues are now engaging with the business. So we're really driving that volume and, as I say, helping change the shape of the business. Most importantly, customers are noticing the difference. As we've invested in our price position and improved our price position, you can see from the bottom graph, we're pulling away from our standard traditional competition if you like. And from the top graph, you can see how we're starting to close in on the discounters. That is a great position to be in. That is the position that the number one in the market should be in. Because with our market share, with our scale, this is quite exciting for us as a business and certainly for our vendor base, as we move forward. The customers are noticing the difference and that's price. I'm sure you'll have lots of questions later on, which I'm more than happy to answer as we go around the store.

The second thing I want to you talk about is our differentiating, our plans to differentiate our product and our assortment. And again, going back in time to sort of January, what did I come into, well, the three issues that I really sort of faced in with the team is, firstly, our store ranges are too big. Now, I'll give you a fact, which I'm sure you're going to scribble down and it's a blunt fact. But I want to share it with you, because it gives you size of the scale, why this is going to be a three year program? 46% of our SKUs account for 2% of our sales and you can do the maths on 40,000 plus SKUs. Now the reality is, the reason it's a blunt fact is there are a number of different markets in which we operate where you have to carry range. If you want a widget in the plumbing category, you have to carry the widgets in the plumbing category. If you don't carry those widgets, you haven't got any authority and you lose the customer completely. So please do not think with that sort of long tail, we're just going to ruthlessly edit, that would be the wrong message to take out. But I wanted to give you an idea of the size, of the challenge, if you like, and the opportunity that we face, given the fact that there is that long tail of product. The second thing that we needed to focus on was the need for, and this is the, for true differentiation in the form of innovation and newness. And you can see that we put up the Valspar brand. You'll see that in store today, which is exactly the sort of a range of products that are quite exciting for us, because price will only get it so far, let's be really clear. Price will only get it so far. And so over the long term, the growth has got to come from truly differentiating through newness and innovation.

And the third thing that really, so I have to get my mind around was the quality as inconsistent. Between 50% and 60% of all products rated online are four star or five star. The reality is in a business of this size and scale, it needs to be more than that. So I think the hard fact is, we have to continually strive to improve our quality. So within differentiated product, think quality, uniqueness, innovation and choice. Those would be the four elements of the plan that we're working on. And all

of that comes together and it's a very simple model, it's a very simple model. And again apologies for this being simple, but it has to be understood by everybody in the business and it joins up the whole commercial agenda. We start here on the left hand side with reducing range duplication. So we get into that tail of products and truly understand what we need in our stores versus what we need online. Once we actually primarily focus on stores to start with here, we can, as we reduce duplication in our stores, we can give more space to core ranges, which means we can start selling core ranges more effectively and with better productivity. Why? Because we can bring in shippers of product and displacing volume and start acting like a warehouse. Secondly, it means we've got space and time to work on our online offer, which may expand the overall choice for customers, so that we do benefit from this, we do reach our goal of becoming the only proven warehouse for the digital age, and we work on product differentiation and choice. So those are two things that we're doing by reducing range duplication. Very simply then that means we start selling more products to more customers. What does that mean? And all of you have seen this before, because this, you've seen in many retailers. It means we start growing our volumes. What does that mean? We're growing our volumes and as we grow our volumes, we're doing it effectively and efficiently, so we start to maximize our efficiencies and Dave is going to talk about this in a second or two. Behind the scenes, as you can imagine, are being a commercial animal. We're going to be engaging with our vendor base because this is all very good news. There is a massive opportunity to invest to the growth behind a business that is doing this, which then means we have the opportunity to lower prices. Like any good model, I can actually start in different locations and actually the whole thing works. So what I'm really saying to is, we're lowering prices and we're starting to work on our offer. And we're kick starting this whole commercial model within the business. Dave will pick up on maximizing efficiencies in his presentation in a second, and Steve will give you a bit more colour on what we're doing online.

So hoping that makes sense to you. That's our simple plan. What have we then done? We've translated that at the moment into five, a trial in five product areas, in six trial stores. The teams are working to very, very clear principles driven by that agenda, and driven by our desire to establish Every Day Great Value in every category. And you will see today an example in doors, where that's all coming together. You'll also see it in kitchens as well actually with the work that Ian's been doing there. And behind all of this is a plan over the three years. Clearly within this, there is a cost, but it's going to be good for working capital as we go through this. I can tell you in the last quarter, we've cleared out a big chunk of deranged stock even in the last quarter. So we are managing this as we go. There is a very clear plan. As I say, we're going to share with you today, the work we're doing on kitchens, the work we're doing on doors and the work we're doing on paint. And that is the work that we're doing on pricing in differentiated product in our quest to deliver Every Day Great Value. I will now pass over to Steve. Thank you very much.

Steve Willett CEO, Group Productivity & Development, Kingfisher

Thanks, Darren. Right. I'd just like to take a few minutes to talk you through the sort of B&Q omnichannel journey. Sort of accelerated in omnichannel, probably started about three years ago when we started this new sort of new omnichannel platform, which I'll talk about in a minute, and we started some of the investment growth. But actually we've not been waiting for that. We've had some pretty significant growth already. So we've gone from a running rate in about the last 18 months to about 23 million a year to sort of 65 million plus. And actually, the first half growth in terms of the web was just over 100%. So we've had some pretty significant growth using our current platforms and in that what we've been doing is basically the basics. So we've been looking at navigation, we've been looking at content, we've been looking at search and actually we've been testing and trialling customer journeys through the web that we've taken forward into some of

the new platform. In saying that, actually that scale of money for a business of our size just isn't good enough, and it ought to be a lot bigger. So we see this as a massive opportunity for growth in the future and we're planning to deliver that in three areas. I'm going to talk about each of these in a bit more detail.

The first one is what Darren has just been talking about, which is supporting the offer work, and actually the range rationalization and extensions online. The next one is Click & Collect. Any retailer now that we look out at across the UK and all the places Click & Collects a big source of growth and then where are we going to go with complementary ranges.

Just a bit before I do those three, all of those are now supported by the new omnichannel platform. This is actually the new group platform. When we designed it three years ago, it was going to be the omnichannel platform across the group and that's what's going to happen. In fact, we're now rolling this program into the big systems program with the sort of legacy, getting rid of the legacy systems and implementing SAP with this omnichannel, which we'll roll out across the group. The first implementation of this is in B&Q and it's the new diy.com. It's a leading edge, state of the art technology stack. It's fully responsive, so you can look along the top and actually automatically reflect the sizes of devices. It's been designed for touch based devices, not just PCs. But I think it's worthwhile saying at the moment, this is, it's a good start and it's a platform, but the group will continue to grow in this going forward. In terms of diy.com, basically it's been 100% live since 21st of September, sorry, before that we were basically running from anywhere between 2% volume to 100%, making sure we got everything right. I'm pleased to say actually it's fine, platform is performing well and actually the site itself at the moment is performing better near the site in terms of all the metrics, conversion, navigation, et cetera, which at this stage is pretty good. Customer feedback is very positive, but actually, as I said, that's a stock, so what we're doing now? Now we've got lots of traffic on, we can actually run the analytics, we can look at how people will shop in the site and we can actually start tune in all customer journeys, which is what we're doing now and we'll never stop, we'll just keep going.

So in terms of our first priorities for the multichannel, I think, Darren said, the first one is supporting the offer work and one of the things that you're going to look at later on is doors and we put doors on there as a slide. And I think Kevin said earlier in it, what we're trying to do is reinvent the business for a digital age, which effectively means almost talking about the core store business and talking about omnichannel in separate sections almost doesn't feel right. It helps because it's the easiest way to present it, but the truth is, it's how they all work together for the customer that actually matters. So in terms of the range rationalization work that Darren's put forward, what we don't want to do is do that rationalization work and actually make the customer offer less. So if you'd look at the doors example later on today, effectively we've gone from about 300 doors to about 70 in a store. But actually we've put about 500 online. So what you've had is three effects, actually in store shopping becomes easier, actually the choice to the customer has actually gone up and the economics are better. So it's how we actually work both omnichannel in line with store ranges for the customer offer that matters. The other big one here is, well, I'll talk more about Click & Collect in a minute is, as we're implementing Click & Collect, what is given is the ability to do is drive those ranges further down the store estate into smaller stores, so we can do extended ranges into small stores.

Next, Click & Collect. So when we implemented the new diy.com, we put Click, Pay & Collect live like Screwfix. We're key with Click & Collect and, is the, actually service is completely paramount to us, because what we want to do is anything we promise the customer, we have to deliver. So we've initially started Click & Collect with a shipment from Trentham into the stores. So what we're doing is completely protecting the service to a customer. We promise it to a customer for the next day and we ship it from a fulfilment centre and it's the same fulfilment centre that supports Screwfix into the

store for collection. We actually put 5,000 products live initially and we're planning to go to 18,000 by year end. In fact, we're planning to be a bit earlier than that and, in fact, actually the 5,000 is now not valid, because we bought another 5,000 live last night. So we're now to about 10,000 and we've currently serviced about 7,000 orders. But again, this is a journey, because Click & Collect we see as massively important to that digital retailer. So we're going to go evolve Click & Collect over the next couple of years in two prime areas. One in the promise to the customer, and then in actually the SKU count. In terms of the promise to the customer, the key thing again is, we have to deliver what we tell the customer. So to actually move the promise from next day through to same day and actually make sure we hit it 100% of the time actually requires a lot of operational changes in the business, they're not necessarily technology changes and the offer program and the productivity program that Dave is just about to talk to. So we're going to be very careful with this, in terms of moving the promise through next day to a mix of same day and then next day shipments and then we'll move to mostly same day. But the evolution to make sure that we do it and absolutely deliver what we say will take a bit of time. As well as that we're also going to move the SKU count forward. And we're planning in certainly at the end of two years to be up to about 35,000 SKUs across a mix of products. Last, but not least, complementary online ranges. So the key point here is what we want to do is extend some of the ranges that we are currently doing, the doors being a classic example of that, because we move the range much bigger and we move the online range to about 500. And then actually we want some other ranges that complement the offer, there might be offer to the customer better. Our priority for that at the moment is we are looking at other parts of the group and some of the ranges that already exist in the group to see how we can actually fast track that into the business. Thank you very much. And I'd like to pass over to Dave to talk about productivity.

Dave Lowther Logistics & IT Director, B&Q UK & Ireland

Thanks, Steve. Productivity, ever exciting, always essential in any business. We've started a journey over the last year of trying to bring a new approach productivity to B&Q. This is about low cost by design and getting that forced into the business in every area. We've identified about 70 projects and they're all from the basis the implementation is designed to last, it's not a one off. So a lot of this is not exciting, but it is absolutely fundamental to the future. We've put a multi-functional team together, we're looking for Chris Bargate, who'll be with you on the store tour later, looking at all the areas of the business that are complementary to what we're trying to do in the offer and the proposition piece and the omnichannel base. So in range and replenishment, we're trying to make the replenishment better, quicker, slicker, more appropriate from a volume point of view, better from a lower cost and ultimately, better availability to the customers. We are reviewing the distribution network, it's very mature. The opportunity now comes to change it. I'll talk a little bit more about that in a minute. And we're going through all of the store processes with a fine tooth comb, looking for areas where we can do things better, do things a little slicker, a little cheaper. Tied to that we are taking the issue of labour scheduling very seriously. We're moving on another step forward in terms of our skills and complexity in this area. Some of the things we've done already. We've done a whole piece on back of office cash optimization in store, it's gone very well, it's reduced cost. We've changed our deployment model heavily in our trade business and we've done a huge fleet optimization piece across the main distribution network. We're currently right in the middle of the throes of changing our store delivery fleet. We're moving to less larger vans based in stores. That gives an improvement in service, gets as near to the customer and keeps the cost down. That will also be followed before Christmas by a reorganization of the Southern distribution network, which will of course involve the closure of one site, but again allows us to drive the asset harder, that's just an asset utilization project. So they're going on. That will then take us into next year and some of these things we'll show you in the store along with the sort of four real key themes. Labour

scheduling, big theme. We won't show you that today because it's very difficult to show people, it's a paper thing, which is very complicating for us. We've got 30,000 colleagues and getting the right labour in the right place at the right time is fundamental to the future. When we are doing this, it's interesting is we are going to centralize our returns processing. We've always historically processed returns in store, we're now going to move all our Screwfix to centralize returns processing. Two things, one is financial. We get a better recovery against the products or the scrap value or whatever by processing centrally. The other is a staff to tell me things about product quality I didn't really know or I only suspected. The difference this made to product quality at Screwfix was fundamental to the success in Screwfix's business. We're also working in store, I'm trying to make things easier for our colleagues. The things, we've got some really difficult products to handle, some of this is tough stuff. So making that easier in store to get it on the shelf quicker allows us to lower stock and improve availability. On the front end, we're revisiting all our till processes. At the end of the day, we've got a mature estate, the way our tills are laid out and designed and the way we do pricing in store is historic. All of that is being revisited and we'll show you that in store. It's very simple stuff, but the effect it can have on this business is enormous going forward. That's just a flavour of what we're up to. Hopefully you'll see some good things in store. Please ask any questions. I hand you over now to Chris, who'll tell you about the exciting world of marketing.

Chris Moss Customer & Marketing Director, B&Q UK & Ireland

Thank you very much, Dave. Exciting world of marketing, well, I think you've heard quite a lot about the engine of B&Q. And I guess for me that we've been warming that engine up and tuning it. And as we go forward, it's around coming back a little bit. So the thing that Kevin mentioned right at the very beginning, customer is at the heart of our business, now my heart is busy pumping oxygen around. And actually, the B&Q oxygen is customers, because without those we have nothing. And so trying to build that oxygen up across the business is to me pretty exciting times. I've always worked in businesses that have, the column says customer centric and some of them obviously love the business, their customers at the heart, others they just talk about it. As you heard from each of the people speak so far, every single thing that we do is driven around that customer. How can we delight that customer, how can we get better value for that customer? So when you see down and talk about price, it's so much easier. I found it so embarrassing. For about the first three months, I go into B&Q stores, I couldn't stop picking things up and buying them. And they wouldn't know how many my discount card for three months. So it's costing me a fortune, but it was so easier to pick that up, because you could see the price and it was a great price. But when you see that with customers at the heart. And number one is customers, wouldn't everyone say that? And the reality is, what we're trying to do is make it easier for customers, easier home improvement, because whether you like to know, it's hard. Anybody here painted in the last few weeks or bought paint or done any painting? A few of you. It's quite hard that so many things to do, go and watch the football or you can get your iPad out or you can go down the pub or watch TV, whatever and actually when you get to understand customers, you really get to understand how difficult it can be. I believe that experiencing all that, that interaction is key. And when we talk about the heart, we always talk about love. I love my boss, I really, really love my boss and the whole board loves their boss. And this is, maybe you're feeling a little awkward, because it's actually not Kevin. My boss is the customer. Our boss is the customer. Customer makes all the decisions that count. When am I going to buy? It's raining, uh, don't think I'm going to buy today. Because that doorbuster, they were standing outside in the rain with umbrellas queuing up at 7 in the morning to buy it, it was extraordinary. Where are they going to buy it? What they're going to buy? How they're going to buy? And even if they're going to buy, I was sitting in the research group listening, in fact, it was in store actually talking to some people in the kitchen area about customer journeys and they

said, oh, we had this great customer in last week, it was fabulous. We spent two hours designing her kitchen. Well, that's about an hour 45 too long and we'll explain what we're going to do to make that easier later on. But she bought this lovely kitchen and she was ready to purchase and then she didn't, she just went away. And they followed up and said, well, what happened? Well, my cat was ill. So what's that going to do with buying a kitchen. Well, for many people kitchen is a really major expense, you put up a holiday, you put up buying a car and actually her cat was sick, she needed to have, her cat needed an operation, so she couldn't afford it. So whilst making it easier to buy a kitchen is around us thinking differently about how do you finance those and people as well.

So when you put the customer at the heart of your business, it actually makes a massive difference. And that to me, each one of us talking about our boss, so if you want to get to know your boss, go out familiar with Kevin maybe. But actually for me, it's about getting into store. And so I was lucky because Damian said, it's no trouble at all. Let's get to being quite quickly before too many people recognize you, because you don't really want to be having cocktails all day in the store. And so I went on little naively for a week's work in the store, working nights, working during the day, working on customer service desk and it was the most exciting time I've had. It was just so great to really touch base with our customers and really understand how difficult it was for them. I didn't think I knew an awful lot about DIY, but I spent a lot of time refurbishing houses (inaudible) and the advice and help that I was giving people just made me feel good, so good. And every time a customer said, Chris, thank you so much for that. I actually, helping people (inaudible) and tipping me. And I say no, no, no need to tip me honestly, it's part of what I do. But understanding those customers getting under the skin of it was absolutely key. Last night I was in the research group in Reading looking at paint and you'll see it today, we asked a few customers to go and have a look at the paint offer. They were excited. I mean how do you get excited about paint? They've gone and seen the new Valspar and they said, it's amazing. More than 2 million covers. The colour right looks amazing. And actually you can excite people, it's not (inaudible) and we are changing people's lives. When you change your home, you really do get better living, it's incredible how it works.

And so to me, I mean one of the most exciting areas that I could possibly, in the past I've worked with customer facing, customer centric organizations like Virgin and Orange and 118. But B&Q, the scale of it is truly phenomenal. When you look at some of the things we've done just already and we're just waking up this giant at the moment, but the potential is extraordinary. And I'll tell you some tales about some of the things that we have done. But what we're trying to do is build some customer promises around easier, because life is hard, isn't it? And if we can make that journey a little bit easier, all the things we talk about, having stock there. When you see those volumes and you'll see them in store, it is so much easier to focus on. I can see that that is aligned, we should be getting right. When it's fence paint, whatever happens to be, it's so much easier to pick it up and take it away. So every part of that journey, not just doing it on the wall, but choosing it, buying it, painting it, drilling it, whatever it happens to be got to be make it as easy as we possibly can. We got lots and lots of new products that come along and help all of that. We were at a conference recently actually and I asked, how many people worked in customer services? There were 600 people. And about 550 of them put their hands up, worked in customer service. That's extraordinary for B&Q, I think, because we've shied away from that a little bit in the past and that was a real eye opener for me, it made a real difference, because that 500 turns to 5,000 turns to 30,000.

And it's about bringing the pride back into this business. I was a bit embarrassed, I joined the organization and read some of the tracking studies and people thought our advertising was for somebody else. I've never had that in my life, I've never run ads where people have confused for another brand. And it may be, maybe we should go back to our heritage a little bit, because B&Q's heritage is so strong. That orange bib, it's incredible. Another little story, we were, we just launched

this advertising and some of our guys were on the Severn bridge in the service area, they were on their way to another store, they were in there, orange bibs and a couple of girls come out, would you mind if we have our picture taken with you because there they were with an orange bib. Now that was quite extraordinary, why would you do that? It's the sort of same effect we use to get with 118 T shirts, but it does bring pride back to the staff as well. And I guess our colleagues have got to be proud of what they're doing and what they're selling.

And actually as we get this easier improvement underway as we really start to build it, it's about engaging with customers, understanding them. Once you really understand, you can find those really rich nuggets, you build your competitive advantage.

We've talked about make it easier, but it's also about finding those little things of innovation, newness, B&Q is famous for bringing things in. Now hopefully one or two, if you're here, might have heard what is called a light bulb moment, seeing some of the things you've seen here. I did ask our HR Director, how many HR people does it take to change a light bulb? He said, just one, but the light bulb has to want to change. Well, now right now light bulbs are changing. This is a new light bulb we're about to put on sale next week. It's an LED bulb. But it doesn't look like any LED bulb you've ever seen before. 4 watts, so it saves 90% of the electricity, it's exclusive to B&Q. How many people have put LED bulbs in their homes? A few of you must have done, yeah. It's growing. So last week for the first week ever, we sold more LED bulbs than we did the old fashioned type. It's a big turning point, but these bulbs would change it forever. Because some of those LED bulbs the early days, they've not quite been on the game, they've left a little bit of a shadow on the ceiling, whatever, this is going to be extraordinary. We've got one outside for each of you to take away. Just try it out, it's incredible. It's so bright, it's amazing, and it is so cool. So you can put your hand over it when it's on and it won't burn you. Lots and lots of really, really good innovation coming out of B&Q and we will continue to do that.

Anybody done any wallpapering? And as you don't have to paste the wallpaper, you paste the wall. So many things make it easier. You'll see doors easy to fit, all sorts of things across the store and that's about making the whole journey in B&Q easier all the time. And they talked about brand, they talked about Virgin and Orange and 118, I was really excited when you see the potential of B&Q and how we have to unleash this beast, because people talk about it being a sleeping giant. We need to make it the BFG, the Big Friendly Giant. Because the potential out there is absolutely huge. When we start to embrace customers, we really start to embrace the micro seasons as well, because there are micro season going on out there today of some sort. We did a (inaudible) yesterday. There'll be one coming up in a few weeks is Christmas, there's the lights changing this weekend. All of these things we start embracing and really delivering for customers, it makes a real difference. And that's because we're getting to understand that a little bit better. And I guess that what we do is we inspire a nation, because when we ran that first ad of the bucket, we weren't almost in planning out selling one more bucket. But we sold 10,000 buckets a week, orange buckets a week before we ran the ad. It went to 40,000 buckets the following week. What are they doing with orange buckets, I don't know. I think a number of people are filling them full of ice water and throwing them over themselves. But apart from that who knows what they're doing. And I guess I'm going to give you a sneak preview, it's not quite finished, but the next commercial for Christmas is about to start and actually you get a chance to buy some of these cute little toys in store as well.

(Christmas Ad video playing)

It's just GBP8 for the light bulb, toys at GBP10, GBP12 and GBP15, get them in store. And back to Kevin.

Kevin O'Byrne CEO, B&Q UK & Ireland

Thank you, Chris. Before we move on to the Q&A, I wanted to just say one or two other points. Look, it's very important that we have a plan, it's very important that we get the customer back at the centre

of the business, and it's important that we have days like this and we share the plan with you and hopefully you will understand what we're trying to do. What's most important in all of this and we know that is execution of the plan. And what's most critical for execution is engaging our teams. And just before we go into Q&A, I just wanted to show you a very short internal video. We had one of our regular management meetings a couple of weeks ago in Manchester, and Chris mentioned it 600 people there. Most importantly, we had our 360 store managers at the meeting and John is hosting us today and you can ask John about it. These guys are the most important people in the business, our store managers, because that's where we engage our 30,000 colleagues and I just want to show a very short video, excuse there's some internal language that we use, but I think you'll get a sense of and what we were trying to do with the store teams, and then we'll come back and talk about taking questions. Thank you.

(B&K UK & Ireland Managers' Conference video playing)

So we've talked about the four priorities, and first one obviously team and you've had a chance to meet the team and spend more time again this afternoon. Second one reenergizing the business, you've got some sense of that in the achievements in the first half, in growing customer numbers and growing profits, et cetera and again you'll see more of that in stores today. You've heard a bit more about the credible plan to simplify and grow B&Q and again you'll see more of that in the store. And ultimately, all of that we believe will lead to reinventing the business. But what's really important is execution and really important is engagement. And for me unleashing that spirit in B&Q, getting people focused on the customer, getting people to run the business like as their own business and unleashing that passion, that can do energy is really going to be critical and again hopefully you'll get a sense of that as we go round the store now and as you talk to some of our colleagues. So that's the end of the formal presentations. I think, Sarah is going to manage the Q&A and we'll hopefully answer as many of your questions as we can. And then we can talk as we go around the store as well. Thank you.

Sarah Levy Director of Investor Relations, Kingfisher

Okay, so basically over to questions, you put your hand up and then say who you are, where are you from and then we'll work through from that 15 or 20 minutes.

Questions and Answers

Geoff Lowery Analyst, Redburn Partners

Yeah, hi, Geoff Lowery, Redburn. Two questions, one for Kevin, one for Darren. For you, Kevin, when you look at the business, what does financial success look like for B&Q over the next three years? We've heard in the past about margin targets, there's clearly economic profit stuff going on at the group level. What are the metrics, what are the sort of benchmarks that we should think about judging progress again? The one for Darren was slightly different in terms of where the group runs known label and direct sourcing and stuff fit into your sort of matrix of value and quality and service, et cetera?

Kevin O'Byrne CEO, B&Q UK & Ireland

Okay. Well, I'll take the first one and pass on to Darren. I touched on this, I think, a bit in the September update. It is the business, in the future, the business is going to be growing volumes and growing pound margin. So what, of course, any retailer has to keep an eye on percentage margin, that's a good discipline. We're not running the business for percentage margin, we're running the business to grow pound margins. And by doing that and becoming more efficient and putting more volume through what is the fixed cost base, clearly there's variable cost and in home delivery it is variable cost. In some

of the volume book, we've got a big large fixed cost base, then that will lead to stronger financial performance. That's the focus.

Darren Blackhurst Commercial Director, B&Q UK & Ireland

From a product perspective, I mean it's a very good question. We are absolutely fully supportive of the global brands and if anything now the commercial directors, I didn't mention, I've worked in France for five years, I'm a French speaker. So we're now engaging with Brico Dépôt, I think, for the first time. I've spent a lot of time over there and in Castorama. We've created a commercial director forum now where we are actively looking at how we can develop the offer together. The doorbuster program we're working with Brico Dépôt and on the doorbuster program as we go into next year and obviously they call it arrivage, we've had to explain to them an arrivage is a very small doorbuster. So we're having a bit of fun as well within that. But obviously the core brands of the business are really bought into to us and it's key part of differentiation.

Caroline Gulliver, Analyst, Jefferies

Caroline Gulliver from Jefferies. Another question for Darren please around the change in pricing. It seems like quite a big risk to move away from promotions in quite such a broad step, not something that other retailers have done. What confidence can you give us through customer research and other things that you may have done in that decision making process that this isn't going, this is the right thing for your customers?

Darren Blackhurst Commercial Director, B&Q UK & Ireland

I've not said we're moving away from promotions.

Caroline Gulliver, Analyst, Jefferies

Okay.

Darren Blackhurst Commercial Director, B&Q UK & Ireland

I said we're moving from claims to pricing.

Caroline Gulliver, Analyst, Jefferies

Okay. So away from claims then.

Darren Blackhurst Commercial Director, B&Q UK & Ireland

Away from claims, you only have to see people who have protected themselves against the discounters and the grocery chains. One of the reasons why Asda were faring much better than all the other retailers is because they move to a price platform well before all the other retailers. And if you want to understand the sort of, the very simple science behind it. If you are, if you hold businesses being run by claims and take a simple one, you got a standard price of a product to GBP2 and you run the business always on the claim, as in you got to run half price activity, clearly you can do maths on the pound, the GBP2 becomes GBP1. The reality is, if you move to a price footing, I can set that price at GBP1.76 and on a day today basis, I can beat the competition. And then if I want to promote it, I'll take it down to GBP1, you can see I've not spent any more money than the competition. And on a week by week basis, I'm driving more volume than they are on the core products. And that's what has to do on basically on, in the grocery world. And have protected themselves against the discounters very adequately. I think it's worth saying that this is, it's not a quick move in areas like kitchens, it will take some time to educate customers. But where is the future in a business that are 65% off on kitchens and then an extra 15% off. Also what we did, we got to 90% off, 99% off, it doesn't, there isn't a future in that. In the past, one of the questions I've been

asked is, well, what's going to be different this time? In the past, we didn't change claims in the rest of stores and we said, let's change the kitchen offers. You walk into a store where 3 for 2 is 20% off, 25% off and kitchens is this oasis in the middle, but all this doing something different. Now we've got a consistent message. We do recognize that we'll take a number of years to educate the customer. If you look at IKEA, they've got that base because they've always, they've never been a claims retailer. So people expect to have a good price when they walk in. They still do promotions, they still do deals, but it's not claims. So it will take a little bit of time and we just need to execute well. I mean we're selling more volume and our customers through all the research that we have through YouGov, you can see that they're noticing in store as well. And to be honest you'll see for yourself when you go into stores. I mean there is a trust to showing you a price and customers need that trust. And if the world is trying to divert them away from the price, they know it, we all know in this room. And our objective is to re-establish trust with our customers and just put in front of them very honest simple pricing. If those prices need to change, we will change the prices, but we will not hide behind gimmicky claims.

Caroline Gulliver, Analyst, Jefferies

Thank you. And just one follow up, can you give us an idea of the promotional participation in the basket now versus last year?

Darren Blackhurst Commercial Director, B&Q UK & Ireland

I have been told I can't give you any numbers whatsoever.

Caroline Gulliver, Analyst, Jefferies

Fair enough.

Darren Blackhurst Commercial Director, B&Q UK & Ireland

So, no is the answer.

Jamie Merriman Analyst, Sanford C Bernstein

Hi, Jamie Merriman from Bernstein. My question is about price too. And it's really about how you think your customers perceive the price position of B&Q today and where you want that price perception to go. I guess, I get asked the question, does B&Q have a price problem? Is it a problem or is it that you're trying to lead and potentially change the long term positioning of B&Q in the customers' mind?

Kevin O'Byrne CEO, B&Q UK & Ireland

I think we had price problems in part of the business. So it's a complicated business as 19 different businesses. There are many of the businesses within B&Q that had great price positioning. And in some areas, we actually had quite good price, but it was confusing, as Darren said, it wasn't clear. And there were some areas and some of those essentials where over the years, the price had moved up, Homebase, Focus, Vicks, everyone have moved the prices up and the discount just came in under us, that's a price problem. So there's something, which we cannot and will not be providing.

Darren Blackhurst Commercial Director, B&Q UK & Ireland

I'll look at in a slightly different way. Do you want to run a business that it's just going to be driven by inflation and then volume loss every year within a state, like our state. And I think we want to use our assets, we want to get ready for the digital age. I mean, clearly there's work to be done in all of that and to get ready, we got to make sure that we're fit and being fit is making sure that you're working hard on price all the time for customers. Well, big potential of our customers are tradespeople. And

you've got to work on hard for them. And I think other than people get reassurance from the fact you are working hard and that's what we're trying to achieve.

Kevin O'Byrne CEO, B&Q UK & Ireland

But ultimately Darren talked about Every Day Great Value, that's what we're focused on. It's not just going to be a price gain, it's quality, it's delivery, service, et cetera, et cetera and we have to be, the price has to be right in that good value equation.

Andy Hughes Analyst, UBS

Andy Hughes from UBS. I'm just looking at your price index, you're still 13% more expensive than B&M who don't have very many lines and you're 21% cheaper than Homebase, you've got thousands of lines. So the question is why did you cut 3,500 prices. I mean why didn't you cut half as many by twice as much or a thousand by almost four times as much to actually narrow that gap?

Kevin O'Byrne CEO, B&Q UK & Ireland

At the end of the day, this is going to be, this is a, we're playing a long term game here. The B&M position we're closing the gap. We're very conscious of the sort of whole discounters and new entrants. Quite frankly I mean I come from a school where I welcome competition because I do think it makes you stronger. And I think there's a wakeup call to this business and we are heavily focused on reducing prices where we need to and where we've focused to start with these and lot of the everyday essentials, so that we're not allowing people – things that are bread and butter for us, we're not allowing people to get away on price. There's absolutely no way that's going to happen, certainly not my watch. And as a business, we are big enough and strong enough to absorb that and we've got the space to build, to drive the volumes. So that very investment pays off.

Darren Blackhurst Commercial Director, B&Q UK & Ireland

Andy, we've got a 5% to 6% overlap with B&M on some of those essential things we've clearly marked the price and that's not just against B&M, against other discounters. But if there are some products that they don't sell very many of that and people aren't actively going to that store for those products, picking up there, then we may not reduce the prices, if particularly if they're selling end lines and just clearing some old stock, et cetera. So we're just looking at it in category by category and one of the things we're setting up is a very clear picture of what is it that's core to B&Q's offer that these discounters have. So we're looking at this week by week and saying, are we happy with that, there's also a quality issue, because those B&M we match exact products and then we look at similar products and there's more similar products and exact products in the B&M mix and it's a very small number of products as you can imagine. So again, I think we've got to do something on packaging as well where that paintbrush is not the same as our paintbrush although the customer might perceive it, so we need to

Kevin O'Byrne CEO, B&Q UK & Ireland

One thing I would also say is, the quest here is to make the unaffordable affordable and not just focus on the very low end stuff. We are a quality organization, it is about Every Day Great Value. So we're looking at quality products, not just the very low end products. When you see that in certain areas come in and what's that doing to our mix, that's quite encouraging.

Andy Hughes Analyst, UBS

And have you put any prices up elsewhere to some of the price cuts?

Kevin O'Byrne CEO, B&Q UK & Ireland

No. Our prices move around all the time in all retailers, but we're not going out of it really to put prices up elsewhere to bring them down with those investor.

Darren Blackhurst Commercial Director, B&Q UK & Ireland

With those investors this year and that's funded through supplier contributions.

Kevin O'Byrne CEO, B&Q UK & Ireland

So one thing that you will see, I should be very clear about this is, you're not going to see yo-yo pricing on kitchens. That is one area where we're coming away from any sort of high level activity. And Ian will talk you through that in his presentation.

Darren Blackhurst Commercial Director, B&Q UK & Ireland

And just to be clear, that doesn't mean we won't have kitchen promotions, we don't have end of lines, we want to sell, we want for the deal. But we're not going to raise the price 100% and take it down by 65%.

Kevin O'Byrne CEO, B&Q UK & Ireland

Some of our competitors will put a price of a kitchen up to GBP5,000, GBP6,000 to drop it back down to GBP2,000. We'll have it at about GBP1,800 throughout most of the year.

Andy Hughes Analyst, UBS

Might be vulgar on that, they're all absolutely adamant, that's the only way you can actually flung the kitchen. More of them are saying you are the outlier.

Darren Blackhurst Commercial Director, B&Q UK & Ireland

I think, to be honest, I think, what you've got here is a period of running a business in a healthy way and detoxing from unprofitable activity. And I think, what you have to do is think about the way customers buy and customers don't, I mean, whilst there is an artificial season, it's not, big customers don't necessarily think like that.

Kevin O'Byrne CEO, B&Q UK & Ireland

And, Andy, if we're not saying it's easy, it is challenging because if it was easy, other people would move away as well. So we have to hold our nerve. We have to detox, you will see sales in quarter one as we come through materially lower than last year when we are frankly giving a lot of kitchens away. So we'll come off those sales. The biggest – the retailer with the healthiest kitchen business growing the strongest at the moment is IKEA and they don't do, (inaudible) it will take some time to get, they've obviously got that price position. We recognize that this is a two or three year journey. But for the health of this business and we're running this business like it's their own business. If we're running this business with the customer at the centre, this is what we've got to do and we got to work at how we fund that, how we communicate it, and you'll hear more about in store.

Andy Hughes Analyst, UBS

Thanks.

Simon Irwin Analyst, Credit Suisse

Hi, it's Simon Irwin at Credit Suisse. Couple of questions for Steve. Just as you start to roll out Click & Collect, can you talk a little bit more about the infrastructure that you've put in behind it? So you're shipping in every Click & Collect order from the central warehouse into store for each individual order,

and does that make sense if you've got 50,000 SKUs in the store, can't you pick from the store? And just generally, what are the kind of margin implications around this and sensitivities around delivery charge?

Steve Willett CEO, Group Productivity & Development, Kingfisher

In terms of what I was talking about earlier, yes. At this moment in time, we are shipping all of those in from a central warehouse and it goes back to what I said before, which is coming back to Kevin's point. The reason for that is the customer is absolutely at the centre of what we want. We have to deliver the promise. At the moment in some of the areas in the store, we do not have the confidence in some of the book stock accuracies and the operational processes that we think are robust enough to deliver that consistency of customer promise. So we've started by shipping it in, we've taken account of that in the economics and the SKUs that we've picked. So we're not trying to shoot ourselves in the foot, which is why we haven't gone to 34,000 SKUs overnight. Because that would make no sense. Most of that product is coming from the Trentham warehouse and it's a process that we've always been using. To be fair, we've been feeding parcels into store for TradePoint and other things on an ongoing basis. So that's where we've started. You are completely right. That's not where we want to end up. Where we want to end up is picking a big chunk of that, in fact, most of it from store. To do that we need to do a few things, some of it is range rationalizations, some of it is some operational things and when we get total confidence, those promises are right. We will switch to that. In fact, we're going to have an interim process where we will attempt to pick it from store, if we can't we'll then ship in overnight. So it's an evolution process, but we've started with a process that says, the one thing we cannot afford to do is basically break that customer promise. And we know to be fair, we're taking an economic issue in the short term. It's still profitable sales, but it's not as profitable as it could be, when we've completely done the transition.

Simon Irwin Analyst, Credit Suisse

How long do you think it will take?

Steve Willett CEO, Group Productivity & Development, Kingfisher

Two years.

Kevin O'Byrne CEO, B&Q UK & Ireland

And you'll see in store some very simple things like and Christian will talk about the new tills where we can get better scanning accuracy. So if someone just says there is three tins of mass has gone out and one of them is silk, we then have stockpile accuracy issues and then, in fact, Click & Collect. So we need to fix the range work, the productivity work as stock comes into the store all that is setting the business up to be able to as much as possible just picking in the store.

Simon Irwin Analyst, Credit Suisse

And with TradePoint, how has kind of Click & Collect and the whole online gone since that was introduced last?

Steve Willett CEO, Group Productivity & Development, Kingfisher

We haven't introduced Click & Collect into TradePoint. The Click & Collect offerings are only just going live with the new diy.com platform, because that's the only thing that had all the technical stuff for it. And we're yet to prepare, we haven't released it into TradePoint yet.

Simon Irwin Analyst, Credit Suisse

So when does TradePoint have

Steve Willett CEO, Group Productivity & Development, Kingfisher

To be fair, we're just writing the plan. We haven't decided when we're going to do that yet.

Simon Irwin Analyst, Credit Suisse

Okay. Thank you.

Geoff Ruddell Analyst, Morgan Stanley

Hi, it's Geoff Ruddell with Morgan Stanley. Kevin, can I just pick you up on something? Did you say it would be September 2015 before you are in a position to quantify the property plans?

Kevin O'Byrne CEO, B&Q UK & Ireland

I didn't, I meant March. But just to be clear, we're not going to come out with some big reveal. And I think the whole room would love a big reveal, but it's not going to happen, we're going to come out and tell you what we're doing as it is appropriate to tell you what we're doing, because Grahame has to go and negotiate with other retailers, landlords, et cetera and it just doesn't make sense to come and, we'll tell you when it's done. But we're very clear, we've done a very detailed piece of work catchment by catchment, store by store, we know what we would like to happen, unfortunately we don't own all the property to release some of it. And we are in conversations with a number of retailers and landlords about what they would like to happen and there's some, those conversations will be fruitful and some less so. So we will update you as much as we can as often as we can. But I just want to manage expectations because it doesn't make sense to come out and say we've got all these stores, because then Grahame goes into negotiation and he's got at least one hand, if not both hands tied behind his back.

Geoff Ruddell Analyst, Morgan Stanley

I mean back in 2005, I think it was you announced or it wasn't you, there was an announcement of a big, sort of, we need to cross 1.5 million square feet and it's going to cost us, it was couple of hundred million quid. If we're not going to get a similar announcement, there's not going to be a big exceptional on something?

Kevin O'Byrne CEO, B&Q UK & Ireland

Could there be some exceptional? Of course, there could. I just don't think, if we, I think more cash than profit in this discussion. If you look at the CapEx budgets we have and you look at the time scale to do this, I think, and that's why I've said, I think this is very manageable from a cash point of view. And what does that mean? It could be 20 million, 30 million in one year because we're having to spend money on breaking stores in half, et cetera. But this is not something that's going to impact the Group, Kingfisher Group in a material way. Initially I think some of the offer work that Darren was talking about, while there will be some P&L implications of taking ranges down, they will be cash positive. So there may be some margin implications in a quarter or two, while we clear stock, but it will be cash positive. I would see some of that cash being used for some of the work on the property, but in the grand scheme of Kingfisher, I think this is something that's very manageable year by year, just because of the time scale. Now would we turn around at some point and say, look, there's a group of these stores here and you know what, we've now, we've done what we can with them and we're left at an onerous lease and therefore, is it both from a cash point of view, I think it's very manageable; P&L, I'm not sure, it's just too early to say.

Geoff Ruddell Analyst, Morgan Stanley

And then one final one on the same topic. Do you have a view yet of what the optimum size of a large B&Q will be in the future?

Kevin O'Byrne CEO, B&Q UK & Ireland

We think, I mean, it depends on the location, of course. If you go to the store about to go to now, it's 140,000 square feet over 90,000 internal and it's perfect. When you're inside the M25 and certain catchments, that's a great store to have and we would never want to cut it down. And it's probably some of the, 70 and 90 in total internal and external. But it does vary catchment by catchment.

Christopher Chaviaras Analyst, Barclays

Hi, thank you. Christopher Chaviaras from Barclays. Two questions, one on pricing and the other one on the multi-channel strategy. In terms of pricing, there is a clear message here that you don't want to have inflation, you want to drive volume growth. And you said that you're running price deflation of around 1% to 2%. For how long should we expect that price inflation to run? I mean, is that an internal thing or does it stop somewhere? And is pricing the only problem, because Homebase is still much more expensive than you, yet they did have better performance in the last couple of years, at least? That's the question on pricing. And the multi-channel one, so Steve showed us a chart where you are quite ahead of schedule or ahead of where you were in last year in terms of the growth from sales growth from online. I wanted to ask whether that is incremental, whether the store based sales are similar year on year, in which case we are looking for a better performance or it's just cannibalizing.

Kevin O'Byrne CEO, B&Q UK & Ireland

It's always, I mean, it's a challenging question to get the right answer. We're estimating from the work we can see at Screwfix and the work in B&Q that about 50% is incremental. But some of that, if it's a new credit card, we don't know. Was that, would that person have got an account, come down to store? We don't know. In Screwfix, we can measure it more accurately, because we know every customer, we got details on every customer. I mean Screwfix, the number is about 50%. So on that basis we're reasonably comfortable that it's broadly the same. When we can see a customer, the other things that we're doing, the piece of work on is just looking at when we see a credit card, are they only shopping in store, are they only shopping online and were they shopping in both. Unlike most retailers when they're shopping both online and store, they're a better customer, there are a more loyal customer, they're spending more with us. So we think it's a positive thing.

Darren Blackhurst Commercial Director, B&Q UK & Ireland

I mean, from a pricing perspective, I mean, probably the outlook I've got at the moment is over the next couple of years. So I'd be misleading if I take you any further than that at this moment in time. I mean clearly within that you've got raw material movement and anything could happen, so we have to be careful or we assume here. But I think the intent certainly, from my perspective, in the next couple of years will be deflationary years and then we'll just have to come back and give you an idea of where we all then and take it from there.

-Ends-