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KGF.L - Half Year 2015 Kingfisher PLC Earnings Presentation

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PRESENTATION

Veronique Laury *- Kingfisher plc - CEO*

Welcome, everyone. Here we are again after six months. What today is about? Today is about results, of course; our half-year results; and it's about updating you on the progress we've made on our first sharp initiatives.

I don't know if I will disappoint you, but today is not about strategy. We will be ready to share with you our strategy at the very beginning of 2016 and we will organize a Capital Markets Day.

What we've done since last time in six months, during those six months, we've done three things. The first one is we've been focusing as an organization on delivering our result and making progress on our first sharp initiatives.

The second thing that we've done is we've been very busy working on our strategy with the team, and we are developing our plans and we are developing our strategic roadmap that we will be ready to share with you very soon.

And the third thing that we've done is we've changed already the ways of working within the Company, within the organization and the mindset. I've been visiting a second time all the operating companies. I did a second round of visits. And what it just confirms to me is the potential that we have with our home improvement industry and the millions of people who want to improve their home.

What it confirms to me as well is that their needs are more similar than they were different, and you will see that we've already taken that into account. And what it confirms to me as well is how many good people we have within our organization in order to make that transformation within Kingfisher.

I will now hand over to Karen and we will cover the results with her.

Karen Witts - *Kingfisher plc - CFO*

Thanks very much, Vero. Good morning, everyone. Thank you for joining us today. I do hope you're feeling warmer in this room than I am. Apparently, Steve Willett turned it down, turned down the temperature (laughter).

Anyway, as Vero said, I'd like to take you through our financial highlights for the first half of 2015/2016, including a performance review of each of our major operations. Then, I'll move on to an update on the balance sheet and then on how we have used our cash in this half year.

So if we start with the financial summary. During first half of 2015/2016, Group sales grew by 3.5% to GBP5.4 billion on a constant currency basis, with Group like-for-like sales up 2% year on year.

Sales growth benefited from the addition of new space. We opened 12 net new stores driven by Screwfix openings in the UK, plus three net new stores opened in Turkey by our Koctas joint venture.

On a constant currency basis, retail profits increased by 5% to GBP410 million, reflecting a mixed picture across our major markets, with the UK and Polish markets improving, but offset by France where conditions still remain more challenging.

Adjusted profit before tax was down 2.3% to GBP384 million, reflecting GBP29 million of adverse foreign exchange movement on translating foreign currency results into sterling.

Our effective tax rate was 26%, 1% lower than last year, primarily reflecting this year's higher proportion of profit in lower tax jurisdictions.

Adjusted earnings per share of 12.3% was flat year on year.

Our statutory post-tax profit was up 9.7%, reflecting a higher exceptional credit compared with last year, and I'll explain the exceptional items on the next slide.

The Group generated GBP308 million of free cash flow after investing GBP177 million in the business. Nearly GBP300 million was returned to the shareholders through a combination of last year's final dividend and the ongoing share buyback. Our net cash position decreased by GBP61 million to GBP435 million.

And the Board is declaring an interim dividend of 3.18p, a year-on-year increase of 1%, which is ahead of the growth in adjusted earnings, reflecting our confidence in our medium-term prospects.

So if we move on to post-tax exceptional items, we're reporting a credit of GBP38 million in the half year versus a credit of GBP11 million the same time last year. This relates to three key items, of which the first two were announced in March, and then the associated tax impact.

First, the restructuring charges in B&Q in France, where we've now booked GBP151 million exceptional charge associated with the closures this year of 30 B&Q stores and two Castorama stores in France. This charge primarily relates to onerous lease costs.

You will recall that in March, we said that we expected the restructuring to result in an exceptional charge of around GBP350 million over two years, and that assumption remains unchanged.

Secondly, we recorded a GBP143 million exceptional gain on the disposal of our 70% stake in B&Q China.

And thirdly, we disposed of some non-operational estate, primarily relating to the sale of a legacy property company, giving rise to a gain of GBP17 million.

Turning now to results by geography, and firstly, here are the results in summary and in constant currency.

In France, retail profits declined by 5.7% to GBP167 million. In the UK and Ireland, retail profit grew by 16.8% to GBP194 million. And in our other international division, retail profit grew by 3% to GBP49 million. In total, retail profit grew by 5% to GBP410 million.

So starting with France. Total sales in France were GBP2 billion, up 1.1%, with like-for-like sales down slightly by 0.3%. This was in an ongoing soft market impacted by weak consumer confidence and a continued declining housing and construction sector.

In France, we added 1% new space, with one net new store and one revamp. We've also made great progress with Click, Pay & Collect, rolling this out to 131 of our stores versus 34 at the year end, and that's ahead of the additional 80 stores that we were targeting back in March.

Gross margins were down 60 basis points, reflecting higher levels of promotional activity; and retail profit declined by 5.7% to GBP167 million.

So looking at the performance of our two businesses, in Castorama, sales were broadly flat at GBP1.1 billion, with like-for-like sales up 0.2%. That was similar to the Banque de France data showing sales to the DIY market up 0.3%. Like-for-like sales of outdoor seasonal products were up 3%, and sales of indoor and building products were broadly flat.

Brico Depot in France continues to be impacted by the ongoing sluggishness of the house-building market, with new housing starts and planning permits both down around 6%. Brico Depot's total sales of GBP0.9 billion were up 2.4%, with like-for-like sales down 0.9%.

Now moving on to the UK and Ireland. The UK and Ireland had a good half year, with stronger sales and profit growth supported by a better UK economy and more about buoyant housing construction market. Total sales of GBP2.5 billion were up 4.6%, and like-for-like sales were up 3.3%.

Retail profits grew strongly, up just under 17%, and gross margins were flat. Operating costs were tightly controlled, driven by the ongoing productivity initiatives at B&Q.

B&Q UK and Ireland's total sales were up 0.2% to GBP2 billion, and like-for-like sales were also up 0.7%. Sales of outdoor, seasonal and building products were down 2.3%, while sales of core indoor products, excluding showroom, were up an encouraging 3.6%.

Sales of showroom products were down 2.4%, driven by the decision to reduce promotional activity and instead offer customers every day great value, which on kitchens are now gaining momentum with customers.

Building on the initiatives we announced last year to reenergize the business, B&Q has lowered prices on more than 6,000 products, helping to drive value perception, transaction volumes and improved performance.

B&Q has also been working on driving productivity benefits across the business with initiatives such as store-friendly deliveries and roller checkouts. Both these initiatives completed in the summer, which will drive ongoing productivity benefits in the second half of the year.

Click, Pay & Collect was launched in over 14,000 products last year, with the release of the new diy.com. Total transacted online sales, including home delivery, continued to make good progress. And the B&Q team has also moved ahead with rationalizing space, which I'll update on later.

And last but certainly not least, Screwfix had another excellent half, with total sales up nearly 28% to GBP494 million. Screwfix opened a further 17 new outlets, taking the total to 412.

Like-for-like sales were up 16.5%. This was driven by strong growth from the specialist trade desks which are within Screwfix outlets which are exclusive to plumbers and electricians, and from strong digital and mobile growth, new and extended ranges, and the continued rollout of new outlets. I'll also update you on our UK growth ambitions for Screwfix.

And now on to our other international businesses.

First, let's look at our more established businesses, Poland, Russia, Spain and Turkey, which grew total sales to GBP827 million, up 4.5% year on year, with like-for-like sales up 3.8% driven by Russia and Poland.

We opened two net new stores, three in Turkey, and we had one closure in Poland which related to a relocation. Combined retail profit was 4.8% in constant currency.

Poland performed well, with sales increasing to GBP508 million and like-for-like sales up 3.4%, benefiting from new ranges and good seasonal sales. Gross margins were broadly flat, and retail profit was up 8.7% to GBP53 million, reflecting sales growth and good cost control.

In Spain, sales were down 4.6%, and profits declined to GBP2 million from GBP3 million in a more competitive market. But in reaction to this, we do need to sharpen our performance there.

In Russia, sales were up nearly 22% to GBP175 million, and like-for-like sales grew by more than 15%, reflecting particularly strong consumer spending on durable goods in quarter 1, which normalized in quarter 2. Retail profits increased to GBP3 million despite adverse foreign currency exchange movements on the cost base.

In Turkey, Koctas, our 50% joint venture with Koc Holdings, grew sales by 11.6% to GBP149 million, with like-for-like sales up 7%, reflecting new store openings and more promotional activity. However, our share of profit reduced to GBP2 million, reflecting the timing of new store openings and adverse foreign currency exchange movements on the cost base.

Romania, Portugal and Germany still fall into the category of new country developments, generating sales of GBP52 million. Losses were GBP11 million, a similar number to last year. This reflects the phasing of Screwfix Germany openings, as well as the more challenging environment for Brico Depot in Romania.

In Romania, we now have a new CEO in place who was previously Finance Director of both B&Q and Castorama France.

For the full year, we expect the total retail losses from these three new countries to be around GBP17 million, and we've included this update in our guidance page in section 3 of the release.

Now I'd like to take a look at what has driven Group profitability across the half year. I've already highlighted a few of these elements.

I've highlighted the negative impact of foreign exchange, the investment that we've made in Germany, Portugal and Romania, and the difference that better market conditions have made between the performance for UK and Poland, and that of other parts of the Group, particularly France.

We've made progress in growing our sales volumes and have continued the self-help initiatives to buy better and support our margins. But I also want to highlight that as we work hard on our first sharp decisions and on our developing strategic plans, we're still focused on day-to-day efficiency and cost control. Low cost always is an important guiding principle.

In the first six months of this year, we more than offset the impact of inflation on our operating costs, and we covered costs relating to our investments in IT with cost reduction activities, including store efficiencies like the impact of B&Q simplified program and head office efficiencies, and gains in goods not for resale, like cleaning and advertising.

Now moving on to capital discipline and the balance sheet. Our balance sheet position remains strong, and we're now rated at BBB flat with all three credit rating agencies. Our lease-adjusted net debt to EBITDAR ratio, adjusted for the China disposal, was 2.1 times at the half year, slightly lower than last year's 2.2 times, and within our target range of 2 to 2.5 times.

We continue to look for ways to optimize our position, as evidenced by the sale of non-operational space I mentioned earlier, about the space rationalization program at B&Q on which I'll update shortly.

Finally on capital discipline, let's look at how we utilize our cash.

We continue to reinvest in the business. As mentioned earlier, gross capital expenditure at the half year was GBP177 million compared to GBP119 million last year. Of this, around 19% was invested in new stores and relocations, 44% on refreshing existing stores, including the GBP19 million purchase of a freehold property for B&Q; and 37% on IT, supply chain and omni-channel development as we continue the rollout of our unified IT platform.

Our capital expenditure position at the end of July is consistent with our previously announced guidance of GBP350 million to GBP400 million for the full year.

Second, the Board has declared an interim ordinary dividend of 3.18p. That's up 1% versus last year and ahead of earnings. We remain comfortable with our annual dividend cover being in the range of 2 to 2.5 times earnings, which we believe is prudent and consistent with the capital needs of the business.

And third, we have as today's date returned about GBP160 million to shareholders via share buybacks as part of the GBP200 million program that we committed to return in this financial year; and that's in addition to the normal annual dividend.

And now on to our closing cash position. After capital expenditure, we generated GBP308 million of free cash flow. We returned nearly GBP300 million to shareholders via our ordinary dividend and share buybacks. We received a cash consideration of GBP137 million net of disposal costs for the sale of our 70% stake in B&Q China, therefore, leaving our half-year cash position after adverse currency movements at GBP435 million.

So to summarize, we've delivered solid growth in the first half of this year, driven by good profit growth in the UK and Ireland, and Poland, partly offset by France. On a reported basis, however, profits have been impacted by GBP29 million of adverse foreign exchange movements.

Our balance sheet remains strong. We've the resources to invest in our future, and we're making good progress towards returning GBP200 million of capital to shareholders this year.

Finally, in terms of the near-term outlook for our key markets, consistent with our comments in March, we remain encouraged by the macroeconomic backdrop in the UK, but we're still cautious on the outlook for France.

I'll now hand over to Vero to update on our first sharp initiative.

Veronique Laury - *Kingfisher plc - CEO*

Thank you, Karen. So as Karen said, the teams have been really focused on delivering the result. That was one of our commitments. The second commitment that we had with you guys, but internally as well, was really to work hard on delivering our first sharp initiatives.

Just as a reminder, the guiding principles that we share with you in March, it was the beginning of the very beginning in March, and those principles were very new. So just as a reminder for us what it was about.

It was about customer first. What our customer, the pro and the non-pro; the meaning of customer, of people who want to improve their homes. It is about as well about creating an offer which is different for the customer and very much answers the customer needs.

We want to have a leading offer, and you will see in two minutes that we've done some steps around that.

Leading offer; it's about innovation, it's about quality, but it's about sustainability as well, and this is very much embedded in that.

What we want as well is we want to deliver the same proposition across our geographies, and we will be starting that as well.

We want to be an omni-channel company, and we want to be leading in that space. And we will as we do that, we'll be focusing on few formats in order to execute them very, very, well.

We will be low cost always. Karen mentioned that already. Why do we want to be low cost? We want to be low cost because we have to lower the price of home improvement to allow more people to do more home improvement everywhere in Europe. And all of that will be possible if we have one company culture, if we are one company instead of being the collection of operating companies as we were.

What we've experienced since March is that those guiding principles work, and this is a very good grid internally for us to take decisions for the teams as well.

Then let's go into the core of the subject which is our sharp decisions. Why do we say refined? Don't worry, we didn't change it too much. We don't withdraw. On the contrary, we added one.

So what are the three major changes and why we've done changes? We've done changes because as we were working with those initiatives, and it was really the very beginning in March, we felt the need to reshape some of them, to precise some of them.

So three major changes, if you look at that slide and you compare it to the one we presented in March.

The first one is we had one initiative, which is develop core essential offer. I will dive in that initiative in a minute.

The second one is about Big Box. We precise what it means for us. It's best practice. It's not about developing the store of the future. We will do that along developing our digital strategy, but that's not what we are doing in that first sharp initiative. It's really about taking the good things that we are already doing within the organization and putting them all together within one store. And we will have several stores across the different geographies.

And then it's about IT. If you remind the phrases on IT, it was pilot unified IT platform and then "look to accelerate"; and now, it's written "then accelerate" because we've already taken that decision to accelerate. But still we'll cover that later on today.

Today, we will be focusing on five big topics about first sharp initiatives, about the unified offer, as I said. We will be covering space with Karen and GNFR. We will be covering IT with Steve. And finally, I will be covering people. That will be the focus for today.

Just before diving into the unified offer and the core essentials initiative, just a reminder of what we've seen last time. You've seen those numbers already, but we will be leaving along the year with those numbers. So almost we have 400,000 SKUs across our businesses. And as you know, we have very little in common; it's 7,000 SKUs.

Just a little bit of definition. Common meant being in two different operating companies. You will see that when we will be talking about unified. It will mean being in every operating company, which is a big difference.

Then if you look at those [400,000] (corrected by company after the call) SKUs, almost half of those SKUs are not listed today, are nonranged SKUs. And half of it are ranged SKUs.

The non-listed SKUs will be -- remember, and I won't do a big deep dive on that, but just to update you on the cut-the-tail initiative. The cut-the-tail initiative will concern this half of the SKUs which are not listed today. Just as a reminder, those 193,000 SKUs are representing 2% of the sales.

So it's not a huge number of sales, but it's creating a lot of pollution within the organization; pollution in the system, pollution for our colleagues on the shop floor, and at the end, pollution for the customer as well because those products are around.

So what we've done in terms of cut the tail, we know where those SKUs are; we know in which operating company. We know what they are. Are they end of promotion? Are they the listed product from (inaudible) review? All that sort of thing.

So we've done all this analysis, and what we are doing now and we have a plan, and we will be exiting those SKUs in a program which will last for three years. And then the rest will be concerned by unified.

Just again a little bit of vocabulary. Again, it will be useful as we progress on our strategy. So where we are today, and what is our journey towards one Kingfisher?

So today, we have lots of the SKUs which are just OpCo SKUs, and then we have a little bit of common. Where are we going to? We are going to what we call 'unified', which will mean the same product everywhere in every operating company, and this will be going forward the vast majority of our assortment.

Of course, we will need both parts of the assortment which will be local because there are real local needs. And as well, we have difference in regulation that we will have to comply with.

In this big unified pot, if I may say, we have three different categories what we call 'unique'. What does that mean, unique? And I will take very soon an example of bathroom just to be more concrete about what it means.

Unique will be where we want to be leading, where we will put most of our resources on developing the offer, designing it, sourcing it and bringing all the innovation that we can.

Core essential, again this is part of the first sharp initiative. It's all the basic home improvement products and all the consumables that people are using all the time, and that can be common across the piece as well.

And then there is what we call complementary, which are not in the first two buckets. It's products that are needed for the project, won't be unique, and are not either core essential.

Let's give you an example on bathroom, for instance, what it means for bathrooms. What will be unique in bathroom? For instance, bathroom furniture, we can develop programs on how you can storage all the stuff in your bathroom. And we've learnt -- of course, Arja will be very pleased to answer all the questions about that later on, but we've already do a lot of market surveys and we know a lot about how people are living in their bathroom and what they need.

So we will develop a fully completely new set of bathroom furniture and everything around water in the bathroom as well; how you shower, bath, basin. All of that can be very different from what it is today. This will be the unique part of bathroom.

Core essential, what does that mean? Two examples, not very glamorous. Toilet seats. I don't think we will be creating any revolution or innovation in toilet seats, but we need it. People are buying a lot, I can tell you. The volume that we sell is just completely crazy. But we want -- and we will buy those toilet seats together and we can definitely have the same toilet seat across our operating companies.

Bath sealant for instance, this is core essential for home improvement. Everybody has got that and needs that, even if you are not a very heavy home improver. And of course, we can buy those products together.

Complementary, what it will be in the bathroom example, for instance, bathroom accessories. We won't create any big innovation and we won't be spending a lot of time because it's not the heart and the core. But of course, you need bathroom accessories. It's not core essential either. So we will be working on it. And again, it can be unified.

So this is the way going forward. Let's just now deep dive on that sharp initiative that we have to ourselves and why we have that sharp initiative. Because we thought that we really need to bring momentum within the organization and we need to start something even ahead of having completely defined our strategy.

Three big ideas about that first initiative. First this is very big. It's -- the core essential products are one-third of our buying scale. Just as a reminder, our buying scale is GBP6.9 billion. It's one-third. So it's a lot of products that we can work on.

The second thing is the first principle is really applied in that work which has been done. It's about getting a better offer for customers. This is really -- we never forget that, and it's really the headline. Why it will be better? Because it will be simpler, it will clearer, and it will be cheaper.

What we can do as well if we work as one, we will be leading in trends. LED, for instance, we've been looking at because we've done that on certain categories, we've been seeing that on LED, for instance, some operating companies are far more developed than others. We will really upgrade everybody to the highest level that we can.

And the third element, the third very big thing about that, that it's a completely new way of working with suppliers, of course. Arja's team has already worked on the principle of that, and of course, she will be ready to answer your questions, but I'm hearing that we will have less suppliers. Of course, we will. We have 6,000 suppliers across Kingfisher today but of course, we will be sourcing every product in more than one supplier, of course; and we've already decided, as an example, that we will be buying at least in two currencies to minimize the FX effect.

So this is what we've done. Just before looking at the results, how we've done it. We've created what we call product leads. Those product leads were coming from every operating company within the organization. They've been responsible for really setting up the offer, including the local SKUs and including the promotional SKUs. And they've been working with experts around them, quality people, supply chain people, all the people that they were needing.

We had to set up a [tactile] tool which is that Fusebox, that you are seeing on the slide, with the help of the IT guys, because I'll let you imagine that probably whoever it is from every country receiving information about Fusebox in Russian, in Polish, in Turkish, in English, in French, so we needed a tool to translate all of that and to be able to do all the analysis. So it has been really hard work for the team.

So let's look at the first result of that. So what we call that first wave was about 20 categories. It was 10%. It represents 10% of our buying scale to date. We've completed from a range perspective 11 of those categories. We are actually on those categories in the process of tendering, and we don't yet have the results of those tenders, which will prevent me to answer the question about how you will save. We don't know yet. But what we know is what it does in terms of ranging.

So two examples. Batteries, we had more than 300 batteries across the different operating companies, and we had up to 13 ranges, ranges in certain operating companies. Where we have been to is we will have 36 SKUs for the common range, for the unified range, and we will have up to max four levels of ranges within our format.

Light bulbs, another example. We had almost 3,000 SKUs in light bulbs and we had 63 suppliers. Where we are moving to is we will have less than 500 SKUs, including local SKUs, because we will have some local SKUs; and we are in negotiation with 20 suppliers and we are targeting today six suppliers.

Those products will be available in store in 2016. That's the important thing. The important thing is the pace at which we've been doing that. And the reality of it, it is real. It will be there in store for the customer next year.

What is important as well is the first results. We have 90% on the 11 categories that we've already done. We have 91%, to be very precise, which will be common, and we will have 10% which will be local.

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Does that mean that it will be the rate -- already I'm answering the question a little bit ahead -- it will be the rate for all categories? We don't know. We don't want to answer that question. We are working category after category and we will see. But this is real numbers. This is fact based on 11 categories.

I think what is important is what we've learnt as we were doing that work. We've learnt that a matrix organization is working. We've learnt that we had a very entrepreneurial spirit within our team; that we've felt as well when we've done the IT, what we call the 'Easier' program when we gather teams from everywhere within our operating Company and we allow them to work together, which gives us high confidence into the fact that it is doable and people want to do it.

What we've learnt as well is people love to be focusing on customer end products. This is the core of what we do and we will do much more of that going forward.

What we've learnt is you need processes and methodology. Of course, it helps, and there was strong methodology and processes.

And what we've learnt as well as an organization is that we are able to be agile, because we've been doing all that work in six months and we are to deliver actually very good results and to be executing those very well.

I think what we've learnt on the less positive side is that today we don't have the tools. That's why we've decided to accelerate the rollout of our IT platform because we don't have the tools to work like that.

And the last thing that I would like to share with you about what we've learnt, the learning of that, is we've been able to do that because we act as one. We act as one organization which looks at the customer as one; we worked on the range as one. And all that has been possible because we were applying those principles of being One Kingfisher.

Now I will hand over to Karen again to update you on space.

(video playing)

Karen Witts - *Kingfisher plc - CFO*

That, of course, was nothing about space (laughter), but that was a short video which just, we hope, brings over some of the enthusiasm that we're seeing from the teams who are working on the unified offer. And I think it's fair to say that wherever we've got teams working on making Kingfisher much more One Kingfisher unified Group, you hear that sense of enthusiasm.

So I'm going to update on two of the sharp initiatives. I'm going to update on space and also on goods not for resale. And these both fall into the category that we're working on, or the categories that we're working on both to optimize our infrastructure around the Group, and also to improve our processes around the Group.

So first of all, I'll start off with the space update and I'll talk about space in three areas. The first is to update you on the closure program for B&Q in the UK and Ireland. The second is to talk a little bit more, and I can only talk a little bit more, about some European store closures. And the third is to update on our space aspirations and ambitions with Screwfix in the UK.

So to start off with B&Q in the UK and Ireland, we said in March that we were going to address the issue of over space in the UK. We've been quite public about the fact that if we'd started with a blank sheet of paper then we would probably have 15% to 20% fewer B&Q stores in the UK, and the plans that we've got are to reduce the space by 60 stores over two years. And we said that we would close around about 30 stores this year and the following 30 stores next year.

Well, I'm pleased to say that we are very much on track with that program. In terms of actual closures, to date, we've closed relatively few stores in the UK; only five stores. So the rest of the 30 stores for this year will happen from now until the end of the year, being more skewed towards the last quarter of our year.

We have also though secured the exits on 26 of our leases, and what I mean by that is that it's a combination of lease expiries and also sub-letting our space to other UK retailers. And those 26 are partly in this year, and there's seven of them that will apply to next year.

So that's really an update on where we are in B&Q.

In Europe, in March, I said that we would look to close a handful of loss-making stores outside of the UK around Europe; and to date, we've announced the closure of two stores in France, and you actually see that reflected in the exceptional charge that I spoke about earlier. And we have only just announced another one closure of one store in Russia.

But it's, of course, and probably important to say that we are, of course, continuing with our program of new store openings and refurbishments and revamps in Europe. And you've got the numbers of stores in the technical guidance there at the back of the release.

And then last but definitely not least in this area is just to update you on our space aspirations for Screwfix. So we currently have 412 Screwfix outlets in the UK, or we did in early August. We probably have more now because we've been rolling them out at the rate of about one a week. But the team in Screwfix, and Steve is obviously the master of this, the team have been working really hard on thinking about how to develop the growth in what is still a very fragmented market.

So Screwfix has been taking market share in this fragmented market and by looking very carefully at catchment areas, at demographics, and by thinking creatively about how to use space slightly differently, slightly different format, perhaps smaller outlets, how to expand the numbers of stores in the UK. And we now believe that from 412 stores, we can increase the number of Screwfixes that we have in the UK by about 50% to around about 600 stores.

And then also, just worth pointing out that in Germany, we're on track to open a further five outlets in the remainder of this financial year; and, Steve, I think that two of those five will be open by the end of September. Two of the five will be opened next week, in fact.

So that's a brief overview on where we are on space. So now changing to a very different topic, but as I said, one which still fits into our plan for improving our processes. Vero talked about the amount of money that we spend on goods that we then sell on to our customers, but we also spend a lot of money on goods that are not for resale. So more than GBP1 billion is spent on goods not for resale.

And it's an area that we've always had a focus on because it's one of the things that I tend to pick up on when I'm talking about some of the self-help initiatives that we use to offset upward cost pressures around the business. But what we found to date is that we've been focused on goods not for resale from a very local perspective, and each OpCo has been optimizing in its own way.

We've got together some working teams from around the Group. Now these are people who come from a variety of disciplines around the Group and a variety of operating companies and corporate functions. And working together, we believe that we can unify the purchasing of about 90% of the goods not for resale.

Just in order to work through this, we've divided goods not for resale into categories, and then we've put these categories into waves. So the first part and -- so we have a plan that will cover three waves of looking at goods not for resale.

The first one is very much underway, and we're looking at nine categories of spend within this first wave. And as an example, or as examples, we've said we're looking at media buying, mechanical handling equipment, and printing and paper; very different categories.

One of the things that we believe that we will achieve from looking at goods not for resale in this way is that, yes, certainly, we will achieve more in terms of efficiencies, but we also think that we'll achieve more effectiveness around our operations by working in or taking on the best practice from the Group and thinking not just about how we spend, but how we work, particularly in areas like mechanical handling equipment.

So that's my update on goods not for resale. And now I know you've all been very anxious to hear an update from Steve on IT, so I'll hand over to Steve.

Steve Willett - *Kingfisher plc - Chief Digital & IT Officer*

Thanks, Karen.

So just a quick update on Easier. Probably the first thing is, what is Easier? So the Easier IT program effectively is a new set of systems for the Group. We built that new set of systems off a set of unified processes that are best practice. They were designed by over 100 business experts from across the Group that we've pulled together to basically build those processes that we built the systems off.

One of the key bits that's in there is, actually, we're going to have leading edge omni-channel capabilities, primarily building off the experience from Screwfix. The key bit probably in there for the customer is actually in this omni-channel experience. So what we're going to deliver is a completely seamless experience no matter where the customer is. So it doesn't matter whether a customer is at home, in the store or on the bus. Effectively, they will have the same experience and we'll be able to support any device that they're using.

Another key area is actually in the store, which is -- and in the store, effectively, the colleagues will have access to a set of new mobile handsets with easy-to-use applications on them, a bit like an iPhone app. And in those apps, they can work anywhere in the store.

The functionality that exists in that really is in two areas. So the first is in helping serve the customers in the aisle; so it's primarily around helping sell, providing product information, promotion, stock information.

The second sets of functionality are primarily around how do you help the colleagues do the tasks that they do every day, or the routines, more efficiently, which means that we can divert time away from the tasks to actually servicing the customers. So that's roughly what Easier is.

So when we were here in March, one of the things that Vero announced primarily was that our intention was to pilot the Easier platform in the Irish stores in July. So just a little bit why did we pick the Irish stores?

Well, one of the things that we wanted to do with the pilot is we wanted to test as much end-to-end functionality that we possibly could. And actually, Ireland is quite unique, because its scope is a bit like a small OpCo because it's got separate pricing, it's got separate accounting. So what it means is in that pilot, we've been able to test virtually all the core functionalities.

The other thing that we've been testing in the pilot almost in the background is we wanted to test all the technological platform so the platforms that we're working on are capable of rolling out and running the whole Group. So we wanted to make sure that we didn't have any risk in that area.

So I'm pleased to say the pilot went live on time; so it went live in July. And we're now live in seven stores, and actually, the progress is very, very good. One of the things that I think we're particularly pleased about is we've been working with the stores, particularly around those applications in store, and the feedback that we're getting back from the stores is amazing. So we just wanted to show you a video, just to get a flavor for it.

(video playing)

Okay? So that's a flavor of the Irish pilot. In fact, we're announcing today that we're intending to do a much more detailed update and an Investor Day in the Irish pilot stores on Tuesday, November 10. And I've been told to say that the invitations are coming out this afternoon, so don't ask.

So I think then on to the next bit that Vero was talking about. So the pilot in our terms is going very, very well. The other thing is the Easier IT platform is absolutely essential to enable the new ways of working that we need for One Kingfisher.

So we've made the decision that what we want to do is roll out as fast as is practically possible. So that means that effectively next year, we're going to do B&Q and Castorama in 2016, and our aim is to have the whole of the Group on the new platform by the end of FY18/FY19.

But at this point, I just want to reiterate the key word in there, which is I said it's an aim, and quite frankly, we will not sacrifice quality for speed. So if we have any problems or we have any issues and we need to go slower, then that's exactly what we'll do, and then we'll come back and communicate to you.

But off the back of that, what I would say is we believe that aim is eminently doable, because at the moment, we are running the platform in Ireland that's actually capable of running the Group, so we could roll out. And actually, as we do each of the rollout programs, we'll enhance that as we go. So we actually think that aim is quite doable.

One of the other areas that we've been doing, and the Easier program that's been behind the scenes that we've -- from a governance point of view is we've been having it externally audited every three months by an external party, and we'll carry that all the way through the program. We've found that absolutely valuable in terms of governance and visibility and actually helping us deal with any issues.

So I think in terms of the rollout, we're confident that we're managing the risk. So thank you very much. I'd like to pass back to Vero.

Veronique Laury - *Kingfisher plc - CEO*

Thank you, Steve.

So last but not least of our sharp initiative, people. Remember last time in March, I was announcing that Arja Taaveniku will join us. She is with us right now. And you've seen already how she has started to impact the organization.

I'm very pleased to announce today the arrival of Emily Lawson, who is with us as well. Emily has been the HRD for Morrisons for the last two years, and then she has worked quite a numerous number of years at McKinsey. She led the Human Resource practice there.

I think the core competence of Emily are about organization design, are about leadership development, are about change management; and is about new behavioral practice, let's say. And all those core competence will be very useful for us ahead of that big transformation program.

I think one of the roles, one of the big tasks for Emily will be going forward to shape the One Kingfisher culture; a company and a culture based on open-mindedness, diversity, passion, expertise and sharing.

We haven't just worked on the exec team; we've worked on the broader leadership team. We've made several other key appointments and changes. This is not all about -- and this is very important to say, this is not all about having new people coming from outside within Kingfisher. Among the almost 20 changes that we've done, five are new people from outside, and 15 are people from the organization that we've moved around, we've promoted based on their competence and their experience of Kingfisher.

So this is really about diversity, and this is really about a blend of competence and experiences.

What we've put in place as well is we've put in place what we call a One Kingfisher program management. Again, we've recruited somebody from outside which will be arriving very beginning of October to lead that. As you can imagine, the kind of workload of things which are happening in the Company is quite important, and we really felt with the Group Exec the need of having that organization in place.

What will be -- I just said as well in the introduction that we have started to change the ways of working within the organization. Just a concrete example about the way we've been doing our five-year plan. We are really in the process of doing it, as you can imagine. And the way we were working before was every operating company was doing a five-year plan completely separately, and the five-year plan of the Group was the addition of all those plans.

The way we are doing it now is, of course, the operating companies are working on what we call their base plan, which is what they can do. It is, of course, about their market, about the trend of their market; about what they are selling right now, about the expansion; revitalization and that sort of thing. Things that they know. And then on top of that, we are working together on what are the strategic initiatives which will be layers on top on that, on those based then from the operating company.

And of course, we have restructuring processes, we have digital, we have retail expansion; and we have, of course, customer offer and supply chain.

So this is -- believe me, it seems to be simple, but from an internal perspective this is a huge change. And this is one of the examples. We will have more and more as we go, as we progress.

What will be our next update with you? Of course, we are in September. In November, as Steve said, we will have an Investor Day in the Irish store. Then, of course, we have our Q3 trading. And then, we will have very early in 2016 the Capital Market Day where we will be disclosing more about our strategy and what we'll be doing on the long term run. And, of course, we will see you again in March for our year-end result.

Just a few words as a conclusion. I think you will be with me to say that we had a good operational focus. As Karen said, as we were developing that strategy, the teams really within the operating company and with the head office focused on delivering the result. This is the first thing.

The second thing that I would like to share with you as a conclusion is we've done things that we've never done before. Unified offer is real, it is existing, and the IT pilot is existing. It's working and it's there. So it's not words; it's facts.

And the third thing that I would like to share with you as the CEO of that Company is I'm very proud of the team, because I think what they've done in six months' time is just amazing.

Thank you very much.

Now I will hand over to Sarah, which will host the Q&A session.

QUESTIONS AND ANSWERS

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Yes. So that's another new way of working. I'm going to host the Q&A for the first time. So as usual, if you put your hands up and when I choose you -- I know most of your names, which is another advantage -- if you can identify yourselves and your company, and then I'll allocate the questions accordingly.

Fraser, seeing as you're kindly hosting us, do you want to go first?

Fraser Ramzan - *Nomura - Analyst*

Fraser Ramzan, Nomura. Three hopefully quick ones, firstly on France.

Can you just talk about the industry dynamic there? What's driving the increased promotional activity? Were the players just too optimistic about what could be achieved this year?

And then secondly, just on the balance sheet. Ongoing cash returns beyond the current year, given your leverage position, it would seem that we should assume that will continue.

And then what else? Yes. The core essentials range. How much of a traffic driver should we think about these new lines as being for the business as a whole?

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. If we ask Vero to answer the question on France. I think that's only fair; and then balance sheet for Karen and Arja at the end on the core essentials.

Veronique Laury - *Kingfisher plc - CEO*

So let's answer on France. I don't think the players have been too optimistic. I think what is true is that in France, the market is very volatile. I think we had not a bad start of the year and then August was just completely a disaster.

So nothing that I can say more than that. I think you are seeing the number yourself. It's very volatile and it's true across the retail industry.

And as I said, coming back to [two] months ago, I think where we are today with the way we are, our offer and our proposition, in a way we are following the trends and we are not ahead of the trends. So I think this is part of doing that One Kingfisher strategy is how we can be more ahead and being less impacted in the future by those trends.

To be fair, I can't predict how it will look like for the future. As I told you, September is quite good. The beginning of September is quite good. And so it's very volatile. I think that's the thing.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Karen?

Karen Witts - *Kingfisher plc - CFO*

Just in terms of the balance sheet, I said in my commentary that I'm pleased that we've got a strong balance sheet and we're now up to BBB flat rating with all the rating agencies. And, but, we are still within our target range for capital structure. So we said 2 to 2.5 times net debt to EBITDA are -- and we're at 2.1 times. And actually, we've been 2.1/2.2 times, so still fairly stable.

Last year, we started the first capital return in Kingfisher's history, and we returned GBP200 million last year and committed to do the same this year. We haven't completed the GBP200 million for this year, so I'd like to complete the GBP200 million for this year. We're working through our plans, our medium-term plans, our five-year plans, as Vero has said, and we'll be updating on the -- what was [mean] early next year.

I think the important thing is that we have the balance sheet strength and we have the resources to invest for growth in the business. And we've always said where we had surplus cash on the balance sheet there was no incentive on us to keep it. So if we have surplus capital we'll give it back.

Fraser Ramzan - *Nomura - Analyst*

Thank you.

Arja Taaveniku - *Kingfisher plc - Chief Offer & Supply Chain Officer*

All right. And then on the question of the unified offer, we are, of course, expecting that this will save us cost. This means that our operating companies can if they want to invest in the price; that will be a growth driver. And what's even more important I think is that we can invest in innovation in those categories which are a trend right now.

As an example, LED, and we can take a [better grip] of LED than we can do if we are only doing this on each operating company. So of course, it's also a growth driver; it's not only a cost saver.

Fraser Ramzan - *Nomura - Analyst*

And are they the kind of categories that do drive a lot of traffic to your stores, or just a convenient pickup?

Arja Taaveniku - *Kingfisher plc - Chief Offer & Supply Chain Officer*

They are -- it's different, of course, from different categories. Right now, the ones that are going to hit the stores in March, there are 11 categories. They will be different, from different categories. There are more attractive categories than those that are more really core essentials. But personally, I don't know why British customers would go anywhere else to buy bulbs than B&Q or in Screwfix.

Fraser Ramzan - *Nomura - Analyst*

Thanks very much.

Warwick Okines - *Deutsche Bank Research - Analyst*

Warwick Okines, Deutsche Bank. Just wondered if you could talk about pricing at B&Q; what was the average price cut of the 6,000 SKUs you talked about lowering prices on during the six months? And also, just generally, what's the level of deflation running in the business, please?

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Karen, do you want to answer that one?

Karen Witts - *Kingfisher plc - CFO*

Yes. I can pick that up. I think -- I'm not sure that you would get much, or indeed we look at average price cuts across the piece. And what we've said we would do, and what we're continuing to do is look at products where we believe that we really ought to be from a customer's perspective at a certain price point.

Now that varies by product, and over the last couple of years, we've actually taken the prices down on over more than 6,000 SKUs. And as I said earlier today, not only have we actually seen B&Q starting to grow its like-for-like sales, but we've done what we said we would do which is see B&Q start to grow the volume of sales first.

So we're not looking at it in terms of what's the average price reduction; we're looking at it very much kind of product by product, SKU by SKU, 'til we think we're at the right price point in the market.

Warwick Okines - *Deutsche Bank Research - Analyst*

Could you give us a sense of that volume growth then in the first half?

Karen Witts - *Kingfisher plc - CFO*

The volume growth in the first half, it's relatively small. It's up points of a percent. But it's been creeping up since we started these price reductions about 18 months ago.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. Jamie?

Jamie Merriman - *Sanford C. Bernstein & Co., LLC - Analyst*

Jamie Merriman, Bernstein. I've just got two.

So you talked about the goods not for resale opportunity, and you can get to 90% unified. Can you just give us a sense of where you are today as a starting point?

And then the other question is, Vero, I think you said some of the IT systems today aren't where you need them to be for the processes that you want to happen. So is there anything that needs to wait for the IT system rollout, or do you feel like you can make progress on all of your key initiatives with the systems you have now?

Karen Witts - *Kingfisher plc - CFO*

The first one is actually quite easy, Jamie. Hardly anything is unified today. I would say again over the last perhaps year, we've had the operating companies talking to one another more and more, sharing, starting to share best practice. But in terms of actually using, utilizing the scale of the Group, no, not really. So we've got everything to play for in that space.

Veronique Laury - *Kingfisher plc - CEO*

On the second question, I will [answer] and probably hand over to -- [or] you can do it.

Steve Willett - *Kingfisher plc - Chief Digital & IT Officer*

Yes. I think -- I don't think it's black and white. So I think we've already said that to actually get the ways of working in to help people do it properly, we need the Easier platform in. Actually, where we are today without anything else also makes the processes very clunky.

So quite frankly, we're looking with Arja at a whole series of things in between, which is tactically how can we support in the short term. So we're not aiming to slow anything up, but the truth is until we get to the endpoint, some of what we're trying to do is not optimum I think is the answer, but it isn't stopping us doing it.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Andy?

Andrew Hughes - *UBS - Analyst*

Andrew Hughes, UBS. Can I just cover off some of the possible risk factors, just to make sure we're fine on those? I know on common that we've had a few light bulb incidents in the past where the common range affected sales and had to be reversed. So could you just perhaps just talk about what might be different this time?

Secondly, on the goods not for resale, clearly, there's some big efficiency gains there. Are you completely sure that you're not going to lose anything in terms of the efficacy of what you're doing. So you might have, I don't know, a common advertising platform, but it might not be quite as good as the country suppliers were in the past.

And then I think at the prelims, you said the clearance cost of cutting the tail that you were all fully provided for on that. And that's still the case, is it, in terms of running down those 190,000 products?

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. Well, I'll pass to Arja to talk about light bulbs. Did you understand the question?

Arja Taaveniku - *Kingfisher plc - Chief Offer & Supply Chain Officer*

(inaudible - microphone inaccessible).

Veronique Laury - *Kingfisher plc - CEO*

Because Arja was not there when we had, as you say, those light bulb moments.

I think -- to be fair, I think the situation is very different from now. I think going back to my definition of common when we were talking about common in the past, it was really not working together and doing it together. It was just looking at what was the same within an operating in another company, in another operating company, and looking at the percentage that it was representing. So from a methodology and a process point of view, it was really different.

So I think this is what is different this time. I think people have been working as one to right at the beginning work on offer, on a range which is the same across the different operating companies. I think what is different is that from a structure point of view, we are organized, as we are organized today within the Group Exec, and Arja has full responsibility to lead that change and that initiative, and is supported by her colleagues from the operation, Alain and Guy. And this is -- this makes a huge difference.

And we have -- the way we work internally as well is, of course, we have this team which is the Group Exec, but we have what we call the OneTeam Board which is the extended Group which is including us around 30 people. And it includes the CEO of the operating company. And the CEOs of the operating company are very much associated to that initiative. They know what is going on, they are supportive of it, and they want to implement that within their operating companies.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

GNFR and cut the tail, Karen?

Karen Witts - *Kingfisher plc - CFO*

Yes. Okay. Actually, Andy, I think you probably raised an important point that I would like to make a comment on, and that is in all of this, we're clearly stating out our objectives, but in the same way as Steve said, we've said we'll accelerate Easier, but actually, if that's not the right thing to do then we will do what's right for the business.

GNFR is absolutely not like the IT infrastructure of the business, but we've been taking real pains to work together as a group, and that's why I tried to emphasize the fact that when we're looking at the categories of goods not for resale, we've got representatives from different parts of the business. And therefore, we're talking about the risks of doing something or the risks of not doing something.

We also know that when we go out to tender, suppliers are going to come back in many instances and they will give us a response to our tender on a global Kingfisher basis, and they are also quite likely to give us more local responses. Again, we will look at all of that and we'll decide what is the best thing to do.

So the emphasis is on unifying the process and the ways of working and taking advantage of the scale of the Group where we can, but not just dumbly saying we'll unify, we'll do this in the same way whatever.

And then on the clearance costs of cut the tail, Vero alluded to that earlier on today. This -- what we're doing just now, cut the tail, cleaning the room, we're clearing out the old stuff ready to start with our new way of working and our new offer. And as Vero said, what we're dealing with represents a small percentage of sales and it's a small percentage of stock.

What we're focused on is delisted SKUs, SKUs that are no longer part of our planogram, and we will always have some SKUs that are delisted. So the nature of our business is as we do range reviews, we will be delisting SKUs, and that doesn't mean that they will be bad SKUs that we can't sell. Actually, what we really need to be focused on is the older stuff that's got stuck in the system, and our stock provisioning policy ensures that we provide for that at a pretty high level, as you can imagine.

So there's lots of different moving parts in there. We've got the older stuff which I feel is what I'd really like to get out of the system; then we've got the stuff that comes in that is still good stock. And what we need to do is create the right kind of processes around the Group so that goods come in and out of stock in an effective manner and we're getting most effective -- well, effectiveness from SKUs.

Andrew Hughes - *UBS - Analyst*

Thank you. Very clear.

Karen Witts - *Kingfisher plc - CFO*

We've got a couple of operating companies that already do this pretty well, so we are looking at what they do.

Chris Chaviaras - *Barclays - Analyst*

Chris Chaviaras, Barclays. Three questions from me as well, please; the first one on Screwfix and your decision to expand to 200 more stores. Do you believe that there can be any cannibalization to B&Q stores?

The second question on France. Given that we had some positive comments from the staffers in France and some hotel companies about an economic recovery, why do you think that this doesn't disseminate to the housing market potentially?

And the last one on the not-for-resale goods. You've provided a lot of detail of the different phases. Is there an end target of savings that you want to have? Should we think something like a 4% to 5% of that GBP1.2 billion figure that you mentioned, that's a feasible long-term target potentially, or is that completely off?

Thank you.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. Vero, do you want to answer the question on France? Is that okay?

Veronique Laury - *Kingfisher plc - CEO*

Yes. I think so.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Yes. And then Screwfix for Steve and another question on goods not for resale for Karen.

Veronique Laury - *Kingfisher plc - CEO*

So about France recovery. There is a lot of talking about that. There is very little numbers. Anyway, I think the housing market has been affected by some decisions that the government has taken a few years ago with some new regulation which is impacting a lot the housing market. I think they are looking for changing those, but they are not changed yet even if they are talking about it. So it's still impacting our market very heavily.

I think that's the answer.

Steve Willett - *Kingfisher plc - Chief Digital & IT Officer*

On the Screwfix one, sorry, this is a chestnut that I think comes up about every year at some point. So on cannibalization between B&Q and Screwfix, we've done lots and lots of studies, quite frankly, that always arrive at it's actually fractions of a percentage point, and actually, statistically, it's quite difficult to pull it out.

Actually, in the case going forward, I actually think it's even smaller, because most of the expansion of the 200 stores is either into very dense urban areas like London, or they're into smaller catchments where there isn't actually any Big Box presentation. So in some respects, the cannibalization thing is almost history because we're in the markets where B&Q were; actually these are markets where almost nobody is which is why they're actually being very successful for Screwfix.

Karen Witts - *Kingfisher plc - CFO*

Just in terms of goods not for resale, well, certainly, we think that there is a prize that's worth going for, and that's why it's one of our first sharp initiatives.

In terms of targets, I think we're not going to update on any of our medium-term targets just now. I'm afraid you'll have to wait into the new year for that. It's not to be contrary, but I think it's better to actually hear more about the strategy and more about the targets in context than to pick one up.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Geoff?

Geoff Ruddell - *Morgan Stanley - Analyst*

Geoff Ruddell, Morgan Stanley. A couple of questions, please. The first one, could you just give us a value of the stock in the non-ranged products, just to understand? Obviously, it's half the SKU count, but I'm assuming or I hope it's a lot less than half the value of the stock. So perhaps you'd give us a value of how much there needs to be cleared there, and potentially will there being any write-downs. I know you've talked about it but just give some quantification around that.

And the second thing is just to follow up on Andy's question. So can we just --? Just to be clear. Are you expecting no impact on the reduction on sales as a result of the move from 2,500 light bulbs to 500 light bulbs?

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. Well, I'll pass the light bulbs question to Arja; and Karen, the question on the stock, cut the tail?

Karen Witts - *Kingfisher plc - CFO*

Yes. On cut the tail, the total value of the delisted stock then, for whatever age it is, is in the range of maybe GBP100 million to GBP150 million. It's about up to 5% of our stock.

Geoff Ruddell - *Morgan Stanley - Analyst*

Thank you.

Arja Taaveniku - *Kingfisher plc - Chief Offer & Supply Chain Officer*

On the light bulbs, it's important to understand how we have done this analysis on each operating company. What we have done is to look through every range in each OpCo and then look what can be unified and what needs to stay local.

So at the end of the day, we have OpCos that get slightly bigger offer and OpCos that get slightly smaller, but it's not that big of a difference in each operating company in terms of range size. That means in my world that we are not taking that big of a risk. So what we are doing is unifying the value chain backwards instead of having many different --

We could say today we have 63 different suppliers on the bulbs, but as a matter of fact, there is no bulb production in, for example, UK today. Most of these are intermediaries that are buying in China anyhow, and we are interested in cooperating with suppliers that own the production in -- going forward.

Geoff Ruddell - *Morgan Stanley - Analyst*

So you think you can maintain sales, even --?

Arja Taaveniku - *Kingfisher plc - Chief Offer & Supply Chain Officer*

Yes. Maintain and grow.

Geoff Ruddell - *Morgan Stanley - Analyst*

Okay. Thank you.

Arja Taaveniku - *Kingfisher plc - Chief Offer & Supply Chain Officer*

Maintain and grow.

Geoff Ruddell - *Morgan Stanley - Analyst*

Thank you.

Veronique Laury - *Kingfisher plc - CEO*

We look to grow there, not just to maintain that (laughter).

Karen Witts - *Kingfisher plc - CFO*

Can I just make another point in terms of the stock question? I do just want to emphasize we're not -- it's not our intention to just clear the stock out in one big shot. This is something that we are going to take our time to do so that we manage it out in an appropriate and commercial fashion that doesn't disrupt the business. So Steve's nodding because he's in charge of this, but he will probably take two to three years to actually clear it all out through the system.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

James?

James Grzinic - *Jefferies - Analyst*

James Grzinic, Jefferies. I have a quick one for Veronique. Going back to what Arja was saying on taking costs out through unified to reinvest into innovation and value, can you perhaps explain where you feel the bias needs to be with innovation versus value in some of the key business units; so B&Q versus Brico, versus Casto, please?

Veronique Laury - *Kingfisher plc - CEO*

Are you talking about the competence that we need when you say --?

James Grzinic - *Jefferies - Analyst*

I'm thinking --

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

I think it's like -- so the benefits that we generate from unified; what's the balance across the different operating companies as to how much you invest in price versus innovation.

Veronique Laury - *Kingfisher plc - CEO*

How can I say that? I think the benefit -- I don't think we will be reinvesting more in one operating or another. I think the way it will work going forward is as we will be working on that one offer, that common offer with a little part of local, I think we will see the benefits across the different operating companies.

In certain operating companies, probably, but we don't have that information yet, we will have to invest more in prices than in others; that's for sure. But I think the benefit of innovating will be spread across different operating companies.

I think probably in certain areas, it will help us to catch up with the market. Probably it is the case in the UK where we haven't been so innovative within B&Q. In some smaller operating companies, it will allow us to be ahead of the market.

Let's look at Poland, for instance, which is a very big market for us. We've been leading in Poland always because we are the biggest; but for the last two to three years, we've been a little bit behind from an innovation perspective, and that it will really allow us to get back to leadership again within Poland with that new offer that we are working on.

Does that answer your question?

James Grzinic - *Jefferies - Analyst*

Yes. I guess you'll tell us more in terms of the value, need, priority, in January by business unit.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Yes. We definitely plan to give more detail in January.

James Grzinic - *Jefferies - Analyst*

Thank you.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Tony?

Tony Shiret - *Haitong Securities - Analyst*

Tony Shiret, Haitong Securities. Three questions; easy one to start with. Can you tell us what your online penetration is in B&Q and then your French companies and how that's moved year on year?

Secondly, can you tell us how many light bulbs SKUs you currently sell in Castorama in the Big Boxes and how many batteries?

And thirdly, can you comment on why it is you're accelerating the IT test having not tested at peak?

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

I could do the IT question first. We'll look up the answer hopefully on batteries, but -- or light bulbs, for Castorama. And then the online question to Karen after that.

So, Steve?

Steve Willett - *Kingfisher plc - Chief Digital & IT Officer*

So IT at peak. Sorry. The platform and the technology that we're running it on we've run at capacities greater than that. So we won't take a risk with the capacity that we need to run it and we're not taking a risk on the technological platform.

Tony Shiret - *Haitong Securities - Analyst*

Surely there must be some sort of volume loading to the system though?

Steve Willett - *Kingfisher plc - Chief Digital & IT Officer*

We've done volume testing on it.

Tony Shiret - *Haitong Securities - Analyst*

But you've only be open since July.

Steve Willett - *Kingfisher plc - Chief Digital & IT Officer*

Oh, sorry. No. We've done volume testing on the total platform, not on the pilot. We did it --. Sorry. When we were building the pilot for the Group, one of the things that you have to do as part of building the pilot is volume test the whole thing, which isn't related to the Irish pilot. We volume tested at loads much greater than that.

Tony Shiret - *Haitong Securities - Analyst*

Okay.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. Karen, question on omni-channel, or online sales for big OpCos.

Karen Witts - *Kingfisher plc - CFO*

Sure. Okay. Well, as you can imagine, the penetration is very, very low. So maybe I'll just set a little bit of sector context first.

So whereas in retail you're seeing penetration levels of more than 20%, in home improvement retail, really that percentage of e-commerce penetration is much, much lower than that; less than 5%. In France, it's point something of a percent.

So in terms of our own business, in France, our online penetration is consistent with the market. It's less than 1%; so around about the 1% mark. And in B&Q it will be double that, but we're still only talking about a few percent.

But it is growing fast. We've made improvements to diy.com in the UK. We said we'd put an extra 14,000 SKUs online.

Tony Shiret - *Haitong Securities - Analyst*

What's the number? Sorry. In the UK, the B&Q number is well less than 5% still in the UK, is it?

Karen Witts - *Kingfisher plc - CFO*

Yes. I said it was about 2%, so double the penetration in France.

Tony Shiret - *Haitong Securities - Analyst*

Okay. And the growth rate is what?

Karen Witts - *Kingfisher plc - CFO*

The growth rate in the first half of the year was 34%.

Tony Shiret - *Haitong Securities - Analyst*

Thank you.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. Do we have an answer on the Castorama question?

Arja Taaveniku - *Kingfisher plc - Chief Offer & Supply Chain Officer*

Sorry. You wanted to know the light bulbs in the B&Q or in Castorama?

Tony Shiret - *Haitong Securities - Analyst*

Castorama.

Arja Taaveniku - *Kingfisher plc - Chief Offer & Supply Chain Officer*

Castorama, France?

Tony Shiret - *Haitong Securities - Analyst*

Yes.

Arja Taaveniku - *Kingfisher plc - Chief Offer & Supply Chain Officer*

In Castorama, France, we have -- today the current range or number of SKUs, we have 425. And with the unified offer that will be 239.

If I compare that with B&Q, in B&Q, we have 254 today, and with the unified offer, we will have 239, which again says this: that we will not have for a store, for B&Q if you go in there, there will not be a significant difference, while we are making it easier in a Castorama store to shop.

Tony Shiret - *Haitong Securities - Analyst*

Okay. So all the change is in the smaller parts of the Group rather than the main parts, would you say?

Veronique Laury - *Kingfisher plc - CEO*

You could say. So there are even operating companies like Castorama, Russia, where we are increasing the range of bulbs to make it more relevant for that local market.

Tony Shiret - *Haitong Securities - Analyst*

Okay. Thank you very much.

Assad Malic - *Citi - Analyst*

Assad Malic, Citi. Two questions from me, please. Just coming back to the store closures in the second half at B&Q, is there anything we should be thinking about in terms of clearance impact on gross margin in the second half and into next year, all external factors being equal? Just wondering if you've already started to run down some of the stock in that 30 stores.

And the second question. Noticed the restatement in square footage for the Group. Although it's only a 6% increase at the Group level, it's about a 15% increase in space for France, which obviously changes our perception of sales densities there. But I was just wondering if you could clarify the technical change with definition that's led to that quite large delta, please.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. Karen, do you want to take those two questions?

Karen Witts - *Kingfisher plc - CFO*

Yes. Just in terms of the clearance impact of store closures in B&Q, well, in fact, in any way that you look at it, there will be very little this year because most of the store closures will happen towards the very end of this year.

Although most of our exceptional charge relates to onerous lease provisions, there is an element in there, a small element that relates to stock clearance. There are accounting quirks around this, and some I think we've taken within our exceptional charge, and we will see some clearance costs actually go through our normal P&L. But as I say, we're not expecting really to see much of that this year.

And on the restatement, actually, this came about really as a result of looking at what One Kingfisher really means from a consistency perspective around the Group and recognizing the fact that we were not consistently counting the way that we use space in the Group. Now I'll exclude Screwfix because this is about our Big Boxes and our Medium Boxes, and in particular, we weren't being consistent about our external space.

So the restatement relates to the fact that we sell -- we have quite a lot of selling space that is outside in France that is devoted to things like building materials. And we've also said, to be consistent, that if we have some outside selling space that is devoted to seasonal ranges but where we are selling those seasonal ranges for a good part of the year, then that will become part of our outdoor selling space. So we're now consistent across the Group. And, yes, it's a big percentage change.

In terms of the metrics that it affects, then the main metric is the sales densities by store, but it doesn't at all affect the ranking of those sales densities. So when we're looking at our businesses and where to focus our efforts, what needs to be improved, what's looking like best in class, it hasn't changed any of that.

Assad Malic - *Citi - Analyst*

Sorry. Just coming back on the first bit, could you quantify, therefore, the P&L charge in terms of the stock clearance that you'd expect for the 60-store closure then?

Karen Witts - *Kingfisher plc - CFO*

We're not giving any figures for next year. And as I said, there's quite an element of that stock clearance that's within our exceptional charge. We're not breaking down the exceptional charge. We've said most of that relates to onerous leases. So it's not material.

Assad Malic - *Citi - Analyst*

Thank you.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

And also on that, Assad, remember that a lot of these stores are in very over-spaced catchments. So actually, we will look to actually transfer a lot of the stock if we can to nearby stores.

We've got time for a few more questions. Paul?

Paul Steegers - *BofA Merrill Lynch - Analyst*

Paul Steegers, BofA Merrill Lynch. Two questions just on B&Q and the store closures. I know it's early days, but how confident are you on the 33% transfer rate that you've built into your outlook?

And the second question is on the new country markets, the losses obviously expanding slightly more than you perhaps previously indicated. How should we look at that over the next 12 months to 18 months for next year? Will those losses come down quite quickly, or what's the outlook?

Thank you.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. Vero, do you want to answer the question on sales transfer? And then Karen --

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Veronique Laury - *Kingfisher plc - CEO*

Yes. We are very confident about the fact that we can achieve the 33% that we've been talking about in the first stores that we've been closing. We are over that percentage of transfer.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

And, Karen, on the second question?

Karen Witts - *Kingfisher plc - CFO*

On the second, we've deliberately separated our other international business into more mature operations and those that are still in the investment development category, and we have changed our guidance. Our technical guidance has been updated to say that in March, we thought that we could halve the losses, which were GBP22 million last year, we could halve them this year; we've now updated and said we actually think that the figure for this year will be about GBP17 million.

Now we haven't -- we have only just finished our store transformation in Romania. The last store was completed last Friday, to be precise. So it's very early days there, and we've actually seen quite a competitive environment in Romania. But these are very early days. We wanted to invest in these businesses up front so that they deliver growth for us in the future, and we're not giving any guidance for next year today.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Anne?

Anne Critchlow - *Societe Generale - Analyst*

Anne Critchlow, SG. I've got three questions. The first one is about the unified unique product. What's the timescale for introducing that across the businesses in any size?

The second one is about central costs. Will we expect to see that line go up significantly over the medium term as you build up, say, a new HQ and the supply chain? Or will you reallocate those back to the operating companies?

And then thirdly on staff incentives, are you going to change the way you incentivize management and staff given you've now got this matrix management? How do you keep people incentivized over a long period of time?

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. Well, the question on unique and unified for Arja, staff incentives for Vero, and central costs for Karen, again.

Vero, do you want to start?

Veronique Laury - *Kingfisher plc - CEO*

I can, if you want. That's something, of course, we will be looking at, and that's part of what we will be talking with you, sharing with you at the beginning of the year. Of course, we need to have the right incentive in order to deliver that strategy. And as you say, we are more on a longer-term view for the business, but we are working on it. And, of course, that's why we are very pleased that Emily has joined us as well because it will be a big part of her job going forward.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. Arja, the timing of unified and unique?

Arja Taaveniku - *Kingfisher plc - Chief Offer & Supply Chain Officer*

Timing. We are for next year delivering those categories that we have promised. So it's a value of the total GBP600 million in cost of goods sales for -- during the next year, depending on where we launch them. So some will come in March, some will come later in the year. And then we are right now starting to plan for the next wave and see what will be in the next wave.

Karen Witts - *Kingfisher plc - CFO*

And then central costs. The update that we gave was just really to reflect the fact we are beginning to make some investments in things like our digital capability and our change management capability. And at the moment, certainly for this year, money that we spend in this area will fit in our central costs.

That's not necessarily to say that that's where they will sit always, not because we might just allocate costs back to the businesses, but more it depends on the actual structure that we want, the organizational design that we want for the Group.

But we've held our central costs flat for several years now, and we did just want to flag why you might see an increase in those costs towards the second half of the year.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. Final questions? Anybody else? Are we all done? One last one then from Fraser. You start, you finish.

Veronique Laury - *Kingfisher plc - CEO*

You start and you finish.

Fraser Ramzan - *Nomura - Analyst*

Sorry. I really do apologize, but I really feel I should ask living wage premium. Sorry, everyone.

Karen Witts - *Kingfisher plc - CFO*

We were expecting that. Don't worry.

Fraser Ramzan - *Nomura - Analyst*

Could you just please flesh out both what you think it might cost you next year, but also your thoughts about the longer term to 2020 and how a business like Kingfisher manages cost inflation through its P&L?

Karen Witts - *Kingfisher plc - CFO*

Okay. All right. Well, start off with the fact that in our UK businesses, we already pay above the current national wage and we are a good payer in the retail sector. We offer attractive packages. We've been recognized for that, and we believe that actually, you should look at the whole package and not just the wage per hour.

Saying that, we will, of course, comply with the regulations which come into effect from April next year.

In terms of the impact that that will be -- that that will likely have next year, you'll probably see a lesser impact on Kingfisher than on some other retailers because of the fact that 60% of our sales are outside of the UK.

So from our perspective, we don't think that this will be a terribly material amount. We're probably looking in the region of about GBP5 million to comply with the stage 1 of the National Living Wage.

We don't want to make any comments about the future. I know that some others have done so. But in a way, we have the advantage of being in the midst of working through our strategy and our medium-term plan. There are some things about the National Living Wage which are not very clear at the moment. We need to clarify those. We need to think about our overall plan.

And one of the very relevant points that Vero has made is that, and especially pertinent with Emily sitting here, that actually, we want to be paying an appropriate amount, a competitive amount to people work for Kingfisher wherever they are. I know the subject of the moment is the UK, but we would be looking at across --

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Veronique Laury - *Kingfisher plc - CEO*

Yes. I think it will be really one of the tasks for Emily as well. I think what we want from principal point of view, but we will share that and it will be part of the strategy, is we want to pay people well because we want good people, staying with us within our business, and those people will be critical for our transformation. But we want to be fair across our geographies as well.

So we will need to look at all those reward structures that we have across the Group. Of course, it will include the incentives that we were talking about for the management team, but not only. And, of course, when we will have done that, we will be ready to have a position on things like the National Living Wage that we don't want to be taking any position right now instead of saying what Karen has just said.

Karen Witts - *Kingfisher plc - CFO*

And managing wage inflation for us is just business as usual. I do tend to talk about how we have offset levels of inflation in our business, and a large part of that is wage inflation and we find self-help to mitigate that. And actually, because of the fact that we're working in different jurisdictions, we have now and in the past had to deal with quite high levels of wage inflation.

Fraser Ramzan - *Nomura - Analyst*

And just for context, what kind of pay reviews has the UK business had over the last couple of years? Is it a couple of percent, or 3%?

Karen Witts - *Kingfisher plc - CFO*

I guess they have been broadly in line with inflation, so 2%/3% level.

Fraser Ramzan - *Nomura - Analyst*

Okay. Thank you.

Sarah Levy - *Kingfisher plc - Group Investor Relations Director*

Okay. Well, thank you very much. And, yes, as Steve said earlier, you should be getting an invitation this afternoon.

Yes. Have a good day.
