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KGF.L - Full Year 2015 Kingfisher PLC Earnings Presentation

EVENT DATE/TIME: MARCH 23, 2016 / 9:00AM GMT



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PRESENTATION

Veronique Laury - *Kingfisher plc - CEO*

So, welcome everyone. So this is the agenda of today. That's what we will be covering today. But, before that, just a quick introduction before we go into the numbers with Karen; a quick introduction from myself.

Almost it was a year ago the first time we met, I would say, at least, since we interacted together. And at that time I was talking about three things, if you remember. I talked about customers, which I always will. I am sorry for that but this is something that I will continue to do.

I've been talking about principles. You remember at that time we set up some kind of principles. I told you that it was not the strategy because we will need more time to articulate that strategy and we did it in then. But you will bear with me that those principles have been largely embedded in the strategy, of course.

And then the third thing that we have been talking about at that time was the first sharp decision and I will come back on those first sharp decisions.

What we've done since a year. I think it has been a very productive year. I could say a good year but we've done a lot.

What we did.



First, we have created what we call our ONE Kingfisher plan, which means that we have a long-term vision. We have a long-term direction. We know what we want to do for our customers and we know what we want to be as a business.

The second thing is we've delivered a good set of results. I am pleased with the results. I think we've delivered on expectation. And, even though we still have an underlying business which is volatile, because the things from customers' point of view haven't changed in a year, I am really pleased with the focus and the energy that the business has demonstrated to deliver those results this year. And this is very important.

The third thing is, and I will update you later largely on that, we've delivered our first sharp decisions. Some of them were on several years, like the B&Q store closure or like the cut the tail, but on every single thing that we were due to do this year, we've done them.

And the other thing that we did is that we've developed a five-year plan with the financials associated and with the transformation plan associated to it as well. And that plan we've presented to you at the Capital Market Day. It is done and we are sure that it will create value for our shareholders.

And finally, we set up operational milestones for this year, because this is the way we work. Every year we will have financial targets as well as operational milestones and I will present those milestones to you at the end of that presentation.

But now I will hand over to Karen to look at the numbers.

Karen Witts - *Kingfisher plc - CFO*

Thank you very much, Vero and thanks, everyone, for coming here today.

As Vero said, this is my opportunity to take you through our financial highlights for 2015/2016 along with the key developments in each of our major geographies, and then I'll move on to an update on the balance sheet and uses of cash. So if we start off with the financial summary.

So during the year Group sales, adjusted to exclude China following the disposal of the majority stake that was a 70%, grew by 3.8% to GBP10.3 billion on a constant currency basis with Group like-for-like sales up 2.3% year on year.

During the year we opened 42 net new stores. That was mainly driven by Screwfix openings in the UK, we opened 62 outlets in the year, and offset by the fact that we closed 30 B&Q stores. Now those store closures were backend loaded with 21 out of the 30 closures in the last quarter of the year and 15 in January alone.

On a constant currency basis retail profits of GBP746 million increased by 7.4%, reflecting a mixed picture across our major markets, with good results in Poland and the UK, including a particularly strong performance from Screwfix, lower losses from our new developing countries offset by softer though stable market conditions in France.

Adjusted profit before tax was GBP686 million; up 0.3%, broadly in line with retail profit after a GBP46 million adverse foreign exchange movement on translating foreign currency results into sterling.

Our effective tax rate was 26%. That's 1% lower than last year, reflecting a shift in the profit mix from France to the UK as a result of both foreign exchange movements and growth of the Screwfix UK business.

Adjusted EPS of 22p was up 3.3% year on year.

Statutory post-tax profit was down from GBP573 million to GBP412 million. That was reflecting higher exceptional charges this year, compared with a gain last year. And I'm going on to explain the exceptional items on the next slide.

The Group generated GBP483 million of free cash flow after investing GBP333 million of CapEx in the business. Most of the free cash flow was returned to shareholders through a combination of dividends and a GBP200 million share buyback.

Our year-on-year net cash position increased by GBP217 million to GBP546 million.

As you know, we're now using lease-adjusted return on capital employed as a key returns metric and ROCE grew by 40 basis points from 11.9% to 12.3% this year, including the impact of capital employed on the B&Q store closures.

The Board is declaring a final dividend of 6.92p. This results in a full-year dividend of 10.1p; a year-on-year increase of 1%, covered 2.2 times by adjusted earnings and representing a dividend yield of about 3%.

If we now move on to post-tax exceptional items, this year we're reporting a charge of GBP99 million, compared with a credit of GBP71 million last year. And if we look at the net charge, it relates to four items pre-tax.

First of all, the restructuring charges in B&Q and Europe, where we've now booked a GBP305 million exceptional charge associated with the previously announced B&Q store closures and our plan to close a few loss-making stores in Europe. In this case, I'm talking about two Castorama stores in France and one in Russia. This charge primarily relates to lease exit costs.

You'll recall that we said we expected the restructuring to result in a total exceptional charge of GBP350 million and that assumption remains unchanged.

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

Third, we booked an impairment charge, primarily relating to goodwill recognized on acquisition of our business in Romania, reflecting the loss-making performance of the business. The performance to date has been disappointing, but we've got a new management team in place in Romania and we're confident that losses will be significantly reduced this year.

And fourthly, we continued with our program of disposals of surplus non-operational estate and sold some legacy properties in Brazil, giving rise to a gain of GBP14 million and cash proceeds of GBP43 million. We've booked more than GBP100 million of proceeds in the last three years from this program.

Turning now to the results by division.

As I said, on a constant currency basis retail profits of GBP746 million increased by 7.4%, reflecting a mixed picture across our major markets.

Retail profit in the UK and Ireland was up 18% to GBP326 million, ahead of France at GBP311 million as the French retail profit fell by 1.6%.

Profits in our established other international businesses grew by 3% to GBP126 million, driven by a solid performance in Poland. And our new development countries in Portugal, Germany and Romania incurred losses of GBP17 million, which was in line with previous guidance.

Just before I move on to the various geographies, I just wanted to show this chart, which demonstrates the impact of foreign exchange on our results by geography.

So, as you can see, most of the GBP46 million FX impact was on France and this was offset by a strong profit growth in the UK and Ireland.

Now on to France.

We added 1% new space with three net new stores and six revamps. We've also made good progress with click, pay and collect in France, rolling this out to 161 of our stores versus the 34 we had at the previous year end and well ahead of the 114 that we were targeting back then.



Total sales in France were GBP3.8 billion, up 1.2%, with like-for-like sales down slightly by 0.4%. This was in an ongoing soft market impacted by weak consumer confidence and subdued housing and construction activity. We may have seen the first positive movements for four years with housing starts up 2% and building permits up 4% but I say may, as this only happened towards the end of the year.

Gross margins were up 10 basis points.

We did experience higher levels of promotional activity earlier in the year, but in quarter 4 we took the decision to promote less in what is traditionally a smaller quarter.

And cost-control efforts focused on offsetting inflationary pressure, but we still faced a small decline in retail profit of 1.6% to GBP311 million.

Looking at the performances of Castorama and Brico Depot. In Castorama sales were broadly flat at GBP2.1 billion, with like-for-like sales down 0.2%, which are similar to the Banque de France data showing flat sales for the DIY market.

Like-for-like sales of outdoor seasonal products were up 1.1% and building products were down 0.5%.

In Brico Depot total sales of GBP1.7 billion were up 2.5%, driven by increased space, with the like for likes down slightly by 0.5%.

And now moving to the UK and Ireland.

We had a very good year with sales and profits growth driven by Screwfix, supported by a stronger UK economy and more buoyant housing construction. Total sales of GBP4.9 billion were up 5.6% and like-for-like sales were up 4.4%.

Retail profit grew strongly, up 18%, although the gross margin rate was down 50 basis points, reflecting mix effects from strong growth at Screwfix and clearance related to the B&Q store closures and higher omnichannel sales at B&Q.

Operating costs were tightly controlled, driven by continued productivity initiatives at B&Q.

And in B&Q total sales were up 1.1% to GBP3.8 billion, with like-for-like sales up 1.9%. Sales of outdoor seasonal products were down 0.3%, while sales of core indoor products, excluding showroom, were up an encouraging 3.1%.

Sales of showroom products were up 0.9% as the decision to reduce promotional activity and, instead, offer customers everyday great value has gained momentum with customers across the year.

The B&Q store closures were weighted to quarter 4, as I said, and Vero will give a further update on that later, but they contributed 0.4% to the full year's like for like.

B&Q has been working on driving productivity benefits across the business since last year with initiatives such as store-friendly deliveries and roller checkouts. And both of these initiatives, which completed during the summer, helped to deliver significant cost savings.

Click, pay and collect is now available on nearly 17,000 products, compared with 14,000 last year. And total transacted online sales, including home delivery, continued to make good progress, up 29%, and now represent just over 2% of sales compared with just under 2% last year. So it's still very small.

Higher home delivery fulfilment costs contributed some pressure on gross margins across the year.

As our new unified IT platform is rolling into the UK business this year providing real-time stock visibility, we will move from click, pay and collect next day from our central warehousing network to click, pay and collect same day picked up from store. And it should help to reduce the impact on gross margins.

Finally, Screwfix had an excellent year with total sales up nearly 26% to over GBP1 billion. We opened 62 outlets in the UK, taking the total at the yearend to 457.

Like-for-like sales were up 15.3% and this was driven by strong growth from the specialist trade desks exclusive to plumbers and electricians in Screwfix, strong omnichannel growth and new and extended ranges.

We've already said that we believe that there is a capacity for around 600 outlets in the UK and we will open around 50 this year.

We explained in January that Screwfix, which has just won multichannel retailer of the year, will be the benchmark for our brilliant basics digital program in our transformation.

Screwfix mobile sales were up 100% on last year, from about 2% to 3% of total sales. This will have helped our growth in click, pay and collect sales, which were up more than 50% from 10% of total sales last year to 12% this year.

Now on to our other international businesses.

Firstly, let's look at our more established businesses, Poland, Russia and Spain, which together grew total sales to GBP1.6 billion; up 4%. Like-for-like sales were up 2.7%, driven by Russia and Poland.

We opened two net new stores; one in Spain and one in Poland.

Combined retail profit was up 3%, including a GBP7 million retail profit contribution from Koctas, which is Kingfisher's 50% joint venture in Turkey.

Poland performed well, with sales increasing to GB987 million and like-for-like sales up 3.6%, benefiting from good seasonal sales. Gross margins were up 10 basis points and retail profit was up 6% to GBP113 million, reflecting the sales growth, higher gross margins and good cost control in the business.

In Russia sales were up 12.9% to GBP325 million, with like-for-like sales up by 7.2%. You remember the market's been very volatile, particularly in the early part of the year when consumers were spending on durable goods as the ruble devalued.

Our retail profits decreased to GBP6 million, reflecting adverse foreign currency impacts on the cost base. Around 60% of our stores in Russia are leased and we have rents largely denominated in US dollars or euro. But other costs were very tightly controlled to mitigate this impact.

As we commented in September, performance in Spain was disappointing, with sales down 3.2% and a breakeven result.

As you know, we also have newer businesses in Romania, Portugal and Germany, which are still in development. Sales for these businesses were GBP111 million, with losses of GBP17 million, in line with previous guidance, reflecting more challenging environment for Brico Depot in Romania, where, as I said, we've now got a new CEO in place. We also rolled out five new Screwfix outlets in Germany in the year.

As we said on Capital Markets Day, we will have limited space growth in our businesses over the next few years. Our focus will be on offer first and expansion second. But this is, however, with the exception of Screwfix, which will continue to expand.

In Germany we will double the number of Screwfix outlets this year from the nine that are currently trading to 18 and we'll undertake some further development work in Europe. And Vero will talk more about this.

So this year included in our technical guidance we're forecasting a loss of GBP20 million for Screwfix Europe, Romania and Portugal. And, as you can see from the chart, this is driven by Screwfix Europe expansion as we expect the halving of the losses in the other two businesses.

Now let's look at what we did with our cash.



The Group generated GBP483 million of free cash flow after investing GBP333 million of CapEx in the business. Of this CapEx, around one-quarter was invested in new stores and relocations, 40% on refreshing existing stores and 36% on IT, supply chain and omnichannel development as we now start the rollout of our unified IT platform.

The GBP58 million increase on CapEx compared with last year reflected the completion of an extension to our shared Screwfix and B&Q omnichannel fulfilment center to support UK growth; also the rollout of B&Q roller checkouts, which formed part of their productivity efficiency program; and two freehold property purchases: one in the UK and one in France.

As this slide shows, we returned the majority of our free cash flow to shareholders during the year via ordinary dividend and GBP200 million from share buybacks.

And finally in the year we received net cash consideration of GBP156 million, driven by the disposal proceeds from the sale of 70% of B&Q China and the disposal of non-operational assets in Brazil.

Just probably worth pointing out that these figures don't reflect the most recent development, which we highlighted this morning, which is that, as of today, with the agreement of Wumei Holdings Inc., we exercised the option to dispose of the remaining 30% economic interest in B&Q China to Wumei. And, as a result, we will receive final gross cash proceeds of about GBP60 million following the approval from the Chinese regulatory authority.

So at the yearend our net cash position, after currency movements, was GBP546 million. Our lease-adjusted net debt-to-EBITDAR ratio was 2 times; slightly lower than last year's 2.2 times and within our targeted range of 2 times to 2.5 times.

And, to summarize, whilst we've been building our new transformation plan, we've also delivered good business-as-usual performance, with a strong profit growth in the UK and Ireland, particularly driven by Screwfix, and a good result in Poland, partly offset by results in France. We've continued to focus on cost controls to offset inflationary pressures.

On a reported basis, however, profits have been impacted by GBP46 million of adverse foreign exchange movements.

Our balance sheet remains strong and within our targeted net debt-to-EBITDAR range. We've invested in maintaining our existing assets and also for growth. And we have returned GBP432 million to shareholders from our annual dividend and our ongoing capital returns program.

Finally, although there's a wider backdrop of political uncertainty, both in the UK and globally, in terms of the shorter term outlook for our key markets, as we've said before, the UK environment remains positive and we remain cautious on France.

So I'll now hand over to Vero to update on the first sharp decisions.

Veronique Laury - *Kingfisher plc - CEO*

Thank you, Karen. As I said in my introduction, let's go back to what we saw together a year ago. So this is the list that we shared in March last year.

I'm not going to update you on each of those initiatives because some of them we've been updating you at the Capital Markets Day, like the unified offer, for instance, of the GNFR and you will bear with me that it was only six weeks ago. So we are fast, but not that fast.

But there are some of them that we haven't been talking since a year and I will cover each of them.

But, before doing that, I wanted to share a few things that were not on this list and that we've done in the very latest weeks, almost.



The first thing is about the fact that we had a 300 leaders' conference three weeks ago and we shared our new plan with them. And we've started to embark them on that transformation and in that journey to create the leading home-improvement company. And it was a really important milestone for us as a leadership team.

The second thing is I've been two weeks ago right now in China with Arja and Pierre. And I've been seeing the products actually in the containers ready to go to the stores. What I've been seeing as well, so this is happening, unified is happening, I saw all the unified wave 1 brands. And I've started to see the team presented to me as well the unified wave 2 work, which, of course, is not finished but is ongoing. And I think each time it was almost a joke together.

Each time when we were looking at each of those categories we were working in -- Arja has trained them on what we call strategic sourcing. We explained you a little bit at the Capital Markets Day what it was. It is completely new methodology of working and sourcing. And they were actually presenting me each category and saying, you know what, Vero, there is money on the table. And I say, I'm not going to tell that too much. But this was kind of the motto.

But I feel confident. I think we have good people. They have competence. They know the business. And we are training them with new methodology. And they are going to deliver what we've written on that sheet of paper.

And the third thing that was not here is that we've conducted a consultation with shareholders about changing incentives of the business to align the interests of the executive team and the leadership team with the interest of the shareholders.

Of course, I'm not going to tell you what is in it. You will see that at the AGM later in June. But what I can tell you is that it will be more share based so we have the same interest about creating value for this business. And it will be, of course, longer term because we have a long-term strategy.

But let's now come back to the first sharp decisions.

The first one I wanted to talk to you was about the cut-the-tail plan. We said a year ago that we will do a significant reduction, without saying how much it will be. As you remember, it was a plan on three years. I'm really pleased with the results that we've achieved because we cut the number of SKUs by 50% and we cut the value of stock by 40%, which I think is a very big achievement.

It's for Big Box mainly because that was where the problems were. We have managed to do that. So the GBP50 million it has helped us with the cash at the yearend, but we've managed to do that with some impact on the margin but not a big impact. So I think it was a big achievement for the business.

The important thing that I need to tell you as well is that we've now put in place what we call a product lifecycle, so we won't be recreating the problems that we had. And, of course, as we move to unified and unique we won't have that proliferation of SKU creation in every business because everything will be managed by Arja and her team.

The second thing is about the space rationalization that we've announced last year as well. Again, I'm very pleased with the progress that we did.

We closed 30 stores. Most of them were closed in Q4. As you can imagine, it took us a little bit of time to negotiate that. I think we are 40 stores that are secure right now, 27 have been passed onto other retailers and 13 have been through lease expiring.

I think we are very, as Karen said, we are online from the sales transparency point of view. There are some differences according to the different catchment areas, but we are really completely in line with the business case so there is no problem there.

On what is not the UK, on France and the rest of Europe, we've said we've announced one store closure in Russia and two store closures in France. We are on track to deliver them, even if it takes a little bit longer. But this has been announced and we are going into the process of closing these stores.



Again this will become business as usual. This is the way we work. We look at our assets and when they are not profitable we just close them. So, again, this becomes a kind of business as usual.

The other initiative that was a sharp decision was about the Big Box best practice pilot. Again, I'm pleased with the progress that we made. We will be opening four stores; one in France, one in the UK, one in Russia and one in Poland in June and July. So by the end of July those four stores will be opened.

What is this about? It's about really taking the best of what we do today in the Group and putting it together, and I will come back on what are the four key areas we have been working on.

I think, again, this is a journey. This is not about the store of the future. As every retailer, we have to think about what do we need to do from a store perspective with the digital working together. Like every retailer, we have to do that but it is a step. I think it was -- this is a learning curve. We needed to work together as well and this has been a good exercise to make operational people working together.

What are the areas of focus on that store? There are four.

The first one is about merchandising principles. We have some good merchandising principles. In Poland, for instance, we are really good on all the art side of things. In France we are more good at the soft side of things. We are putting that together. So customer layout, merchandising principles, equipment will be aligned for one area.

The second area is about services; which kind of services we should offer to the customers in order to grow ourselves?

The third area is about interaction between staff and customers; which type of competence do we need?

And the fourth area is -- I can't remember that one. I said merchandising principles, I said staff-customer interaction. I said services. And, of course, efficiency; how we drive our store in a more efficient way. And, again, we have some different experiences across the piece of the Group and it is about really taking the best practice and implementing it in those four stores.

I will be very glad to look at those stores but I feel confident about the fact that it will be a step for us.

Then Screwfix Germany. Karen talked about it. We've opened more stores. I've been with Steve in Germany as well very recently. We are positive about the results. It's still early days but we've decided to continue to grow in Germany.

We are seeing right now a week-on-week 10% growth, which is very encouraging and we've decided to double the number of outlets in Germany. To be breakeven with Screwfix as a model we need 50 stores. We may accelerate.

The unified IT platform. I think this is one of the very positive things that we've delivered this year. Most of you have been in Ireland to see how it works.

We've already implemented 50% of the B&Q stores as we speak. We are on track to start the rollout in Castorama France by the end of the year. And we are still online, even if Tony [Godwin] is still saying we do it when it's good and if at one point it's not good we just look at it. But I think we will be ready to have completed the whole program a year before what we were expecting right now.

And then people. This is important. As you all know, I'm very pleased to have a full team right now. I think it is important.

As I told you at the Capital Market Day that Pierre is with us right now. It was important to have a Chief Customer Officer. We said that customer needs will come first. This is a clear point of differentiation in the strategy that we have been creating and it is important to have somebody representing that at the Group exec.



He will work on how we integrate all the customer knowledge that we are developing into all our thinking and how we do things, as well as working on the customer experience, of course, with his colleagues, especially with Steve, on how we implement the digital aspect of things.

And then I'm glad to announce that we will have Jean-Paul Constant joining us. He's in Australia right now, so he's not with us. He will start late summer. Still in conversation with him about that.

What is special about Jean-Paul is that he has worked for Decathlon for almost 30 years. And what is special about Decathlon is the fact that they are used to have a unified and unique offer. They used to have one store format and one platform of communication, as well as being able to generate high level of engagement in their store. And I think that combination is almost unique.

I'm really glad with that team because, as you can see, it's a mixture of people coming from and knowing the Company very well and a mixture of people who have been working in leading companies. And I think that diversity is creating comfort, is creating performance, and this is what we have right now.

Before handing over to Karen again, just a reminder. This is the list that, again, I showed you at the Capital Market Day and I will continue to come back to it every time. We have now internally what we call 741, which is seven actions, four pillars, one company and these are the seven actions.

I think three things that I said already at the Capital Market Day.

This is action not work.

Second thing is the fact that those actions will create value. I think we are with a plan that will create value for you, for shareholders, definitely. And this is something that we will be doing on the long term.

And third thing that it is different. I hope that I will be convincing more and more each time we are talking together. We have a different view of the market. This is about an ambition and a purpose; it's not about synergy and what is really different and we are creating one Company this time.

So I will now pass on to Karen on the transformation.

Karen Witts - Kingfisher plc - CFO

There are two things that I wanted to do. The first was just to give you a summary again around the ambitions of our five-year plan. I'm sure you already know this, but just to put things into context.

And then secondly, as you may have seen from your technical guidance in the release, we've finished our budget for year 1 and we've updated a bit in a couple of areas that I also want to take you through.

So the summary here is that, in addition to what we are calling business-as-usual performance and business-as-usual performance largely will reflect the market, the economic backdrop in the geographies in which we are operating and also expansion, including Screwfix in Europe, in addition to that we will deliver at the end of year 5, which is 2021, a sustainable uplift in profits of GBP500 million per year, coming from three strategic pillars, three areas of focus.

Our unique and unified offer, which will deliver GBP350 million of the GBP500 million; our digital aspiration, which will deliver GBP50 million of the GBP500 million; and from operational efficiency, which will deliver GBP100 million of the GBP500 million.

And in order to achieve these benefits, we believe it will take an aggregate cost of about GBP800 million.

That GBP800 million is split into three areas: incremental capital expenditure of about GBP310 million; GBP270 million of exceptional restructuring charge; and GBP220 million of what I'm calling transformational costs that are in the P&L. And I'm going to explain that in a little bit more detail as we go on.

And, whilst we're doing this, in the first three years of the plan we will return about GBP600 million of capital to shareholders.

So we just go through the key profit drivers behind each of those strategic pillars.

Simplistically, we've said GBP350 million coming from unique and unified offers could be viewed as a 5% cost-price reduction on the Company's buying scale of GBP7 billion.

We do expect that the efforts in this area will drive increased sales, but what we'll see is that in the first part of the plan we will have the costs of implementation and they will later be offset by increased sales.

So if you broadly think about stable gross margins for the first part of the plan and then by the time we get to the end of the plan we would expect our gross margins to improve.

From a digital perspective, as I said when I was talking about the results for the year, our online sales penetration is currently low. It's 2%. It did grow but it's still very low. And we believe that we can drive our eCommerce sales from about 2% to about 6%. And we believe that we can make these sales incremental to the rest of our business.

So what we're going to do is we've got a couple of programs in this area, which Steve talked to you about at the Capital Markets Day.

One which we're calling brilliant basics, which is really taking the kind of omnichannel customer experience that our customers receive from Screwfix and making that something that we can replicate across the Group.

And the second one is to help to simplify the customer journey. We're calling that the home improvement platform.

And then operational efficiency gains. In the timeframe of this plan we believe that these will largely be driven by unifying our goods not for resale. So, in the same way as we have a GBP7 billion buying scale for goods for resale, we have a GBP1.2 billion buying scale of goods and services that we consume ourselves.

We believe that about 90% of that can be looked at on a global way and about 80% of that 90% will be in OpEx.

So those are the drivers of the GBP500 million uplift over the five years.

Now it is important to us that we report our progress, the progress that we're making on this plan, and also we're going to do this in a couple of ways here.

So you'll see three references to profit: reported profit before exceptional items and reported profit after exceptional items. And the updated guidance that we have given for year 1 is that in 2016/2017 we expect the exceptional costs to be around GBP50 million.

Then in order to get to underlying profit, which is where you'll see the progress that we're making in the business, we'll be very explicit about the transformation costs that we are expending. And for the first year of the plan we believe that those transformation costs going through the P&L will be about GBP70 million.

We believe that in year 1 of the plan you will see some benefits from our transformation plan of around about GBP20 million.

Now these benefits in 2016/2017 will come pretty much from GNFR. It's not an annualized benefit of wave 1 of GNFR but it's the start of the benefits flowing through.

So if you take the GBP20 million that will sit in the underlying profit and the GBP70 million of transformation costs, that gets back to the net GBP50 million that I talked about on Capital Markets Day. So I hope that's clarified that one a bit.

And then the other area that I wanted to update on was our capital expenditure guidance.

So at the Capital Markets Day we said we expected to spend, on average, about GBP500 million of CapEx over the first three years of the plan and that, on average, GBP500 million would include the GBP310 million of incremental CapEx that's required to deliver our strategic initiative.

Well, after completing our bottom-up budget exercise, then the guidance that we're giving for year 1 of the plan for 2016/2017 is up to GBP450 million for that first year of the plan. And the GBP450 million includes the money that we need for the transformation activities.

Now this wheel on the left has pretty much the same shape and breakdown as you saw at the Capital Markets Day.

So we have got 15% of the GBP450 million, which is about GBP70 million, which will be the CapEx that we're spending on the IT that we need to start the work that we're doing on our digital aspirations and to start to build some of the IT systems that we need to knit the offer and supply chain area into our overall Group systems.

And, as you can see, this is also a big year for our Easier project. Vero explained how far we were through the rollout in B&Q. And this year will not only be a rolling out through B&Q but we'll also be implementing Easier, which is our SAP implementation, into Castorama France.

And I emphasize this because Easier is quite an enabler for the whole of the strategic plan.

So if you look at those two lumps together, more than one-third of the capital expenditure for 2016/2017 is really focused on transforming the business.

I also said that we were not going to be focused on store expansion, except that we weren't going to constrain Screwfix. Screwfix is a very CapEx-light model and in 2016/2017 to open up the 50 stores in the UK and to start developing further in Europe we'll need about GBP20 million of CapEx.

We do have some new stores in our plan. We'll open three or four new stores in the year, including two which are Big Box pilots, and then the rest of the capital expenditure is on our existing store CapEx.

Now this might look like a bit of a granular drill down into this, but I thought it was quite important just to show how we're actually thinking about our capital expenditure and how we're spending our money.

So you'll see that a chunk of the money that we're spending on existing store CapEx is on maintenance and that number has been pretty stable across the last three, four, five years. And it's a combination of what we would call break/fix maintenance but also planned cycles of maintenance.

The GBP55 million is quite a large number in itself, but if you think about the number of non-Screwfix stores we've got, then it's about GBP80,000 of capital per store per year. That isn't exactly how we spend it, but just to put that into context.

The rest of the existing store CapEx is actually spent in areas that give us an attractive return on our investment.

Now we've still got some rightsizing to do in B&Q. If you remember, we started this a couple of years ago and that's where we split the space with other primarily food retailers. We did three of these rightsizes in 2015/2016 and we've got about five in the plan for 2016/2017.



I'd just like to point out that these are slow to come through and subject to planning permission. So, on average, they're taking about two years to come through. What we have got in here is what we think we can do but it will be subject to planning.

Then we have got an allocation of capital around revamps and relocations. And I wanted to highlight that because we've got a couple of our Big Box pilots, which are revamped stores, included in this figure here and also our ongoing program of revamps, which, up until now, has been largely something that we've done in France. So in France, in the year that we have just reported on, we did about six revamped stores. We've got some CapEx allocated for that.

Then last, but not least, we have been investing in renewables in PV panels and LED lighting.

So that's just to show you just how that whole wheel of CapEx is likely to break down over 2016/2017. And, just as we'll be reporting regularly on the exceptional costs and the transformation costs, we'll be reporting on how we're spending our CapEx as well.

So, with that, I will hand over to Vero for her closing remarks.

Veronique Laury - *Kingfisher plc - CEO*

So just before we close and we conclude today and go to the Q&A session, I just wanted to highlight that, in addition of the transformation plan that you have just seen and the five-year plan that we have, we have a clear roadmap about how we are going to execute it, to deliver it.

This is organized around the strategic pillars that we've decided together. It is a marathon; it is not a sprint. We want to do things properly, well, for almost ever. And this is the way we work.

As I told you at the beginning, the way we work this year worked because we've delivered. We've delivered both our numbers and our first sharp decisions. So we are going to replicate that way of working. We have a budget. We have numbers that we want to deliver that are clear right now for the whole organization. And we have, as well, operational milestones for this year.

I wanted to be clear about the fact that you won't hear any more about the first sharp decisions because we've embedded the rest of it in our operational milestones going forward. So you will see one thing.

So these are the new operational targets, which is to deliver the offer and supply chain organization. This is a very important milestone for us. And, of course, we will update you on that one more precisely as we are doing it and we have the numbers. Actually, Arja's board is now in place and working. And we are continuing to build, but this is really the work of this year.

Of course, the 4% COGS that we've been talking to you about in January is in our roadmap, as well as the digital platform we've been talking about that.

And there is something in addition about brilliant basics for B&Q, which, we described you at the Capital Markets Day, is to put all what we are able to do in Screwfix within B&Q and this is the first step. Of course, we will do that across the Group but we start with B&Q as B&Q will have Easier and will be able to do that.

And, of course, we have those milestones about operational efficiency.

What is important as well, I spoke to you about the reward structure. Those milestones will be bonusable for the leadership team.

So, as a conclusion, I want to remind you three things.

First, we have strength as a business. I think the fact that we are in several geographies is a strength because it makes us being less influenceable by the backdrop, and we've seen that over the last few years, between the UK and France. So this is a strength for the business.



The other thing I want to remind you is that we have three strong businesses in UK, France and Poland and they are some of the biggest home-improvement markets in Europe. And we have a growth engine with Screwfix.

So I think this business is a solid business.

In addition of that, we have a long-term vision. We know where we are going. We know what we want to create for our customers and we know what we want to be as a company.

We have a five-year plan, which included transformation. And it's not a turnaround; it is a transformation. And this is very clear as well. We have financial targets associated to it and we have a very clear roadmap.

So this is where we are. I'm not, and they know that, I'm not -- my kind of nature is I'm not very easily pleased. But I am pleased with the year that we've delivered and I want to take the opportunity to thank the team here, some of them are here, but the wider team and the leadership team because I think they've really done a good job.

I think we demonstrate focus and energy in delivery. And Arja has a motto in our team, which says we do three things in offer and supply chain, but I think actually we can take that motto for the whole of things this year. We do three things: we deliver, we deliver, we deliver. And I think that's what we did this year.

I think, above all, when I'm leaving a place, whatever it's the sourcing offices or an operating company that I'm visiting very regularly, probably a little bit too much for them, but I never say 'good luck'. I say 'good work' because I think that's what we do. We believe. We believe in that plan and we work.

Thank you very much.

QUESTIONS AND ANSWERS

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

So we're now going to move to questions. Firstly, can I invite the leadership team to the Q&A panel table? So, as usual, if you just raise your hand and when asked just identify yourself and I'll allocate the questions accordingly.

Jamie Merriman - *Bernstein - Analyst*

Jamie Merriman, Bernstein. My question is about Screwfix. Can you just talk about what you've seen, particularly in Germany, and what's given you the confidence to accelerate the rollout there? And any hints about where else in Europe Screwfix might be going?

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

Clearly for Steve that one.

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

So what we're doing in Germany, so I think there's a few bits. One is that the market structure in Germany is structured slightly differently but it's the same as the UK and what you've got is this serious bottom end of the pro market, very serious hobbyist-type market. So we're seeing the same market dynamic. It plays out slightly differently.



The other thing we're seeing that we weren't sure about is in the UK people got conditioned to catalog shopping, probably by Argos, and we weren't sure actually how that would drop into Germany. Quite frankly, it's been a non-issue. And, in fact, they get it absolutely as soon as they've been through it.

And what we're actually seeing steadily is basically customer count, sales are growing and repeat business is growing. So on those sorts of metrics it's actually looking quite encouraging.

And we have to go back, people probably don't remember, when we put the original trade counters back in 2005, the growth in the trade counters then initially was quite steady. The difference we had is we had a very successful direct business that kick started it.

So what we're doing in Germany is creating a completely brand new brand and almost we're creating a web business at the same time. So does that answer your question?

Hints for Europe. It would be quite useful and beneficial if we were using the scale and the assets of the Group. So we're probably going to attempt to go where the Group currently is.

Fraser Ramzan - *Nomura - Analyst*

Fraser Ramzan, Nomura. A couple from me. Firstly, on the five-year transformation targets. I think you said that you expected the eCommerce sales penetration increase to be largely incremental and that, to me, is almost unheard of. Almost every time a digital offer improves it takes sales from the store.

So where do you think there are pockets of demand that you can pick up that others won't be targeting over the period? So that's the first question.

And the second question on the P&L costs of transformation. Could you give us a few specific examples of what they are and why they will, therefore, drop out of the P&L later in the program? I think I'll leave it at that. Thanks.

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

So we'll do the eCommerce question for Steve and then move to Karen for the transformation costs.

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

To be fair, probably what I would say is we've actually used industry benchmarks from around the world. And we did quite a lot of work with Accenture when we were doing the digital structures.

We've also used our own experience, quite frankly, from what we've seen happen in Screwfix, B&Q and starting to happen in France but it's tiny, which is how we've come up with the numbers.

I think what we would say is those figures are relatively modest, if you look at them as percentages. And, sorry, they're not the total effect. They're what we believe is incremental. But they're relatively modest as incremental numbers and participations that you would see against broader -- sorry [getting] one of the benchmarks in main retailers in the UK is very small. We're trying to move to 6%.

So a lot of people are in double digits so -- and Home Depot have announced that their aim is to get to 10%. So I think we don't see those as unattainable targets; in fact, probably the reverse.

Fraser Ramzan - *Nomura - Analyst*

I think the penetration increase is almost a given. That will possibly happen anyway because of the way that the market's going. I'm just wondering why it's incremental for the business rather than just a transfer of sales from stores to --

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

Well, to be fair, the market massively out in the eCommerce market in both the UK and the home improvement market's growing. One of the fastest growing markets in Amazon in France is home improvement. So it's still tiny, by the way. So those markets are growing at the moment. We're not getting our fair share is the point.

So we're losing out in that growth to other people and actually we've not moved our eCommerce proposition far enough forward versus our current competition. So what we need to do is get ahead of our current competition and then take our fair share of the marketplace.

Karen Witts - *Kingfisher plc - CFO*

And then the transformation costs. I'll give you some flavor, Fraser, and then maybe ask Arja as well.

I think in an ideal world we would call them exceptional costs because we do think they're part of the restructuring, the rewiring, of the business but they are not the once-off people costs of change that we can legitimately classify as exceptional.

So most of what we're calling these transformational costs, which are in the P&L, actually sit in the area of offer. There's a little bit in digital as well.

And I'll start off with the digital bit and say it's really the setup of our new digital aspirations. We actually have to invest in people and some third-party help and start to build the platforms in the short term but, actually, longer term a lot of that cost comes away because there's activity that you're not doing and then, particularly, if you've got some third-party help in there then that is certainly not an ongoing cost.

So I'd say it's the build cost for digital before the profitability comes through.

In the offer area it's what we're calling implementation cost. So it's the cost of getting the new ranges into the store, new merchandising costs, in particular, and, again, there's more people who will be involved in this activity in the short term, while we're going from 4% unified offer up to 90% unified offer. But, after we've unified our offer, then those incremental costs of trying to roll the implementation through the business quite fast go away.

Fraser Ramzan - *Nomura - Analyst*

And perhaps if I could just add one to the end. In the same vein, when you look at the CapEx there's a decent-sized chunk on IT and transformation. And I think you said within the transformation there was quite a bit digital piece and then there's an IT piece as well.

How many of those are -- or is there a decent -- is there a reasonable proportion of those that are capitalized people costs for development?

Karen Witts - *Kingfisher plc - CFO*

Yes.

Fraser Ramzan - *Nomura - Analyst*

And once those systems are up and running, obviously you'll be amortizing those people so that might affect your depreciation charge, I presume. But also can you be sure they will drop away because isn't digital just the world we live in now? So you'll really be looking to replace, I don't know, store people costs or digital costs or something like that in the future.

Karen Witts - *Kingfisher plc - CFO*

Well, I think we've tried to be clear about the costs that we believe are incremental. And they are about building things like a home-improvement platform and -- well, it's digital platforms and once they're built they're built and we're not going to build that a second time, so you certainly wouldn't have that cost twice.

The second area of incremental CapEx, actually, again, is in Arja's area and it comes from two things: one is IT and the other is store equipment.

So if I talk about the IT first, we'd started the Easier project program before we embarked on this new plan and what we need to do is just wire in -- so it's not a rewiring of Easier. Easier can accommodate our business model but we need to wire in some of the systems that Arja needs to support herself and her team if we're operating our offer and supply chain on a Group-wide global basis.

And then, secondly, again, the CapEx element of the merchandising, if you like, it is store equipment, it's the racking. Ultimately it'll be things like plinths, etc.

So those things I'm very confident once we've done it we've done it because -- and we have tried to say that we're changing the stores from the inside out and starting with the offer.

Fraser Ramzan - *Nomura - Analyst*

Thank you.

Claire Huff - *RBC Capital Markets - Analyst*

Claire Huff, RBC. Three questions, please. The first one on the new unified ranges that you said have been rolling out into stores this March. I'm just wondering if you could comment on the average price reduction on these ranges. Presumably some of the gross margin benefits that you've been seeing have been reinvested back into price.

And then the next two questions are probably for Karen. On the transformation costs and also the benefits and the way you're going to be reporting it forward, how will you be allocating those to the regions? Or will it be some of the benefits going to the regions that there's a one-off cost line at Group level? That would be useful for modeling purposes.

And then the final one. I'm just wondering if you could comment on what the increase in the provision line on the balance sheet relates to? That would also be useful. Thanks.

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

Okay. So the last two questions for Karen. Do you want to start, Arja, with the pricing question?



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

So we have started to roll out the unified offers and if you go into the Screwfix web page you can already now buy -- if you have the need of having fans and mobile air treatment, which probably is not a need, considering the weather in the UK, but you can buy it on the Screwfix home page if you want to.

We have had on those first ranges no need of doing price investments because they have already rather well priced. And going forward we do this evaluation range by range. That's the guidance we give on it.

But we have started to roll out the offer and air treatment is out now in Screwfix in Casto Poland and in Spain and Portugal and continuing rollout during the year.

Karen Witts - *Kingfisher plc - CFO*

In terms of allocating the transformation costs to the regions, we've given some guidance around transformation costs for years 1 and 2. In year 1 we've said GBP70 million of transformation costs, around GBP70 million, with a GBP20 million benefit appearing in the underlying. For year 2 we retain the guidance, which is a net GBP70 million to GBP100 million.

And I think for those two years it's better to just think about them as Group-wide costs rather than trying to allocate them to the specific businesses because, actually, there is a bit of a lag effect on cost before the benefit comes through.

GNFR, by the time it comes through we will allocate it to the individual geographies. It wouldn't be so difficult to take a stab at it. It's about GBP20 million across the Group and it will largely accrue to our larger businesses.

And then the second one, the increase in the provision line. Well, that relates to the restructuring provision that we've taken for the store closures in B&Q. And we've got a provision there because until we get defined lease exits then we still continue to pay the rent.

So when we first spoke about this, I talked about the overall GBP350 million charge and how it wasn't what I would call 'new cash' because it was our existing rentals going out of the business.

So that provision is an onerous lease provision and it's actually why we're very focused on the lease exits. So Vero mentioned the fact that, of the 65 stores that we're closing, we've secured a route to exit on 40 of the leases already.

Claire Huff - *RBC Capital Markets - Analyst*

Okay. Thank you.

Christodoulos Chaviaras - *Barclays - Analyst*

Christodoulos Chaviaras, Barclays. Two questions from me, please. The first one on the sales transferability that you have been seeing from B&Q. So you've mentioned there are 40 basis points of a positive impact on the sales. How should we calculate how -- percentage-wise, whether that is above or below your one-third of sales transferability that you expect?

And, in terms of the impact of the clearance sales from the closed stores, do you -- have you calculated an impact on sales and the gross margin that you can give away?



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

Okay, both for Karen.

Karen Witts - *Kingfisher plc - CFO*

Well, the first thing to say is that we only split the sales in the UK between B&Q and Screwfix. So we look at the UK's profit in the round. There's maybe a few areas that I can give a bit of clarification on.

So we said that the sales transference has helped B&Q's like for likes to the tune of 40 basis points in the year. Of course, we also said that the closures were very backend loaded and we saw a 1% impact in Q4.

Now I think we are confirming or reconfirming our business model that says that we'll get about one-third of sales transference, on average, as we close the 65 stores. And that's important for us to get that one-third because the combination of these being stores with lower sales densities and being able to get one-third of sales transference is what keeps them neutral at a P&L level.

Now we did get more than one-third sales transference on those stores that we have closed in the year that we've just reported on. But I wouldn't try and extrapolate anything from that and just keep the one-third in mind because there were generally stores where the next nearest B&Q was very near.

The store closures that we'll have this year, the 35 that we'll have this year, will A, be more evenly spread across the year but B, there will be increasingly some stores where the next nearest B&Q store is quite far away.

So this one-third sales transference, on average, has got really quite a big range in it from some stores where we'll get a lot of sales transference to some where, actually, it could be quite small.

And the impact of clearance. Well, I haven't said specifically what it was but the gross margin for the UK was down in the year and part of that was due to some stock clearance. But also a part of it was due to Screwfix actually being a bigger part of the overall mix in the UK. And the rest was due to, as I said, higher fulfilment costs, which we think over time will be mitigated by the fact that we'll have Easier rolled in.

I'm not giving you the answer but there's three elements to what impacted the margin.

Christodoulos Chaviaras - *Barclays - Analyst*

A follow up on that. [Other than] the sales transferability, was there any positive impact from the clearance to -- was there an impact on sales from the clearance to compensate for the gross margin reduction?

Karen Witts - *Kingfisher plc - CFO*

Yes, there would have been because we got a bit more on like for likes than we had expected. But if you think about the way that we phased the closures, we had a lot of closures in the last quarter and a lot of closures in the last month. And I would hope that, with a more evenly phased closure plan, then you're managing that clearance activity in a smoother way. There was a lot of work for the teams to do in that last quarter.

Christodoulos Chaviaras - *Barclays - Analyst*

Thank you.

Simon Irwin - *Credit Suisse - Analyst*

Simon Irwin, Credit Suisse. Three questions. The first of which, in terms of the state of the balance sheet with significantly higher net cash, obviously, at year end and you're guiding us to lower CapEx during the year, why are you still sticking to the GBP600 million of capital return, given that you're also at the low end of your 2 times lease-adjusted net debt guidance?

Just in terms of the process of changing the business, maybe one for Emily, is what's the attitude been within the business to those people in the OpCos who realize that their buying role is disappearing or they're in danger of being GFNR'ed or whatever?

And the final one, I guess, is just within the UK, in particular. Are you seeing any improvement in project spend within that LFL?

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

Okay, Karen, do you want to do the first and last question and then Arja on the people?

Karen Witts - *Kingfisher plc - CFO*

Let me start with the last one, which was the one I least wrote down. So improvement in project spend. A little bit hard for us to say, although we did say we were encouraged by what we were seeing in showroom.

There are three contributing factors, I guess, to the LFL progression. One is the sales transference from our own store closures. Another is the sales transference from Homebase store closures. And then the rest is actually what we're doing.

So we've seen progress overall and I think that what we're seeing on kitchens could suggest that there's some increased project spend there.

On the balance sheet, I was just smiling there, because we have said we will return GBP600 million over the next three years. And, over the course of the plan, we have just applied the framework of capital structure that we've used and there are going to be ups and downs in any year.

And I am comfortable with the GBP600 million. And if there's anything further to update, then we'll certainly update, just in the same way that we've updated on the year 1 CapEx. I'm really focused on keeping the balance sheet in good health, actually making sure that we've got the money that we need to invest in the business. And it's important to keep this all going over the next five years. This isn't something that's short term.

And it's one of the reasons why we actually have given ourselves a ROCE target. For sure, we had the Kingfisher economic profit before but I think ROCE is clearer for everyone to understand. And it means that we are focused on the balance sheet as well as we're focused on the P&L.

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

And how it has been received. Well, you know that we have promised to have a sustainable uplift of GBP500 million on year 5. And we have very wise people in the business and nobody has come up with a better idea than with like this. It's very simple.

And we have in this Group, Group execs, together with the CEOs from the operating companies, worked since last autumn with the transformation team, where the CEOs are equally part of driving this change as we are.

We have also worked with the commercial directors from my part, where the commercial directors have been part of designing the new organization and the new strategy.

And we are right now working together with the supply chain directors from each operating company to do the same thing for our distribution and logistics. So they are highly involved in doing the change.



And, on top of that, when I'm recruiting my new team now it's predominantly internal recruitment. So, for example, my own management board, it's a mix; a few external but it's mainly internal recruitments. I've also recruited seven range category directors who are going to be in the range developments and they are all internal recruitments coming from the operating companies.

So even if it's, of course, a massive, massive culture change for Kingfisher, because it is, we have people on board. And we have strongly that they're a part of driving this change.

Paul Steegers - *BofA Merrill Lynch - Analyst*

Paul Steegers, Bank of America Merrill Lynch. Just Screwfix UK has obviously been a very strong growth driver for the Group for a number of years, phenomenal like for likes. Can you just maybe break it down a bit for us in terms of how the stores have done versus the online part of it? And in terms of new ranges, extensions, specialist trade desks, how sustainable is that like for like? And where do you see that going over the next few years?

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

Sorry, finite detail we don't break it out. But if you go in and look behind it, it is made up of all the things that you've just said. So there's a big chunk of it is basically store maturity, which is related to the store rollout program but also the maturity of the stores on an ongoing basis.

There's actually quite a big related to range development and one of the indexes that we use all the time is what we call the 'vitality index', which is the amount of sales that's actually coming out of new products that's actually going in. And we drive that vitality index quite a lot.

Online's actually been quite a big number, sorry not bigger than maturity, by the way, but actually we've been doing very well in online from two prime reasons. One is we keep improving the customer experience and, quite frankly, as we speak we're rolling out a new website into Screwfix, by the way, that will be finished by the end of this week, which is basically moving that experience even further.

And we'll take all of that learning, like we have been doing, we've taken the checkout back into the brilliant basics program, we'll take that learning back into the brilliant basics program.

And then the other thing we're doing is what we would call online range extension, which is actually driving the web and the ranging experience, but it's also helping us tune the ranges in the trade counters.

So quite frankly, it's a mix of if you went through all the normal things that a retailer would do, we're doing all of them very well.

How sustainable is it? We've been doing it for, I think, about the last 30 quarters consistently so I'm not willing to spin the wheel, I don't think.

Adam Cochrane - *UBS - Analyst*

Adam Cochrane, UBS. What are you planning within B&Q to maximize the disruption over the next 12 months with regards Homebase before Bunnings comes in? Are you going to give them a suitably warm welcome?

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

I'll give that one to Vero, I think.

Veronique Laury - *Kingfisher plc* - CEO

First, before answering your question I just want to say something about some of the selective quotes that have been in the press about my position around Bunnings. I'm very respectful of every kind of competition and I've always been. And I know the CEO of Bunnings very well. I had the opportunity to meet him a few months ago in London and I think he's a really good CEO. So all my respect to Bunnings.

Having said that, the initial, why people have been writing that is because of what I said at the Capital Markets Day about the fact that it was not changing our plans, which is true. I'm more comfortable having Bunnings coming in with what we have right now and that was with the one Kingfisher plan that I would have been without. That's for sure.

And, as you say, we have been looking in a lot of detail at what they've been announcing, saying, whatever. We sent some people from B&Q in Australia to look at what they were doing precisely product by product, pricing by pricing, everything. And I will say we will prepare them a very warm welcome but as we would have done for any other competition.

The reality is that they will be a stronger competitor than Homebase but it's good and healthy to have competition. It makes you being stronger and that's it. And we will work on it as we do.

Adam Cochrane - *UBS* - Analyst

In terms of the next 12 months where they've still got the old Homebase ranges, customer uncertainty, you can try your hardest to maximize on that disruption, let's call it.

Veronique Laury - *Kingfisher plc* - CEO

Yes, of course. I think we have a very strong plan in B&Q. As you know, we have a new CEO, a new team. I think you've looked at the numbers. I think B&Q is in good shape. We are evolving B&Q. We put the SAP platform in. So I think we are making B&Q a stronger business. And, of course, we will have -- as well as that kind of long-term strategy, we will be tactical about what will happen in the market during the next 12 months, that's for sure.

Tony Shiret - *Haitong Securities* - Analyst

Tony Shiret, Haitong. A couple of areas of question. First of all, on the unified offer, the GBP350 million over five years. When we looked at this last year, a year ago, it seemed that you'd be driving that through a sales-led approach. It now seems a bit more mixed between driving sales and retaining the gross margin gains you're getting.

So can you tell us roughly what proportion of the GBP350 million is going to come from retained margin rather than sales driven?

Second thing, on the stuff Steve was talking about earlier, about the 6% online. I presume that's a bit biased by Screwfix. So I just wondered where the -- where you saw B&Q and Castorama in five years' time?

And, as a part of that question, given all the research you've had done, where do you see the online percentage of the market in 10 years' time?

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

A bit of crystal ball there for Steve. And the first question, Karen, do you want to answer that one?

Karen Witts - *Kingfisher plc - CFO*

I think, in a way, what you said is right, Tony. This plan is about a combination of things because you actually have to do the things in combination.

I think we start, though, with the fact that the plan is all about the customer. And if the plan is all about the customer and we're improving the offer for the customer, unifying the offer and creating unique, leading ranges for the offer, then, of course, you would expect that to drive sales.

But we have been very clear about the fact that there is a lot to do to get there and that our plan for offer are more backend loaded. So in my presentation I said the costs will come through first and then we'll see the sales coming through.

And, in that same way, I would say that you wouldn't expect to see gross margin expansion until towards the end of the plan, but our plan assumes that there is gross margin expansion before the end of the five years.

Tony Shiret - *Haitong Securities - Analyst*

(inaudible) question.

Karen Witts - *Kingfisher plc - CFO*

But we're not saying how much we're investing back in offer versus dropping to the bottom line.

Veronique Laury - *Kingfisher plc - CEO*

I would like to add something on that point because I've been having some investor conversations about how much that plan is a growth plan and how much that plan is a cost-reduction plan. And I think, as you've seen, this is about changing the proposition for the customer in all; not only about the offer but about the store and about digital. Of course, we believe that will drive sales.

Having said that, if I would have come up to you with a plan, with a huge sales growth what you would have said, realistic, you never prove it. Look at your numbers over the last five years. So we came up with a plan. We know that we can create sales and we believe in it, as I said.

But I think what is sure is how much you can cost and how much you can buy better and we have evidence of it. And I think that's what we wanted to reflect in the numbers that we put in the plan.

Tony Shiret - *Haitong Securities - Analyst*

Online?

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

The complete mix. So if you go through at the moment, the numbers that we currently got are absolutely flattered by Screwfix. So Screwfix is well into double digits as a percentage. You've got Castorama, which is about one-half last year and I think we mentioned earlier on B&Q's 2%.

So if you take out the flattery of Screwfix, we're trying to get the Group somewhere -- it's different for each OpCo because we've gone through why what we believe that they would sell through that, but it's somewhere between about 3% and 6% is the sort of number that you're looking for, depending on what the OpCo is.

Veronique Laury - Kingfisher plc - CEO

And Home Depot is to add 6%.

Steve Willett - Kingfisher plc - Chief Digital and IT Officer

Yes, it's just short of 6%.

Veronique Laury - Kingfisher plc - CEO

5%, 6%, which is doable. We've been doing it.

Steve Willett - Kingfisher plc - Chief Digital and IT Officer

But to be honest, if I could guess what I think the Internet market was going to be in 10 years' time I think I'm doing the wrong job.

Tony Shiret - Haitong Securities - Analyst

But you did say that you've had an army of consultants and lots of market research (multiple speakers) --

Steve Willett - Kingfisher plc - Chief Digital and IT Officer

We have got lots of market research but we were looking at history there because we were basically looking at benchmarks for what was incremental sales, I think, was the previous question. So --

Tony Shiret - Haitong Securities - Analyst

But on a serious note, don't you think that's something you should have a view on?

Steve Willett - Kingfisher plc - Chief Digital and IT Officer

I think we've got a view but it's not a forecast we give out as any sort of financial metric. You have to take a view but you only got to look now, the retailers, particularly in the UK, and you guys know as much as me, if you look at click and collect in the total omnichannel mix, transactional mix, quite a lot of people are well into 20%, 30%. So you could see that growing certainly over 10 years.

Do I ever think it will 100%? No, I don't because, actually, the relativities are actually the people who are winning have got a mix between store base and digital.

James Grzanic - Jefferies - Analyst

James Grzanic, Jefferies. I had just a quick one, I guess, almost philosophical. Do you think a 5% improvement in terms is enough of a stretch for your suppliers, given what they're getting in return, particularly once we roll in the currency, the raw material, the freight cost improvements? How much of a soft base is that?

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

That one's for Arja.

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

Sorry, did I understand you right, if it's a --

James Grzanic - *Jefferies - Analyst*

Should we be pushing for more, presume what is the opening gambit when you negotiate with suppliers, presume --?

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

We have said 5% on an overall and this, of course, will be very different from a different range of categories. It's definitely [light term] but then we have suppliers that are gaining a lot on this that are becoming real winners on our strategy.

And then it really depends on different range categories what we can gain. Certain range categories are easier and really, basically, have money on the table that you just cash in. And other range categories will be much harder to gain, depending on how that cost looks like. If, for example, you have a lot of distribution cost on bulky items you would not gain as much on it.

So 5% is a reasonable and realistic target that we have put on as a cost-price reduction.

Karen Witts - *Kingfisher plc - CFO*

I think what we want to look for is a permanent change in our cost price structure. Commodities prices go up as well as down and I think at the Capital Markets Day, Arja, you gave an example where we were saying, actually, some of the early results of the tenders whereby, I think on LED light bulbs, there was some commodity pricing in there, but that can change a lot.

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

It can change a lot and there will be. But, of course, there is a lot to gain on coming with the Kingfisher volumes, without doubt. And we already see that. That's a no brainer. Coming with Kingfisher volumes is doing business in a completely different way than we have done before.

James Grzanic - *Jefferies - Analyst*

Can I just ask one additional one for Steve? I know it's very early days with Easier at B&Q, but can you perhaps compare and contrast what you're seeing there compared to Ireland? Are the KPIs you were telling us back in November largely applicable?

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

Well, to be fair, the B&Q rollout is just an -- almost basically it's an extension of Ireland. So we've been rolling out into more stores. Quite frankly, if somebody had offered me that I could be where I am today three years ago, I'd have definitely taken it because the rollout's going very well and what we're seeing is the effects in the stores in terms of helping them with productivity, etc., is starting to come through.



We've got a program to go and measure it efficiently going forwards, so we don't have those numbers at the moment. But what we're seeing is the store teams are finding that not only is Easier going in relatively easy, it's actually really helping them with their jobs. So there's quite a buzz out in the stores, actually, if you go and visit the ones that have rolled out.

James Grzanic - *Jefferies - Analyst*

Thank you.

Warwick Okines - *Deutsche Bank Research - Analyst*

Warwick Okines, Deutsche Bank. Just coming back on the exceptional charges for next year, just so I've not missed any; GBP50 million from the transformation, GBP45 million residual from B&Q, is that correct, from the GBP350 million original plan?

Karen Witts - *Kingfisher plc - CFO*

The GBP50 million that I was talking about on the slide is related to the transformation. So it's GBP50 million out of the GBP270 million. The GBP270 million will be over the next three years.

In terms of the B&Q restructuring, which is B&Q and a few European stores, we're at GBP305 million and we're confirming that GBP350 million is what we're likely to use up of that overall provision. It's just timing. We've booked the onerous lease provision but there's still some of the costs that we haven't booked through.

Warwick Okines - *Deutsche Bank Research - Analyst*

And then ex-China, there's no other exceptional charges expected across the Group?

Karen Witts - *Kingfisher plc - CFO*

We don't tend to expect exceptional charges. (laughter) There's not anything else that I'm aware of. Anything else that we felt was exceptional, we've talked about in terms of the transformation.

Warwick Okines - *Deutsche Bank Research - Analyst*

Fine. Thank you. And then just on Brexit, what plans – what planning, if anything, can you do for Brexit as a company with one foot on either side of the channel?

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

One for Vero.

Veronique Laury - *Kingfisher plc - CEO*

(inaudible) our official position on Brexit because we signed a letter with other businesses in completely agreement with our Board. I think we are a European business, so we want the UK to remain because our customers have benefited from that, from the product perspective, quality, pricing.

From what are the different options, we can't work on that because first, we don't know the answer and then we don't know what will happen if the UK is not in the EU any more. And, of course, it won't be in one day, so we will have time as we know what will happen to plan against those potential impacts.

Fraser Ramzan - *Nomura - Analyst*

Just a quick follow-up one. On business as usual, could you give a little bit of an indication about what operating cost growth might look like across the businesses on a like-for-like inflationary basis next year?

And, specifically, presuming that incentives are changing across the business, how is that flowing down to store staff and the bonus structures there, which I believe are different between the UK and France? And how should we think about that as we see business develop?

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

We'll do the inflation for Karen and then over to Emily for incentives?

Karen Witts - *Kingfisher plc - CFO*

I think what we try to do is what I alluded to, which is just in terms of general inflation, which would be wage inflation and any kind of property cost inflation. We will always try to have initiatives that would offset that. So for BAU I would assume that that's what we will try to do.

There is likely to be a little bit of bonus rebuild that goes into our cost base for the current year, but we're not flagging anything that is unusual that's in the BAU cost base. I think we've spoken about Screwfix Europe expansion which, if you like, looks like an increase in costs but we've put that into the other international. So I don't think there's anything else that you should be thinking about.

Fraser Ramzan - *Nomura - Analyst*

And the bonus rebuild is presumably France, thinking that the UK had quite a good year this year, so that's not --

Karen Witts - *Kingfisher plc - CFO*

It's not a significant number. I was just trying to think of things that are outside of just normal inflationary pressure. It's not a big number.

Fraser Ramzan - *Nomura - Analyst*

Right. So you think normal inflation can be offset and the cost growth will essentially be space and bonus, such as there is space.

Karen Witts - *Kingfisher plc - CFO*

That's pretty much what we've been doing, yes.

Emily Lawson - *Kingfisher plc - Chief People Officer*

On incentives, Fraser, over and above what Vero said at the beginning, what were you looking for in terms of more detail?

Fraser Ramzan - *Nomura - Analyst*

Well, I know that in some cases it's sales based and in some cases it's profit based at the store levels. And I just -- I'm wondering how that might change and if the quantum might change in any way that we should be anticipating in the year ahead.

Emily Lawson - *Kingfisher plc - Chief People Officer*

So for colleagues at the store level.

Fraser Ramzan - *Nomura - Analyst*

Yes.

Emily Lawson - *Kingfisher plc - Chief People Officer*

So at the moment we've focused on getting the incentives aligned to the long-term plan for the executive and the leadership team, so roughly the top 300.

What we're doing this year is to look at how do we extend that across Europe and make sure, first of all, we're paying people in an equitable way across Europe, because we hadn't previously looked to do that. We think that's a really important part for ONE Kingfisher.

And when you talk about the different bonuses, we currently do have different bonus structures in different countries, so people are rewarded for different kinds of interaction with customers. We want to look at how do we really embed ONE Kingfisher in that. Right now, I don't even have the baseline. So I want to make sure we do that work and I can come back and talk to you about it.

But the principle is focus on the long term, focus on doing the right thing for customers, focus on increasing share ownership so that all of our incentives are aligned together.

Assad Malic - *Citi - Analyst*

Assad Malic, Citi. Just a quick clarification question, Karen. Coming back to the year 2 transformation impact, that GBP70 million to GBP100 million net. So you told us there was a GBP20 million benefit in the year 1, which is mainly GNFR.

Should we model it on the basis that, actually, given, even though the unification penetration steps up, actually the benefit of that is more backend loaded and, therefore, actually, what you're getting in year 2 is a larger component of that GBP100 million from GNFR?

Karen Witts - *Kingfisher plc - CFO*

I think that would be a reasonable thing to do, yes. So by the time you get to year 2, you've got the annualization of the first wave and then starting to see some of the improvements coming from the second wave, because we said we'd do GNFR in three waves.

But you're right. That's what you'll see in the underlying by and large for the first couple of years.

Assad Malic - Citi - Analyst

Is there any reason -- I'm just trying to figure out is there anything stopping you from delivering that GNFR a lot quicker over, let's say, 2.5 years or three years versus the five-year program?

Karen Witts - Kingfisher plc - CFO

Well, we'll clearly do it as quickly as we can but GNFR covers an absolute multitude of categories and that's one of the reasons why we've split into three waves. So the first wave has got nine or 10 categories in it itself.

It's not just about getting lower costs per unit from our suppliers. And one of the reasons why it's in something called operational efficiency is we want to take this as an opportunity to actually standardize practices and streamline across the Group.

So we've got a three-step process that we need to go through to deliver the GNFR benefits.

So the first thing is analysis. So what is the cost category that we're looking at? What gets spent where? And how do they spend it? And then the second and third parts of the process can be concurrent. You've actually got to go out to tender to the suppliers but then you've got to implement.

And the example that we gave at the Capital Markets Day was around material handling equipment, so things like forklift trucks in stores. And we've got 11,000 bits of kit around the Group that fall into that category. And we, up until now, have had a materials handling equipment on different contracts with different suppliers, with different kinds of maintenance contracts, with different numbers of forklift trucks per square meter of store. So we're actually trying to take this as an opportunity to standardize and harmonize across the Group.

Assad Malic - Citi - Analyst

Okay. Thank you.

Sarah Levy - Kingfisher plc - Group Investor Relations Director

Okay. So that ends our final results presentation. Thank you very much.

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