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Full Year 2016 Kingfisher PLC Earnings Presentation

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PRESENTATION

Veronique Laury ***Kingfisher plc - CEO***

Good morning. Welcome, everyone.

Before starting this presentation, I just wanted to thank the 75,000 people that are working in Kingfisher, who are working in Kingfisher, for the incredibly hard and good work that they've done this year.

Wherever they are working in store, welcoming our customers, growing our online sales; wherever they are working in our head offices, in countries, they've worked on the milestones, achieving the milestones, and starting the transformation of the Company; or wherever they are working in the global functions, where lots of those functions are new, people have been moving roles, they've sometimes been moving location, and in that moving environment they've delivered the result that I'm going to present.

And I think those results are the achievements are not mine, they are not the Group Exec one; they are belonging to those 75,000 people, working together as one. And this is really important for me to say that.

You remember, last year we announced our plan. And the way we articulated it was business as usual, on one side, and transformation. What I want to say, and I said it last year, and it's still true, is that what we call our business as usual, which is what we call market plus expansion, is a solid, strong European business.

We are doing GBP11 billion sales. We are across Europe, operating across Europe. We have major operations in three of the biggest European markets: UK, France, and Poland. We have a strong financial position. And we have an engine for growth with Screwfix. That was true one year ago. It's still true today.

On top of that, we have our key growth driver with our transformation. And I'm going, of course, to cover it. And I think what I want to say you is that we are absolutely remaining confident in the long-term targets that we set up one year ago.

The other three things that I want to tell you, being a little bit boring, because I'm saying it every time, is, first, it is action, it's not work. And I think we've done really good progress this year in terms of action, delivery.

I think it is very different. It's a less purpose ambition. It's not about synergy. It's based on a completely different view and understanding of the customer. And it's worth doing it because it will create value for our shareholders, and our customers, and our employees.

Where we are one year in. This presentation is going to be split in two parts. We are going to talk about what we delivered last year, and what we are going to deliver this year, and beyond; how we are preparing.

In terms of this year, last year, I think, three messages for me. First, we are ahead of all key metrics for the Group. We've delivered 2% like-for-like sales; we've delivered plus 6% in terms of retail profit; we have a strong cash position, so I think we've delivered on everything.

Screwfix and Poland have been highly contributing to the delivery of both sales and profit.

We've managed to stabilize, broadly -- to be broadly flat in terms of profit in France, despite the same challenges, but I'm going to come back to that. And we had an early good delivery at GNFR.

As you know, our balance sheet is very strong. We have GBP3.5 billion of assets, which is of freehold property, which is very important. So this is for the key metrics.

In terms of we've delivered our milestones as well, which I think is very important. You will never say 100%, but we are almost there. I think everything we say we would do, we've done. And we've done a little bit more.

So now, I'm going to hand over to Karen to look at those numbers. And I will come back to dip into the milestones and year two.

Karen Witts ***Kingfisher plc - CFO***

Morning, everyone. And thank you for joining us today. I think Vero actually gave the financial highlights, but I'll take you through the financial highlights again for the year. And we'll start with the income statement.

There is more detail in today's release, but I'd like to pull out the key highlights in each of our major geographies; then, I'll move on to an update on the balance sheet and uses of cash.

So, starting with the income statement, as Vero's just said, Group results are ahead on all key metrics. On a constant currency basis, total Group sales grew by nearly 2% to GBP11.2 billion, with like-for-like sales up 2.3%.

Retail profit of GBP847 million grew by 6%, driven by UK and Poland like-for-like sales growth, and GBP30 million of goods not for resale benefits delivering earlier than planned.

By way of a reminder, all underlying metrics are before transformation costs.

Underlying profit before tax was GBP787 million, up 14.7%; in line with reported retail profit. This included GBP52 million of favorable currency impact.

Underlying earnings per share of 25.9p were up 17.7%.

Adjusted profit before tax was up 8.3% to GBP743 million, reflecting GBP44 million of transformation costs charged to the P&L.

Statutory profit before tax was up just over 48% to GBP759 million, reflecting an overall exceptional gain, whereas we bore an exceptional charge last year. And I'll cover this on the next slide.

I'd now like to move to this chart, which I've shown before, to explain the movement from underlying profit before tax through to statutory profit before tax in year one of our five-year plan.

Underlying profit of GBP787 million includes GBP30 million of early GNFR benefit, but it's before the GBP44 million of transformation costs. These transformation costs largely relate to implementation costs associated with our unified and unique offer work, and costs relating to improving our digital capability.

Adjusted profit is, therefore, GBP743 million, which is before exceptional items.

After an overall GBP16 million exceptional gain, statutory profit before tax was GBP759 million. The GBP16 million reflects GBP5 million of reorganization costs relating to our transformation, and a net GBP21 million exceptional gain, largely reflecting the B&Q store closure program.

We announced, in quarter 1 last year, that we'd outsourced the remaining work of delivering lease exits on the closed stores to a third party via a leased liability transaction. This arrangement is working well and, as a result, we're seeing some lower B&Q store exit costs than we'd originally planned.

And, as I highlighted at the half year, we decided to keep one B&Q store open, which had originally been planned for closure; and then, we had to deal with one unplanned forced closure.

The total store rationalization program was originally expected to give rise to an exceptional charge of GBP350 million. The GBP350 million includes a small number of closures of loss-making stores in Europe. Last year, two stores were closed: one in Russia, and one in Spain. And we'll update on a few further closures, in due course.

So far, over the last two years we've booked a net charge of GBP290 million. With 10 B&Q lease exits still to resolved, and these further European stores to close, we expect to finish the exercise comfortably within the GBP350 million, and I'll update on this in September.

So now, moving on to the key highlights in each of our major geographies, overall, like-for-like sales were up 2.3%, driven by the UK and Poland; and retail profits were up just over 6%, reflecting our sales growth and the GBP30 million of benefit from goods not for resale. At a Group level, gross margins were broadly flat.

In the UK and Ireland, we had a good year. Like-for-like sales were up nearly 6%, with 3.5% growth at B&Q, after 2.6% of sales transference from the store closures.

Digital sales grew 45% in the year and now represent just over 3% of sales.

Screwfix delivered like-for-like sales growth of 13.8%, driven by further strong performance from the specialist trade desks, strong digital growth, and new and extended ranges. We recently opened our 500th Screwfix outlet in the UK, in Enfield.

Retail profit in the UK and Ireland was up nearly 10%.

Cash gross margins were slightly ahead, although the gross margin rate was down by 80 basis points. This reflected continued mix effects from the strong growth at Screwfix; some clearance, related to the B&Q store closures; and higher fulfilment costs, driven by increased digital sales at B&Q.

In France, like-for-like sales were down 2.7%, with similar like-for-like decline in both businesses. This performance was weaker than the Banque de France home improvement sales data. And Vero will talk more about France later, in the context of our transformation plan.

But despite weaker sales, retail profit held broadly flat, reflecting higher gross margins, which benefited from less promotional activity, coupled with good cost control.

Our established other international businesses, covering Poland, Russia and Spain, delivered like-for-like sales growth of 4.9%, and retail profit growth of 9.7%. And this was driven by Poland.

Poland had a strong year with like-for-like sales up 7.5%, benefiting from new ranges and a supportive market, including the impact of new family benefits for all families with two children or more.

Gross margins were up 90 basis points, driven by strong trading and sales mix benefits into higher margin categories.

Retail profit grew by 15.8% to GBP144 million, reflecting the sales growth and higher gross margins.

And, finally, on to our newer development businesses in Romania, Portugal, and Screwfix Europe. Losses of GBP16 million were lower than guided, reflecting a breakeven result in Romania, following a loss of GBP9 million last year.

We opened a further 10 outlets in Screwfix Germany, taking the total to 19 by the year end. These are all in the Frankfurt area. And performance continues to be encouraging. And Vero and Steve will touch more on Screwfix, later.

Now, on to cash and returns. We generated GBP459 million of free cash flow, after investing GBP406 million in the business.

Our year-end net cash position, after around GBP80 million of favorable currency movement, was GBP641 million.

Our key returns metric, lease-adjusted ROCE, grew by 20 basis points, from 12.3% to 12.5% this year, reflecting our underlying profit performance and favorable foreign exchange movements, offset by transformation costs.

I'm pleased to report that the Board is proposing a final dividend of 7.15p. This results in a full-year dividend of 10.4p, a year-on-year increase of 3%, covered 2.3 times by adjusted earnings, and representing a dividend yield of 3%.

In addition to ordinary dividends, we returned GBP200 million to shareholders by a share buyback.

We said last year that we would return around GBP600 million over the first three years of our five-year plan. At the end of this first year, having returned GBP200 million, we're restarting our buyback today, announcing a further GBP50 million of the remaining GBP400 million.

And now, on to uses of cash. In the year, we generated GBP1 billion of operating cash flow. We invested GBP406 million of this back into the business, so after this capital expenditure the Group generated GBP459 million of free cash flow. And we'll come on to guidance for year two CapEx later in the presentation.

We also received net proceeds of GBP63 million from the sale of our residual 30% stake in B&Q China.

We returned almost all of our free cash flow to shareholders via ordinary dividend of GBP230million and GBP200 million of share buybacks.

After favorable currency impacts of around GBP80 million, at the yearend our net cash position was GBP641 million.

Our balance sheet remains strong. Our lease-adjusted net debt-to-EBITDAR ratio was 1.8 times, slightly lower than last year's 2 times. And at this level, the Group has financial flexibility, whilst retaining an efficient cost of capital.

I'll now pass over to Vero to talk about year one strategic milestones.

Veronique Laury ***Kingfisher plc - CEO***

We've seen the numbers with Karen. As I said, the second thing we've delivered this year is our key strategic milestones. So, you recognize all three pillars. I think I'm going to dig into the unified and the achievement of the 4%, and even more, in a minute.

I think on the offer and supply chain organization, we updated you largely at half year, so I'm not going to cover it; it's done. And you will have the opportunity to ask questions at the end, if you want to.

What are the other news that I would like to share in terms of delivery of the milestones? I think one very important is Easier. As you know, our rollout of the IT program, we are definitely on track. Every store in B&Q has been now rolled out.

When I prepared this presentation, it was six stores in Casto, it's now 14 stores. So we are progressing every week, and we are on track. All Castorama France will be delivered before the end of H1. And we are working on the other operating companies. So we are completely on track with this.

On the back of this year, and I think this is why we are doing it as well, we are developing what we call Brilliant Basics. If you remember what it is, it's our web capability, web digital capability.

Again, I think we've made massive progress. We've seen a big growth on online sales in the UK this year, because of more digital marketing. And we have now analytics to understand it, and we will be able to apply it in the other countries. This is one thing.

We are focusing on three major capabilities right now: search, new mobile platform, and one-page checkout. And that will bring us in really the top of the competition in terms of digital capabilities.

We are implementing those functionalities in Screwfix. They are -- or we are implementing them in Screwfix. We are now doing it in B&Q. And in France, we are going to implement those before the end of the year, on the back of this year.

In terms of the operational efficiency, Karen has covered it. I think we've done what we should have done in terms of closures. So we are in the plan, we've delivered the plan. I don't think there is much more to say about it.

And in terms of GNFR, the GNFR program, we are, as you know, ahead of what we planned, because our objective was to deliver GBP20 million savings and we did GBP30 million. So we've delivered earlier than planned.

I think the other thing I want to say, in addition of the delivery of the milestone, this year has been, for us, a year of learning; a year of mistakes, a year of learning. And we will see later on, with Steve, what we are doing with it; how we are taking into account those learnings in order to prepare ourselves for this year, and the years beyond, that are going to be massive in terms of transformation.

But the overall organization has learnt a lot, and I think that was really necessary as a first year of the plan.

So, where we are on unified range? I think this is something you are waiting for. As you know, I'm passionate about it, because I think it's so important in terms of the delivery of our plan. We said we would deliver 4%, and we have delivered 4% COGS. To deliver 4% COGS, we had to work on 8% of ranges. This is why you have this exit rate of 8%.

Where are we in terms of sales? If you take the sales, excluding clearance, it's a little bit ahead of last year. If you take the sales including clearance, it's down low single-digits. It includes mark-down; some cannibalization of selling the old range instead of the new range; it includes B&Q store closure, so less stores, and all the clearance associated to the B&Q store closures; and it includes some price investment.

We will come back to France, later. But, as an example, on the unified ranges last year we've already invested 3% in prices in France, on the 4%.

If you just exclude B&Q closures, we are broadly flat. You may ask me, am I satisfied with those figures? Actually, I am. I am, because what is important, we talk about unified, and we are going to talk later on about unique.

When you talk about unified, I think what is very important is that we are clearing our base. We've reduced the numbers of suppliers, we've reduced the number of SKUs, and we have now a clean base we are going to work on.

In addition of that, in terms of cost of change and CPR, we are completely in line with expectations.

So, overall, I'm pleased with the results of that initiative, of the 4%.

I think what is important as well is we prepared this last year, we've prepared for the 20%. And I think this is very important as well, because we have a big deal this year. And that was very important to prepare.

I think I said this is unified. I think, for me, the true engine for growth is really about unique, and this is what I want to talk about now.

Unique range, the last time we talked about unique range, you remember, it was at the Capital Markets Day. When we were preparing this meeting, I said it was two years ago, and they were telling me, no, Vero, it was one year ago. Actually, it seems like it was two years (laughter).

And you remember those cardboard mockup, really, I hope. You will see that this has become reality right now. We said we would start with bathroom and garden, this is what we did. We've done bathroom and garden.

I think what are the main thing is, first, it start as we say. You remember the seven action; the first one is we will think of customer needs first. And I think this is what we did. We built knowledge about the customer life in both bathroom and garden.

We visited 1,000 bathrooms across Europe, and we visited 200 gardens across Europe. We built that knowledge. As an example, in bathroom, I won't say too much, we know exactly what people are storing in their bathrooms: 12 towels, 15 varnish bottle, 10 shampoo, 13 shower, so we know all of that. We've really built a strong understanding about how people are living.

We have designed our own product, and I will come back on that. I feel it's even more than product, it's concept. We own our IP. We know all the specifications. We control the quality. So we build from customer needs to really delivery of product.

And those mockups that you've seen one year ago are actually now exist. They are exist. They are in stores. We've starting to implement in France first, in Castorama and Brico. This will be finished in Casto France by the beginning of April. This will be implemented in Poland from April to June. This will be implemented in B&Q. We have more stores from April to December. It will be in April in Romania, in March in Spain. So, all of that is now hitting the floors of our stores.

It's not only about products, it's about designing concepts, you will see. The idea of all those core programs is that they are going to be long-lasting core programs. That means that if you buy a furniture this year in B&Q, or wherever you are, and if you want to add few stuff in three or four years from now you will be able to do it.

The product will probably improve a little bit, but this is core program that are going to become the signature for Kingfisher. This is what we've developed. And this will be the same in gardens.

In addition of delivering the product to the store, we work on merchandising solutions, as in you have different options. Sometimes we will be implementing in the existing merchandising; sometimes we do what we call partial re-vamp, which means that, in the case of bathroom, we re-lay all the furniture and the shower, because these are the two main core programs that we are launching this year; and sometimes we do what we call full re-vamp, which means that we re-set the whole bathroom in a store.

We will be doing 105 full re-vamps across Europe this year; and 25 have been completed in Castorama France already, as we speak.

In addition of those merchandising solutions that we bring to the store we are, as well, working on training our people in-store so they understand the product, they know why it is a good product for the customer. And we are working on customer communication in-store.

Is it all perfect? Of course not. This is the first year we are doing that, and we will improve over time. But what I mean is that we address it as one. It's not only about designing and delivering the product.

But instead of me talking to the products, let's watch a video.

(video playing)

Of course, that will be highly affordable, because, as you know, this is our ambition, to make home improvements accessible to everyone. And, of course, we are going to price it accordingly.

As an example, in France -- and I'm not talking about the UK, because it's not there yet, so I'm not revealing what will be our price point in the UK yet. In France, where it is implemented, the kind of 60-centimeter wall mounting with the basin will be EUR179, when IKEA is at EUR189, and Leroy Merlin is at EUR199. So, the whole rang will be highly affordable.

So, this was bathrooms.

Let's talk a little about gardens. The weather is not like you want to go into your garden, but you will very soon. And let me talk through two, again, core programs that we are developing.

One is the shed. It has been designed by two Danish designers. It is, again, a program, so you'll have different size. The bigger size, one of the big things about sheds is how difficult it is to install, the bigger size you can do it in three hours, which is -- for those who have put together a shed, you know that it is a performance.

One of the little things, and there are many, is the height of the doors. Again, if you have a shed, you know that if you are tall you can't enter it without doing this. This one is 1 meter and 85 centimeters, so loads of things.

That product is going to be a long-lasting product. Next year, we are going to develop storage solutions, shelf to storage, within it. So, we are starting to build that.

Another one is the fence that you see here. This is not a completely new product. It has been developed on the basis -- on a product that was existing in France. And that was highly successful, but not democratic at all.

So you will have different components: you have aluminum, you have wood, you have composite, you have glass, you have those kind of decorative panels. And you can assemble all of that.

One of the things we learnt from our deep customer insight, as an example, in most people who have a garden, they don't have any way to go on the site. When they have to do things in your garden they have to go through the house. And when you are doing fencing, I promise you that going through your house with those big fencing is not easy. This one is completely disassembable, and you can put it in your car and easily go through your home with those parts.

So, this is the kind of things that we do. This is how we are going to bring some new stuff to people in every of our markets.

Another example is the outdoor furniture. We learnt that most of the gardens are smaller than 100 square meters, and so that has been completely designed.

One of the small examples, and you may say, really, it doesn't exist, but, I promise, you it doesn't, we have a series of products. The table, we have different sizes. They are the same height, which means that if you want to put them together and you want to extend you will be able to do it.

It's little things. But I promise you, when you buy furniture and then you want to make it bigger, you can't. Again, that will be a long-lasting product.

We have space efficiency. You have this bench with a box underneath. And the box, of course, provides a storage solution, but it can be a bench as well; it can be a table.

So it's those kinds of things that are being designed, based on the customer needs. They have been tested from Scotland to Marseilles, which means snow, because my son is in Scotland right now and Karen was telling me it's snowing, to Marseilles with the sun. So we are doing all the quality development.

But, again, and I think what is important as well, is which is new ways of working. And this is just the beginning. One photo shoot for the whole Group, when before we were doing nine, as many as we have operating companies. We did them in Lisbon. And we will have one TV ad, advertising that is going to be launched in the UK tomorrow.

(video playing)

So, this is what we've done last year: Group results ahead of key metrics, financial position remains strong, as Karen said, and we've delivered on our strategic milestones.

What are we going to do this year? We've seen that already; it doesn't change. I think we have a very clear road map. You know it. Of course, in each lane, we are changing things as we go. As you can imagine, it's not all completely planned week by week.

But I think, from a bigger perspective, we are on track, and we don't change our plan. It's clear, and it's ambition. And this is how we drive people within the Company.

As I said, it's a marathon, it's not a sprint. As you see, we are where the dotted lines here, right now. We are fast lane and slow lane. As an example, GNFR was one of the slow lanes, because we needed to deliver, and we have things that are going to take more time.

And we are organized, as you know, with the three strategic pillars that are the three strategic pillars of our transformation; and, of course, alongside retail operations, which, for a company where 70,000 people are working in store, makes perfect sense, as you know.

What are the couple of things that I want to highlight? The Cut the Tail program is now over. It was not a big number; if you remember, it was GBP80 million. But we've cleared it completely. And this is part of the number that Karen has talked about.

What we are doing now is we are, of course, building a different organization, because listing and the listing product will be owned by OSC. And it's happening already right now. So we put in place the processes not to replicate that and to manage it differently, as well as new Group provision policy, to align every operating company with it.

The other thing that I would like to talk about, which we are not talking very often, because we keep it for ourselves, which is what we call the customer journey; it's what we call internally the home improvement platform.

As you know, I'm very excited about our unique product. I'm as excited with what we do in digital.

When I'm going to the digital hub, we have now 260 people there. They are located in a different place. We are moving them, because it's too small already. I'm so excited. The average age of people working in the digital hub is 28 years old. We have 25 nationalities. And I promise you, when I'm going there with Steve, I'm just so excited about all the good work that they do.

If you want to see how it looks like, you go on the app store right now and you download the B&Q garden app. This is the kind of thing we are working on. And there is much more to come. And this is going to change the profile of our Company, as well.

On operational efficiency, you have seen that plan that we have what we call further operational efficiency. I will touch later on, on it. We've always said that we're starting with GNFR, because it was easy, and it was not impacting really the store, but we know that we have more to do.

And in terms of retail operations, I think, remember, we haven't been talking too much about it, but we launched the four big-box best practice last year. We've done them. We've opened a store in the UK, Cribbs, as you know; we've opened in Poland; France; and Russia. And those stores are delivering against our expectations. And they are a really good learning platform for us, as we are going to talk and to work on the store of the future.

So, this is our full list, if I may say it. This is not the milestone; we will see later on the milestone that you want us to judge on, and that will be bonus-able internally. But this is the full list of what we have to do this year.

We have to deliver 20% COGS. We are well set up for it. And we have to prepare for year three. Because year three is another very big year, with very big categories coming in, and if we want to deliver it properly we have to start this year.

Digital, I talked about it; I think we are delivering the year two of our plan. And we are continuing to work on Brilliant Basics, on the back of Easier, and developing this home improvement journey that I was talking about earlier.

GNFR, not much to say.

In terms of operational efficiency, this is what I was talking about; it is about we know that we have to redesign our ways of working in our organization to be a truly low-cost operational company, and to be the best place to work.

And this is the work we are starting now. We've already designed the high-level principle. We are going to work together as an Exec on it, and I will, of course, update you in due course when we will have more to say. But this is something we are working on.

In terms of the store of the future, on the base of the four big-box best practice that we did, we know that we have to evolve the way we are interacting in store with our customers. It is going to be led by Jean-Paul Constant, who joined us from Decathlon a few months ago. But, of course, the whole Exec team is really highly involved in it, because in the new world it's completely connected with the offer and the digital, as you may imagine. So this is something we work on.

And the other thing, from a retail operation point of view, is that we now have worked and decided that we can put 700 Screwfix within the UK, and we are going to open 50 more this year.

But we've raised -- you may ask is it not going to create cannibalization? It's not. We have a very serious tool to monitor that. But I think, as we have tested some more urban locations, we think we have much more space for stores in dense urban areas, and, of course, some smaller towns, where we can continue to open more Screwfix.

In terms of Germany, we've opened what we were due to open this year. We are consolidating that. And we are going to open more stores on the back of this year. Because what I didn't say on the rollout platform is that it includes Screwfix, which was not part of the plan in the beginning. Because we want Screwfix, even though Screwfix is leading from a digital perspective, as we are evolving in Easier and Brilliant Basics they won't be leading in Screwfix, wouldn't be involved in the program.

So we are going to develop Germany, but we are going to develop it on the back of having implemented Easier. It will help for the international development of Screwfix.

I said that we learn a lot this year. What we've done what with those learnings, I'm going now to pass on to Steve, that will take you through the challenge and how we address it. Thank you, Steve.

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

Thanks, Vero. Now, before we talk a bit more about the future, I think it's worthwhile just going back and talking a bit about what we've learned from last year, and how we're applying that going forward.

I think it's probably worthwhile we would characterize 2016 as laying the foundations. We've actually put down new ways of working; we've tested new ways of working. And, actually, our focus has been on putting in capability that we're going to use in the future.

If we just talk about some of our key learnings, on unique and unified, particularly on implementation, probably, the first would be clearance, with the scale of clearance that we're planning; and particularly, the balance between how do you provide the right customer availability and how do you minimize the financial impact of making the change.

One of the other key learnings in there is really on managing the end-to-end process of re-merchandizing, from the displays in the store to actually the physical change that we're putting through the shelf. And I'll talk a bit more about that in a minute.

On digital, I think Vero's already said it: we've basically completely up-weighted our capacity and our scale in digital. We've embraced completely new ways of working and agile methodologies from learnings that we took from Silicon Valley, and we're now starting to apply some of those learnings to other issues and other ways of working in the business.

And if you want a slight taster of what's, but it's only a slight taster, coming then have a look at the B&Q garden app, which is basically our tester bed for sort of three different types of technologies that we will be using, going forward.

On organizational change, we've identified the need to basically bring together organizational change and turn it into phases. And each one of those phases effectively being detailed organizational design, new ways of working, and then the systems and tools that you need to efficiently run that. And I'll talk a bit more about that in detail, as well.

Firstly, if we talk about unique and unified and the learnings that we've had, basically, 2016, as we've said, was about putting in base capability, testing that capability, and actually saying could we actually expand that, going forward? And what we did in 2016 is, effectively, we replaced roughly 3% of our linear footage with new products.

But, actually, 2016 was not about the 3%; it was actually about ensuring that we have the right capabilities in place to be able to deliver the change for this year, which is roughly we're going to change 25% of the linear and put in new product.

To achieve that, there's been an enormous amount of work across the business: the offer and supply chain organizations been put in by Arja and her team. And we've actually put in a cross-functional team for implementation to be able to bring together the key aspects of implementation and get visibility and priority on what's going on.

If we just talk, in a bit more detail, about clearance, and I think I've already said, clearance, the key issue for us is how do you manage maximizing customer availability while letting the product run down and minimizing the financial impact?

So one of the keys that we've had to try and work on is with the various operating companies across the Group, and where we currently are, we actually have got to get best practice in across the Group. And what we need to make sure is that people are working to a consistent framework. To do that, we've created this thing we call the clearance playbook.

In the clearance playbook, effectively, we've categorized all of our products into four areas. The first being seasonal fixed buy, so these are products, effectively, which have a season, and they don't sell any other time of the year; garden furniture's a good example.

Seasonal range, for us, would be something where there's actually a definitive peak but it sells for most of the year; radiators being a reasonable example.

The other areas being core price elastics, which tends to be higher-priced product, tends to have a higher branded mix, but it's product that reacts very well to customer discount. And core price inelastic, effectively, is areas which tend to be high SKU count, and then, actually, they don't react very well to customer discount.

For each of those areas, what we've done is we've pulled together Group best practice. And that's in three areas, which is the first area being what we would call stock run-down methodologies: how will we manage the stock down, what SKUs are we going to keep to the end, what are we going to let run down?

And within that area, we're also pulling together what are the appropriate discount percentages that help that stock move through, from an elasticity point of view.

And then, we're working on, actually, what's the operational practice that goes with that in the stores. So, as we're actually letting that run down, what does that mean we need to do in the store, from an operational point of view: over-facings, putting point of sale in, what product are we replacing?

What we've pulled together, effectively, the operational best practice. And with that operational best practice, what you've then got is a set of financial assumptions that we know we need to put in our plans, going forward.

What we've then got to do is apply that, though, across the Group. And because we are in a different place in some countries at the moment, what we've got to be able to do is get that framework and put it into the OpCo. So we've given them that framework, and what they've done in each of the operating companies is applied that to their categories in their countries, and we're giving them the freedom to operate in that framework to make local decisions.

The other big challenge, I think, I just said, was, effectively, what do we mean by the end-to-end merchandising, and the challenge on end-to-end merchandising?

Well, firstly, if we just talk about displays, as part of the strategy, we have said that, actually, we're going to take customer insight and we're going to use that customer insight to basically display the product to the customer in the best way. What we've also said is, actually, we're going to apply that best practice across the Group, and we'll apply it in every store.

One of the key learnings from 2016 is, actually, how do we practically do that at the moment? Because it's actually very complicated, because what we've got is a disparate estate with different racking and different display types.

What we've been learning is how can you take that principle and then apply it to all the operating companies and get a result that you need for the customer. As an example, the top two pictures on here are screwdrivers. The display principles are the same, but, effectively, one of them is in Brico with shelf-ready packaging; the other one is actually in Castorama with peg.

As we go forward, and as Vero spoke about it, and we get more consistency across the estate, everything will be the same. But at the moment, you don't want to be taking the cost of changing everything at this particular point in time.

The other big area is just the physical store implementation. Changing 25% of linear is a lot of space. And what we've had to move away from is this isn't business as usual. So we've had to come up with new organizations for the stores, and new resourcing models, to say how do we effectively manage that without taking away for customer service in the stores?

A good example of that would be B&Q. And B&Q have implemented a, I don't know if everybody knows, Home Depot operate, something called merchandise execution teams, which, effectively, take the stock merchandising task away from the store teams. We've implemented not quite the same, but something similar in B&Q.

And, effectively, those dedicated teams are doing the merchandising, and they're much more efficient at that task because they do it consistently; but also, they're taking that task away from the store teams so the store teams can focus on customer service.

What we've been very careful of in doing this is also that what we need to do is we need experience. So we've been resourcing that from experienced people within them and then backfilling into the stores with other roles.

And then lastly, what we've had to take account of as well is there's some spikes in things which occur in the head offices. For an example, if you're changing 25% of linear you've got to change an enormous amount of point of sale. So there are other things and other issues that we've had to resource to be able to manage to be able to change that linear footage.

Lastly, but not least, this is probably the most complicated slide, what we've also been doing is we've been refining the way that we've been managing change across the Group.

Until now, effectively, we've been running individual projects across the Group; and the truth is, that's been very successful, so we've been delivering what we needed to be delivered.

The issue that we're now facing, though, is effectively as we increase the pace of change and the scale of change across the Group the number of individual projects we have to be able to manage the interdependencies and the criticalities between them. So that what we've been doing is we've been basically saying what we need to do is package that change into phases and be able to deliver it in a very managed way.

Just to give you a very simple idea of an interdependency, a simple one, probably, would be vendor change. As part of the Easier program, we are going and changing EDI messaging to suppliers. As part of some of the work we're doing on offer and supply chain, we're changing some of the order methodologies and EDI methodologies.

Simplistically, it would be far better and more efficient for us and the suppliers to do that once, and do it at the same time, so what we're effectively doing is bringing together packages of change that we can deliver.

We've called these phases change releases. And simplistically, what we're trying to do in a change release is bring together a level of organizational capability that we need to be able to deliver the Group's objectives at that point in time.

Within that change release it, effectively, consists of three things. One is detailed organization design; the other one is detailed new ways of working and processes; and then, the systems and tools that you need to be able to deliver that. The key thing being that it's designed, end to end, to work harmoniously across the piece.

What we're also doing as part of that is then, basically, we're putting together the right change management and communications that says when we implement that it will be as smooth as it can possibly be. That's how we're managing change on the business, going forward.

I'd like now to pass back to Vero to talk about France.

Veronique Laury ***Kingfisher plc - CEO***

We've been talking about the challenges from a transformation perspective. I must say, as well, that Steve is leading that transformation work for us, in the Exec. I've asked him to take that onboard a few weeks ago, and this is why he presented it.

We have another challenge that I'm sure you've noticed, which is about France. The first thing I first want to say is that France, like any other operating company, is going to benefit from our ONE Kingfisher plan. This is why we did that plan, because we knew that in all the locations we will benefit from it.

I think it will almost provide a kind of case study about how our plan is going to re-energize our top-line growth. This is what I would like to share.

But where are we right now? I think, first, we should remind that we have a strong position in France. As an example, in the top 20 cities, in half of them we are leading. We have maintained profitability, even despite such challenges. We have a good return, very good return, on capital employed. We are at 15%, so it's good.

And we have a very well invested store estate. We don't have stores that are old. More than 100 stores across Casto and Brico have benefited in the last five years of whether they are new stores, re-vamps, relocation. So the store estate is in a very good shape.

But I think we've addressed the fact that over last year we've underperformed the market, in a difficult context, because I think the context is not easy in France, and I'm sure I will have questions about the Election later on. But we've underperformed the market, and we address that.

There are three main reasons for that. And you know what, and you may -- you will be with me to say that I know what I'm talking about when I'm talking about France. There are three main reasons. They are not new news at all. One is pricing. We've been talking about that for quite a while.

The other one is about digital. We knew that we were late. And I think what is very important is that even though the market in France, from a digital perspective, is lower than what it is in the UK, because UK is leading, even compared to the US, the digital market in France is growing very, very fast, wherever it's competition, normal competition, like us, talking about Leroy Merlin, or they are new to a player that are emerging, including in the home improvement sector.

If you want to Google it, you have ManoMano, which is a new home improvement website that has been created a few months ago in France. So the market is moving, very, very well.

Then, we have some proposition issue. But let's talk about what are we doing about it. I think no short term, quick-fix decision. I've been doing that in the past and it never works. It never works. Our plan is addressing those issues, and we are not doing some tactical quick fix.

What are we doing? Pricing, I told you, unified, last year we've already invested 3%. In the new pricing that we are doing on the 20% that we are going to implement this year we are going to make home improvement more accessible for the French people, and we are going to be competitive against our competition.

Second thing, proposition, as I told you early on, on bathrooms, as an example, we've are already completely re-laid the proposition in 25 stores in France, as we speak. Again, as we are going to implement the new ranges we are going to change the proposition of some stores and to upgrade it. By the end of next year, it would be 50% of the stores that will have changed with the unified and the unique offer.

In terms of digital, this is why I've been talking about Casto, we are rolling it out as quick as we can. I think, on the back of Easier, we are going to implement all the new Brilliant Basics stuff that I've been talking: new search, new mobile platform, one-page checkout, which is going to put us in the really leading edge in terms of digital in France. That will be completed before the end of the year.

So, we are on it. We know what are the issues; our ONE Kingfisher plan are completely addressing those issues. And we are not changing our plan. I think what we are doing is we are implementing those plans as quick as possible in France, which is definitely the right thing.

There is no quick fix. Don't expect France to turnaround in two months from now. This has been the situation for quite a while. I think what has changed this year is that the market has become tougher and, in those case, new issue are becoming even bigger.

The decision was taken with Jean-Paul, when he arrives, is, as well, to appoint one CEO for France, globally. So Marc Tenart is now, as we speak, running both Castorama and Brico Depot, because both are big-box format, from very big box to medium box. But we address it.

On pricing, I may have, precise, that on the new ranges we will have the same prices in both Brico and Casto.

This is the year two strategic milestone, the thing that you are going to look at to evaluate us, if I may say like that. And I think this is what we are going to report against to show you the progress that we are doing.

The 24% (sic - see slide 29, "20%") unified COGS, this is no changing at all. This is what was in the plan before.

The digital, I think we are doing year two. We will precise more about what does that mean from a country perspective. But I think we are rolling out our second year of our digital Easier implementation platform, as well as implementing those new Brilliant Basics that I was talking about.

And from an operational efficiency, we are going to deliver GBP20 million more of GNFR, as we planned.

And now, I'm going to take over to Karen.

Karen Witts ***Kingfisher plc - CFO***

I'd now like to move on to this chart, which is very similar to the one I showed you earlier on year one, this time to cover year two guidance.

Starting with underlying profit, we're guiding to broadly flat gross margins at a Group level, as much as we delivered for year one. This assumes that the cost-price reduction benefits that we generate from moving to 20% unified cost of goods sold are offset by clearance costs. And, as Vero mentioned earlier, we also intend to use some of the benefits to reinvest in price, especially in France.

We do face foreign exchange headwinds, principally from sterling, which we will manage, as we have done previously.

We need to clear, ahead of implementing new unified ranges. These clearance costs are accounted for in our gross margin and are, therefore, reflected in underlying profit.

We expect to deliver a further GBP20 million of goods not for resale operational efficiency benefits in year two. That's reflecting the early delivery in year one.

Cumulatively, by the end of year two we expect to have delivered GBP50 million of efficiency benefits from this program.

We think of our P&L and exceptional transformation costs together as they both sit below underlying profit, and they both form part of our GBP800 million total transformation cost guidance.

For year two, we're guiding that our P&L transformation costs will be up to GBP150 million, reflecting the year-on-year step up in the rollout of our unified offer from 4% to 20%.

These costs relate to the remerchandising and implementation of new ranges, and largely cover incremental in-store labor costs and point-of-sale change. And they also include costs associated with our digital activity, covering both our Brilliant Basics program and further work on customer journeys.

And finally, we're guiding that our transformation exceptional costs will be up to GBP30 million, driven by reorganization costs.

Let's now turn to guidance on our total year two CapEx, including transformation CapEx. The inner circle represents the GBP406 million that we spent in year one, and the outer circle represents GBP450 million of guidance for year two; both are broken down by category, as you can see on the slide.

In year one, we spend 44% on refreshing and maintaining existing stores, including the purchase of the freehold of our top turnover B&Q store. One-quarter of the investment was on IT, as we rolled out our unified platform in B&Q and got under way in Castorama France.

We invested 14% on new stores and relocations, including 70 Screwfix outlets across the UK and Germany.

We spent 11% on areas such as supply chain capacity.

And finally, we invested our remaining 7% on our transformation. And this is largely digital investment.

Our original guidance for year one, this time last year, was GBP450 million, and the lower outturn of GBP406 million was driven by timing on new store spend.

Now, moving to the outer circle, and our guidance on CapEx for year two, the shape is mostly similar to year one, except that the portion relating to our transformation will be higher, reflecting the step up in activity. As highlighted on the previous slide, this is driven, firstly, by the step up in the roll out of our unique and unified offer. But we'll be investing in store equipment and IT infrastructure, and also higher digital spend, as work on our customer journey gathers pace.

On the flip side, there will be relatively less spent on core IT, following the implementation in year one in our two biggest businesses.

Our roll out is now substantially complete in B&Q; and, as Vero said, well under way in Castorama France.

If we combine these updates, we can look at how we expect to track versus our total transformation costs in the five-year plan. In year one, we spent GBP77 million; and we've just guided to year two total of GBP270 million.

We are updating the shape between P&L transformation cost and exceptional transformation cost. As I said earlier, we think of these together as they both sit below underlying profit, and they both form part of our GBP800 million total transformation cost guidance.

As we refine our views during this transition phase, and firm up on our organizational design, we've made some reclassifications between the two categories.

CapEx, however, remains broadly the same, as originally guided. We're reaffirming our total guidance of GBP800 million total transformation cost for full-year 2020/2021. There's no change to that.

We're also updating on phasing. Our transformation P&L costs and CapEx remain as originally guided, to be incurred over the first three years of the plan. Our transformation exceptional cost are now expected to be incurred over four years, rather than three years.

This doesn't change our five-year transformation benefits guidance. We expect to deliver the GBP500 million EBIT uplift by 2021, as originally planned, and return GBP600 million of capital by the end of 2018/2019.

We continue to track costs, and we'll update you as we go.

We'll provide this breakdown going forward, so that you can easily track our progress.

So, just to summarize what we've covered in year two and beyond, we are well set up for year two. We have learned a lot, and are aware of the challenges that we face.

And finally, we're reaffirming our five-year financial targets; and we remain confident in our ability to deliver them.

So, I'll now hand back to Vero to wrap up.

Veronique Laury ***Kingfisher plc - CEO***

I think Karen talked about year two, and beyond, already. As a summary, we had a solid delivery. I think you have in front of you a slightly biased view, but pleased with what we've deliver this year. I think we've deliver what we said we would.

I think we are confident and very aware of the challenges. I think the outlook, we remain caution, but it's not in our hands. And, as I said already, let's focus on what we can do something about; and the rest, let's be aware, and let's look at it.

UK is uncertain. We have Brexit we have to deal with, but this is not something we can do something about. And, of course, we have the French Election. This is not the end of the world. This is -- you have always to deal with something, and this is it.

I think what we have set up is we have set up a type of macro indicator, whatever they are global or housing macro indicator that we are working on, and which is the best for us to follow how things around us are evolving, which is, of course, very important.

What I would like to say is I'm really glad with what achieved the 75,000 people in Kingfisher. I think it's really the result of two things: focus and strategic clear vision, and I think this is why we are delivering, and humility.

I think this is one of our values. This is not something we talk about, but we've redefined the value of the Company. This is part of the culture work that we are doing in the background. That is probably not thing you are most interested it, but I know that you know that it is important.

And we say humble is one of the value of Kingfisher. We remain humble, because when you are humble, first, you are looking about what is going outside, and you are curious about things. Second, you learn from your mistakes: you fail fast, and you learn fast. And you are not overestimated what you are able to do, and you are realistic about what you do. And this is what we are trying to do inside the Company.

I have another piece of news for you, which is that, after 11 years on the Board of Kingfisher, Daniel Bernard, our Chairman, has decided to retired. Of course, it is his decision, and I respect it.

I would like really to thank Daniel; and I did it, I can tell you, because we had conversation about what he did for Kingfisher. As you know, he appointed me, so I have probably a special thank you to give him. Some days, I'm not so sure, but, let's say, [in the narrow], I am thankful to him.

I think he has really helped us a lot, the team at Kingfisher, and the team in that transformation, with his constant open mindedness about what is going on and what -- how we need to change to face the new challenges, of his deep retail understanding and his passion for people. So I think he has been an extremely good Chairman to us, as we started that transformation.

I can definitely understand that he want, first, to retire. And then, I think we need as well, as you know, this plan is a long-term plan, to have a Chairman that will see the benefits and the delivery of this plan. And this is what we are doing, so Andy Cosslett will be appointed. Daniel will step down after the AGM in June.

Andy Cosslett would -- is going to be appointed. I'm sure you know him. He has worked in many very well-known companies: Unilever, Cadbury Schweppes, and, more recently, InterContinental Hotel Group. He has a deep expertise in transformation, which he will be with -- is going to be useful. He did a big transformation at InterContinental Hotel Group, being a CEO.

And I will, of course, take the time, and invest the time, to build the relationship with Andy, and to work alongside him as a Chairman, and to help him to understand the in-depth Kingfisher as a business.

I'm now going to hand over to Sarah, who is going to host the questions. Thank you very much.

QUESTIONS AND ANSWERS

Sarah Levy ***Kingfisher plc - Group IR Director***

Okay. So, please be humble and curious as well in your questions (laughter). (Operator Instructions).

Andy Hughes ***UBS - Analyst***

Andy Hughes, UBS. Just a couple of questions on the GBP500 million of ONE Kingfisher gains. Can you just clarify why the GBP350 million from unified hasn't been cut? Because you've just said today you're going to invest more of that in France in pricing, so presumably the GBP350 million isn't pricing.

Karen Witts ***Kingfisher plc - CFO***

If you think back to what we said at Capital Markets Day about how you should simplistically look at the GBP350 million, we said a unique and unified offer is working across roughly GBP7 billion of sales, and GBP350 million over GBP7 billion is about 5%. So we said we expect to get, net, and the net's important, Andy, 5% cost price reduction as we're working with our suppliers on this program.

But the net was that our gross cost price reduction will be higher than that; the net is after any price investment that we need to make. So this was already taken into consideration.

Andy Hughes ***UBS - Analyst***

So are you getting better than you thought in terms of your cost price reduction and reinvesting a bit more?

Karen Witts ***Kingfisher plc - CFO***

We're not saying how much we're reinvesting in price, and we're not saying exactly what we're getting in our cost price reduction. It's coming in, in line with our plans. Arja gave some examples, in September, around the kinds of cost price reductions that we were achieving, but we think that's commercially sensitive so.

Veronique Laury ***Kingfisher plc - CEO***

Yes, I think it's, because your question is around what I said about France, I don't think we need to invest more than what we were expecting. We knew that we had to invest and we -- so -- which means that it was embedded in the plan already. That was not new news to us.

Andy Hughes ***UBS - Analyst***

Okay. And just on the GBP50 million from digital, if you had to do a five-year run through on that could the GBP50 million -- could go negative, could it go into a loss before you end up at the GBP50 million? Because, obviously, the weight of IT spend could mean that it -- you end up paying below the line before you.

Karen Witts ***Kingfisher plc - CFO***

Well, we're really comfortable with the GBP50 million. But included in our transformation P&L costs, and in our transformation CapEx, are some costs that are associated with the set up of what we need to build, in fact, to deliver that digital capability.

Andy Hughes ***UBS - Analyst***

Whilst I'm on, I was going to ask about that, as well. The -- you have, obviously, transferred GBP90 million to GBP100 million between transformation and exceptional, is that the same bucket but you've just -- the auditors have perhaps suggested that you reclassify?

Karen Witts ***Kingfisher plc - CFO***

The auditors are here (laughter).

Andy Hughes ***UBS - Analyst***

Or is it different buckets?

Karen Witts ***Kingfisher plc - CFO***

No, most of it is the same cost. And it's the same plan, and it has just been recategorized; we just looked at the absolute definition of exceptional versus transformation. As I said, we look at it as one because it's underneath that underlying figure.

There is a small element of that, that does relate to some change in assumptions, which, actually, I think, is, overall, positive for us. And that is when we started on this plan we had to take a view, in terms of our overall people cost of change, did we have the right people in the right place with the right skill set?

And, actually, the first phase of reorganization was in support of the OSC structure, the OSC team. And Arja and her team did a really good job of that. And what that's meant, which you've seen in our exceptional item this year, is that, actually, we were able to retain most of the talent in the Group. So we actually had very few people leaving the business as a result of that part of the reorganization.

The exceptional costs, a bit of that went down because of that. On the other hand, we actually took a management decision to extend some of the transitional resource that I referred to in September. So, effectively, that's double-running of some of the teams that we've got while we're building the new systems and process.

So, it's risk mitigation. It's in -- accounted for in the transformation cost line. It will be out by the end of the plan, so it doesn't have any impact on our GBP500 million. So most of it is reclassification, and there's a little bit of it that's that change in assumption.

Andy Hughes ***UBS - Analyst***

There's no stock clearance in either of those buckets?

Karen Witts ***Kingfisher plc - CFO***

No, there isn't.

Andy Hughes ***UBS - Analyst***

Okay.

Richard Chamberlain ***RBC Capital Markets - Analyst***

Richard Chamberlain, RBC. I've actually got three questions, if that's all right. The first one is on France market share. Sounds like you've lost a little bit of share over the last year, but can you just give a little bit more color on is that across both brands? How are they doing --

Veronique Laury ***Kingfisher plc - CEO***

Is it, sorry?

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

Across both brands.

Richard Chamberlain ***RBC Capital Markets - Analyst***

Both brands. Are both brands losing share, do you think, within their respective segments at the market? The first one.

Second one is on the cash flow statement. I just wondered if you can say what the provisions -- I think you had a cash inflow from provisions during the year. How has that come about? And should we expect that to reverse out in the next year?

And then, any thoughts on the new B&Q, best of B&Q format, you just opened. I know it's only been open about 10 minutes, but any thoughts on that format, and the potential, how many you've signed up, going forward? Thanks.

Veronique Laury ***Kingfisher plc - CEO***

Okay, on the first one, first; and then, you take the second, and I take the third.

On France, it's across both brands, definitely. I think we lose a little bit of market share. I think you've seen the number. You know the Banque France data and you know our performance. So I think it's across both Casto and Brico. I think it's a general theme across France. We've been very open about it.

I think the reason why, I think I've described them. And none of that is new news to me. I think what has changed this year is that the overall context is more difficult. And I think it will be with me that when things are going fine everybody is doing well. When things are getting better, if you have issues, they are becoming even more fragmented, if I can say. So, this is it.

In terms of B&Q, I think we've done seven re-vamps this year. The first one was Cribbs. Cribbs has been open in June. I think we are very pleased with the result. And this is a very good base for us to work on, as we work on what is the next generation of stores for us.

The other re-vamps were really delivered in H2, so I think it's too early. What we've decided is we want to see more with other re-vamps before taking any decision.

And, as I said, we are working right now on how we are going to evolve our stores globally, not only in the UK. And we've appointed a former director, which is going to report into Jean-Paul, Catherine Poncin. She is the person who led the opening on the Antibes store in the south, which has delivered this year EUR77 million, and will deliver next year EUR82 million, which is the biggest store of the chain.

So we are working on it. But I think, again, we have a really good platform for learning. And this is why it was very important to do those four big-box stores last year.

Karen Witts ***Kingfisher plc - CFO***

And then, if I just go on to answer your question about the cash flows and the exceptionals, it's probably worth thinking about the P&L impact, as well as the cash flow impact, because then it helps, I think, to put the two things together.

You saw that, with regard to the original GBP350 million provision, we had a P&L credit of GBP21 million. And I said part of the reason for that credit was there was one store which we'd originally planned to close but we didn't close, so, obviously, we released the provision for that.

But more important, and more pertinent to the question that you've asked, is that the lease exits that we've managed to achieve over this last year have actually ended up costing us less than we had originally anticipated.

Now, it's not surprising that we have focused on the easier ones to exit first. And we've still got 10, which will be the more complicated ones. We've got 10 lease exits that need to be secured.

But that bit of the explanation on the P&L side then helps to explain, on the cash flow side, in our uses of cash diagram we've actually got a block of GBP73 million that relates to exceptionals and other, and that is really showing the cash flows related to those store closures.

So because we took everything below the line, if you like, the ongoing rentals, while we've not secured lease exits, are going through that line of the cash flow. As we've closed stores, to the extent that we've had any redundancy payments, that's gone through that line of the cash flow.

But also, where we have secured a lease exit it can actually result in a lumpy cash flow. So rather than paying the remainder of your lease over the next nine years, or whatever is still left to run, if we do a deal it might mean that we've got a lump of cash going out.

So that's why the two numbers look quite different: the plus GBP21 million on the P&L, and the minus GBP73 million on the cash flow.

Geoff Ruddell ***Morgan Stanley - Analyst***

Geoff Ruddell, Morgan Stanley. Could I ask three as well, please? The first one, just a quick clarification. The comments, Vero, you made about the performance of the unified ranges so far, were those in constant currency, or where they in actual currency?

The second one, about Screwfix Germany. As I understand it, you're saying that you're, effectively, going to pause for a while now. Can you just talk to me about how long before we should start seeing a re-expansion, going forwards, in Screwfix Germany?

And then finally, again, as I understood it, you talked, I think, Vero, about having the same prices in Brico as you have in Casto. Obviously, five years from now you're going to be selling the same ranges, I guess, as well, which leads to the question, really, of do you still need both brands going forwards? Or do you merge the two businesses, eventually?

Karen Witts ***Kingfisher plc - CFO***

We talked, in general terms, about what we were seeing on the sales performance of the unified range. We've only done 4%. And we said, if you exclude the cost of clearance, it was a little bit up, and if you include the cost of clearance a little bit down.

Frankly, I think, on the 4% it doesn't really matter if it was constant currency or not, it's not a very big number. We're talking about the 4%.

Geoff Ruddell ***Morgan Stanley - Analyst***

No, I understand that. The question is [inaudible] --

Karen Witts ***Kingfisher plc - CFO***

Yes.

Geoff Ruddell ***Morgan Stanley - Analyst***

But it would be, I guess, double-digit (inaudible).

Karen Witts ***Kingfisher plc - CFO***

It's at constant currency, basically.

Geoff Ruddell ***Morgan Stanley - Analyst***

Exactly.

Karen Witts ***Kingfisher plc - CFO***

Yes.

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

Yes, sorry, on the Screwfix Germany thing, there's probably two things at play; and, from a timing point of view, they probably come out about the same.

One of them is, from a prioritization point of view, we've been working through, and I think Vero mentioned it, we think if we start to open a bigger volume of Screwfix in Europe we need to open them on the new platform. So what we're focusing on is basically generating an international platform for Screwfix that gives us the opportunity then to do what we need to do in any country. So we're at where we need to be, going forward.

The other bit that we're doing, quite frankly, and I think I've said this multiple times, which is we're very pleased with how they're growing in Germany, but they're not where the need to be at the moment. We don't need to open any more. We've now got critical mass, so we're, quite frankly, all I'm doing every week is watch the graphs. So we're making sure that it tracks to a point where we want to be.

Both of those things probably come out that we're in a position to start reprioritizing that at about the beginning of 2018.

Veronique Laury ***Kingfisher plc - CEO***

I think, as I said, we are, as we implement the unified range, putting the same pricing in both Casto and Brico in France. As you said, we are going more and more to have the same ranges. I think the branding is not on an urgent level now; that will come later.

Boris Vilidnitsky ***Barclays - Analyst***

Thank you for the presentation. Boris Vilidnitsky, Barclays. A couple of questions from me, if I may: one on IT, and then the second one on France.

On IT, on the CapEx spending, I'm assuming you are either spending it on new infrastructure, new servers, and so on. Have you begun the migration to this new infrastructure? And are you planning to combine the databases and the CRM across either country or across the board?

And then, on France, do you guys think that, structurally, consumers would now prefer lower prices regardless of what the macro would be doing, going forward? Thank you.

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

Sorry, on IT, we're spending money, effectively, across every aspect of IT, which is infrastructure, software, and whatever.

On the new platform, it's worthwhile understanding we completely built a new platform. So when we talk about Easier, it's a complete new system stack that we are then rolling out across the piece.

At the moment, we're running both, so we're running the legacy systems and we're running the new platform. And as -- sorry, a lot of the new platforms run in the cloud, so as we're increasing capacity we're turning the dial up, sort of thing.

In terms of the way the new platform's built, it is built so that all the databases -- sorry, it's a Group instance of the platform. So, basically, B&Q and Castorama are in the same system, and all the Group will be in the same system, which basically gives us visibility across the Group; but also, visibility across the CRM, if we require it.

Veronique Laury ***Kingfisher plc - CEO***

Yes, I think this is our strategy. I think we want to make home improvements more affordable, and there is a space in France to have a home improvement company proposition that does that. And this is what we want to do. I think this is a place we want to take on the French market, definitely.

Karen Witts ***Kingfisher plc - CFO***

But I don't think it's just purely that the French consumer is looking for price. They're looking for a combination of affordability, of quality, and choice, and our plans are focused on the first.

Veronique Laury ***Kingfisher plc - CEO***

And, to be fair, I don't think it's different in France than anywhere else. I think our strategy, which is to make home improvements more affordable to as many people as we can, is the same across the borders. It is true here in the UK, it is true in France, and it is true everywhere else. It's low price, and quality, and design; this is what we do.

Simon Irwin ***Credit Suisse - Analyst***

Simon Irwin, Credit Suisse. Three questions for you. Firstly, can you just talk about which ranges you brought in to unified, and when? Obviously, historically, there has been a tendency of cherry picking the easy targets at the beginning, has that happened this time? And we're getting into the more grunty stuff next year, when I note, obviously, the volume of change doubles again.

Secondly, just in terms of France, the home improvement market looks a bit odd, in the sense a lot of the leading indicators look okay. French retail sales haven't been too bad. Somehow, DIY seems to have been uniquely soft, and I was wondering if you've got any thoughts as to why that was?

Thirdly, just in terms of the UK transition on cost at -- on collect at store, you have said, in the last couple of years, that the additional fulfilment cost has weighed on gross margins; as you move to one-hour collect at store this year, should that start to reverse?

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

In terms of the unified ranges, we have brought in, by the end of January, 14 different ranges. It includes the ones we talked about: light bulbs, sinks, batteries and torches, toilet seats, and more.

This year, we are bringing in 49 ranges; and this reflects the picture that Steve showed on the -- going from a rather smaller share, which involves a lot there, into the -- when it gets to become real this year. Of those 49 ranges this year, as an example, we are unifying 50% of the whole outdoor products.

Sarah Levy ***Kingfisher plc - Group IR Director***

Vero, do you want to talk about France?

Veronique Laury ***Kingfisher plc - CEO***

I think you're right, Simon. I think we see a disconnection between some of the housing indicators that we see and our performance. But not only our performance.

I think if you look at Saint Gobain, all the kind of people who are involving in the same housing environment, home improvement, but more broadly, then I think we see the same disconnection. Do we have an explanation about that? I think the only one that I see is because of the Election people are holding on.

So I think there are lots of permits that have been edited, but people -- there is a difference between having your permit and building, actually, your house.

And then, we knew that for -- from the past that we have already a lagging effect. Because when people are building new homes they do first the big construction, and then it's when all of that is done that they go for home improvement, which is buying their showers, or their furniture, or that kind of thing. And we knew that before: when you look at the housing market data and when it impacts us, you have timing in between. So I think this is probably the part of the answer.

But I think what I see as well is that when I look at the other -- at competition, I think we see the same disconnection right now. I think we are following those globally. I can't say more for now, I think.

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

Sorry, just the question on the B&Q fulfillment cost, I think there's two different things. In history, the amount that will unwind is very little, because the only bit that Click & Collect will affect will be the stuff that we're taking from the fulfillment centers and putting in the store for Click & Collect, which -- and that isn't the biggest growing piece. The biggest growing piece is actually the deliver to home.

Going forward, and this is a bit of a guess, not a guidance, which is my expectation is, it wouldn't grow in line with the digital sales, because we would expect more of the mix to switch to Click & Collect, which will have a better economic.

So I don't think you'll see anything unwind, but I think you'll see the effect, going forward, being smaller as a percentage.

Karen Witts ***Kingfisher plc - CFO***

(technical difficulty) was that when we've got Easier embedded in and we've got accuracy of stockpiles then that removes some of the inefficiency of working that we've got in there at the moment.

Anne Critchlow ***Societe Generale - Analyst***

Anne Critchlow, SG. Going back to the unified ranges and their performance last year, were you a bit disappointed by that, because it sounds as if it was pretty similar to the Group-wide sale? And then as you move in to do more unique products, would you expect for that performance by that product (technical difficulty)?

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

To be fair, I haven't been disappointed, all in all, on the performance. There are certainly a few ranges that some people have to fix, but, all in all, no, I haven't been disappointed. Because remember that this has been a very fast development.

We have put really good ranges on the market. And we can see that from the customer feedback, and being broadly flat on sales, it's a good thing, remembering that it's -- we have also got on track on this with steering the clearance mechanism. And that's a big learning curve for us.

It's definitely so that we are gearing up for this year, and when we're launching more of the unique ranges. And I can already now see, on the bathrooms that are launched in France, that our stores are wanting to have more than what's already in the plan. So I feel very confident that the sales will be better on the unique ranges.

Anne Critchlow ***Societe Generale - Analyst***

And (inaudible).

Veronique Laury ***Kingfisher plc - CEO***

(technical difficulty) is that -- no, but you know the reality is, the 4%, we've done that in a rush, in a completely rush. And I think this is why on some of the ranges, as I said, some of them were good, and some of them we made some mistakes, because -- and, again, I think what is really important is before June there were no organizations to do it. People have done it like that. The OSC organization has [better been doing].

So I think the work that they have done, and I will give you some concrete examples, they've negotiated for this year, the year that we are in, all the contracts from all over the Group, all the suppliers. They've taken it on board, and they've renegotiated everything, and all of that is done right now.

The amount of work that has gone into the OSC organization in six months, almost, has been enormous. And when you do so much work, of course, you make mistakes.

And I think with all that environment, people, as I said, moving jobs, changing reporting lines, changing location, the whole organization set up, having delivered what they have delivered, and those numbers that you are talking about, I'm absolutely fine with them.

Tony Shiret ***Haitong Securities - Analyst***

Tony Shiret, Haitong. I have a couple of questions. Going back to the French market, looking at Banque de France, it looks like the problems with the French market are a lot longer lasting than even the Election cycle. It looks like a literal reading would be the market's down 10% since 2008. I don't know if you think that's a fair characterization.

But I just wonder whether you have any longer-term analysis as to why the market hasn't grown in France, or gone down, or whatever it's done; and whether you, therefore, think that your only growth in France is, indeed, by taking market share going forward. That's one question.

Second, a much easier question, which will have a follow up, is have you -- in the B&Qs you've converted in the UK, you said you've done seven, is Enfield one of those, Enfield?

Veronique Laury ***Kingfisher plc - CEO***

Don't know. I don't think so.

Tony Shiret ***Haitong Securities - Analyst***

Okay, fine. There won't be a follow-up question (laughter). But, maybe, an answer to the first one would be good.

Veronique Laury ***Kingfisher plc - CEO***

Yes. I think on France, as I said, I think it's not new news. I think that the market has been broadly flat, or low single-digit decrease, whatever. I think, anyway, the market has been quite resistant, resilient across the piece.

I think, of course, our ambition is to take market share. But I think our ambition -- and this is not only true in France because I think, if you would have looked at the UK, probably, four years ago you would have said the same, that the home improvement market hasn't moved; and it has started to move again because the overall macro in the UK is much more favorable.

So I think France, and this is why the Election is so important, has been stuck in kind of negative territory for quite a while. This is not new news, as you say it.

I think our ambition is definitely to take market share to other (inaudible), as well to create markets by bringing -- by making home improvement more exciting for people. And, again, this is not only true in France; this is true everywhere.

We know, based on our deep market research and customer research, that there are lots of people who have projects that they are not transforming. They are not doing because it's too difficult; it's too expensive; they don't find what they need; their journey is, they call it, a nightmare. And this is why we work on digital as well; not being only there to sell stuff to people, but to be with them from the very beginning of their project to the very end of the project. I think by doing that we are going to create market everywhere, including in France.

James Grzinic ***Jefferies - Analyst***

James Grzinic, Jefferies. I had two for Veronique. The first one is, if you take a stand back, does the appointment of Steve being in charge of change the fact that there seems to be greater longevity to double running costs associated with change? Do they indicate complexity of implementation in the early stages of program that are perhaps bigger than you thought one year ago?

And the second one, I was just wondering if you could be more specific about the shortcomings on the offerings of both Brico and Casto, product offerings.

Veronique Laury ***Kingfisher plc - CEO***

The first one I (technical difficulty). In terms of complexity of change, I think we already knew that it would be difficult. I think I remember one year ago, remember the Capital Market Day, I think when we started the journey, we knew that it was a massive transformation. And I think being in the Group for more than 10 years I knew the Group well enough to know the size of the changes that we were creating, in a way.

We knew that there was a cultural change. We knew that there was organizational change. So, I don't think I have been surprised. I think I have been probably, on the other side, surprised on how much we've been able to deliver in that very changing environment, and without a lot of help from the outside, let's be honest.

I think what we highlighted with Steve, actually, is what is important to me is the ability of the organization to learn from. And I've been very blunt. I think we've made mistakes. I think there are things that we started. Steve was talking about concrete example, about suppliers, all of that we are learning. And I think what he presented about this release approach is really based on the learning.

I think we deliver well. I think we deliver what we wanted to deliver. At the same time, we learn on how deliver even more, because this year we have more to deliver, in a better way.

And I think what is important to me is that the organization is agile. Even if the plan is not changing, even if we are a very clear long-term strategic vision, the way we are executing it, we've been very agile at changing it. And I think this is what is very important to me.

So, no, I don't think I've been surprised. I think I've been kind of not surprised in the other way; that it's easier than what we were expecting it to be. But I think we are online with what we thought it will be.

I think in France, in terms of when I say proposition, it's about -- it's the NPS score that has been decreasing a little bit. And I think this is a combination of the environment changing, the competition environment changing. I said digital has grown a lot, so there are others. And we have a very strong competitor in France with Leroy Merlin as well that is evolving and is moving at pace. So I think it's a combination of both.

I think what I wanted to say with proposition is with what we do in the plan, and, again, this is true in France, but this is true everywhere, we are creating a new proposition for home improvements. And I think this is the solution. The solution is not to look at what the others are doing and try to quick fix and make us being the same as what they are.

I think we are opening and everywhere a new way, a new route to our customers. And I think this is what will address and change the perception, because I'm talking about customer perception. This is how the perception of the customer of our two operating companies, both Brico and Casto, will evolve as we implement the new offer.

But what I didn't mean by saying that is, as I said, we had already an offer and a store portfolio in France that is more than acceptable.

Sarah Levy ***Kingfisher plc - Group IR Director***

One very last question. There is a follow up from Tony.

Tony Shiret ***Haitong Securities - Analyst***

Bunnings and B&Q, sorry, I thought someone had asked this, do you anticipate -- what's your view of the way they're laid out? And do you anticipate any changes in your product layout to move with the opportunities or threats they offer in the market?

Veronique Laury ***Kingfisher plc - CEO***

I've been to the Bunnings store 10 days ago, or two weeks ago. I'm not going to comment on that store, but I'm spending more than two hours in it so I think I quite can tell you where each category is. Surprisingly, I haven't been asked by anyone what I wanted, which I thought was a little bit odd.

But, anyway, no, we are not changing our plan, definitely. We are not. And I think it's the same thing that with France. We are not acting to compete with Leroy Merlin. We are not going to actively change our plan to compete against Bunnings. I think our plan is going completely to address the customer needs in the UK, and I don't think we need to change it because Bunnings is there.

I think Bunnings is a good competition, a good competitor. I've always said that it's most stimulating to have good competition than not good competition. And I think their proposition is very different from what we are building right now as -- in our ONE Kingfisher plan. And I think this is right. This is what we want.

Sarah Levy ***Kingfisher plc - Group IR Director***

On that note, thanks very much.