**Kingfisher plc 2018-19 full year results Q&A transcript - 20 March 2019**

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**12 months ended 31 January 2019**

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**Speakers**:

Veronique Laury (VL), CEO

Andy Cosslett, (AC), Chairman

Karen Witts (KW), CFO

Maj Nazir (MN), IR Director

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**GL:** Hi there, Geoff Lowery at Redburn. Two questions please. Can you sort of compare and contrast Brico Depot and Castorama for us in terms of the way the new ranges have landed, how you've executed that, how you feel about their competitive positions now? It's just so striking to see such a big delta in top line between your two businesses.

And second one, a question for the Chairman. Given your comments about the Board being a hundred percent behind the existing strategy. What flexibility is there for the next CEO if he or she, were to come in and say actually we want to do things differently, we want to trade business differently, the equity market's not recognising the value of Screwfix therefore we need to change? What scope is there for evolution in strategy?

**VL:** I probably should answer the first one. So, I think that the starting points in Castorama and Brico Depot were very different. The offer was different. You had a starting point, the number of categories that were covering both businesses were not the same, the number of SKU was, as I just said, Brico Depot store is 11,000 SKU today, Castorama is more 50,000 SKU.

So, the way the new offer has landed was different. In Brico we have had coverage of customer needs and as well the price positioning of Brico Depot was good at the beginning. So, you had that flow of customers coming in because they knew what they were finding. And you know what, they continue to come in and they find more stuff. Better quality because Brico has been always very well regarded in terms of price but less well regarded in terms of quality.

So, you know what, we had this flow of customers coming in, price was there still, as they were before, very good, very strong, affordability for customers, and quality was improving and we were covering more needs.

So, this has created growth. On the Castorama side, that was different. With the unique and unified, in the first instance, we do with unique but we didn't with unified. We didn't cover more customer needs. We do with unique, Imandra is performing very well with Castorama, for example, the bathroom furniture because here you cover it. So, I think the landing of those things. And as well in Castorama even before we started we knew we had a problem and that we didn't have the right traffic. We were losing shares and it takes time for people to understand that first because the price index is the same, you move your price index but your price perception is moving afterwards.

People need to take the time to realise that the price has decreased. At the same time when you decrease the price, if you sell the same number of products, of a SKU, you have to sell more. So, you need time to cover this.

So, this is what is happening in Castorama France, and this is why first you need to do the work first before shouting to the customer. And we've only started to shout to the customer that price is good and product has improved right now. And I think that's why I shared this NPS improvement score with you, because I think that matters a lot. It doesn't trigger sales right at the beginning, but it means that customers start to realise that Castorama is changing and that's good news for the future.

**AC:** I mean, CEOs always want maximum flexibility and that's to be understood. But I think what the board is very clear on, and we've done a lot of work on this in the last few months for obvious reasons.

There is clearly no doubt under any review that the logic that underpins the strategy for Kingfisher is clear. And I think what we're seeing today, and what we'll continue to see as we roll through this year, is more evidence that buying as a group, working as a group in a coordinated and coherent way is the right thing for us to do.

And the competitive advantage that Kingfisher has is defined by its scale. If you don't use that scale, you give up your primary competitive advantage and you just become an also-ran. That's what underpins this, based on the insight of customers, they will tolerate and accept happily, better product at the right price across our geographies and what Vero said today demonstrates that.

The component parts of our business change, as you've seen. We've made exit announcements over the last few months where we don't feel we can build scale and contribute to the group in a winning way. That will always be under review, but for my money, the Chief Executive that comes in will come into a strategy that's clear.

We will clarify more parts of that strategy later in the year and we've already talked about it then because we have other things we would like to share with you which demonstrate this strategy in action.

So, the CEO will be moving in, whoever that is, and whenever they arrive, into a business that's starting to really start to move as we go through this year and accepting that. And understanding that and buying into it. I think will be an important part of what we're looking for. We're looking for a great executive who can follow Vero, buy into the vision and take the team through with it.

I'm sure there will be some changes around various elements of it. I'm sure there will be further reviews of different parts of the business, but the underlying logic that supports this strategy is very clear, I think it's highly compelling and it's one the board under significant examination recently has reinforced and confirmed.

**RC:** Thank you, morning. Richard Chamberlain, RBC. Can I ask a question about the store closures please?

What criteria are you using to determine which stores are closing? I think you said 15, of which nine are in France. And, maybe linked to that, Vero, maybe you could just elaborate on slide 33 where you say the strategy is to focus on markets where you have or can reach a market leading position.

So, I kind of get what you're doing in Russia, Spain and Screwfix Germany with the exits, but obviously now in France it looks like the market leader potentially has reached an unassailable market leading position. So where does that leave Castorama in terms of store footprint and optimal store footprint? Do you think that nine stores is really enough given Leroy Merlin is so far ahead now?

**KW:** So, I actually don't think that it's very complicated to answer that, but Richard these represent our view of what we would call the tail of the portfolio. Some of the stores are actually loss-making stores and they haven't been very well performing over recent years. Some of them are not loss making, but they're giving us low returns and we're actually taking advantage of some lease breaks. And we would rather not re-sign a lease on a very low returning store when we could actually refocus and put our money into something else that would give us a higher return.

**VL:** I think on France, because I think this is a challenge you're giving me, a bad marketing leading position in France, we are not thinking of France putting Castorama on one side and Brico Depot on one side. We are thinking about Kingfisher in France. And I think with Kingfisher in France, with 222 if I am right, stores that we have in France, we can definitely compete with Leroy Merlin.

That's true, they are the market leader, but I think we are going to compete with the new and unique offer. With the buying power that we have with the scale of Kingfisher, we can compete with them with the digital new platform that is the capability that we have in Screwfix we can definitely compete in this market. And you know this market is moving massively to digital as well. And you know we can take advantage of that.

So, you know, we are going to fight. And in terms of the stores…

**RC:** Do you think that you have the scale to compete with Leroy Merlin in France?

**VL:** Yes.

**RC:** Across the two formats?

**VL:** Yes. And this is why we have taken the decision when we were starting the journey to implement the same range across the two brands. That has been a conscious decision.

**KW:** We use our buying scale across the group and we're putting the same offer in everywhere, that's actually a different strategy from Leroy Merlin.

**ADAM COCHRANE:** Adam Cochrane, Citi. First question on clearance and gross margin guidance. Would you be able to discuss over the last few years how much in pound notes? You've given £25m to £30m for next year, how much was there in the last couple of years? And as I look forward two years, should I be able to add all of that back? Will that clearance reverse once you stop clearing, first of all?

And in terms of the gross margin, you talked about the logistics costs in France in the year, will that reverse next year, is that something that's been fixed? Is it an ongoing problem or at the very least it doesn't reverse, or repeat, sorry?

And then the other one I was thinking about is you talked about Screwfix being online now in a couple of markets. What is the online proportion of sales of Screwfix in the UK? And is it a business that needs stores in the markets in order to be a material addition to your portfolio in France and Poland?

**KW:** Ok, a few questions, right. I'll start with the clearance and I'll just be really categoric about the fact that elevated levels of clearance are not part of our new business model.

But, you know, as Vero kept emphasising, we said this plan was back-end loaded, and one of the reasons it's back-end loaded is that you haven't finished implementing new ranges until you've finished implementing new ranges. And the only way to implement new ranges, unfortunately, is to take some clearance decisions on the old.

And we do walk a fine tightrope in terms of deciding how we're going to clear, because you're looking at a combination of customer experience and economics. And different categories of product will have different clearance characteristics.

I'm not actually going to give you the absolute numbers of clearance that are in our gross margin, but I would say that over the last couple of years they have been several times more than the clearance levels were when we first started and so we'll be looking to get through this journey and then move to a position that is much more normalised.

A retailer will always have clearance, but at more normal levels.

**ADAM COCHRANE:** Given the £25m to £30m for this year. Just to save you going back to the prior three years guidance on clearance, I don't want the absolute clearance, just the incremental that's been created by the implementation of the unified range. Have you given that guidance?

**KW:** Yes, we have, so actually we're saying £25m to £30m more clearance in FY 19/20, we said in 18/19 there was no incremental clearance, so that was the same as 17/18. And 17/18, the impact of clearance was, I think, about 40 basis points on the margin at that time.

Logistics, unfortunately, the logistics and efficiencies are not going to fully reverse this year. All the teams are really, really focused on moving stock effectively through the system but the logistics problems that we've got are primarily related to the issues that we're still working through in Castorama France, and whilst we do hope to make an improvement on the situation that we've got, I think it would be wrong of me to be promising that this will disappear this year.

**VL:** Screwfix online? I think the percentage of Screwfix online is 27%-28%, 27%. So, I don't think we can say that you don't need any stores. I think they are very complementary and I think what we've seen is the stores are growing as much at the same time that the online is growing.

Just to give you sort of context with that, I know from a retail perspective, and we'll go back to the more kind of retail environment and change question. We need to move away that it's either online or stores. Amazon is today the retailer that has the most square meters in the world, probably Walmart is ahead, but they are one of the big ones investing massively into square meters.

So, I think the battle for the future of retail is not online versus store, it's both. And this is why I think what we need to keep doing is really having that tight management.

From a perspective, what do you need to have to meet the customer expectations in the future?

It is not about removing stores totally, and this is why as well on the 15th May we will be very happy to show you how we see the future of our stores, and there will be stores.

It will be different. They will probably be in different locations. There will be different formats. And they have to provide a different customer experience, but they are going to be there.

And the leading retailer are going to have both. It is not random, if Amazon who is the biggest retailer in the world, has heavily invested in buying stores.

**ADAM COCHRANE:** Thank you.

**ANNE CRITCHLOW:** Thanks. Anne Critchlow from SG. Going back to Screwfix Germany, were there any particular challenges in Germany that led to the decision to close stores?

And then just going back to your comments on online versus stores and online only. How promising will that business be as an online-only business in Germany?

And then finally, learning from what you did in Germany. What does that mean for future entries into other countries with Screwfix? Is it now the case that it's a very limited expansion prospect for Screwfix?

And then just one question please on online in France. What percentage of sales are online in France? And what proportion is click and collected at the moment?

**VL:** So, I'll try to do Screwfix, yes? So, I think that the German market is a very particular market. And that's true for all retailers. It's the most competitive market of course in the home improvement sector, but in any kind, food, retail, everything. It is the most challenging, it's very competitive from a price perspective.

So, the thing we have to face is that you are in a very price competitive environment and at the same time, you don't have the buying scale.

And why we didn't have the buying scale in Germany? Because first, Screwfix Germany has been long before the One Kingfisher journey. And the thing is, because Screwfix is a UK business, and it's a lot of technical categories, you have known that are very different in the UK than in the rest of Europe. So, if the Screwfix business would have been a French business we could have sold the same stuff in Germany and in France, which was not the case.

So, we had to buy the offer in Germany just for Germany. So, you are sub scale, you don't have the right buying power so the problem we have is a margin problem. This is why we make some losses.

So, to go to online, we will do online in Germany as we did in Ireland, and I think we are really building on the success of Ireland. So, this will be driven from here in the first time when we will be launching, and then we will see, and we will deliver from the UK. So, you maximse your efficiency, your supply chain efficiencies, and all the rest of it.

To go on from France and Poland, the situation will be very different from Germany, we know those markets very well. We have a presence there, we have a team there, we understand the customer dynamic, we've got infrastructure already and we are going to use all of those infrastructures to first launch online, because I think this is a good way as well to think about extension.

You establish your brand, you establish your presence with online and then you go to open stores. You don't do the other way round. And this is what we are going to do.

**KW:** And just to say that, despite the fact that Germany is small and despite the fact that we've made the decision to close the stores. Actually one of the things that we were really encouraged about was the speed of e-commerce penetration into that business.

Which brings me to your second question, which is the online percentage in France. Very, very low, still only about 1%. That's actually not a surprise to us because to get to the right level of e-commerce capability, we have to have fully implemented our IT platform and then move to what we are calling our next generation e-commerce platform. We're still quite early days in France on that and we've still got some work that we need to do on the digital offer to the customer in France.

So, click and collect is still quite small in France as well, because unlike in B&Q, we're still working to get to real-time stock file updating. And actually that's the thing that's really given the momentum behind the click and collect growth in B&Q, where we've now got one hour click and collect, but we'll get there in France.

**VL:** And then what we call the new digital platform is going to be implemented in Brico Depot France now. It hasn't been implemented yet. It has been in Castorama but not in Brico Depot yet. That's part of the plan for this year.

**TJ:** Hi, this is Tushar Jain from Goldman Sachs, two questions. One is on the unique and unified range's growth. It did look like it's slowed in second half, it was growing 2% in the first half and now close to 1.3%. Is there anything you guys can do in terms of accelerating that growth again of unique & unified ranges?

And second is on the capex, what kind of capex we should expect once the transformation is done?

**KW:** Ok, so the first one, the growth. We saw some very high levels of growth in the first half of the year because we were looking at very new range implementations. So, you've got some of those things anniversarying. But if you go back to the slide that actually shows the growth, then I think we would be quite happy if we could get 5% like-for-like growth across our full set of categories, which is what we've been seeing.

In terms of the capex, £375m, there is still about £100m in there of what we would call our transformation capex, so particularly in FY 19/20, we've got capex in there that is associated with further development of our digital capabilities, so we're investing in fulfilment.

And also, the characteristics of some of the range changes that we will be doing this year mean that the costs are actually more skewed towards needing capex than some of the other implementation costs. So that's the kind of thing that I would say when it's finished, it's finished. I'm not really going to comment on the rest of the capex.

**SB:** Hi, it's Simon Bowler, Numis. Three questions if it's ok? First of all, you made reference to sale and leaseback. Within that I was wondering if you could basically update and remind me on what you are doing there?

Secondly, you spoke to headcount reductions in, I think, B&Q and Castorama. Could you just give a sense of where that head count's being taken out from within those businesses?

And finally, with Screwfix on a raised store target. Should we still be expecting 50 stores per year going down as a similar rate of store expansion until we reach that 800 number?

**KW:** Ok, I'll start off with the sale and leaseback. Sale and leaseback is just one of the things that we do when we're reviewing the overall property portfolio. So just to put it into context, it's not material in the overall scheme of property, and it's quite similar although it's a different activity. To the fact that over the last three to five years we've sold £150m of non-operational estate.

We've brought back some freeholds in stores where we're very sure that we wanted to stay there for absolutely the long term. And what this sale and leaseback is about is actually about creating a little bit more flexibility. It's very, very small scale, but on the stores that we are looking to sale and lease back, we feel that actually it's a good time to crystallise some value and actually get into leases that are not going to be too long.

These are stores which are ok stores, they're not in the tail so they don't need to be closed, and we believe that we will be trading in there for the next few years, but actually if we can get the right length of lease and take some money out, that feels like the right thing to do.

So that's sale and leaseback.

Head count reduction, 5% head count reduction in Castorama, about 5% head count reduction in B&Q. It is a mixture of store and head office head count and for instance in the head offices, for both the stores' operating companies, it does include the roles where the work has been taken to our shared service centre in Poland.

And Screwfix, 50 per year?  Yes, I think that's a reasonable number still to be rolling out and then of course, as we go into Ireland, we'll open some physical stores there.

**VL:** Challenge the team to do a bit more but…they still resist…and say 50 is the max we can do…

**KW:** We've got to get the right property though.

**VL:** You need to find the properties, I think that's one of the things as well… that prevents us.

**WO:** Thank you, it's Warwick Okines from Exane BNP Paribas.  Your £800m original target for total transformation costs. You said today, you're not guiding on that, you're not going to spend all of that £800m.  Could you talk about the swing factors in year five that will determine whether the final £200m gets spent or not please?

**VL:** I think we said slightly lower.

**KW:** I think this is just reassurance that this is not going to go above the £800m, which we've had people commenting on, you know, is it ever going to end?  And actually absolutely, it's going to end, we've got our plans in place.  It's a little bit below, I wouldn't be looking to dramatically cut that. And how have we managed to get it a bit below?  Well, we are quite rigorous when it comes to this kind of expenditure, as with other kinds of expenditure.  And indeed in some of the areas, we've actually been able to apply some of the GNFR principles, so we've been able to take out a little bit of capex by actually optimising and utilising our scale across the group.

**VL:** Our engine.

**KW:** Our engine, yes.

**WO:** Thank you.  And then just the mix between capex and P&L in the final year, does that change from the original three components that you gave?

**KW:** So, in September I said there was likely to be a bit of rebalancing and that was recognising that if you just looked at the previous guidance we'd given, we would only have had around £20m, I think, in the transformation P&L.

And we do recognise that we need a bit more.  But overall, what we said was the important thing was £800m of cash cost, and that's still the same.  And this is really just thinking carefully about as I said, the ranges that we're going to implement this year, and what needs to go through the P&L type activity, which is typically the remerchandising etc., and what comes from capex. And we will have some further restructuring activity which we can't talk about right now, which means that we've still got some exceptional item in there, the exceptional items generally being the people cost of change.

**MN:** Two more questions please.

**AH:** Thanks. Andy Hughes from UBS. Couple of questions. First one was on your slide 17, just on the benefits from unified ranges. The message seems to be that that you are getting the benefits that you thought you would get, but maybe it takes a couple of years longer. Should we assume that getting the £350m over five years is really £350m over seven? And that you will get there, but that it is just stretched?

**KW:** I think the answer, Andy, is that the benefits are coming through. That the strategy is working, as Vero described up front. The strategy is working and we don't think that… because we don't actually run the business on the £500m and the BAU. We'll continue to work through those same elements of strategy as we've always described and make sure that we get the benefits in just as fast as we can.

**VL:** The benefits are in line with the plan we wrote in the beginning. They are in line. Absolutely in line.

**AH:** Amount and timing?

**VL:** Yes.

**AH:** Right, so you've got a lot to catch up on in terms of timing.

**VL:** Roughly they are in line with what we planned. You know that the other thing that we've been talking about is you're not done until you're done. I think that the explanation that I will give is if you are a nurse, if the doctor's told you it will take twelve months to be well and after six months you want to be well. No. You have to wait until the end.

**AH:** Ok, and just to follow up on the transformation costs, is this going to be the last year, FY 20, the last year of P&L transformation costs?

**KW:** There's a little bit of capex, you know, if you actually just work out the sums there's probably a little bit of capex that we'll see in the year after, but we should be broadly finished with the P&L costs, but I would just go back to the fact that we will not spend as much as £800m in total.

**AH:** Yes, but in terms of what's within the P&L, you said it was £120m in FY 19?

**KW:** We're going down to £60m to £80m.

**AH:** £60m to £80m for this year and then pretty much nothing the year after?

**KW:** And if you actually think about the profile of our offer, we've exited this year with 50% of the offer unified, if you can imagine that we will exit next year with 70ish. So that doesn't leave us with an awful lot left to work on.

**AH:** Right brilliant, thanks.

**MN:** And sorry, just to clarify the point on the benefits, we're saying that the benefits over 3 years are as planned.

**VL:** Are in line.

**MN:** It's very much what we've said in the presentation throughout. What we're not doing, talking about the expectation of benefits, timings-wise over the next couple of years, we're not giving guidance on this.

**GR:** Geoff Ruddell, Morgan Stanley. Just one question please. In the presentation, sorry, in the press release there you talk about the property as having a valuation of £3.4bn on a sell and leaseback basis and in your presentation you alluded to the fact that different basis give different valuations. What would be the valuation of the property on a non-sale and leaseback basis please?

**KW:** It would be less than £3.4bn.

**GR:** But are we talking £2bn or £3bn? I know it's not an exact number but how much less?

**KW:** I don’t know how much that would be.

**GR:** Do you not get it valued on that basis as well?

**KW:** It would be a few hundred million lower than that.

**GR:** Thank you.

**MN:** Thanks for coming everyone, much appreciated. Thank you.