Kingfisher plc 2018-19 full year results presentation transcript

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12 months ended 31 January 2019

Speakers:

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Karen Witts (KW), CFO

Slide: Kingfisher plc 2018-19 full year results (AC)

Ok, thank you very much and good morning everybody. Thanks very much for joining us here this morning. For those of you who don't know me, my name's Andy Cosslett, the Chairman of Kingfisher and I'd just like to say a few words this morning before we start on the results presentation proper.

The first obviously is about Vero. So, you'll no doubt have read this morning that it's our intention to begin a search process to find a successor for Vero as Group Chief Executive of Kingfisher.

Vero's been with the company for 16 years and she's now in her fifth year as Chief Executive. Now, being CEO of a public company is a big challenge at any time. I speak with feeling. But particularly in this retail environment given the scale of the change that Kingfisher has been undertaking, the CEO role here is particularly gruelling.

It's therefore fully understandable that as we approach the completion of our main transformation work here, that Vero feels unable to make the multi-year commitment that's now required to tackle the next phase of this journey. And we've therefore agreed together that this is the year in which she will pass the baton on to her successor.

Now, there will be many other opportunities to say more about Vero's contribution to Kingfisher, but for now just let me thank her hugely for her massive energy and passion, for her continuing efforts to lead this business and to take charge of the management team.

Vero's going to be a hard act to follow, there's absolutely no doubt about that.

Just a couple of other quick mentions.

We're also announcing that our Chief Transformation Officer, Steve Willett, has announced his retirement. Steve's been in the organisation nearly 20 years. We're going to be able to call on his services for some time to come, but when he does leave, obviously it will be with our sincere thanks and best wishes.

We must also thank, this morning, Karen for her outstanding service to the Kingfisher group over the last six years and we wish her all the very best with her big new challenge. I'm delighted to say that we are appointing John Wartig, who's going to join the company in an interim capacity as CFO. Now, John is a very talented international finance director with over 35 years' experience under his belt. He's someone I know personally well, and I've worked with him down the years in a number of situations. I know that his experience will be very valuable to both the Kingfisher team generally and the Board.

Now, change in big companies always seems to surprise people, but it's a fact of life. I tend to look at it as a positive because it gives you the opportunity of bringing new talent into the team.

Kingfisher has deep management strength in every one of its functions and last year we made Chief Executive changes in our operating companies which have all bedded in extremely well. So, these latest changes are not in any way going to hold up our progress. They're not going to stop the business, and they'll do nothing to deflect us from the pursuit of our strategy that Vero and the team set out a few years ago.

I just wanted to let you know that the strategy has been recently checked and reviewed again in depth by the Board and I can confirm to you today that the Board is fully behind it, one hundred percent aligned with what it says and what we're doing.

And I'm now going to turn it over to Vero, who had the vision and the inspiration at the start, to spell out that vision. And I'll give her the floor now. Vero.

Slide: Executive Summary (VL)

So, hello everyone. We are here today to discuss two things, mostly. First the ONE Kingfisher transformation and its delivery. And secondly, of course, the financial year ending '18/'19. And I'm sure you will have plenty of questions on other topics too.

Just as a start, we started this journey with a clear purpose to create good homes by making home improvement accessible for everyone. This purpose is deeply rooted in a true understanding of customer reality. I'm going to come back on that, because this is the theme that is recurrent in everything that we do. It is still completely relevant from a customer point of view, I would even say every day more relevant.

We've now built our colleagues' belief, which was not the case when we started this journey, and that is what will make us a sustainable business for shareholders. This vision remains intact, as Andy said.

Slide: We are a stronger company as a result of the transformation (VL)

So, today the first point I want to make is we are a strong business, even having gone through three years of heavy transformation. We are now three years into the original five-year plan. We've reached the critical mass of our transformation activity. So, this is a very particular moment in time in that journey we started three years ago. The building, remember, I've been referring to this engine, and this building of this engine is almost done right now. It will be finished by the end of this year and we are going to come back on that. What are the last pieces that we need to put together in this year? I'm going to talk about this later on.

And we have, for the third year in a row, achieved our key strategic milestones. Let me remind you why we've got those strategic milestones. I still remember when I started this conversation with the shareholders four years ago, not three years ago, they told me what are you going, I always said that this plan would be back-end loaded. Because we knew it, this is how we've written the plan and I'm going to come back to that. And they said what can you give us so we can measure your progress, so we can judge you on what you are doing, if you are executing the transformation? And we came up with those key strategic milestones. Because the leadership of the company we knew won't be about the short-term financial results, otherwise you never do transformation, but it's about doing the right thing to set up this business for the future. And we've constantly, over the last three years, done those things, and again I'm going to come up on this.

Of course, at the same time, despite the success of the transformation, our underlying business hasn't performed as well as we would have liked over the past three years and that includes this financial year.

You'll remember, and I'm going to come back on that, we said we are going to grow above the business as usual. And our assumption at that time was two to three percent like-for-like growth, which we haven't. Some of this is obviously down to our environment, but also down to internal reasons, let's be honest.

We had disruption from the transformation, we've made mistakes, we always said we would make mistakes, we've learned from them, we've corrected them, but be with me, on the transformation of that size it is almost inevitable.

And we still make a significant level of profit.

One other way of looking at it is that we maintained our overall gross margin, which is a performance in such an environment. I will come back to that, I will show some comparison with peers later on.

Our balance sheet remains strong. I'm sure you remember we had a stock issue last year, we've eliminated our mitigation stock in just twelve months. So, we act on it and we're back. We also did promise to accelerate returns to shareholders, which we did. Over the last three years, we nearly returned £1.3bn to shareholders through share buy-back and dividend.

Slide: The transformation is delivering and we are building a more profitable business over the medium term (VL)

The second point I want to make is that the transformation is delivering in line with our original plan. As Andy said, we have commissioned - the Board has commissioned - an external review of the transformation and they've looked at the strategy, they've looked at the transformation and they've looked at the delivery of the transformation. And, they confirm that the three of those elements were on track with what we designed as the plan when we originally started.

I always told you that it would be back-end loaded, because we knew it, because we knew that GNFR will - delivering steadily from the start - because in a GNFR matter as soon as you start you get the benefit, and this is what has happened. We knew that the digital would kick off in year three, which is exactly what has happened in this year because first you need to set up your digital capabilities before you get some delivery. And we knew as well that the offer will start later because of margin maturity, because of clearance, before of cannibalisation of the old ranges and before price investment. But all of that was planned. And all of that is not constant on a year-on-year basis, it goes as you change the range. If you change your kitchen range, you've got your kitchen clearance, you don't have it before or after.

So, seeing those results, we remain convinced in our ability to deliver further financial and customer benefit from transformation at a slightly lower cost than plan. At the same time, it has become evident that separating transformation from the rest of the business is no longer relevant. It is not a lack of conviction in the £500m, it is a leadership decision. At this point it is not the right way of leading the business nor how we actually manage it right now. We can't manage the business separating transformation on the one hand, when transformation is more than 50% of the business, and business as usual. I need to manage it as a whole.

And we believe that looking forward, we should be judged by sales, margin, retail profit and ROCE growth over the medium term.

And now, I'm going to hand it over to Karen for the financials results.

Slide: FY 2018/19 financial results (KW)

Thanks Vero. So, thank you and good morning everyone.

Let me take you through the drivers of our performance today before moving onto the outlook for the coming year.

Slide: FY 18/19 summary income statement (KW)

I’ll start with slide 8 in your pack and an overview of the income statement.

Total group sales of £11.7bn were up slightly on both the reported and constant currency basis with like-for-like sales down 1.6%.

At a group level, gross margin was flat on a reported basis and down 10 basis points in constant currency, as the benefits from unified and unique product were offset principally by a weak performance and higher logistics costs at Castorama France. There was a notable improvement in the second half of the year where gross margin for the group increased by 30 basis points.

Retail profits of £753m was down 11.4% on a constant currency basis. This reflects a good performance in the UK and Poland, offset by significantly weaker profits in France. And just to put this into context, excluding France, retail profit was up 3% with the main driver being the performance of UK & Ireland and Poland, which together were up 6.2% in constant currency.

Underlying profit before tax was £693m, down 13%, broadly in line with reported retail profits and included £1m of favourable currency impact. And just by way of reminder, all underlying metrics are before transformation costs.

We turn to our adjusted profit after tax, which is after transformation costs. This was down 16.1% in the year to £573m. We incurred £120m of transformation costs, which was a bit less than our guidance of £135m, because of some phasing into the New Year. Transformation costs included remerchandising work associated with new unified range implementations.

Our adjusted effective tax rate improved by 3 percentage points to 27%, reflecting last year’s one-off corporate tax surcharge in France.

Underlying earnings per share of 23.9 pence was down 6.3% with the underlying profit reduction partially mitigated by the lower effective tax rate and the impact of our share buy-back plan during the year. Statutory profit before tax, and after both transformation costs and the exceptional items, which I'll cover in a moment, was down 53% to £322m.

Slide: FY 18/19 exceptional items (KW)

So, now let me take you through these exceptional charges for the year, of £251m. I know there's a lot of content here, but they relate to three main topics. The first is organisational restructuring. The second is the way that we're looking at underperforming parts of the business, and the third is the treatment of properties held for sale.

In terms of the first topic, organisational restructuring, we incurred £58m of transformation exceptional charges in line with our guidance. This was driven by planned restructuring activity in France and the UK, including the cost of moving finance transactional processing to our shared service centre in Poland in order to take advantage of the unified IT platform roll out.

We also had £12m of redundancy costs associated with B&Q's transfer of store replenishment routines from night-time to daytime, and £15m related to Praktiker store integration costs in Romania.

Of the remaining charges, most of this is non-cash. £127m relates to the way we're dealing with underperforming parts of the business, which we told you back in Q3 that we'd be focusing on.

The first component, a charge of £111m, relates mainly to impairments for stores. This includes 19 Screwfix outlets in Germany, which will close this year, and 15 underperforming stores across the rest of our business, that we're considering for closure over the next two years. These 15 stores, 11 of which are in France, are a combination of owned and leased properties.

The Russia and Iberia charge of £16m also mainly relates to store impairments. At quarter 3 we announced we would focus on markets where we're leading, or where we can become the market leader, and therefore made our decision to exit Russia and Iberia. This process is underway, although for accounting purposes, at the year-end, these businesses are treated as continuing operations as opposed to held-for-sale.

Turning to the £28m, this is a net balance in relation to property disposals. Included in this number is the profit on disposal of a number of properties during the year. This is offset by an accounting adjustment related to certain other properties, which have been designated for sale and lease back as at the year-end. Although these properties should end up being leased back by us, accounting standards assume no value-in-use if they are classified as held for sale, and hence their value is marked down.

As I said, there's a lot going on here, but largely this reflects the proactive and decisive way in which we're improving the quality of our business.

Slide: FY 18/19 group operational summary (KW)

I'll now cover the performance of our major geographies.

Before we go into the detail, you can see clearly from this overview that the UK & Ireland and Poland, which account for 56% of group sales, delivered good profit growth, up 6.2% combined.

On the other hand, other parts of the group did not perform well. France, particularly impacted by Castorama, was weak with a 3.7% like-for-like decline and a 35% decline in retail profit.

We also incurred losses of £36m in the other remaining geographies, including losses of £27m related to the areas we're exiting - Russia, Iberia and Screwfix Germany and I'll give you more on this in a moment.

Slide: UK & Ireland – good profit growth (KW)

In the UK & Ireland, despite a soft macro backdrop, we delivered good profit growth.

B&Q's negative 3% like-for-like performance reflected this backdrop and was also impacted by a like-for-like headwind of around 1 percentage point from the discontinuation of showroom installation services. This was weighted to the second half of the year, impacting H2 like-for-like by about 2 percentage points.

Digital sales grew by 9%, with click and collect up 42% as the new one-hour service continues to gain traction.

Gross margin increased at B&Q, reflecting unified and unique sourcing benefits.

The business successfully implemented several simplification and efficiency plans during the year. This included leveraging the new unified IT platform using the group's finance shared services centre and moving from night-time stock replenishment to daytime. Employee numbers reduced by 5% year on year.

Screwfix continues to take market share using its convenience model and unrivalled strength in digital. Digital sales grew by 19%, and now represent 30% of total sales. We opened another 50 new outlets during the year, taking the total to 627. And Screwfix opened its fourth distribution centre in Lichfield to create capacity for the future. Vero will explain the clear growth opportunities available for this business in the UK and elsewhere.

Overall, the gross margin for UK & Ireland increased by 20 basis points, with the increase at B&Q partly offset by the ramp-up impact from the new Screwfix distribution centre. Good cost control helped to drive an increase in retail profit of 6%, which is a solid result in the context of a weaker UK consumer backdrop and a softer housing market.

Slide: France – Brico Dépôt progress offset by Castorama (KW)

In France, like-for-like sales were down 3.7%, with Brico Depot's first positive like-for-like in six years offset by weakness at Castorama. This compares with the French market that was down 0.5%.

Looking at each of the brands in turn, Brico Depot's 0.4% like-for-like increase and market share gain reflected good performance from its new unified ranges.

However, Castorama's sales performance was disappointing due to weak footfall and execution issues around transformation activity, which affected the impact of our Offer and Digital initiatives. Vero will update you later regarding our progress with the actions initiated in September by the new French CEO to sustainably improve future performance. We're confident that we'll get customers back in-store and online.

As you may be aware, our business in France was also adversely impacted in quarter 4 by national demonstrations. We estimate that these demonstrations impacted full year like-for-like in France by half a percentage point and retail profit by about £10m.

Total France gross margin decline of 60 basis points reflected an increase in Brico Depot that was outweighed by a decline in Castorama. This was largely the result of logistics and stock inefficiencies in Castorama, which had an 80 basis point impact on the overall French gross margin. We did remove some variable costs in France, notably through a 5% reduction in headcount at Castorama. However, overall costs increased as we invested in our digital capabilities and incurred incremental marketing expenditure to support Brico's 25th year anniversary and communication of our Every Day Low Price strategy.

As a result of these combined factors, retail profit in France decreased by 35%. Adjusting for the impact of the demonstrations, the percentage reduction in retail profits in the second half of the year was similar to the first half.

Slide: Poland – strong execution (KW)

Turning to slide 13 now, we had a good performance in Poland, reflecting strong execution by the team there. Like-for-like sales were up 1.7%, despite the introduction of the Sunday trading ban, which removed two Sundays of trading per month. We estimate that this impacted like-for-like sales by some 1.5 percentage points.

Poland's gross margin performance was strong, up 110 basis points. This reflected sourcing benefits and improved product mix, including a good performance from new unified ranges. Despite higher wage inflation, retail profits grew by 6.6%.

Slide: Romania, Iberia, Russia & Screwfix Germany (KW)

And now let's look at the remaining geographies. For Romania, it was a year of transition following the acquisition of Praktiker Romania in November 2017, which gave us a number two position in the market. Significant range change, particularly into Praktiker resulted in a retail loss of £15m for the year. Brico Depot remained profitable.

The Praktiker integration is progressing and the new Kingfisher ranges are significantly improving its offer. From the start of 2019, we've now rebranded all 19 Praktiker stores to Brico Depot and we're confident that we'll reduce operational losses in the current year.

Iberia, Russia and Screwfix Germany made a combined retail loss of £27m.

Further to our decision to exit Iberia and Russia, we announced today that we intend to close all 19 of the Screwfix outlets in Germany and we'll concentrate on our online presence there.

Slide: Gross margin up excluding Castorama France (KW)

We now look at the overall gross margin. As expected, we saw good margin progression in the second half of the year, with an increase of 30 basis points, and actually up 90 basis points when we exclude Castorama France.

This largely reflects the build of buying benefits, and the actions we took to improve the overall price architecture.

In the full year, gross margin was up in the UK, Poland and Brico Depot France, as we had indicated at our quarter 3 trading update in November. Reported gross margin for the full year was flat on a reported basis and down 10 basis points in constant currencies, slightly below our guidance at the start of the year. Again, excluding Castorama France, the full year gross margin would have been up 30 basis points.

Slide: Unified & unique outperforming non-unified (KW)

Now we can see that unified and unique ranges continue to outperform our non-unified ranges in both sales and gross margin.

43% of our sales were from unified and unique rages, which grew by 1.3% against a 1.8% decline in non-unified ranges. We achieved sales growth in four of the seven major categories. Of the other three categories, two were broadly flat and one was slightly down, with all three improving on their performance from the first half of the year. And one of the categories includes around 1 percentage point headwind from light bulb sales, which is the continuation of an industry-wide trend.

It's good to know that all seven categories have delivered gross profit growth, which is a clear improvement on the five out of seven at the half year and demonstrates the benefit of maturity with the new ranges.

Slide: Benefits from unified ranges coming through (KW)

I'd like to use this next slide to demonstrate how the increasing maturity of our range implementation is building momentum in terms of margin expansion.

On the left-hand side of the slide, we see how our range change activity over the last three years delivers more sourcing benefits as the ranges mature.

For example, our 2016 ranges are delivering well in excess of 300 basis points, as expected, albeit they have a relatively small weighting within our range portfolio. The 2017 ranges are starting to follow a similar profile, and the recent 2018 range benefits are starting to build.

On 44 % of product unified in FY18/19, this has cumulatively driven a three-year benefit of 230 basis points to gross margin, of which 120 basis points have been delivered in the most recent year. And just as an approximation, 44 % of 120 basis points equates to a 50 basis points benefit to group margin.

Slide: Unified & unique benefits offset by inefficiencies which we are addressing (KW)

And on the next slide you can see that the 50 basis point benefit from unified and unique offer was the biggest gross margin driver for the group. We've set out a bridge here of the group gross margin movement for the year of ten basis points in constant currencies.

The 50 basis points improvement was after absorbing cost inflation and price investment. Over the last three years we've experienced significant input cost inflation due to commodity price increases and foreign exchange headwinds. Our unified approach has been critical to managing the impact of this input cost inflation, and buying benefits are also helping us to continue to improve our price positioning. We've done this and still delivered a bought-in margin upside.

We've continued to improve our relative price positioning. Our price index is just below 100 across the group, with everyday low pricing now launched in B&Q and Castorama France.

The margin on our non-unified offer was flat year-on-year after absorbing similar headwinds to our unified ranges, but without the scale benefits of our unified approach.

Clearance levels were similar to last year, so they had no impact on the margin rate. We do have incremental clearance activity in the coming financial year, which I will refer to in our outlook update.

As mentioned earlier, we opened a fourth warehouse facility at Screwfix and, as utilisation is still ramping up, it caused a 10 basis point impact on the group margin. We've now eliminated the mitigation stock that we brought into our network last year when we wanted to reduce the impact of transformation-related disruption to our customers. However, elevated levels of stock as we entered last year and disappointing sales at Castorama France have resulted in a 30 basis point margin drag from additional logistics costs and stock inefficiencies.

It is also worth pointing out that as the relatively lower margin Screwfix and Poland businesses have grown and Castorama France has weakened, overall this has had an adverse impact on group operating mix.

Slide: FY 18/19 cash and returns (KW)

So, now let's take an overview of cash and returns.

We generated £382m of free cash flow in the year, ending with a £48m net cash position. This was after planned transformation costs of £120m and after returning £371m to shareholders via share repurchases and dividends.

The board is proposing a final dividend of 7.49p, which brings the full year to 10.82p, which is flat year-on-year. This dividend will take us slightly below our targeted range of two to two and a half times dividend cover, but our confidence in maintaining the dividend reflects the fact that we've just had a peak year of P&L transformation costs. We expect these costs to decline as we go forward and that will therefore help to rebuild our dividend cover.

In addition to ordinary dividends of £231m, we also returned £140m to shareholders via share buyback. This completes our commitment to return £600m of capital over the first three years of our transformation plan.

Slide: FY 18/19 summary cash flows (KW)

So, now let's look at cash.

In the year we generated £856m of EBITDA and there was a £24m inflow of working capital. As you know, at the end of our prior financial year our working capital position was adversely impacted by our decision to carry more stock in order to protect the customer against availability issues during a time of disruption. The position at this year-end was as we said it would be, with some increase in inventory levels to support our changing operating model and our first time buys of new ranges, but crucially with full elimination of the £180m of stock that we bought in on a temporary basis. The sell-through of the stock has been an area of focus for the business for the year and I'm pleased to say we've also done this whilst restoring availability levels.

Moving through the bridge, we paid tax and interest of £142m, and invested £339m back into the business.

Free cash flow was £382m, up from £6m a year ago. Turning to leverage, we continue to have financial flexibility whilst retaining an efficient cost of capital. Our lease adjusted net debt to EBITDAR ratio increased slightly to 2.6 x from 2.4 x in the previous year, which is slightly above our targeted range of 2 to 2.5 x, although we expect this to be temporary. It's worth noting that on a proforma IFRS 16 basis, we estimated that our net debt to EBITDAR ratio would decrease to around 2 x, reflecting the fact that we are relatively advanced in terms of lease maturity.

Slide: FY 19/20 outlook & summary guidance (KW)

Let me now look at the FY 19/20 outlook and summary guidance. Full technical guidance is in our results announcement.

As we enter FY 19/20, the sales outlook by country is mixed.

The UK market remains uncertain in the short-term. In B&Q we estimate that the annualisation of the discontinuation of showroom installations will impact the H1 B&Q like-for-like by 1 to 2 percentage points.

In France, while we're mindful of weaker housing data, we're encouraged by Castorama's start to the year, albeit it's very early days.

In Poland, whilst the market remains broadly supportive, due to trading laws we've lost one further Sunday of trading per month as of January 2019, taking the total to three.

Excluding Russia and Iberia, gross margin after clearance is expected to be flat year-on-year. In FY19/20, whilst we still expect to benefit from the continuing maturity of our new ranges, we will really start to bring more unique product to our customers, with four launches of innovative new ranges. This includes kitchens into B&Q, which is our single largest range implementation. Overall, we expect incremental clearance costs of around £25 - £30m, weighted much more to the first half of the year.

We expect transformation P&L costs to roughly halve, to £60 - £80m. As we highlighted in September, there has been some rebalancing of costs between transformation cost categories, however we anticipate that total transformation costs will be less that our original guidance of £800m over the five years. Total transformation costs incurred for the three years were £490m.

We expect total capital expenditure to be up to £375m. This includes capex to support the new unified range implementations, as well as investment in fulfilment capabilities, offset by a reduction in new store capex.

And finally, in respect of stores considered for closure, we would expect any future cash costs of exit to be covered by sale proceeds from the owned stores.

Slide: Impact of IFRS 16 (KW)

In addition to this technical guidance, we've set out our current views on the impact of IFRS 16, the new accounting standard for leases. We've several explanatory slides in the appendices, so I'll focus on the main points here.

The first thing to say is that the new standard has no adverse impact on cash flows or the underlying economics of our business. We will be adopting a full retrospective approach from the 1st February 2019 and we estimate that retail profit will increase by around £160m as the pre-IFRS 16 rental charge is replaced by depreciation and interest. And there will be no material impact on underlying profit before tax.

In terms of balance sheet, we estimate that net assets would have reduced by around £0.6bn if we'd adopted the standard on 31st January 2019. This reflects the new right of use assets of around c.£2.0bn, and a new lease liability of c.£2.6bn, which is lower compared to the liability which arises from our usual assumption of eight times property operating lease rentals.

And as I mentioned earlier, we would expect FY 18/19 adjusted net debt to EBITDAR to improve given our relatively short length of leases still to run.

Slide: Financial summary (KW)

So to summarise, against a really tough market backdrop, FY 18/19 was a mixed bag in terms of our financial performance.

We saw good performances in the UK, Brico Depot France and Poland, who all leveraged the strength of the Kingfisher engine to grow in terms of gross margin. However, this was offset by the performance of Castorama France, which was very disappointing, although there are some positive signs of recovery, as Vero will explain. And with certain other parts of our business which are loss-making and achieving low returns, we are acting decisively. And with that, let me hand back to Vero.

Slide: Building a stronger Kingfisher for sustainable long-term growth (VL)

So, when we announced the Kingfisher transformation plan three years ago, I hoped that both the macroeconomic and the retail environment were very different.

Slide: The market and retail environment has changed since 2016 (VL)

No doubt, the macro has become more volatile. We have political uncertainty and social unrest in most of our geographies, in all our markets, of course Brexit being the big one, the biggest one, but I'm sure you've heard about the Gilets Jaunes in France.

We also saw an unprecedented weight of inflation and significant cost-price inflation as well, which we have never seen to that extent before. At the same time, and we've discussed this a lot at the half-year results – it was a big part of my presentation – the retail sector is going through structural change at a pace that we've never seen before.

We've seen established businesses struggling as legacy operating models come under increasing pressure. It's almost every day in the press that one business is kind of falling over. Although consumer retail behaviour has changed radically and the expectation for seamless customer experience and fulfilment are higher than ever and becoming the norm.

For all those reasons, we still believe that starting the transformation three years ago was absolutely the right thing to do for Kingfisher.

Slide: The ‘engine’ is nearly built (VL)

I've been talking about this engine, let me come back to this analogy. Our transformation plan is profound and requires change to most of our infrastructure, meaning building what we call our new engine. This is what we've been focusing on over the last three years. It's not very sexy guys, but we have to do it. And it's not very visible. I'm going to come on back to that from a customer point of view.

The way I think is more relevant to explain it, we have built all these things that you need to build once in a company every 15, 20 years. And when you’ve built them you're not coming back to them, you might improve them a little bit but it's there for the long run.

So, all those changes were not about fixing the problem of the past, it's really about creating something new, and today this ending is nearly there. Let me go into more detail about what are all those things that you build every 15, 20 years.

The first one is the global IT platform. We've gone with SAP, as you know. It’s nearly done and we've done that across the group. If you think about how many companies have implemented a full SAP system without major problems, I'm interested in the answer.

On the back of the IT platform, what we are doing – because that's not finished and I'm going to come back on that – is really to establish the common digital platform. That is going to be the base to become a more digital company and is going to enable consistent omni-channel experiences.

What do I talk about? I talk about mobile experience, I talk about click-and-collect, I talk about home delivery, I talk about personalised content. All those things you need to do in the new world, but you need the platform to do that. It's not finished but this is one of those big things.

And then of course you improve that platform and you will always, but you don't change it anymore. You change it once, probably for 10, 15 years.

The third thing we've done, which was probably the most difficult thing – it’s difficult what to say what was more difficult than others – but to set up a completely new organisation: new organisation, new operating model, new ways of working and new competencies as well. And again, this is not fully finished but we are very well on the way.

The biggest one, which we talk more about, was of course the offer and supply chain organisation.

Just to remind you few numbers, guys, we put together 1,600 people that never worked together before, working for the sake of the group, with new competencies such as quality engineer, manufacturing, understanding, designer and others.

All of that didn't exist before. We have no competencies in those areas. We put all of this together, and this is of course true for all of the supply chain, but it's true for all of the functions.

The way this company is working is completely right now, is completely different from the way it was working. It's true in the finance function, it's true in the HR function, it's true everywhere.

And again, this is done once for all. You might improve, you might add a few competencies, but the building of that new organisation is done.

The fourth big thing that we've done is about unification. And I'm going to talk more about uniqueness, probably not today, but in an event that we will have in one month from now. But to unify your offer is the basis of creating differentiation.

I'm sure you remember – I'm not sure you remember this number – when we started the journey, we had 400,000 SKU, four in common across the group. Three years later more than 50% of our offer is unified.

And that you do it once as well, then you build on that new phase of offers and you improve it, you deliver more new products. But again, you do it once, you do that once.

And last but not least, we have also implemented a global price approach on efficiencies. That covers of course GNFR, that has kicked off from the start and is delivering right now. But it also covers the shared service centre. Again, we have 305 people working in Krakow. We've got the financial services, as we speak, and we have few operating companies on it. We will grow with other operating companies, but we will put more services, we'll put HR, we can put data on it. And again, when that is created, you don't do it twice, it's done.

So, it’s all those facts that are making me say today that the heavy lifting around building the engine is now done and we are more new Kingfisher than we are old. I'm not saying there is no more to do, guys, there is still a lot to do. But we are at that point where we've reached that critical mass in the building of the engine.

Slide: The strategy is working (VL)

So, I've just explained that we have nearly completed the building of the engine and that's why I can now – which I couldn't before, I sort of started at half-year, guys – but I can now demonstrate that the strategy is working, and I couldn't before because I didn't have the scale. Remember, you always speak at me, you are cherry-picking. Yes, I was cherry-picking because that's the only thing I had, which is not the case anymore.

So, let me share facts about why we can say now that this strategy is working. And again, this is not about blah-blah-blah. As I've said it's about real facts.

The first one has been covered by Karen, but I think it's worth going back to it. The unified offer is constantly delivering sales and margin growth and is outperforming the non-unified offer, plus 1.3% on one side, minus 1.8% on the other side.

Almost all categories are positive, as Karen said, I’m the half-full, she’s the half-empty. Four of them are positive, two are flat minus 0.4%, and one is still negative, but you can see if you go back to your notes last time, massive improvement. And the one that is negative is impacted by kind of markets I think.

So, we're nearly there and more importantly as well, the profit is improving in every category.

We said that as well this transformation will make us a more digital company. And today our digital sales are 6% of our sales. It was 3% when we started 3 years ago. Don't get me wrong, guys, we are nowhere near where we need to be, and we know that there is much more potential in that space. But this is massive progress. We started almost from nowhere.

The third point that I want to make is to talk about customers. Because at the end of the day, as I said in my introduction, we do all of this for customers.

I know that there were a lot of scepticism about the fact that the customer will buy in this strategy. I remember hearing or reading, it will never work, customer will never buy the same thing. And the principle of all this strategy, I have been constantly telling you, if you don't believe that customer will buy the same thing across the geographies, then run away.

But I've never been in that camp. Why have I never been in that camp? Because of my almost 30 years of experience in that industry, because I knew that we were going to do everything based on true understanding of customer needs. And this is what we've done.

We have studied 20,000 houses since we've started that journey and we keep doing it every month. We visited – physically visited 3,000 around Europe and bear with me, UK is still in Europe right now, so we're visiting the UK houses as well.

Just to give you a little bit of – it's an anecdote but I think it really means to me, what kind of business we have become.

At last GE, we reviewed the new kitchen range and of course the kitchen business case that goes with it. But I can tell you right now, on top of that session that we did, that 63% of the kitchens in Europe are less than 9 square meters and that kitchens are a little bit bigger in France than they are in the UK. But in the UK, you put you washing machine in your kitchen and you never do that in France.

We know all those things, guys, and I can’t think of many companies of our size that are talking about those things in their GE meetings. What I mean by that is that everything we do is really, truly, a true understanding. When you do that, you don’t make big mistakes and the customers, they are buying your offer because it makes sense from their perspective and from their needs.

So, that’s what I mean. And the NPS score has improved. The other element that I want to say, in addition to that sales growth I was just talking about, I can tell you that we’ve improved our price index in every single market. Not only in Castorama France, we are going to come back to that, where we had an issue when we started, but everywhere we improve.

And as a result of that offer work and the price we have improved our NPS score, net promoter score in every market. We measure it now from April 2018, we have the same methodology. Again, this is part of building the engine, we are looking at things in the same way and using the same tools.

We have the same way of measuring NPS across market and we started to measure it in April 2018, and I can tell you that from April 2018 we are at Kingfisher level. I’m not meaning that this measure is relevant because you need to look at every market and we’ve progressed in every market, but if you do a conglomerate of that, we were 43 in April at Kingfisher level and in January 2019 we are 64, which means that customers are buying into the strategy.

And finally, one of the big questions has always been about our ability to engage our colleagues. Rightly, you asked me very often, questions about this and you were right, through a big transformation, a big and long transformation.

And again, I think I'm very pleased to say that we have an engagement score that is largely above the average of retailers and really stable through the transformation. Again, same way of measuring it, we're measuring it on the 80,000 colleagues, so it's not a few bits and pieces everywhere, we have the same way and we've measured it three times since we've started and this rate is stable.

Slide: We have performed better than (or in line with) peers (VL)

So, let me bring probably a slightly different perspective on how you can measure the success of the strategy, and the fact that the strategy is working.

One of the facts that I thought might be relevant is a comparison of our performance margin with our peers. And the slide shows that our transformation, of course especially the work that we've done on unification, has helped us to perform better or in line and to broadly maintain our margin. Even before the end of the plan – we are not finished.

Slide: Transformation has delivered in line with our plan – but has been outweighed by external and internal factors (VL)

I shared this slide for the first time at half year, guys, if you remember. And what I said at that time, which is still relevant, is we are seeing the transformation benefits coming through, offer, digital and operational efficiency, in the way that I described in my opening statement.

However, and again we knew it, those benefits are eroded by factors we knew, and they are in line with the plan. What are they? Price investment, clearance and offer sourcing and digital organisations, we implemented a lot of that. We've built those organisations for full capacity and we are not yet at full capacity.

On top of this, we have to face negative external factors, as I said they were more negative than we expected, if we are completely honest. And as well internal factors. Some of them we were expecting, we knew that we would have some transformation disruption and some that were more important, especially the Castorama performance, than what we anticipated.

Slide: Clear priorities for the year (VL)

So, I'm now going to focus, and the whole business is focused on internal factors, on the things we can do something about. This year, to mitigate those internal factors and to reduce them, we have four clear priorities.

The first one being addressing underperforming parts of the business. I'm going to talk about three things in that part. Of course about Castorama France and how we actually implement our plan and the start of delivery of it, the fact that we will continue to have an acting management of our property estate, as we always did, and the fact that we will be focusing on markets where we have, or can reach, a market leading position.

The second clear objective, priority, is extend the rollout of Screwfix stores in the UK and to enter new markets.

The third is going to be complete the building of the engine I have been talking about since I started. And, of course the fourth being to make our innovation more visible to customers, which is the first time we will be doing this.

Slide: Castorama France – progress update (VL)

So, let me first cover Castorama France. First, I think, as Karen said, it's important to remind you that we don't have a French problem. Brico Depot has gained market share and its sales and gross margin has improved with clear benefits from the Kingfisher transformation.

But Castorama performance, of course, has been for quite a long time disappointing. What is important for me to share with you is that the diagnostic has already begun, there is no new news, guys, there is no new problems. We stick to what we've done and it's still relevant.

The solution has already been identified and I shared the solution with you at half-year. We are not changing the solution either. We are just implementing and executing them.

And let me now move focus to the progress we've made and share with you few indicators that demonstrate that we are making progress.

So the first one being price index. You knew that the pricing issue was one of the biggest ones that we had in Castorama France. And we've implemented, and I told you at half-year the EDLP strategy and on the back of that EDLP implementation, and all the work we've been doing, we've moved the price index from 108 when we started, if you remember, to 101 right now. So, we are nearly there. We are not there, but we're nearly there.

Digital was the biggest single problem as well, and we have addressed it. We put the next-gen platform into Castorama France, we improved the website. Actually again, we are not where we need to be, but the Castorama website traffic has doubled between '17 and '18 and the conversion rate, which is still too low, but has gone up by 50%. So, this is good progress.

There was an independent survey, which we haven't ordered, in October 2018 and we were the second preferred website in France, of course, after Leroy Merlin, but in terms of home improvement, which I think is a massive improvement as well.

We've taken the decision as well to put more means in terms of marketing and are supporting, of course, the new unique and unified offer, but as well the EDLP campaign. So we have been more visible with the Castorama brand on TV, in press, everywhere, we've been for quite a long time. And finally, the Castorama net promoter score has improved by 10 points since July.

So, these are all the actions we've taken toward the customer. At the same time, we've taken as well efficiency measures and we've reduced our FTE in Castorama by 5%. We are considering, as you've seen this morning, the closure of nine underperforming Castorama stores over the next two years.

All that is starting to pay. The first month of the year has been positive in Castorama. I'm not here doing your trading update, but I think it's important for me to share. Footfall has been growing for the first time in a long time, and as you say in English, one swallow doesn't make the summer, but this is a good start to the year.

Slide: Continue active management of our property estate (VL)

We have said that we would address all areas of underperformance, and we know that we have some stores that are underperforming and we've demonstrated, as it's shown on the slide, an active management of our property portfolio everywhere.

This focus continues and we announced today that we are considering closing 15 underperforming stores across the business over the next two years, nine being Castorama France.

Slide: Focus on markets where we have, or can reach, a market leading position (VL)

Again, I'm going to go quick on this, but I think we did an announcement at Q3 that we would be exiting Russia and Iberia in order to really focus on those markets where we are already or can be leading.

Those exit processes are ongoing and I have already outlined to you the decision to close the 19 Screwfix stores in Germany and really concentrating on our online presence. Karen has already covered that part in our presentation.

Slide: Extend roll out of Screwfix stores in the UK and enter new markets (VL)

So, that's for the first priority. The second priority is about Screwfix.

Screwfix has been a star performer in our business over the past five years. They delivered a CAGR of almost 20% of sales, 15% of customers with 13% growth in terms of the number of stores. So very healthy, profitable business.

At the end of this year, Screwfix was at 627 stores, it's near what it was five years ago. And today, we are setting out exciting plans to build on this growth, both in UK and new markets.

In the UK, we will continue to strengthen our customer proposition, we need to keep going with the customer, while also extending our store rollout target to 800 stores. It was previously 700 stores.

In the Republic of Ireland where Screwfix has already established a strong online business for four years, we will open a number of physical stores to support further growth, and this is starting now.

We've learned from Ireland, that was a really interesting experience, and this is why we have decided that we will do the same in Poland and France. Clearly, these are both markets where we have existing scale, infrastructure, in-depth market knowledge and competent teams.

Slide: Complete the building of the 'engine' (VL)

The third priority for this team, for this year, is to complete the building of the engine. I said we are nearly there, but we are not fully there yet. So, what are we going to do?

There are few actions that we will be taking this year, after that this engine will be completed. The first one being unification, I told you we were at 50%, we will complete 70% by the end of next year.

On the digital front, aside from completing the very final stages of the IT platform, we will be launching our new digital common platform, which is going to enable our digital capability in Brico Depot France, Castorama Poland and Romania.

And finally, we will continue to implement our shared service centre capability across geographies.

Slide: 1&2 Make our innovation more visible to customers (VL)

So, the last point for this year, the fourth and last point, is probably the most exciting one, guys, and it's probably the biggest thing in this year, that we are going to show the customer what we've done.

Again, this is the time we can start to do this. We are going to use the engine that we've built to deliver benefits to our customers. We will have lot of examples of using the engine for the benefits of that and I'm going to share a few with you.

First of all, thanks to the engine, we are now ready for the first time ever to create big global launches to share our new offer with our customer.

Karen said we'll do four, I'm not going to tell you what are those four, because this is very competition sensitive. I don't want to give them everything we are going to do this year, but we are going to do multi-country, multi-sector launches, supported by the launch of our new global product own brand, which is going to be called GoodHome, which refers to our purpose.

You can see here the paint example, it's on the B&Q shelves already. We start to implement that everywhere, but this is going to be something very big and significant. We are going to support that with a global marketing campaign. And as an example, you see here the three catalogues, the Polish one, the French one and the UK one, and we will have a Romanian one as well.

Normally, the way we would do that without the engine is that you would have four different catalogues, with four different set of photography and everything. What we've done, is because the range is the same, the look and feel of the brand is the same, we have one. And we have of course, made a GNFR tender on the paper and we've done one set of photography. And that's how we will improve over time the quality, because you put less money to do more things with better quality.

But again, this is a very concrete example, guys, on using this engine I've been talking about.

This year, we will, through those launch as well, we will be improving affordability for our customer, as we continue within unification of the range and as we are launching them in line with our EDLP strategy. Every new category, every new big launch will be fully EDLP.

Along with these new ranges, we will be implementing new digital tools to support the customer in their home improvement projects. For example, we are launching the app, Plan My Bathroom in B&Q and in France already, to help them plan for a bathroom project.

And finally, and it's really important as well, is that we are now able to train colleagues globally. This is a part of the engine. We haven't talked a lot about this, but we have now one Home Improvement Academy, and we are going to train this year 3,000 colleagues through that Home Improvement Academy, to have better equipped colleagues about their knowledge of the range and the understanding of the customer needs and the customer projects.

Slide: Make our innovation more visible to customers (VL)

So here are few examples of those new launches, but of course, you will discover much more of these on the 15th of May.

Slide: Summary & medium term shape (VL)

So, I'm coming to the end of this presentation. As I was just saying, we've achieved a critical mass of transformation over the past three years. This year, we'll be finishing the building of the engine as well as focusing on those four priorities as I've just described.

From next year, we will enter into a next phase of the transformation. Of course, we will continue to drive profit from digital and operational efficiency, but we will also move to a more customer centric phase of the transformation and that will cover, of course, the development of more unique ranges and the development of new format.

I will let you in on all those things on what we call Kingfisher Innovation Day, where we will be showing you all those new things and it will be on the 15th of May here in London.

And finally, and based on everything I've just shared with you, I just want to say that I am fully confident that we are creating a stronger, sustainable and more profitable business.

Slide: Together we will make home improvement accessible. For everyone. (VL)

I must probably finish, before your questions, on a more personal note. I first thank Andy for his words. I truly believe in our purpose. I think this is a way of making the world a little bit better, but as always, that’s always where I’ve been from the start and I'm still there.

I'm not declaring victory guys. That's not the point at all. I hope I confidently show that this transformation is happening and the strategy is working. But this is not about declaring victory. We are not done yet. But we've been doing what we said we will be doing, and I think that's very important to me.

I'm not leaving because the strategy is not working.

On the contrary, every month I'm seeing more evidence that it is working. This business will be a totally different one at the end of this year than it was five years ago. We have all those facts, all those numbers that I've demonstrated. It will be ready to face the future and be truly sustainable. I've been in the Company for 16 years. And I wouldn't have that conversation if I thought we were not in good shape. And I think it's now the right timing because I'd say, there are two phases in that transformation. The first phase is nearly finished, we are finishing it this year. And then, as Andy said, I didn't want for personal reasons to commit to that second phase.

But the thing is, I've done my part, and I will still do my part till the day I will depart. It's very demanding. It has been a very demanding five years of my life. And to be fair with you, I've probably almost dedicated all my life over the last few years to this Company.

Whatever has been written or said of the delivery or will be written today in the press. I just want to thank the 80,000 colleagues within Kingfisher. They've worked very hard. It hasn't been easy, but they have done something extraordinary. Extraordinary. And they can be very proud of themselves. And they need to keep going. That's the thing.

As long as I'm here, I will be as demanding as ever. For the ones that are in the room, they know that. Kingfisher will be the leading home improvement company. I'm 100% sure of that. That's one thing I'm sure about. And still while I remain in that seat, I remain 100%. Every day, I will be on the ground, visiting the operating company, working with obviously all the functions to deliver this year.

Thank you.

It's a very particular situation today. And I want to take the time to thank Karen as well even if Andy and the Board did it. I think it doesn't really work in English, but we get the idea about this.

We've been almost a couple for four years and a half now, but a couple like a CEO and a CFO needs to be, arguing sometimes, talking a lot, taking decisions together, but overall caring a lot about the family. And the family is Kingfisher.

Karen has been instrumental to the success of this transformation. The tradition would like that I wish her good luck for her next adventure, but as I say, it's not about luck, it's about work and talent and she definitely has got the work piece. I've never seen anybody that is working so hard, but she has got the talent too. Thank you, Karen.

Now questions.