Kingfisher plc Half Year Results 2022 – Presentation Transcript – 20 September 2022

Speakers:

Thierry Garnier (TG), Kingfisher plc CEO

Bernard Bot (BB), Kingfisher plc CFO

TG: Good morning and thank you as always to everyone joining us here at the London Stock Exchange, and to those of you dialling in online. On behalf of our Group Executive and Board, I would like to start by thanking all our colleagues across the Group for delivering what has been a resilient performance, despite such a challenging environment. Once again, we are extremely proud of the Kingfisher team and I'm proud to be part of this team. Before we begin, I would like to take a moment to reflect on yesterday's funeral for Her Majesty, the Queen, whose life of service was a powerful example to us all. On behalf of all our colleagues, I would like to offer our deepest condolences to the Royal Family, our thoughts are with everyone in this country and around the world who has mourned her passing.

TG: Turning to slide 3, and the agenda for today, I will start with an update on our operational and strategic progress. Bernard will then present our financial performance and outlook before we open the meeting for Q&A.

TG: To the key messages on slide 5, and we have delivered a first half performance that is fully in line with our expectations. Sales are significantly ahead of pre-pandemic levels. Three-year like-for-like sales are up by 16.6%, supported by continued momentum in market share gains in the UK, France, and Poland. Sales from both DIY and Do-It-For-Me/Trade categories have been resilient, and we are delivering on value for all our customers while effectively managing pressures from the current environment. We remain fully focused on the delivery of our strategic objectives, including our investments to drive growth. These include the growth of our e-commerce marketplace, the development of our trade business and the expansion of Screwfix and our business in Poland. We also remain on track with our Responsible Business priorities, including the ambitious commitment we have made around colleagues, customers, climate, and our communities. And finally, we continue to provide attractive shareholder returns through dividends and share buybacks, reflecting the confidence in our growth and cash generation opportunities.

TG: To slide 6, and to quickly cover some of the key financials. Total sales of 6.8 billion pounds are down 2.8% year-on-year constant currency. This is very resilient given the exceptionally strong comparatives of H1 last year when Kingfisher sales were up by over 22%. Like-for-like sales are down 4.1% year-on-year, and our 3-year like-for-like performance of 16.6% better represents the impact of our 'Powered by Kingfisher' strategy, with growth ahead of the market. Like-for-like sales saw a sequential improvement from Q1 to Q2 on a 1-year and 3-year basis. Total e-commerce sales for the period were down 19% as footfall returned to stores, but again, on a 3-year basis, they are up significantly by over 150%.

TG: E-commerce penetration of 16% remains much higher than the pre-pandemic level of 7%. And we have seen an encouraging start to trading in the first seven weeks of Q3. Like-for-like sales to date are up 15.2% on a 3-year basis, down 0.7% year-on-year. Adjusted profit before tax for the half of 472 million pounds is down by 29%, but up by 40% versus the same period in 2019 with the margin improving by 130 basis points over 2019. We have announced our interim dividend at 3.8 pence per share, equal to the one of last year. And to date, we are roughly one third of the way through our second 300 million pound share buyback programme.

TG: Overall, I'm pleased to report that our results for the first half are in line with the full year profit guidance we set out at the start of this year of circa 770 million pounds, and all the indications in our current trading to mid-September are consistent with delivering this guidance. For the balance of the year, we have also run several trading scenarios to take into account the potential for a more uncertain macroeconomic environment. These point towards a range of outcomes for full adjusted PBT of 730 to 770 million pounds.

TG: Turning to slide 7 and Kingfisher is well positioned as a strong and diversified business with proven resilience. The home improvement industry is growing solidly, capitalizing on emerging and enduring trends. We believe the shift in trend to working from home is here to stay and there is heightened focus on improving our homes, including energy efficiency.

TG: We believe these are long-term trends that will continue to support our industry. Our consistent execution against our strategy is driving market share gains across our key banners and markets in the UK, France and Poland. And we have multiple investments and initiatives in place to continue our progress here. At the full year, we disclosed our exposure to the DIY and Do-It-For-Me/Trade markets for the first time. We think this is an important proof point of our diversification. And in H1, we maintained a 50/50 split between these categories. Further to this, as you can see on the slide, we added 2.8 million new customers during the first half of this year and the growth in our customer base continues to exceed 2019 levels. Our revenue retention rates remain high, meaning customers acquired in previous years are continuing to shop with us. It's worth remembering Kingfisher, and indeed the wider home improvement sector, has proven its resilience in previous challenging environments, including recessions.

TG: Part of the reason for this is that a significant proportion of our sales are from products that are essential for repairs and maintenance. Consumers continue to spend on repairs and maintenance and indeed renovations during these times, which is now reinforced by the new industry trends I mentioned earlier. Finally, we have general home improvement, trade and discounter retail banners across multiple European geographies and this brings us strength and diversification. 45% of sales are from our Own Exclusive Brands, which provide us with strong differentiation in terms of affordability and sustainability, while also carrying a higher gross margin. And finally, our 1,500 stores are an extraordinary asset to help deliver on our e-commerce ambitions, allowing us to flex up or down to follow demand levels, without relying on rigid and costly large fulfilment centres.

TG: Moving now to slide 8, as with our previous presentations we have conducted extensive consumer surveys in our markets over the last few weeks. Overall, the sentiment remains positive, but also more cautious than before given the strain on personal finances. I mentioned working from home was here to stay, but more broadly, there is a renewed focus on the home, which we believe is enduring. On average, consumers are working from home between two-and-a-half and three-and-a-half days per week. This is over two times more than pre-pandemic levels. More working from home means more wear and tear, and also means more time to look at the home with a critical eye. And this is borne out in the figures, with average spend on home improvement nearly 40% higher for home workers. We also see consumers putting an increasing focus on energy efficiency, with 9 out of 10 looking to reduce their energy consumption, and 6 out of 10 looking to improve the energy efficiency of their homes ahead of the winter. Our banners are well positioned to make this a reality for our customers and already 10% of our Group sales are from energy and water-saving products.

TG: There remains robust demand from house moves completed over the last two years and a desire to renovate homes. Our surveys show that recent home movers have spent up to two times more than average, and 50% are likely to do more home improvement in the next 12 months. In addition, protecting the value of our homes is a key driver of home improvement when housing activity slows. Now on the trade front, our surveys show that tradespeople are more concerned than before on the economic outlook and the state of their personal finances. Having said that, they remain extremely busy, with 93% of tradespeople surveyed in the UK currently working and 82% having more work in the pipeline, a level equivalent to pre-pandemic. Central to all our insights is that the home nesting trend that has emerged over the last two years remains very apparent.

TG: On the next two slides, I want to show you quickly some of the campaigns we have been running across our markets that reinforce how we can deliver value to our customers at a time when they need it most. Here on slide 9, you can see some examples of how we have been promoting value through money-back guarantees, price locks, price cuts, and leveraging our Own Exclusive Brands. This comes on top of an already attractive price positioning. We believe this commitment and ability to provide value to customers creates a strong point of differentiation in the current environment. And on slide 10, we are all aware of the impact of energy prices on people’s lives. Throughout our markets, and particularly in the UK, housing stock is relatively old and often energy inefficient. This puts us in a privileged position in the context of the current energy crisis, as helping homeowners to address energy waste will both help them to save money and be beneficial to wider efforts to tackle climate change.

TG: The fact that we can be part of the solution means this is a key area of focus for us. In the coming weeks, we will launch energy-saving diagnostic tools at B&Q and Brico Dépôt France with similar initiatives at other banners being piloted. More on this later. As you can see on this slide, we have been active in all our markets in promoting our range of energy-saving products, including energy-saving light bulbs, smart thermostats, electric radiators, and insulation. At the same time, we are working hard to develop new innovations to help our customers save money and future-proof their homes.

TG: On slide 11, I would like to explain how we are successfully responding to the pressures of the macroeconomic environment. Starting with our customers, we have sharpened our commitment to deliver on value, as I just highlighted. We remain focused on delivering attractive prices and maintaining a price index relative to our peers of 100 or lower. Our Own Exclusive Brands provide customers with savings of 15% to 30% versus branded alternatives.

TG: And we also have some of the industry’s best hard discounters in Brico Dépôt France and Iberia, which together are around 20% of Group sales. We continue to manage the impact of cost price inflation effectively. More on this on the next slide. And leveraging our scale to deliver cost and operational efficiencies has been a key weapon in mitigating the impact of inflation. Over the last two-and-a-half years, we have identified and implemented hundreds of cost reduction projects covering all our retail banners and Group teams.

TG: In H1, operating cost reductions fully mitigated operating cost inflation, and Bernard will cover this in more detail shortly. The quality of our supply, sourcing and logistic teams has enabled us to manage our supply chain very effectively through the pressures of the last two years. There are not so many businesses who can say today that they are at pre-pandemic levels of product availability and have no major supply concerns. I'm proud of our teams for achieving this and this is a key factor supporting our market share gains.

TG: To help tackle supply chain issues and inflation, we have been proactive with our inventory management strategy. However, it is not surprising that the principal driver of our inventory increase year-on-year is inflation, which together with new stores account for 70% of the movement. And more on this on the next slide.

TG: Finally, we have continued to retain and recruit the talent and capability we need to unlock further growth as part of our focus on creating new customer propositions. We have recruited in the key areas of marketplace, technology and data.

TG: On slide 12, I wanted to focus further on how we are managing against an uncertain and challenging economic backdrop. It's important to address that our Group gross margin is down 130 basis points in H1, but as highlighted on many occasions last year, this is from an exceptionally strong comparative in 2021. This reflects three principal factors. First, normalised promotional activity versus the prior year, at a time when there were Covid restrictions across all our markets. Second, mix impact due to a lower year-on-year share in H1 of B&Q’s higher gross margin revenues given very strong prior year sales. Category mix was also a factor due to the lower year-on-year share of higher gross margin categories, such as surfaces and décor. And finally, as we built our product availability and invested in buffer stock, we incurred one-off logistics spend in H1 to secure and manage this stock. Against a more normal comparative in H2, we expect gross margin in the second half to be up year-on-year resulting in a full year gross margin that is in line with our pre-pandemic level of 37%.

TG: More generally, we continue to manage cost price inflation and other pressures within the gross margin effectively and I would like to highlight the moving parts. Throughout the last two years, we have engaged with our suppliers early in order to manage raw material price increases as effectively as possible. Favourable movements in our year-on-year currency hedging positions have offset some of these increases in H1. For container shipping from Asia, which applies to around 20% of our purchases, we have seen year-on-year price increases, in common with the industry. We have contracts in place to protect ourselves from spot price volatility. We have also maintained a disciplined approach to promo and clearance, with no abnormal behaviour and all activity carefully planned many months in advance. And on supply and logistics, our agile operational set-up means we have been able to quickly flex down logistics and distribution costs to follow the demand.

TG: Looking forward, we believe that several raw material prices, for example, metals and plastics have peaked. The benefits of this will be seen as we work through the time-lag between ordering products and their subsequent sale. We have also seen maritime freight prices ease since January. And, as is common practice in Asia, we are proactively negotiating with suppliers on price given the strength of the US dollar this year. Finally, we are committed to maintaining normal levels of promotional activity. Turning to our active management of operating costs, we continuously plan for a wide range of different trading scenarios to ensure that we can tailor our costs to reflect different demand levels. The pandemic taught us many lessons on adjusting our cost base during times of volatile sales. The key levers we have here include the adjustment of staffing levels and incentives. We also have the ability to flex discretionary spend, including marketing, in-store spend, head office costs and many components within our circa 1.9 billion pounds of Goods Not For Resale.

TG: We can also rephase significant areas of investment, such as range reviews, as needed. Looking to the second half of this year, our revenues are currently in line with our expectation, but we remain vigilant against the more uncertain outlook in H2 and stand ready to act quickly as required. And finally, to our inventory, I've already mentioned that 70% of the year-on-year increase was driven by inflation and new stores. For the balance, we decided in the summer of 2021 to build inventory from Q4 for three reasons: to rebuild availability given the global supply chain issues, to ensure that we had enough stock during our peak trading periods, and to purchase ahead of anticipated further cost inflation. These were proactive decisions to ensure customers can buy the product they need at competitive prices. And as you know, we restored availability back to pre-pandemic levels already in Q1.

TG: I would also remind you that most of our stock is neither perishable nor seasonal, and therefore we have no pressure to clear. Our inventory remains healthy with our stock provisioning rates below pre-pandemic levels. Looking ahead, we expect to sell through, at normal price, a large part of our buffer stock in the second half. In summary, you can continue to expect from us effective management of our gross margin and close alignment of our costs and inventories to market conditions.

TG: Switching gears on slide 13, and we are on track to complete the final phase of our fixes in France this year. In particular, I would like to highlight four key areas of progress. First, we have extended Castorama's product range through the introduction of more local and international brands, and by launching new OEBs. We have added more than 1,200 SKUs over the last six months, bringing the total added over the last two-and-a-half years to more than 8,500.

TG: Brico Dépôt has also been adapting its range to differentiate it from Castorama and other general DIY peers. We have reduced some non-core ranges and introduced discounter-specific OEBs, such as our new Evalux paint brand, as well as more local trade brands.

TG: We are now in the final phase of updating Brico Dépôt’s SAP platform and expect to complete our work before the end of the financial year. And we have reorganised our logistics operation in France to create an optimised network for both banners. We are making significant progress with reducing distribution centre space, with an expected 8% of space coming out this month alone. This will bring total space reduction to circa 27% versus two years ago. At the same time, with the fixes now largely complete, we are making excellent progress in areas such as e-commerce, OEB, our store footprint and new store services. As you can see on this slide, our progress in France continues to drive an improvement in its operational and financial metrics, including high levels of customer satisfaction. This is the last time you will hear me talking about fixing France. We have strengthened our banners in every department and remain focused on driving improvements in profitability going forward.

TG: Turning now to slide 14, I would like to spend the rest of my presentation taking you through how we are delivering against our strategic priorities, and how we are staying focused on the long-term development of our business.

TG: Starting with e-commerce on slide 15. E-commerce sales remain significantly ahead of pre-pandemic levels, with penetration of total sales up 8.4 percentage points over the same time period. Digitally-enabled sales, which are sales from e-commerce channels and online orders placed in stores, now represent around a quarter of overall Group sales. We expect this metric to continue to grow, and we have made further progress in the first half.

TG: Many of you who joined our Teach-in event in July would have heard us talk in detail about how we are leveraging our stores to improve the speed and costs of both click & collect and home delivery. We currently have 54 B&Q stores that we are using as digital hubs for fulfilling home deliveries. And these serve nearly a hundred percent of UK post codes.

TG: Similar models have been introduced at Castorama France and Castorama Poland. During H1, we started the development of optimised order management capabilities, leveraging B&Q hub stores to cast a wider net for the availability of products ordered online, thereby lowering the rate of abandonment of online baskets. We have now completed the roll-out of click & collect lockers to Castorama Poland stores, and we continue testing lockers at some B&Q stores.

TG: Screwfix Sprint, which offers delivery direct to home or site within one hour, is now just over a year old. With more than 300 participating stores, it currently covers around 45% of UK post codes, with further roll-out planned in H2. And we are now sharing lessons from the roll-out with other retail banners that are testing same-day delivery. And our first e-commerce marketplace on B&Q's diy.com has been performing ahead of expectations. More on this on the next slide.

TG: Looking forward, our focus is on extending the ranges that we offer online, and aiming to speed up the delivery time to homes. We'll further improve picking efficiencies, particularly at Castorama France. This will support faster click & collect, as well as new collection options. We'll be completing the implementation of our Group technology stack in Poland, which will accelerate our e-commerce capabilities there. And finally, we are preparing for the roll-out of marketplaces in Spain and Portugal in the coming weeks, then in France and Poland, leveraging the technology and investment already made by Kingfisher for B&Q.

TG: So now to B&Q marketplace on slide 16, which was launched in March this year. As a reminder, the marketplace platform offers Kingfisher an incremental profit opportunity through commissionable sales of third-party products, together with other services for third-party vendors. We have built a skilled and experienced team to co-ordinate our marketplace initiatives, and built this technology with scalability in mind, alongside the team at Mirakl, Europe's leading marketplace platform.

TG: Our early achievements at B&Q give you an idea of the opportunity marketplace presents to the Group as we plan for roll-out across Iberia, France and Poland. B&Q successfully reached its target of 100,000 additional home improvement SKUs within six months of launch, compared to its previous offer of circa 40,000 products available in-store and online. Our sales growth has been ahead of our expectations, reaching a penetration of 8% of B&Q's e-commerce sales in August, less than six months from its launch.

TG: We are already able to offer returns for items to all B&Q stores, giving customers more convenience. The scale and speed of this growth shows you how rapidly we can scale this platform. Over the medium term, we have ambitions to reach 1 million SKUs across all core categories. We also want to offer additional services for further speed and convenience, such as in-store click & collect. And we are already preparing for new marketplace launches, with Iberia aiming to go live next month. Our long-term ambition is for marketplace to reach 40% e-commerce sales participation for the Group, excluding Screwfix. In summary, we are convinced the incremental sales and profit opportunity for Kingfisher in this area is very attractive.

TG: Now to slide 17, and Screwfix, where we are accelerating expansion on multiple fronts across the UK, Ireland and France. In the UK and Ireland, we have opened 31 new stores in the first half of the year, a record for the Group, bringing our total to over 820 at the end of H1. We remain on track to open a further 50 stores by the end of the financial year. We are trialling an ultra-compact store format, which has been developed to take the core Screwfix range into catchment areas which are unable to cater for the full traditional trade counter offer. We have seven of these tests in operation, and they are showing good early results.

TG: We have made steps to significantly improve our e-commerce offering with a new app containing innovative new features and integrated capabilities, such as Screwfix Sprint. And finally, we have continued to expand our product range, launching over 5,000 new SKUs in the first half, with plans to roll out a further 10,000 by the year-end.

TG: We are making similar strides to prepare for our launch in France. And we are very excited to open our first store in the coming weeks. Screwfix's online business in France has been in operation since April 2021. And that's seen very encouraging results, with strong web traffic and conversion rates, and growing brand awareness across the country. We have now opened our first distribution centre with vendors at local and national level already onboarded. We're also on track to deliver a dedicated IT system for Screwfix operations in France, and are stepping up our marketing and advertising campaigns in the coming months.

TG: All of this puts us in an excellent position ahead of what will be an exciting milestone for the Screwfix banner, and we have decided to make a further 10 million pounds of P&L investment this year to speed up our start in France. Following our first store launch in the coming weeks, we are planning for a meaningful step-up in store openings in 2023. And we're excited about the potential of this opportunity.

TG: Now moving to slide 18 and the wider trade customer opportunity across our markets. As I mentioned earlier, Do It For Me and trade already represent 50% of our sales. And we have outperformed the market in this area over the last two years. We know from our banners that trade customers have a higher visit frequency and average baskets than retail customers, and so we are keenly focused on capturing this opportunity.

TG: We have developed five key focus areas that we believe will drive our trade penetration higher. Firstly, we're updating and growing TradePoint’s presence at our B&Q stores in the UK, and planning for launch in Ireland. We are also exploring the roll-out of dedicated trade counters in France, Poland, and Iberia. Second, we are considering how we can optimise our pricing and loyalty programmes for trade customers. We have launched a pilot trade loyalty scheme in Poland and Iberia, now seeing early positive signs. Third, we are continuing to launch new trade-focused ranges across our banners, including many new and redeveloped Own Exclusive

Brands. Fourth, we are enhancing our trade-focused services proposition. For example, in H1, we launched new responsible waste disposable partnerships with AnyJunk and LoveJunk, which are targeted directly to trade customers.

TG: And finally, we'll be launching a dedicated TradePoint app in 2023 to enhance the membership experience, and drive loyalty. As you can see from the right-hand side of this slide, TradePoint is a blueprint for success of our trade offer in big boxes. The performance of this business continues to impress, with like-for-like sales outperforming the rest of B&Q and also Screwfix in H1. Trade customers represent a 50 billion pound addressable opportunity in the UK, France and Poland. And we are well positioned to grow our share within this part of the market.

TG: Turning now to slide 19, and our strengthening position in Poland. In H1, we grew our like-for-like sales in Poland by 26%, supported by significant market share gains. Our activity in Poland this year has focused on the further development of our product ranges, our e-commerce proposition, our services offering, and testing new store formats. The performance of our OEB kitchen range in Poland has demonstrated our ability to create a new market opportunity, having the right combination of offer, price and service, delivering over 60% like-for-like sales growth in H1.

TG: During the period, we also completed the roll-out of click & collect lockers and ‘drive-thru’ collections to all our stores, as well as introducing our NeedHelp services marketplace to the country. We have also now brought self-checkout terminals to nearly half of our estate in Poland, with strong adoption by customers. We opened three new stores in H1, including our third compact store test, under the Castorama Smart banner. These Smart stores are showing positive results to date, and we believe that this format is a great solution for urban areas of the country, where we see significant white space. Poland is a market that has exhibited growth and high returns on capital, and we remained focused on delivering on our ambitious expansion plans to build on our number one market position.

TG: Onto slide 20, and how we are adapting our store footprint to drive higher sales densities and market share across our geographies. We continue to test compact stores in urban catchments, with six new stores open in H1, and a total of 31 now in operation. These stores span three markets and four banners in locations such as small retail parks and high streets, which are performing well. Last month we opened our first 500 square metre store in Poland, and Brico Dépôt France will also be testing a 1,000 square metre format in Q1 next year, its first compact store trial. And initial results from the five big-box rightsizings we completed last year at B&Q and Castorama France are positive, with good sales retention and improved profitability. Further rightsizings are planned for selected stores in H2, consistent with our longer-term goal of up to 40 rightsizings in the UK and France over 10 years.

TG: And finally on slide 21, and the energy efficiency of our homes. At Kingfisher, we believe there is a huge unmet need for energy efficiency. Last month, we published research which highlights the scale of the problem. Approximately 75% of homes in the UK and France have an energy efficiency rating of D, or worse. These homes are those which would be most impacted by energy price rises, with 83% of people already feeling the financial impact. However, our research shows the majority of people do not know the options available to them for improving energy efficiency, or the possible impact this could have. We consider this a serious problem, but one that Kingfisher is well positioned to help address. We have a strong and growing offer in this area, which can help customers make a huge difference.

TG: Today we offer more than 11,500 energy-saving SKUs. And across our banners, we have developed partnerships and campaigns, educational initiatives, and customer support systems. These initiatives can all help in a meaningful way, but our customers need more. At B&Q and Brico Dépôt France, we have developed innovative end-to-end solutions to help customers actively improve their homes' energy efficiency. These offer our customers the opportunity to create a detailed and personalised diagnosis and action plan. With this service we'll offer dedicated advice and, ultimately, delivery of the appropriate products and services, including partnerships for installation, and in some cases, the finance to fund the changes. This is a topic we care about deeply, something that has a real impact on lives and our climate, and something that we are uniquely positioned to take action on. With my presentation now concluded, I will hand over to Bernard.

BB: Thank you, Thierry, and good morning. To slide 23 and the key financials for the half. Total sales in constant currency were down 2.8% to 6.8 billion. Like-for-like sales were down 4.1%, which was a resilient performance against an exceptionally strong comparative and a more challenging economic backdrop. Like-for-like sales were up 16.6% versus three years ago, as we continued to grow sales ahead of the market. We generated a gross profit of 2.5 billion, with gross margin down 130 basis points year-on-year. As explained by Thierry, the movement, which was largely UK driven, was the result of low promotional activity and very favourable banner and category weightings last year.

BB: During this H1, we continued to manage the impact of inflation on our gross margin effectively. In constant currency, retail profit decreased by 27.1% to 555 million pounds, with retail profit margin down 270 basis points to 8.2%. And as you can see from the comparisons to 2019 on this slide, we have realised a 60 basis point improvement in our retail profit margin in constant currency. The investment of 40 basis points of gross margin was more than offset by operating leverage in the business. Adjusted pre-tax profit decreased by 29.5% to 472 million pounds, which is 40% higher than in 2019.

BB: We generated free cash flow of 104 million pounds, absorbing a negative working capital impact in the half. Our cash and liquidity position remained strong, with 479 million pounds of cash and over 1 billion pounds of total liquidity. Our net debt, which includes IFRS 16 leases, is 1.8 billion pounds, with net leverage of 1.3 times EBITDA.

BB: Moving to slide 24 and the performance of our major geographies. All year-on-year variances are in constant currency. Starting with the UK and Ireland, where total sales decreased by 9.8% to 3.2 billion pounds, reflecting the strong prior year comparative I just mentioned. Like-for-like sales were 11.6% lower, with space growth contributing plus 1.8%, mainly from Screwfix. The like-for-like sales trend in the UK improved from minus 15.8% in Q1 to minus 7.1% in Q2, supported by sales from both DIY and Do-It-For-Me/Trade categories. Like-for-like sales at B&Q were down 13% and up 16.7% on a 3-year basis. TradePoint outperformed the rest of B&Q, with like-for-like sales down by just 3.1%, and up 34% on a 3-year basis. All categories at B&Q have seen good growth on a 3-year basis, with standout performances in building & joinery and outdoor.

BB: Larger ticket categories like kitchens and bathrooms saw good sales throughout the first half, supported by enhancement to B&Q's range and customer journey. Like-for-like sales at Screwfix were down 8.8% and up by 14.4% on a 3-year basis, reflecting resilient demand from trade customers throughout the period. UK and Ireland retail profit decreased by 41.3% to 339 million pounds, reflecting the exceptionally high sales and gross margin in H1 last year. Retail profit remains over 20% higher than in 2019. Operating costs were 3.9% higher year-on-year. This was driven by 88 new store openings in the last 12 months, the normalisation of Covid-related underspend last year, and operating cost inflation, including higher utility charges.

BB: Turning to France, sales decreased by 2.6% reflecting resilient sales from both DIY and Do-It-For-Me/Trade customers despite strong prior year comparatives. On a like-for-like basis sales were down 3% and up by 13.6% on a 3-year basis as we continued to improve our competitive position in France, led by Castorama. Retail profit increased by 2.4% to 129 million pounds with a 30 basis points increase in retail profit margin. The gross margin rate in France decreased by 30 basis points reflecting category mix impacts and normalised promotional activity, which was partially offset by lower logistics costs. Going forward, France's gross margin will be further supported by the removal of an additional 8% of distribution centre space this month. Operating costs decreased by 4.5% due to lower staff costs, including the phasing of store staff incentives, lower store property costs, and ongoing strategic cost reduction programmes.

BB: Performance in Poland was very strong, with like-for-like sales up 25.9% and space growth adding a further 3.1%. This performance partly reflects the temporary store closures in the prior year, but the business also delivered strong market share gains during the half. Like-for-like sales are up by 23.8% on a 3-year basis. Poland's gross margin rate increased by 10 basis points, largely reflecting favourable category and channel mix impacts. Retail profit increased by 66.4% to 94 million pounds taking the business up to a retail profit margin of 10.3%. Operating cost increases of 18.1% were largely driven by space growth and new store opening costs, higher marketing spend and general operating cost inflation. In Iberia like-for-like sales increased by 2.3%, and by 15.6% on a 3-year basis. Retail profit of six million pounds, was five million lower than the prior year as a result of lower gross margin and a 2% increase in operating costs.

BB: Romania's like-for-like sales increased 8.9% despite being impacted by Covid-related trading restrictions in February and early March [this year]. Excluding the additional month of business included in the prior year comparative, which is there to align to Kingfisher's reporting calendar last year, the business kept its retail loss flat at four million pounds. This represents significant progress from the 12 million pounds loss recorded three years ago.

BB: ‘Other’ consists of the consolidated results of our new businesses, Screwfix International, NeedHelp and franchise agreements. Due to these businesses being in their early investment phase, a combined retail loss of 30 million was realised as they scale up for growth. Our Turkish JV contributed an equity-accounted retail profit of four million pounds, up three million from prior year.

BB: To slide 25 and the movement in Group retail profit. In constant currency, this was down 206 million pounds or 27.1%. The lower sales and gross margin rate, as already described, contributed 168 million to the overall decrease. We also had a normalisation of Covid-related underspend in the prior year amounting to 17 million pounds. The principal areas where we normalised spend were marketing, advertising and travel.

BB: Operating cost inflation was 77 million pounds, largely driven by higher staff and utility costs. We were able to fully offset this increase by flexing our staff costs, and were supported by reductions achieved as part of our strategic cost reduction programme. Operating costs associated with net space investments were 20 million pounds, mainly driven by new stores at Screwfix and in Poland. And finally, we spent 8 million more year-on-year on the development of our new businesses.

BB: To slide 26 and the summary of cash flow movements during the period. We generated EBITDA of 811 million pounds in H1. The working capital outflow of 223 million pounds was the result of an increase in inventory of 395 million pounds partially offset by net movement in payables and receivables of 172 million pounds. The increase in inventory, as Thierry described, was largely driven by inflation and store expansion. The balance is explained by the Group's proactive inventory purchases from Q4 last year. This was done to rebuild product availability, build seasonal and buffer stock ahead of peak trading, and to buy-in ahead of forecast cost increases. The net increase in payables largely reflects the timing of inventory purchases and higher VAT creditors.

BB: Capital expenditure in the period was 184 million pounds. Free cash flow was 104 million pounds. As previously guided, in February we paid 40 million euros or 34 million pounds to the French tax authorities with regards to a historic tax liability. The amount was fully provided for in prior periods.

BB: Dividends of 172 million pounds were paid in relation to last year's final dividend, and a further 218 million was returned to shareholders via our share buyback programmes. Overall, this resulted in a net decrease in cash of 329 million.

BB: Moving to slide 27 and our currently liquidity and financial position. As of 31 July, we had over one billion pounds of total liquidity available, including 479 million of cash and an undrawn credit facility of 550 million. The facility has been extended by one year to May 2025, and as a reminder is linked to sustainability and community-based targets. We have no significant financial debt, and our net leverage was 1.3 times EBITDA as of 31 July.

BB: Turning now to slide 28 and an overview of our work to increase productivity. At the start of 2020, we initiated a programme to reduce costs through initiatives covering all of our retail banners and Group teams. In stores, we have focused on increasing staff productivity, for example through the use of technology such as self-checkout terminals, and through the use of analytics and operating best practices to reduce stock shrinkage. We have also continued to optimise our 1.9 billion pounds of Goods Not For Resale purchases, with a range of projects, led by both category managers that operate across banners and local procurement teams. There are 220 such projects currently in train, 70 of which each deliver more than 250,000 pounds of annualised savings. Our teams also continue to work on distribution centre and logistics network optimisation. Thierry has already mentioned the material space reductions in France over the last two years. We've also realised efficiencies in the UK through the opening of a new bulk distribution centre for B&Q and the automation of Screwfix operations in Trentham. Across our Group and banner head offices we are seeing savings of overhead expenditure, including through the expanded use of our shared services centre in Poland. And finally, we continue to negotiate favourable lease terms at B&Q, with 34 lease re-negotiations completed in the last 12 months, realising an average net rent reduction of 19%. Initial results from our five 'rightsized' stores to date are positive, with good sales retention and improved profitability, and many more opportunities identified and being planned for.

BB: Finally, moving to slide 29 and our outlook and guidance for the full year. Further technical guidance can be found in the appendix on slide 36. We've made an encouraging start to the third quarter across all our markets. Like-for-like sales for Q3 to date are down 0.7% representing growth of 15.2% on the 3-year basis. And we have seen resilient trends in our outdoor, kitchen and bathroom categories.

BB: Overall, our first half performance and current trading are consistent with the full year profit guidance we set out at the start of this year of 770 million. For the balance of the year, we have run several trading scenarios to take into account the potential for a more uncertain macro-economic environment. These point towards a range of outcomes for the full year adjusted PBT of between 730 million and 770 million.

BB: You can expect from us a continued focus on execution against our strategic objectives and further market share growth. We expect gross margin in the second half to be up year-on-year, resulting in a full year gross margin that is in line with our pre-pandemic level of 37%. We are also accelerating our investment in Screwfix France and have decided to make a further 10 million of P&L investment this year, to speed up the start there. And given the uncertainty levels, we will continue to be active and responsive in the management of the Group's operating costs.

BB: Regarding inventory, we anticipate our stock levels to reduce in the second half, related to the sell-through at normal prices of a large part of buffer stock, which was previously held to protect product availability. With that, let me now hand back to Thierry to summarise.

TG: Thank you, Bernard. And to briefly summarise here on slide 31. Kingfisher has delivered a very resilient first half of sales against a backdrop of a strong comparative period and a challenging economic environment. We made further gains in market share in each of our key geographies, supported by demand both from DIY and trade customers. We are delivering on value for our customers at a time where they need it most, and we continue to effectively manage the pressures from the current environment. With the business and our balance sheet in a strong position, we continue to deliver against our strategic priorities and invest in opportunities to drive growth. And our shareholder returns remain attractive as we remain confident in the opportunity for growth and cash generation.

TG: Thank you all for listening this morning and Bernard and I will now be happy to answer any questions.