Kingfisher plc Half Year Results 2022 – Q&A Transcript – 20 September 2022

Speakers:

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Pam Liu (PL), Morgan Stanley

Simon Irwin (SI), Credit Suisse

Richard Chamberlain (RC), RBC

Warwick Okines (WO), BNP Paribas

Adam Cochrane (ACo), Deutsche Bank

Georgina Johanan (GJ), JP Morgan

Kristoff [operator] (K)

MN: Thank you Thierry and Bernard. So, let's start with Q&A from the audience here. So as usual, please wait for the microphones to get to you. State your name and institution please. And let's start with Anne.

ACr: Thanks. It's Anne Critchlow from SG. I've got two questions please. So first of all on inflation. Are you seeing inflation roughly in line with the market or have you broadly invested in price? And then secondly on Screwfix France, could you talk a bit about any customer overlap between your current Screwfix France sales and maybe Brico Dépôt, and how that's maybe affecting your positioning of the stores there?

TG: Thank you, Anne. Starting with the first topic on inflation. For us, we are always starting to look at price index first and we are happy with the price index. We had already very good price index in January. We continue to have very strong price index while we speak. And at the same time, we consider we have very effectively managed our gross margin – engaging with suppliers, hedging. So I would say overall, we're very happy with the H1 management of price index and gross margin.

TG: Now, as we mentioned, we started to see early signs of peaks for some raw materials like metals and plastics. Clearly the peak is behind us. Freight – costs are down. Dollar is strong, but at the same time, the usual practice in Asia - because we are mainly buying in dollars in Asia - the usual practice in Asia is when the dollar versus the Renminbin China is strong in fact, you can discuss and negotiate with suppliers. So that's what we see at the moment. Obviously, some other suppliers, more in Europe, we continue to see inflation, but overall we start to see some prices down for some of our products.

TG: Screwfix France, we usually have the same question in the UK. Screwfix is really focused on electrical, plumbing, relatively small and technical devices and the overlap with our other French banners is relatively small, even with Brico Dépôt. When you go to a Brico Dépôt it’s a world of building materials, paint, etc.

TG: And at last I'm not afraid of cannibalisation to be honest. Each time you are afraid of cannibalisation you have a competitor that comes, so it’s better for us to be there. If there is a relatively marginal cannibalisation, it’s totally acceptable, and that’s what we are driving in our other markets. We believe in different banners. Sometimes they have a small overlap, but that’s part of the strategy.

ACr: Thank you.

TG: You’re welcome.

MN: Can we go to Pam please?

PL: Pam Liu from Morgan Stanley. Three questions, please. First, I'd like to get behind the sensitivity range of your adjusted PBT for the full year. For £730m, what are the exact scenarios you assume to get to that number and what could that mean for the year, even after? Particularly how much of it is driven by volume and pricing? And second of all, given the amount of fixes you have already completed and the number of flexibilities you have to manage ongoing costs, can you commit that your margin today is largely sustainable, doesn't matter what happens going forward? And the third question is with online marketplace, would you be-

TG: May I ask Pam, do you mean profit margin or gross margin, to be precise?

PL: Both.

TG: Both. Okay. I shouldn't have asked!

PL: And with the online marketplace, can I check if you are happy to disclose a full year impact on revenue and profit? Thank you.

TG: I think it's more or less three questions for Bernard.

BB: Look on the guidance we've given, on the £770m - and I'll reiterate that - what we're seeing in the trading to date is fully in line with £770m, and I can rattle off all the positive signs we see. Now however, there's a market-wide expectation around uncertainty, be it consumer and macro. So our objective is to be transparent to say 'what could that do to us?'. And that's the only thing we've done. So we've run a couple of scenarios and then said 'what's the range of outcomes?'. And that's represented in the £730m to £770m.

BB: Now exactly what - there are elements of trading, costs, other - many things could come into play. It depends on timing and severity, but we're comfortable that those scenarios lead us to the £730m to £770m. But again, I'll reiterate the current performance all shows we're on track to £770m. And some of the things that Thierry mentioned, B&Q sales are up from Q1. We've had an excellent start to Q3, as you could see. Big ticket items are holding up well, the orderwell is also holding up well. Thierry mentioned a couple of things around net customer growth, that is continuing, and also we've got some resilience in the business. If you look at repairs, maintenance, non-discretionary, that's a large proportion of what we do. And we are very well positioned with our product and brands. Again, Brico Dépôt, hard discounter, OEB, being our prime differential. So we feel very good. And again, tracking towards the £770m.

BB: Now within the scenarios, let's just go onto your second question. And as Thierry also explained, we've got levers we can pull should things move less good than we anticipated. And we've shown that flexibility in the pandemic. We continue to monitor it and it will be the levers that we highlighted, in terms of what can you do further on your staff costs, what can you do on your discretionary spend, and if need be, but that would be the last resort, what do we do with investment and ranging. And we've got quite a few levers we can pull, should things happen.

TG: And marketplace impact?

BB: The marketplace impact on revenue. So the marketplace, ultimately what we take is the commission revenue. So one is GMV, the other is commission revenue. And as it's scaled up it will be more, but for this year and the overall scheme, it will be limited. We're not guiding to an exact number.

TG: Maybe, let me just take a few minutes to give some colour on the current trading because that's important. The way we look at our business, in fact we have three kinds of categories. So you have seasonal categories; what I would call ‘core’ categories like building materials, electrical, plumbing, hand tools, paint as well; and we have the big projects like kitchen, bathroom, and storage. So for us, we are looking at what's going on around us. What is most critical is to look at the core and kitchen, bathroom, storage categories because in H2, seasonal won't be there and seasonal is much more volatile.

TG: So we are really tracking that very carefully. And what I can tell you, if I look at the last three weeks, so last three weeks is ‘back to school’. People are back. They're not traveling. So probably from August 28 to this week, we are seeing a positive one year like-for-like on every category except outdoor. Including kitchen, including bathroom, and with a very strong acceleration around electrical, plumbing, heating, insulation. To give you some figures, I was even surprised when I checked the past days. When you look at the insulation category across the Group for the past three weeks, the group is up 70% versus 2019 and 32% versus last year. And if you look in the UK at B&Q, B&Q is up 110% versus 2019, and 82% versus 2021.

TG: And we have dedicated campaigns - I could give you a few examples. We are the market leader. The key thing in insulation is loft roll. We are tracking the market share. We are gaining share. We are the absolute market leader because we want to be the best. And the volume increase, the sales volume increase of loft roll at B&Q is 260% versus 2019, because we're working hard.

TG: So that's what we see today. So when we say, well, we are comfortable with £770m when we look at current trading, there is no sign in our current trading that something is different. But we have gotten pretty expert at trading scenarios. We have managed Covid, so we were running scenarios all the time. We keep this practice. And I think in such a volatile environment, we consider that running scenarios is a good practice because if you have scenarios, then you can decide the cost base and inventory base. So that's what we are doing, and that's why we are, again, fully in line with £770m, we feel it's reasonable to speak of scenarios.

MN: Let's go to Simon please, in the front row.

SI: Hi, it's Simon Irwin from Credit Suisse. Three for you. Firstly, can you just talk a bit about Poland? Can you break down the performance this year between the low base, the benefits you may have seen from Leroy Merlin and potentially the benefits you may have seen from refugee and population growth? And also, how do you see the outlook for next year? Secondly, well obviously we can't expect you to underline margins for next year. Can you just talk about how you are thinking about some of the opex for next year, in terms of utilities, labour, etc? And thirdly, Screwfix was a bit softer than expected in Q2, can you give us some thoughts as to why that might have been the case?

TG: Poland is very encouraging, in short, because we are the number one, we have the best brand image. It is absolutely fair to say, Simon, that last year our stores were closed for several weeks. So we know we have to acknowledge that, and that was indeed in our forecast. But you are right as well to say that, I think the Polish market is, for home improvement, relatively strong because we have millions of refugees. And on top of that, we are strongly gaining market share. If you follow the GfK data, we are really gaining a very significant amount of market share.

TG: The other thing I would like to mention before discussing the future is we have opened three stores in H1, we have opened two more stores this summer, so we already opened five stores, we will open more stores in the second half, while our main competitor you mentioned opened one store. So the impact of what's going on is on sales but as well on your plans for the future. What we see is we are gaining share, and we have clearly stronger expansion versus our competitor.

TG: So then the future is difficult to guess. What I've seen in my previous life, including in Asia, when you have such an emotional boycott against somebody, it doesn't disappear overnight. Obviously, things can change, but I do believe the brand perception of the customers we have gained for many months will not disappear overnight. We have a great price index, really, we are speeding up our expansion, so we are in a good position for the future. I will let Bernard say a few words about a few of the components of 2023.

TG: Screwfix, again, we always forget the like-for-like of last year, so I keep that with me, because Screwfix H1 last year, +26.8%. Well, you don't see that very often in retail, so obviously, when you do +26.8%, you have a small decrease this year. I know that is not too bad versus our main competitor, if you look at the figures, which was not the case before. I see a very good price index in Screwfix. We opened 31 stores in H1, we never did that before. We are in line to open 80 stores this year, we never did that before. So it shows how confident we are. I think things are moving well, with a lot of progress on the digital front, on Sprint, a lot of progress on the Screwfix side. So, on 2023…

BB: Yes, obviously the call that you had was around opex, so I think there are things that are going down. Freight, as Thierry mentioned, is coming off its peak, which is a good thing, and obviously, that will then roll into the cost of inventory and ultimately in the cost of goods sold. There are things that will not change. A large part of what we have are rentals and depreciation, so that's fixed. And then there a couple of things which are up. So I would say for wages we're generally in line with the rest of the industry.

BB: Then there's the part of energy, which I think has been mentioned by a couple of other retailers. For us, it's a small part of our operating cost. In the £77 million of inflation, which I highlighted in the profit bridge, part of that is increased utility costs. The impact is different by region, the UK versus France, given the different profiles of the business but also the different way in which energy contracts are contracted.

BB: For this year, we're basically hedged, so we've got full visibility as to what it's going to be. Next year is only partly hedged. So what do we do about it? Obviously, we've got a number of longer term initiatives around reducing our scope 1 and scope 2 energy spend. So, heat pumps, solar panels. But also, more recently we're taking measures in terms of temperatures in store, lighting, at what time do you put the lights on, lights off, more extensive use of building management, and even, what time do we charge the forklift batteries to try to mitigate some of those costs. Then we'll see a little bit what the measures that for example have been announced here in the UK will do, but that's still uncertain. So I think within the guidance we've given for this year, we know what it's going to be. Next year, it's still a little bit too early to tell, but we're very much focused on that part.

MN: Richard.

RC: Thank you. Richard Chamberlain at RBC. Can I ask a couple of questions please? One on inventory. You've talked about selling down the buffer stock you've built up. How much stock, or what proportion would you say relates to this rebuild, or stock that you've bought in advance? And are there any particular areas that's concentrated in? And then the second one, Thierry, I wondered if you could give a bit more colour on these new trade OEBs that you brought in, new ranges. Is that very much focused on the UK, Tradepoint, or is that actually right across the Group that you've brought in those new brands and ranges? Thanks.

TG: Thank you Richard. So I start with inventory but Bernard, you correct me! So what we said is about 70% of the inventory growth is inflation and new stores, so the answer is about 30% is what I would call buffer stock. As I think Bernard explained, we decided in summer 2021 to purchase more, for the reason of global supply chain issues, to be ready for the peak, and as well, we estimated we should buy [ahead of] expected inflation. So I would say in this buffer stock you have two kind of things. Rather, permanent product that will gradually disappear. Why so? Because, for example, during Covid, the supplier lead time sometime was multiplied by two, so we renegotiate the supplier lead time. So you put that in the system and then you know you decrease your stock. There are multiple parameters in our supply chain system that we increased during Covid, that we already moved back to the previous parameters. So over time, we're absolutely sure that those products will be sold at normal prices.

TG: Then we have a little bit more seasonal product than last year. And to be very, very clear with you, we have decided that this year to have very limited clearance in garden furniture, could surprise you, because we had such a good purchasing price that it would be silly to do so, and will purchase the new garden furniture at a much more expensive price than the one we do. So in fact, this year, we decided to have very limited garden furniture clearance, because that's very good product, we have great purchasing price, and we'll keep some of this stock for the season 2023.

TG: Go ahead, Bernard.

BB: For the complete picture. So as we said, delisted is lower than it's ever been, provisioning rates are lower than the historic range, so we're happy with that. Also, our stock is not perishable, or is not subject to fashion. So we are carrying it over, especially if we bought it more cheaply than we would have to pay now for that stock.

TG: Then on trade OEB, clearly that's a Group policy. We already, everything around OEB is managed by the Group, we have consistent ranges across banners. Usually it starts from one banner. If you take a brand called Flomasta or LAP, it was started at Screwfix. And gradually, you can find those brands at TradePoint, but as well in some of our stores in France. Or Titan, that's another very, very strong power tool, pressure washer, etc., dedicated for some of those banners. So that's a Group policy that allows us to have the scale.

MN: Can we go to Warwick please, in the second row? And then Adam.

WO: Thank you very much. Warwick Okines at BNP Paribas. You gave a very helpful profit bridge year-on-year in the slides, but if we just think about the UK profit bridge since Covid, your like-for-like sales are up very strongly and your profit margins are flat. Can you just make some comments about that? What does that tell us about the mix of the different businesses and products within that, and your ability to leverage costs? Thank you.

BB: I mean, I would say it's up 3.9% year over year, which, obviously, in that are 88 new store openings for Screwfix. As we mentioned, the Covid underspend was especially there this year. And obviously, we've got inflation, including the utilities inflation, which I mentioned. And if I look at the CTS rate compared to 19/20, we were at 27.6%, compared to 28.5% in 19/20, so reduced the overall cost pressure. But obviously, something we continue to look at and continue to work at.

MN: Can we go to Adam please?

ACo: It's Adam Cochrane at Deutsche Bank. Couple of questions please. A number of retailers have given us the utility costs either as a percentage of sales or in absolute numbers. Would you be able to provide that, just so we can have a view on our sensitivity on what the government may or may not do? But it would just help us a little bit with next year's forecast if we have a starting point for what it would be this year.

ACo: Secondly, in terms of your consumer and trade surveys where you talk to your customers, are they saying anything? Are you seeing full order books of the trades people? I'm hearing that some consumers are taking longer to make decisions on bathrooms, kitchens, bedrooms, etc. Are you seeing any of that? And then third question, finally. Given a slightly tougher economic environment, do you think there's a chance that you'll continue to take share from independents and other smaller players, who may find it more difficult than yourselves to secure, whether it's hedging on utilities, or whether it's better input costs? Thanks.

TG: Maybe I start with the second and the third and we come back to utility cost. I think, customer surveys, we are running surveys around 6,000 to 7,000 customers, so it's very large sample quarterly, with the same questions regularly every quarter. In summary, surprisingly positive feedback. Obviously, we have some feedback slightly down, but overall, if I summarise, the sentiment for the future is relatively strong. And it seems when we hear those customers, and again, it's a very large sample, they are not cutting home improvement as a priority. They, for different reasons, are working from home, you know my speech, you have great new trends, people working from home, part of our sales are maintenance and repairs. So overall, that's what we see.

TG: Even the new things, I would say you have a large proportion of people that say, "Well, I don't change my plan." You have a small proportion of people that say, "I delay my plan." But in fact, we have as well a new proportion of people that say, "Well, I want to invest on energy efficiency now." And to be honest, that's what we start to see in the last weeks, that we are seeing very strong demand on insulation, new heating system, etc. And that's pretty consistent in the UK and France. Poland, slightly different. So, that's the result. You could say, "Well, home improvement is more homeowner." When we look at the demographic of B&Q, we have high proportion of homeowners, probably a bit middle class, the same in France. People have been moving the past two years, and you know that when you move, you spend more. So, that's what we see. In short, market share is absolutely our priority number one. We believe that in retail you are successful if you drive the top line first. It doesn't mean you are not interested by the rest, but there is an order of priorities, and that's our clear priority. We keep investing for growth, we are opening more Screwfix stores, we're opening in France, marketplace investment, we are opening in Poland, we are in a good place for TradePoint, so we are really preparing ourselves for growth in the future, we are not slowing down investment.

BB: Yes, I mean, on the energy, I'll spare you going to our responsible business report looking at our energy spend and multiplying it by the energy rates, but it's around 1%. But be careful in that there's obviously a mix of countries which obviously are subject to different rates and contracting. For example, France is much longer-term contract, the UK is much more on a six-month renewal basis. And also the mix of electricity and gas, it's about two thirds electricity and one third gas, that plays into that equation.

MN: Okay, I'm just going to take a pause for the questions in the room now and just check with the phone lines to see if there's anyone on the lines who wants to ask a question. So can I check with the operator, Kristoff, at the back?

K: Thank you Maj. Everyone, we will begin questions from the phone line. To ask a question on the phone line, please signal by pressing star one on your telephone keypad. We will pause for a moment to assemble the queue.

K: We take our first question from Georgina Johanan from JP Morgan, please go ahead.

GJ: Good morning. Thanks for taking my questions. Two quick questions for me please. One, just some clarification, around the energy bills, the 1% that you referenced, was that one percentage point of opex bill or 1% of sales, please? And then the second question was - the stats you gave around insulation, and so on and so forth, were very helpful - can you just clarify what proportion of the sales mix is insulation and other direct energy efficiency products that consumers might buy? Roughly what proportion of your mix would that be please, on a normalised basis? Thank you.

TG: Go ahead, Bernard.

BB: Let me answer the around 1%. It is for the year 22/23, with all the hedges and contracts we have in place, and it is a percentage of total sales for this year.

TG: Second question is we consider we have about 10% of the Group sales that are related to energy savings, or water savings, but large part is really energy savings. And we are working hard for probably one year now to extend those ranges, to bring new services, new partnerships, new tools, I described some of these and you will see more. And we are, on prices, clearly investing on those products to make sure we have a very strong price positioning to gain share.

GJ: Thank you very much.

TG: You're welcome.

K: There are no further questions on the conference line, so I will now hand over back to Maj.

MN: Okay, thanks Kristoff. Just checking for any further questions in the room here please. No, well I'll take that as a no. We're all done. So, Thierry, I'm going to pass back to you for concluding remarks, please.

TG: Thank you for being with us this morning, thank you for your questions. And I hope you see our confidence in the current trading, our confidence through the share buyback, the dividends we're giving back to our shareholders, and as well as we are continuing to invest for growth. So very happy to see you very soon and thank you for being with us this morning. Thank you.