

B&Q Limited

Strategic report

for the year ended 31 January 2022

The directors present their strategic report on B&Q Limited (the 'Company') for the year ended 31 January 2022.

In preparing this strategic report, the directors have complied with s414C of the Companies Act 2006.

Principal Activity

The principal activity of the Company is the retailing of home improvement products and related home improvement services in the United Kingdom.

Results and Dividends

The profit before taxation amounted to £300.3m (2021: £211.1m) and profit after taxation amounted to £245.8m (2021: £170.8m). A dividend of £nil has been declared and paid in respect of the period (2021: £nil). The directors do not propose any further dividend be paid.

In the period, included within the profit before tax was a net £0.4m exceptional credit (2021: £7.6m exceptional credit) in relation to the ongoing estate transformation plan. Further details are contained within note 5 to the financial statements. Excluding the credit (2021: credit) from the period's performance would see the reported profit before tax of £300.3m (2021: profit before tax of £211.1m) move to a profit before tax and exceptional items of £299.9m (2021: profit of £203.5m).

Business review and future developments

B&Q Limited's total sales increased by 12.7% to £4,050.6m (LFL +12.2%), with 2-year LFL sales up 26.9% driven by double-digit growth across all categories. 'Big-ticket' items saw continued strong momentum, with showroom (kitchens and bathrooms) in the top-performing categories.

B&Q opened 11 new stores in FY 21/22, including five compact stores and six further store-in-store concessions within ASDA supermarkets.

The net asset position of the Company at 31 January 2022 was £2,525.0m (2021: £2,260.8m).

Working alongside the ultimate parent entity, Kingfisher plc (the 'Group' or 'Kingfisher'), the Company introduced a new strategic plan, 'Powered by Kingfisher' in June 2020. The new strategy will rebalance local and Group responsibilities, with the overall aim of addressing the significant growth opportunities seen in the home improvement market. To serve our customers effectively, we need to be more focused on digital and on customer services, provide more choice and make the most of our strong store assets, to give customers a quick and convenient experience. Further details on the strategy are included in pages 6 - 17 of the Kingfisher annual report.

While all stores remain open, the operational status of our stores in FY 21/22 has evolved in line with the prevailing COVID-related restrictions and government advice within our markets. B&Q remains committed to meeting the needs of our customers safely, and ensuring colleague safety and wellness.

Restrictions imposed from late December 2020 meant that discrete areas of certain B&Q stores (e.g., showrooms in England, Wales and Scotland) were temporarily closed until early-to-mid April 2021. During this period of restrictions, B&Q operated a virtual sales model for kitchens and bathrooms. These restrictions were lifted from 12 April 2021 at which point the showrooms were reopened; however the virtual sales appointments are still available for customers.

B&Q Limited

Strategic report (continued) for the year ended 31 January 2022

We are very mindful of the heightened macroeconomic and geopolitical uncertainty that has emerged since the start of the year. Everyone at B&Q is shocked and deeply concerned by the events that have unfolded in Ukraine over recent months. With regards to business impact, we have no direct exposure. On 1 March 2022, we took the decision to stop selling the limited number of products directly sourced from Russian and Belarusian suppliers, and those products have been removed from our shelves. With regards to indirect supply, we have engaged with our suppliers to ensure materials or components are no longer sourced from Russia or Belarus.

We are committed to continue managing our gross margin effectively in an inflationary environment, as we did successfully in FY 21/22. Furthermore, we will remain active and responsive in our approach to managing our operating cost base. In addition to benefiting from ongoing cost reduction initiatives, we can rapidly flex our cost base in the face of changing demand, as evidenced during the COVID pandemic. The COVID crisis has established longer-term trends that are supportive for our industry – including the renewed importance of the home, more working from home, and the development of a new generation of 'DIY'ers'. We expect these broad trends to endure. With our strategic progress and accelerated investments for growth, we are well positioned to capitalise on these positive, long-term market trends and are confident of continued outperformance of our markets.

Key performance indicators

The directors monitor progress on the overall Company strategy by reference to four KPIs which have been considered in the sections above. Performance during the period together with historical trend data is set out in the table below:

	2022	2021
Sales growth/(decline)	12.7%	13.0%
LFL growth/(decline)*	12.2%	13.2%
Adjusted PBIT**	£278.0m	£182.5m
Sales per sq. m	£1,882	£1,669

The directors have adopted various Alternative Performance Measures (APMs) above, also termed non-GAAP measures, of historical or future financial performance, position or cash flows other than those defined or specified under FRS 102. These measures are not defined by FRS 102 and therefore may not be directly comparable with other companies' APMs, including those used by other retailers. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, FRS 102 measurements.

* LFL stands for like-for-like sales growth representing the constant currency, year on year sales growth for stores that have been open for more than a year. This measure is used widely in the retail industry as an indicator of sales performance on a comparable basis.

** Adjusted PBIT is comprised of profit on activities before interest and taxation (PBIT) after excluding the impact of exceptional items.

Section 172(1) and stakeholder engagement statement

The directors are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006 (the Act).

When making decisions, directors have regard to the interests of stakeholders relevant to the Company, as well as the likely consequences of any decision in the long term, the desirability of the company maintaining a reputation for high standards of business conduct, and employee interests where appropriate. They also fulfil their responsibilities through Kingfisher's highly developed framework, which includes but is not limited to Kingfisher plc Group policies, business principles and the Kingfisher Code of Conduct.

As is normal for companies that are part of a wider Group of entities, such as B&Q Limited, day-to-day management of the Company is delegated to executives who, in turn, engage management in setting, approving, and overseeing execution of the business strategy and related policies. The Board reviews financial and operational performance and legal and regulatory compliance pertinent to any decision they are taking.

B&Q Limited

Strategic report (continued)

for the year ended 31 January 2022

Section 172(1) statement (continued)

The purpose of the Company is to act as a retailer of home improvement products and related home improvement services within the Kingfisher Group of companies. As well as its affiliates in the wider Kingfisher Group in which it operates, the Company's key stakeholders include our customers, colleagues, suppliers, communities & non-governmental organisations (NGO's) and regulators & Government. While there are cases where the Board judges that it should engage directly with certain stakeholder groups or on certain issues, the size and spread of both our stakeholders and the Kingfisher Group means that generally our stakeholder engagement best takes place at an operational or Group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social, and other issues than by working as an individual company. Please see pages 62 - 67 of the Kingfisher annual report for details of operational and Group-level stakeholder engagement with the Company's stakeholders as well as those of the Kingfisher Group regarding issues to which the Directors must have regard.

During the year we received information to help us understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on our financial and operational performance, non-financial KPIs, risk, ESG matters and the outcomes of specific pieces of engagement (for example, the results of customer and supplier surveys and focus groups). As a result of this we have a view of engagement with stakeholders and other relevant factors which allows us to understand the nature of our stakeholders' concerns and to comply with our s172 duty to promote success of the company for the benefit of its members as a whole.

The Covid pandemic has required additional vigilance and we are firmly committed to meeting the needs of our customers safely, and championing wellness for our colleagues.

The directors acknowledge that every decision they make will not necessarily result in a positive outcome for all of our stakeholders. By considering the Company's strategic priorities and having processes in place for decision-making, they do, however, aim to make sure that their decisions are consistent.

The Board approaches stakeholder engagement in accordance with the Kingfisher principles of stakeholder engagement. You can find a full description of these principles on pages 54 and 62 - 67 of the Kingfisher annual report, though a summary of the items most specific to the Company can be found below.

Customer engagement

Customer safety and satisfaction are pivotal to the success of our business. The needs, behaviours and feedback of our customers are collected, assessed and used to develop our long-term strategy.

The Board receives regular updates on customer opinions from the business areas that interact with them. These updates include direct feedback, reports on customer behaviour, analysis of the Net Promotor Score and Customer Insight Reports, which are used to inform future investment decisions and identify key revenue drivers.

Customer feedback has been crucial in the year when testing new and improved customer journeys through the business, and even more so when adapting our customer experience and offering to mitigate risks to both customers and colleagues with regards to Covid-19.

Colleague engagement

An effective people strategy and strong culture are essential for the effective delivery of our strategy and ultimately our performance. Being able to attract, retain, and develop diverse talent is one important part of fostering a stronger, more inclusive culture, as is incorporating the views of colleagues into decisions and being able to accurately assess the impact of those decisions.

The Board has a programme of site visits and regular briefings from Executive leadership to allow it to assess the behaviour and culture of the business and receives regular updates on the Company's people strategy.

B&Q Limited

Strategic report (continued) for the year ended 31 January 2022

Section 172(1) statement (continued)

For example, throughout the year the Board receives updates such as the Whistleblowing report, regular Board updates on important matters affecting the workforce, and analysis from the results of the colleague engagement survey.

Recognising the exceptional circumstances the business was operating under, the Company's colleague forum (The B&Q People's Forum) met with the board four times during 2021/22 where ordinarily its meetings are held twice a year. This, alongside the colleague engagement tool implemented in 2018, has provided an opportunity for the views of colleagues to be regularly discussed and heard by the Board on a range of issues. The Board has used these views to influence their decision making during the year in relation to managing the business and trading through the Covid-19 pandemic.

Supplier engagement

To build and maintain trusted partnerships with our suppliers is critical to meeting customer needs and instrumental to the success of the business.

The Board receives frequent reporting from the business areas which interact daily with our vendors. The Board considers the impact to suppliers when making key strategic decisions relating to product ranges or supply and logistics.

Throughout the year the Company has engaged with suppliers to minimise supply chain impacts caused by Covid-19.

Shareholder engagement

Since the Company is a wholly owned subsidiary of Kingfisher Investissements SAS, a company incorporated in France (itself a wholly owned subsidiary belonging to the Kingfisher Group), all transactions are made with the best interest of the group companies in mind.

Communities & Non-governmental organisations (NGOs)

Being a responsible business encompasses all aspects of the way we work, from the way we treat our colleagues to our supply chain and our impact on the environment. We have clear policies and ambitious targets to ensure we take a consistent best practice approach and keep improving.

Concerns around the impact of businesses on the environment and their roles in society and climate change have increased. As a result, there are higher expectations on companies to undertake strong environmental, social and governance action.

As part of the Kingfisher Group, the Company aims to help customers have more sustainable homes. The Company sells a number of energy/water/heat efficient products like lighting, taps and low VOC paint. Initiatives are in progress to move to peat-free compost, integrate recycled plastic into our products, and increase longevity of some hand-tool ranges.

The Kingfisher Group is committed to specific environment based targets to be achieved by 2025-26. This includes using responsibly-sourced wood/paper products, becoming forest positive and achieving a new science-based emissions target for carbon reduction to support limiting global temperature increases to 1.5 degrees.

The Company has a charity partnership with the B&Q Foundation, an independent charity, helping to create better, safer places for people within our communities, as well as with Shelter, a charity tackling poor housing and homelessness.

The Board assesses the impact of the Company's operations on communities by incorporating ESG (economic, social governance) targets within the Company's remuneration packages and bonus scheme.

For further details on our work towards responsible business, see pages 23 - 29 of the Kingfisher annual report.

B&Q Limited

Strategic report (continued)

for the year ended 31 January 2022

Section 172(1) statement (continued)

Regulators & Government

The Board, in coordination with Kingfisher Group, engages with our regulators, government stakeholders and political representatives when required.

We must maintain the trust of our stakeholders to fully realise our purpose, provide employment opportunities, and contribute to the economic prosperity of the places where our people live and work.

All Company colleagues abide by the Kingfisher Code of Conduct that sets out personal and shared responsibilities for meeting high ethical standards and helps to promote a culture where transparency, honesty and fairness are the norm. The Code forms part of the contractual terms and conditions for all new colleagues and is communicated through a compulsory e-learning module for all colleagues as well as more detailed face to face training sessions for colleagues in higher risk roles.

During the year, engagement has focused on the continuing economic uncertainty surrounding the Covid-19 outbreak.

Having been classified as an essential retailer in most of its markets, the Company has worked closely with governments and regulators throughout the pandemic to adapt its retail operations in line with local requirements as circumstances evolved during the year and to support the enforcement of the restrictions by our teams and customers.

Principal risks and uncertainties

The key business risks and uncertainties affecting the Company relate to volatility in ongoing market conditions, competition and UK consumer confidence given recent challenges from increased interest rates and inflation. The Company's aim is to differentiate ourselves from competitors by leveraging in-depth knowledge of the customers' lives, homes, improvement projects and style preference.

The Company has been preparing for the new EU-UK trading relationship since the outcome of the UK Brexit referendum in 2016. Since the new Trade and Cooperation Agreement (TCA) came into force on 1 January 2021, we have been working to ensure we comply with the new requirements. We had taken several measures since 2016 to mitigate delays at the border as far as possible in advance of the new trading relationship, and continue to engage with our vendors to provide support on the new requirements where needed. Our teams are also continuing to work through the new requirements of the TCA and to limit the risk of delays wherever possible – for example, by introducing new IT and process changes. While we have experienced some relatively minor issues in exporting products to the Republic of Ireland due to overall market challenges, we are not experiencing any material challenges to our EU-UK flows to date. On tariffs, the direct impact resulting from rules of origin requirements are broadly neutral in comparison with our pre-Brexit position.

The other types of risks identified include external factors (such as competition, environment and regulation), systems and infrastructure, health and safety, employee risk, GDPR and the impact of contagious diseases.

The management of certain risks such as climate change, human rights and anti-corruption and anti-bribery matters is performed at a group level and therefore consideration and required disclosures including the associated mitigation of these risks is disclosed on pages 42 - 48 of the Kingfisher annual report.

B&Q Limited

Strategic report (continued) for the year ended 31 January 2022

Economic risk

The biggest economic risks facing the Company are weaker GDP growth in the UK, political uncertainty and social unrest, higher wage inflations (e.g. UK National Living Wage c.6.5% pa), significant cost inflation (across raw materials, utilities and third party labour) and uncertainty post Covid-19. All these factors are under regular control and part of the decision making process.

We have faced some disruption to our supply chain since the UK officially left the EU, with the largest impact on product moving from the UK to the Republic of Ireland. There has been limited disruption in the main flow of imports from the EU to the UK. The overall impact on the Company is therefore manageable. We expect that the initial issues around processes and systems interfaces that have affected the flow to the Republic of Ireland to be resolved over time, which should further improve the situation.

Following the COVID-19 pandemic and global disruption to ports and shipping, the business did experience some delays in stock arriving in the country. This supply chain disruption was compounded by the increased customer demand following the pandemic which lead to some availability challenges during the year.

These conditions also present economic uncertainty impacting UK consumer confidence. For further details of risk mitigation, please refer to pages 43 - 45 of the Kingfisher annual report.

Risk of adapting to consumer trends

The Company operates in an increasingly sophisticated and changing market. Customers are increasingly using the internet more interactively, not just to make purchases, but also to seek inspiration and ideas for their homes.

The ability to offer our customers a full and compelling omni-channel offering in terms of products, ideas, delivery options and innovations is becoming increasingly important and there is a risk that we fail to capitalise on the continued growth of the internet and invest in omni-channel technologies. We are managing the risk by performing regular market research.

Improving the Company's omni-channel offer forms a core component of how it will develop its customer proposition and the Company is investing to ensure it fully exploits not only its omni-channel capabilities, but also to ensure that it stays at the forefront of how to connect and engage with its customers through social media.

We will continue to monitor customer trends and focus on a mobile first experience to develop an attractive proposition for customers.

The Company continues to face pressure on pricing from competitors in the market, and inability to manage this risk could result in a loss of market share. We are managing this risk by building a strong customer journey including end to end project planning and ensuring robust supplier management processes are in place.

Systems and infrastructure risk

The Company's continued investment in delivering new and innovative products and solutions to its customers will continue to place increasing demands on our existing systems infrastructure. There is a risk that our infrastructure will lack the necessary scalability, flexibility and resilience to support its successful execution.

The Company has a programme to ensure that it focuses its information technology resources on both maintaining or extending the useful lives of its existing technologies and developing solutions that support revenue generative opportunities and productivity initiatives. Where possible, the Company is also seeking to eliminate complex or heavily bespoke technologies to reduce our running costs and to simplify processes.

B&Q Limited

Strategic report (continued)

for the year ended 31 January 2022

Health and safety risk

There is a risk that repeated health and safety failures could result in a major incident that is directly attributable to either a systematic or institutionalised failure in our health and safety management systems. This would result in damage to our reputation through adverse publicity, prosecution and censure. The Board is committed to creating and sustaining a safe environment for both our employees and customers, and regularly reviews and challenges health and safety performance, standards and targets across our businesses.

The Company designates a director with specific responsibility for health and safety. This person is then responsible for ensuring that a written health and safety policy is communicated to all employees, that appropriate health and safety arrangements are in place to protect our employees and customers and that we comply with local regulatory requirements.

An example of this is the approach taken when adapting our customer experience and offering to mitigate risks to both customers and colleagues with regards to Covid-19. The health and safety of our colleagues and customers has remained our top priority, alongside supporting the Government to limit the spread of the virus.

Employee risk

Retail is a people business and there is a risk that, given economic pressures, we fail to maintain the necessary investment in our people to ensure that we have the appropriate calibre of staff for specific roles; and that skills and experiences are deployed in the best interests of the individual and the Company.

The Company continues to invest in its people and is committed to ensuring that its people are given opportunities to develop themselves to the benefit of the organisation and its customers. This is done through a wide range of development opportunities ranging from store-based training programmes, supported by the delivery of nationally accredited and recognised qualifications and apprenticeship schemes to e-learning programmes.

The Company remains committed to the ongoing assessment and measurement of its people's engagement with the business, with employee satisfaction surveys completed across the business.

The Company has a partnership with the Retail Trust, offering health and wellbeing support to members, including emotional support, physical and mental wellbeing, career development advice and support with financial health.

The Company also has a renewed focus on the mental health and wellbeing of employees including a new e-learning programme dedicated to this.

Financial risk management objectives and policies

The Company's activities expose it to a number of financial risks including credit risk, foreign currency risk, interest rate risk and liquidity risk. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks.

As part of the Kingfisher plc Group, the Company's interest rate and liquidity risks are managed centrally by the Kingfisher Group treasury department. The Kingfisher Group treasury department has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and related finance costs.

B&Q Limited

Strategic report (continued)

for the year ended 31 January 2022

Foreign currency risk

The Company is exposed to foreign currency risk on its purchase of inventories denominated in foreign currencies, principally US Dollars. The risk is hedged using forward foreign exchange contracts. In line with the Kingfisher Group policy, such derivatives match a portion of the Company's committed and forecast inventory purchases in the next twelve months, and is monitored on an ongoing basis.

Interest rate risk

Interest rate risk arises from intercompany balances that bear interest SONIA plus a margin. The directors have reviewed the Company's exposure to interest rates and have concluded that the risk is appropriate in relation to the financial results of the Company.

Credit risk

The Company's principal financial assets are bank balances and cash, trade and other debtors, and investments.

The Company's exposure to credit risk at the reporting date is the carrying value of trade and other receivables, cash at bank, short-term deposits and the fair value of derivative assets. Trade and other receivables mainly relate to trade receivables and rebates which comprise low individual balances with short maturity spread across a large number of unrelated customers and suppliers, resulting in low credit risk levels.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

The Company, along with Kingfisher plc, regularly reviews the level of cash and debt facilities required to fund its activities. This involves preparing a prudent cash flow forecast on a 13 week basis, determining the level of debt facilities required to fund the business, planning for repayment of debt at its maturity and identifying headroom to provide a reserve against unexpected outflows.

Events after the balance sheet date

There are no significant events after the balance sheet date.

Approval

Approved by the Board and signed on its behalf by:



G Bell
Director

Date: 15 September 2022