Kingfisher plc Half Year Results 2023 – Presentation Transcript – 19 September 2023

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ACr: It's Anne Critchlow from Société Générale. I've got 2 questions, please. What percentage of GMV is online at B&Q these days, please, in the first half? And then secondly, on unsold seasonal stock, to what extent do you expect to sell this through at full price next year?

TG: Yes, thank you. Thank you for the questions. I think, again, the marketplace, we started last year. We are gradually growing our online penetration. So past months, if you look at GMV as a percentage of B&Q online sales, we were above 30%, even one monthat 33%, which is clearly ahead of our expectation. And Iberia as well, we are gradually every month improving the e-commerce penetration of the marketplace.

TG: On inventory, I will let Bernard give you a few data. But overall, we are pleased with the decrease of our inventory. Obviously, we have inflation on prices so we have to look at volumes. Our volumes are down 11% year-on-year. And clearly, we have ongoing plans to continue to reduce our inventory in the coming months. I will let Bernard comment on the seasonal part.

BB: Yes. Thank you, Anne. And just a reminder, obviously, seasonal is just a very small part of our inventory. If you look at our sales, it's 78% core/big-ticket, 22% seasonal and within that, a very small part is what we call perishable. So there's the natural perishable like horticulture. But the other elements, really, we can hold it over to the next year just as we've done in the previous year.

AC: It's Adam Cochrane, Deutsche Bank. First question I've got is on the chart, you showed quite helpfully about consumer confidence and various bits. But you talked about the French consumer confidence being at a 10-year low. The U.K. consumer confidence, as I see it, is not fantastic. How can you sort of explain the difference as to why the U.K. is performing so well if consumer confidence is one of the metrics that you're looking at to explain the weak France, but not the U.K.?

AC: And then secondly, the sales in certain areas are ahead of expectations, below in others. Can you help us benchmark what you're looking at for the second half in terms of your expectations, just so we can get a gauge of how aggressive or conservative you've been in terms of your sales expectations for the second half?

TG: Thank you, Adam. Let me answer the first one, and I will leave Bernard for the second one. I think it's indeed striking to see U.K. versus France consumer sentiment because when you look at the macro data, you would say, well, France is doing well. But the perception of the customer is very different.

TG: Let's start with France, just to give you a few anecdotes. Recently, we asked the French customer in a poll what was their perception of inflation, they say 18% on average. And you have every day in the newspaper in France the topic around food inflation, shrinkflation, maybe you followed that, and discussion between Carrefour and Unilever and the French government. So every day, the first topic is food inflation.

TG: You had the pension reform, the strikes and demonstration, including in early summer, you had, in fact, worse weather in France than the U.K. So I won't go into detail. It's always not very good to spend hours on the weather explanation. But in fact, it was always too cold or too hot, but it was really a horrible year for the French seasonal. You can see the seasonal sales. So today, you are in the back-to-school period, that's why we say we are seeing a slightly slower sales trend in Q3 versus Q2. That's what's on French customers' mind.

TG: U.K., again, you look at all the data, Q1 versus Q2 core, so core and big-ticket, just to clarify, it's everything that is not seasonal. So we follow the business in 3 categories: seasonal, big-ticket project and core. So core in the U.K., Q1, plus 1.9%; Q2, plus 3.8% increase; and Q3 to date is as well very healthy. We see a very healthy orderwell in kitchen and bathroom in the U.K.

TG: And in this survey, even though at relatively low level, clearly, we see positive signs in the U.K. So I would not play the economist and you are better placed than I am. But overall, that's what we are seeing, a very, very sharp difference between U.K. and the continent and still for Q3 today. Then for the [second] question, I'll leave it to Bernard.

BB: Yes. In terms of sales, a couple of things to comment. First is you have seen a helpful movement Q1 to Q2 with like-for-like sales down minus 3.3% in Q1, then easing off to minus 1.2% in Q2. We've seen minus 2.4% in the most recent trading, so a little bit of pressure there. But what I would comment is, one, we have less seasonal in the rest of the year. And obviously, as you've seen in the numbers, that's had a big impact on the overall like-for-like.

BB: Two, the compares become easier. Poland was, last year, 25.9% like-for-like; in the second half 2.7%, as the dynamics started to change, so that compares [are] easier. And also in the U.K., the compare becomes slightly easier. And then what I would say is the good trends we're seeing both in like-for-like but also in volume in terms of core and big-ticket. And hopefully, that will be helpful in H2.

WO: Warwick Okines from BNP Paribas Exane. Just following on about the second half thoughts and a question on pricing. Is it reasonable to assume that the gap between your volume and value of inventory at the end of the first half at 9% is a reasonable guess for the second half inflation? Or does it fade quite quickly towards the end of the second half? And perhaps you could give us some early thoughts about pricing in the next financial year.

TG: Yes. Thank you, Warwick. That's inflation, pricing, let's start with inflation. The peak of inflation for us was H2 2022. We still see a meaningful inflation level in H1. We never guided on inflation, so I will not start today. You can try to guess from inventory, just to be careful of the inventory mix versus our sales mix. So overall, meaningful inflation in H1. We still expect inflation in H2, but at a lower level, but we still see inflation coming in.

TG: Pricing, we continue to see a very rational behavior for everyone. So that's good. We have the pricing power in many of our markets. But in no market, including Poland, we have seen competitors being irrational on prices. What we have seen is clearance. We have seen some competitors having too much stock, but it's pretty rational. You can't blame that as irrational. So we have seen more clearance in H1.

TG: We have seen [Leroy Merlin] in Poland being very active in H1 to get back market share on their promo, while we keep a very disciplined promo plan in Poland in H1. We had our plan, we stick to our plan. So that's why– for us, it's very important to keep a good price index. We believe the market will stay rational looking forward. And at the same time, to keep a relatively disciplined trading, not to get crazy on promo, we have our plan, we prepare ourselves and we stick to it, but we want to keep a very good price index.

BB: And maybe just a technical note on the inventory, the quick math indeed says value down, volume down one minus 2, the other minus 11%, inflation must be 9%. But what you're not taking into account there is also a mix effect in terms of ranging in stock. So the actual inflation in stock is lower than that number. And also the CPI, we've seen falling over the period of H1. So that will also have a further impact on lowering CPI in H2.

RC: Richard Chamberlain, RBC. Just linked to Warwick's question, Thierry, I just wondered if I could ask about sort of price perception in the marketplace. I wondered if you think the marketplace in the U.K. has actually improved the price perception because you've got different levels of price point, obviously, a much wider range. And could that also be the case when that's rolled out to other markets?

RC: And then I just also wanted to ask about Screwfix France. It sounds like you've just cut back your planned number of openings a little bit for this year. But I mean, how does that affect your longer-term view of the potential for Screwfix in France?

TG: Thank you, Richard. I think first, on marketplace, again, to be very honest, we don't see that as a clear point of improving our price image. We don't see that as a strong point today. It's really choice. You start with your search on Google, you have more choice. We are creating more traffic, and that's benefiting our third party and as well our own business online. So today, we are really pleased with the traffic generation, conversion, how much it flows to third-party, first-party. Price is okay, but I would not say this is a key driver of the traffic. It's really a choice, quality of the range, et cetera.

TG: On Screwfix France, to be fair, again, I would not take this 25 [to] 20 stores as a big thing. 20 is still a very big number. For years in the U.K., we're opening 50 stores. And I will not comment too much on competitors in France and elsewhere, but 20 is a very strong number. It's fine-tuning. We have decided to slightly slow down to focus on existing store sales. That's not -- there is no big thing behind that.

TG: And again, very pleased with, let's say, the industrial KPIs of Screwfix France that are key. So first is the repeat of order, you record. What is a repeat? That's critical. We are watching that every week with John and the French team, price positioning versus competitor versus Amazon, ability to deliver on time, quality of the range, et cetera. So all those KPIs are right.

TG: What I said in March is the only thing we don't know is you need a bit of time to check the maturation of the store sales is in line with your expectation. Today it's really a few months, all according to plan, but we need more time to say, yes, that's a big success and we go for the

600.

AG: Ami Galla from Citi. I'll just ask 2 questions. One on Poland. Can you give us some color on the disruption that you experienced in Poland because of the rollout of digital stack that you mentioned in your release? How material was that on numbers? And is that behind us, really?

AG: The second one, the Screwfix expansion online, is there a cost number associated to that? And medium term, what is the ambition and what is the sort of fulfillment cost associated with that, that we need to think about going forward?

TG: Yes. Thank you for your 2 questions. You're right to spot that we have changed our technology in Poland just between Q1 and Q2. But clearly, I would be happy if it was the reason of Poland issues. Yes, we have been working on that. But clearly, the market environment and the consumer sentiment was the big thing. To be fair, I think the Polish team did all the right things. They are gaining share over 2 years. We have a great price index. We are managing our costs. We're still opening stores. We are improving our online operation. There is nothing much you can say.

TG: We were expecting a much better Q2. When we looked at last year, Q1, we did plus 55%. Q2 last year, we did plus 9%. And looking at the pace of post-war impact, boycott of our competitor, we would have expected a better Q2 looking at last year. It didn't happen, but it's not really linked to our digital initiatives.

TG: Screwfix online, I think 2 things. We really believe that for this brand, for the quality of the model, we have a lot of opportunities across Europe. We believe France is our first target. We have been very successful you see in Ireland, by starting online and then gradually when we're opening the first store.

TG: So we are getting ready in Europe. We are establishing the brand in more countries. We have now a distribution center in France in the European Union, so we can deliver easily, and let's see in the future where it goes. I've always said that the countries where Kingfisher has a presence are an easier platform for Screwfix, and we see that today in France by supporting Screwfix France. But Screwfix online, let's see where it goes. We are very excited by this opportunity. Do you want to add anything, Bernard?

BB: No, I mean, just to say, if you look at the U.K. Screwfix model, it's already mainly online, nearly 60%, and we're able to manage that very effectively and successfully. It's one of our most profitable banners. So we're looking to replicate that successful model in France also with stores or through an e-commerce model in the rest of the year to start off with.

GP: Georgios Pilakoutas from Numis. First one, a quick one for Bernard. Can you just quantify the benefit to the U.K. gross margin from the e-commerce marketplace? And underlying, would U.K. gross margins be, therefore, more similar to France at down 30bps? So just trying to get a feel for those numbers.

GP: Second one is then on France. The Banque de France status lost a bit of relevance this year. So I was just wondering if you could give us a bit of a sense on where you think French market share trends have performed in the first half? And then a slight extension of that is just an updated thought on the French business. A lot of self-help has been done since you joined the business on pricing, kind of back-office supply chain. Yet, it still feels the French business is still in a slightly challenged place. And so I guess, perhaps updated thoughts on how does that French business improves from here?

TG: Thank you. Maybe you want, Bernard, to take the first one on margins?

BB: Yes, sure. I mean on the U.K., we're very happy with the contribution of marketplace. They have a good take rate. They're growing. That had a positive impact. The offsets were a little bit of stock provision and clearance. So yes, the gross margin would not have been flat, would be slightly weaker, but still in an overall good place.

TG: I don't know if you know this, but we have take rates between 10% and 15%, and it's really right there. So we are, again, very happy with the first months of our operation for the take rates.

TG: Banque de France, again, clearly, we are not very comfortable with the methodology since September last year. I think there has been good progress recently in the clarification of the methodology. So I hope we'll have good news with the data and the participation of Kingfisher in the future to Banque de France.

TG: Our view is that the Casto like-for-like is in line or slightly better than the market. So you will see a slight difference versus Banque de France, and Brico is below. But clearly, therefore, you see a difference between U.K. and France in the market.

TG: France base, the foundation of the business is now very healthy. Availability, supply chain, price index, the trading activities we are seeing in our businesses, the morale of the team, all that is very strong. Therefore, we are ready on our key strategic priorities. So Casto is really profitability. We said that in March. While Brico is above the average of the group, Casto is not. So we have a big profitability plan for Castorama.

TG: We believe that Casto, we have a big plan on e-commerce and trade as well. And Brico, we should leverage our discounter DNA. We have opened our first 1,000 square meter Brico Dépôt in a relatively small city. We are looking at that with a lot of care because we feel it could be a big thing for Brico in the future. Brico has a very strong price index.

TG: We have been, to be fair, struggling with a few decisions, but I would not blame the team. We want to be agile. We want to test things. So they reallocated some of their advertising spending to digital. It was very good for digital, but we lost too much of store traffic. We have corrected that. But strong fundamentals. Really, Casto isin a good place because we see resilient H1 and in line or better than the market, really focused on profit. And Brico, a bit weaker for H1, correcting the few decisions, and it should be a very good platform for the future with discounts and new store formats.

GJ: I've got 2 questions, please. Appreciate it's early days, but the first one was just on the outlook for next year. I think ahead of today, consensus was building in some top line growth and almost on the bottom line. It feels with some of your comments on the uncertainty around the French outlook and, of course, the Polish backdrop that, that might be more difficult to achieve. Just your thoughts on that would be appreciated, please.

GJ: And then my second question was just around the U.K. cost base, obviously, up 9% or so year-on-year. I appreciate there will be some energy pressures that ease in the second half. But just given the uncertainty on the U.K. backdrop, roughly as a rule of thumb, how much of that cost base now should we actually be thinking about being variable with sales? Like how should we be thinking about the operational gearing in the U.K. business at the moment, please?

TG: Thank you, Georgina. Let's start the first, and I think I will let Bernard comment on your second question. Broadly, we feel it's a bit early for us to comment too explicitly to 2024. The 2 things I would say today is we still see some inflation in 2024. So that's an important thing to note. We'll have a different dynamic by categories, probably some categories will see deflation. But overall, our view is that we'll continue to see inflation in 2024.

TG: And two, we expect the market to stay very, very disciplined and very rational. Over the past 3 years, with different environment, we've always seen competitors being very rational and ourselves. And that's what we'd expect for 2024. Then on the cost dynamic, you could guess the wages and the energy dynamic for '24 will be relatively clear. But for us, the key thing is we still see some inflation, and we expect the market to be rational.

BB: Yes. And then the U.K. inflation or operating cost movement, as we said, U.K. the two banners have grown overall sales up 3.8%; like-for-like, 1.7%. So obviously, that then also factors into your operating cost. Those were up 8.9%. If you look at those components, part of it is obviously inflation, staff inflation being the main one, but also energy inflation, which, as Thierry said, will ease in H2 because the compare becomes easier. But there's also costs, for example, with the 59 net new store openings that we have year-over-year and a little bit more of tech spend. So I think you should look at that 8.9% in the combination of growing banners, obviously inflation, but also investment in growth.

BB: And then as we've shown in banners like France and others, there is an ability to flex costs. Basically, the measures that Thierry outlined for Poland would also apply to the U.K. And if you look at our staffing numbers, we are looking at that and where we can flexing that down. But it's very difficult to pin yourself down to a number because there are a number of variables that factor in, in terms of what's the overall growth environment, how much are you investing in growth, but there is an opportunity to flex if we need to.

ID: It's Izabel from Morgan Stanley. I have 2 questions. The first one is on Poland. I wanted to get your thoughts around the margin into next year because the government recently announced a 20% minimum wage hike. So I was wondering how much of that is already in your Polish cost base? Or should we expect further headwinds on the margin from that into next year?

ID: And then my second question is just to go back to the change in the updated guidance. Could you give us a few more details of exactly why you changed the guidance? I appreciate some of it already came through in the first half, but was it the sales? Was it the gross margin? It sounds like the costs, you have some flex there, but it will be good to get a breakout.

TG: Thank you, Izabel for the 2 questions. I speak first about Poland. Yes, you're right to say the minimum salary has been strongly increased by the government, but it was already the case earlier this year. If I remember well, we had January and then we have April or May 2023. So that's partially reflected in our wages, and we had in Poland wages increase in H1. We are very cautious now on H2. So we are really cautious on wages increasing in H2, and let's see where we go for 2024. But the minimum salary increases are already reflected in H1 in Poland. Now Bernard, the outlook.

BB: Yes. And then in terms of the guidance, you're right, we updated that. Well, let's first look at H1. And one of the big factors was the weaker Poland, which was a combination of sales, especially in June, July, and then that seeped in also into the margin with a little bit more promo, a little bit more clearance.

BB: Now obviously, we have to see the dynamic in H2, but we factored that in as we looked at our guidance. And then as you will be able to read, given the market environment in France, it's slightly weaker maybe than we would have wished for. Factoring those 2 things, while the U.K. maintains a positive momentum, we said we need to adjust the guidance for the full year. So taking into account what we missed in H1; and second, these dynamics for H2.

MN: And maybe just to add one other point, Izabel, just on the minimum wage point just because I had the benefit of talking to our HR officer last week on it, we tend to pay above the retail benchmark in Poland. So most of the top retailers in Poland will pay top quartile. So we look at that benchmark, which tends to be actually quite significantly above the minimum wage requirements, which captures then the next minimum wage increases that you get. So that, I think, curtails the impacts that you're talking about. It's very standard for the top retailers.

BB: And maybe while we're -- because I'm sure it's a topic people are thinking through when thinking about H2, maybe to say a little bit something about the comps, which obviously are -- if you look at the delta versus the prior year in H1, which was around 29%, and then you can do the math, it's softer in H2. But there are some components feeding into that, which probably is important to note.

BB: One, the overall comp at performance is easier in H2, as I said, for Poland and also a little bit for the U.K. Two, we will see an easing of inflation. So for example, the energy inflation is really in H1. If I look at H2, energy cost should be roughly the same across all the banners year-over-year. We've got less seasonal weight, so that was unhelpful in H1, won't have that drag in H2. And we had a number of one-offs that occurred, the ineffective hedges, some of the things with insurance on the central costs, which will not recur.

BB: And I think all those factored in and to compare that, we believe, should be easier in the second half, in addition, of course, to the fact that we're taking and accelerating our actions especially in Poland to make sure that we improve the performance there.

TG: Very happy to see all of you and happy to update on our progress, and looking forward to meeting you very soon or during meeting or in one-to-one. Thank you. Have a good day.