Kingfisher plc 2022-23 full year results presentation transcript – 21 March 2023

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12 months ended 31 January 2023

Speakers:
Thierry Garnier (TG), CEO, Kingfisher plc
Bernard Bot (BB), CFO, Kingfisher plc

Slide 1: Cover slide (TG)

Good morning.

Welcome to everyone here in person at the London Stock Exchange, and also to those of you joining online.

On behalf of our Group Executive and Board, I would like to begin by thanking my 80,000 colleagues across the Group for their commitment and dedication. They continue to deliver incredible work in an environment that stays very demanding. We are proud of them and proud to be part of this team.

Slide 3: Welcome & agenda (TG)

Turning to our agenda for today, on slide 3.

As usual Bernard will provide a detailed review of our financial performance and outlook for the year ahead.

I will then update on our operational and strategic progress, as well as our medium-term financial priorities, before we take your questions.

Slide 4: Key messages (TG)

But first of all, let's start with the key messages here on slide 4.

It has been a year of solid execution. We delivered in line with our expectations, in line with our guidance, and against a market backdrop that saw many new economic challenges.

We have outperformed the home improvement industry and our sales are significantly ahead of pre-pandemic levels.

We are pursuing multiple growth opportunities, at pace.

And we are well-positioned to navigate the year ahead. We maintain a sharp focus on pricing to deliver value to our customers; and we continue to manage cost inflation pressures effectively. Strong supply chain management has ensured good product availability, and a firm grip on our inventories. Bernard will say more on the outlook for the year but, overall, we are in good shape.

Finally, we are announcing today our new medium-term financial priorities, including our commitments on growth and cash generation, and I will come back to this shortly.

Slide 5: FY performance in line with our expectations (TG)

Turning to slide 5 and our full year performance. Across retail and trade channels, sales have been resilient – lower by just 0.7%, or 2.1% on a like-for-like basis.

On a 3-year basis, like-for-like sales were up 15.6%. Over this period, sales have grown ahead of our markets, growing by an average of 5.9% every year, versus market growth of 4.9%.

And the underlying resilience of our sales has continued into the new year. In February, total sales growth was plus 1.9%, with like-for-like sales up 0.5%, although we expect seasonal categories in March to be impacted by weather.

E-commerce has been a big success for us. Sales have grown by 146 percent over 3 years and our e-commerce penetration is now 16.3%, twice the level of 2019.

Adjusted PBT was £758m, at the top of the range we gave in November. This is nearly 40% ahead of the 2019 level.

And during the year we also exceeded our near-term scope 1 and 2 carbon reduction targets.

At last, on shareholder returns. Including dividends and buybacks, we returned over £580m to shareholders during the year. We are now proposing a final dividend of 12.4 pence, which is in line with last year. We also intend to announce a new share buyback programme, following completion of the existing programme later this year, subject to our capital allocation framework and market conditions.

I will now hand over to Bernard.

Slide 6: Divider slide (BB)

Thank you Thierry. Good morning everyone.

Slide 7: Key financials (BB)

To slide 7 and the key financials for the year.

Total sales in constant currency were down 0.7% to £13.1bn, reflecting a resilient top line performance against strong prior year comparatives. LFL sales were down 2.1%, and up 15.6% versus three years ago.

We generated gross profit of £4.8bn, with gross margin down 70 basis points year-on-year. This movement – largely UK-driven – was mainly the result of favourable banner and category weightings last year, and more normalised levels of promotional activity in H1. We also incurred some one-off logistics spend in H1 this year to secure and manage seasonal and buffer stock. While our H1 gross margin was down 130 basis point year-on-year, in H2 our gross margin was flat at 36.8%.

In constant currency, retail profit decreased by 19.2% to £923m, with retail profit margin down 160 basis points to 7.1%.

Adjusted PBT decreased by 20.2% to £758m, which is 39% higher than 2019.

Free cash flow was negative £40m, absorbing a negative working capital impact for the year, a large portion of which we expect to unwind this year.

And our total liquidity position remains strong, at over £800m. Our net debt – which is mainly comprised of lease debt – is just under £2.3bn, with net leverage of 1.6 times EBITDA.

Slide 8: Geographic summary (BB)

Moving to slide 8, and the performance of our major geographies. All year-on-year variances are in constant currency.

Starting with the UK and Ireland, where LFL sales for the year were 6.9% lower reflecting very strong prior year comparatives in H1. On a 3-year basis, LFL sales were up 15.3%, with the trend accelerating from Q3 to Q4 in both B&Q and Screwfix.

Total sales decreased by 4.7% to £6.2bn, with space growth contributing plus 2.2%, mainly from Screwfix. Of note, in H2, sales increased by 1.5%, with Screwfix growing plus 8.0%.

Looking by banner, LFL sales at B&Q were down by 8.8%, with sales trends improving markedly in H2 vs H1. 3-year LFL sales for the year were up 15.8%. TradePoint outperformed the rest of B&Q, with LFL sales down just 1.2%, and up 31.5% on a 3-year basis. TradePoint's penetration of B&Q sales increased two points to 22%.

LFL sales at Screwfix were down 3.4%, however with growth returning through the year, ending with an LFL of plus 4.9% in Q4. Space growth contributed plus 5% in the year, for total sales growth of 1.6%.

Over the last three years, B&Q (including TradePoint) and Screwfix have grown their respective market shares in the UK.

UK & Ireland retail profit decreased by 24.0% to £603m and retail profit margin for the year decreased 250 basis points to 9.7%. This reflects the exceptionally high sales and gross margin in H1 last year. In H2, retail profit increased 22.4% to £264m.

Operating costs in the UK & Ireland were 1.3% higher year-on-year. This was driven by 86 new store openings, higher technology spend, the normalisation of COVID-related underspend last year, and operating cost inflation including significantly higher energy costs. Increases were substantially offset by lower staff costs, and cost reductions achieved as part of our strategic cost reduction programme.

Turning to France, LFL sales were down 1.4% against a strong prior year comparative in H1, and up by 13.2% on a 3-year basis. In H2, LFL sales increased by 0.5%. Both Castorama and Brico Dépôt continued to focus on strengthening their respective competitive positions in the market; improving their digital capabilities, product ranges and overall customer propositions, resulting in higher store and online NPS scores.

Overall, sales decreased by 1.2% year-on-year.

Retail profit decreased by 12% to £195m, with a 50 basis points decrease in the retail profit margin.

The gross margin rate in France decreased by 30 basis points, largely reflecting category mix impacts.

Operating costs decreased by 0.6% due to lower staff costs, and cost reductions achieved as part of our strategic cost reduction programme. In the year, the French banners absorbed operating cost inflation including significantly higher energy costs.

Performance in Poland was strong. LFL sales grew by 13.8%, with space growth contributing 2.9% for a total sales increase of 16.7%. This performance partly reflects the temporary store closures in the prior year first quarter, but the business also delivered strong market share gains during the year. Nearly all categories achieved double digit LFL growth with a standout performance in the kitchen category where its new OEB kitchen ranges delivered over 40% LFL growth. LFL sales were up by 19.8% on a 3-year basis.

Poland's gross margin rate decreased by 30 basis points, largely reflecting normalised promotional activity versus the prior year.

Retail profit increased by 12.4% to £148m, with growth in gross profit partially offset by an increase in operating costs of 16.8%. These were driven by higher staff and operating cost inflation including higher energy costs, space growth, and new store opening costs.

In Iberia, LFL sales increased by 1.9%, and by 16.7% on a 3-year basis. Retail profit of £9m was £3m lower than prior year as a result of lower gross margin and a 1.2% increase in operating costs.

Romania's sales increased by 1.7% to £285m, despite the inclusion of one additional month of sales in the prior year comparative and the impact of COVID-related trading restrictions earlier in the year. On an LFL basis sales growth was 7.8%, and 38% on a 3-year basis. 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 retail loss of the business increased slightly to £10m. This represents significant progress from the £23m loss recorded three years ago.

'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 £30m was realised, up £20m year-on-year. This was largely driven by Screwfix France as the business invested to support the opening of its first stores.

Our Turkish joint venture Koçtaş contributed an equity accounted retail profit of £8m, up from £7m in the prior year.

Slide 9: Group retail profit bridge (FY and H2) (BB)

To slide 9 and the movement in Group retail profit. In constant currency this was down £219m or 19.2% for the year.

Lower LFL sales at a constant gross margin rate contributed £106m to this decline, all of which related to H1. The lower LFL gross margin rate as already described was also H1 driven, contributing £97m to the overall decrease.

Operating cost inflation was £153m, largely driven by increases in pay rates, significantly higher energy costs and the normalisation of COVID-related underspend in the prior year. We were able to substantially offset this increase by flexing our staff costs, and through savings achieved as part of our strategic cost reduction programme, while absorbing higher technology spend.

The contribution from our new stores was £31m, before the allocation of any fixed IT and overhead costs. This was mainly driven by our new stores at Screwfix and in Poland.

And finally, we spent £20m more year-on-year on the development of our new businesses, primarily related to investment in Screwfix France.

Slide 10: Summary cash flows (BB)

To slide 10 and the summary of cash flow movements during the year.

We generated an EBITDA of circa £1.5bn in the year. The working capital outflow of £469m was the result of an increase in inventory of £234m, and a negative movement in payables and receivables of £235m.

Over 100% of the increase in inventory was driven by inflation, with further increases resulting from higher levels of 'carry over' seasonal items and stock to support store expansion. These were partially offset by lower stock purchases and our ongoing strategic actions to reduce inventory. The decrease in payables largely reflects higher level of inventory purchases in the prior year as we rebuilt product availability, built seasonal and 'buffer' stock, and secured lower cost stock.

Overall, we expect a large portion of this working capital outflow to unwind this year, which I will cover shortly.

Capital expenditure in the year was £449m, which at 3.4% of sales was in line with our guidance.

Free cash flow was minus £40m.

As disclosed in H1, we paid 40m euros, or £34m, to the French tax authorities with regards to a historic tax liability. The amount was fully provided for in prior periods.

Dividends of £246m were paid, and a further £337m was returned to shareholders via our share buyback programmes. Overall, this resulted in a net decrease in cash of £654m.

Slide 11: Net debt and liquidity (BB)

Moving to slide 11, and our current liquidity and financial position.

As of 31 January we had over £800m of total liquidity available, including £270m of cash and an undrawn credit facility of £550m. Our financial debt consists of two fixed term loans totalling £100m, which were taken out in H2 to top-up our liquidity and help manage our working capital cycle.

Net leverage was 1.6 times EBITDA at the end of the year, below our maximum threshold of 2 times.

Slide 12: Effective management of inflation, costs and inventory levels in FY 22/23 (BB)

On slide 12, I'd like to cover how we successfully responded to the pressures of an uncertain and increasingly challenging economic backdrop last year.

We delivered a gross margin that was broadly in line with our pre-pandemic level of 37%. Over this period we maintained a sharp focus on price – investing significantly in Screwfix and France – managed unprecedented increases in product input costs and doubled our e-commerce sales penetration.

Last year we engaged with our suppliers and purchased stock early in order to reduce input cost pressures. We managed our retail prices effectively, while maintaining a price index across all key banners either below or close to 100 throughout the year.

We also maintained a disciplined approach to promotions and clearance, and achieved lower overall logistics and distribution costs.

Turning to opex, it's important to highlight that we brought forward pay awards and support for colleagues during the year to help them manage higher costs of living. This was mainly focused on our store colleagues.

And it comes as no surprise that our energy costs increased significantly year-on-year, for an overall bill of circa 1% of our sales. Through a combination of planned and tactical initiatives, we managed to reduce our overall energy consumption by 15% year-on-year. Measures included installing air source heat pumps in Screwfix stores, further roll-outs of LED lighting, and introducing controls over store temperatures.

As demonstrated in our retail profit bridge, we continued to deliver on our strategic cost reduction programmes across the Group, helping to substantially offset cost inflation.

Finally, I have already mentioned that inflation was the principle driver of the increase in inventory. This masked our ongoing strategic actions to reduce inventory, which resulted in units – or volume – being lower year-on-year.

Since Q1 2022, product availability has been back to pre-pandemic levels and in H2 we started to reduce our buffer stock levels. Our stock provisioning and de-listed stock rates remain below pre-pandemic levels.

Slide 13: Continued effective management of inflation pressures in FY 23/24 (BB)

Turning to slide 13 and the puts and takes for the year ahead.

First, on cost prices. While we continue to expect input cost inflation year-on-year, including in H2, we are seeing some easing of the inflation rate and anticipate this to moderate further as we go through the year.

Declines in several raw material prices – for example, metals and plastics – is expected to lead to an easing of product cost inflation.

For container shipping from Asia, which applies to around 20% of our purchases, maritime freight prices have eased significantly since the start of 2022.

Please note that there is a delayed impact of these reductions due to the time lag between ordering and shipping of products and their subsequent sale.

Our foreign exchange exposure from US-dollar purchases are substantially hedged but overall US-dollar strength is anticipated to be a year-on-year headwind. I remind you that circa 20% of our COGS are purchased in US dollars.

On operating costs, we aim to continue delivering cost reductions to help relieve some of the opex pressure we will face this year, which includes our expectation of higher staff, technology and energy costs.

We are currently around 50% hedged on forecast energy consumption this year. While we have recently seen some moderation in market prices, and we continue to work hard to reduce our overall consumption, as of today we still expect total energy costs to be higher year-on-year.

In addition to our ongoing cost reduction programme, we continuously plan for a wide range of different trading scenarios to ensure we can tailor our costs to reflect different demand levels. We therefore have the ability to pull tactical levers where and when appropriate.

Finally, to our inventory management. We anticipate a working capital unwind as our seasonal and buffer stock continues to sell through and our supplier payables normalise. As a reminder, most of our stock is neither perishable nor seasonal, and therefore we have no pressure to clear. We are working hard to further optimise our supply chain and sourcing footprint to reduce same-store inventory levels and improve our stock turn.

Slide 14: FY 23/24 outlook and guidance (BB)

Finally, moving to slide 14, and our outlook for the year ahead. Further technical guidance can be found in the appendix on slide 41.

We have seen resilient underlying sales trends in the new financial year. Total sales in February were up 1.9%, with LFL sales up 0.5%, largely reflecting a good performance at both B&Q and Screwfix. Group 'big-ticket' sales – which is kitchen, bathroom and storage – are broadly flat YoY. We expect some impact in March from adverse weather conditions, and a strong prior year comparative in Poland.

Looking forward, you can continue to expect from us a focus on the top line and market share gains. New store openings, largely from Screwfix and Castorama Poland, are expected to contribute circa 1.5% to total sales growth. We also remain committed to actively managing our costs, which will help offset against higher staff, technology and energy costs year-on-year. Additionally, we expect P&L investments of circa £40m in new businesses, £10m higher year-on-year, to drive further store roll-outs and brand building of Screwfix France.

Even after these additional investments, we are comfortable with the current consensus for full-year adjusted PBT, which is currently £633m.

We also expect to generate more than £500m of free cash flow this year, supported by the unwind of prior year working capital outflows. Given our confidence in our cash generation, our intention is to announce a new share buyback programme following completion of the current programme this year, subject to market conditions and our capital allocation framework that Thierry will discuss shortly.

With that, let me indeed now hand back to Thierry.

Slide 15: Operational and strategic update (TG)

Thank you Bernard. Moving on to an update on our operations and strategy.

Slide 16: Kingfisher has evolved substantially in the last three years (TG)

Kingfisher has continued to adapt and transform over the last three years.

We have achieved a lot, and as a result we are a stronger business.

After joining the business in late 2019, we set into place a material shift in culture, behaviours, operations and organisational balance. These early changes served us well when the pandemic struck a few months later.

In 2020, we launched the Powered by Kingfisher strategy, with a focus on transforming the business through our new priorities – including e-commerce, our own exclusive brands, ESG, tighter disciplines over costs and inventories, and optimising our store estate.

And last year we continued to execute against these priorities, delivering further market share gains, a record number of new stores, while maintaining a strong balance sheet.

On the next slide I want to highlight a number of KPIs which reflect how much we've grown as a business.

Slide 17: We have executed strongly and achieved a lot (TG)

We are extremely proud of the progress our teams have made financially and operationally.

Having driven strong LFL and profit growth, we have returned a total of £1.1bn to shareholders in the last 3 years.

Our customer NPS scores have improved both in-store and online across our banners, and we have increased our market share.

At the heart of these results are our 80, 000 colleagues. Our internal engagement surveys show our colleague satisfaction now ranks us within the top 5% of retailers worldwide.

We also continue to lead in the field of responsible business practices. Last year we exceeded our near-term scope 1 and 2 carbon reduction targets, reducing emissions by 52.7% against our baseline year. Some of this progress last year was driven by short-term tactical measures to reduce energy consumption, but the underlying progress sets us on a strong path towards achieving our scope 1 and 2 target of net-zero by 2040.

And through our sustainable home products we are helping our customers make their homes more efficient, while also lower–ing their impact on the environment. Sustainable home products now represent 47% of Group sales, up 10 percentage points in 3 years.

Slide 18: In a fast-changing environment (TG)

And all this has been delivered in a fast-changing environment, summarised on slide 18.

You are all familiar with the many macro–economic challenges over the last years.

Kingfisher has adapted to accelerated changes in lifestyle and technology adoption, as well as a positive shift in attitude towards climate.

It has been an extraordinary operating environment. This had made our industry stronger, made us a stronger business, and taught us to be more agile.

Slide 19: Kingfisher is strong and diverse, with proven resilience (TG)

Moving on to slide 19, which brings us to where Kingfisher is today.

Firstly – we see resilience in our end market demand. This is supported by low unemployment in our key markets, and customers having built up savings during the pandemic. Home ownership is high across our markets and our key customer groups – many of whom own their homes outright.

Housing transactions, while slowing down, remain above 2019 levels across our key markets. With the strong rise in activity seen in 2021 and 2022, we know that these households spend disproportionately more in home improvement in the 18 months after moving.

In our most recent customer surveys we continue to see high levels of intention to move home in 2023. And even without moving, renovating and protecting the value of homes has historically proven to be a key driver of home improvement when housing activity slows.

Secondly – we benefit from structural growth drivers in our industry, which are now supported by new trends such as working from home and energy efficiency, which I will say more about on the next slide.

Finally – we are a well-balanced Group, with financial flexibility through our strong balance sheet.

We have diversity through our banners and our geographic coverage. Our exposures to DIY and DIFM/trade are split evenly. And essential repairs and maintenance categories make up the majority of our sales. 'Big-ticket' items, by contrast, only account for 15% of sales.

We have proven that we are a strong and resilient business, in an ever-changing and demanding environment.

Slide 20: Surveys highlight resilience of home improvement (TG)

To slide 20. As with our previous presentations, we have carried out extensive consumer and trade surveys in our markets over the last few weeks.

Overall, sentiment remains encouraging – with many indications of consumers feeling more positive for home improvement than six months ago.

We see that more working from home is now the new normal for many and, on average, we are working from home at twice the level of 2019, across Europe. And we continue to see a clear correlation of higher spend on home improvement for home workers.

Energy efficiency is increasingly becoming a key reason for undertaking home improvement. More people have purchased an energy efficiency product in the last 12 months and, looking ahead, 6 in 10 would like to further reduce the impact of their homes on the environment.

Our banners are well positioned to support customers with a growing range of energy-saving products, and innovative diagnostic tools which we have launched in the UK and France in recent months.

There remains a strong desire to renovate homes, with the majority of consumers in our key markets intending to undertake home improvement this year.

On the trade front, our surveys show that tradespeople remain busy with a healthy pipeline. Over 90 percent of tradespeople in the UK are currently busy, with nearly 80 percent having more work in the pipeline, at levels equivalent to 2019.

Slide 21: Continued strong execution against our 'Powered by Kingfisher' strategic priorities (TG)

Turning now to slide 21, and we continue to execute strongly against our Powered by Kingfisher priorities. Reflecting the fast-moving world in which we live, we have adapted our strategic plan to ensure data, trade, culture and agility are given more focus, and to better align to our investments for growth.

On this slide, you can see our refreshed strategic pillars.

We are confident they will drive continued growth ahead of our markets, and deliver higher levels of profit and cash generation.

I will briefly cover each in turn on the next few slides.

Slide 22: Grow by building on our different banners (TG)

Starting with slide 22. Our aim is to grow by building on our different formats in existing and new markets, leveraging the power of the Kingfisher Group. Over the medium-term we believe net space growth will drive an uplift in sales of circa 1.5 to 2.5% per annum.

For B&Q, we believe there are over 50 'white spaces' in the UK where the banner is currently under-represented. I will talk shortly about our compact format strategy, which B&Q is leveraging.

TradePoint is Kingfisher's fastest growing banner. We have opened 38 new TradePoint counters in the UK and Ireland over the last 3 years, with a total of 189 now in operation. And there is good potential to add TradePoint across much more of the B&Q estate.

Screwfix is the UK's number one trade retailer and continues to grow at pace. Last year it opened a record 82 stores in the UK and Ireland, and is on track to meet its goal of over 1,000 Screwfix stores in those countries. We expect to open up to 60 new stores this year.

Screwfix has also opened its first stores in France, having launched as a pure-play online retailer in April 2021. While it's still early days for our journey in France, we are happy with the results of our first few months of operations, and intend to open up to 25 further stores this year. We believe the business is well positioned to take share of the large trade segment, estimated to be worth around 29 billion euros. Assuming the success of the format is confirmed, we believe there is potential for more than 600 stores in France over the longer term. There is also potential to transfer the success of the Screwfix model to other Kingfisher markets over time.

Poland remains a huge opportunity for Castorama. There is significant whitespace in this country, which offers potential for all formats, in particular our medium-box and compact store formats. We see scope to add up to 80 such stores over the next 5 years.

Elsewhere, Brico Dépôt is well positioned to penetrate more white space in France and is testing its first ever compact store this year, a 1,000 square metre format.

And in Turkey, our joint venture Koçtaş continues to expand its innovative convenience format called 'Koçtaş Fix'. The business currently operates over 350 stores, with significant runway for growth.

While there are multiple opportunities across our markets, compact stores are a common denominator. The demand for convenience and speed is a significant retail trend, across countries and across industries. We believe this represents a key long-term growth opportunity for many of our banners.

Slide 23: Accelerate e-commerce through speed and choice (TG)

Turning to slide 23 and e-commerce. We have spoken before about leveraging our store assets to improve the speed and cost of delivery for our customers, as well as expanding customer choice. Great progress has been made, with our e-commerce sales penetration of 16.3 percent, now over twice the level of 2019.

Click & collect accounts for 87% of all e-commerce orders. Last year we expanded our options for click & collect through the roll-out of lockers in Poland, and continue to test these at B&Q stores. We also introduced more last-mile delivery options, including the successful roll-out of our one-hour delivery service, Screwfix Sprint.

We are optimising our operations through a new order management tool, which we introduced in the UK last year. This enables our digital hub stores to cast a wider net for the availability of products ordered online, thereby lower–ing the rate of abandonment of online baskets. And through optimised carrier management, we can fulfil deliveries to the customer’s home at a lower cost, whether from their local store or one of our hub stores.

More choice for our customers is also a key driver of our e-commerce ambitions. In March last year, we successfully launched marketplace in the UK, followed by Brico Dépôt Spain and Portugal in H2.

We now offer customers an additional 340 thousand SKUs at B&Q, supporting our own proposition of 40 thousand SKUs in-store and online. Since launch we have seen strong marketplace GMV growth, reaching 24% of total e-commerce sales at B&Q last month.

We plan to build on this success, and are now preparing the roll-out of marketplaces in Poland and France.

Our target is for marketplace to reach 1 million SKUs in the medium term, and to scale in new markets, generating 40% of the Group’s e-commerce sales, excluding Screwfix, over time.

Overall, with our plans for growth, our ambition is to reach an e-commerce sales penetration for the Group of 25%.

Slide 24: Build a data-led customer experience (TG)

To slide 24. We are increasingly embedding data across our organisation, and now is the right time to talk about the significant potential for us in this area.

Since early 2021, we have been developing new data capabilities for our banners.

With the acquisition of 20 million new identifiable customers since 2019, we have increased our personalisation capabilities as well as enabling much greater customer loyalty and retention.

To support this, we have put new technology and data foundations in place. We have built a 'Centre of Excellence' in data, with expertise in AI, machine learning, advanced analytics and data platform engineering. This has helped drive growth and efficiencies in the business, as well as an improved customer experience. We are building talent in these areas within Kingfisher, while leveraging strategic partnerships where that makes sense – for example with Google Cloud.

Our forward focus is to leverage our data expertise to drive profit. We are doing this in three ways.

First, we are building a data-driven tool that will support more efficient pricing decisions, and increase the effectiveness of promotional, markdown and clearance campaigns. Implementation in B&Q will begin this year, followed by roll-out to our other banners.

We are also building a solution to enable real-time analysis and visibility at SKU level over our entire supply chain. This will allow us to optimise our inventory levels and replenishment cycles, resulting in higher availability, reduced inventory days, shorter product lead-times, and ultimately higher profitability.

And in a new initiative for Kingfisher, we are developing new opportunities to monetise our scale through retail media, including advertising. I will cover this in more detail on the next slide.

Overall, we are convinced that our ongoing investment in data will drive faster and more efficient decision-making, with clear opportunities to generate new sources of revenue.

Slide 25: Retail media – potential to reach up to 3% of e-commerce sales (TG)

Turning now to slide 25 and the retail media opportunity. In 2023, global retail media revenues are estimated to be more than $120bn dollars. This is forecast to grow up to $200bn by 2026.

Some of our retail peers are already monetising their e-commerce channels, driving significant additional income from advertising.

Kingfisher is well positioned to unlock the potential value of this opportunity.

Our banner websites already have scale, with some of the most visited shopping websites in their respective markets. Collectively we have around 1 billion visits annually.

Over time, many of our suppliers and marketplace merchants could become advertisers. We are already working with many of them on digital propositions, and have onboarded 400 new merchants onto our marketplaces in less than 12 months.

Last month, we commenced our online advertising operations at Castorama France with our partnership with CitrusAd. This is the first of many developments in this area and over time we see the potential for retail media revenues to reach up to 3% of our e-commerce sales.

Slide 26: Differentiate and win through own exclusive brands (OEB) (TG)

Turning now to slide 26, and our OEB ranges continue to provide our banners with differentiation – delivering innovative products at affordable prices. Our OEB ranges are, on average, 15-to-30% cheaper than branded equivalents, giving our customers value at a time they need it most. And they provide us with a higher gross margin, on average, than branded products.

Our 3-year like-for-like OEB sales were up 15.4%, with sales of £5.8bn last year. OEB now represents 45% of Group sales, with our top 5 OEBs accounting for 20% alone.

All OEB categories showed growth on an annual and 3-year like-for-like basis. We saw particularly strong performances from our new OEB kitchen ranges, with like-for-like growth of over 50% on a 3-year basis.

And we have continued to expand our ranges, launching 32 new and redeveloped brands over the last 2 years.

Looking forward, we aim to grow our OEB sales further, leveraging our strong capabilities at Kingfisher to bring more solutions to our banners and their customers. A strong example of this are the key areas of energy and water efficiency.

Slide 27: Develop our trade business (TG)

On slide 27, and developing our trade business. Trade represents a £50bn pounds addressable opportunity in our markets, with activity levels of tradespeople remaining resilient. The average trade customer spends nearly 70% more than retail customers, and shops three times more frequently. The 'Pro' market is therefore a key priority for Kingfisher.

At TradePoint, 3-year like-for-like sales are up 31.5%, reaching a sales penetration of 22% of B&Q.

This has been achieved through TradePoint's increasingly personalised approach to serving trade customers, including pro-dedicated products, services and colleagues. Last year we refreshed and expanded our trade counters in the UK, and in H2 launched our first counters in Ireland. The business is targeting sales of over £1bn in the medium term, from £833m today.

The success of this relaunched format, alongside Screwfix, gives us full confidence in our ambitions to grow trade customer penetration across our banners outside of the UK. During the year we launched a trade 'Centre of Excellence' at Kingfisher, bringing together experts from across our banners to share knowledge, insights and feedback from customers; focusing on the six key areas you see on the right of this slide.

Over time, we expect increased trade customer penetration to contribute to higher sales and profit growth across the Group.

Slide 28: Roll out compact store formats (TG)

Turning to slide 28 and our compact store roll-out strategy.

Compact stores are a key enabler for the expansion plans of many of our banners, supporting market share growth, optimising our overall store footprint, and supporting the growth of sales densities and store profitability.

We have made good progress on testing different concepts. Today we have 33 compact stores in operation across our major banners, including B&Q, Screwfix, Castorama France and Poland. We're also testing a new compact format store at Brico Dépôt France this year.

These stores, primarily on high streets and small retail parks, allow us to deliver our core offer in smaller footprints. We can offer up to 12 thousand SKUs in stores under 2,000 sqm, which is fantastic choice for such a small space. And of course, customers can get next day delivery of the full range.

Our trials are showing very encouraging results. As we continue to learn from our tests, we are creating blueprints that can be scaled and rolled out across our markets.

Slide 29: Lead the industry in Responsible Business and energy efficiency (TG)

Moving onto slide 29. We are committed to leading the industry in Responsible Business practices, with four key priority areas.

We have taken swift action to support colleagues in our stores and head offices, given the rising cost of living. We are becoming a more inclusive company, improving our gender balance and progressing towards our targets for women in leadership and management roles.

On planet, we are passionate about tackling climate change and creating more forests than we use. I mentioned earlier the progress we are making against our near-term carbon reduction targets for scope 1 and 2 emissions. And we are working hard to reduce scope 3 emissions, which we will report on in Q2 within our Responsible Business report.

We are helping to make homes greener, healthier and more affordable for our customers. Our sales of Sustainable Home Products now represent 47 percent of Group sales, up 10 percentage points versus 3 years ago. We aim to drive further sales by leveraging our OEB ranges. We are also very well placed to help our customers on energy efficiency, which I will cover on the next slide. Our targets as announced last year are for 60% of Group sales and 70% of OEB sales from Sustainable Home Products by the end of 2025.

Finally on communities, we are helping to fix bad housing which remains a pressing issue. Over the last six years we have helped 2.1 million people with the greatest housing needs, and we aim to do even more in the coming years.

Slide 30: Expanding our ranges and services to support energy efficiency (TG)

Turning now to slide 30, and our energy efficiency ambitions.

We have spoken before about the unmet need for energy efficient housing. The problem this creates for both the environment and the finances of our customers is significant. We are continuing our work to highlight and address these issues.

Demand for our energy-efficient products remains high. Energy and water-saving products comprised 11% of Group sales in 2022, with sales increasing by 23% over 3 years. And we are well positioned to meet demand with over 11-and-a-half thousand energy efficiency products.

Last year we launched innovative diagnostic solutions at B&Q, Castorama France and Brico Dépôt France. These bespoke solutions help customers create personalised energy action plans for their homes, including access to products and services. Take-up so far has been strong.

And we have established partnerships to address the installation of more efficient heating solutions, including heat pumps, solar panels, and roof and wall insulation.

We know this topic is more important than ever – and we now have the products and services to help customers save energy and money. This is not a short term trend – energy efficiency is here to stay.

We also know customers are increasingly focused on saving or collecting water, especially in light of more recent pressures of water shortages in parts of Europe. We will continue to expand our product range to support both energy and water efficiency in the years to come, supported by our OEB capabilities.

Slide 31: Human, agile and lean (TG)

Turning to slide 31, we are building a business that has strong human values, and is adaptable to the needs of the future.

We are embedding a collaborative and curious mindset across Kingfisher. Part of this is encouraging more of a ‘test and learn’ culture of experimentation and pace, with an agile mindset and building trust between teams.

We also need to be more agile and efficient with our use of technology. We want to improve the speed and cost of deploying new technologies across our Group. Over the last three years, we have been gradually adapting our organisational model to one that is product-led, to help us be more flexible in our approach. In addition, we are increasing talent and capabilities in key areas of the business that can drive innovation, including technology, data and trade.

Finally, building a leaner business. As Bernard set out earlier, challenging our cost base is a permanent focus. We have set multi-year cost reduction programmes that are helping offset inflationary pressures, while also ensuring we are constantly improving productivity. We are also reviewing our inventory and supply chain management, to extract further value from our scale.

Slide 32: Driving strategic priorities through our ‘Powered by Kingfisher’ model (TG)

Turning now to slide 32, and how we are driving these strategic priorities forward through the Powered by Kingfisher model.

Each of our banners has a clear positioning: we serve trade customers through Screwfix and TradePoint. We have discount banners in Brico Dépôt France and Iberia. And we serve more general DIY needs through B&Q, Castorama France and Poland, Brico Dépôt Romania, and Koçtaş.

This gives us strength, resilience and diversity in an uncertain world.

We have set a balanced banner-Group operating model, so that technology and commercial solutions can be developed quickly and efficiently.

At the centre, the Group provides scale and resources that create competitive advantages for our banners to leverage.

That means technology and digital capabilities, and Group support through data-driven tools.

It means differentiation that comes from the product development in our Group-wide Own Exclusive Brands.

It also means international support – Screwfix France is a good example – and scale in the form of sourcing, buying, supply chain management, and ESG.

In summary, Powered by Kingfisher is about combining the benefits of our distinct retail banners, with the scale, strength and expertise of Kingfisher.

Slide 33: With a disciplined approach for each banner (TG)

Moving to slide 33, you can see how this structure supports our banners to achieve their full potential.

We are prioritising capital allocation with a disciplined approach to our clearest growth opportunities – and you see here the priority given to the expansion of Screwfix, and the store opening programme in Castorama Poland.

In France, Brico Dépôt's margin is above the Group average, and has clear leadership in the discount space. Castorama France is fully focused on improving its profitability, building on the work done around its range improvements, e-commerce proposition and logistics optimisation.

As you can see along the bottom of the slide, Powered by Kingfisher is about providing the banners with Group powers and scale benefits, where that makes sense, to accelerate their strategies for growth and profitability.

Slide 34: Disciplined capital allocation: prioritising investment for growth (TG)

Moving to our capital allocation priorities, on slide 34.

As is clear from this presentation, our priority is to reinvest in the business where there are compelling and profitable growth opportunities. Our target gross capex is unchanged at 3 to 3.5% of sales per year, to drive our organic growth.

For M&A, we would only consider bolt-on opportunities that accelerate our strategy.

On dividends, our aim is to grow progressively over time. Our target dividend cover range remains at 2.25-2.75 times, based on adjusted earnings per share.

And we have a clear track record of returning surplus capital to shareholders. Our current 300 million pounds share buyback is around two-thirds complete. And we intend to announce a new programme following completion of the current buyback later this year, subject to our allocation framework and market conditions.

Slide 35: Confident in medium-term growth and cash generation opportunity (TG)

Bernard discussed earlier our guidance for this year, which takes into account the uncertain macro and consumer environment as well as cost headwinds, some of which will ease as time goes on.

Here on slide 35 we look beyond 2023. We have updated our medium-term financial priorities to reflect the confidence we have in our growth and cash generation opportunities.

First, it is clear that we operate in attractive markets with positive and supportive long-term trends. We are confident we will deliver sales growth ahead of these markets. That growth will be driven by LFL sales, supported by our areas of strategic focus –
e-commerce, marketplace, OEB and our continued penetration into trade segments of the market.

It will also be driven by more stores, which we believe can drive an uplift to sales of circa 1.5 to 2.5% per annum over the medium term.

Secondly, we will grow our adjusted PBT faster than we grow sales. This is supported by scale benefits and higher margin initiatives – such as marketplace and retail media – as well as from operating cost leverage, and our cost reduction programmes.

We will also generate strong cash flows, which in turn will drive investment and shareholder returns.

Next year – financial year 24/25 – we aim to generate free cash flow of between £400m-£500m, which is a step up from underlying cash generation this year. And beyond 2024, we aim to deliver in excess of £500m of free cash flow per annum, supported by our profit growth and inventory self-help measures.

Underlining our confidence is our intention to announce a new share buyback programme this year, after the current programme is completed.

In summary, the compelling strategic drivers of the business provide an opportunity to deliver attractive top line and earnings growth, as well as our continued focus on shareholder returns.

Slide 36: Summary (TG)

Summarising now on slide 36.

It has been another year of solid execution. This shows in the bottom line, with our profit performance in line with the top end of our guidance.

Our sales performance is ahead of the market, and substantially ahead of where we were 3 years ago.

As you have seen, we are pursuing multiple growth opportunities at pace – in Screwfix, in Poland, in e-commerce, data, and many more.

And there are multiple supportive trends underpinning our industry. Survey data from our core consumer demographic and from our trade customers suggest there is a resilience to our business. That resilience continues to show through in our underlying sales trends in current trading.

We have a firm grip on the business. We remain focused on delivering on value for our customers, and maintaining strong price indices in our key markets.

Cost inflation pressures are being managed effectively. And we continue to see good product availability and a firm control on our inventories.

Looking at the year ahead, we are comfortable with current consensus on adjusted PBT, and confident in delivering over £500m of free cash flow this year. We believe the business is in great shape, and we are well-placed over the medium term to consistently deliver growth, cash and shareholder returns.

Thank you all for listening this morning. Bernard and I would now be happy to answer any questions in a few minutes. Over to you Maj.

Slide 37: Q&A (TG)

After Q&A (TG)

Thank you for your time today and we hope to see you again soon. Thank you, take care.