Kingfisher plc Full Year Results 2022 – Q&A Transcript – 21 March 2023

Speakers:

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Tony Shiret (TS) Panmure Gordon (UK) Limited

Warwick Okines (WO) BNP Paribas Exane

Kristoff (K), [operator]

RC: Can I start with the free cash flow guidance? I think you said you're looking to generate about £500m a year in the medium term. If we average what you achieved last year and what you're looking to achieve this year, it's more in the £200m to £300m range. So that's quite a meaningful step up.

RC: Does that imply that you think you can run the business structurally with a lower level of inventory and lower capital intensity going forward?

RC: And then the other question I had was on the other businesses P&L investment. How do you see the sort of shape of that panning out medium term? I appreciate there's obviously debate about how fast you go in with Screwfix France. When do you see the sort of breakeven point there or how many stores would you have in France, I guess before that, that could occur?

TG: Maybe first on inventory and on Screwfix. I think what you see this year is we have a bit more seasonal stock.

TG: Remember - we discussed in September - we have decided to keep the stock because, the purchasing price is pretty good versus what you can find today. Plus we are really comfortable overall with the level of our inventory. As Bernard said, over 100% of the inventory increase is due to inflation, and we are seeing volume down on inventory. And I think we're in a pretty good place versus many of our peers.

TG: We have more inventory because of seasonal products. During Covid, we adjusted a lot of parameters of our supply chain to increase security. Since last year, we started to adjust all those parameters, so we will gradually come through in H2 and as well next year. And we have as well a lot of structural actions that we have not really been able to roll out in the past years due to Covid on supply chain efficiency.

TG: We're building a tool that gives you real-time inventory visibility from a factory in China to every store in the UK, and that is bringing a lot of efficiencies.

TG: On P&L investments, the Capex for Screwfix stores is pretty small but when you open a new store, you have some loss. It depends on if you want to go fast, how fast you want to go. If you open a lot of stores, you'll have more losses at the beginning, but a quicker breakeven. And if you have a slightly slower roll-out, you have less loss but a longer breakeven. We are still measuring all of that. We have our plan A, but we'll see the first store sales densities coming out in the coming weeks, and then we can adjust how far we want to go. But overall, we expect a loss for a few years in France with Screwfix because we want to open a lot of stores.

BB: On the inventory dynamic, if you look at last year, our working capital was also negative, but it had £359m of negative inventory but a positive creditor position, £144m.

BB: If you look at this year, because we slowed down some of the purchases and at some point, you've got to pay what you ordered previously, but you're not ordering more, the payables were negative. And on top of that, as Thierry just described, we had inflation driven increases of inventory. But those 2 levels, I would say, are not the normal rate. If you look at the year to come, '23-'24, we expect the payables position to be much more normalised, and we expect the inventory position to improve as we sell through that seasonal stock and a little bit of the buffer stock that we had and obviously are working hard to reduce the overall inventory levels.

BB: Then if you look into '24-'25, the working capital normalises. On an underlying basis, we still think we'll be doing better and that's going to be supported by, our ambitions to grow profit not only next year but also the years thereafter, while at the same time, continuously trying to reduce or improve our stock turn and reduce our stock base. It will be in that combination that we're going to work to meet those free cash flow targets.

WO: It's Warwick Okines from BNP Paribas Exane. You've spoken quite a lot about strategic initiatives, but not so much about the margin opportunity in France. Could you please talk a little bit more about France. Are all of your organisational and structural initiatives - IT, for example - largely complete now? And what sort of like-for-like growth would you need to see margin leverage there?

TG: Again, when you look at France, you should always remember that there are 2 different components. You have seen Brico is in good shape. I think for me, Brico question is more around how we make 1,000 square meters store format successful. We can open more Brico Dépôt, focus is on how we can continuously improve our price positioning through cost reduction.

TG: Now moving to Casto. In retail, you never win on the profit level without the top-line. So first is around sales density. I say that each time, yes, there are some clear pockets of costs on Casto where we believe we can do better for example head office costs. You have seen that we improved our supply chain efficiency. We reduced the number of square meters in France by 27% in the past 3 years. But the first thing is top line, and the top line is driven by the Group strategy.

TG: OEB, we have improved the ranges. It's done. I said last year, we fixed that, and we are happy with the overall the range, but it will be supported by the full Group strategy, OEB, better e-commerce, marketplace, and retail media. France is the first country with Casto to start Retail Media. In the past weeks, we have gone live with CitrusAd. Additionally, smart markdown plus other Group initiatives are part of the Castorama France action plan to improve profitability.

AC: It's Adam Cochrane at Deutsche Bank here. I've got one question on inflation and then one on capital allocation. In terms of inflation, is it fair to assume that if your year-end stock is up 12% but down in units? That 12%-plus is the level of price inflation that you're pushing through to the consumer last year? And then as we look at next year, is there a benefit? Because you bought your product at these points you're saying it's a cheaper rate, but the market prices are going up, can you take some margin? Or do you, because you brought it cheaper, just pass that through to the consumer to improve your relative price position maybe to compare to other retailers?

AC: And then on the cost, on that inflation impact or volume impact, how does that impact your cost profile? Or how has it impacted last year? And is it going to be another benefit for the year ahead?

AC: On capital allocation, you said that you're going to reduce relative capital allocation to Castorama, but there's an 80 store growth opening plan. How do I reconcile the relative reduction in capital allocation, but at the same time having quite a significant store expansion plan?

TG: I will comment on your second point. When we say 80 new stores in Castorama we mean in Poland, not France. What you see on the page - you want to be very disciplined for Castorama in France because we want to focus Castorama France on profit. But in Poland, we are very happy with the profit and this is in Poland, where we believe there are more stores to open. Moving to your inflation and volume questions, I never answer on overall volume and inflation for Kingfisher because it's very, very different by banner and by category.

TG: You have different volume and price profiles for Screwfix versus Poland. Some categories for example building materials are relatively elastic because you have a lot of tradespeople who know the prices. Paint is relatively elastic. But there are many categories in our business for example screws or kitchen where the elasticity is not obvious at all. That's why I don't want to give too much granularity on that. And then to make it even more complex, the inflation on inventory can be slightly different from the inflation to your sales price because the mix of your sales price, and the mix of your inventory can be different. I'll leave you to your own assumptions on this one.

TG: On seasonal, yes, we might have some opportunities. But overall, we would see H1 2023 inflation broadly in-line with 2022. And then H2 2023, we will still see inflation, but at a lower level. We really believe we'll see the lower freight impact, raw material impact, mainly in H2 and next year.

TG: While as Bernard said, we had a headwind on the dollar hedging on our contracts. In summary, that's how we see the margin in 2023. There are many puts and takes. We have a normalised promotional level. We see competitors' behaviour on prices as fairly rational. We don't have stock to clear.

BB: To add a couple of things on the inventory. If you look at same-store inventory that's plus 8%, and I think in the 12%, there are some currency movements you need to account for. And within that number, as we also highlighted, we did increase the seasonal stock that we want to sell through.

BB: And we're expanding our stores, which also adds to the stock build. Then in terms of the inflation year-over-year, I think some of the effects that we've seen this year will continue. We've spoken about the pay rate increases that we're giving to our colleagues.

BB: Energy cost increase - we expect to see a little bit of an increase this year, even though we're taking quite a few measures to reduce consumption. As you saw, we reduced energy consumption by 15%, but we expect still to see a little bit of a nudge up.

BB: We're going to continue some of the technology investments, and we're going to continue to invest in the business, especially in Screwfix France. The losses from new business investments will be about £10m higher.

BB: Next to that we also have cost reduction programmes. As you saw in the past year, while we had a big inflation amount, we also had a fairly sizable amount of cost reduction measures. And we'll continue taking those to try to offset the inflationary pressures.

ACr: It's Anne Critchlow from SG. I've got 2 questions, please. So first of all, on the compact stores. It feels like many years that they've been trialed at Kingfisher also by previous management. I just wondered whether there's anything holding you back from pushing for a roll-out sooner?

ACr: And also a quick update on the Screwfix ultra-compact format, please? And then on Marketplace, what percentage of sales does Marketplace now represent at B&Q? And do you have any kind of view on where it could get to in the medium term?

TG: On format, when you know how to do big boxes or medium box, to learn or to do convenience stores, it’s a journey. I’ve seen that in my previous life. In convenience stores, you need to be obsessed by SKU density. And that's a technique you have to learn. Shelves are different, the supply chain can’t be the same.

TG: You can't deliver big quantities to a convenience store. Otherwise, after 2 weeks, they are overwhelmed by stock. And then the fine-tuning on ranges always takes time. I've never seen a new concept in retail being successful in a few months' time. What I see today is fairly normal.

TG: And we clearly see the green shoots. And just to add, we have decided to close our 8 B&Qs in ASDA and I think it's proof that we are agile. We are testing. If we are not happy, we stop.

TG: I think we are getting more and more learnings and we are closer to a blueprint, especially for B&Q. B&Q, we are probably closer to a clear blueprint for rollout. I know I'm very happy with the timing. We really started testing in 2020. Before then, we had one store, we closed it. So now we have 33 stores. It's the right thing to do.

TG: The Screwfix compact store format test is very encouraging. We have a plan for 1,000 Screwfix stores. Clearly, it could be the next generation of Screwfix stores if we are successful.

TG: Marketplace is ahead of the plan at B&Q. In February, 24% of B&Q online sales were made by the marketplace. I'm not sure we have ever guided clearly. but you can make your assumptions on the penetration of marketplace. We are very happy with the results. We have said the take rates are between 10 and 15%. We are happy with this too. And therefore, we are planning to scale up the B&Q marketplace fast and to start in new countries.

BB: On the SFX XSR format, we've got 11 going, we opened 6 in 2023, and it's a combination of things in urban areas where we can't find the retail space or in small towns where it's a more compact footprint, lower cost, but you could still access it. We'll test further, but we've got good learnings so far.

GP: Georgios Pilakoutas from Numis. First one is just on capital returns. I guess just wanted to feel the balance between the progressive dividend versus the dividend cover range for next year given if consensus earnings come down and you have slightly higher tax rates, I think you would drop out of that cover range. And so how are you prioritising those 2?

GP: And then just a couple of clarifications on the cash flow for next year. First one is sort of £469m working capital outflow this year. Can you be a bit more specific on how much of that inflows? Is it half, kind of 250-ish, 300? If you can be a little bit more specific, I'd appreciate it?

GP: Then the cash rent build came in quite a bit lower for this year. It was kind of £454m, it had been at £470m/£480m despite the number of stores increasing. So just want to understand, is that more of a steady-state level? Was there any kind of temporary deferrals that we should be aware of? What is kind of the underlying rent build going forward?

BB: On the dividends, despite a lower profit this year compared to the prior year, we're maintaining the dividend at 12.40p. And I think that's the philosophy we have for our dividend to have a sustainable level and then when we can to try to grow.

BB: Let's see where the year pans out in terms of overall profitability. Then in terms of cash flow, £469m, indeed was the outflow this year. That is going to normalise. There's going to be an inflow, but we're not guiding to any specific number beyond the more than £500m overall free cash flow, which will include a working capital inflow but at the same time, also more than £100m lower profit as we've guided in expectation for this year and a continued investment at the same level of capex at around £450m.

BB: And then on rentals, we have been successful in several regears that we have done in managing our rental base. And if you look at many of the numbers or the rentals you do, there's a lot of Screwfix stores, which are relatively smaller. So as we expand the base, you should expect some increase, but there is no specific one-off this year.

AG: Ami Galla from Citi. Just a few from me. The first one was on fixed cost reductions that you've taken last year. Can you give us some colour on the scale of these cost reductions? Where are they coming from?

AG: The second one really is a couple of clarifications on Screwfix France. Do you have a view of what the mature Screwfix store looks like in terms of scale? Is it quite similar to a UK store and the sort of the years to maturity that we should think about in terms of that network?

AG: The third one really is more a medium-term outlook. You've given us a view that you're quite balanced in your exposure between DIY and Do-it-for-me. But you've also talked about the strength in TradePoint. Over the medium term, do you see further investments really going towards that pro side of the business? And in that context, how sustainable is your free cash flow guidance? Because obviously, this sort of Do-it-for-me probably needs more credit exposure to an extent.

BB: In terms of the cost reductions, in the past year, £126m, there are a couple of components. One is staff flex, and you'll see that overall staff numbers for the company have gone down as we've flexed away from the heights of the pandemic, which I think has proved the agility that we have in our model.

BB: And that's a combination of staff numbers and some of the incentive plans to adjust to a different performance condition. And the other part is all the continuous cost improvement programmes that we have, which go from anywhere from our stores, introducing self-checkouts, different operating models, improving ranges to GNFR, to our supply chain, reduction of space, managing contracts to our property, where we do a lot of re-gears. It's in that combination that we were able to offset part of the inflationary pressure in the year.

BB: And going forward, obviously, we can be agile for different trading conditions, but in addition, we'll continue to pursue the structural cost reduction programmes, which are now part and parcel of what we do.

TG: I mean to go ahead on Screwfix France. The shape of the store is pretty similar to the UK business model. We feel the business model is a key competitive advantage, and we save some time in the UK, you do click-and-collect in 1 minute. So that's short. That's a very, very critical way of working.

TG: If you enter in Screwfix France store, you say, wow, that's exactly the same. Now the range is probably half different, and we are relying a lot on our private label. The French team know product specificity, if you want to have an electrical system in France, it's different to the UK, different plugs, different system. So probably half of the range is different.

TG: And that's why we have been leveraging our existing operation in France, because we know suppliers, we know the range, we have been able to bring very quickly the right local range to the Screwfix stores. And we have a DCs now close to Paris to deliver online across France and to all our Screwfix stores.

TG: Maturity, so far, we would expect similar to the UK. We know where we are on Capex, on pricing, on leases. The key component now is how fast sales per store grow. We are really happy with everything and that is going on in France, the online traffic and NPS, pricing, supply chain, the thing you don't know is how fast the sales per store will grow in the coming months. And depending on that, we'll decide the ultimate profile of growth and expansion.

TG: TradePoint, we are really learning from TradePoint and as well from other peers. We know Home Depot has had a very consistent strategy over years on trade. It has relatively low Capex. Focus is on existing stores. It is not high Capex. And we are now building a plan in all our big boxes to speed up our trade penetration.

TG: And I think this is a multi-year journey. TradePoint has a target of £1bn. But all across the Group, we have additional local targets. Then specifically on credit - and happy for Bernard to comment - TradePoint today is not heavily relying on credit. It's not a big topic for us at the moment when we think about trade. It's a service, but it's not a big topic for cash.

BB: To add, we have Trade UK, where we do provide credit for our customers in TradePoint and at Screwfix where they've joined the programme, it's mostly shorter-term credit just to see them over the hump that they have.

BB: We've got many other financing products, which are off-balance sheet. And we work with our banks, some of which are here and partner banks to provide credit. And should that be a bigger need, I'm sure we will introduce some attractive arrangements.

SI: Just quickly on marketplace. We're a year in - can you just talk through your kind of learnings to date from it? If we look at other examples of marketplace, it seems to be one of these areas which are easy to build a sales base, it's much harder to -- for that to trickle down in terms of profit contribution, but also to keep the standards up in terms the kind of coherence of the retail offer and the presentation of the product, etc. So I'm just wondering what your experience to date has been, and how soon you think you can introduce that to click-and-collect in-store?

TG: Thank you. That's a great question. I think overall, our learning is that the choice is creating traffic, so we have decided to scale up very quickly. If you compare us to other peers, our marketplace has built 340,000 additional SKUs in 10 months' time, it's good. You can talk to Mirakl, to compare us versus peers. So that's a key learning.

TG: We are working hard to continue to build on that. You are right to say there is an offer consistency, and we are looking at that very seriously. But I tell you how we are doing things. If you think about wallpaper, that's a typical DIY story, you never have enough wallpaper design.

TG: If you can increase by 5,000-10,000 additional designs online, that's only a benefit, including to your own OEB. Lighting, if you want to buy a desk lamp, there's never enough offer in the store. That's a perfect category online. So that's something we are looking at because we don't want to go to strange categories for DIY. We are looking at that. But up to now, we are very happy about all of this. The take rates, we always said between 10% and 15%, we are very happy with the results so far. And that was before we could even start to add additional services on monetisation.

TG: We haven’t spoken speak about retail media where you can sell more data, more services, including fulfilment. We have this journey in mind and it is step by step. But up to now, we are happy with the results. Costs are fairly limited because we already have a lot of traffic. We don't need to pay a lot to Google.

TG: Our IT investments are already made. We are working with Mirakl which is a kind of a SaaS system. We are pretty happy with the profit.

TG: And click and collect, your right, it's an excellent question. We really believe in all that we are doing online that adding stores is a benefit. You can already return everything to a store today, with the level of returns in line or below our normal operations. We are working hard in the coming months. I can't give you a date today, but we are working hard to be able to provide to customers click-and-collect to the other marketplaces, and you can have a click-and-collect in-store. So that's the next step because we really want to keep stores and online operation really close together.

TS: Yes, Tony Shiret, Panmure Gordon, a couple of quick questions. French online business, obviously, doubled since pre-Covid, but it's still quite a low penetration. I wondered if you were sort of happy with that or whether you had any sort of view that it could get up to double digits excluding marketplace? What you'd need to do to drive it more?

TS: And the second one is, I note your B&Q rent reviews and you're yielding a 10% rent reduction. Now do you feel you've got to the end of the sort of material rent reductions on review in the UK and that sort of we are sort of rebased now effectively.

TG: Yes. Thank you for your question. I think when you look at the French online penetration, they are indeed lower than the UK and what you say is perfectly true. First, the French market itself is less mature. You clearly have a difference for everyone in France, the online penetration is on average lower than in the UK.

TG: Two, I think B&Q had better technology for years. We rolled out our Group technology to Castorama 2 years ago. There are even some components we finished 1 year ago. They don't have a marketplace yet in France. So that's what would come. Clearly, the technology we have is more advanced at B&Q than in France. And at the end is a conversion rate. It's traffic and conversion. And the conversion at B&Q is higher than in France. So that's clearly the area where focus is the speed. For example, the website speed has been multiplied by 3 or 4x in France in the past month because we are too slow. Our website was not good enough. Real-time visibility of inventory was not precise enough in France; we have corrected that.

TG: We have a clear plan to drive online penetration with our marketplace to double digit.

BB: On leases it's a mix of some situations where the rents go up because it's very sought-after locations and there are competitors, etc. But then there are many opportunities where we can do a good deal in terms of lowering the rent by renewing the contract.

BB: And we think that that balance will continue. We’ve got an ongoing portfolio of rents that come up for renegotiation, and we'll grab those opportunities. I'm not calling a hard stop.

GJ: I've got 3 questions, please. The first one, sorry if I missed it in the detail, but just if you could clarify, are you expecting to push more price increases through to the consumer this year or should we sort of assume broadly stable pricing?

GJ: The second one was just in terms of your modelling assumptions where you're comfortable with PBT consensus. Is it fair to assume that you're kind of broadly comfortable with that Group like-for-like consensus down low single digit? Or do you have quite a different shape in mind to what's being modelled at the moment?

GJ: And then finally, and again, sorry if I've missed this in some of the details, but I think Poland came in a fair bit weaker for both the quarter and on profit than most of us were expecting. Just to check is there anything sort of specifically of a one-off nature in there? Or if instead, when we're coming to think about fiscal '24, should we be expecting that business to go quite materially backwards year-on-year, albeit on what was understandably a somewhat exceptional year in terms of circumstances for that business?

TG: Thank you, Georgina. So let me answer the first and third, and Bernard will come back to the question on the profit. First, we see H1 on the purchasing price. We see H1 broadly in line with what you have seen in 2022, and H2, clearly, with inflation, but at a lower level.

TG: Then again, first priority for us is to keep our strong price index. Again, we are very happy today with the price index across the Group in every banner and that's the first priority.

TG: I would not guide or answer specifically on price to the customer because my first answer would be we want to keep very strong price positioning, while we will continue to see COGS purchase prices increase in H1 2023 and in H2 2023 at a lower level.

TG: Poland, you are right to say that Q4 was worse than Q1 to Q3. The start of the year has been more difficult in Poland. And it's not due to us. In short, we are clearly continuing to gain market share, including February, we are clearly above the market in February, too.

TG: The market deteriorated in Poland during Q4. Inflation is about 17% in this country. The sentiment is really around the cost of living still at the moment with a lot of discussion around energy, etc. This is as well an election year in Poland.

TG: All the components we have seen during Q4 and earlier this year were not very good, while we are clearly above the market. When I look at the macro economy that is not for me to comment on, I start to see slightly better KPIs for the Polish economy arriving.

TG: We hope we'll see a better trend in the future. But again, with a very strong position in Castorama Poland, and we continue to strongly gain market share.

BB: And then on the guidance for the year, I said comfortable with £633m, which is the compiled consensus until now. We haven't guided on like-for-like. I think it's probably best to say that we plan for different trading scenarios and depending on those trading scenarios, we can adapt our cost position.

BB: In terms of the things that we see, sales in February, as you've seen, it's the underlying sales are resilient, seen some weakness in March.

BB: In terms of COGS, Thierry just discussed the easing of inflation and we're comfortable that we'll be able to manage that effectively as we've had in the prior years. And then on operating costs, yes, there is inflation, as we said, in pay rates in energy, a little bit more on technology and additional investments in new business, but looking too, again, as we did this year to substantially offset those by cost reduction measures.

K: There are no further questions on the conference line. I may now hand back over to the room.