# Screwfix Direct Limited

## Strategic Report

The Directors present their strategic report on Screwfix Direct Limited (the 'Company') for the year ended 31 January 2023.

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

### Principal Activity

The principal activity of the Company continued to be that of the retail of trade and DIY products to both tradespeople and the general public, primarily through the Company's Trade Counter (outlets) network and website.

### Review of the business and future developments

Screwfix Direct Limited had a decrease in like-for-like sales of (3.4% (2021/22: +10.9%) as compared with 2021/22. This decrease is largely attributable to sales in the prior year being distorted by the effects of the pandemic whereby customers spent more on home improvements due to increased time spent at home. Total sales (from continuing operations) grew by 1.5% to £2,345.4m (2021/22: £2,310.7m) as a result of a record year of expansion. FY23 saw 62 new stores opened in the UK, bringing the total number of UK outlets as at 31 January 2023 to 838 (2021/22: 776). Sales volume was lower than the previous year as inflation impacted levels of disposable income, however this was offset by higher average selling prices.

The business continued to strengthen its digital proposition throughout the year through the introduction of digital tablets in all stores, the launch of its product recommendations feature in the new Screwfix app and the continued roll-out of Screwfix Sprint.

During the year the Company continued to operate and grow a wholly owned subsidiary company, Screwfix Direct (Ireland) limited Screwfix Direct (Ireland) limited is incorporated in the Republic of Ireland and makes sales to both tradespeople and the general public in the Republic of Ireland through its website and Trade Counter network. The financial statements in this report for Screwfix Direct Limited do not include the results of Screwfix Direct (Ireland) Limited.

As part of the Kingfisher plc group of companies (the “Group”), the Company is confident that it will effectively manage through the current period of higher inflation, rising interest rates and the associated cost of living challenges in the UK. This includes being focussed on delivering value to our customers at a time when they need it most, leveraging the scale of Kingfisher to manage cost price inflation, ensuring competitive price index against competitors, as well as offering a leading range of own brands to provide customers with value options. The Company is also able to take advantage of Kingfisher’s ability to support effective foreign exchange hedging. This provides protection against the volatility that has been seen in the currency markets, particularly with the US dollar due to a material amount of stock purchases made in USD.

The Company has a plan to continue to open new stores over the coming years, to significantly increase product lines available to customers and to make further investments in digital and distribution capabilities.

### Key performance indicators

The Company is a subsidiary of Kingfisher plc. Further information on the Group’s analysis using financial key performance indicators can be found in the 2022/23 Kingfisher plc Annual Report (“Kingfisher Annual Report”): 'Financial Review' on pages 39 to 50.

Like-for-like sales (as cited under ‘Review of business and future developments’ above) decreased by 3.4% (2021/22: +10.9%) as compared with 2021/22. This decrease is largely attributable to sales in the prior year being distorted by the effects of the pandemic and changes to customer demand.

Operating profit decreased by 8% from £255.8m in 2021/22 to £236.3m. The war in Ukraine directly affected the cost of living in the UK through increased commodity and energy costs. This combined with customer demand normalising after being distorted by the pandemic resulted in reduced customer demand in the year. At the same time, higher inflation has driven up operating costs, including employee pay rates and there have been significant

### Key performance indicators (continued)

increases to energy costs. We have also continued to invest in our IT systems to maintain our market leading offer.

The Company's profit before taxation amounted to £243.5m (2021/22: £246.7m). The reduction in profit before tax was largely offset by an increase in finance income because of higher interest rates with profit after taxation of £198.3m (2021/22: £202.8m).

The above performance indicators are used to measure growth and profitability of the continuing operations, and to demonstrate that growth comes from both the Company's efforts to increase the efficiency of its sales channels as well as the growing number of Trade Counters. As part of its ongoing performance management the Company tightly manages its investment in working capital, balancing the need to ensure stock availability levels are sufficient to meet customer demand across the range while not over investing in working capital. The Company continues to focus on improving stock availability, ensuring that the right stock is in the right locations to meet customer demands. This focus and tight management has had a positive impact on stock days, which decreased from 135 days in 2021/22 to 129 in 2022/23.

### Principal risks and uncertainties

Two of the key business risks and uncertainties affecting the Company are the level of product demand and securing properties to meet the Trade Counter opening programme. The level of product demand is impacted by macro-economic conditions and competition. Product demand is monitored through monthly rolling forecasts which factor the latest trends into supply chain planning procedures. The Trade Counter opening programme is monitored within weekly meetings which include executive board members.

Other key risks and uncertainties include ongoing market conditions, competition and UK consumer confidence given the increase in interest rates and inflation. We are committed to continuing to manage our gross margin effectively in an inflationary environment, as we did in FY 2022/23. The focus of the Company on leading on price competitiveness, for which it benefits from its Own Exclusive Brands and buying power, stands it in good stead in the face of a challenging marketplace, with cost price inflation and lower consumer confidence.

The oversight for certain risks such as climate change, human rights, anti-corruption and anti-bribery matters are undertaken at a Group level and consideration and required disclosures including the associated mitigation of these risks is disclosed on pages 51 to 58 of the Kingfisher Annual Report. Activities to manage and monitor these risks are also performed at a Company level in line with the standards set at Group.

### Financial risk management objectives and policies

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

As part of the Group, the Company's interest rate, liquidity and foreign exchange risks are managed centrally by the Group Treasury department who monitor and manage levels of debt finance and related finance costs.

A full description of these financial risk management policies is on pages 151 to 154 of the Kingfisher plc 2022/23 Annual Report.

### Economic risk

The biggest economic risks facing the Company are weaker GDP growth in the UK, political uncertainty and social unrest, higher wage inflation (e.g., UK National Living Wage increasing by c.9.7% pa), and significant cost inflation (across raw materials, utilities and third-party labour). All these factors are considered regularly as part of the executive board's decision-making process.

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## Strategic Report (continued)

### Cash flow risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts to hedge these exposures.

### Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables and related party receivables.

The biggest credit risk is attributable to the other members of the Group, since cash is regularly passed to the Group Treasury department and is not offset by regular dividend declaration.

The Company's credit risk (excluding credit extended to other members of the Group) is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Company has no significant concentration of credit risk, with exposure spread over many customers.

### Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when they fall due. The Company, along with Kingfisher plc, regularly reviews the level of cash and debt facilities required to fund its activities. This involves preparing a prudent cash flow forecast on a 13-week basis which is submitted to Group Treasury. Group Treasury then manage the cash-pool for the entire Group determining the level of debt required to fund the Group plan for repayment of debt at its maturity whilst also identifying headroom to provide a reserve against unexpected outflows. The Directors are satisfied that the Company is not subject to significant liquidity risk.

### Corporate Governance

The Company is a wholly owned subsidiary of Kingfisher plc. Kingfisher plc is subject to the Financial Reporting Council UK Corporate Governance Code (the "Code") and page 63 of the Kingfisher Annual Report sets out how it has applied the Code throughout the year ended 31 January 2023. Kingfisher's commitment extends to ensuring that a robust and effective governance framework is in place to support and promote the success of all legal entities within the Group. This includes a Group Subsidiary Governance Policy (the Policy) which applies to the Company and all legal entities within the Kingfisher Group and encompasses seven overarching principles (the Principles) that each Group entity is expected to apply in pursuit of consistent and appropriate levels of governance.  The Principles the Company is expected to uphold, encompass:

- Company Purpose and Leadership
- Board Composition
- Director Duties and Responsibilities
- Opportunity and Risk
- Remuneration
- Stakeholder Relationships and Engagement
- Legal, Regulatory and Company Administration

In pursuit of these governance arrangements, the Company operates a two-tier management structure comprising a statutory board and a management board. The Company also has in place an Audit Committee, Ethics and Compliance Committee, Responsible Business Committee, Health and Safety Committee and People Forum to support the management board in the performance of its duties. Their respective responsibilities are clearly defined within the matters reserved to the statutory board and the terms of reference of the management board and its committees. The management board's responsibilities include all operational matters and day-to-day running and management of the Company. The statutory board is responsible for ensuring compliance with all applicable statutory and regulatory obligations, as well as matters of corporate governance and financing arrangements. The statutory board and management board are expected to follow the Principles set out in the Policy and have due regard for the views of its stakeholders, risk in its approach to taking decisions, business needs, the interests of the Company and may in exercising their independent judgement take into account the success of other Group companies as well as the success of the Company, as codified in the Company's articles of association. The Company is expected to comply with the Group Code of Conduct as well as a suite of other Group-wide policies and to a standard commensurate with the status of Kingfisher plc as a listed entity.

The Company confirms it has complied with all Principles set out in the Policy in respect of the 2022/23 financial year.

**Section 172(1) and stakeholder engagement statement**

The Directors are fully aware of their responsibilities to promote the success of the Company in accordance with Section 172 (s172) of the Companies Act 2006 (the Act). When making decisions, Directors have regard to the matters in s172, including the interests of stakeholders relevant to the Company, the impact of the Company's operations on the community and environment, and the Company's desire to maintain a reputation for high standards of business conduct as well as its long-term success. Actions and behaviours are governed by the robust governance framework of the Group, which includes, but is not limited, to Group policies and the Kingfisher Code of Conduct. The Directors acknowledge that every decision they make will not necessarily result in a positive outcome for all of the Company's stakeholders; however, by considering the Company's purpose, vision and values, together with its strategic priorities, and by having a process in place for decision-making, they aim to ensure that their decisions are consistent and that stakeholder interests are considered fairly.

As is normal for companies that are part of a wider Group of entities, day-to-day management of the Company is delegated to executives who, in turn, engage management in setting, approving, and overseeing execution of the business strategy and related policies. The Directors review financial and operational performance and legal and regulatory compliance pertinent to any decision they are taking. During the year, this information was distributed in a range of different formats including in reports and presentations on our financial and operational performance, non-financial KPIs, risk, ESG matters and the outcomes of specific pieces of engagement (for example, the results of customer and supplier surveys and focus groups). This information helps the Directors to understand the interests and views of the Company's key stakeholders as well as to have regard to s172 matters when making decisions.

The purpose of the Company is to act as a retailer of home improvement products and related home improvement services within the Group. As well as its affiliates in the Group in which it operates, the Company's key stakeholders include its customers, colleagues, suppliers, communities & non-governmental organisations (NGO's), regulators & Government, national and international external regulators of product safety. While there are cases where the Board judges that it should engage directly with certain stakeholder groups or on certain issues, the size and spread of both stakeholders and the Group, means that generally stakeholder engagement best takes place at an operational or Group level. As well as being a more efficient and effective approach, this also helps the Company achieve a greater positive impact on environmental, social, and other issues than by engaging as an individual Company. Please see pages 17 to 22 of the 2022/23 Kingfisher Annual Report and Accounts for details of stakeholder engagement with the Company's stakeholders at a Group level.

Set out below are some specific examples of how the Board and management have had regard to s172 matters, their approach to stakeholder engagement and the effect of certain decisions taken by them during the year.

# Screwfix Direct Limited

## Strategic Report (continued)

**Customer engagement**

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

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

Customer feedback is of particular value when testing new and improved digital customer journeys both online and in store, as well as understanding the inflationary environment and economic challenges our customers face.

**Supplier engagement**

The Board recognises that building and maintaining trusted partnerships with the Company's suppliers is fundamental to the long-term success of the business. It does not regularly engage directly with suppliers but receives frequent reporting from the business areas which interact directly with them. The Board considers the impact to suppliers when making key strategic decisions relating to product ranges or supply and logistics.

The Company engages with suppliers, to improve outcomes for them and the Company (business as usual) and to minimise supply chain impacts caused by changes to the trading environment post-pandemic. As a result of the conflict in Ukraine, the Company (alongside the rest of Kingfisher) decided early on to stop selling the limited number of products directly sourced from Russian and Belarussian suppliers.

**Employee engagement**

The Directors recognise that the implementation of an effective people strategy and strong culture underpin the effective delivery of the Company's strategy and ultimately its performance. The Directors acknowledge the importance of retaining talent and consider the views of colleagues when making decisions and assessing the impact of those decisions on our colleagues.

Colleague feedback is received in several ways including from established Colleague Forums, Works' Councils and feedback chains to the Board to regular colleague engagement surveys. The Screwfix Connect intranet has regular articles and opportunities for employee feedback. Business announcements are also emailed to employees and a committee is in place to discuss and respond to employee feedback.

All employees are invited to attend Quarterly Business Updates (QBUs). These are led by their respective functional executive director, accompanied by senior managers who provide a business update, including the latest published financial information, a progress update and supporting narrative against company and functional KPIs, and a cascade of other relevant information. These QBUs also provide employees with an opportunity to ask questions of their senior managers to address issues not covered by the QBU itself.

A bi-annual employee survey is conducted utilising a third-party tool which provides an opportunity to gather feedback anonymously from employees on a range of subjects. The tool allows the reporting of an overall engagement score, as well as a score for individual teams, and enables the development of action plans specific to each part of the business. A selection of core questions tracks engagement over time to measure the impact of the execution of these plans.

The 1+1 share plan provided all colleagues with the opportunity to purchase shares up to a specified maximum total contribution. Following a holding period of one year, the Company matched each participant's investment (awarding one free share for every share bought) up to the specified maximum. This allowed every colleague the opportunity to benefit from the Group's success.

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## Strategic Report (continued)

The Company has continued to support colleagues continuing professional development. As part of this continually improving offer, all colleagues also have access to online courses and materials to support their training and wellness. The Company has also increased opportunities to learn and progress through expanding its apprenticeship programme and is now delivering its own Retail Level 3 and 4 apprenticeship programmes with 518 enrolled at the end of the year. Apprenticeships form a core part of the progression pipeline for the Company, with 90% of those completing the apprenticeship programme being promoted.

Kingfisher is committed to the well-being of employees and the plans for people and culture can be found on pages 14 and15 of the Kingfisher Annual Report.

**The impact of the Company's operations on the community and the environment**

As part of the Group, the Company aims to help customers have greener, healthier homes. The Company sells many energy, water and heat efficient products like lighting, taps and insulation to support this aspiration.

The Group is committed to specific environment-based targets, including using sustainable wood and paper products, becoming forest positive and reducing carbon emissions over the next three years. The specifics of these goals (and commentary on progress toward full achievement of these) can be found on pages 23 to 35 of the Kingfisher Annual Report and pages 19-28 of the 2022/23 Kingfisher Responsible Business Report.

**The desirability of the Company maintaining a reputation for high standards of business conduct**

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

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

To ensure consistency across the Group, these policies and targets are set and monitored at a Group level. The Company also monitors its own actions, maintaining our accountability to meet the Group's standards.

**The need to act fairly between members of the Company**

The Directors remain confident about the future prospects for the business. The business will continue to expand to reach more customers through the Trade Counter opening programme. The business model continues to evolve, enhancing its multi-channel convenience credentials.

Current global demand for product has driven challenges and additional costs within the supply of product for both domestic and imported stock. We continue to utilise the Group's size and scale to meet our customers needs.

The Company has maintained its investment in a subsidiary Company (Screwfix Direct (Ireland) Limited), which started operating a Trade Counter network and website in the Republic of Ireland in 2018, with continued Trade Counter driven growth during 2022/23 and further planned for 2023/24.

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## Strategic Report (continued)

During 2022/23 the website supporting sales for Screwfix France business was sold to a separate legal entity that was established and began trading in France in the year.

Approved by the Board and signed on its behalf by:



Max Britten



M Britten

Director

Date: 28th September 2023