Kingfisher plc Full Year 2023/24 Results – Q&A Transcript – 25 March 2024

Speakers:

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WO: Good morning. Warwick Okines, BNP Paribas Exane. Two questions, please. The first is on your 5% to 7% margin aspiration for France. At that bottom end - that self-help 5% - can you help us with how much of the required 170bps improvement from last year would come from gross margin and how much from costs? And then second question is, for how many years do you think Screwfix France will remain loss-making given the ramp-up that you plan? Thank you.

TG: Bernard, do you want to start with the first one?

BB: Yes, so we have 3.3% this year. And last year, was 4.4% in a difficult environment. If you look at the last six years, we were around 4.2%. I think we're going to pull all the levers, as Thierry pointed out. A very important one is through the measures on the store estate, obviously to increase the overall sales densities, and that's mainly then on the cost side. Then there is operating measures and cost reductions. Again, that's going to be a big part.

And then obviously, we're going to do everything to work on the mix, on our supplier negotiations, plus there's a big effort on the supply chain that we do. I think we called out a 28% reduction in space, and then on the other side, we will continue to work on gross margin. But I think you've heard us say often that we will not be driven by the gross margin percentage target because ultimately what we want to do is drive the bottom line. So if there are trade-offs needed in there, we'll make them in order to achieve the top-line growth, which ultimately benefits the operating leverage.

TG: Just remember always that there are two animals in France. Brico Dépôt is a different story. You need to grow and that’s as well something to be added. I think Screwfix is ready for us. The first priority is to improve sales density. I think the loss level will depend on how quickly we reach the curve I showed you and how fast we want to expand stores. So it is fair to say that in the coming three years, we would expect a loss at Screwfix France but then depending on the sales density and the expansion plan we have in France for Screwfix.

AG: Ami Galla from Citi. Two questions from me. The first one is on the cost reduction target that you've pencilled in for this year. Can you give us some colour as to which market that's focused on? And also some outlook on the inflation in the overheads that you see across different key components.

The second one was really a follow-up on the Screwfix France comment. Given that your competitor, Toolstation, is looking to unwind their estate, does the maturity curve to break even become steeper in the short term as a result of that event? And any quick colour in terms of the competitive pressures that you're facing in France today, are things stabilising as we think about the next 12 to 18 months there?

BB: The cost reduction of the £120 million obviously follows a little bit the size of our markets. So I would say probably it's France, UK as the big chunks. But then there's also a chunk of things we do in IT and obviously in Poland and the other markets. But it's broadly spread according to the footprint of our businesses.

Maybe a couple of things to say in addition. If you look at some of the energy price movements, those were more of a headwind this year in the UK, less so in France. They have a different energy market, so that will contribute a little bit more in the UK market than in France.

But then as you look at it in the round, the expectation is that we will still see an increase overall on a like-for-like basis, given the fact that if you especially look at pay rates, obviously we're in line with retail, they vary, but you would have noted the minimum wage impact in the UK and that will continue to flow through.

And then obviously, we're making additional investments, for example, in tech with a little bit more also higher depreciation flowing through, so in the round £120 million spread broadly around given the sizes of our markets, but still some operating cost inflation to be expected next year.

TG: Thank you. Screwfix France versus Toolstation. First, it's never great to talk about competitors. I would say the first thing is when you look at the UK business, you know that the sales density of Screwfix is much higher than the sales density of Toolstation. There are many, many components – sales density, profit – that make Screwfix a stronger business in the UK. So, we expect to see that in France too.

Second thing is we are in France for the past the 40, 50 years. We know the suppliers there. We have proper local negotiation. We have the team in France. So because we know the French market, we consider it a strong help for Screwfix in France.

Overall, we already have better sales densities than Toolstation. We have the same brand awareness just after 18 months. So we are confident that France will be an important market for us. Then we are in a different region. Toolstation is more in Lyon in the south of France. We have chosen to start in the north of France. So the fact that they will exit the market will not change anything for us.

Competition pressure in France – we are pleased with our price index and always, price index is our first priority. We want to grow market share. We have to have the right price positioning in France, and we continue to see that in the past months and including now. Probably last year, we have seen for a few months, more promo activity from Leroy Merlin. But I would say it's relatively normalised today. I don't notice specifically more or different kinds of promo activities this year versus a normalised year in France overall.

ID: Hello. It's Izabel Dobreva from Morgan Stanley. I had three questions. The first one is on your gross margin. The exit momentum in the second half was quite strong. Can you give us a sense of whether you expect this to carry through over the next 12 months? And if you could give us some colour on how that breaks out between your price expectations relative to supplier negotiations and any potential headwinds from the Red Sea? So that's the first question.

And then my second question was on the cost. The £120 million - does that include any energy savings that you get from spot prices for the year ahead? And if so, how should we think about the run rate of structural cost savings beyond this year, so 2026 onwards?

And then my third question is on France. You talked a little bit about Toolstation and the lack of geographical overlap. Would you be open to any acquisitions in order to expand your networks more quickly?

And then in terms of the Castorama digital strategy, could you talk a little bit about the digital landscape in France?

TG: Thank you. Maybe I start with a few comments on Red Sea and inflation, then we move to the gross margin and follow-up? I think I start with the Red Sea. In short, for us, it's an issue to manage. It's not a crisis. It's not a crisis because first of all, you can find containers. It’s relatively easy to plan and we don't see really disruption today. We see approximately two weeks of delays, but in our industry that's relatively manageable. And still this year, freight will be a small tailwind. So in short, it’s a topic to manage as many other issues, but not a crisis.

Probably on inflation and prices, a few comments. First, we see our purchase, our product prices – broadly flat for 2024. We expect, as I mentioned, a small tailwind on the freight side and a small headwind on the FX side. And as far as I look into 2024 today, I do not expect deflation. In some categories, you will see prices down. Typically building materials when you have high frequency timber, those categories, you will see deflation. But overall, in our business, we have many different categories, and I still see and expect inflation at a low level in 2024. Bernard - maybe comment on gross margin?

BB: Yes, so then it basically ramps up into the gross margin level in that dynamic of COGS (Costs Of Goods Sold) expected broadly flat. And then as Thierry is saying, as we see it today, we're not seeing shelf price deflation. Just to reference back on the exit rate in H2, a couple of movements there. One is stock provisions, especially in Poland, were lower. And then as Thierry was saying, I think the level of promotional intensity in H2 was more normalised versus H1, where it was stronger. And we're continuing to see a normalised level of promotions going into the year.

Then in terms of the cost savings, yes, it includes a little bit of energy savings. Obviously, that's a little bit of a difficult one to pinpoint exactly for the year because we had a relatively mild winter this year and also the winter before. But we've made structural reductions in our energy consumptions and overall, the energy rates with hedging have come off. So in H2, already, it was basically flat year over year. But then for the year as a whole, we'll have a bit of a benefit in H1.

Then in terms of the onward savings, you saw it was in the past about £120 million. I would say it does vary a little bit by year. For example, if you have a big initiative and rollout of SCOs (self-checkouts) or an operating model change in one of the banners, obviously you’ll do a little bit more in that year and a little bit less in the other. But that £100 million figure is something that we broadly will target every year as part of the structural programme that we have.

TG: Thank you. And Toolstation in France, to be very direct, we are not interested in a potential acquisition for many reasons. First, you grow a format at Screwfix around the distribution centre. We have deliberately decided to set up a distribution centre north of Paris. So clearly the geographic area that is our first focus is the northern part of France, and Toolstation is in the south.

And secondly, we have a very ambitious plan already. We are very happy with the opening plan of stores. We have enough to do without adding additional projects for Screwfix at the moment in France. We are very pleased with the progress and the plan we have at the moment.

E-commerce landscape in France. First, you have one more competitor, that is ManoMano, that is a vertical specialist on e-commerce that started years ago to create a marketplace, they don't have a first-party proposition. But recently we feel that ManoMano is losing traffic share for a different reason. Leroy Merlin is a strong competitor online with a proper e-commerce business and marketplace. Our strategic choice is online. You remember, we discussed that at length in a previous meeting. One, we believe in speed. So we deliberately believe in store preparation and in fast home delivery and fast click and collect. You see that in the UK with Screwfix.

And that’s a choice that Leroy Merlin has made differently. They rely on large fulfilment centres. That's a great cost – it has benefits as well but that's not our view of the future of e-commerce for us. And therefore, we are leveraging our stores. We are leveraging click and collect and fast home delivery. And so we have made a very different choice than our main competitor in France.

Second, we believe we have done an outstanding job for our marketplace in the UK. In over just two years, £200 million [GMV] – we would not have wished that two years ago, and we believe we can go fast. Now we have proper technology, we have very good teams and we believe we'll go very fast with our marketplace development in France.

KC: Kate Calvert from Investec. Three from me. The first one is on France. Of the 30-odd underperforming Castorama stores, how many are you planning on changing over to Brico Dépôt?

And the other two questions are on Poland. The first one is, what do you see as a sensible medium-term margin target in Poland? And on your new store openings, I think it was 75 you said planned over the next five years? How many of those will be leasehold? Will the vast majority be leasehold or are you thinking of any freeholds? Thanks.

TG: Thank you. So starting in France. We have tested transfers to Brico, rightsizing, et cetera. We have a plan for this year, and then it will depend a bit on the tests and the evolution of the network. So clearly, we see that as an opportunity. But it is a bit too early to give you precise figures on how many stores could move from Casto to Brico.

Poland, I will let Bernard comment further. I think today when we do our expansion in Poland, overall, we are on 50:50 leasehold, freehold. It's fair to say that we are – we move more to leasehold when we are going to smaller formats and we will open more smaller formats in Poland. But directionally, I would say first answer would be around 50:50.

And on profit, again directionally and then I will let Bernard give you more colour. Obviously, we are not happy with the results of 2023. We have a clear plan to correct that quickly, and you should see that in the coming years. And it's around sales density again, on cost, and all the good strategy that will support Poland. We will plan to open our marketplace this year.

At the same time, it's probably fair to say that when you think back to the 2019 profit level, I think at this point the Group was demanding too much from Poland, probably to compensate for other parts of the Group. We were lacking expansion, we had no promotion, we had very limited advertising and we gave too much room to Leroy Merlin. So while I really believe that 2023 is a very bad year, I don't think the level of profit of 2019 is a sustainable level we should target over the medium term. I don't know if Bernard you have anything to add?

BB: Yes and I think we are very excited about the opportunity in Poland. I think the last year was really extraordinary in terms of the combination of very low demand and inflation. If you just go back one year, the retail profit margin was 8.5%. So that gives you an indication of the potential in what you would call a more normalised market.

GG: Hi, thank you. Grace Gilberg from Jefferies. I've got two questions, if I may. The first one is, do you mind just giving a little bit more colour around the economics of the marketplace? And just walking us through a little bit of those moving parts and the profitability or margin that you see in the medium term? How you deal with some of the cannibalisation between your own brands and then also the ones that are being sold on marketplace? That’s the first question.

And the second one is that it looks like you've lowered your yearly opening target for Screwfix in the UK from 60 to 40 stores per year. Is there a particular reason for that? Or do you think that you can hit the plus 1,000 store target in the medium term by opening fewer stores per year? Thank you.

TG: Thank you. Economics for marketplace, you have seen if you take B&Q £200 million GMV. Again, it's a typical definition of GMV in our industry, and we have been very public and clear on that. We see take rates, or margin collected, between 10% and 15%. We believe it's the right level. To be fair, there are opportunities looking ahead to more monetisation. Usually when you are a mature marketplace, you would provide more services to your vendors – data, advice, advertising, even fulfilment. So it's a way to go, but we already are thinking around additional ways to monetise the traffic we have. Then you have some costs, you have typically some IT costs. You have the usage of the Cloud. You can expect a very big flow-through from this – 10% to 15% to profit.

Cannibalisation – we don't see that at the moment. I’ve said 50% of the customers are new to B&Q. 10% of those 50% are buying immediately first-party products. So we are rather seeing a virtuous circle – more choices, more traffic. Traffic goes to marketplace but goes as well to our own business. And that's really what we see at the moment.

Screwfix opening plan in the UK – I think it’s fair to say that we want as well to adjust our CapEx and the plan to the environment around us. We have seen 2023, and we expect 2024 with a bit more cushion. Therefore, we adapt as well our plans to the environment, but we are still very committed to the 1,000 stores. We see all the new stores opened by Screwfix in the UK and Republic of Ireland reaching their potential. So it's more general adjustment and prudent planning versus the environment around us.

RC: Richard Chamberlain, RBC. I've got a few questions on France, please. Thierry, maybe you can comment on how scalable you think these trade initiatives are both for Brico and Casto in terms of configuration of the current store estate and how ready do you think the trade market is in France for those type of initiatives, particularly for Castorama? It doesn't strike me as an obvious banner that would potentially scale for, or be that popular for certain tradespeople to shop at in France. So if you can just address those points. Thank you.

TG: I think overall, you have seen we have learned from B&Q and TradePoint. We are very impressed by the results of TradePoint - H2 is a very good like-for-like. We are increasing the penetration and the portfolios overall. We have been impressed by TradePoint. We have worked very hard to understand better Home Depot's success. At some time, we were even looking back at what did they do 30 years ago. Probably we are at the level of Home Depot 30 years ago, 20 years ago.

So what did they do 30 years ago? For example, one of the things we are working hard on today is what we call the sales partner. They are people dedicated to a very small number of trades and they are providing ad hoc, specific services, fees and we are rolling this out across the Group. We have created a Group 'Centre of Excellence' to share good practices.

We are very optimistic about trade because of all the test-and-learn we have done in 2023 and you have seen all the different figures and tests in Brico, Poland, Iberia; the results are very good and somehow with zero CapEx or very limited CapEx because that's your stores, that's your rent. So yes, you need a dedicated checkout, desk, but that's very low CapEx. We are leveraging our technology to provide a dedicated loyalty programme hub. In short, we feel probably more excited than two, three years ago on the trade opportunity and we see the results of those actions.

Castorama France, one of the specificities of the Casto brand is expertise. Leroy Merlin is very good so they are doing all the right things, but there is an angle where we have a differentiation point – we are known for the expertise of the teams. And so now we have more experts, brand positioning, building materials, et cetera, than Leroy Merlin that has sometimes been more focused on decoration, soft furnishing, et cetera.

So when you look at Castorama Poland, at B&Q, why wouldn't it work in France, at Casto? So we believe there are real opportunities to improve the sales density there with very low CapEx.

BB: Maybe just to highlight because we talk about trade, but obviously it is a specific part of the trade market, mostly smaller tradespeople and tradespeople where there is an ad hoc demand, so they're on a job and they need to get something. And then, for example, proximity and the fantastic range that Casto or B&Q stores have is extremely helpful for them. So it's the proximity, it's the emergency demand of some of the smaller trades people and we're not trying to capture the full wallet, but even if you capture a small share specifically linked to that ad hoc, that emergency demand, that proximity need, then you can still build a very interesting business.

AC: Adam Cochrane, Deutsche Bank. A few questions on France, if I can. You talked about the third of stores which need some work. How bad are those stores and how would they compare to the top third of stores in terms of profitability, sales densities? What is the difference? Why are the stores so bad compared to the top third?

And then you talked about reducing your CapEx, but you talk about how exciting the Englos store is and the transfers to Brico Dépôt. You appear to be moving quite slowly, but CapEx shouldn't really be a constraint seeing as you are undertaking a share buyback, you've got very generous free cash flow. Why are you not moving a bit more quickly, given the potential to turnaround the French business which you outlined?

In terms of the franchise stores, what do you expect the franchisee to do significantly better than you're doing in those stores? Why should they be able to do it differently? And on that franchise, would that be a freehold or leasehold? Or would you be getting rent from the franchisee effectively?

Then as we look at the slightly bigger picture, you haven't mentioned product or product development that much today, particularly. Is it still an area of excitement, is there still lots coming down the pipeline in terms of your new ranges and things? Just give us a little flavour on what's still going on in the background as well.

TG: Thank you for this question. I'll start and I think we'll comment with Bernard on CapEx. I think the qualification of low performing is obviously profit, but not only, sometimes it's low sales densities while the profit is okay. You could have sales density issues in freehold or leasehold. So it's a combination of that sales density, profit, or just potential of the catchment area in the future. And then when we look at those 95 Casto France stores, we consider about one-third we could do better.

Bernard will comment on CapEx. It's not mainly a CapEx issue. We need to work on one-third of an estate, you need to confirm your test, we need to transfer to Brico. You're rightsizing. We are working on franchise. You need a bit of time to do that properly. So I think it's more a three to four years programme. And also, if you divide one third by three to four years, you will have the plan per year, that we'd go with consistency, and depending on the results of the test, we could do more of one of those four pathways.

Franchising is a very common, I would say successful, scheme in France, and you have seen that across different kinds of retail. It's true for food retail but it's true as well for general merchandise. What you would expect from a franchisee is, first of all, to manage better all the costs of the store and the OpEx in all these, the way you operate the store, you will see franchisees having slightly better margin, especially the loss of shrinkage or whether they're managing margin. And then also around freehold and leasehold depending on the situation, if you take a Castorama France store, we'll keep the freehold and the franchisee will pay us rent.

Franchise, we see that as a way to operate better some of our stores in smaller catchment areas but in other areas, we could have new stores, especially for Brico Dépôt, maybe one day for Screwfix. You could have a franchisee opening a store under the Brico, Screwfix, or Casto banner. Then they will probably keep the property and it will be a slightly different model.

OEB and product, we are very excited about. We felt the presentation was already fairly long so we've tried to focus on the key things for us for the coming 12 months. But clearly private label is one of our eight priorities. You will see in the coming months, for example, in B&Q, brand new bathroom ranges, a lot of our innovation everywhere. You would see innovation in a new design in bathroom. We are very proud of the job we are doing on sustainable products in OEB – new ranges for water and for energy efficiency. We are working on smart home devices with partners. So there are is a lot ongoing. Just a question of priorities for today's presentation.

BB: And maybe just one remark on why not go more quickly. I think CapEx, as Thierry said, is not the issue and we can manage within the envelope of 3% for the Group. But to remark, one-third of your stores, you wouldn't do that all at once in terms of disrupting the business, management bandwidth, level of change in the stores. I think there's room for a bit of phasing. And I think 13 stores already in a year is an ambitious programme.

AC: It feels like it's already been going on for about four years.

TG: Well, if I may - remember where we were in 2019. We had a thousand containers across our DCs and harbours. We lost half of the supply chain team. Our price index was not where we wanted to be. The team was totally demotivated. We were five to seven points below the market growth for the past years, et cetera. We had a legacy system in IT.

So we needed a bit of time to solve that. And we are now in a strong position. And I'm very proud of the job that has been done in the past four years. And we don't comment specifically on profit of Casto and profit of Brico, but Casto did a good job that allows us now to bring another level of plans. We bring France to the next level, but we are very happy and proud of the job done in the past four years. So don't forget where we were at the end of 2019.

BB: And just to the point, I mean, we've taken the time to test rightsizes, Brico Dépôt, the new concepts are in – now we've said the starting gun has gone now, we can go gung-ho. We needed that time to test and refine those propositions, but that's now done. Now it's just a question of the management bandwidth that you have and we go as fast as we can in implementing various forms.

MC: Matt Clements, Barclays. A few questions on retail media.

Obviously, there is a subtle upgrade in your long-term guidance for retail media, this morning with the increase of GMV penetration to 30%. Any indication on, I know it's a nascent business, but any indication on how that's being received? How many clients have you signed up? Any kind of performance indicators? And any comment on trajectory towards that 3% [of e-commerce sales]? Any indication perhaps in the UK where it's most developed and what contribution we'd be looking to in the next couple of years?

TG: Yes, thank you for the question. I think retail media, again, the key component is we have very big traffic, we have very strong brands. So it's really around monetising our traffic. And we have built strong data capabilities the past three to four years. We have chosen to do a partnership with CitrusAd. CitrusAd is one of the leading software companies to help us to not only sell retail media ads, but how you manage your data because your vendor, they want to have the data. Otherwise, they are not engaged in the long term.

So we have decided for speed and therefore, not to do those softwares ourselves, but to do the very first partnership with CitrusAd. And that's allowed us to go very fast. We have done Castorama [France], Brico [France], B&Q in one year. You will see this year a large part of that will go into retail media. We see very good engagement of our vendors.

On top of that, I think the secret will be marketplace and we see that marketplace vendors, normally there is more and more appetite for retail media than your first-party vendors and we will start as well retail media with our marketplace vendors in 2024. So that 3% - we are confident to reach that. Really looking for speed, even though we agree to, let's say, share a little bit of the profit with CitrusAd, we believe it will give us the best option for the future.

MN: Thanks, Matt. Any further questions at all? I think we are good for Q&A. So I'll say thank you very much. Thierry, do you have any closing remarks at all from your side?

TG: Thank you for this morning. I think again, we are gaining market share and that's for me top of my mind when you judge the state of the Group. We are delivering our strategy at pace and we are happy with the progress and it's a very consistent strategy and you will continue to see that. And three, we are adjusting the Group to the environment. And if we have to work on cost, work on cash, we have been agile. We continue to do so. And that's how we see ourselves in 2024. So thank you, everyone. Thank you, Maj.

BB: Thank you.

MN: Thank you.