Kingfisher plc 2019-20 half year results presentation transcript - 18 September 2019

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6 months ended 31 July 2019

Speakers:

Andy Cosslett, (AC), Chairman

Thierry Garnier (TG), CEO designate

John Wartig (JW), Interim CFO

Slide: Welcome & introduction (AC)

Good morning everyone and thanks very much for joining us today for Kingfisher's half year results. For those of you who don't know me, my name's Andy Cosslett, and I'm the Chairman of Kingfisher Group.

I'm joined today by John Wartig, who joined the company as our Interim CFO back in April. In addition to his CFO responsibilities, the Board also asked John to take over the running of our Transformation Office, including a very specific and detailed focus on Castorama France, as part of that. John has deep operational experience of change management, and his insights, some of which you'll hear in some detail today, have been very valuable to both the Board and the Kingfisher team generally since he joined.

We are also joined this morning by our incoming Chief Executive Thierry Garnier, and you will be hearing a few words from Thierry shortly. Thierry, welcome.

We will follow the usual format this morning. I will start with an overall summary of our performance before handing over to John, who'll run through the financials in more detail. And then of course we'll return with a look at our priorities and then take your questions.

Slide: Key point summary (AC)

Let me then start with slide 4 and the overall picture for the half year.

The transformation of our business continued during the half. Further progress was made in unifying our product, we launched some innovative new ranges, and introduced further capabilities to our unified IT platform.

The financial performance in the half, however, was mixed.

Screwfix, Poland and Romania all delivered like-for-like sales growth in the period.

At B&Q, LFL sales were 3.2% lower, which included a 2% impact related to the discontinuation of our installation services last year. And of course, the business continues to be exposed to the UK's weak consumer backdrop. John will cover the performance drivers in more detail shortly. I should have said we also have Graham Bell here, who is the CEO of B&Q. Welcome.

The sales performance of Castorama France was impacted in roughly equal measure by the price repositioning that began in the latter half of last year, and by issues related to our change programme that are impacting supply chain and logistics operations. The performance of Castorama France has been a major source of disappointment and concern to both our shareholders and our Board, and rightly so. Later on, John will go through in detail the actions we have underway to get on top of these issues.

At the Brico Dépôt format in France, gross margin rate and gross profit pounds were higher year on year, on lower sales, and that reflects a proactive decision we took to reduce the level of low margin promotional activity.

On the digital front, the investments we've made to date are starting to gain traction with good sales growth across the Group from that channel.

In the half the Group's overall gross margin rate grew by 60 basis points after clearance, the improvement largely coming as a result of our unified sourcing. Both the sales and gross margin rate of our unified products were up, increasing by 0.4% and 150bps respectively. We would also note that gross profit pounds for the Group as a whole were up year on year.

Our balance sheet remains strong and, in his section, John will take you through the detail of how IFRS 16 has impacted us.

Overall then, a mixed picture for the half with some positive developments, but also clearly some key areas that we need to address

Thierry joins us next Wednesday and will take over the reins from Veronique Laury who will step down next week. Given the closeness of this meeting to Vero's departure, and the forward-looking elements of this presentation in many respects, we felt it was more appropriate for me to make comment in this area than Vero and hence her absence today.

But let that not detract from the tremendous contribution that Vero has made to this business over many years. Over the last few months, Vero has remained fully committed to Kingfisher and has worked really hard to ensure that the transition to Thierry is an orderly one. She leaves with our best wishes for the future.

Slide: H1 19/20 highlights (AC)

Now turning briefly to slide 5 and the key highlights.

59% of Group sales were unified, that's up from 42% in H1 last year. While it inevitably takes time for new private label brands to establish themselves, sales of these ranges are growing, and the benefits of unified sourcing are delivering a higher gross margin.

And as we showcased at our Innovation Day in May, we've also started to increase the focus on the amount of product that is unique to Kingfisher, with a number of key new ranges launched during the period.

As I said, digital performance in the half was encouraging with digital now representing 7% of the overall sales value for the Group, up from 6% last year and 3% in 2016. Group digital sales were up 18% overall, with click & collect growing by 24%. Each of our operating companies delivered growth in this area, with all achieving higher website conversion and penetration rates.

We are encouraged by the movement in our overall price index tracker, which again improved in the period. And the latest set of Net Promoter Scores show an increase for each of our markets which is also reassuring. Now of course, the success of all the activity in the end will be measured by our revenues and profits, but these leading indicators are important signposts for us because they tell us that we are moving in the right direction.

Last but by no means least, our colleague engagement scores remain very strong. These continue to sit above retail averages which is very encouraging given all the change and disruption that is taking place across the business and which, as you might imagine, can have a negative impact on team and individual morale.

So, let me now introduce Thierry.

Thierry is a highly experienced international retailer, who has spent over 20 years leading large scale operations and successful change-management journeys for Carrefour in France, South America and Asia. Most recently he's been based in China where the pace of change in retail is quite extraordinary, driven by the digital-savvy customer. I am delighted that he is joining the company and I know he will make quite a difference. Thierry, perhaps I could ask you to come up and say a few words.

(TG)

Thank you, Andy, and good morning everyone. It's a great pleasure to be here today and meet you all. As you know I formally start in the business in a week from now, but this is a good opportunity to introduce myself and I didn't want to let it pass.

First to tell you how excited I am to be joining Kingfisher and all the colleagues at Kingfisher in a few days' time. I am a retailer, I have a deep passion for retail, I like spending time in stores with customers, with colleagues. I like building teams and mobilising organisations around addressing the changing needs of customers. That's very important for me. A big part of it as well is around digital. As you know, I spent several years in China and so digital is very important for me. I would say it's a passion as well and I think we have a lot of opportunities ahead of us.

Maybe let me tell you a few things about my experience.

As Andy just mentioned, I spent the most recent years in Asia, I was based in Shanghai, leading the Carrefour Asia operations. As many of you know, China is now the retail laboratory of the world and we led in Carrefour Asia and China a big transformation plan. First this is about new format, new convenience store format, new big box format. We as well established a very large new supply chain in many different cities in China to improve fulfilment and availability. This was around digital, so we built a very big food online operation in China. We did many partnerships within the Chinese digital ecosystem, including with Alibaba, Tencent etc. You know those companies.

And at last at the same time we had to take tough decisions on costs, with store closures, downsizing of stores, reduction of cost overall and all these plans drove, I would say much better results of the Asian zone for Carrefour in the past two to three years.

The last example I would like to give you is we launched in 2015 the Carrefour food online operation and by this summer it represents the largest Carrefour food online operation by the number of orders per day or by the participation.

Previously I have worked extensively as well in France in many different formats and I led the transformation of the Champion banner to Carrefour Market a few years ago. That was a successful transformation for over 1,000 supermarkets.

Maybe the last thing to say is in China, as in France, I've been working in matrix organisations where getting the balance right between centre and the operating companies, central markets, is obviously a key success factor.

Clearly, today, I'm in a position to listen. I'm not in a position to take questions. It's too early for me. But just to let you know, in the past couple of weeks I've had the opportunity to listen to many of the largest shareholders of Kingfisher and I wish to continue to have these conversations. I'm settling down in London. I will live in London, so now it will be much easier for me to meet with all of you. I'm looking forward to meeting you properly face to face in the coming few months.

So thank you all and let me now hand you back to Andy.

Thank you.

(AC)

As Thierry said, he's not starting for a few days so probably a bit early for him to be answering questions today, but I know he wants to engage over the next few months with as many of you as possible.

Now despite not being in the chair, Thierry has already been very engaged with me over the last few months on the important task of filling gaps and adding new talent to our leadership team.

We've had a lot of change at the top of this organisation over the past few years and we now need to fill out the executive team, settle it down and move forward together under Thierry's leadership. We do need to attract more talent to this business and while of course we will always have deep sector knowledge in the team, the balance of the team would benefit from more class-leading functional skills, some more experience of change management, and best practice from the wider world of retail. We've been working hard on this throughout the summer and we expect to have a steady flow of news on senior appointments over the next few months.

With that, let me just hand over to John who's going to come up now and take you through the financial performance in more detail.

Slide: H1 2019/20 financial results (JW)

Thanks, Andy, and good morning everyone.

In terms of structure, I'm going to start by giving you an overview of the Group's performance in the half, before taking you through the detail and the drivers. As Andy mentioned, part of my role involves steering the Group's transformation office, and so I'm going to give you some insights and actions on this, and Castorama France specifically. I'll then update you on the outlook for the full year.

Before I start, just to remind you that from 1 February this year we have adopted IFRS 16, the new accounting standard for leases. All the numbers presented are therefore under the new standard, and the restated comparatives are in line with what we published to the market in our IFRS 16 update last month.

Slide: H1 19/20 summary income statement (JW)

Turning to slide 7 and an overview of the income statement.

Total Group sales were £6bn and down 0.9%, and LFL down 1.8%, both on a constant currency basis.

Gross margin for the Group was up 60 basis points at both reported and constant rates. This was a solid margin performance, with the sourcing and price repositioning benefits partly offset by logistics and stock inefficiencies (largely in Castorama France), as well as incremental clearance.

As a result of the margin improvement, gross profit was slightly ahead of H1 last year. With operating costs up just over 2% on last year, retail profit was down 4.4% on a constant currency basis to £466m.

Adjusted Profit before Tax, which is after central costs, interest and transformation costs, was up 3.7% in the period to £337m reflecting the expected reduction in transformation costs year on year.

And I'm pleased to say that in the next financial year, we'll simplify our reporting by removing the "underlying" profit measure given that the vast majority of the transformation P&L costs will have been incurred by the end of the current year.

Our Adjusted Effective Tax Rate was down slightly at 26%.

Adjusted basic Earnings per Share were up 7.3% reflecting the lower tax rate and impact of last year's buyback.

Statutory EPS, which is after exceptional items, was down 15.6%.

Finally, the Board has maintained the interim dividend of 3.33p.

Slide: H1 19/20 transformation costs and exceptional items (JW)

So let me now take you through the exceptional charges of £93m for the first half of the year. These largely relate to the ways we are dealing with underperforming parts of the business.

The first component, a charge of £68m, relates to the redundancy provisions associated with the 11 planned store closures in France over the next 18 months, and the previously announced store closures in Germany, which completed during the period. Sales of freehold stores subject to closure are expected to cover these cash costs of exit.

The Russia and Iberia charge of £26m largely reflects store impairments in Russia, given the challenging conditions in that market. We announced last year that we're focusing on markets where we are leading, or can become the market leader, and therefore made the decision to exit Russia and Iberia. Both processes are ongoing.

Slide: H1 19/20 group operational summary (JW)

Moving onto slide 9, let me now cover the performance of our major geographies, which as you see from this overview, is mixed, with weaker sales performances in the UK and France offset by higher gross margins.

There was a modest decline in profit in the UK of 1.7% and a 12.2% decline in France. Poland was broadly flat, and the losses from the other remaining geographies were flat year on year.

Slide: UK & Ireland - significant range change at B&Q; continued market share growth at Screwfix (JW)

Onto page 10 and performance in the UK & Ireland.

Against the backdrop of a weaker UK consumer and a softer housing market, B&Q delivered a negative 3.2% LFL, which as Andy mentioned earlier includes negative 2% from the discontinuation of installation services at the end of Q3 last year. There were several other factors that impacted the top line, as follows.

The ongoing implementation of new ranges including Surfaces & Decor and Kitchens caused disruption, while weather-related categories were down nearly 3% against a strong comparative driven by very hot weather in Q2 last year. And as a reminder, our Q2 finished at the end of July.

Digital sales however continued to grow, up 10%, now representing 5% of total B&Q sales, and we also saw a modest benefit from Homebase store closures.

Screwfix continues to gain market share, through its convenience model and strength in digital. LFL sales grew by more than 5%, while digital sales grew by 18%, now representing 32% of Screwfix sales. We also opened another 16 new stores in H1, taking the total number of stores to 643. We look forward to the business opening its first store in the Republic of Ireland later this year, and our store opening target for the full year remains unchanged.

Gross margin for the UK & Ireland increased by 60 basis points, benefiting from unified sourcing and B&Q's discontinuation of installation services. The margin in the second half of the year will be impacted by incremental clearance from B&Q's old kitchen range and ongoing investments in price in Screwfix.

Overall constant currency retail profit in the UK was lower by 1.7%.

Slide: France - price repositioning driving gross margin % uplift at Brico Dépôt; Castorama underperforming (JW)

Continuing onto slide 11, LFL sales in France were down 4.4%. This compares unfavourably with Banque de France data for the French 'DIY' market for the same period which was up nearly 2%.

Looking at each of the businesses in turn, Brico Dépôt's 4.6% LFL decline was driven by the proactive reduction in lower margin promotional activity, which had a negative 5% impact on Brico's LFL. As a result of these actions, gross profit pounds increased year on year.

At Castorama we saw a decline of 4.3%, largely reflecting price repositioning and transformation-related activity which I'll talk more about on the next slide.

Total France gross margin increased 60 basis points with an increase at Brico Dépôt, partly offset by logistics & stock inefficiencies at Castorama.

Overall, the increase in the France gross margin rate was not enough to offset the LFL decline, and retail profit in France ended up lower by 12.2% at constant rates.

Slide: France – Castorama France - update (JW)

Turning to slide 12 and an update on Castorama.

First, I'll recap on where we are today, give some insight on some of the operational issues we are working through, and then highlight the areas of focus.

During the period we launched a number a of major new ranges, including Outdoor, Surfaces & Décor, Bathroom & Storage, and Tools & Hardware, and around 60% of the offer is now new, unified product. Surfaces & Décor is an important category for Castorama and there was disruption as the new ranges landed, adversely impacting LFL sales. On a more positive note, the leading customer indicators are moving in the right direction. For example, price perception is on an improving trend and customer net promoter scores have improved by 5 points over the year. The price index has also come down – and now only slightly above our closest competitor. Digital sales, click & collect and website conversion rates are also up at Castorama, albeit off a small base.

The key for the business will be to improve the effectiveness of its enabling technology and operational processes, and that's what we're working hard on.

To contextualise, the operating model across Kingfisher today is underpinned by a unified IT platform along with a split of responsibilities across local markets and our Group Offer & Sourcing organisation. Applying this model to Castorama France, which comes from a legacy of a decentralised model, has been highly challenging.

The implementation of the change programme at Castorama France has therefore caused issues, and continues to cause issues, in our stock planning, stock management and logistics processes which, in turn, is leading to lower than expected stock availability and fulfilment rates. These issues have arisen due to ongoing challenges with vendor management, product data and changes to store operations, which are all being aligned to the new IT platform, operational processes and unified ranges within the business.

Let me illustrate this with a simple example. Castorama is currently working with over 1,000 vendors who are each required to comply with defined processes around Ordering, Receiving and Invoicing.

If a vendor fails to comply with the ordering process, this can mean stock is received but booked into the stock system manually, requiring significant time and effort – this is turn can lead to temporarily inaccurate stock records, costs and delays.

To amplify this, we're incurring additional costs due to running legacy systems in parallel during the transitional phase.

These operating issues are typically manifesting themselves in the supply chain, which ultimately has an impact on our stores, online, and of course our gross margin.

Therefore, correcting the underlying operational issues is a key area of focus for us.

Alongside the implementation of new differentiated ranges, we will continue our work to improve the effectiveness of Castorama's IT platform, along with the efficiency of its operational processes and fulfilment function. Part of getting this right is to review and adjust, where necessary, the balance of responsibilities between Group and Castorama. We believe that we have identified the

‘pain points’ and have a series of ongoing detailed workstreams to both eliminate the underlying issues and take corrective action to drive through the benefits of the change programme.

Over time, this should improve the overall performance of our supply chain and logistics operations, which is essential for Castorama to be in a position to grow again. We will also launch the next stage of our ecommerce platform in the second half, to support continued digital growth.

Turning to costs and store performance, cost benefits are being delivered from the 5% FTE reduction that took place in the second half of last year following the transition to our financial shared services centre in Poland, and, following consultation processes, we’ll be closing nine underperforming Castorama stores over the next 18 months.

In summary, the performance of Castorama continues to disappoint. However, the business has taken important steps to improve its customer proposition – its offer, its price competitiveness, and its ecommerce capabilities. The primary causes of the operational issues have been identified and we’re taking the necessary actions to address them. This will take time, but we have a focused workplan in place to deliver tangible and sustainable improvements in these areas.

Slide: Poland - solid performance; Romania - in transition (JW)

Turning to Poland and Romania.

Poland delivered good LFL sales growth of 3.3%, benefiting from weather-related categories, particularly in Q1. We estimate that Sunday trading restrictions, which removed one further day of trading per month, impacted LFL sales growth by 1 percentage point in H1.

Poland’s gross margin was down 20 basis points, largely due to higher clearance and higher outdoor sales which are lower margin.

Cost increases related to wage inflation, higher digital costs and pre-opening costs as we opened 2 new stores during the half, also impacted margin. As a result, retail profit was broadly flat.

In Romania, LFL sales increased by 10.5%. Contributing to this was the good performance from new unified ranges. Praktiker stores have now been rebranded as Brico Dépôt with the final store to complete in the second half of this year. In addition, the quality of ranges has both improved and is expanding in terms of SKUs.

This is, however, a period of transition for Romania and the overall business made a retail loss of £8 million driven by losses in the former Praktiker stores. Towards the end of H2 we will start the back-office integration process for the businesses. It should be noted we are currently running both businesses separately.

Slide: Iberia, Russia & Germany (JW)

Let’s now turn to slide 14 and the remaining geographies.

Combined LFL sales in Iberia, Russia and Screwfix Germany declined by 4.9%, with a reported retail loss of £5m including equity-accounting profits from our JV in Turkey.

Our exit processes for Russia and Iberia are progressing. We are currently reviewing a number of options for both businesses and will update you as soon as we can.

Spain continues to generate a small profit whilst the trading environment in Russia remains challenging – resulting in the impairment that I mentioned earlier.

In Germany, for Screwfix, we have now closed all 19 stores and there will be no further Germany-related losses in the second half.

Slide: Unified & unique outperforming non-unified (JW)

Moving onto slide 15 we can see that unified & unique ranges continue to outperform our non-unified ranges in both sales and gross margin.

59% of sales were from unified & unique ranges which grew by 0.4%, against a 0.9% decline in the non-unified ranges. We achieved growth in four of our seven categories. Of the two negative categories, one experienced significant range changes during the period, and the other faced tough weather-related comparatives.

Before logistics & stock inefficiencies, all categories delivered gross profit growth, demonstrating the ongoing benefits of unified sourcing.

Slide: Unified & unique and price repositioning benefits partly offset by clearance and inefficiencies (JW)

On slide 16, we've set out the bridge of the Group gross margin movement of 60 basis points for H1. We can see that a 150 basis point gross margin improvement in unified product has driven an 80 basis point benefit across the Group, whilst the margin on non-unified offer was flat year on year.

Other positive margin drivers for the Group included price repositioning, mainly driven by Brico Depot, which led to a 30 basis point improvement and the discontinuation of installations at B&Q which had a 20 basis point positive impact.

Partly offsetting factors included incremental clearance ahead of the new ranges launched in H1, which had a 40 basis point impact during the period. And as highlighted earlier, logistics & stock inefficiencies (mainly in Castorama France) had a 30 basis point impact on the margin.

Slide: H1 19/20 summary cash flow and net debt (JW)

Slide 17. This provides an overview of cash flows, and a summary of our net debt position under IFRS 16.

Firstly, on cash flow, we generated £695m of EBITDA in H1, and paid £236m of net rent. Moving through the bridge, there was a £45m outflow of working capital, and this reflected an increase in stock of £111m driven by store expansion, changes in operating model, and higher stock levels in France, primarily in France. This was partly offset by a net increase in creditors of £66m. Bear in mind we are looking here at the movement in working capital over the 6-month period, so seasonality plays a part. However, as mentioned earlier, improving stock management and planning processes is a key area of focus for Castorama France.

After capital expenditure of £163m, and tax and interest payments, free cash flow in the period was £204m.

Income from property disposals is largely driven by a small number of sale & leaseback transactions in B&Q.

After dividends, the movement in cash was positive £131m helping to improve our cash balance to £385m at the end of the half.

Under IFRS 16, which I'll cover in a moment, you'll be aware our lease liabilities of £2.6bn are now included on our balance sheet. Our lease liabilities were largely unchanged since year end, but the improved cash position helped reduce our net debt by £158m during the period.

As a result, our restated net debt to EBITDA ratio fell from 2.0 times to 1.8 times which remains consistent with our objective of maintaining our solid investment grade credit rating.

Slide: FY 19/20 outlook & technical guidance (JW)

Turning now to slide 18 and our FY 19/20 outlook and technical guidance. Full technical guidance is outlined on this slide, so I'll just pick out a few items.

As we enter the second half, the outlook for our main markets remains mixed.

The UK market in particular remains uncertain in the short term. In B&Q, the discontinuation of installations will annualise at the end of Q3.

In France, we expect Castorama to underperform, and the reduction in promotional activity annualises in Brico Dépôt at the end of Q3.

Excluding Russia and Iberia, we continue to expect gross margin after clearance to be flat year on year. Some of the positive margin drivers in H1 such as price repositioning at Brico Depot and discontinuation of installations at B&Q will not fully repeat in H2. In addition, we have also slightly upped our incremental clearance guidance for the full year to £30-35m from £25-30m, which includes clearance for B&Q kitchens in H2. Screwfix will also ramp up its investments in price in the second half.

We now expect central costs to increase to around £55m, £5m higher than previously guided, largely reflecting additional activity at the Centre as we strengthen our resources and leadership team.

For this year, Transformation P&L costs are now expected to be around £50-60m.

Our guidance on capex remains unchanged. We expect total capex to be up to £375m which includes investment to support the new unified range implementations, new store openings in Poland, as well as investment in fulfilment capabilities.

And finally, in respect of stores closures, we continue to expect any future cash costs of exit to be covered by sale proceeds from the owned stores.

Slide: Impact of IFRS 16 'Leases' (JW)

On slide 19. On this slide we summarise the impact of implementing IFRS 16, the new accounting standard for leases. We adopted the full retrospective transition approach from 1 February 2019.

The first thing to say is that the new standard has no impact on cash flows or the underlying economics of the business.

The table on the slide shows the respective impacts on retail profit and the balance sheet for last years' full and half year.

In FY 18/19, retail profit increased by £171m as the pre-IFRS 16 rental charge is replaced by a lower depreciation charge. By geography the main impact is in the UK due to the high proportion of leased stores. However, after IFRS 16 impacts on interest costs of £169m, the net benefit to underlying profit before tax is negligible.

In terms of the balance sheet, net assets at 31 January 2019 have reduced, as expected. This reflects the 'new' right of use asset of £2.0bn, and the 'new' lease liability of £2.6bn, which is lower compared to the liability which arises under IAS 17 from our previous assumption of 8x property operating lease rentals. As a result, the net debt to EBITDA multiple at the end of last year is restated to 2.0 times under IFRS 16 versus 2.6 times under IAS 17.

Slide: Brexit and currency exposures (JW)

Moving to slide 20, where we've set out the steps taken to manage Brexit and foreign exchange risks.

We do not anticipate any significant change to stock levels in a 31 October no-deal Brexit scenario, and have sufficient stock in place to cover near-term demand. We'll continue to monitor this position and take action if needed.

With regards to Tariffs & Customs – if the UK government's current proposal for no-deal tariffs are confirmed – it would have a neutral impact as most of our products would carry a 0% tariff. We've also updated our importation processes to prepare for a hard border between the UK and EU, including access to simplified customs procedures and alternative cross-channel and deep seaports of entry.

We also remain engaged with our key vendors in this area.

On talent, as you'd expect we are keeping a close eye on retention and hiring but haven't seen a noticeable impact to date. We've also been helping some existing employees to gain settled status.

Now, looking at foreign exchange exposure – of our total annual COGS balance of c. £7 billion, around 20% is purchased in USD, of which half relates to the UK. We have in place an 18-month rolling hedging programme to hedge all committed orders against changes in FX rates for the USD and Euro, along with a significant percentage of our forecast net exposure, above and beyond what is committed. There is also some protection from Cost Price Inflation from our existing stock levels and some of our existing supplier agreements.

Slide: Financial summary (JW)

Finally, to summarise, the first half sales performance was mixed but, frankly, disappointing. Positive performances at Screwfix and in Poland were offset by France and B&Q. For Castorama France, the primary causes of the operational issues have been identified and we have a focused workplan in place to deliver tangible and sustainable improvements over time.

Encouragingly, Group gross margin was ahead by 60 basis points, benefiting from unified sourcing and price repositioning.

The business remains cash generative and we retain a strong balance sheet.

These results were delivered against a challenging backdrop and the outlook for our main markets remains mixed. This is particularly the case in the UK where Brexit uncertainty remains high.

Finally, we have reiterated our guidance of a flat gross margin % after clearance for the full year.

And with that, I'll now hand back to Andy.

Slide: Building a stronger Kingfisher (AC)

Thanks John.

So just moving onto the final section. I think it's generally acknowledged by most people that what it takes to win in mainstream retailing nowadays is quite different to what it was a few years ago perhaps.

And while the core disciplines of retailing remain as necessary as ever to succeed – they are no longer sufficient. Mainstream retailers today certainly need to be recognisably competitive on price and offer great value; they need to deliver ultimate convenience through a seamless integration of their physical stores and digital platforms; and they need to offer a range of products and services which differentiate them from their competition.

Kingfisher in its old form ticked few of these boxes.

So, both to survive and to prosper into the future, the group had to make fundamental changes as to how it went to market and to its internal ways of working. It needed to become much more efficient to generate the sorts of funds it needed to reinvest in the customer proposition… in better prices, in digital capability and in the quality of its products.

Slide: Leveraging the Group's scale as a competitive advantage (AC)

Kingfisher's strategic approach is pretty simple. You can see this at the top of the "house" on this slide.

Using our scale more intelligently for the benefit of our customers seems a fairly obvious thing to want to do. Scale is one of Kingfisher's greatest assets and it would seem odd not to want to deploy that as a competitive advantage.

To make it pay, we need to get two discrete blocks of activity right.

First, we need to have the right customer proposition – the right balance of local, international and private label brands, competitive prices, a leading-edge digital experience, active management and development of our stores, brilliant customer service…and for Screwfix, in particular, a well-resourced expansion plan to maximise its tremendous growth potential.

And at the heart of all this sit our teams.

It's absolutely vital that they are working in sync, with real clarity of understanding about what's best done in the Centre and what is best staying local. This is a critical part of making our revised operating model work and it's an area that we have to keep closely under review. Certainly an area Thierry will be spending a lot of time on.

Underpinning this superstructure we have what we call our enablers. These are the services and infrastructure platforms that connect our business and that once fully installed, will allow it to function much more efficiently. The enablers include our sourcing capability, IT, supply chain, and shared services.

Most of these enablers have either been completely rebuilt, or built up from scratch, over the last three and a half years.

We've centralised what was a very disparate sourcing model, in which each operating company was fully responsible for its own ranging. We've implemented a common IT platform capable of delivering significant operational efficiencies and clear customer benefits. We've launched a scalable ecommerce capability across the business, and we've leveraged our scale to establish Group-wide GNFR and shared services capabilities. These are fundamental changes to our DNA and to our ways of working that will allow our scale advantage to be fully realised.

Now much of this has worked – and it has worked well. As I mentioned earlier, sales and margins from our unified offer continue to grow.

We're seeing quality output now in the area of product design.

And digital sales, as you've seen, are on the rise.

But it's equally clear, that some of our enabling technology and operational processes are not working as well as they need to.

As you've heard, the performance at Castorama France being the key area where the enablers are not yet working well enough, has been highly disappointing. We know the benefits of what we've built are there, but we do not see them flowing through to the customer, or to our financial results.

The fact is we underestimated the operational and financial disruption that IT, supply chain and product range transformation at this scale would cause. As a result, we're incurring too much duplication and remediation cost, and our trading performance is being hampered.

While these 'enablers' are largely now in place, we need to make them work more effectively and we are 100% clear that execution in this regard is our first priority.

Slide: Important new ranges landing this year (AC)

To slide 24 and this is a busy year, as we said it would be, for new range launches, and the first half of the year was particularly busy. Many of these new products, as we've said, are unique to Kingfisher, a trend which we shared with you at our Innovation Day in May.

Extensions to our highly successful Bathrooms range landed in H1, as did Outdoor ranges and a revamped Tools & Hardware offer.

Unified ranges for Surfaces & Décor, which is the Group's largest category by sales, are now being rolled out.

And the much anticipated new Kitchen ranges will arrive in B&Q during the second half – with introductions into France planned for next year.

As we've heard, all this activity does create disruption in store and sometimes in our system, but we are nearly through the heavy lifting, and the changes are key to turning up the dial with our customers.

Slide: Focused on improving execution (AC)

To slide 25, and our priorities for this year.

It's essential then, and I hope I've made this clear, that we are going to tune up the key enablers of our transformation programme – IT, digital, supply chain. These underpin the long-term growth of our business.

It's also essential that we get on top of the underperforming elements of our business – particularly at Castorama France. And the two issues clearly are linked.

In addition, we need to see through other pieces of work which remain outstanding. Following relevant consultations, we're committed to closing 15 stores across the business (including 11 in France) over the next 18 months. Most of these will take place in FY 20/21.

And we're reviewing, as you've heard, a number of options with regards to our planned exits from Russia and Iberia.

And just a word on Screwfix.

As planned, we're looking to expand this business by taking action in our core UK market, including continued investments in price. At the same time, we're going to be pushing ahead faster with our international rollout plans. We're on track with our UK store openings programme, we're on track for our first store opening in the Republic of Ireland, and we're continuing to validate urgently the potential of this brand in the French and Polish markets.

The success of all the above will ultimately be measured by a return to Group sales growth, which we are confident about in the medium and long term.

We believe our margins and our cash generation can grow as the inefficiencies related to stock management and logistics, clearance and dual running costs are driven out of the system and the benefits of scale are finally allowed to flow down to the bottom line.

Slide: Summary (AC)

And to summarise then and close on slide 26.

Kingfisher remains financially strong and is well placed with leading positions, first or second, in the markets in which it operates, all of which have long-term growth potential.

The transformation that started nearly four years ago has continued across the group in the first half of this year. Most of the building blocks to support future growth are now in place and the focus very much now is on improving the effectiveness of our enabling technology and processes.

In terms of guidance, the outlook for our main markets remains mixed, with the UK, in particular, facing continued uncertainty that is affecting the consumer and the housing market. Kingfisher continues to expect a flat gross margin % for the full year, after clearance.

And to close, we're very much looking forward to Thierry joining us as new CEO next week and to him bringing a completely fresh perspective to everything we do. His experience will be invaluable in taking advantage of the considerable opportunities we know this business still has in front of it. He is engaged in a plan to bring new talent into our executive team urgently and I'm very confident he's going to hit the ground running.

Thank you very much for listening and your attentiveness. John and I would be very happy now to take any questions you might have.