Kingfisher plc 2020-21 half year results Q&A edited transcript - 22 September 2020

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6 months ended 31 July 2020

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Note: *text in square brackets indicates edits made directly by Kingfisher for clarification purposes*

RICHARD CHAMBERLAIN: Thanks very much. Morning guys. Two questions from me please to start things off. The first one's on the UK. Obviously a very strong performance in the first half Thierry. You talk about reintroducing kitchen installations going forward and I wonder what changes we should expect compared to last time because I guess it used to be quite helpful for sales, but not so good for profits. That's my first question.

TG: Thank you Richard. The first part of the answer is we have been testing four different ways [since] early Q4 last year. Different ways, partly, let's say fully managed by B&Q and some of the tests, really managed in a different way. We have had very good results overall and we have chosen one of the four ways and now we are rolling out this installation service across [B&Q] stores and it will be ready by the end of January. To summarise, we consider we should have a small number of tradespeople by stores that are actively managed, but with a way through which we can guarantee to the customer that the quality of the job is indeed there and that overall the cost of the installation could be paid to B&Q, and let's say could be part of other services offered by B&Q. So on that we are very clear now after those tests, [that we will be] rolling out in all our [B&Q] stores. And I think we'll do it in a different way versus what was done previously where it was, for a large part, B&Q employees.

RICHARD CHAMBERLAIN: Okay, got it. And a second one on Poland, I wondered how much the performance has been held back by the new ranges coming in a little bit later. I think you mentioned that kitchens are still to come in or are coming in right now. And also in Poland, do you see some of that price investment that you've made become more competitive; is it starting to ease off in the second half? Thanks.

TG: Thank you. I think on Poland, we are pretty happy with the sales trend. The range reviews are on time. We, from the beginning, plan to have these kitchen range reviews in the coming months. It's coming as planned with early good results, so no I would not say we have disruptions linked to that. I think last year probably our price positioning was okay, but we consider we should do a bit better this year. I don't expect any material additional investment in the coming months, but we thought we had to do this small price repositioning in the past months. But overall very happy with the trade in Poland. The country has kept all its stores open across the crisis, very often taking initiatives, a lot of good practices around safety measures and a lot of agility on e-commerce, so relatively happy with Poland indeed. Thank you Richard.

RICHARD CHAMBERLAIN: Okay, great.

BB: And just to add Richard – Bernard here – if you look at the like-for-like for Q2 for Poland, +15% and trading in this quarter also very strong at 10.3%, I think that reinforces the approach and the strategy that we have in Poland.

ANNE CRITCHLOW: Two questions from me please. The first on product availability. Could you comment on how your availability rates have been improving or otherwise, particularly in France where I think there were some problems previously? And then the second question is about rental costs. What sort of reductions are you getting on rent renegotiations, where these are taking place, and how does it differ between countries? What's the outlook there?

TG: Thank you Anne. So let me first comment on the French supply chain. Again we did many, many actions and very early last year, starting with the team, we considered we had to strengthen the team [and] so we recruited 25 additional people in the team. Through our IT progress, through the SAP implementation at Castorama we indeed supported our supply chain operations. We did a lot of jobs last year and therefore I would say end of 2019 we went back to 97.5-98% availability which was probably up by four to five points versus the year before. So a real underlying improvement. And if I look at the French supply chain in France in the past weeks, we have a low level of inventory. One of our key criteria is the occupation ratio of our DCs. They are at a good level. And I must say that you probably remember we had a strike in the French harbours for many months up to February so we started the crisis with a lot of containers in the French harbours and we cleaned all that, we solved all those issues. So therefore today the French supply chain is operationally in good shape. Maybe one comment on COVID, we overall consider [that] we have [the] supply chain well under control, but with some issues in some specific categories [due to] very polarised demand. Today when you speak about outdoor paint, paintbrushes, sometimes we have such a strong demand that our suppliers have issues to deliver products, so we have it well under control with a few challenges for some specific categories. Maybe I'll leave it to Bernard on the lease topic.

BB: Sure. Hi Anne. So obviously our property cost is a key area of focus and to some extent the crisis has enhanced our reputation as a high-quality tenant and obviously with that we engage with our landlords. So last year we did about 35 re-gears and this year we're also pretty active. We've got seven approved with a reduction of about 20% in the rent. It is a little bit skewed towards the UK because that's where we've got the biggest part of our rentals, but obviously we're also looking at other markets and engaging with the landlords there.

ANNE CRITCHLOW: Right, thank you.

GEOFF RUDDELL: Good morning. Could I ask two questions please? The first of which relates to the change in the commercial organisation that you announced this morning with the banners getting control of their non-OEB ranges. I was just wondering how that's going to work in practice. Are we going to get another round of range reviews which were obviously very disruptive to the business last time round or are the range changes going to be very slow and gradual? And then the second question, a completely different topic. I think the very final bullet point of the summary slide talks about Kingfisher being 'committed to returning to growth'. I just wondered what sort of growth that means. Is that top-line growth and if it is top-line growth, is that going to be driven by space growth and if so, in what markets and in what banners you would expect to grow space? Thank you.

TG: Yeah, thank you Geoff. I think, first of all, when we speak about reorganisation, I think first it's how we reallocate responsibilities. I think for me the structural point is the group was in charge of the ranges, the range strategy and really the detail ranging by banners. And we discovered it was not efficient because even if you are extremely smart, it's very difficult for one person to manage all the different ranges of B&Q, Screwfix, Brico Dépôt, Castorama in France and Poland etc. and that's why we consider to be closer to the customer and to use a banner to decide on the range strategy is critical. I do not expect material range reviews. I think over time, gradually, maybe we'll need over two years [to] adjust the ranges. If you take B&Q or Castorama in France, we consider the choice is not large enough, especially what we call the upper categories, the "Q3 and Q4 upper premium" choices that we don't have enough ranges. When you look at Brico Dépôt we should probably come back to a more discounter DNA in the range strategy. So it will come over time. I don't expect material range reviews.

Now to come back to your second question, when we said bringing Kingfisher back to growth, I think first our strong belief is that as a retailer, everything starts from the top line. And I would say like-for-like top line to answer clearly your question. We have opportunities especially with Screwfix with Poland and maybe over time other opportunities, but we want to improve our like-for-like operations. We are as well committed to grow the absolute retail profit. You remember we were very clear in June, but all this story, all this new strategy should start from the top line and for us it's like-for-like sales.

GEOFF RUDDELL: That's clear, thank you.

GEOFF LOWERY: Yeah, good morning team. Two questions as well. You've obviously thought very hard about the structure of the commercial and sourcing organisations. Given that and your mix of businesses, what do you think is a realistic aspiration for your inventory, pound million inventory turn relative to sales; however you think about it, what's realistic there? And secondly, given the step-change in multi-channel that's going on in your business, if your sales split say ended up 35% digital, 65% stores, what would your gross margin, opex to sales and EBIT margin look like in that scenario?

TG: Yeah, maybe let's start with the second question and Bernard and I will comment on the first one. I think there is obviously always this question around the potential impact of the digital sales on our profit and you already see that we announced a critical change. We moved from seven to 19 [percent] of digital sales and you can still see the profit of the company. I think coming from a food retailer and looking at the situation of Kingfisher as well with those fresh eyes, we are in a high margin environment. We have a high margin in DIY and as soon as you give the priority to store picking, you are already operating with marginal additional capex, marginal additional fixed costs. So I think it's really a very powerful model. We have been able to prepare 88% of group [online] orders through store picking. And then there's click and collect; 80% [correction – over 90%] of our [online] orders are through click and collect.

Click and collect is the most profitable [online] channel and we have many additional ideas that I will not develop today because it's a bit too early to [discuss] our online P&L looking forward.

On inventory, and I will leave the [detail] to Bernard, we stated clearly in June that we believe we have significant opportunities to reduce inventory. We started the job, end of 2019 we have structural programmes in place. Obviously, the crisis is helping us and as said Bernard we will rebuild part of it but indeed we have a programme in place, and we believe the opportunities are strong.

BB: Yes, if I may just add a little bit of colour there. Obviously [there was a] £200 million-plus contribution to cashflow in the half from the inventory reduction. Now, I am looking to hold on to part of that but obviously we also need to rebuild stock and ensure that we have got availability across the banners. But I think more structurally as Thierry highlighted, if you look over the past five years or four years, we increased stock by £500 million where, you know, in 18/19, we took off about £130m. Last year we took about £90m but there is more to go and we think there's a meaningful further reduction to be had.

[As] we highlighted in June, there are probably three main areas that surround better planning and forecasting. It's looking at what we do in stores in terms of display levels, but also things [such] as ranging and deployment where I think we can be a little bit smarter with some of the very slow moving or nearly not selling items, and that's a plan which is one of the powers of the group where we are working in terms of the supply chain expertise and working very closely with the banners to follow up on that.

GEOFF LOWERY: Okay, thanks.

WARWICK OKINES: Yes, good morning, I've got two questions. Firstly, could you give a little bit more colour on your thoughts about Screwfix outside the UK and Ireland, you mentioned it in your prepared remarks. Just roughly, what time frame are you also thinking about it? And then secondly, you've talked a fair bit about Brico Dépôt and its discounting proposition. Could you give us a sense of what proportion of sales you made in the first half on arrivages? I think I am right in saying that it got to as low as only about 5% of sales a year or two ago. Has that rebuilt to the sort of 15% that more historically has been the right level?

TG: Yes, let me start with the second one. We indeed already strongly believe that Brico Dépôt is a unique model, a really hard discounter, and I remind you that before discussing arrivages, in this model you should have very low, everyday low price and we have a very good price index and that's critical in this model. And then when we organise promotions, what we call arrivages are really 'one-time promotions', and when this promotion is over you don't keep the SKU at your assortment.

So, I would say in the past, in 2019, arrivages went at a very low level, probably slightly above 5% and we are currently, let's say, in the range 8-10% when we look at the Q2. Well, that's to describe the current trading strategy for Brico.

For Screwfix, you remember we started in Ireland, we trialled Screwfix in Germany. One was successful in Ireland, the other one not in Germany. We spent some time to understand what we can learn from those two experiences and that's why when I say, "We want to start in asset light ways," we really believe the way we started in Ireland two or three years ago, is the right one. So, with a pure online start, building the brand, building an online proposition, gradually advertising the brand, and after a few years then we consider we were ready to open the few first stores, and we are very happy today with the first Irish stores of Screwfix.

I think the other direction would be to look at countries where you already have Kingfisher, when you are in a country for years, you have you have your team, you know the supplier, you have the relationship with suppliers, you have a supply chain, you have stores, you have professional teams. So, that for me are the two directions looking at Kingfisher countries and looking at the Irish success to build plans for Screwfix. I don't want to comment on timing. I prefer to tell you when it's done rather than to give you a promise. We are working on plans with Screwfix to start international expansion outside the UK and Ireland.

WARWICK OKINES: Thank you.

GEORGINA JOHANAN: Hi guys, thanks for taking my questions. I've got two please. The first one is just on the gross margin. Apologies if I have missed it somewhere but I think you often provide some guidance for the full year outlook, so if you could just give a sense there that would be helpful please. Then my second question was just around the French market, and availability in the French market in general. How has that been in recent months? I guess I am just trying to get a sense if your share gains have been supported in part by a lack of availability of products at some of the smaller players etc., in terms of sort of difficulty managing it over the Covid crisis. Thank you.

TG: Let me start with the second one. On French availability, as I just answered, we had structural actions to fix our supply chain. I don't come back to that, I think it's part of our improved like-for-like sales in Q4 and up to March, [and] is linked to this availability improvement. Obviously, as I mentioned, the Covid crisis impacted availability all across the group, and indeed we are gaining market share in France in June, July and August.

Now, we respect very much our competitors in France, you know that ADEO is a strong and organised company. I do not believe that ADEO's situation is worse than us on availability. So, I think it's probably more linked to a better brand positioning of Casto and Brico, of our e-commerce strategy when we have been agile. The ranges improvement etc., what we described this morning, rather than on the availability in my view for the French market. Now, I come back to the margin with Bernard.

BB: Hi, Georgina, yes, look no further, we didn't give guidance on the gross margin but let me say a couple of things. As I just said, gross margin in the half was slightly down, ten basis points, and that's really the high supply and logistics costs and the trading initiatives, and then there was an offset from lower clearance and fewer range changes and the dynamic was that the Q1 was down but Q2 margin actually was up year-on-year. And then, for the full year, I think [there are] many moving pieces, and to some extent we don't have the visibility with some of the uncertainties, but a couple of things we do know is we're going to continue with some of our trading initiatives and so that's one. The other, there will be slightly less range changes this year compared to the prior.

GEORGINA JOHANAN: Thank you very much.

SIMON BOWLER: Thank you and good morning, a couple of questions from myself. You kind of quite helpfully approached the idea that you don't see any need kind of sequential further investments into promo or pricing in Poland, and I was just wondering whether the same would be said in France as well? And then secondly, just coming back to the new commercial operating model, again thinking about how this works in practice, are local teams effectively using kind of the own brands as if they were a third party supplier and is there any incentive for the local teams to kind of buy the own-branded products over and above what pricing they are offered by group?

TG: Yes, thank you, I will come back to those two questions. I think for the French pricing to be very direct we are today happy with the Castorama price index. We are below or slightly below 100 in matching our competitors and I think it's a good positioning. We are clearly below 100 for Brico Dépôt, but as I really want that Brico Dépôt [brand to] come back with strong discounter DNA, our plan in the medium term is to constantly improve our price index by cost savings, by actions, so that constantly we try to be the leader in our price positioning which we are, and to continue to improve our price index by reinvesting our cost saving into prices. That's how a discounter model [works], but it will be done over time, I would say, a bit at a time. As soon as we have a better sales density or improvement on cost.

I think on purchasing that's our work, the group, we have a common framework. We want as a group to continue to increase the proportion of OEB. We are today around 39% [38% for H1 20/21] and we believe this proportion should continue to grow. We have a good team. We have engineers. We have designers. We have a quality [control] team. We have a sourcing team. We have strong capabilities and all the banners are together committed to grow OEB penetration in the medium term. We believe it would bring sales, it would bring differentiation, it will bring margin. So, as a group, we are committed to continue to increase the penetration of OEB.

SIMON BOWLER: As a quick kind of follow up, I don't know, just to try and get a sense of how important to your mind the OEB piece is. On a medium, long term view, should it be 50% of the business, or have you got a sense around where the targets for that part sit?

TG: Again, we don't want to set the target at [this] time. We consider there are significant opportunities to continue to grow OEB. OEB has a better margin than the [non-OEB] categories. And we have – we speak about a three/four year horizon – indeed, we have ambitious targets during this time horizon.

SIMON BOWLER: Okay, thanks.

BB: Maybe to just add a couple of things on your point on the incentives for the banners and OEB, obviously it's a source of differentiation for them and we see it for example in the kitchen ranges. There's the margin benefit, and significantly – and I think Thierry mentioned it – in the current environment where people are looking for value for money, obviously the OEB brand is a fantastic proposition that we can offer to our customers. So, all the incentives build the OEB share in the banners.

SIMON BOWLER: Okay, thank you.

SIMON IRWIN: Morning gentlemen. Can you just talk a little bit more about stores and formats in terms of where your thinking is? On the stores I noticed obviously what you mentioned in the statement and you have effectively pulled two Casto closures back from closure. How much do you think you're kind of reasonably close to knowing what you want your large stores to look like in particular, and do you have a plan in place to start reinvesting in those stores, which probably haven't seen too much investment in recent years?

TG: Yes, thank you for the question, Simon. Several topics I would like to mention. First, as I said, we believe in smaller formats. We believe in the longer [term] trend of smaller formats because of the demography, because it's true for every market in the world, and we have to learn how to operate smaller formats. That's why we have already three small B&Qs. We are so far encouraged by the first results. So, we will open a few more B&Q tests in the coming months. We will have some tests in France as well for smaller formats, and as we just announced we will test four small B&Qs inside ASDA, a store that's a 'shop-in-shop'.

I do not believe in a large closure plan. I believe that we need a lot of stores, that probably we need less square meters than today. We need a lot of stores to bring convenience and as well to operate our e-commerce with store picking. Now, for some of our big boxes, and here it's mainly some of the B&Qs and some of the Castoramas in France, probably we could have some too large big boxes for some catchment areas. Again, it's not everywhere. You have some very successful large B&Qs and large Castoramas, but in some catchment areas the stores are too large, and we should gradually work on resizing, and that's as well for me [about] 'test and learn'. You need to test to understand the implication on sales, what is the Capex level, how much you can get on margin on the cost, but we will gradually test and learn right-sizing, and when we are ready we will come with a plan on this topic. I think this is a topic that is on the table for every retailer in the world; the size of big boxes.

Then you are right that on capex when you look at the past year, and we said that in June we thought we had spent probably too much capex on products and not enough on retail. Looking forward we want to rebalance a bit the capex spend on retail stores. Again, we will do that gradually with measures and with plans, but it is correct that we should probably, looking forward, have a bit more capex to innovate our store networks.

And last, you are right to say that we will transfer two Castorama France [stores] that were supposed to be closed, into Brico Dépôt. A few years ago, some transfer from Casto to Brico Dépôt were very successful, so we are very interested to look at the results now, but I think it's an interesting topic to follow up in the coming months when we will have the results of those transfers. Thank you, Simon.

SIMON IRWIN: Thank you very much.

KATE CALVERT: Good morning everyone, a couple of questions from me. First of all, could I ask Geoff's question in a different way on the new commercial operating model. When will I be able to go into a B&Q and Casto and see a range that you are happy with? Is this within two years? In terms of my second question, on future growth, how many stores do you envisage in Poland, Spain and Romania as the ideal number? Finally, where are you with the disposal of Russia?

TG: Yes, thank you. So, on the range, I think for a retailer, range is a never-ending story. We are never happy with the range and we should continue to constantly improve our range. As I said, we want to continue to increase the proportion of OEB and to increase your OEB, you need to develop new ranges, find suppliers etc. And that's what we are doing for example in kitchens, and when you look at the time horizon of kitchens you need several years to roll out the [range] all across the group. So, it takes some time probably to be back to a range [that includes] more local ranges, more adjusted ranges to the customer needs, especially when you look at Casto and Brico we are on different banner proposition. I think if we are reasonable, I think two years is probably a right horizon to be happy with, but OEB will continue to grow over time. And as I said, for me, you are never fully happy with the ranges. You should never be happy; it means otherwise you are not agile and moving and you have new needs.

I give you an example, we are developing a new proposition to create easily interior walls. If you want to work from home, we have now a new proposition that you will see across our stores to set up, very easily, additional clusters in your home – additional interior walls. So, I think it's a never-ending work on the range.

Russia, I [would say] we are making good progress. I hope to come back to you soon, but I can't comment more for the moment, and I think for Poland, Spain and Romania it's highly dependent, in my view, on the business model. Poland is an extremely profitable business model. The country is not saturated, we still have spaces to open new big boxes in new cities, or in smaller cities. We just opened a new store last week. It seems it's going well.

For Spain and Romania, I would say in the short term the first topic for me is to bring back Romania to break-even, which is not the case [today], so we have let's say [a] very strong action plan to improve the business model in Romania and to bring back the country to break-even. [Regarding] Spain, we are profitable. You see that it's very encouraging to see the profit of Iberia despite being [down] on sales and despite the crisis, but we have first to work on the business model to make sure we have even a stronger proposition before we could consider to open a large number of new stores.

KATE CALVERT: Just on Romania, do you think you could break even next year?

TG: I would say that this year we will improve. I think as Bernard commented in H1, we did a small improvement. We believe that for the full year 2020/21 we will improve the [loss] versus last year. Definitely, we are really committed to bring back the country to break even as soon as possible, but I would wait to commit for 2021.

KATE CALVERT: Thank you.

ADAM COCHRANE: Good morning, thanks for taking the question. Two questions from me. First of all, in terms of the sales performance, how much would you attribute to the market compared to the bits that you're doing yourself, and if a large proportion is the market, are you able to give us a flavour on how consumer trends are changing? Do you view this as a cyclical or a structural trend? And you've mentioned the pickup in online penetration, we've seen that across a number of different companies. I was just wondering, we don't really know in all honesty how much of that is going to stick, but I would just be interested in your view as to how much of this performance is down to the market and how much is down to your outperformance of the market? And then on the consumer trend, how permanent do you think these changes are or should we expect a normalisation in DIY versus Do It For Me, for example?

And then the second question is, would you be able to give a base profit number for the first half for us to work off for next year? I found that there's quite a lot of moving parts with regard to furlough schemes, business rates reductions, what would be the best number do you think to use as being a like-for-like comparison base for first half profitability for next year? Thanks.

TG: Yes, thank you, that's all very good questions obviously. Thank you. So, first, I think to try to be relatively short. First, when we do a customer survey, we start to understand there are five factors that support the demand in DIY and home improvements, and I briefly described that in my speech a few minutes ago. I think people they have more time at home. They have more money available, discretionary spending. They rediscover gardening and DIY as a hobby because you have less available leisure options and that's very clear in the survey we are setting up. People are working from home [and] therefore they need to reorganise their spaces. And at last, and I think it's more temporary, people are a bit scared to have tradespeople at home for a few weeks, even though it is getting better. Therefore, DIY is favoured versus Do It For Me, and I think again it's temporary.

I fully acknowledge that I think a large part of our sales is the market. I think we need to be very modest on that. On the other side, we are gaining market share and we look at France – June, July, August, we are beating the market. I think it didn't happen for many years. I think B&Q clearly, we have had some of B&Q's competitors, you can check [their performance] as well. I think B&Q is doing a good job and the same for Poland. So, I think we are gaining market share, and this is due to our new strategic direction around different banners, empowering banners, agility, the new spirit we have around agility, and I think the decision we have made around e-commerce from stores. I believe, indeed, that online sales will not come back to the previous world. [For us], during the Covid [crisis], online sales were up by three times. Now, we are slightly above two times. I think it's pretty resilient and I think would stay at a very high level of online sales looking forward. Now, for [your question on] profits, I will leave to Bernard to give you some [detail].

BB: Yes. Hi Adam, I think we left some clues on page 17 in the group retail profit bridge. So, I think if you look at the gross margin we talked a little bit about what we think it is going to do in the second half, but clearly there were some one-off components in there, especially in regards to the supply and logistics. And the net of the clearance and other things, and the trading initiatives, was slightly positive. So, that gives you some indication of where we think the gross margin rate could go. I think the more important part is on cost. Obviously, we will need to go to new stores and expand so that is going to add up a little bit of cost. Inflation will still in some sort of fashion be there, that was the £28 million in the first half and that is set to continue. And then the three other blocks - basically the French employee profit share shifts into H1 is a temporary one. The Covid [factors]; obviously we're going to lose the benefits from the [business] rates and the furlough, the £100 million, although the business rates [relief] is going to continue until March 2021. Incremental Covid costs – I think we're learning to manage it as best we can, but hopefully it will depend a little bit on the trading environment. And then we had the £92 million where we said that is in a large part 'temporary'.

Now, let me say a little bit more about that. Included in here are things like lower advertising and marketing costs, some things we were able to do on discretionary spend, GNFR, store maintenance, etc. So, some of that will come back. That's not to say that we aren't working structurally to reduce our costs, be it in distribution, fulfilment, things from the head office, IT, the re-gears I talked about. So, yes, there will be a part that we're working on that we are looking to flow through, but a large part is more related to the environment and will be temporary. So, hopefully, that gives you a little bit of an indication of the moving parts.

ADAM COCHRANE: Whilst I have you, why the difference between, you're a group and report as one, why are you repaying the UK furlough benefits but not the French one? I could sort of understand if you repaid both so you could maybe free up an opportunity to pay a dividend if possible. But repaying one country, but not the other, that sort of doesn't really open up many doors. What's the rationale there, please?

TG: Yes, let me comment on that. I think first of all you saw the situation by country is very different. We have sales growth in the UK, a profit increase by 47%, and we consider it is just the right thing to do, to pay back the furlough in the UK. In France we are today in a very different situation with profit down and sales are still down in H1, and we have decided in France to pay back the PGE [French term facility] in the course of the second half unless material changes. The situation of the countries are very different and we consider, looking at the profit situation in the UK and in France, it's just the right thing to do.

ADAM COCHRANE: Well, congratulations for repaying the UK, I think that is very much the right thing to do.

TG: Thank you, thank you very much. So, thank you [everyone] again for your time. Obviously, the near-term outlook ahead of us is still very uncertain, but as a team let me tell you again that we strongly believe that the long-term opportunity for Kingfisher is significant. We very much look forward to updating you again in November with our Q3 trading and then again next March. Until then, please stay all safe and keep well, thank you for this morning. Talk to you very soon.