Kingfisher plc 2020-21 half year results presentation transcript – 22 September 2020

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6 months ended 31 July 2020

Speakers:

Thierry Garnier (TG), CEO

Bernard Bot (BB), CFO

Slide: Divider slide (TG)

Good morning everyone. Thank you for joining us today. I am Thierry Garnier, CEO of Kingfisher, and I'm here with our CFO, Bernard Bot. We are still unable to meet in person today and are conducting this presentation virtually from our offices in Paddington, but we are happy to be with all of you this morning and are looking forward to updating you on our progress in 2020.

Slide: Welcome & agenda (TG)

Our agenda for today will start with an update on our operations and strategy. First, how we are managing the ongoing impact of COVID, then a progress report on our 'Focus and Fix in 2020' priorities, and finally a recap of the 'Powered by Kingfisher' plan, which we laid out in June, and some headlines on progress we have made in the first half of the year.

Bernard will then present our financial performance and position, before we open the meeting up for Q&A.

Slide: Introduction (TG)

On Slide 5, I would like to take a moment to reflect on the past few months. Starting with our industry, there can be no doubt that the very specific nature of this crisis has driven up demand within the home improvement market. We believe there are five reasons for this. Firstly, customers are spending more time at home. Second, they have had fewer leisure options available to them and have travelled less, and many have rediscovered the pleasure of DIY as a hobby. Third, consumers have made more discretionary spend available for home improvement. Fourth, more people are working from home, meaning finding new ways to improve or use space and therefore new needs for home improvement. And finally, the impact of lockdown measures temporarily depressed demands for 'do it for me', and favoured 'do it yourself'. The crisis has also clearly accelerated the trend of people shopping online. Kingfisher e-commerce sales surged up to four times in April, and continues to see strong growth of above two times compared to pre-COVID rates, despite the restart of instore purchasing. And finally, as people emerge from confinement into an economic downturn, we see a fresh search for value for money. We already offer a price index of 100 or less versus closest competitors in all key banners, and we will use the power of our own exclusive brands, or OEB, and our discounter banners, to do more.

Our top-line growth has been supported by this strong market demand. However, in parallel, through our new strategy direction, our retail banners have found new ways to meet this demand and serve their community. They have played to their diverse strengths. Whether you are a DIYer, a trade person, someone who wants choice, value, service and convenience, we have found a way to serve you. And doing so, we believe that we have strengthened our market position. Given all the challenges we have faced, we are pleased that our H1 performance was resilient, with a strong sales recovery in Q2. Our profit and cash performance does also include benefits which will reverse or not recur and we will be very transparent about this later in the deck.

While it is still too soon to call a normalised pattern of demand, an economic uncertainty must make as cautious, the past four to five months give us confidence. The fundamentals of our market are strong, and we have demonstrated our ability as a Group to adapt and trade through challenging times. We are convinced that the crisis reinforces our strategic direction. In fact, it pushes us to be bolder in areas such as e-commerce, with stores at the centre, the importance of a discounter banner, and value for money through our OEB and being simpler and leaner. There is still much work to do, but, as a team, we feel encouraged by this result, and are confident in the opportunities ahead of us.

Slide: Continuing to manage the impact of COVID-19 (TG)

So turning to slide 6 – and how we continue to manage the impact of COVID on our business and our stakeholders. Given much of this has been disclosed already, let me just remind you of the key points.

From the outset of the pandemic, our priority was to act responsibly – towards our colleagues, our customers, to our communities as a retailer of essential goods, and making difficult decisions to protect our business for the long term.

All stores in our largest markets had essential status from day one. But we decided to keep them shut at the start of confinement and reopened only when it was safe to do so.

We have also been donating PPE to healthcare workers and charities. And in recognition of their hard work, we have paid additional bonuses to frontline colleagues.

In addition to successfully implementing strict social distancing and safety measures, our teams were able to adapt our operating model quickly – rapidly accelerating IT, supply chain, logistics and process changes to meet unprecedented levels of online demand. This all took place against a backdrop of stringent cost control and cash mitigation actions, with a particular focus on the management of our orders and inventories.

As a result, we have been able to limit the financial impact of COVID to date, and our business continues to be on a sound footing. We have access to over £3.7 billion of cash resources, providing us with significant financial flexibility and liquidity headroom.

Before I move on, I would like to say a huge thank you to all our colleagues, who have continued to go above and beyond throughout such a challenging period. Their drive and determination has been humbling to witness.

Slide: 'Focus and Fix in 2020' progress update (TG)

When I joined Kingfisher in late September last year, my immediate priorities were to develop a long term strategic plan, while also taking early decisions to 'Focus and Fix' the business, which are summarised here on slide 7. These actions have had a positive impact on our business, setting the path for the implementation of our new plan while also helping us to respond to the challenges of the crisis.

As we reported at full year results, we have a strong and experienced Group Executive team in place and we have continued to "strengthen the bench" too, with a new COO at Castorama France, as well as key hires within our Group Data and Digital teams.

Next, one of the key enablers for our new strategy is rebalancing local and Group responsibilities. Earlier this month we launched a fundamental reorganisation of our commercial operating model, about which I will say more later. And we have also started work on new operating models for our IT and digital teams.

Before the onset of the coronavirus, we paused or stopped several Group-wide initiatives to focus on doing fewer things rapidly and better. This involved cutting back on non-critical range reviews and pausing big and time-consuming projects. In France, we stopped all non-critical IT projects and paused our global SAP rollout at Brico Dépôt France, which allowed us to prioritise Castorama and focus on improving how SAP was working in that banner. This has contributed to an improved operational performance at Castorama France in H1, and allowed us to accelerate implementation of the Group's 'next generation' digital technology stack. This is a key enabler for our broader e-commerce strategy, and was rolled out in H1 without disruption to the business.

We are making good progress with our exit process for Russia. And as previously reported, we reversed the previous decision to exit Iberia. We believe we can build a profitable and sustainable business under the Brico Dépôt discounter banner.

Moving on to France, I have already described the operational benefits of addressing our challenges with SAP. The performance of our supply chain in France has also stepped up, with over 25 new recruits to the local team, and before the crisis we were seeing solid underlying improvements in stock availability and inventory management. During H1 we reintroduced more local ranges in France and we successfully conducted many promotion-based trading events; at Brico Dépôt we have been increasing special promotions (or arrivages) as we seek to reignite this business' strong discounter credentials. These factors all contributed towards the clear improvement in performance of LFL sales in France versus the market. So, while there is still much work to do, and the crisis has had a significant impact on the French profit performance, I am encouraged by our commercial performance so far.

During H1 we rapidly modified our operations and processes across the Group to focus on orders picked in stores and fulfilled through either click & collect or home delivery. This is integral to our wider e-commerce strategy, which I will talk to shortly.

In Q4 last year we began implementing a new trading approach to address diverse customer budgets and needs, and offering excellent value for money. During the first half, we made further progress, reintroducing more local ranges across the Group, running more trading events, making further investments in price at Screwfix, and testing new service propositions.

Finally, we know that there are significant cost reduction opportunities across Kingfisher over the longer term. The crisis has provided us with many additional learnings in this area.

Slide: Sales performance so far this year (TG)

Turning to slide 8, the chart on the left shows the evolution of Group LFL and e-commerce growth over H1.

As we reported previously, prior to any COVID-related store closures, trading in the first quarter was already reacting positively to the changes we were making. From late March to early April, you can see the significant impact of lockdown measures and our decision to close in-store shopping for several weeks.

In Q2, Group LFL trends improved significantly due to the phased reopening of stores in the UK and France. Sales growth – both in-store and online – was consistent throughout May, June and July as lockdown restrictions eased and customers spent more time on home improvement projects.

In terms of the third quarter, trading has remained positive, with Q3 Group LFL up 16.6% to date. All banners are growing LFL sales, and there is broad-based demand across all categories. Our showroom sales and order book are also strong, which I will discuss more shortly. Screwfix has seen its growth accelerate in recent weeks too.

Slide: Recap – 'Powered by Kingfisher' (TG)

Turning to slide 9 and let me take you through a brief recap of 'Powered by Kingfisher'.

The first key principle of the strategy is that Kingfisher's banners are not the same and this is a strength. They each address diverse customer needs, operate different business models, and each is developing a clear positioning and plan.

Our second key principle is that we will 'power' these banners as a Group. We believe that the role of Kingfisher Group is to enable our banners to serve their customers better, harnessing the scale of the Group where it makes sense.

We have a clear vision to build the customer propositions of the future, as you can see with our seven priorities on the left hand side of this slide, through e-commerce, more compact stores, OEB-led differentiation, a mobile-first experience and a compelling services offer.

This will be enabled by a balanced local-group operating model and an agile culture. We have already taken the first fundamental step here with our new commercial operating model. And our mindset of 'done is better than perfect' and 'test and learn' has served us well during the crisis.

We want to be simpler and leaner. This means doing less, landing it faster, and reducing our costs and inventory.

And last, we continue to build a Responsible Business culture at Kingfisher. We have established four new Responsible Business priorities, focused around inclusivity, climate change, helping to make greener homes, and fixing bad housing.

And as part of our commitment to colleague engagement and inclusivity, we are very happy to announce the launch today of an all colleague share plan. This gives each and every one of our

77,000 colleagues around the world at Kingfisher the opportunity to become shareholders, with one free share awarded for every share bought. We strongly believe in this programme to allow our colleagues to share and to contribute to the success of our new plan as shareholders too.

Slide: Making progress with our retail banner priorities (TG)

At our full year results in June, we set out clear priorities for each of our banners. Although it is still early days, on slide 10, I wanted to update you on some of the progresses being made. There has been a lot happening and, conscious of time, I will just focus on B&Q, Screwfix and Castorama France.

For B&Q, we have already discussed previously the steps taken to accelerate e-commerce, implement new trading approaches and focus on the customer.

The business is in the process of strengthening its range, offering more choice to customers and meeting demand for products previously not available. For example, B&Q has brought back Sandtex and Leyland paint – and these have been big hits with customers. And we have seen the successful launch of our new kitchens range – which along with popular ranges like Imandra bathrooms – is proving our private label opportunity.

Developing B&Q's service proposition is also a key priority. We have tested kitchen installation services to support the new range and I can confirm that we will be relaunching this service across the UK by January 2021. We also have trials taking place for tool hire and self-checkout counters.

In addition, we are trialling some smaller store formats to understand how we can extend the distribution of our brands, for example in Merton, in South-West London, which is performing well, and we have several other trials coming soon. We have also recently agreed to test four B&Q 'store-in-store' concepts inside ASDA stores over the next few months, which we will track with interest.

The Screwfix business has been strengthening its range and continues to improve its price positioning versus peers during the period. I am also excited about upcoming enhancements to its mobile experience, to support its market-leading position. In terms of store expansion, while there was a pause during the first half, the business is on track to open around 30 stores this financial year in the UK. In the Republic of Ireland, our first five stores have been performing very well, and we are on track to open 10 stores this year. We are also confident that this model can work outside the UK, and we are now developing plans for asset-light expansion to start with.

In France, the actions that we have taken over the last 12 months continue to have a positive impact on sales. Performance versus the market has improved, gaining market share in June, July and August. The major SAP issues highlighted one year ago have been addressed, its underlying supply chain is stronger, and it has benefited from a new leadership team and the flexibility to implement new trading approaches, including running trading events and strengthening their ranges.

Overall, while there is still much work to do across our banners, we are encouraged by the progress being made and by the commitment and energy of our teams.

Slide: Establishing a balanced commercial operating model (TG)

Turning now to slide 11, we have already started to see the benefits – both before the crisis and in our response to it – in rebalancing Group and local responsibilities.

Earlier this month we announced a fundamental reorganisation of our commercial operating model. The changes are aimed at leveraging the different positioning of our banners, enabling much greater speed, agility and local knowledge, while at the same time ensuring that we use the scale and knowledge of the Group intelligently.

On this slide you can see the 'before' and 'after' position.

Before, the Group had responsibility for all range plans for our banners, whether OEB or brands, as well as all supplier relations. The banners had limited decision rights.

Under the new model, the Group will retain the design, ranging, sourcing and supplier relations for all OEB, and continue to manage supplier relations for the Group's top 20 to 30 major international brands. We will therefore continue to leverage the Group's scale to achieve buying benefits where these really matter.

I believe that the Group's strong sourcing, design and engineering capabilities built up over the last four to five years is driving real product differentiation. This is a key driver for delivering sustainable and profitable sales growth.

Our retail banners will gain new responsibilities, reflecting the fact that they are closest to our customers. They will define category strategies, overall product range, non-OEB buying, pricing, promotions, marketing, and merchandising.

As a result of this proposed new model, some roles within our Group teams are expected to change, and we are currently in consultation with those who are impacted. It is a fundamental reorganisation of how Kingfisher operates, and we are excited by the potential here.

Slide: Grow e-commerce sales (TG)

To slide 12. Over the next two slides I want to go into a little bit more detail on two of the key medium term drivers of our strategy – growing e-commerce sales and growing our OEB sales.

The crisis turbo-charged the long-term trend towards e-commerce. With very limited incremental capex, we accelerated plans that were already in place to create new solutions, sometimes overnight, to meet the spike in demand.

Between April and July, we were averaging 1.5m e-commerce orders a week, which is significant even when compared to some of the UK's food retailers. In H1, overall, e-commerce sales grew by 164%, and by 173% when excluding Screwfix. Group e-commerce penetration increased by 12 percentage points to 19%. Excluding Screwfix, penetration increased 5 percentage points to 8%.

These numbers are clearly supported by the specific nature of trading during the crisis. However, the more important takeaways for me are the potential for e-commerce in our industry, our ability to handle the demand, and to manage the financial and operational consequences of e-commerce growth. The long-term growth trends are clear and we have made significant shifts in our strategy to leverage this opportunity.

We have shifted to store-based picking and fulfilment as a priority and are redesigning the store operating model to support efficient delivery and click & collect, with only certain categories delivered from fulfilment centres. For the seven months to 31 August, 88% of all e-commerce orders excluding Screwfix were picked in stores (up 28 percentage points vs one year ago) and 80% of e-commerce orders excluding Screwfix were made through click & collect. B&Q is committed to delivering C&C within one hour, and for Screwfix in as little as one minute.

We also have started to develop our last-mile home delivery capabilities from stores, enabling faster fulfilment. At B&Q, for instance, our partnership with DPD has enabled next day delivery with 98% of the UK population. In addition, we are testing same day delivery with Stuart, a DPD affiliate company.

You have heard me talk about the Group's 'next generation' digital technology stack, which we are rolling out as a priority. It is already in place at B&Q, and initial implementation was completed at Castorama France during H1. This means that we are migrating Kingfisher's front-end IT architecture to cloud-based API components, which is a critical driver for more efficient and more dynamic digital capabilities including scalable mobile apps and smarter search capabilities. The cost of this accelerated rollout sits within our existing IT budget envelope, and it leverages the work already completed over the last few years with the global SAP roll-out. We will support this work with a more balanced local-Group operating model for IT and digital – the planning of which has already begun.

Lastly, we are continuing to explore the potential for an e-commerce marketplace, but it is very early days.

Slide: Differentiate and grow OEB (TG)

To slide 13, and we believe that our own exclusive brands (or OEB), through differentiation and value for money, are a key driver for Kingfisher's future sales and retail profit growth. We are seeing good progress recently, with our new kitchen range selling well at B&Q. Outside of the period when our showroom offer was closed, orders increased 23% yoy on a LFL basis, with take-away sales up by nearly 8%. Our new lighting range is also landing well at Castorama France.

To achieve our longer term goal of higher OEB penetration, we have shifted the priority from the unification of ranges towards OEB. And we will ensure that the OEB products and brands are aligned to the different banners' propositions by tailoring them for DIY, for trade, and for discounters.

With my update now concluded, let me hand over to Bernard.

Slide: Divider slide (BB)

Thank you Thierry, and good morning everyone.

Slide: Key point summary (BB)

To slide 15 and an overview of the half.

While Q1 sales were heavily impacted by COVID, we saw a strong recovery of sales in Q2, aided by strong demand and actions to serve our customers safely. The start of Q3 is also encouraging with Q3 Group LFL sales up 16.6% to 19 September, and growth across all banners and categories.

Overall, the Group's financial performance for the half was resilient.

Total sales in H1 were down 1.1%, and LFL sales were down 1.6%, all in constant currency.

Retail profit was up 17.7% in constant currency as a result of, in large part, temporary cost savings and a strong performance in the second quarter, in particular by B&Q.

Free cash flow was significantly higher year on year at over £1bn, to a large extent driven by favourable working capital movements.

We have and continue to actively manage the impact of COVID.

As a result, we ended the half with net financial cash of over £1.1bn.

We entered the second half against a favourable trading backdrop and our focus is on enabling sales in a safe environment.

However, the continued uncertainty and concerns over COVID and the wider economic environment limit our visibility.

Given this uncertainty the Board has decided not to declare an interim dividend. We recognise the importance of dividends to shareholders and will continue to evaluate the quantum and timing of any future dividend payments.

Slide: H1 20/21 key financials (BB)

Slide 16 is a dashboard of the key financials for the half. Let me touch on the profit measures here.

Starting with gross profit, this was £2.2bn, down 1.5%. Gross margin for the half was down 10 basis points to 36.9%, with a decline in Q1 mostly offset by an increase in Q2.

As mentioned, Group retail profit increased by 17.7% and our retail profit margin increased by 140bps to 9.0%.

Adjusted pre-tax profit was up 23.1% to £415m, and statutory pre-tax profit was £398m, after £17m of net exceptional charges. Statutory profit after tax was £317m.

Slide: Group retail profit bridge (BB)

Moving to slide 17 and the movement in Group retail profit. This was up £79m to £533m with a decline in gross profit of £35m more than compensated by a reduction in costs of £114m.

Let me unpick the gross profit decline.

This was driven by a £23m adverse impact from the 1.6% decline in LFL and a £20m increase in supply and logistics costs, which was mostly COVID-related.

Lower clearance activities, partly offset by more trading initiatives and price investments, increased gross profit by £8m.

The contribution from net store growth offset the negative contribution from Russia.

And as mentioned earlier, while Q1 saw a gross margin decline, Q2 saw an increase that mostly offset this decline.

Moving through the bridge, operating costs were higher by £28m from higher store numbers and inflation and by £22m because of the shift of our French frontline employees' profit share into H1. The latter partly reflects the structure of the French store staff bonus scheme which is based on quarterly sales performance. Given the very strong sales growth in Q2, more had to be accrued in this quarter. There will however be an offsetting benefit in H2.

In the half we incurred direct COVID-related cost increases of £28m for PPE, additional store security costs and special bonus payments made to frontline store staff.

While we incurred further costs to secure safe in-store customer journeys, including additional marshalling, we were able to offset these with higher productivity and a reallocation of staff.

The combination of business rates relief in the UK and furlough schemes in the UK, France and Spain provided a total benefit of £100m.

Finally, we achieved a further £92m of cost savings. For example, we significantly reduced spending on advertising and marketing, goods not for resale, head office costs and travel during the crisis. In a large part these reductions are specific to the period.

Slide: H1 20/21 exceptional items (BB)

Let me now take you through the net exceptional charges for the half of £17m.

Asset impairments and exit costs of £27m were recognised during the period relating to Russia, reflecting the performance of the business in H1 and the anticipated net proceeds from the planned sale of Russian activities.

The £14m liability that was held in relation to warranties as part of the B&Q China disposal in 2014 was released in the period following the expiry of the claims period. Of this amount, £10m has been recognised within exceptional admin expenses and £4m has been recognised within exceptional tax items.

After these exceptional items our statutory PBT was £398m.

Slide: H1 20/21 geographic summary (BB)

To slide 19, and the performance of our major geographies. There are slides in the appendices detailing the performance of each of our retail banners but let me pull out some key points here.

Starting with the UK, LFL sales were up 2.4%, driven by a strong sales recovery in Q2.

LFL sales at B&Q grew by 28% in Q2 and by 4.1% in H1.

LFL sales at Screwfix were down 1.1% in the half. While sales also recovered in Q2, they did at a much lower pace of 2.4%, reflecting a slower pick-up in demand from professional tradespeople than from DIYers.

As tradespeople restarted their work in customers' homes, and we gradually re-established in-store purchasing, sales trends have strengthened, with Screwfix's quarter 3 to-date LFL up 9.9%. The business has also continued to improve its price position relative to its nearest peers.

UK retail profit increased by 47.1% to £411m. This was driven by sales growth at B&Q, an increase in the UK gross margin of 100bps, and an 8.8% reduction in operating costs.

The gross margin increase reflected higher full-price sales and lower clearance in B&Q, partly offset by higher supply & logistics costs in Screwfix.

Operating costs benefited from the cost reduction measures I mentioned previously, business rates relief and up to 1 July the UK furlough scheme. These savings were partly offset by cost inflation, Screwfix space increase year on year, and COVID-related cost increases.

In France LFL sales were down 5.9%, reflecting the significant impact from COVID-related store closures in Q1.

France experienced a longer period of lockdown relative to the UK. Q1 LFL in France was -41.5% compared to -16.0% in the UK. This was partly offset by a strong recovery in demand in Q2, with LFL at +27.0%, ahead of the UK, but not enough to return to growth for the half.

Retail profit declined by 44.1% to £63m. This was mostly driven by the sales decline at both retail banners.

Results were also impacted by a decrease in gross margin of 130 basis points, reflecting higher supply & logistics costs as a result of COVID and external disruptions at the start of the year, next to the decision to upweight special promotions (or 'arrivages') sales in Brico Dépôt, and also more trading events.

Operating costs were 4.9% lower. Benefits from temporary cost reduction measures and the French furlough scheme were partly offset by COVID-related costs, additional payments to frontline staff and the £22m shift in employee profit share into H1 referred to earlier.

Poland, which kept its stores open throughout the period, also saw stronger demand in Q2, with LFL up 15% in Q2 and 3.5% in H1. Total sales growth was 6.8% reflecting the annualisation of four store openings last year and one store opening in H1.

Gross margin in Poland decreased 120 basis points, largely reflecting mix, better price positioning and more trading events.

Retail profit in Poland declined by 7% in constant currency with gross profit growth more than offset by a 7.6% increase in operating costs, this was linked to wage inflation, the increase in space year on year, incremental COVID-related costs and additional front line staff bonuses.

Iberia sales, with LFL down 22.3% in H1, were severely impacted by COVID restrictions during the half. Since reopening stores in Spain from mid-May onwards we have seen strong demand, with June LFL up 25.5% and July up 19%. Despite these weaker sales, the business made a retail profit of £1m in the half.

Romania reduced its retail loss slightly to £11m for the half, and Russia to £5m.

Slide: H1 20/21 summary cash flows and net debt (BB)

Slide 20 provides an overview of cash flows and highlights a period of very strong cash generation for the Group.

We generated EBITDA of £769m in the period. Working capital showed a largely timing-related inflow of £656m, driven by a £208m decrease in stock and a net £448m increase in payables.

The stock reduction reflects lower purchases during lockdown and the strong Q2 sales. We are working to structurally reduce our inventory levels, however I anticipate some rebuilding of inventory in the second half as we improve our product availability.

The increase in payables was driven by the deferrals of stock purchases and higher payroll and VAT creditors, again reflecting strong trading in Q2.

After rental payments, tax and interest and gross capex, free cash flow for the period was a little over £1bn, up by over £800m year on year. The net cash movement excluding financing was also a little over £1bn.

As a result, net debt at the end of H1 reduced by over £1.1bn to £1.4bn. Given that working capital will to a large extent normalise in the second half, I would expect our net leverage ratio to increase in the second half.

Slide: Significant liquidity and solid financial position (BB)

Now moving to slide 21, and our current liquidity and financial position.

As at 18 September we had over £3.7bn of total liquidity available, including £2.1bn of cash, which includes around £540m from a term facility guaranteed by the French State. To remind you, under the terms of this facility, the full amount was drawn down on the 18 May. Subject to circumstances and to certain conditions being met, we will consider repaying this facility in H2.

Furthermore, we remain eligible for the Bank of England’s CCFF programme and have additional undrawn RCFs available for £1bn.

As mentioned, our working capital position was very favourable in the first half, and while cash is a key focus area, working capital will to a large extent normalise as we rebuild inventories and settle our accounts payable.

That said, we are on a very sound financial footing given our strong cash generation and access to significant liquidity.

Slide: FY 20/21 outlook & technical guidance (BB)

Finally, moving to slide 22, our outlook and technical guidance for the full year. There is a lot on here so let me pick out some of the key items.

Starting with the sales outlook. While Q3 trends to date have been encouraging with sales up 16.6% to 19 September, visibility is limited by ongoing concerns over COVID and the wider economic environment.

We expect incremental COVID-related costs to total around £40m in this year. This is slightly higher than previously anticipated, largely due to bonuses to frontline store staff.

We expect central costs to be slightly lower than prior year, at c.£58-60m.

In the UK, business rates relief is expected to remain in place until the end of March 2021. Of Kingfisher's annual business rates bill of c.£140m, around £130m is eligible for relief.

With regards to furloughing, since the 1 July we have not claimed under the furlough programmes in the UK and France and will not claim the UK government Job Retention Bonus. Furthermore, we intend to repay the furlough benefit received in the UK of around £23m in the second half of the year, unless there are any material changes in the trading environment.

Turning to cash flow.

From a financing perspective, we have already paid back £600m drawn in June under the CCFF. And as I mentioned earlier, given our solid liquidity position, we are also considering repaying the £540m French Term facility in H2, subject to the environment and certain conditions being met.

To repeat, we expect a very favourable working capital position at the end of H1 to a large extent to normalise, as we rebuild inventory and settle outstanding creditors.

With regards to capital expenditure, we continue to review our expenditure plans on a case-by-case basis and expect total capex of up to £300m, with a further £50m earmarked development expenditure deferred into the next financial year.

Finally, with regards to the previously announced 11 store closures in France. So far, seven stores have been closed of which four were in the first half. We expect to close two more Castorama store in H2 but have decided to convert two Castorama's earmarked for closure into Brico Dépôt stores. The cash costs of exit have been fully provided for in previous periods.

With that, let me now hand back to Thierry.

Slide: Summary (TG)

Thanks Bernard. Let me now briefly summarise before we open for Q&A.

First, we have delivered a resilient financial performance in the first half, with a strong recovery of sales in Q2 following the significant impact of lockdown measures in Q1. The sales recovery has extended into H2, with good growth so far.

The crisis has driven stronger demand for home improvement across our markets, prompting more people to re-engage with DIY, become more comfortable with ordering goods online, and seek value for money against a challenging economic backdrop.

In parallel, we have benefited from our new strategic direction, with our retail banners finding new ways to meet these demands and serve their communities. Our experiences through the crisis have reinforced this direction, and have made us bolder in our priorities.

While there is still a great deal to do, we have made good progress with the strategic plan that we announced in June. There has been a fundamental reorganisation of our commercial operating model, we are continuing to improve our operational performance in France, we have accelerated our plans around e-commerce, and many encouraging new initiatives are being developed across our banners.

Looking forward, there remains considerable uncertainty around the coronavirus crisis and the wider economic outlook, and managing the risk here remains a key priority for us.

But while the near term outlook is uncertain, as a team we believe the longer term opportunity for Kingfisher is significant, and we are committed to returning Kingfisher to growth.