

Screwfix Spares Limited

Strategic Report

The Directors present their strategic report on Screwfix Spares Limited (the 'Company') (formally Bargain Bob's Limited) for the year ended 31 January 2024.

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

Principal activity

The principal activity of the Company is the retailing of spare parts and related products and services to both tradespeople and the general public, primarily through the Company's websites.

Review of the business and future developments

At the beginning of this financial year, the Company was non-trading, it was then renamed to Screwfix Spares Limited and was activated through the purchase, on 20th March 2023, of the majority of the business and assets of Connect Distribution Services Limited (in administration), eSpares Limited (in administration), CDSL Group Limited (in administration), and Electruepart Limited (in administration). The assets, stock, and Intellectual Property of the companies were acquired from the administrators, and all employees transferred over, saving 389 jobs in the Birmingham area. We have focussed on rebuilding and expanding the businesses as part of the wider Screwfix family, primarily through restoring relationships with suppliers and customers. These relationships have been successfully rebuilt, with the increased availability and range we have given our customers confidence to come back.

This resulted in sales building, month on month, and total sales for the 10 months of trading to 31st January 2024 were £40.9m.

Key performance indicators

The Company is part of the Kingfisher plc group of companies (the "Group"). Further information on the Group's analysis using financial key performance indicators can be found in the 2023/24 Kingfisher plc Annual Report ("Kingfisher Annual Report"): 'Financial Review' on pages 48 to 54.

Overall sales grew as expected and like-for-like sales will be reported from next year. Operating losses for the current year amounted to £4.253m before adjusting items which was less than expected at the point of the acquisition. Losses were due to taking on all employees at the point of acquisition and having to rebuild customer and supplier confidence in order to restock and grow sales back to a previously achieved level.

As part of its ongoing performance management the Company tightly manages its investment in working capital, balancing the need to ensure stock availability levels are sufficient (and improving) to meet customer demand across the range while not over investing in working capital. Stock days at year end were 47 days.

Principal risks and uncertainties

Two of the key business risks and uncertainties affecting the Company are the level of product demand and ensuring that we have the appropriate resupply in place to maintain high product availability, as well as depth of stock in both range and units held. The level of product demand is impacted by macro-economic conditions and competition. Product demand is monitored through regular forecasts, and we are building an ability to factor trends into supply chain planning procedures.

Other key risks and uncertainties include ongoing market conditions, competition and UK consumer confidence given the current position on interest rates and inflation. We are committed to continuing to manage our gross margin effectively in this environment, and the focus of the Company is to become increasingly a leader on price competitiveness and convenient ways to shop. This will help us to drive market share in the face of a challenging marketplace, still with cost price inflation and lower consumer confidence.

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

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Strategic Report (continued)

Financial risk management objectives and policies

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

The Company's interest rate, liquidity and foreign exchange risks are managed centrally by the Group Treasury department who monitor and manage levels of debt finance and related finance costs. A full description of these financial risk management policies is included in the Kingfisher plc 2023/24 Annual Report.

Economic risk

The biggest economic risks facing the Company are weaker GDP growth in the UK, political uncertainty and social unrest, higher wage inflation (e.g., UK National Living Wage increasing by c.9.7% pa), and significant cost inflation (across raw materials, utilities, and third-party labour). All these factors are considered regularly as part of the executive board's decision-making process. In order to mitigate these factors, input costs are actively managed and when they cannot be mitigated or absorbed, higher average selling prices also mitigate these risks.

Foreign exchange risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. In accordance with Group's policy, the Company uses foreign exchange forward contracts to hedge any material exposures.

Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables and related party receivables. The biggest credit risk is attributable to the other members of the Group, since cash is regularly passed to the Group Treasury department and is not offset by regular dividend declaration. The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Company has no significant concentration of credit risk, with exposure spread over many customers.

Liquidity risk

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

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Strategic Report (continued)

Section 172(1) and stakeholder engagement statement

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

As is normal for companies that are part of a wider Group of entities, day-to-day management of the Company is delegated to executives who, in turn, engage management in setting, approving, and overseeing execution of the business strategy and related policies. The Directors review financial and operational performance and legal and regulatory compliance pertinent to any decision they are taking.

The purpose of the Company is to act as a retailer of spares and consumables products. As well as its affiliates in the Group in which it operates, the Company's key stakeholders include its customers, colleagues, suppliers, communities & non-governmental organisations (NGOs), regulators & Government, national and international external regulators of product safety. While there are cases where the Board judges that it should engage directly with certain stakeholder groups or on certain issues, the size and spread of both stakeholders and the Group, means that generally stakeholder engagement best takes place at an operational or Group level. As well as being a more efficient and effective approach, this also helps the Company achieve a greater positive impact on environmental, social, and other issues than by engaging as an individual Company. Please see pages 17 to 23 of the 2023/24 Kingfisher Annual Report and Accounts for details of operational and Group-level stakeholder engagement with the Company's stakeholders as well as those of the Group.

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

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

As part of the Group, the Company aims to help customers to have greener homes. The Company has made available many guides and short videos on how to repair, rather than replace many home appliances, and sells many spare parts and repair services to support this aspiration.

The Group is committed to specific environment-based targets, including using sustainable wood and paper products, becoming forest positive and reducing carbon emissions over the next three years. The specifics of these goals (and commentary on progress toward full achievement of these) can be found on pages 24 to 27 of the Kingfisher Annual Report

Customer engagement

The Customer is at the heart of our thinking and philosophy. The Company is developing its ability to understand customer needs, behaviours and feedback, through direct customer contact via our customer services department (we have contact us options via the website, email and live chat) plus customer surveys and reviews, monitoring purchasing trends and analysis of search engine information. These insights will be used to inform the future direction of the business.

Supplier engagement

The Management Board recognises that building and maintaining trusted partnerships with the Company's suppliers is fundamental to the long-term success of the business. The Board considers the impact to suppliers when making key strategic decisions relating to product ranges or supply and logistics.

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Strategic Report (continued)

The Company engages with suppliers in with regular meetings, either online or in person and at trade events, to improve outcomes for them and the Company (business as usual) and to minimise supply chain impacts caused by changes to the trading environment post-pandemic. An example of this is that the Company (along with the rest of Kingfisher) decided early on post-acquisition to stop selling the limited number of products directly sourced from Russian and Belarussian suppliers.

Employee engagement

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

Colleague feedback is received in several ways including from established People Forums, and feedback is communicated to the Board as to regular colleague engagement surveys. Business announcements are also emailed to employees.

All employees are invited to attend Quarterly Town Halls. These are led by the CEO and the senior leadership team who provide a business update, including the latest published financial information, a progress update and a cascade of other relevant information. These also provide employees with an opportunity to ask questions of their senior managers to address issues not covered by the business update itself.

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

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

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

Being a responsible business encompasses all aspects of the way we work, from the way we treat our colleagues, to our supply chain and our impact on the environment.


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

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Future developments

The Directors remain confident about the future prospects for the business. The business will continue to expand to reach more customers through the ongoing development of new channels to market. The business model continues to evolve, enhancing its multi-channel convenience credentials. The Directors do not envisage any change to the principal activities of the business.

Approved by the Board and signed on its behalf by:

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J Mewett

Director

Date: 28th October 2024