

TRADE PROFILE



Overview

Homebase is a well-recognised British home improvement retailer operating a large store estate across the United Kingdom and Republic of Ireland.

Since it was founded by supermarket chain Sainsbury's and Belgian retailer GB-Inno-BM back in 1979, Homebase has described itself as a leading UK home enhancement retailer offering a growing range of home improvement products in a differentiated store environment – the aim being to bring a supermarket style layout to the British DIY market.



Customers purchase goods instore as well as online via the Homebase website, and also benefit from instore installation and design services if buying a kitchen, bathroom or bedroom.

Homebase offer over 38,000 products covering 5 broad areas: Decorating (18% of sales), DIY (19%), Big Ticket (18%), Home (17%), and Garden/Seasonal (28%).

Contact Information:

Homebase
Witon Gate House
500/600 Witon Gate
Milton Keynes
Buckinghamshire
MK9 1SH

Tel: +44 (0)1908 352400

Website: www.homebase.co.uk
www.bunnings.co.uk

Twitter: @Homebase_uk



Overview continued...

One of the key features separating Homebase from its main competitors has been its strong portfolio of exclusive brands, such as Odina, Schreiber, Hygena and Qualcast. Homebase has also included valued concessions within some of its larger stores in order to differentiate from other DIY retailers and to provide consumers with a true home improvement offering. Concessions have included Laura Ashley and Habitat.



In 2002, Homebase was sold onto GUS plc and became part of Argos Retail Group, which, following a demerger, was renamed Home Retail Group. A number of Argos operations subsequently opened in selected Homebase stores. By November 2014, Homebase had a portfolio of 316 stores, employed just under 18,000 members of staff and, by February 2015, had reported an operating profit of £20 million. The two brands continued to operate side by side under Home Retail Group until January 2016, when one of the DIY industry's biggest shake-ups took place.

On 18 January it was announced that Australian retailer Wesfarmers would acquire Homebase for £340 million, subject to shareholder approval.



From its origins in 1914 as a Western Australian Farmers' Cooperative, Wesfarmers has grown into one of Australia's largest listed companies. According to the Retail Gazette, Wesfarmers has a current market value of close to £22 billion and is the largest private sector employer in Australia boasting over 210,000 employees. As well as owning Coles, one of Australia's biggest supermarket chains, Kamart, Officeworks and Target, Wesfarmers also owns Australia's most predominant DIY retailer, Bunnings Warehouse.

The transfer of ownership of Homebase to Wesfarmers took place on 27 February 2016 and following the transfer of sale, Peter Davis PJ was appointed Managing Director, Bunnings UK and Ireland

Wesfarmers quickly announced plans to completely rebrand the Homebase business within the next three to five years, 265 stores in the UK and a further 15 in Ireland. The new stores would be rebranded under Wesfarmers existing Bunnings Warehouse banner and a planned further £500 million would be spent on upgrading the stores.



Wesfarmers' Managing Director, Richard Goyder commented at the time, "We welcome our new employees and are excited about the opportunity to bring the best of Bunnings to the UK & Ireland"

By October 2016 Laura Ashley confirmed that it would be removing its trading concessions by mid-2017 as Wesfarmers made clear its desire to remove all concessions and adopt the same business model as its Australian and New Zealand business.

Overview continued...

In November 2016 Bunnings announced that the Homebase store in St Albans would be the first to be rebranded Bunnings Warehouse as part of a trial, with three others opening by June 2017 and up to six more by the end of the year, adopting its low-cost warehouse model (see Trading Strategy & Stores and Employees).



At the time of the announcement, Bunnings CEO John Gillam stated "The acquisition represents a compelling opportunity to enter the attractive UK home improvement and garden market. Homebase has an established and scalable store platform with strong representation in high density areas," Mr Gillam continued, "The stores are well-sized for the UK market and support warehouse merchandising. We will combine essential local elements with the best of Bunnings to bring customers in the UK and Ireland an exciting new home improvement and garden offer."

Key Personnel

Richard Goyder - Managing Director, Wesfarmers (outgoing)

Rob Scott - Managing Director, Wesfarmers Industrial Division & Deputy Managing Director, Wesfarmers (incoming)

John Gillam - CEO Bunnings (outgoing). Chair of Bunnings Group Council & member of Bunnings UK & Ireland advisory board

Mike Scheider - Managing Director, Bunnings Australia & New Zealand

Peter Davis - Managing Director, Bunnings UK & Ireland

Rodney Boys - Finance Director, Bunnings UK & Ireland

Craig Castelino - General Manager Merchandising - Bunnings UK & Ireland.

Shane Mealor - General Manager Store Development - Bunnings UK & Ireland

Craig Wallace - General Manager Operations - Bunnings UK & Ireland

Keith Murray - General Manager Marketing - Bunnings UK & Ireland

Andrew Mason - General Manager Property - Bunnings UK & Ireland

Martina Kay - General Manager Human Resource - Bunnings UK & Ireland Resources

Trading Strategy

The timeline below, outlines the company's milestones in terms of expansion since 1979, and is a good place to start when understanding the more recent shift in the retailer's trading strategy.

- 1979:** Supermarket chain Sainsbury's and Belgian retailer GB-Inno-BM founds Sainsbury's Homebase
- 1981:** First Sainsbury's Homebase stores open in Croydon and Leeds.
- 1995:** Sainsbury's buys store group Texas Homecare which quickly triples Homebase store estate.
- 1999:** Sainsbury's buys Hampden Group plc adding 10 stores in Ireland to the Homebase estate
- 2000:** Sainsbury's sells Homebase chain – 283 stores to venture capitalist Schroder Ventures and 28 development sites to B&Q's parent company, Kingsfisher plc
- 2002:** Homebase is sold onto GUS plc and becomes part of Argos Retail Group, which, following a demerger, is renamed Home Retail Group.
- 2009:** Homebase discontinues own loyalty programme, Spend & Save, and replaces with Nectar loyalty scheme.
- 2014:** Homebase launches Design Centres. New look stores offer Decorating Ideas and Advice Centres
- 2015:** Homebase announces closure of 25% of stores by 2019 as well as plans to increase Argos and Habitat concessions within remaining stores.
- 2016:**
 - January - Australian retailer Wesfarmers announces intent to acquire Homebase for £340 million, subject to shareholder approval
 - February - transfer of ownership to Wesfarmers takes place
 - June - Wesfarmers announces cancellation of plans by Home Retail Group to close 7 stores as well as plans to prevent closure of a further 11 stores
 - October – Laura Ashley confirms removal of concessions in 22 stores by mid - 2017 as Wesfarmers announces intention to remove all concessions across the estate
 - November – Official confirmation from Wesfarmers that first Homebase store to be rebranded as Bunnings Warehouse would take place in Q1 2017
 - December – Company undertakes move of Head Office within Milton Keynes separating itself from premises until then shared with former sister company Argos
- 2017:**
 - January - John Gillam steps down from Bunnings UK & Ireland board, remaining on-call in an advisory capacity
 - February - First Bunnings Warehouse opens in in St Albans

Only three years ago Homebase published its annual report clearly stating that it considered its target market to be the home and garden enhancer: generally female customers/households with children, of ABC1 demographic, with above average income. At that time, the retailer's trading strategy reflected this and focused on incorporating store format development, enhancing its multi-channel offer, introducing exclusive brands and increasing levels of customer service – all of which, it hoped, would accelerate the development of Homebase as a destination for a broader range of home and garden projects, securing a larger share of customer spend and a higher frequency of visit.



Trading Strategy continued...

Today, according to Wesfarmers 2016 Full Year Report, Bunnings over-arching trading strategy is:

- To continue to deliver growth in an increasingly competitive environment where consumers are expected to remain value conscious
- To focus on delivering further value, better service & improved ranges supported by merchandise innovation and productivity improvements
- To continue to invest in digital engagement & growing and refurbishing store networks
- To establish Bunnings UK & Ireland pilot stores and restructure underlying infrastructure to drive long-term earnings growth

In his first presentation to BHETA, Peter Davis, Managing Director of Bunnings UK & Ireland comments, “We’re very excited about the UK, it’s a £38bn home improvement market and the great news is that 40% of your building stock is over 50 years old, that’s a lot of repairs that need doing. Very different to Australia, where most of the housing stock is relatively new” and he outlines Bunnings Long Term Value Creation:

- To deliver a winning offer to customers
- To have an engaged, focused and committed team
- To have business behaviour that builds trust
- To deliver sustainable returns

Davis is keen to emphasise that the business is planning ahead in the UK for 20-plus years and that Bunnings is not a private equity investor meaning that recent issues such as Brexit can be seen in a longer business context and that the company will concentrate on building long-term relationships with a bigger range of suppliers.

“It’s not about being the biggest, it’s about being the best” he concludes. To start this long-term journey, phase one of the new Bunnings-branded offer will be introduced combining essential local elements with the best of Bunnings to build a new business. This will include “more local sourcing, lowest prices, wider choice, trusted brands and great service” It is also understood that opening hours could be extended, whilst trade customers could also be targeted to build more of a builders’ merchant format.



With focus being on “Lower prices are just the beginning”, discounter-style seasonal promotions are out, whilst high stock levels and wide ranges are in.

John Gilliam, Bunnings CEO says, “We’re not going to be too shaken off our path if we are boring people across the next couple of years because we haven’t got any flash results to show. We are generally pretty long-run, long-term focused operators. We have got about 330 trading locations across Australia and New Zealand and there are hardly two the same. Twenty-five per cent of our fleet across Australia and New Zealand is the same size as the Homebase fleet so we understand merchandising intensity in that size format. We have embraced variability on property size as a way of fuelling growth versus trying to find the same site everywhere and being stymied by our inability to do that.”

Marketing

In terms of advertising, Homebase was always keen to differentiate itself from its biggest competitor B&Q. The B&Q message was clearly one of price in line with its Every Day Low Price strategy. Homebase steered away from the price message, targeting a different audience, and focussed on the added value benefits of Home Improvement to be found in Homebase stores.

In 1999 Homebase started to invest more heavily in TV advertising using stars Neil Morrissey and Leslie Ash who continued to be the face of the brand for six years, until March 2005, when the retailer then went on to launch a series of new advertisements featuring the new slogan, “Make a house a home”.

Trading Strategy continued...

It remains to be seen what the future holds in terms of Homebase advertising over the next few years, but if current Bunnings Warehouse advertising is anything to go by, TV ads include store staff and the messages are clearly price orientated “Lower prices are just the beginning” and “Nobody beats our prices.”

Homebase has a well-established transactional website as well as considerable presence on social media, using these platforms to engage with consumers, trade and retail, from both a customer service as well as promotional perspective.

The Homebase website offers products across all categories as well as an Ideas and Advice section with the key message Always Low Prices matching their instore communication and reflecting the retailer’s more recent everyday low price strategy.

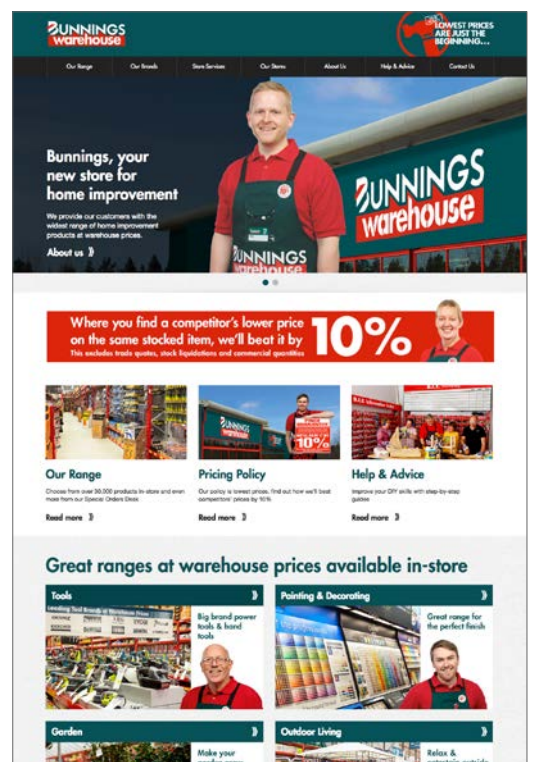
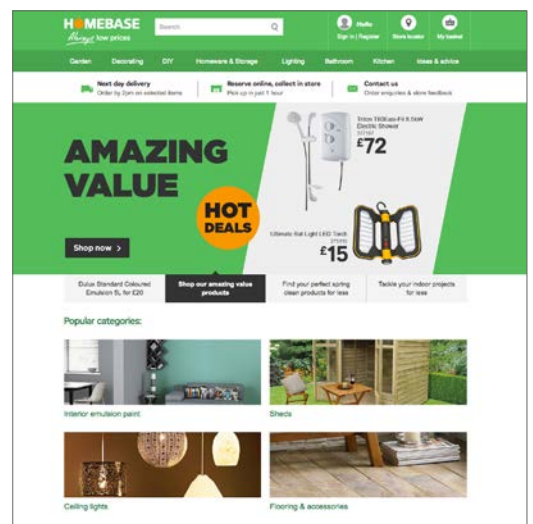
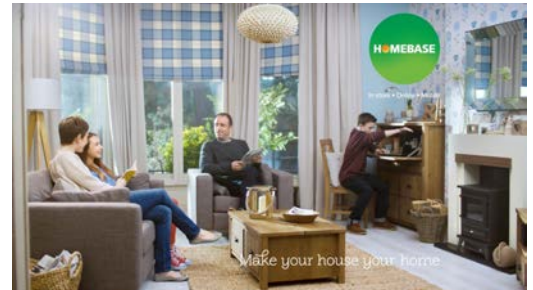
A Bunnings UK website has been launched to support the first Bunnings store opening. It complements the existing Homebase site as well as highlighting the vast range of products and services available - from special ordering, café and hire shop to key cutting, DIY workshops and engraving. Whilst the site provides plenty of information on the ranges stocked, services on offer as well as help & advice guides, it is currently non-transactional which could potentially prove an interesting challenge for its new owners as online sales in Australasia are less important than in the UK due to the size of the country and lower population resulting in consumers using websites more for research rather than purchase.

It was announced in March 2017 on a Wesfarmers investors visit to the UK that Bunnings UK will have a transactional website within 18 months.

With over 350,000 facebook likes, Homebase consumers can see a variety of posts, pictures and videos that relate to product ranges and home improvement ideas. Sale and price announcements are also made via this channel.

In addition to Pinterest, Homebase also has presence on Twitter, having over 44,000 followers, and also has approximately 4,000 subscribers to its youtube channel which has now reached over 6million views. The youtube channel houses how to and inspiration videos such as How to make a kid’s art station and Garden Diary-January, Feed the birds. Compost your Christmas.

Social media will without doubt continue to play an even more important role in engaging with consumers in the future and educating the UK on all things Bunnings.



Stores & Employees

Only a few years ago Homebase trialed a new store format which it rolled out to approximately 30 stores. These refits were designed to position Homebase as a clearly differentiated and multi-channel home enhancement retailer, creating a softer more stylish look and feel both in-store and online. These enhancements included the addition of Argos and Habitat concessions, touchscreen technology and decorating centres with consultants on hand to help customers create moodboards.



Figures published in October 2014 state that Homebase, at that time, was operating 323 stores across the UK and Ireland with 14.9 million sq ft of selling space between them with garden centre space accounting for 3.4 million sq ft. The Home Retail Group confirmed that it would be closing around a quarter of the Homebase UK portfolio over a three year period, with around 30 stores closing before financial year end.

Q3 2014 Home Retail Group report states, “ Although economic indicators have more recently improved, several structural factors continue to affect home improvement retailing, including an excess of retail space, the rise of a generation less skilled in DIY projects and the growth of non-traditional digital and multi-channel competitors”

| Year | UK Store Numbers | Employee Numbers |
|------|------------------|------------------|
| 2011 | 341 | 19,061 |
| 2012 | 341 | 19,002 |
| 2013 | 336 | 18,561 |
| 2014 | 323 | 17,775 |
| 2015 | 296 | c. 18,000 |
| 2016 | 259 | c. 18,000 |
| 2017 | 259 (Mar 2017) | c. 18,000 |

As at March 2017 there are 11 Irish stores.

Following the acquisition Westfarmers went on to publish its Q1 Retail Sales Results in October of the same year. The report confirmed ownership of 350 Bunnings Warehouse stores across Australia and New Zealand (Bunnings Warehouses – 245, Bunnings smaller formats – 72, Bunnings Trade Centres – 33) and that, should the early trial stores prove to be a success in the UK, then Bunnings UK & Ireland could well be on course to have a similar number of stores, albeit with smaller footprint, in the Northern hemisphere.

Significantly a few months after the acquisition, Wesfarmers announced that it had cancelled plans by Home Retail Group to close 7 stores and would seek to prevent the closure of a further 11 stores. It is estimated that up to 700 jobs could be secured as a result of this decision.

The first pilot store in the UK is the 70,000 sq.ft store in St Albans which is less than half the size of an average Bunnings Warehouse in Australia. It was closed mid-November, gutted and re-opened under the Bunnings Warehouse fascia on 2nd February 2017, just under 12 months following the acquisition.



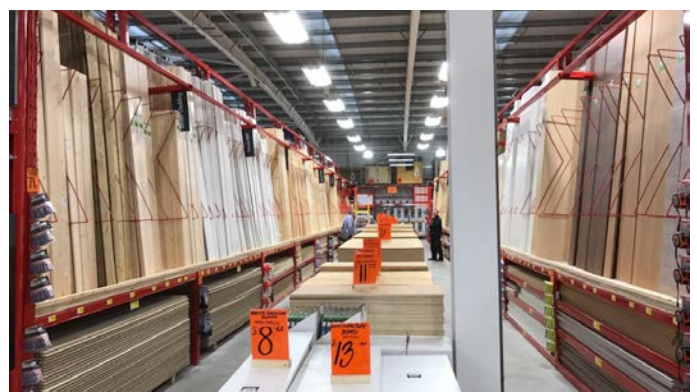
Stores & Employees continued...

Changes to the store are staggering – removal of mezzanine, addition of café and children’s play area, concentration on stock levels across all categories, removal of inspiration and design areas and double the number of staff. A full report and further details on the new store can be found in Insight Retail Group’s article, “Bunnings UK – Our first impression”

One of the most significant changes seems to be investment in staff, both in terms of quantity as well as quality, ensuring that those now serving Bunnings are truly differentiating themselves from the competition in terms of the level of service offered. Wesfarmers have also removed zero-hour contracts for employees in a bid to “build a strong culture within the company”.

Richard Goyder, Wesfarmers MD told the Australian Financial Review that the new store format will not be rolled out until Bunnings is confident that it appeals to British consumers and the conversion of remaining stores would depend on whether the first few trial stores are a success or not. If British consumers embrace the new stores and the Bunnings brand then Wesfarmers have committed to invest a further £500 million over the next few years improving and expanding the chain.

Richard Goyder is confident of eventually achieving 18% return on capital within three to five years. City analysts on the other hand are more cautious, estimating closer to 11% due to the challenge of store size and locations.



Financials

| Year | Turnover £m | Operating Profit £m | Operating Margin % | Like-for-like Change % | Turnover Growth % | Notes |
|------|----------------|------------------------|-----------------------|---------------------------|----------------------|------------------------|
| 2012 | 1,509.8 | 22.8 | 1.5 | (2.0) | (2.6) | 52 weeks to 25-02-2012 |
| 2013 | 1,430.7 | 11.0 | 0.8 | (4.9) | (5.2) | 52 weeks to 02-03-2013 |
| 2014 | 1,489.2 | 18.9 | 1.3 | 5.9 | 4.1 | 52 weeks to 01-03-2014 |
| 2015 | 1,479.3 | 19.8 | 1.3 | 2.3 | (0.7) | 52 weeks to 28-02-2015 |
| 2016 | 1,433.1 | 23.5 | 1.6 | 5.2 | (3.1) | 52 weeks to 27-02-2016 |

Data in the table above relates to Homebase while it was under Home Retail Group ownership, the sale to Wesfarmers having completed on 27th February 2016.

Total sales in the 52 weeks to 27 February 2016 declined by 3.1% to £1,433m. Net space reduced sales by 8.3% as a result of the planned reduction in the store estate by a net 34 stores during the year. Like-for-like sales increased by 5.2% with growth broadly across all product categories, but in particular in big ticket. The gross margin rate decreased by approximately 125 basis points. Total operating and distribution costs decreased by £44m principally driven by cost reductions as a result of the store closure programme, partially offset by the impact of underlying cost inflation. Benchmark operating profit increased by £3.7m, or 19% to £23.5m (FY15: £19.8m).

Results under Wesfarmers:

Last October Wesfarmers announced its retail sales results for the first quarter of the 2017 financial year.

Wesfarmers Managing Director Richard Goyder said that the sales performance of the Group's retail businesses, with the exception of Target, built on the strong sales growth achieved in the prior corresponding period.

Commenting on Bunnings specifically, Mr Goyder says, "Bunnings Australia and New Zealand achieved encouraging sales growth during the quarter. In the United Kingdom and Ireland, good progress continues to be made to reshape the business, with sales of £320 million for the quarter, in line with expectations."

More detailed results released regarding Wesfarmers' Home Improvement Division for the Financial Year 2017 and Financial Year 2016 for the three month period 1 July to 30 September shows that Bunnings Australia and New Zealand total sales for Q4 were up 7.4 per cent on the previous corresponding period. Total store sales for Q4 increased 7.3 per cent, while store-on-store growth was 5.5 per cent. Sales growth was solid across both consumer and commercial customers. The results during the quarter built on the very strong performances achieved in the two prior corresponding periods in the 2016 and 2015 financial years, where total sales grew 11.6 per cent and 11.0 per cent respectively.

Meanwhile, closer to home, Bunnings United Kingdom and Ireland sales for the first Q4 were reported to be in line with expectations at £320 million. The first quarter

marked the fifth, sixth and seventh months of ownership of the Homebase business and trading continued to be steady. The report states that there remains a strong focus within the business on continuing to transition core ranges across to home improvement and garden products whilst £60 million has already been invested in some early basics; stock, tills, trolleys, baskets and Leadership Training sessions

John Gillam, Bunnings outgoing CEO comments, "The implementation of new pricing, marketing and operational strategies within Homebase is achieving results in line with plans. On a like-for-like trading basis across the first quarter, customer participation, as measured by transactions, increased by 8.4 per cent. Good progress is also being made across all elements of the acquisition agenda."

In February 2017, Wesfarmers reported on trading for the half-year ended 31 December 2016. The Group stated that BUKI (Bunnings UK & Ireland) reported a loss before interest and tax of £28 million (\$48 million) and revenue of £612 million (\$1,038 million).

Outgoing Wesfarmers Managing Director Richard Goyder said: "BUKI has made very good progress to separate Homebase from its former owner and begin repositioning the business. Pleasingly, the first Bunnings pilot store was successfully opened on 2 February 2017, with additional pilot stores currently under development."

Latest News

15 March 2017 -
New store leadership roles created to drive reshaped Homebase business
[read full article](#)

13 March 2017 -
Wesfarmers Investors UK visit presentation
[read full article](#)

8 March 2017 -
Bunnings pleads 'not guilty' to lowest price guarantee claims
[read full article](#)

16 February 2017 -
Bunnings understood to be reviewing Homebase estate
[read full article](#)

07 February 2017 -
Bunnings UK – Our first Impression
[read full article](#)

02 February 2017 -
Bunnings first UK store opens for trading
[read full article](#)

30 January 2017 -
Wesfarmers to name Rob Scott as future MD
[read full article](#)

26 January 2017 -
Bunnings prepares to open its doors
[read full article](#)

18 January 2017 -
Homebase Ireland reduces losses by 73%
[read full article](#)

12 December 2016 -
Speculation over Wesfarmers' succession plan
[read full article](#)

08 December 2016 -
Gilliam's departure won't derail Homebase plans
[read full article](#)

07 December 2016 -
John Gillam steps down as Bunnings CEO
[read full article](#)

07 November 2016 -
The Homebase brand will be gone in 5 years – Peter Davis
[read full article](#)

Insightdiy NEWSLETTERS

Keep up to date with the latest Homebase news by visiting the retailer pages on www.insightdiy.co.uk and signing up to the Insight DIY [newsletter](#).