Kingfisher plc half year results

6 months to 31 July 2019

18 September 2019

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Welcome & introduction

Andy Cosslett, Chairman

Key point summary

- Transformation activity continued across the Group
- H1 financial performance mixed:
  - Continued sales growth at Screwfix, Poland and Romania
  - Significant unified range change adversely impacted B&Q
  - Transformation activity causing disruption and operational challenges at Castorama France
  - Price repositioning at Brico Dépôt France; increased gross profit year on year
  - Good digital sales growth across the Group
- H1 Group gross margin % up 60bps, with Group gross profit also up, driven by sourcing benefits and price repositioning
  - Unified offer sales up 0.4% and gross margin % up 150bps
- Balance sheet remains strong
- Strong new leadership; opportunity to add new skills to executive team and build a stronger Kingfisher

H1 19/20 highlights

Offer

- 59% of sales unified (H1 18/19: 42%); sales from unified ranges up
- Sourcing benefits driving growth of gross margin % from unified ranges
- Increasing focus on differentiated (unique) products

Digital

- Digital sales now 7% of Group sales (FY 18/19: 6%)
- Digital sales growth +18% (click & collect +24%)[1]
- Growth in website conversion rates and digital penetration in all Opcos

Customers

- Overall price index improving
- Net Promoter Score (NPS) improving in every market

Colleagues

- Engagement score (79) top quartile, stable and significantly higher than retail benchmark (66)

(1) Variance in constant currencies

H1 2019/20 financial results

John Wartig, Interim CFO

H1 19/20 summary income statement

£m (reported unless otherwise stated)	H1 19/20	H1 18/19[1]	Change YOY
Sales	5,997	6,080	(0.9)%
Gross profit	2,221	2,216	+0.6%
Gross margin (%)	37.0%	36.4%	+60bps
Retail profit[2]	466	490	(4.4)%
Underlying PBT[2]	353	377	(6.4)%
Adjusted PBT[3]	337	325	+3.7%
Statutory PBT	245	280	(12.5)%
Adjusted effective tax rate (%)[3]	26%	27%	1%
Underlying basic EPS (p)[2]	12.3	12.8	(3.9)%
Adjusted basic EPS (p)[3]	11.8	11.0	+7.3%
Statutory EPS (p)	8.1	9.6	(15.6)%
Dividend (p)	3.33	3.33	-

Variance in constant currencies

(1) The Group adopted IFRS 16 'Leases' on 1 February 2019 on a fully retrospective basis, resulting in the restatement of comparatives for the six months ended 31 July 2018 and year ended 31 January 2019
(2) Before P&L transformation costs, exceptional items, lease FX, related tax items and tax on prior year items
(3) Before exceptional items, lease FX, related tax items and tax on prior year items

H1 19/20 transformation costs and exceptional items

£m (unless otherwise stated)	H1 19/20	H1 18/19[1]	Comments on H1 19/20
Underlying PBT	**353**	**377**	
Transformation P&L costs	(16)	(52)	▪ Principally relates to U&U range implementation and digital transformation initiatives
Adjusted PBT	**337**	**325**	
Transformation exceptional costs	-	(46)	▪ Prior period costs relate to people changes associated with restructuring in France & UK
Store closures	(68)	4	▪ Mainly redundancy provisions related to store closures in France and Germany
Russia & Iberia	(26)	-	▪ Mainly store impairments in Russia
Gain on disposal of properties	1	-	
Total exceptional items before tax	**(93)**	**(42)**	
Exchange gains/(losses) on lease liabilities	1	(3)	
Statutory PBT	**245**	**280**	

(1) The Group adopted IFRS 16 'Leases' on 1 February 2019 on a fully retrospective basis, resulting in the restatement of comparatives for the six months ended 31 July 2018 and year ended 31 January 2019

H1 19/20 group operational summary

UK & Ireland (44% of sales)

LFL	(0.7)%
GM %	+60bps
Retail profit	(1.7)%

Poland (13% of sales)

LFL	+3.3%
GM %	(20)bps
Retail profit	(0.5)%

France (36% of sales)

LFL	(4.4)%
GM %	+60bps
Retail profit	(12.2)%

Other (7% of sales)

LFL	(2.8)%
Retail loss	£(13)m

Retail profit movement % is in constant currency; retail loss represents reported retail loss in H1 19/20

UK & Ireland – significant range change at B&Q; continued market share growth at Screwfix

UK & Ireland
(44% of sales, 59% of RP)

LFL	(0.7)%
GM	+60bps
RP	(1.7)%

B&Q

- LFL -3.2%
  - c. -2% LFL impact from discontinuation of installation services
  - Surfaces & Décor and Kitchens impacted by ongoing new range implementation; Outdoor impacted by strong weather comparative
  - Modest benefit from competitor store closures
  - Digital sales +10% growth; 5% of total B&Q sales
- Gross margin % up reflecting sourcing benefits and discontinuation of installation services; anticipate H2 kitchens clearance impact
- Cost increase largely reflects wage inflation and digital costs

Screwfix

- LFL +5.1% - selective ongoing investment in price; continuing to gain market share
- Digital sales +18% growth; 32% of total Screwfix sales
- Opened 16 new stores during H1; FY store opening target on track including first stores in the Republic of Ireland

RP = retail profit; RP movement % is in constant currency

France – price repositioning driving gross margin % uplift at Brico Dépôt; Castorama underperforming

France
(36% of sales, 24% of RP)

LFL	(4.4)%
GM	+60bps
RP	(12.2)%

Brico Dépôt

- LFL -4.6% driven by price repositioning, following a reduction in lower margin promotional activity (*"arrivages"*) (c. -5% LFL impact)
- Digital sales[(1)] +30% growth; 2% of total Brico Dépôt sales
- Gross profit and gross margin % up, year on year in H1

Castorama

- LFL -4.3% reflecting price repositioning (c. -2% LFL impact) and transformation-related activity (c. -2% LFL impact)
- Digital sales [(1)] +19% growth; 2% of total Castorama France sales
- Gross margin % continues to be impacted by logistics & stock inefficiencies

RP = retail profit; RP movement % is in constant currency
(1) Variance in constant currencies

Castorama France – update

Where we are today

Offer	▪ Unified c. 60% of product ranges ▪ Price index at 101
Customer	▪ Price perception continuing to improve ▪ NPS improved c. 5pts over last 12 months
Costs	▪ Benefits in H1 include move to finance shared services in H2 last year
Stores	▪ After consultations, closing nine Castorama stores over next 18 months
Digital & Supply Chain	▪ Overall change programme causing issues in stock planning, stock management and logistics processes

Execution focus

- Improve effectiveness of IT platform
- Improve stock planning and management processes to support better availability
- Improve fulfilment efficiency
- Enhance ecommerce capability

Poland – solid performance; Romania – in transition

Poland
(13% of sales, 19% of RP)

LFL	+3.3%
GM	(20)bps
RP	(0.5)%

- Good LFL sales performance; Sunday trading restrictions c. -1% impact to H1 LFL
- All categories delivered positive LFL growth
- Digital sales[(1)] +52%; 2% of total sales
- Cost increase reflects wage inflation, digital costs and pre-opening costs

Romania
(2% of sales)

LFL	+10.5%
RL	£(8)m

- Nearly all Praktiker stores now rebranded to Brico Dépôt with ranges significantly improved and expanding
- Unified & unique ranges performing well
- Losses driven by former Praktiker stores
- Back-office integration planned for end of H2

RP = retail profit; RP movement % is in constant currency; RL = retail loss
(1) Variance in constant currencies

Iberia, Russia & Germany

Iberia, Russia, Germany
(6% of sales)

LFL	(4.9)%
RL(1)	£(5)m

- Processes for Iberia and Russia progressing

Iberia
- LFL -3.6%; retail profit £3m

Russia
- LFL -6.9%; retail loss £(7)m

Screwfix Germany
- Retail loss £(4)m
- Closed all 19 stores during H1; retained online presence via European website

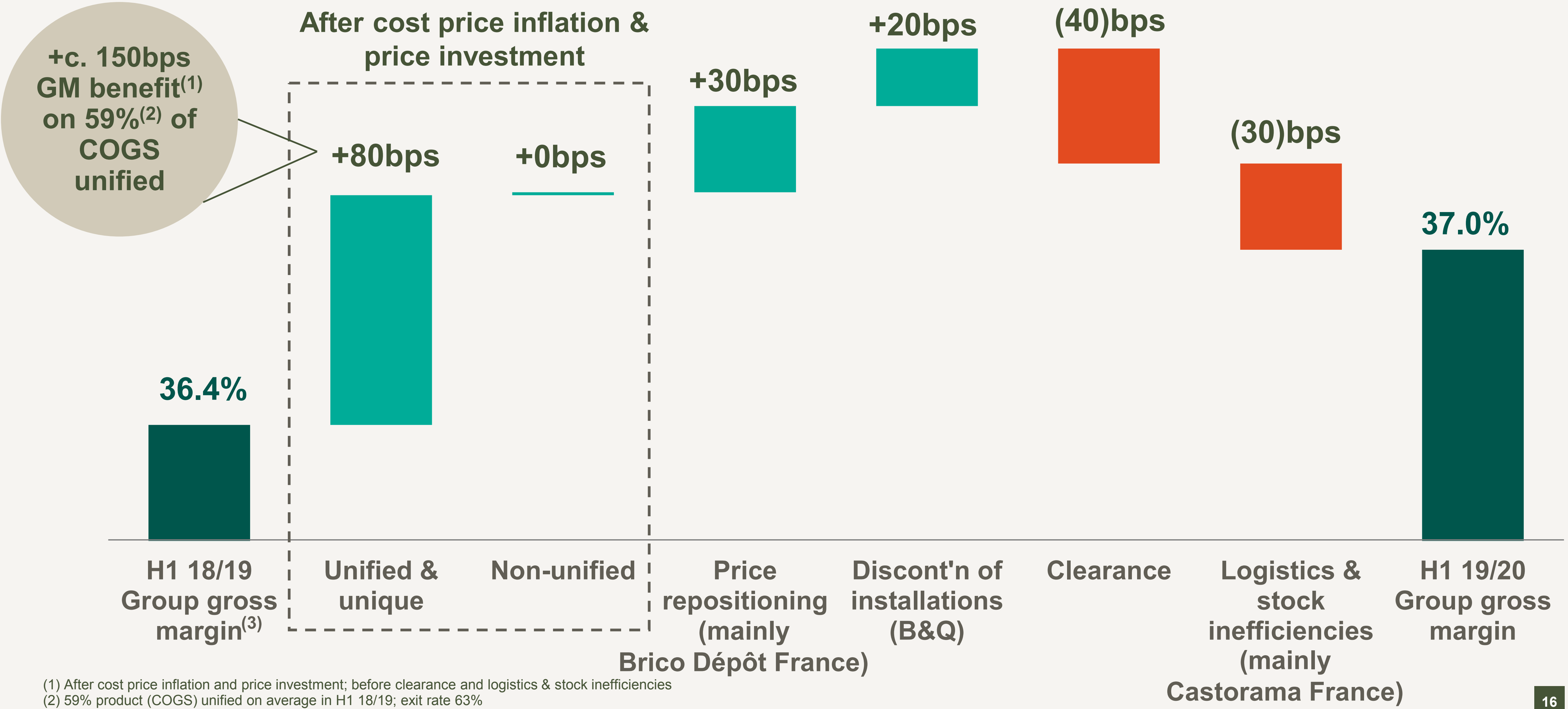
RL = retail loss
(1) Includes Koçtaş, Kingfisher's 50% JV in Turkey, which contributed £3m of retail profit in H1 19/20

Unified & unique outperforming non-unified

Sales growth	Unified & unique +0.4%[1]	Non-unified (0.9)%[1]	Unified & unique H1 sales growth[1]	Unified & unique gross profit growth[1][2]
H1 19/20 sales split	59%	41%		
Category 1	81%	19%	(2.8)%	↑
Category 2	72%	28%	+0.3%	↑
Category 3	66%	34%	+4.1%	↑
Category 4	64%	36%	+4.3%	↑
Category 5	51%	49%	(2.2)%	↑
Category 6	31%	69%	+2.9%	↑
Category 7	28%	72%	Flat	↑

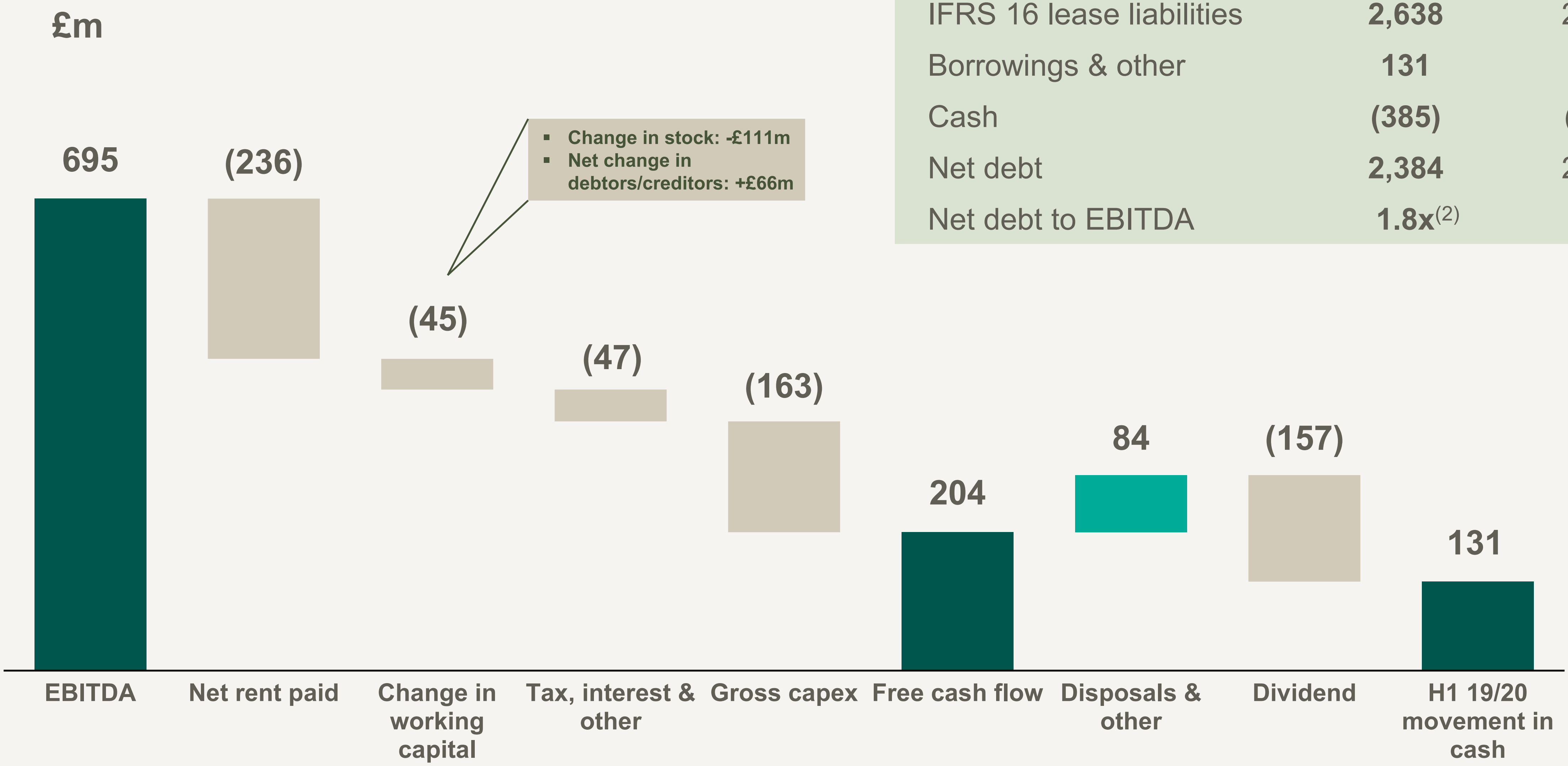
(1) Constant currency including clearance (excludes Iberia, Russia, Praktiker Romania, Screwfix Germany and services)
(2) After cost price inflation and price investment; before logistics & stock inefficiencies

Unified & unique and price repositioning benefits partly offset by clearance and inefficiencies



(1) After cost price inflation and price investment; before clearance and logistics & stock inefficiencies
(2) 59% product (COGS) unified on average in H1 18/19; exit rate 63%
(3) Gross margin % in constant currency

H1 19/20 summary cash flow and net debt



£m

	H1 19/20	FY 18/19
IFRS 16 lease liabilities	**2,638**	2,626
Borrowings & other	**131**	145
Cash	**(385)**	(229)
Net debt	**2,384**	2,542
Net debt to EBITDA	**1.8x**(2)	2.0x

(1) The Group adopted IFRS 16 'Leases' on 1 February 2019 on a fully retrospective basis, resulting in the restatement of comparatives for the six months ended 31 July 2018 and year ended 31 January 2019
(2) Net debt to last twelve months' EBITDA

FY 19/20 outlook & technical guidance

Sales outlook	▪ UK – heightened level of uncertainty – annualising discontinuation of installations at B&Q at end of Q3 19/20 ▪ France – Castorama continues to underperform – Brico Dépôt annualising reduction in promotional activity at end of Q3 19/20 ▪ Poland – loss of one further Sunday of trading per month (3 non-trading Sundays; previously 2)
Gross margin	▪ Continue to expect full year gross margin % after clearance to be flat[(1)] ▪ c. £30-35m of incremental clearance costs (previously c. £25-30m), including B&Q kitchens in H2 19/20

Costs	▪ Central costs expected to be up to c. £55m (previously c. £50m)
	▪ Total transformation costs over 5 years to FY 20/21 expected to be less than £800m
	  ▪ Transformation P&L costs expected to be c. £50-60m in FY 19/20 (previously c. £60-80m)
	  ▪ Transformation exceptional costs in FY 19/20 expected to be up to c. £40m

Tax	▪ Group adjusted effective tax rate expected to be around 26-27%[(2)]
Other	▪ Continue to expect total capex (including transformation) of up to c. £375m ▪ 15 store closures over next 18 months, including 11 in France; cash costs expected to be covered by store disposal proceeds

(1) Gross margin movement excluding Russia and Iberia
(2) Subject to the blend of profit within the companies' various jurisdictions, as well as the timing of exits from Russia and Iberia

Impact of IFRS 16 ‘Leases’

- Adopted full retrospective transition approach from 1 February 2019
- No adverse impact on cash flows or underlying economics

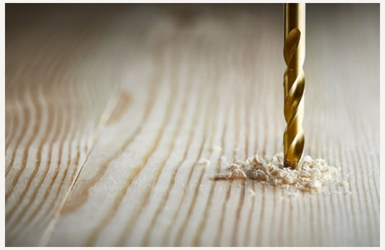
Impact on income statement (non-cash)	H1 18/19	FY 18/19
- Retail profit	+£86m	+£171m
- Underlying pre-tax profit	+£2m	+£1m
- Underlying EPS	-	-
Impact on balance sheet		
- Right of use asset	+£2,221m	+£2,017m
- Lease liability	+£2,800m	+£2,626m

- FY 18/19 Net debt to EBITDA improved **from 2.6x** (under IAS 17[(1)]) **to 2.0x** (under IFRS 16)
  - Reflecting lower IFRS 16 lease liability compared to 8x property operating lease rentals assumption under IAS 17
- H1 19/20 Net debt to last twelve months’ EBITDA of **1.8x**

(1) Under IAS 17, the multiple was based on lease-adjusted net debt to EBITDAR

Brexit and currency exposures

Steps taken to manage Brexit risks



Products

No significant change to **stock** ahead of 31 October

Tariffs & Customs

Tariffs: zero-rate tariffs anticipated on most categories under a no-deal Brexit

Customs measures implemented to avoid delays

Working with vendors to manage transition

People

Brexit-related **retention and hiring** not a material issue to date

Managing foreign exchange risks

- Of total annual COGS balance of c. £7bn, c. 20% is purchased directly in USD (around half of which relates to UK Opcos)
- 18-month rolling hedging programme in place to hedge all committed orders, along with a significant percentage of forecast net exposure, against changes in FX rates for USD and EUR
- Current stock levels and tightly managed supplier agreements mitigate some of the residual FX-related CPI[1] risk (direct and indirect exposures)

(1) CPI – Cost price inflation

Financial summary

1
H1 19/20 financial performance mixed

2
Castorama France operational issues identified and focused workplan in place

3
H1 19/20 Group gross margin % up 60bps driven by sourcing benefits and price repositioning

4
Balance sheet remains strong

5
Outlook for our main markets remains mixed

6
Continue to expect gross margin % after clearance to be flat(1) in FY 19/20

(1) Group gross margin movement excluding Russia and Iberia

Building a stronger Kingfisher

Andy Cosslett, Chairman

Leveraging the Group's scale as a competitive advantage

Scale
used intelligently for customer and wider business benefits

Product offer
Pricing
Digital
Property & formats
Customer service
Grow Screwfix
Balance of responsibilities between Centre/Opcos

Centralised offer, design & sourcing	Unified IT	Supply chain	GNFR & shared services

New leadership to:

Bring fresh perspective to strategy

Improve performance of enabling technology and processes

- Reduce disruption; wind down dual-running costs
- Tailor the change programme to better fit Opcos; change ways of working and processes
- Seamless digital and supply chain interaction
- Further operating efficiencies

Important new ranges landing this year

Bathroom &
Storage (H1)

Surfaces & Décor
(H1 & H2)

Kitchens (H2 in B&Q)

Focus on improving execution

- Complete implementation of key differentiated ranges (e.g. B&Q kitchens)
- See through the implementation of key transformation enablers
- Address underperformance of Castorama France
- Continue active management of our property estate
- Progress Russia and Iberia processes
- Grow Screwfix in the UK and enter new markets

Summary

- Kingfisher is well positioned, with leading positions in markets that have attractive long-term growth potential
- Transformation activity to support future growth continued across the Group in H1
- Focus on improving execution to deliver customer and business benefits
- Outlook for our main markets remains mixed; FY gross margin % expectation unchanged
- Strong new leadership – Thierry Garnier joining on 25 September

Q&A

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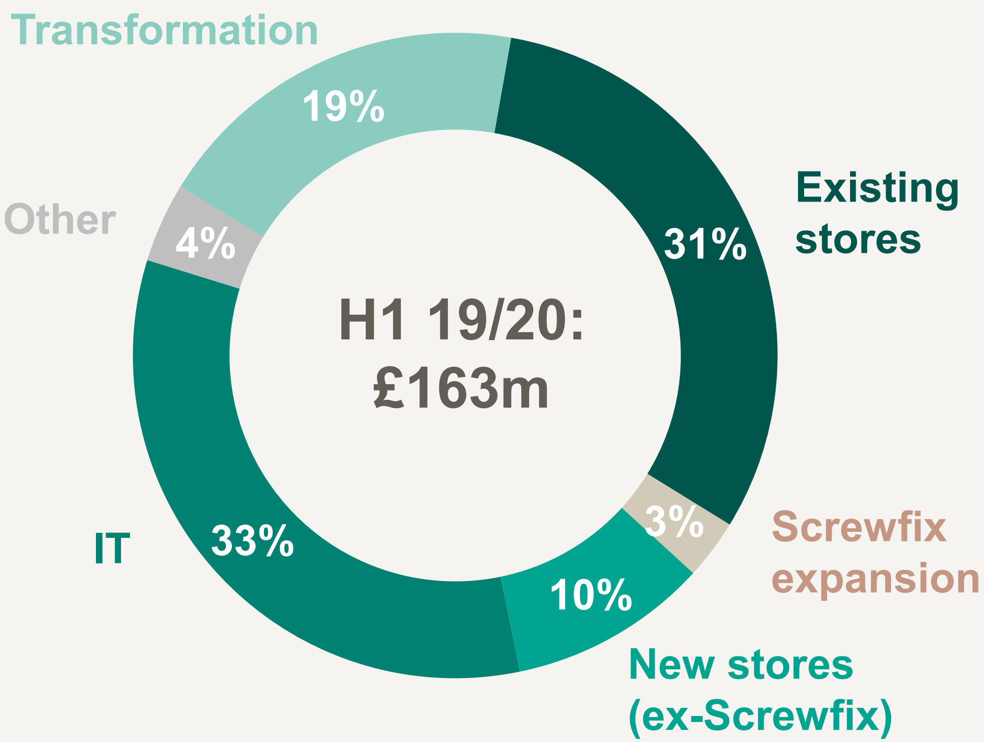
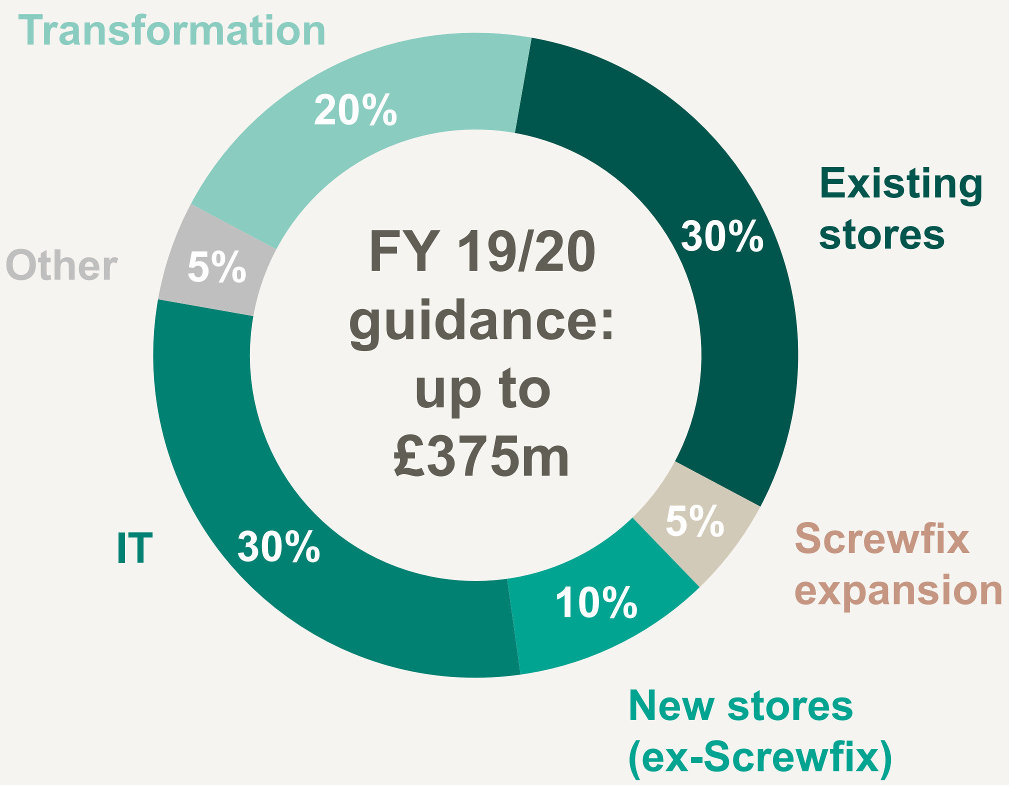
Appendices

Capex summary – H1 19/20 and guidance for FY 19/20





Net debt to EBITDA reconciliation

	Moving annual total 2019/20 (£m)	FY 2018/19 (£m)
Retail profit	900	924
Central costs	(51)	(49)
Transformation P&L costs	(84)	(120)
Depreciation and amortisation	544	535
EBITDA(1)	1,309	1,290
Net debt	2,384	2,542
Net debt to EBITDA	1.8x	2.0x

(1) Retail profit less central and transformation P&L costs, before depreciation and amortisation

ADR programme

Kingfisher ADRs trade on OTCQX – the premier tier of the U.S. over-the-counter market under the following information:

Symbol	KGFHY
CUSIP	495724403
Ratio	1 ADR : 2 ORDs
Country	United Kingdom
Effective Date	Jan 01, 1986
Underlying SEDOL	3319521
Underlying ISIN	GB0033195214
Depositary	Citi

Benefits of ADRs to U.S. investors:

- Clear and settle according to normal U.S. standards
- Offer the convenience of stock quotes and dividend payments in U.S. dollars
- Can be purchased/sold in the same way as other U.S. stocks via a U.S. broker
- Provide a cost-effective means of international portfolio diversification

For questions about Kingfisher ADRs, please contact Citi:

New York
Michael O'Leary
email: michael.oleary@citi.com
Tel: +1 212 723 4483

London
Mike Woods
email: michael.woods@citi.com
Tel: +44 (0) 20 7500 2030

Contacts

Investor Relations

Tel: +44 (0)20 7644 1082
Email: investorenquiries@kingfisher.com

Media Relations

Tel: +44 (0)20 7644 1030
Email: corpcomms@kingfisher.com

Teneo

Tel: +44 (0)20 7260 2700
Email: KFteam@teneo.com