WICKES GROUP PLC: Interim Results 2022

Business review

Wickes achieved record sales in the first half, benefitting from its market-leading value proposition and underpinned by its uniquely balanced business model. Despite lower market volumes we maintained our track record of achieving market share gains in our Core business, with the growth of our TradePro customer base a particular feature. DIFM ordered sales were up modestly in the first half, with delivered sales benefitting from working through the elevated order book.

Market

Despite the full lifting of Covid restrictions in the period compared with the first half last year, many market changes brought about by the pandemic have remained. Many businesses have retained hybrid working practices, increasing the dwell time at home, fuelling further desire for homeowners and tenants to invest in their properties. While there are well-documented challenges facing the consumer, home improvement remains an attractive and large market worth £26.5bn.

Market fundamentals remain strong, underpinned by full employment and a healthy property market with the ongoing need for RMI (Repair, Maintenance and Improvement) investment and interest in making properties more energy-efficient, all supporting project work in the home. With high levels of price inflation, driven by global factors including energy inflation and supply chain disruption, market volumes have declined in the first half. Looking forward, our most recent Mood of the Nation survey indicates a moderate slowing of demand for home improvement from its post-Covid levels, order books for the trade remain very strong, with around 25% of those surveyed having order books for 12 months or more.

The homeowning demographic into which our Local Trade and DIFM end propositions face also leave us well placed to continue to take share, as do our credentials for value, quality and convenience. Although as yet we have seen little sign of trading down or rising own label participation, our surveys tell us that customers are becoming more discerning on price and are shopping around more. We believe that our value credentials, the strength of the Wickes brand, our simple and clear pricing policy, alongside our 10% flat rate discount to all TradePro members, stand us in good stead as market conditions become more challenging.

Our value credentials and the strength of our digital offer are reflected in our TradePro customer base, which has increased by 10,000 per month since the start of the year, a much faster pace of growth than in 2021. Sales through TradePro continue to grow strongly, and we are exploring a number of initiatives to drive basket size and frequency over the next six months.

Operational progress
We are pleased to have made strong operational progress since demerger, reflected in continued growth in Core market share.

During the first half we demonstrated the flexibility of Wickes' operational model, including a number of actions undertaken to both respond to more challenging market conditions and to continue to drive efficiencies within the business to offset increases in our cost base. We have balanced both fixed and flexible resourcing to enable agility to respond to customer demand, leading to efficiencies across both store and distribution centre fulfilment costs. Whilst the first half of 2021 was characterised by high levels of Covid-related costs such as cleaning, social distancing and marshalling, these continued to unwind with the lifting of restrictions during the first half of 2022.

LFL sales across the Group were up 0.8% despite very tough comparatives in our Core business. Core LFL revenue was down by 5.5% during the first half, although on a three-year basis Core LFL revenue increased by 36.3%. On a one year basis, Core LFL sales improved in the second quarter from the first quarter, reflecting easing comparatives and the timing of Easter. During the first half we continued to prioritise our price leadership by working closely with our suppliers. We remained committed to managing supply chain inflation responsibly by passing through cash cost increases while maintaining our leading price position.

The estimated level of price inflation for the first half was 15%, driven mainly by categories such as timber and cement. We expect inflationary pressures to moderate slightly in the second half as we annualise the pressures seen in products such as timber in the second half of FY 2021, although there remain inflationary pressures in areas that are particularly impacted by the rising cost of energy, such as furnaced products. In 2023, we expect some upward pressure from freight and FX against expectations of a further moderation in supply chain inflation.

Despite the well documented industry shortages in certain categories in the first half, our strong supplier relationships, curated range and operational agility served us well to continue to provide customers with the products they need. Together with our price leadership and own brand credentials, we believe our strong focus on availability helped to drive increased awareness of Wickes, as reflected in our Core market share gains and the strong performance in sales to TradePro members, which increased by 20% during the first half.

We entered the period with an elevated pipeline of DIFM orders due to the impact of Covid on the ability of our installation teams to deliver projects in the final quarter of 2021. DIFM LFL delivered sales in the first half were 29.7% ahead on a one year basis. Although this was a strong performance, there was still some disruption in the first half from Covid and also some supply chain issues in areas such as appliances.

Ordered DIFM sales on a year-on-year basis were stronger in the first quarter, against a period in which our showrooms were closed in 2021, then slowed in Q2 against a rebound in orders in the prior year. As mentioned in our 26 July update, orders have slowed towards the end of the period as customers are taking longer to commit to big ticket purchases. Installation participation was broadly in line with the prior year.

There was another strong performance in bathrooms, where new ranges in sanitaryware and accessories, and a wider price architecture have helped to broaden our appeal. Refitted stores also continue to perform strongly in DIFM due to the welcoming nature of new showroom displays.

As expected, given improvements in product availability and labour scheduling, we have been working through our elevated order book, although at the half year end it remained considerably ahead of the prior year. Our current expectation is that there will continue to be an elevated level of order book carry over into FY2023, although this will be dependent on order trends in the second half.

Winning for Trade

Our TradePro membership scheme showed increasing momentum in the period. We enrolled over 60,000 customers in the first half, taking its total membership to 690,000 as we continued to grow the awareness and appeal of the scheme through its compelling proposition. Our local trade customers indicate that they are increasingly conscious of rising material costs and are switching to Wickes for its strong value credentials and simple discount scheme. We also believe the recent addition of 30 minute click-and-collect to our offering has increased the attraction of the scheme during a period where tradespeople are finding ways to most efficiently use their time whilst balancing full order books.

We are encouraged that the TradePro members joining the platform during the first half of the year have adopted characteristics in line with previous cohorts recruited to the platform. Sales from TradePro customers in the first half increased by 20% compared to the same period in 2021. Our TradePro customers continue to represent strong strategic value to Wickes in terms of average order value and frequency of visit, and we continue to evolve our offering to drive further loyalty and engagement.

Alongside the positive impact of our recent sponsorship of darts coverage on Sky Sports and increasing momentum of TradePro Monday events, we are looking at ways to improve the proposition to leverage the opportunities available within this market as we continue to take market share.

To this end, we are encouraged that the results of our August Mood of the Nation survey showed that 56% of tradespeople have a pipeline of work for over three months, broadly unchanged from the start of the year.

Accelerating DIFM

Developing our digital expertise and continuous innovation of our product range continues to be a key focus within DIFM. We completed the major refresh of our kitchen ranges initiated in Autumn 2021, introducing a number of new ranges and trending colourways during the period. This innovation has been carried through to six new ranges of our 'Ready to Fit' offering tailored to the lower budget kitchen market.

Following the introduction of a completely new bathroom range during the second half of 2021, we continued to progressively introduce new products to showroom displays. We have also further improved our end-to-end bathroom service by driving greater engagement and endorsement with our design consultants, supported by focused recruitment of installers with bathroom capabilities. Across kitchens and bathrooms our installer network continues to grow and now stands at 2,800 teams of independent contractors (FY 2021: 2,600), enabling Wickes to continue to offer the best available lead times in the market whilst retaining a flexible approach to capacity.

We continue to see encouraging attachment rates of tiling, flooring and joinery sales to kitchen and bathroom projects, and trials for new service propositions are confirming the opportunity to extend our DIFM offering to increase overall project spend within the home.

DIY Category Wins

As communicated in our most recent trading update, following the Jubilee weekend in June, we experienced signs of the DIY market softening from the very high levels of demand experienced during the pandemic. The outlook remains uncertain, although we continue to outperform the market and expect activity to remain ahead of pre Covid levels.

In line with our strategy to capture share in underweight categories, we have grown market share in key categories such as garden and décor following recent range reviews. Most recently this has included the roll out of our new Crown colour emulsion paint range to support greater customer choice across different price points. The continued growth of our extended online range continues to support range depth whilst our curated range in store lends itself to high stock turn and limited exposure to highly seasonal lines and markdown activity across the wider sector.

Digital developments

Despite annualising Covid comparatives we have continued to grow the proportion of our digitally-enabled sales on a year-on-year basis. We completed a number of enhancements to our digital capabilities in the first half, including greater use of push messaging, personalisation and targeted campaigns across our digital channels. Underpinned by our predictive Missions Motivation Engine, we have also stepped up the digital experience for our trade customers, increasing the levels of engagement throughout the project journey. Increased usage of social campaigns and display marketing has also grown the awareness of the TradePro mobile app.

During the first half of the year we successfully launched our Wickes eBay store with 4,000 lines, extending our customer reach. We are currently looking at ways to expand our relationship with marketplace platforms including eBay to further grow our range accessibility with a wider audience of home improvers.

Growing our estate of new format stores

Four store refits were completed during the first half of the year in Chadwell Heath, Oxford, Wimbledon and Stirchley. Our refitted stores benefit from an improved order fulfilment space which increases our home delivery capacity by over 10% per store. Implementation of our latest store service proposition allows store managers to better implement more efficient management of volumes and cost. Despite the impact of heightened build costs during the first half, store investments continue to deliver sales uplifts of over 25% and ROCE also of over 25%. Two further refits have been completed in Q3 to date, and we expect to complete 11 during the financial year as a whole.

Our property team is reviewing and stress testing a number of white space opportunities and we remain confident on the opportunity to expand our proven model into 20 new locations over the next five years. We expect to open a new store in Bolton in the second half.

IT separation

Following initial mobilisation during the previous financial year, we continue to see good progress with the transition of technology and processes from our previous parent Travis Perkins plc. Projects completed in the first half of the year were all successful, allowing us to remain on track to complete the separation of the IT infrastructure within two years of the demerger. All aspects of the programme continue to be overseen by the Wickes Executive and PLC Board who monitor delivery and mitigate any operational risk arising.

Responsible Business Strategy

Launched as part of our first Annual Report, our Responsible Business Strategy is now embedding across all aspects of our business, to deliver our goals of *Supporting a diverse and inclusive society, an environment protected for the next generation, and homes fit for a sustainable future for everyone*.

People

Inclusion and Diversity remains central to our people strategy. We have relaunched our I&D networks with a new look and feel as part of our "Feel at home" campaign, and also repositioned our Youth Board as the Forward Focus Network, aimed at supporting sustainability, communication, and development across the business.

Our **Charity** programme which has supported Young Minds, our charity partner, has hosted a series of fundraising events including a Paddle the Thames challenge, and a 50p ask for customers, taking us ever closer to our £2m fundraising target. We have also supported efforts in Ukraine with colleagues collecting donations, and a small team of colleagues driving to Ukraine to deliver them where they are needed most.

Our **Community** programme has grown from strength to strength, supporting over 34830 organisations to date, with 168 of our stores taking part in the programme. We have donated over £75,000 worth of products and supported over 28,000 people through these initiatives.

Environment

With our continued focus on **Carbon and Climate**, we have refined our Greenhouse Gas Inventory as part of our work to submit Science Based Targets in September, providing us with a more detailed and precise understanding of the emissions within our business. We have also conducted climate risk and resilience workshops, to build on our TCFD work in 2021, with a focus on building climate resilience within our operations and supply chain, as well as new focus areas for our next TCFD report.

Addressing our **operational sustainability** needs has been another key focus area, with new Energy and Environment networks and learning pages established for colleagues to upskill, as well as launching an energy efficiency drive, with a focus on store electricity and gas consumption across the estate. We have been engaging with landlords to understand their own ESG agendas, and working to identify areas of improvement in our stores, including sites suitable for solar panels, and new air source heat pumps.

We are also addressing our **transportation** emissions, by launching a new corporate car policy which looks to deliver a hybrid and then electric fleet over the next three years, as well as continuing to explore low carbon opportunities within our store and home delivery networks.

Homes

As one of our growth pillars, **sustainable products and services** will be central to our business strategy over the coming years. We have spent the first half of the year mapping out the sustainability credentials of all of our products, and are working on a taxonomy and labelling strategy that will enable customers to make more informed decisions about the products they purchase, and their environmental impact.

We are also looking to support customers in the challenges around the **cost of living crisis**, with a focus on energy efficiency in the Home. This will include improving the information and guidance available to customers in store and online, and being a partner for home decarbonisation.

We will continue to deliver on our **packaging** commitments, to increase the recycled content in our packing, make it easier to recycle, and reduce its quantities.

Financial review

We are pleased to report another period of sales growth and market share gains (source: GfK), building on our long term track record. LFL sales for the period were ahead by 0.8% against very tough comparatives in our Core business. Adjusted operating profit declined moderately with another strong focus on costs partially offsetting a lower gross margin as a result of inflation and mix factors. Adjusted pre-tax profit was only marginally down, reflecting higher FX hedging gains. Profit before tax in the first half also declined, reflecting the modest reduction in adjusted pre-tax profit, and slightly higher adjusting items year on year relating to IT separation.The business continued to generate cash with period end net cash of £166.5m, also reflecting seasonal working capital movements.

Revenue

Revenue for the 26 weeks to 2 July 2022 was £822.3m, an increase of 1.3% on the prior year. Against tough comparatives, Core sales declined by 5.1% to £632.6m, with DIFM delivered sales increasing by 30.6% to £189.7m, reflecting a disrupted H1 2021 in which showrooms were closed for several weeks. The shift in the first half calendar this year following the 53rd week last year added £5.4m to reported sales, and there was a modest reduction in the contribution from space from the closure of three stores. Comparable period LFL sales (weeks 1-26 this year versus weeks 2-27 last year) increased by 0.8%.

Core LFL revenue declined by 5.5% over the period, although was 36.3% ahead on a three-year basis. Our long term trend of market share gains continued in the first half (source: GfK), with particularly strong performances in hardware, decorative and garden. Our performance strengthened from Q1 into Q2 both on a one-year and three-year basis, although, as mentioned in our trading update of 26 May 2022, some of the one-year improvement was the result of a later Easter in 2022.

Commodity cost inflation continued to accelerate during the period, with pressure in heat-sensitive categories such as tiling, cement and insulation more than offsetting some moderation in the rate of inflation in timber. We continue to pass through cash cost increases to customers, while maintaining our competitive price position. Retail price inflation for the period was 15%, compared with 3% in the first half of 2021. The pricing outlook for the second half remains uncertain, although at this stage we would expect some moderation in the rate of retail price inflation against the second half of last year when inflation first moved into double digits (H1 2021 3%, H2 11%).

Within Core, local trade sales remained strong in the first half, with our TradePro customer base increasing by 60,000 to 690,000 during the period. As of early September, this was over 710,000. Feedback from our monthly Mood of the Nation survey suggests that order books remain buoyant. As a measure of this, 24% of our trade customers have order books of over 12 months or longer, slightly higher than the January reading.

The same survey shows trade customers are seeking to offset the impact of higher prices wherever possible. This includes using digital channels to seek better value, and this may also be a key driver of the acceleration in TradePro sign ups during the period. We have yet to see any significant change in the proportion of sales from Wickes' excellent value own label products, although, given our strong Wickes brand heritage, we are well placed to benefit here if inflation remains at high levels.

As mentioned in our trading update of 26 July 2022, sales in DIY categories weakened towards the end of the period. Our survey data also showed a modest increase in the proportion of customers planning to delay or cancel projects. Although there may be seasonal factors here, such as weather and holiday patterns, some may be a result of the current pressures on disposable income and are therefore expected to continue into the second half of the year.

Delivered DIFM LFL revenue increased by 29.7% in the first half, driven by an increase in ordered sales and the build-out of the elevated order book carried over from 2021. We continue to make good progress in working through the order book, although there was slightly more disruption than expected from Covid infection rates and also supply chain issues. The latter revolves predominantly around the computer chips used in appliances, with installation times now falling towards more normal levels. Cancellation rates remain low as many projects and peers are affected by the same issues.

The order book has now started to decline in absolute terms, although at period end remains ahead year-on-year and roughly double pre-Covid levels. Our current expectation is that there will be some order book carry over into 2023, although the extent of this will depend on order trends in the second half.

We have continued to see a strong performance in the bathroom category, as we build on our position as the only national retailer and installer. Product ranges have been extended to offer more choice, both in terms of sanitaryware and accessories. Kitchen sales were more affected by the slower conversion issues referred to above. Installation participation was broadly in line with the prior year.

Gross profit

Gross profit for the first half was £292.6m, down from £294.8m last year. Gross profit % declined by 70bp to 35.6%, a similar rate of decline to that seen in FY2021. The key drivers were again inflation and product mix, the latter reflecting a higher mix of TradePro sales.

We have a consistent strategy of passing inflationary cost price increases through to customers on a cash recovery basis, whilst maintaining a competitive price position. This negatively affects the percentage gross margin. Mix effects continue to be adverse for margin percentage, with rising trade sales offered at a 10% trade discount. Mix effects within Core were in part offset by growth of DIFM within total sales.

Lower distribution costs reflect the fact that some costs are volume, not value linked, allowing some improvement in ratios despite inflation in related costs.

Adjusted operating profit

Adjusted operating profit was £56.3m, down 9.0% on the £61.9m reported in the first half last year. Incremental profit from the strong recovery in DIFM sales was broadly offset by a lower contribution from Core as a result of lower LFL sales, with cost inflation and investment costs driving the reduction in profitability.

Our adjusted operating profit margin was 6.8%, down from 7.6% last year. The majority of the 80bp decline was from the 70bp decline in the gross margin as noted above. The cost to sales ratio[3] was broadly flat, with a number of influences here. Underlying cost inflation in areas such as minimum wage and transport costs were higher than headline LFL of 0.8%. Against this, some costs are volume rather than value related, providing opportunities to reduce cost ratios. In addition, there was an additional £3.5m of plc costs compared with only a part-period charge last year.

Selling costs increased by £2.1m year on year, driven by the recovery in DIFM revenues and associated commissions. Administrative expenses were up £1.3m, with increases in Support Centre costs (inflation and plc costs), IT and Marketing in part offset by a reduction in bonus accrual after the increase experienced last year.

Net finance costs

Net finance costs were £10.7m, down from £15.4m last year. The main driver here was a £3.8m increase in unrealised FX gains as a result of the appreciation of the USD during the period, which will either be realised or reversed in due course depending on exchange rate movements. IFRS16 lease interest was £14.9m, down from £15.7m in the prior year.

Adjusted profit before tax

After finance costs adjusted profit before tax for the first half was £45.6m, a decline of 1.9%. Excluding unrealised FX gains, the decline was 10.2%.

Adjusting items

Pre-tax adjusting item charges for the first half were £12.1m, up from £10.8m in the prior year. Costs associated with IT separation were £12.1m, up from £5.4m in the prior year as the programme was stepped up after separation from Travis Perkins. The first half last year also included £5.4m of demerger costs.

Tax on adjusting items in the 26 weeks ended 26 June 2021 and the 53 weeks ended 1 January 2021 includes a credit of £6.8m arising from the increase in the rate of UK corporation tax effective from 1 April 2023 from 19% to 25%. The legislation enacting this rate increase was substantively enacted prior to 26 June 2021.

Profit before tax

Profit before tax in the first half was £33.5m, compared with £35.7m in the prior year. The decline reflects the modest reduction in adjusted pre-tax profit, and slightly higher adjusting items year on year relating to IT separation.

Tax

Tax for the period is charged on profit before tax, based on the forecast effective tax rate for the full financial year. The underlying effective tax rate (before adjusting items) for the 26 weeks ended 2 July 2022 is 19.5% (26 weeks ended 26 June 2021: 21.1%, 53 weeks ended 1 January 2021: 19.4%).

Capital investment

Capital investment in the first half totalled £21.6m. The main components were £9.6m investment in the store estate, of which refits were £5.5m. Separately, there was a £6.1m investment in one freehold at Braintree. There was also £5.1m of investment in our digital IT capability. In the second half, we expect to further accelerate capital investment into our IT capabilities and refit activity. We continue to expect FY 2022 capex to be £40-45m.

Cash / net debt

Net cash in the first half was £166.5m, reflecting strong operating cash flow and the favourable impact of the normal working capital cycles in the business. Investment in IT separation projects and our growth levers is weighted to the second half, and, together with the normal seasonal working capital unwind, there will be a cash outflow in the second half.

The inventory position of £205.5m compared with £162.4m in the prior year, due to the impact of product inflation and build up of stock in the second half of 2021 to mitigate against supply issues. Despite lower Core sales, stock turn remained strong at 4.3x, reflecting efficient management of stockholding.

IFRS 16 net debt reduced to £558.5m, driven by a fall in lease liabilities to £725.0m due to the low level of lease renewals during the period.

On a last twelve month basis, IFRS16 leverage was 2.6x compared with our target of consistently below 2.75x. However, as noted, we expect cash balances to moderate by the year end, while in addition there will be some impact from lower full year profitability reflected in our current guidance. As such, we expect year end leverage to be somewhat higher than the half year figure.

Dividend

The Board has declared an interim dividend of 3.6p, which will be paid on 4 November 2022 to shareholders on the register at the close of business on 30 September 2022.

The shares will be quoted ex-dividend on 29 September 2022. Shareholders in the UK may elect to reinvest their dividend in the Dividend Reinvestment Plan (DRIP). The last date for receipt of DRIP elections and revocations will be 14 October 2022.

We recognise the importance of cash returns to our shareholders, and, at our FY 2021 results, we announced an enhanced payout ratio of 40% of adjusted profit after tax, with approximately one third to typically be paid as an interim dividend. While there are well-documented headwinds for the sector to navigate, given the cash generative nature of our business and the strength of our balance sheet, and on the basis that adjusted profit before tax falls within the current guidance range, we intend to maintain the full year dividend per share at last year's level.

In the current year the payout ratio will thus rise above 40%, but over time we would look to return to this level.

Source : Wickes

https://www.wickesplc.co.uk/