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New chapter and big questions ahead for DIY empire behind B&Q

Author: Graham Ruddick - The Telegraph
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New chief executive of Kingfisher faces takeover rumours and series of challenges, including what to do with the British retailer

Kingfisher owns B&Q and Screwfix in the UK

Sir Ian Cheshire chose to celebrate the end of his tenure as chief executive of Kingfisher with a party at the glamorous Haymarket Hotel in London's West End.

For anyone at the party, it offered a reminder of the extraordinary history of the company. It has impressive alumni, such as Euan Sutherland, now the boss of SuperGroup, and Helen Weir, the newly appointed finance director of Marks & Spencer.

Kingfisher began life in 1982 when a consortium of institutional investors called Paternoster Stores plc bought FW Woolworth, which included Woolworths and B&Q, from its American parent company. By the end of the 20th century, the now renamed Kingfisher had grown into a sprawling retail conglomerate comprising some of the best-known retail brands in the UK, including Comet and Superdrug as well as B&Q and Woolworths. Sir Geoff Mulcahy, who built the modern Kingfisher, was considered retail royalty.

However, as conglomerates went out of fashion, Sir Geoff began to break Kingfisher up. Woolworths was sold, then Comet and Darty, the French electricals chains, were spun off into a new company called Kesa Electricals.

That left Kingfisher with its DIY and home improvement empire, which was one of the biggest in the world.

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When Sir Ian became chief executive of Kingfisher in 2008, 10 years after he joined the company, it was still a disparate collection of DIY chains in the UK and France. His task was to build the retailers into a single business at the same time as navigating the financial crisis.

The raw statistics suggest Sir Ian did a fine job. During his time leading Kingfisher, annual sales grew from £9bn to £11bn, pre-tax profits from £337m to £744m and its stockmarket value more than doubled from £3.4bn to £8.6bn today. This means Kingfisher is worth more than Sainsbury's, Morrisons and Marks & Spencer. Not only that, but culturally Kingfisher has been transformed. When Sir Ian took charge, B&Q and Screwfix, the company's UK brands, barely spoke, while the French businesses Castorama and Brico Depot actively competed against one another. The prospect of cross-channel cooperation seemed laughable.

Sir Ian said there was "civil war" within Kingfisher, but today B&Q and Castorama share 10pc of products and that percentage is growing. However, for all the progress made by Kingfisher, there remain key questions about the future of the group. These questions have been fuelled in recent weeks by Sir Ian stepping aside, but also by renewed rumours that US rival Home Depot could launch a takeover bid. This rumour may have appeared many times over the past decade, but it helped drive shares in Kingfisher up by more than 7pc over just a few days at the end of February.

The other reason for the questions about Kingfisher is that the DIY group retains a split personality. From a financial perspective, the UK business has been growing sales in recent years while the French business has been dogged by a sluggish domestic economy. However, economic constraints aside, Castorama and Brico Depot look in better shape than B&Q, which is battling growing competition from new discount rivals such as B&M and questions about whether Britain's interest in DIY is slipping.

Castorama has invested in revamping its stores and evolved its products so they are more appealing to a new generation of homeowners. However, B&Q has been constrained by having too much space in the UK and Sir Ian spent much of his tenure attempting to manage the retailer's store portfolio, which has impeded investment. But as the leases on B&Q's 350 stores finally expire, it opens up fascinating prospects for the business. It can close underperforming stores, find cheaper rents elsewhere, and use the money saved to invest in its range. Sir Ian has said B&Q could eventually look "totally different".

Of course, Sir Ian will not oversee the evolution of B&Q. Instead it will be Veronique Laury, appointed as new chief executive of Kingfisher in December after overseeing the modernisation of Castorama. Laury is considered to have done a fine job running Castorama amid a slowdown in France. She has worked at Kingfisher since 2003, with other roles including group commercial director and commercial director of B&Q UK and Ireland.

Her experience means that the UK market will hold no surprises for Kingfisher's new boss. This is important, because analysts believe she has a lot on her plate.

As well as modernising B&Q, sharp movements in foreign currencies – such as the weakening of the euro – are another challenge for Laury. Longer-term, the new Kingfisher boss must consider whether to expand the company into new countries, because although the retailer has 1,176 stores in 11 countries in Europe and Asia, the UK and French businesses remain dominant. Laury must also answer the question that many investors still pose – why should a collection of different DIY retailers exist as a group?

Christodoulos Chaviaras, analyst at Barclays, said Kingfisher is facing pressure on its profits from "on all fronts". He said: "We think the new CEO will have to make bold moves to restore B&Q's competitiveness and achieve a viable margin for the business, which could include store closures … The cash returns program [to shareholders] is at risk of being reduced or abandoned under these circumstances.

"Increased competition and over spacing are structural challenges for Kingfisher in the UK. Investments in price and customer service are necessary for B&Q to compete with the rising discounters which, in our view, will lead to lower margins."

Simon Irwin, analyst at Credit Suisse, said Laury is likely to look at a "refocused version" of the existing strategy rather than "radical change", with the plan centring on a "restructuring" of B&Q's property that could involve 30 stores closing. However, Tony Shiret, analyst at BESI, and a bear on Kingfisher, said there is a "possibility" that Laury could overhaul the strategy on an "epic scale" when she presents the company's annual results on March 31.

Whichever direction Laury chooses to go, that March 31 date, now just three weeks away, could start a new chapter in the history of one of Britain's biggest retailers.

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