

# KINGFISHER PLC FINAL RESULTS

Year ended  
31 January  
2018



Kingfisher

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# Well positioned in an attractive market, strong foundations for ONE Kingfisher

## The European Home Improvement market

320m<sup>(1)</sup>  
homes

£240bn<sup>(1)</sup>  
market

65%<sup>(1)</sup> do  
some home  
improvement  
every year

Customer  
needs more  
similar than  
different



No 1 or 2 in  
UK, France,  
Poland<sup>(2)</sup> &  
Romania

c. £7bn  
buying  
scale

Highly  
cash  
generative

Strong  
balance  
sheet, £3.5bn  
property  
valuation<sup>(3)</sup>

Returning  
capital to  
shareholders

(1) Kingfisher Home Improvers Usage and Attitude survey across 8 countries, Harris Interactive

(2) UK, France & Poland represent >90% of group sales

(3) Valuation based on sale and leaseback with Kingfisher in occupancy (FY 17/18)



# A reminder of our 5<sup>(1)</sup> year transformation targets

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- £800m aggregate costs to achieve
- c.£600m capital return over the first 3<sup>(2)</sup> years

(1) FY 20/21

(2) First 3 years to end of FY 18/19



# ONE Kingfisher transformation is being delivered: our delivery to date

## Unified & Unique Offer

- ✓ 23% unified product (COGS)
- ✓ Sales up, outperforming non-unified
- ✓ Gross margins up 180bps (pre clearance)

## Digital

- ✓ Over 50% of Group sales now operating on unified IT platform; entering final year of roll out
- ✓ Group online sales now at 6% (4% last year)

## Operational Efficiency

- ✓ GNFR is delivering - £58m to date
- ✓ Further operational efficiencies starting to be unlocked e.g. shared services



# But the delivery of the ONE Kingfisher transformation is creating disruption (1/2)

Customers

## *Customer reality*

- Physical store disruption
- Clearance
- Product availability
- Digital transition e.g. websites, click & collect
- Lower prices taking time to feed through

## *Our actions*

- Dedicated range change teams
- Controlled clearance processes
- Group digital teams based locally
- Mitigation stock

# But the delivery of the ONE Kingfisher transformation is creating disruption (2/2)

## Colleagues

### *Colleague reality*

- Balancing old and new
- Unified IT roll out
- New ways of working e.g. OSC<sup>(1)</sup>, shared services
- New processes – steep learning curves, longer lead times
- **However** colleagues are highly engaged

### *Our actions*

- Transformation team in place
- Phased approach e.g. smoothed unified product (COGS) roll out
- New tools and training e.g. unified IT platform and Home Improvement Academy
- ONE conversation ‘moment in time’



# Whilst operating in a changing external backdrop

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External  
backdrop

## **UK**

- Outlook more uncertain; softer Q4 sales

## **France**

- Market backdrop encouraging but volatile

## **Poland**

- Market backdrop remains supportive
- Sunday trading ban (2 in 4) now effective



# FY 17/18 financial summary: income statement

	2017/18	2016/17	Change YOY
Sales (£m)	11,655	11,225	(0.3)% <sup>(1)</sup>
Gross margin	36.9%	37.2%	(20)bps <sup>(1)</sup>
Retail profit (£m) <sup>(2)</sup>	849	847	(3.6)% <sup>(1)</sup>
Underlying PBT (£m) <sup>(2)</sup>	797	787	+1.3%
Adjusted PBT (£m) <sup>(3)</sup>	683	743	(8.1)%
Statutory PBT (£m)	682	759	(10.1)%
Effective tax rate <sup>(4)</sup>	30%	26%	(4)%
Underlying basic EPS (p) <sup>(2)</sup>	25.5	25.9	(1.5)%
Adjusted basic EPS (p) <sup>(3)</sup>	21.8	24.4	(10.7)%

(1) In constant currencies

(2) Before transformation costs, exceptional items, FFVR, related tax items and tax on prior year items

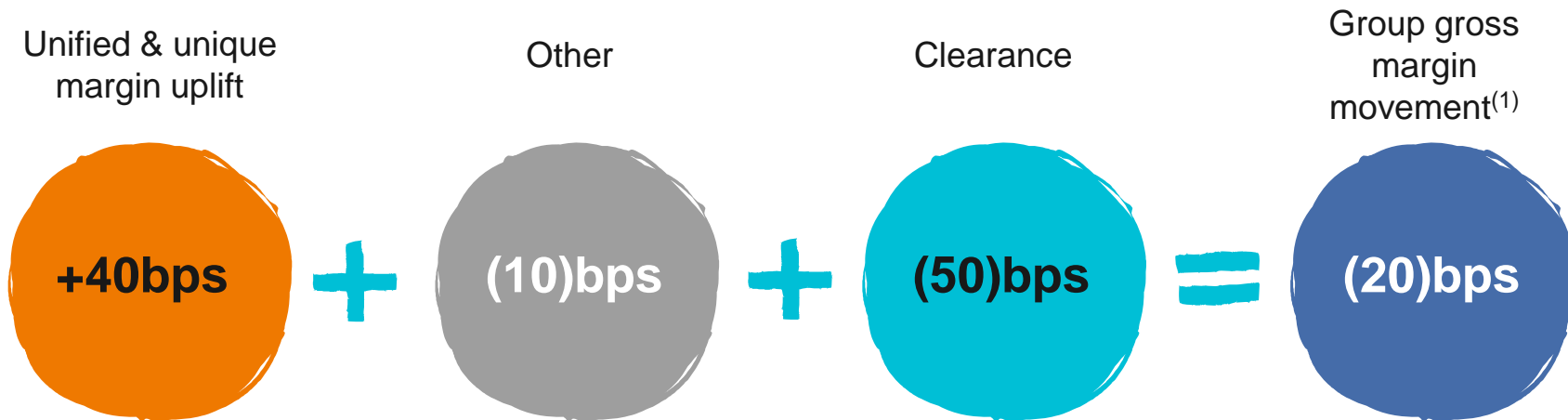
(3) Before exceptional items, FFVR, related tax items and tax on prior year items

(4) Before exceptional items, related tax items and tax on prior year items but includes tax surcharge in France equivalent to 3% of ETR



# Unified & Unique benefits coming through gross margin

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*(1) In constant currency*



# FY 17/18 PBT bridge

## Underlying profit

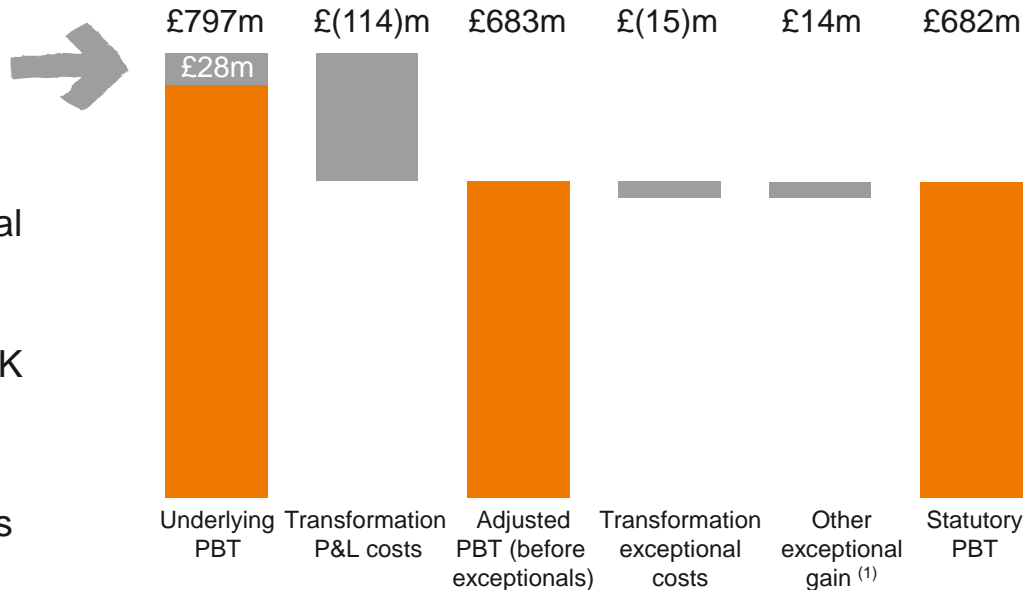
- GNFR continuing to deliver

## Transformation P&L costs

- Driven by Unified & Unique Offer & Digital

## Exceptionals

- Transformation exceptionals driven by UK efficiency initiatives and other organisational change
- Other exceptional gain driven by success of B&Q store disposals



(1) Includes £(1)m of FFVR

# FY 17/18 group operational summary

## UK & Ireland

LFL +0.6%

RP +5.0%

## France

LFL (3.5)%

RP (14.8)%

## Other International (established)

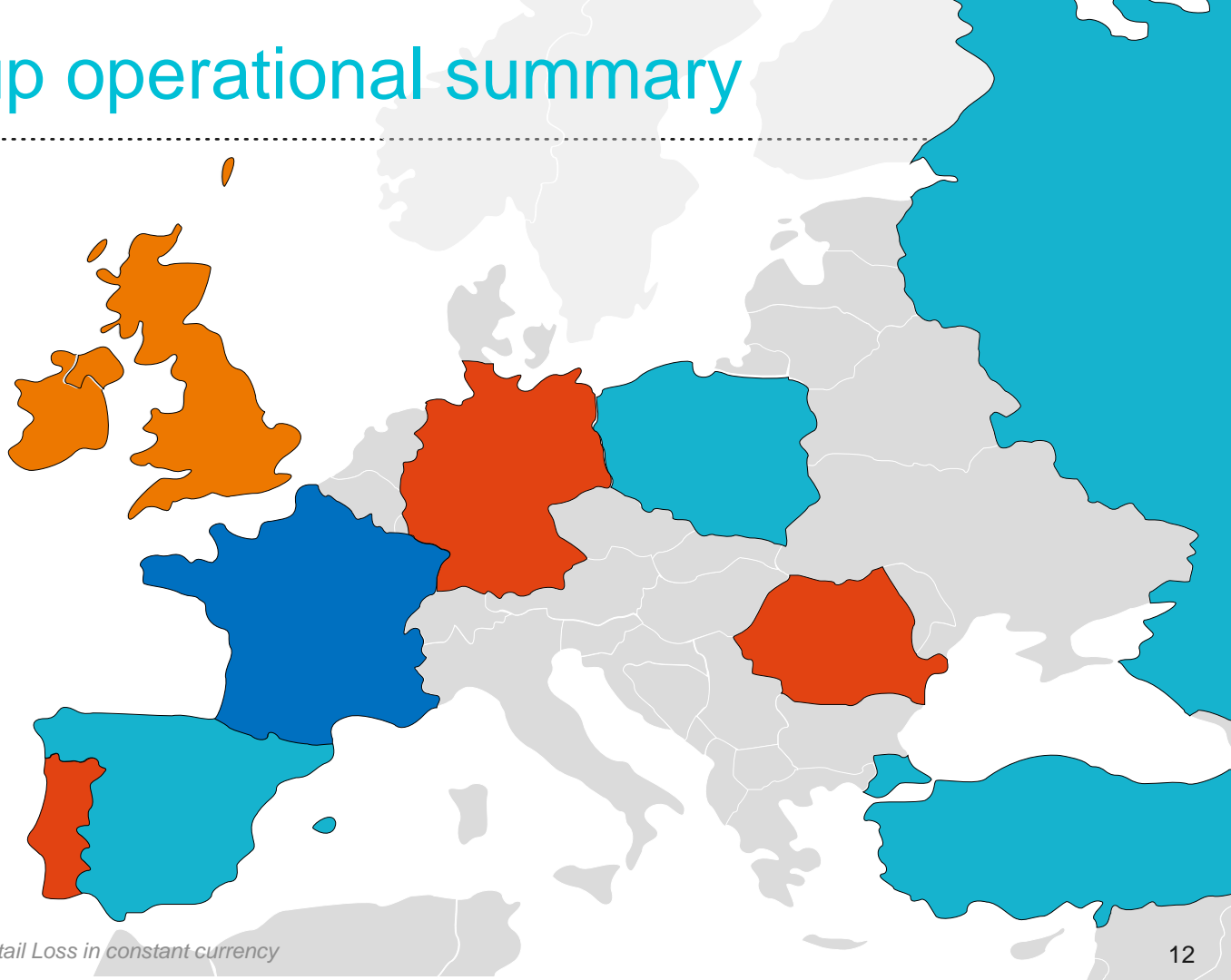
LFL +1.8%

RP +3.3%

## New country development

LFL +5.8%

RL £(17)m



# UK & Ireland - growth in FY17/18 but softer Q4

LFL +0.6%  
RP +5.0%

- B&Q LFL -2.8% after c.+1% sales transference & c.1.5% business disruption
- Screwfix LFL +10.1%, strong growth in specialist trade desks & digital
- Gross margin -30bps
- Softer LFLs across both businesses in Q4

Q4 17/18

B&Q

- Q4 LFL -5.1%
- Disruption, weaker footfall and softer demand for big ticket items (e.g. kitchens)

Screwfix

- Q4 LFL +7.1%
- Some softer demand

# France - self-help plans underway, no quick fix

LFL (3.5)%  
RP (14.8)%

Continued weaker sales vs. volatile market & c.1.5% business disruption  
Gross margin -10bps

## Pricing

Reinvesting some of our unified & unique offer CPR <sup>(1)</sup> benefits in price, is leading to improving price position

## Proposition

Around a third of ranges are now unified & unique, sales are outperforming non-unified ranges

## Digital

IT platform landed in Castorama enabling recent launch of new Group website

# Other International - Poland continues to trade well

Other International  
(established)  
LFL +1.8%  
RP +3.3%

LFL & profit performance  
driven by

- Poland LFL +5.3% despite some disruption, good performance in supportive market
- Gross margin +10bps

New country  
development  
LFL +5.8%  
RL £(17)m

- Losses broadly in-line with expectations
- Acquisition completed to strengthen position in Romania



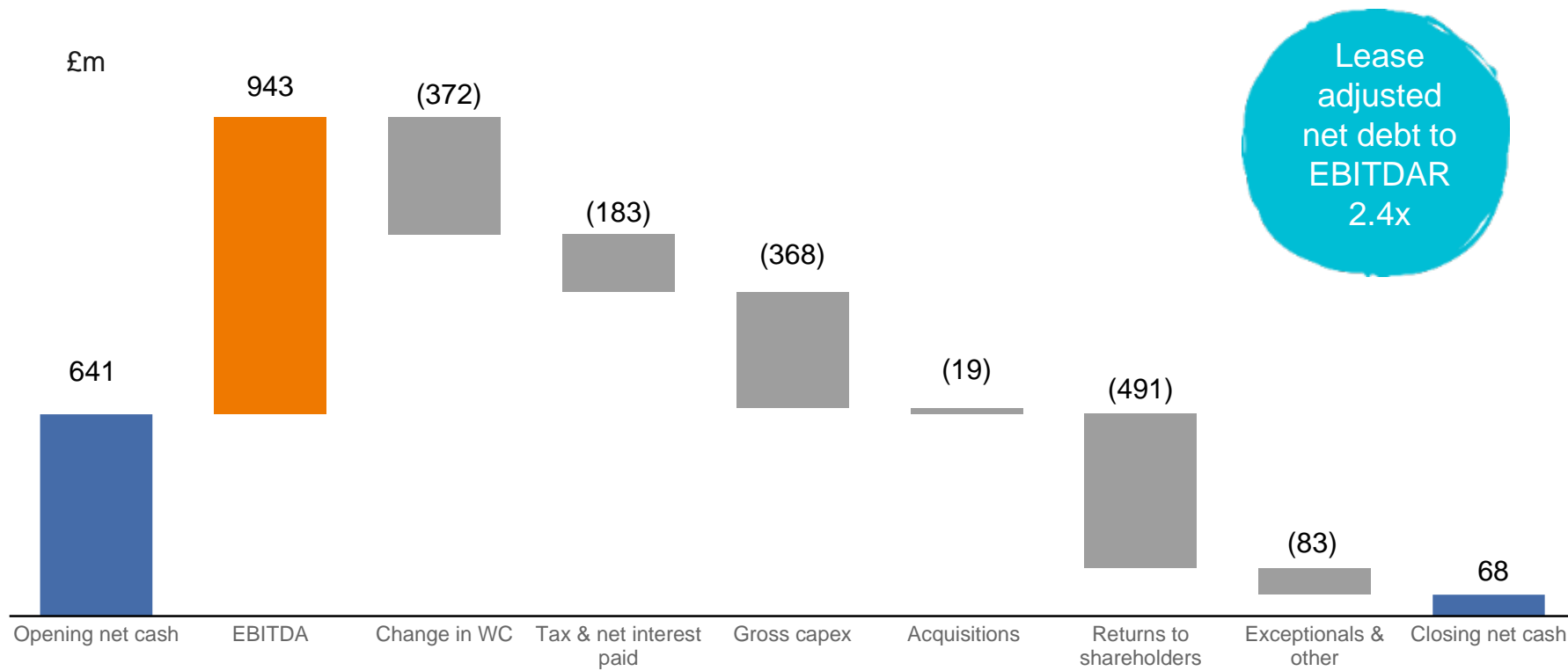


# FY 17/18 financial summary: cash and returns

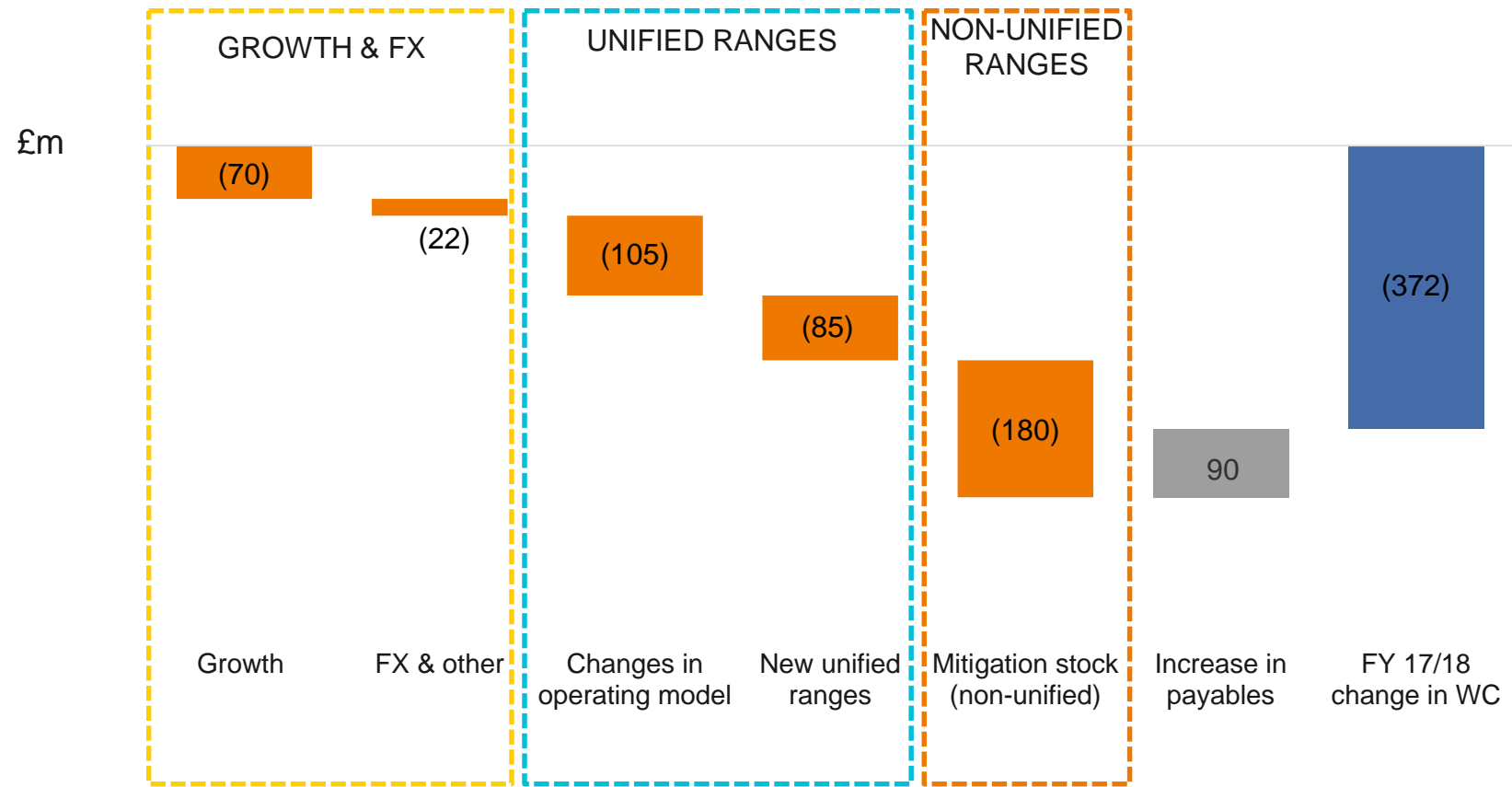
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	2017/18	2016/17	YOY
Free cash flow (£m)	6	459	n/a
Net cash (£m)	68	641	n/a
Lease adjusted ROCE	10.4%	12.5%	(210)bps
Full year ordinary dividend (p)	10.8	10.4	+4.0%
Share buyback (£m)	260	200	n/a

# FY 17/18 uses of operating cash flow

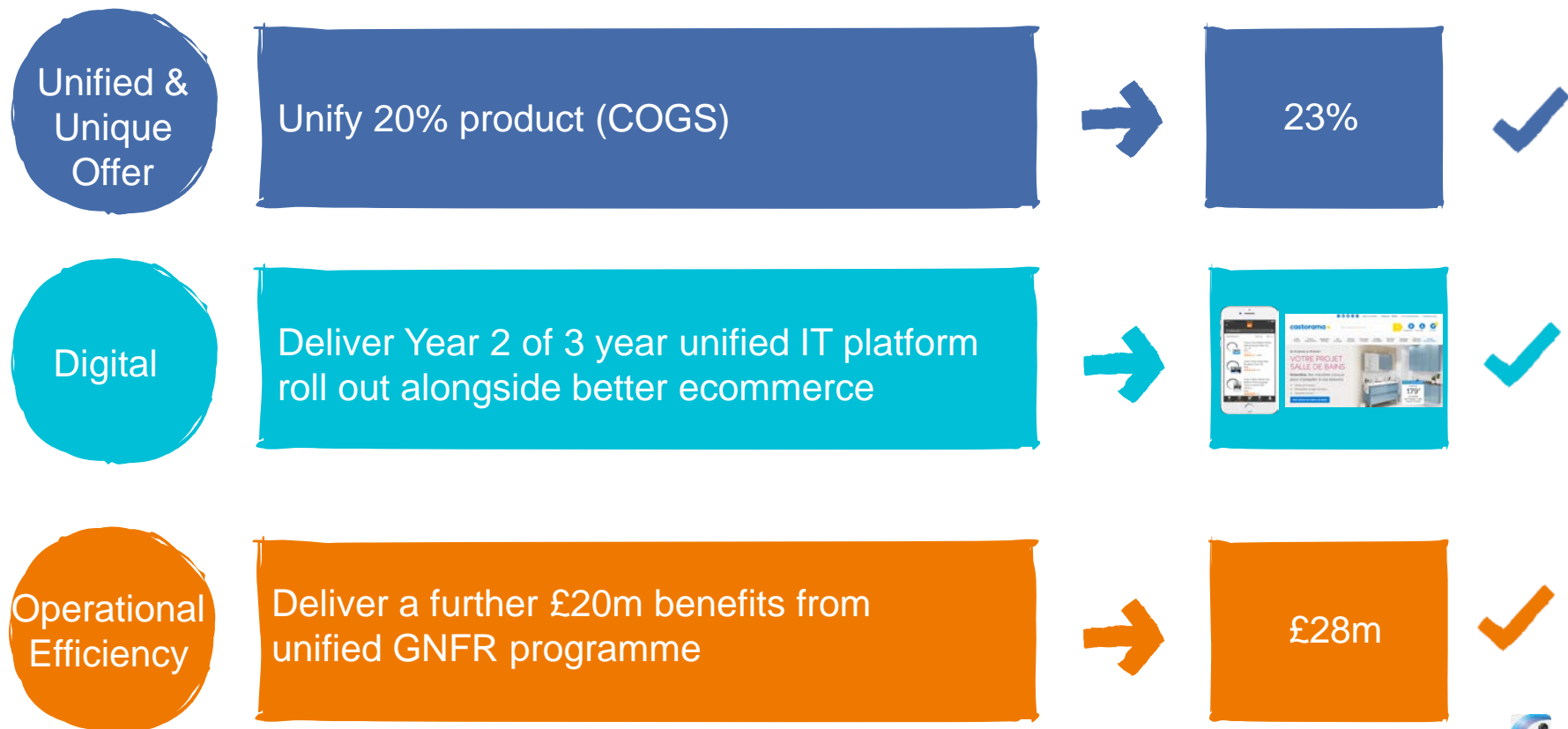


# Change in working capital driven by increase in stock

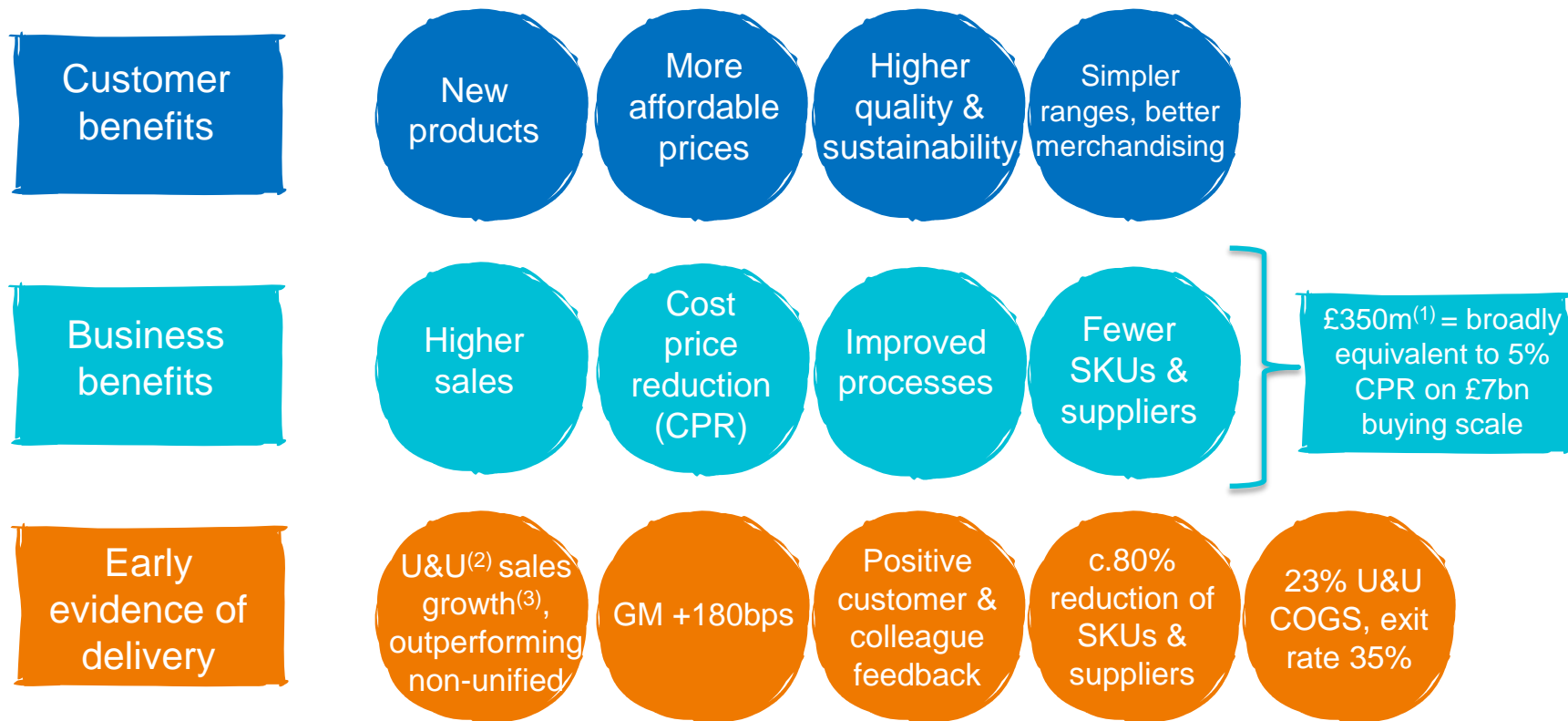


# Delivered key FY17/18 strategic milestones

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# Unified & unique offer - starting to deliver the benefits



(1) Profit uplift by FY 20/21

(2) Unified & unique

(3) Sales & GM exclude clearance



# FY 17/18 Unified & unique ranges - sales & gross margin outperforming non-unified ranges

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## Sales:

- Unified & unique sales outperforming non-unified ranges despite disruption
- FY +1% excluding clearance
  - H1 -1%, H2 +3%
- Unique growth (e.g. bathroom furniture +39%<sup>(1)</sup>) ahead of unified

## Gross margin:

- Unified & Unique gross margin up 180bps excluding clearance



(1) Excludes clearance (including clearance +35%)

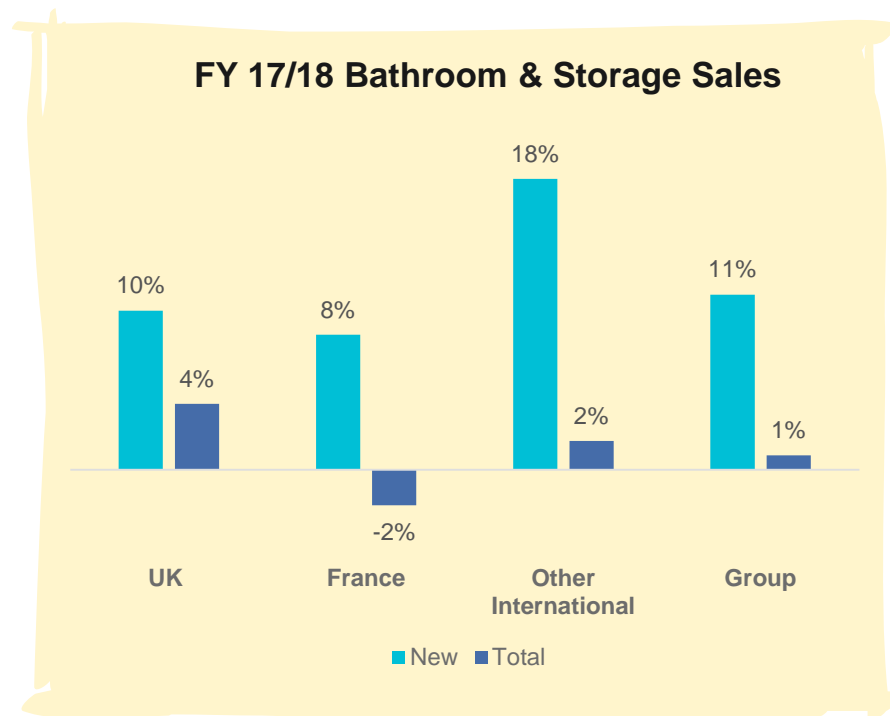
# Unique case study: bathroom & storage

## Sales<sup>(1)</sup>:

- New ranges outperforming old across the Group
- Driven by strong performance of unique bathroom furniture & showers e.g.
  - Bathroom furniture: UK +101%, France +50%, Poland +22%
  - Showers: UK +3%, France +7%, Poland +36%
- Volumes ahead of sales growth

## Gross margin:

- Category up ahead of unified & unique average



(1) All sales exclude clearance



# Unified case study: sealants & foams

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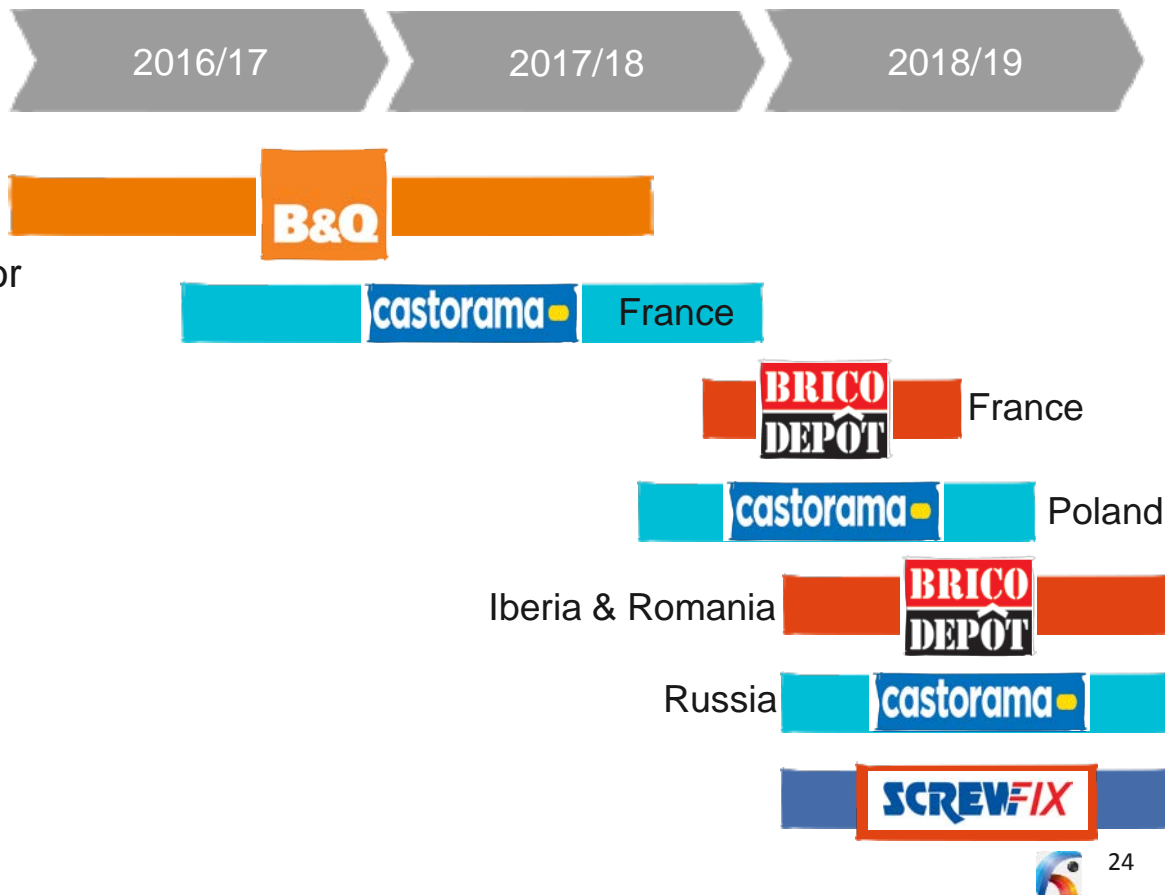
- Screwfix pro rated sealants range implemented in all markets
  - Better quality & lower prices for customers
  - Simpler ranges & improved merchandising
  - Shelf-ready packaging
- Sales <sup>(1)</sup> slightly ahead, stronger exit rates
  - Volumes up ahead of sales growth
- Gross margins up
  - Double digit CPR
  - Global SKUs down from 1,554 to 178, suppliers down from 78 to 6



(1) Excludes clearance (including clearance -2%)

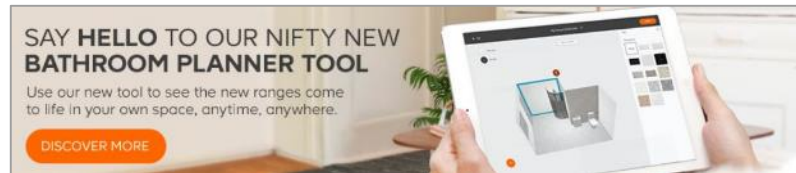
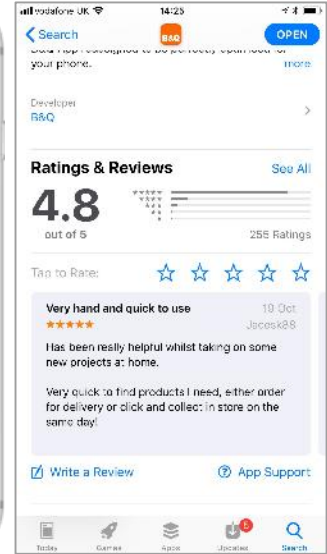
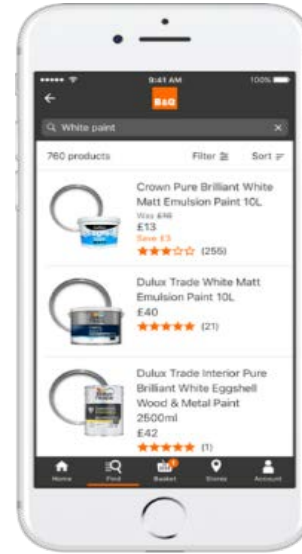
# Digital - IT rollout entering final year

- Target of £50m profit uplift by FY 20/21
- Unified IT platform is key enabler for ONE Kingfisher
  - Now over 50% of Group sales operating on the new platform
  - Revised roll out plans pulling forward larger OpCos
  - Entering final year of rollout



# Digital - ecommerce and home improvement services continuing at pace

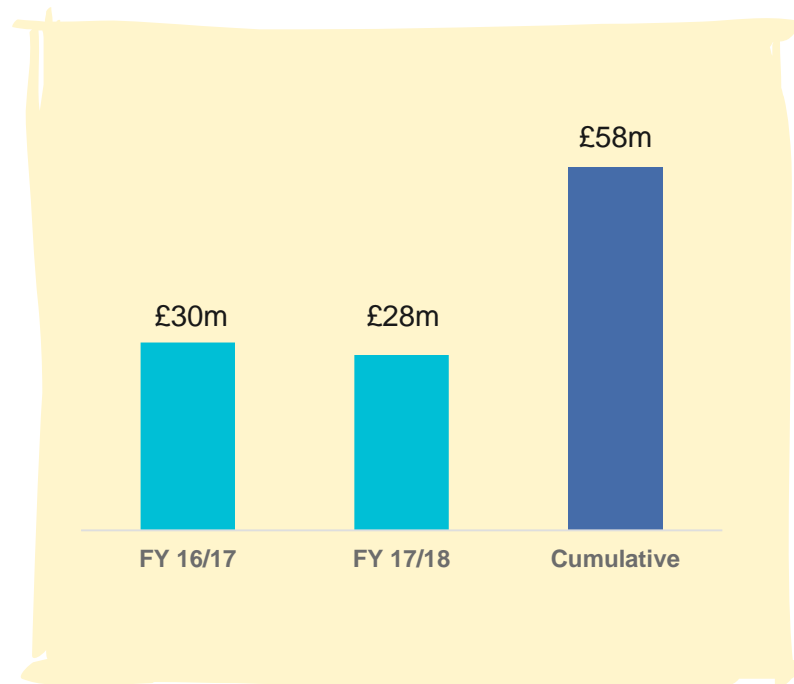
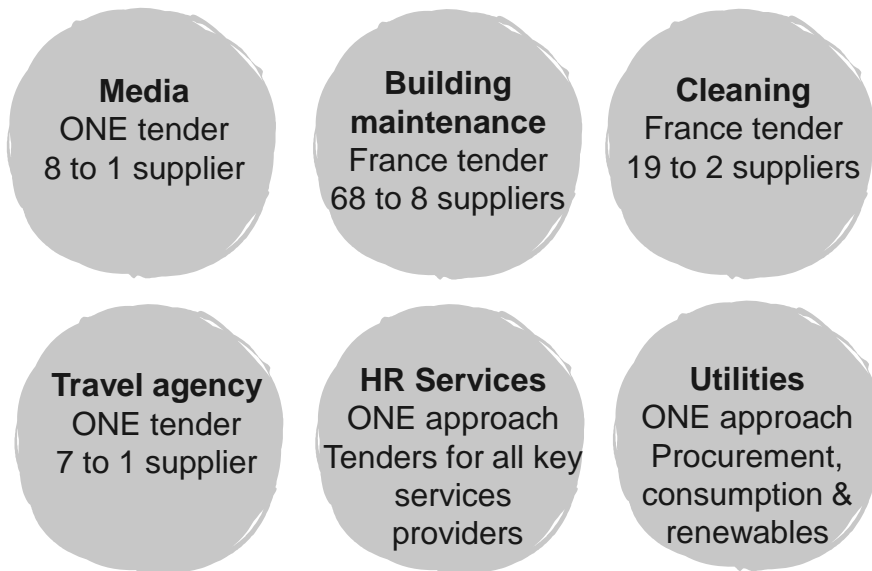
- Ecommerce plans following closely behind IT roll out
  - Group digital sales now at 6% (4% last year)
  - Group mobile platform built, launched at B&Q
  - 1 hour click and collect in all B&Q stores
  - Castorama France new website launched, mobile to follow
- Initial launch of first home improvement digital tools e.g. bathroom planner<sup>(1)</sup>



(1) <https://planmybathroom.diy.com/home>

# Operational efficiency - GNFR<sup>(1)</sup> continuing to deliver

- Target of £100m by FY 20/21, driven by GNFR
- Unified approach is working well - £58m of cumulative benefits



# FY18/19 strategic milestones

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## Unified & Unique Offer

Deliver growth in unified & unique sales and gross margin  
Unify 40% product (COGS)

## Digital

Complete final year of unified IT platform roll out to OpCos  
Complete ecommerce roll out in France & Poland  
Market launch of first home improvement services in UK & France

## Operational Efficiency

Implement finance shared services in at least two OpCos  
Deliver £30m benefits (from unified GNFR programme and other efficiencies)

## Retail Operations

Maintain higher than retail sector colleague engagement scores



# Unified & Unique - another big year in FY 18/19

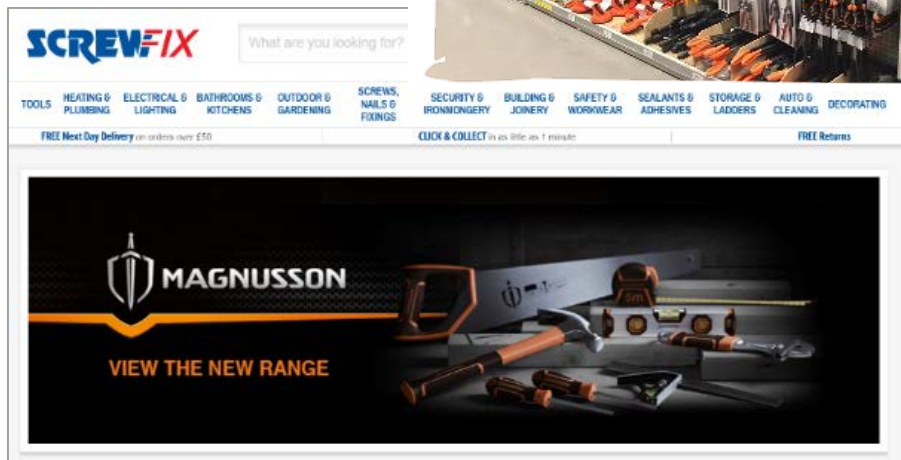
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- Negotiations well progressed for FY 18/19 to deliver 40% unified product (COGS)
- Unique ranges expected to drive sales growth
- New and expanded ranges e.g.
  - expanded bathroom furniture choices
  - bathroom sanitary
  - paint



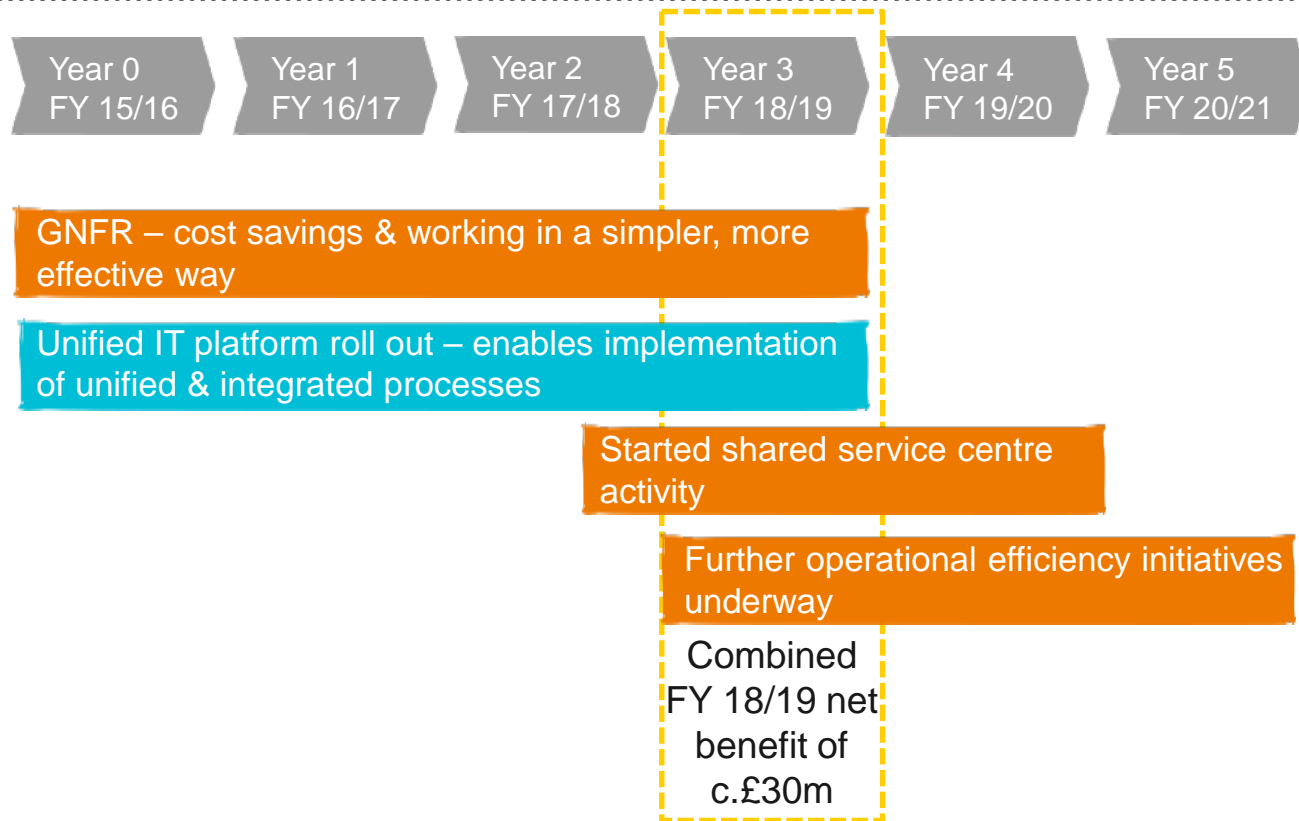
# Launching new, unified Magnusson hand tool range

- Builds on strong own brand heritage
- Investing in better quality & functionality
- Range covering more customer needs
- Improved merchandising, easier for customers
- Lower prices for customers





# Starting to unlock further operational efficiencies beyond GNFR



# Building ONE engine for long-term growth

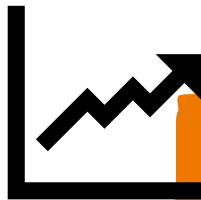
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## *Building ONE engine*

- Radical reorganisation
- Unified & unique offer roll out
- Unified IT roll out
- Developing digital & supply chain capability

Leveraging Group scale  
+ Screwfix best in class  
digital capability



## *Growth*

- Starting to develop plans combining the best of physical & digital, providing customers with
- engaging experiences
  - ultimate convenience

Leveraging big box  
estate + the Screwfix  
model



# FY 18/19 guidance

## Underlying profit

- Grow gross margin (post clearance)
- Up to a further c.£30m operational efficiency benefits
- Screwfix Germany c.£15m loss

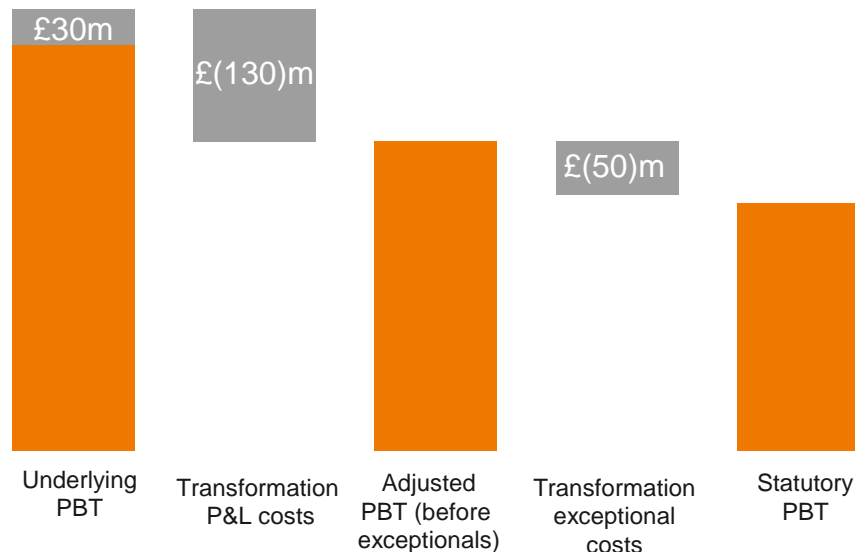


## Transformation P&L costs

- Up to c.£130m driven by Unique & Unified Offer range implementation & Digital

## Transformation exceptionals

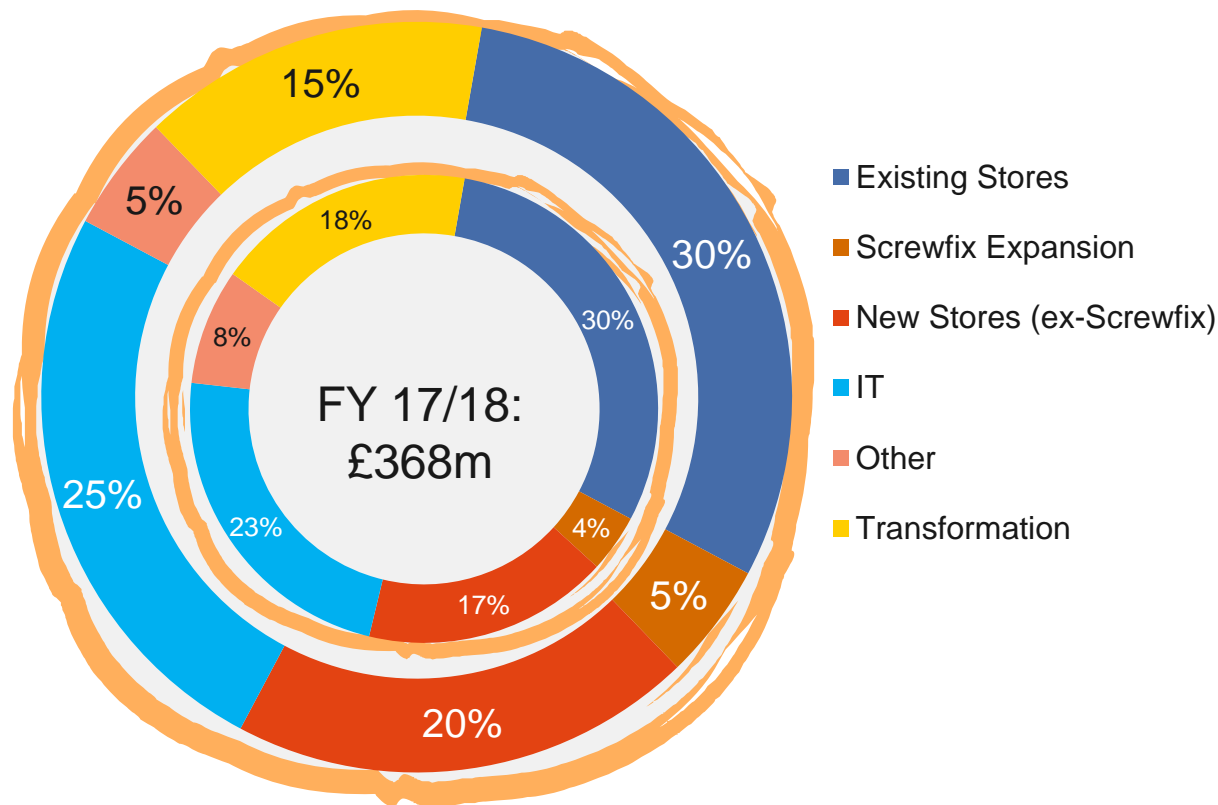
- Up to c.£50m driven by further reorganisation costs



# FY 18/19 total capex guidance

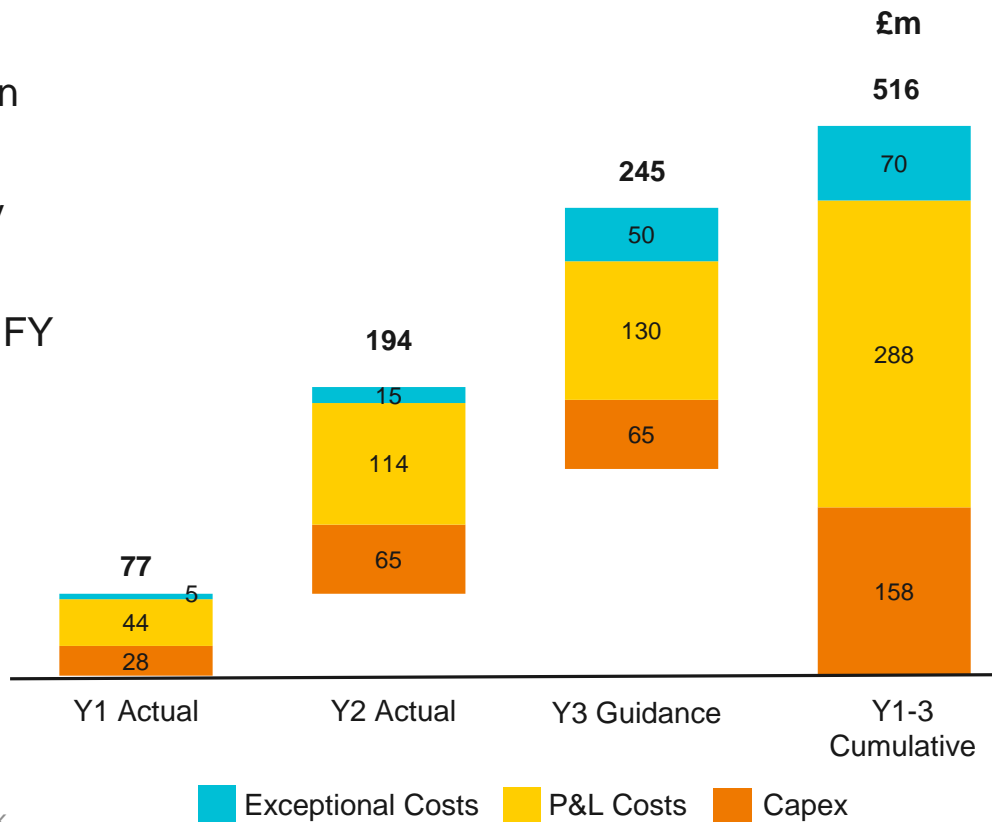
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FY 18/19:  
up to  
£425m



# Reaffirming 5 Year plan targets

- £800m total 5 year transformation costs<sup>(1)</sup>
- £500m sustainable EBIT uplift by end of Year 5
- c.£600m capital return by end of FY 2018/19



(1) Transformation costs include P&L, exceptional & capex



# Summary

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1:

Delivered FY 17/18 key strategic milestones for the second year in a row

3:

Acting on root causes of business disruption, adapting our approach as we progress

5:

Outlook: UK uncertain; France encouraging but volatile; Poland supportive but Sunday trading bans

2:

Performance reflects some business disruption & weaker sales in France, offset by self-help

4:

Delivered step up in level of transformation activity

6:

Aware of challenges ahead, remain confident in ability to deliver FY 20/21 plan benefits



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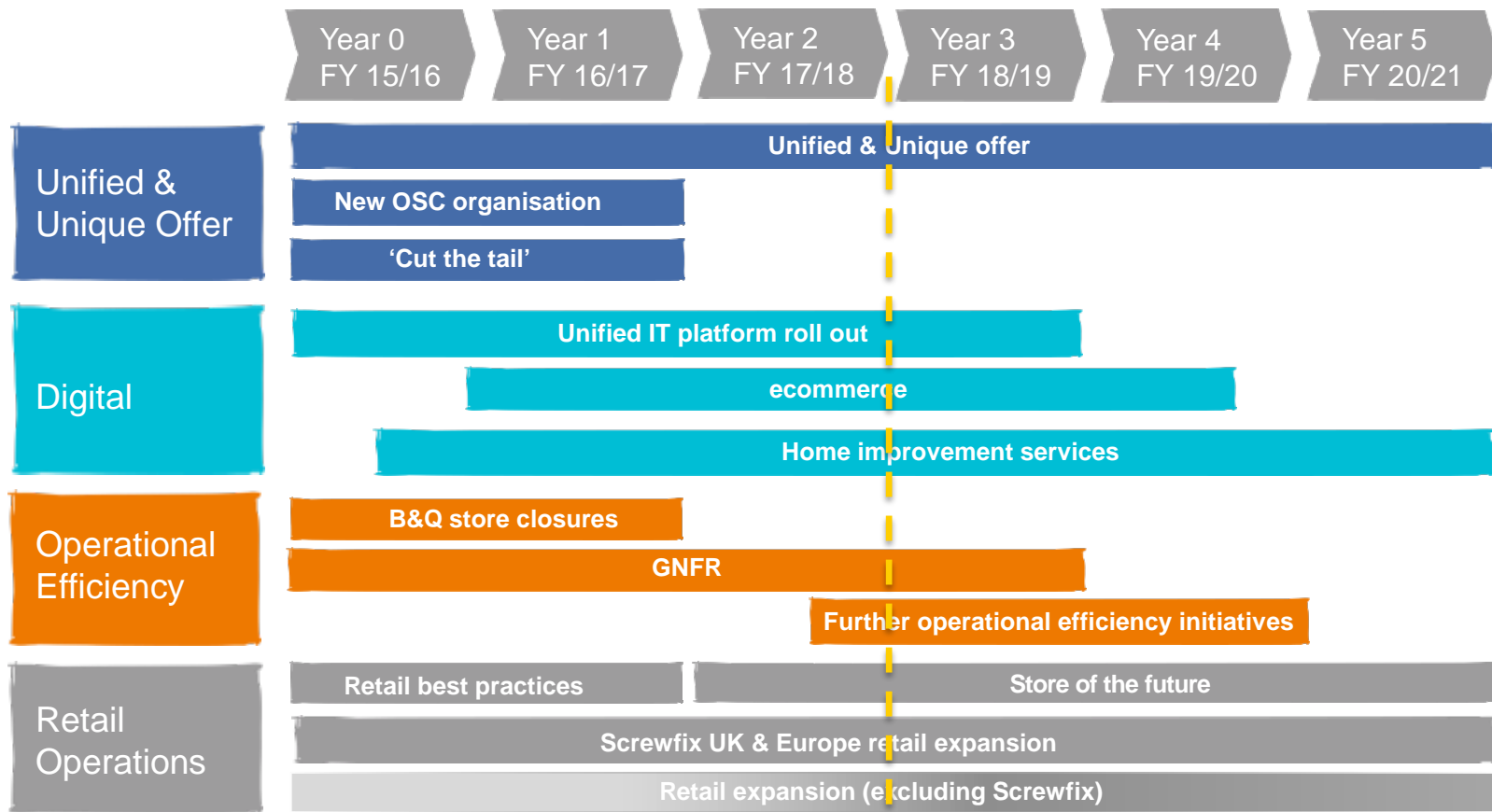






# Appendices

# Clear long term roadmap: a reminder



# FY 18/19 technical guidance

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## Income statement:

- Gross margin expected to grow (post clearance)
- Underlying profit expected to include up to a further c.£30m operational efficiency benefits
- Transformation P&L costs of c.£310m over 5 years to FY 20/21. FY 18/19 expected to be c.£130m
- Transformation exceptional costs of c.£170m over 5 years to FY 20/21. FY 18/19 transformation exceptional costs expected to be c.£50m
- Screwfix Germany retail losses expected to be c.£15m
- Central costs expected to be c.£50m
- Effective tax rate expected to be around 27%, subject to the blend of profit within the companies' various jurisdictions

## Cash flow:

- Capital return of c.£600m by the end of FY 18/19 expected to be via share buyback (£460m completed to date)
- Total capex including transformation of up to £425m for FY 18/19

# Net debt to EBITDAR reconciliation

	2017/18 £m	2016/17 £m
EBITDA <sup>(1)</sup>	943	1,008
Property operating lease rentals	408	399
EBITDAR	1,351	1,407
Net cash	(68)	(641)
Property operating lease rentals (8x) <sup>(2)</sup>	3,264	3,192
Lease adjusted net debt	3,196	2,551
Lease adjusted net debt to EBITDAR	2.4	1.8

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

(2) Kingfisher believes 8x is a reasonable industry standard for estimating the economic value of its leased assets



# Lease adjusted ROCE by division

	Sales £bn	Proportion of Group sales	Capital employed (CE) £bn	<b>ROCE FY 17/18</b>	ROCE FY 16/17
UK & Ireland	5.0	43%	3.8	<b>13.5%</b>	13.3%
France	4.4	38%	2.1	<b>10.1%</b>	14.8%
Other International	2.3	19%	1.5	<b>10.4%</b>	11.1%
<b>Total</b>	<b>11.7</b>		<b>7.4</b>	<b>10.4%</b>	12.5%

# 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
Depository	Citi

For questions about Kingfisher ADRs, please contact Citi:

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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



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