ONE Kingfisher

Kingfisher plc full year results

12 months to 31 January 2019

20 March 2019

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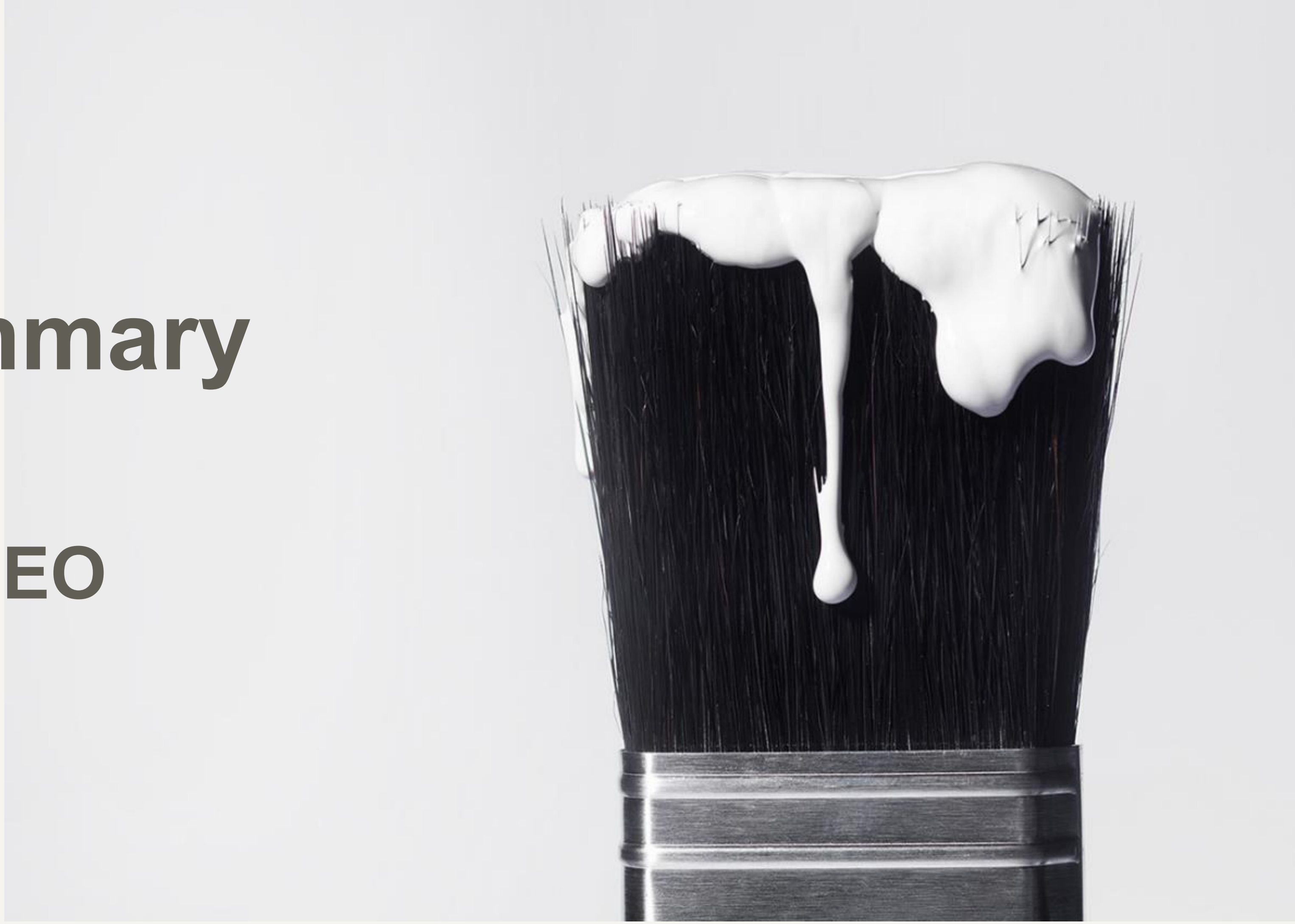
Welcome & introduction

Andy Cosslett, Chairman

Executive summary

Véronique Laury, CEO



We are a stronger company as a result of the transformation

- Building of Kingfisher ‘engine’ nearing completion, with compelling benefits coming through for customers
  - One single buying organisation established; 50% of product (COGS) unified
  - Continued growth in sales and margin from unified & unique ranges
  - Unified IT platform roll out substantially complete
  - Implemented finance shared services in 3 operating companies
  - Achieved c. £100m of operational efficiencies over 3 years

- Mixed financial performance over three years, including FY 18/19

- Transformation enabled overall gross margin for the year to be maintained

- Balance sheet and cash generation remain strong; mitigation stock eliminated

- Returned c. £1.3bn to shareholders over 3 years

The transformation is delivering and we are building a more profitable business over the medium term

- Transformation has delivered in line with our original plan; benefits outweighed by external environment and business underperformance
- Remain convinced in ability to deliver significant further financial and customer benefits from transformation, at lower cost than planned
- Separation of transformation benefits (+£500m) from rest of the business (BAU) no longer reflects how we manage the business
- Measuring our success through growth in sales, gross margin, retail profit and ROCE over the medium term

FY 2018/19 financial results

Karen Witts, CFO

FY 18/19 summary income statement

£m (unless otherwise stated)	2018/19	2017/18	Change YOY
Sales	11,685	11,655	0.3%[1]
Gross margin (%)	36.9	36.9	(10)bps[1]
Retail profit[2]	753	849	(11.4)%[1]
Underlying PBT[2]	693	797	(13.0)%
Adjusted PBT[3]	573	683	(16.1)%
Statutory PBT	322	682	(52.8)%
Adjusted effective tax rate (%)[3]	27	30	3%
Underlying basic EPS (p)[2]	23.9	25.5	(6.3)%
Adjusted basic EPS (p)[3]	19.8	21.8	(9.2)%

(1) In constant currencies
(2) Before P&L transformation costs, exceptional items, related tax items and tax on prior year items
(3) Before exceptional items, related tax items and tax on prior year items

FY 18/19 exceptional items

	2018/19 (£m) Gain/(charge)	2017/18 (£m) Gain/(charge)	Comments on FY 18/19
Underlying PBT (£m)	**693**	**797**	
Transformation P&L costs	(120)	(114)	▪ Principally relates to U&U range implementation and digital strategic pillar; less than guidance
Adjusted PBT (£m)	**573**	**683**	
Transformation exceptional costs	(58)	(15)	▪ People changes associated with restructuring in France & UK; in line with guidance
B&Q in-store efficiency plan	(12)	-	▪ Mainly redundancy costs related to transfer of store replenishment from nighttime to daytime
Romania integration costs	(15)	2	▪ Mainly Praktiker Romania store closure costs
UK and Europe store closures	(111)	12	▪ Including impairments for 15 stores(1) considered for closure, and 19 Screwfix Germany stores
Russia & Iberia exits	(16)	-	▪ Mainly store impairments, following decision to exit
Property disposals	(28)	1	▪ Gain on disposal of properties, less accounting charge for planned disposals
Other	(11)	-	▪ 'Macron premium' and Guaranteed Minimum Pensions equalisation charge
Total exceptional items before tax	**(251)**	**-**	
Financing fair value remeasurements	-	(1)	
Statutory PBT (£m)	**322**	**682**	

(1) Including 11 stores in France

FY 18/19 group operational summary

UK & Ireland (43% of sales)

LFL	(0.8)%
Retail profit	+6.0%

Poland (12% of sales)

LFL	+1.7%
Retail profit	+6.6%

France (37% of sales)

LFL	(3.7)%
Retail profit	(35.2)%

Other (8% of sales)

LFL	(0.2)%
Retail loss	£(36)m

Retail profit movement % is in constant currency; retail loss represents reported retail loss in FY 18/19

UK & Ireland – good profit growth

UK & Ireland
(43% of sales, 53% of RP)

LFL	(0.8)%
GM	+20bps
RP	+6.0%

B&Q

- LFL -3.0%; weak macro backdrop and c. 1% full year LFL impact from the discontinuation of installation services
- Digital sales +9% growth (C&C +42%); now 5% of total
- Gross margin up reflecting unified & unique sourcing benefits
- Successfully implemented:
  - Finance shared services leveraging unified IT platform
  - In-store efficiency measures

Screwfix

- LFL +4.1%; continued to take market share
- Digital sales +19% growth; now 30% of total
- 50 new stores opened during the year; year end total 627
- Opened fourth distribution centre to support future expansion

RP = constant currency retail profit growth

France – Brico Dépôt progress offset by Castorama

France
(37% of sales, 28% of RP)

LFL	(3.7)%
GM	(60)bps
RP	(35.2)%

Brico Dépôt

- First year of LFL growth in 6 years
- LFL +0.4%; customers benefiting from new unified & unique ranges
- Gross margin up

Castorama

- LFL -7.1% reflecting weaker footfall, price repositioning and impact of transformation-related activity
- Gross margin impacted by logistics & stock inefficiencies; c. 80bps impact on France gross margin

France

- ‘Gilets Jaunes’ demonstrations impacted FY LFL sales by c. -0.5% LFL (Q4 impact c. -3% LFL)
- Higher costs include digital investment, incremental marketing and advertising to support ‘Everyday low price’ launch

RP = constant currency retail profit growth

Poland – strong execution

Poland
(12% of sales, 24% of RP)

LFL	+1.7%
GM	+110bps
RP	+6.6%

- Good LFL sales performance despite Sunday trading restrictions (FY impact c. -1.5% LFL)
- Strong performance of unified & unique ranges
- Gross margin +110bps reflecting sourcing benefits
- Good retail profit progression

RP = constant currency retail profit growth

Romania, Iberia, Russia & Screwfix Germany

Romania
(2% of sales)

LFL	+0.2%
RL	£(15)m

Iberia, Russia, Screwfix Germany
(6% of sales)

LFL	(0.3)%
RL[1]	£(21)m

Romania

- Year of transition following acquisition of Praktiker Romania and significant range change
- Praktiker integration progressing with significant range improvement; stores now rebranded to Brico Dépôt
- New unified & unique ranges performing well in Romania overall

Iberia, Russia, Screwfix Germany

Iberia

- LFL -1.1%; retail profit £1m

Russia

- LFL +0.2%; retail loss £(12)m
- Exit processes for Iberia and Russia ongoing; classified in continuing operations as at year-end

Screwfix Germany

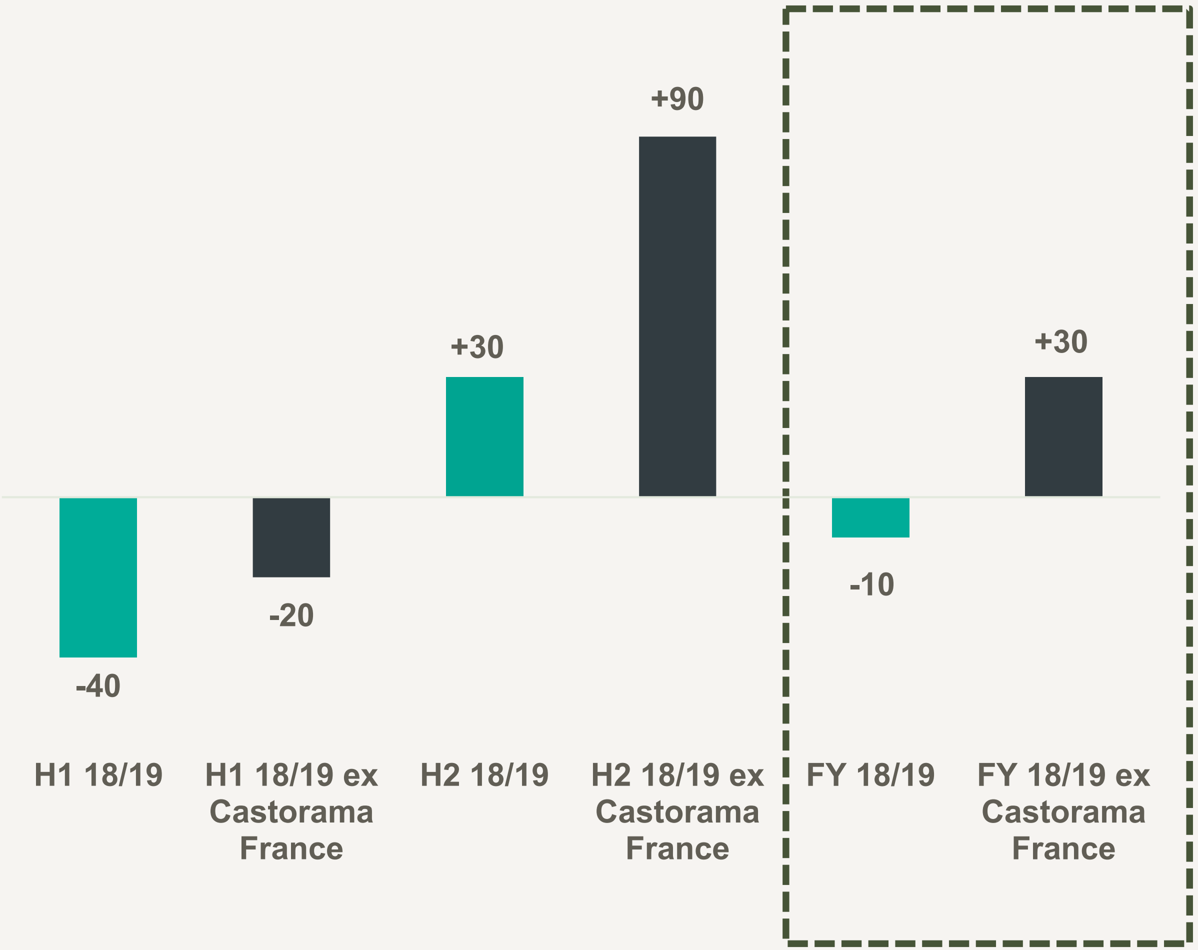
- LFL +9.1%; retail loss £(16)m
- Closing all 19 stores and retaining online presence

RP = constant currency retail profit growth; RL = reported retail loss
(1) Includes Koçtaş, Kingfisher's 50% JV in Turkey, which contributed £6m of retail profit

Gross margin up excluding Castorama France

- Good margin progression in H2
  - Group up 30bps
  - Group up 90bps excluding Castorama France
- FY 18/19 gross margin:
  - up in UK, Poland and Brico Dépôt France
  - Group down 10bps (reported GM flat)
  - Group up 30bps excluding Castorama France

Group gross margin movement (bps)(1)



(1) In constant currencies

Unified & unique outperforming non-unified

Sales growth	Unified & unique +1.3%[1]	Non-unified (1.8)%[1]	Unified & unique FY sales growth[1]	Unified & unique gross profit growth[1][2]
FY 18/19 sales split	43%	57%		
Category 1	68%	32%	+3.3%	↑
Category 2	53%	47%	+5.0%	↑
Category 3	52%	48%	(0.4)%	↑
Category 4	42%	58%	(0.4)%	↑
Category 5	34%	66%	(1.5)%	↑
Category 6	28%	72%	+4.2%	↑
Category 7	25%	75%	+3.6%	↑

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

Benefits from unified ranges coming through

Sourcing benefits from Unified & Unique ranges are building…

FY 16/17 | FY 17/18 | FY 18/19

2016 Ranges → **Delivering in line**

2017 Ranges → **On track**

2018 Ranges → **Starting to build**

…driving clear gross margin benefits

44% — Product (COGS) unified to date(1)

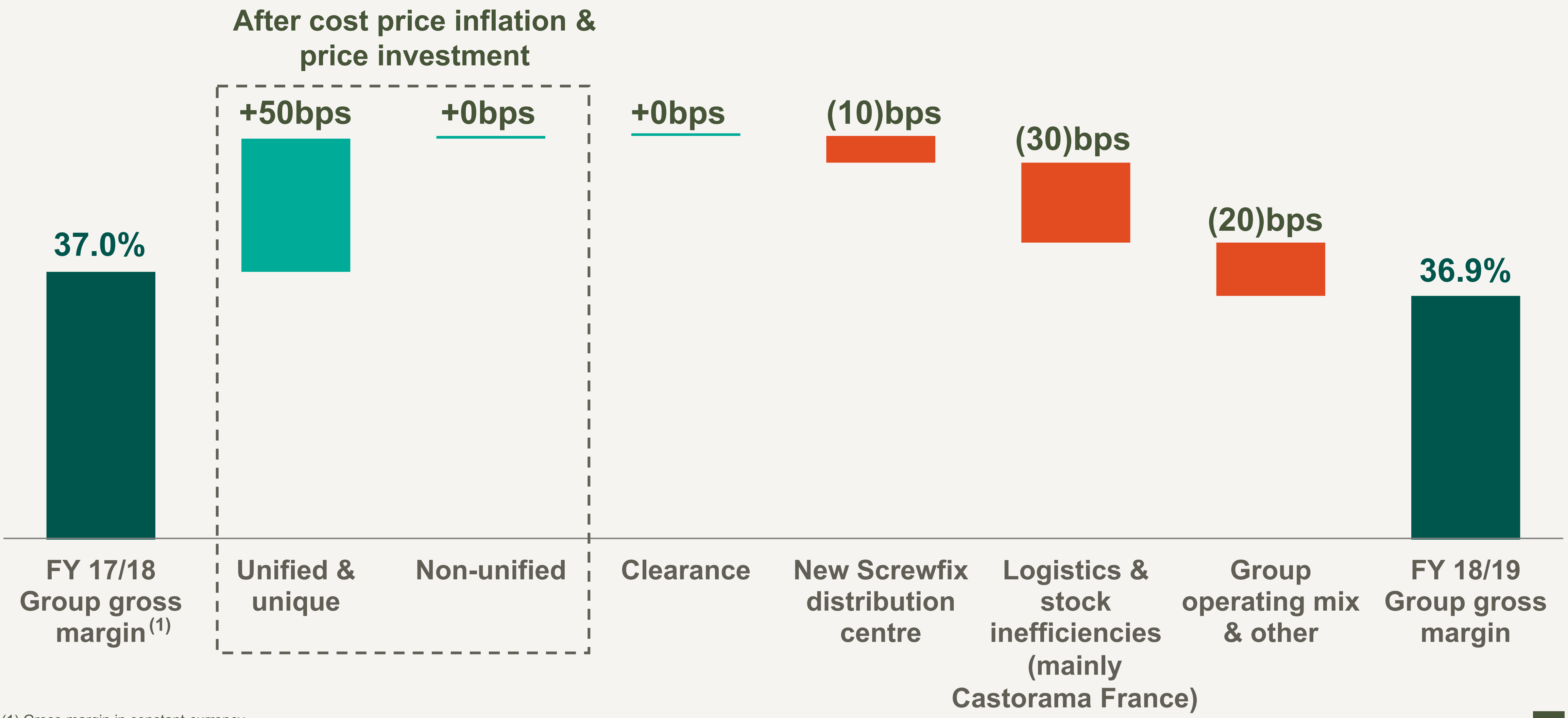
+230bps — Driving a +c.230bps(2) cumulative 3-year benefit

+120bps — +c.120bps(2) of this has come in FY 18/19…

+50bps — …contributing +c.50bps(2) to the Group gross margin movement in FY 18/19

(1) 44% product (COGS) unified on average in FY 18/19; exit rate 50%
(2) After cost price inflation and price investment; before clearance and logistics & stock inefficiencies

Unified & unique benefits offset by inefficiencies which we are addressing

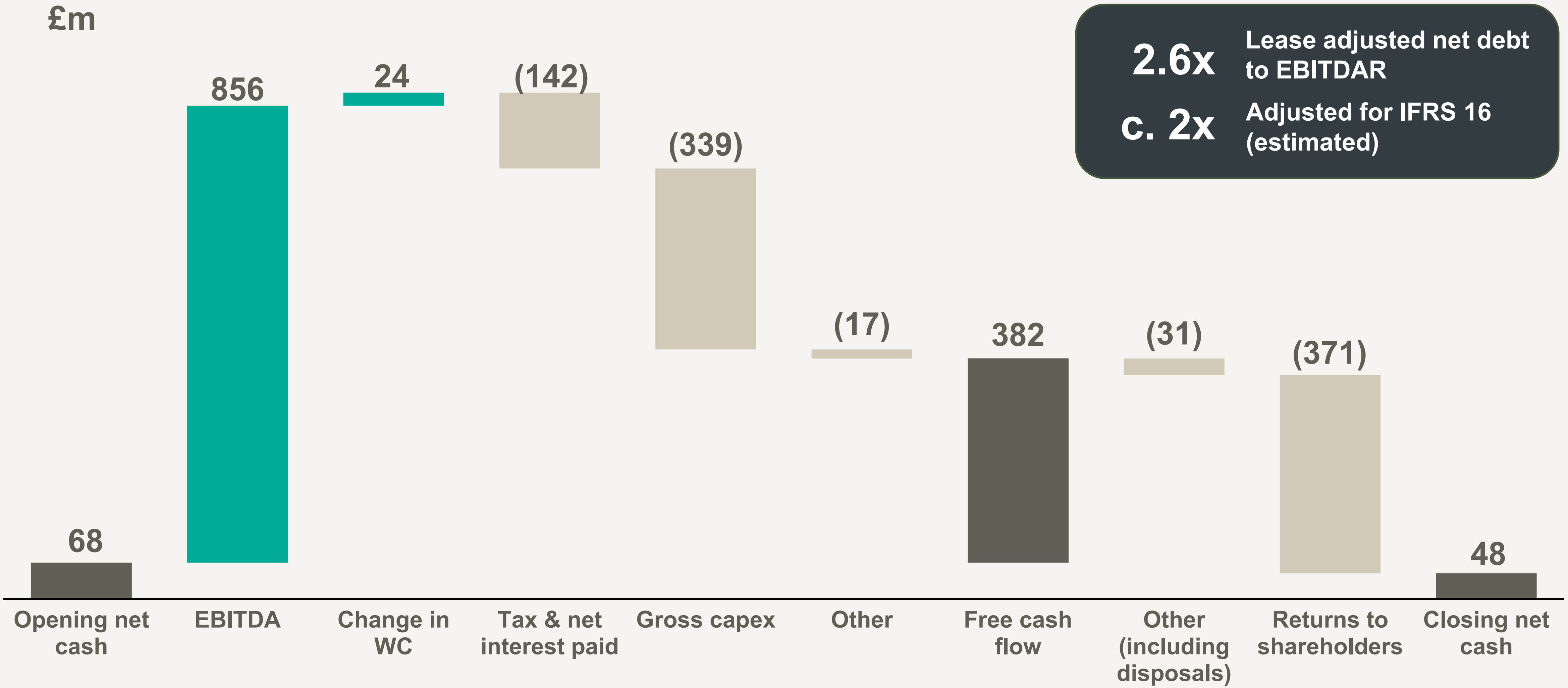


(1) Gross margin in constant currency

FY 18/19 cash and returns

	2018/19	2017/18
Free cash flow (£m)	382	6
Net cash (£m)	48	68
Lease adjusted ROCE	9.7%	10.4%
Full year ordinary dividend (p)	10.8	10.8
Share buyback (£m)	140	260

FY 18/19 summary cash flows



2.6x Lease adjusted net debt to EBITDAR

c. 2x Adjusted for IFRS 16 (estimated)

FY 19/20 outlook & summary guidance(1)(2)

Sales outlook	▪ UK – heightened level of uncertainty – annualisation of discontinuation of installations (c. 1-2% impact to B&Q H1 19/20 LFL) ▪ France – weaker housing data; encouraged by Castorama's start to the year ▪ Poland – loss of one further Sunday of trading per month (3 non-trading Sundays; previously 2)
Gross margin	▪ Gross margin after clearance expected to be flat(3) ▪ Includes c. £25-30m incremental clearance costs (H1 19/20 weighted) associated with the implementation of new unified ranges including kitchens in B&Q
Costs	▪ Transformation P&L costs in FY 19/20 expected to be c. £60-80m ▪ Transformation exceptional costs in FY 19/20 expected to be c. £40m ▪ Total transformation costs over 5 years to FY 20/21 expected to be less than £800m
Tax	▪ Group adjusted effective tax rate expected to be around 26-27%, subject to the blend of profit within the companies' various jurisdictions, as well as the timing of exits from Russia and Iberia
Cash flow	▪ Total capex (including transformation) of up to c. £375m ▪ Stores considered for closure: cash costs expected to be covered by disposal proceeds

(1) Guidance given before the impact of the new lease accounting rules per IFRS 16
(2) See FY 2018/19 final results announcement for full technical guidance
(3) Gross margin movement excluding Russia and Iberia

Impact of IFRS 16

- Adopting full retrospective transition approach from 1 Feb 2019

- No adverse impact on cash flows or underlying economics

- Indicative impact on FY 18/19 income statement (non-cash):
  - Retail Profit +£160m
  - No material impact on underlying pre-tax profit

- Indicative impact on 31 January 2019 balance sheet:
  - Right of use asset recognised of c. £2.0bn
  - Lease liability recognised of c. £2.6bn

- FY 18/19 Adjusted net debt to EBITDAR expected to improve from 2.6x to c. 2x
  - Reflecting lower IFRS16 lease liability compared to 8x property operating lease rentals

More detail in Appendices
Indicative IFRS 16 impact on FY 18/19 income statement rounded to the nearest £10m
Indicative IFRS 16 impact on FY 18/19 balance sheet rounded to the nearest £100m

Financial summary

1
Gross margin up 30bps for year excluding Castorama France. Group margin up 30bps in H2

2
Unified & unique sales and margin growth

3
Mitigation stock eliminated. Balance sheet remains strong

4
Outlook for our main markets remains mixed

5
Gross margin after clearance expected to be flat[1] in FY 19/20; several new range launches planned

6
Total transformation costs expected to be less than £800m guidance

(1) Gross margin movement excluding Russia and Iberia

Building a stronger Kingfisher for sustainable long term growth

Véronique Laury, CEO

The market and retail environment has changed since 2016

Volatile macro environment

- Weaker GDP growth in the UK
- Political uncertainty and social unrest
- Higher wage inflation (e.g. UK National Living Wage c. 5% pa, Poland c. 6% pa)(1)
- Significant cost price inflation

Unprecedented changes in retail landscape

- Rapidly changing consumer behaviour:
  - Always connected
  - On-demand services
  - Almost unlimited choice
  - Demand for seamless experience
- Retailers having to adapt quickly

(1) Based on 3-year CAGR (2015-2018)

The ‘engine’ is nearly built

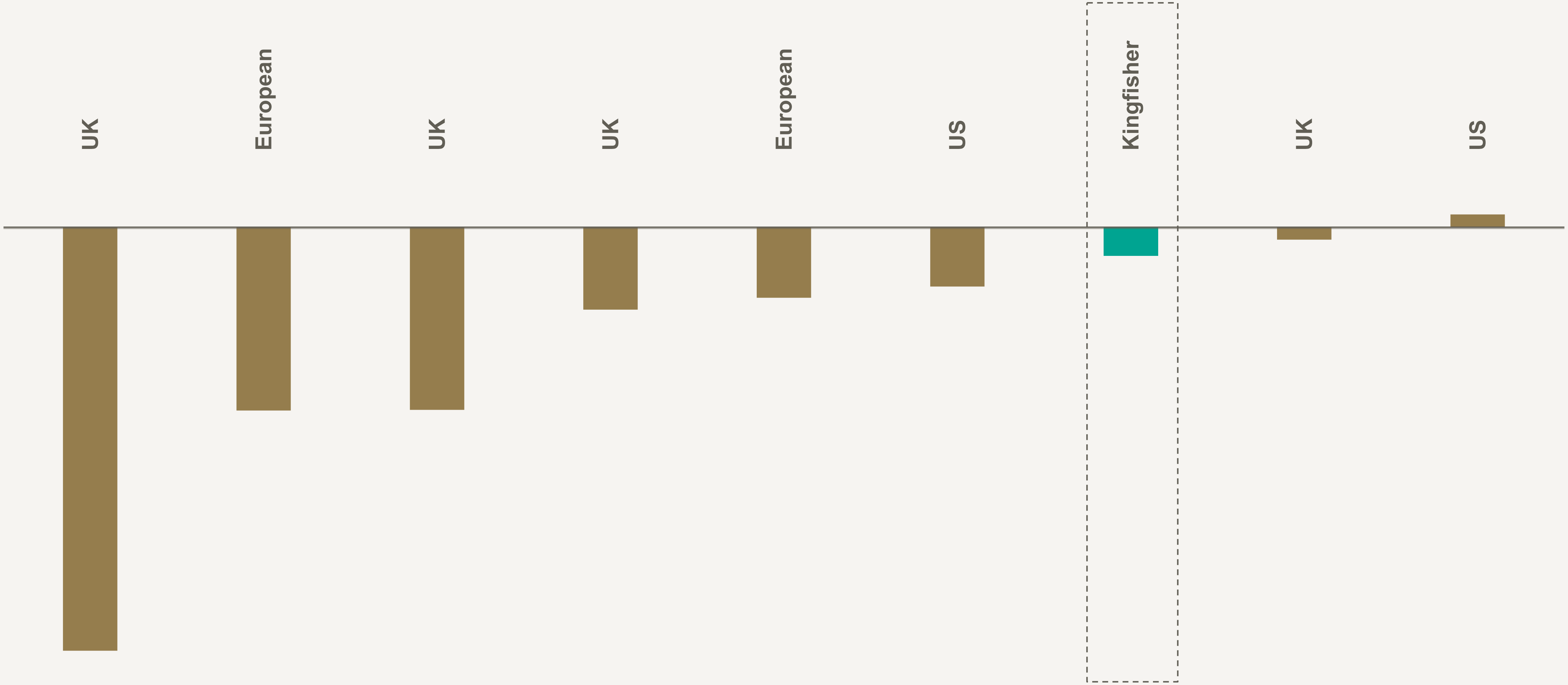
3 years ago	Today
Different IT systems	Substantial implementation of unified IT platform ✔
Inconsistent digital experience for customers	Launched digital ecommerce & services scalable for the Group ✔
Independent organisations at each operating company	New organisation in place, including unified ‘Offer & Sourcing’ organisation ✔
No common sourcing	More than 50% of ranges unified ✔
Local approach to operational efficiency	Group-wide approach to GNFR and finance shared services capability now established ✔

The strategy is working

Offer	▪ Delivering sales and gross margin growth in unified ranges
Digital	▪ Digital sales 6% of Group sales (vs 3% when we started)
Customers	▪ Price index improving in every market ▪ Net Promoter Score (NPS) improving in every market
Colleagues	▪ Engagement score (78) top quartile, stable and significantly higher than retail benchmark (66)

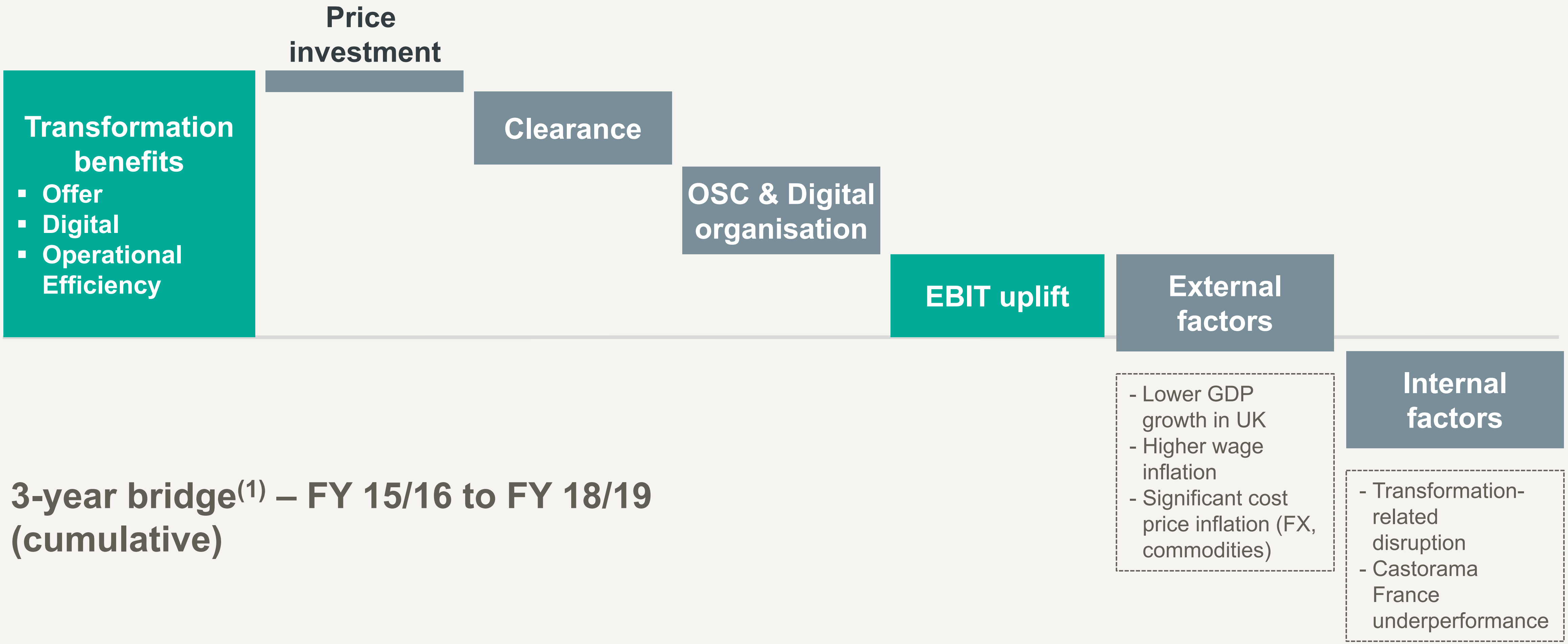
We have performed better than (or in line with) peers

Gross margin movement (last 3 years) for key Home Improvement retailers



(1) Source: Company reports and presentations

Transformation has delivered in line with our plan – but has been outweighed by external and internal factors



3-year bridge[1] – FY 15/16 to FY 18/19 (cumulative)

(1) In constant currencies

Clear priorities for the year

1 **Address underperforming parts of the business**

a) Address underperformance of Castorama France

b) Continue active management of our property estate

c) Focus on markets where we have, or can reach, a market leading position

2 **Extend roll out of Screwfix stores in the UK and enter new markets**

3 **Complete the building of the 'engine'**

4 **Make our innovation more visible to customers**

1a

Castorama France – progress update

Problem	Actions	Progress
Price gap versus competitors	Accelerate move to 'Everyday Low Pricing'	▪ Price index now at 101
Digital experience not good enough	Increase investment in digital and IT capabilities	▪ Unified IT platform implemented ▪ New ecommerce platform launched
Lack of new Offer	Introduce new unified and differentiated unique ranges	▪ Unified c. 50% of Offer ▪ Introduced new unique ranges
Behind market on overall customer perception	Make new Offer and improved price proposition more visible to customers	▪ Marketing campaign launched in late Q3 2018; price perception improving ▪ NPS improved c. 10pts since mid-2018
Transformation disruption	Reduce logistics & stock inefficiencies	▪ Improved stock position
Cost base	Implement variable cost reduction	▪ FTE reduction of 5%
Underperforming tail	Close underperforming stores	▪ Considering closure of 9 underperforming Castorama stores over next two years

1b

Continue active management of our property estate

2015	▪ Decision to close 65 B&Q stores ▪ Good sales transference; profit neutral
2016	▪ Focus on Screwfix expansion and increasing flexibility in estate
2017	▪ Praktiker Romania acquisition to secure no. 2 market position
2018	▪ Achieved rental reductions of c. 22% on B&Q lease renewals[(1)]
2019 onwards	▪ Considering closure of 15 underperforming stores[(2)] over next two years, taking advantage of end of leases and break options ▪ Pilot new store concepts, initially in France and the UK

Kingfisher Property

1,331 stores (627 Screwfix[(3)])

c. 45% of Group space owned
UK 12%
France 75%
Poland 80%

Weighted average unexpired lease term of 8 years
UK 8 years
France 4 years
Poland 6 years

c. 50% of Group leases by value with earliest exit within 5 years

(1) Annualised impact
(2) Including 11 stores in France
(3) Relates to Screwfix UK stores

1c

Focus on markets where we have, or can reach, a market leading position

- Russia & Iberia exit processes are ongoing
- Screwfix Germany – decision taken to close all 19 stores in FY 19/20, while retaining online presence

2

Extend roll out of Screwfix stores in the UK and enter new markets

5 years to FY 18/19 CAGR

- # of Stores **+13%**
- Customers **+15%**
- Sales **+20%**

Medium term growth plan

UK

- Strengthen proposition and extend store roll out
- Targeting c. 800 stores (previously c. 700)

Republic of Ireland

- Open up to 40 trade counters to complement strong existing online business

Rest of Europe

- Enter France & Poland, initially online

3

Complete the building of the ‘engine’

	Activities to complete engine in FY 19/20
Offer	▪ Already at critical mass – further unification being completed
Digital	▪ Launch ‘next generation’ ecommerce capability fully in all markets
Operational Efficiency	▪ Continue to implement shared services capability

4

Make our innovation more visible to customers

Launching new ranges across the year, supported by:

Growing our own brand presence

Improving affordability

Implementing new digital tools

Global co-ordinated marketing campaigns

Upskilling store colleagues

4

Make our innovation more visible to customers

Launching new ranges across the year

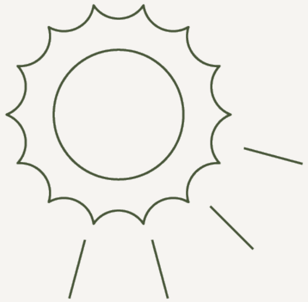
Summary & medium term shape

FY 15/16 to FY 18/19	FY 19/20	FY 20/21 – FY 21/22
Achieved critical mass of transformation	Complete the building of the engine	Continue to drive Offer and Digital benefits
	Ongoing operational efficiency benefits	Ongoing operational efficiency benefits
	Address Castorama France Exit Russia and Iberia; store closures Expand Screwfix in UK and enter new markets Make our innovation more visible	Update at Capital Markets Event 15 May 2019 – "focused on innovation"
	FY 19/20 guidance ▪ Sales outlook by country mixed ▪ Gross margin after clearance expected to be flat	**FY 20/21 and FY 21/22** ▪ Reduce clearance activity ▪ Reduce OSC & Digital dual running costs

Medium term shape

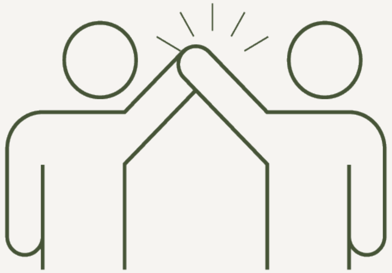
- Sales[(1)] ↑
- Gross margin % ↑
- Retail profit ↑
- ROCE ↑

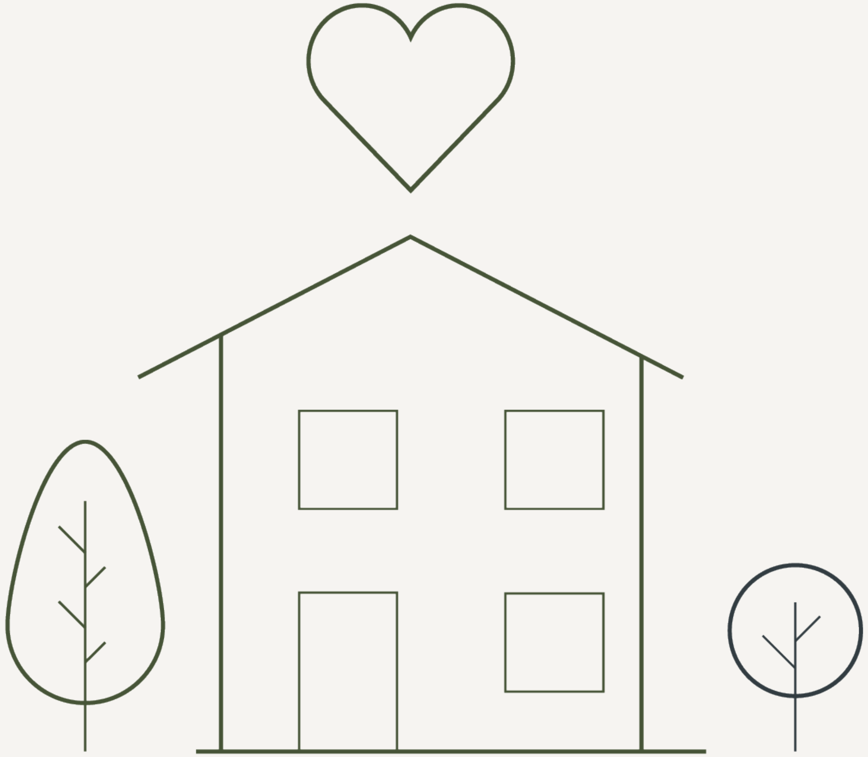
(1) Ongoing Group sales



Together we will make home improvement accessible.

For everyone.





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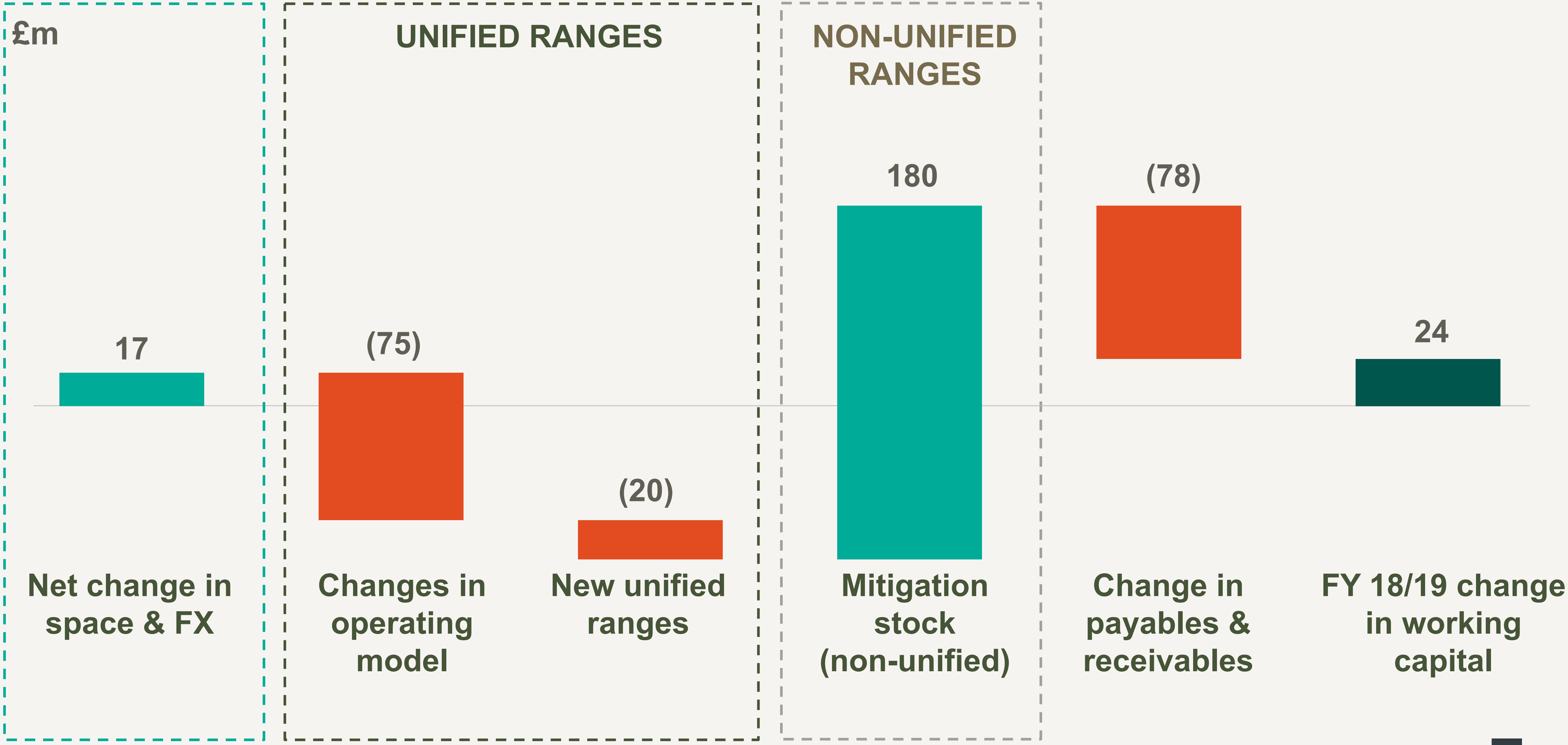
Appendices

Medium term shape

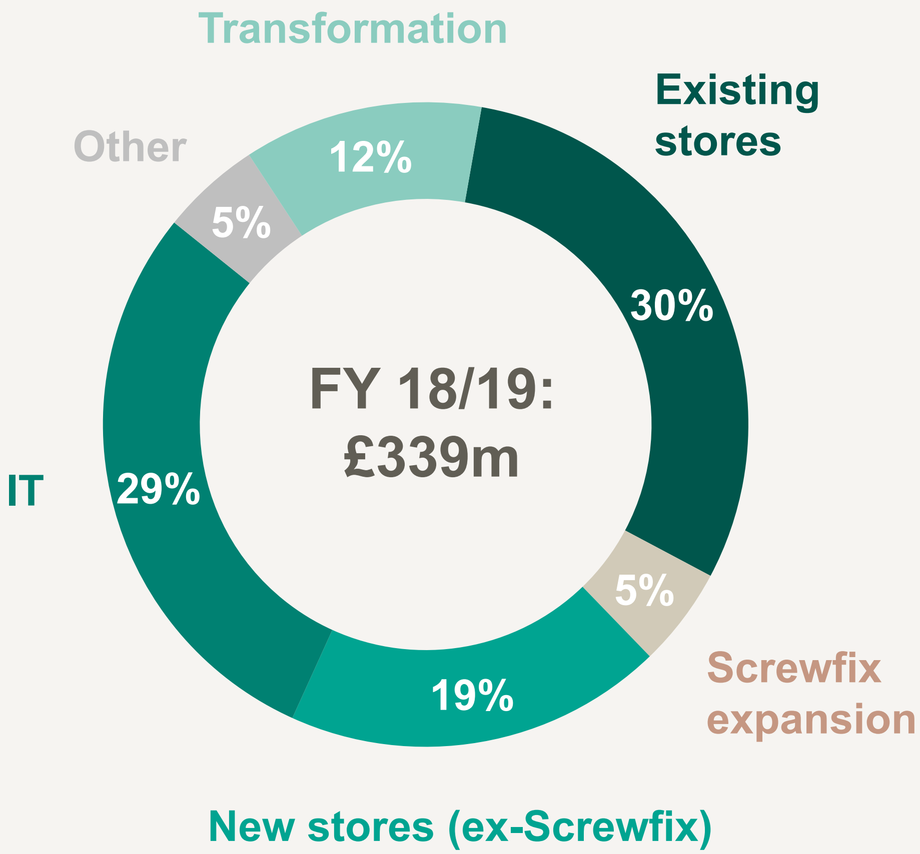
Metric	Direction	Drivers
Sales[1]	↑	▪ Increase proportion of Unique product ▪ Deliver incremental digital sales ▪ Further Screwfix roll out
Gross margin %	↑	▪ Deliver further sourcing benefits ▪ Reduce clearance activity ▪ Reduce logistics & stock inefficiencies
Retail profit	↑	▪ Net result of above actions and addressing underperforming parts of the business to deliver retail profit growth
ROCE	↑	▪ Disciplined capital allocation ▪ Working capital efficiency

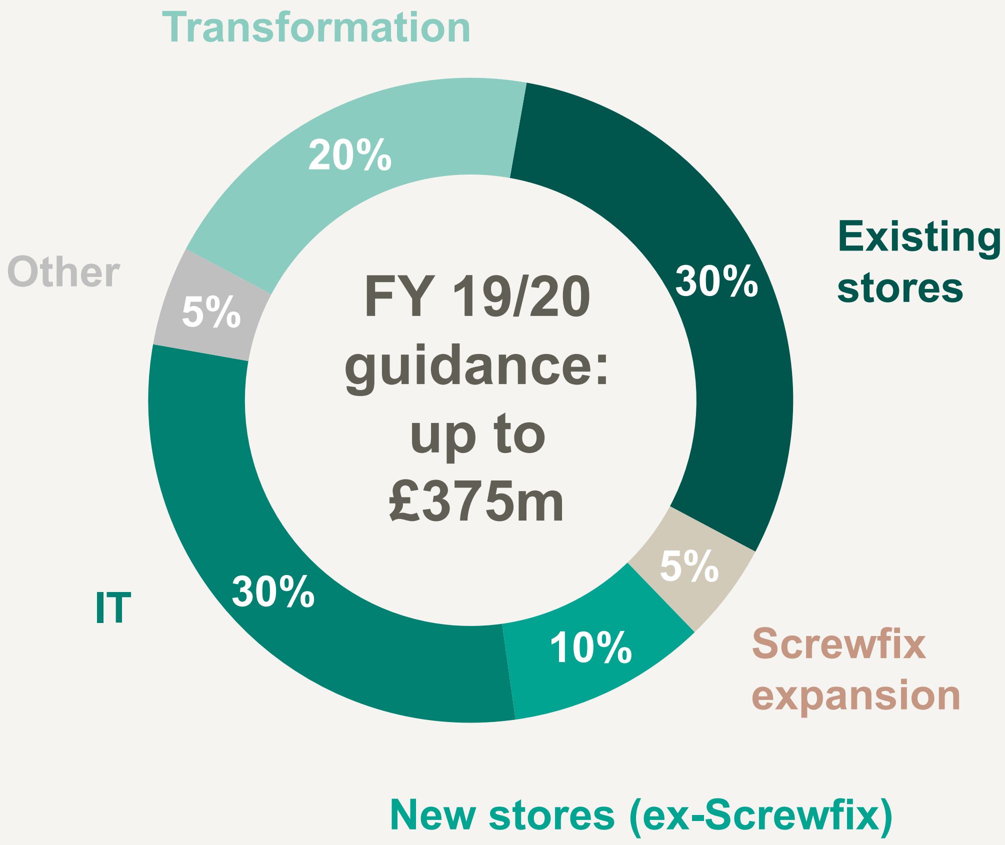
(1) Ongoing Group sales

Working capital – mitigation stock eliminated



Capex summary – FY 18/19 and guidance for FY 19/20





Net debt to EBITDAR reconciliation

	2018/19 (£m)	2017/18 (£m)
EBITDA[1]	856	943
Property operating lease rentals	425	408
EBITDAR	1,281	1,351
Net cash	(48)	(68)
Property operating lease rentals (8x)[2]	3,400	3,264
Lease adjusted net debt	3,352	3,196
Lease adjusted net debt to EBITDAR	2.6	2.4

(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

Impact of IFRS 16 on income statement

Indicative impact of IFRS 16 on FY 18/19 income statement (non-cash)

£m	Pre-IFRS 16	Exclude: rent	Include: depn.	Include: interest[1]	Total adjustments	Post-IFRS 16
Retail profit	**753**	**430**	**(270)**		**160**	**913**
Central costs / JVs	(53)				-	(53)
Finance costs	(7)			(170)	(170)	(177)
Underlying pre-tax profit	**693**	**430**	**(270)**	**(170)**	**(10)**	**683**

- Rent expense replaced by depreciation on right of use asset and interest on lease liability
- FY 18/19 retail profit expected to increase by c. £160m
- No material impact expected on FY 18/19 underlying pre-tax profit

IFRS 16 adjustments rounded to the nearest £10m
(1) Excludes FX relating to translation of leases denominated in non-functional currencies

Impact of IFRS 16 on balance sheet

Indicative impact of IFRS 16 on 31 January 2019 balance sheet

£bn	Pre-IFRS 16	Adjustment	Post-IFRS 16
Right-of-use assets	-	2.0	2.0
Other fixed assets(1)	6.3	(0.2)	6.1
Working capital	0.5	0.1	0.6
Provisions	(0.1)	0.1	-
Current and deferred tax	(0.4)	0.1	(0.3)
Lease debt	-	(2.6)	(2.6)
Financial net cash	0.1	-	0.1
Net cash/(debt)(2)	0.1	(2.6)	(2.5)
Other	0.3	-	0.3
Net assets	**6.7**	**(0.5)**	**6.2**

- Discounted future lease payments recognised as lease liability of c. £2.6bn
- Corresponding right-of-use asset recognised of c. £2.0bn

IFRS 16 adjustments rounded to the nearest £100m
(1) Includes goodwill, other intangible assets, property, plant and equipment, investment property and investments in joint ventures and associates
(2) Net debt under IFRS 16 comprises lease liabilities and financial net cash ('net cash' under IAS 17 excluding finance leases)

Steps taken to manage Brexit risks

Products

No significant change to **stock**

Tariffs & Customs

WTO tariff rate: zero-rate tariffs anticipated on most categories in a no-deal scenario

Customs measures implemented to avoid delays. Increased number of ports for deep-sea imports, and secured trusted trader status in the UK

Working with vendors to manage transition

People

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

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

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