S&P Global
Market Intelligence

Kingfisher plc LSE:KGF

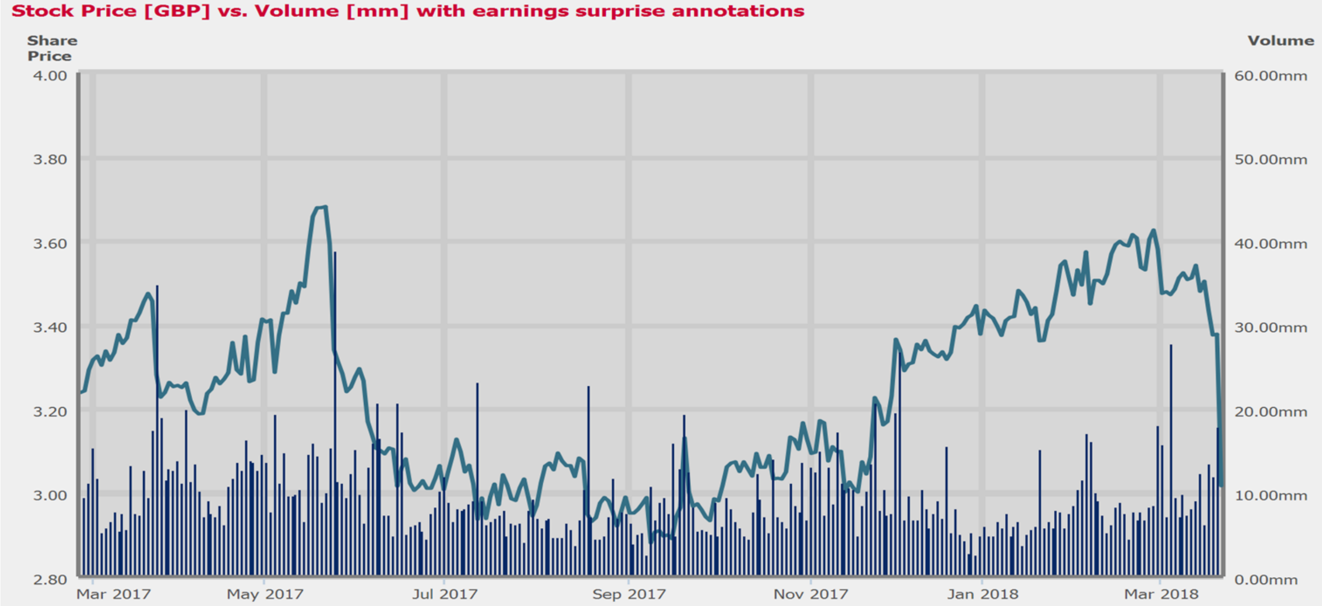
FY 2018 Earnings Call Transcripts

Wednesday, March 21, 2018 8:00 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2018-			-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.26	0.25	▼(3.85 %)	0.29
Revenue (mm)	11653.28	11655.00	▲0.01	11926.20

Currency: GBP
Consensus as of Mar-21-2018 7:37 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2018	0.26	0.25	1 (3.85 %)

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EXECUTIVES

Karen Witts
CFO & Director

Véronique Laury-Deroubaix
CEO & Director

Presentation

Véronique Laury-Deroubaix
CEO & Director

Welcome to the Kingfisher full year final results for the year ended 31st of January 2018. You may remember this slide from last time. So a reminder about how well positioned we are in what is an attractive market.

Our playground is Europe+; Europe, Russia and Turkey. 320 million homes in a market worth of GBP 240 billion, split 60% home improvers, 40% light pro. But it is still fragmented, demonstrated by us being #2 with roughly a 5% share. Home is really key to our customers, whose needs are more similar than they are different. It remains a top spending priority and 65% did a home improvement project last year.

Us within this market. Our biggest markets are the U.K., France and Poland, where we have strong market positions. Our big buying scale is supported by a global sourcing network. We are highly cash generative. Our balance sheet remain strong, supported by GBP 3.5 billion of freehold property. We are announcing today dividends up 4%, and we have continued to return surplus cash flow to shareholders via buybacks.

Now a very quick reminder of our 5-year transformation targets that we announced 2 years ago. As you know, we are targeting to deliver GBP 500 million sustainable profit uplift by the end of full year '20/'21, driven by these 3 strategic pillars, over and above what the business would have delivered, without the plan. I will cover this more later, but I characterize where we are today, is about building the engine for growth, creating a new operating model for home improvement.

I remain confident that our plan will succeed. Why? Because we are starting to see tangible delivery, the tangible green shoots of our delivery. The changes are now visible across our stores and online. Over 1/3 of our ranges have now been unified and they are being well received by customers. We are buying as ONE and are starting to see the customer and financial benefits coming through, both in sales with the new ranges outperforming old ranges and gross margins, which are up 180 basis points before clearance.

As we will talk to later, we are guiding to growth in unique and unified sales and higher gross margins next year. Our digital initiatives are also gaining momentum as we enter the final year of rollout of our unified IT platform. And I am pleased to see that our operational efficiency initiatives, focusing initially on goods not for resale, which to date has delivered GBP 58 million, and are now gathering pace as we start to unlock further opportunities.

There is a but. We delivered a big step-up in the level of transformation activity last year, and this has created disruption in the business. We have been very open about that. And this disruption has different lenses.

Firstly, for our customers. The reality is mixed when they shop with us right now. They are seeing the disruption in our stores, the clearance activity, product availability issues, aisles closed sometimes and people less focused to serve them, nothing surprising when you do big refurbishment. They have a mixed digital experience as well. And although we are investing in lower prices as we roll out our unified and unique ranges, this takes time to feed through and resonate with our customers as they do not naturally shop for home improvement that often.

We are not, however, standing still. We are acting on the causes of this disruption and adapting our approach as necessary. We have dedicated range change teams working out of hours as much as possible, as we’ve touched around 25% of our physical space last year. We have processes in place to control the clearance of old ranges to make way for new ranges.

This has worked well. And we now have group digital trading teams based locally in B&Q and France to support our digital ambitions. And to de-risk the customer experience whenever possible, we have invested in more stock to improve product availability for our customers. Our business can support this given our strong balance sheet. We have to do what is right for our customers. Our reality is that we have probably lost some customers, but we are working hard to reverse this.

Karen will go into more detail on stock later, but I wanted to stress that this has been a conscious decision, and you have probably seen for yourselves that availability is starting to improve. Also, the lion's share of this mitigation stock will reverse being core, fast moving lines.

Secondly, on to our 77,000 colleagues. This is indeed a tough time inside the business. The pace of change is quick and impactful, but necessary as we build the new ONE Kingfisher engine to support our ambition to be the leading home improvement company. We are now nearly half-way through our 5-year transformation. We are, therefore, living in a world where we have as much of the new alongside as much of the old. This is a challenging environment, but our reality.

We have our unified IT rollout, which puts pressure on some of our business functions. We have new ways of working and new processes with steep learning curves. So it, of course, takes time for change to bed down in the business and for capability to build. Our best example would be our Offer and Supply Chain organization where teams are working as ONE with unified global functions and accountability for the first time. This was set up in 2016, but is of course evolving and improving as we go.

I was delighted to see how engaged our colleagues are despite this period of change. We had an 80% response rate from our newly launched real-time engagement tool. This was extended to all 77,000 of our colleagues. Our score significantly exceeded both the retail benchmark, including companies like Nike and Home Depot, and the all-industry benchmark. It was even higher for the leadership team.

And as we are not standing still for our customers, we are not standing still for our colleagues either. As many of you know, given the increased level of change, we appointed Steve Willett as Chief Transformation Officer in the summer last year. We are prioritizing the multiple transformation work streams with a phased approach, flexing where necessary.

For our colleagues in stores, we launched a home improvement academy. Firstly, last September on bathroom and more recently on outdoor ranges in February. ONE learning experience, the first-ever company-wide learning event for store colleagues to ensure ONE customer experience. Over 1,000 participated in each event with ambassadors from every store.

It really feels to be like momentum is building with wider sharing. We are really starting to do things together as ONE. Concrete examples for me are OSC hosting our first ever group-wide own brand product show, where we also hosted our Capital Markets Day late last year. 2,000 of our colleagues visited this product show to learn more about the ranges they will see this year. And more recently, our first ONE conversation, a live, 2-way linkup of 8 locations, involving over 3,000 leaders and store managers from all parts of the business. This generated record internal Facebook yammer posting and comments and felt like a big step forward for the business in terms of wider sharing and support of the ONE Kingfisher strategy. I personally want to thank all our 77,000 colleagues for their ongoing commitment and enthusiasm.

And as we transform, the world is changing around us. And the external backdrops across our major markets are indeed mixed. The U.K. is more uncertain. The market feels like it has become tougher as the year has progressed, as we have referenced from softer big-ticket sales in Q4 across both businesses, especially B&Q. The backdrop in France is encouraging, though volatile. You can see this from the Banque de France data. And the market in Poland remain supportive, though we will need to see the impact of the Sunday trading ban which has just come into effect.

And of course, our competitive environment remains intense, although different by market, with some markets more intense than others.

Overall, despite the pace of change and the disruption we have been experiencing, we have delivered all our key strategic milestones for the second year in a row, and we have continued to return cash to our shareholders. But before I get more into the wider update on our strategic milestones, I will pass to Karen to take you through our full year numbers.

Karen Witts

CFO & Director

Good morning, everyone, and thank you for listening in today. I'm going to take you through our financial highlights for the year, starting with the income statement. There is more detail in today's release, but I would like to pull out the key headlines in each of our major geographies. Then I will move to an update on the balance sheet and uses of cash and return later to talk about our guidance for this year ending January 2019.

So starting with the income statement. On a constant currency basis, total group sales were broadly flat at GBP 11.7 billion, with like-for-like sales down 0.7%. We estimate that business disruption, linked to our transformation work, had a negative impact of approximately 1.5 percentage points on sales. At a group level, gross margins were down 20 basis points in constant currency. I'll cover this in more detail on the next slide.

Retail profit of GBP 849 million was down 3.6% on a constant currency basis. This was mainly driven by the sales decline, partly mitigated by cost reduction initiatives, including GBP 28 million of goods not for resale benefits. By way of reminder, all underlying metrics are before transformation costs.

Underlying profit before tax was GBP 797 million, up 1.3%, in line with reported retail profit. This included GBP 34 million of favorable currency impact. Our effective tax rate increased by 4 percentage points to 30%, mainly reflecting the impact of a GBP 20 million corporate tax surcharge in France, which we do not expect to recur. All earnings per share measures include the tax surcharge, which has a 0.9p adverse impact.

Underlying earnings per share of 25.5p were down 0.4p, reflecting the adverse impact of the French tax surcharge, partly offset by a positive impact from the share buyback. Adjusted profit before tax of GBP 683 million was down 8%, reflecting a GBP 114 million of transformation cost charged to the P&L, up from GBP 44 million this time last year. This was lower than the GBP 130 million we guided to.

Statutory profit before tax was down 10% to GBP 682 million, slightly more than the adjusted profit before tax, largely reflecting an exceptional gain of GBP 17 million in last year's comparative.

At a group level, gross margins were down 20 basis points in constant currency, in line with our guidance at the start of the year of broadly flat. The benefit from work on our unified and unique offer at a group level was 40 basis points increase. This equates to 180 basis points of growth in gross margins from our unified and unique sales, reflecting cost price reduction in line with our plan.

The clearing of old ranges to make way for our new unified and unique ranges, as we physically impacted 25% of our store space this year, cost 50 basis points. The gross margin on the rest of the business, including stronger foreign exchange headwinds in the U.K., was down 10 basis points overall.

I'd now like to describe the movement from underlying profit before tax, through to statutory profit before tax for the full year. Underlying profit of GBP 797 million includes GBP 28 million of GNFR benefit, but is before GBP 114 million of transformation costs, when our guidance was up to GBP 130 million. These transformation costs largely relate to the remerchandising work associated with introducing our unified and unique offer, including incremental in-store labor costs and point-of-sale change, and to the costs of improving our digital capability. Adjusted profit is therefore GBP 683 million, which is before exceptional items. After an overall net GBP 1 million exceptional charge, statutory profit before tax was GBP 682 million.

The GBP 1 million net exceptional charge reflects GBP 15 million of reorganization costs relating to our transformation. This was below our guidance of GBP 30 million, mainly reflecting timing. And we reflected a GBP 14 million exceptional gain, driven by the success of the B&Q store disposals that we talked about at the half year.

I'll now cover the key results in our major geographies. In the U.K. and Ireland, like-for-like sales were up 0.6% with a 2.8% like-for-like sales decline at B&Q more than offset by 10.1% growth at Screwfix. B&Q's 2.8% like-for-like sales decline reflects around 1.5 percentage points of transformation disruption, but includes 1% of sales transference impact from the annualization of store closures completed last year.

Digital sales grew 11% over the year with click & collect growing by nearly 90%, and digital sales now represent 4% of total sales. Screwfix's growth continues to be driven by its specialist trade desks, exclusive to plumbers and electricians, and by its strong digital capability with mobile sales up 86% and click & collect sales up nearly 40%.

We opened another 60 new outlets during the year, mainly weighted to the second half of the year, taking the total to 577 versus our longer-term target in the U.K. of 700. We now have over 70 outlets in Greater London. The more centrally located stores are typically smaller than average formats and demonstrate the adaptability of the Screwfix model and the ability to reach more customers.

U.K. and Ireland gross margins were down 30 basis points, reflecting the stronger foreign exchange headwinds in the second half of the year, but retail profit was up 5%, reflecting strong cost control. In quarter 4, however, we experienced softer like-for-like sales across both businesses with B&Q down 5% and Screwfix up 7%.

In B&Q, footfall was weaker, and we believe there was softer demand for big ticket items such as kitchens. In Screwfix, given its scale, we'd always expected some slowdown in like-for-like sales, but we've also seen some evidence of softer demand.

In France, like-for-like sales were down 3.5% with Castorama like-for-like sales down 2.4% and Brico Depot down 4.8%. This performance also reflects around 1.5 percentage points of transformation disruption and was weaker than the Banque de France home improvement sales data for the same period.

In quarter 4, our like-for-like sales improved to broadly flat; however, the market has been volatile across the year. Gross margins were broadly flat after price investment. Retail profit was down 14.8% with the impact of weaker sales partly offset by good cost control.

A year ago, we outlined the ONE Kingfisher initiatives to drive our business in France, and whilst there is no quick fix, we have made progress against all of them.

Across the year, we've been investing in price, principally in Castorama and behind our unified and unique offer. Our price position has improved from 108 in September 2016 to around 104, and we're on track to improve it further, to make home improvement more accessible for everyone. We have also improved the customer proposition with around 1/3 of our ranges now new and in-store and online, such as the new unique bathroom ranges that are selling well in both Castorama and Brico Depot.

And from a digital perspective, following the rollout of our unified IT platform in Castorama, we relaunched the website at the end of January. The website has improved search, better navigation and easier checkout and is mobile-friendly. Whilst it is clearly still early days, we're encouraged by the performance so far with conversion up around 20%.

In our established Other international businesses, Poland, Russia and Spain, like-for-like sales increased by 1.8%. Sales declined in Spain and Russia, but Poland had another good year with like-for-like sales up 5.3% despite some disruption, following good trading in a supportive market. Gross margins in Poland were up 10 basis points and retail profit was up 8%, driving an overall 3.3% increase in retail profit for established Other international.

And finally, on to our newer development businesses in Romania, Portugal and Screwfix Europe. Losses of GBP 17 million were GBP 1 million lower than last year and broadly in line with our guidance of a GBP 15 million loss for the full year. Romania delivered a profit of GBP 3 million versus breakeven last year, but this also includes 1 month's trading from the Praktiker acquisition. The Praktiker acquisition more than doubles the size of our Romania business, giving us national reach and establishing us as the #2 player in the market. As we integrate Praktiker into our ONE Kingfisher plan, we would expect the overall Romanian results to be broadly breakeven next year.

The overall losses mainly relate to Screwfix Germany and the annualization of stores that opened in the previous year. As we have previously said, we won't open any more stores until the unified IT rollout is complete.

And now on to cash and return. Our year-end net cash position was GBP 68 million after the planned step up in transformation costs, higher working capital and the increased share buyback amount versus the previous year. I'll cover this in more depth shortly.

Our key returns metric, leased adjusted return on capital employed, declined by 210 basis points from 12.5% to 10.4% this year, largely reflecting the impact on our profit of the increase in transformation costs, an increase in the tax rate driven by the one-off tax surcharge in France and higher working capital. At a group level, the impact of the transformation costs on ROCE was 70 basis points and the French tax surcharge was 40 basis points.

I am pleased to report that the board is proposing a final dividend of 7.5p. This results in a full year dividend of 10.8p; a year-on-year increase of 4%, covered 2x by adjusted earnings and representing a dividend yield of 3%. Dividend cover excluding the French tax surcharge impact was 2.1x. In addition to the ordinary dividends of GBP 231 million, we returned GBP 260 million to shareholders via share buyback, a GBP 60 million increase on last year, taking the cumulative amount to GBP 460 million of the GBP 600 million that we committed to return over the over the first 3 years of our 5-year plan. We're restarting our buyback today, announcing a further GBP 40 million of the remaining GBP 140 million.

And now on to the usage of cash in more depth. During the year, we generated nearly GBP 950 million of EBITDA. After a GBP 372 million outflow of working capital, largely relating to increased levels of stock, operating cash flow was GBP 557 million. We invested a further GBP 368 million of this back into the business. We'll come on to CapEx guidance for this year later in the presentation. We returned a further GBP 491 million to shareholders via ordinary dividends of GBP 231 million and GBP 260 million of share buybacks. Although our lease adjusted net debt to EBITDAR ratio has increased to 2.4x, our capital structure remains within our targeted range, and the group continues to have financial flexibility whilst retaining an efficient cost of capital.

Turning now to working capital. The GBP 372 million outflow in the year is largely driven by an increase in stock, most of which relates to where we're in our transformation. As Vero said earlier, our reality is that we're transitioning between our old world and our new world, and this is currently creating some inefficiency. The impact of this stock increase on cash flow breaks down into 3 main elements. Firstly, the impact of growth and foreign exchange, which are a normal aspect of our business. We have more stock in the business relating to new stores in Screwfix and Poland and the acquisition of Praktiker Romania. This amounts to around GBP 70 million. Foreign exchange impact is another further GBP 20 million. So combined, this is around GBP 90 million.

The second element relates to the move to unified product ranges. In order to sustainably leverage the scale of our group, we're changing our operating model and controlling more of the supply chain than we used to. Costs, which used to be in the cost of product we bought from distributors, are now in our supply chain. Around GBP 105 million of the increase in stock is a reflection of the move to this model. For the time being, our reality is that we're not currently getting the benefit of having fewer SKUs across the business. Longer term, however, we're confident that we can drive working capital efficiencies within our new operating model enabled by the unified IT platform, which, this year, enters its final year. New unified ranges increased stock by further GBP 85 million. First-time purchases of new ranges were higher than normal as we need to fill the displays and support initial sales for our customers. So combined, this element is around GBP 190 million.

And the third element relates to decisions that we've taken on fast moving but non-unified categories. Given the disruption that we have encountered, we took a decision to de-risk our customer experience by carrying some mitigation stock, focused on improving product availability for our customers. We would rather take the cost of carry than lose the sales and perhaps ultimately lose the customer. This amounts to around GBP 180 million of non-unified stock on fast selling lines. Our strong balance sheet supports this course of action. We do, however, have stock reduction plans in place this year to address this mitigation stock.

To summarize the year, our gross margin performance was in line with our expectations with the benefits of buying as ONE really starting to come through. Our operational efficiency initiatives are on track and transformation costs are broadly as expected. Our balance sheet remains strong and able to support volatility despite the working capital outflow this year, and we're continuing to return surplus cash to shareholders, as planned.

I'm now going to hand over to Vero, but will return later to cover our guidance for full year '18 and '19.

Véronique Laury-Deroubaix
CEO & Director

Thank you, Karen. So as I said earlier, we've delivered all our key strategic milestones for the second year in a row. We've delivered 23% unified COGS, we have completed the second year of our unified IT platform rollout, alongside delivering better e-commerce. Karen mentioned the launch of our new Castorama France website just now, and we have also built the new mobile platform, launched already at B&Q. And we've delivered a further GBP 28 million of GNFR benefits.

Let's now do more of a deep dive on each of these areas. So starting with unified & unique; high level first, before going into more detail. Our plan, as you know, is customers first. Customers benefit from newer products, better prices, higher quality and sustainability and simpler ranges. Our plan also creates business benefits; higher sales, cost price reduction, improved processes, over time, operating with fewer SKUs and suppliers. Broadly, the GBP 350 million of the overall GBP 500 million we expect to deliver equates to 5% CPR on our GBP 7 billion of buying scale. However, not that we could labor this before, not having any tangible products to show you, but the reality is that our plan is about higher gross margins and higher sales; higher sales driven by unique ranges.

So what are we seeing? I am seeing early tangible evidence of delivery. Unified and unique sales are growing. New ranges are outperforming old ranges. We have great feedback from customers and colleagues. Gross margins, in this case pre-clearance, are also growing, up 180 basis points, and this is after some price investment where it is needed. As you heard earlier from Karen, our price investments in France are gaining traction.

Global SKU numbers and suppliers' numbers are coming down by around 80% through a fair and open tendering process. We see CPR coming through. And we are now at 23% unified with an exit rate of 35%, covering 62 categories in all from underlays to stick timber. Of course, not every category is a positive story, but overall, I am very pleased with our progress.

So let's look at the picture overall. Firstly, sales. I am quoting here the full year sales excluding clearance for unified and unique ranges. On that basis, they are up 1%, and they've improved as the year has progressed. Better in H2 than in H1, which is encouraging, and this despite the disruption we’ve experienced. Of our 7 categories, like bathroom and storage or building and joinery, excluding clearance, 5 out of 7 categories have grown sales overall and 2 were slightly down. So not bad so far.

Sales overall for the group, though, are down 0.3%, as Karen referred to earlier. This number includes clearance. So if we include clearance, unified and unique sales are flat, so better than the overall group performance. As I said on the previous slide, our plan is about driving growth, driving higher sales, and we are seeing this happen in the numbers, even if it's early days.

Just to clarify what we mean by unified and unique using the bathroom and storage category as an example. Unified ranges are ranges where we're simply rationalizing the number of individual SKUs and suppliers, like kitchen taps as an example. Leveraging our scale, this generates cost price reduction and better prices for customers whilst improving the quality and functionality wherever possible.

But we are also creating unique ranges like bathroom storage furniture, as you see here. This is where we are developing and designing product ranges ourselves that excite customers, entirely new and unique product ranges created by us, based on our deep customer knowledge that are not available elsewhere. Kingfisher IP, so Kingfisher own brand. And we can see that growth in unique ranges are ahead of unified. This does not surprise me at all. Unique bathroom furniture is up 39%, well ahead of the entire category. The mix so far, though, is weighted to unified. In time, the more unique we have in the mix, which implicitly takes longer to materialize, the more this will drive our overall sales.

Now on to gross margins. CPR is coming through. Gross margins on unified and unique ranges are up everywhere, overall up 180 basis points excluding clearance. We expect to continue to deliver margin improvement next year from the range that rolled out last year, as it sells through. And we are very confident this will continue. Karen will provide our gross margin guidance for this year a bit later, which we expect will be up overall, rather than broadly flat last year.

Let's now look at the unique case study in more detail, followed by a unified case study. So unique first. Here, we are looking at the whole category of bathroom and storage, which represents almost 10% of total group sales, which include some of our key unique categories this year. Overall, unique represents just over 1/3 of this category, reflecting the new ranges we have in bathroom furniture and showers. You can see here that the whole category is up 11% at a group level, and it is being driven by the performance of unique. The numbers here speak for themselves.

And I have said it before. We know, through our deep understanding of customer insights, that customer needs are more similar than they are different. So it is not a surprise to us that we see strong outperformance of these unique ranges across all our major geographies and in our small geographies too, like Romania where sales are up 26%. In the U.K., sales have doubled from a low base. Volumes are ahead of sales growth to which is even more encouraging.

Sales of showers have also performed well across all key markets. The U.K. is a bit lower, where the ranges have only recently been implemented, but still encouraging. And as I said to the last slide, new ranges overall are outperforming old ranges. And the growth has improved in H2 versus H1 with improving availability.

On gross margins. In total, gross margins are up on unified and unique ranges by 180 basis points. However, this category, which has a higher proportion of unique, has even higher gross margin. That's good news for the evolution of our gross margin. This really shows that -- what we can achieve as a business when we design our own unique ranges. So unique drives sales and margin.

Let's now look at the more basic unified ranges, sealants and foams. So sealants and foams sit within our building and joinery category and meaningful in terms of contribution. This product, as you will know, is bought by home improver and pros and is a critical product, nobody wants a poor seal, but generally not easy for home improvers to shop. This is a great example of where we have taken a great quality product already in the group, in this case Screwfix, and rolled it out across the wider group with the retail own brand packaging. But you cannot sell sealants without the sealant guns. So they've naturally been unified at the same time, better quality and significantly better prices.

We have also made it easier for customers to shop with clearer merchandising and less complexity of range, it was not very clear previously, and easier for colleagues too with shelf-ready packaging.

So the result so far? Well, this was only implemented in H2, but even so, sales are slightly ahead excluding clearance, selling prices are 3% lower overall for customers. Gross margins are up, as you would expect. We are working with far fewer suppliers and less global SKUs, really leveraging our scale, as we should be, which is generating double-digit CPR, CPR that benefits Screwfix alongside the other businesses, and some of which has been used to invest in sharper prices for our customers.

Now on to digital, which will contribute GBP 50 million of the overall GBP 500 million. As you know, our unified IT platform is a key enabler for ONE Kingfisher. Given B&Q and Castorama France, over 50% of our group sales are now on the new platform. As we said at our half year results, we have revised our rollout plans to pull forward the larger operating companies, being Brico Depot France and Castorama Poland. Previously, their implementation was planned for later this year. For both OpCos, build is underway and implementation has started. We are now entering our final year of rollout.

Our digital plans, levering Screwfix's best-in-class capability, follow closely behind the IT rollout, so B&Q is more advanced. We now have market leading 1-hour click & collect in all stores. Group online sales are now at 6%, up on last year, driven by B&Q, which has grown from 3% to 4% and in Screwfix up from 25% to 28%. Click & collect remains the most popular channel, representing 55% of digital sales, the 45% balance from home delivery. This is driven by Screwfix which is 2/3 click & collect versus B&Q on 25%

click & collect. Click & collect is, however, B&Q's faster growing channel, up from 15% last year, no doubt helped by its own 1-hour click & collect.

France remains at 1% digital sales, though, as Karen mentioned earlier, conversion since launch of Castorama's website is up around 20%. Our new group mobile platform has been built to be multi-market. So although it has already launched at B&Q, it will soon be arriving in France for Castorama, following the recent launch of their new website, which you saw earlier. The new group app is even better than Screwfix. It is market leading, sub-1 second, and includes great customer-focused features, including scanning product codes. Since launch, the B&Q app is delivering higher ATV and conversion. App users are worth twice the value of website users.

We said at our Capital Markets Day that if we grow our group conversion rate from around 1.5% by only 0.1%, then that is worth GBP 40 million of extra sales for us. Also, engagement from both customers and colleagues has been excellent with a near 5-star rating on the App store. In terms of desktop, we are building our group capability to be as quick and agile as mobile. This will be arriving soon for B&Q and in the next few months for Castorama.

And finally, we are making good progress on our wider digital tools that we are developing to help customers with their end-to-end home improvement projects. The first one of these is the bathroom planner tool. This is now available on the B&Q website and is proving popular. Even though only a soft launch at this stage, it has already had over 60,000 sessions, saving nearly 3,000 floorplans. There will be more to come this year.

Now on to operational efficiency, which will contribute GBP 100 million of the overall GBP 500 million, driven by goods not for resale. By operating more efficiently, we will become a truly low-cost business. ONE Kingfisher means we'll collaborate and do things together once, and this program is an evidence of that. For the second year in a row, we've delivered ahead of our target milestone. Now we are almost 2/3 the way through our target having delivered GBP 58 million of the GBP 100 million. The examples here speak for themselves. Media buying from 8 suppliers to 1, generating a 7% saving. And HR services, we are now -- have ONE tender approach across areas such as recruitment and learning and development, generating a 10% saving.

Moving forward to year 3 of our 5-year transformation. Firstly, our strategic milestones. As you can see, this year will be another step change year of implementation. Unique and unified offer; our target is to move from 23% unified cost of goods sold to 40% and to deliver growth in unified and unique sales. I will come back to that.

Digital. We are entering the final year of our unified IT platform, and we will make further headway with our e-commerce rollout, alongside full launch of more of our home improvement digital services.

Operational efficiency. We are starting to unlock further operational efficiencies beyond GNFR. Our target is to deliver GBP 30 million of benefits this year. I will cover this more in a moment.

And finally, retail operations. I speak to our already high engagement scores versus the retail sector. Our colleagues are vital to the success of our transformation, and it is personally extremely important to me that they remain as engaged as ever as we continue into another step change year of implementation. So our target is to maintain these already high engagement scores.

So just a couple of slides now covering our offer and efficiency. Unified and unique, another big year, another big year of physical change and clearance. I mentioned earlier that we have 60 (sic) [62] unified and unique ranges so far, 14 in year 1 and 48 in year 2. We will tackle another 52 this year. Given the lead times, negotiations are well progressed to deliver another big year, from 23% COGS to 40%. As I said before, unique ranges are expected to drive sales growth as they have started to last year.

So what can you expect to see in stores and online this year? On our unique ranges like bathroom furniture, the ranges implemented last year are not one-off. They are core programs that customers will learn to love and rely on. We have a great platform, however, to expand on, not replacing the existing, but adding to the existing. We will be adding a wood finish to the range and also a higher price point Scandinavian look, both of which you can see in this picture.

You can also expect to see more of the wider bathroom project as we start to implement sanitary, including our first rimless toilet, at an amazing entry market price. This is a great example of how we are democratizing higher-end products for the many, making home improvement more affordable to more people. I will leave you to work out, however, what the benefits are to customers of a rimless toilet.

And finally, paint, a very big category to use, which you can imagine, represents a significant CPR opportunity for us. There are, of course, many other ranges that we will land this year, including hand tools, which I will cover briefly next.

Some of you may have seen these in stores and online, as you see here. Our new flagship hand tool range for the group is launching now across our geographies. It builds on the already strong Kingfisher own brand heritage in Brico Depot. In fact, so popular in France, it even has a fan club. The range has been updated and improved to meet and exceed the needs of both our home improver and pro customers. The products are tough, durable and reliable, and are packed with features that translate to genuine customer benefits. We have improved the quality and functionality of the range, and the range now covers more customer needs than it did previously.

For example, we are now selling saws for PVC in the U.K., which was not the case previously. A simple example of taking best practice from around the group as we rebuild these ranges bottom up. Also, each of the tools comes with a market-leading guarantee of either 5 years or a lifetime. And of course, all at great prices. We do expect that our own brand participation in this range to be higher than it was previously, to build to around 2/3 over the next 18 months from where it is today at 45%.

The unification process reduced our global SKU count by over 80%, from over 8,500 overall SKUs to under 1,500. So it's still a big range. This in turn allowed us to review our merchandising, helping customers buy the right tool for the job without overwhelming them with too much choice. Just the right tool for the job. Initial customer reactions are very positive with online reviews averaging around 4 stars.

Now less from me, let's listen to our teams talking about this great new range.

So as I said before, we are now starting to unlock further operational efficiencies beyond GNFR. Our unified IT platform is the key enabler that unlocks the start of this next phase of operational efficiency. This has started already with shared services center activity. We have so far had little shared services capability beyond IT. We opened a shared service center in Krakow, Poland last year, Krakow being the European center of excellence for shared services. This year, we will roll out finance shared services to at least 2 of our operating companies. The combined benefit from further GNFR and other efficiencies is expected to be around GBP 30 million. And work is underway to unlock further operational efficiency initiatives, which we will update you on in due course.

So as I have said a few times today, we are in this phase of building the ONE Kingfisher engine that provides the platform for growth. By operating more efficiently, we will become a truly low-cost business. This means radically reorganizing. We started with the creation of our Offer and Supply Chain organization. And just now I talked about our new shared service center and further work is underway as we start to reorganize our wider operating model.

We are rolling out our unified and unique offer, as you know, and this continues into this year, leveraging our group scale. We continue to roll out our unified IT platform, now entering its final year of implementation. This is a key enabler, including developing our supply chain capability, and we are developing our digital capability, leveraging our Screwfix best-in-class capability. Going forward, this new engine provides the platform for growth. Our unified and unique offer will provide growth, driven by our unique ranges. The seamless and stronger digital offer for our customers will also increase sales and digital penetration.

And then there is the opportunity to develop how we combine the best of our physical and digital assets, to provide customers with what they want, engaging experiences alongside ultimate convenience. On this we are starting to develop plans. Of course, we are not starting from scratch. Many would be envious of what we have today. We will continue to leverage what we have, whether it be best practices within our big box estate, whether it be the great locations we have across our estate. And of course, our digitally enabled, data-driven and best-in-class fulfillment Screwfix model. On this, we will come back in due course when we have more to share.

I will now hand back briefly to Karen to update you on our guidance for this year before coming back to summarize.

Karen Witts
CFO & Director

Thank you, Vero. So now moving on to that guidance for this financial year. At the level of underlying profit, we're guiding to an increase in gross margins at group level, this time after clearance. This assumes that the cost price reduction benefits we will generate from unifying 40% of cost of goods sold outweigh the combination of clearance costs and net price investment. We expect to deliver a further GBP 30 million of operational efficiency benefits in the year, GBP 20 million of which will come from our GNFR program and a further GBP 10 million from other operational efficiency initiatives, including some headcount reduction.

Cumulatively, by the end of this financial year, we expect to have delivered nearly GBP 90 million of efficiency benefits from this program. And given we're not planning to open any further Screwfix Germany outlets until we have completed our unified IT rollout, we expect the losses to be similar to last year.

Transformation costs and exceptional charges, excluding estate transformation, both sit below underlying profit and both form part of our GBP 800 million total transformation cost guidance. For this financial year, we believe that our profit and loss transformation costs will be up to GBP 130 million, reflecting another significant year of transformation activity. As a reminder, these costs relate to the remerchandising and implementation of new ranges and largely cover incremental in-store labor costs and point of sale change. And they also include costs associated with our digital activity, covering both our work in upgrading our e-commerce capability and in launching new home improvement services.

Our guidance on the exceptional costs of transformation for this year is GBP 50 million. These are largely driven by organizational change, including headcount reduction. We continue to expect that the total transformation cost of our plan will be around GBP 800 million.

Let's now turn to guidance on our total capital expenditure for this year, including transformation CapEx. The inner circle represents the GBP 368 million we invested in FY '17-'18. The outer circle represents guidance of up to GBP 425 million for this year.

In the full year '17-'18, we invested around 30% of our CapEx on refreshing and maintaining existing stores. Around 1/4 of the investment was on IT, as we rolled out our unified platform in B&Q and Castorama France. We invested 17% on new stores and relocations, including 60 Screwfix outlets in the U.K. We invested another 18% on our transformation, which included store CapEx for our new ranges and higher digital spend as we work on our customer journeys.

Now moving to the outer circle and our guidance on CapEx for this year, where you will see that we expect the shape to be broadly similar to last year.

Now let's look at how we are tracking versus our total transformation costs in the 5-year plan. In years 1 and 2 of the plan, we spent GBP 271 million of transformation costs, so about 1/3 of the GBP 800 million of total transformation costs that we expect cumulatively to FY 20'-'21. We expect to spend around another GBP 245 million this year. This leaves close to GBP 300 million for years 4 and 5 of the plan, mostly exceptional costs and CapEx. We expect the majority of the exceptional costs to fall into year 4 and the CapEx to be spread over years 4 and 5, reflecting investments in fulfillment and digital capability, alongside ongoing store equipment as we continue to roll out our unified and unique offer.

We are also reaffirming that we expect to deliver the GBP 500 million EBIT uplift by '20-'21 and to complete the remaining GBP 140 million of the GBP 600 million return of capital by the end of this year.

I'll now pass over to Vero to sum up.

Véronique Laury-Deroubaix

CEO & Director

To summarize, for the second year in a row, we've achieved our key strategic milestones. Our performance, however, has been mixed with solid growth at Screwfix and Poland and GNFR benefits, offset by continued weaker sales in France and some business disruption, reflecting the significant increase in transformation activity. We've acted on the root causes, continuing to have a flexible approach, adapting as necessary as our transformation progresses.

It has been a big year of transformation activity. The pace of change is quick and impactful, but necessary as we build the new ONE Kingfisher engine to support our ambition to be the leading home improvement company. Year 3 will be another step change year of implementation, hence we expect some ongoing business disruption.

I don't think any of you underestimate the scale of our ambition, but it is the right ambition, the right strategy. Overall, we have made good progress and I'm really pleased that we are starting to see tangible delivery of our ambitious plan. And given that solid progress, and given the continued support of our 77,000 highly engaged colleagues, I remain confident in our ability to deliver.
Thank you for listening.