

Kingfisher FY2021/22

Full Year Results

UK and EU based home improvement retailer Kingfisher has always been an interesting hardware company to study, as it is at the crossing point of so many cultural and economic currents. In its results announcement for its FY2021/22 released in mid-March 2022, the eddies and interplays in those currents are plain to see, and the effects they produce might foreshadow industry developments globally, including in Australia.

The core element that most home improvement results will concentrate on during 2022 is what markets and economies emerging from the COVID-19 pandemic will look like, and how those markets will respond to post-COVID concerns such as inflation, supply chain restrictions, and geopolitical instability.

A major problem retailers struggle with is to work out what changed elements are structural and at least semi-permanent, and which elements are purely transitory. In most cases,

of course, changed elements are a combination of both: a transitory trend fades out, but leaves a degree of structural change in its wake.

One way of conceptualising all of this is to see that the 2020s idea of “home” has changed fundamentally from the 2010s idea of home. There are both practical, concrete changes driving that – such as the increase in work from home (WFH) – as well as more cultural, emotional shifts, such as a greater need for safety and security.

In that context, home improvement retail is part of the process people use to make these transitions, and the success of retailers will come down to how well they facilitate the transition.

FINANCIAL PERFORMANCE

In terms of retail sales, Kingfisher overall saw sales for its FY2021/22 (12 months to January 2022) come in at GBP13,183 million, up by 6.8% over the previous corresponding period (pcp), which was FY2020/21. Accord-

ing to Kingfisher, in constant currency terms the increase would have been 9.7%, and in like-for-like (LFL) constant currency it would have been 9.9%.

As has become common since the pandemic, Kingfisher also supplied the comparison with the pre-pandemic FY2019/20 period. The company stated that the current results represent a 18.1% increase over that period, in constant currency LFL terms.

Profit for the overall group was GBP1148 million, up by 14.5% on the pcp.

Breaking that result down by major geographic areas, the UK & Ireland region returned revenue of GBP6505 million, up by 13.3% on the pcp. Profit came in at GBP794 million, up by 16.6% on the pcp.

France retail sales were GBP4498 million, up by 4.4% on the pcp. Profit was GBP221 million, an increase of 22.5% on the pcp.

The “other international” category, which includes Poland, Iberia (Spain and Portugal) and Romania, returned

revenue of GBP2180 million, which represented a decline of -4.8% on the pcp – though this was still up by 9.2% on the FY2019/20 period in constant currency LFL terms. Profit was GBP133 million, a decline of -5.8% on the pcp.

Major brands

Kingfisher's four major brands – B&Q, Screwfix, Brico Depot and Castorama – are responsible for 83.5% of its sales. B&Q had retail sales of GBP4178 million, up by 12.7% on the pcp. Screwfix saw sales increase by 14.3% to GBP2327 million.

In France, Castorama's sales were GBP2296 million, up 1.4%, but up 5.9% in constant currency terms. Brico Depot had sales of GBP2202 million, up 7.7%, which would have been 12.5% in a constant currency comparison.

KEY ISSUES

Generally speaking, large home improvement/hardware retailers tend to set strategy according to specific circumstances. There is, first and foremost, the actual market situation, in terms of how much underlying demand is present, and whether this represents an increase or decrease. Secondly, there is the position of the retailer itself, now the retail "surface" it presents to those markets influences its ability to generate revenues.

Thirdly there are the channels into those markets. Most broadly over

recent years that has related to the development of ecommerce, but this also involves the number of stores and the types of stores.

Ecommerce itself also breaks down into various path to purchase and path to access patterns, such as in-store purchase on mobile apps and click-and-collect.

Fourthly, there is what might be called path to product, which is how the retailer goes about meeting established customer demand through sourcing products from external and internal supply chains, including an element of product development.

The general situation that most home improvement/hardware retailers find themselves facing is that, after coping with high levels of demand during the two pandemic years of 2020 and 2021, markets are not entering a post-pandemic period, where demand remains elevated when contrasted with 2019, but reduced on a prior year comparison.

A big part of the post-pandemic markets, as 2022 continues, is coping with additional external, geopolitical/economic pressures, which include, for example, Russia's invasion of Ukraine, the continuing fallout from Brexit, and growing economic instability in Turkey.

For Kingfisher in presenting its FY2021/22 report, these were the key issues that emerged:

- The ongoing development of e-commerce, beyond simply growing market share, including the ongoing growth in mobile device retail
- The interrelationship between DIY and do it for me (DIFM)/trade services
- Increases in the consumer price indices, and how this affects products/brands, especially in regards to what Kingfisher terms "own exclusive brands" (OEBs), which are a combination of home brands and captive brands

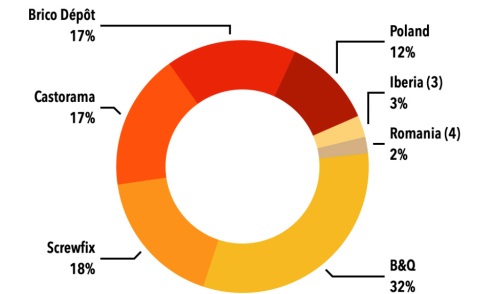
Ecommerce/digital

For the overall Kingfisher group, ecommerce sales were 18% of the total, which was the same number as for the pcp, representing a 10% growth over FY2019/20. Click and collect sales were at 73% of all ecommerce sales, down from 78% in the pcp. However, digital is having a stronger overall impact on sales, according to Kingfisher CEO Thierry Garnier, as he stated in his prepared remarks at the results presentation:

Our e-commerce sales have almost tripled on a 2-year basis, with penetration up 10 percentage points to 18%. And our digitally-enabled sales now represent 26% of sales. Here I mean the sales coming from direct e-commerce channels as well as digital orders in-store for click &

Kingfisher FY2021/22 Results

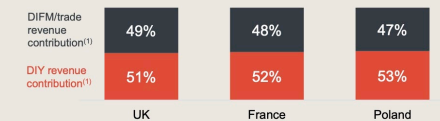
Percent Revenue by Brand/Geography



Kingfisher's revenue is evenly balanced across DIY and DIFM/trade...



...with a similar weighting by geography



collect and home delivery. This new KPI helps us measure how well we are adapting to changing customer behaviours.

In response to an analyst's question, Kingfisher chief financial officer Bernard Bot broke down the e-commerce numbers further relating to share of sales:

On online, as we said, excluding Screwfix, we're above 7%. If you look at the difference between the banners B&Q is comfortably above 10%. And then the French banners are comfortably above 5%.

While other paths to customer such as click and collect are important, Mr Garnier also sees possibilities in home and jobsite delivery services.

We believe that faster home delivery can be a significant market share driver for us. In August last year, we launched Screwfix 'Sprint', offering one-hour delivery to customers. The services currently covers over one third of UK postcodes, with an average delivery time of around 45 minutes and a fastest delivery time to date of an incredible 8 minutes.

... Looking ahead, we remain committed to delivering strong growth in e-commerce sales through providing faster speed and convenience. We are moving

towards home delivery for full store ranges, and towards faster click & collect and last-mile delivery options.

One element driving Kingfisher's ecommerce expansion is its use of store-based order fulfilment, which means sourcing orders as close as possible to the delivery location.

The company is also sensitive to the possibilities in mobile e-commerce. Mr Garnier stated:

Customers are using mobile more than ever to shop home improvement, and this channel continues to be the fastest growing for us. Mobile sales are up by 300% on a 2-year basis.

Last year, we launched the new Castorama France and Screwfix apps. The new Screwfix app has been downloaded 2 million times. It has a number of innovative new features, including geolocation, to speed up in-store pick-ups, and we have integrated Screwfix's one-hour delivery service, Sprint.

In addition to these efforts, Kingfisher also launched an online marketplace in March 2022. According to Mr Garnier:

Earlier this month, we launched our first e-commerce marketplace, on B&Q's DIY.com, using scalable technology developed with Mirakl. This will dramatically

accelerate the product choice that we can provide our customers.

Our initial offer comes from carefully selected third-party sellers in four home improvement categories - wallpaper, lighting, power tools and lastly, a new category for B&Q, small domestic appliances.

The intent is essentially to better "monetise" the high amount of traffic that the B&Q diy.com website attracts.

DIY and DIFM-trade

Perhaps the biggest surprise, especially for analysts, was Kingfisher announcing expanded measures to secure more market share in the DIFM-trade sector. Kingfisher released more detail regarding its market split between DIY and DIFM/trade. Overall, Kingfisher revenue is 49% DIY and 51% DIFM/trade. That's the exact ratio in the UK, while France is 52% DIY and Poland is 47% DIY.

Year-on-year revenue growth in DIY has been 15% while in DIFM/trade it has been 7%. However, Kingfisher is outgrowing the overall market in DIFM/trade, with that number at -3% on a compounded annual growth rate (CAGR) over two years, while Kingfisher's CAGR number is 10%.

According to Mr Garnier in his prepared remarks:

While Kingfisher has embraced the resurgence in DIY, our

outperformance of the market has been driven by our DIFM and trade business. We have seen a strong performance of Screwfix and TradePoint, we have launched new trade-focused own brand ranges, and we have invested in our showroom products and installation services, as well as our broader store and online services portfolio (including our NeedHelp marketplace).

We are well positioned to capture the growth potential of both DIY and DIFM/trade, and we are executing on plans to further increase trade customer engagement.

Mr Garnier went on to delineate just how big this opportunity is:

Trade customers represent a GBP50 billion addressable opportunity for Kingfisher in the UK, France and Poland. Earlier on in the presentation I told you that DIFM and trade represent 50% of our sales, and that we have significantly outperformed the market here over the last two years.

In particular, Mr Garnier sees TradePoint, the DIFM/trade services offered through the largely DIY-focused B&Q stores, as having strong potential. Its revenues stand at GBP830 million, and it has grown by 20% in the reporting period, and by 33% over the past two years.

Mr Garnier sees this as a high performance category:

Our data at TradePoint shows that trade customers shop more frequently than retail B&Q customers, and have a 60% higher basket.

The move to trade is general across the group:

Each of our banners is executing on ambitious plans to target trade customers. These include trialling new store layouts and concepts, creating more trade-focused OEB ranges, offering a more user-friendly and integrated digital experience, increasing the speed and convenience of order pick-ups, and further developing our trade loyalty programmes.

In response to an analyst's question, Mr Garnier further outlined the commitment to trade, noting that this was partially inspired by major US retailers The Home Depot and Lowe's Companies:

We are convinced that all across the group we have opportunities with the trade. And you see that in the presentation. We have learned from Home Depot from Lowe's. We have spent time on these. We have learned from TradePoint. You see that we did plus 33%, two-year like-for-like for TradePoint. That's very good.

Therefore, all across the group, we believe that inside big boxes you have opportunity to do a proper job for the trade.

Own exclusive brands (OEB)

One of Kingfisher's real strengths (arguably largely developed by Mr Garnier's predecessor, Veronique Laury, but ably continued by him) has been its development of OEBs. These are now responsible for 45% of Kingfisher sales overall, and have grown in LFL sales by 19% on a comparison with FY2019/20.

Mr Garnier said in his prepared remarks that he sees this as a strong growth opportunity:

We are increasingly leveraging the scale of the Group to provide differentiated and specialised products for our trade, discount-er and general home improvement banners. During the year we created an additional portfolio of 32 new and redeveloped OEB brands. Some of our OEB ranges, such as Magnusson and Titan, are significantly outperforming sales volumes of major branded competitors.

Mr Garnier outlined some of the ways in which this has developed under his stewardship in response to an analyst's question.

OEB, I don't feel there is any execution issue today. We have a good balance between the

group and the banners. You see that the penetration of OEB continued to be stable or grows slightly, while at the same time, we have introduced in the past two years a lot of local brands. You'll remember in 2019, we said well we are missing brands, et cetera so we – even some question with some of you saying, well how come you will increase local brands and still being strong on OEB? How come you – it will impact your margin?

But today you see that OEB, it's stable or growing. I'm very happy with that and very happy with the new innovation coming in. We mentioned kitchen in the past two years with incredible success. It's very rare to see the same range of products successfully in absolutely every country.

As items with a built-in higher margin, Kingfisher also sees OEB as a means to keep prices contained in a high-inflation environment.

Store numbers and size

One of Mr Garnier's insights has been that the move to constantly increase store sizes in big box retail might not be the best way to go in the future. As he stated in his prepared remarks:

We continue to increase our store numbers, while aiming to reduce the average size per store. We

are doing this by opening more 'compact stores' and 'medium-box' stores, and by 'rightsizing' a relatively small proportion of our larger format 'big-box' stores.

Compact stores are an important driver for continued market share growth in urban areas. Last year we tested 20 new compact stores across the UK, France and Poland. These tests took place in urban retail parks, high streets and in supermarkets.

The company has trialled size reductions on larger stores, with what Mr Garnier considers strong results:

The B&Q results have been very good, with space reductions of 15 to 30% all taken over by discount retailers. Since reopening, the stores have exceeded our performance expectations, with strong sales retention and improved profitability.

Following on from these trials, we have now finalised our assessment of our property portfolio and future space requirements across Kingfisher. We are announcing today that up to 40 'big-box' stores across B&Q and Castorama France will be right-sized over the next 10 years. This will include a reallocation of space to e-commerce operations and 'dark stores'.

The space reduction equates to circa 3% to 4% of the combined selling space of B&Q and Castorama France.

ANALYSIS

One way of looking at what is happening at Kingfisher and other global large home improvement markets is something of a re-segmentation of the markets. Re-segmentation typically occurs when products and practices “jump over” what are really income/wealth levels.

For example, pre-pandemic DIY was something that households on a budget would be more actively interested in than more established, wealthier households. The pandemic helped to change that as DIFM/trade simply wasn't an option, and with more people isolated at home with few options, DIY seemed an interesting activity.

Post-pandemic, these segments are now more jumbled, with the main drivers being simply ability, time and inclination. Kingfisher quotes some very encouraging numbers for people in the 18 to 29 year-old age range, with 58% of them reporting increased DIY activity, and 52% intending to do more.

Yet in some ways this kind of re-segmentation really misses the

point. Kingfisher also reports that 40% of its customers are doing WFH, and that most of these predict this will not change for at least the entirety of 2022. That is a really radical shift in how people use and relate to their home space, and it points to a greater revolution that is underway.

The real face-off that we're seeing at the moment is between people who accept that the pandemic has made strong, permanent changes to cultures and societies, and those who long for a return to how things were in 2019. The key to understanding how this works is that the pandemic has functioned as much as a catalyst as a reagent in encouraging these changes. For example, imposed social isolation revealed just how bizarre, in the age of computers, smartphones and high-speed internet, the idea of a five days a week mass migration to cities by workers had become.

What is most important about the people committed to changing how their dwelling works as a home is that this type of revolution is not about re-doing a couple of rooms, adding storage or painting walls a new colour. People are really re-thinking how their entire dwelling works for them.