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Transcript

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Alex Baldock: Good morning, ladies and gentlemen. Thank you for your time. You'll hear from me in a bit, after Bruce has taken you through the financials, and before we get to your questions. So with that, I'll hand over to Bruce.

Bruce Marsh: Thank you, Alex. Good morning, all. I hope you're well. So, let me take you through the first half financials. The first half was a mixed performance in a tough market. Our UK trading continued to strengthen, whilst our international business has been challenging. If I start with a summary, our overall revenue was £4.5bn. That's down 8% on a like-for-like basis year-on-year, but up 7% compared to three years ago. Our adjusted profit before tax was a loss of 17 m, that's down by £62 m. Our free cash flow was an outflow of £86 m, adverse £271. Total indebtedness was £1.6bn. Our adjusted EPS was a loss of 1.3 pence. And finally shareholder return was £24 m of dividend.

This table shows the disparity of performance across our markets. So, starting off with sales. Within our UK and Ireland business, our like-for-like sales, year-on-year, were down 10%. Although, compared to three years ago, they were up by 2%. In the Nordics, like-for-like, year-on-year was down7%. But compared to pre-pandemic, they were +10%. And in Greece, we saw like-for-like sales growth up 4%, year-on-year, and up 25% over three years.

In terms of profit, in the UK, despite a tough market, our EBIT was £25m. That's up by 25% year-on-year. However, both of our international markets saw significant reductions in profit. In our Nordics business, our profit was £3m, down (95)%. And Greece, £1m, down (91)%. Now, let me take you through each market in turn.

So, starting with the UK, our revenue has been down (10)% on a like-for-like basis, year-on-year, and our online share of business has been flat at 43%. Despite the drop in sales, our adjusted EBIT was £25m. That's a step forward of £5m, and EBIT margin at 1.1% was +0.3ppts. Our operating cash flow was £33m. And our segmental free cash flow after capex, working capital and exceptionals, was an outflow over £18m. Big delta year-on-year, within our segmental free cash flow in the UK. Two big factors. One, is working capital, which was flat this year compared to a sizable inflow last year. And within exceptionals, we benefited from two big settlements this time last year.

From a performance perspective, the UK continues to make progress with EBIT increasing, despite some significant headwinds. It's been another strong period of gross margin progression, up a 160bps , as our strategy really starts to deliver. We've seen higher adoption rate on both credit and other services. And this is particularly true online, as our new online platform really starts to deliver. We've been able to monetize improvements within customer experience. For example, by putting delivery charges on our product, and moved away from free delivery.

We're also using our data and our analytics better. We've put in place an end-to-end profitability tool, to understand where we make profit, and where we don't, and therefore adjust our behavior accordingly. And then finally, we continue to deliver cost savings across both our supply chain and our service operations, both of which appear in our gross margin.

We've seen our operating expenses as a proportion of sales, dilute. However, our costs in absolute terms have gone down, with headwinds from the business in terms of rates, inflation, and the reclassification of IT spend being more than offset, with £44m of cost savings, the reason the ratio has moved adverse is simply due to the drop in sales.

In terms of the headwinds, in the first half, we faced a total of £36 m worth of headwinds, particularly inflation impacts. So for example, within wages, both in our stores and our supply chain, an adverse impact of £7m. We saw a further 12% increase in energy cost, which impacted us year-on-year by 11 m. And other inflation was£4m. And finally, we lost the final element of business rates tax relief that was worth £14 m, and hence the total headwinds and inflation of £36m.

However, we more than offset those headwinds via £44 m of cost savings. The same buckets that we've talked about previously, within supply chain, we saved a further £11m through our contact center strategy involving consolidation, and also working to reduce demand. And also within supply chain, we had network savings, for example with our partner GXO in stores. We've made opportunities and efficiencies through changing our retail operating model. We've removed non-value added tasks from our stores, and developed multi-skilled colleagues that are able to support our customers, from anywhere within the store footprint. We also continue to see savings within our IT costs, as we continue to retire legacy systems. And finally, within our central overheads, we've signed a group contract with an organization called Infosys, who are helping us simplify and automate our back office.

Finally, I want to just spend a minute explaining the goodwill impairment. The £511 m goodwill write off that went through our books in the first half. The first point to make is obvious, it's non-cash and it's non underlying. The goodwill relates to the 2014 Dixons Carphone merger. The impairment predominantly is driven by discount rates, with our WACC increasing from 10.6% to 13.0%.

So, to put in context, our calculation moved us from having headroom within goodwill of £69 m to an impairment of £511 m. So, an overall movement of £580 m. And of that £580m, £469m related to discount rates. Why was that so big? Well, we do our impairment calculations twice a year in our period 5 and 11, which meant that we were using rates in September. At the time that risk-free rates spiked up at 4.4%, the time of the mini budget, and hence the size of the impairment. In terms of the remainder of the impairment, very much driven by more prudent assumptions within our valuation model, as we predicted recessionary impacts into our financial performance.

Moving on to the Nordics. From a top line perspective, as I said, year-on-year down (7)%, Yo3Y +10%. Online share of business within the Nordics, was 23%, down 1%pt. However, as I say, the key point is that adjusted EBIT was down by £54m or (95)%, to £3m and our EBIT margin down to 0.2%. Therefore, our operating cash flow also stepped back to £23 m. We saw an outflow in working capital, because of lower volume, and we also paid a tax creditor. Which left us with a segmental free cash flow being outflow of £49m.

Pretty much all of the profit reduction within the Nordic was caused by a gross margin decline of (200)bps. We've seen substantial cost of goods sold inflation, that hasn't fully been passed on to consumers. Why is that? Well, three factors. First of all, weak demand within the market means that every sale matters. The second is that we have seen an excess of stock in the market, and that has meant that suppliers have pushed stock onto different channels. For example, supermarkets and discounters, which has put downward pressure on retail prices. But the third one, and definitely the most important in terms of the impact, was aggressive discounting from competitors, who had an excess stock to clear. And Alex will talk more about that later.

In terms of our operating expenses, as a percentage of sale, the ratio went down, but actually our costs are actually up only very slightly. We've got an increase in wage and energy cost, that are being mitigated by lower IT and central cost. The ratio is very much being impacted by the drop in the top line. In terms of Greece, similar challenges to the Nordic, but the good news is that we're seeing revenue growth, up +3% like-for-like, and up +25% Yo3Y. Online share of business has also stepped back by (1)% in Greece, down to 7%. Our adjusted EBIT, however, has dropped by £(10)m down to £1m, or 0.3% margin. Our operating cash flow has also stepped back to £4m. However, we do have a working capital upside driven by the incremental volume, and that gives us a segmental free cash flow of £18m.

Why are we seeing Greek EBIT step back? Well, as I said, very similar to the Nordics. We've seen COGS inflation not being passed on to consumers, and higher discounting causing gross margins to step back by (210)bps. But in addition, we've seen some changes within the promotional environment. For example, free delivery and installation has become more of the norm, and we've also seen adverse product mix and category mix, impacting our margin. So for example, sales of computing and mobile have increased as a result of government subsidies, and we've also mixed into low-end appliances, because of a government voucher scheme. We've also seen operating expenses as a percentage of sales go adverse, and we've seen costs moving up slightly. We've also seen government support come to an end, that we still were receiving on rental payments this time last year, and we're seeing increased energy and payroll costs.

Moving on to cash, we've seen our group free cash outflow for the first of £(86)m. One of the biggest impacts of course is operating cash flow, dropping down to £60 m because of the fall in international profits. Our CapEx is broadly flat of £56m. Our adjusting items are £25m outflow, which are split roughly 50/50, in terms of restructuring and lease payments on closed premises. Cash tax is up significantly, but I flagged at the year end, that we have £50m of Nordic tax payments that had been deferred last year, and have been paid in the first half. And finally, cash interest has also stepped forward as our average deposition has worsened, along with increased interest rates.

And finally, working capital. Working capital is an outflow of £(28) m at a group level, compared to an inflow of £102m last year. There's several factors here, but the most significant is a drop within stock turn. This time last year there was a shortage of stock in some areas, and sales were higher. This year we've been able to get more stock, and our rate of sale is lower. And hence, because of that drop in stock turn, more of our stock has been paid for.

In terms of use of free cash flow. As you'll be aware, our final dividend was £24m. Our pension contribution was consistent year-on-year at £39m, which meant we had an overall movement in that cash, an outflow of £(149)m, which meant that our cash position went from net cash of plus £44m to a net debt of £(105)m. But to remind you that our cash generation is very much weighted to the second half. From a balance sheet perspective, we maintain a strong liquidity position. Although we have net debt of £(105)m, we've supplemented our existing revolving credit facility of £536m with an additional facility of a further £140 m, which leaves us with liquidity at the half year of £571m.

So, what's our expected outlook. In the second half, we expect the UK and Ireland to deliver robust profitability in a weak market with profit stable year-on-year. And just to point out, that excludes some of the mobile one-offs. From an international profitability, we expect it to improve compared to the second half based on self-help activity. And as I say, group will generate cash in the second half. In terms of fully a guidance, our adjusted profit before tax, we're guiding to between £100m and £125m, compared to the £125m to £145m that we guided at the year end, and I've adjusted that for CapEx to OpEx switches. Our capital expenditure, we expect to be £120m. Down from the £135m to £155m we said previously. And our net exceptional cash costs are unchanged at £40m. Overall, we expect our year end net debt to be better than in the first half. I'll now hand over to Alex.

Alex Baldock: Thanks, Bruce. Mixed results as you've heard. I mean we're obviously pleased by the strengthening UK performance from a strategy that's working. Equally, obviously we're disappointed by a first half interruption to that long international trajectory of improved sales and profits and we'll talk about the market disruption behind that and why we expect that to be temporary. The outlook, as you've heard, we remain confident in the longer term even as profits hold up relatively well in the short term. So let's start with that strengthening UK performance. Whereas you've heard, profits are up again by +25%. From sales that are strong enough to protect our market leadership.

But importantly, we're not chasing unprofitable sales. More on that in a minute. Second, from great cost efficiency with more to come, but particularly from gross margins improving again. Up +160 bps after the +100 bps improvement a year before. So let's look at the drivers of those improving gross margins and why we're confident we can keep that trajectory going. First services is growing. We've talked a lot about how services make for stickier and more valuable customer relationships. We've taken big strides in such margin boosting services as credit up +460 bps and warranty where our front book adoptions up +350 bps on last year and the whole warranty book is back into growth, +2.5% larger.

Second, our customer experience is better and so we can charge for it while still giving the customer good value for money. And delivery is a good example of that. When it was unreliable, we had to give it away. Now it's much better, we can charge for it and the customer still is getting good value for money. And MDA, major appliances is a good example of that where we're gaining share and improving profitability and improving customer satisfaction all at the same time. More to come from that.

Third. As I said, we're not chasing less profitable sales and importantly we now have better tools so that we don't have to. Bruce touched on the end-to-end profitability model, which might sound a bit dry but is super important. It is allowing us to be increasingly forensic on the true profitability of suppliers, categories, products, services, solutions, customers and activity. Like promotions, like marketing to allow us to zero in on the less profitable stuff. Either stop doing it, reduce it or improve it, or a combination three. And which is seeing real benefits in areas like PPC efficiency in marketing and in making sure that we're doing profitable promotions only.

Fourth, as you know, some of our costs hit the gross margin line in supply chain in service operations and that's in good shape too. So all of these four contribute to increasing gross margins. And importantly, there is much more to come from all of these. We're not happy with our gross margins, important to state. But what we are happy with is the trajectory and we can see how they're growing and we are confident that we're going to keep that growth going even in less than friendly circumstances that we're in. So a good strengthening performance in the UK with more to come.

Obviously, international's a different story. We've had a difficult first half there. Through intense, though we don't believe structural market disruption with, as you've heard, gross margins sharply down even as we've outperformed on sales and costs. So why? Well first of all, we've got the same pressures in the Nordics as in the UK and everywhere else. Pressures of softer demand and COGS inflation, but there's some additional Nordics specific disruptions.

There's a long tail of domestic competitors, the likes of Power, Komplett, NetOnNet, Verkkokauppa, who perhaps overconfident by the boost they got from the pandemic and some funding since. Have chosen aggressive growth strategies, made big stock buys to match just as demand started falling off. And they've felt forced to discount their excess stock heavily since. Much more than we're seeing in the UK. We've seen crashed pricing that's taken the market profit pool to near zero, as you see on the right-hand side. In the Nordics as we do everywhere in the group, obviously we seek to balance. The benefits of keeping our number one spot and we like those benefits with profitability. Fair to say that in the Nordics, it's required unexpectedly, heavy margin sacrifice to protect our market leadership.

Equally important to say that we expect these market pressures intense, though they may be to be fleeting. Demand will normalize in time. These are healthy, wealthy markets. Excess stock will wash through, it always does. And these smaller competitors will struggle to maintain this current level of unprofitable aggression. And meanwhile, we're stepping up our self-help, both on margins and on cost. That give us a confidence that the long track record that we've seen over many years of growth in Nordic's sales and profits will be resumed. And when you put that together with a strengthening performance in the UK, you can see why we're confident. So a strengthening UK performance from the same strategy that lies behind the long Nordics track record. Number one in every market on foundations of happier colleagues and customers, better retail fundamentals and making more of our two big differentiators of omnichannel and services on the back of a stronger business financially.

Let's get into our markets first and I'm going to rattle through this to allow plenty of time for your questions. The markets remain, even now larger than pre-pandemic, double digits larger. And of course our market and our sales would come under pressure from the cost of living squeeze. Nevertheless, technology, we don't think can any longer be seen as a purely discretionary category. It's more essential now and we owe our number one position in those markets in large part to happier colleagues and happier customers. Colleague engagement very important for us. Not just because we're nice people but because it's very hard for the experience of the customer to be better than that of the colleague. So it's good that we've bucked global trends and increased colleague engagement to world class levels in the UK as it's good that customer satisfaction is five points up on pre-pandemic.

It's also important that we've continued our focus on retail fundamentals, you might call them. The range is a quarter larger and with energy efficient products like our Go Greener arrange to the four, our availability is 430 basis points up year on year and market leading. Unlike others, we've stood by our price promise and we are making the most of our heft with our suppliers to keep the lid on inflation driven price rises as much as we can and we're getting preferential access to the most desirable stock as well. And the customer experience is easier. We talked about delivery being better and you can see the evidence for that on the right-hand side. Not happy with where we are on any of this, of course. But again we are happy with the trajectory and we're going to keep it up. Meanwhile, on our two big differentiators of omnichannel and services, again, good progress to report. Omnichannel, online and stores together. We've said before, it's the winning model.

It continues to prove that it is. Two-thirds of customers continue to use stores, the online share of businesses stable year on year and we're building on our advantages here. We've invested, as you've heard in our store colleagues. +16% wage increases for our frontline colleagues over the past year or so. We've invested in new online platforms and you've seen some impact from those platforms already in the improving gross margins with full benefits to come and other omnichannel benefits like 24/7 video shopping ShopLive, continue to prove their worth to customers. And now as our improving gross margins show, we are making the omnichannel model work increasingly for us economically as well as for customers. As we continue to level up profitability between channels. And on services, we've made excellent progress as well. Notably on credit, where at 17% penetration we're already passed next year's target. +460 bps up year on year. Credit as you know is important to customers, especially in a cost of living squeeze.

It's important to the business too. Credit customers continue to spend more, they continue to be much likelier to come back and shop with us, stickier and more valuable. So it's good that we're growing credit as we are with credit customers and sales up by over two thirds in two years. How the unlovely phrase of leveling up but an important concept, we continue to do it. And in fact as you see on the left-hand side, credit penetration online has doubled in the past three years from 9%to 18% and is actually now higher than stores. So leveling up continues as well as an easier customer experience and an improved offer, there is further to go on credit. Likewise on other services where we are leaders in protecting and repairing products. Again, an important reason for customers to choose Currys when they care about affordability and the cost of living squeeze and about sustainability. And this is where our big repair business with 14m now, Care & Repair customers comes into its own.

And as you've heard, both of the front book and the total book are back into growth now. So the final thing to say on this slide by the way, again, we're not just doing this because we're nice people, we're doing this because we make money. We already make money in protection and repair and we have plans to do more. Looking ahead, you've heard the outlook is obviously uncertain and we're certainly not counting on any imminent macro improvement. But this is a more resilient business now with a strong balance sheet and ample liquidity. We believe we are well set for long-term success. Despite the sharp decline in first half international margins and profits. We can still hit the bottom end of the previous group guidance. That's still achievable and as we expect a continued strengthening of the UK performance to largely make up for a weaker year in the Nordics. Which allows us long-term to stand by at least the 3% EBIT margin target, though prudently and solely because of macro assumptions. We're now committing to that only by FY25. Though, we will of course, aim for more and sooner.

To do that, we'll continue to protect our number one share, but we believe we can continue to grow gross margins. We'll do at least the £300 m of cost out together with normalized CapEx and exceptionals will get us to £150 m of sustainable free cash flow a year. So summary. Tough environment and though international trajectory was interrupted temporarily, we believe, the UK performance continues to strengthen on the back of having happier colleagues and customers, better retail fundamentals, making more of big differentiators like omnichannel and services with a stronger business financially. Well set, we believe to come through this turbulence in good shape and for the longer term. And with that I will pause and we'll go to your questions.

Operator: Our first question comes from the line of Adam Tomlinson from Liberum. Please go ahead.

Alex Baldock: Hi Adam.

Adam Tomlinson: Morning everyone, morning. Three or four questions from me please. The first one is just around that gross margin improvement in the UK. So I think about 300 bps on a two-year view that improvement there. So any color you can just give around the relative contribution of the factors that have helped with that improvement. How much more there is you think to go for there in terms of that gross margin? And then thinking back to pre-COVID, you made a comment around the gross margin of an online transaction being about 10 %pts lower than an in-store transaction. So I'm inferring that gap has largely been closed now, so it would be could just any sort of update on that. Second question please-

Alex Baldock: Go on.

AdamTomlinson : Okay.

Alex Baldock: Let me kick off.

AdamTomlinson: Yeah, go for it, yeah.

Alex Baldock: Bruce might follow up and then if you have any more obviously we'll take those too. So we're not guiding to the relative waiting of these drivers. They're all important. I mean we talked a lot about our services are very important for margin boosting in year as well as for lifetime value. So it's good the progress on credit and on protection services. The customer experience improvements.

We've only just started to tap into the potential there with for example, delivery charging. But as we continue to improve the customer experience, obviously we can keep charging more for it and still give good value for money.

The chasing of less profitable sales has a lot more to run. The end-to-end profitability model that Bruce has driven is in its relative infancy but is already showing strong results in the areas that I highlighted and as well as obviously and where we are on the cost out. Bruce, do you add anything?

Bruce Marsh: Not specifically. I pick up the question regarding the relative profitability of stores and online. I guess we're still in the position that we wouldn't want to separately break those out. We see our omnichannel model of both stores and online blurring very heavily based on our proposition and the way we operate it. In terms though of that 10% delta within gross margin, I would say that is shrinking. Not by a material amount on the basis, it's not disappearing entirely, but it is reducing.

Alex Baldock: Any other questions?

AdamTomlinson : Okay, thank you very much. Yeah, just a couple more please. Just on the Nordics, noting your comment around the fact that the behavior from competitors is unsustainable. I'm just wondering if there is any visibility there in terms of stock levels in the Nordic markets at the moment, where they sit versus where they have been and whether you're getting any signs that those are coming down at all?

Alex Baldock: We've been cautious in putting a timeline to these market pressures easing, and we're not calling it now. It's the sixth week since the end of the reporting period. We're not flagging any significant change. Simply saying that at some point a clearly demand will normalize in markets that have been very healthy. Obviously on that, depends how fast the excess stock will sell through and it's for the investors in those businesses to decide how much unprofitable aggression they will put up with.

Obviously the part that is in our control and where we are stepping up are our self-help actions is on margins and on cost. And you can be assured that everything that we're doing in the UK, whether it's increasing services, improving the customer experience, not chasing less profitable sales and taking costs out of supply chain and service operations will also do in the Nordics as well as exert an even tighter grip on total cost.

AdamTomlinson : Great, thank you. And then just one final question. On the balance sheet, obviously still a very robust position there and good liquidity headroom. I guess people will always ask the question around whether you are seeing any changes in terms of the behavior of credit insurers in these tougher markets. So I'm just wondering if there's any comments you can make around that as well, please.

Bruce Marsh: No, I mean we have a regular dialogue with the credit insurers and all the meetings we've had with them recently have been very positive.

Adam Tomlinson: Right, thank you very much.

Alex Baldock: Just one extra bit of color that might be useful to you. It's just worth pointing out that as you know, we've guided to £100m to £125 m of adjusted PBT for the full year. We can hit the lower end of that without any improvement in the Nordics gross margin performance. Now clearly we intend to improve it, but that's the safety that we built in.

Adam Tomlinson: Right. Thank you, that's very helpful. Thanks.

Operator: The next question comes from the line of Warwick Okines from BNP Paribas. Please go ahead.

Alex Baldock: Hi Warwick.

Warwick Okines: Thanks. Good morning all. Morning. Just two questions please. Firstly, was any of the margin decline in international in the first half directly caused by the inventory that you had opportunistically brought in during the summer or is that totally unrelated? And then secondly, on the UK you say the market's up 14% since Covid, your own like for likes are up two, and clearly most of that is channel mix because your store share is stable. And I'd imagine Carphone Warehouse is also part of the explanation, but my question is how much do you think the lack of market share improvement over this period is because you are not chasing less profitable sales now or is that really not much of a factor in your market share? Thank you.

Alex Baldock: Let me lead off on the second point first of all, Warwick. So essentially all of the effects that you're talking about is channel mix. So over the period our online market share has increased and our store market share has been stable since pre-pandemic. That's the first point.

Bruce Marsh: Then on the other question regarding the stock, you're right at year end we talked about £100 m of incremental inventory within our Nordic business that had been bought to get ahead of the market and to take advantage of favorable FX rates. So I think I reflected in July, at that point all of that stock had been sold through, so in the round actually having that stock up front, given the way the US dollar moved, probably gave us a net help to our margin.

Alex Baldock: Just one thing to add actually, Warwick, it's worth saying that while the three year trend is, as I said, of gaining market share online and holding it steady in stores, we are reporting 120 bps reduction in UK market share in the first half YoY. And that we would flag, is us having better tools so that we don't have to chase unprofitable sales and we're less and less inclined to do so.

Warwick Okines: Understood. Thank you. Thanks very much.

Operator: The next question comes from the line of Simon Bowler from Numis. Please go ahead.

Simon Bowler: Morning. I was hoping to start off by touching on inventories as well to an extent here. I can see your inventory are up at this point in time, +25% versus pre-pandemic levels on a similar revenue base. And just can you touch on how you feel about the quality and quantity of inventory you've currently got in your business at the moment? I don't know if you can give a sense of where that's distributed in terms of UK versus Nordics and to the extent that you kind of place the blame on competitors in terms of their inventory position in the Nordic. Can you just comment on how you feel about your own in the context of the market decline in further working capital outflows in that part of your business?

Alex Baldock: Let me lead off on this one Simon, then Bruce can pick up. The first thing to say is we've noted a 430 bps improvement in availability in the UK as one of the retail fundamentals that we're pleased about. And we are pleased about that because it gives us the stock that we need, for example, in more energy efficient items to do a good job for customers this peak and beyond and it gives us a competitive advantage.

The second thing that I would say is it's good stock. The headline picture is that we're actually satisfied with our stock position and outlook for the year and not calling it out as a risk. But Bruce will want to say more.

Bruce Marsh: Yes, hi Simon. Thanks for your questions. So you're right, our stock is up and I would say that there are three factors within that.

The first is the increase of COGS inflation. So within the UK that is mid single digit COGS inflation compared to a year ago and indeed in the past. In the Nordics it is low double digit COGS inflation. So that is feeding through into our Cost of Goods Sold, but it's also feeding through into our stock.

The second point is that our sales are higher than they were three years ago, so therefore we've got incremental stock in the business to deal with greater turnover.

And finally we have invested in stock in some categories such as white goods to take advantage of the availability and we've seen growth in market share within our white goods in particular.

If I just then build on in terms of the quality of stock, probably the most accounting answer to this is to consider the stock provision which has been consistent all the way through the last three years. And we provide for stock on an aging basis with a different profile for each category and actually our level of provision is lower now than it was at the year-end or was previously. So I think that points to the fact that the quality of our inventory and the aging of it is robust. That doesn't mean that we have no overstock everywhere, but generally our health of our stock is robust.

Alex Baldock: Simon, can I just pick you up on one other point you made? I think I'm not getting your exact phrase right. I think you said," Pin the blame on Nordic's competitors for the stock position there." So let's just say a little bit more about that. And this isn't just us saying so, this is publicly available, what they've said in public, the likes of Power and Net-on-Net and Komplett and Verkkokauppa have been pretty overt about the fact that they've gone for aggressive growth strategies in what they see as fundamentally healthy markets. They've obviously had a new lease of life in Covid and they've had some new debt and equity funding since, which has perhaps made them a little overconfident. As I say, they've been public about these growth strategies, they've certainly bought stock to match and that's happened as demand has fallen off and we are certainly not leading the market down, in fact quite the opposite. We would like to be able to recover our COGS inflation through some selective price rises in the Nordic just as we've been able to do elsewhere. We just haven't been able to do so while maintaining our market leadership position.

And it's been our judgment that such has been the unexpectedly intense aggression from the competitors that we wanted to protect that market share. We've shaved off (50) bps of market share in the Nordics in the first half but it's still only 28% and maintained a healthy sales line. And yes that has been an unexpectedly heavy margin sacrifice, the (200) bps. But against that, as I say, these market pressures, we don't see anything structural or permanent in them and the stepping up of our self-help actions obviously lies entirely in our control and it's those two things together that give us confidence in the resumption of the long track record of this part of the business.

Simon Bowler: Okay, thank you. And then one other quick question, and at the risk of sounding really daft here, but I think to hit the low end of your guidance, you clearly need to do kind of PBT of £117m in the second half of the year, which I think if we exclude the mobile pieces is broadly flat year on year. And so I'm just struggling to reconcile that with the comments that you're expecting UK profits to be flat but international to be down in the second half. Have I got my numbers wrong? Am I missing something? Can you help me understand that bridge?

Bruce Marsh: Okay Simon, obviously without seeing your spreadsheet it's hard to comment. So let me talk more generally about how we've constructed the range of £100m to £125m, and clearly the first thing I need to say is that there is still a huge level of uncertainty in terms of the outcome of peak and the second half. But the assumptions that we've made is starting with the UK. Actually we see a relatively narrow range of outcomes within the UK market. We are expecting sales to continue where they are, so down (10)% year on year or equivalent as we set forward, but we are expecting to see our gross margin and cost out activity continue to be successful through the second half and offset headwinds. And therefore our number for the UK is supporting the top end of the range and as we said, it's flat year on year.

In terms of Greece, by being a much smaller business, I guess the range is smaller, but we are expecting some recoveries in the gross margin and second half, particularly those that have been caused by sales mix and some of the other drivers we expect to recover. So again, our Greek performance with a narrow range is towards the top end of our range, which means that it's the Nordic business and the uncertainty in terms of the future, which dictates the breadth of our range. And what we're we are working on the basis of is that the bottom end would equate to the market and sales continuing at the rate they have been, no recovery in the (200) bps in gross margin that's been driven by the market offset by some self-help that's flowing through both margin and lower cost and our modeling then gets us to that range on that basis.

But again, let me just reemphasize all of those scenarios, assume no further material, unexpected deterioration in the macro situation. But happy to pick upline if you've got any more questions.

Simon Bowler: Yeah, it might be helpful just kind of run through the shape and model perspective afterwards. Just one very quick follow up just to kind of check on something you said there, within the UK expecting sales to continue down a similar quantum across the second half. So the comparative base is quite meaningfully across the second half of the year. So does that expectation of continued declines reflect the fact you think the market's going to lurch down further or is this kind of a reflection of your focus on more profitable sales deliberately almost stepping away from parts of the market?

Bruce Marsh: So our planning assumption is that our like-for-like continues at the same rate in the second half as it does in the first half. You are right, we're facing into softer comparatives, but nevertheless our planning assumption is that year-on-year decline continues in line with the first half.

Simon Bowler: Okay, thank you.

Operator: The next question comes from the line of Ben Hunt from Investec. Please go ahead.

Alex Baldock: Morning Ben.

Ben Hunt: Oh, morning. Hi there. I know you can't give us a week by week account of your gross margin, but is there any way you can talk about the exit rate of that in the UK and what the trend was throughout the half? And then the second question will be on market share if that's all right?

Bruce Marsh: So I think the gross margin one is easy. I'm afraid we're not in a position that we are going to share gross margin phasing over the period. So Alex, do you want to pick up the market share one?

Alex Baldock: What was your question?

Ben Hunt: Right, hang on, I haven't asked the question yet on the market share. My question being really is, you insinuated to Warwick that the market share was down on a year-on-year basis, which seemed more a function of the fact that you were chasing less unprofitable sales rather than channel mix. Can you just give us a little bit more color on that because you'd have thought with the environment that we're in and all the self-help that you've been doing, that strikes me as a very disappointing performance.

Alex Baldock: Okay. I mean, we don't quite see it that way. I think you're right that the channel mix has stayed stable over time, but year-on-year. But not chasing less profitable sales, to give you a bit of color on that and I mentioned the end-to-end profitability model that is starting to allow us to be more discriminating on suppliers, on products, on categories, on customers, on bundles, on solutions, as well as on activity like direct marketing and promotional activity. But as I say, it's starting. We expect the benefits of that to build over time.

So that's the short answer. I mean yes, we've made some big strides in being able to be more discriminating on profitable versus unprofitable sales. We've been perfectly content to see us keep our number one slot in the market, still accounting for around one in four of sales, but seeing our profitability improve again for a second period running, another +160 bps to build on the +100 bps improvement last time.

So we don't see it as a disappointing trajectory. If your challenge is, "Is this the best that we can do?" the answer is, "Of course not." We're not happy with these gross margins. We're nowhere near the potential that we can realize through carrying on performing the activities that's seeing us improve our gross margins and our overall profits. There's much more to come. We agree.

Ben Hunt: Okay. So what's been the bigger move of the gross margin? Has it been the non-chasing of the unprofitable sales, or has it been the adoption of credits and services that's pushed it more?

Alex Baldock: Well, we haven't quantified that, Ben. But, you can infer from a couple of things that we've said, we're very happy with the progress of the cost out, and supply chain, and service operations. We're very happy with the impact that our increasing services adoption's having, whether it's credit or whether it's the protection services, which are sharply up as you've seen.

But we've said that we're in our relative infancy on the other two drivers, whether it's the customer experience improvements that we are now starting to monetize that, you might call it, in a more systematic way. So, there's more to come on that. We've already talked about the fact that we're in the early stages of weaponizing this end-to-end profitability model, but more guidance than that, we're not giving.

Ben Hunt: Okay. So, should we assume going forward now that it's still... the shape is going to be probably losing market share, but you are getting gross margin to the degree that you have in this first half. Is that the shape we should now expect, as opposed to what prior to this used to be, one of consistently getting market share?

Alex Baldock: Not necessarily, but market share isn't our principal aim. What is important is that we maintain our number-one leading position, and that we've done, and that we will continue to do. What's also important to us is making the profit. Is making the profit, and making the sustainable free cash flows. That's ultimately where our objectives start from, and our most important objectives.

How aggressive we need to be in response to competitors is obviously not solely within our control, but we're going to continue to balance maintaining our market-leading position with making sure that we've become a more profitable business over time. The fact you've seen where our longer-term guidance is, and you've seen where we are today, we know you can be sure from that, that we don't believe we're anywhere near the potential of that.

Ben Hunt: Okay, fine. Final question, I probably won't get the answer to it, Bruce, but obviously this time last year you were in losses in the legacy mobile business. Can you give us the quantity of what they were in the first half last year?

Bruce Marsh: No, I just reinforced what I said previously, Ben.

Ben Hunt: Okay, fine. Fine.

Bruce Marsh: We treat it as a division now. So, no.

Ben Hunt: All right. Thanks.

Bruce Marsh: Thank you.

Operator: The next question comes from the line of Peter Testa from One Investments. Please go ahead.

Peter Testa: Hi, thanks for taking my questions. Just trying to understand a bit more on costs as they come through, and how they match versus inflation. Because, I guess you highlighted the staff increase in October. I suspect you're probably starting your logistics decreases at some point. If you could just give us a sense on, as the cost story continues to run through, how the timing of that matches up against inflation through the second half.

Bruce Marsh: In terms of our expectations of costs inflation through the second half, I think we've got a pretty clear handle on it. Obviously, we've talked previously about wage increases, the +38% that we've given to our colleagues over the last five years, and therefore we're able to manage that effectively. Energy costs, we've locked in now through the remainder of this year and also the summer of next year.

So, again, I think we've got a very good handle on where our energy costs are going to flow through. The only other point to call out is that there has been, you're probably aware, a change to the UK government rates situation, and that's going to give us roughly a £4m advantage next year. Those are the key moving parts in terms of inflation, going forward.

Peter Testa: Do you have any of the deflation factors, like logistics and so on, do you think will affect this financial year?

Bruce Marsh: The only one is shipping. We saw real extreme increases within our shipping rates during the course of last financial year. They have stepped back from the peak, but they're still substantially higher than they were pre-pandemic and pre the cost-of-living challenges.

Peter Testa: Okay, but just maybe in aggregate, you highlighted on H1, the cost inflation factors versus the savings. I was wondering how you thought that balance was going to work its way through, and whether that would be getting better towards the end of the financial year, or not.

Bruce Marsh: It's a level of detail that we probably don't want to get into at this stage. Thank you, Peter.

Peter Testa: Okay. Sure. And then, a question I had on FX and inventory, and lagging through the price increases. I was wondering if you could give a sense on what you think you need to do, in terms of pricing for the high season versus later on, to manage the FX lag-through in cost of goods?

Bruce Marsh: No, clearly those are commercial terms, so we wouldn't get into pricing. But in terms of FX, there has been, as I've already reflected, quite a significant impact of the dollar strength, particularly during the first half, caused within our Nordic business a 25% adversity in terms of FX. Certainly, our Nordic business buys a large proportion of their products, the majority of their products, in foreign currency. Less of an impact in the UK, and that reflects the relative size of the COGS inflation that we've seen.

Peter Testa: Okay. Last question, just on the Nordic structure. I was wondering, you talked about some of the smaller players and how they've been competitive. I was wondering if you had any thoughts on how Amazon was positioning themselves in the Nordic market, in Sweden in particular, where they've arrived, and how that's marked pricing to a certain benchmark level.

Alex Baldock: No, we're not calling out Amazon as a big driver of the substantial disruption to the Nordics markets that we've seen, Peter. They've been relatively cautious in their approach in the Nordics markets. We know that they're not very enthusiastic about the distribution costs that they've encountered, which is one of the reasons that they've yet to even attempt to go into Norway, and they don't seem to be putting a great deal behind the Swedish venture. They haven't been particularly aggressive in their pricing, nor have we seen startling share gains from them. It's much more, as I say, this long tail of domestic competitors like Power, Komplett, NetOnNet, who've been driving the aggressive growth strategies and the excess stock that we've seen.

Peter Testa: Okay. Thank you very much for the help. Thanks.

Alex Baldock: Thank you.

Operator: The next question comes from the line of Michael Benedict from Berenberg. Please go ahead.

Alex Baldock: Hi Michael.

Michael Benedict: Morning, all. Thanks very much for taking my question. I just had one on the free delivery in the UK, please. I wondered what sort of improvements in your delivery time or experience that you put through, that meant you could justify charging for delivery? What sort of impact you've seen on customer demand off the back of charging for delivery, and what impact does that have on your overall pricing advantage, given some of your peers don't charge for delivery? Thanks.

Alex Baldock: Yeah. A couple of things there, Michael. First of all, when we talk about price, we're talking about the product price. That's what price promise applies to. But your question about what's justified, if you like, the increase, and what effect have we seen, we look at delivery satisfaction. So, we measure CSAT for each of the stages, the customer experience, and the customer satisfaction with our delivery has improved by +17 points, from 44 to 61, I think, in FY18 to 22. It's that improvement that we've seen that gave us the confidence that we could start charging to FDE delivery in particular.

As to the effect, we've kept a very close eye on our MDA, particularly washing machines, and tumble driers, and fridge freezer categories, to which this has principally applied. What we've seen there has been very encouraging. Our MDA business has continued to gain share, it's continued to improve its profitability, and it's continued to improve customer satisfaction. I think that's why we had the confidence to do it in the first place, and that's why we're pleased with the results, as well as obviously the impact on gross margin.

Michael Benedict: Thank you so much.

Alex Baldock: Maybe I'm saying this for the fifth time, but we're not happy with where we are on any of this. For example, 61% customer satisfaction on delivery, we don't see as good. We intend to keep doing the things that is driving that northwards, period by period. As we do so, so we'll be able to monetize it more.

Operator: As for our last question, we have Nick Coulter from Citi. Please go ahead.

Nick Coulter: Hi, good morning.

Bruce Marsh: Morning.

Nick Coulter: Few questions, if I may, please. Morning. Firstly, could you talk about how you see the UK consumer, and how customers are behaving, and perhaps how the behavior has changed across the period, please? Are people trading down? Are some categories seeing different behaviors? Then secondly, on the topic of unprofitable sales, please could you update on the journey to a marketplace, please? I know there's a tech rollout process in order to have that optionality. Thank you.

Alex Baldock: Yeah. The first question first, and obviously it's a big question, but the short answer is clearly, the customer's hard pressed. Clearly, they're spending less overall, even though, as I mentioned before, they're still spending more on technology than they were pre-pandemic. Still shopping, but what we are seeing is some trading down to a less expensive product, and the customer's certainly looking for a deal.

All of that's true, but it's a more nuanced picture than that, because I've talked about MDA, that's a good example of where we're actually seeing some trading up to a more expensive product upfront, but that has significantly lower running costs over its life. The customer's interested in those, lower energy consumption, both from an affordability perspective, but also from a sustainability perspective, about which they still care.

This is the kind of trend that's particularly well supported by our credit proposition, because clearly we can help the customer trade up to a more expensive product, and then they see the benefits of that in lower running costs over time. We're seeing a lot of that. We're also obviously seeing customers looking for help affording products, and looking for help making the products they've already got last longer. We talked about the significant improvements we've seen in credit, +460 bps up YoY as evidence of that.

We're also seeing, our repair business has never been busier. We've got 14 m now, Care & Repair customers across the group. That's not just another important sustainability credential as far as customers are concerned, and another reason to prefer Currys, but it's also something that makes us money. Our longer-life propositions of trade-in, repair, protection, and recycling, together are profitable, and we've got some strong plans to continue to improve that trajectory. That's what we're seeing.

I think your second question was on less profitable sales and marketplace. As you know, we've got a marketplace in our Nordics business. We're not flagging an imminent deployment of it to the UK. One of the reasons that we've landed things like the new omnichannel platform well in the UK is that we're resisting the temptation to try to do too much at once, when it comes to big systemic developments. This is definitely on the list, but it has to take its place in the queue. We'll talk more about that another time.

Nick Coulter: Thank you.

Alex Baldock: I think, with that, we're going to have to wrap up. Many thanks for your time. Where would I summarize all of this? We are not happy with this performance. We're not happy with the absolute level of performance in the UK, but we do like the trajectory, and we intend to keep doing the things that are strengthening the performance.

Clearly, it's disappointing to have interrupted the trajectory in the Nordics, but both for reasons of temporary factors externally, and our own self-help actions internally, we're confident that we'll resume the trajectory there, which gets us to a reasonable place in in-year profitability, and gives us confidence in that drive towards at least the 3% EBIT targets that we've committed to over the medium term. With that, I'll thank you for your time, and wish you all a good day.