Currys plc

Full Year Results | Investor Presentation

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Transcript

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Alex Baldock, Group CEO:

Good morning and welcome to our new offices and welcome to our full year financial year '22 results. What you're going to hear today is strong results from a stronger business, and you're going to hear how we've produced these strong results and how we intend to keep doing it. And in particular, you're going to hear how we're going to use the strength that we've built to help customers through what's going to be a particularly tough year and this cost of living crisis. First up is going to be Bruce, who's going to talk to you about those results, but also with a particular focus on something that's important and where we're doing a reasonable job of building more cost efficiency into the business, which obviously is essential if we're to help customers as we want to. Bruce over to you.

Bruce Marsh, Group CFO:

Thank you, Alex. Good morning all. I hope you're well. So as Alex said I'm going to start off by just giving a high-level overview performance of the group, and then I'll spend some time going through each of the business units. Right, so from a high-level perspective, very quickly, our revenue for the group in financial year '22 was £10.1bn, which was down 3% like-for-like year-on-year, but up 10% Yo2Y. Our adjusted profit before tax increased by 19% to £186m. We had free cash flow of £72m. We saw a substantial further reduction within our total indebtedness falling by £164m year-on-year to £1.5b. Adjusted EPS stepped forward by 11% to £11.9m. And finally, we returned £78m to shareholders.

Bruce Marsh:

We had a strong performance across all of our divisions. So starting off with UK and Ireland, our like-for-like was minus 4% year-on-year compared to a strong base last year. But Yo2Y, we were plus 6%. And if you were to strip out the mobile business, actually our two year like-for-like was plus 13%. Within our international businesses, Nordic like-for-like year-on-year minus 2, but over two years was plus 15%. And Greece was positive both year-on-year plus 4%, but also Yo2Y plus 14%.

Bruce Marsh:

Focusing now on the UK business specifically, and what we've identified is a significant step forward in market share. Our market share grew by 0.9% year-on-year to 25.6%. And on the graph on the left, you can see that on the face of it, our market share stepped backwards by 0.9% Yo2Y. But actually, that belies the fact that we grew share both within our stores' channel and our online channel, and it's only channel shift that caused that drop. In terms of a performance summary for the UK&I business, our online share of business dropped from 65% to 45% within the year. Our adjusted EBIT stepped forward by 22% to £111m, and our EBIT margins move forward by 0.4% up to 2%. Our operating cash flows were £152m. That was up 10% year-on-year, and we generated segmental free cash flows of £109m.

Bruce Marsh:

The makeup of our profitability within the UK&I and particularly the movement year-on-year is quite complex. So I hope you're going to bear with me as I step you through this waterfall because I think it's quite helpful to understand the movement. And the reason it's complex is there were a number of one-off impacts that are useful to pull out to rebase last year's number. So if I step through those, FY '21's profitability was £92m. We faced business rates impact as the taxes increased as a result of losing the COVID relief, that was £39m. We also had an accounting impact on our iD Mobile business. Now the good news was that we take have taken ownership of the iD Mobile customers, but the accounting consequence of that means that we need to spread the revenue. And that has a negative profit impact year-on-year of £20m.

Bruce Marsh:

Similarly, we have an accounting impact from the way that we're choosing to manage our IT business. Historically, we've done what many businesses do which is use CapEx to build our own IT infrastructure and then see the impact through the P&L in depreciation. We're switching our business towards software as a service, which means far more of the cost is upfront directly through our operating expenses, and that is reflected as a £15m headwind year-on-year. But going the other way within one-off impacts, we had a £22m benefit within our mobile debtor settlements. That reflects the fact that we had a minus £11m in financial year '21 and a plus £11m in financial year '22, hence a plus £22M. So, therefore, rebased our UK&I profit was £40m. That then results in a set of underlying movements.

Bruce Marsh:

We suffered cost inflation of £56m higher year-on-year, offset by cost savings of £69m. And in a moment, I'll walk you through some slides that breaks that down. We also had a mobile debtor revaluation that helped our P&L by £22m. And then there are a whole range of other benefits that added up to be worth £36m, which gets us to the £111m total EBIT.

Bruce Marsh:

Another way of looking at the UK P&L that I think is quite helpful is to look at it through the lens of gross margin and operating expenses. From a gross margin perspective, we saw a 110 basis points improvement within our gross margin. And all of that is underlying improvement because the mobile debtor improvement value offsets the iD accounting change. Within that 110 movement, we had 30 basis points of cost saving within our supply chain operations, 40 basis points upside from the network debtor revaluations and 70 of inflationary headwinds from both shipping and payroll costs within our supply chain. When you net all that out, you are left with a remaining movement of plus 110 basis points within gross margin. And as I say, a whole range of different things going on there. But if I was to group them down into two buckets, one would be the benefits of stores reopening. We've been clear in the past that our stores make a better gross margin than our online business, and that is still true.

Bruce Marsh:

And over the course of the year, and you'll hear Alex talk more about this in a moment, we've seen a significant step forward in our adoption rate of both credit and services across both of our channels as we look to level up both across channels and within our channels, and that significantly helps our gross margin

Bruce Marsh:

In terms of our operating expenses, our operating expenses on the face of it have gone backwards by 70 basis points. However, more than all of that is caused by the isolated impacts. So the business rates tax headwind that I described and the IT accounting headwind together equate to a hundred basis points of headwind, which mean the net position is a 30 basis point improvement within our operation expenses with cost savings offsetting inflation.

Bruce Marsh:

In terms of the inflationary impacts, they fall broadly into three buckets. The first and the biggest is our wage cost increases, which increased by £25m. £17m of that is within our supply chain and our service operations and hence are in gross margin. £8m of it is within our stores. But as you may have seen when you walked in, the video showing our colleagues who are, of course, at the absolute heart of our business; it's an important investment that we are making. And as you can see on the graphic, over the last five years, we've increased the wages of our colleagues by 29% over that period. We've seen inflationary headwinds from energy like many businesses. Now, we do effectively hedge energy on both a summer and a winter tariff. But despite that hedging, we've still seen a 38% increase within our energy cost, which equates to £8m of extra inflation year-on-year.

Bruce Marsh:

And finally, shipping costs, and this is fundamentally the cost of moving product overseas, particularly from the Far East. There, we saw a £22m headwind. We saw, for example, 134% inflation of container costs moving product into the UK, so some substantial headwinds that add up to £56m. But as I reflected, we've been able to more than offset those with our cost program. And you've heard us talk before about our proposed £300m of cost savings and we're well on track to deliver that. The cost savings fall into four categories. These are the same four categories that we talked about at the capital markets day. First of all, supply chain brilliant basics. Getting our supply chain working as effectively as it possibly can be and also the outsourcing of our warehousing and logistics to GXO has delivered £12m of savings. Within goods not for resale, making sure that we are retendering all contracts when they come up and looking to consolidate our supply base has saved £19m.

Bruce Marsh:

Within our stores, when those of you who were at Staples Corner, we talked there at length about the new store operating model and the fact that we were retraining staff or multi-skilling our staff so they could be more customer-facing, and that's allowed us to save £8m year-on-year. And the biggest savings coming through in IT and central, particularly within our IT team where we've dramatically simplified our estate, we've removed 391 duplicate applications and moved an awful lot of our IT into the cloud, and that saved us £30m. So a total of £69m. Important to reflect that £69m doesn't take any value from business closures or any value from volume reductions. These are true year-on-year savings.

Bruce Marsh:

Moving on to the Nordic business. The Nordic business market share stabilized in the last financial year and that's off the back of a very, very successful financial year '21 when the Nordic business was able to get hold of an awful lot of stock and really win during the pandemic period. Market share has stepped back in the year. We're reporting on to 25.9%. However, we remain the clear market leader in all of the markets we operate within the Nordics.

Bruce Marsh:

In terms of a performance summary, online share of business has stepped back from 29% to 25%. Adjusted EBIT has dropped back by 5% to £142m. Although again, that's against the hugely successful financial year '21. If you were to look at it two years, our EBIT has moved forward in the Nordic by 13%. In terms of our operating cash flows, very strong, £181m million, up 5% year-on-year.

Bruce Marsh:

But I'm now just going to pause for a second when we get onto segmental free cash flow, because as you can see, a bit of a surprising number at plus £12m within the Nordic business. And that reflects a very positive decision that we made at the end of last financial year within our international division to buy stock. We wanted to buy stock for two reasons. Number one, to make sure that we were securing availability, but secondly, to make sure that we were locking in prices in a very inflationary environment. Now, we invested £113m in working capital at the end of the financial year. The good news is that we don't have any overhang. We've sold through between 60% and 70% of that stock already in the first eight weeks of the year.

Bruce Marsh:

In terms of the EBIT margin between gross and OPEX, within our Nordic business our gross margins have been flat, with the incremental logistics costs and other inflations within our supply chain being offset by the store openings and the improvement in margin that's delivered. In terms of our operating expenses, our operating expenses as percentage of sales have moved adverse by 10 basis points. But within that, by far the biggest component is the loss of government support, which equated to £6m pounds within the Nordic business. In addition to that, we've been running two IT systems as we've put our new online system live within the Nordic market. We've opened four new stores, which carries incremental overheads during the early trading periods. But that's offset by efficiencies that the Nordic business is driving through cost saving.

Bruce Marsh:

In terms of the Greek business performance summary, first of all, online share. Online share has dropped back from 21% to 9%. Our EBIT has stepped forward significantly by 22% year-on-year to £21m. Our operating cash flow is up by 26% to £28m. But like the Nordic business, in Greece, we've made a decision to invest in working capital; £30m of working capital, which means our segmental free cash flow for the year in total is negative. Although again, we will expect that to unwind. The shape of the Greek P&L is quite different year-on-year.

Bruce Marsh:

In terms of our gross margins, our gross margins have stepped forward by 200 basis points. And by far the biggest impact there has been the reopening of the stores and the shift of our business back to our store base and away from online. And that's because, within our Greek business, credit is so important, and therefore, without access to credit, we were a little bit curtailed, both in terms of our volume of sales, but also our mix. Now the stores are back open, we've been able to drive our margins forward. In addition to that, we've launched a new insurance product, which is very successful and is allowing us to drive our services adoption rates.

Bruce Marsh:

In terms of our operating expenses, they virtually offset the upside in margin 190 basis points adverse. Again, by far the biggest impact is lower government support year-on-year. That was also £6m impact. But for a business the size of Greece that is quite a substantial impact and is the majority of that drop. In addition, we opened new stores within Cyprus and the Greek business also was suffering quite highly from pay and fuel inflation.

Bruce Marsh:

We generated strong cash. If you added together all the numbers that I've walked through, our operating cash flow was £361m, up by £23m year-on-year. Against that, we spent £133m of CapEx. That was £11m higher. And if you wanted to batch that to one thing, we did the rebrand of Currys, which would account for that. However, I would say that even at £133m, that is below a level of CapEx that I would consider to be normal for our business going forward. The number that we've got in our mind is around £150m. The reason that it's lower than that is because we've made some choices. We've made some choices to not do some projects because we're not happy with the returns that they're getting, and also for some non-critical projects, we've decided to delay them based on the current economic environment.

Bruce Marsh:

In terms of adjusting items, cash adjusting items have come right down to £33m. If I just call out two components within that, there was a cash outflow in relation to property, predominantly exiting sites that we'd already closed. But offsetting that with some one-off settlements, leaving a net £33m. Our cash tax paid was £18m. And again, you can see that is quite a substantial drop year-on-year. That is simply phasing. There was a £15m cash tax due to be paid in the Nordics, but because of some changes to structure that cash has moved into the current financial year, so you can expect to see that reverse this year. And finally, cash interest paid has come down by £7m as we've improved our average cash balances and right-sized our facility. That creates a sustainable free cash flow of £160m, a substantial step forward year-on-year. But as I've reflected, as I've gone through, we have thenBruce Marsh got this working capital headwind that we chose to put in place for year end. Which means our free cash flow is £72m.

Bruce Marsh:

We've seen our balance sheet strengthen yet again. Our average indebtedness YoY has improved by £300m. That's partly as a result of our average cash balances improving. It's also because we've seen our IAS 19 pension deficit fall substantially to £257m. Partly, as a result of the cash injections we're making to the pension scheme of £78m a year. But also there was an increase in the discount rate, which reduced the liability. Offset by the inflationary impacts and a reduction in the value of our pension assets. Finally, we've seen a reduction in our net lease liabilities as we've managed to exit stores that we've closed.

Bruce Marsh:

In terms of uses of free cash, as I've said, our free cash flow was £72m. During the course of the year, we returned £78m to shareholders, £46m of dividend, and £32m through buyback for cancellation. That matched the £78m that we paid to the pension scheme. Further, we purchased shares of £41m for the employee benefit trust in order to support employee awards, and to avoid diluting shareholders. Which meant that we had an overall movement in net cash of £125m. Our net cash position went from plus £169m to plus £44m.

Bruce Marsh:

We've done what we said we would do, which is, when we have excess cash in the business, we've returned it to shareholders. That very matches our capital allocation priorities. Again, a repeat of what we talked about previously, our first priority is to invest the cash that we have in the business. As long as it's generating an acceptable return with our 24-month hurdle rate. Secondly, we want to pay and grow the dividend to shareholders. We are proposing a 5% increase in dividend to 2.15 Pence, which will give a total dividend of 3.15. Finally, any surplus cash available, we would return to shareholders through buyback.

Bruce Mars

So I'll then finished just by talking about outlook and guidance. Clearly, there's an awful lot of uncertainty in the market. We're also only two months into our financial year. So, how the year is going to turn out is clearly highly uncertain. We're suggesting a range, quite a wide range of adjusted PBT between £130m and £150m. I just want to register in your mind that those numbers include some of the stuff that Alex will talk about in a moment.

Bruce Marsh:

We're guiding to a capital expenditure of a range of between £140m and £160m. Why have we got a range? Well, we've got a set of plans that add up to the top end of that, but we may choose not to spend it, again, depending on the economy, but also depending on the returns, once we get into the detail of those projects.

Bruce Marsh:

We've got net cash exceptional cash costs this year of £40m. Of which, roughly half relates to items that have already been provided for, particularly property exiting the tail of stores that we've got left. The other £20m is new transformation activity fundamentally around cost out. Finally, we've got the annual pension contribution of £78m which continues.

Bruce Marsh:

That's all I had to cover. I'm now going to hand over to Alex who will talk a little bit more detail about how we've achieved the results that you've seen, but also what our plans are for the future.

Alex Baldock:

Thanks, Bruce. Strong results then from a stronger business, as I flagged at the start. I'm going to canter through some slides talking about how we've done it, and how we're going to keep doing it, and what that means for our support for customers.

Alex Baldock:

A stronger business, I say, and that starts with being strong internationally. It's worth remembering that no more than 50% are we exposed to the UK consumer. The market that we're in is a more important market to customers and a larger one. It has stayed sustainably larger, between 14% and 19% larger last year, depending on whether you're talking about the UK or the Nordics. Even this year, the start of this rather turbulent period, the last few months, the market has stayed larger than it was pre pandemic. Rather more so in the case of the Nordics than the UK.

Alex Baldock:

We owe this to more engaged colleagues, and more satisfied customers. One of the things that makes me most pleased about these results is, they're not just strong financial results, but they're strong record levels of colleague engagement and customer satisfaction as well as you see here. So, a balanced set of results across different stakeholders.

Alex Baldock:

One of the things that makes me proudest is this result that we've had in the most engaged colleagues that we've ever seen. One inflationary headwind that we're happy to face into is that £25m that Bruce spoke about. That we are paying our frontline hourly rate 29% higher than we were five years ago. There was £25 mi of wage inflation in our results last year. We're happy to face into that, because capable and committed colleagues for us are a retail fundamental. It's very hard for the experience of the customers to exceed that of our colleagues.

Alex Baldock:

It's a retail fundamental on which we've made some progress, but it's not the only one. There are other retail fundamentals, essential growth drivers in retail, where we've posted important progress. The range is twice the size that it was a couple of years ago, and was substantial headroom to grow further. We are on the money on price, important in a category as elastic and transparent as ours. The customer experience is easier, notably on delivery, where we've seen some sharp increases in customer satisfaction.

Alex Baldock:

So, some really important progress on retail fundamentals foundations, you might say, for the progress that we're making. But on top of those foundations, there are a couple of big differentiators that we've got that competitors don't have, and where we've also made important progress. Omnichannel and services.

Alex Baldock:

Omnichannel first. While it's the winning model in this category, customers prefer to shop for technology both online and in store. That's true in every market, and it's true in the UK. We are making more of having both. Now, it wasn't so long ago, but some commentators thought that stores had no future during the depths of the pandemic. Well, what have we seen?

Alex Baldock:

Well, obviously, online has stayed a larger part, both of the market and of our business. We're not expecting that to reverse substantially. That said, the online market has stepped back significantly. As you see here, 21% last year and 19% this year so far. So the market on online has stepped back at the same time as the stores have rebounded more strongly than anyone expected, including us.

Alex Baldock:

Online, yes, a bigger part, but it has stepped back, and stores have rebounded more strongly. Now, luckily for us, fortunately, Currys is strong both online and in stores. Online, for example, we are now big. We're twice the size of any of the competitors online, pure play, or otherwise. And we're building on that scale where we've grown the online business by a third in a couple of years. We're building on that scale by fuelling new growth with new websites, which are now landed.

Alex Baldock:

We've landed the so-called NGRC in the Nordics and the new Salesforce-based platform in the UK. The riskiest and most expensive part of that transformation is behind us, but we've yet to feel the full benefits. The full benefits of scalability, of stability of the websites, but also what they enable. The new websites enable better upsell, better cross-sell, better sales of credit, and other margin accretive services through things like better recommendations, AI powered, and better content, and the like.

Alex Baldock:

We are big online, and we are also getting better. But we haven't neglected stores, really important. What we now have is, a flexible and profitable set of stores, because we've taken some action. It's worth remembering that four years ago, we had three times as many stores as we have today in the UK.

Alex Baldock:

Substantially, all of those stores now make a positive contribution, not least because we continue to see c.40% rent reductions. Big and better online. We haven't neglected our stores, not least in the investment in the colleagues in the stores that you've heard about. And we can put them together, online and stores, to give the customers the best of both in a way that nobody else can do.

Alex Baldock:

Three big ways in which we've made continued progress in doing that. You walk into one of our stores. I hope you will never be told by a Curry's colleague, "I'm sorry, we haven't got one of those." We can always sell you something, because we can bring the full online range for sale in any store, whether they have it in stock, in that store or not. As you see, online in store sales have more than doubled in a couple of years.

Alex Baldock:

Customers aren't getting any more patient. We can give them instant gratification better than anybody else. You see the leap that we've seen in order online, collect in store, which is up by c.50% in the Nordics, as you see. We can get the product to the customers in less than an hour, better than anybody else.

Alex Baldock:

Third, shop live video shopping. A customer online sat at home can be helped by a colleague in store live. That's here to stay as a channel. We continue to see quite agreeable upticks in conversion, and average order value over unassisted online. So lots of progress right the way across the board on omnichannel.

Alex Baldock:

I mentioned the other part, the other differentiator, if you like, over and above our retail fundamentals, is services. How we build customers for life customers who stick with us, and who are more valuable, customers who keep coming back. Of course, we do have lots of customers. In one sense, we don't need many more. 80% of households shop with us already. Our prize is to grow the share of wallet of those customers.

Alex Baldock:

One means of doing so is club. In the Nordics, our customer club is progressing quite nicely, whether it's the number of members of the club, which as you see, is sharply up to nearly 7 million now. What we see with those customer club members is that they spend more, and they're more profitable. So, nearly 60% more revenue per customer, and over 75% more profit per customer. And there's plenty more still to come in the Nordic.

Alex Baldock:

For example, our Danish colleagues are working hard to catch up their lag over our Swedish and Norwegian in customer-club penetration. There's plenty more to go for here. We've transferred that learning over to the UK with our customer club 1.0, Currys Perks, where we're starting to see some quite encouraging signs.

Alex Baldock:

We've got good take up. 11 million odd members, and starting, starting, to see some benefits. Whether it's a 20 odd percent increase in average order value for club members, versus non-club members. Or a still relatively modest, but early double-digit uptick in shopping frequency. So they're shopping more frequently, and they're spending more. But, still very early days for the club in the UK, and plenty more to do.

Alex Baldock:

Club's one way to build stickier and more valuable customer relationships, and services is the other big one. What we're going to zoom in on today is two of these. The first of them, credit, how we help customers afford technology. That's not cheap. Credit is good for customers, and it's good for us.

Alex Baldock:

It's good for customers because, of course, they need the help to spread the cost of this expensive technology. Never more so than now during a cost of living crisis. That's why our credit customers are 12-points happier in customer satisfaction than our non-credit customers. It's why credit's the norm in our category. In the market, two thirds of all spend on technology is on some form of credit. So, this is good for customers, but it's also good for us.

Alex Baldock:

Good for us in the sense that credit customers spend more, as you see up here, both on products and on services. They are happier, as I mentioned before, and they're stickier. They're 70% likelier to come back and shop with us the following year. Let's hear from some customers, and from some colleagues on credit.

Video on credit:

Alex Baldock:

Credit is good for customers, and it's good for us. So it's good that we're growing it, and we are as you see. Both credit-customer numbers and credit sales are up by over 20%YoY. And we're well on track to do better, I'd say, than the 16% credit-adoption rate, the target that we've set ourselves by FY 24. In fact, actually, in the early months of this financial year, we're trading at those levels already a year early.

Alex Baldock:

Credit is good, and we have scope and plans to grow it further. First of all, Bruce mentioned levelling up, which is perhaps a slightly unfashionable phrase given current news flow. But, nevertheless, it's got some currency internally. The levelling up credit adoption across channels, important driver of sales, and of profitability. As you see, we've done a pretty good job of improving our credit adoption in both channels, but most strikingly in online.

Alex Baldock:

Second, better offers. We're announcing today, a richer market leading buy-now-pay-later offer. 12 month-pay delay for every product over £99. Which, as I say, market leading. The competitors are going to struggle to match it, and it's great for customers. We're going to see much more powerful messaging to go along with that as well.

Alex Baldock:

Credit is great. It's good for customers. Good for us. It makes us money, and it keeps customers coming back. We're going to see a lot more of it. In fact, we already are during the start of this financial year as customers need it more. The other service that we're going to zoom in on today is, longer life.

Alex Baldock:

Currys is not just going to be all about selling customers shiny new technology, although we like doing that. It's also about helping give longer life to the technology that customers already have. That's something that we can do, because we're the market leaders in everything from protection to repair, to trade in, to recycling. But, it's also something we want to do, because it makes us money.

Alex Baldock:

Let's hear more about that.

Video on helping give longer life to technology

Alex Baldock:

So Long Live Your Tech, giving technology longer life is first of all, a commercial imperative for us. It is that because increasing numbers of customers are making their decision about where to shop based on the sustainability credentials of the retailer. This obviously puts us in a very strong position to trumpet those credentials, but it's also helping the customers in their pocket. Whether it's giving longer life to the tech they've already got or helping them trade in their old for their new, it's good for their pocket as well as for the planet and it's good for our sense of purpose for our colleagues internally as well. So it's pretty much a win-win and we make money doing it. This is really important. Standalone, these longer life services are profitable and we have scope and plans to make them significantly more so. So this is a way to get customers to shop with us rather than somewhere else and for us to do it profitably as well.

Alex Baldock:

Now I mentioned that it's primarily, first of all, a commercial initiative. It is of course also a sustainability initiative. You'll see that on sustainability itself, we continue to make very strong progress, whether it's the near 90% reduction in our scope 1 and 2 emissions that we've seen over the past seven years, or whether it's the higher ESG ratings that we're getting from outside observers, whether it's Sustainalytics, for example, who rate us in the top 4% now of large global companies on ESG or CDP. Bottom right here, you'll see, we are rated amongst the top 2% of companies worldwide. So what have you heard? A stronger business then and a stronger business that's therefore in good shape and has the fire power to step up our help to customers through this cost-of-living crisis and that's precisely what we're doing.

Alex Baldock:

We see the following year, tough as it's going to be, as an opportunity. It's an opportunity for us to cement our customer relationships and to gain significant market share. We intend to come out of this year, not just registering a solid level of profit, but also in a significantly stronger relative competitive position. We're getting behind that and we're investing significantly but judiciously to achieve it. So what are we doing? On range, we're getting behind and investing harder in our go greener range of energy efficient products that helps lower customers' energy bills. That range is going to be more available. At a time when some of our competitors are having to close warehouses to preserve cash, we are investing in extra capacity to improve our already market leading levels of availability. Our availability is up 4ppts YoY last year. It has continued to improve in the early months of this year. We're going to keep our foot down on that retail fundamental.

Alex Baldock:

But it's not just about range and availability. On price, we have invested to be on the money on price. That's been taken some quite painful gross margin investment over recent years, but we are now on the money on price. As you heard from Bruce, we have invested particularly in the Nordics and locking in some valuable product at good prices at the end of the last financial year. We'll pass the benefit of that onto customers right now. But more than that, we are going to be freezing prices on dozens of top lines at good products to help customers afford the technology they want now, but at last year's prices. On credit, you've seen the success of credit, its demand from customers, its commercial value to us. We're doubling down on that with this BNPL 12 on everything over £99, which is the market leading offer. When you think about it, there might be an LG TV, for example, the customer wants. They can have that TV at last year's prices, but not pay for it until next year. This is very powerful for stimulating the market.

Alex Baldock:

And last but not least, cash for trash. Your old tech, no matter how knackered, has some value to us. So you bring in anything for trade-in and you will get some value at least towards your replacement product. We're reinvigorating that cash for trash and the broader trade-in program. So right the way across the range of these initiatives, you can see we're stepping up the help that we offer customers in what is going to be a tough year, but it's not just altruistic. We are doing it in a way that is going to be valuable for us, as well as valuable for the customer. I said that we can do all of that. We're confident we can make all of those investments within the range of £130m to £150m of PBT, which Bruce guided to before. We can do it while remaining free cash flow positive this year.

Alex Baldock:

Looking out a year to FY24, we have been more prudent on the EBIT margin, both because of the outlook for the market, we can't quite see our way towards the gross margin improvement that we had hoped for, and of course, the cost inflation is harder and faster than anybody expected. All those three things have caused us to take a more prudent view of the EBIT margin, but nonetheless, a decent level of profitability, and a good level of sustainable free cash flow is absolutely within our grasp for FY24. Our ambitions for the longer term are undimmed. We certainly haven't stopped targeting that 4% EBIT margin in the long term. To wrap up, what do I hope you've seen? First of all, that these are strong results from a business that is significantly stronger, not least for being international and diversified geographically. We're the growing number one in all of these markets. We've got strong market leadership positions, which we're improving and will continue to improve, and this in a market that is sustainably larger, even now in the current turbulence. We've got happy colleagues making for happy customers, record scores on both of those.

Alex Baldock:

On top of some really strong retail fundamentals, we've got a couple of differentiators that no one else has got. We are making more of having online and stores, because you do need both to win in this space. We are making more of the services that help the customers all the time, not just the few times a year when they come and shop for technology with us. We can help them all the time afterwards and be paid for that. In many ways, not at least in the spend and the risk, the hardest parts of our transformation are behind us. You've heard from Bruce how the balance sheet has been transformed here, whether it's the total indebtedness is down, whether it's a healthy level of net cash or ample liquidity headroom, this is a strong business and therefore, we can use that fire power to step up our help for customers through what's going to be a pretty tough year. So with that, I'm going to pause we're going to take your questions. Thank you very much.

Andrew Porteous, HSBC:

Andrew Porteous from HSBC. I'll go for three, if that's all right. Just in terms of the year ahead, the £130m to £150m PBT range, could you perhaps help us bridge that in terms of how you're thinking about that on like for likes, cost savings, cost inflation, gross margin. Just help us build that picture. Secondly, I noticed the working capital investment in the free cashflow comes through in the Nordics and Greece, not in the UK. Perhaps give us some colour there about why you felt comfortable not to do the UK investment. Then a last quick one, I noticed the buyback is in your medium-term guidance, not the year ahead. Is there anything to read into timing on that side of things? Are we investing in working cap this year and do the buyback next or how you're thinking about that?

Bruce Marsh:

Okay. In terms of our guidance for this year, as reflected, lots of uncertainty very early in the year, so you can take that for granted. In terms of what are we assuming, first of all, in terms of the overall size of the market, we're assuming the market does step back to pre-pandemic levels. When I say that, I literally mean flat against pre-pandemic electricals market of 19 billion. The consequence of that obviously means that there's an inherent reduction within sales. Now our intention for all the reasons Alex set out is to grow market share, and therefore, we are expecting to see sales growth on a year on three-year basis, so compared to pre-pandemic, but not at the levels perhaps that we would've budgeted previously because I think we have to assume the market is going to be more competitive. It's going to be smaller and therefore more challenging.

Bruce Marsh:

In terms of margin, we're not guiding on margins specifically, but undoubtedly, we're going to feel some level of pressure although our goal in terms of stable, gross margin remains in the medium term, but clearly, we will just need to manage the business as we need to, to remain competitive. In terms of cost, our cost out plans are exactly as they were. If anything, they're stronger. Hopefully, the detail I was able to share with you gives you some confidence on the detail of our plan. There is then a full year effect, which again, we're not going to share what exactly that quantum is, but there is a full year effect that benefits from that. Then over £100m of additional cost savings in the current financial year as well, which we believe will offset inflation.

Bruce Marsh:

Now clearly, how long and how hard inflation will be, it is difficult to call, but we've extrapolated what we've seen so far. So that's very much the UK. In terms of our Nordic business, the focus there actually is a relatively modest level of sales growth where we're anticipating the B2C market falling away, but the very successful B2B and kitchen business that we have in the Nordics, we anticipate will stay strong. Within Greece, we're anticipating some sales growth because we understand the Greek government are going to be investing heavily to make tech available to consumers and to increase adoption. So for those reasons, that's broadly our model.

Alex Baldock:

I think you asked a question as well about why we've invested in stock at the year end, particularly in the Nordics. It was somewhat opportunistic and that's where a good parcel of really high-quality product that we were confident that we would sell through and we were confident that would inflate in prices. Therefore, we went slightly larger in that. We didn't feel the same need in the UK, whereas I mentioned our availability has been improving by 4ppts YoY and just continued to improve into this financial year. I think Bruce mentioned we're through 60% to 70% of the way selling through that extra Nordic stock, which showed it was a pretty good call.

Bruce Marsh:

Then your final question on the buyback. You are right. At the capital markets day, we guided to basically the end of half one this year. We've purposely not talked about the timing, not because we don't intend to get that underway although we're not announcing that today, but we didn't want to put an end date on it. Clearly, we want to be cautious. We want to protect the cash of the business, so therefore, we're just being prudent.

Andrew Porteous:

Thanks a lot. That's really helpful.

Bruce Marsh:

Thank you.

Alex Baldock:

Thank you.

Navina Rajan, Morgan Stanley:

Thanks for the presentation, guys. Navina here from Morgan Stanley. Just had a few questions from me. I just wondered if you could comment at all on current trading now that we're a couple of months into this year, any colour on trends that you're seeing and how that compares to the exit rate last year. Then the second question's on how you're thinking about the services business. You mentioned some great progress within credit and the benefit that customers will have in a weaker consumer environment. How are you squaring that off with repairs? Have you seen any scale back on the amount of repair services customers are demanding? Then also just on the actual Nordics consumer, how should we think about the resilience of that consumer versus the UK consumer going forward? Thank you.

Alex Baldock:

Navina, as for colour on current trading, I think we've said a few things. First of all, the market remains in growth over pre-pandemic levels both in the UK and in the Nordics. Obviously, we've signaled our confidence for the full year that we'll continue to gain share in that market. As for some trend, some colour on what we're seeing from the consumers, clearly, everybody is getting more price conscious. That doesn't necessarily mean trading down to lower ticket items, but it does mean expecting a very keen price on the items that they do want, which is where our price promise, which is where the price freeze that's coming up, which is where our credit offers to spread the cost, which we're enriching and we're trading in and giving the customer value for their old tech are all proving in quite strong demand with customers during the early months of this year.

Alex Baldock:

Beyond that, I think ultimately, what this will pan out to is whatever the market does, we will gain share in it, during the course of this financial year. We've said that we see this year as an opportunity to lean in, an opportunity to gain share and to cement our position with customers as well as improve our relative competitive position. We absolutely intend to do that and we intend to do that in a balanced way that sees us make a solid level of profitability around the £130m to £150m PBT mark. On services, no, we're not seeing any diminution in demand in the early months of the year. If anything, the reverse. You asked about repair. I guess it stands to reason that at a time when customers are increasingly feeling the pinch, they're more incentivized to make their tech that they've got last longer. In contrast with some others, we're not seeing cancellations out of our warranty book. In fact, quite the reverse.

Alex Baldock:

Our warranty book is back into growth. We're seeing healthy levels of repair coming into the business as well and we're seeing a significant uptick in demand for trade in, which is one of the reasons that we're reinforcing success and getting behind it. What was your third question? Remind me.

Navina Rajan:

On the Nordic consumer and how we should think about the resilience of that consumer versus the UK consumer going forward.

Alex Baldock:

Yeah. Well, there's a couple of ways to answer that. Firstly, the market is obviously holding up more strongly in the Nordics than it has done in the UK. I think we shared that theYo2Y, the last year, the Nordics market was up 19% versus 14% in the UK. You've all seen from the chart, which no doubt you'll have your rulers out with your packs, but you all have seen from the chart for the first months of this financial year, the market has stayed sustainably larger in the Nordics more so than it has in the UK. But equally, as Bruce mentioned, we do have a couple of stabilizers, if you like, in the Nordics market. Our SMB business, our business focused on the small and medium-sized enterprise is strong in the Nordics and we'll have more to say about that in the Nordics and in the UK at another point because we have many of the attributes required to be successful in that small business market and we like what we're seeing there.

Alex Baldock:

Then less importantly, but still significantly, there's the kitchen's business in the Nordics, which makes a useful contribution. So in short, the Nordics consumers are more cushioned, not completely cushioned, but more cushioned against the pressures that we're seeing in the UK and we have a couple of levers to play with there.

Richard Chamberlain, RBC Capital Markets:

Thanks, Richard Chamberlain, RBC, couple of questions, guys. First of all, Bruce, could you just talk through your outlook for working capital over the coming year? I think you mentioned that already you've cleared through some of the inventory build that you saw at the year end, but what are your expectations for the year ahead on that? And then, Alex, maybe you could talk about the operational flexibility of the business, how do you see Currys ability to flex its buy, flex its operations, particularly around peak trading, Black Friday and so on, if demand comes in higher or lower than expected?

Alex Baldock:

Let me take the second one first and then Bruce can take the working capital question, Richard. I think, in short, what we have is a scalable and a flexible infrastructure here. I'm going to use those words to describe the new eCommerce platform that we have, but you could apply that more broadly to our supply chain and our service operations as well. Clearly, we've invested heavily over the years to have a scale and a flexible infrastructure. Having both channels and being strong in both channels, obviously gives us a degree of flexibility that some others lack because when, for example, perhaps slightly unexpectedly, the online market has fallen away more than people thought this year and the stores have rebounded more strongly, our infrastructure can flex across channels very well.

Alex Baldock:

And obviously we have scale in all categories. And so when demand is a little bit weaker in vision and a little bit stronger in Whites, or computing or mobile, or vice versa, we can flex across categories perhaps more successfully than some others. So in short, I'm feeling pretty good about the flexibility and the scalability of the infrastructure we've got, and confident enough, clearly, to be adding capacity at a time when others are pulling back. We've got new warehousing coming on stream in the UK and in Sweden, this year, and because in anticipation of continuing market share gains that we're driving. Do you want to take the working capital one?

Bruce Marsh:

Yes, of course. Thank you, Richard. So in terms of traditional trade working capital, you would expect some reversal of the cash outflow that occurred at year end into this year. I mean the one thing I've learned in my 11 months in Currys is that working capital is very lumpy in this business. So actually, it's quite tricky to be able to forecast accurately at any particular point in time. But in terms of our standard working capital cycles, I would imagine there'll be a small unwind from this year. The other point which is important is in relation to mobile debtor within the working capital. We've talked previously about expecting an unwind, you will have seen in the pack that we're continuing to sell postpay going forward, as opposed to our credit based mobile offer. The consequence of that will be that there won't be the release from working capital that we might have expected otherwise. So those will be the two headlines.

Richard Chamberlain:

Okay, thank you.

Warwick Okines, BNP Paribas Exane:

Good morning, it's Warwick Okines from BNP Paribas Exane. Actually, on mobile, please, you haven't said much about mobile. I noticed in the statement that you talked about, maybe being a bit disappointed by the relaunch at the beginning of the calendar year, could you just talk about the model going forward and maybe what didn't work and what you expect to work in the future?

Warwick Okines:

And then secondly, just notice that the market share improvement in the UK since pre-pandemic is stronger in stores than it is online. I'm just wondering if you could just reflect on why that might be, that you've not gained as much online as perhaps you have in the store channel?

Alex Baldock:

On the mobile point, so not everything that we're doing is working out exactly as planned and the credit-based offer in mobile is the principle example of that. But if I rewind one sec, what we said in mobile is that we were going to build a smaller, but profitable and cash generative part of the business as an integrated category alongside all of the others. And that's what we're doing, and that's what we've done. So yes, it is smaller, but it's back into growth, our mobile category, and back into market share gains, and it's profitable. In fact, it was profitable for FY22, when what we'd committed to was being profitable during the course of FY22.

Alex Baldock:

And that reflects the success with which we've integrated mobile to lean on the common cost structure of Currys. So far so good. What hasn't worked is the credit-based bundle offer that we had hopes for. It didn't really bite as we'd expected with customers, and so we were disciplined about it. We gave it a good shot, but we didn't overinvest in it. And past the point where it wasn't doing what we wanted it to do, we cut it. And we were helped in making that decision by the, again, better than expected, a resilience of the other form of bundle, the legacy postpay bundle, which has stayed current with customers more than we'd expected. So we pivoted.

Alex Baldock:

We pivoted from one form of bundle to the other, but the main point is, we need to present the customers with the full offer in mobile, whether it's a handset on its own connectivity on its own, or the two bundled together. We can do that, and we can include in the connectivity part, but we've got quite an interesting growing story in iD, which we can talk about more another time, as well as a good continuing relationship with Vodafone. The handsets, obviously we've got strong relationships with the manufacturers and the bundle we've got in legacy postpay, which has got longer legs than we anticipated. So we pivoted from one to the other, but the outcome of a smaller profitable cash generative category in the business is the same. Your other question was about online versus store market share.

Warwick Okines:

Yeah. I mean, given ShopLife, for example, you've not gained as much share online as you did in store. Is that because of the app relaunch, or the apps being down, or why haven't you gained as much share?

Alex Baldock:

I think I'd probably turn the answer around, I think we've done pretty well in stores. I mean, obviously, overall, as you saw in Bruce's slide, if you look over the pre-pandemic to now, we've gained significant share, over a hundred basis points of market share in the UK online, we've just done better in stores. And the investment that we've put into the capable and committed colleagues, the £25m of wage inflation that we've cheerfully swallowed, to have the most engaged colleagues who know what they're talking about, who can give the customers the expert help in store that they still value, combined with customers continuing appetite for stores in our space, has seen us do particularly well there.

Alex Baldock:

But if you're asking, am I happy with where we are online? No, of course not. There's much further to go, which I see as a source of excitement because we now have these new platforms, these new websites, both in the Nordics and in the UK. And there have been some others who are better, providing rich content to help customer product discovery, or more personalized recommendations, or better bundling of products and accessories and services, and better customer journeys. Well, all of this, we now have the tools to do and come later in the calendar year, you'll start to see the evidence of that on the websites.

Nick Coulter, Citigroup:

Thank you. Hi, good morning, Nick Coulter from Citi, just to follow up on Warwick's question, really, in terms of the market dynamic for online versus store, how do you think that will evolve this year? Do you think there's a further playback into store, or will online resume growth? And I guess that's probably a medium-term question as well, and then I had a quick follow-up on capacity after that.

Alex Baldock:

Yeah. I mean, the obvious answer is that nobody knows, all right? So we're getting ourselves ready for different ways in which the future might pan out, but you ask what we expect. What we expect is a circa 50/50 world, if you're looking at it crudely as to where the transaction is completed online or in a store, because obviously most customer journeys, most customer purchases now span both. But anyway, we expect roughly a 50/50 world. We saw a sort of 45% online world in the UK during FY22. And that's about right. We've gone from less than a quarter, to half of our sales online in pretty short order, accelerated by the pandemic. Online has obvious advantages for the customers, but so does stores, and in this category anyway.

Alex Baldock:

As I say, the face-to-face advice in what is a complex and expensive considered purchase, the trusted face-to-face independent advice and the ability to demo the product in store, are both still very powerful reasons for customers to come to stores, in addition to the in-store services, which customers value, and again are much harder to deliver remotely. But I say, nobody knows. And ultimately, we're going to be ready for both, because we're strong in both online and stores. And we're investing in both to make sure that however the future pans out, we're going to be ready for it. And part of that, finally, is in the flexibility, as well as the profitability of the store portfolio. As you saw, we've got a relatively low average remaining lease length. We've shown in the past that we're not going to shy away from store closures if they're required, but the fact that we only made five of them last year shows that we're pretty happy with a portfolio of stores that's substantially all positive contributing.

Nick Coulter:

Great, thank you. Thank you. And then, secondly, just on capacity within the market going into a downturn, do you think much capacity will come out of the market, or is it more a case of winners and losers?

Alex Baldock:

We'll see. I mean, we're certainly not counting on anybody falling out of the market, or even significantly deprioritizing it. I mean, you'll have your own view on the relative strengths at the moment of different competitors. We can see what it is that we're doing that's driving increased market share, the continuing foot down on the retail fundamentals of range, availability, price, and an easy experience, and continuing to do things that others cannot do, in omnichannel and services. And we're going to keep the foot down on all of that, and we anticipate, let's put it politely, coming out of this financial era in a stronger relative competitive position. And that's what we're working towards.

Nick Coulter:

Super, thank you.

Dan Homan, Investor Relations Director:

Any more in the room? Thanks. We've got a couple over the webcast. The first is from Simon Bowler at Numis, can you just talk to the exceptional guidance for FY24 and what you're expecting, having guided you to £40m for FY23?

Bruce Marsh:

So our expectation is that cash exceptionals will continue to fall, that's the guidance we've given previously, and that absolutely is still the situation. As I described, the £40m that is within FY23 is roughly 50% a roll-off of items that we've previously provided for, and 50% of new. The legacy store base that are now closed and we're exiting, we're coming right to the end of that. So my anticipation is that cash costs will continue to fall.

Dan Homan:

Thank you. And then we've got one more question from Ben Hunt at Investec, just asking, can you give guidance on what the mobile business profitability was during FY22, and what it's going to be going forward?

Bruce Marsh:

Sure. So I think the first thing to say is, as you've all heard us say before, we've switched our focus of mobile from being a division of Currys, to becoming a category within the Currys chain. And that means that as a matter of course, we are not running a separate P&L for the mobile business. We're not preparing a fully allocated P&L with allocations to give us a net EBIT. We are simply running it and look at it on a contribution basis. However, anticipating that question, we did do a one-off piece of work just to understand how the £118m loss that we made last year, would look this year on a like-for-like basis, if we were allocating overheads in the same way. And we've made good progress. I'll step through the various components in a second, but I believe that we've got it down to single digit losses on a full year basis, and we've exited the year making a profit.

Bruce Marsh:

Now, let me very quickly step through, so there are some components of strategic cost change. So for example, the difficult decision to close our Carphone Warehouse stores in Ireland obviously saved a chunk of cost. There were then some direct costs that have been saved within the business, for example, colleagues who were dedicated to mobile within store. There were then some overheads, particularly in IT that we've been successful in reducing some of those overheads. In addition to that, we've seen a roughly 300 basis points improvement within our gross margin for mobile, as we've moved away from the legacy contracts.

Bruce Marsh:

And finally, you saw in my waterfall that we had £44m of benefit that came from network debtor revaluation. And then if you overlay on that, the fact that because it's a smaller profitable business, you would allocate a smaller level of overhead, you get to the numbers that I was describing. But that isn't the way that we manage this business. It's not the way that we're going to manage the business going forward. And certainly, our intention is not to really talk about mobile profitability going forward, and hence not guiding to what that might look like next year. It becomes a category in the same way that domestic appliances, televisions, or computing does.

Dan Homan:

Thank you. Unless there's any more questions in the room, I'll hand it over to you, Alex.

Alex Baldock:

Thanks very much. Well, thank you very much for your time this morning on what's hardly a slow news day. And enjoy the coffee and the nibbles, and what is, Bruce is delighted to tell you, a cost efficient as well as an engagement boosting new office. So many thanks for your time and have a great day.