Currys - Peak Trading Update

Investor Call

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Transcript

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Conference call...: Good day and welcome to the Currys Peak Trading update, webcast and conference call. This meeting is being recorded. At this time, I would like to turn the conference over to Alex Baldock, Group Chief Executive. Please go ahead.

Alex Baldock: Thanks. Okay, good morning everybody. I'll run through peak trading and what's behind it. Before Bruce and I take your questions. This peak carries UK performance, continued to strengthen. But international had a tough time and faces intense, but we still believe not permanent pressures that have substantially disrupted that market. And where that leaves us overall is confident, confident to stand by our guidance for this year and also confident in our medium-term ambitions. Let's turn to the top line first, peak like-for-likes in the UK were down (5)%, an improvement on the first half trend. But international were down (7)%, with Nordic's down (10)%, a market driven deterioration on the first half sales with market share staying pretty stable whereas Greece by contrast grew by +12%. On categories, happy to give more color in Q&A if you want it, but the short version is that computing and consumer electronics (CE) were softer, whereas appliances and mobile were strong.

Let's turn to the UK&I, and market share first of all, well, the first thing to say about market share is that we're not chasing less profitable sales. Still the trends are improved from the first half to peak with share loss about half of the first half, with increasing share in appliances and TV, set against a declining share in computing. And gross margins meanwhile, well, the first half, as you'll remember, they were up strongly, fully +160bps YoY. And in peak they were up even more strongly contributing to a trend of increasing gross margins that's so central to the improvements we're seeing in UK profitability. And this peak, we continued our progress on the drivers of that improving gross margin. First growing services, credit adoption was a big success story, up +430bps YoY. Warranty was another, up +240bps YoY.

Those services, as we know, so important not just for improving gross margins, but for customers for life, stickier and more valuable customer relationships. Second, as the customer experience continues to improve and it has as we've seen in our customer satisfaction and NPS, so does our ability to charge for it, while still offering customers good value for money. We told you at the half year that we'd started charging for all major domestic appliance deliveries. In peak, we're now charging for a large screen TV delivery as well. More to come on that. Third, I said that we're less inclined to chase less profitable sales and now we have better tools so that we don't have to, notably our much better understanding of end-to-end profitability. And fourth, we continue to drive down supply chain and service operations costs. And these four drivers have all contributed to growing gross margins and there is more to come from all of them.

I mentioned supply chain and service operations costs, and there's good progress on cost savings overall. We've realised as you see a bottom right here, £130m of cost savings at the end of the first half, we're confident that we'll get to at least £170m by the year end. And also, confident that we'll do at least the £300m of mature annualized cost savings by the end of next financial year, FY24. And finally, stock is in decent shape. We're coming out of peak pretty clean in the UK with stock down (9)% YoY. International is a less happy story as we outlined only a few weeks ago. And we continue to face intense, though we do not believe permanent, market disruption with all the pressures we saw during the first half, some of them intensifying during peak. Aggressive competitors continued to heavily discount excess stock.

The Nordic's profit pool in technology retail went to near zero. You may have seen this week Verkkokauppa's profit warning, which leaves Elkjøp as the only technology retailer that's going to make any money in the H2 of this financial year. And all of these pressures that we talked about before have more recently been compounded by further declines in market demand. So our sales are lower even with stable market shares and we can't point yet to any improving gross margin trend in the Nordics over peak. Now we're not

sitting idly by and waiting for this market to improve. Of course, we've energetically stepped up our self-help actions on margin cost and cash. On margin, we've raised prices, we're passing more of those COGS increases to consumers. We're leading more boldly on price rises and we're charging for services more now as well.

We are doing fewer promotions. The promotional intensity significantly declined, and we're especially doing none of the less profitable ones. We've upped our focus on margin boosting accessories and services and we're ensuring we get full value from our supplier relationships. On costs, we've cut marketing, we've gone harder on overhead, 10-15% back-office headcount reductions announced in the Nordic last week. We've shown all consultants and contractors the door. We've closed our few unprofitable stores and we've made further savings in supply chain service operations costs. Important to say in all of this, we don't believe that we're taking excessive risks with the business's long-term health, but nor are we just sitting waiting for markets to improve. Finally, and importantly, we're in decent shape in stock in the Nordics too. International, as you see here, stock is down (5)% YoY during peak, but the Nordics were down (9)% during peak, Greece to feed its sales growth was up +19%.

So we are exiting peak in the Nordics, as in the UK, in a pretty clean position on stock. What does all this mean for the second half? Well, UK profits will rise YoY in the H2 and they are ahead of our forecasts. But by contrast, international profits are very challenged even though we will make a H2 profit in the Nordics. That leaves overall a group that…we're very happy and very confident in sticking to the profit guidance that we gave last time of £100-£125m. And the group will be cash generative overall. And when you take that a £100-£125m of profit, as I say will be cash generative, particularly with CapEx at about £120m and exceptionals at about £40m for the year, which means that the Net Debt will be lower than a £100m at the year end, we expect.

Looking further ahead, we now see our 3% EBIT margin as an absolute minimum target. And we'll achieve that by following the strategy that's producing improving results in the UK. A strategy founded, as you'll recall, on happier colleagues and customers, on better retail fundamentals and making more of the two big things that make Currys distinct, omnichannel and services. That starts by making most of being a market leader in a market that is still even now double digits larger than it was pre-pandemic. And of course the market and our sales have come under much pressure during this cost-of-living squeeze, but we really don't believe that tech can be seen now as a purely discretionary category.

On colleagues and customers our success in this market obviously depends on them being happier and they are, both colleague engagement and customer satisfaction are sharply up in recent years. Just as we continue to improve on the other, what you might call retail fundamentals, a bigger range, better availability, big on the money on price and the easier customer experience, for example, on delivery. And one example of these improvements in action is dealing with the challenges to delivery that came this peak through the Royal Mail strikes. And we were able to switch volume quickly at scale without drama to DPD. And when DPD itself came under pressure, we again were able to react pretty fast. We altered our proposition, we redirected returns in order and collect (O&C). We ensured we got priority treatment from DPD as the number one, as the fixers. And we were able to restore full-service levels by Christmas.

We just wouldn't have had this flexibility and agility in our supply chain a few years ago, which is a credit to Lindsay Haselhurst and her team. Better retail fundamentals then and good progress on our big differentiators too. So on omnichannel this peak, omnichannel continues to prove itself as the winning model for customers with stable stores, share of business year on year. But also, it is not just working for customers, it's increasingly we're showing that it works for us as our increased gross margin shows. And one example of how we'd been doing this in action over peak is bundling. Bundling about

which I mean not selling a laptop for example on its own, but selling it together with, the bought-with products, accessories and services to get the most out of that laptop. And the right bundle is good for customers because they get everything they need and they get money off as well.

And it's good for us. We make a lot more money from a bundle than just selling the tin on its own. And how we're selling more, well, we've made significant improvements to the bundles themselves. Made them more tailored customers needs and have a much simplified menu of them. We have trained colleagues, excuse me, on how to sell them and we're supporting them to do so as well with improved journeys and points of sale. And the results have been strong and bundles adoption levels have been up by +580bps YoY, this peak, which is good progress, but there is much, much further to go here. And the opportunity is in the annualization of a full year benefit of taking bundles to more categories. Whereas the focus has been largely on computing so far. And there's much more potential in mobile and TVs, for example. Taking bundles online where bundling's much lower and we now have platforms to do much better and adding more services to bundles.

And speaking of services, that's the second big differentiator for us of course, where we've again enjoyed record peak adoption levels. Again, so important to boost gross margins and to build stickier and more valuable customer relationships. And notably, credit grew very strongly. Credit sales up by over a quarter, customer numbers up +17%, adoption levels up by over +400bps to over +18% of our sales on credit. And with online adoption especially strong at over +20%. Protection is another service that enjoyed a strong peak and that's an important profit driver for us. Adoption of our Care and Repair warranties we're up +240 bps YoY, with stores again doing really well up +270bps. So the opportunity here is online. And as you see on the right-hand side here, online adoption is trending in the right direction, but from a very low base.

And after the success with credit online, this now becomes our next area of focus to exploit the potential of our new platform. finally, we've made good strides with connectivity this peak. The mobile business is back into growth and share gain. Now we've been through the pain with that and we've got good new contracts with Vodafone and Three that we're happy with. And we've made good progress on our own, MVNO iD, with subscriber growth up handily to over +1.2m at a pretty low churn. And all of that strategy, the whole thing that I've just been talking about, you could summarize and give as an example, our experience in domestic appliances this peak. And a year ago, we had issues here, in availability and in delivery. So we've taken action in the supply chain behind the scenes: to have more space, an improved partnership with GXO, better process to right first time.

And that's given us the foundation to get really behind the energy efficiency trend with customers. And in omnichannel, we've been able to sell higher priced product, higher priced washing machines, especially with the support of credit. Because the customer can see the lower total cost of ownership over time. So we benefit from selling a more expensive product. The customer benefits, they feel good about sustainability and it costs them less over the life of the washing machine. And the results of all this have been share gain over +1.6ppts. Better availability, +14ppts up. A bit more satisfied customers, customers are +26 points more satisfied versus five years ago in this space. And now we're able to monetize all of these customer experience improvements. The customer experience has improved so we can charge more for it. And the average delivery installation recycling revenue per order is up +77% YoY, or over £10 per order, which over 3 million FTE deliveries a year, you can do the maths. So this is a big reason why profit in MDA was significantly up year on year. All of this progress now rests, as you know, on a stronger balance sheet, with average total indebtedness down by over £900m Yo3Y. That leaves us with strong liquidity headroom of over £500m, with facilities of over £670m. And Net Debt expected to come down to less than £100m by the year end. And this allows us to look ahead, as I

mentioned before, with some confidence to at least the 3% EBIT margin target and £150m of sustainable free cashflow.

So to wrap up, not the easiest environment in any markets, but in that environment the UK has continued its upward trajectory of setting a weaker international performance. And we're going to continue with the strategy that's seeing such improved UK performance. Making the most of being number one in a bigger, more essential market with ever happier colleagues and customers, better resale fundamentals, making much more of omnichannel and services, and a financially stronger business. And we're confident that we will keep our financial promises both this year and longer term. And with that, I'll pause and we can go to your questions.

Conference call...: Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please signal by press pressing star one on your telephone keypad. If you wish to cancel your request, please press star two. Again, please press star one to ask a question. We will pause for just a moment to assemble the queue. We will now take our first question from Ben Hunt from Investec. Please go ahead.

Ben Hunt: Morning there. It seems that there's been a slight improvement in the market share, or less deterioration over peak. But on the other hand, there's been an improvement in the gross margin performance over peak versus H1. I was just trying to get a grip of what the levers are. I mean, obviously there's a relationship between market share and gross margin. And whether you think the gross margin improvements, or the delta if you like, is more a function of the structural improvements from service and credit adoption. Or is it the competitive environment. And how does that interlink with the market share improvement as well? That's the first question.

Alex Baldock: Right. So as you say, these are interrelated, which is why even though we're not solving for sales alone, I mean clearly what we're solving for here is sustainable cashflows, we do pay attention to market share because we

enjoy the benefits of scale, we enjoy the benefits of being number one, and we intend to keep it that way. And as you've rightly observed, the market share trends have improved, peak versus the first half. But when you get under the bonnet, Ben, I'll give you one example, about half of the market share decline is attributable to one category, which is TVs. And a big chunk of that is Sky Glass, a new product being introduced into that category, which we don't yet sell. So that's one driver. Other drivers are, we're not chasing unprofitable sales. And we have, as I say, better tools so that we don't have to.

So the market share has ended up where we expected. We're pretty comfortable with it. We're comfortable with having about a quarter of the market. And we like the benefits of market leadership. But we particularly like the gross margin improvements. And to your question, they are the results, overwhelmingly, of self-help. When you look at the drivers, they're things that we've done, whether it's growing services, credit, and care and repair by such healthy proportions, whether it's the improvements in the customer experience and being able to charge for them, whether it's not chasing the less profitable sales, or whether it's reducing our own supply chain and service operations costs, those are all things that we've done.

Ben Hunt: Okay. And forgive me for my ignorance, but when you use this expression not chasing unprofitable sales, are you referring to specific lines or categories, or is it types of customer or channel, or any color you can give on that?

Alex Baldock: Well, one of the things that Bruce has driven here is a much better understanding of what we call end-to-end profitability, which is basically a really good variable contribution model that allows us to look at how much money we really make end-to-end in a given product, category, supplier. And over time we'll expand that to bundle to services to customer segments and the like. So whichever way you cut it, we'll be able to understand, is this

profitable or is this not? And we're going to be less and less tolerant of doing anything that isn't profitable end-to-end.

A couple of examples of where this has already bitten. We've significantly improved our PPC marketing efficiency already. And we've also discontinued some unprofitable lines. And, obviously, this then serves as a bit of an encouragement, you might say, in our supply and negotiations, because we can point with more transparency to, your competitor is more profitable to us than you in such and such a line. So everything else being equal, we're going to focus more on that, unless you improve your terms. So it is already bearing fruit. So that's what I mean by not chasing unprofitable sales..

Ben Hunt: Okay. And then final question related to that. You talk about your supply negotiations. How much are you beholden to volume rebates at the end of Q4? Given that your volumes are down quite materially given the inflation aspect within the like-for-like to?

Alex Baldock: Well, the simplest answer I can give to that is that we're very confident in sticking to the profit guidance of £100-125m. And that's all in the mix.

Ben Hunt: Okay, great. Many thanks.

Alex Baldock: Thank you.

Adam Tomlinson: Morning everyone. Three or four questions from me, please. Just a follow-up on the market share point. Just in terms of the categories that you're really looking to dominate in. I know you mentioned a specific example there around TVs. But anything else, any detail you can share in those categories and your market shares in those would be useful. That's the first question. The second question is around stock. So thanks for the detail around the level of stock coming down in the presentation. Just wondering if you can give any color in terms of your views on the quality of that stock and the composition, where that now sits. And then finally, just two quick questions on services. So noting the record credit penetration there. Just any

comments around the quality of the customer or any changes in the default rates that you're seeing. And just a quick question on some of your competitors I think have mentioned, smaller competitors, installations of around 3000 a year. Can you just remind us on how many you do, just to give an idea of the scale there, please? Thanks.

Alex Baldock: Great. I'll pick those up, Adam, but I'll let Bruce start on the stock.

Bruce Marsh: Yes, good morning, Adam. So as Alex reflected, we have seen success in both the UK and the Nordic business taking total stock at the end of peak, down by nine to 10% in both markets. So the absolute value of stock has reduced significantly, which sets us up really well for the future. In terms of the quality of stock that underpins that, actually we're in good shape. I think the best proxy I can give you for that is our stock provision. And our stock provision levels have actually improved year on year. And that's on a consistent basis. So therefore from an aging perspective, the quality of our stock is better.

Alex Baldock: To pick up on some of your other questions, Adam, on the category front, over peak our share of TVs actually increased. And our share of MDA significantly increased by 1.6 percentage points, as we talked about, with the success of our focus on energy efficiency. And success in trading customers up to higher ASP product in MDA. Mobile did well. And we continued, albeit off a much smaller base, our growth in sales, profitability, and market share in mobile. I mean, the one to suffer notably in the UK was computing. And that may be a good example of we're not chasing less profitable sales. The market in computing shifted heavily in mixed towards lower value entry level products that we're less interested in and less strong in. And therefore our market share declined over peak in computing quite significantly. So that's kind of the category mix. But I think it's been pointed out, overall the market share ended up where we expected it to. And we're very attentive to it, but it's not what we're primarily solving for. What we're solving for is sustainable free cashflow in this business.

Bruce has picked up the point on stock. You asked about services. It's the right question to ask about credit, because in this environment it's the natural question to ask. We're not seeing signs of stress in the book. We're not seeing signs of accelerating customer repayment difficulties. Now, two points to make about this. First, of course, we don't take any credit or fraud risk ourselves. That all sits with our partner bank BNPP, who are suitably sober and suitably prudent in their outlook. And that's why we like them as a partner. And I think why we're not seeing signs of stress in the book, when perhaps others might be, is because we've been super cautious in who we lent to and how much we lent in the years we've been building this credit business up to over 18% of our sales.

We could have grown it much faster, but we've been very careful. Not just because we're nice people, but because we want to stay a mile away from any reputational risk, of being associated in the customer's eyes with us lending them money that they can't afford to pay back. So that wouldn't be any good at all. So the fact that we're able to keep offering really compelling customer propositions in credit, and we're able to keep posting these levels of growth is because we've got our partner bank solidly behind us, because they don't see signs of stress in the book. Finally, you asked about installations. Did you say a competitor does 3000 of these a year? We do 800,000 installations a year in the UK, out of over 3 million deliveries. And obviously that's just a UK number.

Adam Tomlinson: Great, thank you. That's very helpful on all those. Thanks.

Conference call...: We'll now take our next question from Richard Chamberlain from RBC Capital Markets. Please go ahead.

Alex Baldock: Hi, Richard.

Richard Chamber...: Thank you. Morning, Alex. A couple of questions from me, please. First one is, are you seeing a narrowing of the gap between in-store and online margins in the light of changes you've made to the online offer? In particular,

I guess for changing the delivery charges for online orders. And then just second, what are your thoughts on this labor cost outlook now for Currys or colleagues' cost in the light of the almost 10% rise in the minimum wage up in springtime? Those are my two. Thanks.

Alex Baldock: Let me start with the first of those. And Bruce may choose to build on a couple of points here. But the shorter, we're not guiding to a specific number. But yes, we are seeing a narrowing of the gap between in-store and online profitability. We're leveling up profitability between the channels. And you rightly observed there's some charging on things like delivery that are very helpful in that. But it's not just that. It's also margin boosting services like credit, where we've seen a standout success over peak. Our credit adoption online is at over 20% now, which is up 710 basis points year on year. And it's 400 basis points higher than our store's adoption. So that that's been a standout success of using what the new platform offers in order to be able to do a better job of selling the gross margin, accretive services that are so important to our overall gross margins, but of course also to narrowing the profitability gap. Bruce, I'll let you pick up on the labor cost point.

Bruce Marsh: Well, if I just maybe just add one extra point, there has been an interesting byproduct, which has come from starting to charge for delivery of MDA and more recently for TV. It is causing customers to choose to come into store more partly because we have stock that's available, which means that customers can get their product same day.

But of course, it also allows them to avoid that delivery charge. But as Alex reflected, if you then put that in the context of some of the other work we're doing on sold with, so the ability to sell accessories, consumable services with those, that gives us an extra benefit as well. So there is a subtle shift within our channel mix.

In terms of cost as we look ahead, clearly, cost inflation within our business is something that we're very attentive to. The two key drivers, as we discussed at the half year, are around energy and payroll. Energy, we're expecting our energy costs to be broadly flat through the balance of this year. Within payroll, we will continue to invest obviously to make sure that our valued colleagues are paid a good wage within the market.

Richard Chamber...: Okay. Great. Thank you.

Alex Baldock: Richard, I think probably just one final word on that. It's worth reminding ourselves that the cost increases that Bruce has spoken to, whether it's the energy costs or whether it's the colleague costs are more than covered by our progress against the £300 million of cost out.

And we're on track, I think, now to realize £170 million of cost benefit in this financial year. We'll get up to at least the £300m by the end of FY '24.

Richard Chamber...: Yeah. Okay. Great. Thank you.

Alex Baldock: Thank you.

Conference call...: Warwick Okines from BNP Paribas is on. Please go ahead.

Alex Baldock: Hi Warwick.

Warwick Okines: Thanks. Good morning, Alex. Good morning, Bruce. Three quick questions if I may. Firstly, we've talked a bit about the share improvement in the UK. The three-year like for like has deteriorated on the first half.

I was just wondering how you reflect on the consumer heading into what's perhaps a bit less discretionary environment in the months ahead now that you're through peak. The second question is on the Nordics, are there any particular categories or countries that you're seeing the biggest areas of pressure competitively?

And then thirdly, just be interested in whether you can share anything about what your suppliers are saying to you about the situation in the Nordics. Thank you.

Alex Baldock: Yeah, so a few questions there. I think the decline year on three years that you referred to is a hundred percent attributable to channel shift. So versus three years ago our market share in stores are stable, and we gained market share in online.

It's just that the shift towards online has resulted in a shared decline overall. So that's kind of... It's a hundred percent attributable to channel shift is the simple answer there. You asked-

Warwick Okines: So sorry, Alex. Just before you move on, but I really mean it's gone from plus two in the first half year on three years to minus four in over peak, which suggests it's the consumer that's dropped off in the past few months. No?

Alex Baldock: I see what you mean. So I was answering the wrong question. Bruce, why don't you answer the right question?

Bruce Marsh: So you're right. The overall level of demand has fallen compared to pre-pandemic. When you consider that across the market, I think we reflect that from a television perspective, we've seen some level of drop-off with a weaker market.

Some of that potentially is pulled forward. I think there's also a reflection of clearly discretionary spend on high value products is going to be more challenging at this point in the cycle. But those, I think, would be our key picture in terms of consumer trends.

Alex Baldock: But if you're asking for a look forward, Warwick, on the consumer, that's obviously hard to do. And what we're planning on is being very prudent. So we're expecting the UK and the Nordics, for that matter, consumer to have a tough time of it in the next 12 months.

Now obviously, we've shown in the UK that we don't depend on a rosier outlook in order to improve performance, but of course everything else being equal, it helps. So I say we're planning on a pretty gloomy outlook, but it's worth saying it could be better.

So you might take the view that UK inflationary pressures have now peaked. Half of UK inflation I think is energy and food, and that already appears to have peaked. And as long as we avoid an inflationary wage price spiral, then, as I say, the inflationary pressures may have peaked, interest rates may be near their peak, the UK consumer's still sitting on quite a lot of savings.

We appear to have now a measure of stable policymaking and assuming no big, new geopolitical shock, then yeah, up to 12 months from now, things could look better and significantly rosier for the consumer. But we're not counting on it.

Warwick Okines: Okay.

Alex Baldock: You had another question, didn't you, about in the Nordics, is there a country that's particularly suffering? And the short answer is Sweden. It's not easy anywhere in the Nordics at the moment, but Sweden is the hardest hit.

The consumer there has been hit by the highest rises in energy costs and has had the minimal government support. At least up to now, we expect some to be coming through in the months ahead. And of course, a large proportion of Swedish consumers have got variable rate mortgages and interest rates have spiked there.

So they've been hardest hit. But I think we're calling a difficult environment right the way across the Nordics. Finally, on the suppliers, but we continue to have very constructive engagement with all of our suppliers and of course, we engage with them as a group. And that's one of the benefits of being a group.

We matter a lot to them and the UK performance continuing to strengthen is very heartening to them. And of course, we're not slow to make the most of our scale when it comes to friendly negotiations with them. But no, we find our supply base supportive as they would be given our importance to them as well as vice versa.

Warwick Okines: That's great. Thanks very much.

Alex Baldock: Thank you.

Conference call...: Thank you. The next question comes from Simon Bowler from Numis. Please go ahead.

Alex Baldock: Hi Simon.

Simon Bowler: Hello. Good morning. Just two for myself on similar theme, actually. First one, you've obviously, for one, have been very explicit on your cost saving hopes and expectations in the UK. And it sounds like there's now quite a lot of action being taking place in the Nordics.

Are you able to put a number or rough sense on what you think the cumulative cost action in the Nordic markets may look like? And then secondly, just noting you've left your exceptional cost guidance unchanged for this year. But it sounds like some of action in the Nordics, redundancy rounds, etc., may have cost associated with it.

Is it that some of those costs are falling into next fiscal year or have you managed to offset those costs elsewhere within the exceptionals that you were previously expecting?

Bruce Marsh: Okay. Good morning, Simon. Let me take both of those points. In terms of the cost savings in the Nordic, I'm afraid we're not going to put a number on it. I'm sure by the time we get to year end, we'll be able to break that out and share. From a cash cost of the exceptionals, you're right.

There are going to be cash, one-off costs that are incurred through that. And we need to step through. I mean clearly, we need to step through the accounting to determine whether they will be treated as exceptional. And from a phasing perspective, we do expect the majority of them to fall into the start of next year.

Alex Baldock: As Bruce says, we're not going to put a number on the Nordics cost out. But maybe to help you a bit, I mean, the UK, as I say, we're on track for £170m out and for £300m by the end of the next financial year. When it comes to the Nordics and some of the things that I spoke about before, we're cutting marketing very significantly.

So you should assume that discretionary and brand building marketing can wait. It's only sales driving marketing that we're going to go for. We've made 10-15% central overhead headcount reductions, painful but necessary across all of the Nordic's markets as well as the Nordic Center. We had a significant number of contractors and consultants in for discretionary IT projects. They've all gone.

There's a few single-digit, unprofitable stores that have gone. The supply chain service operations costs, you can be assured that we've got every bit as high standards on the cost reductions there as we do in the UK. But no, I'm afraid we won't put a number on all that just yet.

Simon Bowler: Okay. Thanks. That was useful color there.

Conference call...: Our next question comes from Michael Benedict from Berenberg. Please go ahead.

Michael Benedic...: Morning all. Thanks very much. Thank you.

Alex Baldock: Hi Michael.

Michael Benedic...: The questions I have, three, I think. Just firstly on this 3% margin target by FY '25, just directionally is there a level of sales you're targeting alongside that, i.e., in line with FY '23, up from FY '23, down from FY '23?

Secondly, I guess on a three-year basis, the Nordics is still outperforming the UK. What gives confidence this isn't just a post-COVID normalization rather than a macro-driven issue? And then lastly, you mentioned Nordic price increases. Are you able to give any color of where your pricing is relative to the market now, please?

Alex Baldock: Let me answer that second question first, and do so in a couple of ways. Well, first of all, if you break down what the problem actually is, and at the moment, demand is unusually depressed by any measure because the Nordics consumer is distressed to an unprecedented or very hard-to-recall extent.

And fundamentally, these are healthy, wealthy markets with all the... Whichever measure you choose to adopt on GDP per capita or spending power, these are fundamentally healthy markets which will get through these inflationary pressures just as the UK will get through these inflationary pressures. So that's the first thing. I mean, demand will come back to a sensible level at some point. That's not the main driver.

The main driver is the excess stock that's in the market from competitors who've overbought. And that will wash through because it always does, and it is washing through now. And it's very hard to see how competitors would want to or even could sustain the levels of unprofitable clearance and promotion that we've seen from them in the first half and over peak.

I mean, I say only Elkjøp will be making any money in this market in the second half of this financial year. I mean, Verkkokauppa, who were at over 3% EBIT margins not so long ago are now guiding to zero right now. But nor are we just sitting back and waiting for these markets to normalize is the third and important-

For these markets to normalize is the third and an important point, and that's where I've talked through the self-help actions that we've taken on margin and on cost and on stock.

Bruce Marsh: Yeah, let me just build on that by saying when, if you looked at the underlying economics of our Nordic business, fundamentally the issue that we faced into is that we've seen significant COGS inflation, low double digit COGS inflation. A big chunk of that has been caused by FX and the way that the Nordic business buys product both through euros and dollars, very large proportion of their purchases are through that mechanism. And we simply haven't been able to push prices onto consumers. So all of the factors, all the economics have got nothing to do with normalization. This is an extraordinary situation where we simply haven't been able to pass those COGS increases onto consumers for all the reasons Alex described.

Alex Baldock: To go into your other questions just quickly, we haven't guided to an explicit sales number for FY25, but what we have said is that we'll make at least £150 million of sustainable free cash flow, and then we enjoy the benefits of market leadership and intend to keep them. We're not solving for a particular level of vanity induced sales or market share, but we certainly care about being market leaders and we care about having enough top line scale in order to flow through to at least that £150m a year of sustainable free cash flow. Michael, have I missed any of your questions?

Michael Benedic...: Just on the relative pricing in the Nordic versus peers now, I think was the only one. Welcome. Thank you.

Alex Baldock: Yeah, so what we have done in the first half is consciously sacrifice gross margin in order to maintain our market leadership in the Nordics, to a greater degree than it's been necessary in the UK. And that's why our market share only dipped by 50 basis points to 28% in the first half, whereas the gross margins obviously went down by fully 200 basis points in the first half. And obviously only a few weeks ago that we updated on all of that, and

we haven't seen a change in either of those trends, either the market share or the gross margin over peak. What I will say though is just to repeat what we said about the first of the self-help actions on margin, we are being bolder now about passing through some of that, a greater proportion of that COGS inflation that Bruce referred to consumers to seek to lead the market up to a more sensible level on prices, and nor are we... As I also said, we're reducing our promotional intensity.

Important to note that point about stock, that we're coming out of peak pretty clean on stock in the Nordics, with stock levels 9% down year on year. It means that we're not sitting on a bunch of aging stock that we have to clear and discount, so we're not obliged to do and we won't, which is one of the reasons that we're confident that we'll make a profit in the Nordics in the second half.

Michael Benedic...: Thanks very much.

Alex Baldock: Thank you.

Conference call...: Thank you. Our next questions from Nick Coulter from Citi. Please go ahead.

Nick Coulter: Morning.

Alex Baldock: Morning, Nick.

Nick Coulter: Morning. Two quick ones if I may please. Firstly, could you talk about the timing of some of the gross margin initiatives in the UK? I guess to help us get a sense of the trajectory and how those initiatives might wrap around, please. And then secondly, a very qualitative question, but are you more or less confident in your medium term margin target as you stand here today? Thank you.

Alex Baldock: I'm going to give you qualitative answers to both of your questions, Nick. We're not going to be guiding to explicit timing on the gross margin improvements except that we're happy with the trajectory we're on and we

don't see ourselves as close to full potential. And we've talked about some of the reasons why. Some of the big services that are at the heart of margin improvement have got a long way to go, for example, in online adoption, and online is getting on for half of our sales. We know what to do about that, and we're underway with leveling up our services adoption between channels, but there's still a fair way to go, just as there is still further to go on credit. One of the stats that I shared this morning is that we've got £5.8 billion pounds of approved credit limits, only £4.9bn of which is utilized. So we and the bank are happy to have a big chunk of approved credit limits out there, which we'll obviously encourage customers to make use of.

So there's further to go on services, just as there's further to go on improving the customer experience. I mean, we're happy with the NPSs and the CSAT trends. I mentioned that CSAT on delivering MDA, for example, is 26 points higher than it was five years ago. So the customers are clearly seeing the difference in all of the work that we're doing. But am I happy with the score? Absolutely not, anymore than I'm happy with any of these absolute financial results. We're not saying that the current levels of gross margin are good, they're simply better, and we intend to make them better still by carrying on doing the things that are driving them up. Whether it's improving services further, whether it's continuing to make improvements to the customer experience, whether it's really weaponizing this end-to-end understanding of variable contribution to be more attentive to different customer segments and how profitable they are and different bundles of products and services now profitable they are.

We'll get ever ever more precise about that, just as we will continue to bear down on supply chain and service operations costs. So we don't see ourselves anywhere near full potential on gross margin, anymore than we do on EBIT.

And I suppose to answer the second part of your question, we are very confident in achieving the FY25 EBIT margin target. I mean, you might

challenge back, but we've given ourselves an extra year to do it, so we should be. So yeah, we'll take that and we're going to work very hard to do better than that.

Nick Coulter: That's very helpful. I was more thinking on the first question around things that you've introduced recently. So delivery charges and the like, I guess how they've probably got an annualization impact to come through. So I'm just thinking about some of the initiatives and timing of those initiatives in the second half.

Alex Baldock: Yeah, I mean there's an annualization impact on a bunch of these things. I mean, as you've seen withcredit for example, its continuing growth, accelerating growth year on year during peak. The charging on delivery for MDA took place during the first half, but we haven't had a full year's benefit of that, and the extension to LSTV, large screen TVs relatively recent, and we'll continue to drive down the supply chain and service operations costs. So I understand what you're asking and we're confident in continuing this trajectory, let put it that way.

Nick Coulter: Brilliant, thank you.

Alex Baldock: Thank you.

Conference call...: Thank you. And we have a follow up question from Simon Bowler from Numis. Please go ahead, the line is open.

Simon Bowler: Hi. I think I've literally just worked out the answer myself, but I'll ask it nonetheless. I was just looking at your guidance on UK stock levels and just looking at the -22% on the year on three year, just some color around that. I think there a reflective fact that mobile was a much bigger part of the business three years ago, so that would part of it. If so, have you got a like for like or an electrical stock level that we can relate back to three years ago?

Bruce Marsh: We don't have a three year position on pure electricals, but I would say that overall in the first half, our total stock position was down 22% compared to three years ago, and that compares to sales being down by 19%. So it gives you some sort of fill for the overall shape.

Simon Bowler: Great. Got it. Thank you Bruce.

Bruce Marsh: Thank you.

Conference call...: Thank you. And as there are no further questions in the queue, I would like to hand the call back over to Alex for any additional closing remarks. Over to you sir.

Alex Baldock: Thanks all. Very brief, just to reiterate that we are pleased with the trajectory in the UK. There's much further to go, but we're happy that we can see the effects of our transformation bearing fruit financially now. International's obviously disappointing, but we're on with it. We're on the self-help actions. Just as none of the pressures on margins in the market we see as permanent. And once we put those two things together, international business back on its long-term trajectory of growing sales and profits, with the UK performance improving, it gives us a lot of confidence in that medium term target, just as much as it gives us confidence in the near term that we're going to do at least as well, as we're going to hit our guidance on profits and on cash this year. So with that many thanks and I wish you all a very good day