Currys

Peak Trading Update 2022

14 January 2022

Transcript

Alex Baldock: Good morning, everybody. As you heard in November we're on journey towards a much more valuable business by making the most of a winning business model and as a stronger business now. And today, in that context, we're going to take you through peak trading, where we're outperforming the challenging market, and first Bruce, to talk through the numbers.

Bruce Marsh: Thank you, Alex. Good morning, all. So let me start by reminding you of our key cash flow drivers that we spoke about at the Capital Markets Day. Our focus is fivefold: steady revenue growth driven by a wide range of initiatives, stable gross margin, operating cost reduction, which will get us to our target 4% EBIT margin, controlled capital expenditure at 1.5% of sales, and minimal exceptional cash costs.

Bruce Marsh: During the first half, we very much operated in line with these principles. We enjoyed strong growth compared to pre-pandemic levels with group year and two year like-for-like up plus 15%. Our UK&I electricals business was up +21% and international up +19%. Our adjusted EBIT was £91m, which is flat year-on-year. And that was despite £16m of rates headwinds. And we achieved that through stabilising and growing our UK gross margin and taking cost out of the business.

Bruce Marsh: We achieved strong free cash flow at £185m, which left us with net cash of £250m. Very healthy position, and up from year end. And finally, our total indebtedness was £1.4bn. That's a further £240m down on year end as we've seen pension deficit reduce and lease liabilities fall.

Bruce Marsh: Moving on to peak performance on the 10 weeks to the 8th of January, as you've seen this morning, we're presenting a strong performance that we had in the first half decelerating over peak very much caused by softer markets. In the UK electricals business, our overall year-on-year sales fell over peak by (7)% compared to a market that fell by (10)%, but sales were still +3% over two years and that's +13% year-to-date over two years. In the Nordics, sales fell by (5)% off a very strong base. And that strong base is demonstrated by the fact that we were achieved +16% positive year-on-two-years. And finally, Greece, strong year-on-year performance, +18%. Although obviously the Greek stores were heavily impacted last year due to closures.

Bruce Marsh: So, in terms of our outlook, based on peak trading, we've nudged our guidance down to around £155m PBT. And that's down from £160m that we previously stated. Our capital expenditure is consistent at around £170m. We've taken down our net exceptionals cash cost from £70m down to £50m, partly due to the great job the team are doing on lowering our lease exit cost from store closures, but also the settlements of an outstanding dispute that wasn't budgeted.

Bruce Marsh: We still aim to finish the year with at least £100m of net cash and we will commence a £75m annual buyback from today. But it's important to bring all of this back to our medium-term targets and everything that you've heard in relation to both the first half and peak leaves us confident that we can achieve our medium-term goals in terms of steady growth, stable margin, and lower cost to achieve 4% EBIT, controlled capital expenditure, and minimal new cash exceptionals. And this will allow us to deliver annual sustainable free cash flow of over £250m a year by our financial year '24 to grow shareholder returns. Let me hand back to Alex.

Alex Baldock: Thanks Bruce. A few minutes from me now on the market, this peak, and how we've threaded through it. And I'm going to go through this as a fair clip before we get to your questions.

Alex Baldock: I mean, as we flagged in December, the market was softer this peak, but even with that, it's worth that is larger than pre-pandemic. In the UK, +8% larger during peak and year-to-date +17% larger than pre-pandemic. I guess the question is how much of this larger market will stick? And we do expect some to and trends like hybrid working are not going away, gaming's been one of the stand-out categories this peak and reinforces our belief that a bigger slice of the consumer's entertainment dollars going to be spent in home. And there are other drivers too, like faster replacement cycles of the larger installed base, new product innovation from suppliers. So, we do expect some of this to stick, but we're not depending on it. And for all that, this Christmas, the market was softer, (10)% down in the UK year-on-year and more volatile.

Alex Baldock: The one question that this raises from this softer peak is, is Christmas less important now? And you could look at this picture and conclude that in the last five years that the average peak week has gone from being 2.1 times the sales of a normal week to 1.7. Now, maybe this is just a pandemic peculiarity of the last two years, availability shortages, some pull forward, and maybe this peak will revert, but maybe not. And maybe this is a sign that technology is a less discretionary item now, a more essential year-round category, less peaky, which obviously would be good for this business in more than one way. We don't know yet and we'll know in the next couple of years, but this is certainly one thing that we intend to keep a close eye on.

Alex Baldock: So that's the market. What sort of carries within it? Well, there's a couple of things. I mean, first of all, sales, as you see here have been up and down during peak and have been softer than expected, especially in the UK where we're just growing +3% year-on-two-years in UK electricals, but in that softer market, we've gained market share. So fully a +100bps of market share gained during peak and that's +60bps year-to-date. And that leaves us, as you heard from Bruce still on track for the steady growth that we've committed to for this full year. I mean circa +11% year-to-date, year-on-two-years, arguably a little bit better than steady, but that's what we've been able to do.

Alex Baldock: Now, some products did sell well. And this one has been a gaming Christmas. I mean, consoles have flown out the shops. VR has broken out of niche and very much into the mainstream. Appliances, large and small have done really well. And fridge-freezers for one thing, I think we sold 24,000 American style fridge-freezers, about half the total market range. Range cookers have been great. Dyson Hair Care, and so on. So, there've been some stars in the show. Many of the mobile products like Google 6, iPhone 13 family, Samsung Air, have had good Christmases as well as we start the recovery in our mobile business and get that back into growth. But others obviously have struggled in the overall context of a market.

Alex Baldock: I talked about a stronger business at the start, and this is an ever-stronger business. And we can show that by our progress in a couple of big strategic priorities, omnichannel, notably. And omnichannel wins, we've asserted, and it did again during this peak period. Yes, more customers are shopping online, but we're winning online. As you see on the left-hand side here in the UK, we are showing decent growth and good share gains online. Equally, stores have reopened strongly, as you see bottom left here. The channel mix has reverted to the circa 50/50 that we expected. And importantly though, omnichannel is about bringing online and stores together, giving every customer the best of both. And we've made excellent progress here during peak on the big three customer benefits of omnichannel, whether it's as far as the customer's concerned, never being out of stock in store, online in-store sales up over 50%, whether it's getting technology to the customer right now.

Alex Baldock: The UK order&collect sales up over +170% and helping wherever the customer is on their sofa, face to face advice from an expert via our 24/7 video shopping service shop live, which continues to make customers happier. They're four times likely to buy something and they spend on average 60% more than unassisted online. So good progress in omnichannel and excellent progress in services. Notably credit, where our adoption level of 13.9% during peak was fully +350 basis points up on peak last year. More customers are choosing our credit and importantly for gross margin stability, we're getting better at bringing credit to customers online as well. And both online and stores are now at over 13%. And the gap in adoption levels between online and stores has narrowed from 3.1%pt to 1.5%pt year-on-two-year. Really good example of levelling up profitability between channels and really important for gross margin stability as I say.

Alex Baldock: Our confidence that this progress is sustainable is further reinforced by happier colleagues making for happier customers. We've got record levels now of colleague satisfaction. That's new data, that sees us get up to world class levels on the left-hand side. That's good because it helps produce happier customers. As you see on the right-hand side here over peak, which can be a pretty challenging time of year for the customer experience, a full five points of gain year-on-year, which makes us happy and behind the scenes of all of this operationally, our best ever peak as well. IT stability has never been stronger, customer service levels, whether it's in the contact centres, repairs, returns have been really strong, and our delivery of customer satisfaction is significantly improved.

Alex Baldock: Finally, good progress on sustainability as well with scope one and two emissions down 44% year-on-year in half one. So good progress overall towards an ever-stronger business. And in summary, what would I say? Well, yes, the market has been disappointing this peak, but it's still bigger than it was pre-pandemic and maybe peak mass is less now. Carries, yes, our peak sales were softer than we would've liked, but they're still growing steadily and we're still gaining market share and we're still showing progress on the big strategic priorities that matter so much for stickier and more valuable customer relationships, omnichannel, and services with happier colleagues and customers and playing our part in society too. All of which means that we should look forward with confidence to a longer term, just as we said at the Capital Markets Day in November, a stronger business that make most of our market and more and more we are doing so. And with that, we'll pause and move to your questions.

Operator: Thank you. Ladies and gentlemen, to ask a question over the telephone, please signal by pressing star one on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, to ask a question, please signal by pressing star one on your telephone. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

Operator: Our first question comes from Andrew Porteous from HSBC. Please go ahead.

Alex Baldock: Morning, Andrew.

Andrew Porteous: Hi. Yeah. Hi guys. Hi Alex. Hi Bruce. A couple of questions from me. I guess the first one, I mean, how are you thinking about the sort of the year ahead? I mean, there's obviously a lot of moving parts to that, but obviously a lot of inflation around in sort of non-discretionary areas at the moment. Are you expecting a tough year ahead from that perspective? And perhaps any colour you can give us around how you're thinking about events, but particularly the products cycle as well. Is there a lot of product we should be excited about in the year ahead that might support demand? And then a second question, more of a technical one, just obviously, the pension deficit's come down a bit, I think, and just wondered how you're thinking about payments that you put into that going forward and we should be thinking about from it from a cash perspective.

Alex Baldock: Thanks Andrew. Bruce, do you want to take the second question first and I'll deal with the other one.

Bruce Marsh: Yeah, absolutely. Hi, good morning, Andrew. So from a pension perspective, obviously we are pleased to see the deficit come down and the contributions that we're making to the pension scheme and the arrangements we have, we believe will allow us to manage that deficit down over the course of the next three or four years. So our intention right now, and certainly the agreement we have with the pension scheme is to continue the contributions of £78m a year.

Alex Baldock: Thanks. And to zoom out to your broader question, Andrew, about the year head, we're being prudent with our outlook. I think what we've seen this peak is a bumpy customer demand. It's good news, the GDP numbers that we've seen come out today. But we have seen, in our space, technology, and for bigger ticket purchases, patchier consumer confidence. That hasn't been helped, obviously, by Omicron. But probably, more substantially, we've seen more concerns from consumers on the cost of living and of real wages and disposable income that goes with that. Of course, we've also seen some supply disruption too, although we've coped very well with that supply disruption. All of that contributed to a market that was 10% down, year-on-year. So, we may have performed strongly in that softer market and you've heard that we have. We're still growing, gaining market share, customer satisfaction, traded well, and so on. But we're not immune from it. And the uncertainty ahead is one of the reasons we've been just a nudge more prudent in our outlook. Because there are different scenarios of how this could pan out and we're being prudent on cost of living, on real wages, on discretionary income, of how much of that's going towards tech, the housing market, and consumer confidence and the like.

Alex Baldock: So, as I say, we've got some prudence in our outlook, but that's for the year ahead. I think what we're showing with, for example, the £75m buyback that we're starting today is confidence in the medium-term. You heard from Bruce that we remain absolutely committed to the steady growth, which we're showing now, to the stable growth margins, which we're showing now, to the cost out, that we've made a good start on, as well as to the normalisation of Capex and exceptionals that gets us to our longer term goals.

Alex Baldock: Finally, you asked about colour in the year ahead. Yeah, we're pretty excited, actually, about what's coming out. And this is one of the benefits, I suppose, of being in the sweet spot of global R&D. You'll remember from the CMD that 7 out of 10 of the world's biggest R&D spenders are our suppliers. We're hearing from them that they're excited about the year ahead. They're investing behind it and there's plenty to come. Whether it's in fold and flip mobile devices, for example, whether it's continued innovation in small appliances. Some of the innovations in health and beauty and hair care, we've seen are pretty exciting. There's new OLED technology coming out in TVs and gaming. Even though we've seen the big console launches this year, things like Call Of Duty coming out this year is always a big driver. And virtual reality, the cycle there is looking ever more exciting, even before we start thinking about 5G.

Alex Baldock: So, there's plenty of reasons for confidence that this new product development cycle is going to stay healthier as a result of the investment of our suppliers. But all of that said, we're still choosing to be prudent in the outlook.

Andrew Porteous...: Thanks for the colour, Alex, really helpful.

Alex Baldock: Thank you.

Operator: Thank you. Our next question now comes from Ben Hunt from Investec.

Bruce Marsh: Morning, Ben.

Ben Hunt: Morning there. Just three questions, if that's okay? Firstly, the first question, you've given us good colour on the demand side of things. I was wondering if you could just give us a bit of colour on the supply aspect and to what extent your performance was constrained by supply? Second question is, despite the top line being a little bit wobbly, you've had a good, profitable quarter it appears. The downgrade is fairly modest. Just wondering where the cost savings came from. And then the final question, any colour you can give us on the progress you've had with expanding out the ranges or the SKUs, as it were, from what you were talking about at the capital markets day? And where we're at with that.

Alex Baldock: Okay. Let me hand over to Bruce to take your second question first, and then I'll deal with the other two.

Bruce Marsh: Yep, thank you, Alex. Hi, Ben. So, as you say, clearly, the top line has been softer than we hoped. But we've been very careful to make sure that we've been able to mitigate that downside and therefore limit the impact, both to profit and cash. In terms of how have we done that? Well, obviously it's focused on, and continue to focus on, stable margins. And you've heard from Alex about credit and services being successful. But specifically in terms of cost, it's about being, I think, laser focused. So as soon as it was clear that the volumes that were occurring through the business, we took action on marketing spent, specifically PPC, to make sure that we weren't chasing sales in a softer market. We were very careful, in terms of both the colleague build and also the number of colleagues' hours that were in our stores. And we did exactly the same within our supply chain.

Bruce Marsh: So as much as we possibly can. Clearly, sometimes there's limits to the flexibility we have, but wherever we did have flexibility, we managed our cost, right across the business.

Alex Baldock: That's right. One of the things we flagged at the CMD is that we're building extra flexibility into the model so that we can dial up and dial down the number of hours that colleagues work. But also, the compensation bill, with a greater proportion of variable pay. And I suppose the only other element I'd add to that... You asked specifically about costs, Ben. But, of course, the other means of protecting profitability, when there are ups and downs in the market on the top line side, is through gross margin stability. And I think one of the things that we've done a really good job of, during this peak, is to continue to level up profitability between channels. That's been a big feature of our gross margin stabilisation. You've seen the stats on doing much better at selling credit and other services online. And Bruce referenced the supply chain efficiencies, some of which flow through into the GM line.

Alex Baldock: On the supply question, of course, if we'd had a perfect supply situation, we could have sold more. But I'd say a couple of things. Well, first of all, supply disruption wasn't limited to product. Although, there was some disruption of product, as I'll come onto. But also, availability of people in the warehouses, HGV drivers, trainers, containers, all of it. So, there's been some supply constraints across the board. I think the team have done an excellent job of riding out these supply chain challenges. Whether that's the improvements in our supply chain, or whether it's the fact that we've made the most of our number one position with suppliers, to make sure that we've got preferred access to stock when it's scarce. And the proof of that is in the market share gains that we've seen over peak, in the continuing steady growth that we're on for, year-to-date, and the customer satisfaction improvements that we've seen. So all of those things are evidence to support what we're claiming, that we have preferred access to scarce stock.

Alex Baldock: Now, did we get everything we wanted? Of course not. You ask me if I want more PS5s and Xbox Series X and Oculus Quest 2, yes, I do. We did get more than our fair share of those, but I can be greedy and always want more. Some of the Apple computing product and mobile was in fairly scarce supply. But this is where really good commercial teams earn their bacon, in making sure that our scale, and our importance to suppliers even beyond our scale, is reflected in preferred access. And as I say, that's been pleasing in terms of market share gains and the continued growth.

Alex Baldock: On the expanded range, we're going to come back at year end and give an update on that. But I think what we said is that we are on track for 26,000 SKUs in the UK, versus 12,000 a couple of years ago. So there's a nice, steady growth, arguably better than steady, in our SKU account as well. And that's something with further upside as we talked about.

Ben Hunt: Great, many thanks.

Operator: Thank you. Our question now comes from Simon Bowler from Numis. Please go ahead.

Alex Baldock: Morning, Simon.

Simon Bowler: Morning. At the risk of starting with a really boring one, UK Electrical, like-for-like, last year with +8% and then is (7)% this year. I'm just trying to work out how the two year was +3% and similar maths holds in the other divisions. Just want to check on not missing anything in terms of how that's being calculated or what's feeding into it.

Bruce Marsh: Yeah, hi, Simon. Yes, the difference is travel, the travel business.

Simon Bowler: Okay, fine. And then, I guess, if I heard you correctly, you said the market was up +8% on a two year-on-year view. And I guess, therefore, either way that +3% would look to be share loss on a two-year view. Is that the correct way to read that? And what do you think's going on from that perspective?

Alex Baldock: Yes, that is the correct way to read that. We've, obviously, gained share, year-on-year, +100 basis points in the UK during peak, and +60 basis points up, year-to-date. Now, year-on-two-year, the explanation's a simple one. It's the channel mix shift in the market. So, year-on-two-year, we've gained market share in each channel. We've gained market share in stores; we've gained market shares online. But obviously, during that time, the markets shifted quite violently from just over a third to nearly well over half of sales online. And so mathematically, it's a bit odd, but it's how it works out that we can gain market share year-on-two-years in each channel, but still be down overall. I suppose the main message that we take from the market numbers is, irrespective of the channel shift, which we've had to ride, and we have, we're back into market share growth. And we're back into, obviously, with over a quarter of the UK market, a pretty strong lead over the competition.

Simon Bowler: Cool. And then one quick one on cost, and I just wanted to touch on mobile, if okay? On the cost side of things, you mentioned some variable cost element, was there any reversal of bonus accrual that you made in the first half that captured within your full year expectations?

Bruce Marsh: Simon, no, there are no change in accrual assumptions in that to get to the £155m. Clearly, that will provide some protection on the downside, but that isn't assumed right now within our targets.

Simon Bowler: Perfect, thank you. And then finally, on mobile, that looks to have been in like-for-like growth in the period. And I think mobile revenues are only going to be down 10%, 15% or so, year-on-year. Versus, I think, originally when you closed the stores, we would've expected the mobile business to half year-on-year into this year as well. Can you talk a bit around what's going on there? And given that much stronger revenue performance, I presume profitability in that division is also far more robust than we would've been expecting this year. So, can you give a sense of how far off your breakeven target you think you would be for that division this year?

Alex Baldock: Let me take the qualitative side of the answer first, before I pass on to Bruce for anything that he might want to add, Simon. So, listen on mobile, we're quietly quite pleased with our progress. You know the story that we set out at the capital markets day, and that's how it's panning out. We're out from underneath the old restrictive contracts. We've integrated the mobile division into Currys, and you can see that when you walk into a store. We're ever closer to being genuinely one business behind the scenes, as well as how we present to customers, which obviously has top line and cost advantages. And we've launched, soft launched at this stage, the new mobile offer, which has been contributing to getting the mobile category back into growth this peak.

Alex Baldock: Look, we're not getting too carried away at this stage. And as you know, we don't need the mobile category to be a standout success for us to achieve our longer-term ambitions. But we're quietly quite pleased with our early progress.

Bruce Marsh: Yeah, and Simon, we don't disclose mobile separately as you know, it's now a fully integrated part of the business. So we're not going to call that out separately. But we are certainly on track for the mobile business to break even during this financial year. I think we've said previously by the final quarter, and we're confident we will achieve that.

Simon Bowler: Okay, cool. And then just a quick follow up on that. I presume a good chunk of that mobile business is post-pay sales. And I think one of the big cost out buckets has been removing some of the IT infrastructure to do with that sort of sales base. Can you just talk around how that's unfolding? Whether there's actually an opportunity to keep that business so the cost doesn't come out, but obviously, it still ends being profitable. Or whether you can still take that cost out.

Bruce Marsh: Yeah. So, you're right. We are continuing to sell post pay at the moment. And there will be opportunities for us to make further savings within the mobile business as we transition to our new platform across both online and retail. At the moment, we're around 50% there, as you know, we've transitioned online, but we're still selling the traditional post pay within our stores. So as we flip across early parts of next year, that will be the point that we're able to close those systems, and that's absolutely part of the £300m worth of cost saving target that we spoke about at the Capital Markets Day.

Simon Bowler: Okay. Great. Thank you.

Bruce Marsh: Thanks.

Operator: Thank you. We'll now go to our next question from Richard Chamberlain from RBC. Please go ahead.

Bruce Marsh: Morning, Richard.

Richard Chamber...: Thanks. Morning, Alex. Morning, Bruce. Yeah, three for me, please, if that's okay. First of all, I'm just going back to availability. Can you maybe give an idea of in-store availability during the period? I.e., percentage of products available to buy versus those being shown in store, or however you measure that, and where that's running at versus the historic average. Second, are you planning to change your approach to sourcing and freight cost management in the ongoing supply chain bottleneck? And then third, what rental terms are you getting on the Currys' estate at the moment in terms of store renewals? It sounds like you're getting a better exit position in terms of Carphone exit or lower costs from the Carphone legacy estate. What about the Currys' rental situation? Thanks.

Bruce Marsh: Great. So yeah, let me pick up on the last point, Richard. You're absolutely right, the exits of the Carphone warehouse stores have been very successful, and we're really pleased with the terms that we've been able to negotiate for the sites, both in the UK and in Ireland. In terms of rental terms, we continue to have great success at negotiating down our rental terms as our Currys' stores come up for renegotiation. I think during the first half, we had high single digit number of sites that were renegotiated and achieved very, very healthy reductions.

Alex Baldock: As to your availability question, you ask about in-store availability, and I think the big change here is that matters less than it did because we've got much more flexibility to sell the full online range in every store. And there's been two important things there, there's the so-called online in-store, that when you walk into Currys, you'll see the colleagues with a tablet, and one of the things they can do from that is sell from the full online range. And now we've improved our delivery performance as well, customers can get it acceptably fast, and online in-store sales were up at +57% this peak, which is a big part of being able to mitigate any bumps in availability.

Alex Baldock: But I suppose the big picture on availability is simply that however difficult we found it and however much hard work it was, the competition found it more so because that's one of the big factors that's allowed us to keep gaining market share as we've done to during this peak. There's no fundamental different approach to sourcing to flag, no. I think we, as others are, are dealing with the chipset shortages, and the cost inflation, and the availability challenges right the way through the supply chain. We've got some practice at it now, we've been dealing with this for the best part of a couple of years, and I'm really pleased with the way that the teams responded. They've done a good job, and again, that's been reflected in the market share gains that we've been able to post.

Richard Chamber...: Okay, thanks very much for the colour, guys. Cheers.

Alex Baldock: Thank you.

Operator: Thank you. Our next question now is from Tony Shiret from Panmure Gordon. Please go ahead.

Alex Baldock: Morning, Tony.

Tony Shiret: Thanks so much. Morning, gents. A couple of things. First of all, you talked about containing costs by cutting back on PPC. I just wondered if you could give us a bit more colour on the marketing strategies you've engaged in, the digital marketing strategies, and, notwithstanding the deterioration in sales immediately prior to Christmas, what your views on the return on that spend is. And the second thing is in terms of the OpEx, I remember from your Capital Markets Day, you've outsourced the distribution to GXO, and I presume that has made distribution more of a variable type of element rather than having to pay people fixed amount and then not distributing stuff. So, I just wondered what benefit you'd seen from that move to outsourced distribution. Thanks.

Alex Baldock: Let me start and Bruce can build on it, Tony. So, you're right to observe we've achieved some quite good efficiencies on PPC this year and we're building digital capabilities in the business, as you'd expect us to be. But I think the big story there is as we grow the customer base, and we talked about how we've got a large and increasing number of accessible customers in the business now, so the organic traffic that comes into us digitally is growing as a proportion of the whole, and so our need to spend so much on PPC is declining, and that's a very healthy trend that we intend to continue with.

Alex Baldock: I'll let Bruce follow up on the OpEx correction on the outsourcing, but I think one of the benefits from outsourcing that we've already seen, maybe isn't flowing through to the numbers yet, but we're seeing already the benefits of having an expert partner in this space. And one of the ways in which we're continuing to improve the delivery options and performance in the business, and being able to make ever more competitive delivery promises, and then keeping those promises better, and that's evident and the double digit improvements in customer satisfaction on delivery that we've seen again year-on-year this peak, we're really pleased with how that partnership, and it's early days, is shaping up to help us continue to do that.

Bruce Marsh: Hi, Tony. Let me build on those two points. So first of all, in terms of PPC, you said it's about the return on capital that we get or the return on investments. I mean clearly this is something that we're very hop to, as Alex said. A lot of our traffic comes through organic and therefore we're using PPC primarily on a marginal basis to drive incremental value, but it's a very competitive market, prices for clicks vary significantly, so therefore we've got a very robust process that ensures that we will only invest in clicks that we believe are profitable on an end-to-end basis, and that's the way we operate. In terms of supply chain and fixed variable blend, I would say that traditionally our supply chain has been less variable than other parts of our business, primarily because it involves lots of people, trucks and sheds, but definitely both through our internal leadership within supply chain and our outsource provider, we've seen more flexibility this year than we will have done in the past.

Tony Shiret: Just coming back, I just wonder if you might put some numbers on any of that commentary. I mean, for example, what is your percentage of organic traffic now versus a year ago, say? And what sort of £m saving do you think you've made over Christmas by not having to pay the whole distribution cost versus presumably some cost per piece type of arrangement with expert?

Bruce Marsh: Yeah, Tony, obviously this is a trading update, so we don't want to share any specific numbers now. If we can come back to at year end with any specifics on that, I think that's what we will do.

Tony Shiret: Look forward to that. Thanks.

Bruce Marsh: Thank you.

Alex Baldock: Thank you, Tony.

Operator: Thank you. Our next question now is from Adam Tomlinson from Liberum. Please go ahead.

Alex Baldock: Morning, Adam.

Adam Tomlinson: Morning, all. Three questions from me, please. The first one, just on price increases, can you maybe just give a little bit of colour on price increases you've put through so far, just underlying to try and offset some of the cost pressures, perhaps as well with reference to what you've seen in the market and any thoughts on how that might evolve in the year ahead? That's the first question. Second one is just on loyalty schemes. So, I note from the statements, Nordics doing well, and at the Capital Markets Day in November, I think the UK scheme, the perk scheme there, got off to a very strong start. So just if there's any update, particularly on that UK side of things. And then the third question, in terms of supply chain pressures, you mentioned staff levels and staffing in your commentary, Alex. So just if there's any particular pressures you're seeing there. I think we're hearing quite a lot from other retailers about staff shortages, but just what you guys are seeing as well would be helpful, if that's okay.

Alex Baldock: Sure. I mean on the price front, it's probably more what we're looking into 2022 on what we've done so far. I mean some modest price rises in the market have flowed through to consumers already, but there's obviously some uncertainty ahead on that. What we expect is that there will be some price rises across the market in 2022, both the input and the operating cost inflation makes that almost inevitable. One thing I will say is that we fully intend to stand by our promise that you can't get it cheaper than in Currys, and we will continue to stand by that, but clearly, we can't guarantee that some of the prices won't rise. We expect that to happen. Second, you're right that we've had a good peak in the Nordics on the loyalty club. Perks, we updated on a strong start relatively recently, and we'll give another update on that at the year end, but we're quite pleased with how that's shaping up. And third, your question was on the supply chain pressures on the colleagues, and we've definitely felt the challenge.

Adam Tomlinson: Yeah.

Alex Baldock: Yeah, but we definitely felt the challenge. I mean on warehouse colleagues, on drivers, both seven and a half ton and HGV, as others have, but I think we've dealt with it pretty well, is the short answer. We're not calling out any significant risk to this, both terms of attracting and retaining colleagues, and in terms of protecting their health so that they're available to come to work. And on all of those fronts, we've had a pretty good time of it of late. So, on the colleague engagement, for example, we're publishing today the latest update on our colleague engagement, which is, as you know, externally measured, and that's bumped up again to 78, which is, above all, relevant benchmarks. So, we're happy with how that's progressing. And our colleagues want to be here increasingly, which is good.

Alex Baldock: We've moved all colleagues up, as you heard last year, to at least real living wage levels, and 16,000 colleagues will get at least £1,000 worth of free shares in the months ahead, and we continue to invest in their careers and their development as well as in their wellbeing. And despite the fact our colleagues are in the front line, I mean our colleagues have to go out to warehouses on the vans and in the stores, and our colleagues have literally been out there all the way through this pandemic. And for us to have achieved lower than the national infection levels on COVID is something that we're pleased with and one of the reasons that we've got very low rates of absence, for this or any other reason, at the moment. So no, we're not calling that out as a pressure.

Adam Tomlinson: Okay. Thanks a lot.

Alex Baldock: Thank you.

Operator: Thank you. Our next question now comes from Warwick Okines from BNP Paribas Please go ahead.

Alex Baldock: Morning, Warwick.

Warwick Okines: Yeah, good morning, everybody. Happy New Year. Thanks very much. I've just got one question, actually, and apologies if I missed this, but you mentioned gross margin stability a couple of times. Could you just flesh that out? Are you talking on a two-year basis? Because I would've thought that the UK electricals margin would've been up quite a lot year-on-year, given the online sales mix declined year-on-year. So maybe just some colour on that, please. Thank you.

Bruce Marsh: Yeah. Hi, Warwick. So, the comments we've made on gross margin stability, obviously some anecdote from a trading perspective, but you might remember in our first half results, we talked in the UK about gross margin increasing by +110 basis points, and that's a reflection of a number of components, so absolutely channel mix was one of those. The success we've had reducing our costs within our supply chain and our service operations has also helped, and that also helped us offset some of the downsides that Alex was describing in terms of short-term supply chain challenges.

Alex Baldock: The other component there I'd point to, Warwick and this is more, what we've announced this peak, is to the extent that we get better at selling credit and other services online. We're obviously narrowing the profitability gap between the channels. And we've had a good peak on that account.

Bruce Marsh: I mean, you will see in the credit, for example, at 13.9%, adoption is fully +350 basis points up year-on-year. We're really pleased with that. Sees us comfortably on track for the 16% target that we've publicly said we're going to do at least as well as that. And in terms of levelling up, the unlovely phrase, so apologies for that. But it's an important concept of levelling up the profitability between the channels.

Bruce Marsh: We've narrowed the gap between online and store credit adoption levels from 3.1%pts to 1.5%pts. We're substantially on track to eliminate that gap. And we've had a good peak on other services as well.

Bruce Marsh: As Bruce says, absolutely, it's about lowering and getting more flexibility out of costs such as in the stores and the supply chain, as well as absolute efficiencies and supply chain and service operations. It's also about doing a better job of selling credit and other services online, and we're doing all of those things.

Warwick Okines: Thank you. Sorry. I think I'm being a bit slow, but Bruce, you said, or you repeated that it was up +110 basis points in the first half. What I'm not sure about is whether your comments around gross margin stability over peak either imply that it's not up as much as that, or whether you consider that to be stable. Sorry.

Bruce Marsh: Oh. Obviously, again, trading statement, we're focusing on sales. We're not making any comments specifically on gross margin movement over peak and we'll update you at year end.

Warwick Okines: Okay. When you talked about stable gross margin, that was more of a medium-term comment rather than a comment on the quarter?

Alex Baldock: I wouldn't interpret anything quantitative over peak on that, Warwick. As Bruce says, we'll give a fuller update at year end.

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

Alex Baldock: Thank you.

Operator: Thank you. We have a follow up question now from Simon Bowler from Numis. Please go ahead.

Simon Bowler: Hi, thank you. You referenced earlier in your opening remarks, the idea of the tech demand curve, I guess, flattening through the year. And we can, I guess see from the UK both this year and last, that may well be the case. But it doesn't look to be something that's going on or as dynamic as apparent in the Nordics. And I was just wondering if you had any thoughts around why that might be different between those two regions.

Alex Baldock: I guess at the moment, Simon, we're not drawing any firm conclusions on this either way in any of the markets. We're still pointing out some just interesting data that's coming out of the UK, which could mean one of two things it could mean not very much because simply the last two years have been COVID related outliers. And we'll see, 2022 peak return to its normal premium, if you like, over a normal week.

Alex Baldock: But there could be something else going on as well, that could be that over the five years, a downward trend in the relative importance of peak versus the other parts of the year. It's not something we've drawn any firm conclusions on either way. It's just something that we've said that we will continue to keep a very close eye on.

Simon Bowler: Okay. I guess if the former of those prove to be the case, and there's just a bit COVID outliers then, given your run rate two-year growth is +4% across the first half of this year you did +15%. One could extrapolate and argue that certainly for the first half of next fiscal year, you'll be facing in some tough comparatives and year-on-year revenue declines.

Simon Bowler: Is that a sensible way to at least potentially think about this? And in that context, are you still comfortable that you'll be able to make margin progress year-on-year if revenues next year work the decline?

Bruce Marsh: I guess the first point to say is clearly, there's still a lot of uncertainty over the remaining four months of our financial year. I mean, if I tell you the way that we are planning, we've planned based on a continuation on sales rates that we've seen over peak season continuing for the rest of the year. Now, obviously what we may believe, or hope could be more optimistic than that, but certainly the planning that we've done in order to come to the PBT guidance was assuming a continuation of the current trend.

Alex Baldock: And the other end, just to build on that Simon, there's a lot of factors in play here and a lot going on under the bonnet. I mean, starting with the fact that how much of the boost in the technology market that we've seen over the past couple of years sticks.

Alex Baldock: And as Bruce says, we're being very cautious in how we plan for that, but we would expect some of it too. Even this peak was +8% larger year-on-two-years, as you've seen. And that's +17% larger year-to-date and double digits in the Nordics as well. You can pay your money and takes your choice on that. We expect some of it to stick, but we're not counting on it.

Alex Baldock: Then, the next stage is whatever happens to that market, what's our confidence that we continue growing market share? And we are confident. And we've shown this peak and this year that we've got what it takes to continue to grow market share, even in the face of some headwinds on market channel mix. We've negotiated those and we're out the other side and continuing to grow market share overall.

Alex Baldock: And there's lots of reasons to believe that we're going to continue to do that because the things that are giving us our competitive advantage are the things that we're going to continue to double down on. We're not going to become any less insistent with our suppliers in the nicest possible way, that we get preferred access to stock. We're not going to let up on building on the benefits of our omnichannel specialist model that we've got that nobody else has got.

Alex Baldock: And we will continue to grow and gain market share online. We'll continue to make the most of having the stores and the two together. Meanwhile, we'll continue to build the credit and other services that get these customers coming back. You'll recall that credit, for example, those customers are more than 50% likelier to return the following year. The momentum that we're building in the proportion of our customers who take our credit is important for the longer term ahead. When we say that we're looking ahead with confidence.

Simon Bowler: Great. And then just to quickly clarify, Bruce's comment earlier. When you say you are planning for peak levels with the demand you've seen recently persisting across the balance of the year. Would that be you are assuming that one year like-for-like rate persists across the balance of the year? Or two year like-for-like rates persist? I think the comparative base moves quite a bit from here.

Bruce Marsh: As you know, Simon, it's very, very difficult to judge and monitor the business performance year-on-year because of the various stages when stores were closed, and stores were open. From a planning perspective, we have been focusing year-on-two-years very quickly. Unfortunately, we'll be focusing year on three years in order to maintain that stable base and have a consistent outlook.

Alex Baldock: Does that make sense?

Simon Bowler: Yeah, there's going to be some fun modelling bits across next year, I agree. But that's really useful. Thank you.

Operator: Thank you. We have time now for one more question from Nick Coulter from Citi. Please go ahead.

Nick Coulter: Hi, good morning.

Bruce Marsh: Hi.

Nick Coulter: Hi, morning. Two, if I may please. Firstly, could you share a little more on where you saw softer demand, please? I.e., where you had good availability, but where the sell through wasn't quite as you expected. Then on the credit side, which does sound encouraging, could you step through what you were doing differently this peak and how you drove that conversion? And was that price, was that selling mechanic? What drove that conversion across store and online? Thank you.

Bruce Marsh: Yeah, there's a couple of things there. The short answer on softer categories is TVs, which is obviously a big one for us. And where the market was weak and weaker than we expected over peak. And I mean what was going on there, we'll say more about at the year end, but what seems to be the case is a very strong start to the financial year, fuelled by the Euros, fell off sharply in November and December.

Bruce Marsh: And that required us to trade through it intelligently, because there were some other competitors who appeared to be stuck with unwanted stock and were selling at a loss. And we're not going to do that. So, we traded our way through it profitably. And I guess the proof of that is that we are still gaining market year-on-year in TVs. We've traded through stock, so we're not sitting on any excess or aged stock. We protected the top line and profitability in a difficult category this peak.

Bruce Marsh: On the credit side, we're just continuing to do what we said we would do. We've done some innovation in the product. The pay-in-three was a particularly successful innovation, but the main thing is levelling up between stores and between channels. This is one of the areas that we're very focused on and we share best practice in new and quite interesting ways between stores to allow the stores to inspire each other with how they can successfully bring our credit offer to more customers alongside other things.

Bruce Marsh: But probably most importantly, we're levelling up between channels. And that's been improving the customer experience online so that it's easier for them to adopt credit. And as you've seen, we've substantially narrowed the adoption gap between the channels there. Important to say in the same breath that we're doing this with great responsibility, because we want to stay a mile away from any repetitional risk, apart from anything else, that can come with irresponsible lending, and we're not going to do that.

Bruce Marsh: We've been super careful on who we lend to and how much. The affordability, and the credit worthiness checks remain stringent. We're in bed with some very conservative, which we like, partners like BNPP. And we've continued to train our colleagues very carefully on compliant and the spirit and a letter of compliance training. And work very closely with the FCA to make sure that we are doing all of this in the right way.

Alex Baldock: That's an important qualifier, if you like, to the message. But the big picture on credit, which we like as you know, because it brings incremental customers to us. The customers are happier. They can afford better technology and they can afford to trade up to better technology. And they adopt other services more reliably and they come back. And their likelihood to return, our measure of loyalty, we've touched on already. It's been really important progress that we intend to build on.

Nick Coulter: And just come back on the, just on the first. On that first question, so a chunk was pull forward impact, but what about the rest of the big ticket area? Did that hold up with respect to demand or was it just the pull forward and TVs was the challenge?

Alex Baldock: TVs was the biggest challenge. Yes., in year-on-two-years, computing had an excellent year. I mean, obviously, we had a gangbusters year in computing last year, so we weren't expecting to quite match that. But year-on-two-years, computing showed excellent growth.

Alex Baldock: Gaming within that, was a particular star. But also, appliances. I mean, so the large appliances, like range cookers and fridge freezers, were very strong, as were small domestic appliances as well. Small kitchen and domestic appliances.

Alex Baldock: Many thanks, everybody. And all I would say is the sale is still on. There are some outstanding deals on currys.co.uk, or the store near you. And I would encourage you to go and take advantage of that while it's still on. Many thanks all and have a great day.