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Transcript

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Alex Baldock: In a moment, Bruce is going to talk through the numbers for the last financial year and then I am going to come back on and talk a little bit about how we delivered them.

The story you're going to hear, is one of a strengthening performance in still tough markets. It's a story of us doing what we set out to do at the beginning of the year, of continuing some pretty encouraging momentum that we've built up in the UK business, getting the Nordics business back on track and making sure that our balance sheet and liquidity remain strong. I'm pleased to say we've shown good progress on all three of those, which is what's allowing us to look ahead with some confidence and commit to, what we expect is, growing profits and free cash flow this year, year-on-year, and to a prosperous future.

And with that, I'm going to hand over to Bruce.

Bruce Marsh: Thank you, Alex.

Good morning everybody, I hope you're well.

So as Alex said, I'm going to walk through the financials and if I can quickly start with the usual performance summary.

From a revenue perspective, as you're aware, our revenue was down (2)% YoY. Now within that you will have seen that since the end of the financial year and certainly during the Q4, we saw some positive momentum. From a profit perspective, despite sales being down, our profits stepped forward by +10% to £118m . We had strong free cashflow. Cashflow was £82 million, +£164m YoY. And with the strength of our free cash flow, focus on the balance sheet and the sale of our Greek business, we went from having a net debt position of £(97)m last year to a net cash position of +£96m. Our adjusted EPS stepped forward by +7%, and as you're aware, we didn't pay a dividend last year.

So walking through our two divisions, starting off with the UK&I. Like the group UK&I LFL was (2)%. Our online share of business was unchanged at 45%. In terms of our profitability, our profitability of the UK segments stepped back by £(28)m to £142m. Now you might remember that 12 months ago I stood here and described the fact that we had roughly +£35m of non-repeat network adjustments, and although the number ended up being slightly less than that, it more than explains all of the drop in profitability. Our operating cash flow stepped forward by a similar amount to our operating profit and our segmental free cash was particularly strong, both in terms of our focus on the balance sheet, Cap Ex and also working capital, +£83 million.

This is our EBIT bridge and you can see how our EBIT stepped back from 3.4% to 2.9%. Biggest components of that is the drop within our UK gross margin. But as I've already explained, and you can see on the right-hand side of the slide, more than all of that decline in our gross margin related to the non-repeat of our

mobile revaluation. If you had to strip that out, actually our gross margin stepped forward by +20bps. From a cost perspective, our cost savings exceeded the level of underlying inflation. The only reason the ratio goes backwards is because of the decline in sales.

One of the key successes this financial year has been the growth of our MVNO iD Mobile and Alex later will talk more about exactly where that has come from and where our focus has been. I just wanted to spend a brief moment talking about the accounting for our MVNO because it is material to our accounts in the year. So if I take an example of a customer buying a connected handset on iD Mobile, now we own that customer, which means that we can't recognise all of the revenue upfront. We have to spread the revenue. So on day one, we're able to recognise some of the revenue, but we have to recognise pretty much all of the cost of sales and we have to pay for the handset. Which means in the month that we sell a connected iD Mobile, we make a small profit loss, but we have quite a substantial cash outflow. Now over the subsequent 23 months and beyond, obviously the customer continues to pay their subscription and that comes in as revenue profitability, but in particular is a cash inflow. The average cash payback period for a connected iD Mobile is roughly 17 months, and you can see that on the slide. And whilst there has been a small profit impact, maybe small single digits that we're not calling out from a profit perspective, there's a substantial cash headwind as a result of the 35% growth that we've seen in our iD business over the course of the last year of roughly £30 million. And you'll see that within our working capital numbers.

We thought it would be helpful just to dwell on the last two years performance combined. This is for the UK business and you can see that over that two years, our EBIT margin has stepped up from 2.1% to 2.9%. Now, within that, we faced a significant headwind from declining sales. Our sales over the last two years have fallen by over half a billion pounds and roughly that would equate to a natural drop of our EBIT of a £(100)m. Now we've been able to offset that all of the focus that we've given to our gross margin. We've seen +120bps improvement in our gross margin over that period, and the cost saving that we've implemented more than offsetting the inflationary headwinds, which is how we've been able to grow our profitability over those two years despite that volume headwinds. Now this is important, obviously as we look forward, because at some point we expect the market to come back. Alex will talk about some of the self-help activities we've got underway to grow our top line in addition to continuing to grow our gross margin and to manage down our cost. It starts to give you reasons to believe why our EBIT margins will continue to progress going forward.

Moving on to our Nordic business, like the UK with the cost of living crisis, our LFL sales fell by (3)%. Important to say the market in the Nordics fell by more than that, we gained market share. Our online share of business increased a touch by +2% to 27%. Adjusted EBIT really pleasing, more than doubled YoY to 1.7% of sales. Our operating cashflow similarly stepped forward in line with our step in profit. And our segmental free cashflow, like the UK, with our focus on

Cap Ex, with our focus on working capital, we've seen healthy growth within our segmental free cashflow to £33 million.

Our Nordic EBIT bridge shows again, where that progression has come from. And those of you who've been to these presentations or webcasts over the course of the last year will know that one of the most important developments over the last 12 months has been the recovery of our Nordic gross margin stepping forward by +190bps. So pretty much offsetting all of the downside that we suffered in FY23. From a cost perspective, inflation has been very high within the Nordic markets. We've seen probably an average of around 4% inflation, which has equated to a cost increase of around £(34)m. We've been able to offset the majority of that roughly £30m through cost savings. But the absolute level of cost has increased a touch within the Nordics over the last year, which is why our operating expense ratio steps back in the way you see.

Similar to the UK, worthwhile looking at our Nordic business Yo2Y. Important to say that FY22 was probably one of the peak years for profitability within our Nordic business, profit of £142m, margin of 3.5%. But you can see that despite the fact that we've more than doubled our Nordic profitability over the last 12 months, there is still a way to go to get our profitability where we want it to be. Now worth dwelling on why our profit has moved in this way over the last two years, and you can see that it comes down to two core factors. The first, like the UK, with the cost of living crisis, significant drop in the Nordic electricals market. We've seen a significant fall in sales, roughly £(350)m drop off in sales, which would equate roughly to a £(70)m drop within EBIT. We've also seen an FX impact. The devaluation of the NOK over the last couple of years has been roughly 11-12%. That is impacting our profitability as converted into Sterling by roughly £(10)m. But the good news, as you can see, is through the great work the team have done in managing gross margin and offsetting inflation with cost savings, broadly, our margin and costs are in line with some of our peak years. Now, again, worth dwelling on what does that mean as we look forward? How do we get back to our historical level of profit? Again, we must expect the market will recover, consumer confidence will step back up. Again, you'll hear from Alex some of the self-help initiatives that are going to help us drive our top line, and there's more to go from a margin and a cost perspective. Our gross margin today in our Nordic business is behind where it was pre-pandemic. So there's still further headroom and that's how we believe we will get our profitability back to that long-term average.

Moving on to cash. I've said a number of times how important cash is, how much focus we've given it. This is definitely our number one metric and will continue to be so. I've talked about operating cash flow. In terms of Cap Ex, we have been really stringent in terms of the amount of capital spend. In the last year we said we were going to do this and that's what we've done. We've more than halved the level of Cap Ex within the business down to £(48)m.

That's by being super tough on the projects that we're prepared to accept, really clear on terms of the payback that needs to be delivered and for those projects

that we have decided to do being really tight on the spend and that has paid dividends in terms of Cap Ex. In terms of adjusting items, adjusting items have stepped up from £(40)m to £(48)m. All of that increase is within the Nordic market where through restructuring activity, both within our stores and our regional offices, we've managed to make savings. But that's had a non-cost. Adjusting items in the UK from a cash perspective, have actually stepped back. Cash tax paid has fallen significantly to £(7)m, that's partly as a result of lower Nordic profit. But also in FY23, you might remember because of timing, we actually almost had two years worth of tax cash payments in that one year. So it's returned to a more normal level, albeit with a lower profitability. And cash interest is broadly flat with lower average net debt being offset with higher interest rates. Finally working capital, so as I've said, working capital has been a key area of focus of management across both the UK and Nordics. Looking really carefully at stock creditors and debtors. Now, the reason the number is £(34)m, I'll remind you of the slide on iD Mobile. All of the decline in working capital has been through the investments in growing our MVNO and the 35% growth that we've had in subscribers. Out with that, broadly our working capital is flat and that's despite the fact our top line has been declining, where you would normally expect an outflow, which I think reflects some of the work we've been doing and will continue to do.

Important to give a nod to Kotsovolos during the year. I know that we've talked to the Kotsovolos disposal previously, but it was an important part of our year results, particularly with the +£156m of net proceeds. Why was it important? Well, first of all, it's been a key contributor in terms of strengthening our balance sheet, moving us from a net debt position to a net cash position. From a dilution perspective, our profit after tax is actually little changed by this disposal. Of course, we lose EBIT margin, but our interest and our tax bills will be lower, and with the extra funds we've got from the proceeds invested, it will reduce our group interest cost. It simplifies the group, it means that we're able to focus exclusively on the UK and Nordics and also critical to recognise that we've got an extremely good valuation for the business. At a most simple level, we sold 7% of our turnover for 25% of our market capitalisation at that time. And hopefully also shone a light on the sum of the parts and the undervaluation of our market cap at that point.

So in terms of balance sheet, I talked a lot over the course of the last 12 months about the importance of getting our balance sheet into great shape, and I think we've done that. Not only this, the step forward in free cashflow that I've already walked through, we didn't pay a dividend to shareholders, we agreed with our pension trustees, a reduction in pension contributions from the £(78)m down to just £(36)m. And we've got the proceeds from the disposal of Kotsovolos, which as you can see has moved us from a net debt position of £(97)m to a positive position of +£96m.

So then moving on to our medium term ambition and capital allocation.

Again, many of you will have seen this slide. Our ambition from a profitability perspective is really clear, our target is to get to at least 3% EBIT margin. You can see that over the last two years in the UK we've been there or thereabouts. In the Nordics, if you go back through time, roughly a decade of achieving over 3% EBIT, it's just the last two years that we've seen the step back and hopefully have explained where that's from. So our goal over the medium term is to get both of our businesses to at least 3%, hopefully more, and that will allow us to deliver improved free cash flow.

In terms of the movements of free cash flow, hopefully this waterfall will give you a feel for the level of ambition that we've got, and I'm using the year that's just finished as a base. Our free cash flow last year, as you've seen, was £82m, and I'm adding back the negative working capital outflow of £34m, which gives us a base with flat working capital. Now our goal going forward, as I've said, is to make sure that we are getting our working capital to be at least flat. Our goal will be to continue to grow iD Mobile and if that happens, we will try to offset that impact through the management of stock debtors and creditors. Interesy, cash interest we expect to reduce as our level of net debt reduces. Exceptionals, we think that last year was the peak year for cash exceptionals and we're expecting that number to drop over the medium term, but we will see a step-up in capital expenditure. We dropped it right down to £(48)m. We're signposting for the year that we're currently in an increase to £(90)m, so a more normalised level of Cap Ex. And if you took Cap Ex and exceptionals together, our principle is that those two together will not exceed 1.5% of turnover and that is quite significantly lower than you will have seen over history and certainly in other retailers. And then finally a step forward in terms of cash profit as we get towards 3% EBIT. So that gives you the feel for how we expect to see our free cash flow grow and this will continue to be a key area of focus.

Again, you've seen this slide before for at least the last three years, our capital allocation priorities haven't changed. Our goal remains to maintain a prudent balance sheet. We've worked super hard to achieve that and we're not going to give that up. We will, of course have to pay our required pension contributions and then from that point we will invest in the business, implement a dividend, and then look at other funds available to return to shareholders.

Now in terms of the strength of our balance sheet, we have made great progress over certainly the last three or four years. This slide focuses on the combination of pension deficit and our net cash position, and you can see that from 19/20 when those two combined was over £(800)m, we've now got a position that is less than £(100)m. So we've achieved more than +£700m of progress. I've talked about what we've done to improve our net debt position, but also important to reflect on the pension deficit. Over that period, that four year period, our pension deficit has dropped from £(550)m to £(171)m. A big chunk of that has come through company contributions. Another chunk has come from demographics of our pension base, but nevertheless, we've seen a big reduction in that deficit. Important to say that our contributions will now step up, its steps up to £(50)m in the year we're currently in and then would

step up to £(78)m. Although again, important to say that our next tri-annual revaluation of our pension scheme is March of next year, March 2025. And that will give us the opportunity to work with our pension trustees to identify what is an appropriate level of contribution going forward. And key to say that at the moment we are roughly £100m ahead of where we expect it to be in terms of our deficit reduction plan. So we're making great progress.

The other thing to signpost the level of our financial strength is our internal metric. So again, we've talked about this in the past. This is not the same as the bank covenant metrics that we have in terms of our revolving credit facility. This is an internal measure focused on total indebtedness, which includes lease liabilities, pension deficit, and our net debt. Our target is to achieve a fixed charge cover on total indebtedness of >1.5x and a total indebtedness leverage of <2.5x. Last year, FY23, both of those metrics were red. In FY24, both of those metrics have turned green. However, the fixed charge cover metric is flattered. It's flattered by the lower pension contributions. If you put into that calculation, the forward pension contributions, we would actually drop back to red. So there's more work to do from a fixed charge cover perspective.

Going on to shareholder returns, the board has taken the decision not to declare a final dividend for this year-end. Important to give some context to that. The context is that the group continues to benefit from lower pension contributions and also we continue to have support from our banks with a relaxed lending covenant in relation to our fixed charge cover. However, our focus going forward remains the same. Remains to focus on generating free cash flow. Our intention is to meet our total indebtedness fixed charge cover, and our intention is to announce a recommencing of shareholder returns within the next 12 months.

In terms of outlook and guidance, group trading in the early parts of the year has been in line with our expectations, obviously very early in the year, but nevertheless has been in line with our expectations. And as you heard Alex say, and you'll hear him say it again, our plan is confidently to expect increases in both our profitability and our cash flow in the year ahead. As I've said, our Cap Ex expenditure will step up from £(48)m to £(90)m. Our exceptional cash cost will drop from £(48)m to £(30)m and our pension contribution will increase to £(50)m.

Some detailed numbers there for your models. So I'll leave that in the pack.

And I guess last slide from me is to reflect our medium-term guidance. We are going to be focused on steady growth and getting to at least 3% EBIT in the medium term. We've developed a strong balance sheet and we will maintain a strong balance sheet. And when it comes to capital expenditure, exceptionals and working capital, we will be managing all of those extremely tightly and that will allow us to grow free cash flow and ultimately, very soon, recommence shareholder returns. So thank you. Let me hand over to Alex.

Alex Baldock: Thanks Bruce. I'm going to say a few words now before we take your questions about how we've performed this improvement in our performance and in our prospects. And it's effectively by following a strategy that you'll have heard about before, and it's a strategy that's showing results. What it hasn't been is helped by our markets, and as you've heard, both the UK and the Nordics technology markets went backwards again by 3% last year.

In those markets, we remain number one in both of our markets. In the UK, we did shed some share about (70)bps of market share during the last year, almost all of which was a conscious decision to focus more on profits and cash. And for reasons that we can't get into, we do not expect a continuing decline in UK market share going forward and as you see, the trajectory recently has been improving.

In the Nordics, Fredrik and his management team have pulled off something that doesn't happen too often in a tough market, which is market share improvements at the same time as gross margin improvements and cost reduction. And I think what they've done in nudging forward market share by about +10bps, in what has been an exceptionally tough market during the past year, at the same time as grow gross margins by +190bps YoY to pretty much back to the same level as the Nordics was at two years ago, and showing exemplary cost discipline on the way speaks to the good work of Fredrik and his team. And that's down to showing a smart, balance in trading. It's also, in part, down to the first signs of some easing of the competitive pressures that we've talked about in the Nordics in the past. So, some of the Nordics competitors such as Verkkokauppa and NetOnNet Komplett are talking, at least, about the need to solve for greater profitability and we've seen the excess stock in the market wash through.

So that's been the picture on our market and our position within it. What have we done within that? We followed a clear strategy and it's the same strategy you've heard me talk about several times before. It's about having colleagues who want to work here and who know what they're doing, in turn, making it easier for customers to shop with us and in turn building more customers for life, in our language, repeat customers, customers who keep coming back. I'm going to touch today on four angles of being easier to shop, better retail fundamentals, making the most of omnichannel that we have and others do not have. Selling more solutions rather than just products on their own and getting it increasingly right first time for customers. Also going to touch on four of the services which build stickier and more valuable customer relationships, notably credit, delivery and installation, repair and subscriptions. And all of this is increasingly translating more engaged colleagues and more satisfied customers into a better financial performance.

Start with colleague engagement, and that has continued to grow. We're now in the top 10% of companies worldwide when it comes to colleague engagement, so Glint tell us. Top 5% now in the UK, which is good, and that's translated into improved customer satisfaction as well.

The Nordics nudged up last year on happy or not, its measure, the last year before Nordics converts to NPS. The UK showed fully 4 points of improvement, which is a big jump, and trust pilot has increased from 3.6 to 4.0 during that period and is still climbing. And I think last week we overtook John Lewis on our trust pilot. I just thought I'd get that in. So more satisfied colleagues, more satisfied customers.

And we owe some of this to better retail fundamentals, by which I mean a better range, better pricing and better pricing, both in terms of being perceived to be better by customers and more disciplined on pricing and promotions ourselves. But the standout on retail fundamentals last year was definitely availability. And you see some of the numbers here, +6pts, +7pts, +20pts improvement Yo2Y and some substantial improvements last year as well. So in-store availability was up +340bps YoY, online availability up +350bps, and UK&I Big Box availability up +760bps YoY, some really substantial improvements in availability at the same time as improving stock turn. So it's not like we've had to consume a load of cash in order to produce this better availability result. So better retail fundamentals.

Second Omni-channel, this is how customers prefer to shop. 70% of them say so and that's demonstrated in what they actually do. So you've seen channel mix, stabilise post the pandemic, both in the market and with us and in both of our markets, and we're investing in both channels going forward.

Part of the judicious resumption of more normalised levels of Cap Ex that Bruce referred to before is going into our stores, for example, 115 stores in the UK are going to see the benefit of this during the course of this year with things like more space and better display of new and growth categories in our bigger stores, our mega stores. And in terms of reallocating space towards higher selling lines in our super stores. And online, you can expect to see more investment in helping the customer's findability so-called, helping them find the product they're after as well as slicker checkout. So investments to come in both channels.

Next, solutions. We don't much like selling a product on its own. We much prefer selling a laptop, for example, with a bag, with antivirus software, with Microsoft 365, with a cable, with a keyboard, with a mouse. That's better for the customer, they get everything they need often at better value for money and it's certainly good for our margins. So it's good that our solutions selling adoption is up +10pts YoY in the UK to about 30%. Good. It's improved. There's a lot further to go on this both online and in store, and we can talk more about that.

Lastly, under easy to shop, there's right first time, getting it right first time for customers, and customers like it when the right washing machine turns up at the appointed time, undamaged with the parts and the people able to install it there and then. Getting that right first time is clearly good for the customer's satisfaction, and you see, for example in the UK +200bps of improvement in

customer satisfaction on delivery in the past year, +300bps of improvement in the actual operational measure of right first time delivery. And that's part of improvements that you can see that we've worked hard to affect in the customer experience right the way across, whether it's the purchase experience, online or in store, up by fully +4pts each and collection up by +7pts in that time.

It's not just the customer who's happier when we get it right first time, so are we because it boosts profits. So you can see on the right-hand side of this slide, for example, Big Box as in 2x FTE deliveries of washing machines and fridge, freezers and the like. Getting that right first time has a number of benefits. Firstly, it reduces direct costs because you don't have to go back to the customer a second time. It reduces customer acquisition costs because satisfied customers are advocates and they tend to have higher repeat visits. It increases the adoption of the service itself, which is a decent margin service. And finally, for a better customer experience, you can charge more and the customer will be happy to pay for it. So all of those things together result in higher profits, which is why we're pleased to see the trend that we have. So that's how we're becoming easier to shop for our customers. I said that we also want to build more customers for life, customers who keep coming back to Currys.

At the heart of that are our services, services that are evolving Currys from being an occasional infrequent seller of technology products to customers, to being the provider of a full solution, to helping the customer all the time and getting the recurring revenues that come with that. We're fortunate to have a bunch of services represented on this slide behind me that customers value where we have scale, that are in growth, that rest on competitive strengths that Currys has and others do not, and that we can serve profitably in ways that others will struggle to.

And I'm going to talk about a couple more of those services starting with credit. And credit is something that we now provide at scale over a fifth of our sales in the UK are on our own credit product now, which has grown nicely by +240bps YoY, even more than that Yo2Y. And the reason we like that is because credit customers spend more and they come back sooner. They're stickier and more valuable customer relationships. We have further to go on credit in the Nordics for example, but also in the UK and this year we'll see a rebrand of our credit product and us do a significantly better job of tapping into the £5bn of approved but unutilised credit balances that are just sitting there waiting to be spent by customers.

So further to come, further headroom for growth on credit, likewise on repair. The repair is a service that customers value, that giving their technology longer life is good for their pocket and a cost of living crisis. They also feel good about the planet in doing so. And we are big in it. We've got 12m repair customers now. And as you see, the number of repair plans has been growing and it rests on things that we can do that competitors will struggle to replicate.

We are the only retailer in Northern Europe to have our own repair centers. Three of them, including Europe's largest in Newark that some of you will have seen for yourselves, as have various Prime Ministers and others. And I think if we're doing a decent job now of building an ever-stronger repair business, where we challenge ourselves is to do a better job of being known for it. Yes, the word is getting out and we've got 12m customers in a growing and profitable service. So the word is getting out, but we want to do a better job here. We want to be as famous for repairing the technology that customers already have as we are already well known for selling the shiny new kit. So much further to go on repair.

Finally on subscriptions. Well, subscriptions in mobile are part of a mobile category that's back into profitable growth and share gain for us. At the heart of that is our own MVNO, our own mobile subscription product iD, which thanks to better terms as a result of our negotiations with Three that, for example, give us better rev share and a better proposition, for example, free data rollover and included international roaming is driving the growth of iD.

And as you see, that growth is pretty healthy, as you heard from Bruce earlier, 34% improvement YoY in subscriber numbers to 1.76m at the time of 40% improvement in average revenue per user (RPU) and a significant reduction in churn from 22% to 14% in recent years. And this is good for us, and I do get asked the question from time to time, are we the best owner for iD? Well, I think we're a good owner for iD. As you see, we're hardly strangling its growth. Even though, as you've heard from Bruce, we do pay an in-year cash price for that growth, but the lifetime value is well worth it and we're happy to pay that price. And the reason we like the benefits of it. Well, first of all, we like selling customers a working product. If you walk out of a store with a laptop, we like it to work. Same true of mobile, you need connectivity for that, and this, iD gives us secure access to that connectivity on excellent terms. And second, we are building quite a valuable asset here. Some external estimates have it at subscribers being worth about £240 per subscriber, but times 1.76m, you get to over £400m worth of value for ID, which is a healthy proportion of our current market cap. So we're building something of value here and we intend, at least for the present, to keep it as part of the group.

So overall then, further headroom for growth for iD, just as we see further headroom for growth for all of the services that I've talked about, whether it's credit, installation, repair or subscriptions and the headroom for growth point, well, yes, it's big and growing, but services are still only 11% of our total sales. And where there are advantages, we believe that we should have a higher market share in services than in product sales, and at the moment we're lagging. About 23% market share of products in the UK compared to circa 15% share of services. So we're dissatisfied with that. We like the trajectory, not yet the result, and we have significantly further to go on these services that boost margins, that are higher margin revenue and that also produce stickier and repeat customers.

So easy to shop customers for life and all of this is now translating into better financial performance, as you heard from Bruce. Our strategy directly speaks to higher gross margins, for example. The higher margin solutions, we're selling more of those, just as we are of services. As the customer experience improves, so we can charge more for it. We're not chasing less profitable sales and areas such as greater pricing and promotional discipline and much greater marketing efficiency. For example, our digital marketing efficiency has improved from 7p of gross margin per pound of paid marketing spend to a standard that we're now setting of 80p. So an over 10x improvement of digital marketing spend, and of course our better understanding of variable contribution, end-to-end profitability that is, allows us to de-prioritise areas that make us less money. So we don't have to chase less profitable sales, and we're not. And then finally, supply chain and service operations costs, as you know, hit the gross margin line in this business and particularly under Lindsay's leadership we've seen significant reductions in those costs in recent years.

That's part of a broader set of cost disciplines, if you like, where we've seen some significant results and the man sitting here deserves some significant credit for instilling those cost disciplines in the business. And they've seen us more than offset some significant headwinds, whether it's in stores, for example, through areas such as colleague multi-skilling, whether it's making more of the group in areas like IT and goods not for resale (GNFR) procurement. Whether it's central overhead efficiencies or the marketing or supply chain and service operations cost efficiencies that I've referred to.

We've done a decent job, I think, of offsetting those headwinds and we're not done yet. They are harder yards to come on cost reduction, we'll have to work a little bit harder for it, but that's okay. And there's further scope for growth both in right first time, significant further scope there, as well as continuing to make more of the group in offshoring, outsourcing and automation with the likes of Infosys, GXO and Concentrix as our partners as well as continuing to do a better job on GNFR.

And finally, AI. I was asked quite a lot of questions by the media about AI this morning, primarily on what we sell to customers and there's some exciting stuff there which we can come to, but also AI, we are using our partnership with Accenture and Microsoft to make some improvements to our own business, particularly in after-sales processes such as repair and returns where we see significant benefits to come.

So we have no intention of relaxing the disciplines that have been hard-won and served us well on gross margin and on costs. But as you heard from Bruce before, we do now see more reasons to believe in top-line growth. Important to say, we don't need it in order to keep our promise of better profits and cash flow this year. We don't, but there are more reasons to believe in it. Whichever way you cut growth, what we sell, who to or how. What we sell, well, I talked about AI a moment ago. The AI powered technology, computing and mobile in particular, is arguably the single most exciting new product innovation cycle

since the tablet in 2010. There are some real consumer use cases here which we're already getting traction on, in particularly in mobile and computing. For example, in mobile, the Samsung Galaxy S24 sold really well and contributed to the profitable growth of our mobile category with functionality like instantaneous translation and its ability to make even me into a half decent photographer.

On PCs, the Copilot Plus line of PCs from Microsoft. We were global first to launch those alongside Best Buy as Microsoft's premier tier partner. And these, the early signs are quite promising and we expect this to be a big seller in FY24 and FY25. Again, some really concrete use cases, whether it's recall, saving the average consumer five hours a week on finding stuff. Again, instant translation and better photography, and also studio quality sound and imaging in video conferencing. All of these are real consumer benefits that we are particularly well-equipped to demystify and get across to consumers, which is one of the reasons that Microsoft favour us in the partnership. So with our scale, our channels, our expert colleagues, we should and intend to be the standout beneficiary from this.

It's not just about AI, though. We're underweight in some categories that we're getting after more. We've got 4% share of health and beauty, for example, 15% share of gaming. Both of those are growing fast for us, but significant further scope for growth in accessories, consumables and seasonal products as well. We talked about selling solutions and services. We intend to sell more of those, but also who we sell to.

SMEs are a big and attractive growth opportunity for us across the Nordics as well as in the UK. One of the benefits of the group is we can share learning on a big opportunity like this and the SME market, as you see, is about 80% the size of the B2C market. So it's a pretty substantial market and we have a lot of what it takes to win in that market, whether it's the suppliers, the products which are broadly the same, the channels, the solutions. We've got a lot of the capabilities required to win already and a decent sized business to start off with. And even though at the moment it's a relatively small share of business at 6%, it gives us significant headroom for growth that we believe that we're well-equipped to get after. And we are, including putting some of our best talent on B2B, and the early signs are pretty promising. More to come on that, and then finally, I've talked about some of the improvements that we intend to make and are making to judicious restarting of investment in our stores and in online.

So looking forward then, what do we see? Well, we don't need that top line growth in order to grow profits and cash flow this year, as I say. But there are increasing reasons to believe the self-help that I've talked to as well as the macro that that might come about. In any event, what do we intend to do? We intend to keep the momentum going in the UK that we've built.

We intend to keep getting the Nordics business back on track. We are not going to take any chances with the rock-solid balance sheet and liquidity that we've

built, and we're going to keep going with this strategy that's serving us well of colleagues who are capable and committed, making us easier to shop for customers, building more customers for life and all of that translating into better financial performance as well as more engaged colleagues and more satisfied customers, which is how we can be confident, particularly after a start of the new financial year trading in line with expectations, how we can be confident to commit to the expectation of higher profits and cash flow this year.

So with that, I'm going to pause and I think Dan Homan is going to compare your questions, thank you.

Dan Homan: We've got a number of questions coming over the webcast, but we will give preference to the questions in the room. Matt, shall we start with you?

Matthew Abraham: Matthew Abraham, Berenberg. Thanks for the presentation this morning. First question's just on the services component of the business, just 11% of group revenue at present. Where do you see that contribution reaching across the medium term and how significant will the expansion of that contribution be in delivering the 3% EBIT margin relative to other levers that you have to pull to expand margins?

Alex Baldock: I'd probably prefer to answer that question with reference to the other chart on the slide, which showed our market share in services. In the UK products we've got about 23% market share at the moment. And as I mentioned, we don't see any reason for that to decline further. In services, with all the advantages that we've got our market share should be higher than it is for products but at the moment it's c8pts lower. So that's the headroom that we see and that's the opportunity that we see. And clearly we don't want to put a number on it today, but if we get to, and exceed, over time that product market share in services, higher margin as they are and producing repeat customer spend as they do, then clearly that's going to have a very material impact.

Matthew Abraham: Okay, that's helpful. In reference to current trading, you said that trading has been in line since the start of the year this morning. How significant, if at all, has the impact from the Euros been on demand and what are your expectations for demand from the Olympics?

Alex Baldock: Generally we're becoming less dependent on these big set piece events as a general rule and the Olympics doesn't move the needle a great deal. The Euros does, and I think Fredrik will tell you that in the Nordics, the 85 to 98 inch TVs are up 50% YoY, and the Nordics only have one country in the Euros, as Fredrik will tell you. But the supersizing trend is also a big thing in the UK. I think we're up +30% YoY over the last few weeks in 85 inch + TV sales. So that's very helpful, and clearly we've got 33% market share in large screen TVs, so we tend to be the out-sized beneficiary from these events.

Matthew Abraham: Okay. One more, if I may. Just on the Nordics, you're now taking share there, which is great. Is there an updated view on when a market recovery may eventuate and the degree to which you expect the market to recover in the next 6 to 12 months?

Alex Baldock: I think that's a question that Fredrik can take.

Fredrik Tønnesen: All right, thank you. Last year we talked about consumer confidence going at rock bottom. This year we can stand there and say that we see positive signals. Denmark was the first country that went into the tough macroeconomics and we see that inflation is getting under control and improvements. Finland is still tough, going up and down, but at a better level than last 12 months. When it comes to Sweden, we see the inflation getting more under control and the interest rate was lowered last month, flat today, but expecting to get rates going down 2x more this year. When it comes to Norway, they moved it until next year, but we have a good salary increase in general in the Norwegian society. So in general we see some good trends, but still a way to go.

Matthew Abraham: Great, thank you all.

Alex Baldock: Thank you, and I think just to re-emphasise something you heard from Fredrik, what we've seen in the UK, as in the Nordics, is consumer confidence. That important GFK index come off the bottom, and it's not back up to previous heights, but it's certainly off the bottom in every major market.

Emmanuel Akinwale: Emmanuel Akinwale, Markel. My question for you is, what proportion of capital expenditure do you plan to allocate towards your online platform and your in-store platform?

Bruce Marsh: Thanks for the question. We don't share the breakdown of Cap Ex, but as you've seen, we are proposing quite a significant uplift from £48m to £90m. That spend will largely be in four areas. It will be within our stores, as you heard from Alex, 115 stores will be refitted during the course of the year. We will continue to invest on our online platform. There's spend that will go into our supply chain and distribution network, particularly around automation. And then finally from an IT perspective, in terms of the development and maintenance of our systems. So that's broadly where the spend is, but we don't break it out.

Emmanuel Akinwale: Do you have a timeframe on the collaboration with Microsoft and essentially for that AI sales and refund?

Alex Baldock: Well, there's a couple of ways to look at AI. The one is the collaboration with Microsoft and Accenture, which is targeted at improving our own business. But the second is also in collaboration with people like Microsoft, but also others, to sell AI to consumers. Now, you ask about a timeframe, 2024 we expect to be a year of early adopters when it comes to people buying AI-powered laptops and mobiles. But we might be wrong, and if it's sooner than that, if the early

adoption is bigger than we currently expect, then as the number one in our market, we'll be first in the queue for scarce stock. And that's one of the benefits of being one of the, for example, Microsoft's premier tier partners worldwide, alongside Best Buy.

Dan Homan: I've got a few questions on the webcast.

On the improvement in balance sheet, can you talk about the balance between the strength we've achieved and the comment on increasing investment back to normalised levels, how you think about balance sheet going forward?

And then related to that, on the store investment, can you just expand a bit more on the investment you're doing in stores and why now is the appropriate time to start thinking about that?

Bruce Marsh: Sure. Well, let me take the first and maybe Lindsay could take the second. So from a balance sheet perspective, as I say, we've hard won some great progress in terms of our overall strength of balance sheet, the movement from net debt to net cash, and that will be maintained. The key metrics for me are in the individual components. So yes, we want to continue to invest in the business. Clearly critical that we do that, both from a maintenance perspective and to unlock some of the synergies that we see. I must re-emphasise though, I mean, we will only spend Cap Ex on projects that are generating an acceptable return, and we end up rationing, and then we end up constraining that spend to make sure that we absolutely maximise that. At the same time, from a balance sheet perspective, reducing the level of exceptionals I think is going to be key to protect our overall cashflow. And then finally, working capital, a core component. And we are doing a lot of work, particularly around the effectiveness and the efficiency of our stock holding. So taking out buffer stocks, for example, improving the quality of our forecasts, maybe starting to focus on fast selling lines and improving our density in those products so that we can increase our stock terms. So those are the various components of our balance sheet focus. Our ultimate goal, we've achieved net cash. Our position will be to maintain a net cash position.

Lindsay Haselhurst: So to talk about our investment in stores and is it appropriate. So I think it's perhaps worth talking about the investment we're making in stores, and I'll come onto that, but a little bit of context. We've been investing in our stores for the last three years. That focus has been very much on people and on process, embedding our life selling journey, unlocking our capabilities through task reduction and through multi-skilling. So this is not new news. What's different about this year is the investment we're making in our stores is going to be much more visible and it's into the physical part of our stores, but still very much embedded in what both Bruce and Alex have talked about in terms of the retail fundamentals. Basically making the best of our greatest assets, which are our stores and our colleagues, but also listening increasingly to what our customers tell us that they want when they come into our stores.

Three big programmes this year for investment in stores. The first is mega stores. Alex touched upon it, giving people more reasons to come into our stores. So that's about creating space for new and genuinely exciting product, some of which we've already talked about, giving customers more choice. So taking the space within our mega stores, bringing in seasonal, expanding some of those underweighted ranges that Alex talked about. More opportunity to touch, feel, try. We know customers really value that. That's what we can do in a way that no one else can, and our mega store programme will see 50 of our biggest stores have more space, more product, more exciting new tech, as well as seasonal and accessories that plays to the really successful programme we sold with. So that's the first.

The second is our superstore. These are our small to medium size stores. And what we're doing there is rebalancing our space to reflect the end-to-end profitability insight that we have, but also the customer insight about what they want to buy and what they buy in our stores. We're also investing in stock. Availability is a key factor in the retail fundamentals, but also our customers tell us one of the reasons they come into stores is they want to be able to take product away. So we're investing in stock depth to improve that experience in our stores. That's 130 stores in total, 65 this year, another 65 next year.

The third is an investment electronic shelf edge labels. Our Nordic cousins have been benefiting from these from a number of years. I think the obvious link here, as you can see, by replacing what is a repetitive and onerous task of creating paper pricing labels in our stores, electronic shelf edge labeling will help us take a step forward in significant task reduction. Now, some of that's about continuing the efficiency that we've been driving over the last three years, but actually more importantly, it's about unlocking colleague availability. Customers talk to us about product availability, but they talk to us most about colleague availability. The thing they complain about most in our stores when colleagues are not available and the things that they talk about that they love the most is when colleagues are. Electronic shell edge labeling is a massive step forward for us in unlocking that colleague availability as well as efficiency.

Big investment, but we're confident, and for all of those three programmes, we have a payback that is at 18 months or less. These are not vanity projects. These are absolutely about driving the retail fundamentals and continuing on that programme. And we'll continue. It has to be said. In investing in our colleagues and people and processes in the same way we have, that doesn't change. This is over and above. Hope that answers the question.

Dan Homan: Any more questions in the room?

Matthew Abraham: Matt Abrahams, Berenberg. In reference to shareholder returns. You mentioned that you are going to update the market in the next 12 months about the recommencement of shareholder returns. Are all options on the table through the means in which shareholder returns are provided, or is there a preference at present?

Bruce Marsh: So our intention will be to restart a dividend and, assuming everything goes to plan and our expectations, we probably would announce that in 12 months time. Clearly in the intervening period, particularly if we have a really strong peak season, then there may be opportunities to return cash in other ways in that short term, but we're certainly not promising that.

Dan Homan: A couple of questions on the webcast relating to Microsoft.

First of all, we're hosting an event in 10 days time, highlighting AI, Copilot, and the Copilit+ PCs. Can you give us a flavour of what you'll see there?

And then the related question is, the Copilot+ PCs are the third big piece of news with Microsoft in the last few months following the generative AI press release and the repair servicing agreement on the surface laptops. Can you talk a bit more about your relationships with the big OEMs and how the relationship is progressing?

Alex Baldock: Let me start with that one, and then I'll come back to the more specific question. One of the benefits of scale and one of the benefits of being the market leader in our markets, is everything else being equal, we should be more important to our suppliers than any other retailer, and if we do a competent job, that should be true. We work hard in collaboration with our product suppliers and others, to make the most of that scale. Microsoft is a really good example, we are one of their top tier retailers worldwide when it comes to selling their hardware products. We're one of their top tier retailers when it comes to selling the software products that are still even more important to them, like Microsoft 365, for example. And they're placing a very well publicised and very big bet on AI, and there's us and Best Buy are their top tier of suppliers worldwide. They've said this publicly, this isn't just our assessment. And the reasons for that is, yes, it's partly our scale. That gets us in the door. But it's also the fact that we can demystify this product to customers.

Just a matter of interest, who makes regular use of ChatGPT in this room?

A significant minority, but this is probably more weighted towards making use of it than the population at large. People honestly don't understand AI, and the typical consumer is slightly scared of it and doesn't understand its use to them.

We exist to help people understand technology. That's one of the key core reasons to come into our stores, to speak to an expert colleague who can help understand how is this going to be useful to me, why should I care, and we're getting better at doing this online as well. And that's the other reason, apart from our scale, that Microsoft and others are so interested to invest in their relationship with us, because they know that we can sell the benefits, the use cases of their products in ways that others just simply cannot.

I mean, specifically, what was the other question, Dan? The specific question on Microsoft and what people can expect in July.

Dan Homan: Yeah, what they can expect from the new Plus PCs.

Alex Baldock: I touched on some of this before, but again, focusing on the benefits to consumers, it can turn any of us into a good photographer. You can speak to anybody in the world, whatever language they speak, and you can understand each other. If you're doing a VC, it looks like it's in a studio and you don't have horrible scratchy sound and rubbish lighting anymore because it automatically does all that for you. If you're creative, it'll help you create things, whether it's images or videos or anything else. And if you can't find stuff, it helps you find them and saves you about five hours a week. Plus, the battery life's way up at 22 hours for the Copilot+ PC, and performance speeds are significantly faster.

So that's what you can expect. And we are focusing a lot on this conversation on Microsoft, rightly so, but it's not just them. I mean, Samsung were selling a lot of S24 Galaxy phones with their AI use cases to the fore. We're selling a lot of gaming PCs powered by Nvidia gaming chips, which are also AI enabled. So we expect, as I say, this to be the most exciting new product trend since the tablet in 2010 and we expect it to benefit us this year and next.

Dan Homan: Two final questions on the webcast.

The first is, you've made conscious efforts to reduce unprofitable sales and not chase market share. You've mentioned this is now done. Could we start to see a sustained increase in market share in the UK?

And then the related question is, as well as the product portfolio, what are you seeing in terms of a perhaps more favourable consumer environment to aid top line growth?

Alex Baldock: Yeah, let me take the market share question first. And I did say at the start that we don't expect to see continuing market share declines in the UK. So what's behind that? Well, first of all, it's important to say that market share isn't the thing that we solve for. What we solve for is sustainable profits and cashflow. And if competitors do strange things and price below cost, we're not going to follow them. So I'm not guaranteeing that market share will rise from this point, but why do we expect the decline to be finished in the UK? For a couple of reasons.

The no regrets decisions that we took to focus on more profitable sales, whether it's greater PPC efficiency, digital marketing efficiency, whether it's more smarter pricing and promotional discipline, whether it's making sure that we're adequately charging for a better customer experience and big box delivery, whether it's making the most of the variable contribution models that our finance teams are built at to focus on where we make most money end-to-

end. All of these disciplines have come in and were annualised or are annualising on them. So we don't expect them to have a further downward impact on sales in the year ahead. That's one reason.

Second, I mean, the bigger picture is our customer proposition continues to improve. I've talked about everything that we're doing, and Lindsay and Bruce have done the same. Everything that we're doing to improve the proposition to customers, we're not going to stop doing that. We expect that to continue to improve. And everything else being equal, greater customer satisfaction translates into higher sales.

I mean, those would be the two big drivers. Plus, of course, the reasons to believe in top line growth, the self-help actions that we're taking that don't depend on a macro recovery or replacement cycle that are our own actions, whether it's really making the most of the AI opportunity, whether it's getting behind underweight categories like health and beauty and gaming that we're pretty excited about. Whether it's making the most of the SME opportunity, to use our B2C strengths to serve B2B customers, or whether it's the improvements that Lindsay talked to in our channels, online and in store, that take friction out of the customer's experience and translate to higher sales.

All of these things should have an upward pressure on market share. So that's what we expect. But as I say, that's not the main thing that we're solving for, except in as far as we enjoy the benefits of scale. I've talked to those when it comes to our relationship with Microsoft. We enjoy being number one. We get concrete economic benefits from that and we're not going to surrender those lightly. So that's the balance we aim to strike.

Consumer is the other question you asked?

Dan Homan: Yes, specifically on the consumer environment in the UK.

Alex Baldock: It's been depressed, as you've seen in a technology market that's gone backwards by 3% again last year. But if you wanted to construct a more optimistic outlook for the UK consumer, you can now do so. It's not what we're planning on. I mean, we'd rather be prudent, and as I say, we don't need market or sales growth in order to hit improved profits and cashflow this year, but if it comes along, clearly it'll be helpful on top of that.

And there are reasons to believe. Consumer confidence is up. I mean, I think it was at (14) on the GFK measure in June, which is up from minus (23) a year ago. The big box, the big ticket confidence index, which we track quite closely is also significantly improved. Inflation's down to 2%, so real wage growth is coming through into people's pockets. Interest rates have peaked. I mean, maybe not yet being felt, but consumers do definitely have a sense that they've peaked. And by and large, consumers are still in jobs and they've still got savings. So all of those things translate into integrated discretionary spend, which translates

into our market. So if asked what we expect, we think things will look up from here, but we're being prudent in our planning.

Dan Homan: If there's no more questions in the room, that's the end of the questions from the webcast.

Alex Baldock: Thanks, Dan, and thank you to all of you for being here today. I hope you take away a simple message that, yes, this is a strengthening performance, but we're nowhere near satisfied with where we are. There is significantly further to go on all of the things that we talked about, and we're underway, we're working to them, both to keep up the momentum in the UK, to keep the Nordics back on track, on the basis of really strong financial stability. So thank you all, and I wish you all a great day.