HORNBACH Holding AG Co. KGaA

Investor Relations Update Call: Q2 & H1 Fiscal 2022/23

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Transcript

Speakers:

Antje Kelbert

Karin Dohm

Antje Kelbert

Good morning, ladies and gentlemen, and a very warm welcome to our Investor Relations Update Call on the Second Quarter and First Half-Year of Fiscal 2022/23. My name is Antje Kelbert, Head of Communications and Investor Relations at HORNBACH. With me in this call is our host of today, Karin Dohm, CFO of HORNBACH Management AG. We are accompanied by our Investor Relations colleagues, Anne Spies and Fabienne Villwock.

I would like to draw your attention to the fact that the audio webcast will be recorded and the replay as well as the transcript will subsequently be published on our website. If you continue to participate in this webcast, you declare your consent to this data processing.

Before we now take a closer look on the developments of the first six months and the second quarter, please be aware of this disclaimer which is valid for the entire presentation as well as for the Q&A session. And now, I have the honour to hand over to our CFO, Karin Dohm .

Karin Dohm

Thank you, Antje. And also from my side, a very warm welcome on this morning. Allow me to begin with a quick overview. First of all, as you have seen in the figures that we published earlier this morning, I would like to emphasise that we have really strong demand still ongoing in our business.

Specifically in the DIY products, we see that that has remained very steady throughout not only the second quarter but also the first half-year of 2022/2023. The general positive trends have continued into this second quarter and we continue to see stable and strong demand across all our geographical regions, which resulted in net sales growth of 5.2% in the first half.

In a world where we see a strong need for changing energy sources, we are a reliable partner for our customers to undertake their energy saving refurbishments projects. We see continued good demand for insulation specifically, and products to reduce energy and water consumption overall.

As expected, we are also seeing a decline in adjusted EBIT from the very high levels we achieved during the last two years. Nevertheless, if you compare that to 2019 and 20, we have grown by almost 40%. Our outlook as of June 2022 remains therefore also unchanged. As said earlier this year, we continue to expect a slight increase in sales and adjusted EBIT level to decline to a low double-digit percentage range compared to the previous year.

Let me look and give you some ideas about our expansion strategy where we are also well on track. Yesterday, we celebrated our latest store opening in Constanta in Romania, one of the largest harbours at the Black Sea, where we had our third opening in this current financial year. The first two ones were in Slovakia, in Nitra, and in Enschede in the Netherlands earlier in March.

Our subsidiary, the Baustoff Union, also continued to grow as well with the takeover of two locations in the Southwest of Germany at July 1 this year. We also advanced our ICR expansion with the start of the BODENHAUS online shop in September and further managed to bring our migration of the Spryker platform in an ongoing plan, with Luxembourg, Slovakia, Czech Republic and Romania having already migrated.

Let’s double-click on the net sales in the first quarter, in the first half year as well as in the second quarter. Customer demand, as said, remained on a high level and net sales have grown by 2.2% in Q2, resulting overarchingly, as said earlier, in a 5.2% growth for the first half-year.

Net sales of the subgroup, HORNBACH Baumarkt, including the online business, grew by 4.9%, with stronger growth outside of Germany of 8.6%, bringing up the share of the international business to slightly above 50%.

Net sales at Baustoff Union increased significantly, by 9.7%, on top of the 11.8% growth achieved already last year. Just a reminder. Baustoff Union caters mainly for professional customers and is still profiting from full order books in the building industry. They are also able to pass on price increases faster and in a different manner than the Baumarkt business.

On a like-for-like basis, sales declined slightly in Q2 from a very high level in the previous years. The quarter was mainly impacted by a somewhat slower start in June. However, like-for-like performance has picked up in July as well as in August. Also with respect to current trading, we can say that we have also seen a very good performance into our Q3 so far in September.

Overall, for the first six months of 2022/2023, like-for-like sales were ahead of last year in Germany as well as in the other European countries. Our three-year like-for-like figure of 28.7% underscores the significant and sustainable acceleration in growth over the past years for HORNBACH.

The strong performance is also reflected in significant market share gains since 2019. Market share in Germany increased from 13% in 2019 to 14.7% this year on the back of a successful interconnected retail execution specifically throughout those years.

The strong market share development in the Netherlands was driven by like-for-like sales growth of 35.5% as well as also some expansion in that country. We opened there, over the course of those years, three stores.

In Switzerland as well as in Czech Republic and Austria, you see that we also managed to gain significant market share. In two cases, Czech Republic and Austria, we had no openings. In Switzerland, we opened one store throughout the course of those years.

A couple of thoughts on the e-commerce side, where we have, similarly to the information we gave you earlier, seen a strong demand on an ongoing basis, specifically in the direct delivery scheme. Click and collect was used to a lesser extent in Q1 as there were no restrictions for our stationary stores compared to the previous year. Meanwhile, direct delivery, as mentioned, has seen not only a stable amount but also a slight increase in Q2.

Total e-commerce share of HORNBACH Baumarkt sales in the first half of 2022/2023 were at 14.8% compared to 9.8% in 2019/2020. So we see here an elevated level, underscoring the sustainable success of our interconnected retail strategy.

We move down the P&L a little bit. Let's have a look into some of the other figures there. You see that gross margin was down by 1.7%, reflecting the challenges with regard to rising purchasing prices and transportation costs. In line with our everyday-low-price strategy, we have not fully passed on these costs to our customers. This is a conscious decision in order to affirm our position as price leader and be a reliable partner to our customers.

The cost ratio of general and administration expenses increased only slightly due to higher headcount and inflationary effects in equipment costs. The increase in selling and store expenses was more pronounced mainly due to expansion and wage increases as well as higher cost of energy.

On the basis of gross profit that, in absolute terms, remained on previous year's levels, and the increase in selling and store costs as well as general and admin costs, our adjusted EBIT for the group came in at 277.4 million, which is 17.7% below previous year's period. Compared to pre-COVID levels, we still register an increase in adjusted EBIT by almost 40% and also an extensively improved EBIT margin.

The same pattern repeats at the bottom line of the P&L,

where we see levels of much higher earnings compared to 2019/2020. Earnings before taxes decreased by 16.7% to 260.6 million compared to the previous years, but are clearly ahead of 2019 and 2020 by almost 70%. Net income after minorities of 181.9 is only slightly down from previous year by 2.7% due to the higher share in HORNBACH Baumarkt after the delisting offer. Earnings per share are at 11.37, so not much behind previous year’s level.

Let us now have a look on the development of our cash flows. Cash inflow from operating activities decreased in the first half of 2022/23 compared to the previous year. It was at 311.7 million for the operating activities, so the funds from operations, way above pre-COVID levels, but as said, behind the previous year’s.

The change in working capital resulted in the cash outflow of 58.5 million. We are still carrying higher inventory than we would usually do to be able to have products available for our customers, which affects our working capital. I want to reemphasise at this point that most of the inventory is non-perishable, non-seasonal, and not subject to short-term trends.

Capex was at 114.2 million in the first half of this fiscal year. Regarding that split, approximately 62% of capex was spent on land and real estate, mainly for new stores. I mentioned earlier that we had yesterday the opening in Constanta, which, of course, was part of those investments, and we also are currently expecting to open one store in Germany at the end of our fiscal year, which is also partially reflected here, as well as envisaged other openings in some of our countries where we already invested capex.

The cash outflow from financing activities totalled 64 million in the first half. Included, amongst other things, is the outflow for the additional shares in HORNBACH Baumarkt and the cash inflow from the bridge loan affecting that. Since the delisting and the start of the bridge, the debt position has been reduced to 70 million in June 2022 and transformed into a long-term debt by issuing promissory notes for 100 million, running five, respectively, seven years. The free cash flow after dividends came in at 102 million.

Once again, we can present you with a rock-solid balance sheet as of the end of August. Quickly highlighting a few details, the comparison to February gives you a view that we have now an overarching consolidated balance sheet with an increase of 5.7%, totalling 4.6 billion. Equity ratio increased to 42.5%, giving us a very comfortable level there. Liquid funds are 80 million by the end of August.

At this point, as said earlier, we want to reconfirm our outlook for the current financial year, as revised in June. We expect net sales to grow above the record level that we reached in the previous fiscal year, supported by an ongoing strong customer demand, also, of course, driven by price inflation to a certain extent.

Earnings are expected to fall behind last year's levels by a low double-digit percentage, reflecting the challenging business environment, with political uncertainty, of course, in the outlook as well as price and cost inflation.

Our store openings are well on track. We have already opened three stores in the current financial year. As said, we are expecting others, specifically Leipzig in Germany to follow in February, so still in this fiscal year. By the end of 2022/2023, we expect to have 171 stores in total in our group opened.

A little bit of background on our outlook. Whilst the various macro uncertainties remain a challenge to every business, and concerns around customer spending for the remainder of the year are growing across Europe, our business fundamental though currently remains stable and intact.

As a DIY company with a long company history and proven capability to navigate and emerge stronger from external challenges, we see ourselves well positioned to consistently manage to outperform GDP and sector growth. We have a well-diversified and stable business model, addressing professional and retail customers alike, so we also have, as you know from previous interaction with us, different sales channels and geographies, with a significant proportion of sales linked to repair and maintenance.

Above all, we are committed to be a reliable partner for our customers to undertake all their DIY projects, including energy refurbishment and smart home projects. We are able to secure high product availability at reasonable prices through our multi-supplier strategy, featuring long-term and reliable relationships, as well as more than 80% of sourcing from the countries where we are present.

With our everyday-low-price strategy as well as a broad choice of private labels offering value for money, we see ourselves well positioned to benefit from the continued high demand for renovation and refurbishment projects. And now I would like to hand over to start the Q&A session.

Operator

Ladies and gentlemen, at this time, we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone

	telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections.
	Anyone who has a question may press star followed by one at this time. One moment for the first question, please. First question is from the line of Thomas Maul from DZ Bank AG. Please go ahead.
Thomas Maul	Yes, good morning. Thanks for taking my question. You just mentioned that current trading is quite robust. Can you please elaborate a bit on buying behaviour and shopping carts? Which categories are strong? Which are weak? And do you actually see your clients postponing bigger projects?
Karin Dohm	Yes, thanks for that question. I think, in fair summary, we can say that demand is high across all sorts of goods and services. Obviously, you always have a slight seasonal, yes change as you have each summer as we move from, so to say, the hotter months into a more autumn climate, reflecting certain preferences of customers and focus areas.
	What we currently see is still larger baskets. So when people shop, they have the tendency to shop even more bundles, a development we could see throughout the last years. And we see, of course, a strong demand, as said, for things that now reflect projects in insulation, in energy efficiency and in anything that people apparently have in focus to bring down their own energy consumption.
Thomas Maul	Okay, thanks. That's helpful.
Operator	Ladies and gentlemen, if you have any further questions, please press star followed by one on your touchtone telephone. Next question is from the line of Tim Ashton from Frilsham Europe Fund. Please go ahead.
Tim Ashton	Good morning, everyone. Can I just pick up on… I think I'm right in saying this is the first quarter where sales outside Germany are greater than German sales. Can you just talk a little bit about the long-term implications for this on growth and margin rates? Clearly, there's some short-term issues about all the things you've talked about this year, but presumably, longer term, this could get quite interesting.
Karin Dohm	Yes, sure, happy to. We probably need to cross-check with history, but I think you're totally right. First time that we have this, outside-of-Germany sales being higher than inside of Germany. I think there are a number of reasons.
	Number one, we have had more store openings outside of Germany than inside of Germany in the last years. We have

had good demand across all our countries, but if you think about consumer sentiment, probably some of the non-German countries currently or in the last months have been a bit stronger in general from consumer sentiment across all industries than necessarily in Germany itself.

You also had different inflation and energy price developments in those countries where we operate, and I think that also had a certain element of impact on customers' behaviour or demand or, in general, beyond, so to say, our part of the retail business.

Nevertheless, for us specifically, yes, we have opened more stores, therefore have, on a relative basis, added more square metres and also features in our webshops outside of Germany than inside of Germany. And that additional ripeness has increased that share.

All in all, for us, of course, that is an element also of risk diversification. And as you know from our publications, we have different levels of also EBIT margin in our different countries. So we think that's a very good addition, to make sure we are well positioned also in light of current outside developments.

Tim Ashton

Yes, thank you. That's looking backwards. But if we think about how HORNBACH was ten or 20 years ago, Germany was low growth, low margin, and outside Germany was more favourable in both respects. Clearly, some of the outside-Germany countries will, I would guess, be much more mature now, and therefore lower growth and margins closer to Germany. But some countries will still be more attractive.

I'm just wondering to what extent this inflexion point will change long-term, steady-state macro numbers going forward, or whether enough of outside-Germany is now sufficiently mature that we should think of the growth and margin rates as being more akin to Germany. Sorry, is that clear?

Karin Dohm

Yes. Let me give you an answer, and then happy to take any follow-up if we were talking at cross-purposes just potentially. A couple of thoughts. So from our perspective, we have white spots, so to say, in each and every country where we're active. So we don't see any limit to our growth by the sheer fact that there would not be any white spot. We have white spots everywhere.

And we're continuously monitoring the countries where we're active, also other countries, but specifically, of course, those where we're anyhow already present, to understand where is there new room for a new store or, as said, for additional features in the webshop to really cover more market share there.

And therefore, when we talk about new openings of stores, where we have given, in the past, those rough figures of, let's say, three to five stores per year, more or less, you will always see that the majority of those is outside of Germany, but not all of them are outside of Germany. And maybe this year is representative for that.

We have had, so far, three openings outside of Germany and we think we will have the one in Leipzig in February. It might slight into March, and then it's the next fiscal year, but it's more or less within 12 months. So I think that's quite, as said, representative for what we also expect for the following years.

Tim Ashton	Thank you.
Operator	Next question is from the line of Johan Van Den Hooven from Value8. Please go ahead.
Johan Van Den Hooven	Yes, good morning. It's Johan Van Den Hooven. Just a first question about the different developments in prices and volumes, if you can give the different rates for these two, especially for Q2. Total revenue growth was 2%, plus 2%. That's mainly prices, I guess. Can you give a figure, how much the price increases were? And do you expect a higher impact of your price increases in the second half?
Karin Dohm	Yes, thanks for that question. I think you have a slightly different development in some areas, as said, also in some countries. So a lot of our figures are a little bit on average, so to say, for the group. And we have done our maths with respect to comparison of those goods where we can really compare the specific good and the same quality and everything with former prices. So we said, on average, in this half-year, we have had prices that were roughly 8% higher than in the same period of the previous year.

When you double-click on that and look a little bit deeper, of course you have a mixture of price effects and of volume effects. And as said, that then also comes in differently in the various regions where we operate, just for the sheer differences in inflation when you look between countries such as Romania versus Germany versus Sweden, or you can choose any country there on our footprint.

So I think underlying, as said, it's a mixture. We are deliberately, as we also say not passing on every price increase that we experience on the buy side because we want to make sure we are a reliable partner for our

	customers. And we are convinced that that offers us further possibilities to gain market share and, in the long term, to be one of the market leaders in our respective countries.
	So we very carefully navigate that to make sure we are, of course, having a gross margin that is as attractive for us as a business as possible whilst staying a reliable partner for our customers. And that is a very granular game that our merchandise colleagues literally play every day whilst they adjust prices or not.
Johan Van Den Hooven	Okay, thank you. And so you mentioned 8% in the first half. So that compares to the overall 5% growth in sales, just to double check.
Karin Dohm	Yes, as said, you need to make sure you then have like-for-like comparison, because otherwise you're a little bit in the apple and pear comparison, yes.
Johan Van Den Hooven	Yes, that's why I'm double checking, because you mentioned the price impact in the first half of 8%. So that compares to the…?
Karin Dohm	That's a good comparison, where we said we want to make sure we have comparable goods.
Johan Van Den Hooven	Yes.
Karin Dohm	You can't match it with a sheer sales figure and a total. That would be incorrect.
Johan Van Den Hooven	Okay. And do you expect more price effect in the second half?
Karin Dohm	Look, if the second half of this year in our countries, from a macroeconomic perspective, is going into the same direction as the first half was going, definitely yes. We really need to see how things play out, also on the supplier side.
Johan Van Den Hooven	Yes.
Karin Dohm	Currently, as you can imagine, our own operations, when you think about heating and cooling in our very own operations, our business is relatively, compared to other businesses, low-energy intense. We're not producing. We shut down our air conditioning this summer. We have adjusted our heating pattern for this winter and our lighting pattern.
	Nevertheless, of course, some of our suppliers are heavily affected by energy prices, so we need to see how their operations play out and what that means also for our pricing as well as for availability of goods, which is, if I may add, one of the reasons why we deliberately keep stock currently

	relatively high, because we want to make sure we're having things just in case this winter brings further burden for some of our suppliers.
Johan Van Den Hooven	Yes, clear. That's clear. Just a question about the outlook, a low double-digit decline in EBIT. Just to clarify that this low double-digit is between 10% to 20%. Because in the first half, you were minus 17%, and in Q2, you're just outside of that range at minus 23%.
Karin Dohm	Yes. That's more or less the range, yes.
Johan Van Den Hooven	Okay, yes, thank you. And then my last question for now. Are there any changes regarding the minority stake in Baumarkt, or are you willing to buy more shares, or how does that process work?
Karin Dohm	Yes, look, obviously, direct delisting has taken place, so the share is not in the regulated market anymore. And we are currently not in a hurry to kick off any, so to say, public further steps. So we're literally just now making sure… What we focused on in these last months was literally to make sure we have our liabilities brought in order, to clarify that, to make sure we switch from that bridge facility into long-term debt and make also sure that we are therefore just using the upsides that this delisting brought to clarify further governance steps.
Johan Van Den Hooven	All right. Thank you very much.
Operator	Next question is from the line of Christoph Eckert from EMI. Please go ahead.
Christoph Eckert	Yes, good morning. On the financial result, it has been a positive surprise, I think. Can you provide an outlook for the third and fourth quarter? Thank you.
Karin Dohm	Yes, thanks for that question. If we had more possibilities to understand where things are heading this winter, of course, we would be more than happy to provide that. I think what we definitely can say is the development we saw in September is a continuation of what we saw earlier, strong demand across all regions and across all channels. So we're feeling confident that we're supplying currently those things and can support our customers in those areas where they are needing them.
Christoph Eckert	No, I apologise. On the financial result, which was finanzergebnisse.
Karin Dohm	Ah, okay.
Christoph Eckert	So it was actually down year on year, despite the higher

	financing needs.
Karin Dohm	Yes.
Christoph Eckert	So I'm just wondering how financial results will look like in the third and the fourth quarter.
Karin Dohm	So when you look onto that side, I think what we will see is, number one, we have said that the working capital has had an effect there which, as said, is deliberately. So you might see a continuation there, meaning we expect to stay on a little bit of higher goods, so to say, in our hands, which means that we there have, of course, a little bit of cash that is sitting then in that form in the working capital on the balance sheet. You saw that we had a capex of 114 million in the first half. We have always said that the capex, in total, will stay more or less this year as it was last year. So we expect that to move potentially somewhere towards the direction of 200 million, but not more, definitely. And I think that we used, very consciously, some parts to make sure we bring our debt slightly down. And I think, therefore, what we intend there is to have stability in the financial figures and in the financial ratios. And therefore, I wouldn't expect any dramatic changes.
Christoph Eckert	Thank you.
Operator	As a reminder, if you'd like to ask a question, please press star followed by one on your touchtone telephone. Next question is from the line of Allègre from Kepler Cheuvreux. Please go ahead.
Ludovic Allègre	Yes, thank you. Good morning. Two questions on my side. So the first one is on the gross margin. So basically, in Q2, the difference between purchase and sales price has widened so that the gross margin was down circa two percentage points. So you told us that you are going to increase your selling price more in H2, so can we expect an improvement in gross margin for the full year? So that's the first question. And my second question is on past downturns. Can you remind us how HORNBACH behaved in past economic downturns, for example, in 2008 and 2009 and during the European crisis in 2011? Thank you.
Karin Dohm	Yes, thanks a lot for the question. And maybe I'll start with the second one. So when you go back, long term, HORNBACH has had a relatively good performance throughout the last crisis, or crises, so to say.

I think a couple of things help us, in general, to navigate rough macroeconomic situations. Number one, geographic split. And that has improved, obviously, via our expansion over the last decade or even two decades.

Second, customer diversification. We have professional as well as retail customers. So that means, if people switch to do more themselves, we have obviously everything on offer. And if people have a tendency to hire others to do things for them, we also have things in place and processes and services.

Thirdly, products themselves. We are strong, and keep investing into our own labels. We are there roughly at 25% on average, from a portion of our goods. As said, we keep investing into those and making sure they are up to state and really of good quality. So that means, as people have in downtimes and in recession times the tendency to step away from brands into own labels or white labels or others, we can profit from that, because obviously those products have a higher margin for us.

And taking that all into account in combination with our interconnected retail strategy, so the possibility for customers to interact with us in whatever electronic or non-electronic form and shape they want, gives us a good basis to navigate rough times.

In addition, from a sheer, so to say, nature of the business in the DIY and home improvement, you are obviously in an area where there are always things that just need to happen and are not necessarily a luxury decision that people take. So we think we are therefore well positioned. Can you remind me of your first question? Apologies.

Ludovic Allègre

Yes. Thank you for the answer. My first question was on the gross margin expectations. So basically, you told us that you are going to increase further selling prices in H2. So what can we expect in terms of gross margin at the end of the year? So basically, it’s down circa two percentage points in H1. So what can we expect in H2 and at the end of the year? Thank you.

Karin Dohm

Yes. So thanks for reiterating that. So obviously, we don’t give any guidance on our gross margin. And despite the fact that we really feel very comfortable with our current figures and the underlying strength of the business, we are moving into winter, if you want to say, so that is difficult to fathom for everybody who is in the business.

Because, A, we have currently customer sentiment that we need to understand as everybody is going into their critical

	time of the year with regard to general development of inflation, prices, energy prices for private households, and, and, and. And we need to understand how well politics or politicians will be able to create an environment where people have confidence in further activities of whatever shape and form. So that makes it a little bit more difficult. And what I said also is another difficult to understand area is the way that our customers, our suppliers, excuse me, are making their moves through the next couple of months and through the second half of our fiscal year. So therefore, literally cannot give you a proper guidance there. Definitely, we are making sure that we operate here very consciously, that we use also possibilities where, for example, scarcity of products is reduced so things are actually available. Then, of course, we are pushing to bring down our purchase prices to make sure we have there also positive impact on our gross margin. On the other hand, as said, we will have product that will be not available to the degree that everybody would like to see, and therefore, in some areas, the prices will just stay high. So I can't give you there an exact direction of travel.
Ludovic Allègre	Okay, thank you. Maybe a last question in terms of inventory. How do you adjust your current inventory levels? And have you empty shelves on any particular project so far? Thank you.
Karin Dohm	With the current setup, we are feeling quite comfortable. We have deliberately currently a bit more on our shelves or in our warehouses than we usually have at this time of the year. So the time that our current stocks last is longer than usual from a calculation point of view. And we think that's the right approach to things, because, as said, both the question of strength and, so to say, price levels of suppliers as well as logistical challenges shouldn't be underestimated also with a view to the next months. Also, of course, we have some seasonal products, but we have many products that are neither perishable nor specifically seasonal, so we do not have there potentially the same risks of things that need to be written off as some other retail branches or parts of the retail industry have. So that gives us also there some peace of mind when we have higher stocks than usual. And I think that's the way we will probably operate also for the next months.
Ludovic Allègre	Okay, perfect. Thank you very much.
Operator	We have a follow-up question from the line of Thomas Maul

from DZ Bank AG. Please go ahead.

Thomas Maul

Yes. Thanks for taking my follow-up. On energy costs, how high are energy costs as a percentage of sales actually? And how much do you spend for heating and lighting in your stores? And second question. Can you please provide an outlook with regard to personnel costs? And do you see any shortages in personnel? Thank you.

Karin Dohm

We have, I think like everybody else, the necessity to make sure we continuously attract new talent and make sure we're, so to say, visible amongst new talent and don't lose any connectivity. I think the general necessity to have that as a top topic for management is absolutely key. And I think that is something why we also made sure we went public, and maybe you have seen that somewhere, with something that is, in German, called "Arbeitszeit nach Maß".

So we are deliberately now offering that people specifically in the stores, where obviously home office or remote work is no topic at all, that we can ensure that people are as flexible or that we can offer as much flexibility as anyhow possible for our people so that they can ideally, when the disposition is made for who covers which shift throughout the week, that we can there, as said, offer as much flexibility on hours and the allocation of hours as possible.

The increases of salaries are… In Germany, we are totally following there the negotiations with trade unions that happen, as you know, on a larger scale and usually then come into our P&L in the following year. So things that we have this year are already a subject of the last year's negotiations, so that is already baked in. And we will observe obviously the outcome of the current negotiations to understand what that means for our next fiscal year.

In the majority of the other countries where we're active, the increases of salaries or some extra payments, sometimes also subsidised by local governments, are happening throughout the year, usually. So the frequencies are higher, and therefore, you have some of those things already reflected. Because, for example, in Czech Republic, we had increases last winter already and sometime earlier this year. So there are different dynamics and rhythms.

Yes, of course, that is a factor that increases expenses ceteris paribus, but it's not our main focus area because we think it's just part of, so to say, running the business, that our people need to have proper salaries and feel properly paid when they work for us.

When it comes to energy costs, I think two things here are worth mentioning. So on the one side, in general, of course our energy costs have increased substantially, as they have for everybody else, but as a portion of sales, they are extremely low.

So in this half-year, 22/23, that's roughly 0.6% of sales and therefore not really a very high figure. And it might increase now on a full year. We're currently expecting, as said - take the disclaimer that we always might have some force majeure over winter - but we're currently expecting roughly around 1%.

Thomas Maul

Very helpful, thank you.

Operator

As a reminder, if you'd like to ask any further questions, please press star followed by one on your touchtone telephone. We have a question from the line of Dr Siegfried Fackler from Fackler Steuerberatung. Please go ahead.

Dr Siegfried Fackler

Yes, hello. One more question from me. The commodity prices are sometimes imploding or going down quite hardly in these times now. Is this maybe a good sign for your gross margin in the future, or is the energy costs by the producers of your products another topic that doesn't make it possible to drive prices down again? Thank you.

Karin Dohm

Yes, thanks for that question. I think, currently, what we see is really a mixed picture, and you usually have also time lags. Even if certain elements of the costs of the production of our suppliers are going down, number one, there is always a certain reluctance to pass that on.

So in some areas where we specifically know it, also in areas where, for example, we have very large customers, suppliers, excuse me, who might be even listed so we know very well how their situation looks like, and in some instances, it looks very good, of course, we use that then to make sure we enter this information into the negotiation and do everything to make them go down on their side. Nevertheless, that is just, as said, a process.

And until things then flow, given the average gliding scale of valuation in our goods, that then takes some time until you see that reflected in the gross margin. So the gross margin, up to a certain degree, is always a little bit behind things. And if certain components go from rising to declining, it takes just some time until you see that reflected.

But yes, of course, the mixture in some areas is switching and the negotiation power is switching, so there might be something that helps us on the gross margin as far as supply prices are concerned, and in some other instances, it might go even further up. It's difficult to judge how the ultimate picture then plays out over the course of the next months.

Dr Siegfried Fackler	Thank you.
Operator	This concludes our Q&A session, and I would like to hand back to Antje Kelbert.
Antje Kelbert	Yes, thank you. And thank you for all your questions this morning and to be with us this morning to look into our figures. Whenever you have further questions following this call, you know, never hesitate and contact us in the Investor Relations department. We're happy to take your questions. And you also know that for the remainder of this year, the IR calendar remains busy, so we are looking forward to meeting you in person, hopefully, at the one or the other occasion. We have scheduled further conferences and also planned a couple of roadshow activities, so some possibilities to get in personal touch again. And you will find also the most recent version of our Investor Relations Calendar on our IR website. So thank you very much for your time this morning, your interest in HORNBACH, and I wish you a very successful and pleasant day. Goodbye.