Hornback Holding AG Co. KGaA

Hybrid Analyst and Investor Conference 2022/2023

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Transcript

Speakers:

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Welcome to our hybrid analyst and investor conference of Hornbach Group. My name is Antje Kelbert, Head of Investor Relations at HORNBACH. On behalf of HORNBACH and the entire Investor Relations team, I am delighted to welcome you today, here, in Frankfurt, as well as digitally, as participants of our hybrid format. I would like to extend an equally warm welcome to our board members. From HORNBACH management AG, our CEO, Albrecht Hornbach, and our CFO, Karin Dohm, with us today. HORNBACH Baumarkt AG is represented by CEO, Erich Harsch.

According to today's agenda, Mr Hornbach and Mr Harsch will first provide an overview of the past financial year 2022/23, and present the Group's key developments. Ms Dohm will then conclude with a tour through our financial results. Afterwards, you will have the opportunity to put your questions to the speakers. This will not only be possible for participants here, in the room, but also, for our digital participants. Questions cannot be asked via the webcast tool, but only by telephone. To do so, please dial in using the telephone dial in details that were sent to you by email upon registration.

If you need the help of an operator during the conference call, please press star and zero on your phone. I would like to draw your attention to the fact that the conference will also be broadcasted by video stream and telephone, so that also, video and audio recording will be undertaken from the entire conference, and subsequently, be published on the company's website. If you continue to participate in the conference, you declare your consent to this data processing. Please also note our disclaimer, which is valid for the presentations, as well as the Q&A session.

And now I would like to hand over to our CEO, Albrecht Hornbach, and looking forward to the upcoming presentations. Thank you.

Albrecht Hornbach

Thank you, Mrs Kelbert. Ladies and gentlemen, I would like to offer you a warm welcome to our 2023 analyst and investor conference. We are delighted to see your interest, and as well as the guests present here, we would also like to warmly welcome everyone who is joining us online. My colleagues, Karin Dohm, CFO, and Erich Harsch, CEO of HORNBACH Baumarkt AG, and I will report to you today on the performance of the HORNBACH Group inter 22/23 financial year. And we would also like to provide you with some insights into our plans for the current fiscal year.

Last Friday, the Supervisory Board of HORNBACH Management AG and HORNBACH Baumarkt AG took some important decisions, which set out the way ahead for our

Group. My colleague, Erich Harsch, will, in addition to his activities as CEO of HORNBACH Baumarkt AG, be appointed to the Board of Management of HORNBACH Management AG as of June 1st, 2023, where he will be responsible for the do-it-yourself store division. Following the successful delisting of HORNBACH Baumarkt AG shares at the end of February 2022, we thus aim to underline that we see HORNBACH as one retail company.

Our key success factors are people. The customers who shop with us every day, and the colleagues, who, each day, give their best. The second major decision is to appoint Christa Theurer, Jan Hornbach, and Nils Hornbach to the Board of Management of HORNBACH Baumarkt AG. Christa Theurer studied business administration, and has been with HORNBACH since 1994. She began her career as a procurement assistant. Since October 2019, she has been a member of the management of HORNBACH Baumarkt AG in its Germany region, and in this function, responsible for the operative business.

Jan Hornbach also studied business administration, and joined HORNBACH as a trainee on October 1st, 2009. Since June 2016, Jan has been the Managing Director of HORNBACH International GmbH, and thus, s responsible for the operative business of our foreign companies. Nils Hornbach studied mathematics in England, as well as logistics and supply chain management. In May 2015, he joined HORNBACH as Team Leader for Customer Logistics Network Management. Since October 2019, Nils Hornbach has been a member of the management for the e-business and Customer Logistics division, and since October 2021, he has managed the Group-wide e-business division.

The appointments of these new members of the Board of Management will strengthen the overall management of our operative business, not least because this will allow the country managing directors, divisional directors, and Board of Management to now work more closely together. Not only that, the appointment of two family members to the Board of Management of HORNBACH Baumarkt AG marks further commitment by the founding family to the company and its future as a family run business.

Ladies and gentlemen, only those who are prepared to change can successfully shape the future. Today, more than ever, we need the entrepreneurial spirit and power of innovation that enabled previous generations to build the successful business we see today. That is exactly where we plan to start, as a successful retail company with a long tradition and great relevance for the future. As a crisis resistant employer for more than 25,000 colleagues across Europe, and as a reliable supplier to families, to people who like to do things themselves, to home improvement enthusiasts, and to our professional customers.

Our aim is to be available across all channels to everyone who would like to enhance their home and garden, or make their living space more energy efficient. And that is regardless of whether they prefer to use our app, our website, any of our 171 do-it-yourself stores and garden centres, or one of our 39 builders merchant outlets to make purchase with us. Wherever they come into contact with HORNBACH, they should be absolutely certain, the wellbeing of our customers is the top priority for us, as respectable merchants. We are experienced professionals, when it comes to projects in home and garden.

In the 22/23 financial year, on which we are reporting today, we, again, managed to convince people of our performance capacity. Despite the inflationary environment, and resultant reduction in our customers' purchasing power, we managed to increase Group-wide sales by 6.6%. But it's particularly pleasing, as the 21/22 financial year before was a record year with exceptionally strong results. And we were able to further significantly expand our market shares, compared with pre-pandemic levels, in all the countries where we operate our stores and our online shops.

Like in previous years, the past financial year was also characterised by a high degree of uncertainty. We were repeatedly called on to act quickly and to respond to difficult external circumstances. Russia's attack on Ukraine, one of the world's largest grain producers, the effect on the European, and in particular, the German supply of energy and commodities, and the impact of internationally agreed sanctions, led to further disruptions in supply chains, and to significant rises in the price of food, commodities, and energy, especially.

While Europe began to normalise its approach to dealing with coronavirus, lockdowns in China continued to impede the global flow of goods. As a result, we saw a sharp rise in inflation, and falling purchasing power across the world, and in all countries in which the HORNBACH Group operates, factors, which placed a massive strain on public and private household finances. To combat inflation, major central banks, such as the Federal Reserve Bank in the US, and the European Central Bank, raised their respective base rates on several occasions, and significantly.

The security community in Europe and NATO countries, always carefully balanced, received a severe shock, while global investment and spending patterns have changed for the medium term, and also in terms of military spending. And even though we face new challenges every day, we must not get tired and rest on our success. More than ever before, successfully running a retail business today means this, speed, adaptability, and anticipating people's needs at an early stage.

A glance at the Kundenmonitor 2022, the customer survey, in which we are ranked first among do-it-yourself stores in Germany for customer satisfaction, shows how well we have managed this in the past year. In Sweden and the Netherlands, we held top position in the Retailer of the Year 2022 survey. Thanks to our popularity with customers, and our attractive range of products and services, and in particular, the focus on our permanent low price guarantee, as well as our highly developed project expertise, we were able to generate consolidated sales of €6.3 billion in the past year. As I have already mentioned, this is a growth of 6.6%.

Sales continued to be at a significantly higher level than before the pandemic. They also grew in all quarters of the past financial year, driven by persistently high demand and price inflation. A three year comparison shows that our like-for-like sales, net of currency items, has grown by more than 28% in this time period. The online share of do-it-yourself store sales, including click and collect, stood at 14.1%.

In the 22/23 financial year, we generated sales of €823 million in his area, but witnessed a reduction of 12.8%, compared with the previous year. And that was due to declining demand for click and collect only. We are convinced that we are on the right course with our ICR, interconnected retail strategy. Our direct online orders remain high, and at a higher level, much higher level, than before the pandemic. In other words, we can confirm that online retail is now well established in the do-it-yourself sector.

The strong performance, despite adverse conditions in the past financial year, is also reflected in our adjusted EBIT. Here, we were able to generate solid earnings of € 290 million in the 22/23 financial year, and this figure came in 20% lower than the record performance in the 21/22 financial year, with earnings performance impacted by the persistent inflation dynamics we saw throughout the year. That said, if we look at the figures for 19/20, also a year with particularly good earnings, we remain 28% above the results in that period prior to the pandemic. Erich Harsch and Karin Dohm will provide you with further figures and more detailed insights into the performance of our Group later in the presentation.

Ladies and gentlemen, if you watch the news, then you are confronted with a daily flow of information on the manifold challenges we face. From my conversations with colleagues, as well as in my personal environment, I have noticed a great deal of uncertainty about the turning point in history that we are currently witnessing. The concerns raised relate, on the one hand, to the security of our energy supply, affordable living space, investments in buildings and heating systems, and our infrastructure and mobility.

On the other hand, I also address the way we deal with each other, and the sociocultural aspects of our communal life. In our forecast for the current financial year, we see ongoing macroeconomic challenges, in terms of inflation and product prices. Not only that, the subdued start to the spring this year, due to poor weather conditions, has also had a noticeable impact on our business. Erich Harsch and Karin Dohm will provide you with further information about this later in the session.

One thing is, nevertheless, clear to me, we can only master the challenges, if we act with confidence and vigour to tackle the things that lie ahead. So, to conclude my comments, I would like to explain how we address these challenges at HORNBACH, and what we offer our customers in six points. First, flexibility. For decades now, we have offered competent advice on projects in people's homes and gardens.

Regardless of whether people prefer to do the projects themselves, have parts performed by tradespeople, or have the whole project implemented from start to finish by our tradespeople service, and thus, by professionals, whatever route they choose, we accompany them into their projects as a reliable partner. Second point, trust. In periods of high inflation and increased cost of living, price is especially important. With our permanent low price guarantee, we offer transparency and the price guarantee, even after the purchase has been made.

If customers shop with us, and the price is subsequently reduced within 30 days of their purchase, the difference is automatically credited to their customer account, and can be used for their next purchase. This approach offers security, particularly when stocking goods for larger scale projects. And the third, availability. Our product range is structured to optimally meet what customers actually need to implement our projects. That means we do not offer only the core products needed for the projects, but we also offer everything else that is required, such as the right tools, for example.

Fourth, reliability. We cultivate relationships, based on close partnerships with our suppliers and manufacturers. We rely on a multi supplier strategy, and are in constant dialogue, when it comes to new products, commodity prices. After all, our customers should not only discover and purchase the latest trends with us, but they should also be certain that they have received the best value for money in the sector. And fifth, the right thing for everyone. People who shop at HORNBACH are real doers. They generally implements their projects themselves.

In structuring our product range, we attach the greatest priority to quality and sustainability, and there has to be the right solution for every budget. Our popular private labels play a key role here. With these, we deliberately cover the whole spectrum of product categories, good, better, best. And the sixth point, with which we aim to inspire our customers in future, as well, is especially important to me. It's our colleagues. The dedication they have shown in recent years, the energy and lifeblood that so many people contribute to our company, we simply cannot praise them highly enough.

Retail is detail, as they say in English. You can have an amazing product range, or the best logistics in the sector, two standards we have set ourselves, in the end, though, it is about the people who sell the products, whether they offer advice in the aisles, help customers plan their bathroom, or handle the checkout process. What counts is human interaction. The impression that our customers gain from each and every colleague is what counts, and I assure you, we will leave no stone unturned in the future, as well, to make sure that those who shop with us come away as satisfied customers.

Thank you for listening, and I want to hand over to Erich Harsch.

Erich Harsch

Thank you, Mr Hornbach, for your comments, and the analysts, investors, and capital market representatives. I, too, would like to welcome you warmly, and thank you for attending this analyst and investor conference today to discuss our results for the financial year 22/23. Mr Hornbach, you have just spoken about the most important factor driving our success at HORNBACH, our people.

At Hornbach we have 25,118 colleagues, who, day in, day out, give their very best to enable our customers to implement improvements to their homes, or helping customers find exactly the screw they need, mix the right shade of paint, or recommend the best plants for the balcony. Behind the figures we will present to you here today, and in our annual reports, we should not forget our people and the vital role they play. Alongside our colleagues, it is our customers, of course, who are our most important stakeholders, and they are growing in number.

In the 22/23 financial year, more than 300,000 customers shopped with us each day. One development with which, we are especially pleased, is that the share of commercial customers, who we refer to as professional customers, has reached a good level. We see this segment, in particular, as harbouring great potential for the future. With our product range, our product availability and our professional customer service, we are well prepared.

A further benefit of our targeted strategy to attract professional customers is that it also enables us to win over manufacturers, who would otherwise only supply professional specialist retailers. Our popularity with customers has enabled HORNBACH Baumarkt AG to report net sales of €5.8 billion at the balance sheet date, as of February 28th, 2023. This represents growth of 6.3%, compared with the previous year. In terms of our net sales, we have therefore beaten the previous year's record figure.

On a like-for-like basis, and net of currency items, we generated growth of 3.6% in the 22/23 financial year. The figure for Germany was 2.4%, while our international business achieved 4.7%. Our stores in the Netherlands posted a particularly strong performance, but we were also noticeably ahead of the average in Romania and the Czech Republic and Slovakia region as well. The development in our market share is also pleasing. In Germany, our market share rose to 14.9%. Back in 2019, it was 13.1%. We achieved the highest market share in the Czech Republic, where we have 34.4% of the market.

In addition to this, we are also well positioned in other countries. 26.1% in the Netherlands, 17.8% in Austria, and 13.5% in Switzerland. We have opened four new DIY stores and garden centres in the past financial year in Nitra in Slovakia, Enschede in the Netherlands, Constanța in Romania, and Leipzig here, in Germany. Together with the two specialist flooring stores we manage under the Bodenhaus brand, HORNBACH Baumarkt AG currently operates 171 locations in nine countries and European countries.

The DIY store division contributes 93% of sales at the overall Group level, with the remainder being generated by HORNBACH Baustoff Union, which operates 39 builders merchant outlets in Germany and France, two more than in the 21/22 financial year. Hornbach is the market leader in Germany when it comes to multichannel retail. That is because we offer our customers a seamless customer journey. We call this interconnected retail, and with sales of €823 million, this e-commerce model is a key pillar of our success.

We are also the market leader, when it comes to service productivity. Our sales of €2,925 per square metre put us well ahead of our competitors, and we consistently pass on the advantages generated by this high level of service productivity to our customers in the form of our permanently low prices. People often ask whether our permanent low price policy, in other words, the abandonment of bait and switch offers, is still the right approach today.

In times of high inflation, there is pressure on the gross margin and the profit we can achieve. But if you consistently view your company from the perspective of the customer, as we do, then they should always be able to shop at attractive prices, and cover their current needs, not just when the retailer happens to make a special offer. A company who focuses on short term special price offers is not a genuine partner for the projects of its customers.

Ladies and gentlemen, a number of unforeseen challenges arose in the last year. However, we still managed to get a great deal done. One example is the topic of bespoke working hours. This model has five components, three of which enable employees to reduce their working hours. A fourth component allows them to redistribute, or compress, their working hours, such as in a four day week. The fifth component permits them to increase their weekly working hours to up to 42.5 hours for a period of three, six, or nine months maximum.

This model has been enforced here, in Germany, since 1st January 23, and has already been utilised by around 25% of our colleagues. The feedback we have received is very positive. For our colleagues, it offers a good opportunity for them to balance their work and private lives. And it is also very positive for us, as a company. After all, satisfied employees create satisfied customers. It is particularly pleasing to note that in planning their working hours, our colleagues are focusing on customers' needs. Extra work, for example, is generally performed during the peak season, with days off being taken off outside this season.

Thanks to our successful performance in the past financial year and given the opportunities created by the federal government for inflation compensation payments, we have invested a total of €10 million for our colleagues in Germany. One third of this sum relates to the 22/23 financial year. Full time employees in Germany received, and will receive, an additional monthly payment of €150 from January to June 23, which is €900 in total. Trainees and members of dual study work programmes receive €100 a month, making up to €600 in total, over and above their normal incomes. Part time staff receive prorated payments.

For our company in Germany, there were two further milestones to highlight. Firstly, the opening of our new store in Leipzig in February. We invested €55 million in a listed building on Alte Messe, the historic trade fair site in Leipzig. At this location, we were able to integrate all the innovations we have devised, in terms of store module development. Secondly, and this is now outside the 22/23 financial year, the opening of our new logistics centre in Essingen in der Pfalz, directly next to the company headquarters at the end of April 23.

Since 1999, we have operated a logistics centre in Essingen, and this has now been joined by a second centre. The new building covers more than 24,000 square metres, divided into two halls. The front hall serves as a cross-docking centre for lengthy and bulky goods. This is where merchandise that is pre-commissioned by suppliers is handled, without having to be stored. We will use the second hall as a regional warehouse for goods that are not delivered into the store straightaway. We have invested more than €25 million in this new facility.

Before I offer you some insights into our outlook for the current financial year, I would like to turn to one topic that is especially important to me. That is corporate social responsibility, CSR. When it comes to CSR, we need ambitious projects and approaches. We have pursued these for decades, long before the topic became a megatrend, back in the times when people still spoke of respectable merchants, rather than CSR. At the same time, we also need the right underlying conditions to promote value based business activity.

What I, as a CEO, would like to see is a legal framework that promotes a combination of what is needed in economic terms, and what makes sense for sustainability. After all, the finest ambitions and measures are of no use at all, if they fail to account for the fundamentals of business management and customers' perspectives. Ladies and gentleman, we expect that sales and earnings alone will no longer safeguard a company's operating capacity in the future. As we look into the way we live will develop in the future, we can see trends, indicating a move away from the growth economy that has dominated to date.

Value orientation is a topic that is set to play an ever greater role in all its aspects. Time will be a key currency for people in future. We already see this topic today in the discussions around the four day working week, and the balance between work and private lives. We are responding to these developments, for example, with our bespoke working hour model. Sustainable actions are rooted in a sense of awareness of each individual. That is why we are working, on a daily basis, to promote our value based approach, also in our internal platforms and conferences.

As a retail company with operations in nine European countries, it is important for us that everyone should be able to tackle matters on hand, and shape developments along these lines under their own responsibility. Our hearts are close to our DIY customers, because we, too, like to knuckle down and get things done. And the more people who become active and allow themselves to be guided by a clear value based approach, the better we will be able to solve the challenges that lie ahead.

Ultimately, one thing is clear, we have no choice but to reflect, again and again, on the way we do business and to develop new even more value driven strategies for the future. In the documents you have received, and in our non-financial Group report, you will find extensive information about these strategies, our specific commitments, and our CSR policy. In the remuneration report, you can also see the details of the individual ESG targets, which, alongside existing financial performance criteria, will, in future, form the basis for determining variable management remuneration.

As a work community, we can be proud of what we achieved in the 22/23 financial year. If we see persistently high inflation and the rainy weather in many regions in March and April, and account for subdued levels of customer confidence, then it should be clear that success is never guaranteed. Results, such as those we have achieved in 22/23, require a great effort from us all. After all, competition is very tough in the European retail sector.

In response to the challenges we have highlighted, notably, the ongoing momentum in inflation and product prices, as well as the poor weather at the start of the season in the first quarter of 22/23, we are now increasing the focus on our cost base. That includes optimising operating expenses at our stores and in our administration. At the same time, we intend to uphold our long term growth ambitions, and our proven permanent low price strategy.

It remains to be seen how much leeway customers will have to consume as the year progresses, and which projects are carried out, as planned, or possibly postponed, due to inflation and cost growth. Given the tricky start, due to weather conditions in this cold and wet spring season, we cannot exclude the possibility that increased expenses, such as the inflation compensation payments made to our colleagues, will also lead to a lower level of operating earnings. We therefore currently expect first quarter earnings to fall significantly short of the previous year's quarter.

In the past, we have always shown that we are resilient, and frequently outperform developments in our sector as a whole. One of our strengths is that we do not simply accept given circumstances, but react flexibly and innovatively to changes, and attempt to anticipate these in advance. Let's take energy efficiency refurbishment as one example. This is a topic that has moved even more clearly into the foreground, due to climate change and the increase of energy prices last year.

For several years, we have offered the right solutions that consumers need for individual projects. Whether the project involves full heat insulation, new windows or doors, or heating and sanitary solutions, all the products consumers need are available at our stores at specialist retailer quality. These products are permanently part of our basic product range, rather than short term listings. And because we have offered them for such a long time, we have also built up a high level of advisory expertise.

Advisory expertise is one thing. Good ideas are just as important. And we have to continue aligning our company to what customers need. That is why we have set ourselves the standard of regularly reviewing our processes and structures, and looking closely to see what we can do without, and where we have to invest. That way, we will be able to report on our successful business performance in the future as well.

To conclude, I would like to take this opportunity to thank Albrecht Hornbach and the Supervisory Board of HORNBACH Management AG very warmly for appointing me to the Board of Management at HORNBACH Management AG, and the trust they have placed in me. Together with the additions made to the Board of Management of HORNBACH Baumarkt AG, this is a forward looking decision to secure the future capacity of our group of companies.

And now, Karin Dohm, I will hand it over to you to offer our guests some further insights into the financial performance. Thank you very much for listening.

Karin Dohm

Thank you, and also, from my side, a very warm welcome. I will, of course, double click a little bit on some of those figures you have already heard from Erich Harsch and Albrecht Hornbach, and shed some more light on some of the components of our last year’s financial statements. So, a quick overview about some of the key KPIs, of course. On the back of stable and strong demand from our customers, and some price inflation, we managed to grow our sales last year by 6.6%.

The adjusted EBIT declined by 20%, below the record level of the previous year. And our investments into real estate, new buildings, or remodelling of existing stores, accumulated to

€203.5 million. All in, and compared to the previous year, we invested 14% more into our expansion. As we move further through the P&L, you can see that the surpassing of the threshold of six billion, and delivering those net sales growth, came on the back of a series with an average sales CAGR of 9.5% over the last five years.

Our main operating part of the business is with 5.8 billion, of course, HORNBACH Baumarkt AG and the respective Group. We specifically managed to grow our sales internationally 9.8%, and our business outside of Germany contributes to more than 50% of the sales. Net sales is at subgroup Baustoff Union, which is mainly catering to professional customers in the building industry, increased significantly by 11.6% to 421 million. Our strong growth performance is also mirrored in our like-for-like sales developments.

Just a short reminder, these figures only take into account the development of HORNBACH Baumarkt, and of those stores, which have been open at least for one year. In total, Baumarkt like-for-like sales grew by 3.6% in the last fiscal year. In Germany, we grew at 2.4%. Outside of Germany, we have a number of countries, which are performing extremely well, for example, the Netherlands, Romania, and Slovakia. In Sweden and Switzerland, we have continued to see a tough market, with consumers hesitant to spend money on large DIY projects.

Our continued strong growth is also reflected in the three year figure comparison of 28% for the Group. This also underscores the fact that we have successfully gained market share in the majority of the countries, as you can see on this page. In Germany, our market share grew from 13.1% in 2019 to 14.9% in 2022. This was particularly driven by the successful execution of our interconnected retail strategy during the COVID period.

The strong market share development in the Netherlands, which we mentioned before, was driven by like-for-like sales growth of 36.8%, as well as an expansion with three new stores. In Switzerland, expansion was partly driven by the opening of one new store, while in the Czech Republic and Austria, we gained market share without any new store openings.

When we talk a little bit more about e-commerce, which you heard before stood at 14.1% for the financial year 2022/2023, it also shows some development, following the fact that last year was the first year where we had no limitations to our store opening, especially not in the B2C business.

First, direct delivery, as you can see, is well established now as a shopping channel in home improvement, and click and collect significantly decreased by roughly one third, as our customers could re-enter the store, and thus, preferred to come directly and not to use click and collect. When we look a little bit more into the cost side, you can see here that our gross margin was down by 1.6 percentage points, reflecting specifically the challenges mentioned earlier that were brought upon us by rising purchasing prices and transportation costs during the last year.

In line with our everyday low price strategy, we have not fully passed on all our 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 increase in selling and store expenses was mainly due to our expansion, wage increases, and higher energy costs. The cost ratio of general and administration expenses increased slightly, due to investments into IT and IT headcount, as well as some inflationary expenses.

Summing it up, our adjusted EBIT came in, as mentioned earlier, at 290.1 million. Non-operating charges on earnings, which relate mainly to IAS 36 impairments, rose from 7.6 million to 31.6 million. One major reason for this development was the rise of the risk-free interest rate, which is a component of our WACC. The profitability in the operational and the geographical split is, as you can see here, the previously mentioned challenges, such as the reduction of the gross margin, the increase of logistic costs, and salaries have, of course, had their strongest impact on the Baumarkt business.

HORNBACH Baustoff Union could safeguard their previous year’s EBIT, and the result of Hornbach Immobilien AG, the slightly risen rental income as part of the expansion, and some inflation is mirrored. With respect to the geographical development, we've seen a more pronounced decline in profitability in Germany, with an adjusted EBIT minus of 34%. Outside of Germany, the reduction was only at 13%. All in, the region, other Europe, contributed 72% of the Group's adjusted EBIT.

Some further figures on the chart here show you that the earnings before taxes decreased by 30.6% to 218.3 million compared to the previous year. However, they remain well ahead of pre-COVID levels. Earnings per share amounted to €9.83, which brought us to the suggestion in line with our dividend policy, as we propose a stable dividend of €2.40 at our AGM on July 7th. This is leading us to a payout ratio of 24.4%. As a reminder, last year, we saw 19.2% payout ratio.

A look at our cash flow. If you see here, in the slide, cash flow from operating activities in the fiscal year 2022/2023 increased compared to the previous year, containing impacts from a reverse factoring programme. Funds from operations were at 403.7 million, slightly down from the previous year. CAPEX, as mentioned at the beginning, was at 203.5 million, and the split is approximately 60% on land and real estate, mainly for new stores.

A look at the balance sheet gives you, once more, the confirmation that Hornbach can, once again, present a strong balance sheet as of February 28th, 2023. And compared to the end of February in the previous year, the consolidated balance sheet increased in total by 9.8% to 4.7 billion. This was mainly driven by our store expansion, as well as increased inventories. The equity ratio at 40.1% continues to represent a very comfortable level. And last, but not least, reflecting on the outlook of the current year, as well as the current trading, as you also heard some details from Erich Harsch.

As already mentioned, we are cautious on our guidance to fiscal year 2023/24. We are facing ongoing macroeconomic challenges, including inflation and its impact on product pricing. And as said, the weather at the start of the spring season was not supportive in our key markets. We currently expect net sales at the Hornbach Holding Group to be around previous years' sales. In response to the ongoing challenges, we are currently taking a look at our cost base. This includes the optimisation of operational costs in our stores and administration. At the same time, we want to continue to deliver our long term growth strategy and ongoing commitments to price leadership.

Summing it all up, we see a downside for the adjusted EBIT and a risk that we cannot rule out a decline between 5% to 15% from the levels of 2022/2023. This uncertainty is driven by the insecurities around the assessment of consumer behaviour, given the interplay of inflation, real wage developments, and interest rates, along the impact of efficiency measures that we introduce. This EBIT guidance is partially driven by the low start into our Q1, namely, March and April. As Erich Harsch said, we expect our first quarter's earnings to be significantly lower than the previous year's first quarter earnings.

Of course, I cannot end my session without also having a few highlights here on our key investments, as you know from any of our investor sessions and exchanges. And with that, I would like to hand over to Antje Kelbert, and we're happy to take your questions.

Antje Kelbert

Thank you very much for all your presentations and the insights you have given to us. Before we start the Q&A session, I would like to give some guidance on how the Q&A session will proceed. We will, of course, start with the questions from the participants here, in the room. When you ask a question, please use the microphone in front of you. This is the only way that the digital participants will be able to hear your question. Please introduce yourself briefly by name at the beginning of your question.

Following the questions from the room, questions can also be asked via the telephone conference. As no questions can be asked via the webcast tool, please dial in to the telephone conference, using the dial in details that were sent to you. If you wish to ask a question in the conference, press star, followed by one on your phone, and mute your webcast. If you wish to remove yourself from the question queue, you may press star, followed by two. And now we will begin the Q&A session.

Who would like to start with the first question here, in the room?

Benjamin Thielmann

Can you hear me? Yes. Good afternoon, everybody. This is Benjamin Thielmann from Berenberg. Maybe a couple of questions from my side to Ms Dohm. First of all, regarding full year guidance for this year, maybe both on the top line and profitability levels. If we assume that top line is going to be flat, on a year-over-year basis, could you maybe give a little bit of colour on how that is broken down, in terms of volume growth, and in terms of prices?

Because when I look at inflation rates, we're probably still going to be at 5% or 5.5% until the end of the year. Are you not able to forward any price increases in 2023? Or are you able to do that and volumes are coming down? How do you come up with the flat top line here?

Karin Dohm

I'm happy to take that. And if there are some additions that I might miss, also, of course, we can then add to that. I think that two aspects here are important. Number one, as I said, we are, in general, of course, cautious with our guidance in light of all the macroeconomic aspects, which we mentioned. I think on the other hand, as we said, we see that around previous year's sales, around means it might be slightly more, also in line with what we saw partially as a development in the previous year, or it might be slightly below.

I think this reflects the question mark that everybody has with regard to how does the slowing, in general, the macroeconomic slowing of the inflation play together with the fact that there might be some momentum in the behaviour of competitors with regard to pricing in the market of goods and other services. And there might be, of course, some effect of wage increases on people's available spending power and on consumer behaviour. And what makes it, of course, difficult for everybody

	is to understand how the one, and especially, in what sequencing, one might affect the other. And that is, a little bit, why we have opened this range.
Benjamin Thielmann	Okay, thank you. Maybe a follow-up question regarding your store expansion. Usually, we see three to five new store openings. And obviously, consumer spending is coming down in 2023. Is that also going to affect the number of stores you're aiming to open? Is it fair to assume that we should aim for the lower end, so roughly three stores? Or is that going to be such an exceptional year that we see maybe just one to two new stores?
Karin Dohm	We're definitely opening one this year in summer. The fact that that is the only one currently is not, so to speak, because we have pushed something out to later years. But it's just the lead time between taking the decision, safeguarding some land or buying something, and then building, and then opening a store, or having somebody else build it and we rent it, that lead time can easily be a small number of years. So, we have a couple of stores that are in the pipeline to be opened next year. That is also the reason why the CAPEX, which we foresee for this year, is relatively unchanged to the previous year. So, there will be, based on current planning, there will be a couple of openings in the next year. It's just the way it is spread across the years, so to speak.
Benjamin Thielmann	Thank you.
Antje Kelbert	The next question, please.
Thomas Maul	Hi. Thomas Maul, DZ Bank. Thanks for taking my questions. I have got two. Firstly, you just mentioned having an increased focus on costs this fiscal year. Can you please shed some more light on the measures you're planning, and maybe could you please quantify it a bit? And the second one is actually on your pricing. How long does it actually take you to pass higher prices to your clients? Is there anything like, let's say, an average time leg you can tell us about? Thank you.
Erich Harsch	So, about the costs, it's a question of how to manage it store by store, and business unit by business unit. Because we have widespread, let me say, success. For example, in the Netherlands, the growth of sales is much higher than in other regions. And the things we want to do are, of course, depending on how the individual situation of the business unit is. And it's a question of enabling all the managers in the company that they look at their unit, and that they do all the things which are necessary to keep the development of earnings in balance with the development of costs and efforts. And that's, of course, not so simple, because when you come

out of a two year or three year period of extreme growth, then they have to get used to it a little bit. And we do not want to make some things all over the company. That is not sensible in a retailing business. But we, of course, want, for example, to use the possibility of natural fluctuation to adapt the number of hours of work, which are invested store by store. And of course, we are considering which investments are really necessary for the future, and which investments can be postponed a little bit.

So, there are very many details you have to consider. It's not a question of overall guidelines. That is not useful for a retailing business, because we want to, as I said in my speech, we want to stay with our low prices and with our necessary investments for the future. And it's a difficult situation for all participants in our business. The German Association of Home Improvement Companies has just told us that for the first quarter, January to March, for example, the development in the whole of the home improvement sector in Germany was about minus 7.5%,I think.

We were a little bit better, so we are still continuing to get market share, but the overall development is not as satisfying as it should be, and we have, of course, to adapt the costs in those stores, which are below the line. And that's a management exercise. The second question, I have forgotten.

Karin Dohm — I think your question was with regard to how quickly that flows through, is that right? Did I understand that correctly?

Thomas Maul — Yes, absolutely. That's my question.

Karin Dohm — Of course, we have what you call a gliding average pricing. So, that means that there is a delay, as you rightly assumed, between the lowering of the supply size, which we have seen for some time, and where we also, of course, put a lot of effort into, to make sure that we negotiate with our suppliers to make sure that in those instances where we know that their starting point has come down now, that that is also, of course, passed on to us. And if we have that, then seeing that literally in the gliding average pricing, takes some time, because it is an average.

And that means that it's a little bit different, if you think about those quick turning goods, versus some that are, even in a totally normal environment, a couple of weeks maybe, or even longer, with us. And of course, that makes a difference to how quickly you then see that in the evaluation. So, the answer is unfortunately, it depends. But yes, the that is, of course, an effect, which we expect to see throughout this fiscal year. Definitely.

Antje Kelbert — Next question, please.

Georg Geiger	Georg Geiger, Value-Holdings AG. I have two questions, please, if I may. First, Mr Harsch, you mentioned that professional customers has reached a good level. Could you please quantify that level in percentage of turnover? And don't you fear that this customer group, as new building permissions, at least in Germany, have plummeted, will have a negative impact on your sales and earnings this year? And the second question, perhaps to Ms Dohm, about the tax rate. It was 23% last year. As your store structure, domestic and foreign, is nearly unchanged this year, do you expect similar figures this year? Thank you.
Erich Harsch	The number we want to achieve is about 20% at the moment, or that's the situation. It's still growing. It grew, especially, also during the pandemic era, because the stock availability was pretty good at HORNBACH. And so, many of those customers went to Hornbach to buy. I'm not afraid, because of the big building projects, because our professional customers are doing more small projects in the households, and not big building. Because the big building things are done by special supplying structures, not in the home improvement sector. So, the opposite could be that if there are fewer big building projects, it could be that there could be some craftsman capacity for the smaller projects, and for the customers who want to improve a little bit, for example, for energy savings and so on.
Karin Dohm	You asked for the tax rate, as well. That was influenced in the past a little bit by the fact that we had the possibility to activate some of the deferred taxes in Sweden. So, that brought, ceteris paribus, so to speak, the tax rate down, and we don't have that in the last year. So, you see that 1% difference is driven by that effect.
Georg Geiger	And that will stay at this level, also this year?
Karin Dohm	The 23.1, yes, or maybe slightly higher. It also depends a little bit on the, so to speak, country mix. But at least this 22.2 of the previous year that was special effect 23-24, that is a probable aspect. We have some countries where currently, corporate tax change proposals are out there, for example, Czech Republic. It's not that we see that coming through this year, but it might come, for example, next year or so. But for this year, probably 23-24, or something around that, based on today's knowledge.
Antje Kelbert	Benjamin, a follow-up.
Benjamin Thielmann	Maybe a follow-up question for me. Regarding Q1, could you maybe provide a ballpark range of what we can expect over the year? You mentioned that it's going to be significantly down on a year-over-year basis. You guided for the full year 5% to 15%

	decline on adjusted EBIT. Is it fair to assume that Q1 is implying that we should aim for somewhere midpoint of the guidance? Maybe a little bit of colour over here on what we can expect.
Karin Dohm	I think, as said, we really see there a difference between what we saw at the start of the year with regard to a really adverse environment and all its components, whether that's weather, macroeconomic effects, and others. And then the second half of the year, more probably than the second quarter, with regard to aspects, as mentioned earlier. Potential for positive impact on gross margin, potential for other positive effects. So, if you then compare that, then, especially with the previous years, and we talked about lower logistical costs, and also, some other components that affect our balance sheet, or our P&L. Nevertheless, when we say that the first quarter is expected to be below the previous year's first quarter, then it's probably a bit south of the whole year guidance, and we expect potential foreign amelioration afterwards.
Antje Kelbert	The next question
Christoph Eckert	Christoph Eckert, Eckert Mittelstand Invest. On your business in March and April, I'm just wondering, first of all, how do you strip out the macro effect versus the weather effect? How did you do the maths? And secondly, it's not surprising to me that revenues are down because of the weather. I'm just wondering, the customer ticket in March, April, is a down year-over-year? Just to get a feel, when revenues come down, what's the customer frequency in your stores and what's the average ticket? Thank you.
Erich Harsch	You are very right, it's difficult to split what is the weather and what is the behaviour of the customer, the general behaviour. We have one help, we see which assortments are going down or going up, and we see that the assortments that are depending on the weather had a bigger decline than usual than the other parts of the assortment. And the rest is behaviour. Do you understand what I mean? We see the dependencies on the assortments, which are dependent on weather conditions, and we see the development of all the other things. And also there, there is a little bit of a decline. Not pretty much, it's more the weather assortments, for example, plants for the garden, and outdoor things, like terraces or other things, which need good weather outdoors. But it's not only the weather. And it’s an assumption, of course, not clear facts.
Christoph Eckert	So, like-for-like, the average ticket is slightly down, that’s what you're saying?
Antje Kelbert	One follow-up, please.

Benjamin Thielmann: Maybe one follow-up on that question before. Would you say this is true not only for retail customers, but also for professional customers, that basket sizes were coming down? Or is that a mixed effect, and then on a Group level, we see basket sizes are coming down?

Erich Harsch: We have not such a clear effect on the baskets. The baskets are not going down in a big dimension. Really a very small bit. And we also sometimes have more customers. But what we don’t know is what, of this effect, is because of the past year. Because in the past year, and during the pandemic era, we had less frequency of the single customer, but bigger baskets. Because the people wanted to go shopping less frequently. And now they can go very often, as often as they want to, and of course, the baskets get a little bit smaller, because of the higher frequency. So, it's very difficult to judge what the real reason is.

Antje Kelbert: The next question, please, from the room. Then we will switch to the telephone conference, and then we will come back to the room, so no worries. Operator, are there questions in the telephone conference?

Operator: Yes, we have one question, which is from Christian Bruns from Montega. Your question, please.

Christian Bruns: Hello. Christian Bruns from Montega. The first question is on your gross margin. 22/23 saw a sharp decline in gross margin. And now with regard to your high inventories at the end of the year, and in combination with a weak Q1 start, it looks a little worrying to me that this unfavourable trend on the gross margin will continue. Is this what you also think?

And the second question is on your reverse factoring programme, which you introduced last year. Given your high level of liquidity, I cannot really understand why you introduced this large reverse factoring programme to €250 million. Could you remind me what the costs of this programme are? Because I think that you will not get rid of these liabilities at face value. So, just a little bit more flavour on your motivation to establish such a programme.

Karin Dohm: Let me take the one on the reverse factoring, and then we can talk about the gross margin. So, the reverse factoring last year was especially to make sure, as you probably know, this works like an extension, so to speak, of the payment schemes, and that is always a better usage of your net working capital, or of your working capital, thus then bringing it to your net working capital. And no, we didn't lose any face value there of the liabilities/receivables. That didn't have any impact on that. There was no discount, so to say.

	The costs related to that in the last years were roughly 500,000 and something, and then as said, that was, as it is called, also then rolled backwards over time. So, that is just the technical upside is the same as an extension on the payment scheme from your suppliers. And gross margin, as said earlier, we see a gross margin, of course, as a result of many components along the way of supply price, moving the goods, and then selling them. And of course, we have, currently, a number of movements in those components.
	And yes, of course, A, it's our ambition to bring the gross margin up, and B, there are also some movements, which indicate to us that there is a likelihood for that over time. The challenge is, of course, as said, given the way our business operates, that it is difficult to say when exactly that is then coming through the P&L. But the tendency of some of those factors that comprise the gross margin are more favourable than, for example, last year.
Antje Kelbert	Next question, please.
Operator	The next question is from Ludovic Allegre from Kepler. Please go ahead.
Ludovic Allegre	Hi, everyone. Just two questions from my side. The first one is a follow-up question. I'm not sure I get your answer regarding your volume and price assumption on your broadly flat sales guidance for this year. So, could you just remind me of your assumption, in terms of volume and price? And my second question is on your home improvement trends. So, we have just seen a sales warning from Home Depot in the US. They were guiding for flat sales at the beginning.
	They have just revised down their guidance to minus 2%, minus 5% for this year. They also talked about the weather, but they also say that they are seeing a delay in big ticket purchasing. So, my question is are you seeing this already in your key markets? Thank you.
Karin Dohm	A couple of thoughts. On Home Depot, of course, as you can imagine, I just saw the headline across the screen, but as I'm sitting here, in this conference, I didn't have a chance to listen in to what Home Depot said in detail, so you're probably way closer than I am at this very moment. Just one thought there in general. We are very much in home improvement. That means we are not totally disconnected from new building activities, but the focus is on home improvement.
	And in the US, many people, as you probably also know very well, are investing into their homes to safeguard the value of their homes, or to be well positioned in buying and selling, and then moving. Whilst in our countries and the countries where

we are active in continental Europe, many people invest into their homes because they live there, and they want to have a nicer bath, or a more beautiful kitchen, or they want to have a new setup on their balcony, or on the terrace. So, the motivations are slightly different. Not totally different, but slightly different.

What I'm trying to say is it's not that there is a one on one connection with regard to building activities, maybe as it is in the US. One thing where we totally expect to have a relatively strong impact, or direct relations, may be a better way to say it, with regard to the building activities, is our subsidiary, the Baustoff Union. Because that is, as the name already indicates, related more to building than maybe the Baumarkt and gardening business.

And to your first question on the sales guidance. As I said, and I want to be very clear here, we say around last year's sales, based on current views. That might be slightly above, that might be slightly below. So, if we were coming in at 2% below, that would still be from our vocabulary, and you see that also in our publications, what that always means, what ranges that implies, that would be in that vicinity. That could also be 2% or 3% above,

As o said, it is currently, and I know that is partially a little bit dissatisfying, it is currently quite difficult to judge where things are heading, at what point, and which positive developments we can capture, or which adverse macroeconomic developments might come our way.

Operator: We have a follow-up question from Mr Bruns. Mr Bruns, please go ahead.

Christoph Bruns: Thank you for taking my question. I have a follow-up on IAS 36, store impairments. I think it's the impairments on stores. In Germany, I think it’s 36 million. Can you give some flavour on which stores are impaired? And also, is there more to come? Because we see that the commercial real estate market is quite weak currently. And maybe another one on Sweden. Do you expect continuing losses there, given the tax rate remarks you made earlier?

Karin Dohm: Maybe I will say something on IAS 36. That is quite straightforward. As you know, we need to take, for all valuations, the risk-free interest rate, as published by ECB. So, each time ECB increases the interest rate, we need to put that into the weighted average cost of capital that is just a one on one effect. On the other hand, the risk factor, which is also one component of the WACC, has gone down.

But all in, that is just the effect that you then have, when you compare that or multiply it with your discounted cash flows, and then it just, so to speak, washes through to a certain degree. So, if ECB continues to raise the risk-free interest rate, we will have more impairments, independent of whether we have more sales and any other figure of our P&L that is relating to our own performance. It's just, as I said, a mathematical effect that you have in everybody's balance sheet, or in every evaluation.

Just to clarify, that figure doesn't relate to the stores in Germany, specifically. That relates to all the stores. As I said, that is not driven by the individual performance of a store, it is just a mathematical effect of the risk-free interest rate.

Erich Harsch	The situation in Sweden is very difficult, because many customers are suffering because of the dynamic interest growth. And they have a much lower income, because there are not stable definitions for a long term level of the interests. And therefore, the consumers in Sweden are suffering, and the situation is, therefore, pretty difficult. So, I don't think that it will get more stable and growing more in the short term, but we have a long term perspective, and I think, as during the pandemic era, it will be possible again not to make minus in Sweden, but to get a better result there.
Christoph Bruns	Thank you.
Operator	The next question comes from Miro Zuzak from JMS Invest. Please go ahead.
Miro Zuzak	Good afternoon, and thank you for taking my question. I have just one left, please, and that's the interest rate sensitivity of the leasing liabilities. Can you please comment on that? What would it mean, an increase of 1% towards the interest component of your lease liabilities? Thank you. How fast is it, actually? How flexible is it and how fast is it at adapting? Thank you.
Karin Dohm	I need to admit, I can't tell you that from the top of my head. I’m very happy to come back on that afterwards, but I don't have it just now at hand, I need to admit.
Miro Zuzak	Okay. Thank you.
Operator	There are no further questions from the telephone, so I will hand back to Antje.
Antje Kelbert	Thank you. Are there further questions in the room? Yes, Thomas?
Thomas Maul	Thank you. Maybe one last question from my side. Thomas Maul, DZ Bank again. On your online business, actually, as expected, your online business declined last year, after the corona boom. What are your expectations for your online business in the future? And could you please comment a bit on

the issue of freight costs, and to what extent freight costs are covered? Thank you.

Karin Dohm

I think, as I said, there are two effects. Obviously, click and collect is way less used by customers, as they can enter the store. Direct delivery, everybody has learnt that also, in home improvement, which was, before corona, not really a direct delivery business, has components and is usable for that. And that applies to all types of customers, that is B2C, as well as B2B. It is difficult to judge how that evolves now, and what that is, so to speak, staying in these dimensions?

Is that growing? Is that shrinking? Obviously, it depends also a little bit on, I think, the general development of marketplaces, and of course, of the expectations on shopping experience. So, that's one of the reasons why we continuously invest into the whole ICR chain of our business. And the freight costs, of course, we want to make sure we pass on as much as possible. It has always been an element where it is difficult, and where it also sometimes requires the question of where, especially in extensive countries, or if somebody orders, who is sitting somewhere where we have a long distance to cover, how do you price that?

So, as I said, we are trying to capture as much as we can, but sometimes, it is not possible to pass on everything. It's also a question of cost, sometimes, from competition, but the calculation needs to be based, then, of course, on all parts and components of the value creation chain.

Antje Kelbert

Thank you. Are there any further questions in the room or in the conference? One follow-up in the room.

Benjamin Thielmann

Hi. It's Benjamin again. The last question from my side, I promise. As we spoke about Q1 and what we have seen in the past, it's usual that when we have Q1, earnings are gradually decreasing over the next quarters. You mentioned that we probably should aim for the lower end of the full year guidance in Q1. Is it still fair to assume that also, Q2, three, and four and so on are going to be a little bit weaker than Q1?

Or do you think that the weather effect in Q1, or also year-over-year energy price impacts in H1 are going to be a little bit tougher, compared to H2, and that's going to be more of a mixed effect? Or is that really just too hard to say, because of weather and consumer behaviour?

Karin Dohm

I think it is, of course, difficult to answer, definitely. As all three of us said, we are seeing a couple of developments that might make things better from a P&L perspective. And there are still a couple of what are called known unknowns out there, and it's really difficult to say what comes in which month, and then

	most likely, has what effect on each quarter. And I think it's hardly, therefore, possible to give you a satisfying answer on a quarter by quarter basis, especially as we never really guide on any quarterly effects.
	It's just what we said is meant to make sure we are as transparent as we can be, that we do expect that this first quarter, because obviously, it has passed already, or the better part of it, that this first quarter will definitely be below the last year quarter.
Benjamin Thielmann	Thank you.
Antje Kelbert	All right, questions on the telephone conference?
Operator	There are no further questions.
Antje Kelbert	Okay. It looks as if we have taken all of your questions, so thank you very much for your interest and your participation in our hybrid analyst and investor conference. And we hope to meet you soon at any roadshows or conferences over the next weeks and months. So, thank you very much, and we hope to see you soon. Goodbye.