Hornbach Holding Q2/H1 2021/22 results conference call

O	Operator
A	Axel Müller
AH	Albrecht Hornbach
KD	Karin Dohm
MY	Mark Josefson
TC	Thilo Kleibauer
TM	Thomas Maul
DB	Dilip Badlani
PG	Paolo Geuna

O Good morning, ladies and gentlemen and welcome to the conference call regarding the second quarter first half year result 2021-2022 Hornbach Group. At this time all participants have been placed on listen only mode and the floor will be open for questions following the presentation. Let me now turn the floor over to Axel Müller.

A Thank you, good morning. This morning at seven o'clock we published a fine set of figures on the second quarter of the first half, and we are sitting together with CFO Karin Dohm, CEO Albrecht Hornbach and Investor Relations Manager Anne Spies.

By way of introduction, Albrecht Hornbach will give you a first sight on the last six months of the current fiscal year, [1:00] and Karin will follow and give you a detailed insight in the key dates and most important facts of the first half. The first step is Mr. Hornbach, I will forward to you.

AH Thank you. Albrecht Hornbach speaking now. Good morning, ladies and gentlemen, a warm welcome to this analyst call from me as well. Today we will be presenting our business results for the first six months of the 2021-22 financial year and pointing out some highlights of our business performance. I would like to start by focusing on some key sectors. My work colleague Karin Dohm will comment in detail on our performance and outlook.

Despite severe lockdown restrictions, the first six months of the current 2021-22 [2:00] financial year was very successful for us. This confirms that we are on the right track with our finely calibrated focus on customers. I would like to illustrate that with just a couple of key points: The pandemic has significantly changed what customers need. People are attaching greater importance to security and physical proximity. Their homes are very important to them, and they are prepared to invest in them.

A shift in people's priorities towards security, their direct surroundings and their homes. That is what we have learned from the pandemic and it's a lesson that won't be forgotten so quickly. Second, people's need for security is also reflected in their shopping habits. Fewer contact, higher expense, more click and collect, more online. [3:00] All that is another lesson of the pandemic. So that is two changes, greater willingness to invest in home improvement projects and more safety and convenience in shopping, both play to Hornbach strengths. HORNBACH offers customers everything they need to meet their requirements:

Project expertise and suitable advice, the right product range with large stock available and not least, the right prices. That is only possible because of the close links we have built between our top performing web shop and our generously proportioned stores, all with the help of our logistics and interconnected retail and all powered by the inventory management capacity of a closed merchandising system. These factors enable Hornbach to gain substantial market share into countries where it operates in the current [4:00] 2021-2022 year under report as well.

The extraordinary sales growth generated by the whole of the DIY sector in the 2020 year, the year of the pandemic, is often reported in the media and interpreted by many sector experts as an exceptional situation. Some people have clearly misinterpreted the trend towards 'Do-It-Yourself' as a kind of occupational therapy that is limited to periods of lockdown when there is nothing else to do.

And the press release published by our sector association after the first half of the 2021 calendar year will have confirmed many people in that impression. The Association reported a 15.9% downturn in like for like sales in the (04:51-04:53) sector. It was that fact, and I quote: "Protracted lockdown restrictions [5:00] and unprecedented weather seriously swatted the first half of the year." Hornbach performed in the same period dramatically better. In the first six months of the calendar year, it outperformed the sector in Germany by more than 13 percentage points. Particularly, during the months of lockdown, our interconnected retail meant we could offset most of the sales lost due to stores remaining closed.

Not only that, since the restrictions have been lifted, or sales performance has also remained ahead of the sector average. Our CFO Karin Dohm will now give you details of our half year results.

KD Thank you very much. Let me exactly follow up on that one because some details will pick up with what Mr Hornbach said and pointed out. We've had a very good [6:00] half year, including both quarters in the first part of our fiscal year, and I think three main areas are worth mentioning. First of all, we had a really high customer satisfaction. The recent polls and surveys highlighted that we are in a really good position in comparison to our competitors and other market participants, both in the service we provide in our stores as well as in the workshop performance and in for example, Germany, Austria, and a couple of other countries.

Secondly, let me point out that we continued with our organic growth. We mentioned earlier in our fiscal year that we planned five openings this year. We are well on track for that one. We have opened stores in Sweden and Romania, and others in Switzerland, the Netherland will follow in due course. We also have one replacement in Germany coming up.

Thirdly, [7:00] e-commerce sales continue to rise. We see that not only during the first quarter where we had specifically high click and collect performances because a major part of our stores were closed and customers switched to online channels even stronger in the first quarter. But we also see ecommerce sales continuing to grow in the second quarter. We see that as a good underlining message to highlight that our performance in omnichannel, in the interconnected retail area, is really satisfying for clients and they take it up, and use it wherever they think it is best suited to their interests and demands

A little bit further into the specific figures: We had a sales performance that show that the records we set last year are not just a one off, but continue to drive our business with half year sales growth [08:00] of 5.1% on the Hornbach Group level. Further growth of 3.4% in like-for-like constant currency sales at the Baumarkt Group, and a growth of 13.2% at the Baustoff Union, one of the subsidiaries of the Holding.

The demand for DIY products at all of our stores and online premises remain consistently high, also during the summer months where people went back a little bit to traveling where we were able to very successfully satisfying those customers changed needs, wherever it was necessary and demanded to combine online and offline activities.

Our online business surged as I said 48% in the first half of 2021-22 and that was on the back of an extremely strong growth [9:00] in the first quarter, but also in the second quarter which just came to an end. Also, when we look into the guidance and looking ahead to the second half of the year, we want to confirm our guidance that we gave you earlier, we see us coming in most likely in the upper third. Somewhere on the EBIT side between 290 million and 326 million with an adjusted EBIT margin between 5.3% and 5.7%.

Except we think that is a very good performance, if you take into account the steps we took between the previous year and the year before and continues our growth path towards the end of the year. When we look a little bit deeper, the net sales which you can see on the slide, [10:00] especially when you look into the performances in both quarters, we had in the second quarter a growth of 3.8%, driven by the significant growth in the online sales.

Going a little bit deeper into the performance of the various regions in which we are active, I want to remind you that some of our areas were still under lockdown even into June. I think this is something you need to take into account. Specifically, that was something that was twisted and distorted if you compare the figures of this half year with the previous one. That’s why we continuously refer to the year before, so make sure to keep that in mind.

On the ecommerce side I mentioned we had a strong growth; we currently see 20% share of total sales [11:00] on the whole. As I mentioned we have robust ecommerce sales growth, both when we look into click and collect activities, but also direct deliveries. These deliveries which are without any store contact keep growing, we have 20% up in the first half of this fiscal year.

Looking specifically also into the like-for-like sales in comparison to the sector, Albrecht Hornbach mentioned that already, we had a very good performance in Germany if you compare our development and contrast it with the competitor’s landscape. We see that as a continued reconfirmation that our services please clients and allow them to run their projects whether they are professional clients or private clients, so it is both B2C as well as B2B business, [12:00] which keeps underlining all performance here.

The regional split, and there the comparison on market share also gives you a good figure and understanding that we were able to take here advantage of our performance and gain market shares in all countries where we get the clarity and transparency on those shares. Specifically worth mentioning is not only the German market, where competition is quite dense and fierce, but also other countries. Highlighting here for example, the Netherlands or the other regions you see on the slide where we have also the chance to extend our market share.

That all resulted in an adjusted EBIT which is going here in both quarters added in an area where we see margins [13:00] stable, coming in with really good figures at 10.2 you see here in an average in the two quarters. We also have the EBIT here with no adjusting events so far with 337.2, so profitability is significantly above the pre-covid levels of two years ago.

I mentioned already the Baustoff Union which not only performed very well but also did a good jump in their adjusted EBIT, that is driven not only by very good sales but by the fact that they had very stable costs. They also had there, and that is a contrast perhaps as I mentioned, we did good investments on the Baumarkt Group and that is not so much visible here and the Baustoff Union so their EBIT was with [14:00] a good margin at 9.9%. Once again, significantly above the pre-covid levels.

Cost structure in our Group, I said we have stable costs structures, we have normalised a number of cost factors very deliberately, for example, our marketing expenses. We extended further in organic growth manner our network of stores and we also invested continuously, and keep investing, into the maintenance of the existing store network. We deliberately have managed expenses slightly up if you compare that with the previous years. But if you compare it with the year before, we are normalising some of these expenses. Nevertheless, I want to underline [15:00] we have a good cost structure with good cost control and stable levels which gives us the confidence I said earlier to narrow the corridor not only of the sales but also on the EBIT side when we talk about guidance for the fiscal year.

Looking into our cash flow, we have the funds from operations here compared over the two half years to make sure that you get the full perspective, not only last year, but the one before. You see our increased CAPEX as I mentioned, the purchases of real estate, building of the new stores. And in addition to the five stores, we are opening this year, we will also go for five new stores next year so that slowly ramps up, coming through in the free cashflow as well.

You see that partially reflected, [16:00] specifically in the Hornbach Baumarkt Capex. Keeping up on the strong balance sheet, we increased slightly the size that reflects specifically our inventory which we keep now building up in light of both managing the challenges in the logistical network that everybody knows is currently still affecting global purchasing and logistics. In order to make sure that we have a good position, not only for the second half, but also for the first quarter of the next fiscal year, we currently keep building up inventory in areas where we think it is wise to do so to also avoid potentially some limitations that might affect imports from Asia due to [17:00] further constrains. For examples, driven by winter Olympic games in China or other aspects.

You see that reflected here in the inventory. There is also a an effect in general, we still have high price levels which increase slightly, on a ceteris paribus level, the inventory value.

Reflected there is also another increase in our shareholder's equity ratios, so that underlines our continued urge to make sure that we have stable ratios that we are built on solid pillars and can act and invest from a good healthy position.

To bring all that to close, I said at the very beginning, we are sharpening our guidance. We see ourselves there expecting a landing in the upper third, [18:00] above the lower level of the guidance range. We see in the adjusted EBIT area on group level 290 to roughly 326 million. We have a Capex that goes beyond the 200 million most likely. And we see sales going up to the upper end of the 5% growth in comparison to last year.

I would come to a close here to make sure we have enough time for your questions and any specifics detail you want to discuss with us.

A Thank you Karin, we would like to enter into the Q and A session.

O Ladies [19:00] and gentlemen, if you'd like to ask a question, please press 9 followed by the Star * key on your telephone keypad. To withdraw your question please press 9* again. Please press 9* now if you'd like to raise a question.

Okay we have our first question today from Mark Josefson, who is calling from Pareto Securities. Over to you.

MJ Thank you. Quick question about the figures, well done again. I had a question with respect to the strength in ecommerce. I think last year you indicated that you were making some investment in some specialised depots just to service the ecommerce business. I'd like an idea in terms of the ecommerce you are doing now, or click and collect in store, but how much of that ecommerce business is actually serviced [20:00] in store by your employees and how much can you do remotely, away from the store base?

And then a second question with respect to the gross profit or with respect to sourcing etc. I mean we have commented in recent quarters that the gross profit has been under pressure largely because of the high rate of growth of ecommerce. That still continues to be the case, mainly the growth in ecommerce, yet you've got a nice improvement in the gross margin. Its not out of line from what we've seen elsewhere in the sector. But I would like some colour with respect to your outlook with margins going forward. Or rather, do you see any issues with respect to sourcing which we're increasingly hearing of in other quarters? Thank you.

KD Maybe I can start [21:00] on your first question. In general, everything that is labelled as click and collect is set up and delivered into the hands of the client in the stores. You can take that ratio as a part where a client comes to the store, there's contact in the store and there has been handling in the store to make sure that the client gets what they ordered online.

We had, during the heat of the pandemic, as far as direct delivery is concerned, the part that goes without contact with the stores, we had set up a number of delivery centres, and I get that is what you're also referring to, which were attached literally to the side of some of our stores. [22:00] Those were pop up institutions which were really meant to make sure we keep the time that clients wait between ordering and getting their product as short as possible.

We have optimised that now based on the client demand schemes to make sure that A. we use our central delivery stores wherever possible and wherever it makes sense and optimise the flow of goods and, ultimately, of course the margin attached to that side of the business.

MJ Okay.

KD You had another question on the availability of goods?

MJ Exactly that yes.

KD On the sorting side, [23:00] in general, goods on a global scale are scarce and prices are on high levels. That's a given currently for everybody in every industry. On the good side, we have a very strong merchandise team and logistics team. Both of them, which is one of the strengths of Hornbach, work nicely together. The question of where we can get our goods, how can we make sure we really look and order and organise these processes ahead of time, and then assure the right logistic support. I think this is something where a huge part of our teams are focused on and where we also make sure we, talking about investments, really use anything [24:00] that modern IT and other means can support to make sure that we do not only buy on time but also have the means to bring goods into our stores or to our clients.

I mentioned this example where we currently deliberately built up some inventory because we want to make sure we are not running out of steam over winter or ahead of the next spring season. We do expect that things will be challenging over the course of the next month and will keep challenging. So far, that has all worked out good in the manner that we were able to stay in stock, to make sure we stick to our all-time best price offer for the client, and to make sure [25:00] we are a reliable partner for our clients and customers.

MY Thank you, that answered both those questions. I just have a third if I may. I think you alluded to slight acceleration with the store opening program next year. Can you give an early feel on where new stores might be?

KD For next year it will be Romania most likely, there will be some activity in the Netherlands, there might be one more in Sweden. There is one in Slovakia also, that we're currently looking on to.

MY Thank you again.

[26:00]

M Thank you. We do have another question from Thilo Kleibauer who is calling from Warburg Research. All other participants please don't hesitate to press 9 and * if you'd like to raise a question. Over to you Mr Kleibauer

TC Good morning, thank you. I have two follow up questions more or less. The one on the five new stores next year - should we expect that all five stores are own real estate property? You mentioned also the increased investments for land and buildings.

My second question is also on supply chain issues and the difficult situation here. Do you expect some price increases [27:00] in the coming months? And especially energy prices have significantly increased over recent weeks, so do you expect that this will affect private consumer sentiment in the coming months? And also affect your business on this side?

KD Yeah, good question. Let me take the first one on the real estate and owning versus renting. We always said we want to have a mixture in the general set up, between owning and renting, with a slight surplus on the owning side. We currently, and that also is affected by the fact [28:00] of taking everything into account what is best for the company - you sometimes have questions on the refinancing side that make buying more attractive than renting. You sometimes also have more freedom when you own the whole ground as well as the building when it comes to adjustment changes in later years. Currently, taking all aspects into account we expect in the next couple of stores more ownership than renting. As far as the foreseeable future this year and next year.

Your second question, the pricing; yes, we expect price levels to stay high in general. We see a certain relaxation [29:00] on the wood side where apparently the bottleneck, which was created by a lack of sawmill capabilities to my understanding have now loosened. That might also happen on one or the other commodity, but we expect those levels to stay high and yes, energy prices seem to be a high portion of everybody's expenses over the course of the next months.

The question is the effect of that, because you can also spin the story and think about people wanting to change even further the way they are living when you think about insulation. You might think about investments that people might want to take into their own housings [30:00] or flats to make sure that they can control their own energy consumption better. You might think about people investing more into alternative energy supplies for their own homes. I wouldn't see that necessarily as a ditch for our sales, I think its just something where as good entrepreneurs we need to make sure that we have the right stock to support people whatever they then want to switch some investments into.

O Thank you. There are no further questions at the moment.

A There is still some time to pose questions.

M It looks like we've got just one from Thomas Maul [31:00] who is calling from DZ Bank. Over to you.

TM Yes, good morning, thanks for taking my questions. I've just one actually. Could you give us an update on your Bodenhaus concept, what do you plan? Thank you.

AH Albrecht Hornbach speaking. As you know their opening time was burdened by restrictions, so it was a very unusual phase for the Bodenhaus concept. Now we see that Bodenhaus has growing sales and we are working on that, but we did not up till now reach our original plan with the Bodenhaus sales. [32:00] But we are optimistic that Bodenhaus will come into a range where it could be multiplied. But it is too early to tell – next time maybe.

TM Okay, thanks for the update.

AH Thank you.

O If anyone else would like to ask a question, please press 9 * now.

A So I'd like to ask here again if there is something left we could talk about? Are there any further remaining questions please?

UF At the moment we don't have any questions [33:00] in the queue, please press 9 * now for your final chance if you have anything to raise. It looks like we do have one from Dilip Badlani who's called from SKM. Over to you.

DB Hi, congratulations on the excellent numbers. Why do you think you're gaining so much market share with the underlying market, in terms of your gap in total growth? Is it the industry?

KD I think, from our analysis, and you can be sure we are investing quite some time to make sure we understand the good reasons behind that market share growth, because we want to keep that and not have one-off effects. That's one of the reasons why we not only look into these general [34:00] questionnaires that some industry associations do, but we also continuously ask our own clients in the online area as well as in the stores, regarding their perception. The intelligence that we get out of that is that, number one, is the connectivity between our online and instore performance - the ability that we offer clients and customers to use the various channels in a connected manner and allow them to switch from an online search to buying something instore and vice versa in their respective individually preferred way.

The other component is the sheer focus that we put into making sure that logistics and merchandise work well together and ensure not only availability of stock but also trying to continuously maintain our promise to the customer that we are a reliable source – both regarding the availability and price. Those are the areas we try to focus on and that is what also clients perceive, and customers give us as feedback. Those are the things we see as the drivers for our market share growth.

DB Thank you.

O Thank you. Next up we have from Paolo Geuna who's calling from Tender Capital.

PG Hi, morning. Thank [36:00] you for taking my question. In terms of sustainability, we have seen some months, last semester that you mentioned a couple of specific projects on private labels. Do you ever get any feedback on these and any look through to market trends in terms of sustainability? Due to the fact that we've just seen the political results, something that is related at a global level. Any feedback on it? Thank you.

KD With political results you mean the election we had last Sunday in Germany? Just to make sure.

PG Yes.

KD Then let me go backwards [37:00] to those two questions. First of all, the election result as you could see in the public domain, there will be quite some time on coalition talks. I would expect and sooner or later there will be a new government emerging, probably relatively indifferent or independent of the final coalition. The question of carbon footprint reduction, also macro-economically will be on top of the next government agenda in whatever shape and form that government might look like. That is our expectation.

Secondly, independent of that, we have our own footprint taken in the current set up into some of our internal activities. We are collecting currently [38:00] all necessary data. Not only in the sense of creating that transparency for ourselves, but also having that then in the future as a basis for further programs on the activities around that. We have already started in some activities areas thinking about here the fact that we exchanged all our lighting into LEDs.

We have specifically looked into our own products, the right label area, because that is quite naturally the part of your stock where you have the most transparency and also influence. We will roll out, as everyone who is under that law, the new requirement with regards to [39:00] logistic networks, which is something that the German government decided upon shortly before the election.

This will enhance further our already existing requirements towards the sourcing and specifically the documentation of sources. There are a number of activities which we keep pushing even further on top of what we already do. Also, to make sure we can continuously enhance our communication around because we are convinced it is not just about doing but also giving that transparency to the public in a proper and appropriate manner.

PG Thank you. And if I may follow up to sustainability items. Do you already provide any evidence in terms of sales **[40:00].** The second one is, do you think that in future you can add any gain from a more general perspective linked to more sustainable products and the perception of customers of buying more sustainable products?

KD The marginality on sustainable products I got, but the first part of your question I didn't get.

PG Yes absolutely, its one single question. Do you have any evidence in your sales figures related of customers buying more [41:00] sustainable products.

The second one is related to the marginality of more sustainable products, if there is any scope to improve the marginality of those specific products?

KD Okay. With regards to marginality of specific products, I don't see there being a product specific difference in margin between a more sustainable product and a less sustainable product at the very moment. Nevertheless, I think that number one, the demand of customers to live in a healthy environment where [42:00] you have colours and flooring that are healthy. That are not omitting components that you don't want to have in your products.

Or the urge to make sure that as a customer you also can reduce your own energy consumption. Everything that this triggers with regards to investment into photovoltaic or other components. We are convinced that there is a lot where Hornbach can provide good advice and good products, and that all is also in the future, a good source for revenue and ultimately for EBIT.

Whether honestly the one product has a very different margin than the other I don't think necessarily. I think it's a question of change in demand and of necessities to help customers reduce their own [43:00] carbon footprint and live in a healthy environment. I think that's a very important role we want to play.

Secondly, perhaps indirectly, following up on a question that came up earlier. If you think certain products will become less profitable for anybody in that chain, because of for example energy consumption that such a product might have, you will sooner or later, and I am here extrapolating into the future, have certain products that will just not have any margin. Neither for us nor for the original producer. But that is going a bit beyond our own P & L probably.

PG Yes. Thank you.

O Thank you very much. There are no further [44:00] questions at the moment.

A Okay, I would like to thank you for being with us in this call. Next news flow will be just a few days before Christmas with our nine-month results. We wish you all the best and look forward to talking to you in the near future. Thanks. Bye bye.

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