Hornbach Holding AG

Q1 2023/24 Update Call

23rd June, 2023 | 08:30 AM CEST

Transcript

Speakers:

Antje Kelbert

Karin Dohm

Antje Kelbert

Good morning, and a very warm welcome to our Q1 2023/24 update call presentation of Hornbach Holding. My name is Antje Kelbert, Head of Investor Relations. This morning, we have already published our figures for the first quarter 2023/24, comprising the period of 1st March until end of May 2023. Our CFO, Karin Dohm, will be our presenter today, and will also take your questions. Allow me one housekeeping remark.

The entire conference, including the Q&A session, will be recorded, and will be made available as a replay and transcript on our company's website afterwards. Please take note of this disclaimer which is valid for the presentation as well as for the Q&A session. And now I will hand over to our CFO, Karin Dohm.

Karin Dohm

Good morning, and a very warm welcome also from my side. Let me start with a quick overview about last quarter. Overall, the first quarter was in line with what we already expected when we presented our full year guidance on May 16th. Given the cold and rainy start into the year, demand, in particular, for plants and gardening equipment, was significantly down in the first two months of Q1.

Although May has been going well, net sales declined in total by 2.2%, and adjusted EBIT declined by 26.2%, compared to the previous year's quarter. However, since May, we've seen sales, and also, gross margin improving. At this point, we confirm our full year guidance, which expects sales at around previous year's level, and adjusted EBIT of minus 5% to minus 15%. Let's look at our sales development in detail.

Net sales of subgroup Hornbach Baumarkt, including online retail, declined by 2.2%, with a minus of 5.2% in Germany, and a slight plus of 0.8% in other European countries. On the Baumarkt level, the share of the international business increased to 51.5% from 50% in previous year's quarter. Net sales of subgroup Baustoff Union, which is mainly catering to professional customers in the building industry, as you know, were down by 2.4%.

As said, the trend we are seeing in May and June is encouraging. The slow start into the spring season impacted like-for-like sales across almost all other European regions as well. And you can see this on the page here, which gives you an indication about the individual countries’ performance. Nice development was seen in the Netherlands, with an increase of 7.7% like-for-like sales.

In total, please note, we had 1.5 business days less across the Baumarkt Group, compared to previous year’s first quarter. Overall, we have specifically continued to gain market shares in a predominantly declining home improvement, and are very proud to present those figures here to you today. Especially in our home market, we were able to gain market share, and saw an increase from 14.9% to 15.1% in the period between January and April.

Based on the customer feedback, we're also tracking for online purchases, satisfaction remained at a very high level. We also saw a strong development in our market position in the Netherlands, Czech Republic, and Switzerland, and this is especially noteworthy in this inflationary time and an overarching shrinking market that we saw in the first quarter. This is also encouraging for us, and drives our ambition to stay ahead of competition.

When we look a bit deeper into the e-commerce development, you see that the share of Hornbach Baumarkt stood at 13.3% in the first quarter. We are specifically seeing here that direct delivery is strong above the pre-pandemic level, and has established itself as a direct delivery system and a well confirmed channel for customers in the DIY and DIFM. The decline in click and collect was absolutely expected in the aftermath of the reopening of the stores, and thus all in, we're confirming that the e-commerce shares remain above pre-COVID levels.

Looking into the cost structure, you'll see that our gross margin was down by 0.6 percentage points for the quarter, reflecting the inflationary challenges with regard to product pricing. Currently, and as well as in May, we saw a slight improvement in gross margin already. In line with our everyday low price strategy, we have not fully passed on all costs to our customer. This is a conscious decision, in order to affirm our position as price leader, and to be a reliable partner to our customers.

The increase in selling and store expenses was mainly due to expansion and wage increases, including the inflation bonus. In Germany, we paid €10 million between January and June to our employees, based on that scheme. The cost ratio of general and administration expenses increased, mainly driven by investments into our IT infrastructure.

As a result, adjusted EBIT for the group came in at 109.4 million. So, as expected significantly lower than the previous year's period, with an EBIT margin in Q1 of 6.2%. Nevertheless, I would like to point out that the improvement we saw in May on the sales side and on the gross margin side already also improved our EBIT margin significantly.

With respect to our current adjusted EBIT, we are also seeing a positive trend. Non-operating income at 0.4 million resulted from the sale of a piece of land in Germany. Last look here on that side for the cash and the cash inflow, which you see here from operating activities, which decrease, compared to the previous year, mainly due to the planned reduction of short term liabilities. Funds from operations were 129.1 million, so around 20% down from previous year.

Inventory has reduced stronger than in previous years during the spring quarter, compared to the end of February, in line with what we promised to you, when we spoke earlier this year. However, we're still on an elevated level, and keep pushing to bring down those inventories further. CapEx was at 51.1 million in Q1 2023/24. Regarding the CapEx split, 58% of CapEx was spent on land and real estate, mainly for new stores.

Moving on to the balance sheet, you see here that we have, as usual, and as a continued measure, a strong balance sheet as of May 31st. Compared to February 28th, the consolidated balance sheet decreased by 2.9% to 4.6 billion, in line with our decrease of inventory and short term liabilities. The equity ratio stood at 42.8%, so even further strengthened, and continues to represent an extremely comfortable level.

As already mentioned, we confirm and reconfirm our guidance for fiscal year 2023/24 to expect Group net sales at about the level of the previous years. We've seen a slight improvement in sales and margin, as said, in May and June, and continue to focus on our cost base and stay conscious regarding operating and investing expenditure.

However, uncertainty remains, especially regarding the outcome of collective wage negotiations in Germany, as well as consumer spending priorities over the summer. Therefore, we still see a downside risk for the adjusted EBIT of approximately 5% to 15%, below the level of 2022, 2023. Thank you very much. And now we're ready to take your questions.

Antje Kelbert

Thank you, Karen. And with that, we will start our Q&A session. I will hand over to Natalie, our operator.

Operator

Thank you very much. Ladies and gentleman, at this time, we will begin the question and answer session. Anyone who wishes to ask a question may press star, followed by one, on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star, followed by two. If you're using speaker equipment today, please lift the handset before making your selections.

So, anyone who has a question may press star and one at this time. And we have the first question from Thomas Maul from DZ Bank. Please go ahead.

Thomas Maul

Good morning. Thomas Maul, DZ Bank. Thanks for taking my question. I actually have one. You mentioned that you saw a sequential improvement in May and June. Maybe you could give us some more details on which products, and in which countries.

That would be very helpful. Thank you.

Karin Dohm: Sure. Thanks for your question. So, I think regarding the product, or the product groups, it was quite straightforward - the couple of things that you would expect, when weather gets better. As we saw in May, and now in June, the weather has improved substantially, compared to March and April in the majority of our countries.

As usual, you always have a little bit of exception here and there, but as a very general note, you can say it was better weather across all our regions, and as a result, we saw, especially, an uptick in anything that is related to garden and outdoor. That can go from plants over things you need for your terrace, garden furniture, pools, things that are related to irrigation, and anything, as I said, that you might connect with the outdoor world.

And of course, with some of those sales, we were able to offset the non-incoming sales from March and April. But of course, quite naturally, you can't offset two months with one month, so that led to the results that you could see now in Q1. But as I said, a nice development there, and that keeps on now in the current trading as well.

Thomas Maul: Okay, that sounds helpful. Thank you.

Operator: The next question is from the line of Ludovic Allegre from Kepler Cheuvreux. Please go ahead.

Ludovic Allegre: Hi, everyone. Can you hear me?

Karin Dohm: Yes.

Ludovic Allegre: Perfect. Just two questions from my side. The first one is could you maybe give us an idea of the volume and the price impact on the top line in Q1, the broad impact of the two parameters? And the second one is on the adjusted EBIT. So, if I remember correctly, we were talking of Q1 a bit south of the full year guidance, maybe between minus 15 and minus 20. We landed at minus 26% year-on-year.

I just wanted to confirm that this is what you expected, and actually, not below what you had in your business plan for the year. And maybe a follow-up question. I understand that Q2 will be better, both on top line and profitability. And my question is when, in the year, do you expect the more positive impact on your profitability? I think that at the full year, you were expecting a more positive impact in H2, and especially in Q3. Has it moved to Q2 and Q3, or do you still expect a big improvement in Q3? Thank you.

Karin Dohm: Thanks for the question. And maybe I will, so to speak, take them backwards. Number one with regard to quarters and seasons. I think you're spot on, to a certain degree. Q1, as we all saw, was strongly impacted by the weather. And the same, usually, or let's say the same risk usually also applies to Q4, that is why we are usually not planning strong positive impacts from Q4, which is, as you know, for us, December, January, February.

So, yes, if we deduct that, so to speak, from any swings, we would expect that the parts that will bring us additional, of course, upside is Q2, that we're currently in, and then Q3. The underlying effects that drive the profitability are partially what we have talked about in May already, our expectation with regard to an amelioration of the gross margin.

Driven by certain components within the gross margin that have become better, and now slowly glide, so to speak, through our pricing and through, specifically, the stock, as we have these gliding average prices, that is also referring to the reduction of some logistical costs, some purchase prices on the supply side for us and other things. And that, as I said earlier, it takes some time on that till that flows through our stock, and until that flows through our gross margin.

But we see those things slowly coming in now, and anything, as you know, in our P&L, one of the biggest levers is, of course, gross margin, although it needs to come, obviously, also with gross revenues and sales that all fit together. That's the triangle on which we're working to make sure we keep profitability high and moving in the right direction. So, that Is the question mark that I'm alluding to.

In our business, our region, the big question mark for Q2 now is obviously, travel behaviour. So, how much and how far will people travel? How much of their piggy purse do they invest into their travel? Is there still, what I read this morning what the economists call, revenge travel in the aftermath of the corona crisis? What is happening there this summer that will be, of course, having a potential impact on our business? And we can't fully estimate that.

So, that could affect the sales figures. But taking it all into account, we're absolutely comfortable, and that goes to your earlier question with the guidance. And yes, that includes these Q1 figures, where we came in on the EBIT, or adjusted EBIT side, at 26%. And yes, that is, as we roughly expected, that is baked into our guidance, as we gave it in May and as we reconfirm it now.

Operator: Ladies and gentleman, as a reminder, if you would like to ask a question, please press star and one on your telephone. And the next question is from Thilo Kleibauer from Warburg Research. Please go ahead.

Thilo Kleibauer: Hello. Good morning. I have two questions. The first is on the general and administration expenses. You mentioned an increase, due to a higher investment in IT. Is there any specific project here, in this area? Or do you expect structurally higher expenses for IT? Maybe you can give us some more insight here.

And my second question is on the cash flow statement that you had a reduction in short term liabilities with the repayment of the reverse factoring programme. So, what is this programme? Just a one-time measure, or when will you use reverse factoring in future?

Karin Dohm: Thanks for those two questions. Number one, on the reduction of the short term liabilities, absolutely, that is the payment, following the reverse factoring programme, which we did early this fiscal year. And with that, that programme is currently not in action, so to speak, so we don't use it currently. And we used it over winter, over that time of February, March, as you know, to have that impact of the seasonal splits smoothed.

Specifically here, where we have the winter season, where we buy things for spring season, and that is something, which obviously, then, only gets sold later around Easter, let's say. And that was the reason why we used it at that time, and why we don't use it currently. So, it might be that we use it again, when we're in a similar seasonal split between buying and selling goods. Or it might not. It's an option, but it's not baked into some of our behaviours. I’m sorry, I missed the first question,

Thilo Kleibauer: You mentioned higher costs for IT within the admin expenses.

Karin Dohm: So, higher costs for IT, yes, We kicked off our S/4 HANA project, So we're moving from R/3 to S/4. And specifically, due to that, where we have kicked that off, we had some pre-work already over the last ten months, I would claim, and we officially kicked the whole programme off in May. And with that now we'll see more.

So, some of those things here are affecting the pre-work, and we're now, as I said, moving towards this. And I guess this will be with us for a couple of years, two, three, four years maybe, actually, I would expect three, and that means there will be, so to speak, some one-off course with regard to that.

Thilo Kleibauer: Thank you very much.

Operator: The next question is from line of Miro Zuzak from JMS Invest. Please go ahead.

Miro Zuzak: Good morning. Can you hear me?

Karin Dohm: Yes.

Miro Zuzak: I have just one question. If I look at a bit from the helicopter perspective, and I compare the profitability of Hornbach now versus the pre-pandemic era, I can see that the profitability has come down again to, more or less, the levels that you had before, or at least now in Q1 it has come down. But during the years, let's say, 19/20, 20/21, 21/22, and 22/23, the profitability per shop was elevated times two or three, sometimes even.

Is this basically the return to normal, where you can say okay, we make around 800,000 to one million of EBIT per shop, as we did ten years before the pandemic ear? Or was this more like a one off quarter, where you'd say the weather was so bad that now we are basically on a higher level, in general, in terms of profitability per shop? And we should basically look through this single quarter, and not be concerned about the overall profitability per shop of Hornbach?

Karin Dohm

Thanks for the question. Definitely, some of the circumstances in March and April were outstanding. If you take Germany, for example, according to public weather data, it was the wettest March for 20 years. So, obviously outstanding, from a sheer, so to speak, meteorological point of view. And, of course, if you're in the gardening business, and at that time, it was not only wet, it was also specifically cold.

That means that it was absolutely outstanding, and nobody goes when you have eight degrees Celsius, and the rain is, so to speak, coming from the side, nobody goes into a garden centre and starts looking at flowers and other things. So, of course, that was outstanding. And no, we don't see what we currently have as figures over these three months as a normal picture.

And I think that's one of the challenges, of course. We just came out of a couple of extraordinary years, and we now still have the challenge that some things are not as, so to speak, as normal as one would think. But on the other hand, and that's what I was alluding to earlier, a lot of things have normalised. So, we are, as I said, confident with regard to the outlook, and with the further development.

We have strongly invested over the last years, and we keep investing. We have opened new stores, especially, as you know, last year and the year before. We opened one in this month in the Netherlands, Nijmegen, and we are currently working on opening further ones over the course of the next year.

Due to the time that buildings sometimes take those will come in probably February, March, and then onwards. So, the physical expansion is ongoing. We are currently, as I said earlier, investing into our IT backbone. We have finalised the full rollout of our new web shop IT solution. You don't see that from the front end, but it gives way better scaling and performance possibilities for the future.

So, there's a couple of things where we continuously invest and work to ensure that customers really have a good journey and a seamless journey between our various forms of outlets, whether that's virtual or analogue, if you want to say. So, we think we're really on a good path, and definitely work on a different level than compared to pre-pandemic.

Miro Zuzak	Thank you.
Operator	There are no more questions at this time, so I will hand back to Antje Kelbert.
Antje Kelbert	It looks as if we have satisfied all the questions. So, if you have some questions afterwards, please do not hesitate to contact the IR team. We are happy to take those. We also invite you to meet us at several locations over the coming months, after a summer break. We have the conferences on our website, so you can see where we will be active. Thank you all for your interest this morning, and have a pleasant summertime. Enjoy your own outdoor and gardening projects, and we hope to meet you soon in person. Goodbye.