HORNBACH Holding AG Co. KGaA

Investor Relations Update Call: Q3/9M 2022/23

22nd December, 2022 **|** 8:30 AM CET

Transcript

Speakers:

Antje Kelbert

Karin Dohm

Antje Kelbert

Good morning, ladies and gentlemen, and a warm welcome to our Investor Relations Update Call on the Third Quarter and First Nine Months of our Fiscal Year 2022/23. My name is Antje Kelbert, Head of Communications and Investor Relations at HORNBACH. Please welcome with me our host of today's call, our CFO, Karin Dohm. Together with Karin and me, are our IR colleagues, Anne Spies and Fabienne Villwock.

May I remind you that this audio webcast will be recorded, and as usually, a replay on the website and a transcript will be published. If you continue to participate in the webcast, you declare your consent to this data processing.

Please also note our disclaimer, which is valid for the entire presentation as well as the Q&A session. Karin Dohm will now guide you through our financial achievements and figures and will take your questions afterwards. Happy to hand over and start our quarterly deep dive. Thank you, Karin.

Karin Dohm

Thank you, Antje, and a very warm welcome also from my side. Let us begin with a quick overview of the key highlights. With a strong sales momentum over the past nine months, we have demonstrated that even in challenging times, our business model proves resilient and our organic growth strategy works well.

We continue to see stable and strong demand for DIY products from both private customers and professionals. Our net sales growth has accelerated in Q3, resulting in a plus of 6.7% in the first nine months. We continue to see specifically good demand for insulation, electrical equipment and alternative energy generation.

As already expected, we are seeing a decline in adjusted EBIT from the very high levels we achieved during the last two years. However, compared to pre-pandemic 2019/2020 levels, we have grown by almost 36%.

Our outlook as of June 22 remains unchanged and is now reconfirmed. We continue to expect a slight increase in sales and our adjusted EBIT level to decline at a low-double-digit percentage range compared to previous year.

With respect to our expansion strategy, we are well on track. We have opened three new Baumarkt stores so far in the first nine months of the year. Baustoff Union has continued to grow as well with the takeover of two new locations in July. Furthermore, we have continued to expand our ICR strategy with the launch of the BODENHAUS online shop in

September.

Over the last nine months, we have also launched several initiatives to support our employees. In Germany, we started a flexible working hours programme. This allows more than 11,000 employees to reduce or increase their hours within the framework that is legally possible, or they can, for example, use vacation pay or Christmas allowances for extra vacation days. In Switzerland, our colleagues have reduced working hours for all employees, extended parental leave and increased flexibility for breaks. Other countries are working on similar projects.

We have also relaunched our employee share programme, switching from Baumarkt to Holding shares this year, including now all Group employees within HORNBACH Group. To ease the inflation pains for our employees, we are paying inflation boni in various countries as well. For example, in Germany, HORNBACH Baumarkt will pay out 10 million from January to June 2023.

Let us now take a closer look on our financial results. As I mentioned in the introduction, customer demand continues to be strong. Net sales have grown by 10.4% in Q3, resulting in 6.7% growth for the first nine months of 2022/2023, and this on top of the very strong growth rates we've seen over the past years.

Net sales of the subgroup, HORNBACH Baumarkt, including the online retail, grew by 6.4%, with particularly strong growth outside of Germany, where we grew 9.6%, bringing up the share of the international business to over 50%. Net sales at Baustoff Union also increased significantly by 11.7% to 343 million. Baustoff Union is the subsidiary which is mainly catering for professional customers.

Our strong growth performance is also mirrored in our like-for-like figures. In total, Baumarkt sales grew by 7.2% in Q3. In Germany, we saw an even stronger growth at 7.8%. Outside Germany, we have some countries which are performing especially well. I would like to mention here the Netherlands, Romania and Slovakia.

In Sweden, we have a very challenging macroeconomic situation currently, with interest rates on mortgages rising significantly together with real estate prices falling. In Switzerland, we face a cautious consumer sentiment and a hesitancy to make large purchases currently, despite a relatively robust economic environment.

With respect to current trading, we have so far seen a very good performance in December. Allow me to point out though, we had store closures and restrictions in some countries last winter, notably in Austria and the Netherlands. Overall, for the first nine months of 2022/2023, our like-for-like sales were ahead of last year in Germany as well as in the other European countries. Our strong and continued growth is also reflected in the three-year figure comparison of roughly 30%.

Looking further into the market share development, you can see here that our market shares have grown significantly since 2019. In Germany, our market share increased from 13.2% in 2019 to 14.9% in 2022 on the back of the successful interconnected retail execution during the COVID period.

The strong market share development in the Netherlands was driven by like-for-like sales growth of 37.4% as well as significant 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 openings at all.

Let us now look into the e-commerce development. Our e-commerce share of HORNBACH Baumarkt net sales stood at 14.5% after the first nine months. In Q3, e-commerce, including Click and Collect, grew by 12%. The overall decline in the first nine months was mainly driven by a lower volume of Click and Collect, as we had in the previous years still COVID restrictions for our stationary stores, with periods where only Click and Collect was allowed for private customers.

Moving down the P&L, let's take a closer look onto the cost development. Gross margin was down by 1.8%, reflecting the challenges regarding rising purchase prices and transportation costs. In line with our Every-day-low-price strategy, we have not fully passed on all costs to our customers. This is a conscious decision in order to affirm our position as price leader and to be a reliable partner for our customers.

The cost ratio of general and administration expenses increased slightly due to investment into IT headcount and inflationary effects. The increase in selling and store expenses was more pronounced, mainly due to expansion and wage increases as well as higher energy costs. As a result, we see the following adjusted EBIT development.

For the group, adjusted EBIT in Q3 came in at 48.9 million, which is 12.6% below the previous year's quarter. There were no adjustments in the third quarter, neither for the current nor for the previous year's. After nine months, the adjusted EBIT for the Group results at 326.3 million. That is 17% below the previous year's period. However, I would like to point out that we're still 36% above the level of the pre-COVID year, 2019/2020.

Some further key earnings figures in nine months are, as well, on much higher levels compared to 2019 and 2020. Earnings before taxes decreased by 17.5% to 297 million. Compared to the previous year, that is compared to 2019/2020, we are more than 40% above after the nine-month period. Our EPS amounted to €13.08, which is only slightly down from previous year, by 4.3%, supported also by a higher share in the HORNBACH Baumarkt AG after the delisting offer.

Let us now have a look onto the cash flow development. Specifically here, cash flow inflow from operating activities in the first nine months of this year decreased compared to the previous year, mainly due to the working capital effects. Our funds from operations were at 389.7 million, well above pre-COVID levels.

We currently carry some more inventory than usual due to our cautious purchasing behaviour. In addition, a part of the increase in inventory is due to higher purchasing prices. Let me remind you though that in general, our inventory is non-perishable, non-seasonal and not necessarily subject to short-term trends. As planned, capex stood at 158.6 million in the first nine months. Regarding the capex split, approximately 60% was spent on land and real estate, mainly for new stores, in line with our expansion strategy.

HORNBACH can once again present a strong balance sheet as of November 30 in 2022. Compared to February 28, the consolidated balance sheet increased in total by 5.3% to €4.5 billion. This was mainly driven by our store expansion as well as increased inventories. The equity ratio also increased, now standing at 43%, representing a very comfortable level for the Group.

Summing it all up, following these very strong nine months, we reconfirm our outlook for the current financial year 2022/2023, as revised in June this year. We expect net sales to grow above the record level we have reached in the previous years, supported by continued strong customer demand and also partly driven by price inflation.

Earnings are expected to fall behind last year's level by a double-digit percentage range, reflecting the challenging macroeconomic business environment, the political uncertainty as well as price and cost inflation.

Our store openings are well on track. We have, as said at the beginning, already opened three stores in the current financial year, and our fourth one in Leipzig in Germany will follow in February. By the end of 2022/2023, we will have 171 stores in total at HORNBACH Baumarkt. Let me now hand back to Antje.

Antje Kelbert

Thank you, Karin, for guiding us through our nine-month figures. We now take your questions and start the Q&A session. Operator, please go ahead.

Operator

Ladies and gentlemen, at this time, we will begin the Question-and-Answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. One moment for the first question, please.

Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star and one on your telephone. And our first question is from the line of Jeremy Garnier from ODDO BHF. Please go ahead.

Jeremy Garnier

Yes, thank you for taking my question. I ask two questions regarding your publication. First, so congrats for these good figures, and I would like to know if it’s coming from a specific exposure to specific products, if you can tell us maybe a bit more about your split on products. Because we see a lot of other players in Do It Yourself that are suffering and they don’t have the same, I would say, positive tone on their figures, and that was a bit a positive surprise, I would say. And I wanted to know, how do you explain this outperformance? It comes from kind of products or your geographical locations? How do you explain it?

Karin Dohm

Yes, thank you, Jeremy, for the question. I think a number of points which we observe. Number one is the demand of customers to find solutions for their houses and their flats in any shape or form, to bring down in its entirety their energy consumption and their energy bill ultimately, is quite pronounced.

And that goes through a number of products. So that covers a range of things such as better insulation, different window frames, changes that are made to attics or to other parts of the house just to make sure that, so to say, the warmth stays where it should stay, if I may use this picture.

Then, of course, things like power banks, things like changes, where possible, with heating pumps, with solar panels, so a lot of these things are of interest. And then also things like smart home solutions, where people want to make sure, when they are not at home, they can control better the way the heating is orchestrated or the light goes on or off. So it's a variety of products.

And in addition to that, we are continuously investing in our advice capabilities to make sure that our people are able to help, especially of course the retail customers, to find the right solution. And I think that is definitely one of the large pillars that we currently see paying off in the demand and in the way people buy and how they buy it.

In addition, as said, it's also the professional customers. And we all know that when you look towards the building industry, that some outlooks are relatively concerning or concerned. Nevertheless, I think one of the things that we observe is we are usually in existing buildings, whether it's our retail customers or our professional customers. A lot of the activities of our customers is in existing buildings. So it's about home improvement, modernisation, renovation. And that is under strong demand and not necessarily, from our observations, affected by the building industry or the activity level around new buildings.

Jeremy Garnier — Okay, thanks. And do you have a percentage of sales in terms of products linked to energy efficiency, or it's difficult to say?

Karin Dohm — It's difficult to say, because we so far have costed our products more along different lines, such as garden or electricity related or wood related or so, whilst the whole aspect of energy-driven renovations, so to say, goes a little bit across. It's like a horizontal layer across a number of verticals. So I can't give you very exact figures. But of course, we are working on bringing that into some more visibility.

Jeremy Garnier — Okay. But you would say it's like 50% or…?

Karin Dohm — No. Really sorry for not being here able to give you any quantitative shape.

Jeremy Garnier — Okay. No, no worries. And regarding, can you give us the split and the price increase for the nine months in average on all products? I don't know if you can give it, but…

Karin Dohm — Yes. Roughly, I would claim 8% is inflation driven across the whole year so far, and across the whole range of products on comparison.

Jeremy Garnier — And what do you expect for next year? Sorry. You think it

	would continue to increase in terms of prices or…?
Karin Dohm	No. No, yes, I think a couple of thoughts on next year. Obviously, when you look into any of those figures that thinktanks publish, I would claim, for our region here in the EU plus Switzerland, I think on average, I would expect some, I don't know, single digit, but somewhere probably… Yes, no, as said, I can only repeat so to say what you get from any macroeconomic thinktank, 6%, 7%, 8% maybe on average. We all saw that energy prices have started to come down. We saw that some logistics prices, if you think of container spot prices, those have significantly come down throughout the year. So there are a couple of indicators which give us a little bit of a positive outlook into 2023 with regard to a sheer like-for-like comparison, where I would expect that some components of our P&L become easier for us. How that reflects then on the sales price side, I can't give you yet a thought actually. We need to see, I think, how we all jointly, here in Europe, go through the rest of the winter so to say. But yes, I think that's a little bit the thought there.
Jeremy Garnier	Okay. Thank you very much.
Operator	The next question is from the line of Thilo Kleibauer from Warburg Research. Please go ahead.
Thilo Kleibauer	Yes, hello. Good morning. I have two questions. The first one is on the gross margin which is, yes, still under pressure. What can we expect here in the coming quarters? And then I understand your price strategy to be the price leader, but do you see potential to further pass on price increases to the end customers, or do you have other pillars maybe to stabilise the gross margin? Yes, any insight here would be helpful. And my second question is on the pre-opening costs which are significantly below prior year levels. Does this indicate that you have there a lower number of new opening projects in the pipeline, that we should expect maybe a lower number of new openings in the first half of the next fiscal year, or what is behind the lower number of pre-opening costs? Thank you.
Karin Dohm	Yes, thanks, Thilo, and let me start with the second question first. So as you know, we will have four openings this year, and right as you said, that drove pre-opening costs before. We are still going ahead in our current foreseeable planning, on the capex for the next couple of years with what we said earlier, where we expect when you think on a five-year horizon, something around 20 new stores or so, and that's

totally unchanged.

But as also is the case in our expansion velocity, you always have sometimes things that go quicker and others go slower. So we expect openings next year, but yes, it might be that we have less in the next 12-month period and then have potentially a little bit more in the following year. So that might be what you see now in the pre-openings, but nothing has changed in our strategy. It's just some things go quicker, others go slower.

On the first question, with the gross margin, I think similar to what I alluded to earlier a little bit, we see obviously gross margin as driven by a number of components, as you rightly pointed out. So we expect to see some easing on some purchase prices. We expect to see some easing on some components such as the costs of moving goods around, so to say, until we have them in our hands. I'm talking here not about the last mile, but the part that is, so to say, happening before it is in our hands. And as said, we expect there some easings.

Of course, as you can imagine, we're pushing hard on our suppliers where we know that they are in good shape themselves. So where we know that, we want to make sure that within our partnership, there is a give and a take. And we're obviously driving that continuously. And I think that offers the possibility for some amelioration on the gross margin side. Nevertheless, as we have gliding average prices in our inventory, of course we need to see how that then reflects over time in the gross margin.

Thilo Kleibauer: Okay, thank you.

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

Ludovic Allegre: Yes, hi, everyone. Can you hear me?

Karin Dohm: Yes.

Ludovic Allegre: Okay, perfect. So I have two questions. The first one is on the development of private labels. Maybe, can you give us a bit of details concerning this category? Has the weight increased in your mix, given the decreased purchasing power of customers?

And the second question is on the home price evolution. So we know that interest rates are increasing, so we can expect a decrease in home equity next year in Europe. And I was wondering what's the sensibility of the home equity price evolution compared to the demand for construction and DIY projects for the company. Thank you.

Karin Dohm

Yes, thank you very much. On the private labels we are currently relatively unchanged, somewhere below 25% roughly. It is, as you know, always our aim to make sure we have a large portion. We also really think and are convinced of the good quality of our own labels. Nevertheless, we think there is a kind of magical ceiling at 30%.

We also have customers, and we totally appreciate that, who want to have, for example, a specific brand A or B when they shop with HORNBACH. So we make sure that we have the option and the optionality for our customers. Nevertheless, we think ideally somewhere between 23-24% and towards the 26-27% would be good.

We are continuously also investing into those private labels. Specifically in 2022 as well as in the next year, we will do a lot to make sure that the innovation in the private label area is also strongly moving on, to make sure that things are there really attractive and stay attractive. But we're happy with the ratio as it is. There might be potential for slight increases, but actually, we're quite happy.

On your second question with the housing prices - you know the game, no? Interest rates go up, and then eventually, but that will take some time, asset prices, meaning also real estate, will come down. But obviously we're currently more in the situation where housing prices, real estate, is high since a couple of years. And now we have in addition the high interest rates. So as said, I would expect that switches eventually somewhere in the next, I don't know, 12 to 18 months.

Currently, what we see is a little bit a mixed picture within the countries where we operate due to the national specifications, I would say. And take Germany as one example. Germans often have very long-term running refinancing for their homes, so most of them are in existing homes not necessarily affected. Here more, in Germany, the energy prices and the cost of living are the pain point, whilst in some other countries, take Sweden for example, people usually have home financing that is attached with a flexible interest rate and not necessarily a paying scheme for the pure loan. So that means the rising interest rates hit them hard, and that means then obviously that triggers also a change in buying behaviour in general.

Nevertheless, in its entirety, when we see DIY and home improvement in comparison to the activities in the building industry, we do not necessarily see a correlation. We also sometimes see, in contrast, a positive opportunity for us, meaning if less new houses are built and if people are more

	bound to existing houses, in combination with the urge to bring down the energy consumption of existing houses, that offers actually a wide range of opportunities for potential to help customers in either renovating or expanding maybe their home or their flats or transforming an attic into a room where somebody can live or things like that, in conjunction with, as said, investment into the energy efficiency of such existing houses. So summing it up, I would claim I can’t give you a direct in the sense of if this one goes down by 10%, our sales go up by that percent, but we definitely see this not as an automatic risk as building activities go down. We see there also potential for us.
Ludovic Allegre	Okay, that’s very clear. And maybe a follow-up question, because I know that your activity is not really correlated with the building activity per se, but my question was more on the existing home. So basically, if the interest rates are increasing, the existing home prices will go down eventually. So do you see a correlation or do you think that if the existing home prices go down, people will be less motivated to do renovation in their home, knowing that the prices of their home will go down?
Karin Dohm	Yes, I see your point. Difficult to say. But I think one thing which is probably a little bit a difference between North America and Europe is, in North America, people often invest in their homes because they know they are frequently switching homes, and investing into one home means also investing into the potential sales price.
Ludovic Allegre	Yes.
Karin Dohm	And in Continental Europe, you often have people investing into their homes because they just live there and they want to, so to say, increase their own living standard. They want to have a nicer living room or a chicer bathroom or things like that. So I think that independent of macroeconomic environment, the general motivations to go into home improvement activities is a little bit different.
Ludovic Allegre	Okay.
Karin Dohm	So I would think that that is not necessarily correlating, no.
Ludovic Allegre	Okay, that’s clear. Thank you.
Operator	The next question is from the line of Johan van den Hooven from Value8. Please go ahead.
Johan Van Den Hooven	Yes, good morning. It’s Johan Van Den Hooven, Value8. Three questions, please. If you look at your revenue growth in Q3 of 10.4%, were there any differences, noticeable

differences in the three months overall?

Second question is you mentioned and there's a possibility that December was a good month. Can you please give a bit of an indication how good compares to the 10% of Q3? Last question is Q4 is normally loss making, and the question is, to what extent can you influence the final outcome of EBIT in Q4? Thank you.

Karin Dohm

Yes, thanks, Johan, for your questions. Let me take them one by one, obviously. So the first one was on the 10.4%. I think in general, a couple of thoughts specifically on Q3. I think what we saw, as said, number one, in contrast also to maybe Q2, was, in general, a slightly more, how can you say, a slightly better mood in some countries and regions where we operate.

Over summer, the view, the outlook onto the winter was partially… If you look into consumer sentiments in general, independent of home improvement or DIY, was in summer partially worse than it was in what is our Q3. So in autumn, let's say. And obviously when you're in retail, consumer sentiment is, in general, an important topic.

Second, as said, we saw a switch from defensive shopping to more constructive shopping I would claim. Whilst in summer, that was more about, yes, storing wood to burn it to cover potential, yes, blackouts, we saw now, in the last month, way more constructive activities in the sense of apparently customers and merchants working for other customers, working on projects that are, as said, related to really working on one's energy consumption, on the insulation of one's homes and things like that. So that I would claim is also another driver of that difference partially.

Last but not least, what we saw now and what we obviously have in contrast to last year's winter, specifically now moving into Q4, is the fact that we will of course expect to not see any Corona limitations this winter. So moving slightly into your Q4 question, that is an element which enables us to just operate as we want to with our customers and then giving the opportunity to shop in which shape and form they want.

Your question on potential to influence the P&L of the fourth quarter, of course we try to make sure that the results are as good as we can. We are, for example, very consciously working on the disposition of our employees - as we do the whole year around but specifically in our fourth quarter. We all know that the next spring is coming and that people then will have a couple of overtime hours, we, as usual, work consciously on making sure that people can rest, can

	recharge their batteries, working so to say under hours in Q4 to also give them the time to recover and give our, of course, P&L a little bit of relief there. So we do a lot on these things, but as you know from our past, there are some limits to how far can you adapt an operation whilst not risking that the spring quarter is not well prepared. An influencing factor, last but not least, is unfortunately, as usual, the weather, meaning the temperature will also be of importance and the question of when in February will people feel, so to say, that spring is coming.
Johan Van Den Hooven	Okay. Well, thank you very much.
Karin Dohm	Thank you.
Operator	Ladies and gentlemen, to confirm, that's star followed by one to ask a question. So there are no further questions at this time, and I hand back to Antje Kelbert.
Antje Kelbert	Yes. Thank you very much for your questions this morning. Just one little remark from our side with respect to our new website. We have launched, on 8 December, a new corporate website for HORNBACH Holding. We have a new design, a new structure, and you will find it as usual under www.hornbach-group.com. So there you will find all HORNBACH Holding related corporate information, including governance, responsibility, investor relations and media. So we are happy to invite you to visit and explore our new website. We also invite you to meet us on several Capital Market events in the coming weeks and months. So you see here a short overview. And whenever you have the need or some questions, need to discuss any topics, please do not hesitate to contact the IR team. We are here, and you can just drop us a line or give us a call. Thank you for all your interest and the great cooperation in 2022. We are looking forward to great events and experiences in 2023 as well. We wish you and your families a happy holiday season, some quiet and relaxing days and a healthy New Year. Thank you and goodbye.