HORNBACH Holding AG & Co. KGaA

Investor Relations Update Call

Q3 Results 2023/24

20th December, 2023 **|** 08:30 CET

Transcript

Speakers:

Antje Kelbert

Karin Dohm

Antje Kelbert

Good morning and welcome to our update call for the third quarter and first nine months of HORNBACH Holding for the fiscal year 2023/24. My name is Antje Kelbert, Head of Investor Relations.

Today at 7 AM we published our financial results comprising the period from 1 March to the end of November 2023. Welcome and good morning also to our CFO, Karin Dohm, who will be our host and presenter today and will later also take your questions.

Please note the entire conference call, including the Q&A session will be recorded and made available with the transcript on the company's website afterwards. Please also take note of this disclaimer, which is valid for the entire presentation and for the Q&A session.

Now I am delighted to hand over to you, Karin, to give us an overview of the latest set of numbers.

Karin Dohm

Thank you, Antje, and a very good morning and a warm welcome also from my side.

Earlier this year, we claimed an improvement of our gross margin and ongoing cost discipline. Our measures are now bearing fruit and with our Q3 results, we are able to underline a sequential margin improvement and an effective cost management.

Our merchandising team has successfully focused on their negotiations with suppliers, making sure that lower commodity prices are feeding through. We are very pleased that we managed to improve the gross margin by 1 percentage point.

Our sales are in line with our expectations, also reflecting normal seasonality in Q3. In line with the overall macroenvironment and customer sentiment, we are observing softness in large projects and discretionary spending. However, customer frequency and engagement in smaller renovation projects remain on a satisfying level.

Let me remind you that last year's sales were influenced by so-called panic purchases in heating components and therefore bring a base effect to this quarter.

During the 2023 calendar year, we were able to increase market shares in several of our key international markets, underpinning the resilience and the strength of our business.

All in all we're very pleased with our latest performance against the backdrop of the challenging trading environment. Given the results achieved in the first nine months, we confirm our guidance and expect sales and adjusted EBIT to come out in the mid to low range, in line with market expectations.

While we are navigating short-term challenges, we feel very confident about the underlying long-term trends in our industry. Structural trends, such as energy efficiency and overall ageing housing stock and demographic development will continue to drive DIY spend on home improvement.

We steer the company by investing into these trends and by expanding our assortment and dedicated services to our customers.

As we informed you a few weeks ago, we acquired Seniovo, a startup that specialises in serial and standardised bathroom renovations, with a special focus on barrier-free conversions.

They have automized the whole value chain to provide customers with a full service package, from offer compilation to applying for grants and obtaining permission from landlords, through to professional implementation.

Having such a great partner as Seniovo on board provides a complement of our existing do-it-for-me services business and will help to attract more customers. By teaming up our partner networks, we are creating added value for HORNBACH Group and achieve an enhanced ecosystem.

Let me also highlight our progress in several ESG-focused initiatives.

Rolling out our strategy to reduce our carbon dioxide footprint and switch to renewable energy, we have installed additional six photovoltaic systems in Q3. In total, we now operate 32 photovoltaic systems, running with a total output of almost 15,000 kWp, so kilowatt peak. Further roll out is going ahead in the next years.

In addition, we are analysing alternative heating systems for our existing stores. For example, we’re currently connecting two more stores to district heating.

On the same note, we are also helping our customers to reduce their carbon dioxide footprint by expanding our assortment of products for insultation and own energy generation.

In some countries, we are now able to offer complete rooftop systems, and we also extended the choice of balcony solutions and have introduced small wind energy generators.

Let us now take a deep dive in our financials, starting with the recent sales development.

Our sales have been resilient in the first nine months with group net sales only slightly below the previous year's record level.

HORNBACH Baumarkt, including the online retail, performed slightly better than the group: A more challenging picture in Germany with -2.9% was balanced by a positive contribution from our international markets with an increase of 0.4%.

As a consequence, on the Baumarkt level, the share of international business further increased to 51.7%.

The positive development of customer frequency that we experienced in Q2, has continued into the third quarter. The trend of slightly reduced average ticket size keeps proceeding. On the positive side, customer engagement in small tickets is staying strong.

Keep in mind, last year's sales were exceptionally driven by so-called panic purchases against the backdrop of impending gas shortages. This applied specifically to product categories such as electric heaters, power generators or gas and wood.

Throughout this year, we are seeing good demand in articles with our renovation assortments. More recently, with heavy snowfall in some regions, we have also seen strong demand for winter assortments.

We're very pleased with the performance of our private labels, which represent an increasing share of sales. This shows that customers clearly appreciate our value for money offering across all ranges. We will continue to lean into product innovations that simplify the project, saving our customers time and money.

Drilling down to country-by-country sales development, we see the following pictures.

The aforementioned strong base effects and the difficult consumer environment impacted specifically our Q3 like-for-like sales at HORNBACH Baumarkt.

We are also starting to see deflationary effects towards the end of the quarter, where prices in some categories are normalising from exceptionally high levels in the previous year.

Amid the softer market development across the sector, HORNBACH continued to increase market share in key international markets.

We continued to see a tremendous development in our market position specifically in the Netherlands, with an increase of 1.1 percentage points and a plus of even 1.9 percentage points in Czechia. Switzerland has also contributed positively to our market share gains.

Let us continue with the E-commerce part of our business. The share of E-commerce in HORNBACH Baumarkt net sales stood at 12.9% after the first nine months of 2023/24, still well above pre-pandemic levels.

Customer engagement across our interconnected platforms in all regions remains on a high level. Customer accounts have increased significantly in the first nine months of the year by 15% to 4.1 million by end of November.

More than half of e-commerce sales continue to be fulfilled through our stores, either through click and collect or our store delivery centres. This underpins the strength of our interconnected retail approach. We're able to leverage the value of our big-box store network, which is serving as both point of sales as well as storage and fulfilment facility.

Let us now take a closer look on the cost development. We are very pleased with the development of our gross margin, which increased by 1 percentage point in Q3. We are now seeing the results of successful negotiations with our suppliers over the last month to ensure that decreasing input prices are adequately passed through.

We have also achieved a decrease in selling and store expenses in Q3 by strict cost management. Nevertheless, the cost ratios reflect some deleveraging from our top line results. Personal cost increases due to higher wages could be limited by careful headcount management.

We also continued to invest into technology and IT to foster innovation and increase process efficiency. Consequently, we have achieved the adjusted EBIT development as shown on the next slide.

In Q3, the adjusted EBIT has further stabilised, with only a slight decrease of 1.7% compared to previous year. This was driven, as said, by our gross margin improvement and our tight cost management.

Regarding non-operating items in Q3, we recorded minor positive effects of 1.4 million, mainly from the sale of a smaller piece of land. We clearly stick to our ambition to actively manage gross margin as well as EBIT margin going forward.

As mentioned, we expect gross margin improvement to continue as effects of lower moving average purchasing prices continue to flow through. We also aim to keep personal costs down by managing our headcount carefully and using natural fluctuation for reductions in some areas.

Our successful inventory reductions had a significant positive impact on our operating cash flow in Q3, which improved from 25 million in last year's quarter to now 114 million.

Let me remind you that the nine-month period working capital includes repayments from our reverse factoring programme of 250 million that happened in Q1 this year.

All in, we had an adjusted free cash flow of roughly 306 million after nine months. CAPEX spend was at 149 million in nine months, of which 43% was spent on land and real estate, mainly for new stores.

CAPEX also includes the acquisition of Seniovo and some minor amounts for our marketplace and S/4HANA. For the full year 2023/24 we expect around 100 million of gross CAPEX.

Let us end the journey through our financials by looking at our balance sheet.

Due to our successful inventory rightsizing, the consolidated balance sheet decreased in total by 6.7% to 4.4 billion. The equity ratio came in at 45%, further strengthened and continues to represent a very comfortable level.

Allow me to remind you that our balance sheet contains significant value from owned land and real estate, which amounts to roughly 1.8 billion as of November 30. Real estate is conservatively accounted for at amortised cost.

Our balance sheet underpins our robust financial position and contributes to our conviction in the resilience of our business.

Let me emphasise again that we see our company very well positioned to capture medium- and long-term growth in the home improvement sector and that we are very confident about the overall development. However, global political, geopolitical challenges and European macroeconomic softness are here to stay short term.

With our everyday low price strategy, combined with strong owned brands, we are a reliable partner for our customers for all their big and small renovation needs. We will continue to emphasise cost and inventory management, while making targeted investments to improve operational

	efficiency and maintain our strong market position.
	Now I'm very pleased to take your questions.
Antje Kelbert	Thank you, Karin. We will now start with the Q&A session and I would like to hand over to the 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. It seems there... Oh, we've got one question now. The first question comes from Thomas Maul from DZ BANK AG. Please go ahead.
Thomas Maul	Good morning. Thanks for taking my question. I have one. It's on Austria. It would be nice if you could elaborate a bit on the market share development in Austria and what's going on there. Thank you.
Karin Dohm	Thanks for your question. Actually, we're, as you can imagine, not really pleased with that development. I think we had this year in special some competition challenges due to outstanding activities from our local competitors in Austria. Therefore, as said, this is not exactly where we want to be heading.
	Nevertheless, very much in line with what we're investing into. Currently also in the German market we feel that we're in a good position to regain that in the future to come, but obviously not necessarily. That's what we wanted to see last year.
Thomas Maul	Thank you.
Operator	The next question comes from Miro Zuzak from JMS Invest AG. Please go ahead.
Miro Zuzak	Good morning. Can you hear me?
Antje Kelbert	Yes, we hear you loud and clear. Thank you.
Miro Zuzak	Good morning from Zurich. There don't seem to be many questions, so I'm happy to ask mine in this case. I see from the cashflow statements that you spent roughly 23 million this year for acquisitions. Is this mainly Seniovo?

Karin Dohm	Those acquisitions contain Seniovo, yes, but we're also having some other immaterial investments. That contains partially IT investments, for example, our S/4HANA project, which is ongoing for this year and the next years to come, also for our marketplace where we are starting to work on a platform business which enables even more customer services and a larger variety of SKUs for our customers.
Miro Zuzak	But the latter that you have mentioned, they are probably under the normal investing cashflow. That would be [Auszahlungen für Investitionen in immaterielle Vermögenswerte], probably S/4HANA. Or is it in [Auszahlungen für den Erwerb von Beteiligungen und sonstigen Geschäftseinheiten]?
Karin Dohm	The CAPEX capture all these categories. Exactly.
Miro Zuzak	And the line [Erwerb von Beteiligungen und sonstigen Geschäftseinheiten], the 22 million, this is mainly Seniovo?
Karin Dohm	That's mainly Seniovo, yes.
Miro Zuzak	Okay. Can you please tell more about basically the strategy behind this, about this acquisition basically? Is this like a change in strategy that you want to basically build on top of your stores like value-add services with third-party brands? Or is it basically HORNBACH brands in which you have basically a shop-in-shop concept in the store? Can you just tell me more about this acquisition and whether this is the beginning of a new strategy that you would like to deploy?
Karin Dohm	Thanks for that question. I think it is absolutely in line with our strategy. It actually enhances our services. As you're probably well aware, we offer at HORNBACH a variety of services that add value for customers beyond the transactional element of our business where it's about making sure that we provide the right goods for customers. Obviously, providing the right service, advice, anything that is related to their projects. That might also be some advice around what to use, how to apply things, what grants to take, what regulations are important when you think about energy efficiency tools and other things. Providing service jointly with providing products is in general a very strong piece of our DNA. Seniovo fits very well into that because obviously their focus is very much on making sure that persons who are maybe not as agile as they were once and therefore need to have some changes in their bathrooms to have better access, to have barrier-free accessibility to their bathrooms.

If you think, for example, about taking out a bathtub and bringing in a floor-even shower, to make sure that everybody can stay in their flat or in their house as long as they want, that is the area of focus of Seniovo.

And providing this service in an end-to-end approach, not only so to say the shower, but also everything that is related to that. Including the professional that can then help you with bringing so to say the sheer change into the bathroom into action and making sure you also have any potential support on the financing side. That is the excellence in which Seniovo has built their business case in the last years already.

Therefore, we are totally convinced that it is a very strong addition, currently focusing on our German market, obviously, which, as you know, is our largest anyhow. This is the one where we can join our forces and our network and therefore that adds a lot of value to our proposition for customers.

Miro Zuzak	As of when was it consolidated?
Karin Dohm	That is since December 1.
Miro Zuzak	Since December 1. Okay, that’s just for Q4 then. And what are the sales roughly?
Karin Dohm	We don’t provide those details.
Miro Zuzak	But can you share whether this company was profitable or whether it was loss making?
Karin Dohm	As said, obviously, and as written, this is a startup, so we’re on a strong growth path and we’re just consolidating since December 1.
Miro Zuzak	And this will be booked in Baumarkt?
Karin Dohm	It is a subsidiary of Baumarkt.
Miro Zuzak	Okay, good. And just to understand, sorry, to maybe calculate the revenue, if you don’t want to share or give us a guidance how much sales you’re going to consolidate next year from this acquisition. Which is actually typical that companies give the guidance if they make an acquisition how much sales they’re going to consolidate in the upcoming year, frankly speaking.

But maybe you can give us an idea how many bathroom conversions they make next year maybe and whether the volume is basically sales. You know what I mean? So, estimated bathroom conversion, maybe it’s €10,000 or so, whether this is sales then or whether the sales are going to be a different measure, maybe just a markup or something. Do you understand my question?

So we can have an idea how much sales you have acquired here. Because otherwise for us it's a blind flight basically to make our models for next year.

Karin Dohm	Miro, thanks for your questions. I think let me answer as follows. Happy to provide more details on those whilst we walk through our next fiscal year. Obviously, this is all brand new within the group and we are currently building on that. Actually, I think it is from a business case, as elaborated, it's a very good addition and any further details, very happy to walk through as we're meeting next time.
Miro Zuzak	Okay, good. Thank you.
Operator	The next question comes from Dr Norbert Kalliwoda from Dr Kalliwoda Research. Please go ahead.
Norbert Kalliwoda	Hello, good morning. Can you hear me?
Antje Kelbert	Yes, good morning. Hear you loud and clear.
Norbert Kalliwoda	Thanks a lot. Thank you. I want to ask you generally about wages and prices. Can you give us some idea? Also the number of employees. It was a little bit reduced. Can you give us some trends about wages, prices and the number of employees, please?
Karin Dohm	Yes, sure. Happy to. Number of employees, right as you said, we reduced them if you compare that status as of end of November and compare it end of February, for example, when we started this fiscal year. There are two elements driving that. Obviously, as said, we are keen to make sure we right size and have therefore the best mixture of people that we need to provide excellent customer service on the one side. Sometimes also, of course, a couple of seasonal elements, which obviously now is more on the low season side if you think about our activity level. Then, in addition to that, we were also keen to use some fluctuation, as highlighted in our statements, to optimise also with regard to our expenses. On the other side, as we had throughout the whole calendar year 23, we partially also had that already in 22 and we will see some minor effects even in 24. There are salary increases across all countries where we operate. That is with different intensity and in different shapes and forms, but in the last 18 months, we saw those

literally across all countries.

Nevertheless, as said, going forward, we expect that to flatten out. Some minor increases here and there. There's, for example, a smaller legally required for all employers in the Netherlands as of January 1st. But beyond that there will be way less salary increases based on our current expectation in 24 than we saw in the last 18 months.

Norbert Kalliwoda: Thank you. And a second question. The CAPEX of 7% intangible assets, what is the situation of 7% of the whole cake or was it the growth of CAPEX? What is this? Maybe some words about the intangible assets, please.

Karin Dohm: Absolutely. The pie chart is the absolute figures. It's not a comparison to previous years. That is when you go from line to line. Obviously, we had this year so far 149.2 million and in the nine months of the previous year, we had 158.6 million, so a little bit less, so to say.

And the percentage points, the 7% to which you allude, that is a mixture of investments, as highlighted, into IT, which we capitalised, into our market stores, in our Seniovo investment and in the marketplace.

Norbert Kalliwoda: Thank you so much. Thanks.

Operator: The next question comes from the line of Thilo Kleibauer from Warburg Research. Please go ahead.

Thilo Kleibauer: Yes, hello. Good morning. I have two questions. The one is a kind of follow-up on the headcount development and the headcount reduction.

In Q3, we already see a decline of around 300 in the number of employees. Should we expect a similar trend going forward for the current quarter or what are your plans and maybe in which countries or in which categories you decrease the number of employees?

My second question would be regarding the stake in HORNBACH Baumarkt AG. Obviously, you further bought some shares. Maybe you can give us the current stake of the HORNBACH Baumarkt AG shares.

Karin Dohm: Yes, sure. With regard to the headcount, totally correct, that's roughly 300. We are not having so to say hardcore reduction targets with a specific number.

I think there are two effects. Literally we were very keen to make sure we are conscious in our headcount and therefore this number or the reduction of it is driven across all areas of the group. That contains partially a couple of headcount reductions in stores. Also partially in the administration of costs. We are really investing also in our back office IT to make sure there we have there any operational efficiency and simply can free up people from certain activities, so therefore overarchingly have less necessity for headcount. That is all done by using then natural fluctuation.

On the store side, we were really keen to even more focus on the aspects of where do we need advice capabilities, where do we maybe have less necessity for certain presence and how can we optimise this. Always thinking about customer experience, but nevertheless being conscious of running also there our operational activities in the best form possible.

Looking forward on that side, yes, we will keep that path. Will that bring exactly the same 300 when we talk next time? I simply can't tell you. I wouldn't necessarily expect because at the same time we are growing, of course. We are opening not every quarter, but every once in a while, if you want to say so, we are opening new stores.

We opened in summer our one in Nijmegen. If you look, for example, into more details, you see normally opening a store brings along roughly 100 to 150 people. It also is a little bit driven in the ups and downs by the question when is which store opened. That might have an impact there.

With regard to the Baumarkt shares, we are currently at 93% more or less. A little bit more.

Thilo Kleibauer

Maybe one additional question regarding the E-commerce business. You highlighted that more than half of the online orders were fulfilled through your stores.

Have you shifted something to the stores because there's more capacity due to lower frequency and lower sales from your centralised warehouse structure or is it pretty much the same from the structure how you handle the online orders?

Karin Dohm

Structurally it's pretty much the same. I think what is important to note is that we think we really see that as a sign of the successful ICR strategy that we run.

That means customers really like, apparently, and use it therefore to start their buying process, if you want to say, so somewhere online, in the app, in the webshop, anywhere in between. Then they might choose there some goods and they might then come to the store and ask for some advice or they might do any type of interaction between the two worlds, so to say, the virtual and the physical.

Therefore, I think that is the main driver behind that. That is the reason why we're also saying that this interconnected retail is really the key to customer satisfaction and making sure we use that as good as we can to provide here really a satisfactory journey for our customers. But it's not that we proactively shifted some activities in that shape and form.

Thilo Kleibauer: Thank you very much.

Karin Dohm: You're welcome.

Operator: As a reminder, anyone who wishes to ask a question may press star followed by one at this time. It seems there are no more questions at this time, so I hand back to Antje Kelbert.

Antje Kelbert: Thank you very much for your questions, your interest this morning. We also would like to invite you to meet up at the upcoming capital market events throughout the coming weeks and months, starting into the new year.

Whenever you have questions or the need to discuss any topic, please do not hesitate to get in touch with the Investor Relations team.

Thank you all for your interest and time this morning. We wish you and your families a happy holiday season, some quiet and relaxing days and a healthy new year. Thank you and goodbye.