HORNBACH Holding AG & Co. KGaA

Investor Relations Update Call

Q2 & H1 Results 2023/24

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Transcript

Speakers:

Antje Kelbert

Karin Dohm

Antje Kelbert

Good morning, and welcome to our update call for the second quarter, and first half-year, 2023/24, for HORNBACH Holdings. My name is Antje Kelbert, Head of Investor Relations. Today at 7 AM we published our financial results, comprising the period from 1st March until the end of August 2023. Welcome also to our CFO, Karin Dohm, who will present today and will answer 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 the Q&A session. And now I hand over to you, Karin, to walk us through the set of numbers.

Karin Dohm

Good morning everybody, and a very warm welcome from my side as well. Let me start with some highlights. In Q2 we saw recovery in both sales and earnings, with strong customer frequency in our stores leading to good sales. Our adjusted EBIT stabilised in Q2, including some catch-up effects in the garden area.

As you recall from Q1, we had had a challenging spring season which was impacted by unfavourable weather conditions. Inventory reductions had a positive effect on our working capital, this resulted in an adjusted free cash flow above previous year's period. Excluding the repayments from the reverse factoring program at the beginning of the fiscal year.

We also demonstrated our resilience by continuing to increase market shares in several of our key markets. Whilst our home market, Germany, remains a significant proportion of our business, we are seeing the benefits of our geographic-diversification strategy. Reflecting the weaker macroeconomic outlook, specifically in Germany and the Eurozone, we have updated our guidance.

Management has focussed on striking a balance between closely managing costs, whilst continuing to invest to improve operating performance and deliver long-term growth. Throughout the first half we've taken a number of steps to improve our business and keep pushing those through. The management team has a track record in successfully navigating short-term challenges.

And our long history shows us that HORNBACH has been able to emerge stronger than its competition, in relatively tougher times, by building on our market position. Leveraging our geographic diversification, and leading interconnected-retail offering, we are well positioned for when markets recover. We see the underlying long-term trends in our industry unchanged.

Structural trends such as energy efficiency, demographic development, and an overall aging housing stock will continue to drive DIY spend on home improvement. We believe these drivers continue to underpin the attractions of our investment case.

Let me highlight a couple of our key investment areas, including ESG-focussed themes - delivering growth and further improving our logistics footprint. We have opened our new logistics centre in Essingen, based next to our headquarters, which began operations in June. It includes the regional warehouse, stock inventory for our stores, as well as a cross docking facility for long, and bulky goods.

Furthermore, we continued our successful expansion in the Netherlands with the opening of our 18th store in Nijmegen. At the beginning of the financial year we completed the back-end migration of our online shops to the Spryker platform, which has improved performance and speed for our online offering by adding much more agility and flexibility to a modular platform architecture.

We have successfully continued to roll out process-automation tools, and standardisation of back-office tasks. For example, we invested in a new software for 3D store planning, which makes our updates more efficient. Rolling out our strategy to reduce our CO_2 footprint and switch to renewable energy, we've installed 20 photovoltaic systems on the roof of stores and logistics centres. We now operate systems running with an output of, in total, more than 12,000 kWp, further rollout is going ahead in the next years.

We also continue to expand our sustainable product offering, with the rollout of bio-certification for our private label plants and seeds. Which is now implemented in eight of our nine countries.

With regard to our supply-chain emissions, which are the most important part of our footprint, we have joined forces with other leading international home-improvement retailers in the Scope 3 taskforce of the Global Home Improvement Network. The goal is to develop a consistent methodology for measuring and reporting emissions. Together with other DIY and gardening stores we are introducing an industry-wide solution for re-usable plant trays, which are a big contributor to plastic waste in our stores.

Let's double-click on our sales development. We are encouraged by the resilience of our sales in the first half, with group net sales close to the previous year's record levels. Net sales with sub group HORNBACH Baumarkt, including the online retail, were almost flat. A challenging picture in Germany of -2.4% was balanced by a positive contribution from our international markets, with an increase of 1.8%. As a consequence, on a Baumarkt level, the share of the international business further increased to 51.6% from 50.5%.

In general we've seen a slightly reduced average-ticket size, but strength in smaller tickets, while there was some softness in big tickets and discretionary purchases.

Keep in mind that Q2 last year was also affected by some panic purchases which did not take place this summer, for example, electric heaters. Since the beginning of this year we are seeing good demand in articles within our renovation assortments, hardware and tools.

More recently, specifically with sunny and warm weather continuing into autumn, we've also seen a strong demand in the outdoor-living category.

Sales of private label brands have also picked up in recent months. We're especially excited about broadening our offering of private-label innovations, in particular for professional customers, for example in our MODULAN and Akkit product lines.

Our private label ranges are specifically designed to offer value-for-money products to our customers. We will continue to lean into product innovations that simplify the project, saving our customers time and money.

Let's drill down to country-by-country sales development.

We saw a positive sequential trend in like-for-like sales across all our markets in the second quarter compared to the first quarter. In total HORNBACH Baumarkt increased like-for-like sales by 1% in Q2, with a flattish home-market development in Germany, but a 1.6 growth in the rest of Europe.

We continue to see very strong numbers from the Netherlands, with an increase of 7.5% in Q2, following an outstanding performance in Q1. Luxemburg, Slovakia, and Switzerland also recorded positive like-for-like growth in Q2. Overall this performance has also driven our market-share development, which you see on the next page.

Despite the uncertain economic backdrop, persistent inflation, and softening consumer confidence, we are pleased to have delivered market-share gains in a number of our geographies. In our home market, Germany, we've seen a slight increase from 14.7 to 14.8% in the period January to July 2023. We also continue to see a strong development in our market position, especially in the Netherlands and Czechia. Switzerland has also contributed positively to our market-share gains.

When we look onto the e-commerce share of HORNBACH Baumarkt, you see that net sales stood at 13.2% in the first half of 2023/2024, stabilising at the level we saw by the end of Q1.

Our overall level of e-commerce sales still remains well above pre-pandemic levels, and we're excited about customer engagement across our interconnected platforms in all regions. Customer accounts have increased significantly in the first half of the year, by 11% to 3.9 million as at the end of August. This confirms the increasing attractiveness of our digital offerung, which we are continuously enhancing with new features and services.

More than half of e-commerce sales continue to be fulfilled through our stores, either through Click & Collect or our store delivery centres.

This underpins the strength of our interconnected-retail approach, leveraging the value of our dense big box store network serving as a point of sales as well as storage and fulfilment facility.

Moving on to our cost structure. Our gross margin was down by 36 basis points compared to last year, reflecting ongoing inflationary challenges. However, Q2 gross margin development indicates a stabilisation in recent months. Going forward we expect this stabilisation trend to continue during the second half of the year.

Our operating expense performance reflects, for a large part, higher wages, including inflation-support payments investing into our people and teams. At the same time we steer our head count very consciously to optimise both in our stores, and specifically of course, in the backoffices.

Keep in mind that the ratios were also affected, specifically in Q1, by the deleverage from our top-line results. We successfully reduced our store-operating costs, which we managed down by more than 6%. This includes savings from lower energy as well as reduced energy prices.

Just to note, selling and store expenses were also affected in H2 by non-operating effects from impairments. General and administration expenses have also increased due to higher wages, as well as and specifically from investments into technology and IT. We also kicked off our S4Hana project in H2, which we are expecting to run for the next two to three years.

As a result we see an EBIT development, as highlighted here, with an adjusted EBIT which has stabilised in Q2, with -13% compared to Q1. For the first half of the year the reductions summed up to 20%, and our EBIT margin came in at 6.4%.

Let me summarise. We're focussed on improving the gross margin in the second half of the year, whilst maintaining our competitive pricing in line with our Every Day Low Price strategy. We expect positive effects to result from decreasing purchasing costs for a range of products from the very high levels we saw during the pandemic and the beginning of the Russia-Ukraine war, namely '21 and '22.

We continue to stay in constructive dialogue with our suppliers to ensure that decreasing input costs on their side are also well reflected in our purchasing prices. As said earlier, implementation of energy-reduction measures are bearing fruit. We're benefitting from both decreasing energy-cost base on falling prices, as well as lower consumption.

We will balance any cost-reduction measures carefully, whilst not compromising our long-term development and opportunities of future growth. We are and we will also continue to invest in technology and our interconnected retail offering. We are very pleased with the outcome of our inventory development and inventory productivity.

Inventories have already been reduced by 14% compared to the end of February. Beyond seasonal reductions, which were subdued in Q1, we brought down inventory levels by 6% in comparison to the same period last year. We will continue to optimise our differentiated ordering management, to ensure high availability both on stock and on shelf with focus on our professional and project customers, with respect of fast-turning project goods. This also includes the usual up-ramping of stock towards the end of this fiscal year, where we will focus on balancing the productive build-up of inventory for the next Spring season, while maintaining a high level of product availability.

The successful inventory reductions obviously also are reflected in our cash flow. The development reflects the previous mentioned key items. Firstly, strong operating cash flow from continuously improving throughout H2. Second, successful stock reduction we're supporting, specifically the change in working capital.

And thirdly, our reverse-factoring programme, influencing specifically the first quarter, as you know. Where we were keen to make sure that we transform the outflow of money for payments, for goods, from the Q4 of the previous year to the first quarter of this year. All in, we have therefore an adjusted cashflow of roughly 260 million in H1.

CAPEX spend was at 91.7 million in H1, of which 54% were spent on land and real estate, maintained mainly for new stores, which is consistent with our organic growth strategy. When we take a look into the balance sheet, and compare that to February 28th of this year, you see that we had, as planned, a decrease by roughly 5.3% to 4.5 billion.

This was mainly driven by the successful reduction in inventories on the asset side, as well as short-term liabilities. Equity ratio is extremely stable, slightly built compared to last period, with 44%, and has further strengthened to a very comfortable level.

Let me remind you that our balance sheet contains significant value in the form of owned land, and real estate, which amounts to 1.8 billion as of August 31st, 2023. The real estate is conservatively accounted for at amortised cost. While we are not a real estate company, those assets are a significant financial reserve that not every retail company can rely on.

This further underpins our robust financial position and contributes to our conviction in the resilience of our business. Especially when you look back in industry, the DIY industry in general, and specifically also HORNBACH, has re-emerged stronger from periods of economic downturn.

At HORNBACH we can also show a track record of delivering strong performance during these times, by out-performing GDP, general retail, and the DIY industry, in Germany. Resulting in continuous market-share gains and growth for us.

Through the combination of the highest DIY-sales density in Germany, the compelling customer proposition, and our attractive ICR offering, we have been able to adapt and tackle external challenges in the past and will so in the future. Last but not least, successfully establishing new sales channels and geographic diversification, have contributed significantly to the stability of our business.

Summarising that before we move to Q&A, let me highlight once again. Improving operating efficiency is a key priority for us, and management is closely focussed on cost and inventory optimisation. Against both we have already delivered now in H1. In parallel we will maintain our price leadership for our customers and remain a reliable partner for them with a strong focus, as before, on our professional customers, and the depth and breadth of our store SKUs. We will continue to make targeted investments to improve operational efficiency and maintain our strong market positions. In line with out commitment to sustainability, we will continue to broaden our offering of sustainable products.

Lastly, we have a robust balance sheet which enables reliable dividend payment. Overall we are confident that we will continue to successfully navigate the current unique and uncertain environment, operate with agility, and respond to evolving customer dynamics. With that let me conclude, and I hand back to Antje.

Antje Kelbert

Thank you Karin. So we will now take your questions and start the Q&A session, and for this I hand over to our 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 touch-tone 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 followed by one at this time. And we have the first question from Thomas Maul with DZ Bank, please go ahead.

Thomas Maul

Yes, thank you. Thomas Maul from DZ Bank, thanks for taking my questions, I've got three. Number one, can you please elaborate a bit on current trading in September, and your expectations for the second half. Number two, could you please shed some light on the impairment losses recognised in Q2, what happened here? And yes, which stores are effected.

And the last one, you just highlighted that you recorded good growth in your private-labels segment. Can you please remind us how high the private-labels share is, and where it will go, and how that impacts your growth margin, thank you.

Karin Dohm

Yes, thanks a lot. Just quickly, first one, September current trading, I think partly a continuation what we saw in August. Namely, we see really strong demand in outdoor living, also driven obviously by the favourable mild weather across all of our regions. We still have good frequency, and we see a continuation in what we had before, the slightly slower demand on big tickets, and the strength in smaller tickets.

So I would claim, in the broadest sense, a continuation of what we had towards the end of the second quarter. You ask for the private-label ratios, so we're roughly at 23, 24%, more or less. We're always, as you know, aiming to have this in moving higher, so that is definitely one of our strategies. As we think with…

It's not only, obviously, a part where we have especially good margins. But it's also a part where we can really offer a broad range, specifically targeting professional customers, and people who have larger projects.

So our aim is towards, ideally… In the direction of 30%. Nevertheless, you always have strong demand for brand products as well, which is totally fine for us. As said, that's just the target corridor I would claim.

Thomas Maul	Okay, thanks. And…
Karin Dohm	And then…
Thomas Maul	Yes.
Karin Dohm	Sorry, you had a third question.
Thomas Maul	Yes, it was on the impairment losses recognised in Q2.
Karin Dohm	Ah, the impairment losses.
Thomas Maul	Yes.
Karin Dohm	So the impairments are driven by a mixture. We had, number one, a little bit of, once again, ECB interest rate raises. And a couple of, also, our neighbouring central banks, as far as they are not in Euro-land as you know. And on the other hand, the slight decrease of the year's expectation on the top line is triggering a little bit. That is, when you look into the underlying stores, that is particularly… It's across a number of stores, so more smaller impairment but a larger number of stores. But if there is any majority I would claim it's in Sweden, because Sweden has macroeconomic challenges currently, where customers are a bit more hesitant to spend in light of the fact that they have the vast majority have their private-home financing on floating interest rates. That means they are way more affected by the rising interest rates than consumers in our other countries.
Thomas Maul	Okay, fine. Very helpful, thank you.
Operator	Ladies and gentlemen, as a reminder, if you would like to ask a question please press star and one on your telephone. One moment for the next question please. And the next

question is from the line of Thilo Kleibauer, with Warburg Research. Please go ahead.

Thilo Kleibauer: Yes, hi, good morning, thanks for taking my question. I have, yes, two questions. So one is on Austria. Austria seems to be a little bit the weak spot. You lost market share there and significant like-for-like decline. So anything specific in this market, in terms of competitions or some problems on your side? Maybe you have some more insight.

And second question is on potential new locations, or the potential to acquire additional real-estate facilities in the current environment. Do you get more offers for potential land, for new locations? Or maybe do you get attractive offers to buy back stores which are not in your own property, in the current real-estate environment? Thank you.

Karin Dohm: Yes, thanks for your questions Thilo. Number one, on Austria, absolutely, that is a bit of a weak spot. The underlying challenge there for our colleagues is, we are there specifically strong, really, in the project and, let's say, slightly more larger-project-related business.

And that is the part that has shrank, and it has shrank stronger in comparison to typical retail-customer footfall and spending. And I think that is the reason that we there see currently that we are getting a slightly smaller share of the market than we would like to see. Colleagues are obviously focussed on that and for us that is more a temporary topic than an ongoing or permanent topic. Nevertheless, definitely a focus area.

With regard to new location, yes. We partially get real estate offered which we are in a long-term rental, or leasing, agreement. In those instances where that's happened, so far the expectations from the selling side were nevertheless in an area where I don't see that as an attractive opportunity for HORNBACH. Or we, as a team, didn't see that.

On the other hand, yes, we're specifically also exploring opportunities where we can step in, and into other locations, and I might have said that in one of our last calls already. I definitely expect that there is more flexibility on some counterparts, and market participant's sides, in the next months or maybe I would see there 12, 18 months where we will definitely have more, yes, just more things happening so to say, and more movement in the market. Given the interest-rate environment, given other people's refinancing costs, and other aspects where I would expect people to be more flexible, so to say, also on the sell side.

So we are continuously monitoring that, we are in a number of talks where we examine things, and we just see where it makes a lot of sense to build further either our network, or just dense it in some countries where we already are.

Maybe I can highlight there, our average interest rate currently is… It has slightly increased but it's still below 3%, and I think that's a very comfortable situation in which we are there. And I think that is also especially comfortable in comparison to some others.

Thilo Kleibauer	Yes, okay. But do you plan to issue new financial things, like loans or promissory notes, in the short-term? Or…
Karin Dohm	No, currently we have…
Thilo Kleibauer	Or do you have sufficient cash?
Karin Dohm	We have sufficient cash. We have nothing where we see the necessity to take up additional liquidity for the operation as they are. So there's nothing planned currently, no.
Thilo Kleibauer	Okay, thank you, that's helpful.
Karin Dohm	Sorry, just half a sentence. Our bond is – just a reminder – is running until '26, so that's also not recent.
Thilo Kleibauer	Yes, thank you.
Operator	The next question is from the line of Lars Hettche, with HC Capital Advisors, please go ahead.
Lars Hettche	Good morning, thanks for taking my questions, I have a few. So starting with the guidance. I was a little bit puzzled when looking at your guidance, that at the beginning of the year you had a range of about 10%, so -5 to -15% here regarding EBIT development. And now after half a year, that has risen now to a range of 15%, from -10 to -25.

Normally you would think of that within the year that range becomes narrower and narrower, so with you it's the opposite. So what is really the reason behind that? So has really the environment become so much more uncertain so… Compared to three months ago?

And don't you have any kind of cost-cutting countermeasures to go against that development and bring it more in the direction where you want to have it, yes? So this is the first question.

Then I've got a question regarding the, yes, regarding your targets in the future.

When looking at the share price and looking these price-book measures, and I think we have rather now coming down to all-time lows here, it seems like investors are really,

really confused with the future prospects of the company. And you've shown a slide, how good the company development in the past is. But somehow I think investors don't really, yes, buy that.

So isn't it possible to give some targets for the future, where you want to go, where gross margins should go again. So that, I don't know, investors become a little bit more confident again compared to what they are now.

And then last thing is, when looking at the guidance cuts you've made about two weeks ago.

Isn't it possible to maybe make a conference call the next day to explain a little bit what happened here? So I had the feeling that a lot of people were really confused and then it takes two weeks to explain that. And this is a vacuum (information vacuum) and people are really confused, and I think that's also something that brings down the share price a little bit and maybe that would help to really react directly, actively, afterwards. Thank you.

Karin Dohm

Yes, thanks, Lars, for your questions. So let me start with the guidance. As we said two weeks ago when we came out, obviously and you saw that also with some of our peers now, I'm thinking here about Kingfisher for example, and others, there is definitely a development in this time of the year, over the last months and especially when you look into the outlook on the macroeconomic side.

When you see interest-rate developments, you see GDP, outlooks getting adjusted, whether you think about central banks or some thinktanks and others. And you see customer sentiment in general and purchase power development. So those things have all not developed positively, but negatively.

And the outlook is definitely more challenging than it was at the beginning of this year, specifically in the first month of this calendar year. So I think that is not very exotic, but unfortunately a situation where many of us are in and that was the main driver of our guidance adjustment. So we've reacted to the shifting macroeconomic backdrop and reduced the likelihood of further recovery of those aspects which we missed in Q1, due at that time mainly to the weather.

And then to your second question with regard to targets on the long-term side. HORNBACH has, per history and tradition as you all know, always given guidance on sales and on EBIT for the following year. But hasn't given long-term targets.

I think we're currently, as any company of course, as we move towards calendar year and fiscal year, and we will of course go through the next cycle of planning. And we will certainly see whether there is something where we can add value to our investors, by providing a more longer-term perspective.

Nevertheless, as said, the current habit of this company has been in the short-term, providing measures. So I think that hasn't changed, but as said we will talk about that in our next internal-planning cycles, definitely.

And the third one, which was about the sequencing. I think as you usually have of course, around these half-year figures, where we also have some legal requirement and internal governance, with certain bodies and other components finalisation of figures and making sure that the auditors who do a limited review also have their go. That is just a couple of things that drove those differences between first clarity on sales and EBIT.

Where we came out due to legal requirements, whilst as said, certain procedures that then follow to make sure that our governance is in good shape and that we have the full figures going out now, and in the moment where those steps have taken place, that just drove those timings.

Lars Hettche — Okay, thank you.

Operator — Ladies and gentlemen, as a final reminder, if you would like to ask a question please press star and one at this time. And the next question is from the line of Miro Zuzak, with JMS Invest, please go ahead.

Miro Zuzak — Good morning, can you hear me?

Karin Dohm — Yes.

Miro Zuzak — Thank you for taking my questions, I will have two. The first one is regarding the gross profit margin. At the last time we spoke you were a bit, let's say, positive on the gross profit margin, now we see a decline year-over-year. And the question is: is this related to the impairments that you have taken? So were they booked in the gross profit margin in Q2, or is this a clean margin that we see now?

Karin Dohm — Yes, thanks for your question. The impairments are not part of the gross margin. The gross margin is purely indicating, or a result of, obviously the sales and the costs related directly to the goods and not to stores or personnel in the stores, that is all in the store expenses. With regard to the development, as highlighted earlier, we have seen a stabilisation of our gross margin in the second quarter.

So throughout those six months that we have passed now of this fiscal year, the direction of travel has been into the right direction. So that is why we're confident that this will be now a good basis for further stabilisation. We have seen a decrease, especially on the supply side, so anything that we buy comes in at lower prices.

We have seen reductions in logistics and other costs attached to the goods, to make sure we have them in our hands. Some commodities have significantly come down, I'm thinking here about lumber. If you look into those prices, I think we're currently at $500 per thousand feet and I think two years ago it was three times that high, so 1,500 at the same time, so summer '21 more or less.

So I think there are a couple of items that give you a good indication. Especially also our proactive work on the supply side to make sure that supply has passed on their own price reductions to us and I think all this, as said, gives us a very good confidence that we have here a stabilisation which we can work upon. And that will gradually flow also more and more through our gross margin.

Miro Zuzak

And just a follow up on these, sorry, for me. I think you said, or even you wrote, at some point in time that you expect a slight increase of the gross margin in the current year compared to the last year. Correct me if I'm wrong, if you haven't said that, it's just in my notes.

But would that still be valid, do you still expect an increase now, looking at the full year which is ongoing at the moment? I know it's just half-way through, right, but I hear you talking positive about the gross-margin development. Do you still expect an increase in the current year?

Karin Dohm

Yes, absolutely. As said, with a further stabilisation, and we see the potential for a sequential improvement until year-end, fiscal year-end.

Miro Zuzak

Okay, thank you. Then the next one would be regarding the leasing payments and maybe you remember that was also a question I had in the last call. Whether they related to… They would relate to interest rates, and the answer was no. Now I see an increase from 24 million in Q1 to 30 million in Q2, and I think you didn't really change the portfolio.

Can you please explain firstly, what has happened here. And secondly, whether this is now the level we should expect going forward, 30 million per quarter. Or are there other moving parts which I'm not aware of?

Karin Dohm

On our leasing payments, with regard to… You mean whether they are linked to inflation? Or what? Sorry if I confused it, but…

Miro Zuzak: Yes, and I noticed now an increase to 30 million in the second quarter, it's in the cash-flow statement, compared to the 24 million in the first quarter. And at least to my knowledge this is not depending on interest rates. That's what you told me in when we spoke last time, but…

Karin Dohm: Yes.

Miro Zuzak: And I also asked the question in the last call, in the last quarterly call. So now I still was a bit surprised to see now an increase of 6 million, which is 20% or 25%, from 24 million to 30 million.

Karin Dohm: Sorry, I'm not sure I'm following where… On which figure exactly you're looking, but happy to follow up on that. We can follow on…

Miro Zuzak: Okay, yes, okay. Then it would be great to get some insight there, thank you. And the next one would be regarding current trading. I mean, you gave the profit warning two weeks ago, but have you seen any better development now in September? What are the first signs that you see here?

Karin Dohm: Yes, I think we answered that question already earlier, but happy to repeat. We definitely saw good development, specifically in certain product areas such as garden equipment, anything that is happening outdoor, very strong demand there in September. This is partially, as said, offset by the developments we saw already earlier.

People are focussing more on smaller baskets and refraining a little bit from bigger projects. So that is, I would claim, up to a certain degree relatively normal a picture. Favourably affected by the good weather currently or the mild autumn, if you want to say so, across all our geographics.

And a little bit there is an offsetting effect. Last September we had some of those panic purchases again with regard to energy supply, batteries, electrical heaters, when things were looking a way more negative for the winter, and the potential supply of warming energy. So that is not happening this September. But otherwise as said, as described earlier.

Miro Zuzak: Okay, thank you very much.

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

Ludovic Allegre: Yes, hi everyone. Just two questions, the first one is on the gross margin. So just to be sure of what you just said, so you expect the gross margin to increase this year, meaning it would be higher than the 33.4% of last year? So you expect an inflection point in H2 this year? Just to confirm that, that's the first question.

And the second one is on the wages and particularly in Germany, how much wage increase can we expect this year? Can you remind me if you've finished the negotiation with the trade union yet or not.

And my last question is on the inflation bonus. Will this be deducted from the future wage increase, or is it something that you will add up to the wage increase in Germany this year? Thank you.

Karin Dohm

Yes, thanks for your questions. And let me start with the second one, with regard to the wages. So there is not yet an agreement with the trade unions, that is still outstanding, and we currently have no indication when that should or could come through. We have now a proposal from the Retail Employer Association in Germany, to pay everybody who is subject to this a payment from 5.3%. And that means that, excuse me, 4.3%. And that means that the agreement would be an offer where every retailer can participate. But that doesn't mean there is already an agreement with regard to those payments. And we will see how those come out.

We have, as we said before, we have reflected anything that we want or what we foresee, in our plans, in our, so to say, forecasts, to make sure that we include that in any guidance. So that is something where we just need to see whether things will differ and how they play out over time.

But we currently feel confident that the various options are, in the one or the other shape and form, reflected in our planned figures. What we do not know, of course, is any specific extra payments in '24 or the following years. Whether there is an expectation that, whenever this agreement comes, it lasts for probably 18 months.

And yes, as you said, right as you said, we have paid in Germany this inflation bonus. We also see that as an asset, as an investment into our people and our teams. And of course we are currently also expecting, that that is in a part set off from that.

With regard to your questions to gross margin. So as said, we have a number of components that have a positive impact on the gross margin, as I mentioned, especially, so to say, on the incoming side.

Nevertheless, there could also be, which we're currently not foreseeing, but just to put here a little disclaimer. Of course there could be a potential downside on the sales-price side,

	depending a little bit also on competitor's behaviour.
	But in general as said, and I can… That's, so to say, definitely the case. We're seeing throughout the progressing time a stabilisation. We currently absolutely aim for a slight increase towards our fiscal year, with, as said once again, the given uncertainties around the next months to come.
Ludovic Allegre	Okay, thank you very much.
Operator	There are no further questions at this time and I hand back to Antje Kelbert.
Antje Kelbert	Yes, thank you very much for all your questions and your time this morning. We also would like to invite you to meet us during the upcoming capital-market events. You see that also on our slide, where we will attend certain conferences over the coming weeks and months.
	Yes, and whenever you have some follow-up questions or some discussions, any topic, happy to get in touch with you, just give us a call or drop us some lines. And so just once again, thank you for all of your interest this morning. Have a nice day and hope to see you soon. Thank you very much, goodbye.