

**Hornbach Holding AG & Co. KGaA**  
**Update Call Q3/9M 2021/22**  
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**M**     **Moderator**  
**R**     **Initials**

M     Good morning, ladies and gentlemen, and welcome to the conference call regarding the third quarter and nine month results 2021/2022 of Hornbach Group. At this time, all participants have been placed on a listen only mode. The floor will be open for questions following the presentation. Let me now turn the floor over to your host Antje Kelbert.

AK     Thank you and good morning. For those of you who have not attended our call on Monday: My name is Antje Kelbert, and since 1st of December, I am heading the communications and investor relations department. After our pre-results disclosure on the 7th of December, we have today published the full set of figures for the first nine months and the third quarter 2021/22. Our CFO Karin Dohm will be our presenter today and also take your questions. Together with us on the call is my investor relations colleague [00:01:00] Anne Spies. Let us right away dive into the highlights of the past quarter and I hand over to our CFO Karin Dohm.

KD     Thank you very much, Antje and a very warm welcome from my side as well to this Q3 event. Very much looking forward to run you through some of those key figures of last quarter, as well as of the nine months that we have just finished and then obviously very happy to take your questions afterwards. So let me start. We had a very good third quarter, we saw strong sales still coming in way above the pre-COVID levels. There is a slight element of inflation, but as said, we see higher levels of demands for home improvement on an ongoing basis. Earnings are down from last year, but well ahead of pre COVID levels as well and we have a sustainably higher earnings position that was reflected in the credit ratings, which was upgraded [00:02:00] to BB+ at the October 13. We raised our full year guidance on December 7th to reflect those better than expected developments in Q3 against the strong previous year. Let me caution, of course that we are still not yet in a full COVID clean situation. I come later to those details where we currently have some closures or limitations to our store activity. But first a little bit about our organic expansion. We continued that in the third quarter, as we did in the previous quarters of this fiscal year, we opened two new stores, one in the Netherlands and one in Switzerland. We also extended one of our existing Dutch stores with a new format called (02:51) HORNBAACH Vloeren, which is focusing specifically on floors, tiles and anything that you and clients might think about [00:03:00] when home improving their specific floor situation. With that all in account, we have now 167 stores as of November 30th. We also could build, as we did in the previous quarters, on a very effective management of the COVID pandemic. And we also managed to keep, despite the challenging situations that we have around logistical chains, and of course the general availability of goods, we managed to be well stocked and to ramp up our capacities also looking into the specific requirements of the Christmas season and of course, in preparation also of the next spring. Looking a bit into the specific figures you see here robust sales growth in all three quarters and once again as I said [00:04:00] earlier, significantly higher level than pre-COVID. To make sure we have a little bit of that comparison we included here not only last year, but also the year before. We have, as we said, a little bit of inflation that drives partially our sales growth, but in general,

the cocooning, the homing trends and the general request to home improve, whether it's in a DIY fashion or whether customers reach out to merchants and chandlers is still in high demand and still higher than pre-COVID, on a robust level. Like for like sales, same here, we had a growth on top of a very strong prior year, specifically when you compare those figures across the various countries. We have, of course, as I mentioned earlier, still a couple of limitations to our activity. I would like to point [00:05:00] out specifically the Netherlands. They had especially at the beginning of the year – so when we look into nine month figures – they had limitation with regard to store openings and the possibility for customers to enter the stores. We also, as you know, have the new restrictions in the Netherlands, which will now affect our fourth quarter. So that is something to take into account. We had in the third quarter, specifically, a couple of closures in Austria and Slovakia for three and two weeks respectively, but that had no major effect on the figures you see here for Q3. Coming a bit into the details of the eCommerce activities. Once again, here good dynamics, we're very happy with that development on a rolling 12-month basis. [00:06:00] We see eCommerce share of total sales reaching slightly above 20%. The growth slowed down in the course of the year, which we expected as higher growth in Q1 was driven in part by lockdowns and the number of geographies. However, it remains robust at 10% in Q3. Click and collect more than doubled in the course of the year, while direct delivery grew by 16%. Specifically in Germany and I'll also talk about other regions in a minute. Specifically in Germany, we managed to outperform the sector and in continued manner. You see, as a comparison between the competitors and our performance when it comes to sales, like for like growth in the DIY sector in Germany. And as that we have been outperforming [00:07:00] that sector for years, but that positive gap has significantly widened in the last two years, partly driven as we are convinced by our successful ICR strategy combined with a very good management on the merchandising side and our logistical network. I've mentioned a little bit of you also beyond when we look into market shares as said really happy with the performance in Germany. You see here really impressive gain in market share now being beyond 15%. But also in other countries: Looking for example into Netherlands, looking into Switzerland, and others, we really are happy with the fact that we managed to gain further market shares. Not only this year, you know, that we had had that positive development also in previous years, it's a good [00:08:00] continuation, so we are really happy with that. Bottom-line when we look into the adjusted EBIT we are well ahead of pre-COVID levels again with an increase in adjusted EBIT of 63.7% versus the nine months of 2019/2020, and currently an adjusted EBIT margin of 8.4%. So far in this quarter and in this fiscal year as well, we didn't have any non-operating earning items. When we look below that surface into the various segments we see largely the same picture for HORNBAACH Baumarkt adjusted EBIT and profitability well ahead pre-COVID levels, although slightly down on last year's record level. However, a significant increase in adjusted EBIT for HORNBAACH Baustoff Union versus last year, due to strong sales [00:09:00] and positive gross margin effects. Looking onto the cost side, we maintained improved cost structures versus the pre-COVID levels. You see here the long term comparison and a normalisation and some cost items, as we talked about already in previous quarters was deliberately achieved because we wanted to make sure we, for example, boost up our marketing activities, which were slowed down in the previous fiscal year. And also spend on project and other components thinking here also on of course, ongoing IT spend, which we consider crucial to make sure that we keep our performance and with that our market shares and activity levels. Gross margin, of course, we have the same situation as all our competitors and many other companies currently. We see higher [00:10:00] purchasing prices, we could largely cover them by selling prices, but there is of course an element of, as we mentioned

earlier, of inflation as well so we see that also coming through. When we look onto the cash side and the funds from operation we are above previous year and well above, of course the year before that, the year 2019 and 2020, we have had fluctuations in working capital resulting from a COVID related exceptionally high order volume in the previous year and accelerated payments to suppliers in the current year to avoid negative interest. CAPEX increased due to the accelerated expansion. And you will see that as well, of course, in the next year as said during the course of this year, we did not only open new stores this year, we also [00:11:00] plan to have a similar amount around five in the next year. So you will see similar CAPEX move movements also in the next fiscal year. Cashflow from financing activities also includes incoming payments of €50 million from taking up financial loans and a similar amount outgoing for the redemption of loans. So the usual movements, nothing specific in comparison to any other year on that side. As said at the beginning, we confirmed our guidance and increased the outlook for the ongoing year, we of course have a couple of unknowns in this fourth quarter, which we just started. When you think about Corona and the ongoing public discussion, it might be that we see the one or the other limitation in the next two and [00:12:00] a half months. But nevertheless, we are confirming those figures, we are comfortable with those ranges and the last, so to say organic growth piece that we will see this year talking about this fiscal year is the opening of the fifth store. As you know, we are replacing in Paderborn one of our existing stores that will happen at the beginning of February as planned currently. So to sum it all up, let me just come back to why we think that key investment highlights are unchanged and even reconfirmed by the current development. We are obviously benefiting from those broader consumer trends, which we said earlier, we see not only as a single event, but as an ongoing trade regarding cocooning, homing, the [00:13:00] working from home and of course the effects of demographic changes in our countries and the carbon dioxide footprint considerations which will also trigger couple of improvements in anybody's homes. We definitely think that our interconnected retail offering is one of our key differentiator, which is supported by our merchandising and logistic teamwork. Ultimately we have a strong operational track record generating consistent organic growth in combination with leading productivity specifically in Germany, when you measure us by sales per square foot. So we have put onto the slide, which is the last one and as well we'll put that on our internet the financial activities between now and our trading statement [00:14:00] on March 22nd. And very happy of course now to take your questions. Thank you.

- M Yes, ladies and gentlemen, if you would like to ask a question, please join the telephone conference. There you can press nine followed by the star key on your telephone key pad. If you wish to cancel your question, please press nine followed by the star key again. Please press nine star now to ask your question. I'm just gonna repeat it: If [00:15:00] you want to ask a question, please press nine and star on your telephone keypad. We do have a question from Thomas Maul.
- TM Yes. Thank you. Good morning Thomas Maul DZ Bank. I got two please. First one with regard to price increases and inflation. Are there actually certain product groups that are particularly affected by higher purchase prices or just the other way around which part of the product range are affected less than average. And the second question, how high was the share of private labels recently, and then in which countries are these products produced? Thank you.
- KD So with regard to, to the pricing structure we have seen as you know throughout [00:16:00] the year substantial increase in anything that was related to wood. And that to my knowledge

has relaxed a little bit over the course of the last weeks and months due to, to the fact that the whole chain has adjusted as you know sawmill capacities in the US were beefed up and that all switched back into availabilities of so to say sliced wood and all the components that are needed. So that relaxed a little bit. In general, beyond that it's literally across the whole range of products and of anything that we have in stock, or offer. In addition, we are in some goods of course also affected like the car industry when you think about the chips. But yeah, it's a general range as that [00:17:00] would slightly relaxed. And your other question was around the, the white label or private labels. It's roughly on average 25%, it differs a little bit from country to country, but yes, that's the general average range.

TM Okay, fine. Thank you.

M So, if there are other questions please press nine and star on your telephone key pad. That doesn't seem to be the case. [00:18:00] There is another question. And it's from Ludovic Allegre. I hope I pronounced it correctly.

LA Yeah. Hi. Can you hear me?

M Yes.

LA Yes. Okay, perfect. Yes. I just have two questions. The first one is do you think that the current inflation situation and notably the rise in energy prices can distort the current demand for DIY project? So it is my first question, and the second one it's more on the following years. Do you expect normalisation in terms of adjusted EBIT margin in the following years after the two last exceptional years and is there a potential for adjusted EBIT margin to expand beyond 6% [00:19:00] as international becomes a larger part of your business in the following years?

KD Yeah. Thanks for your questions. Let me start with the first one energy prices, general pricing levels, inflation. Of course, I think as, as everybody has their impressions from the public discussions also with regard to not only the current energy discussion, also the ones on ECB and, and where and how they might start tapering or things like that. I think of course it might be that clients or customers postpone certain projects because they might have a cautious look into their piggy purses and then as said, postpone the one or the other thing. [00:20:00] But in general, as a lot of those things that our customers are doing in that project area is not necessarily affected from our perception currently. It might lead to – as said – some movements, so things then potentially are not done this winter, then they are done next spring, but they are not evaporating. So we think more if those things are happening, if there is a certain distortion, it's more over the timeline and not necessarily with regard to whether something is done at all or whether the money flows into some other investment channels from a customer's perspective. Of course, let me remind you that we are still as said in a not COVID free situation. So this whole aspect of what's the new normal, and that is probably kind of leeway [00:21:00] also to your other question, the aspect of what's the new normal, and how does that then crystallise in our figures, including EBIT margin is not really fathomable currently for us. You're correct, the range of the portion of sales and EBIT that we generate outside of Germany in comparison to Germany is growing. And the shop openings that we have in mind currently for the next year are also happening outside of Germany in a vast degree. So the percentage is growing slowly, but continuously growing as far as activities outside of Germany are concerned.

LA Okay. Thank you. [00:22:00]

M So if you would like to ask another question, please press nine followed by the star key on your telephone keypad. And there is another question from Mark Josefson.

MJ Yeah. Thank you and thanks for the presentation again today. I wanted to push you still a bit further on the guidance. I mean, I do of course accept the background to the wide range that we have, but if I just look at the sales guidance there where we have the bottom end of the range, I think it would imply a negative 6% or so development in the final [00:23:00] quarter. Whereas the top end would involve 22% or so growth. And I see that as a very wide range. If we look at November for the last month of the quarter, we're talking about, and the first three weeks or so of December, has the sales development across group been closer to the minus six or closer to plus 22, just to give a feel for how it's been so far.

KD Yeah. Thanks. Thanks for the question. And I appreciate as you voice it yourself trying to push us a little bit further. Two thoughts there, number one, as you know, and as everybody knows we've heard several times over the last two years political statements of the one or the other kind which included sentences like this will not happen, or this will happen and then we all [00:24:00] learned a little bit later that something else was happening. So please allow us to stay very cautious with regard to what degree of closure we might face between now and end of February, whilst of course being relatively confident let's put it that way, that the majority of limitations stay as they are currently. Which means people need to show that they are vaccinated or have overcome a COVID infection when they want to enter the store. Obviously we're excellently prepared to ensure any click and collect and direct delivery activity wherever, and in what shape and form our customers ask for. And as said earlier, this is exactly also what is happening now in the Netherlands where we are more or less in a déjà view situation as we were at the beginning of this fiscal year. So [00:25:00] yes, we are very confident with those ranges. Yes, you are right, it would imply if we go to the lower end, it would imply that we have a fourth quarter, which is relatively close to last year's fourth quarter which we do currently not expect. But as said with all those disclaimers, I've voiced I really am extremely hesitant to narrow a range which we just gave out more or less two weeks ago. So allow me to stay as vague as I just was.

MJ Okay. Okay. I can accept that. I had to redial in because my questions were not being registered and as I came back in, you were commenting on additional costs or rather the impact on margins. I didn't hear the question, but I just wondered if you were [00:26:00] able to quantify for us the sort of additional store costs that if I just take Germany, for example, and look only at DIY side rather than the merchant business we typically have to show our Ausweis as we go in the store and that often means additional employees. I wonder if you can quantify in any way the additional costs that the group expect to absorb with the new regulations across the different countries?

KD You mean such as additional security and things like that?

MJ Exactly that or additional hygiene measures generally, that's right.

KD Yeah. I don't have the exact figures now in my hands. In the previous fiscal year, if I remember that correctly, that was a [00:27:00] smaller double digit million amount. So I would expect something similar but for full year I'm very happy to give you a more exact figure.

MJ No, that that's fine for me. Thank you indeed.

M Then we do have another question and it comes from Johan van den Hooven.

JH: Yeah. Good morning, Johan van den Hooven, Value 8. Two questions from me, please. You already said that you expect sort of same CAPEX level next year as this year course of the expected five store openings. Take us a bit further into the future, what you expect sort of the CAPEX level over the next few years. Will we be the same, will we be a step up? And related to that question for the store openings, can you tell us a bit more about the focus of the geographical areas, the countries where you will want to open more stores or even into a new country? And there's also more [00:28:00] a question for the next couple of years. Thank you.

KD Yeah, thank you very much. So with regard to CAPEX, yeah, definitely next fiscal year, I would expect similar regions and high probability also then for the following year, as of today. So obviously we are currently going through the preparation of our planning figures for the next year and the following five years. So once we are through with that very happy to look a bit further and give also more details on the outer years with regard to potential CAPEX. Geographically, we are talking here once again, we're talking next year specifically all about Netherlands, we are talking Slovakia, we are talking Romania, we [00:29:00] are also talking about little bit Germany. So as that mixture with more new stores outside of Germany, then within Germany, that is partially very straightforward and transparent a question of good opportunities. And obviously Germany as you know, is a dense market there. It's more about gaining market share via performance and not so much via opening new stores. With regard to your question to new countries or other countries, no, we have nothing concrete specific there in our drawers. We are obviously and continuously checking the market and looking into opportunities wherever they might come our way. But currently no, there is nothing specific [00:30:00] in our drawers as said.

JH Alright thank you very much.

M So right now there, oh, sorry, I just wanted to say there are no further questions, but there came another one and it's from Mark Josefson again.

MJ Yeah. Thank you for taking another question. But we heard during the conference you talked about HORNBAACH Vloeren in Holland which sounds a little bit like Bodenhaus to me that might be attached to an existing unit. Can you give us any feedback on the early start of HORNBAACH Bodenhaus here in Germany?

KD Of course. Just to recollect, two stores, one in Berlin, one in Cologne in the city themselves. So opened at the beginning of this fiscal year. [00:31:00] Obviously, unfortunately, in the heat of closure status so to say. They have been nicely developing over the summer when there was a possibility to bring forward the whole activity scheme to both professional customers, as well as DIY customers. We think we need to make sure we allow both sufficient time to really demonstrate what potential is there and how well can the potential be captured. So far as said, first year is not yet over we are still in observation mode. The development is from a dynamic positive, but of course it's very early stages.

MJ Okay. Thank you. And did I understand correctly that the experiment [00:32:00] in the Netherlands with HORNBAACH Vloeren that's attached to an existing unit?

KD Exactly it is literally, physically, so to say, it's one area and you have two buildings, which are very close to one another. And the one is in already existing classical HORNBAACH store, if you

want to say so. And then we have opened this specifically concept which focuses similar to the Bodenhaus only on anything and everything that is related to floors.

MJ Okay. Good luck with that. Thank you once again.

KD Thanks.

M And we don't have any further questions. [00:33:00]

AK Okay. Then we can conclude today's call. Thank you very much for your interest, your questions and your time this morning. Whenever you have remaining and further questions, please do not hesitate to contact the investor relations department. So, and now it's on us to wish you a happy holiday season and a healthy new year. Goodbye and thank you.

**END**