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EDITED TRANSCRIPT

BME.L - Full Year 2018 B&M European Value Retail SA Earnings Call

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PRESENTATION

Sundeep Arora - *B&M European Value Retail S.A. - CEO & Executive Director*

[Let's make a] start. And first of all, thank you for coming out at this early hour. Much appreciated. Thank you for your continued interest and support of B&M.

So as is usual, I would like to start with just summarizing a few highlights on the year that we're reporting on, the 53-week period for the 31st of March 2018. Then I'll pass over to Paul, our CFO, who will run you through some of the detail of the numbers and then, of course, I'll come back to talk about some of the themes within the business and how we see the market in which we're operating.

So on Page 2 of the deck in front of you, you'll see our financial highlights for the year. We remind you that it's a 53-week period. But as you look through the deck, please be assured that we show you both the 52-week and the 53-week numbers for the P&L, so you can fully understand our performance. Albeit, of course, the full year cash flow and balance sheet is just a single at 31st of March picture.

So in terms of revenues, we were tantalizingly close to the GBP 3 billion mark. There was a little bit of a sweepstake in the office as to whether we cross it. Unfortunately, we didn't quite get there. But on any objective measure, a really strong performance in terms of sales, 22% revenue growth to just under GBP 3 billion.

Behind those numbers at our core B&M fascia, we generated like-for-likes of the year of just under 5%. But of course, the engine of our growth is our new store program. And over the course of the year, we opened 47 new stores. That's the gross number at net found because we closed some legacy early stores, and there are some relocations in that number.

Our German fascia, Jawoll, opened 12 stores. And of course, one of the real milestones of the financial year that we reported on was the successful acquisition of a convenience store business, which itself also opened 9 stores under our ownership.

As a consequence of all that growth, our EBITDA increased by 19%, our earnings per share increased by 19%. And the other milestones worth reflecting on, before I pass to Paul, is that we, in this financial year, completed the land acquisition for a 1 million square foot purpose built new depo for the south of the U.K., but really is a statement of intent and a vote of confidence in the future and will allow us to achieve our entire U.K. store growth plans.

And I'd also remind you all that this is a very cash-generative business. Our cash flows increased by 15%. And as a consequence of our cash flows, both deleveraging took place, our net -- our EBITDA to net debt came down to below 2. It would have been down at 1.72x if it wasn't for the temporary CapEx on the new distribution center, which is only a one-year cash flow impact because we will be sale and lease-backing that facility once it's completed. But then also because of our cash flow profile, we're able to announce an increase in our ordinary dividend of 24%.



So with that, I'll pass to Paul and he'll run you through some of those numbers in detail.

Paul Andrew McDonald - *B&M European Value Retail S.A. - CFO & Executive Director*

Thanks, Simon, and good morning, everyone.

So following [in advance] relatively familiar, kind of set aside in terms of the financials, but I mean, just obviously probably the numbers on here have both the 52-week period and the 53-week period for comparison, but most of the numbers I'll be talking about relate to the 52-week comparison. And it's particularly just explaining how we've achieved the revenue growth of 23% and the adjusted EBITDA growth of 19%.

If we move onto revenue bridge. Yet again, kind of big, as I said, week 53, revenue nicely, actually generated GBP 53 million of revenue, which is had some nice -- really nice.

Briefly, in terms of the big movements, as always, the key part of B&M model is the growth in the new store program. Across here, the net new stores in the year generated GBP 207 million of revenues, and the B&M growth overall was just 13.9% and as Simon intimated, a strong LFL growth of just under 5%, which generated just over GBP 100 million of additional revenues.

And so [under there] GBP 210 million from the 8 months of ownership from Heron, which we acquired in August 2017.

And then moving on to Germany, Germany itself had a bit of revenue growth at just over 12%, which came from both the annualization of the FY '17 openings, plus the 11 net new stores that we opened there in FY '18.

[The year there] probably aside of Germany, really, in terms of the year itself, we did see a disappointing LFL performance in Germany. I think you can break the year down into a couple of parts. The first half of the year in terms of strength in the '17. As we indicated, they had one of the key expenses of the Jawoll business in its gardening and plants range, and the weather in Germany was not great in the first half of the year, and we did see a disappointing performance.

Equally, as we move into this year, it's kind of the weather across Central Europe being very good, and we've actually seen a strong start in relation to Germany.

The second part of that, really, obviously, we replaced the CEO in December 31 and in terms of that actual management change and hand over, it certainly had an impact on the second half performance as well.

And moving on to EBITDA growth. Yet again, [lengthy] messages in terms of the -- if you look at the new stores, the FY '17 and FY '18 openings generated a GBP 22 million of EBITDA. And I think the other thing to focus on is yet again, actually, we generated another GBP 3 million of EBITDA from the relocations that we did. We did 5 relocations in the year. And here again, we've kind of replaced small, generally town center stores with kind of large and newer format stores, often -- obviously at close proximity but it's clearly continues to be an enhancement.

We start to get -- and are equally, the other stores we've closed is actually almost immaterial in terms of EBITDA impacting those stores.

In relation to, obviously, LFL, it's driven over GBP 17 million of EBITDA growth in the year. Just moving on to kind of central costs, up GBP 4 million increase in central costs, but half of that relates to investments in central head office costs, that's kind of buying, finance [themes] at B&M. And equally, there's some additional costs associated with -- this is the first year that we had the apprenticeship levy and then some additional bonuses to our store colleagues around -- that would be -- also be the strong LFL performance.

We touched on the disappointing LFL performance in Germany, and we have seen a reduction in EBITDA in the year of around near GBP 6 million, which is really bound up in: a, I would say the disappointing LFL sales and also some lower margin percentage, which we'll explain in a bit more detail.



The other GBP 12 million coming from the Heron acquisition in the year for the 8 month period. But I think probably in here some of the key messages are really, if you look at the B&M fascia, actually, in terms of our B&M core business, it grew with EBITDA margin by nearly 30 basis points in the year. So yet again, typically, from 9.9% to 10.2%. Generally, B&M, as we grow into -- if you remember back in 2015, 2016, we opened new warehousing, and so the EBITDA margin actually slightly declined. And as we kind of grow into that warehousing space and we open more new stores, we get the benefits and operating leverage and start to see some expansion in our EBITDA margin to 10.2%.

In terms of just a little bit more color around the kind of the core B&M sales, yet again, obviously, just under 5% of LFL sales growth. But if you just look at Q4, actually in Q4, the LFL was flat and very much the case that if you look the first 2 months of Q4, January and February combined, it's kind of plus 3.3%. I don't really think it comes as any surprise, actually, the very cold weather and snow in March impacted sales. We're ahead of that all-important kind of build to reach [the beach] there. You start with gardening range and et cetera, the sales in March were certainly more challenging.

I think you go ahead and speak, actually, in terms of what things actually make you worry, actually, snow on the ground is one of those things that's proven to impact performance. I suppose one of the nice things about this is, at least, in was in kind of Q4. Q4 itself was a sales number is around about 21% of the mix of the year, most impacts actually are happening in November, December period.

Yet again, we've seen the growth in LFL coming from both increases in footfall and transaction value. And approximately 30% of the LFL came from actually additional customers going into B&M stores, which makes the year clearly actually that the offer and the value of that offer is -- continues to resonate with the U.K. consumer.

In terms of the other things that's kind of worthy of mention, clearly, we kind of [sunk] for the year with some price inflation -- retail price inflation particularly on kind of gross FMCG. That's probably have benefited somewhere in the range of round about 2%. But equally, as we moved into Q4 of FY '18 and the first half of FY '19, we're starting to see value.

Again I want [to emphasize], we have seen [actual] trends in kind of grocery in FMCG throughout the year, another half performed stronger than the general merchandise and the consumer that continues to seek out value. And equally, certainly, when you look at any survey, if you look at them in terms of price position compared to a big door supermarkets, basically, we maintain that kind of price advantage that we have.

If there was one thing that we have -- given that we had a challenging kind of March trading quarter and for the first time, it's a bit of a one-off, we just started to reinforce the strength of the model.

If you look at the first 8 weeks of trading in FY '19, and exclude the Easter week, which was not comparable with the prior year. That's the large trading week. We've actually seen LFL sales return to just over 3%. So yet again, very much -- January, February trends 3%, take out the impact of Easter in this year-on-year again, we're round about 3% LFL against what was a very strong compare -- comparable last year at 7%.

In terms of -- and moving on to margin. B&M margins were -- in terms of the core B&M business, were 69 basis points lower than last year, and approximately half of that decline was just as a result of the strength of the growth from the FMCG offer.

And then kind of what we saw in the first half of the year, if you remember, the B&M margins were 80 basis points lower. We've seen that slightly moderate as we move with the H2, but equally, the consumer has still continued to buy grocery in the FMCG line.

The other probably 10 points (inaudible) has an impact on -- in terms of the overall margin trends in relation to March, in terms of the snow. Equally, it comes as no surprise we didn't sell an awful lot of gardening in March, which has an impact on the margin.

And then probably the last thing to note is that I think if we go back to kind of Brexit, on most general merchandise where there was some kind of price increases, on some of those lines, we have to do a little bit more markdown or similar incentives, some of the rates of sales were a bit slower than we originally thought. We're equally, clearly going forward, we realign the [bike] to make sure that doesn't happen again.



As expected, the Heron margins -- Heron operating at slightly low margin to B&M with their mix of kind of food and convenience goods, which affects the overall margin percentage by 14-basis points.

And also one of the other key features I kind of mentioned is kind of Jawoll's performance as well as the disappointing kind of sales performance we've seen in LFL actually the margins were about 100 basis points lower.

A few -- one of the things we have been -- in terms of actually the rate of change in Jawoll, we are accelerating that change towards the B&M model and the B&M product offering. One of the things we have been doing is accelerating the clearance from all the older ranges. But we have seen some -- a little bit of pain initially to start to clear those ranges. But equally, the benefits comes with kind of product that will have (inaudible) shareholders in the next coming months.

I'm throwing this in, just thinking kind of big picture in terms of our outlook for FY '19. We're kind of -- we're fully hedged in the full financial year in terms of FX at the end of December 2018 at a slightly better rate than the previous financial year. This mix impact that I described started to moderate as we moved into first quarter this year. And then equally, the impact of some of those rates of sales, yet again corrected by buying. And equally, so we think we'll probably see a small improvement in kind of the core B&M businesses gross margin in FY '19, so just the (inaudible) clearly it's the mix and also the sell-through in the products.

I think of kind of operating costs, one of the really superior feats of the year, actually, the core B&M business, actually, it's operating costs decreased by 97 basis points (inaudible) as are percentages of revenues and that wasn't even particularly stronger in H2 compared to H1 in terms OpEx cost savings. So our retail office teams have done a really good job in terms of managing the impact of the living wage in terms of our store wages. We've seen some efficiency improvements within our transport and distribution operation. And equally, our store costs have benefited from the operating leverage. It happened from both of the new store sales and, additionally, the LFL that we've seen in the year.

In terms of Heron, Heron, as you probably know, small store sizes and a higher relatively central cost base, has a slightly higher cost base which is percentage of revenues than B&M. That was outlined. And Germany's costs increased by 22%, which is pretty significantly, driven by the new sales program.

The other key feature probably next year when we think about in terms of FY '19, depreciation charge last year was 1.2% of revenues. We'd expect to see that slightly increase as a result of the, a, B&M moving into some kind of an additional kind of frozen chillers that we've invested in CapEx this year, plus Heron has a slightly higher level of maintenance CapEx in the B&M -- for B&M business.

In terms of interest, 2 things to note, really. Ongoing interest charge is GBP 22 million for the year, and we'd expect that to continue at that level. Another kind of feature for the year was there was a bit of credit relating to -- if you remember, we have a full option in relation to the 20% that we don't own in Jawoll. Given Jawoll's performance in the year, the expectation is that, that liability will be a lower figure this year and hence it was expensed to the P&L of around about GBP 10 million.

In terms of cash. Yet again, business, as Simon described, continues to be cash generative. And some of the key features around that are kind of working capital as a percent of new revenues, remained around about this 9% figure, which has been very consistent over the last number of years.

CapEx, the key feature, GBP 114 million although GBP 55 million of that relates to this one-off cost of the aligned acquisition for our new warehouse and distribution center. And just kind of -- in terms of Simon's comment, we will be doing a sale-leaseback through a third-party institutional buyer at some point over the next 12 months, actually. There is a further GBP 65 million of CapEx that's actually build the warehouse (inaudible) . But equally, that capital will largely fund [the leaseback].

In terms of -- so yet again strong operating cash flows. Net debt-to-EBITDA, 1.92x, which is just reinforcing the cash generative nature of the model. So despite the fact we've (inaudible) on our acquisition of nearly GBP 110 million for Heron and we've incurred GBP 55 million of one-off costs related to some distribution center, our net debt-to-EBITDA has only increased [20%].

Okay?



Sundeep Arora - B&M European Value Retail S.A. - CEO & Executive Director

So I thought I'd share some thoughts, first of all, on the U.K. market and how we feel about the consumer and what the British shopper is thinking right now. I think the headline is the right one, which is that it is still tough for most British consumers. There have been some commentary recently that the weekly income tracker that Asda kindly published has slightly improved very recently towards the very tail end of our financial year in March. But it actually put that in perspective, because what that slight positive number equates to for the average U.K. household is only GBP 2.63 a week more than a year previously, so less than the price of a cup of coffee in a café. And so in that context, that slightly more benign environment isn't exactly going to drive those shoppers rushing to Harvey Nichols or Selfridges, we say that they're going to be just as drawn to a discount proposition like B&M as indeed they would be to Aldi.

Another point of detail that you get from that weekly average income tracker is that there are some variances in terms of how that slightly more disposable income presents itself by different types of demographic. For the over-65s, for those on pensions, it really is still very tough.

As you look across the regions of the U.K., there's quite a spread of whether the households are indeed benefiting from this increase in real wages or increase in disposable income. And now it contrasts out in the Northeast, the Midlands, et cetera, there's still a negative territory as opposed to, for example, London. Most of our stores, of course, in the regions as opposed to the capital city.

And then the final element I draw out is that there's also a variance amongst income groups. Averages can be misleading because, actually, for those income groups that are below the median average income -- these are numbers up to the middle of last year -- for those income groups, still feeling the real pain of inflation and cost per living increases not being matched by income increases.

So in that context, we say it's no surprise that it's the discounters that are doing well. B&M generated 15% organic revenue growth on its B&M fascia and 22% inclusive of our Heron acquisition, so still market-leading growth rates relative to the rest of U.K. retail.

For me and for all our colleagues at B&M, what's really exciting about working at B&M is that there's still so much more to go at. What this chart reminds us all is that we are still a minnow in U.K. retail. And we don't shy away from that fact because as far as we're concerned, we could see that number doubling in terms of the size of B&M's revenues.

We are to remind you all only at 576 B&M stores against the U.K. store target of 950, so we're not even 2/3 of the way through. And just put that U.K. store target back into perspective with some of the other names you see on the slide, I'd remind you all that Aldi have now said that they could get 1,300 stores in the U.K. and that Lidl have confirmed their aspiration to open a new store every single week for the next 5 to 10 years, which would take them to a similar number well north of 1,000 stores. And so in that context, that's why we say that we believe there's so much growth ahead of us.

Turning the slide. Unusually because we don't normally go into this level of detail, but we thought we would this year, we share with you some color around what drives our like-for-like. So I've moved away now from our store opening growth and the capacity in the market for us to grow, and I'm talking purely now about B&M's full year like-for-like, the 4.7% that you saw Paul highlight in the earlier section of the deck. And I think what we are saying on this slide is that it's a broad-based growth. It's not just 1 or 2 departments powering ahead, inflation-led in food, for example. It's actually broad-based. And specifically on food, we would actually point out that even in our previous financial year, so this is the year ended March '17, we enjoyed within our food departments like-for-like with plus 6%. And clearly, that's for a period that is the pre-Brexit currency impact. Most grocers, most retailers, including ourselves, were hedged for 2016. And so for the financial year ended March '17, I -- 2016 calendar year -- there was no Brexit impact, there was no inflation impact, but we were still generating plus 6% like-for-like on food. So I think what that's saying is that the consumer is voting with their feet and coming to discounters.

But of course, the big message here is that across the vast majority of our departments, we're generating market [beating] like-for-likes in a market where other retailers are popping champagne corks at 2% or, frankly, are in negative territory or where the U.K. per the British retail consortium is seen as hovering around 1% like-for-likes, we generated plus 4.7%. And actually, I'm happy to share with you that the minus 6%, the underperformer is gardening and plant. It was a wet summer. We can't control that part of our business. But the great thing about the B&M model is that you could

have a wet summer, but you still got plenty of other things to sell. And one final tidbit for you, one of the best performers there, one of the best categories is stationary. So we have the versatility in our business model to roll with the punches that the weather might send us.

Another aspect of our business has been the planned synergies around having acquired Heron frozen foods. We've started to trial frozen and chilled foods within the core B&M fascia.

As of a couple of weeks ago when this slide was prepared, on Slide 17 we had frozen and chilled departments deployed at 70 B&M stores that 6 months -- sorry, 3 months earlier didn't have them. This trial gives us confidence in continuing to roll out this proposition.

On average, those 70 stores, saw a plus 5% positive bump to their like-for-like performance. And actually, what that told us is that we should just carry on rolling out, but actually all we need to do is patiently wait until we've got the chilled and frozen distribution capacity of our own rather than relying purely on the Heron facilities in Hull. So what we're updating is that we're going to carry on doing another 10 stores or so. But until Bedford is operational, we're then going to pause until that facility can service the B&M stores and that facility can do about 300 B&Ms. And once that's live, the ambient volumes going to that facility will allow us to repurpose one of the existing Northwest of the U.K. buildings into chilled and frozen, which will then allow us to deploy nationally.

I know you're interested in what the paybacks from the trial are indicating, the numbers there. We get the CapEx back within 18 months. So this is a really good investment and good, but just strategically in terms of making a compelling retail offer, but also, of course, just financially as well.

Generating just shy of 5% like-for-likes over the year doesn't happen just in itself. Clearly, there are a lot of initiatives in the background that are being used to constantly improve the [values of money] and the appeal of our offer.

What I'd like to share with you on this slide, Slide 18, is just 3 little categories of initiative, the type of work that our buyers do to drive that performance.

On the left-hand side of the slide, you'll see examples of what we call direct-to-retail licensing. This is where products are made for us by a factory, but we pay a license fee to a third party in order to take advantage of their brand collaboration of equality and design and autographed by the customer with a compelling product. There, you'll see Mo Farah is working with us on some nutritional products. That's a NutriBullet-type product. You'll see that's a well-known electrical brand is working with us on some home security products. And indeed, a biscuits brand is working with us on a frozen cheesecake.

Moving away from direct-to-retail, another area where we can really score highly compared to some of our me-too copycat followers, some of the weaker discount retailers, is on exclusive products. And here is just a very small sample of what we're talking about. A must-have cookie jar for every kitchen and the -- branded by the famous chocolate biscuit, Penguin. There's a bubblegum dispenser that happens to sell very well for us or it might just be a special pack size for a well-known product, Pringles, of course, we have a special pack size for the autumn-winter season in the gifting category.

Another area is, of course, cash flow specific. The last 6 months, we've seen the demise of Toys "R" Us in the U.K. We've seen that as an opportunity to double down, improve our toy proposition. And this summer, for the first time, we will have LEGO on our shelves and we'll have VTEC, which is the U.K.'s leading toy for infants.

It's been no surprise to you that as I looked at current trading year-to-date, this current financial year, toys is one of the outperformers. Toys "R" Us stopped trading at some point in, was it April or March?

Unidentified Company Representative

April.



Sundeep Arora - *B&M European Value Retail S.A. - CEO & Executive Director*

At some point in April, Toys "R" Us exited the U.K.

However, as we mentioned earlier, the main engine of growth in B&M is our store opening program, and Slide 19 gives you a snapshot of what that meant this financial year. We're delighted with those stores, great returns. But as the map on the right demonstrates, there are still counties in the U.K. that are woefully underpenetrated and provide great opportunities for the future.

We ended the year with 576 B&M stores, but we reaffirmed this morning our U.K. store target of 950. And I'd like to just take a moment to remind you all how we got to that number so that it's fully understood.

There are just over 4,000 different distinct retail catchments in the U.K. OC&C did some work for us where we applied 6 different filters to get down to a number of catchments that we believe we can trade in. Some of them are obvious around not having them too close to each other. We don't trade in factory outlets. We need a certain amount of population. We don't want to trade in Mayfair or Belgravia. And similarly we keep away from where it's too competitive in terms of proximity of other similar models. And also one of those criteria is rent affordability.

I've highlighted that on this slide because actually, that criteria knocks out Central London in terms of the high number of more openings planned in that part of the country. But even with that criteria, you end up with 950 catchments that could sustain a B&M. And I think one of the things I ask you to reflect upon is that our stores -- the reason why we are very comfortable with 950 as a store target is that our stores trade up a very tight catchment.

Our customers only travel about up to 10 minutes to get to us, and that's because our average spend is only about GBP 13. When you got that Mother's Day average spend, we're not vain enough to think someone's going to drive half an hour there for that transaction. But the positive of that is that you can cluster your stores and you can have more stores in a town than you might otherwise imagine. Because, of course, when you have such a broad spectrum of product from toys to housewares, to toiletries, to DIY, frankly, at any one point of time or any one point in time, there's always something in your home that you need that B&M has got.

The second bullet point just makes the point about London. So first of all, 87% of the U.K. population lives outside of London. So please, let's not look at B&M through a London-centric lens. And whilst London does have a disproportionately high share of U.K. disposable income at 18%, that's not really the money we're after. That money is not being spent on discounted Colgate toothpaste or Barbie dolls. It's been spent on watches and fine dining.

And -- but outside of London, I can absolutely show you that whether it's Essex, Kent or Sussex or whether it's Mersey side, Humber side or the Midlands, the U.K. shopper is drawn to discounts. And that's not just by us. It's seen by Aldi, Lidl or indeed the pawnshops.

And I think as you look across the pond and at the U.S. precedent with the success of dollar store segment like Dollar General, there are thousands of stores -- more stores in any of the U.S. retailer is not predicated on being on Fifth Avenue or indeed any of the major city centers that we might know of, be that in Miami, Boston, et cetera.

On Slide 21, and I won't dwell in too much detail upon it, we gave you a nice case study in what we mean about clustering. And at this point, that because we're in such a large addressable market, both of general merchandise and grocery, we can make our returns out to just a 10-minute catchment. And so what we see here is in the town of Nottingham, we have 6 stores, they're all within 4-mile radius of Nottingham City Centre. And yet, across those 6 stores, we can generate GBP 27 million worth of revenues and a cumulative store contribution of GBP 4 million. And it's because, as I said, whether it's the food, the gardening or the DIY, we've got the bestsellers in every category, we've always got something for you, sir or madam, in our stores that you need.

And of course, clustering is entirely logical. When it comes to area managers, when it comes to lorries doing mill their crowns or, indeed, brand recognition, it makes more sense to cluster and have everyone know about B&M and to make sure that service levels and standards in those stores are well managed than past stores that are just too remote and single cellular stores.

The next thing I'd like to touch upon is the Southeast of the U.K. where many of you will live. At the time of the IPO, I would accept that it's somewhat unproven as to B&M's appeal in this part of the world, we only had 19 stores. However, in the financial year that we're just reporting on, we now generates over GBP 300 million a year of revenues in this part of the country. And actually, we're proud to share with you that our average store contribution in this part of the country is actually better than our average store contribution nationally elsewhere.

Now there are some moving parts on how you get there. You accept that the rents are higher down here, that's absolutely given. But actually, the consumers in the Southeast buy more of the discretionary products, homewares, toys, home adornments, gardening. And that higher gross margin largely offsets that higher rent cost.

And as a point of detail, when we talk about our 950 store target, that's not predicated on many more stores in Central London, but it's absolutely based on the confidence that our proposition will be just as resonant in Essex as it is in Yorkshire.

And other elements of our business that we don't talk perhaps enough about but we should is that we are, we think, very good at digital marketing. One of our proud boasts is actually the number on the right-hand side of the page, which is, frankly: we're not on the drug of TV advertising. In the quarter just gone, we didn't spend a penny. In Q3, we only spent GBP 1.5 million. So for a business that earned over just shy of GBP 3 billion, frankly, TV advertising is irrelevant to us. We don't need it. We don't want to need it. But what we do put a lot of emphasis on is more modern ways of talking to our shoppers.

So our website has something like 4 million visits a month, and we're constantly growing our engagement, be that on Instagram, Facebook or by e-mail newsletter. So our Facebook likes are about 1.3 million. That's actually not far off Asda's, and their business is what? 10x the size of ours in the U.K. in terms of grocery retailing. If you take a category specialist like B&Q, it's actually a multiple of their number of Facebook likes. Even though one would argue that as the category leader, you'd think they'd have more engagement around DIY projects, homemaker-enabled projects, et cetera. But now we've got a number that's nicely growing, and we're very proud of because we put a lot of effort into making sure that we've got something interesting for our shoppers to learn about modern ways of communicating.

Turning now to Heron Foods. Delighted with this acquisition that took place on the financial year, and the business is trading well. We're pleased with the leadership team in that business that's now in place, and the transition is now completed in terms of the vendors who used to be in those roles. The business is growing organically. And as we look ahead, we plan to open 15 to 20 stores in this current new financial year.

You'll be aware that these are classic convenience stores of about 2,500 to 2,700 square feet sales areas, serving a very localized neighborhood, largely pedestrian-led local residents visiting the stores for convenience purchases. And I have to share with you that since the acquisition of that business, the business has continued to perform on a like-for-like basis in high-single-digit percentage LFL growth.

Slide 25 gives you the facts and figures around the new distribution center that Paul mentioned. So the entire facility in 1 million square feet is going to cost GBP 100 million, but the cash outflow for funding this is very short term in nature. When the building is completed, we will be immediately sale and leasebacking it. We'll probably make a small development gain in doing so, but it will be sold to an institutional third-party investor so that we retain our capital light strategy. But crucially, as you heard earlier, this facility will be the first B&M facility that will have frozen and chilled compartments within the warehouse.

Turning now to Germany. So this is a year of change in Germany. The business grew by 12%. But as you heard earlier, the summer season was a washout, and we've also taken this year as the year that we effectively reinvented the management team. And by that, we mean not only replacing the Chief Executive, but actually I can share with you whether it's Distribution Director, Operations Director or Trading Director, all of those roles have changed over the course of this financial year. The reason for this is that we now want to put our foots on the pedal in terms of changing Jawoll from what it was, which is a clearance-led or a closeout-led retail model to the B&M model, which is all about strength from direct sourcing, just the bestsellers, discipline around product ranges and a different way of opening stores.

The 2 businesses are working much closer now at buyer level as opposed to having to work through the -- [found a] management team that, as you know, has the minority shareholding in the business. That is no longer the case. There's much closer working across the business. And the really encouraging thing to share with you is that in the early weeks of the current financial year, the like-for-likes have bounced nicely back into



positive territory. So the underperformance last year is very identifiable as being largely the gardening and plants departments. And for those who watch the weather in Germany, they've had a good start to the year. The sun has been shining, and those departments have traded extremely strongly compared to the washout last year.

And so while there's still a lot more to do, a lot more to change over to this coming financial year, we remain as committed as ever to the ultimate success of our German business. And indeed, this year, this financial year, we will be opening another 10 new stores.

So I'd like to just take a step back from the specifics of this year's gardening season in our German business or the appointment of the new Trading Director, and reflect on the big picture, the market in which our Jawoll business operates.

There has been a suggestion that -- another business that we really respect, Action, has entered Germany. They have the market now, and it's one winner takes all. That's just not how we see it.

Variety retailing has been existing in Germany for 30 years in just the same way it's existed in the U.K. for 30 years. There are multiple players. We happened to have bought the second largest at the time out-of-town operator. And yes, actually we have been opening stores at pace, but it's a large market with lots of RF operators. And what we say is that over time, there will be a national champion or 2, but it doesn't have to be just 1. It can be a handful because the U.K. experience suggests it's not like Uber or [Justine's] where one winner takes all. The market is large enough for 2, 3, 4 successful operators.

I would remind you that 10 years ago, B&M was a fraction of the size of a Wilkinson's or a Poundland. We're now double the size of a Poundland. Our EBITDA is 200x of Pound (sic) [Poundland] -- of some of those competitors. And I think you can generalize that in a market like this, you'll probably get 2 or 3 winners. In the U.K., the winners are B&M, Home Bargains and, to an extent, The Range and Poundland. Some of these other operators are, frankly, breakeven operators or loss-making, but it's not one retailer takes all. It's just not the experience of the U.K. market, and we don't believe that, that's what the future holds in Germany.

And just as we can coexist with similar but different models like Poundland and Home Bargains in the U.K., we're entirely confident that we can coexist with Action in Germany.

Just to wrap up before we attend to questions, just want to remind you all about this final element of our business, which is the deleveraging nature of this business. It's a great business to run from a cash flow perspective because it just chucks off so much cash, notwithstanding it's a growth retailer.

As we look ahead over the year ahead, our priorities for our cash, our organic store rollouts, our ordinary dividend, which you heard we've increased by 24% year-on-year, we keep open some optionality around M&A on a -- from a bolt-on perspective, but we have no aspiration to build up a large war chest or a pile of cash. If that doesn't exist and once those 2 earlier elements are satisfied, we will return cash to shareholders. And I suppose what I'm saying is that -- please be very aware, the money that's gone into the DC, the GBP 100 million, it's for 1 year only. And once that been sold and [leasebacked], that cash is there to be applied to our capital allocation framework.

So I know you always like to hear some final comments about the year ahead. Obviously, no one's got a crystal ball. But these are on Page 30, the way that the B&M management team and the board think about our business in this current market as we look forward.

The U.K. consumer wants discount full stop. Our model is working. Two, we continue to gain market share. Our like-for-likes are industry leading. We continue to open new stores, we're delighted with the crop stores we opened last year. The pipeline is looking very healthy for the current openings this financial year across all 3 fascias. And as you heard Paul say, we're pleased with how the year has started.

I'd remind you as a note of caution, that plus 3% excludes Easter week. We've got a very odd timing effect this year. Easter week fell into week 53, so it's neither in Q4 of last year, and it's not in -- well, we didn't get it in Q1 of this year. So please have that in mind when thinking about our like-for-likes. But on an underlying basis, the fact that we traded 3% like-for-like in January, February and the current financial year, excluding Easter, tells you that we actually see the world as being quite stable.

We're doing all the right things in Germany, and we're confident in the future. We like to keep some optionality around bolt-on M&A. That still is in on our agenda, hasn't come off. But overall, we feel very well placed and comfortable in terms of year ahead, both in terms of profit generation and, of course, all important cash.

So with that, thanks for listening. Sorry, it took a bit longer to get through all that material than normal, but let's take some questions.

There is a lady here from Bank of America with a microphone. So if you can just wait until she'll pass it to you, and then we'll take your questions.

QUESTIONS AND ANSWERS

Andrew Ian Porteous - HSBC, Research Division - Analyst, European Retail

Andrew Porteous from HSBC. So 3 questions if I could. One will be on sort of part of your business. Just in terms of the core B&M business. You talked about 50 stores for this year, but obviously, we've seen a lot of turmoil in the U.K. retail environment at the moment. So probably, your picked up U.K. real estate. Are you -- you've historically been quite opportunistic. Is that -- is there an option to -- opportunity to do a bit more of that potentially if the right opportunities present themselves? Second question on Heron Food group. I mean you talked about the 950-store target for B&M. I assume you've done sort of similar work on Heron at some point. Can you talk about store potential for that business in due course? And then the last one on Germany. I mean, you've got a new management team in there. What is it you need to see from them to reaccelerate the rollouts or look to move to consolidate that market? And then perhaps one sequel if I may. You talked about coexisting with Action in Germany, any chance you'd do it in some of their other markets as well eventually?

Sundeep Arora - B&M European Value Retail S.A. - CEO & Executive Director

Sure. Thanks. Great questions, Andrew. So in terms of our 50-store target for the B&M business, the pipeline is already very healthy, and over 40 of those stores have already been identified and are in legal stages for the current financial year. So yes, there is some upside opportunity should some of the other players in the market exit space, but we're not banking on it. We won't do too many because we like the natural rhythm of around 50 stores a year, so it won't be hugely higher, but we wouldn't rule out it being slightly exceeded. Turning to Heron. It's only at 265 stores. There are convenience store chains with 1,000-plus branches. We actually think it's somewhat academic or hypothetical to give a number. But clearly, it's a multiple of what it is today. And actually, the constraint there is availability of attractive space because convenience retailing is actually proven to be quite healthy for most of the players, so there isn't a circuit of vacant space out there. Our plans are to open 15 to 20 stores a year, that's what the business can do quite comfortably without compromising quality of new space. And so that's what we ask you to model. That's what we budget. In terms of Germany, what we've set the management team there the challenge of is bringing the product range to the B&M methodology over the course of this financial year. It's only when we believe that the products and prices inside the store are those that we're proud of that we can really say we can judge whether the consumer likes it or not. So this year, it's all about across every single category, working very hard to align their product ranges to our way of doing things, and it will take a year for that to happen. So we're asking for a year before we're judged. No, I've mentioned earlier the Chief Exec, Distribution Director, Operations Director, Trading Director, all new appointments. I think it would be unfair to ask that team to deliver in less than 1-year target. I mean I would say 1 year is pretty much of a stretch. So this time next year is when we'd like to update you around whether we've got the product range where we want to get it to and how the consumers respond to that. Action. You want to talk about any other markets? We can't rule them in or out. We want to be a Pan-European discount retailer. Slightly in jest, I would point that the one market that they said that they don't want to come to is the U.K., (inaudible) what you will.

Jonathan Pritchard - Peel Hunt LLP, Research Division - Retail Analyst

Jonathan Pritchard from Peel Hunt. The usual story. I suppose for frozen foods, clearly they have to come from somewhere. So where did they come from? Are there some categories you've gone into that didn't necessarily work for you? And are there any interesting ones? You've given us 8 appealing categories within -- in the Q to Z. Are there any interesting ones you could still get into? You talked about a degree of stability actually being March. Therefore, should we assume that 3% like-for-like is a sensible sort of the midpoint of the range that one meets your sort of expectation?

And then I think you could get -- as a parent, you could get quite excited about LEGO coming into stores as we come into Christmas. Is it in going to be in all stores? Is it going to be a big, big capture? Just tell us a bit about how exciting that might be.

Sundeep Arora - B&M European Value Retail S.A. - CEO & Executive Director

Great. Thank you, Jonathan. So in the 70 stores that we've got the food and chilled departments, essentially, as at the year-end, the departments that were squeezed down were the bulky departments where it takes a lot of space for what we get out of the sales. So flat-pack furniture with its attendant displays of assembled products, paints and wallpaper are baggy around space, so they went down. We don't regret being in those categories. That's still in 100, 200 of the other stores, but they've just been condensed down because the sales densities aren't quite as good as we can get out of food. In terms of your comment about other categories we want to go into, there aren't today any brand-new -- completely new categories, but it's more at the sub-category level. Just for example, nutrition is a growing part of our business, be that protein and other products, hence, the Mo Farah collaboration. Paul, why don't you take the question around why the 3% is a good the number to budget?

Paul Andrew McDonald - B&M European Value Retail S.A. - CFO & Executive Director

Yes. Clearly we've seen a good start to the year, pleased to start the year at 3%. I'm not going to try to make a long turn, exactly what we're going to do for the full year. I mean, we've obviously -- and we've said we hope to beat the market by [20-or-so percent] over a year, briefly it's going to be at 2% or 3%. And it's -- if you probably think back to -- you think back to B&M model full stop, really, I mean, the new stores have really been the key driver of growth. I mean, the kind of the LFL performance tends to be slightly the icing on the cake. And if it's 1%, 2% or 3%, it's not materially going to change the needle in terms of the growth numbers.

Sundeep Arora - B&M European Value Retail S.A. - CEO & Executive Director

Yes. And the way I think about that is that if you look at our EBITDA bridge, even in the year where we delivered just shy of 5% like-for-likes, which is market-beating, the market is at 1%. Actually, most of the earnings growth comes from new stores, and that's the nature of this business. We're a growth business that's got a long rollout runway ahead of it. And turning to your final question around LEGO. So we're a limited assortment discounter. So what you will not see in a B&M is 10 meters of LEGO, and that's not a criticism of LEGO. I played with LEGO as a kid myself. But it's just picking up what we consider is the most appropriate bestsellers -- best-selling, fast selling products for us and offering that to the consumer in a very convenient format. Next question.

Simon William George Irwin - Crédit Suisse AG, Research Division - Director

Simon Irwin from Crédit Suisse. Firstly, just thinking about Homebase, you've obviously taken quite a few Homebase stores so far. Let's assume that there's a fair number of them that are about to come onto the market. If that opportunity arose, would you go over 50 if they came up? And -- or could we see the net closures to offset that if better quality space came on to the market? Second is just kind of broader questions. Generally, how do you trade when businesses fail? So obviously, we've seen Toys "R" Us, there's clearly going to be some restructuring around Homebase, some of the other discounts (inaudible) are in trouble. So in that period of disruptions, is it something you actually feel as a business? And thirdly, can you just talk a little bit about the logistics of running GM and frozen/chilled together? Talk us through the warehouses. What's the preferred model of actually supplying stores? Do you want to buy a store jointly, say, from [Powell] and from DC in the Northwest? Or do you want to do it from one site, say, along the (inaudible)?

Sundeep Arora - B&M European Value Retail S.A. - CEO & Executive Director

So combined sum. So on the home-based question, pretty straightforward, we don't need anything dramatic to happen at Homebase for us to make our store opening numbers. We're already largely there, but we would not rule out going above 50, if external circumstances meant it would be bullish to say no. But it's not materially above because we absolutely don't want to hit a pothole around availability of inventory, distribution capacity, store managers being ready. We've been working on those things so that we can take advantage of such opportunities should they arise,

but we don't want to go too fast. On your second question around what happens when other businesses go bust, it won't surprise you that selling toys when Toys "R" Us are in a closing down sale is difficult. But once they're closed, Toys "R" Us performs. And I would say exactly the same thing could happen around DIY should something dramatic happen to one of the large players. But I'd also point out that there seems to be a constant news flow of other retailers exiting phase (technical difficulty) we are exiting. So whether it's Tesco turning off the online housewares, more domestic appliances and some of the stuff we sell, selling off that part of that business, that's interesting, whether it's department stores, M&S closing down stores, where you might have bath towels and crockery and housewares, that's interesting. So we -- I feel slightly conflicted because, on one hand, one talks as a retailer and one wants U.K. retails to be in good shape. But being entirely candid, some of that distress is being felt elsewhere is, of course, opportunity in the medium term for B&M. And why don't you take the question around the logistics of frozen and chilled?

Paul Andrew McDonald - *B&M European Value Retail S.A. - CFO & Executive Director*

Yes. I mean, today, in terms of where we are today, I mean, in terms of -- we've seen kind of Heron today and what those 70 stores are supplying. At the moment, basically, those parent stores are basically testing it, the B&M stores are being supplied by [Calajandara]. I mean, they clearly have -- given the areas we're in and the areas where we're -- whether -- I mean those 70 stores, they have to be -- they have to the frozen range in and launch in the Heron stores. So that actually where its geographical remix of their transport services. So basically, they're coming from Liverpool anyway, no problem in that, and actually given some additional products for B&M stores in the area. So initially, the model it's based entirely [reason why that's out of our hands] Moving on in terms of -- obviously as you move out into the year, a full kind of warehouse down at Bedford, I mean the only exact details to that is still being worked out but equally -- so it's probably similar to that kind of the methodology.

Sundeep Arora - *B&M European Value Retail S.A. - CEO & Executive Director*

It's a mill crown effect. And so you have ambient trucks for all our normal products. And then there's a mill crown of a frozen and chilled truck that just does those empty controls products and that's a (inaudible).

Simon William George Irwin - *Crédit Suisse AG, Research Division - Director*

Just a quick follow-up. As Bedford comes onstream next year, will we expect a bit of a deleverage? Or is business now kind of big enough to converge with DCs to really impact the costs? Is that material?

Sundeep Arora - *B&M European Value Retail S.A. - CEO & Executive Director*

So you've seen the improvements in our operating costs and the revenues. That's been a function of some great work that's been done within our distribution services around the new warehouse management system. And so by the time that Bedford comes online, what I'm saying is that the all-important WMS that would be deployed in there will be tried and tested and already operational in multiple sites elsewhere. So we won't be doing anything new in that method that we're not already doing.

Tushar Jain - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is Tushar from Goldman Sachs. Just 3 questions on frozen. First of all, the like-for-like increase 5% is more driven by the fall of -- even the basket -- items in the basket doesn't follow what's what were there. But in the payback period within frozen the next 18 months, is it sort of what we expect just slightly disappointing, given your store payback is constrained to 9 months? So how should we be thinking about it? And looking at the digital, is there any change in thought there in terms click and collect? Or are you still being just lay off -- or giving consumers an access to your product profile?

Sundeep Arora - B&M European Value Retail S.A. - CEO & Executive Director

So a couple of questions there. In terms of the like-for-likes on frozen, it's mostly average spend. If you're already buying Kellogg's cornflakes and Heinz tomato soup, why wouldn't you purchase McCain's French Fries in the same basket, as its average spend? In terms of the payback period, 18 months, our competitors open stores based on 4-year paybacks, 3-year paybacks. 18 months is fine, it's...

Paul Andrew McDonald - B&M European Value Retail S.A. - CFO & Executive Director

I think if you look at -- I mean, if you think that overall B&M paybacks are around 18 months, actually, a little bit of additional CapEx. It doesn't materially -- even when we do, I think, new Bedford and we open up new stores that are out there, frozen/chilled there's nothing to say we'd change the [8] months.

Sundeep Arora - B&M European Value Retail S.A. - CEO & Executive Director

Demand across the new stores, we have a working capital cost of doing so, whereas on frozen and chilled, we have no working capital cost because it's a U.K. supply base where you don't have a positive working capital requirement. And turning to your last question about digital and click and collect. I mean, I think it's something we review constantly. But actually, our shoppers enjoy browsing our aisles. We've got 100 new products every single week. And part of the magic of B&M is that treasure hunt like TK Maxx. So click and collect would go against that. You wouldn't get to experience that treasure hunt and what's B&M got new. And also, I'm mindful of the fact that we're profitable. We want to stay profitable. So if the customer is not asking something and if their behavior suggests that they're happy with what we're currently doing, why change it?

Tushar Jain - Goldman Sachs Group Inc., Research Division - Research Analyst

One question on like-for-like of 3.1% of volume for the (inaudible).

Sundeep Arora - B&M European Value Retail S.A. - CEO & Executive Director

Yes, inflation is moderating. So the way we think about that like-for-like is that it's in part new customers coming in, but it's also in part average spend, which, yes, right now, inflation is [not good]. We're going to wrap up with the last question -- question will be made in the remaining time.

Andrew Mark Wade - Numis Securities Limited, Research Division - Retail Equities Analyst

Andy Wade from Numis. Again, 3 from me as well. First one, you sort of compare in one of the slides that your like-for-like performance would be at [best this] sort of broad-based competition. But obviously, most, if not all, of them are benefiting from online as well. Though, actually, your sort of outperformance versus an in-store like-for-like is even more marked. Is that something that potentially as in-store like-for-likes across the rest of the market get even worse that you can sustain at that sort of level of marked out outperformance? Let's say the market is minus 2 and you're plus 5 there. And that's a huge, huge differential. Second one, just looking at your site (inaudible) slide, the last one -- or one of them in there was competition, [that wasn't the last one, the last one was rent], but one of them was competition sites -- competitor sites. Now as we've got Home Bargains, The Range, Poundland, is that rolling out, obviously? Is that affecting -- does that affect that target? Or is that all -- will that get factored in? And then the final one on Jawoll. Obviously, a lot of change going on. Are you confident that B&M -- changes to B&M's sort of range is the right thing to do and is going to work? If you're as confident as you seem to be, why didn't you do it more aggressively sooner?

Sundeep Arora - B&M European Value Retail S.A. - CEO & Executive Director

Good questions. So in terms of online, the reality is if you walk through a B&M store, you'll find that a vast majority of what we sell just doesn't lend itself to going into an online package. I walked every aisle of B&M with a 3PL fulfillment company. And out of the 6,000 products on the shelves, there were only 300 that they said they could get through that facility because either it was too fragile or an odd shape or an assorted pack or it



just didn't lend itself. So that's just the nature of the types of products we sell that they don't work online. Hence, Tesco's decision to pull out. Turning to your second question around the site's competitive intensity. So that piece of work was done by OC&C, and they were concerned with Poundstretcher, Poundland, Poundworld, The Range, Home Bargains. You can't -- you shouldn't go where there's too many of them. That's fine. That's a good conservative approach to take. Actually, we're not afraid of any of those competitors. We actively look to outrun anyone. And I see it as the more likely dynamic that some of those names I've mentioned will actually exit the market. And as you look at who is opening stores, it's us. It isn't Home Bargains, The Range, a handful of stores, they've got some issues at the moment. But if you go and pull off the company's house figures that go with some of the names, we're actually thinking about insolvency as opposed to competitive threats. And then finally in terms of Jawoll, I would just share with you that the nature of the transaction was that we bought 80% and 20% was retained by management. And under that contract, they have 4, 5 years in which to be allowed to continue to run the business more their way. And last year, we decided that just wasn't working for both sides, frankly. And so we came to a mutual agreement that they would exit business sooner rather than the previously (inaudible) time. And that's why it's happening now rather than X years ago. But just on that point, I don't want to get too critical about our German colleagues because in the 4 years that we've owned that business, the first 3 years, they nicely grew revenues and EBITDA. To be entirely fair, any German retailer I've spoken to has said last year was a washout for spring/summer, whether that's a apparel retailer or whether it's a garden center retailer. And current trading confirms there were very unfortunate circumstances last spring/summer where for the crucial bank holiday weekends around these -- around the beginning of spring/summer planting season, it just rained every time and hence the trading on that. Very good. Great questions as always. Thank you all for your continued interest. Thank you.

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