



HORNBAACH Holding AG & Co. KGaA

Q2/H1 2024/25 Results

Investor and Analyst Call

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Transcript

Speakers:

Karin Dohm

Antje Kelbert

Antje Kelbert: Good morning, and welcome to our update call for the Second Quarter and First Half of 2024/25 fiscal year of HORNBACH Holding. My name is Antje Kelbert, and I'm the Head of our Investor Relations team.

Joining us today is Karin Dohm, our CFO, who will take you through some highlights and details of our six months.

Before I hand over to Karin, let me remind you that the entire conference call, including the Q&A session, will be recorded and made available with the transcript on the company's website. Following Karin's remarks, the call will be open to questions. If you are unable to get your question during the call, please reach out to our Investor Relations department afterwards.

Please also take note of the disclaimer, which is valid for the entire presentation and for the Q&A session.

And now Karin, I hand over to you.

Karin Dohm: Thank you, Antje. Good morning, and a warm welcome from my side. Thank you for joining. As you saw, we delivered a solid performance in the first six months of our financial year despite a partially challenging macroeconomic environment.

Sales were stable at €3.46 billion. Market shares rose in several countries and our customer frequency picked up. Compared to last year's H1, we increased gross margin to 34.9%, a plus of 1.6 percentage points. This reflects predominantly normalised core commodity prices and a healthier product mix. In combination with our successful management of inventories, costs and margins, the adjusted EBIT came in at €265 million, significantly stronger than last year's H1.

On the back of this, our earnings per share stood at €10.78 at the end of our first six months of the year, plus approximately 38% above the prior year period. All in, we feel very good about these first six months, focusing on customer satisfaction and challenging environment and cost discipline in our organisation.

While net sales continued to benefit from the strong spring season, macroeconomic uncertainty and inflation pressured consumer demand on a broad scale, resulting in weaker spend across home improvement projects. CAPEX has been as planned below the prior year number in the first half of the year. This was caused by a different investment timetable compared to six months 2023/24. We expect the majority of our CAPEX coming during H2 summing up to roughly €160 million to €180 million total CAPEX for the current fiscal year in its entirety.

It is good to see our hard work clearly shining through in our free cash flow figure that developed really well and reflects our strong operations. Our robust balance sheet and our low leverage gives us not only strength, but also room to expand further.

Nevertheless, we are facing a little bit of lacklustre macroeconomic environment in Europe, and we see consumer sentiment still subdued. This results in an overall softness of spending, specifically with regards to larger projects. Against that backdrop, our forecast for the full year 2024/25 remains unchanged. We continue to expect sales slightly above the previous year and an adjusted EBIT at or slightly above 2023/24.

Let's now dive into some operational highlights of our first six months.

Customer satisfaction is one of the key KPIs for us, as you know. We are strong believers that a great shopping experience, combined with a highly productive operational setup ultimately underscores market relevance and profitability. We are therefore proud that we were ranked first in some of our core markets in the last customer service.

In Germany, Kundenmonitor, the largest independent customer survey ranked us first above overall for customer satisfaction for DIY stores. Additionally, we achieved the top rank in multiple other categories like web shop and app, professional advice and the quality of our brands.

In the Netherlands, Retailer of the Year recognised us as best DIY store as well as best online shop. We see that as a great validation of our team's hard work and as a reconfirmation that we are on the right path.

This also means taking our commitment to the environment seriously. That's why we, as a DIY store operator, are breaking ground. In the first half of the year, we have also advanced our initiatives to make our business more sustainable. In partnership with our DIY and gardening retailers in Europe, we are introducing reusable plant trays. These have the potential to save approximately 40,000 tonnes of plastic per year in Europe. They will be rolled out in all HORNBAACH stores over the next few months.

Ongoing investments in infrastructure are also essential to grow our business and positively impact the environment for our customers and employees. Therefore, we are not only planning to open four new stores in the upcoming year but also to invest in existing structures.

These investments include new drive-in facilities for heavy goods, the new construction of our store in Nuremberg, which in its new attire has more than 10,000 square metres of sales area as well as installing solar panels in our stores. These are some of the areas in which we are continuously making progress to advance our sustainability efforts.

Let's take a closer look at sales figures in the reporting period. Our net sales in the first six months of 2024/25 were on prior year level. HORNBAACH Baumarkt contributed to this with a sales growth of 0.7% compared to the prior year period.

As mentioned at the beginning of our call, we saw a positive development in customer frequency with a 1.6% increase in footfall. Average tickets were slightly down year-on-year, reflecting continued softness in large projects and discretionary spending.

The geographic split did not change significantly with slightly more than half of sales coming from the eight European countries outside of Germany. Net sales at subgroup HORNBAACH Baustoff Union, which mainly caters for professional customers in the construction industry, decreased by 7.3%. This reflects the ongoing weakness in the German construction sector, especially regarding new construction business.

Now let's turn to our like-for-like sales growth.

Generally, demand in most European countries benefited from better weather conditions in Q1 having a positive impact on like-for-like garden and plant sales specifically. Q1 obviously also benefited from the base effect in comparison to our previous year's first quarter. This was offset by weaker like-for-like sales in this year's Q2. The reasons were unstable weather conditions, specifically in June, no base effect compared to last year and continued softness on consumer spending behaviour.

In sum, like-for-like growth for the first half year was plus 0.7% based on an equal number of business days as the prior year period.

The share of e-commerce sales of HORNBAACH Baumarkt came in at 12.5% in the first six months of 2024/25. As I've already mentioned, HORNBAACH's leading role in interconnected retail has once again been proven by the largest independent customer survey in Germany, the so-called Kundenmonitor. Moreover, customers consider HORNBAACH's website and online store to be the best one in the DIY sector. We're extremely proud of this, and want to thank the team for their dedication to making HORNBAACH a priority partner for our professional and retail customers.

While this is of course a very gratifying result, we are not resting on our laurels. Based on the experience we gain and the feedback we get from customers, we continuously implement new features into our app. These already implemented include multiple customisable wish list, an online configurator for customised wood cutting as well as in-app store navigation to the shelf where the desired items is located, for example.

As I mentioned at the beginning of our call, we keep expanding our market share also in times of lower consumer spending. We feel good to see that our customer value proposition pays off and that we managed to extend our share in light of an active competition in all our countries.

Let's move on to our P&L items. Our gross margin increased by 1.6 percentage points compared to the last year's first half, continuing on the higher levels that we achieved in Q1. As highlighted in previous calls, this is due to the normalisation of select core commodity prices and a stronger product mix compared to the prior year period.

Allow me to remind you that the trend towards an increased margin started already during winter. As you will remember, we highlighted that in our calls over the course of the last nine months. Whilst it is our aim to keep gross margins where they are, we will not continue to see the like-for-like delta in the second half, as the base effect will melt.

The decrease in selling and store expenses is driven by cost efficiency and reduced depreciation. These overcompensated higher personnel costs driven by necessary wage increases. In the prior year, selling and store expenses included depreciation triggered by numerous ECB interest rate increases that pressured our applicable WACCs.

The cost ratio of general and administration expenses remained nearly stable. And once again, we managed to offset necessary wage increases by lowering general costs.

Let's now have a look at earnings. Overall, we improved our adjusted EBIT by 19.9% compared to the same period last year. This was driven by already mentioned successful management of inventories, costs and margins. With this, overall adjusted EBIT margin came in at a good 7.7% compared to 6.4% in the prior year period. The higher adjustment for non-operating effects in last year's figures were mainly driven, highlighted before, by increased interest rates.

On the next slide, I would like to share some insights regarding our cash flow.

The one coming in from operating activities increased substantially compared to the prior year period, primarily due to strong Q1. Working capital changes reflect the typical seasonal changes with reductions in inventories. Last year's reduction came in higher as we were in the process of optimising our inventories in 2023.

Cash flow from investing activities was lower in H1 due to differences in the investment timetable, as I explained earlier on. This fiscal year, we will see the majority coming in in H2.

Regarding the gross CAPEX split, roughly a third was spent on land and real estate, mainly for new stores, while the rest was spent on store updates and equipment as well as software. As promised, we keep delivering on our free cash flow, which came in strongly at €112 million in the first six months of 2024/25, underscoring our strong operations and our cash generation capacity.

Let's have a quick look at our balance sheet. Strong as before, the consolidated balance sheet total remained almost unchanged at €4.5 billion. The equity ratio was up slightly, coming in at 46.5%, once again giving comfort and reliable for stakeholders.

Lower net financial debt and improving rolling 12 months EBITDA resulted in an improved debt ratio of 2.2 compared to 2.5 as of 29th February. All in all, our balance sheet underpins our robust financial position and the resilience of our business model.

In July, S&P confirmed our credit rating at BB+ and revised the outlook from negative to stable.

Before we open the floor for questions, I would like to remind you of the long-term opportunities we're pursuing despite ongoing macroeconomic challenges.

First, catering for the trend of multifunctional living spaces that accommodate both work and life. Second, fostering energy efficiencies through renovation and modernisation of Europe's aging residential homes that are on average older than 20 years. Third, adopting bathrooms and other rooms for an aging society in light of demographic changes across Europe.

And fourth, supporting customers in DIY and DIFM activities, by offering quality goods and services for professional and retail customers as well by linking up these two groups through our craftsman services offering.

In sum, we are well positioned to capture medium and long-term growth opportunity in the home improvement sector, and we are confident about HORNBACH's successful development in the future. Our figures show that personalised sustainable living spaces continue to be important to people and integral to their day-to-day life.

With our everyday low price strategy and strong private labels, we remain a reliable partner for all our customers, big and small renovation needs. Even when budgets are tight, we help our customers to successfully and cost effectively complete their home improvement projects. This makes DIY and Do-It-For-Me an indispensable part of everyday life for all people. And that ensures, of course, the future profitability for HORNBACH and its shareholders.

With that, I conclude my presentation and hand back to Antje for the Q&A session.

Antje Kelbert: Thank you, Karin. And I hand now over to Saskia, to our operator, to explain the technicalities of our Q&A session. Please Saskia, go ahead.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question today, please signal by pressing star one on your telephone keypad. That is star one for your question today. And we will pause for a brief moment to allow everyone to signal. And our first question today comes from Thomas Maul of DZ Bank. Please go ahead.

Thomas Maul (DZ Bank): Yes, good morning. Thomas from DZ. Thanks for taking my questions. I've got two. The first one would be, you highlighted in the call that you expect gross margin to remain on an elevated level. Maybe you can elaborate a bit on what makes you so confident here. And yeah, what are actually the main drivers for gross margin? Is it mainly lower raw material prices or is it product mix?

And second question, maybe you can also comment a bit on current trading with regard to footfall and shopping cart size. Thank you.

Karin Dohm: Yeah. Thanks for your questions, Thomas. On the gross margin. So you asked about what drove it. It's actually really both. It is the product mix because we had, I would claim, this year a very normal product mix exactly as we want to and aspired to in spring and summer time with a strong gardening season in our first quarter and the usual mixture of products that you expect in summertime.

So the change is, that wasn't happening last year. So that is part of the base effect I would claim, as you might recall, spring 2023 was really not as we all wished for with months literally of cold and rainy weather. So that's the change in composition of product and product mixes.

And the other thing is, of course, we have always said after commodity price increases both in '21 and '22, and a lot of force majeure events also on our supplier side, when you remember the broken logistics chain back in '21, the energy price rises end of '21, but of course, especially '22, that led to what – quite strong supply price increases. And we managed to make sure that we get back into normal areas last year in '23 in combined actions with our suppliers. And that is, of course, now coming through, and that is what you see also in the gross margin. So adding that all up, it's really literally both.

With regard to the next month, obviously, it is our aim to keep that level. We need to see how things evolve. As you know, we're really committed to our everyday low price strategy. So in case that we have some competitor, who is maybe under pressure that we don't are or that we are not, and then we see a couple of movements there that could have an effect specifically, obviously on sales price and thus on gross margin.

But as said, obviously, it's our aim to stay stable, and then we need to see how things evolve over the next month.

You also asked for current trading and footfalls. I think currently, we see more or less, I would say, what we saw also in the last weeks of Q2. Of course, I mean, Europe is back from holiday. We all have the entrée now. Everybody is back to work, school, whatever. So there is a bit more momentum in general, but this overarching softness, as we call it, the fact that people are a bit holding back on going into larger projects and the attached spending, that is going on currently. And that is, I would say, very much a prolongation of what we saw in August.

Thomas Maul: Okay, thank you. Helpful.

Operator: Thank you. And your next question now comes from Ralf Marinoni from Quirin PrivatBank. Please go ahead. Your line is open.

Ralf Marinoni (Quirin Privatbank): Yes. Ralf Marinoni, Quirin Privatbank. Good morning, everybody. Two questions from my side. First of all, you plan to open four new stores in the next business year. So a general question, how high sales contribution of individual store? Is it about €30 million per year on an annual basis on average?

And second question, when does the new store reach breakeven?

Karin Dohm: Yeah. Thanks for your questions, Ralf. It's exactly as you said, we think there should be four coming through next year. Allow me a general remark on the opening of new stores, sometimes we have with certain – yeah, these things are always a huge building sites. So there could always be that the one or the other is just coming through a month later for no specific reason, as you know from any big building activity side.

So as far as the current expectation, that would be two in Romania, one in Austria and one additional one beyond the reopening in Nürnberg that we alluded to several times, one additional one next year in Germany.

Usually, those stores, whenever we open one in, really in a new location where we were not before, they take a small couple, but nevertheless a couple of years to really be full up and running on a very rough, so to say, big fund approach, I would say, three to four years until they are fully flourished. And then they deliver what we would expect them to deliver, as said, in the proper right status. So that's the rough figure.

And then what you mentioned with regard to sales and EBIT figures, we don't go into those details, I need to admit with regard to individual stores participation. But in general, these stores are all totally adding to our big box picture. So they are 10,000 square metres plus and adding therefore quite some potential also on the share sales side.

Ralf Marinoni: Okay, understood. Thank you.

Operator: Thank you. And ladies and gentlemen, as another reminder, that is star one for your questions today. And questions can only be posed via the conference call today. So if you do have a question, please signal by pressing star one. We will pause for a further moment. And we just received a further question from Johan Van Den Hooven from Value8. Please go ahead. Your line is open.

Johan Van Den Hooven (Value8): Good morning. It's Johan from Value8. A few questions. The first one, if we look at the sales development, I think in the first quarter it was mainly volume – well, it's a bit volume driven, the increase in revenues. Of course, there also was some lower pricing. Of course, it's also positively influencing the gross margin. How was that in Q2 if, well, revenues are down? Was there still a bit of volume growth and the rest was price decline? That's the first question.

Second question is can you please give an update about Bodenhaus, how it is developing?

And the last question is about the outlook for revenues. Revenues were flat in the first year and you stick to your outlook of plus 2-5%. So the increase has to come from normally – what is normally your weaker half of the year? Those were my questions. Thank you.

Karin Dohm: Thanks, Johan. Let me start with the first one. You asked about the sales and the development if we look in a split manner, so to say, on to Q1 and Q2. Q1 definitely profiting from, I would say, all angles or all components of the top line. We had, in general, good weather across all our regions and countries. We had strong footfall. We had a good gardening season, which is a season that comprises goods, which, in general, anyhow have a better margin on average.

We also had a good gross margin, as I explained earlier, driven by the fact that we have different commodity prices baked into the goods that we're currently selling. So it was all. It was volume, it was margin and it was therefore both affecting positively the sales and, ultimately, the gross revenue in Q1.

And on top of it, we had a base effect in general due to the, allow me to call it, relatively lousy Q1 in 2023. And then we had, obviously a second quarter, which was a little bit a mixed picture across the countries where we are. In general, as I said, consumer sentiment to go into larger projects, the confidence to go into something that lasts longer and has higher costs attached is not yet there. It wasn't there in Q1. But there, as I said, we spoke more about garden and plants, which is a different business.

In general, the underlying note that consumer across Europe – and we know also in other regions, but for us, it is Europe – that they hold back currently, as they had in the last quarters, you can say, is going on, is a feature that hasn't been really diluted. Of course, we are positive about the interest rate decreases of ECB. We think that there are a couple of factors that will positively influence the environment in mid-term. But currently, consumers hold a little bit back.

That means for the sales of Q2, we talk in general about good footfall. Nevertheless, smaller packages and combinations of goods. Once again, we see that large projects are not yet happening. In general, in this year, we are in contrast to last year, obviously, we are in a period where prices tend to go more down than up, sales prices I'm talking here, because that's just now we have no inflation anymore, and therefore sales prices go down a little bit.

So Q2, I would say, a little bit decrease on the sales price side. Nothing dramatic, just as said, the usual swings that you have. And then we have, as said, a little bit of holding back on larger projects.

You asked about Bodenhaus. Bodenhaus, as you know, opened in '21 with two of those. We have one in Berlin and one in Cologne. We also have in the Netherlands, we have Vloeren, which is the same concept, but it comes under full HORNBAACH brand. And we see that those in the Netherlands are evolving very well. Very happy with the performance.

The one in Germany is a little bit of a mixed picture. Specifically, the online business of them is extremely successful. So people from all over Germany are using Bodenhaus. The footfall in the stores is not where we would like to see it ideally. But for us, it's still too early to understand is this now something that we want to maybe drive further in the brand attachment. Clearly speaking, just re-labelling it to make sure it's visible that this is part of the HORNBAACH family or whatever we do. But they have been extremely successful online shop. So all in, we're fine there as well.

And then you asked for the outlook. Yeah, look, what we have now in Q3 coming up is once again Q3 2023, so last year's Q3 wasn't really good. Was actually not really, really not good. So if you look back into our figures, it wasn't that brilliant. And we think there is potential that we see here some more going on. We need to see how, as said, customer evolves, how they evolve in the buying behaviour, how they address certain topics.

We are with home improvement in the business that is always very close to people's life, whether they do it themselves or whether they hire somebody. So we thought we are absolutely feeling confident currently with our guidance. And therefore, no room to change that or no better knowledge at this very moment. That was the main reason there.

Johan Van Den Hooven: Okay. Thank you very much.

Operator: Thank you. And we now have a follow-up question from Ralf Marinoni from Quirin Bank. Please go ahead.

Ralf Marinoni (Quirin Privatbank): Yes. Thank you. In the first half, you realised the tax rate of 25%. Can we assume this 25% of run rate for the full year, or do we go up to the 30% order in the course of the year?

Karin Dohm: I think what we need to take into account that we have a different picture pattern with regard to non-deductible items, namely some impairments and other movements. So I think there is some effect also in the last year which is not coming through this year, but happy to dive deeper into the – for this year, it's definitely the expectation that, that stays as such.

Ralf Marinoni: Okay. Thank you.

Operator: Thank you. And as a final reminder, that is star one for your questions today. We'll just pause for a further moment. There appears to be no further questions at this time. So I'd like to hand back over to you, Antje, for any additional or closing remarks.

Antje Kelbert: Yeah. Thank you very much. It looks as if we have taken all your questions so far. And however, if some further questions arrive afterwards or you would like to discuss any other topics, please do not hesitate to get as usual in touch with our Investor Relations team.

We also would like to draw your attention to the upcoming events we will have especially in the next weeks and months. You have an overview here. And you find also our IR activities on our website.

So thank you all for your interest this morning. I wish you all a nice and pleasant day and hope to see you again very soon. Goodbye, and thank you.

Operator: Thank you for joining today's call. Ladies and gentlemen, you may now disconnect.