HORNBACH Holding AG & Co. KGaA

Annual Results

Investor and Analyst Conference

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Transcript

Speakers:

Antje Kelbert

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Investor and Analyst Conference

Antje Kelbert: Good afternoon. Hope everyone is doing well. My name is Antje Kelbert, I'm Head of Investor Relations at HORNBACH. On behalf of HORNBACH Group and the entire Investor Relations team, I am delighted to welcome you today here in person in Frankfurt at DZ Bank, and those following our webcast virtually, of this year's annual investor conference. I would like to express an equally warm welcome to our board members here with us today: Albrecht Hornbach, CEO of HORNBACH Management AG, Erich Harsch, CEO of HORNBACH Baumarkt AG and member of Board of Management AG, and our CFO, Karin Dohm, representing both HORNBACH Management AG and HORNBACH Baumarkt AG.

Today we will start with Mr HORNBACH and Mr Harsch, who will provide an overview of the past financial year, 2023/24. And then we will see Ms Dohm, she will take over and guide us through our financial performance, commenting on latest key figures. As always, once the presentations conclude you have the opportunity to raise questions. This will not only be possible for those here in the room but also for those participants following our webcast, and this time you can post your question very easily via the webcast tool. I will explain the process of the webcast at the start of the Q&A session.

Before I now handover to Mr Hornbach, I would like to draw your attention to the fact that the conference will be recorded. The recording and the transcript will be published on the company's webpage after the conference. If you continue to participate, you declare your consent to this data processing. Please also note our disclaimer which is valid for the presentations as well as for the Q&A session. And now I'm delighted to handover to you, Mr Hornbach, the stage is yours.

Albrecht Hornbach: Ladies and gentlemen, I too would like to offer you a very warm welcome to our 2024 investor and analyst conference. I am delighted to see your interest in developments at the HORNBACH Group. As well as the guests present here, we would also likely to warmly welcome everyone who is following our analyst and investor conference on their screen. In the next 30 minutes or so, Karin Dohm, Erich Harsch and I, will report to you on important developments at the HORNBACH Group in the 2023/24 financial year. And we would also like to provide you with some insights into our plans for the current financial year. Even if the 2023/24 financial year presented numerous challenges, I would like to establish right at the start of my comments that we at HORNBACH can view the development of our company with great optimism and confidence. We are on course and can report solid key figures, and I would note that we concluded the financial year in line with our sales and earnings guidance.

In the period from March 1st 2023 to February 29th 2024, the HORNBACH Group generated net sales of €6.2 billion, equivalent to a reduction of 1.6% compared to the previous year. If you consider the company's performance over a slightly longer period and as a family managed retail company that is the way we plan, then we can see a very pleasing picture, one, in which our group developed very positively over the past five years. In the 2019/20 financial year, the HORNBACH Group posted total net sales of €4.7 billion, back then before the pandemic that was already a real record year. Adjusted EBIT stood at €227 million in 2019/20, today after what was certainly a challenging 2023/24 financial year, it stands at €254 million. This is despite the fact that there is an unfavourable correlation between the development of our earnings performance and the inflation which began with the war in Ukraine. It had an impact on our gross margin and consequently on our EBIT.

The fact is that retail companies need to be in good shape in times of rising prices, as procurement prices rise first before higher retail prices become established in the market, and we are in very good shape in this respect. So I am firmly convinced that the current share price of HORNBACH Holding does not reflect our earning strength and the company's positive actual performance. And here I would refer in particular to our popularity among customers and the earnings we have generated on that basis in the past five years, as well as to our ongoing expansion and our distribution policy.

As a retail company, these days you can only plan on the basis of long-term value creation. Long-term thinking and planning pay off, and that is what we do; we intend to continue growing successfully in the European market in the long-term as well, with new stores, new digital offerings and new services. For us, strength lies in rhythm, the right rhythm ensures organic growth, movement, vitality and dynamism. The 2023/24 financial year was very much characterised by the letter. With dynamism I mean the major process of transformation which our society is undergoing. This is affecting the whole of Europe and is not simply passing our company by. The ongoing wars and military conflicts in Eastern Europe and in the Middle East, and the shocking news these involve have left their mark. They give rise to a feeling of powerlessness among many people, and that leads them to withdraw into their private spheres. Their apartments, houses and gardens are their source of strength. These are focal points for gathering with family and friends. Here, everyone can create things with their own hands. Do it yourself is the order of the day, and that is the opportunity for the Do It Yourself sector.

Some time ago, experts said this: "A visit to the Do It Yourself store should be on prescription." I could not agree more; what could be better than realising your own project yourself and then to be proud of it and use it every day? To make sure that we too remain successful in the future, we also worked on numerous projects in the past financial year. I will refer to some examples in my own comments, Erich Harsch and Karin Dohm will tell you about others later, and you can see the full picture in our management report and non-financial group report.

A year has now passed since we extended the boards of management and HORNBACH Baumarkt AG. The members who newly joined these boards are today working even more closely on HORNBACH's strategic further development. I am delighted about that and it is a good sign for the future; here too we are well on course. In December 2023, the supervisor report of HORNBACH Baumarkt AG extended the contract with Karsten Kühn, a longstanding member of our Board of Management, through to September 29th. As labour director, Karsten Kühn promoted the "work made to measure concept, our "Arbeitszeit nach Maß", and in the marketing field he has received great recognition for attention grabbing communication campaigns.

In December, Seniovo, a highly innovative start up from Berlin became part of the HORNBACH Group. Seniovo is the German market leader for serial senior friendly bathroom conversions. We see this topic as harbouring great potential, and not only that, the acquisition supplements the numerous services we offer to our services also with our trade service. Before I turn to the key performance figures of the HORNBACH Group, I would like to thank all my colleagues very warmly for their commitment. My colleagues, those are the 24,783 people who were employed at HORNBACH Group at the reporting date on February 29th 2024. It is clear to us all that the past financial year was a challenge, and the financial year that has just started will also place its demands in us. Competition is as tough as ever in the European retail sector and yet with their dedication and strive, each and every colleague helps to ensure that we maintain our success in the market.

Speaking of dedication and strive: One thing I keep reading about is the four-day week, and I hear the desire for better ways of combining work with leisure time. That is all understandable, with our successful work made to measure model, our "work made to measure" model, "Arbeitszeit nach Maß", we have helped meet these needs for quite some time now. But that is just one side of the coin. The other, and that is one I see in day to day operations at the company, is the enormous commitment shown by so many people, and I would particularly like to highlight young people who are doing their vocational training or dual work and study programmes with us. When I see them, it makes me very hopeful for the future. What I see is this: A willingness to perform, passion and determination. Colleagues who plan fantastic projects together with customers at our stores, and to really enjoy sharing their expertise. We have created very good conditions for our employees in all our countries, as is reflected in the high numbers of applications we receive.

Most of our colleagues work at the 171 do it yourself stores and garden centres that we operate in nine European countries. We have 10 online shops and are a market leader for interconnected retail in Germany. With sales of €2,823 per square metre, HORNBACH Baumarkt AG is in pole position when it comes to surface productivity. And we can see a similar very pleasing picture in terms of like for like growth and market shares. In the 2023/24 financial year, HORNBACH's market share stood at 36.2% in the Czech Republic, 27.1% in the Netherlands, 17.3% in Austria, and 14.9% here in Germany.

I would now like to take a short look at HORNBACH Baustoff Union. Baustoff Union is our specialist retailer which focuses on the needs of commercial customers in the main and secondary construction grades. It operates 36 builder's merchant outlets in South-western German and just across the border in France. The downturn of business in the construction sector, higher interest rates and further macroeconomic challenges, led sales here to decrease by 9.6%. Net sales amounted to €381 million in the 2023/24 financial year, accounting for 6% of consolidated sales. Yet if we take a longer term view of developments at Baustoff Union, here too we can see a clearly positive picture. Back in the 2019/20 financial year, sales amounted to €299 million. If you compare that with €381 million, then you would be right to conclude that things are moving in the right direction. We attach great priority on enhancing efficiency at Baustoff Union as well. The company is continuing to work on new opportunities presented by digitalisation and is actively managing its costs. We still see good growth opportunities for our specialist retail business, given the great need for renovation work, the age structure of very many buildings in Europe, and the EU's plans for climate neutrality.

And to complete this picture of the HORNBACH Group, I would like to mention Immobilien AG which also forms part of our group, but does not have any operating business or its own employees. Consistent with its business purpose and like in the past, it owns a major share of the real estate used by Baumarkt AG.

Before I conclude my remarks, I would like to provide an outlook on the development of the HORNBACH Group in 2024/25. The first month present us with a very pleasing picture as far as demand from our customers is concerned, but that should not create any inflated expectations concerning our sales growth and earnings. We continue to attach the utmost priority to organic development and high quality locations in large catchment areas, and we build on long-term solutions. We will continue to align our product range and services to the needs of our customers in future as well, and our permanent low price strategy is also not up for debate. In our guidance for HORNBACH Holding for the 2024/25 financial year, overall we expect to see slight sales growth and adjusted EBIT at or slightly higher than the level reported for the 2023/24 financial year.

Ladies and gentlemen, I have served this company since 1991. During that time we have experienced so much and mastered so many challenges: German reunification, the expansion into our neighbouring countries, and the consistent development of our digital offerings. These were and are essential for the future operating capacity of our group, and today corporate social responsibility is one of the most important topics for the future operating capacity of the society we live in, and thus also for us. We are in the midst of a major transformation, the consequences of which both positive and negative are not yet foreseeable. It is a fact that we cannot avoid continually reducing CO2 emissions. By 2030, we aim for a reduction in scope one and two carbon dioxide equivalents on group level that is compatible with the 1.5 degree targets in the Paris Climate Agreement. One small but highly specific example of what we are doing to achieve that involves 34 new photovoltaic systems we newly installed on our roofs in the past financial year.

With regards to our product range, we are working to achieve the greatest possible transparency concerning the origin, contents and environmental impacts of our products. Our aim is to put our customers in the best possible position to take closer account of ecological health and social aspects when they make their purchases. Our non-financial group report shows you numerous further examples of our wide ranging commitment to a future worth living in. We all have to work together to take care of our planet if we wish to have a future worth living in, and people are the crucial factor here. In this spirit, I would like to finish by quoting from Johann Wolfgang Goethe, there are some great lines in his poem, The Divine: “The noble man be helpful and good, tirelessly he creates.” As you know, we at HORNBACH share that sentiment but put it slightly differently; there’s always a job to be done - Es gibt immer was zu tun. Many thanks for listening, and I’d like to hand over now to Erich Harsch.

Erich Harsch: Thank you Mr HORNBACH, for your comments. Dear guests, I would also like to offer you a very warm welcome and thank you for your interest in developments at our group of companies. I will follow up on Mr HORNBACH’s comments by looking at developments at HORNBACH Baumarkt AG, in slightly more detail. For me, three core messages are important.

Firstly, despite numerous larger and smaller waves over the past five years, our retail company is very much on course. In the year under report, HORNBACH Baumarkt AG generated sales at €5.8 billion. That marks a slight reduction of 1.1% compared with the previous year, but represents substantial growth compared with the 2019/20 financial year, before the pandemic, in which we reported sales of around €4.4 billion. Secondly, customers like coming to us even when they have slightly less cash in their pockets. Customer footfall at our stores rose by 2.0% compared with the previous year. Our market share is significantly up on pre-pandemic levels and we are making good progress in developing our services further.

You will be aware that the unusual cold and rainy months of March and April in the previous year, in 2023, led to a noticeable decline in demand across large parts of Europe, particularly for garden products. At the same time, inflation was still well above 7% in the months that followed. We were no longer able to make up for this difficult start for the financial year, and that also led to a slight decline in average purchases in the past financial year. Despite these difficulties though, we managed to further reduce our inventory holds over the year as a whole.

And my third core message is, with their commitment our employees make an absolutely key contribution to our great popularity among customers in challenging times. That is documented in independent surveys which frequently place us in top positions, also in the increased customer footfall, and in the fact that overall we are outperforming the sector. Having the best product range and the best services is of course crucial. Without the many colleagues who are there to help customers, day in day out, though, it would not be possible to run a successful business. That is why I would like to take this opportunity as well to express my heartfelt thanks to all my colleagues, and especially to the 1,000 or so people in training who are necessary for our company's future operating capacity. Ladies and gentlemen, at the balance sheet date of February 29th, 2024, we operated 169 DIY megastores with garden centres, as well as online shops in nine European countries.

Under the Bodenhaus brand, we continue to operate two specialist stores for hard flooring materials and an online shop as well. Our stores have an average size of about 12,000 square metres, weighted in line with sector standards. We generate slightly more than half our net sales in eight European countries, the remaining 48% is contributed by our stores in Germany. Here we currently operate 96 DIY stores and garden centres. In Duisburg and Nuremberg we just recently began work on building new stores; these are expected to be completed by the middle of 2025. In the eight other countries across Europe, we operate 73 DIY stores and garden centres, that is one more than in the previous year. We opened a new state of the art DIY store and garden centre in Nijmegen in the Netherlands in July of 2023. And our company's performance in the Netherlands in particular is very pleasing: Thanks to increased customer footfall and the expansion in our project business we can report like-for-like growth of 4.2% at this country company. And just like in the Czech Republic, we managed to further expand our market share in the Netherlands. At €2,823 per square metre, surface productivity at HORNBACH's DIY stores is still well ahead of the competition, just to compare before the pandemic in the year 2019/20 financial year, our surface productivity stood at €2,386 per square metre, so about €440 less. Back then, that was the highest figure since the IPO of HORNBACH Baumarkt AG in 1993.

As you know, we combine our stationary business in all countries in which we operate with online shops to form multichannel DIY retail. By seamlessly dovetailing the app and web shop with the stores, customers are free to decide how, where and when they would like to shop. Our interconnected retail strategy has helped to raise productivity at our stores. In the past financial year, the online business accounted for 12.7% of our sales. By comparison, the sector average was around 5%. So here too, we are performing significantly better than our competitors and are also well ahead of pre-pandemic levels. Since the fall of 2023, we have extended our online shop in Germany to include a marketplace. This supplements the already very extensive offering with further DIY products. We like to refer to this as a curated selection, one that is absolutely in keeping with our focus as a project DIY store.

At the beginning of May this year, the German Retail Federation reported that online marketplaces are gaining in significance within online retail. That may well be true for pure players. For

HORNBACH, I can say that we view the marketplace as a sensible addition to our multichannel retail, one that should benefit our alignment as the topic DIY store for projects.

And that brings me to one project that I'm particularly pleased about. At the end of 2023 we boosted our service offering by successfully acquiring Seniovo. Founded by Jonathan Kohl, this Berlin start-up focuses on serial, barrier-free bathroom conversions, and barrier-free construction is a very exciting topic, particularly given demographic changes in our society. This cooperation with Seniovo supplements our existing HORNBACH trade service in Germany. At Seniovo, the service concept plays a very major role along with digitalisation. This way, teams take care of all applications and approvals, and Seniovo guarantees high quality project implementation. Thanks to highly standardised and digitalised processes, that all happens very quickly.

I already mentioned the people are very important to us at our company; that is why we create conditions that promote loyalty, not only among customers but also among our employees. Across the whole of Europe, there are many colleagues who have built nearly the whole of their working lives at HORNBACH. That is a good indication of our attractiveness as an employer and of our modern and lively management culture. Loyalty is one thing; renewal is another; both are crucial. One aspect of our renewal is the fact that we placed the management in Sweden into new hands at the end of 2023. In Joachim Lööb, we managed to gain an expert who knows the Swedish market and as acquired great management experience in his career to date. During the selection process, it was his strategies and visions for HORNBACH in Sweden, that convinced us. Joachim Lööb has succeeded Oliver Garrecht who has already worked for HORNBACH for more than 30 years.

The beginning of 2023/24 financial year also saw a new management change in Romania; Radu Oniga succeeded Mugurel-Horia Rusu, who had held the position of Country Director since 2005 already in Romania. We currently operate there nine combined DIY stores and garden centres with drive-in facilities and an online shop. I wish both colleagues every success in their roles and hope they will remain loyal to us for as long as their successors. And I would like to thank the predecessors, Oliver Garrecht and Mugurel-Horia Rusu, very warmly for their work; they will both remain available for us for some time, as advisors.

One way to promote loyalty is decent pay; and at HORNBACH, we are one of the best addressors in this respect, too. Retail is an attractive employer with hourly wages of up to €21 – plus, additional allowances are not uncommon here in Germany.

In October 2023, we decided to voluntarily increase remuneration in Germany by up to 5.3% for employees covered by collective agreements and our trainees. In March this year, we announced that our pay scale employees and trainees in Germany would receive another 4.7% more gross pay at the dates where their respective rates are due to rise in 2024. This provision applies until such time as agreement is reached in the collective pay talks for the retail sector. In one tariff region, that is already the case.

Similarly, a positive picture is emerging at the other country companies; employees working in countries where there are no collectively agreed pay rates for the retail sector are paid on the basis of arrangements customary to the respective markets. And we offer a whole number of voluntary additional benefits in all nine countries in which we operate.

Dear guests, Mr Hornbach already mentioned that we are in the midst of a process of transformation. Great opportunities await us. That holds true, not only for us as a company but also for society as a whole. It is about freedom and the ability to recognise ourselves what actually matters. Neither of these things should be taken for granted. We have to work for them every day, for example by going out to vote or deliberately opting for a forward-looking company like HORNBACH.

The scientist and physician, Rudolf Virchow, is thought to have coined following saying: “Freedom is not so much about the ability to act habitually, but rather about the ability to act prudently.” Acting prudently is the standard we set ourselves. At HORNBACH, every individual bears responsibility for building a future worth living in. It is the stance and initiative taken by every individual, the teams with specialist responsibility and management that promote sustainability related topics at our company. We have put the conditions in place to enable ideas to be turned into action and to ensure that our efforts are tangible and relevant for the people.

I would invite you warmly to look at our revised CSR policy, and our non-financial group report and to find out more about what we have already achieved and about what we are implementing or planning. Our product range is one major lever when it comes to promoting sustainability. That is why we are very deliberately developing our offering further to account for various aspects of sustainability. And our private label products are one key focus of our efforts to further develop our product range along sustainability lines. We draw on information about sustainable articles and suitable projects in our communications with customers, and of course also in the training materials for our colleagues.

Our goal is this: Our customers should themselves have the possibility to account for ecological, health and social aspects when making their purchases. That too is a matter of freedom and self-empowerment. In our procurement processes, we look into the entire value chain for our products, and carefully weigh up any decisions we take between regional procurement and global value creation. Where possible, doubtful or environmentally harmful substances are replaced by effective ecological alternatives. We forego stocking controversial or environmentally critical articles such as herbicides containing glyphosates, or plants whose cultivation involved the use of neonicotinoids. As a company, HORNBACH is organically certified. This is the only way we allow to sell our private label FloraSelf Bio or organically certified plants and seeds. We prefer to procure timber and timber products from within the European Union where it comes from forests that are managed in sustainable and socially responsible way. All the timber we sell which comes from non-EU countries or from Romania bears the FSC seal to document environmentally friendly and socially responsible forestry. No better certification is currently available. I could extend this list much further. Please do get in touch with us if you have closer interest in this.

Sustainable commitment means keeping at it, recording key figures and actively steering these in the right direction. That is laborious and requires great input but it is absolutely crucial if you wish to live in freedom and implement fantastic DIY projects in future as well. Many thanks for your interest, I will now pass you on to my colleague, Karin Dohm. Thank you.

Karin Dohm: Thank you and also from my side, a very warm welcome. I’m pleased now to run you through some figures and then obviously afterwards we will go through any Q&A that you might have. As Erich Harsch and Albrecht HORNBACH said, we are really happy with the solid figures that we could present to you today as also already during our short version in the trading statement earlier in March, because especially if you consider the tough environment that we had last year, this is – was quite complex and proves our resilience where we are, as said, quite proud of and pleased about. We grew our international market share, we have improved our gross margins, and we have continued to invest in our business as we said we would. So, we really proved that we can walk the talk and brought also down our net debt ratio to the target level that we have announced last year. I am confident that we will continue to leverage growth opportunities and deliver shareholder value in the long-term. So, following these kind of opening remarks, let's dive into some figures.

You see here, net sales and adjusted EBIT which were, as said, totally in line with our training statement as of mid-March. We are slightly below previous year's sales with just 1.6%, so ending with 6.161 sales on the billion side. We have an adjusted EBIT decline of 12.4% ending at 254.2, and we also came into the investments at our target of, as the previous year, slightly below, so it was ultimately 192.6 million. The majority of that, and I come later to that again, went into either new stores, the renovation of existing stores or our IT. When we look a bit deeper into our net sales we had across the group, especially here, if you look more into the 10 year figures, we have still an excellent CAGR of 6.2% despite, as said, the slight decrease that we have here since last year with 1.6%. Subgroup HORNBACH Baumarkt, including the online retail, decreased by slightly 1.1% and that was mainly driven by a general subdued customer sentiment in Germany. Outside of Germany, the sales increased slightly with 0.3%. So, the share of sales from countries in the international business increased further by 1%, so ending at approximately 52%. Net sales of the HORNBACH Baustoff Union which mainly caters for professional customers in the construction industry decreased by 9.6% to €381 million reflecting specifically last year's trend in the building industry, especially in the new construction business in Germany.

When we look into the like-for-like sales of the Baumarkt AG, so that means every store that was around already in the previous year, we see that those decreased slightly by 2%. You get here the comparison across the quarters, Germany with a slightly negative development of a total -3.1%, outside of Germany it summed up to 0.9%

When you see nevertheless the four year like for like figures, which you have here on the chart at the far right, you see that we did extremely well over the course of the last years, specifically when you compare here 2019 for example with 2023, we had strong double digit growth in all of our regions, with an average of 28.7% in many regions, as you can see here, well above those figures. Looking a bit closer into our market shares, once again from our perspective, really a great success story. The figures specifically where we are proud of are of course the ones in Czechia, where our market share grew to 36.2%, Netherlands now at 27.1% and in Germany over the years, since 2019, we have grown nearly 2% from 13.1 to 14.9. So bringing those into considerations which partly even came on the back of the old store network, we're really happy that we have the spaces for the friendlier environment that we face this year, especially in our trading in Q1.

Looking into the ecommerce, this is significantly ahead of the pre-pandemic levels, share at HORNBACH Baumarkt came in at 12.7% for last financial year, a slight decline which mirrors, as I said earlier, the general decline in ecommerce sales across Europe, specifically across Germany. At the same time, we are well above pre-Covid levels, and you can see here nicely that especially the content that is direct delivery is really well accepted and taken into account by our customers. We also were able to increase the number of our customer accounts. This is evident that our online offerings have also value for our customers even if they finish their shopping in the brick and mortar part of our business. This also underscores the advantage of our interconnected retails strategy where we see mutual enforcing synergies between the both online and offline world. When we look into gross margin, you see here a growth compared to last year of 0.4 percentage points to 33.8.

Nevertheless, I'm really keen to highlight that we have had specifically in the past six months, so over the winter so to say, a very successful increase of our gross margin which offset the decreases that we saw at the beginning of last fiscal year. Therefore, we are currently once again looking relatively optimistic into this year based on the fact that gross margin is currently properly above what we saw last spring. The increase in selling and store expenses was mainly due to wage increases partially offset by selective headcount reductions, using natural fluctuation, and lowering our other operating expenses. The cost ratio of general and administration expenses increased slightly due to investments in our IT headcount and, as said, some salary adjustments there as well.

Summing it all up, we came out with an adjusted EBIT for the group of €254 million as said 12% below the previous year. And while this marks a decrease, we are pleased that we were able to perform solidly in the challenging environment that we faced, specifically as we are convinced that our focus on suppliers, networking capital and the ongoing optimisation of our operational procedures and processes, has and is paying off. Regarding the EBIT adjustment, please take into account that the non-operating charges on earnings mainly remain to all impairments, they decreased from €32 million to €28 million in this year, and are mainly driven by the increases of the risk free interest rate that comes from central banks.

When we look a little bit into the geographical spread, you see here very nicely that our footprint obviously is one of our strengths. We have outside of Germany an EBIT reduction which is only half a percent, you see that here, EBIT margin coming from 7.0% to 6.5%, once again underscoring that the country mixture really adds to our strength. Looking at the adjusted EBIT contribution, other Europe contributed in total 76% to our profitability. We suggest therefore, with the net earnings of €132 million which is roughly €7.83 per share, to propose a stable dividend of €2.40 in our AGM. AGM will take place on July 5th. And that's once again good underscoring of our dividend policy, we keep saying that we want to ensure that our dividend is at least at previous years' level, ideally hitting the 30% pay-out ratio. Taking this suggestion into account, we come out at a pay-out ratio of 30.7%, with last year standing at 24.4%. And just as a reminder, since the IPO in 1987, HORNBACH has always paid dividend and has never reduced the dividend.

Looking a bit at our cash flow, also here from our point of view, a good success story. Cash flow from operating activities increased compared to the previous years, mainly driven by right sizing of our inventories, which we were able to achieve despite the inflationary environment, and despite the headwinds I alluded to earlier, and despite also more cautious consumer spending.

CAPEX stood at 193 million where approximately 41% was spent on land and real estate and 38% were spent on stores and office equipment; a smaller portion asset on software and acquisitions. Please also take into account that part of our software goes directly into the P&L and is not reflected here in the balance sheet. All in, as said, improved free cash flow of €232 million.

A view onto our balance sheet structure, you know we're having a very stable balance sheet with solid and strong equity ratio that is currently standing at 43.5%, so even increased slightly compared to last year's figures all in, the balance sheet sum reduced – was slightly reduced by 5.3%, that is mainly due to the reduction of inventory that we were aiming for, and also by the repayment of some long-term and short term debt that were due.

When we look into some other debt ratios, you see here that we were able to improve the net debt to EBITDA ratio to 2.5, down from 2.7 in last year. So, we are really pleased that we have thus decreased that to our target range. By the end of this financial year, HORNBACH has access to unused credit lines of €521 million including a revolving credit facility with a total amount of €500 million. The agreement regarding this credit facility also includes an ESG supplement which we finalised just a couple of weeks ago, and those underlying ESG targets offer us further reduction potential of 2.5 basis points upon achievement. For us, this is also an important part because this underscores that we are, as said earlier, they're not only acting as – as so to say our general financing partner but also are keen to make sure we underscore our ESG ambitions with that. When we look a little bit further into the current year, I already said we see good trading in this quarter; we had way better weather conditions, we have more fortunate mixture of our products, we have better gross margin and we have worked hard to make sure that we have our ongoing costs well under control. So, we think that this weather related strong spring season will have an overall positive impact.

Nevertheless, of course, macroeconomic environment stays, as we said earlier, challenging and that also means that it is not fully clear when and how customer sentiment will come back to pre-inflation levels. Therefore, we stay cautiously optimistic, we expect net sales at the HORNBACH group to be slightly above previous year's level, and we expect an adjusted EBIT to be at or slightly above last year's level. We continue to utilise our disciplined approach for capital allocation, CAPEX shall be therefore similar on a level of 23 and 24, and the majority of the funds, once again, will be invested mainly in the construction of new stores into renovation and conversion of existing stores and of course also into our IT infrastructure and our IT offerings. We can and will not fully avoid further cost increases; some of those that will come through from further wage adjustments in light of inflation and some of our countries, of course also we try to offset that with further efficiency, but nevertheless some of that will of course hit our P&L.

Lastly, we remain steadfast in our commitment to deliver on our long-term growth strategy and especially of course on expanding our services and safeguarding our price leadership, which as we are convinced will give us, together with the everyday low prices strategy, and our strength in private labels, the reliable partner to our customers for all their big and small projects. We believe that we have positioned ourselves very well to meet the needs of our customer and make sure that with that we can also deliver long-term value for our shareholders. With that, I would like to conclude my presentation and hand over to Antje to moderate our Q&A session.

Questions and Answers

Antje Kelbert: Yes, so thank you very much for all the insight you gave to us and the comprehensive presentations. Before we now start, I would tell some words on the Q&A procedure. So I would like to start with the questions here in the room so that you have the possibility to raise your questions. Our colleagues will come around with the microphone so please use that. So, this is the only chance that our virtual participants also have the opportunity to understand your question. Please, briefly at the beginning of your question state your name and your company, and then we pose the question step by step to our management board members. After that, I would like also to take questions from the webcast. So in the webcast, you have a small button, Q&A, just click on that and type in your questions, and then I can read it to our board members in order to get your answer.

So, I would like to start now here in the room with the first question. Oh, you're very quick.

Christoph Eckert: Christoph Eckert, Eckert Mittelstand Invest. I have two questions, first on the segment reporting, I'm just wondering on your – on the segment HORNBACH Immobilien AG as I haven't seen any one-off effects, whereas in Baumarkt AG annual report, you had some impairments, I'm just wondering if you – why there are no impairments on the Immobilien AG in the segment reporting. And the second question is on inflation on your personal expenses, I didn't – what can we expect by how much your personal expenses might increase this year and maybe in the upcoming years? Thank you.

Karin Dohm: Yes, thanks for the two questions. First of all the one on the real estate, and the impairment that's driven by IFRS peculiarities probably you could say. Given that you have, according to the – to the bookkeeping on the lease standards, you see the changes in – in those that use the real estate, to the question of what is the difference between the utilisation and the – the revenues driven by the stores versus the weighted average cost of capital, so that sits in the – in the operating part in the Baumarkt AG whilst the real estate company is there, just so to say, compared to their rental income and that valuation driven by those parts. So that is just an allocation topic, if you want to say so.

And your other question was to the personal expenses. We – we don't consider currently – we don't expect high changes but we would on average across the whole group think of something with a small single digit number of rises this year – this fiscal year.

Antje Kelbert: Okay. So next question please.

Dr. Norbert Kalliwoda: Norbert Kalliwoda, Dr. Kalliwoda Research. Hallo, Guten Tag, I want to ask you about lower average tickets. So you mentioned that, what do you think in this year? Could you or do you think you can compensate with more amounts of clients, or do you think or do you expect an improving figure in regards of this?

And then do you plan new outlets? And do you see some smaller or other competitors? Thank you.

Erich Harsch: So the average ticket depends on the capacity of the projects, and last year many people had less money in their pocket, and therefore the projects were a little bit smaller, and I think the compensation will begin when the projects are getting bigger. And at the moment the spring season started pretty well, so I think the compensation could be given.

Albrecht Hornbach: New outlets.

Erich Harsch: New outlets, yes, we have – we have of course new outlets. I have mentioned two which are in Germany. We have also some in the other countries, but they won't open this year, this fiscal year, but afterwards, and we will tell you if the opening figures are concrete. So, they are not concrete at the moment, enough. And the competitor –

Dr. Norbert Kalliwoda: Do you see smaller or other competitors?

Erich Harsch: Not really, but if there are competitors we have to face them as we do with all our other competitors. So, smaller stores are not a solution for us as a project DIY store. We need the space, we need the room for our assortment, and that's not our strength. Our strength is the project and therefore we don't intend to make smaller outlets only in special regions – regions where there are not enough people to buy, then it could be that we make, as an exception, smaller formats but not as regularly planned.

Antje Kelbert: Okay, so next question from the room perhaps. On this side.

Benjamin Thielmann: Perfect. Thank you very much. Three questions from my side, if I may. This is Benjamin from Berenberg. First of all, on your top line guidance maybe, Mrs Dohm, can you guide us maybe a little bit on the pricing and the volume growth? You guys are assuming that you led to this guidance, that would be the first question.

Second question would be also the store opening, so if I understood it correctly, in 2024 there will be no new stores. There will be two more in 2025 coming up in Germany but if I remember correctly, the one in Nuremberg should be a reopening, right? So, is it fair to assume that as of today there will be one net opening in Germany in 2025?

And the third question would basically be on free cash flow, mentioned already CAPEX maybe in line with last year; and if we then see some networking capital tailwinds and margin flat or with slight growth, is it fair to assume that we're going to see some development on the positive side on the free cash flow as well? Thank you.

Karin Dohm: Thanks for the questions. Let me start with the first one, top line guidance question on pricing and volume, definitely just to remind everybody, and I know sometimes I've probably said that already earlier; last year's first quarter was really a tough one for us. As you can see in the public domain, the outcome was an EBIT of minus 60% which was really tough given the – mainly driven by the weather environment. And then we had obviously a year that was affected by high inflation. So, the big upside that we currently see is, number one, we had way better weather so far in Q1, we have done our homework as set on our networking capital, on our incoming prices on our supply side, we have worked on keeping discipline in our cost structure while keeping investments to make sure we can really deliver to our customers. And if you add that all up, we definitely see an upside on the sale side. Nevertheless, of course, we have a tough competition and we want to stay abreast, better ahead of our competition, which means that there might be the one or the other price lowering which then could offset some of the other positive KPIs. If you add that all up, that was why we said we think we can be optimistic and we see therefore a chance to come out with a slightly increased sales figure out of this year.

To the store openings, as Erich Harsch said, yes, there are two in Germany but there are also two current other projects in other countries. So, as usual by these projects, they can easily move quickly one month or two months. So, if something is envisaged for February 2025, it could easily move into April or May 2025, which would from our perspective be a different fiscal year. That means somewhere in the next 18 months there could be something like four additional stores. But as said, these projects always have a certain challenge on the timing side and therefore I think it's – it's easiest, as Erich Harsch said, to highlight when they will be coming, but it's not just – that was important from my side, it's not that we do not have anything currently in the pipeline. That's also why we guide the CAPEX in similar amounts because we are obviously constructing and moving on some instances.

And you asked for the free cash flow, yes, of course, it is important for us to make sure that we are staying disciplined on our – on our cash flow, that we use our – our cash, the operating cash ideally to – to foster the – the CAPEX and to make sure that the one is paying the other, and therefore given – given the good process improvements that we had around our net working capital, I'm quite confident that we will be able to keep maybe even, but, as I said, we don't guide that, definitely keep good momentum in the free cash flow.

Erich Harsch: And in addition to Nuremberg, you are right, but it's not really a reopening, it is much more space and many more square metres at the same place as the old store was, and it's built up completely new.

Antje Kelbert: Further question from the room or shall we just take – oh, perhaps there, okay.

Thomas Maul: Thomas Maul, DZ Bank. Thanks for taking my questions. I've got two. The first one would be on Bodenhaus, please. Maybe you can elaborate a bit on – on your strategy here; what are your findings so far? And what are you planning for the future?

And the second question is on the marketplace, what are you expecting here? What benefits are you expecting here? What synergy effects are you expecting? Thank you.

Erich Harsch: Yes, to the first question, thank you. Bodenhaus is still a kind of pioneer project, and we – it were not the best circumstances last year to observe it and to see how the development – which developments take place, so give us a little bit more time please to answer your question, it's not the right moment now, because as I said, the circumstances were difficult. And also Bodenhaus had some problems with circumstances of the inflation and other things.

The second question, marketplace, I think it's all about the benefit for the customers. And we think the customers like it when the platform they visit offers more products; our store and also other – other offers for products which are in relation to our project goal. And I think if – it will get more attractive for the customers, and therefore we think that the shop will be more attractive and makes more sales in the future as in the past. So we have no concrete figures or numbers that should be the aim or the goal. We just think the attractiveness for the customers will get better, the more we have interesting products for the customers in addition to our own assortment.

Antje Kelbert: Okay. So, additional questions. Otherwise we just switch very quickly to the webcast questions. So I have the first one from Lars Hettche, and he's asking: Has the holding increased its share in HORNBACH Baumarkt further in the new financial year; if yes, how high is it now.

Karin Dohm: Just to make sure I understand the question correctly, that probably refers then to the current year, 2024/25?

Antje Kelbert: Yes, so the current status of the –

Karin Dohm: Yes, so obviously we – as you could see from the figures, we have bought a couple of shares last year. We have ever since – the offering went out back in 2021. We have, not only during that period but ever since bought the one or the other share, and we keep doing that, but there has been nothing beyond that.

Antje Kelbert: Okay, so the next question as well from Lars Hettche: Assuming EBIT in Q1 will be moderately above last year. Your guiding implies that Q2 to Q4 will be lower, year on year; is this cautiousness rather driven by the expectation of higher cost or by the expectation of lower revenue?

Karin Dohm: I think we think that we have put ourselves at a very strong position to offer to customers what they need and what they aspire to do in their homes or gardens. Nevertheless, customer sentiment is still below what was two, three or more years ago the case. We still see some, so to say, low sentiment with regard to inflation activities, with regard to spending in light of high interest rates, and it is difficult to understand how that will evolve. Of course, we have the expectation that the interest rate, for example, as driven by ECB will slowly but gradually reduce – be reduced over the course of the second half of the year, and that surely will have some positive impact on some spending behaviour also from people, and maybe also some willingness to go further into larger projects and other components that are important for our customers, but it is difficult to judge that. And therefore we thought that it is a proper realistic, as said, cautiously optimistic approach to think that the full year will give us some upside, with of course the one or the other cautionary statement driven by macroeconomic environments.

Antje Kelbert: Thank you very much. The next question is from Jasper Oeberius Kapteijn: Do you have any plans to expand your geographical footprint even more? Maybe Italy or Belgium?

Erich Harsch: If there's a good opportunity, it could be, but there's nothing – no decision already. And if there is a – it's difficult to start in a new country, you cannot start with one object somewhere, it would be too expensive. But if there's somewhere an opportunity for us to make some objects at the start, then it could be that we go to other countries, but there's no concrete plan at the moment.

Antje Kelbert: Thank you very much, the next question is from Karsten Stern: Is it too risky to assume at least a constant dividend for 2024/25?

Karin Dohm: Yes, very happy to underscore that we are – as always saying that of course we want to be a stable and attractive dividend provider. We have always paid dividend and we have never reduced dividend, and we have no intention to reduce our dividend. So, yes, it is – it is fair to assume that next year's dividend is – unless there is some exogen shock or something – as a minimum as high as this year's dividend proposal.

Antje Kelbert: Okay, so next question comes from Thilo Kleibauer: What are your expectations for Baustoff Union and the B2B business in the current year?

Albrecht Hornbach: Okay, we expect a further very challenging year this year 2024, and maybe some experts guess that the environment for builder's merchants and construction would be – improve, maybe let's say 2025. And meanwhile, like I mentioned in my speech, we are working on efficiency to improve our digitalisation in HBO, and maybe we have an open eye to what is moving in the branch. Maybe there are some opportunities to gain via acquisition, a good competitor or so.

Antje Kelbert: Okay, thank you. So next question from Christian Bruns and he would like to know: How does your acquisition Seniovo develop and contribute to HORNBACH. KPIs?

Karin Dohm: Yes, maybe that would even be a good question for John himself, but of course, from a, so to say, classical ownership perspective, we are very, very happy with this new partnership. We think that is really a great contribution to our offerings. We are now in our sixth month or so of partnership; so on the one side, early stages, on the other side, I think so far things have evolved exactly as we expected them. There is a lot of potential offering our customers these, as my colleagues also said, these offerings to get their bath renovated in a kind of one stop agency that really helps on everything, whether it’s finding a pro or getting the material, organising maybe a subsidy from the state, and the insurance agreeing something with the owner of the flat, if you’re just a tenant. So there’s so much that can be helped in these processes. And we think that’s exactly what many, many people need, because they still live in flats or houses where the bathroom is not really adept to the needs of everybody, and therefore we think it’s really a great partnership, and we’re really looking forward to the next six months and beyond.

Antje Kelbert: Thank you. Okay. So, we have worked through all of the questions from the webcast, so any further questions here in the room perhaps, we could address for you? Yes, Benjamin.

Benjamin Thielmann: Perfect, thank you very much. Two follow up questions from my side. To Karin, if I may, maybe again on the guidance reconciliation. Is it fair to assume that Germany is going to be a little bit weaker compared to other European countries, maybe because ticket sizes are declining year over year, a little bit stronger than we see it abroad, of your home market? That would be the first question.

The second is basically on deleveraging. We see net debt is coming down compared to EBITDA, can you maybe remind us what – how are you exposed to spot rates as of today? So what percentage of that is hedged? And what is spot? Thank you.

Karin Dohm: Yes, thanks for the two questions. Maybe I start with the second one. Yes, we have the advantage that we’re really only very, if I may say, randomly exposed to current interest rate environments because we have the opportunity and the upside that we are having an extremely stable balance sheet. We have had the possibility to decrease our debt. And I think that is just in addition to an anyhow low interest rate burden for us, and also there was the possibility to bring down that burden even further. We have, in this fiscal year, nothing that we need to pay back. We have only one repayment coming up in the following year. Our bond runs until 2026. So, there’s nothing major that we need to do that gives us really a lot of relaxation on that side.

And to your first question, I need to admit I forgot that one.

Benjamin Thielmann: Basically on volume and price in Germany.

Karin Dohm: Ah, thank you very much for the reminder. So that is definitely something where we see what everybody can see. There is a certain macroeconomic distance in the sense of development, upsides, GDP expectation, customer sentiment, anybody’s sentiment probably you could say in the current environment in Germany versus the other countries where we are active. You could also simply call it there is a difference in mood. We do think though that some of that might recover when interest rates start coming down. Obviously that then also again takes time until it trickles through, but to address the psychological effect in the German mood, so to say, I think that will help, everything else we need to see.

Antje Kelbert: Okay, any further questions. Okay, Thomas.

Thomas Maul: Yes, thanks. Thomas Maul again, thanks for taking my question. Just one, do you actually imagine or do you consider to publish mid or long-term financial targets to increase visibility or to increase investors' confidence? Thank you.

Karin Dohm: Yes, thanks a lot for your question. Currently not. We are revisiting that in frequent intervals, if you want to say so. I think the important part there is, obviously the question is, what would be the necessary KPIs that really add value? If you look into the sales side, I would always want to highlight, if you look backwards, the last 20 or 30 years, we really have had a relatively stable and proper CAGR on the top line; and therefore I would always think, why should that change. But that – that is – might be sounding a bit trivial, but I think that is something that you should always take into account; HORNBACH has an extremely stable growth path behind it; and as said, we have no idea why that should change. And when you consider our EBIT, of course, as said, there are always challenges. It's my – just from a very personal perspective, it's my fourth year now. There has always been a special situation, whether that was a pandemic situation, whether there was a logistic worldwide crisis, whether there was high inflation, there's always the potential for something special, and as we all live in environments where I wouldn't be surprised if that comes again, I'm not so sure whether a long-term EBIT guidance really adds value. I think for us, it's really important to point out that we keep investing, that we really want to make sure we have the right services and goods for our customers, and that we're very confident that if we combine that with a proper cost discipline and effective processes, we will be surely in a situation where we can also long-term deliver attractive EBITs, and, with that, attractive value for shareholders.

Antje Kelbert: Okay, next question please. One second, microphone is on the way. Thank you.

Dr. Norbert Kalliwoda: Norbert Kalliwoda, Kalliwoda Research. You take – you make lots of efforts in regards of your sustainable product portfolio. Are the consumers willing to pay higher prices for sustainable products, can you say something about this?

Erich Harsch: I would say it depends. It's not a question of higher price, it's a question of going better ways, and it's very special in each category what are the better ways. So I think important is that we have the goal to improve our sustainability in – regarding the items, but it's not really a question of price for the customers. I think it's – of course there's a border, if you are too expensive, nobody will buy it, but if you have a good price for a good product, the people are also paying the right price for it. If you see it – if you see the other categories in retail, for example, for the goods, for the food, you see everything.

Antje Kelbert: Okay. Any further question burning under your nails? Okay, so also in our webcast I see no further questions. So if we have taken all your questions, and thank you very much for answering that, I would like to invite you to the next Capital Market events we have on our schedule. You'll find them either on the next slide or on our website where we will be – and you might have the chance to see us, so just come back to us. The same holds true if you have further questions, please, my team and I, we are there, please come back to us, we can take the questions and give you some insight and take the discussion from there.

So I think we have now reached the end of our presentation and I thank you very much for your interest, for all the participations online and also here in Frankfurt, and I hope to see you soon. Thank you very much. Goodbye.