HORNBACH Holding AG & Co. KGaA

Q1 2024/25 Results

Investor and Analyst Call

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Transcript

Speakers:

Antje Kelbert

Karin Dohm

HORNBACH Q1 2024/25 Conference Call

Antje Kelbert: Good morning and welcome to our Q1 2024/25 update call presentation of HORNBACH Holding. My name is Antje Kelbert, Head of Investor Relations. Today at 07.00 we have already published our figures for the first quarter 2024/25 comprising the period of 1st March until 31st May 2024. Welcome and good morning also to our CFO Karin Dohm who will be our host and presenter today and will later also take your questions. Please note the entire conference call including the Q&A session will be recorded and made available with the transcript on the company's website afterwards. Please also take note of the disclaimer which is valid for the entire presentation and for the Q&A session. To ask a question, please dial in for the telephone conference. Numbers have been provided in your confirmation email. Asking questions in the webcast is not possible. The operator will give further advice at the beginning of the Q&A session. Now I'm delighted to hand over to you Karin to give us an overview of the latest set of numbers. Please go ahead.

Karin Dohm: Thanks Antje. Good morning and a warm welcome from my side. Thank you all for joining this morning. We delivered a very good performance in the first quarter of our financial year. As expected, adjusted EBIT significantly improved compared to the same period last year due to a better spring season and our successful cost management. We're especially pleased that we managed to increase our gross margin by 1.8 percentage points in Q1 compared to last year's quarter. This development predominantly reflects lower commodity prices and the more profitable product mix. Our sales were in line with our expectations driven by more favourable weather conditions in March and April but also continued softness in large projects and discretionary spending. Last but not least, we confirmed our full year guidance as announced in May. We continue to expect sales slightly above the previous year and adjusted EBIT at or slightly above 2023/24. In light of a bit of a slow start into Q2 due to rainy weather as well as the international sporting events this summer, we currently stay unchanged with regard to our guidance.

Our net sales in Q1 were slightly up by 1.8% driven by HORNBACH Baumarkt's strong performance. Compared to last year's quarter we saw increased demand for gardening products following the good weather in March and April. The positive development of customer frequency continued with 4.1% in Q1 while average tickets were slightly down by 1.1 year over year. The geographic split did not change significantly with slightly more than half of HORNBACH Baumarkt sales coming from the eight European countries outside of Germany. Net sales of subgroup HORNBACH Baustoff Union, which mainly caters for professional customers in the construction industry, decreased by 9.2%. This reflects the ongoing negative trend within the building industry, especially new construction business in Germany.

Now let's turn to our like-for-like sales growth. Generally, demand in most European countries benefitted from better weather conditions in March and April, especially in Romania and Sweden where we saw like-for-like growth of nearly 4%. For the Group, like-for-like growth was 2.5% in total despite having on average 0.6 business days less than last quarter. I would also like to point out that sales growth in Q1 has not been influenced by inflation. It was pure volume growth as sales prices were decreasing slightly.

Looking at our market share, we continue to focus on growth, expanding our strong market position in Europe. Especially in the Netherlands we further expanded market share significantly. Our new store in Nijmegen has started out very successfully and also the stores we have opened in the past couple of years are showing strong growth. Czechia also continues to take market share without having added new space. In the first months of the year the outperformance was based specifically on strong sales in supplies for gardening projects. In Germany our market share remains on a high level of 15%.

Let’s have a look at our e-commerce development. The share of e-commerce sales of HORNBACH Baumarkt came in at 12.4% in Q1, still well above pre-pandemic levels. Customer engagement across our interconnected platforms globally remains high. This shows that these platforms are well established sales channels in DIY and Do-It-For-Me. However, in line with general market trends in the c-commerce sector online sales declined slightly year-on-year by 4%. And with that I would like to take a closer look at the cost and expense development in our P&L.

Our gross margin increased by 1.8 percentage points, continuing on the higher level we achieved over the course of the winter. This is due to the normalisation of select core commodity prices and a stronger product mix compared to the previous year’s quarter. For selling and store expenses, while we experienced increased wages, we realised lower store operating costs and used natural fluctuation to partially offset the given wage increases. As a consequence, selling and store expenses decreased in percentage of sales. The cost ratio of general and administration expenses remains stable. We continued to invest in IT headcount and also experienced slight wage increases here. However, this was offset by lower project-based expenses.

Overall, we improved our adjusted EBIT by 34% compared to Q1 last year, based on a much better spring season in March and April combined with a strengthened gross margin and good cost discipline. With this, overall adjusted EBIT margin came in at a comfortable 8.1%. There were no non-operating items or adjustments in Q1 this year.

Turning to cash flow, our cash inflow from operating activities increased almost double compared to the previous year, primarily due to the strong earnings development. The change in working capital was on previous year’s level and reflects our normal seasonal swings as well as the planned repayment of short-term liabilities. Capex summed up at €23.4 million in Q1 2024/25 compared to €51.1 million in the same period last year. This is mainly due to store openings happening only at the end of this financial year and in the following year. Regarding the capex split, 29% was spent on land and real estate mainly for new stores, while the rest was spent on store conversions and equipment as well as software. In Q1, we also received investment subsides for our stores in Leipzig and our logistic centres in Essingen opened last year, which reduced our cash flow from investing activities.

Let’s have a quick look at our balance sheet. As of 31st May, HORNBACH once again delivered a very strong balance sheet. Compared to 28th February this year, the consolidated balance sheet total remained almost stable at €4.5 billion. The equity ratio was slightly up, coming in at 45.3%, continuing to represent a strong level. All in all, our balance sheet underpins our robust financial position as well as the resilience of our business model.

Before we open the floor for questions, I would like to remind you of the long-term opportunities we are pursuing despite ongoing macroeconomic challenges. Those are catering for the trend of multifunctional living spaces that accommodate both work and life, fostering energy efficiency through the renovation and modernisation of Europe's aging residential homes that are 20+ years on average in age, adapting bathrooms and other rooms for an aging society in light of demographic changes in Europe, supporting customers and DIY and DIFM activities by offering quality goods and services for professional and retail customers, as well as linking up these two groups through our Craftsman Services offerings.

In summary, we are well positioned to capture medium- and long-term growth opportunities in the home improvement sector and we are confident about HORNBACH's successful development in the future. We will continue to focus our strategic and operational priorities. With our everyday low-price strategy and strong private labels, we remain a reliable partner to our customers for all their big and small renovation needs. We also will continue to emphasise cost and inventory management while making targeted investment to improve operational efficiency and maintain our strong market position.

ESG is a very important topic to us and we will continue to work to advance our sustainability efforts. For us, being successful and profitable needs to go hand-in-hand with advancing our ESG priorities and objectives. In the past year, we have set a goal to reduce carbon dioxide emissions in our own operations in line with the Paris Agreement by 42% until 2030. We've also published our footprint for some Scope 3 categories for the first time this year and will be able to disclose the full Scope 3 emissions next year. With regard to our assortment, which is the biggest lever for making the company more sustainable, we will systematically screen all our product ranges for sustainability benefits. Thus we will be able to steer our product portfolio accordingly and create transparency for our customer to have them choose sustainable products. And with that, I conclude my presentation and hand back to Antje for the Q&A session.

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

Questions and Answers

Operator: Thank you, Antje. Thank you, Antje. Ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. That is star one on your telephone keypad to ask a question. Thank you. We'll pause for just a moment while waiting for them to queue for questions. We will now take our first question from Thomas Maul of DZ Bank. Your line is open, please go ahead.

Thomas Maul (DZ Bank): Yes, thank you. Good morning. Thanks for taking my questions. I've got two. The first one, can you please shed some more light on your online business? I understand that sales are declining. That's okay. My question is, are your sales actually declining faster or slower than online sales of your peers? So what about market share in the online business?

And my second question, can you please elaborate a bit more on sequential development of footfall and shopping cart size in June compared to Q1 of the current fiscal year? Thank you.

Karin Dohm: Thomas, thanks for your questions. Happy to talk a bit more on the e-commerce. Unfortunately for an acoustic reason, I didn't get your second question. Could you just repeat it please?

Thomas Maul: Of course. So my second question would be on footfall and shopping cart size in June. Can you elaborate a bit on the sequential development of both the ratios compared to, yes, the Q1 of the current fiscal year?

Karin Dohm: Okay, thank you. So let me start with the e-commerce, and you asked with regard to peer figures. So when we compare our e-commerce shares with peers, we feel very comfortable that we're having there not only good figures for ourselves, so to say, but also a good outcome with regard to our market share in e-commerce and how that is developing over time. I think one of the main reasons is that we have started obviously with our web shops really years ago; and despite the fact that this is a topic which continuously evolves and customer expectations of course continually evolve what is a good shopping experience and how does a good web shop look like, what application do I want to see there and things like that, we think that we, due to our good head start and the continuous investment that we take, the continual additions that we add into our app, into our webshops in each of our countries, we think that we're really well positioned there to offer good experiences and with that make further market share ours. So yes, fine in comparison to our peers.

Thomas Maul: Okay, thank you.

Karin Dohm: Going back to your second question, the footfall, and I understood it a bit in the sense of what is also current trading looking like. I mean, obviously, as I alluded to earlier, in a lot of our countries we had relatively often rainy weather towards the end of May and now in the first weeks of June. Many people on the call maybe experienced that literally themselves. So that is of course something when we always see a little bit reduced activities. That means not so much footfall. A little bit less footfall there than in March and April and a little bit smaller baskets here and there. Nothing dramatic but just that usual weather impact that you have. So as we currently have more sun across Europe in many areas, we also have of course the development into the other direction. The other thing that we mentioned where we always need to see how things play out is of course that we have a number of exciting sports events this summer in Europe. We have obviously the football European Championship just going on. We have the Olympics coming up in July. So that might also be something where people do a little bit less, do a little bit more in the garden. It depends obviously then in combination once again with the weather. So there is a little bit of smaller question marks out there and that's the reason why we said – we had a very good start into the year, we need to see how Q2 comes along. Nothing to worry but I think it's just – that's why we said we would like to keep the guidance currently where it is.

Thomas Maul: Okay, very helpful. Thank you.

Operator: Thank you. And we'll now move on to our next question from Thilo Kleibauer of Warburg Research. The line is open, please go ahead.

Thilo Kleibauer (Warburg Research): Yes, hi, good morning. I've two questions if I may. The first one is on the gross margin development. The level of 35% or 35.4% in Q1, is this also a level that we could expect for the coming quarters or is there kind of special positive effect from seasonal product mix in Q1? Because, I mean, in Q2 and also in Q3, the base for the gross margin is also pretty low.

And my second question is regarding the development of the number of employees. It was up by more than 2% since the start of the fiscal year. So the increase was even stronger than the top line increase. So maybe you can comment on this if there is any specific reason behind this development. Thank you.

Karin Dohm: Yes, thanks for your questions. So number one on the gross margin, to start there. As I talked about in some of the previous calls we were really keen to make sure we get some of those parts that we lost in the gross margin in earlier quarters, specifically I would claim towards the end of 2022/23 and the first half of 2023/24, so if you want to say 12 months ago and a little bit more, due to high energy prices before some force majeure event with some suppliers, things like that, commodity prices. So we worked hard on making sure we get that back, which we successfully managed to do. And that was something which came through already in winter. Starting towards the end of our Q3 and definitely in Q4, you know, if you look back into those figures, you can see that already there. So it is a continuation, that is something which is really I think a good sign of stabilisation. Nevertheless, of course, as you know, we also have not only our supply prices, our logistic expenses and other components where we can work hard on, but we also have of course sales prices. And we want to make sure that we're a reliable partner for our customers. Our everyday low-price strategy, as I mentioned, is still one of our core principles. So we need to make sure we're really their reliable partner. That means there might be the one or the other sales price decrease which then could make the gross margin ultimately a bit lower. We're not expecting any fundamental changes there currently but I'm just, yes, trying to shed a light there. It might be that it goes a little bit more down but actually, as I said, currently we look for stabilisation on that side.

Employees, yes. Typical Q1 phenomenon I would say. That is the time of hiring in our industry. Independent of whether you talk on the store side, whether you talk about some of our back offices. So underneath here in those figures, there are, for example, a couple of IT talents which we managed to get on board in Q1. So we were lucky, and some of that will, so to say, be offset over the course of the other quarters, and, therefore, nothing that is a fundamental change of direction of travel. It's just I would claim coincidence that that fell into Q1.

Thilo Kleibauer: Okay. Okay, perfect. Thank you.

Operator: Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We will now move on to our next question from Benjamin Thielmann of Berenberg. Your line is open, please go ahead.

Benjamin Thielmann (Berenberg): Yes, hey, good morning, everyone. This is Ben from Berenberg. Two questions from my side if I may. First one on free cash flow run rate for Q2 to Q4. Is there anything you could really guide us on? I remember in the full year call you mentioned free cash flow roughly in line with last year level. Is that still up to date? This is question number one.

Question number two is then on basically market share. I see you guys keep winning market share particularly in Czech Republic, Netherlands. It's looking quite fine. Do you consider these market share gains as sustainable? I mean, they keep growing for three years and the question is like, okay, how much of that is spillover from post-Covid and do you think that those customers will remain a customer over the next couple of years? Like, do you track maybe, okay, how many times do maybe just say in professional customers or the customer purchasing pattern, for example, in Netherlands has it changed significantly in terms of frequency of customers visiting the stores? Because so far market share gains grew actually quite nicely and the question's like, okay, how much of these market share gains will be sustainable over the next 2-3 years? That's it from my side. Thank you.

Karin Dohm: Yes, once again thanks for the questions. On the cash flow side, yes, absolutely. Obviously, it's good to come in with a good development on the cash flow, and we see that literally as a kind of mirror of our activities in the operational side. You know, in our business the relation between sales and cash is relatively one-to-one. We have of course also services on offer where we have the one or the other later payment for our customers if they want to. We support them with credit facilities or other services. Nevertheless, the vast majority is still as we have the sale, there's also the cash coming at the same time. So good business figures mean good income in cash, and we're really keen to make sure we use our net working capital in the way it's meant to. And we have our eyes fixed on that, so that was not only a one-off exercise in the past. This is an ongoing monitoring which is high on management's agenda to make sure we use, so to say, the inherent cash in our organisation to support our cash flow. Therefore, I definitely think that we will have here a good stability not only now in this quarter but over the course of the year and over the course of the following years. Also we have put an emphasis on making sure we use cash in times of high interest rate environments even though those are coming down currently, as we know, slightly. But we will have elevated levels of course in this decade. So we're really keen to make sure that we have classical debt only utilised in those instances where we want to use it for investment or other things. But that the ongoing activities capture our capex and other spending nicely and generously to then use cash beyond that for extra activities for shareholder returns in form of dividend and other things. So that is absolutely meant to go on like this, if I want to say so.

And then to your other question with the market shares, it is really – it's not a spillover or something of pandemic times in Czechia or in the Netherlands. It is the fact that we're really there extremely strong. It's – we had there a different competitive footprint. We are ultimately market leaders and we very successfully expanded that position in those countries. I mean, we're having a number of countries where we can grow only by taking away market share from others. That's known to everybody. For example, Germany we have a very dense competition. Of course, we also aim and work on to make sure we gain there additional percentage points. Nevertheless, we are really confident and feel very happy in a number of the other countries where we're well established. No sign whatsoever that might diminish, so absolutely very happy with where we stand and, as I said, no. No clouds on the horizon.

Benjamin Thielmann: Okay, perfect. Thank you very much Karin.

Operator: Thank you and we'll now take our next question from Miro Zuzak of JMS. Your line is open, please go ahead.

Miro Zuzak (JMS): Good morning. Thank you for taking my call. I have a couple of questions. Is it okay if I take them one-by-one? Can you hear me?

Karin Dohm: Yes, sure, go ahead.

Miro Zuzak: The first one is in Baustoff Union there was, I mean, minus 9.2%. Is this related to let's say the weakness in the construction industry in general, and do you expect this to remain muted until the end of the year in this time, sort of -10% roundish?

Karin Dohm: So obviously Baustoff Union is absolutely linked to building industry. So I think that's the big contrast that everybody needs to take into account. Baumarkt is always focusing on existing buildings, so that is renovation, modernisation, activities like that, that customers there are pursuing. Whilst Baustoff Union is really focusing on new buildings, building industry. And that of course as we all know is currently nowhere in Europe where it should be. Their area of their geographic footprint, so to say, is southwest of Germany and a very small footprint in France. That means they will of course get the turnaround done once the building industry picks up again. Given the macroeconomic environment, when we look into shrinking inflation, slight interest rate reductions coming in, I totally expect that we will see there definitely a turnaround in the calendar year 2025. Will we see something in 2024? I am not so sure, frankly speaking, because we all know the cycles need their time to restart. On the other hand, will that be going down now 9% every quarter? No, I don't think so. But I also don't think we will see fundamental increases in this calendar year. Nevertheless, surely next year I have no doubt about it.

Miro Zuzak: Okay, thank you, very clear. Then next question regarding adjustments, there were none in Q1. What is from your current perspective the amount we should expect in terms of adjustment for the entire year, and do you have any visibility on the quarter where you book them?

Karin Dohm: Yes, that's a good question. If I knew future figures, I would probably have a different job, in the sense of that is obviously as tricky as for everybody else. But to give you full transparency on how this runs, obviously we had last year a very special situation and I know I myself keep forgetting sometimes. ECB raised the interest rate last year six times, just to remind everybody, so it was really outstanding. And that drove the big four here, our audit companies and everybody else's audit companies, into reassessing this as a triggering event. So we all looked into impairments both at year-end as well as at half-term. That is of course now a different environment. So normally you look either once a year or you look when you have a triggering event. That means I've currently no indication given the interest rate environment and the development of the risk-free interest rate to see any triggers of any impairment in our area. So we will most likely look into that with a specific eye only later in the year. Currently, as said, I have no material expectations. Yes, period. I think that's my current assessment.

Miro Zuzak: Okay, cool, thank you. Then on the opex side it seems – or it seems that you have quite good cost control over your costs. I mean, we still have – there is some wage inflation and so on. We talked about that. So you were almost on par with the last year's Q1, which is I think remarkable. Will there be any like special effects this year coming from, I don't know, future agreed wage increases whatsoever, or do you expect the normal seasonal headcount regarding your opex?

Karin Dohm: Yes, I think there are from the wage side, as you said; and as we also brought across a bit earlier, there were of course wage increases in the past, substantially linked to the inflation. And as you know, we're keen to be an employer who pays proper wages where people can live from their salary and don't need to take a second or a third job, independent of in which country they work for us. So – and obviously, we also have legal requirements which we follow there absolutely in line with our, as I said, aspiration as being a fair employer. So that brought a number of increases in the last year and in the year before already. So that is totally different this year. We have, as said, inflation has come down. Therefore, this inflation wage spiral has come to an end. Also in the majority of our countries where we operate, we don't expect any major increases anymore. We had in Germany, as you might recall, the last agreements a couple of weeks ago in spring. So that means those things are now done and dusted, so to say. And yes, you always have the one or the other percentage in the normal course of doing business but no fundamental increases currently expected.

Miro Zuzak: Okay. So if I put this all together, you know, your gross margin is 2% higher compared to last year, roughly, you have very good opex cost control, you have shown a very good Q1, your D&A is flat underlying. You guide for a slight increase in sales. Slight means I think 2-5%. You basically guide for a slight – or a flat or slightly higher adjusted EBIT. If I just take the 2% higher gross profit level which you have and which I think you elaborated well upon, why don't you expect a – some kind of fall through of the 2% higher gross margin which you have at this point in time? Do you understand my question? Compared to last year you basically guide no – no increase in margin.

Karin Dohm: I guess the question – sorry for rephrasing – is the question why we're not adjusting our guidance? Is that the underlying question?

Miro Zuzak: Absolutely.

Karin Dohm: Yes, okay. Yes, absolutely understood and coming back to my earlier statement, we have currently obviously only June. And I know for many out there that is already the end of their first half. For us, as you know, we only started on 1st March so for us, this is now the fourth month coming to an end. And the first two quarters are most likely the most important for us. And as I said earlier, we had a very good Q1. We have done our homework on the underlying KPIs, so we will feel very comfortable that we're well set up. You summarised that absolutely quite nicely. Thanks for that. Nevertheless, we have now Q2 which started with a little bit of a dampening due to a lot of rain coming in which didn't really make a lot of people move into gardening activities or other refurbishments or renovations around their houses, their flats. And secondly, we have a number of usual question marks topped by a set of super-exciting sports events this summer. So we need to see where people actually put their money. You know that well from customer sentiment analysis. Yes, inflation has come down, yes, real wages have increased for many, but also many people out there still are a little bit on the cautious side with regard to their spending. They might not spend on their home, they might spend more on travel, they might spend more on looking into other activities or holding back money. So we need to see how customer sentiment plays out. And what we are definitely and I have seen in Q1 and keep seeing is that there is a bit of softness on larger projects still. It's getting better but it's not where we used to see customers' behaviours. And that's one of the pieces that we would like to see coming back before we release, so to say, our ideas on different guidances.

Miro Zuzak: Okay, very clear. And the one last one, sorry, the financial results, the minus 15, was there any special element in there or is this like a stable run rate we should expect for the remaining quarters of the year?

Karin Dohm: Excuse me? The financial result of minus 15? Sorry, I'm…

Miro Zuzak: Minus 15.2 is like the consolidated financial result.

Karin Dohm: You mean the investing activities, sorry? Is that the one you're referring to?

Miro Zuzak: No. In the P&L.

Karin Dohm: P&L.

Miro Zuzak: The net financial expenses in the P&L is minus 15.2. So you have like interest expenses minus 13.8. Other financial result minus 3.4. And last year you had also basically minus 15.8 but then the remaining quarters it was less. It was like around minus 10 per quarter. Now you started again with minus 15. I was expecting again minus 10 but the question is where it's going to be – remain at minus 15 or because this is the current run rate of your interest results or whether there is also an improvement like in the last year where you have basically minus €10 million per quarter around for the remainder of the year.

Karin Dohm: Yes, I totally expect our debt-related financial expenses – you know, you need to always differentiate a little bit between, so to say, gross debt and leasing-related activities or payments. So obviously as far as debt is concerned, I totally expect to be lower than last year because we repaid a couple of loans and therefore, that should be a bit lower. But as said, it's really not any key figure for us as we're really – I mean, you know that one of our key figures which we manage very proactively is net debt to EBITDA and we always said we want to be 2.5x or better and we're really there in extra good shape. So I think that's all going into the right direction.

Miro Zuzak: Thank you very much. Going back into the queue.

Antje Kelbert: Okay. So, I think we have no further questions for this time and it looks as if we have satisfied all your questions. So if you have some questions afterwards or would like to discuss any topics, please do not hesitate to get in touch with the Investor Relations team. We also would like to invite you to meet up at the upcoming capital market events throughout the coming weeks and months, especially in September after the summer break. You will find an overview of conferences and IR activities on our website. Thank you all for your interest this morning and have a pleasant summertime. Enjoy your own outdoor and gardening projects and we hope to meet you soon in person. Thank you and goodbye.

Operator: Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.