

**MASTER OF SCIENCE IN
FINANCE**

**MASTERS FINAL WORK
PROJECT**

EQUITY RESEARCH:
KINGFISHER PLC

FRANCISCO MIGUEL DUARTE DA SILVA

OCTOBER 2020

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Abstract

This project delivers the detailed valuation and forecast of Kingfisher plc's intrinsic value for the end of 2020, according to ISEG's Master in Finance final work project. This project is presented with the recommended format by CFA institute. Kingfisher plc was chosen due to its reputation as one of the biggest Home Improvement Retail companies in the world and due to the specific context of operating through its retail banners throughout Europe. The assumptions considered for the valuation result from the firm's historical data, macroeconomic estimates and industry tendencies. The price target was obtained through an absolute valuation method, the Discount Cash Flow (DCF) Valuation. To strengthen the analysis, it was used a relative valuation method, the Comparable Multiples method. The analysis was completed with a sensitivity analysis and a Monte Carlo simulation. With a price target of £ 2.75 for YE2020, representing a downside potential of -7.39% from September 30th, 2020, current price of £ 2.97, our final recommendation for Kingfisher plc is to SELL, taking into account the risks that may appear and affect the company's performance. Our risk assessment estimates a medium risk for the firm.

JEL classification: G10; G32; G34

Keywords: Kingfisher plc; Equity Research; Valuation; Discount Cash Flow Valuation; Relative Valuation Method; Home Improvement Retail Industry

Resumo

Este projeto contém uma avaliação detalhada e uma estimativa do valor intrínseco das ações da empresa Kingfisher plc para o final do ano 2020, de acordo com o projeto de trabalho final do Mestrado de Finanças do ISEG. Este projeto é apresentado com o formato recomendado pelo instituto CFA. A empresa Kingfisher plc foi escolhida devido à sua reputação como uma das maiores empresas retalhistas de produtos de melhoria habitacional e devido a o seu contexto específico de fazer a sua atividade através das suas diferentes subsidiárias. Os pressupostos considerados para a avaliação têm por base dados históricos da empresa, estimações macroeconómicas e tendências da indústria. O preço-alvo é obtido através de um método de avaliação absoluta, o método do Discount Cash Flow (DCF). Para fortalecer a análise, foi utilizado um método relativo de avaliação, o método dos Múltiplos Comparáveis. A análise foi completada com uma análise de sensibilidade e uma simulação Monte Carlo. Com um preço-alvo de £ 2.75 para o FA2020, representando um potencial de desvalorização de -7.39% do dia 30 de Setembro de 2020, preço corrente de £ 2.97, a nossa recomendação para a Kingfisher plc é VENDER, tomando em consideração os riscos que possam ocorrer e afetar a empresa. A nossa avaliação do risco estima um risco médio para a empresa.

Classificação JEL: G10 ; G32; G34

Palavras-Chave: Kingfisher plc; Equity Research; Avaliação de Empresas; Avaliação Discount Cash Flow; Método Relativo de Avaliação; Indústria de Produtos de Melhoria Habitacional

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Kingfisher plc: leading the way through its banners

(YE2020 Price Target of £ 2.75 (-7.39%); recommendation is to Sell with Medium Risk)

Research Snapshot

Kingfisher plc (KGF) is a British firm, listed in the London Stock Exchange and constituent of the FTSE 100 Index. Its main activities focus on offer home improvement products and retail services through its retail banners across United Kingdom and Europe.

Figure 1 – KGF Share Price

Source: Author, Bloomberg



We initiate a SELL recommendation for Kingfisher plc. with a 2020YE price target of £ 2.75 using a DCF model and taking into account our risk assessment (Table 1), implying a -7.39% downside potential from the September 30th 2020 closing price of £ 2.97 (Figure 1). Using the relative valuation through multiples (Table 5), our SELL recommendation is supported, since we reach a price target of £ 2.09, representing a downside potential of -29.54%.

In terms of risk assessment, we concluded that KGF had a medium risk of investment (Table 2), due to the high competition inside and outside of the market, the uncertainty surrounding the Covid-19 pandemic and the unpredictable market conditions concerning next year's Brexit.

We expect that KGF's sales to decrease in 2020F, declining from £ 11 513 millions in 2019 to £ 11 387 millions in 2020F, due to the Covid-19 Pandemic. It is expected an increase in the next years, reaching £ 12 605 millions in 2024F (Table 4). It is expected an improvement in liquidity and profitability in the next years. We predict an increase in the operating profit from £ 283 million in 2019 to £ 628 million in 2024F, and an increase in profit from £ 8 million in 2019 to £ 420 million in 2024F.

Table 4 – Financial Highlights (£M)

Source: Company Data, Author

£ millions	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Cash and cash equivalents	730	795	230	229	189	375	361	371	404	458
Sales	10441	11225	11655	11685	11513	11387	11764	12075	12334	12605
Gross profit	3896	4175	4303	4318	4255	4221	4361	4476	4572	4672
Operating profit	526	773	685	480	283	554	579	597	612	628
Profit for the year	412	610	485	193	8	341	366	386	402	420

Table 1 – Analyst's Risk Assessment

Source: Author, Company data

Low	Medium	High
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Table 2 – Investment Grade and Risk Classification Matrix

Source: Author

	Low Risk	Medium Risk	High Risk
Strong Buy	> 20%	> 30%	> 45%
Buy	> 10% & ≤ 20%	> 15% & ≤ 30%	> 20% & ≤ 45%
Hold/Neutral	> 0% & ≤ 10%	> 5% & ≤ 15%	> 10% & ≤ 20%
Reduce	> -10% & ≤ 0%	> -5% & ≤ 5%	> 0% & ≤ 10%
Sell	< -10%	< -5%	< 0%

Table 3 – Market Profile

Source: Bloomberg, Author

Market Profile	
Ticker Bloomberg	KGF:LN
Shares Outstanding (M)	2210
Close Price (30/09/2020) (£)	2.97
Market Capitalization (£M)	6244
Moody's rating	Baa2
Fitch rating	BBB-
Standard and Poor's rating	BBB-
Industry Sector	Consumer Discretionary
Industry	Retail - Discretionary
Sub-Industry	Home Improvement Stores

Table 5 – Valuation Output

Source: Company Data, Author

Valuation Method	YE2020 Target	Downside Potential
DCF	£ 2,75	-7,39%
Multiples	£ 2,09	-29,54%

Business Description

Kingfisher plc (KGF) offers home improvement products and retail services, and its ambition is to become the world leading home improvement company.

The company was founded at 1982 with the acquisition of the FW Woolworth by Paternoster. In the deal, it also came B&Q, a chain of home improvement stores. In 1983, Paternoster changed its name to Woolworth Holdings plc. The firm continued its expansion through the acquisitions of Superdrug, a chain of health and beauty stores, and Comet, a chain of electricals. In 1989, Woolworth Holdings changed its name to Kingfisher plc. KGF continued its acquisition policy in the subsequent years, buying Darty, an electrical chain, in 1993, merging B&Q with Castorama, a leading home improvement retailer in France which owned the chain Brico Dépôt, in 1998, and getting Screwfix, in 1999. After 1999, the company focused in the home improvement businesses, by selling Superdrug and buying the remaining stake of Castorama. During these years KGF expanded internationally by consolidating its presence at France, UK and Poland, through Castorama, B&Q and Screwfix, and opening new stores in Russia via Castorama, Turkey via Koçtas and Iberia, through Brico Dépôt. The company release, in 2008, the “Delivering Value”, a strategy to deliver better results in key drivers of internationalization like sourcing and innovation to increase shareholders’ value. In 2012, it was implemented the “Creating the Leader” plan, in order to accelerate growth and increase returns. In 2013, the firm entered the Romania market with the acquisition of Bricostore, a chain of 15 home improvement stores, later incorporated at the Brico Dépôt. In 2018, it expanded further in the Romania market by acquiring Pratikier Romania, a DIY of home improvement, construction, renovation, home repairs, gardening, and leisure company.

KGF has much of its presence in the European market, with 1367 stores in 9 countries across Europe, Turkey and Russia (Figure 2), with a total of 77,000 employees. It sells all kinds of home improvement products like bathroom and kitchen accessories, hand tools, heating and plumbing accessories or gardening and outdoor products through its five key retail brands: B&Q, Castorama, Brico Dépôt, Screwfix and Koçtas. The company also produces its own exclusive brands and provides digital home improvement services tools and it does an aggressive e-commerce merchandise through its retail brands websites like diy.com, screwfix.com or bricodepot.fr. All the retail brands operate individually and sell all kinds of home improvement products, selling also KGF’s own exclusive brands. KGF has nearly six million customers every week distributed through their stores, website and apps, and in the last 5 years, its sales were on average approximately 44% concentrated in UK& Ireland and 56% distributed for the other retail stores in France, Poland, Romania, Iberia and Russia (Figure 3).

In 2015, KGF has launched a transformation plan, the “ONE Kingfisher plan” with the objectives of create unique, unified and leading home improvement offer, drive digital capability and optimize operational efficiency in order to deliver a sustainable annual profit of £500m in the YE 20/21.

The company proposed to unify the products through diminishing the number of SKUs (stock keeping units) and suppliers and selling the same products through all its markets beside some necessary adaptations, which would increase its sales. After three years, there was a significant increase in the unification of the products, going from 4% of COGS in 2016 to 23% in 2017, and it has reached 44% in 2018 (Figure 4). The number of SKUs and global suppliers were significantly reduced.

Figure 2: KGF’s number of stores

Source: Author, Company data

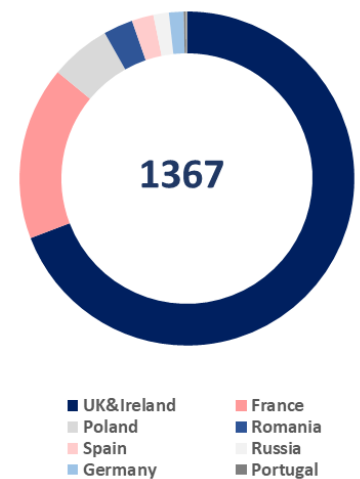


Figure 3 – Proportion of Sales by Market (%)

Source: Author, Company data

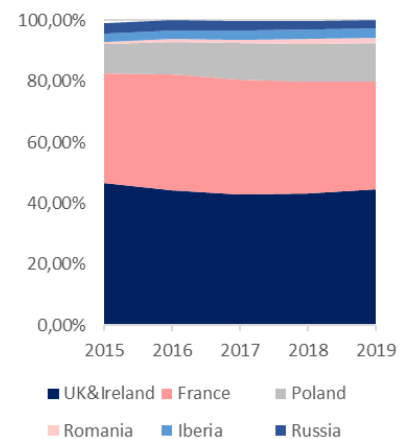
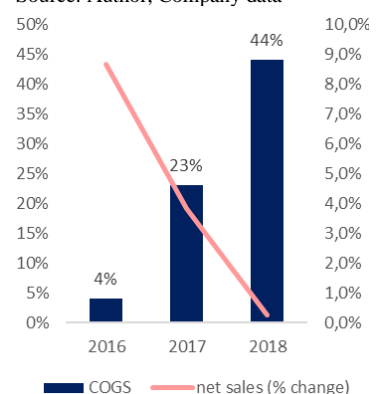


Figure 4: COGS (% of unified products) and net sales (% change)

Source: Author, Company data



Also, the firm started to develop unique products to provide diversity to costumers. The sales have met an increase of 8.7% in 2016, 3.8% in 2017 and 0.3% in 2018.

To drive digital capability, KGF started to implement a unified IT system to provide a strong digital offer for its clients and increase sales and digital penetration, with the company expecting that it will generate £50m of annual profit in YE 20/21. In YE 17/18, 50% of the group sales were running in the new platform. There was an improvement of the firm and its subsidiaries' websites and the creation of various mobile applications, allowing a rise of 17% of the digital sales, accounting for 6% of the KGF's sales in 2018 (Figure 5). To deliver operational efficiency, KGF is unifying its annual spend on goods not for resale (GNFR), hoping to save costs and to work in an easier and efficient way across business. At the 3rd year of the five-year transformation plan, the company achieved a total of £86m (Figure 5) of cumulative costs savings from the GNFR plan.

Retail Brands (Figure 6)

B&Q is a British DIY and home improvement retail company founded in 1969 and, nowadays is the UK's leading home improvement and garden retailer. It offers over 40,000 products (Figure 7) in the areas of Outdoor and Garden, Kitchen and Bathroom, Home and Bedroom, Building and Hardware, Painting and Decorating, Tools and Equipment, Lighting and Electrical, Tilling and Flooring, Heating and Plumbing, and Clearance. It has 16,221 employees across UK.

Castorama is a French company founded in 1969, in Lille, and its main activities are retailing DIY and home improvement tools and supplies. It offers up to 50,000 products (Figure 7) in the areas of Garden, Kitchen Appliances, Bathroom, Dressing Room, Floor Tiles Painting and Drugstore, Decorating and Lighting, Workshop tools, Hardware security, Electricity and Home automation, Heating and Plumbing, Insulation materials, Joinery and Clearance. It has more than 25,000 employees throughout its stores in France, Poland and Russia. Its presence is noticeable in Poland, where is the market leader.

Brico Dépôt is a chain of DIY and home improvement retailer created in 1993 by Castorama and later bought by KGF. The company is present in France, Spain, Romania and Portugal, and provides more than 10,000 products (Figure 7) for its clients in the areas of Kitchen, Bathroom, Dressing and Storage, Terrace and Garden, Material and Structural work, Heating, Painting and Wall Covering, Electricity, Plumbing, Tools and Hardware.

Screwfix was founded in Yeovil, in 1979, and it was acquired in 1999 by KGF. It's UK's largest supplier of Trade Tools, Plumbing, Electrical, Bathrooms and Kitchens. It also is present in the areas of Outdoor and Gardening, Screws, Nails and Fixings, Security and Ironmongery, Storage and Ladders and Cleaning and Decorating. It operates in UK&Ireland, with a total of 686 stores, more than 11,000 products (Figure 7) and 8330 employees.

Koçtaş is a Turkish home improvement retailer, founded in 1955. In 2000, the company agreed to enter in a joint venture with KGF in Turkey. Koçtaş is the number one home improvement retailer in the country and it has more than 15,000 customers in Istanbul every week. It provides products for Furniture, Garden and Balcony, Heating and Cooling, Bathroom, Kitchen, Decorating and Homeware, Lighting and Electrical, Wood and Construction, Hardware Hand Tools and Auto, Electric Hand Tools and Household Appliances. The company does not consolidate Koçtaş sales.

The retail brands don't distinguish between each other in terms of business area, offering the same type of products and services. However, Screwfix has a wide range

Figure 5: Cumulative cost savings GNFR (millions of £) and digital group sales (% of total sales)

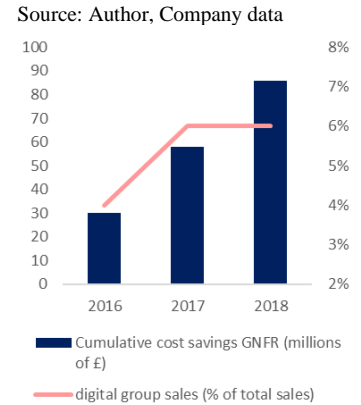


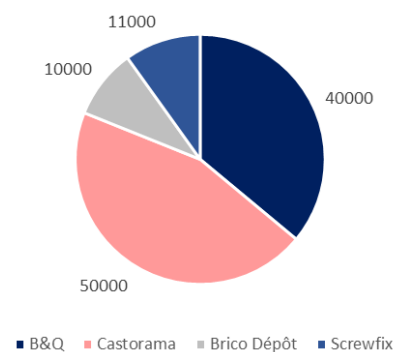
Figure 6 – Retail Brand's Logos

Source: Author, Company data



Figure 7 – Retail banners number of products

Source: Author, Company data

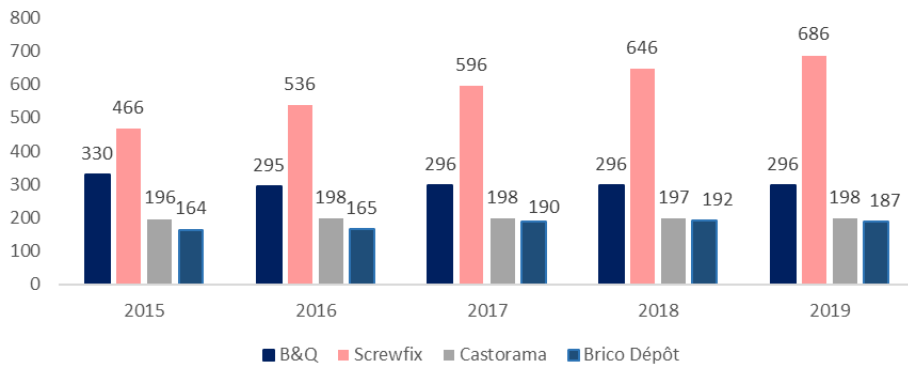


of products destined to professionals and it is more focused on trade. The brand awareness of the retail banners is key for KGF. According to USP Marketing Consultancy, B&Q is the most recognizable DIY company in UK in 2018, with 77% of consumers in UK, in a sample of 400 consumers, recognizing the brand as one of the DIY main providers. In Poland, a study conducted by Gemius and Izba Gospodarki Elektronicznej, the E-commerce w Polsce 2020, concluded, in a sample of 1544 respondents, that Castorama is the second most popular online home improvement store in the country. Screwfix reaches the top 10 of e-shop brands on Youtube in the UK by the total number of uploaded videos.

As shown in Figure 3, the company has the majority of its activity in UK&Ireland and France, then being more concentrated in Poland, and then it has a lower presence in Iberia (Spain and Portugal), Russia and Romania. In UK&Ireland, KGF operates through two banners: B&Q and Screwfix. B&Q only operates in UK, and it has a total of 296 stores spread through the region (Figure 10).

Figure 10 – Retail banners number of stores (2015-2019)

Source: Author, Company data



In 2015, with the “One Kingfisher plan”, KGF implemented a strategy of reducing a quarter of B&Q most inefficient stores and focused on improving the banner efficiency and costs savings. That decision lowered B&Q revenue to the subsequent years, with the company having sales reductions from 2015 to 2019 each year (Figure 8), a negative CAGR of -3.58%. B&Q benefited from the new digital strategy, with an improvement on the e-commerce sales of 111% in 5 years (Figure 9).

Screwfix has been increasing its number of stores in the last years, going from 466 stores in 2015 to 686 in 2019 (Figure 10). The rise of its stores, alongside a strong sales of the products of specialist trade desks exclusive to plumbers and electricians and a strong digital and mobile growth, allowed a significant increase on sales, going from £ 1054 million in 2015 to £ 1828 million in 2019 (Figure 8), which represents a GAGR of 14.76%. The company’s strategy is to increase the number of stores to 800 due to the good results of sales and to continue the strong online sales, that amount 33% of the banner’s total sales (Figure 11).

KGF operates through Castorama and Brico Dépôt in the remaining countries. Castorama operates in France, Poland and Russia, and it has a total of 198 stores, with 100 being located in France, 80 in Poland and 18 to Russia (Appendix 8). As seen in Figure 10, the number of Castorama stores remained flat in the past years, with a small increase in Poland, and a low decrease in France and Russia. Castorama had a small increase on sales, having £ 2076 million in 2015 and reaching £ 2145 million in 2019 (Figure 8) reflecting the lack of opening of new stores, the weak consumer confidence and subdued housing and construction activity in France in the past years and the challenging environment in Russia.

Figure 8 – Retail Brand’s Historical Sales (£ millions)

Source: Author, Company data

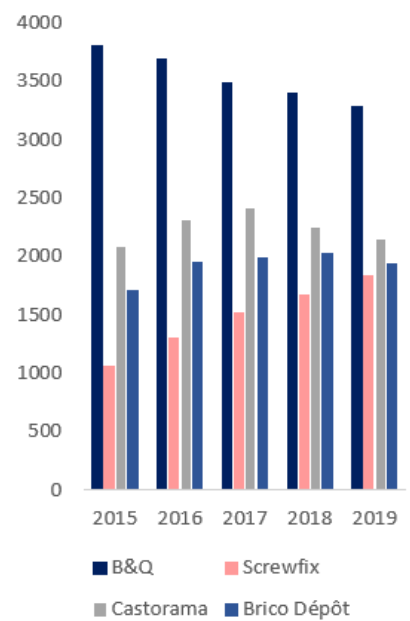


Figure 9 – B&Q e-commerce sales growth (%)

Source: Author, Company data

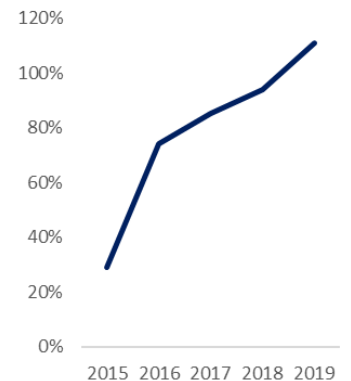
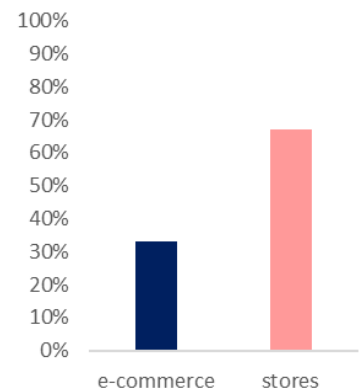


Figure 11 – Screwfix Sales concentration

Source: Author, Company data



Poland was a supportive market in this timeframe, increasing the sales annually, with a CAGR of 10.30%

Brico Dépôt operates in France, Iberia and Romania, and has a total of 187 stores, being 131 in France, 31 in Iberia and 35 in Romania (Appendix 8). Figure 10 shows an abrupt increase of 165 stores to 190 stores from 2016 to 2017. That rise is due to the acquisition of the company Pratikar Romania, which was later rebranded as Brico Dépôt. The banner revealed a small increase on the level of sales in the last few years, growing it from £ 1710 million in 2015 to £ 1937 million in 2019, mainly due to the big increase on sales in Romania in 2017.

The number of stores by each banner doesn't reflect a bigger amount of sales. Figure 12 shows the sales area for each retail banner. Although Screwfix has 390 more stores than B&Q, the banner is the one that covers less area of sales. It is part of the banner's strategy to target small tradesman and to provide shipping service that presently reaches over 20 countries. B&Q is the banner with the biggest area covered, although only covers UK. Castorama covers almost the same sales area as B&Q and Brico Dépôt covers 1295 m2 of area.

The average annual sales by store of KGF is £ 12.84 million (Table 6). Castorama (France) has the highest amount of sales by store in the last 5 years, with an average of £ 22.05 million. Although Screwfix has the biggest number of stores, the average sales by them is only £ 2.55 million. B&Q is below the company average, with £ 11.66 million in sales generated by each of its stores. Brico Dépôt sales by store in France is above the company's average but in Iberia and Romania it is below the mean, obtaining £ 10.59 million and £ 5.70 million, respectively.

Table 6 – Average annual Sales by Store

Source: Author, Company data

Average annual sales by store (£ millions)	2015	2016	2017	2018	2019	Average
B&Q	11,51	12,47	11,78	11,45	11,09	11,66
Screwfix	2,31	2,51	2,63	2,67	2,66	2,55
Castorama (France)	20,35	22,63	23,59	22,24	21,45	22,05
Castorama (Poland)	13,52	15,88	18,21	18,83	18,26	16,94
Castorama (Russia)	15,48	16,62	19,55	17,60	17,28	17,30
Brico Dépôt (France)	14,49	16,35	16,37	16,47	16,01	15,94
Brico Dépôt (Iberia)	9,23	10,81	11,23	11,16	10,52	10,59
Brico Dépôt (Romania)	6,07	7,33	3,42	5,53	6,17	5,70
					Total Average	12,84

Exclusive brands (Figure 13)

Erbauer is a brand that creates power tools aimed at professionals and it supports a EXT (external) one battery system that it's adaptable within multiple tools.

Magnusson is a brand that produces hand tools like screwdrivers & hex keys, sockets & spanners, woodworking tools, sawing & cutting, pliers & cutters and hammers & demolition.

Site is a brand that produces clothing, footwear and protective equipment destined to professionals.

GoodHome has the goal of provide a new and simple way to do things for all types of costumers. The brand gives more accessible home improvement products and solutions for everyone.

MacAllister is a brand that produces power tools destined for home improvers.

Figure 12 – Retail banners sales area

Source: Author, Company data

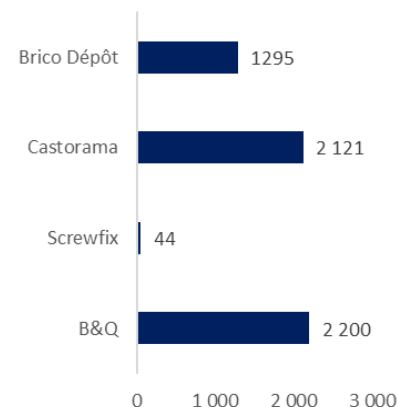


Figure 13 – Exclusive Brand's Logos

Source: Author, Company data



Company Strategies

KGF launched a new strategic plan “Powered by Kingfisher”, and it intends to focus on its strengths and commercial assets, namely its retail banners, to explore the diverse growth opportunities within the home improvement market. The company established the following priorities in this new strategy:

“Focus and fix” in 2020

The company main focus is managing the Covid-19 pandemic by supporting communities and governments to ensure the safety of customers and employees and minimize the negative impacts on profitability and financial flexibility. Although UK and France stores were categorized as essential, the company decided to close all stores to customers until a safe store protocol was established. In the 18th of May, all stores in UK&Ireland were reopened. In the 11th of May, the stores reopened in France. In Poland, the stores remained open with the exception of Saturday in April, and Sunday, since the trading ban of 2018. In Romania all stores continued open. In Iberia, the stores reopened in the 25th of May. In Russia, 12 stores were open and six were partially open.

It is intended to shift the attention in France by pausing the progression in the IT platform in Brico Dépôt and prioritizing improvements in Castorama’ IT platform due to its lack of improvement.

KGF will continue to give to its retail banners the flexibility to engage with customers and drive sales due to a good customer response.

The company also decided to pause the exiting of the Iberia market, refocusing on its stores of Brico Dépôt in that area, believing that they can build a solid and sustainable business.

Change to a simpler local-group operating model

KGF intends to create a balance between the group uniformization and retail banners flexibility and agility in addressing certain needs in local markets. The company believes that each retail banner has a distinguished business model, and by respecting its difference the firm will make the most of its potential. However, KGF believes that the organization is too complex, and so it will focus on making it more simple and agile, and will provide differentiated own exclusive brands, sourcing & buying, technology & partnerships, shared services, centers of excellence and culture & values.

Grow e-commerce sales and build a mobile service orientated to customer experience

KGF’ e-commerce sales have increased in the last years, accounting for 8% of total sales in 2019 and the web visits across all the retail banners reached over 900 million. There are significant opportunities to increase e-commerce sales, and the company plans to explore them through redesigning the store operating model, developing efficient last-mile delivery from stores, prioritize the Group’s digital technology stack and exploring the e-commerce marketplaces. Also, since the mobiles are in the center of the customers home improvement experience, to facilitate the online shopping the company will build a mobile service orientated to customer experience.

Reduce costs and inventory

KGF concluded that due the complex structure, the level of costs and inventory has been too high. The company will explore cost reduction in property costs, supply and

logistics. Regarding inventory, the company plans to diminish “same-store” inventories over the medium term.

Brexit preparation

KGF created an internal Brexit steering committee since the results of the UK referendum. The committee continues to monitor the status of the Brexit negotiation and act accordingly with the outcome of it.

Management and Corporate Governance

Ownership structure

At 31/01/2020 KGF had a share capital of £332 million and a share price of £ 2.04. At 1 February 2018 the Group purchased 51 million of the firm's own shares for cancellation. The major shareholders are Blackrock, Inc, an American global investment management company, which owns 135,395,563 ordinary shares, detaining a 6.42% of voting rights. Jupiter Asset Management, a UK fund management group, held 5.03% of the total voting rights, Silchester International Investors, a London-based investment management company, had 5.01%, Mondrian Investment Partners, a globally oriented hedge fund manager with offices in London and Philadelphia, detains 5.00%, Templeton Global Advisors Limited is located in New Prov, Bahamas and operates in the Finance & Insurance Sector Industry, owns 4.97% and Norges Bank Investment Management, which manages the Norwegian Government Pension Fund Global, held 3.20% (Table 7). KGF does not hold any of its. own shares.

Corporate Governance

KGF corporate governance system is operated through a structured framework composed by the Board of Directors and a few Committees (Figure 14). There were major changes in the Group executive, with 7 new appointments, making the firm focused on rebuilding it with an experienced and mixed team.

The **Board of Directors** is the responsible for the global leadership of the Group, focusing in the strategy, performance and governance of the company. It also tries to ensure that the firm has the proper culture, strongly considering the views of the shareholders and stockholders. At 31/01/2020 the Board was composed by **8 members**. The Chairman is Andrew Cosslett, the Chief Executive Officer is Thierry Garnier, the Chief Financial Officer is Bernard Bot and the Senior Independent Director is Mark Seligman. The non-executive directors are Claudia Arney, Jeff Carr, Sophie Gasperment and Rakhi Goss-Custard.

The **Audit Committee** supervises the financial reporting, audit and risk. It is composed by 3 members: Jeff Carr, appointed as chairman, Rakhi Goss-Custard and Mark Seligman.

The **Nomination Committee** manages the composition of the Board and the succession planning. It is composed by Andrew Cosslett, the chairman, Claudia Arney, Jeff Carr, Sophie Gasperment, Rakhi Goss-Custard and Mark Seligman.

The **Remuneration Committee** oversees the connection of reward to strategy. It is composed by Claudia Arney, appointed as chairman, Jeff Carr, Andrew Cosslett, Rakhi Goss-Custard and Mark Seligman.

The **Responsible Business Committee** is a recently created committee that manages the Group's responsible business activity. It is composed by Sophie Gasperment, the chairman, Thierry Garnier, Rakhi Goss-Custard, Kate Seljeflot, Henri Solere and John Mewett.

KGF implemented a **Board Diversity & Inclusion Policy** and its goal is to promote the diversity of the Board of Directors without compromising the appointments based on merit. The diversity in KGF is considered to include diversity of gender, background, race, disability, sexual orientation, beliefs, age, culture, personality and work style. The company set out to fulfill the objective of the 2016 Hampton-Alexander review, which proposed a target of 33% representation of women on

Table 7 – Shareholder's structure

Source: Author, Company data

Investors	Number of ordinary shares hold	% total voting rights
BlackRock, Inc	135,395,563	6.42
Jupiter Asset Management	106,105,580	5.03
Silchester International Investors	105,734,349	5.01
Mondrian Investment Partners Limited	112,274,595	5.00
Templeton Global Advisors Limited	104,803,951	4.97
Norges Bank Investment Management	67,516,367	3.20

Figure 14 – Governance structure

Source: Author, Company data



Boards until the YE2020. At the date, this policy has been met by the company, with a presence of 38% women presence on KGF’s Board of Directors (Figure 15). The firm also shows concern with the Board independence, with 25% of it being executive and 75% non-executive. The diversity of background amongst the non-executive directors is also ensured, bringing experience from various sectors of various industries (Figure 16).

Company’s key members

Andrew Cosslett serves as Chairman of KGF since June 2017. He started his professional career in Unilever in a variety of marketing and branding roles. Then he worked 14 years in Cadbury Schweppes in Senior International roles. After it, he became the CEO of InterContinental Hotels Group (IHG) for six years and served for CEO for Fitness First. He also joined the board of the Rugby Football Union in 2012, and in 2016 became chairman.

Thierry Garnier serves as Chief Executive Officer of KGF since September 2019. He worked 20 years at Carrefour as a member of the executive committee and as CEO of Carrefour Asia. Between 2003 and 2008, he was the managing director of Supermarkets of Carrefour France. In 2008 he became the CEO of Carrefour International.

Bernard Bot serves as Chief Financial Officer of KGF since October 2019. He held the role of CEO in several international listed companies. He served as CFO of Travelport Worldwide, and prior to that he was CFO of Aer Lingus and had senior positions at TNT and TNT Express. He also worked as a partner and leader of McKinsey & Company worldwide Post and Logistics group.

Mark Seligman serves as Senior Independent Director of KGF since January 2012. He started his career at Price Waterhouse, and then it had senior roles at SG Warburg, BZW and Credit Suisse First Boston. At Credit Suisse he also worked as Deputy Chairman Europe and Chairman UK Investment Banking.

Responsible Business

KGF has the commitment of making a positive impact for society so that communities, forests and planet can flourish. The company is involved on the effort to help communities and governments to manage the Covid-19 pandemic, donating to communities and health authorities over £ 2.5 million.

The firm identified four main priorities that can bring positive change in society: being an inclusive company, fight to fix bad housing, help make greener and healthier homes affordable, and help tackle climate change & create more forest that we use.

Being an inclusive company

The company has the target of provide 5 million hours of learning through the “skills for life” program by 2025, to develop an inclusive plan for each business in 2020/2021 and to improve gender balance. The company is already developing group diversity and inclusion principals and are training senior colleagues to model leadership behaviors. Also 24% of senior managers and 35% of managers are women.

Fight to fix bad housing

KGF has the target of help more than 1 million people in housing needs by 2025, and to provide over 20,000 colleague volunteering hours to support home improvement projects in 2020/2021. The company is addressing these objectives by launching charitable foundations in Poland and Romania, and colleagues gave

Figure 15 – Board of Directors diversity

Source: Author, Company data

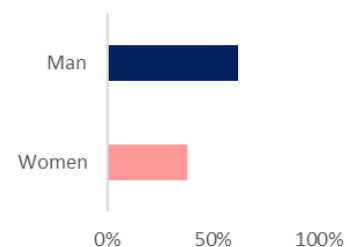
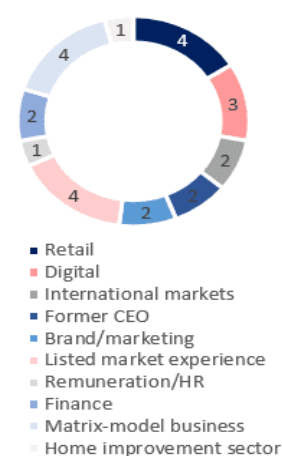


Figure 16 - Non-executive director sector experience

Source: Author, Company data



19,600 hours as volunteers over 100 projects in improving homes and community spaces.

Make greener and healthier homes affordable

The firm is committed to make 50% of sales to be from Sustainable Home products by the end of 2020/2021. At the moment, 37% of KGF’s sales come from Sustainable Home products (Figure 17), and the firm and the retail banners are working closely to identify chances to further improve its product ranges.

Tackle climate change & create more forest

The company is aware that the world needs to get to zero emissions by 2050, and so it is committed to reduce carbon emissions from its businesses, supply chain and products. Presently the largest carbon footprint is Castorama (Poland) with 32.5% of the total emissions (Figure 19) by KGF. B&Q is second with 31.5% of the total emissions. The firm has been reducing the carbon emissions each year, going from 308.3 thousand tonnes of CO2 in 2016 to 251.4 thousand tonnes of CO2 (Figure 18). Also, KGF is focused to be forest positive by 2025, investing in reforestation in 2021. The company is already involved in this project since the 1990s, becoming a founding partner to the Forest Stewardship Council (FSC) and participating in restoration projects.

Figure 17 - Sustainable Home Products (% of retail sales)

Source: Author, Company data

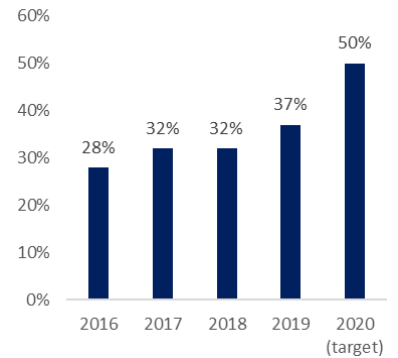


Figure 18 - Carbon emissions (thousand tonnes CO2)

Source: Author, Company data

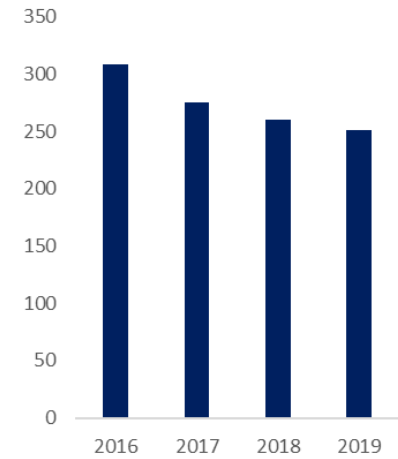
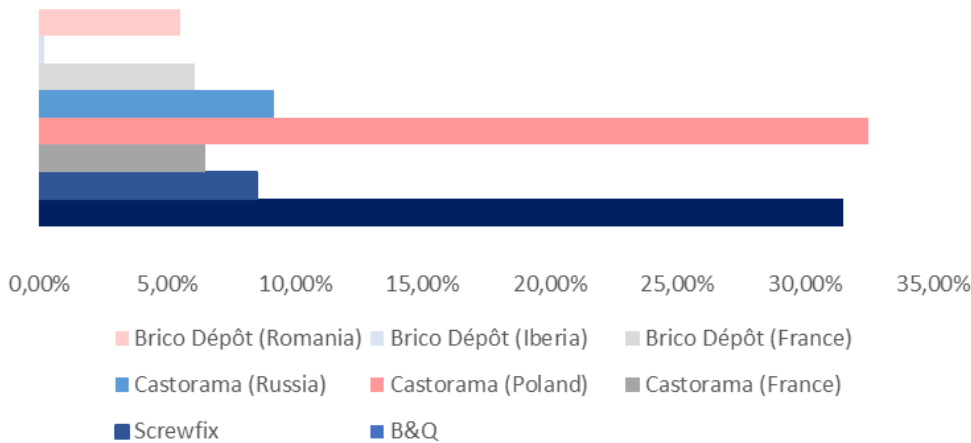


Figure 19 - Carbon footprint by retail banner (tonnes CO2)

Source: Author, Company data



Core Countries Macroeconomic Outlook

In this section we focus on key macroeconomic indicators of KGF's core countries to find the potential environment that the company will face in the upcoming years. The recent events regarding the Covid-19 pandemic may negatively influence the macroeconomic context. For this analysis, we assume the IMF predictions in all indicators for EU and the main core countries United Kingdom, France and Poland of the World Economic Outlook Report of June 2020.

United Kingdom Economic Outlook

United Kingdom (UK) is the most important country for KGF as it accounts for more than 40% of KGF's sales, and because two of KGF's key brands, B&Q and Screwfix, are UK's leaders.

Figure 20 presents the UK's growth rate and it shows a trend of decline in the recent years, going from 2.36% in 2015 to 1.41% in 2019 due, according to the European Commission, the withdrawal agreement between the EU and the UK that played a significant role on this performance, being responsible for a weak business investment growth and a deterioration of the contribution of net exports to GDP growth. Together with a modest private consumption growth and historic lows of household saving ratio, the GDP growth has remained weak. The outbreak of the Covid-19 pandemic had a major negative impact in economy, with IMF predicting a significant decline of -10.20% in UK's GDP growth rate in 2020F. In 2021F, IMF predicts a recovery of 6.30%.

In the last few years, UK's inflation had a sudden increase from 0.04% in 2015 to 2.7% in 2017 (Figure 20) due, according to European Commission, the depreciation of sterling. The following years show a slight depreciation to 1.8% in 2019. IMF expects a decrease in inflation to 1.2% in 2020F and then a recovery in 2021F to 1.55%.

The unemployment rate (Figure 20) has been declining in the last years, going from 5.4% in 2015 to 3.8% in 2019. However, IMF estimates an increase of the unemployment rate to 4.8% in 2020F and then a decline in 2021F to 4.4%.

For all the above, the unexpected outcome of the future withdrawn of UK's from EU and the unknown consequences of the Covid-19 pandemic in the next months, UK's economic outlook seems **unfavorable**.

France Economic Outlook

France is the second most import market for KGF as it accounts for the second largest share of its sales and its where the firm's retail brands Castorama and Brico Dépôt have their headquarters. Figure 21 shows low GDP growth rates in the last years, averaging a growth of 1.5% between 2015 and 2019. In 2019, the growth dropped to 1.31% due, according to IMF, the global uncertainties and social tensions registered in this country. The Covid-19 pandemic will erase France's GDP growth of the last years, being expected a drop of -12.50% in 2020F. It is expected a regaining in 2021F, with the GDP increasing 7.30%. Inflation rate boosted from 0.9% in 2015 to 2.1% in 2018 due to the increase of oil prices and rise in energy and tobacco taxes. In 2019 it decreased to 1.3% and it's expected that it will drop to

Figure 20 – UK's GDP Growth, Inflation Rate and Unemployment Rate (%)

Source: Author, IMF

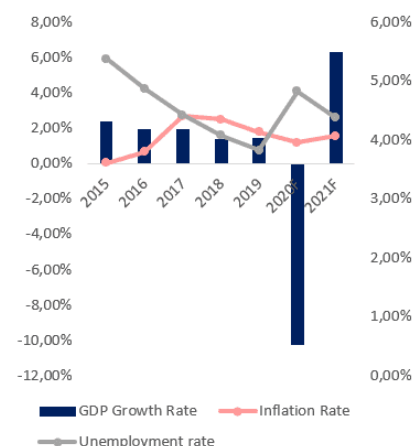
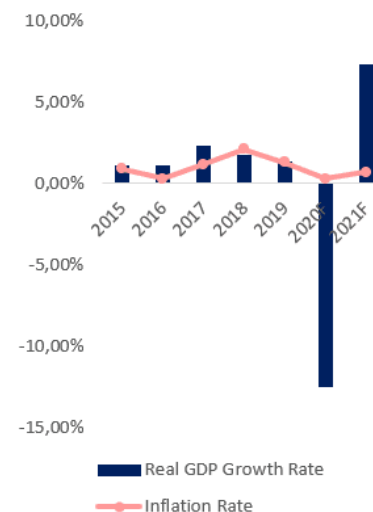


Figure 21 - France's GDP Growth and Inflation Rate (%)

Source: Author, IMF



0.29% in 2020F following the pattern of the EU. In 2021F it's expected to rise to 0.7%, following the pattern of economic recovery.

The unemployment rate in France was already high in the last years and it was slowly declining from 10.37% in 2015 to 8.45% in 2019 (Figure 22). This progress was vanquished by the pandemic and it is expected an increase to 10.40% in 2020F and 2021F. Investment growth rate improved strongly in recent years, going from 1.3% in 2015 to 3.6% in 2019. However, this variable was severely affected by the pandemic and it is expected a decrease of -13.3% in 2020F. However, it is expected a recovery of 14% in 2021F. Private consumption increased on average by 1.36% annually in the last 5 years. In 2020F it's expected a sudden drop of -9.3% and then a recovery of 8.9% in 2021F.

The Covid-19 pandemic stopped France's recent economic recovery and although it's expected an improvement in the next year, the analysis suggests an **unfavorable** economic outlook of France.

Poland Economic Outlook

Poland is the third most import market for KGF as it accounts for the third largest share of its sales (11.37%). This country was growing at a fast rate, three times higher than Euro Area in the last decade until 2018. This was due to the increase of private consumption, which has benefited from positive labor market conditions, a robust consumer confidence, a low inflation and good access to credit. Figure 23 shows that Poland's GDP growth rate reached a high in 2018 with a rise of 5.1% and it slightly decreased to 4% in 2019. In 2020F, due to Covid-19 pandemic, Poland will see interrupted nearly three decades of growth with IMF predicting a decrease in GDP growth of -4.60%. Despite it, it is predicted that in 2021F Poland will nearly recover the loss of 2020 by increasing its GDP growth by 4.32%.

The inflation rate (Figure 23) was very low in the middle of the 2010's, and an important factor for the high GDP growth' rates at the time. It registered negative values of -0.93% and -0.6% in 2015 and 2016, respectively, and then it has increased to 2.31% in 2019. Despite the Covid-19 Pandemic, IMF predicts that the inflation rate will continue to increase in 2020F by 3.23% and then it will diminish the growth to 2.58% in 2021F.

The unemployment rate (Figure 24) diminished in the last years, going from 7,5% in 2015 to 3.28% in 2019. However, the Covid-19 pandemic erased all the progress that was made, and it is expected a significant rise in unemployment to 9.92% in 2020F and 8.03% in 2021F. Investment (Figure 24) in Poland was rising in the last years although in 2016 it dropped significantly -8.2% due to a decline of inflows of EU funds and uncertainty over the policies adopted in this country. However, after 2016, the investment raised at an average of 6.87% in the last three years. The Covid-19 pandemic had a particularly harmful effect in investment (European Economic Forecast, Spring 2020). Due to the uncertainty and projected low demand in the foreseeable future, investment is predicted to decline in 2020F by -8.4%. In 2021F it's expected a recovery of 5.9%.

For all of the above, there is a lot of uncertainty in the country's recovery, particularly in consumption, so Poland's Economic Outlook seems also **unfavorable**.

Figure 22 – France's Unemployment rate, Private consumption growth and Investment growth (%)

Source: Author, IMF



Figure 23 – Poland's GDP growth and Inflation rate (%)

Source: Author, IMF



Figure 24 – Poland's Investment rate and Unemployment rate (%)

Source: Author, IMF



European Union Economic Outlook

Between the years 2015-2019, the EU's GDP growth decreased, going from 2.5% in 2015 to 1.2% in 2019. IMF has moderate expectations regarding the GDP growth for the next years, predicting a slight increase to 1.4% in 2020F. However, with the Covid-19 pandemic IMF reviewed negatively the GDP growth prediction and estimated a major decrease of -10.2% in 2020F. Along the next years, EU will recover, increasing GDP by 6% in 2021F (Figure 25).

Concerning the inflation rate, it increased from 0.2% in 2015 to 1.2% in 2019, although it reached a high of 1.8% in 2018 (Figure 25). The Covid-19 pandemic affected negatively inflation in the EU, suffering a drop to 0.6% in 2020F. In 2021F it is expected to recover to the 2019' level of 1.2%.

The weak growth of EU in the last few years appears to show a frail economic system, that can easily be influenced by internal or external shocks. The events of the Covid-19 pandemic reveal to be a major negative shock, which will likely increase EU's unemployment rate and, consequently diminish the private consumption, prolonging the crisis which may have a significant negative impact in KGF's performance. Regarding all the aspects, the European Economic Outlook seems **unfavorable**.

Figure 25 - EU's GDP Growth and Inflation Rate (%)

Source: Author, IMF



Industry Overview and Competitive Positioning

The Home Improvement Products & Services Retailers industry incorporates the retail of building materials, appliances and décor, services offered by contractors and other workers who help to install, modify and upgrade different types of facilities. The industry offers various types of products like electrical tools and supplies, lumber and other building/structural materials, lawn and garden equipment, plumbing or kitchen and bathroom goods and décor, which provide the firms the ability to enter various types of markets like do-it-for-me (DIFM), do-it-yourself (DIY) or even more professionalized customers.

In this industry new entrants struggle to enter in it since the home improvement products & services retailing is already a mature and well implemented environment, with a high degree of market concentration, including very well-known brands such as Home Depot, Lowe's and Kingfisher (Figure 26). The products are homogeneous and there is a strong price competition.

Major drivers

House market

There is a high dependence of the home improvement industry on the strength of the housing market. In the last years, there was a rise in house pricing in Europe (Figure 27), increasing the householder's confidence in their home's value, which boosted demand for home improvement products and services. The strong development in home's value has also contributed to the development of the industry through businesses that focus on buying houses that are in need for repair, in order to take advantage of a price appreciation in the future. The recent boom in the accommodation market with the increasing popularity of Airbnb's may also be reason for an increase in demand for the Home Improvement industry.

Increasing disposable income

There is a high predisposition to spend more at house' remodel and renovation when there is a bigger disposable income. Figure 28 shows that in the last decade the disposable income per capita has been increasing at a steady pace, which has helped the growth of the Home Improvement industry.

Social, environment and demand trends

There are potential opportunities in the industry through the recent social trends and government incentives regarding the energy-efficiency upgrades. These trends encourage households' renovations. The new wave of Millennials who are now purchasing houses for the first time, often tend to buy older and less expensive houses that need repairs. At the same time, people consider their houses has a way of express their uniqueness and place a high value on making their houses more functional which leads to a higher demand of home improvement projects. Similarly, the increase in rental demand might accelerate the urge of owners to make renovations in their homes into more energy-efficient buildings in order to rent at a higher price.

Balance between online platforms and physical stores

As it is in all the retail sectors, the Home improvement industry is going through a major structural transformation due to the rise of online sales.

Nowadays, the costumers ordering through online platforms is increasing in Europe, and, although the physical stores are still the pillar of sales, the arrival of digital retail

Figure 26 – Home Improvement Retail Companies Annual Sales (\$ Billions)

Source: Companies data, Author

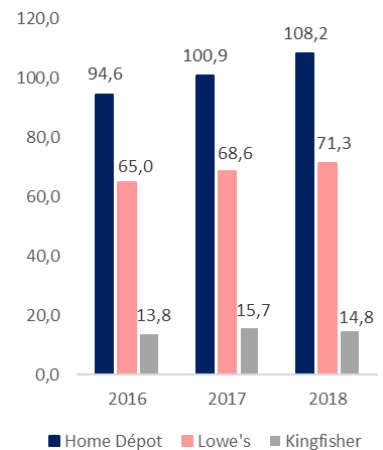


Figure 27 – House Price Index

Source: AMECO, Author

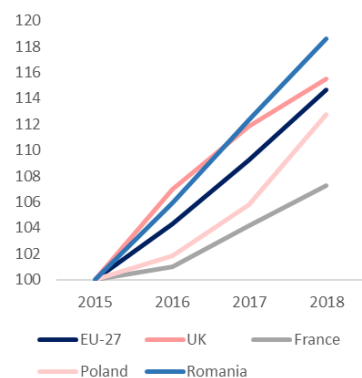
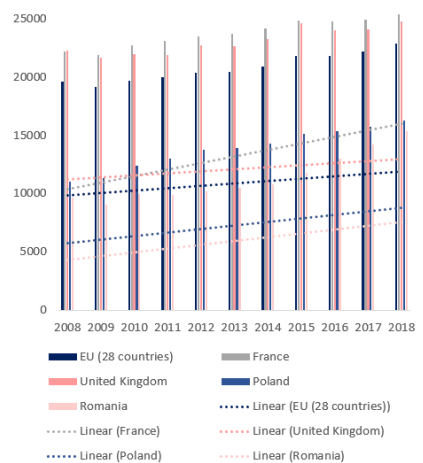


Figure 28 – Core Countries Disposable Income per capita

Source: Eurostat, Author



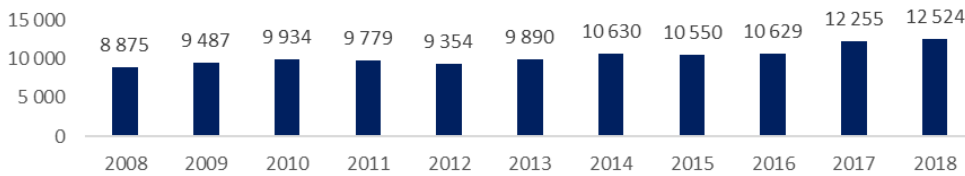
spaces represent growing opportunities for retailers. In that sense, the technological developments in the design of new products and the way of selling them could generate a higher demand. KGF is already exploring these opportunities and to connect in an easier way all its distribution channels.

United Kingdom

In UK, the turnover of the retail sales of decorating and DIY supplies was flat between 2008-2018, going from £ 6176 million in 2008 to £ 7143 million in 2018, reaching its highest in 2011 with a total of £ 7528 million (Figure 29). In the same years, the turnover of stores specializing in hardware, paints and glass retail sales improved, going from £ 8875 million in 2008 to £ 12 524 millions in 2018 (Figure 30).

Figure 30 - Turnover of stores specializing in hardware, paints and glass retail sales in the United Kingdom (UK) from 2008 to 2018 (in million GBP)

Source: Statista, Author



In 2019, there were three DIY retailers with over 500 stores in 2019: Screwfix with 627 stores, BM with 620 stores and Argos with 594 stores (Figure 31). B&Q is the fifth largest DIY retailer in number of stores with 296.

Regarding the retail brand choice of consumers for DIY and gardening projects in 2020, 54% choose B&Q as the primary choice, followed by Wilko (48%) and B&M (39%). Screwfix was chosen by 22% of the respondents (Figure 32).

Analyzing the monthly retail sales in household goods stores from January 2015 to June 2020 (Figure 33), there is a peak of sales in October of each year. In April and May of 2020, due to the closing of stores to contain the spread of the Covid-19 pandemic, there was a significant drop on sales. In June 2020 the level of sales was better than previous years. However, in the outbreak of the coronavirus, DIY activities have seen an increase in UK. In the first week of the lockdown, (between 9-15 March 2020), the online sales of home improvement and garden retail products grew 50% compared with the same period of last year (Figure 34).

Figure 33 - Household goods retail store sales monthly in Great Britain 2015-2020

Source: Statista, Author

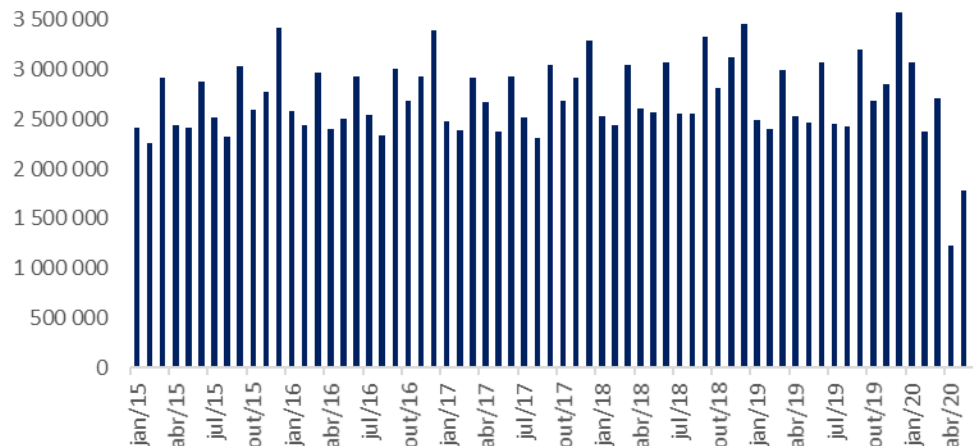


Figure 29 - Decorating and DIY retail sales turnover in the United Kingdom (UK) 2008-2018 (in million GBP)

Source: Statista, Author

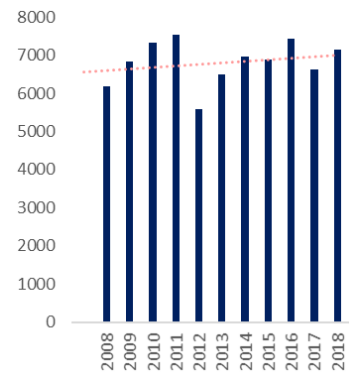


Figure 31 - Leading DIY retailers in Great Britain 2019, by number of stores

Source: Statista, Author

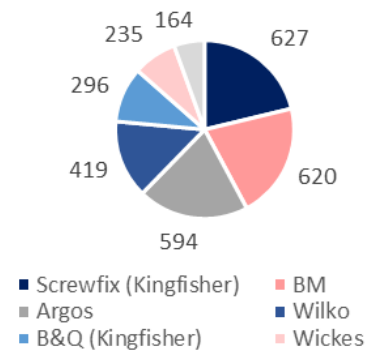


Figure 32 - DIY and gardening: retail brand choice of consumers in the UK 2020

Source: Statista, Author

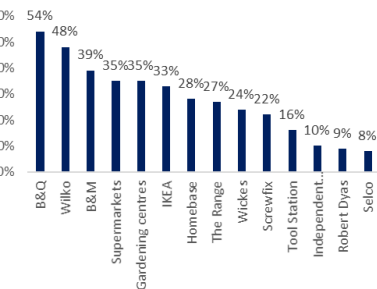
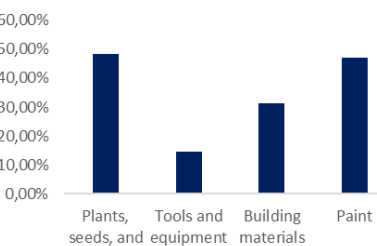


Figure 34 - Online gardening and DIY sales growth during the Coronavirus outbreak in the UK 2020

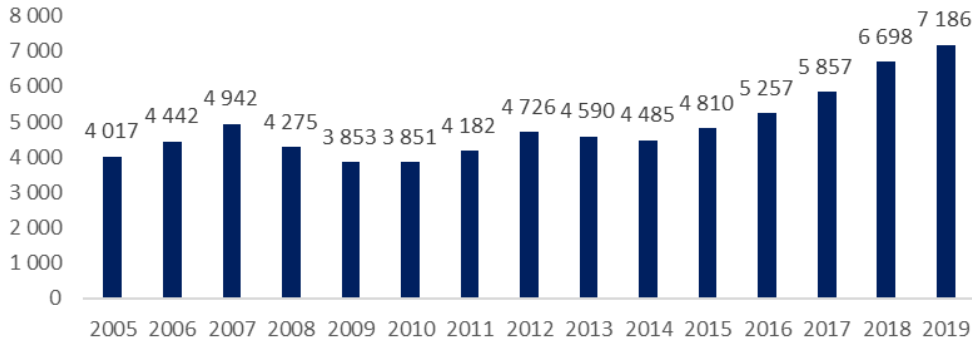
Source: Statista, Author



The consumer spending on tools and equipment for house and garden between 2005-2019 had a major increase from £ 4 017 millions in 2005 to £ 7 186 millions in 2019 (Figure 36), having an annual increase of 10.59% in the past 5 years. In the last two years, the weekly expenditure on tools and equipment for house and garden was more concentrated in consumers with ages between 30-74 years (Figure 35). Consumers between ages 30 to 49 were the ones that expended more in tools and equipment in 2019, with a weekly average of £ 3.3 million.

Figure 36 - Expenditure on house and garden tools in the United Kingdom (UK) 2005-2019

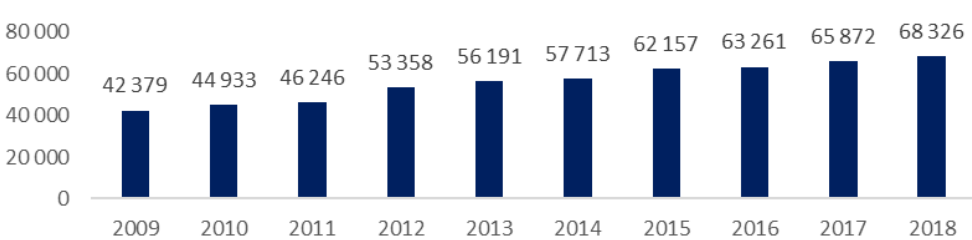
Source: Statista, Author



The turnover of the real estate sector between 2008-2019 had a big increase, going from £ 42 379 millions in 2009 to £ 68 326 millions in 2018 (Figure 38). During the timeframe 2014-2018, the average interest rates for mortgages decreased (Figure 37), which may help first-time home buyers.

Figure 38 - Turnover of the real estate sector in the United Kingdom 2009-2018

Source: Statista, Author



France

In France, the DIY market from 1998-2019 improved. However, in the last 10 years it has shown signs of slowing down. Between the period 1998-2007 it was an annual average growth of 4.32%. After 2008, the DIY market increased by only 1.32% annually (Figure 40). In 2019, the home improvement market was largely concentrated in the large home improvement retailers (74%). The trading companies had a market share of 14% and the e-commerce had a share of 9% (Figure 39).

Figure 40 - Growth rate of the DIY market in France 1998-2019

Source: Statista, Author

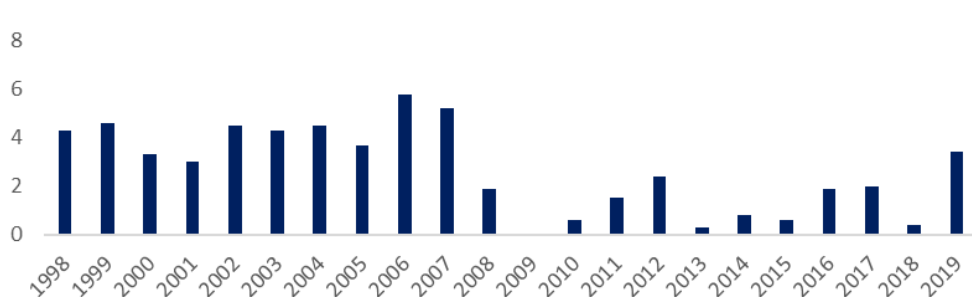


Figure 35 - Home and garden tools: weekly household expenditure in the UK 2019 (%), by age

Source: Statista, Author

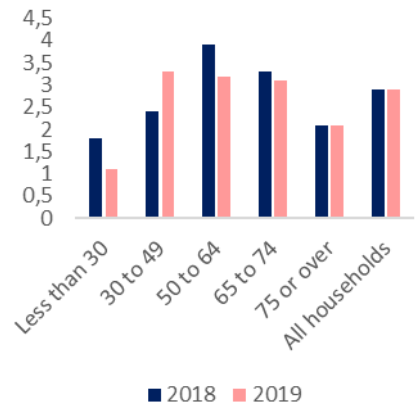


Figure 37 - Average mortgage interest rates in the United Kingdom (UK) 2014-2020

Source: Statista, Author

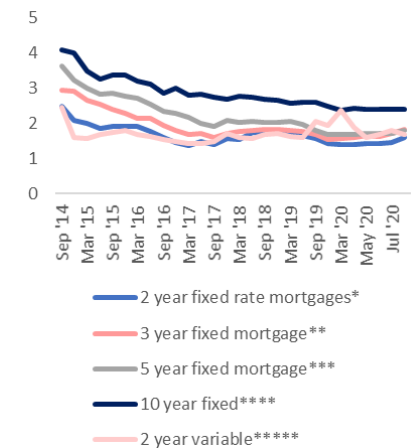
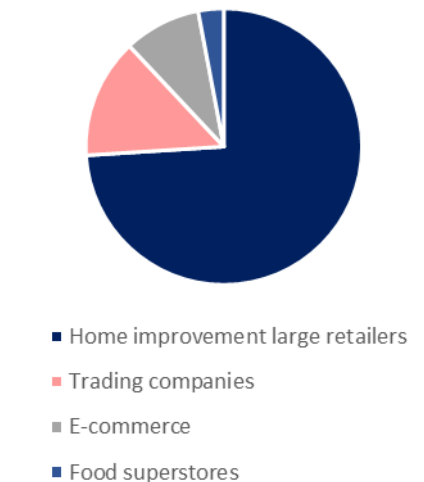


Figure 39 - Distribution of home improvement market shares in value in France in 2019, by distribution channel

Source: Statista, Author

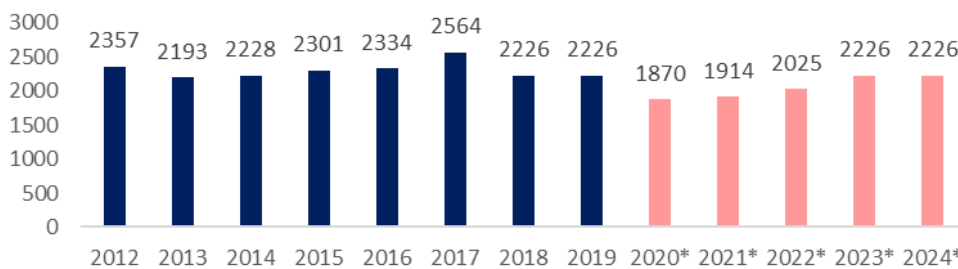


Focusing on the indoor home improvement, the revenue of the retail of hardware, paints and glass decreased in the timeframe 2012-2019, going from \$ 2353 million in 2012 to \$ 2226 million in 2019, reaching a maximum of \$ 2564 million in 2017 (Figure 42). Due to the Covid-19 pandemic it is expected a drop in revenue to \$ 1870 million in 2020 and then a slow recovery until it reaches 2226 million in 2024.

The home improvement projects are well distributed between different areas. The home décor projects are the most popular (48%), followed by bathroom or kitchen renovation (32%). The thermal renovation or insulation reaches 26% and the electricity or plumbing accounts for 18% (Figure 41).

Figure 42 - Industry revenue of “retail sale of hardware, paints and glass“ in France from 2012 to 2024 (in millions U.S. Dollars)

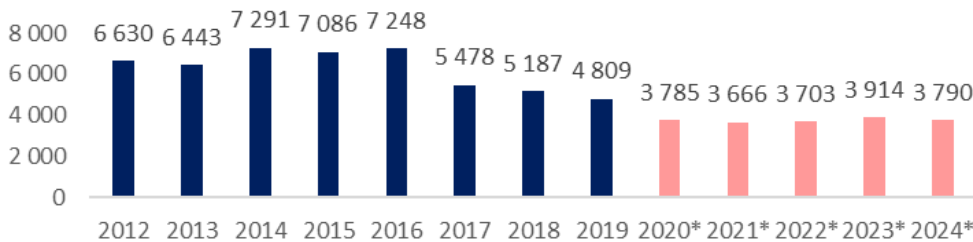
Source: Statista, Author



Regarding the outdoor home improvement, the revenue of the retail sale of flowers, plants, seeds, fertilizers decreased between 2012-2019, going from \$ 6630 million in 2012 to \$ 4809 million in 2019 (Figure 43). In 2020 the tendency is expected to continue, reaching a value of \$ 3785 million. It is not expected an improvement in the following years.

Figure 43 - Industry revenue of “retail sale of flowers, plants, seeds, fertilisers“ in France from 2012 to 2024 (in million U.S. Dollars)

Source: Statista, Author



During the timeframe 2012-2019, the revenue of the real estate agencies increased, going from \$ 9990 million in 2012 to \$ 12390 million in 2019. It is expected the tendency to continue in the next years, reaching \$ 14670 million (Figure 45). In the same period 2012-2019, the average mortgage rate decreased (Figure 44) from 4.09% in January 2012 to 1.13% in January 2020.

Figure 45 - Industry revenue of “real estate agencies“ in France from 2012 to 2024 (in billion U.S. Dollars)

Source: Statista, Author

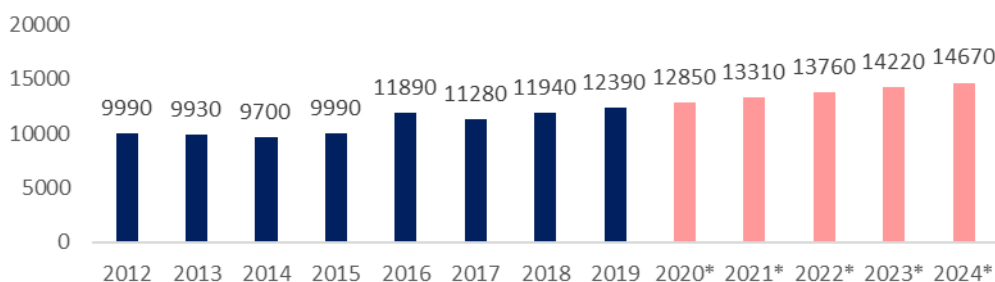


Figure 41 - Most popular home improvement projects among French people in 2020*

Source: Statista, Author

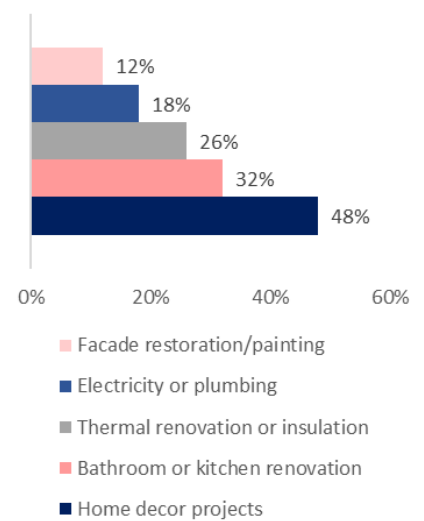
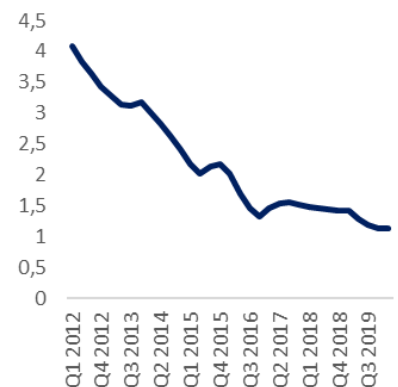


Figure 44 – France’s average mortgage rate per quarter 2012-2020

Source: Statista, Author

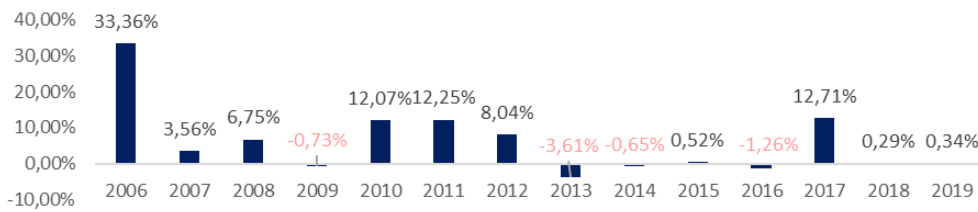


Poland

As the real estate is correlated with the home improvement sector, it is expected that the increase on the demand for real estate loans encourages the demand of home improvement products. Between 2011 and 2019, the lending of real estate loans to households in Poland increased by an average of 6.08% (Figure 46). This tendency was followed by an increase of the revenue of the real estate enterprises activity by an annual average of 3.87% between 2006-2019 (Figure 47). However, only 2017 had a strong increase in the last 5 years (12.71%), with small increases in 2018 (0.29%) and 2019 (0.34%).

Figure 47 - Revenue growth of real estate enterprises in Poland 2006-2020 (%)

Source: Statista, Author

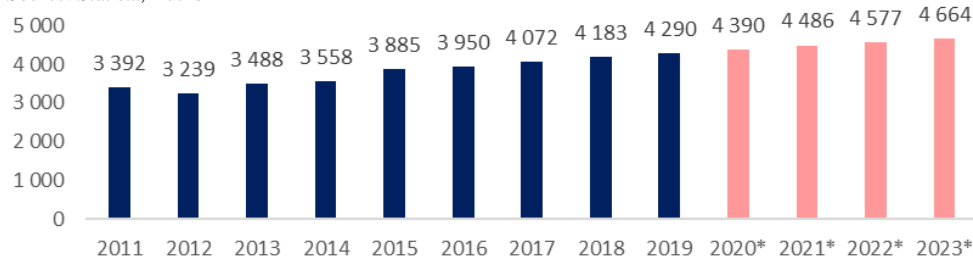


Regarding the mortgage interest rate, it only slightly decreased in the last years, going from 5.3% in 2013 to 4.4% in 2018, which could explain the lack of improvement of the real estate enterprises in the last years (Figure 48).

Focusing on the indoor home improvement section, the revenue of the retail of hardware, paints and glass increased between 2011-2019, going from \$ 3392 million in 2011 to \$ 4290 million in 2019, an annual average increase of 3.05% (Figure 49).

Figure 49 - Industry revenue of "retail sale of hardware, paints and glass" in Poland from 2011 to 2023 (in million U.S. Dollars)

Source: Statista, Author



In the outdoor home improvement, the revenue of the retail of sale of flowers, plants, seeds and fertilizers decreased from \$ 2107 million in 2011 to \$ 1475 million in 2019, an annual average decrease of -3.36% (Figure 50).

Figure 50 - Industry revenue of "retail sale of flowers, plants, seeds, fertilisers" in Poland from 2011 to 2023 (in million U.S. Dollars)

Source: Statista, Author

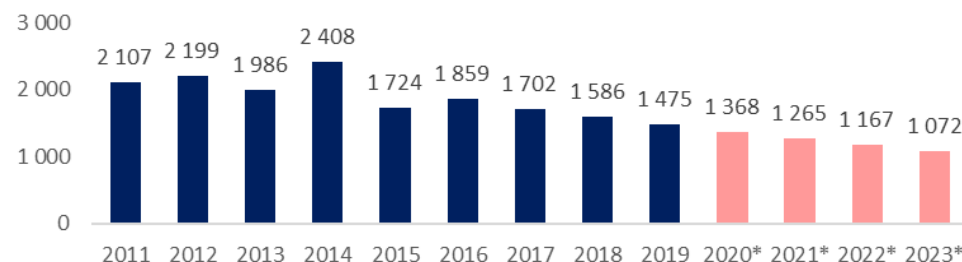


Figure 46 - Annual lending in real estate loans to households in Poland from 2011 to 2019 (%)

Source: Statista, Author

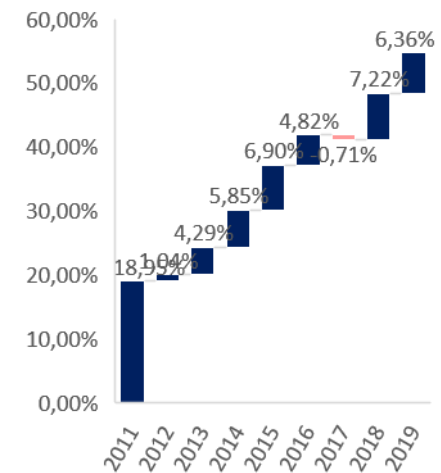
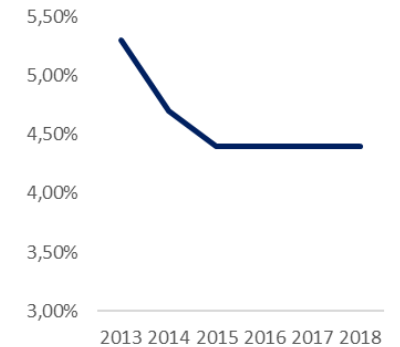


Figure 48 - Mortgage interest rate in Poland 2013-2018

Source: Statista, Author



Peer Companies

Peer analysis is a crucial point that helps to contextualize the performance of similar companies and it will be used when we proceed the valuation through the Multiples Approach (Relative Valuation). We tried to find the most similar companies in terms of business structure and profitability. Kingfisher has the majority of its activity in Europe, so the peers selection excluded companies with headquarters outside Europe.

Through a selection process, the peer group is composed by Mr. Bricolage, Samse, and Hornbach Baumarkt AG (Table 8).

The peer group selection process is detailed in Appendix 9.

Mr. Bricolage

Mr. Bricolage is a French company founded in 1964 and it's headquartered in La Chapelle-Saint-Mesmin, France. The company offers home improvement and DIY products around 248 stores in France and 69 abroad. In the last year, it had over € 247 million in sales.

Samse

Samse was founded in 1920 and it is headquartered at Grenoble, France. The firm is specialized in the distribution of construction materials and has 350 points of sale. In 2019, it had around € 1 500 million in sales.

Hornbach Baumarkt AG

Hornbach Baumarkt AG was founded in 1992 and it is located at Pfalz, Germany. It operates in 160 stores around 9 European countries. In 2019, it has sales around € 4 400 million.

Swot analysis

Table 9 - SWOT analysis

STRENGTHS (+)	WEAKNESSES (-)
Market leader in UK and France	Low Liquidity and margins in recent years high signal difficulties to pay short term debt
Reliable supply chain through the various countries that the company is involved. The disruption of one channel can be compensated with another	Board changes in recent years that might be a sign of instability, which can keep away new investors
Diversified portfolio. The company is involved in multiple areas of home improvement, which allows to correspond to any costumers needs	Low investment in R&D
Good performance in new markets.	High days inventory
OPPORTUNITIES (+)	THREATS (-)
Increase in online retailing	Covid-19 pandemic 2nd wave can potentially disrupt the supply chain and close stores in the following months
Rise of new markets can give business opportunities in areas KGF are involved in. It also can shift the focus of competitors to other areas.	Competition rising inside and outside the market, where competitors are increasing their business areas.
Covid-19 pandemic through the increase of DIY activities	The house prices are increasing through Europe, which can diminish the demand for new homes and home improvement products

Table 8 – KGF's Peers

Source: Author

Companies
Kingfisher plc
Mr. Bricolage
Samse
Hornbach Baumarkt AG

Porter's Five Forces

Threat of New Entrants (moderate)

In this industry, although the switching costs are low, brand recognition is an important asset. There is a significant dependence on long lasting relationships between manufacturers and wholesalers and, allying it with an aggressive capital expenditure on brand awareness by the established companies, makes very difficult for new entrants to fix in the industry. The new entrants may put pressure on firms through lower prices, lower costs or new ideas for customers. KGF can battle the reduced costs through economies of scale, the lower prices can be avoided with its unique range of products that produces but the firm must spend more in R&D to discourage new players. For these reasons, we consider this a moderate threat.

Bargaining Power of Suppliers (low)

There is a vast homogeneous offer of suppliers that reduces their influence in negotiation. Moreover, the firms usually establish exclusivity contracts with suppliers, diminishing their leverage. The Covid-19 pandemic may in the short-run affect the capacity of suppliers to provide the raw materials in time which can lead to an increase on price. However, the agreements mention may protect the firms for this event. For these reasons, we consider this a low threat.

Bargaining Power of Buyers (high)

Customers have considerable power over the firms. Besides the low costs for switching between companies, there are information and suitable products that make easier to buyers to change between firms. The best way to tackle this problem is through a strong brand image, a large base of customers and innovating new products and the existing ones. All these solutions will require KGF to invest in high capital expenditures in marketing and R&D. For these reasons, the bargaining power of buyers represents a high threat to KGF.

Threat of Substitute Products/Services (high)

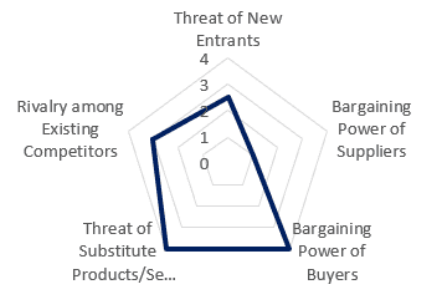
The availability of several substitute products and the increasing response of retailers from other industries in offering the same products in competitive prices makes this problem one of the hardest to tackle. The best response is to be service oriented and understanding the core need of the customers. However, several companies already focus on these solutions making the threat of substitute products/services a high threat to KGF.

Rivalry among Existing Competitors (moderate)

The presence of several colossal companies foster competition amongst themselves and makes them to outperform themselves. Also, some exit barriers in this sector makes the companies prefer to stay in business instead of leaving it. KGF is the strongest sales company of this sector in Europe and its main competitors in those terms operate mainly in USA. For that reason, and considering a strong presence in several European countries, we consider the rivalry among existing competitors to be a moderate threat to KGF.

Figure 51 – Porter's Five Forces

Source: Author, Company data



Historical Financial Analysis

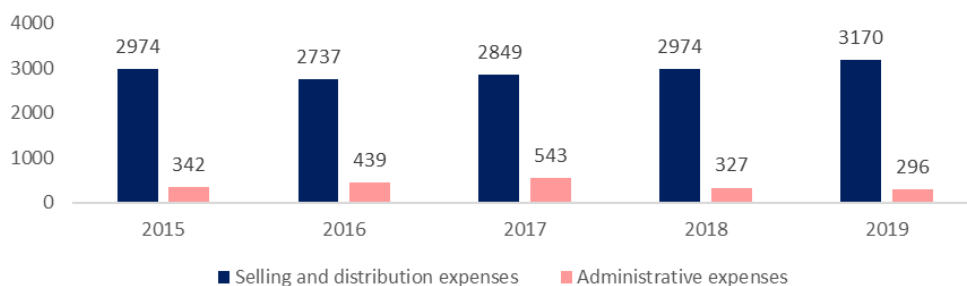
The historical KGF data that we analyze refers to the period between 2015 and 2019.

Starting by Sales (Appendix 2), we verify that along the last 5 years, it has increased from a value of £ 10441 million in 2015 to £ 11513 million in 2019 (Figure 52). This represents a CAGR of 2.47%. Regarding gross profit, it increased along the period 2015-2019 (Figure 52). This trend is explained by the bigger increase on sales in relation with the cost of sales in the same timeframe and the unification of products.

The total selling and distribution expenses (Figure 54) increased in the last few years, going from £ 2974 million in 2015 to £ 3170 million in 2019 mainly due to the high restructuring costs in UK&Ireland and continental Europe. The total administrative expenses were flat, going from £ 342 in 2015, and reaching a value in 2019 of £ 296 million. The administrative expenses registered extraordinary items in the past years mainly due to transformation exceptional costs. Due to the increase in the expenses, the operating profit has declined in the last years, going from £ 526 million in 2015 to £ 283 million in 2019 (Figure 53).

Figure 54 – Selling and distribution expenses and Administrative expenses (£ millions)

Source: Author, Company data



KGF's net working capital (Figure 55) had been increasing between 2015 and 2019, being observed the most significant rise in the year 2017. This rise is mainly explained by the strong increase in Inventories, going from £ 2701 million in 2016 to £ 2701 million in 2017 (Appendix 1). This increase in Inventories is due to the transformation in Kingfisher's sourcing model and the store expansion in Screwfix and Poland. After this rise, the net working capital have shown a stable behavior between 2017 and 2019.

Regarding Property, plant & equipment (Figure 56), it has shown an unstable behavior in the last years, increasing from £ 3212 million in 2015 to £ 3736 million in 2017, and then declining to £ 2988 million in 2019. The Other intangible assets (Figure 56) presented a stable behavior in the last years, going from £ 276 million in 2015 to £ 336 million in 2019. CAPEX (Figure 56) had an increase from £ 333 million in 2015 to £ 406 million in 2016 and then declined in the following years until it reached £ 342 million in 2019, due to the decrease of capital expenditure in UK&Ireland.

Since 1 February 2019, KGF adopted the IFRS 16 "Leases", which resulted in an increase of £ 1848 million to Assets, through the new account Right of Use Assets (ROUA), and an increase of £ 2356 million to Liabilities through the account Lease Liabilities. The new IFRS 16 increased KGF's non-current assets and non-current liabilities (Table 10) since the company is a lessee of various offices, retail stores,

Figure 52 - Historical Sales, Cost of Sales (COS) and Gross Profit (£M)

Source: Author, Company data

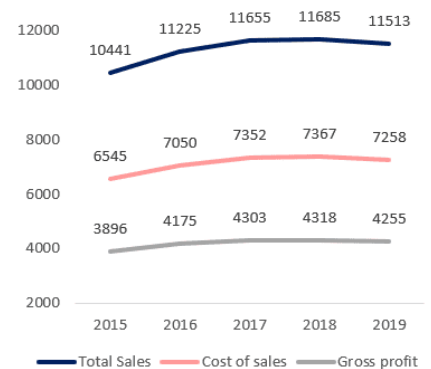


Figure 53 – Operating Profit Bridge, FY2015 and FY 2019 (£M)

Source: Author, Company data

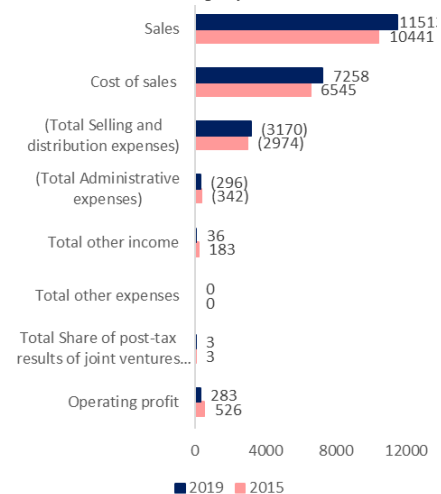
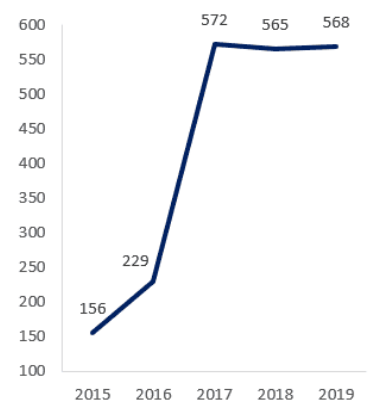


Figure 55 - Historical Net Working Capital's Growth (£M)

Source: Author, Company data



warehouses and plant and equipment under lease agreements, and a lessor and sub-lessor of space with freehold and leasehold properties.

Table 10 – Historical ROUA and Lease Liabilities

Source: Author, Company data

£ millions	2015	2016	2017	2018	2019
Right-of-use assets	0	0	0	2017	1916
Lease Liabilities	0	0	0	2318	2221
Total non-current assets	6302	6672	6825	8523	8126
Total non-current liabilities	860	723	549	2809	2677

Concerning dividends, KGF regularly distributes dividends. In 2015, the company distributed £ 232 M in dividends and it slightly decreased to £ 227 M distributed in 2019 (Figure 57).

Figure 57 - KGF's Historical Dividends 2015-2019

Source: Author, Company data



Regarding Debt (Table 11), the company had lower levels of debt between 2015-2017, going from £ 178 million in 2015 to £ 162 million in 2017. The adoption of the IFRS 16 “Leases” had a big impact on the lease liabilities account, which increased the company’s debt to £ 2768 million in 2018 and £ 2688 million in 2019.

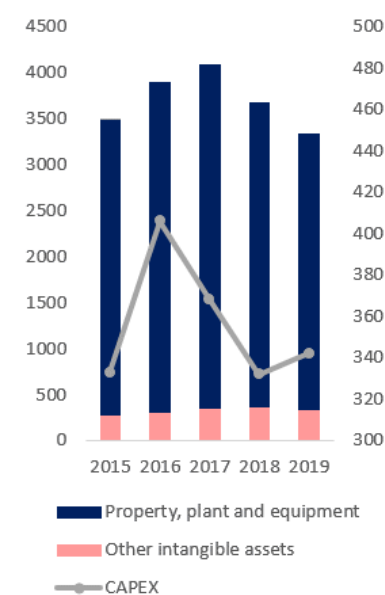
Table 11 – KGF's Debt 2015-2019 (£ millions)

Source: Author, Company data

£ millions	2015	2016	2017	2018	2019
Bank loans	10	9	6	4	3
Fixed term debt	185	147	125	133	136
Net financing derivatives	-63	-44	-14	5	22
Lease liabilities	46	42	45	2626	2527
Debt	178	154	162	2768	2688

Figure 56 – PP&E, Other Intangible Assets and CAPEX (£M)

Source: Author, Company data



Investment Summary

With a price target of £ 2.75 for YE2020, a downside potential of -7.39% from the current price of £ 2.97, using the Discounted Cash Flow Method, and a medium risk assessment, our recommendation stands for SELL. Relative valuation through multiples supports our recommendation (Table 12), since we obtained a price target of £ 2.09, representing a downside potential of -29.54%.

KGF has a strong position in Europe, being the home improvement retail leading company of the continent. Currently, the most important markets for KGF are United Kingdom and France (Figure 58), however the company is present in several other European countries, mainly Poland, where it presents a sales growth of 48.02% between 2015 and 2019.

Valuation Methods

To evaluate KGF, two different valuation methods were utilized, an absolute and a relative valuation. Concerning the absolute valuation method, we used the Discount Cash Flow (DCF) method. Regarding the method of relative valuation, we used the Comparable Multiples Approach, where we selected a peer defined in Appendix 9. This approach was used to strengthen the conclusions taken by the absolute valuation method.

Financial position

In the last 5 years, liquidity and efficiency decreased, profitability declined, and solvency increased. Focusing on liquidity, the recording of exceptional items in the past 2 years lowered the operating profit, which dropped the operating cash flow. Regarding profitability, the gross profit margin was stable from 2015 (37.31%) to 2019 (36.96%), since the small increase on sales was accompanied by a small increase on the cost of sales. EBIT margin decline in the last 5 years, presenting ratios of 5.04% in 2015 and 2.46% in 2019, mainly due to the recognition of exceptional items on operating expenses that lowered EBIT. The net profit margin was directly influenced by the EBIT margin and also dropped from 3.95% in 2015 to 0.07% in 2019. However, it is expected an increase to 2.99% in 2020F since no exceptional items will be recorded. In terms of efficiency, KGF's operating cycle and cash cycle increased in the past 5 years, mainly due to the increases of inventory in the last 3 years. Solvency increased significantly in the past 2 years due to the recognition of Lease liabilities. It is expected that the debt ratio and the long-term debt ratio decrease from 23.95% and 20.48% in 2019 to 22.78% and 19.36% in 2020F, respectively.

Risks to price target

KGF is in an industry that has a high degree of market concentration, where there is a fierce competition in prices and differentiation. The company is adapting well to these challenges, performing well in new markets and diversifying its portfolio. The competition outside the market is increasing and could reduce the firm's margins in the future. The Covid-19 pandemic closed KGF's retail banners, reducing company's sales and supply chain in some countries, and increasing costs, and it is uncertain whether that scenario will repeat.

In order to calculate the impact of some investment risks in the price target, we resorted to a sensitivity analysis and a Monte Carlo simulation (Figure 59). According to the last one, the mean price obtained through this simulation (£ 2.75) supports our SELL recommendation.

Table 12 – Valuation Summary

Source: Author, Company data

DCF Valuation Method		
Price Target	£	2,75
Multiples Valuation Method		
EV/Sales Price Target	£	1,97
EV/EBITDA Price Target	£	2,03
EV/EBIT Price Target	£	2,28
Multiples Average	£	2,09
Difference		
£	0,66	31,44%

Figure 58 - Consolidated sales by country 2019YE

Source: Author, Company data

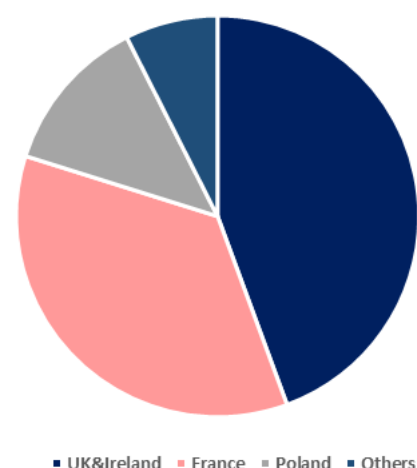
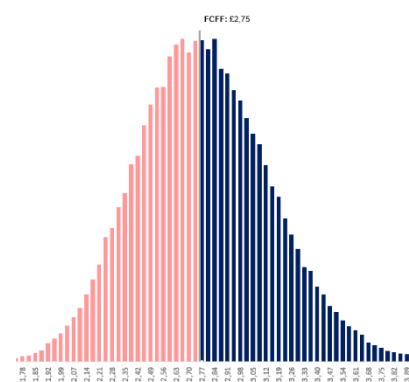


Figure 59 - Monte Carlo Price Distribution

Source: Author, Company data



Valuation

To perform the valuation, we used KGF's consolidated statements between the period 2015 and 2019, industry reports and macroeconomic data. KGF's balance sheet, income statement and cash Flow Statement, for the historical and forecasted periods can be examined in Appendix 1, 2 and 3, respectively.

Valuation Methodology

For the absolute valuation, the approach used was the Discounted Cash Flow (DCF) method.

For the relative valuation, we used the Market Multiples approach. For this approach, we selected a Peer group from a sample of Home Improvement retail companies that respected the criteria of business structure and profitability that we established. To achieve the price target, we applied the multiples Enterprise Value to Sales (EV/Sales), Enterprise Value to EBITDA (EV/EBITDA) and Enterprise Value to EBIT (EV/EBIT).

Key valuation drivers

The assumptions for the balance sheet and income statement can be seen in Appendix 6 and 7, respectively.

Sales

KGF's sales were estimated by forecasting the sales of each retail banner in each country: B&Q (UK&Ireland), Screwfix (UK&Ireland), Castorama (France), Castorama (Poland), Castorama (Russia), Brico Dépôt (France), Brico Dépôt (Iberia) and Brico Dépôt (Romania). In order to accomplish it, we first determine the number of stores of each retail banner in each country between the years 2020F and 2024F (Appendix 8). Then, we forecast the average revenue of each retail banner's store in each country. The evolution of revenue will take into account the banner's growth in the last 5 years, the banner's weight on revenues and the industry's tendencies. Finally, we multiply the number of stores by the average revenue of each store to obtain the total revenue of each banner in each country. The total sales are obtained by the sum of each banner's total revenue. In 2020, KGF already provided the half year sales, so we will take into account those results. Castorama (Russia), Brico Dépôt (Iberia) and Brico Dépôt (Romania) have little weight on sales (Appendix 8) so we will assume the same sales of 2019 to each of the forecasted years.

B&Q (UK&Ireland)

B&Q is a dominant retailer in home improvement and garden in UK. In recent years, the banner reduced the number of stores from 330 to 296. In the following years it is not expected a reduction or increase in stores, thus it is assumed that B&Q will have 296 stores in each of the forecasted years (Appendix 8).

The half year results for the banner, despite the Covid-19 pandemic and the closure of stores in April and May, show an increase of sales comparing with 2019, going from £ 1773 million to £ 1839 million (Table 13), a rise of 3.72%. In the second half of the year, the company has been losing sales in the past years. However, with the increase of UK's industry's DIY sales, home and garden products, the good results in the first half of the year, the peak of household goods sales in October in the past years and the good response of online sales in the last months, make us predict an increase on sales in this second half of the year. We assume the same increase of the first half of the year (3.72%) to the second half of year sales, comparing with last

Figure 60 – KGF's Forecasted Sales (£M)

Source: Author, Company data

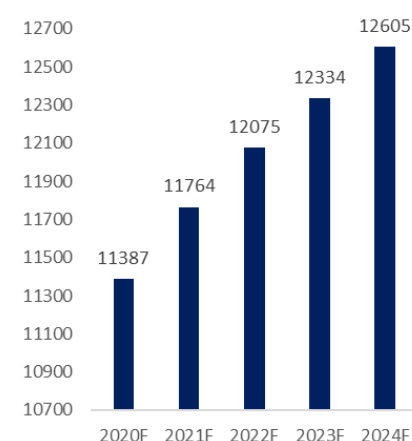


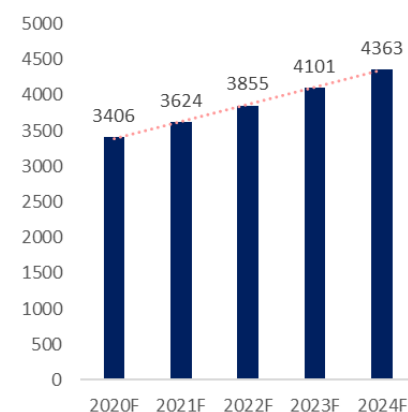
Table 13 – 2020 and 2019 half year results (£ millions)

Source: Author, Company data

Half Year Results (£ millions)	2019	2020
B&Q (UK&Ireland)	1 773	1 839
Screwfix (UK&Ireland)	882	914
Castorama (France)	1 143	1 055
Castorama (Poland)	753	783
Castorama (Russia)	154	112
Brico Dépôt (France)	1 015	973
Brico Dépôt (Iberia)	176	138
Brico Dépôt (Romania)	96	107

Figure 61 – B&Q forecasted sales (£ millions)

Source: Author, Company data



year's sales. Regarding the timeframe 2021F-2024F, the rise of real estate turnover, the low mortgage interest rates and the increasing interest among home and garden tools make us expect an improvement in the next years. We expect an annual increase on B&Q's average sales by store of 6.38%, which corresponds to the average between the annual increase on expenditure of house and garden tools in the last 5 years (10.59%) and the annual increase of the decorating and DIY retail sales turnover (2.18%) in the past 5 years. Overall, we expect an increase on B&Q sales from £ 3406 million in 2020F to £ 4363 million in 2024F (Figure 61).

Screwfix (UK&Ireland)

In recent years, the banner had a big increase on stores, and it is expected a continue rise due to KGF's target of 800 stores for the subsidiary. In this year it is expected an increase of stores to 726 total stores. In 2021, there will be a rise of 50 stores to reach a total of 776 stores. In 2022 the company will open more 24 stores to reach 800 stores overall. In the following years it is expected to maintain this number (Appendix 8). KGF's half year results (Table 13) shows a stable behavior of Screwfix sales, so it is assumed the same amount of sales for 2020F. Regarding 2021F-2024F, we expect an annual improvement on sales similar to B&Q's (6.38%) since they share the same industry (Figure 62).

Castorama (France)

Castorama (France) had a stable number of stores in recent years, going from 102 stores in 2015 to 100 stores in 2019. It is expected the number of stores to remain in the following years, so it is assumed 100 stores for each of the forecasted years. The sales on the first half of 2020F declined comparing with the first half of 2019, going from £ 1143 million to £ 1055 million, a drop of 7.70%. It is assumed the same decline for the second half of the year, going from £ 1002 million in 2019 to £ 925 million in 2020F. In total, Sales in 2020F will amount to £ 1980 million.

In the 2021F-2024F timeframe, taking into account the weak annual growth of the French DIY market of 1.32% in the last 12 years, the stagnation of the indoor home improvement market (annual growth of 0.35% of the last 5 years) and the decline of the outdoor home improvement market (annual average of -7.51% in the last 5 years), we expect an annual decline of Castorama (France) sales by -3.58%, the average annual growth rate of indoor and outdoor home improvement in the last 5 years (Figure 63).

Brico Dépôt (France)

Brico Dépôt (France) had also a constant number of stores in the last years and it is expected to continue in the forecasted period, thus it is assumed 121 stores for each of the estimated years. Brico Dépôt (France) had a decline on sales on the first half of 2020, going from £ 1015 million in 2019 to £ 973 million in 2020. It is expected the same decline in the second half of the year, going from £ 922 million in 2019 to £ 884 million in 2020. In total, 2020F sales are expected to be £ 1857 million. Between 2021F-2024F, it is expected the same annual evolution of sales (Figure 62) as Castorama (France) (-3.58% annual growth), taking into account the industry's tendencies.

Castorama (Poland)

Castorama in Poland has increased slightly the number of stores in recent years, going from 73 stores in 2015 to 80 stores in 2020. It is not expected an increase in the following years, thus it is assumed 80 stores for each of the forecasted years. The sales on the first half of 2020F increased comparing with the first half of 2019,

Figure 62 – Screwfix forecasted sales (£ millions)

Source: Author, Company data

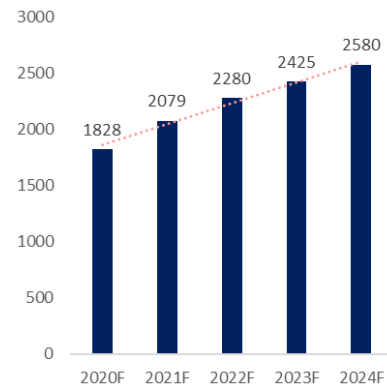


Figure 63 – Castorama (France) forecasted sales (£ millions)

Source: Author, Company data

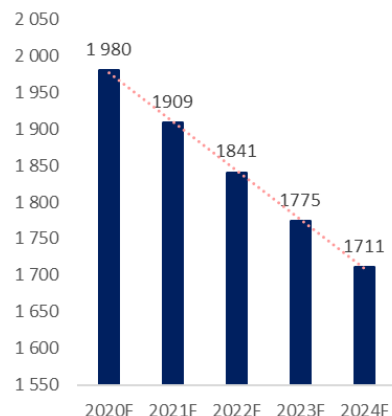
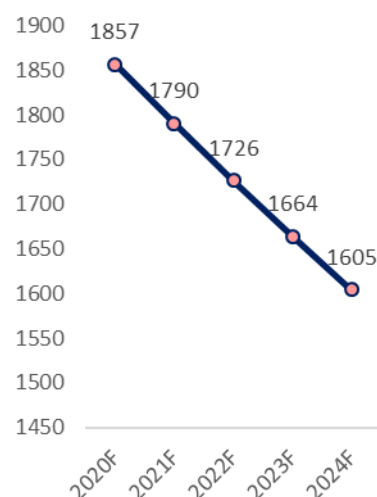


Figure 64 – Brico Dépôt (France) forecasted sales (£ millions)

Source: Author, Company data



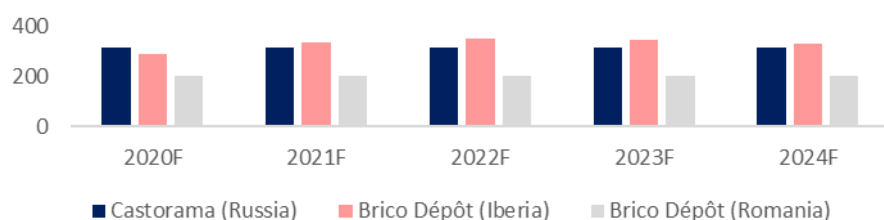
going from £ 753 million to £ 783 million, a rise of 3.98%. It is assumed the same rise for the second half of the year, going from £ 708 million in 2019 to £ 736 million in 2020F. In total, Sales in 2020F will amount to £ 1519 million. In the 2021F-2024F timeframe, taking into account the rise of the indoor home improvement market (annual growth of 3.05% of the last 8 years) and the decline of the outdoor home improvement market (annual average of -3.36% in the last 8 years), we expect an annual decline of Castorama (France) sales by -0.16%, the average annual growth rate of indoor and outdoor home improvement in the last 8 years (Figure 65).

Castorama (Russia), Brico Dépôt (Iberia) and Brico Dépôt (Romania)

For Castorama (Russia), Brico Dépôt (Iberia) and Brico Dépôt (Romania) it is assumed the same amount of sales of last years for the forecasting years (Figure 66).

Figure 66 - Castorama (Russia), Brico Dépôt (Iberia) and Brico Dépôt (Romania) forecasted sales (£ millions)

Source: Author, Company data



Main Costs

KGF's main operating expenses include cost of sales, selling and distribution expenses and Administrative expenses. These costs are a constant proportion over sales in the last 5 years (Figure 67), thus we assume they follow the average proportion of these historical years for the next 5 years. In 2019, the company recognized several exceptional items in Selling and distribution expenses, and Administrative expenses, and it is assumed that no exception items will be measured and recognized in the next 5 years (Appendix 7).

Capital Expenditure (CAPEX) and Depreciation and Amortization (D&A)

In the last 5 years, CAPEX of PP&E and Intangible Assets were stable (Table 14) and it is not expected a strong investment by KGF in the next 5 years. From 2020F onwards, CAPEX is estimated as % of sales (Appendix 10), assuming a constant rate of 3.16%, which corresponds to the average of CAPEX of PP&E and Intangible Assets as % of sales in the last 5 years. With IFRS 16, there was introduced the Right of use Assets (ROUA) and Lease Liabilities accounts, and it is assumed the CAPEX of ROUA to be the same as 2018 (Table 14).

The firm's investment on Other intangible assets is primarily related with the development of his IT infrastructure. In the last 5 years the company invested an average of 28% of the CAPEX (PP&E and Intangible Assets) at the development of the IT structure. We assume 28% to be the percentage of CAPEX (PP&E and Intangible Assets) invested in the Other intangible assets for each of the forecasted years (Table 14). Investment in PP&E corresponds to the difference between CAPEX (PP&E and Intangible Assets) and Investment in Other Intangible Assets.

Regarding Depreciation and Amortization, we assume a depreciation of PP&E of 6.67% for each forecasted year, an amortization of Other Intangible Assets of 20%

Figure 65 – Castorama (Poland) forecasted sales (£ millions)

Source: Author, Company data

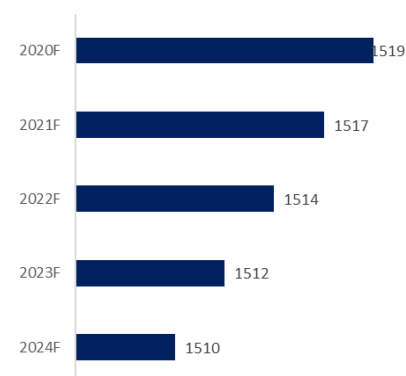
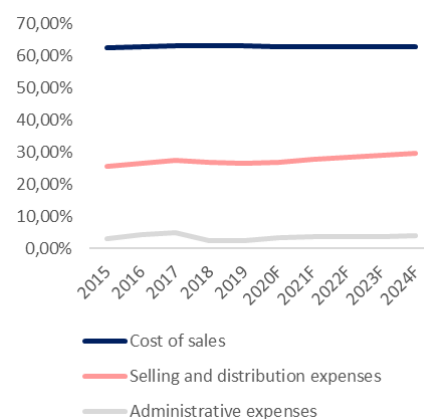


Figure 67 - Operating Expenses Proportion over Sales (%)

Source: Author, Company data



for each year (Appendix 7). Concerning Right-of-use-Assets (Figure 68), it is assumed they will depreciate by the average depreciation of the last two years.

Table 14 – CAPEX and D&A (£M)

Source: Author, Company data

CAPEX	2020F	2021F	2022F	2023F	2024F
Other intangible assets	364	390	414	435	454
Property, plant and equipment	3028	3079	3136	3194	3254
Right of Use Assets	1811	1706	1601	1496	1391
Amortization (Intangible Assets)	68	73	78	83	87
Depreciation (PP&E)	199	202	205	209	213
Depreciation (ROUA)	282	282	282	282	282
CAPEX (PP&E and Intangible Assets)	359	371	381	389	398
CAPEX (ROUA)	177	177	177	177	177
CAPEX (total)	536	548	558	566	575

Lease Liabilities

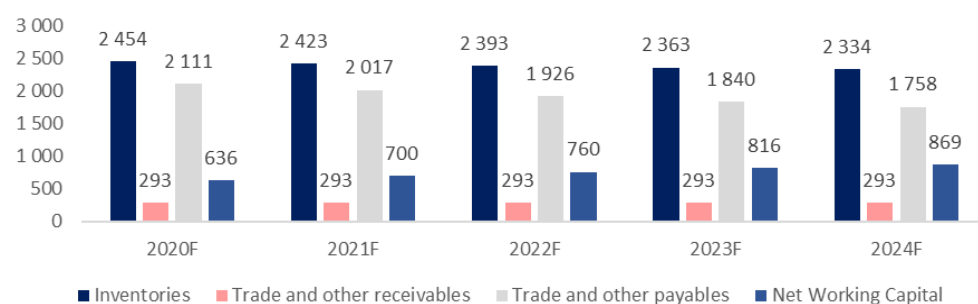
It is expected a decrease of £ 100 million in the lease liabilities for each of the forecasted years (Figure 68) since the repayments will be slowed by the Covid-19 pandemic. The interest expense associated with the lease liabilities is expected to be 6%, a value close to the last year.

Net working Capital (NWC)

Concerning to Net Working Capital (Appendix 11), KGF has the strategy of reducing costs in the next years. Inventories reduced in the last two years by an average of -4.08%, and it is assumed a smaller reduction of 1.25% on each of the forecasted years. Concerning Trade and other receivables, it is assumed the same value of 2019 to each of the estimated years. Trade and other payables had been decreasing by an average of -8.95%, and it is assumed a reduction of -4.48%, half of the reduction for each estimated year (Figure 69).

Figure 69 – Net Working Capital (2020F-2024F) (£ millions)

Source: Author, Company data



Dividends

KGF proposed no final dividend for the year end 2020F thus it is assumed no dividends paid. For the remaining years forecasted it is assumed a constant dividend paid of £ 227 million, the same as year's end 2019, since the dividends had been stable in the past 5 years.

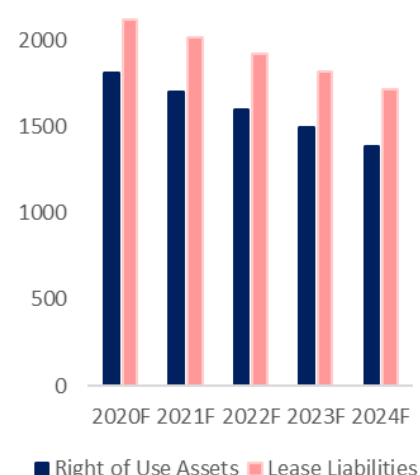
Table 15 - Forecasted Dividends (£M)

Source: Author, Company data

£ millions	2020F	2021F	2022F	2023F	2024F
Dividends	0	227	227	227	227

Figure 68 – ROUA and Lease Liabilities (£M), Forecasted Years

Source: Author, Company data



Discounted Cash Flow Valuation

To reach to a price target (Appendix 14), a discounted Cash Flow Valuation (DCF) was applied (Table 17). The valuation period is between January 1, 2020 and December 31, 2024, and a terminal value at the end of this period. After estimating the financial statements, we calculated the FCFF for the forecasting period, discounting it at the weighted average cost of capital (WACC).

With this approach we reached a price target of £ 2.75 for the end of 2020, representing a downside potential of -7.39%. In our perspective, the company is overvalued, and, although we conclude with our risk assessment that the firm presents a medium risk, our final recommendation is to **SELL** (Table 16).

The FCFF (Table 17) was computed through the formula:

$$FCFF = EBIT(1 - \text{Effective Tax Rate}) + D\&A - \Delta NWC - CAPEX$$

Table 17 - Free Cash Flow Calculation (£M)

Source: Author, Company data

£ millions	2021F	2022F	2023F	2024F	Terminal
EBIT*(1-Tc)	434	448	459	471	477
D&A	560	570	580	589	
ΔNWC	64	60	56	53	53
CAPEX	548	558	566	575	
FCFF	382	400	416	432	423

Cost of Equity Assumptions

The cost of equity (Re) was computed (Table 18) applying the following formula:

$$R_E = R_F + (\beta_l * ERP)$$

The risk-free rate (RF) is the yield to maturity of the UK's 10Y treasury bond at the end of 2019 (0.825%).

For the beta unlevered (Bu), we applied a regression of the KGF's share price of the last 5 years with the index of FTSE 100 price of the last 5 years and we obtained a beta of 0.81 (Appendix 14).

For Equity Risk Premium (ERP), we computed the average ERP of KGF's two strongest countries on sales: United Kingdom and France, taken from Damodaran's database (2020). Since the two countries have the same ERP, the equity risk premium equals 6.08%.

Regarding Debt, it is expected a decrease of debt in the next years, which will diminish its margin in the next years (Figure 70).

Concerning the Cost of Debt (Rd), we applied the rating-based cost approach reaching the value of 7.74%. Following Damodaran's rating tables, considering Moody's rating of KGF of Baa2 (Table 3) we extracted the company's default spread (6.50%). Adding the firm's default spread to the risk-free rate (0.825%) and to the country default spread (0.41%) we reach to the Rd of 7.74%.

For the effective tax rate (T), we consider the average of the UK's corporate tax rate (19%) with France's corporate tax rate (31%) obtaining the weighted average of 25%.

Regarding the Terminal Value (TV), we assumed that the terminal growth rate (g) corresponds to 1.2%, the predicted EU long-term economic growth rate.

Table 16 – DCF Output

Source: Author, Company data

Price Target	£ millions
Enterprise Value (£ M)	8318
Net Debt (£ M)	2520
Equity Value (£ M)	5798
No. of Outstanding Shares (M)	2110
Price Target	£ 2,75
Price at 30/09/2020	£ 2,97
Upside Potencial	-7,39%
Reccommendation	SELL

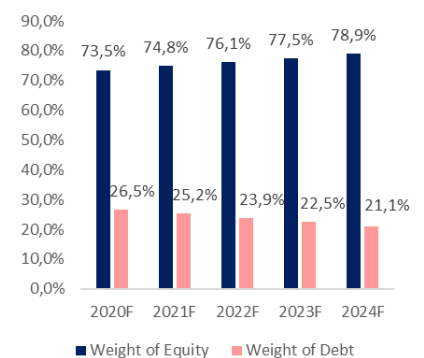
Table 18 – Levered Cost of Capital Assumptions

Source: Author, Company data

Re and WACC assumptions	2020F
Cost of Equity	5,74%
Risk-Free Rate (RF)	0,825%
Equity Risk Premium (ERP)	6,08%
Beta Unlevered (βu)	0,81
WACC	5,75%
Cost of Debt (Rd)	7,74%
Effective Tax Rate (T)	25%

Figure 70 – Debt and Equity weight

Source: Author, Company data



Market Multiples Approach

To obtain a price target through the peers' valuation, we recurred to the Forecast Multiples Approach for the year 2020F. The peer's selection process is explained in Appendix 9. These multiples were used to compute the average forecast EV/Sales, EV/EBITDA and EV/EBIT for 2020 (Table 19), which allowed to reach a price target for KGF.

We obtained an average forecast EV/Sales for 2020 of 0.59, an average forecast EV/EBITDA for 2020 of 6.16 and an average forecast EV/EBIT of 13.24.

Table 20 – Peers Multiples 2020F

Source: Author, Companies data

Peers multiples 2020F			
Competitors	EV/Sales	EV/EBITDA	EV/EBIT
Mr. Bricolage	0,74	6,64	16,09
Samse	0,40	5,29	10,94
Hornbach Baumarkt AG	0,61	6,55	12,68
Average of Competitors	0,59	6,16	13,24
Median of Competitors	0,61	6,55	12,68

For the EV/Sales, we obtained a price target of £ 1.97 for the end of 2020, representing a downside potential of -33.75% (Table 20).

For the EV/EBITDA, we obtained a price target of £ 2.03 for the end of 2020, representing a downside potential of -31.71% (Table 21).

For the EV/Sales, we obtained a price target of £ 2.28 for the end of 2020, representing a downside potential of -23.16% (Table 22).

Calculating the average of these three multiples, we obtain a price target of £ 2.09, representing a downside potential of -29.54%. This price supports our conclusion that KGF is overvalued. Then, with the Market Multiples Approach, our recommendation remains at **SELL**.

Table 19 – EV/Sales Output

Source: Author, KGF and peer's data

Price target from Multiple valuation	
EV/Sales	2020F
KGF Sales (£ millions)	11387,27
Average Peers EV/Sales	0,59
KGF EV by Peers estimate (£ millions)	6667,50
KGF Net Debt (£ millions)	2520
KGF Equity by Peers estimate (£ millions)	4147,50
Shares outstanding (millions)	2110
Price target	1,97
Price at 30/09/2020	2,967
Downside potential	-33,75%

Table 21 – EV/EBITDA Output

Source: Author, KGF and peer's data

Price target from Multiple valuation	
EV/EBITDA	2020F
KGF EBITDA (£ millions)	1102,93
Average Peers EV/EBITDA	6,16
KGF EV by Peers estimate (£ millions)	6795,26
KGF Net Debt (£ millions)	2520
KGF Equity by Peers estimate (£ millions)	4275,26
Shares outstanding (millions)	2110
Price target	2,03
Price at 30/09/2020	2,967
Downside potential	-31,71%

Table 22 – EV/EBIT Output

Source: Author, KGF and peer's data

Price target from Multiple valuation	
EV/EBIT	2020F
KGF EBIT (£ millions)	553,83
Average Peers EV/EBIT	13,24
KGF EV by Peers estimate (£ millions)	7330,46
KGF Net Debt (£ millions)	2520
KGF Equity by Peers estimate (£ millions)	4810,46
Shares outstanding (millions)	2110
Price target	2,28
Price at 30/09/2020	2,967
Downside potential	-23,16%

Financial Analysis

The ratios of these measures of KGF's performance can be consulted in Appendix 13.

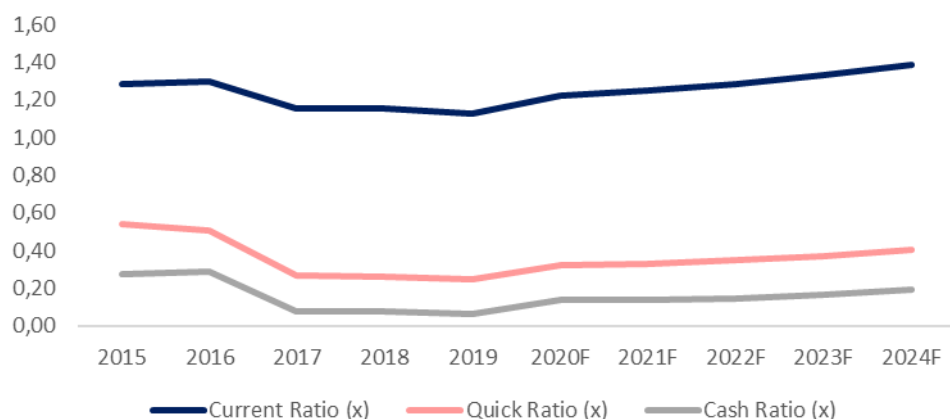
Liquidity

In the last 3 years, KGF's cash & equivalents account dropped to significant lower values as prior years, which negatively affected the current assets account. This situation will reverse in the timestamp 2020F to 2024F, where the firm will increase its cash & equivalents by a forecasted CAGR of 3.61% for the following 5 years (Figure 71).

The current ratio, along the past 5 years, decreased, going from 1.28 in 2015 to 1.12 in 2019, as it was negatively influenced for the decline in current assets. It is expected an improvement in the next 5 years, going from 1.22 in 2020F to 1.39 in 2024F (Figure 72). The company's quick ratio decreased in the last 5 years, going from 0.54 in 2015 to 0.25 in 2019, which reflects the increasing difficulty of KGF to pay its current liabilities in the short run. Although the ratio improves to 0.32 in 2020F, it is not expected a significant improvement in the next years, reaching 0.41 in 2024F. Regarding the cash ratio, it declined from 0.28 in 2015 to 0.07 in 2019. The ratio will increase to 0.14 in 2020F due to the rise of cash & equivalents but in the next years will only reach to 0.19 in 2024F (Figure 72).

Figure 72 – Liquidity Ratios

Source: Author, Company data



Efficiency

In the last 5 years, KGF's total assets turnover declined, going from 1.08 in 2015 to 0.99 in 2019, reflecting a decline in the company's efficiency at using its assets to generate sales. In 2020F it is expected a rise to 1.00 and then an increase in the next years to 1.11 in 2024F (Figure 73).

The accounts receivable turnover increased in the timeframe 2015 to 2019 from 18.90 to 32.94, respectively. It is expected a rise in the next 5 years, going from 38.86 in 2020F to 43.02 in 2024F (Figure 73). This estimated rise in accounts receivable turnover decreased the collection period for the forecasted period, from 9.39 days in 2020F to 8.48 days in 2024F.

Regarding the inventory turnover, it has declined in the past 5 years from 5.25 in 2015 to 4.55 in 2019. It is expected a small increase to 4.61 in 2020F and then a rise for the next years to 5.37 in 2024F (Figure 73). The days in inventory will decline from 79.15 days in 2020F to 68.00 days 2024F.

Figure 71 – Cash & Equivalents and Total Current Assets (£M)

Source: Author, Company data

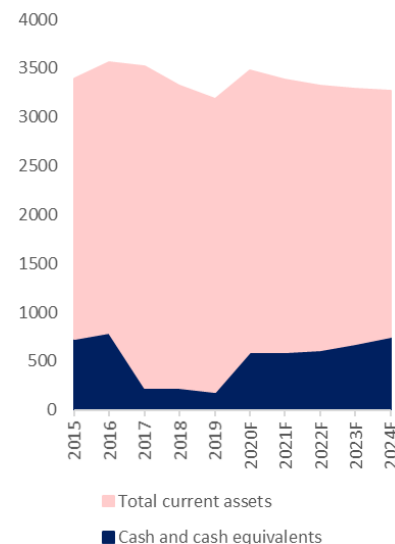
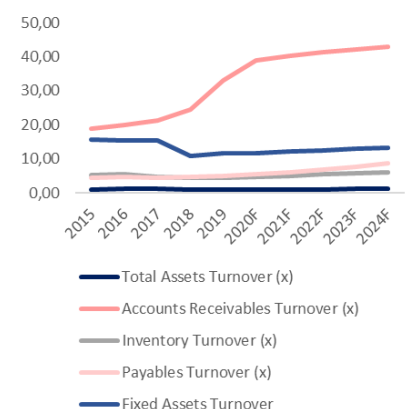


Figure 73 – Efficiency Ratios

Source: Author, Company data



The payables turnover slightly increased in recent years, from 4.44 in 2015 to 4.98 in 2019. This tendency is continued in the forecasted period, with an increase to 5.27 in 2020F and until reaches 7.01 in 2024F. The payables period will decline along the forecasted period, going from 69.25 days in 2020F to 52.09 days in 2024F.

The operating cycle will drop to 88.55 days in 2020F and then decrease to 76.48 days in 2024F (Figure 74). The cash cycle had a major increase in the last years, going from 6.59 days in 2015 to 17.96 days in 2019. It is expected a rise to 24.39 days in 2024F.

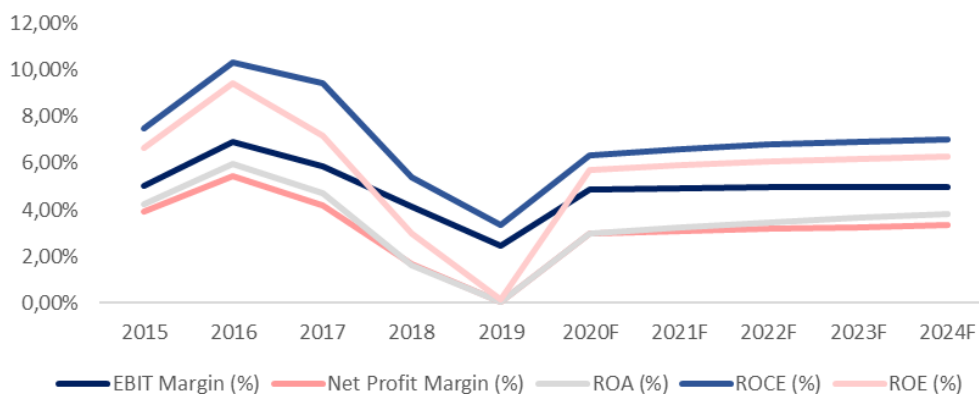
The fixed assets turnover declined from 15.71 in 2015 to 11.68 in 2019 and it is expected an increase to 13.32 in 2024F.

Profitability

Despite the Covid-19 pandemic, we expect an increase in Sales in each of the forecasted years, with an estimated CAGR of 2.57%. The gross profit margin will be a constant 37.07% of sales in each year. The EBIT margin will be stable, with small variations of 4.86% in 2020F to 4.98% in 2024F (Figure 77). The net profit margin of 0.07% in 2019 will increase to 2.99% in 2020F and will be stable for the remain of the timestamp 2021F-2024F. The ROA and ROE (Figure 77) will increase from 0.07% and 0.13% in 2019 to 3.00% and 5.70% in 2020F, respectively, and then register minor improvements in the next years. ROCE will rise from 3.34% in 2019 to 6.35% in 2020F. The increase on profit for the forecasted years will increase the earnings per share from 0.00 in 2019 to 0.16 in 2020F until it reaches 0.20 in 2024F.

Figure 77 – Profitability Ratios

Source: Author, Company data



Solvency

Regarding the debt ratio, it has significantly increased from 2.46% in 2017 to 23.95% in 2019 due to the recognition of the lease liabilities account. It is expected a minor decrease to 22.78% in 2020F and then a decline in each year forecasted until it reaches 19.44% in 2024F (Figure 75). The long-term debt followed the same pattern of the debt ratio in the last years and it is expected to diminish in the next years (Figure 75). The debt to equity ratio increased significantly from 0.05 in 2015 to 0.47 in 2019. It is expected a decrease in the following years to 0.32 in 2024F. The equity multiplier increased from 1.57 to 1.95 and it is predicted a small decline to 1.86 in 2020F (Figure 76). The debt to EBITDA will decline from 3.27 in 2019 to 1.82 in 2024F (Figure 76) and the interest coverage ratio will rise from 1.57 in 2019 to 5.75 in 2024F, indicating a high ability of KGF to pay for its interest on debt.

Figure 74 – Operating Cycle and Cash Cycle (days)

Source: Author, Company data

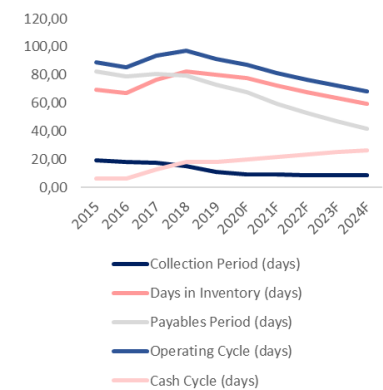


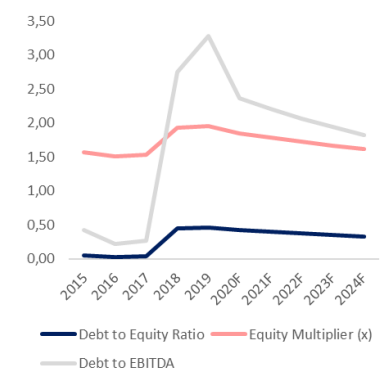
Figure 75 – Debt Ratio and Long-term Debt ratio

Source: Author, Company data



Figure 76 – Solvency Ratios

Source: Author, Company data



Investment Risks

Economic and Market Risks

GDP Growth (EMR1)

The Covid-19 pandemic had a nefarious impact on the 2020's GDP growth of all European countries. However, before the pandemic the economic growth of these countries was already weak and thus it is expected a slow recovery in the next years. Although in 2021 it is expected a major GDP growth in all countries, there are still unknown events and uncertainty that could lead to weaker results in the private consumption and Investment, making the recovery even slower and negatively affecting KGF's sales, even more due to the expected effect of the crisis in the housing market. The expectation of the appearance of a vaccine, the preparations to control the spread of the virus and the rise in confidence in the following months makes us assume that this risk has medium probability to occur, but with a considerable impact if it happens.

Exchange Rate Risk (EMR2)

In recent years, the EUR/GBP exchange was volatile (Figure 79) due to political uncertainty and it is expected to occur again next year with Brexit. KGF has many of its subsidiaries outside of United Kingdom, namely in France. Since the company is based in UK, it implies that when the conversion is made from foreign operations to KGF accounting currency, it can have a negative impact on the firms results. Also, every subsidiary has part of the control over its own strategy which makes KGF's debt to be in different currencies, thus the firm has to control this risk by entering into derivative contracts to hedge cash flows and investments. We consider this to have a high probability, due to next year's Brexit, and a low/medium impact, since KGF's demonstrates that a 10% appreciation in foreign exchange rates on derivative cash flow hedges would have a £ 44M impact USD/Sterling, a £ 34M impact USD/EUR and a £ 12M USD/Other (Table 23) in the 2019 exercise, and a 10% depreciation would have reversed results..

Interest Rate Risk (EMR3)

The company can be affected by changes in interest rates since that could change the firm's financial performance and its market value. KGF's lease liabilities are 75% in GBP and almost 25% % in EUR and to control this risk, the firm perform a policy of managing it by using derivative contracts. It was estimated that a 1% rise in interest rate on the net finance costs would result in a £ 12M loss in sterling and a gain of £ 6M in euros, £ 5M in dollars and £ 1M in others (Table 24). We consider this to be a high probability risk due to next year's Brexit, and a low impact risk due the company protection against this exposure.

Consumer preferences (EMR4)

The customer preferences are changing, even more with a wide range of products that attend client's different tastes and diverse areas where they live. KGF must ensure that it has developed and innovative digital channels that could provide a diversified property portfolio to compel its customers. The failure of optimizing its channels and the high competition may disperse clients and impact negatively the value of its assets and its financial results. This risk has a medium probability to happen, and we consider that it would have a medium impact due to KGF's solidified supply chain.

Figure 78 – Risk Matrix

Source: Author

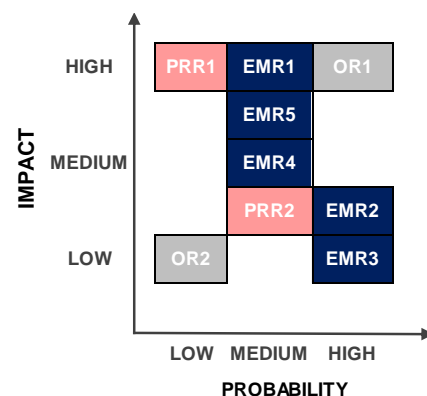


Figure 79 – Exchange Rate EUR/GBP 2015-2019

Source: Author, IMF



Table 23 – Effect of changes in exchange rate

Source: Author, Company data

£ millions	Derivative cash flow hedges increase
Effect of 10% appreciation in foreign exchange rates on derivative cash flow hedges	
US Dollar against Sterling	44
US Dollar against Euro	34
US Dollar against other	12

Table 24 – Effect of changes in interest rate

Source: Author, Company data

£ millions	Net finance costs income/ (costs)
Effect of 1% rise in interest rates on net finance costs	
Sterling	-12
Euro	6
Dollar	5
Others	1

Competition (EMR5)

The arrival of online commerce was a big factor for the appearance of new competition and the intensification of the established one. Moreover, it is also rising the competition of companies outside the home improvement market, that can have adverse effects on KGF's sales and margins. We consider this risk to have a medium probability to happen and potentially to have a medium/high impact if KGF fails to deliver in its online strategy.

Political and Regulatory Risks

Political Instability (PRR1)

After the completion of the UK exit agreement, there are numerous risks still remaining on the current negotiations for future trades with EU and divergences on the UK's regulatory framework. A failure to reach a suitable agreement may impact KGF's purchase costs, the stability of its supply chain and the firm's capacity to operate in its European businesses as today. Also, the ongoing uncertainty can impact UK's consumer confidence. Since in January 2020 an UK exit agreement will conclude, we consider this risk to have a low probability, but with the ongoing trade negotiations it can have a high impact.

Legal and Regulatory (PRR2)

There is a rise on the regulatory requirements in all the markets where KGF operates. There is the possibility of a significant corporate crisis in the current market conditions, and a non-compliance or a major fraud with regulatory and legislative requirements can affect the company's image and reputation and to pay significant penalties. We consider this risk to have a low/medium probability and a low/medium impact to the firm.

Operational Risks

Health Conditions (OR1)

The appearance of the Covid-19 pandemic forced many businesses to close and caused an unprecedented disruption of business in the retail industry. It is still uncertain how long this threat can affect KGF's activity and its partners, which affects also the consumer spending and the supply chain, through the absence of workforce, that affects the day-to-day operations. In the near future, the uncertainty appears to continue and preventing measures will continue to be a priority. Therefore, we conclude that there is still a high probability to this risk occur, with a high impact to the company.

Supply Chain (OR2)

A potential disruption on the supply chain due to some failure of planification or a material acquisition mistake can be a serious risk to KGF's capacity to deliver orders in time. These mistakes can hurt the company's image and drive away customers, which would harm the firm's profitability. We consider this risk to have a low probability due to well implemented connection between the company's base and the retail brands, and to have a low impact due to KGF's capacity to respond quickly to these scenarios.

Risks to Price Target

To understand the impact in the price target by certain investment risks, we conducted a sensitivity analysis and a Monte Carlo simulation. We follow the risk classification of Table 2 to verify if our recommendation would change, with changes in key variables.

The key variables tested were the terminal growth rate (g), WACC, EBIT*(1-t) and Sales.

Sensitivity Analysis

In Table 25, we can see that changes in terminal growth rate (g) and WACC would have a big impact in the price target, since shares value can drop by -24.87% (£ 2.06) or rise by 67.46% (£ 4.60). Additionally, in Table 26, we observe that changes in EBIT*(1-t) and Sales can range between £ 0.36 (-86.88%) and £ 4.55 (65.52%). In Appendix 15, we present more details about the sensitivity analysis.

Table 25 - Effects of changes in Terminal Growth rate (g) and Levered Cost of Capital (RI)

Source: Author, Company data

		Change in Terminal Growth (g)									
		£ 2,75	0,60%	0,80%	1,00%	1,20%	1,40%	1,60%	1,80%	2,00%	2,20%
Change in WACC	6,20%	£ 2,06	£ 2,16	£ 2,27	£ 2,38	£ 2,50	£ 2,64	£ 2,78	£ 2,94	£ 3,12	
		-24,87%	-21,32%	-17,49%	-13,36%	-8,88%	-4,01%	1,30%	7,11%	13,51%	
	6,10%	£ 2,13	£ 2,23	£ 2,34	£ 2,46	£ 2,59	£ 2,73	£ 2,88	£ 3,05	£ 3,23	
		-22,62%	-18,91%	-14,92%	-10,60%	-5,91%	-0,80%	4,77%	10,90%	17,65%	
	6,00%	£ 2,19	£ 2,30	£ 2,41	£ 2,54	£ 2,67	£ 2,82	£ 2,98	£ 3,16	£ 3,35	
		-20,28%	-16,41%	-12,24%	-7,72%	-2,81%	2,55%	8,42%	14,88%	22,01%	
	5,90%	£ 2,26	£ 2,37	£ 2,49	£ 2,62	£ 2,76	£ 2,91	£ 3,08	£ 3,27	£ 3,48	
		-17,85%	-13,81%	-9,45%	-4,72%	0,43%	6,06%	12,25%	19,06%	26,62%	
	5,75%	£ 2,36	£ 2,48	£ 2,61	£ 2,75	£ 2,90	£ 3,07	£ 3,25	£ 3,45	£ 3,68	
		-14,05%	-9,74%	-5,08%	0,00%	5,54%	11,62%	18,31%	25,72%	33,96%	
	5,60%	£ 2,47	£ 2,60	£ 2,74	£ 2,89	£ 3,05	£ 3,23	£ 3,43	£ 3,66	£ 3,90	
		-9,97%	-5,36%	-0,36%	5,10%	11,09%	17,67%	24,94%	33,02%	42,05%	
	5,50%	£ 2,55	£ 2,68	£ 2,83	£ 2,99	£ 3,16	£ 3,35	£ 3,56	£ 3,80	£ 4,06	
		-7,13%	-2,31%	2,95%	8,69%	14,99%	21,93%	29,63%	38,21%	47,82%	
	5,40%	£ 2,63	£ 2,77	£ 2,92	£ 3,09	£ 3,27	£ 3,47	£ 3,70	£ 3,95	£ 4,23	
	-4,17%	0,89%	6,40%	12,44%	19,08%	26,43%	34,58%	43,70%	53,96%		
5,30%	£ 2,72	£ 2,86	£ 3,02	£ 3,20	£ 3,39	£ 3,60	£ 3,84	£ 4,11	£ 4,41		
	-1,08%	4,22%	10,02%	16,38%	23,39%	31,16%	39,82%	49,53%	60,49%		
5,20%	£ 2,81	£ 2,96	£ 3,13	£ 3,31	£ 3,52	£ 3,74	£ 3,99	£ 4,28	£ 4,60		
	2,15%	7,71%	13,81%	20,52%	27,93%	36,16%	45,37%	55,72%	67,46%		

Table 26 - Effects of change in Sales and EBIT*(1-t)

Source: Author, Company data

		Change in EBIT*(1-t)									
		£ 2,75	250	300	350	400	415	450	500	550	600
Change in Sales	10000	£ 0,36	£ 0,73	£ 1,11	£ 1,48	£ 2,05	£ 2,22	£ 2,59	£ 2,97	£ 3,34	
		-86,88%	-73,33%	-59,78%	-46,24%	-25,48%	-19,14%	-5,59%	7,96%	21,51%	
	10500	£ 0,49	£ 0,87	£ 1,24	£ 1,61	£ 2,18	£ 2,36	£ 2,73	£ 3,10	£ 3,47	
		-81,99%	-68,44%	-54,89%	-41,35%	-20,59%	-14,25%	-0,70%	12,85%	26,40%	
	11000	£ 0,63	£ 1,00	£ 1,37	£ 1,75	£ 2,32	£ 2,49	£ 2,86	£ 3,24	£ 3,61	
		-77,10%	-63,55%	-50,00%	-36,45%	-15,70%	-9,36%	4,19%	17,74%	31,29%	
	11500	£ 0,76	£ 1,14	£ 1,51	£ 1,88	£ 2,45	£ 2,63	£ 3,00	£ 3,37	£ 3,74	
		-72,21%	-58,66%	-45,11%	-31,56%	-10,81%	-4,47%	9,08%	22,63%	36,18%	
	12000	£ 0,90	£ 1,27	£ 1,64	£ 2,01	£ 2,59	£ 2,76	£ 3,13	£ 3,50	£ 3,88	
		-67,32%	-53,77%	-40,22%	-26,67%	-5,92%	0,42%	13,97%	27,52%	41,07%	
	12605	£ 1,06	£ 1,43	£ 1,81	£ 2,18	£ 2,75	£ 2,92	£ 3,29	£ 3,67	£ 4,04	
		-61,40%	-47,85%	-34,31%	-20,76%	0,00%	6,34%	19,89%	33,44%	46,99%	
	13000	£ 1,17	£ 1,54	£ 1,91	£ 2,28	£ 2,85	£ 3,03	£ 3,40	£ 3,77	£ 4,15	
		-57,54%	-43,99%	-30,44%	-16,89%	3,86%	10,20%	23,75%	37,30%	50,85%	
	13500	£ 1,30	£ 1,67	£ 2,05	£ 2,42	£ 2,99	£ 3,16	£ 3,53	£ 3,91	£ 4,28	
	-52,65%	-39,10%	-25,55%	-12,00%	8,75%	15,10%	28,64%	42,19%	55,74%		
14000	£ 1,44	£ 1,81	£ 2,18	£ 2,55	£ 3,12	£ 3,30	£ 3,67	£ 4,04	£ 4,41		
	-47,76%	-34,21%	-20,66%	-7,11%	13,64%	19,99%	33,53%	47,08%	60,63%		
14500	£ 1,57	£ 1,94	£ 2,31	£ 2,69	£ 3,26	£ 3,43	£ 3,80	£ 4,18	£ 4,55		
	-42,87%	-29,32%	-15,77%	-2,22%	18,53%	24,88%	38,42%	51,97%	65,52%		

Monte Carlo Simulation

To complement our sensitivity analysis, we executed a Monte Carlo simulation by performing 100 000 trials. This method was used to test the price target sensitivity to changes in EBIT, WACC and g variables, since these variables have significant impact in our KGF price target. Assumptions for variables tested in this simulation can be analyzed in Appendix 15.

With the Monte Carlo simulation we obtained a median for the price target of £ 2.75, a standard deviation of £ 0.37 and a mean of £ 2.76, which represents a downside potential of -6.86%. This analysis confirms our conclusions in the Discount Cash Flow Valuation and Multiples Valuation and sustains our recommendation of SELL.

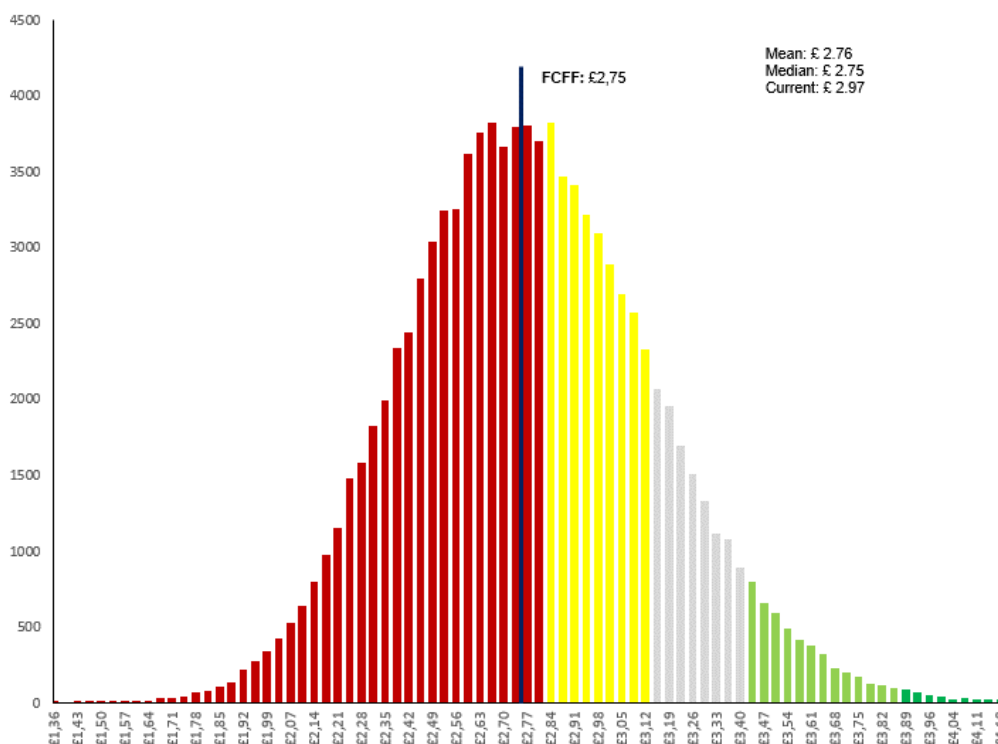
Table 27 – Monte Carlo Statistics

Source: Author, Company data

Monte Carlo Statistics	
Number of trials	100000
Median	£ 2,75
Mean	£ 2,76
Standard deviation	£ 0,37
Upside potential (average)	-6,86%
Upside potential (median)	-7,38%

Figure 80 - Monte Carlo Price Distribution

Source: Author, Company data



Appendices

Appendix 1: Statement of Financial Position

£ millions

	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Assets										
Inventories	1957	2173	2701	2574	2485	2454	2423	2393	2363	2334
Trade and other receivables	568	551	550	406	293	293	293	293	293	293
Derivative assets	56	36	41	26	14	14	14	14	14	14
Current tax assets	5	6	0	1	9	9	9	9	9	9
Short-term deposits	70	0	0	0	0	0	0	0	0	0
Cash and cash equivalents	730	795	230	229	189	375	361	371	404	458
Assets held for sale	6	0	0	89	196	196	196	196	196	196
Total current assets	3392	3561	3522	3325	3186	3341	3296	3276	3279	3303
Goodwill	2397	2399	2437	2436	2416	2416	2416	2416	2416	2416
Other intangible assets	276	308	355	371	339	372	401	428	451	472
Property, plant and equipment	3212	3589	3736	3302	2988	3047	3111	3178	3246	3316
Right-of-use assets	0	0	0	2017	1916	1811	1706	1601	1496	1391
Investment property	25	24	20	8	8	8	8	8	8	8
Investments in joint ventures and associates	23	23	25	15	16	16	16	16	16	16
B&Q China investment	62	0	0	0	0	0	0	0	0	0
Post-employment benefits	246	239	214	320	404	404	404	404	404	404
Deferred tax assets	11	28	30	13	12	12	12	12	12	12
Derivative assets	43	54	0	0	0	0	0	0	0	0
Other receivables	7	8	8	41	27	27	27	27	27	27
Total non-current assets	6302	6672	6825	8523	8126	8113	8102	8090	8077	8062
Total assets	9694	10233	10347	11848	11312	11454	11398	11366	11355	11366
Liabilities and equity										
Trade and other payables	2369	2495	2666	2415	2210	2111	2017	1926	1840	1758
Borrowings	138	14	140	1	43	43	43	43	43	43
Lease liabilities	0	0	0	308	306	306	306	306	306	306
Derivative liabilities	6	26	79	21	43	43	43	43	43	43
Current tax liabilities	66	141	140	118	78	78	78	78	78	78
Provisions	69	63	25	27	65	65	65	65	65	65
Liabilities held for sale	0	0	0	0	88	88	88	88	88	88
Total current liabilities	2648	2739	3050	2890	2833	2734	2640	2549	2463	2381
Other payables	53	50	61	6	5	5	5	5	5	5
Borrowings	179	184	36	139	93	93	93	93	93	93
Lease Liabilities	0	0	0	2318	2221	2121	2021	1921	1821	1721
Derivative liabilities	0	0	0	2	3	3	3	3	3	3
Deferred tax liabilities	333	282	264	192	189	189	189	189	189	189
Provisions	208	99	73	37	39	39	39	39	39	39
Post-employment benefits	87	108	115	115	127	127	127	127	127	127
Total non-current liabilities	860	723	549	2809	2677	2577	2477	2377	2277	2177
Share capital	361	352	340	332	332	332	332	332	332	332
Share premium	2218	2221	2228	2228	2228	2228	2228	2228	2228	2228
Own shares held in ESOP trust	-24	-23	-29	-25	-23	-23	-23	-23	-23	-23
Retained earnings	3637	3837	3790	3192	2994	3335	3473	3632	3807	4000
Capital redemption reserve	0	0	35	43	43	43	43	43	43	43
Other reserves	-6	384	384	379	228	228	228	228	228	228
Total attributable to equity shareholders of the Company	6186	6771	6748	6149	5802	6143	6281	6440	6615	6808
Non-controlling interests	0	0	0	0	0	0	0	0	0	0
Total equity	6186	6771	6748	6149	5802	6142,66	6281	6440	6615	6808
Total liabilities and equity	9694	10233	10347	11848	11312	11454	11398	11366	11355	11366

Appendix 2: Income Statement

£ millions

	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Sales	10441	11225	11655	11685	11513	11387	11764	12075	12334	12605
Cost of sales	6545	7050	7352	7367	7258	7166	7404	7599	7762	7933
Gross profit	3896	4175	4303	4318	4255	4221	4361	4476	4572	4672
Selling and distribution expenses	-2666	-2758	-2863	-2800	-2772	-2795	-2887	-2963	-3027	-3093
Selling and distribution expenses (exceptional items)	-308	21	14	-174	-398	0	0	0	0	0
Administrative expenses	-327	-434	-528	-264	-245	-362	-374	-384	-393	-401
Administrative expenses (exceptional items)	-15	-5	-15	-63	-51	0	0	0	0	0
Depreciation and amortization	-240	-253	-254	-535	-545	-549	-560	-570	-580	-589
Other income	26	19	24	27	21	21	21	21	21	21
Other income (exceptional items)	157	7	1	27	15	15	15	15	15	15
Other expenses	0	0	0	0	0	0	0	0	0	0
Other expenses (exceptional items)	0	0	0	-57	0	0	0	0	0	0
Share of post-tax results of joint ventures and associates	3	1	3	1	3	3	3	3	3	3
Share of post-tax results of joint ventures and associates (exceptional items)	0	0	0	0	0	0	0	0	0	0
Operating profit	526	773	685	480	283	554	579	597	612	628
Interest expense	-14	-14	-3	-180	-180	-133	-127	-121	-115	-109
Profit before taxation	512	759	682	300	103	421	451	476	497	519
Income tax expense	-167	-143	-197	-170	-136	-80	-86	-90	-94	-99
Income tax expense (exceptional items)	67	-6	0	63	41	0	0	0	0	0
Profit for the year	412	610	485	193	8	341	366	386	402	420

Appendix 3: Cash Flow Statement

£ millions

	2020F	2021F	2022F	2023F	2024F
Operating Cash Flow					
Profit for the year	341	366	386	402	420
Plus: Depreciation & Amortization	549	560	570	580	589
Less: Changes in working Capital	68	64	60	56	53
Cash from Operations	822	861	895	925	956
Investing Cash Flow					
CAPEX	359	371	381	389	398
Other Investments	177	177	177	177	177
Cash from Investing	536	548	558	566	575
Financing Cash Flow					
Issuance (repayment) of debt	-100	-100	-100	-100	-100
Issuance (repayment) of equity	0	-227	-227	-227	-227
Cash from Financing	-100	-327	-327	-327	-327
Net increase (decrease) in cash	186	-14	11	32	54
Opening cash balance	189	375	361	371	404
Closing cash balance	375	361	371	404	458

Appendix 5: Common-Size Income Statement

	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Sales	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
Cost of sales	62,69%	62,81%	63,08%	63,05%	63,04%	62,93%	62,93%	62,93%	62,93%	62,93%
Gross profit	37,31%	37,19%	36,92%	36,95%	36,96%	37,07%	37,07%	37,07%	37,07%	37,07%
Selling and distribution expenses	25,53%	26,42%	27,42%	26,82%	26,55%	26,77%	27,65%	28,38%	28,99%	29,63%
Selling and distribution expenses (exceptional items)	2,95%	-0,20%	-0,13%	1,67%	3,81%	0,00%	0,00%	0,00%	0,00%	0,00%
Administrative expenses	3,13%	4,16%	5,06%	2,53%	2,35%	3,47%	3,59%	3,68%	3,76%	3,84%
Administrative expenses (exceptional items)	0,14%	0,05%	0,14%	0,60%	0,49%	0,00%	0,00%	0,00%	0,00%	0,00%
Depreciation and amortization	2,30%	2,42%	2,43%	5,12%	5,22%	5,26%	5,36%	5,46%	5,55%	5,64%
Other income	0,25%	0,17%	0,21%	0,23%	0,18%	0,18%	0,18%	0,17%	0,17%	0,17%
Other income (exceptional items)	1,50%	0,06%	0,01%	0,23%	0,13%	0,13%	0,13%	0,12%	0,12%	0,12%
Other expenses	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Other expenses (exceptional items)	0,00%	0,00%	0,00%	0,55%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Share of post-tax results of joint ventures and associates	0,03%	0,01%	0,03%	0,01%	0,03%	0,03%	0,03%	0,02%	0,02%	0,02%
Share of post-tax results of joint ventures and associates (exceptional i	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Operating profit	5,04%	6,89%	5,88%	4,11%	2,46%	4,86%	4,92%	4,95%	4,96%	4,98%
Interest expense	0,13%	0,13%	0,03%	1,72%	1,72%	1,28%	1,22%	1,16%	1,10%	1,05%
Profit before taxation	4,90%	6,76%	5,85%	2,57%	0,89%	3,69%	3,84%	3,94%	4,03%	4,11%
Income tax expense	1,60%	1,37%	1,89%	1,63%	1,30%	0,77%	0,82%	0,87%	0,90%	0,94%
Income tax expense (exceptional items)	0,64%	-0,05%	0,00%	0,54%	0,36%	0,00%	0,00%	0,00%	0,00%	0,00%
Profit for the year	3,95%	5,43%	4,16%	1,65%	0,07%	2,99%	3,11%	3,19%	3,26%	3,33%

Appendix 6: Statement of Financial Position Assumptions

Balance Sheet (%)	Unit	Change					Assumption
		2020F	2021F	2022F	2023F	2024F	
Current Assets							
Inventories	%	-1,25%	-1,25%	-1,25%	-1,25%	-1,25%	There will be a decrease in Inventories promoted by the company's policys. However, the increase in the number of stores will reverse this policy so it is assumed a minor decrease each year
Trade and other receivables	%	0,00%	0,00%	0,00%	0,00%	0,00%	Percentage of total Sales
Derivative assets	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Current tax assets	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Short-term deposits	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Assets held for sale	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Non-Current Assets							
Goodwill	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value. There is no amortization of Goodwill
Other intangible assets							Refer to Capex in valuation section
Property, plant and equipment							Refer to Capex in valuation section
Right-of-use assets							Refer to the Right of use Assets and Lease Liabilities & Interest Schedule section
Investment property	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Investments in joint ventures and associates	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
B&Q China investment	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Post-employment benefits	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Deferred tax assets	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Derivative assets	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Other receivables	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Current Liabilities							
Trade and other payables	%	-4,48%	-4,48%	-4,48%	-4,48%	-4,48%	The average decline of the last two years was -8,95%. It is assumed that the company will continue this policy of reduction of the Trade and Other payables in the following years at the rate of -4,48%, half of the reduction of recent years.
Borrowings	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Lease liabilities	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Derivative liabilities	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Current tax liabilities	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Provisions	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Liabilities held for sale	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Non-Current Liabilities							
Other payables	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Borrowings	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Lease Liabilities							Refer to the Right of use Assets and Lease Liabilities & Interest Schedule section
Derivative liabilities	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Deferred tax liabilities	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Provisions	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Post-employment benefits	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Equity							
Share capital	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Share premium	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Own shares held in ESOP trust	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Retained earnings							
Capital redemption reserve	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Other reserves	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value

Appendix 7: Income Statement Assumptions

P&L (%)	Unit	2020F	2021F	Change			Assumption
				2022F	2023F	2024F	
Sales							Refer to valuation section - Revenue forecast
Cost of Sales	%	62,93%	62,93%	62,93%	62,93%	62,93%	Percentage of total Sales. The average of the last 5 years was 62,93%. The range in that period is between 62,69% and 63,08% thus we assume the average value for each of the forecasted years.
Depreciation and Amortization							Refer to depreciation and amortization forecast
Depreciation PP&E	%	6,67%	6,67%	6,67%	6,67%	6,67%	KGF estimates building to over by remaining useful life, fixtures and fitting have na usefull life between 4 and 20 years, and other equipment between 3 and 10 years. Land is not depreciated. We assume KGF's method of straight line depreciation. Since the majority of depreciation is in Fixtures and fittings we assume a usefull life of PP&E of 15 years, which gives a depreciation of PP&E at an annual rate of 6,67%.
Amortization Other Intangible Assets	%	20,00%	20,00%	20,00%	20,00%	20,00%	KGF estimates na usefull life for software between 2 to 10 years. We assume the straight line method and na usefull life of 5 years, which gives na amortization of 20%.
Depreciation Right of Use Assets		282,00	282,00	282,00	282,00	282,00	Not established an interval for the usefull life. We assume the average depreciation of the last 2 years.
Selling and distribution expenses	%	24,54%	24,54%	24,54%	24,54%	24,54%	Percentage of total Sales. Average of the last 5 years.
Selling and distribution expenses (exceptional items)		0	0	0	0	0	No exceptional items
Administrative expenses	%	3,18%	3,18%	3,18%	3,18%	3,18%	Percentage of total Sales. Average of the last 5 years.
Administrative expenses (exceptional items)		0	0	0	0	0	No exceptional items
Other income	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Other expenses	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Share of post-tax results of joint ventures and associates	%	0,00%	0,00%	0,00%	0,00%	0,00%	Equal to 2019 nominal value
Interest expense		133,26	127,26	121,26	115,26	109,26	Refer to the Right of use Assets and Lease Liabilities & Interest Schedule section
Income tax expense	%	19%	19%	19%	19%	19%	The standard rate of corporation tax in the UK is 19%

Appendix 8: Sales Forecast Assumptions

Number of stores	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
B&Q (UK&Ireland)	330	295	296	296	296	296	296	296	296	296
Screwfix (UK&Ireland)	457	517	577	627	686	726	776	800	800	800
Castorama (France)	102	102	102	101	100	100	100	100	100	100
Castorama (Poland)	73	75	76	76	80	80	80	80	80	80
Castorama (Russia)	21	21	20	20	18	18	18	18	18	18
Brico Dépôt (France)	118	119	121	123	121	121	121	121	121	121
Brico Dépôt (Iberia)	31	31	31	31	31	31	31	31	31	31
Brico Dépôt (Romania)	15	15	38	38	35	35	35	35	35	35
Total stores	1147	1175	1261	1312	1367	1407	1457	1481	1481	1481

2nd Half Year Results (£ millions)	2015	2016	2017	2018	2019
B&Q (UK&Ireland)	1 766	1 683	1 613	1 557	1 511
Screwfix (UK&Ireland)	560	687	788	869	946
Castorama (France)	981	1 120	1 151	1 044	1 002
Castorama (Poland)	479	604	690	705	708
Castorama (Russia)	150	192	195	185	157
Brico Dépôt (France)	829	959	963	961	922
Brico Dépôt (Iberia)	133	163	163	162	150
Brico Dépôt (Romania)	49	64	77	115	120

Sales percentage	2015	2016	2017	2018	2019
B&Q	36,78%	32,80%	29,96%	29,04%	28,54%
Screwfix	10,21%	11,58%	13,01%	14,32%	15,88%
Castorama (France)	20,10%	20,57%	20,66%	19,24%	18,64%
Castorama (Poland)	9,56%	10,62%	11,89%	12,26%	12,70%
Castorama (Russia)	3,15%	3,11%	3,36%	3,02%	2,70%
Brico Dépôt (France)	16,56%	17,35%	17,01%	17,36%	16,83%
Brico Dépôt (Iberia)	2,77%	2,99%	2,99%	2,96%	2,83%
Brico Dépôt (Romania)	0,88%	0,98%	1,12%	1,80%	1,88%
Total sales	100,00%	100,00%	100,00%	100,00%	100,00%

Average annual sales by store (£ millions)	2015	2016	2017	2018	2019	Average
B&Q	11,51	12,47	11,78	11,45	11,09	11,66
Screwfix	2,31	2,51	2,63	2,67	2,66	2,55
Castorama (France)	20,35	22,63	23,59	22,24	21,45	22,05
Castorama (Poland)	13,52	15,88	18,21	18,83	18,26	16,94
Castorama (Russia)	15,48	16,62	19,55	17,60	17,28	17,30
Brico Dépôt (France)	14,49	16,35	16,37	16,47	16,01	15,94
Brico Dépôt (Iberia)	9,23	10,81	11,23	11,16	10,52	10,59
Brico Dépôt (Romania)	6,07	7,33	3,42	5,53	6,17	5,70
Total Average						12,84

Average annual sales by store in forecasted years (£ millions)	2020F	2021F	2022F	2023F	2024F
B&Q	11,51	12,24	13,02	13,85	14,74
Screwfix	2,52	2,68	2,85	3,03	3,22
Castorama (France)	19,80	19,09	18,41	17,75	17,11
Castorama (Poland)	18,99	18,96	18,93	18,90	18,87
Castorama (Russia)	17,30	17,30	17,30	17,30	17,30
Brico Dépôt (France)	15,35	14,80	14,27	13,75	13,26
Brico Dépôt (Iberia)	10,59	10,59	10,59	10,59	10,59
Brico Dépôt (Romania)	5,70	5,70	5,70	5,70	5,70

Retail banner's annual sales in forecasted years (£ millions)	2020F	2021F	2022F	2023F	2024F
B&Q	3406	3624	3855	4101	4363
Screwfix	1828	2079	2280	2425	2580
Castorama (France)	1 980	1909	1841	1775	1711
Castorama (Poland)	1519	1517	1514	1512	1510
Castorama (Russia)	311	311	311	311	311
Brico Dépôt (France)	1857	1790	1726	1664	1605
Brico Dépôt (Iberia)	286	335	348	346	326
Brico Dépôt (Romania)	200	200	200	200	200
Total Sales	11387	11764	12075	12334	12605

Appendix 9: Peers selection

For the multiple's valuation, we identified the most similar home improvement companies, and the selection criteria is based on the business structure and profitability.

As the first step, we focused on the business structure and we established the following criteria: 1) being publicly traded; 2) have a headquarters in Europe; 3) DIY and DIFM services; 4) Diverse product offering: maintenance, repair, home improvement and furnishing products.

EBITDA/Sales	Publicly Traded	Headquarters in Europe	DIY and DIFM services	Diverse product offering	Peer
Kingfisher plc	✓	✓	✓	✓	✓
Home depot	✓	✗	✓	✓	✗
Lowe's	✓	✗	✓	✓	✗
Williams-Sonoma Inc.	✓	✗	✓	✓	✗
The Michaels Companies	✓	✗	✓	✓	✗
Floor & Décor	✓	✗	✓	✓	✗
Wayfair Inc.	✓	✗	✓	✓	✗
Mr. Bricolage	✓	✓	✓	✓	✓
Samse	✓	✓	✓	✓	✓
Hornbach Baumarkt AG	✓	✓	✓	✓	✓
Bed Bath & Beyond Inc.	✓	✗	✓	✓	✗
Tengelmann Twenty-One	✗	✓	✓	✓	✗

In the second step, we decided to eliminate the companies with an average profitability of the last 5 years (EBITDA/Sales) above 10%, since Kingfisher plc had an average of 9.63%.

EBITDA/Sales	Average 5 years	Peer
Kingfisher plc	9,63%	< 10%
Mr. Bricolage	7,29%	✓
Samse	5,55%	✓
Hornbach Baumarkt AG	5,44%	✓

In conclusion, our peer group is composed by three companies (Mr. Bricolage, Samse, and Hornbach Baumarkt AG). These companies were analyzed in the Industry Overview and Competitive Positioning chapter.

Companies
Kingfisher plc
Mr. Bricolage
Samse
Hornbach Baumarkt AG

Appendix 10: Capital Expenditure (CAPEX) and Depreciation and Amortization (D&A)

£ millions	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F	Historical average
CAPEX	333	406	368	332	342	359	371	381	389	398	356

£ millions	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F	Historical average
CAPEX (% of sales)	3,19%	3,62%	3,16%	2,84%	2,97%	3,16%	3,16%	3,16%	3,16%	3,16%	3,16%

		2020F	2021F	2022F	2023F	2024F
CAPEX PP&E	72%	259	267	274	280	286
CAPEX Other intangible assets	28%	101	104	107	109	111

Capital expenditure distribution	2015	2016	2017	2018	2019	Historical average
Refreshing and maintaining existing stores	40%	44%	30%	30%	27%	34%
New stores	20%	14%	21%	19%	11%	17%
IT infrastructure	36%	24%	23%	29%	28%	28%
Transformation	0%	7%	18%	12%	19%	11%
Other areas	0%	11%	8%	10%	15%	9%

Appendix 11: Net Working Capital (NWC)

£ millions	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Inventories	1 957	2 173	2 701	2 574	2 485	2 454	2 423	2 393	2 363	2 334
Trade and other receivables	568	551	550	406	293	293	293	293	293	293
Trade and other payables	2 369	2 495	2 666	2 415	2 210	2 111	2 017	1 926	1 840	1 758
Net Working Capital	156	229	585	565	568	636	700	760	816	869
Change in NWC	-	73	356	-20	3	68	64	60	56	53

Appendix 12: Right-of-use- Assets and Lease Liabilities

£ millions	2020F	2021F	2022F	2023F	2024F
Right of Use Assets	1916	1811	1706	1601	1496
Depreciation	282	282	282	282	282
Additions	177	177	177	177	177
Right of Use Assets closing	1811	1706	1601	1496	1391

£ millions	2020F	2021F	2022F	2023F	2024F
Lease Liabilities & Interest Schedule					
Lease Liabilities	2221	2121	2021	1921	1821
Issuance (Repayment)	100	100	100	100	100
Lease Liabilities (closing)	2121	2021	1921	1821	1721
Interest expense	133	127	121	115	109

Appendix 13: Key Financial Ratios

Key Financial Ratios	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Liquidity Ratios										
Current Ratio (x)	1,28	1,30	1,15	1,15	1,12	1,22	1,25	1,29	1,33	1,39
Quick Ratio (x)	0,54	0,51	0,27	0,26	0,25	0,32	0,33	0,35	0,37	0,41
Cash Ratio (x)	0,28	0,29	0,08	0,08	0,07	0,14	0,14	0,15	0,16	0,19
Efficiency Ratios										
Total Assets Turnover (x)	1,08	1,13	1,13	1,05	0,99	1,00	1,03	1,06	1,09	1,11
Accounts Receivables Turnover (x)	18,90	20,06	21,17	24,45	32,94	38,86	40,15	41,21	42,10	43,02
Collection Period (days)	19,31	18,19	17,24	14,93	11,08	9,39	9,09	8,86	8,67	8,48
Inventory Turnover (x)	5,25	5,44	4,78	4,43	4,55	4,61	4,82	5,01	5,19	5,37
Days in Inventory (days)	69,53	67,15	76,32	82,39	80,19	79,15	75,66	72,79	70,37	68,00
Payables Turnover (x)	4,44	4,62	4,52	4,60	4,98	5,27	5,70	6,12	6,55	7,01
Payables Period (days)	82,26	79,08	80,81	79,36	73,31	69,25	64,03	59,59	55,73	52,09
Operating Cycle (days)	88,85	85,34	93,56	97,32	91,27	88,55	84,75	81,65	79,04	76,48
Cash Cycle (days)	6,59	6,26	12,75	17,96	17,96	19,29	20,72	22,06	23,31	24,39
Fixed Assets Turnover	15,71	15,44	15,41	10,94	11,68	11,66	12,15	12,57	12,94	13,32
Profitability Ratios										
Gross Profit Margin (%)	37,31%	37,19%	36,92%	36,95%	36,96%	37,07%	37,07%	37,07%	37,07%	37,07%
EBIT Margin (%)	5,04%	6,89%	5,88%	4,11%	2,46%	4,86%	4,92%	4,95%	4,96%	4,98%
Net Profit Margin (%)	3,95%	5,43%	4,16%	1,65%	0,07%	2,99%	3,11%	3,19%	3,26%	3,33%
ROA (%)	4,25%	5,96%	4,69%	1,63%	0,07%	2,97%	3,21%	3,39%	3,54%	3,70%
ROCE (%)	7,47%	10,31%	9,39%	5,36%	3,34%	6,35%	6,61%	6,78%	6,88%	6,99%
ROE (%)	6,66%	9,42%	7,18%	2,99%	0,13%	5,70%	5,88%	6,06%	6,16%	6,26%
EPS (x)	0,20	0,29	0,23	0,09	0,00	0,16	0,17	0,18	0,19	0,20
Solvency Ratios										
Debt Ratio (%)	3,33%	2,19%	2,46%	23,54%	23,95%	22,78%	22,01%	21,19%	20,33%	19,44%
Long-term Debt Ratio (%)	1,85%	1,80%	0,35%	20,75%	20,48%	19,36%	18,57%	17,75%	16,88%	15,99%
Debt to Equity Ratio	0,05	0,03	0,04	0,45	0,47	0,42	0,40	0,37	0,35	0,32
Equity Multiplier (x)	1,57	1,51	1,53	1,93	1,95	1,86	1,81	1,76	1,72	1,67
Debt to EBITDA	0,42	0,22	0,27	2,75	3,27	2,37	2,20	2,06	1,94	1,82
Interest Coverage Ratio (x)	37,57	55,21	228,33	2,67	1,57	4,16	4,55	4,93	5,31	5,75

Appendix 14: Discounted Cash Flow Valuation Method

Regression Statistics	
Multiple R	0,44263143
R Square	0,19592258
Adjusted R Square	0,19536843
Standard Error	0,01794963
Observations	1453

	df	SS	MS	F	Significance F
Regression	1	0,113910854	0,113910854	353,5526047	9,27626E-71
Residual	1451	0,467496626	0,000322189		
Total	1452	0,58140748			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Intercept	2,5099E-05	0,000470905	0,053299978	0,957500235	-0,000898628	0,00094883	-0,00089863	0,00094883
X Variable 1	0,80783758	0,042963241	18,80299457	9,27626E-71	0,723560879	0,89211429	0,72356088	0,89211429

DCF Analysis	2020F	2021F	2022F	2023F	2024F	Terminal
Cost of equity						
Rf (Risk free rate)	0,83%	0,83%	0,83%	0,83%	0,83%	0,83%
Beta unlevered	0,81	0,81	0,81	0,81	0,81	0,81
ERP (equity risk premium)	6,08%	6,08%	6,08%	6,08%	6,08%	6,08%
Cost of Equity	5,74%	5,74%	5,74%	5,74%	5,74%	5,74%
Cost of debt						
Cost of debt	7,74%	7,74%	7,74%	7,74%	7,74%	7,74%
Tax rate	25%	25%	25%	25%	25%	25%
After-tax cost of debt	5,80%	5,80%	5,80%	5,80%	5,80%	5,80%
WACC						
Weight of Equity	73,48%	74,79%	76,15%	77,53%	78,93%	78,0%
Weight of Debt	26,52%	25,21%	23,85%	22,47%	21,07%	22,0%
WACC	5,75%	5,75%	5,75%	5,75%	5,75%	5,75%
D	2217	2117	2017	1917	1817	
E	6143	6281	6440	6615	6808	
V	8360	8398	8457	8532	8625	

Enterprise Value	£ millions
Terminal Growth Rate (g)	1,20%
Perpetuity WACC	5,75%
Terminal Value	9298
PV of Terminal Value	6648
NPV of FCFF	1680
Enterprise Value	8328

Appendix 15: Risks to Price Target

Monte Carlo Assumptions:

Variable	Mean	Standard Dev	Distribution
WACC	5,75%	0,50%	Normal
g	1,20%	0,30%	Normal
EBIT	628	50	Normal

	Low Risk	Medium Risk	High Risk
Strong Buy	> 20%	> 30%	> 45%
Buy	> 10% & ≤ 20%	> 15% & ≤ 30%	> 20% & ≤ 45%
Hold/Neutral	> 0% & ≤ 10%	> 5% & ≤ 15%	> 10% & ≤ 20%
Reduce	> -10% & ≤ 0%	> -5% & ≤ 5%	> 0% & ≤ 10%
Sell	< -10%	< -5%	< 0%

		Change in EBIT*(1-t)									
		£ 2,75	250	300	350	400	415	450	500	550	600
Change in Sales	10000	£ 0,36	£ 0,73	£ 1,11	£ 1,48	£ 2,05	£ 2,22	£ 2,59	£ 2,97	£ 3,34	
	10500	£ 0,49	£ 0,87	£ 1,24	£ 1,61	£ 2,18	£ 2,36	£ 2,73	£ 3,10	£ 3,47	
	11000	£ 0,63	£ 1,00	£ 1,37	£ 1,75	£ 2,32	£ 2,49	£ 2,86	£ 3,24	£ 3,61	
	11500	£ 0,76	£ 1,14	£ 1,51	£ 1,88	£ 2,45	£ 2,63	£ 3,00	£ 3,37	£ 3,74	
	12000	£ 0,90	£ 1,27	£ 1,64	£ 2,01	£ 2,59	£ 2,76	£ 3,13	£ 3,50	£ 3,88	
	12604,98225	£ 1,06	£ 1,43	£ 1,81	£ 2,18	£ 2,75	£ 2,92	£ 3,29	£ 3,67	£ 4,04	
	13000	£ 1,17	£ 1,54	£ 1,91	£ 2,28	£ 2,85	£ 3,03	£ 3,40	£ 3,77	£ 4,15	
	13500	£ 1,30	£ 1,67	£ 2,05	£ 2,42	£ 2,99	£ 3,16	£ 3,53	£ 3,91	£ 4,28	
	14000	£ 1,44	£ 1,81	£ 2,18	£ 2,55	£ 3,12	£ 3,30	£ 3,67	£ 4,04	£ 4,41	
	14500	£ 1,57	£ 1,94	£ 2,31	£ 2,69	£ 3,26	£ 3,43	£ 3,80	£ 4,18	£ 4,55	

		Change in Terminal Growth (g)									
		£ 2,75	0,60%	0,80%	1,00%	1,20%	1,40%	1,60%	1,80%	2,00%	2,20%
Change in levered Cost of Capital (Rl)	6,20%	£ 2,06	£ 2,16	£ 2,27	£ 2,38	£ 2,50	£ 2,64	£ 2,78	£ 2,94	£ 3,12	
	6,10%	£ 2,13	£ 2,23	£ 2,34	£ 2,46	£ 2,59	£ 2,73	£ 2,88	£ 3,05	£ 3,23	
	6,00%	£ 2,19	£ 2,30	£ 2,41	£ 2,54	£ 2,67	£ 2,82	£ 2,98	£ 3,16	£ 3,35	
	5,90%	£ 2,26	£ 2,37	£ 2,49	£ 2,62	£ 2,76	£ 2,91	£ 3,08	£ 3,27	£ 3,48	
	5,75%	£ 2,36	£ 2,48	£ 2,61	£ 2,75	£ 2,90	£ 3,07	£ 3,25	£ 3,45	£ 3,68	
	5,60%	£ 2,47	£ 2,60	£ 2,74	£ 2,89	£ 3,05	£ 3,23	£ 3,43	£ 3,66	£ 3,90	
	5,50%	£ 2,55	£ 2,68	£ 2,83	£ 2,99	£ 3,16	£ 3,35	£ 3,56	£ 3,80	£ 4,06	
	5,40%	£ 2,63	£ 2,77	£ 2,92	£ 3,09	£ 3,27	£ 3,47	£ 3,70	£ 3,95	£ 4,23	
	5,30%	£ 2,72	£ 2,86	£ 3,02	£ 3,20	£ 3,39	£ 3,60	£ 3,84	£ 4,11	£ 4,41	
	5,20%	£ 2,81	£ 2,96	£ 3,13	£ 3,31	£ 3,52	£ 3,74	£ 3,99	£ 4,28	£ 4,60	

Abbreviations

Bu – Unlevered Beta
CAGR – Compound Annual Growth Rate
CAPEX – Capital Expenditures
CDS – Credit Default Spread
COGS – Cost of Goods Sold
COS – Cost of Sales
D&A – Depreciation and Amortization
DCF – Discount Cash Flow
DIFM – Do-It-For-Me
DIY – Do-It-Yourself
EBIT – Earnings Before Interest and Taxes
EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization
EPS – Earnings per share
ERP – Equity Risk Premium
EU – European Union
EUR – Euro
EV – Enterprise Value
EXT – External
FCFF – Free Cash Flow Firm
FTSE – Financial Times Stock Exchange
FY – Final Year
g – terminal growth rate
GBP – Great Britain Pound
GDP – Gross Domestic Product
GNFR – Goods Not For Resale
HR – Human Resources
IMF – International Monetary Fund
IT – Information Technology
KGF – Kingfisher plc
NWC – Net Working Capital
PP&E – Property, Plant and Equipment
R&D – Research and Development
Rd – Cost of Debt
RF – Risk-free Rate
ROA – Return on Assets
ROCE – Return on Capital
ROE – Return on Equity
ROUA – Right-Of-Use-Assets
SKU – Stock Keeping Unit
T – Effective Tax Rate
TV – Terminal Value
UK – United Kingdom
USD – United States Dollar
USA – United States of America
WACC – Weighted Average Cost of Capital
YE – Year End

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Recommendation System

Level of Risk	SELL	REDUCE	HOLD/NEUTRAL	BUY	STRONG BUY
High Risk	$0\% \leq$	$>0\% \ \& \ \leq 10\%$	$>10\% \ \& \ \leq 20\%$	$>20\% \ \& \ \leq 45\%$	$>45\%$
Medium Risk	$-5\% \leq$	$>-5\% \ \& \ \leq 5\%$	$>5\% \ \& \ \leq 15\%$	$>15\% \ \& \ \leq 30\%$	$>30\%$
Low Risk	$-10\% \leq$	$>-10\% \ \& \ \leq 0\%$	$>0\% \ \& \ \leq 10\%$	$>10\% \ \& \ \leq 20\%$	$>20\%$