# Currys plc
# Interim Results 2024

## 12th December 2024

## Transcript

**Operator:** Good morning, and welcome to Currys' 2024/25 Interim Results webcast. I will now hand over to CEO, Alex Baldock.

**Alex Baldock:** Good morning, everybody.

In a moment, Bruce will take you through some encouraging Results, which see our performance continue to strengthen, which see us getting the Nordics back on track, and continuing our strong multi-year UK&I momentum, all underpinned by a strong balance sheet and liquidity, and promising further strengthening of free cashflow.

I'll then say a few words about how we've done it, but with a fuller update to come in January before we take your questions, Bruce.

**Bruce Marsh:** Thank you, Alex.

Good morning, everyone. As Alex says, the first half has delivered strong performance.

So let me kick off with some headlines, from a revenue perspective, total group sales up by +1% YoY , to £3.9bn. Adjusted EBIT has increased by +52% to £41m. Our adjusted EPS has stepped forward from (1.1)p up to plus +0.6p . Our free cashflow has been very successful, increasing £4m last year up to £50m. And our closing cash position has gone from net debt of £(129)m up to a closing cash of £107m. Finally, our pension deficit has fallen by £47m YoY, to £(143)m.

So stepping through each market, first of all, UK and Ireland, very strong performance across the board. Revenue up by 5% LFL basis, gaining market share. Our online share of business has stepped up a touch to 45%. And our adjusted EBIT has increased by +53% from £15m to £23m, and our EBIT margin has increased by +0.3%. Similarly, our operating cashflow has stepped forward by +£6m, and particularly pleasing has been the movement in segmental free cashflow. We've moved from an outflow last year of £(15)m to an inflow of +£64m. That is coming, not just from increases in profits and lower exceptionals, but we've also achieved over £50m of working capital inflow, and that's despite a £(25)m working capital investment in iD Mobile. So, in total, we've seen a gross improvement in working capital to £75m in the UK. Some coming from growing top line growth, but also tight management of trade working capital.

In terms of the UK profit bridge, EBIT, as I've said, stepped forward by +30bps, coming from both gross margin and operating expenses. Gross margin has increased by +10bps, so that's increased for the fourth consecutive year, through a continued focus on service adoption, not chasing less profitable sales, and supply chain cost savings. Our operating expense ratio has increased by +20bps, although our costs have increased in absolute terms from inflation, particularly National Living Wage. We've spent more on marketing, and increased our investment spending, but that's been offset by cost savings and, clearly, we're seeing the benefit of operational leverage.

A contributor to higher operating costs is project investment spending. This year, we've returned to a more normal level of spend after the austerity that we imposed last year in order to protect the balance sheet. You can see, this year, we're expecting project spend to return to roughly the same level as FY22 and FY23, although significantly lower than the £100m that we were spending pre-pandemic. However, important to point out that rather than c25% of this project spend hitting the P&L, it's now closer to 50%, as we've invested more in software as a service and the cloud. And I think it's important to recognise and celebrate that the profit progression we're showing in the UK is after absorbing this extra cost.

Moving on to the Nordics, we clearly continue to face a challenging environment, with the market declining by >(3)%, but we're really pleased to see an increase in market share. So in terms of our Results, revenue LFL is down by (2)%. Online share of business has stepped up a touch to 25.5%. Despite the drop in sales, we are really pleased that adjusted EBIT has moved forward by +£6m to £18m, moving adjusted EBIT margin up by +0.4%. Operating cash flow is flat, and our segmental free cash flow is an outflow of £(4)m. And that's predominantly been impacted by £(23)m of negative working capital, driven by falling sales.

In terms of the Nordic profit bridge, we've successfully offset lower sales, with great progress both in margin and cost. Our gross margin has stepped forward by +80bps in the Nordics, so that's the second year of growth, and gross margins are now above where they were three years ago. Really, a focus on our strategic initiatives of services sold with, and particularly important not chasing sales in a tough market. From an operating expense to sales ratio perspective, you can see the number is negative, but costs are actually down in absolute terms, with savings exceeding inflation. The adverse movements in the ratio is due to operational deleverage.

In terms of cash generation, pretty much good news across the board, with free cash flow increasing from £4m last year to £50m this year. Obviously, operational cash flow has been helped by growth within our profitability. Capital expenditure is broadly flat. Adjusting items have stepped back, as we've reduced restructuring. Cash tax is lower, that predominantly relates to a rebate received in the Nordics. And cash interest paid has fallen significantly to reflect the improved balance sheet. And, finally, working capital, as I've said, is a really healthy inflow, driven by the initiatives within the UK, offset by the sales effect within the Nordics.

As a result of that strong cash flow, we're seeing our balance sheets continue to strengthen. We've seen net cash increase to +£107m, and the pension deficit fall to £(143)m, which gives us a net indebtedness position of just £(36)m. And that compares to over £(800)m just five years ago. Also, to give us good financial security, we've refreshed our revolving credit facility. Our £525m facility is now in place until September 2028, with the opportunity to extend that by a year. And I'd like to say a big thank you to all of our banks who've supported us through this process. In addition, our fixed charge cover has been permanently reduced to a minimum of 1.5x, and our leverage ratio is unchanged at 2.5x. And important to say that we're comfortably within both of those metrics.

So in terms of current year outlook and guidance, obviously, we'll say a lot more about this in January, post peak, but, today, we're flagging no change to our profit and our cash guidance. Trading, since the end of the period, has been consistent with our expectations, and the group still expects to grow both profits and cash in the year. We are updating on two pieces of guidance. Number one, capital expenditure, we're now flagging that it will be around £(80)m, as opposed to the £(90)m that we flagged previously, and a new piece of guidance relates to total interest expense going through the P&L, which we're flagging will be around £(70)m. That compares to £(85)m last year. In terms of shareholder returns, just to reiterate what we've said before, it's the board's intention to announce a recommencement of shareholder returns no later than the full year Results in July.

Looking ahead to next financial year, we wanted to provide some guidance on the impact of the UK government budget. As you can see set out here, we're estimating the full year impact of the National Living Wage, the National Insurance, and also a small impact on rates, impacting us by over £(30)m YoY. Now, circa half of these costs were anticipated. Clearly, we expected to see National Living Wage come through, but it does leave circa £(15)m of cost, which are new, which we need to seek mitigation for to limit the impact on next year's profit. You can see on the right-hand side of the slide some of the areas that we're going to be focusing on. But based on the work we've been doing over the last three years to take over £300m of cost out, there are no low-hanging fruit, but we will be doing our best.

Finally, I wanted to provide some longer-term guidance. From a profit perspective, we remain committed to delivering at least 3% EBIT, but this slide predominantly focuses on cash. We want to reiterate the comments we made in June that we see a path to a significant improvement of cash available to equity. Stepping through each element of this, and I'll focus you on the words on the right-hand side. First of all, capital expenditure. We're far more efficient with our use of capital, and as I showed in a previous slide, a greater proportion of Cap Ex is now going through the P&L. Therefore, we expect Cap Ex to remain below £(100)m a year. Adjusting items, as we've exited non-trading stores and other locations, we're expecting the level of adjusting items to fall, and will be below £(10)m by the time we get to FY27. Cash tax paid, obviously, will rise as profit increase, but I'd like to remind you that we've got significant benefits from brought forward losses in the UK. And cash interest paid will continue to benefit from our improved balance sheet and, hopefully, lower interest rates. Working capital, we expect it to be flat, as we offset the working capital impact of iD Mobile. And, finally, pension contributions. We do expect the contributions to decrease over time, as our deficit reduces. So we're going into the pension triennial review in March, and we'll be working with the pension trustees to find an appropriate level of contributions to ensure the scheme is well funded. However, as described, we've seen the deficit fall, and it will fall further before the end of the year, based on our contributions. And I'd remind you that our contributions can cease when the actuarial deficit reaches zero. Therefore, we want to flag that contributions will be significantly less than the £(277)m that have been scheduled, but, obviously, we look forward to sharing more about that once the triennial is finished. Let me hand back to Alex.

**Alex Baldock:** Thanks, Bruce. Some encouraging Results, reflecting progress on several fronts, including getting the Nordics back on track.

Now, obviously, we can't control the macro environment or consumer spending, and the market's gone backwards by (1.4)%. But on what we can control, Elkjop management has been improving well. In market shares, up by +40bps. Gross margins up again, as you've heard, and the cost discipline is very strong, which leads to a +50% profit growth, even with sales heading backwards in the Nordics.

In the UK, it's been a story of keeping up multi-year and encouraging momentum. Importantly, we're pleased that we've returned Currys to sales growth, and market share gain, in what is still a tough market. Sales up +5% in a market down (1.4)%. Behind that, a really strong performance in B2B. We said, six months ago, that we had everything it took to be successful with SME customers. That's panning out well. We talked about AI being a trend that was going to start with early adopters in 2024, before really starting to grip in 2025. We're pleased with what we've seen, both in laptops and mobile, and laptops, Curry's has established an over 75% market share in AI powered, which bodes well for the future. And we're doing well at selling the solutions and the services that customers value and are also good for our top line, our margins, and for the stickiness and value of customer relationships. We've stepped forward, for example, solutions selling by +13pts to nearly 38% adoption. Good progress, plenty more headroom to go. Credit, one example of a service that's been going well, adoptions up again by +140bps to nearly 22% of sales. Active accounts up to over 2.4m now, and that's partly a result of a successful relaunch as Currys FlexPay. And repair's grown strongly as well, up another +7%. Connectivity, our own MVNO iD, is now over +2m customers and counting, +32% growth in the period. We think we're continuing to build a valuable asset here in iD, and we're more confident now that we can sustain iD's trajectory having secured an extension of terms with three to 2031, which we're pleased about.

All this, in the UK as in the Nordics, is underpinned by strong customer satisfaction, up again, and colleague engagement now firmly established in the top 10% of companies worldwide. And as you've heard from Bruce, all of this progress rests on strong financial foundations of balance sheet and liquidity.

In summary, we are encouraged by our progress and this strengthening performance. I mean, the Nordics we're delivering on everything in our control, growing profits in a weak market, and the UK is returning to sales growth and profit growth, continues several years of an improving trajectory there. We're doing what we said we'd do to achieve all of this. Selling more solutions and services, growing the business, serving SMEs, and continuing to build a valuable asset in iD mobile. Yes, we face some unwelcome new headwinds, but we're confident of mitigating about half of those and we're working on the rest, and we are confident of continuing our momentum, and keeping profits and free cash flow going forward as promised.

Finally, you wouldn't expect me to let this group of high-net-worth individuals pass without acting as a personal shopping service for last minute Christmas gifts. What's hot? Well, air fryers, you can join the 58% of the population who own one. Double stack is going particularly well. Any gamers in your families, I'd recommend the curved monitors, on the accessories front, or the excellent bundle with the PS5. Both of those are going well, as is the Shark five-in-one hair styler, if hair care's your thing. Over the head headphones are going very well with their noise-cancelling capability, which could come in handy if your family Christmas is anything like mine. A super-sized TV, 98 inch and plus, is up 400%, which is very, very gratifying. We need three people to deliver them, but it's worth it, and worth it to the customer, too. As with the Hisense 100-inch at £1,999, including delivery installation. Drones, if you'll forgive the pun, are flying, particularly the DJI version, and AI laptops and mobiles, I've touched on. And on mobile, I mean, the iPhone Pro Max has been going well, and we expect that to kick on further with the launch now of Apple Intelligence in the UK. A really important point on AI. We've established a lead that we do not intend to relinquish, and this trend has got a lot further to run. And finally, bean-to-cup coffee machines continue to go great guns. So there's still time to get to Currys and join the 80% of UK households who are Currys customers. But with that, I'll pause and we can take your questions.

**Operator:** We'll now take our first question from Monique Pollard, Citi

**Monique Pollard:** Thanks for the Christmas gift ideas, I still haven't done my shopping. It's very helpful. The first question I had was just on your UK market shares, obviously back in growth now after a period of decline, and that's also on top of significant profitability increases in the region. I just wondered if you could give us a bit more colour as to what had led to that. Obviously you mentioned that you've got over 75% UK market share in AI laptops, and I'm imagining that may have helped.

**Alex Baldock:** It certainly did, Monique. We have been able to buck the market, as you've talked about, with +5% sales growth in the market going back by (1.4)%, and that's driven by, I suppose, three dimensions. We've grown through what we sell, who to, and how we sell it. So you mentioned AI laptops and mobile phones. That's been well up there, but not just that, I mean our mobile business, which isn't in the core market share numbers, has grown faster still. And our business serving SME customers, also not in the core market share numbers, has enjoyed very strong growth. So that's been important on what we sell and who we sell it to. How we sell, I mean we've made big improvements in both channels. We've invested in our stores, 80 stores have been rejigged in the UK, with more to come post peak. Online, we've made 60 improvements to the online customer experience, whether it's in navigation, search, filtering, or checkout. And we've joined the channels up better than ever as well. So order online, collect in store is still the fastest way to get hold of your tech, within 30 minutes. And that's up +15%, to 27% of our online sales. And then finally, there's marketing which Bruce touched on as well. Bruce, you want to say a couple more words about that?

**Bruce Marsh:** Yeah, sure. So there are two components which have resulted in us putting more marketing spend into the first half. The first is, there was a bit of pull forward. Obviously the euros were in quarter one, so we put extra money there in order to support demand. The other was investment in PPC. So you might remember that over the last 12 to 18 months we've talked quite a bit about how we've pulled back from PPC to make sure that our online advertising is generating maximum returns. So if you like, we've drawn back from that, we've rebased, and we've dramatically improved the level of intelligence we bring to the investments we make. So every pound of PPC that we are now putting back on is generating a really healthy return. So our sales are being driven both by some phasing of marketing spend but also some net new.

**Alex Baldock:** I mean the final thing I'd say, Monique, is all of this is happening without any particular help from the market. I mean we maybe come on and talk about the UK consumer, but I mean our market went backwards by (1.4)% in the period. So we've been able to, while maintaining our discipline on gross margins and on costs, importantly, we have been able to buck the market.

**Monique Pollard:** Excellent, thank you. The second question I had was just on the change in the mix of project spending. £10m more this year, and now being expensed versus being in Cap Ex. So should I think of that as being versus where we were at the start of the year, you maintaining your expectations for profit growth, but with an additional £10m of Op Ex now in the base, versus what you would have expected?

**Bruce Marsh:** Yeah, thank you, Monique. So that isn't quite right. There's two things that are going on. The first is on a full-year basis, we're expecting our total Cap Ex to reduce by £10m. Now, a component of that will relate to the switch from Cap Ex into Op Ex. Some of it is phasing, and some of it are really that we are far more efficient in terms of managing the level of spend. So that's the key point. Although you are right, we are absorbing within our P&L, both in the first half and full year. So mid-single digits of £m's in the first half of incremental project spend that has gone into Op Ex, that we've been able to absorb with our app performance.

**Monique Pollard:** Very helpful. And then the final question I just had was on the implications from the budget. So you've outlined very clearly the £32m cost impact from the recent budget, so that's a pretty useful detail. Obviously you're saying you're planning to mitigate much of that, or as much as you can via cost-saving initiatives. But do you think, overall, this is going to be inflationary for the market?

**Alex Baldock**: So a couple of things there Monique. I mean, yes, we've already got plans in place to mitigate about half of the anticipated impact, and we're working hard on the other half to mitigate as much of that as we can. And by building on the successes that we've had in greater process efficiency, through things like Right First Time, through greater offshoring as we've got with our now mature collaboration with Infosys, and increased automation, for example, what we've been able to do with electronic shelf edge labelling. So these are all established programs that we will aim to build on and mitigate as much of the further cost headwinds as we can. You ask about inflation. I mean, we do think that across the sector, as across retail overall, some price rises are inevitable. Now, we will still give the customer our cast iron promise that if they find it cheaper anywhere else, we will match the difference. But across the market, as across retail as you're hearing in other categories, we simply think that the scale and the speed of these new headwinds makes some price rises, at least, inevitable.

**Monique Pollard:** Really clear. Thank you very much for all my questions.

**Operator:** Our next question comes from Nick Barker, BNP Paribas Exane.

**Nick Barker:** Hi there. Thank you very much for taking my questions this morning. The first one, just I want to touch base following the Court of Appeals ruling in relation to motor financing cases, and the kind of implications this has for the relationship between customers, brokers, and lenders across industries. I appreciate at this stage that there's a lot of uncertainty, but I was wondering if you could share any initial comments about this case, and discuss anything about how you're doing things differently as a result of the ruling?

**Alex Baldock:** Yeah, it's a good question. We believe, and are strongly advised, that the role of lenders and brokers in motor finance is very different to that of our own financial services business. I mean, we for example, are a broker of a single provider of credit, whereas motor finance broker's role, as you know, is to provide options and recommendations. It's a much more extensive role. And secondly, the judgment does not affect our ability to earn extra sales commission. Now, clearly, as you say, the case law's in flux on this and we'll keep a close eye on where it settles. And as you heard this morning, it's now subject to appeal to the Supreme Court anyway, but as it stands, we believe our situation is very different.

**Nick Barker:** Thank you very much. That's incredibly useful. And my second question would just be in relation to electronic shelf edge labelling, what efficiencies has this created, can you quantify these, and how much further is there to go on this?

**Bruce Marsh:** So in terms of the number of stores that we've put it out to, as it says in the statement that so far we've put it into 60 stores in the first half. We'll put it into a further 40 stores in the second half, and we will then carry on with a rollout across the rest of the estate during the course of next year. In terms of payback, I mean, obviously we don't share specific details, but it is got a very healthy payback. It allows us to both save colleague time and effort within store, there's obviously time of materials, etc. But it also increases our flexibility to be able to move prices. And when you are facing into online competitors who are changing their prices all the time, rather than only being able to do it maybe 48 hours delayed and having to go through the rigmarole of changing it. We're able to do it pretty much instantaneously. So those are some of the benefits.

**Alex Baldock:** It's worth adding, Nick, that this is one of the areas where we get a benefit from being a group because electronic sharp edge labelling was first rolled out in our Nordics business. We got to see how it worked there. It worked really well on both the efficiency and the nimbleness of pricing front that Bruce refers to and gives us confidence to roll it out in the UK. And we're happy enough with what we're seeing to continue the rollout.

**Nick Barker:** Thank you very much. Perhaps a final one, if you don't mind, is just on the Nordics itself then. Is there any more colour on the different regions and how they're performing against each other?

**Alex Baldock:** We'll get into that in January in more detail. I mean, the overall picture is of a market is still tough. One of the things across the Nordics that is in common is continuing persistently high interest rates, relatively high penetration of variable rate mortgages, which passes those costs onto consumers pretty quickly. And accordingly, low consumer confidence and spending, our market's down (340)bps YoY. I think, again, across all of our Nordics markets, what we have in common is that we're dealing with it well. We're in share gain across the piece. The gross margins, as Bruce mentioned before, are now back above the level of three years ago: +80bps improvement, over the +190bps that we saw for the last full financial year, and we're really pleased by the cost discipline that our colleagues across the North Sea are exerting. Look, we're pleased with the trajectory. We're not yet pleased with where we are and we're going to keep going.

**Operator:** Our next question is from Richard Chamberlain, RBC.

**Richard Chamberlain:** Ask about how you're seeing the outlook, Alex, for the appliances market in the UK. Wondered if you think this sort of passed the worst now, whether improvements in housing activity with the lag and so on might help that category a little bit over the next year. That's the first one. And then the second one, I guess more for Bruce, as you talk about fading of the adjusting items going forward, what sort of adjusting items might you expect still in the medium term? I guess that's the question. I appreciate the number's going to be hopefully quite small now. Thanks.

**Alex Baldock:** Richard. Let me take the appliances question before I hand over to Bruce. I suppose the first thing to say is appliances are both big and small, major and small domestic appliances. And what we're seeing on the small domestic appliances is quite a lot of innovation and quite a lot of room for us to get to our normalised market share in areas where previously we're underweight. I mean, air fryers is an obvious example where we're very strong and where we're benefiting from this trend that's seen 30% of the population who own one in 2022 grows to 58% now and it's still climbing. So that's one area that's going particularly well. I mean equally, I mean if you include health and beauty in appliances, hair care is going particularly strongly. And so there are a couple of examples of where in small domestic and kitchen appliances we're going quite well. On the major side though, you're right that this is primarily still a replacement and distress market. It is largely driven by the replacement cycle and to an extent by the housing market. And I think that's the most promising future indicator here is that the government is committed, and has recommitted this week, to accelerating its program of house building in the UK, and everything else being equal, that will have a tailwind effect for appliances.

**Bruce Marsh:** Hi Richard. Exceptionals really fall into three broad categories, property, transformation and legal. In terms of how we expect it to play out going forward, by far the biggest individual components is property. So these are old curry stores, old Carphone Warehouse stores, old buildings that we've had in our estate that are no longer used. And what we're seeing is either through the lease runoff or our ability to offload those properties, so the cash cost associated with them starts to fall away. Obviously, transformation is somewhat contingent on whatever activities underway, but as I've described in the first half, that was virtually nothing and legal points I guess we pick up as they come along, which is why we're confident to be flagging single digit £m's.

**Operator:** Our next question is from Ben Hunt, Panmure Liberum.

**Ben Hunt:** Just a sort of general question really, obviously you've done a lot of work on service adoption throughout this period of volumes coming down and you've increased the penetration there. But as the green shoot starts to come through and perhaps volumes return. Where do you see what the tailwind could be in terms of margins for the business, and related to that, there was a chart earlier on in the UK part of the presentation showing your market shares down I think 200bps since over the last two years, but the gross margin hasn't really gone up as much, the improvement there has been a bit more modest. What's your view of the shape of that to come as you start to regain market share and any thoughts really around those points?

**Alex Baldock:** Perhaps Bruce can touch on the specific gross margin point first and then I'll get to your broader question about services adoption and its effect.

**Bruce Marsh:** In terms of gross margin, I guess we're happy with a step forward of +10bps in the UK, when you consider that's off the back of three years in a row of progression. Our gross margin today is dramatically better than it was say three or four years ago. Do we continue to focus on driving it? Are there tens of activity that are supporting it? Yes, they are. I guess always mix flows into it as well, which would cause some level of dilution, but overall we're pleased. We're pleased with the ongoing trajectory and we expect gross margins to continue to grow going forward.

**Alex Baldock:** I suppose one of the reasons for that is we see further headroom, Ben, in solutions and services adoption. And as you know, we don't get into specifics on the numbers, but one way to think about it is to take solutions first. Selling the laptop, not just with the laptop on its own, but with the monitor, the keyboard, the cable, the mouse, the antivirus software, the Microsoft 365, the protection product and so on. And as you know, the customer needs all that stuff and they might as well get it from us because it's a significant margin booster when they do. Now we are really pleased with Sold With solution selling, as we call it, progress to 37.8% of eligible sales, up +12.6ppts YoY. So that's showing that we're getting somewhere, but it's still less than 38%. So there's still significant headroom for growth particularly, but not only in our online channel, and that's an area of focus for us there. I mean likewise on our services, I mean, for example, our installation services on big box, yes, we're pleased by the +410bps YoY progress in installation adoption, but that still leaves us only 32% of eligible sales. We think we can do better. We think we can do better on credit adoptions. Yes, again, another strong growth of +140bps to just shy of 22% adoption, but we don't see that as a ceiling. And I could go on and talk about the repair and the connectivity, particularly now we're more confident of sustaining the profitable growth trajectory of iD. We think that has further to run. We're not happy yet with 2m customers. So I mean you can make your own call on where you see the ceiling on these things, but we don't think we're approaching it yet.

**Ben Hunt:** Okay, fine. And just a small technical question, there was quite a disparity in your market share between stores and online. Are we to assume that the disparities can be explained by the legacy of rationalising the ranges or any of these there really?

**Bruce Marsh:** I think we call out specifically that we've seen some good growth in market share within our stores and we've held market share online and I think we're happy with both of those components. Clearly, we are a very successful bricks and mortar retailer and the bricks and mortar components of our omnichannel operation, and to grow, I think +150bps of share is very significant off the back of a share that is already very healthy. Online clearly a super competitive market. It is a growing part of our market for us to be maintaining share with, as Alex described earlier, the very significant number of changes and developments that we've made on our website. We're happy with both of those components and we need to continue focus through both channels.

**Alex Baldock:** Yeah, that's right. I think the other thing to say about online, but first of all, let's remember how big we are online. I think at £2.3bn of sales, our UK online businesses more than twice the size of AO. Just to pick an example. And we're investing heavily behind that channel and we've talked about the improvements in navigation and search and filtering and checkout that you've seen. We've seen a big step forward in the slickness of our order and collect process that sees that at 27%. The other angle online is that, as we talked about before, as we get more sophisticated in assessing the profitability of different marketing investments like PPC, so we can get behind that channel in particular more. So we're not satisfied with where we are, Ben, if that's what you're driving up.

**Ben Hunt:** No, no. No, I was just interested to hear the explanation. That's very useful. Thanks.

**Operator:** Our next question is from Alison Lygo, Deutsche Numis.

**Alison Lygo:** Thank you for taking my questions. So first I wonder if you could talk a little bit more about that Cap Ex as we look at the £100m and how we should maybe think about that split. Should we be expecting that is mostly directed towards stores? Are we thinking about warehouse automation? Is there any tech being capitalised or is it largely now really being expensed? And then the second one is just on the National Insurance minimum wage cost, obviously you've really helped with your expectations for that in the coming year. Just wondering how far up the logistics supply chain that goes, how much of the warehouse, drivers, those sorts of things, do you think there's potential for more indirect costs you might have to absorb as that gets passed down? Or do you feel like it stops there in terms of the numbers you've helped us with this morning? Thank you.

**Bruce Marsh:** Okay. Well let me pick up the Cap Ex point first. I mean, the first thing to say is we don't break out how we spend the Cap Ex, but you described a number of areas of investments and of course we will be investing in all of those areas. We've talked already about the number of stores that we've invested in the first half, we'll continue in the second half and that investment will continue going forward. What is important to say about our store estate is that it is very well invested and that's true in both the UK and the Nordics. So it isn't as if we've got lots of incredibly tired stores. We think with a relatively modest level of Cap Ex, we can keep the estate in really good shape. And of course we're not right now. Who knows, we're not right now talking about opening any new stores. Supply chain service, one of the key components of being able to continue to take cost out of our business is through automation. So there will definitely be spend in that space and yes, some of our IT spend will still be capital, but as I've described, as more and more of our estate moves to software as a service and technology in the cloud, so the accounting standards are really clear. We have to expense those costs and that's why we've reached this 50-50 split.

**Bruce Marsh:** In terms of National Living Wage and the National Insurance, how far that goes up, I mean, clearly the National Insurance touches all colleagues, so that extra cost, both in terms of the level at which NI starts being paid and the higher rate is impacting all colleagues through the business. The National Living Wage is an impact in terms of some of the more junior roles within our business, both within stores and supply chain. But one of the components of costs that we have included within our number is maintaining a level of differential. So clearly, as you increase the pay of some of the more junior roles, so you have to reflect that up through the organisation.

**Alex Baldock:** I think the only thing I would add to that Alison, is you ask about how far up it goes. I mean, we've disclosed that there's a £12m YoY headwind on the National Insurance contributions from our own colleagues, and another £9m from our outsource partners, and many of those outsource partners sit in the supply chain and the logistics as well as the service operations.

**Operator:** Our next question is from Adam Tomlinson, Berenberg.

**Adam Tomlinson:** Hi, thanks for taking my questions. Three questions if I can. Just the first one was on B2B, so I think you've mentioned in the past that being a £25-£26bn market, Nordics and the UK and strong growth highlighted in the statement. So any colour you can give around that will be very helpful, please. A second question was just on stock levels coming down about a £100m, so good result there. Perhaps just a little bit more colour in terms of how you achieved that would be great. And then, just a quick third question on AI, and thinking more in terms of business processes here. You announced that JV with Microsoft and Accenture, I think a few months back. I'm just wondering how that is going, some of the learnings there, and potentially how that feeds into the cost savings program going forward.

**Alex Baldock:** Do you want to take the stock question first?

**Bruce Marsh:** Yeah, very happy to. I guess the easy answer is that virtually all of the stock reduction is within the Nordic business and is all a reflection of the lower sales. So, the management team at the same time as doing a great job on margin and cost, are also keeping stock under tight control. We've seen that fall away, but as you can imagine, there is also an equal and opposite fall within trade creditors, which is why it doesn't necessarily impact cash.

**Alex Baldock:** I mean, on B2B, you asked for a bit of colour, the way to think about the B2B market is that we're not going after the whole thing. We're not trying to compete head-to-head with resellers like Computacenter. Our sweet spot is typically 50 seats and below SMEs, and the benefit of sticking to that and keeping our focus on that, is that what we have as by virtue of our core B2C business, is very well suited, with minimal extra cost, to serve those smaller SMEs, because we have the supplier relationships, the products by and large are the same. The channels that we enjoy, the stores and online are very well suited to the SME customer. And many of the solutions that we've developed, whether it's the credit, the repair, the protection, the delivery, the installation, the recycling, all of these things are in demand by B2B customers as well. So, we're pretty disciplined about sticking to the adjacent smaller end of the SME market, is the first thing to say. Second, again, another advantage of having a group here is that we were more advanced in our Nordics business on B2B. It's been a big part of their growth plans, that side of the North Sea, for some time. It's the single biggest growth driver for the business in our plans across both the UK and the Nordics. And we've done a reasonable job, I think, of learning, and the teams working together, to accelerate our progress and to level up across the different geographies of the business. So, we're quietly quite pleased with how it's going. It is important to emphasise again that our progress in B2B is not reflected in the market share numbers that we talked about today, either the +40bps market share improvement in the Nordics or the +20bps improvement in the UK, that's on top of that. It's going well. You can expect to hear more about it in January and beyond.

You ask about AI and you're right, Adam, that AI is both something that we sell, laptops and mobiles, as well as something that we use to improve our own business. And we took the view that this isn't an area of core expertise for us, so let's get in bed with people whose expertise it is, Accenture and Microsoft. We've got good partnerships with both of those organisations, and we've extended it into AI. We're not going to talk in great detail about how we've used it so far. We might come back to that a bit more in January, except to say that we've cast the net very wide on potential use cases and then narrowed it very narrow. Because what we want to focus initially on use cases where we can be absolutely sure that they're making money. We're not after case studies for their own sake. We're after ways to improve the economics of the business. But one broad way to think about this is, we flagged automation as an area of focus for cost efficiency improvements. And we've talked about electronic shelf edge labelling, we've talked about small box automation in our logistics and supply chain. You can think about the application of AI and Gen AI in particular as another dimension of this, which we'll have more to say on in due course, but we think it's pretty interesting.

**Operator:** Our next question is from Wayne Brown, Panmure Liberum.

**Wayne Brown:** Hi all. I'm clearly very slow on the phone today, because literally all my questions have been asked, which is good news for you guys. But let me just probably just ask one quick one. For FY25, I think the narrative was all about you really didn't need market recovery to hit full your numbers. Is it too early, or do you have a view, as to how you think the consumer may actually spend next year, or the appetite that you think the consumer has to spend on electronics next year and what that kind of consumer sentiment view would be? Or would you rather maybe wait to get through peak until you firm up that view? So just getting an idea of how you're thinking about that for the 12 months ahead.

**Alex Baldock:** The one way to think about this, Wayne, is that look, what we haven't needed in the UK for example, a rising market and growing top line in order to improve the profit to the business. I mean, we've been able to do that for several, without any top line growth. Clearly, given the choice, we'd prefer top line growth. One of the reasons that we're as pleased as we are to return the UK business to top line growth, +5% after a number of years of decline. And our aim is to keep the gross margin and cost and cash conversion disciplines, which have served us so well, and add top line growth to the mix and benefit from the operating leverage that we touched on before. So, can we do a good job without it? We've shown that we can and we're showing it right now in the Nordics, where the top line is going backwards and yet we're improving profits by 50%, but clearly a recovery in the consumer, it would be our strong preference.

You asked what are we seeing? At the moment, I mean, the one way to think about it is that the UK consumer is in a better place than she was a year ago, but not as strong as she was six months ago. And you can see that reflected. If you want to quantify in the GFK consumer confidence numbers, it was (24) a year ago, it improved to (13), and now it's dipped back to (18). So back to where we were in January. And the reasons for that are a fairly well travelled ground. I mean, we expected in the summer inflation to keep falling to interest rates to carry on going down or to go down and consumer confidence to keep rising. And we've seen that progress stall. We don't have a crystal ball. What we would say is that, as you've heard, we're trading in line with our expectations this peak and we'll have more to say about that come January. But we've reiterated our confidence in growing profits and cash flow this year, and as you've heard from Bruce, we're confident in an upward trajectory of free cash flow to equity, going forward. So look, we're ready for any consumer environment. Clearly we'd prefer a benign one.

**Operator:** We'll now take our next question from Charlie Rothbarth, HSBC.

**Charlie Rothbarth:** My final one is on your long-term EBIT margin, I appreciate you say at least 3%. I'm just sort of wandering around what you would consider the point at which you were over earning on EBIT margins and thus we'd be looking to reinvest into presumably back into price.

**Bruce Marsh:** Our position is really straightforward here, Charlie. Clearly our ambition is to grow our EBIT margin forward. We think at least 3% is a fair way of presenting that right now. But obviously the goal ultimately is to deliver as strong EBIT and cash flow as we can. But right now, that's where our focus is.

**Operator:** Thank you. With this, I'd like to hand the call back over to Alex Baldock for closing remarks.

**Alex Baldock:** Thank you, and thank you all. I mean, as I say, we're encouraged by our progress. We can see our performance continuing to strengthen, but we're not satisfied with where we are and nor do we need to be, because we think that by carrying on with a strategy that's working, that's seeing us number one in our markets, growing share, however tough the markets are, with world-class colleague engagement, improving customer satisfaction and strategic initiatives visibly working, we aim to continue. And yes, there are some unscheduled and unwelcome headwinds, but we've dealt with those in the past. We aim to deal with them now and we're underway doing so, and we're confident in the long-term sustainable free cash flow generation, that's going to be to everyone's benefit. So on we go. Thank you all and have a great day.