Travis Perkins plc : Toolstation UK Investor Seminar

28th September 2023

Full transcript of presentation and analyst Q&A

Nick Roberts:

Good afternoon to you all and a warm welcome to our Toolstation investor seminar at our new distribution centre here at Pineham for what we hope will be an informative and engaging review of the Toolstation business here in the UK and a clear articulation of the exciting journey for growth and profitability that we have ahead of us. So, we'll spend the next hour and a half or so here running through our presentation and answering as many of your questions as we can before we put on our protective gear and tour the facility, which you will see as I've mentioned to a couple of you, is in its very early stages of operation. There is no fire alarm planned today, so if you hear one, please follow the signs to the exits behind you and you'll be guided to the assembly area outside. So, what do I hope that we achieve together here today?

During my four years with the group, two questions have featured about Toolstation strongly in my engagements with you, the investor and analyst community; what gives you confidence in the ability of Toolstation to successfully win share in a crowded market and deliver strong returns for the group? And how and when will your investment in growth create shareholder value? We intend to answer those questions for you today. We'll share our journey through the evolution of the Toolstation business as well as why we are still confident in the underlying economic model for the business and our ability to drive returns from the investments that we've made such as the one here in Pineham and also why we remain confident in continuing to make investments in the future, albeit probably at a lower level. Our intention is to give you a better understanding of the Toolstation model and our plans, which will enable you to see the value we are building through Toolstation being part of our group.

We believe Toolstation is an integral part of our group offer to our small trade and general builder customers, providing them convenience, channel choice, range and service complementing our Merchant businesses. To be clear, the discussion today is on Toolstation UK. Many of the themes from today will read across into our business in Europe and we will share learnings, but we wanted to focus on our largest and most mature business today. Our Toolstation business in Europe remains on track as detailed in the half year presentation that Alan and I gave in August. So, as a keen, albeit very amateur woodworker myself, I was already a customer of Toolstation when I joined the group in 2019. I thought it had the right magic ingredients of great products, price and people and it was full of potential. It was one of the reasons I was excited to join the Group in 2019.

I felt then that the nature of its format, both branch and online, had a much greater role to play in the future of the Group serving our trade customers' needs in new ways and helping us modernise the experience of trading with us as a Group. Of course, one clear intent of the portfolio rationalisation in 2020 and 2021 simplifying the Group, if you remember that, was to be able to allocate more capital to the growth of Toolstation. While the business was in its second decade and was making decent progress financially, it still lacked the depth and the scale to really change the game in the market and realise its potential both as a business in its own right, but also as part of the Group. I was keen that we addressed that quickly. We had a strong team, we had good strategic backing of the Board and a good foundation and we needed to move quickly.

The opportunity presented to roll out our capital-light model, supported by a best in class digital offer, was significant. And actually we're incredibly proud of what we built to date - 563 stores and 7 million customers in the UK, 5,000 colleagues and over £700 million of revenue and I'm excited about the opportunity it holds to create more value for customers and shareholders. Over the last four to five years, we've substantially invested in our network, our supply chain, our colleague and customer propositions, and we believe strongly in the potential for the business and its role in the group. During this time, we've had to navigate some tough market conditions and it's meant that we have not delivered the financial outcomes that we anticipated when we laid down our plans at the capital markets update in 2021. There were exceptional demand and supply conditions created by the pandemic, then higher inflation and decreased consumer and business confidence.

And we've navigated this turbulence well, but we have seen the impact of it, particularly in terms of margin compression as we maintained a high level of investment in the business to support the growth opportunity. I think it's important for me to say that despite these challenges, we do not look back on our decisions during this period with any regret. We have intentionally invested in Toolstation to ensure its medium to long-term success, based on our confidence in the underlying model and the format, and that is why we are here today. For the benefit of customers and shareholders. We built a national network of stores with significant maturity benefits to come and headroom for further growth. We've built a capable and invested supply chain and digital infrastructure and a broad customer base and advantage proposition and as you'll hear from Angela and Lakhvir today, these are the foundations that will create further value for both customers and shareholders in the future.

So let me hand over to the most important people today. I'd like to introduce Angela Rushforth, the MD of Toolstation UK and Lakhvir Sanghera, Finance Property and Distribution Director. Angela has deep trade merchanting and retail experience and long tenure with the group. As a member of the group leadership team, being previously the Managing Director of BSS and now Toolstation UK, she combines both prior understanding of the lightside model with merchanting within the group, a rare and powerful combination in our industry that brings valuable insight as we squarely focus on our trade customers. Angela's move to Toolstation in March 2023 meant that James MacKenzie is now able to bring his knowledge of the Toolstation model, its omnichannel approach, its customer insight to the TP General Merchant, demonstrating our ability and our intention to cross-fertilise ideas, build diversity of thought, build synergy, and offer more choice to our customers.

Today Angela will take us through the evolution of our plans both now and for the future. Lakhvir is an experienced finance commercial and operational leader having held previous roles in Wickes and the TP General Merchant. Before Lakhvir joined Toolstation, she was the TP General Merchant Commercial Director with responsibility for the full customer proposition and supply base. She also has responsibility for our property and distribution within TS UK including the investment in the distribution centre you will see later. Today Lakhvir will lead us through the developments in the economic model and growth plans for the future. We also have the rest of the Toolstation UK leadership team in the room as well as about half of the Group leadership team. So I hope you take the opportunity to meet them and talk to them particularly during the tour. So without further ado, Angela, I'll hand over to you.

Angela Rushforth:

Good afternoon and thank you Nick. Can I start by saying how proud I am to be standing here as managing director of Toolstation. Since joining the business six months ago, I've been delighted by what I've found and I'm excited to be leading the next stage of the Toolstation journey, the details of which I look forward to sharing with you all today. As Nick said, it's a model I know well from establishing the trade counter, marketing and customer analytics and digital propositions at Screwfix and I also bring to the role almost 20 years of trade understanding critical to developing a differentiated trade proposition.

Today, Lakhvir and I will take you through two broad sections of our story. Firstly, I want to go through some key elements to demonstrate the quality of the business that we have and our journey to date covering the fundamentals of the Toolstation model, the market we are in and the factors that have created the advantaged position that we have today. The second section will take you through our confidence in the future performance of the business. This is the next chapter where we harvest the returns from our previous investments, drive growth through store maturity and proposition enhancements and deliver improved profitability. I'll then hand over to Lakhvir who will take you through the breakdown of the financial impact to show how the revenue will increase to £1billion and how the margin and returns improve over the course of the plan.

Our vision at Toolstation is to create a personalised omni-channel journey supporting customers to fulfil their whole job with us. Together we'll get the job done better every time. Our strategy is to create a compelling proposition built on convenience, service and a seamless customer journey, informed and driven by customer insight. We'll also improve our colleague proposition by providing sales, product and leadership training along with clear career paths to attract and retain talent, particularly at the start of their careers, all of which is informed by listening to our colleagues. I'll provide more detail about the changes the Toolstation team will make to build customer loyalty, a key factor supporting ongoing sustainable growth. Although we've created a revised strategy for the business and are pivoting to a new phase, we can only do so because of the strength and scale of the business today - and I want to remind you about the efficient and repeatable basis of the model and the platform from which we build.

Toolstation is an advantaged business with a model that allows us to compete and win in the market. We characterise this as being better for customers and better for shareholders. There are clear reasons why our model is better for customers. Our trade focus is clear with the right trade brands and products combined with our credit offer, business development support and importantly our personal service taking the time to build those all-important relationships. And this is validated through our Trustpilot score of 4.6 - you only need to read some of the comments to understand the importance of high quality service. Value leadership remains at the core of the business. We check 6,000 prices every single week to make sure we're unbeatable on price with greater differentiation on our core and key value lines. Our broad range is delivered through our store network and distribution facilities with market leading availability.

Our digital offering is core to our service proposition with 80% of our sales digitally led through click and collect, direct to customer fulfilment or via store purchase following online research. And our model is also better for shareholders. It's simple and repeatable. As proven through our rapid store rollout programme and consistent level of store contribution. It requires little incremental capital to rollout and stock a store. This means we are winning in our market with a 3% market share gain in the last three years, winning thousands of customers each year and around 70% brand awareness and building. Delivering industry leading service metrics. Benefiting from scale efficiencies and advantaged purchasing. A nationwide network, convenient and close to the customer. All of this creating the platform to deliver attractive growth and return on capital.

Nick spoke a little about our recent history and you can see here the growth in our store network in four phases. And I'd like to call out a few key points from what has been a relatively short and active history. The levels of return during the third phase demonstrate the potential of the business to deliver attractive returns as new stores mature. How the growth was accelerated by the group's ability to allocate incremental capital following its simplification from 2019 - and how that investment continued despite market conditions becoming significantly more challenging. Finally, the impact of our investments in stores and distribution capability on our short-term levels of return, especially when combined with the macro factors that Nick described. We'll revisit this graphic again at the end to demonstrate the impact of the next phase as our store rollout progresses and we continue to grow sales and generate higher returns.

We talked about the advantaged business that I've stepped into, but I believe this next phase of growth is the most exciting and compelling for both existing and new customers because it's about understanding their pain points and their needs and resolving and satisfying those in a way which is personal to them. We've succeeded through the first phase of rapid growth and investment by the rollout of a simple model. We've recruited almost 7 million customers by focusing on compelling promotions. We've grown those customers with a one size fits all digital marketing programme. We've collected rich customer data. And we've continued to invest in stores, technology and in our supply chain. And these are all critical foundations to allow us to move to the next phase. The next phase involves increasing our level of customer focus using the learnings we've gained on our journey to date, to increase loyalty and share of wallet and move us towards the improved financial returns we are confident will come.

The most important element is becoming truly customer-centric, moving from gathering data to using that data to provide real insight to help us better serve customers. The wide product range we have allows us to understand customer purchasing behaviour and the repair and maintenance jobs that they're completing and we are now using that data to identify our customer's core missions, thus creating targeted personalised journeys to gain a greater share of their wallet. Let me explain what I mean by missions by bringing an example to life. So, one of our famous four categories is painting and decorating and a key project undertaken by both trade and DIY is decorating a room. The stages of this mission are prepare, cover, apply paint, and then clean. Each one of these stages requires product from filler, sugar soap, dust cloths and masks to roller paint and white spirit among others, but by clearly understanding the mission and the basket required to complete the job, we can present the appropriate products, bundle offers and steer the journey online or in store.

I mentioned that this is both a DIY and a trade mission. However, they do differ in terms of the type of product that they purchase with the trade purchasing higher quality trade brands and obviously in larger quantities. We already know that our trade customers shop more frequently and we are now looking at how we build increased loyalty with targeted offers helping them in their business. For example, in 2022 we ran a successful trial with Quickbooks offering a year's free accounting software access to trade account customers. Our customers saved over £200 a year and we were rewarded with their loyalty: customers who signed up to the offer spent on average 40% more than customers who didn't. We've grown our simple model for over 20 years. As we exit the growth phase and reach maturity, we must look to improve the efficiency of our model while not over-complicating it, doing what we can to reduce friction in our customer journeys. For example, we've already identified improvements to our drop-ship proposition and our returns and store operational processes. Importantly, the next phase requires a lower level of investment. It's about optimising existing assets, gaining more from each customer and leveraging the investments in our supply chain capability. This approach will deliver improved financial outcomes, which Lakhvir will cover in the second half of the presentation.

Toolstation is a truly omni-channel proposition allowing customers to purchase our full range either in store, on the web or from the App and to choose the most convenient route of fulfilment. The ease of use is clearly seen in the video that you saw at the beginning of the session. The store is the centre of our offering. We hold 11,000 SKUs in store for immediate collection and we are continuously refining the breadth and depth of that range to ensure we have the right stock available of our key trade lines so that projects can be completed. A wider number of SKUs is held in our distribution centres for next day delivery, either for store collection or director site or home. We run an order cutoff of 9PM to get that amount of range across the UK the next day. That's a powerful offer and this new Pineham facility brings us enhanced capability here. A further 12,000 SKUs are available to be shipped direct from the supplier and we can selectively expand this range over time carefully balancing customer choice with the risk of overloading them. As you can see, this model is highly convenient for our customers and it's this convenience combined with our value leadership and industry leading service that's winning in the markets.

A brief look at the addressable market with a few key points. Our addressable market is large, Toolstation spans multiple product categories and meets many different trade and DIY missions. It's fragmented with many groups of trade and DIY players involved, some established and some newer. We continue to take share in this large, fragmented market moving from 4% to 7% share in just three years. We're often asked from whom we've taken share and it's our belief that we've won share from across all of the group of established players that we've highlighted here and clearly you can see that there's significant headroom for growth and that is our key focus. Our market encompasses both trade and DIY and we've classified our 7 million customer base into a number of segments and have used insight and data to understand their different needs.

Our core target customers are the self-employed trade and the professional amateur DIYers, but we are working to increase the range of our appeal to larger trade customers, particularly as we work alongside our colleagues in the Travis Perkins General Merchant. I feel we really understand the needs of our customers and how those needs change through the different segments. We've laid out those needs on the page and I've highlighted in bold the areas where our customers tell us they feel we have an advantage in the market. There isn't time to talk about all of these, but I'm particularly pleased with our delivery in two key areas here. Firstly, our maintenance of a clear value advantage in the market. Meticulous competitive shopping techniques allow us to be confident in our claim that Toolstation does offer the best value to customers. Secondly, the perception of our service proposition in the eyes of customers. We score particularly well here, which is a testament to the quality of our people and the training. Other trade customer needs include convenience, stock availability, store location and speed of service and we are clearly satisfying these needs and we continue to improve our net promoter scores, particularly for our hassle-free click and collect service.

So, net promoter scores above 50% are deemed excellent and above 75% are exceptional and our overall net promoter score for our store sits at an average of 75%. Our DIY customers need more information and support and we do this effectively online with “how to” guides and in-store we use the knowledge gained from training and from serving the trade to provide better solutions for their DIY tasks.

I now want to show how our revenue is split between trade and DIY and how our data and analytics capability is bringing a deeper understanding to our customer base. Overall, approximately 60% of our sales are to trade customers. Over a third of these sales are to customers that are named trades such as Connie's Carpentry, whom you'll see in the video later, a further 25% are to customers who we know to be trade through their behaviours - frequency, spend levels and product choices. There's a clear opportunity for us to get to know these customers better and to use this knowledge to unlock further value from them. The final 40% are DIY customers and they're very welcome in our store and it's a strength of the model that it supports both customer types easily. In fact, the mix changes significantly at the weekends. On the right hand side of this slide, you can see clearly the result and benefit to the business of our trade focus with each trade customer generating on average five times the sales of a DIYer with increased frequency being the key driver. This makes me all the more convinced that we must push harder with our trade focused strategy and also the ease of shopping and service must be a priority as frequency is such an important factor.

Our digital capability is at the core of our success. 80% of all of our customer journeys start online and almost half of our business is transacted digitally. The App launched in 2021 already represents 25% of e-commerce sales where we see higher levels of spend and conversion due to its ease and functionality. We are continuing to enhance our digital capability to deliver a more personalised customer journey. For instance, we know how brand loyal our customers can be and say if someone's previously purchased a DeWalt power tool, we can now target them with other DeWalt tools and accessories. We're evolving from our effective digital journey for all customers to a more efficient, optimised personal experience which builds lifetime value and loyalty. Our convenient network of stores means 60% of the population and now within 10 minutes of a Toolstation. And, as Nick mentioned, we're continuing to invest in our network expansion due to the proven financial model which Lakhvir will detail further and we've much growth still to come with 50% of stores still less than five years old. Our store footprint is efficient and right for our business, optimised from years of work on sales density, location and catchment size.

I talked about our vision and the importance of customers and colleagues. Our colleagues, their service and the relationships they build with the trade are critical and we're investing further to build their product expertise and sales capability. This investment in colleagues is mainly through the effective use of the apprenticeship levy, creating opportunities and improving colleague retention. The attractiveness of Toolstation as a career is enhanced by the apprenticeship offer and by being part of the TP group with the potential to move across businesses as their career progresses

As well as investment in stores and in our people, as you can see today, we've invested in our supply chain capability. Here in Pineham we've just opened a facility which enhances our service offer, delivers accuracy and efficiency through automation and which gives us capacity for future growth. We had to move as our Bridgwater DC was very manual and was exceeding capacity and we were thoughtful to ensure that we future-proofed our business rather than the incremental investments that had been made before. Pineham will deliver a step change in accuracy and efficiency, reducing our labour requirements by a third alongside significant working capital benefits. We know this investment comes with a significant initial cost, but we have a clear pathway to harness the efficiency benefits over the next few years as a key component of our supply chain and to delivering high single digit returns on sales. In the last few slides, I've detailed the advantaged position that Toolstation has with plenty of headroom in the market and I've also talked about our customer and colleague focus, how we're increasing our understanding of our customers and how this will be the basis of our strengthened customer proposition. It's now time to look forward to demonstrate our confidence in the future of the business and explain how our enhanced proposition will lead us to a better financial performance.

Our enhanced proposition is focused on driving increased trade customer focus through our trade account, our range relevant incentives, mission optimised digital journeys and reliable service building relationships in store. Each of these is being developed to drive our key metrics, growing sales density and share of wallet. Our trade focus builds on the greater offer currently enjoyed by over 40,000 trade account customers today with improved functionality created to support SME trade. The trade account is valued by customers and we are rewarded with sales 20 times greater than those of a DIY customer. We started to invest in our trade ranges in 2019 and now have a vast array of trade credible brands. We'll continue to work with our key suppliers to ensure we have the right products to complete the projects our trade customers are undertaking. This is not always about range expansion but range curation and we believe there's more value in the right range held at trade depth. A tradesperson very rarely purchases one downlight; they will need enough to complete a room. This is about getting smarter and more targeted on stock management and not simply increasing stock investment. Stock depth and this reliability improves trust, a key factor in building loyalty with our customers.

Because building loyalty is our reason to be. To do that we continue to focus on our service levels but are also creating a programme of personalised incentives and benefits which will be tested and refined to ensure they deliver improved frequency, incrementality, and lifetime value.

Our digital proposition will continue to be enhanced by our learning and through engagement with our technology partners. Our Bloomreach investment has already supported improved page layout - brand and project pages - again, supporting our mission led approach and improving digital productivity. We have a clear digital roadmap with a goal of accelerating App usage and increasing conversion. The service we provide helps us to build trust with our customers. Trust in our speed of service and convenience, trust in our in-store teams to provide solutions and importantly, our trade customers want to build great relationships in store and we target further growth in our NPS and lower levels of labour turnover as measures of satisfaction and colleague engagement.

To bring this to life, I've split the trade customers into some broad segments. Here you can see the increases in spend that you would expect to see as customer size increases. We'll tailor our acquisition approach and our offering to suit different customer segments, leveraging group relationships where possible to ensure that Toolstation features as part of the range of solutions offered by the group to its larger customers. Our business development team focus on building that value, further targeting high potential value customers generally those with multiple properties, sites or maintenance operatives. And this is where we are leveraging TP group relationships. Future growth of the business development team will be informed by our increasing understanding of the requirements of a larger customer base. Working with our group colleagues, we're developing the service proposition based around range, system integration and account management that will make Toolstation a preferred partner. I'll now play a video that brings to life a few of our customer segments and how our proposition works well for their business.

So our increased customer focus will build improved loyalty and lifetime value, delivering a stronger sales line. Our proposition enhancements build on our network plan, augmented by maturity benefits from our existing stores and efficiencies from our supply chain to deliver our goals by 2027 with significantly improved financial outcomes. Building a long-term sustainable, profitable business takes customer understanding and loyalty along with price and margin management, cost control and efficiency through continuous improvement of our end-to-end processes. We have the team here at Toolstation who will deliver this and I'll now hand over to Lakhvir who will take you through each of these building blocks in more detail.

Lakhvir Sanghera:

Thank you very much Angela and good afternoon everyone. I'll now take you through the economics of the model and step through the journey to a billion pounds of revenue and improving profitability and returns over the course of the plan to 2027. This is all deliverable due to the strength and scale of the business that we have today. We've built a strong platform and a strong economic model. Looking forward, we now seek to capitalise on those investments and reap the benefits of a maturing estate, which means driving sales, improving gross margins, leveraging operational costs, and ensuring higher returns in the future.

Revenue will grow to £1billion of sales by 2027 due to three main factors: the increasing maturity of our existing stores, sales delivered by new sites, and propositional developments that are already underway. Firstly, maturity. Approximately half of our estate is under five years old, reflecting the significant network investment between 2019 and 2022, and we've built a strong platform. We'll see significant revenue boost as these stores mature over the next four years. I'll take you through some more detail on how this works in the following slides. Turning to new stores, we exited 2022 with 563 stores with nine further openings planned this year. We are well into our journey onto 650 stores, making this even more convenient for the customer. And, with a few relocations, we will open around 90 stores from 2023 to 2027. And the pipeline for new stores is well established. We have 16 new sites for 2024 in negotiation and a further 20 in the pipeline for 2025.

As you have seen previously, these new stores are capex light with working capital investment of £300k and £300k of opex at maturity. The growth to 650 stores over the next four years will improve our coverage in top conurbations and we see further opportunities beyond that point in the future with different models or formats. But for now we are very focused on delivering the benefits from the existing investments we have made and are being targeted with our deployment of further capital. Angela talked earlier about the elements of propositional development, ensuring that we are better for our customers through growth in customer numbers, share of wallet, loyalty and frequency, all delivering revenue benefits to us over the course of the plan. End markets remain uncertain and the competitive environment is dynamic. We view these propositional enhancements as the underpin to our projections, further strengthening our market position and making us confident in continuing our outperformance.

With over half of our stores opened in the last five years, the average age of our store network today is around six years old with average revenues per store of £1.2million. As we roll this forward to 2027, our average storage matures to around 10 years old and our average store revenue based on today's actual data will be £1.5million. And then on the right hand side of the slide you can see our store maturity curve, which I have split into three phases. An initial rapid growth phase to year six, followed by a phase of ongoing maturity to over 6% growth per annum to year 10. And after that we continued to see stores growing at a rate above our estimates of the long-term market growth rate. And this is all driven by the strength of the model - as we have laid out - and an increasing awareness of the Toolstation brand. The propositional developments we have outlined coupled with our unique ability to use customer relationships from across the Group to access large and medium-sized customers will allow us to sustain our market outperformance

To bring the maturity curve to life, let me illustrate with a typical handful of stores from across the country and you can see some key factors here. The growth in sales increasing as the stores age, the tight range of store sizes with stores since 2015, being mostly in the 4,000 - 5,000 square feet range, the increase in contribution towards a level of over 20% and the capex light model has allowed us to roll out at pace with capital outlay of £300k and £300k opex per site at maturity with a team of colleagues able to provide great customer service seven days a week. A key part of our plan is to continue to build the gross margin of the business. So we're already underway and will continue to improve our margin by approximately 200 basis points by 2027. A significant proportion of these are unlocked by actioning the valuable insights we have of customer shopping patterns, which also provides value to our supplier base and we will leverage these insights to deliver better customer experiences and a higher margin without compromising the value leadership position that is key to our customers.

We have split the levers of gross margin improvement into three brackets. Let me take you through them. So firstly, improvements in our commercial proposition. We can see a clear opportunity for commercial benefits through better category strategies, which will allow us to tailor our proposition to our customers while partnering with strategic suppliers. An example of this would be the definition of a good, better, best proposition for all relevant categories. This give customers the opportunity to buy into credible trade brands and high quality owned brands at a price point to suit their budget. It allows us to ensure the right margin is achieved.

Secondly, we can improve our gross margins through selling missions and projects to our customers. We want to encourage all of our customers to buy their full basket of goods from Toolstation - as the profitability of a transaction increases significantly when a customer buys their full basket from us. One example is power tool attachments bought alongside the power tool. So, through great in-store conversations, assisted selling online and creating the platform for targeted CRM activity, we grow our margins whilst capturing a bigger share of wallet from our customers. The final lever is the growth of our own brand offer where we plan to double our penetration from its current level of below 10%. We see this as a significant opportunity to provide customers with more choices for trade credible quality and value while we deliver further gross margin improvements. And our review of the market shows that some competitors have significantly higher own brand penetration - we believe Toolstation has a significant opportunity here.

As stores mature, our proven and efficient operating model allows volumes to increase without significantly increasing our cost base at the store level. As we've explained over the last few years, we've invested in the business and grown at pace putting down 228 new stores since 2018 and a new distribution centre to support the growth of the business. This has increased the cost base and compressed margins, hence our determination to push really hard to ensure that Toolstation harvest those benefits. Over the next five years, operating costs will remain tightly controlled and we are confident that the combination of this control and the benefits of scale and maturity will deliver ongoing improvements in our cost to serve of approximately 300 basis points. And with the majority of our store estate having benefited from the initial injection of operating costs and having recruited up to an operational headcount level, we see only modest increases resulting from volume increases over the next five years.

This reduces the key cost to serve ratio. This new distribution centre at Pineham allows us to unlock further efficiencies through route to market optimisation, productivity and working capital efficiencies and through strategic partnerships. And as our central support functions are already in place, we will therefore see margin benefit through leverage. Operating margin will increase to 8%. Pulling this together, we can see that in the period to 2027 operating margins will improve to 8% as revenue progression will be delivered through maturity of the estate and proposition development. And with ongoing commercial initiatives and leveraging scale will help to deliver improved gross margins and tight cost control and leveraging our overheads coupled with the unlock of distribution efficiencies that Pineham allows will help to deliver an improved cost to serve.

So, as we have demonstrated, the most recent phase of Toolstation's development has been one of rapid investment with the benefits of a much simplified Group allowing the targeting of capital towards Toolstation assets including new stores and Pineham. And we are now into the fifth phase, which takes us from the period of investing for the future and into profit growth and maturity as our store rollout moves at a steady pace towards 650 and the benefits of Pineham are delivered. This is an exciting phase of the business's development and we are delighted that the delivery of the benefits will fall under the period of our tenure. The investments required have been made. We have network scale and coverage, customer loyalty is increasing and we are growing our market share. And as the business continues to win, we will continue to grow ourselves and outperform the market through a targeted proposition and generate higher returns to our mature indie state and proven model.

The final point for me is to highlight the returns that the business will bring as over the period we see increasing revenue from £672million to £1billion coupled with improving operating margins from 3% to 8%. And we are confident that our proven model will deliver an attractive and stable return on capital employed of over 15% by 2027 as further capital investment in the business is minimal and our estate matures. Having completed the Pineham investment, the vast majority of our future capex requirements relates to 90 new stores and returns on those stores are both proven and highly attractive. So as our operating profit grows to £80million and the investment behind us, then our ROCE will increase to approximately 15% by the end of this plan. As a management team, we are very focused on delivering these results and as you would expect, we will track our progress through a framework of KPIs focused on revenue, profit and returns. We look forward to updating you on our progress. I will now hand it back to Nick to wrap up the presentation.

Nick Roberts:

Well, thank you Lakhvir. Angela and Lakhvir have demonstrated how we're putting the customer proposition right at the centre of Toolstation's plan. And as you saw in an earlier slide, I think it was 16, the development of this customer proposition complements our offer to our small trade and general builder customers and increasingly larger customers really enabled by the strength of relationships with our other Group businesses and the benefits for these customers in terms of speed, convenience, value and choice continue to gather pace. Nobody can offer as comprehensive a network of branches for lightside products and access to heavy building materials across the country. So we're now in a position to unlock more of these benefits for customers as the business enters the next phase of its journey. I shared an example at our half year of where our Toolstation business is supporting our TP Managed Services business and securing contracts with larger customers in its own rights such as water utilities to provide daily van stock, lightside materials, thus broadening the range of customer cohorts that will benefit from this service model and winning us additional share of an attractive market.

More broadly Toolstation continues to be an integral part of our group and increasingly allows us to unlock additional benefits. Commercially in our relationship with suppliers and how we build commercial advantage with other parts of the group and our ability to share ideas, talent between Toolstation and other parts of the group. And of course Angela and Lakhvir are direct examples of this as indeed are James Mackenzie and Richard Lavin, formerly the MD and FD of Toolstation UK, who are now MD and FD of the TP General Merchant. You heard from Angela about our investment in the colleague proposition. This is powered by the group's award-winning - and highly rated by both learners and OFSTED - apprenticeship platform called LEAP. The group is able to offer this product upskilling at scale and with significant leverage from our broader relationships with suppliers and experts in the industry, our ability to find new sources of operational efficiency and the deployment of Group support and technology capability as Toolstation grows is already being harnessed. I remain committed to find every way that we benefit stakeholders from Toolstation being an integral part of the group in the future.

We're only in the foothills of this aspect of our journey and we're making progress on it every single day and I'm excited about the scale of the opportunity as we look forward. So our Toolstation business is in great shape as I hope you see and full of opportunity. We have invested sensibly and deliberately through the cycle to leave us in a strong place with firm foundations and a clear ambition for profitable growth. Our businesses both here and in Europe are taking share and are growing. More importantly, we've invested in the business to deliver benefits for our customers and shareholders in the medium to long-term, not focused on driving the business for short-term profit to the detriment of its long-term potential. Toolstation is integral to the Group and our customer proposition and provides opportunities for more benefits in the future. There is much more to come.

You've heard today what this confidence is founded on: a great team who we believe to be the best in the industry, who have detailed plans to sustain competitive advantage and extract the value of the investments that we've made and those we'll be making in the future and providing value to shareholders and a compelling reason to continue to invest in TP. We will all work tirelessly to ensure Toolstation's success and, as Angela spelled out in the mission, together we'll get the job done better every day. With that, we will now take your questions. Just a polite reminder, as I always do, we will not be taking questions on current trading. We are here to talk about the future of Toolstation UK. We're very pleased to have so many guests with us today, but clearly that's going to make it difficult for us to cover all the questions in the time available. So I will try and marshal that as best I can. I will ask you therefore, and we all know your habit, to keep your questions succinct, maybe even two each. And whilst we just get the stage set up for the Q and A, we will take a short commercial break.

Nick Roberts:

Of course you've seen those before, right? You are well used to those. So can I welcome Angela, Lakhvir and of course Alan to the stage who all of you know. So as I say, I will manage your questions as best we can. So Aynsley, why don't you kick us off?

Aynsley Lammin (Investec): I think I've got two and a half actually, but just first of all, on the billion of sales, the target - is that assuming no market growth? It's just the maturity and market share gains or what are you assuming on market growth? Then the £13million of incremental costs from the dual running and one-off closures. How much of that actually just drops away in 2024? How much is ongoing? And then just an easy one, the credit sales percentage, credit sales currently and what you'd expect that to be by 2027.

Nick Roberts:

I think that's three, but you know what? I'll give you it, right? Lakhvir, would you like to take those?

Lakhvir Sanghera:

Yes, I'll start with those. So I think the first question that you had there, so we have included some market growth over the next few years. So it's 1.1% for 2024 and then 2.5% for the later years. In response to the question around the dual running cost, I think that relates to Pineham. And so we've got £13million of additional costs in this year's number. And we'll see net benefit from the new site by 2027. So we'll see a chunk of that fall away next year and then the two years after that as well.

Aynsley Lammin (Investec):

Credit Sales and target for 2027?

Lakhvir Sanghera:

So we've got around 3.8% of trade credit sales at the moment. We're looking to double that.

Annelies Vermeulen (Morgan Stanley):

So, we've heard Nick and Alan talk about Toolstation at length in the past, but Angela, I'd like to get your perspective given you were at Screwfix. What is it you think that Toolstation does better relative to where you previously worked? That's the first one. And then secondly, on the own brand proportion, you mentioned that your own brand sales are lower relative to your competitors. Why do you think that is? Is that a maturity argument as well? And how do you plan to grow that? Is there anything you need to acquire or you would like to acquire or how do you plan to grow that in the future? Thank you.

Nick Roberts:

Super. Thanks Annelies. Angela will come onto that. Clearly we've got the opportunity to actually think about own brand more broadly than just within Toolstation and to think about that as a Group, particularly between Toolstation and our General Merchant, which is a really exciting opportunity for us and for our customers. But with that, let me hand to Angela.

Angela Rushforth:

Yeah, so it was quite a while ago I was at Screwfix, but what I do see as a key difference, as I mentioned a number of times in the presentation, is the value proposition. I think our everyday low prices, the way that we're managing our pricing on a regular basis, I think is really key from a customer perspective. I also think in store our service proposition is significantly different and better. If you look on, you heard some of our customers talk about the friendly in-store service and I think that really is a differentiator and it's something that we are really investing in. How do we continue to train and develop our store colleagues to continue to give that better level of service? And we measure that regularly from an NPS perspective. And you can see that we're seeing that.

I think we've got a lot of plans from an own brand perspective. We've got some really great own brands currently which are working really well. So there'd be a look at how do we expand the ranges that we currently have, but we've got some relatively simple ones to go for in reality is that we don't have our own brand screws at the moment. Some fairly basic product lines that we don't have our own brand of them. As Nick said, we have some of those that exist already within the Group. So yeah, absolutely loads of opportunity and we see that doubling over the period of the plan.

Nick Roberts:

I know you've heard it from me and Alan in the past, but I will repeat it for the benefit of clarity. We mentioned it, Angela mentioned it and I mentioned it actually the other point against one of our notable competitors is our ability to actively access cohorts of larger customers by leveraging the relationships that we have across the Group. We've already mentioned that in terms of our TP Managed Services customers, water utilities, but that's just the start of the process. So I think in terms of the customer journey more broadly than just kind of format to format, our ability to leverage the customer base is quite different. So thank you for that. I know you've heard me say that before.

Arnaud Lehmann (Bank of America):

On slide 13 regarding competition, I can't see Travis Perkins on the slide. Maybe it's on purpose. I guess you talk about leveraging Travis Perkins' relationships, is that an alternative word for taking some market share from Travis Perkins, especially if you move towards larger customers? Is there a risk that you cannibalise some of it? And my second question is maybe a bit related on slide 24, I notice a yellow box which goes up but also goes down a bit, is that price investment to capture larger customers where you have to give larger discounts? Thank you.

Nick Roberts:

Thank you, your Arnaud. Look, I'll just comment Angela, maybe before you come to those I'll just comment on the first one and that point about relationships and cannibalisation. Look, this is a collaboration, okay? It's how we can use our scale to serve customers more seamlessly. And actually as a Group win more share of an already crowded market. So, if that means that actually we're putting some lightside through Toolstation because that's more convenient on a daily basis for customers that might have come out of TP, but actually we're getting more and we're winning more of that customer's share, that makes sense for the Group overall. So it really is a collaborative effort as I say, between our businesses to win a greater share of that market. So it's absolutely the right question, but the businesses are working very, very carefully together. As I say, TP Managed Services enabling Toolstation to access its customer base. We can differentiate our proposition in a way that nobody else can. Angela?

Angela Rushforth:

Yeah, I think the point I'd make on that one is it is a really large market in terms of both trade and DIY and there's a significant opportunity for us and we believe we're taking share from all of those players that are on them. We believe that there's lots of opportunity to do that.

Lakhvir Sanghera:

And then on the second question, just around slide 24 in the yellow box, so we're deliberately not putting an exact number on this element because we believe there's significant benefits to come from the work that we're doing to enhance the proposition. So the propositional benefits will come from the customer proposition for our trade customers. They'll also be focused on breadth and depth of range loyalty schemes, digital, all the areas that Angela outlined. But we do believe there's a significant opportunity there for us to continue to deliver and land those propositional developments.

Alan Williams:

In other words, it's not price!

Ben Wild, Deutsche Bank:

The first question is on the branch network and the rollout of new branches going forward, I think you mentioned that there are some relocations and maybe there'll be more relocations going forward as you slow down the branch rollout. Are you targeting the same kind of branches that you've targeted in the past or are you thinking about larger branches or differently located branches where you could potentially have a larger range? I'll leave it there actually and come back.

Nick Roberts:

Brilliant. Lakhvir?

Lakhvir Sanghera:

I'll take that one. So we have kind of found our sweet spot of what we think works for us. So between 4,000 and 5,000 square feet. So that's the aim of where we are planning to go into with the further 90 sites that we've outlined. We are still reviewing different formats. We've got some micro stores as well. So we've got the opportunity there to flex our formats and review those to inform our decisions as we go forward.

Angela Rushforth:

Be smaller rather than larger.

Alan Williams:

I would say if you look at our leases they tend to be 10 years maximum, sometimes five years. Some of the earliest stores may be on the wrong part of the trade estate or not optimally located for visibility. So the relocations are likely to be modest in number - it would also potentially be to get to an optimal location that could also be co-located with one of the other group businesses on a trade park, which I think would give you an advantage.

Ben Wild, Deutsche Bank:

And then just related to that and thinking about your ambition to grow the trade customer base, specifically on the own brand side of things, is it mainly DIY customers that are buying your own brand products today and do you believe those own brand products have the trade credibility that you mentioned during the presentation today?

Angela Rushforth:

I think our own brand products are sold across our whole customer base. To be fair, I think if you speak to any tradesperson, they use different products for different parts of their mission. Some they use, such as tools, they will keep forever. So there are different tools and things for different jobs and used across all of those. And I think one of the things that we are focusing on is those own brands being really trade credible because the trade is really the core of the proposition.

Alan Williams:

We know from the General Merchant that the trade buy own brand products, so Angela gave the example earlier of screws. That's a big own label proposition for us within the General Merchant alongside the branded product. So I think there's a real opportunity to share the learnings across the two business units as well around that.

Lakhvir Sanghera:

I think just to add that the own brand programme will be a targeted approach through category strategies, recognising the needs of every customer by category. So you might not have an own brand in every single category, but it will be relevant to the proposition and what the customer needs.

Ami Galla (Citi):

Just a few from me, one was just a technical one, you've given a pie chart of the average age store profile. Can you give us some colour in terms of what's the sales per store for the stores maybe over 10 years old or 15 years old within that bucket? The second one was when you look at your targets for 2027, the average sales per store is about £1.5million. When I look at where your nearest competitor, Screwfix, currently sits in terms of sales density, there's still a gap. Now is this gap something that you can bridge over the medium term or are there some things structurally? You are targeting the trade customer quite clearly? Is that one of the reasons that the gap would always exist? Think about the DIY index and the product SKU that you currently have, which differentiates why the sales density is higher and will always be there. And then last one just there's a lot of focus on customer engagement and building on that relationship to driving a bigger wallet share in that respect. What are you doing differently to get that incremental new customer but also that incremental wallet here digitally?

Nick Roberts:

Thank you Ami. Lakhvir, I'll come to you for number one and I'll start number two. And Angela, maybe you'd like to pick up number three. I'll just say on number two, I think we said before Ami, but it's absolutely the right question and it has been around a lot longer. So they have the maturity benefits built into that kind of differential. So what we've charted out, and as you saw in the graph on the right hand side that we anticipate those maturity benefits moving past the £1.5million, but Lakhvir will build on that and cover the first one.

Lakhvir Sanghera:

So, on slide 25 where the maturity curve was presented, that was based on actual data. So post 10 years it actually shows the performance of those stores in that cohort that are over 10 years old. We've got a proportion of stores now that are over 10 years and doing over £2million in sales as well. So the stores are following that maturity line that we shared with you. And the second question just around, so I think as Nick outlined, I think Screwfix are further ahead of the maturity curve than we are from a Toolstation perspective, but when we look at the market size in terms of our market share versus their market share, there's plenty of opportunity for both of us to grow in that space.

Alan Williams:

I think that locations are twice the size on average of the Toolstation location. So if you look on it, you referenced density, the sales density per square foot is a lot closer than the average revenue per location.

Nick Roberts:

And Angela on the differentiated proposition?

Angela Rushforth:

So yeah, we'll be continuing to use digital in terms of targeting new customers and being more targeted in terms of that specific trade customer. We know what they look like and we know exactly where they're going, what they're doing and how they're shopping. And we're using those behavioural and better customer understanding and data to target the right customer and to target them more effectively. And I think there is a bit of a building from where we've been previously, which is around building deals into those missions and targeting in a different way. So yeah, so we will be looking at how we target customers in a different way.

Alan Williams:

I think our other advantage on what we do differently is being the largest trade player in the UK full stop across the group. So it's a better sharing of those learnings across the businesses that we can do in the future.

Nick Roberts:

And Ami, I might just add to that if I may because it might be some questions that others wish to ask. I mean when you see some of the clarity of the data around customers that we've shared today versus what we previously shared, it reflects something that we've spoken about more generally for the Group and that's the investment particularly over the last 24 months in our data infrastructure and capability. So our ability to analyse the data that we have on everything, but in this case customers, our ability to really drive much better insight around customer cohorts, their behaviours, their patterns and what we can do about them and how we target them has increased enormously. And that's reflected, I hope, in the difference you see from talking to us over a number of years. And that is enabling us to be much more targeted both in branch and digitally and we're adjusting versus a notable competitor, our in-store experience as a result of that. So we really understand what our trade customers in particular prefer. And it isn't a series of iPads as soon as they walk in the store. So you might say that's nuance at a particular point in time. No, it's actually a more fundamental understanding of what really enhances our trade customer proposition and the experience that they get and then we use our data to really understand that ever more clearly. So it's a reflection of the group's intent and investment more broadly as well. Thanks Ami. Will?

Will Jones (Redburn Atlantic):

Thanks. First, just around the trade proportion, the 60%, is that a number you think changes between now and 2027 and does that have any margin implications? I think in the past you've talked about margin differences for trade vs DIY. And second one just to help us understand, I think you've got the £300,000 number as the opex per mature store. How does that split between leases, people, other stuff and how do you think that will evolve like for like? Thanks.

Nick Roberts:

Yeah, I think Lakhvir I'll come to you for these. As you know, our increasing proportion of trade customers leads to margin accretion. We understand that and certainly the benefit of our data infrastructure allows us to target those customers more proactively. But you want to comment more broadly on Will's questions there?

Lakhvir Sanghera:

Absolutely. So I think the trade proportion, we absolutely see that proportion growing in line with the trade proposition and the strategy and levers that we've outlined. We do actually see a more favourable margin on a trade customer versus DIY. So that is enhancing to the gross margin overall. So the further we grow in that space, the more we see our margin improving.

Will Jones (Redburn Atlantic):

It doesn't seem like we've allowed for it in the gross margin bridge? Unless it's baked into the proposition?

Lakhvir Sanghera:

Yeah, it'll be part of the propositional improvements in the gross margin bridge. And then from the second question just around the operating costs, it is split roughly around 50% staff, 30% rent and rates. We've got the inbound delivery costs and distribution costs into store around 15% and then we've got other charges like bank processing fees, etc.

Sam Cullen (Peel Hunt):

I've got two please. If we go back on the cohort analysis, just a clarification of what that is actually showing? And then, if it's just the branches over 10 years, what do those lines look like for those that are five years old and seven years old and eight years old, are they following the same trajectories that cohort you've shown on that slide? Yes, I get the newest one's going to pretty noisy.

Lakhvir Sanghera:

Yes they are. So it's all based on average performance today based on actual data. So they are following same.

Sam Cullen (Peel Hunt):

But that cohort, is that just stores that are over 10 years or is that all of the stores?

Lakhvir Sanghera:

It's all stores.

Alan Williams:

And the on the second one, we've had more above the line in the last three years than below the line.

Sam Cullen (Peel Hunt):

On the second one, going back on this potential cannibalization of TPK lightside, conscious it's a Toolstation UK presentation, but what opportunity, if you do take share from lightside in green and gold, what opportunities does that give you within that estate network to either adjust the estate footprint a little bit or offer different products and services within TPK? Now you've got more space in the branch footprint.

Nick Roberts:

Well, I'll answer it briefly because we're going to focus on Toolstation, but I think we've said Sam, we've covered the rationale and logic behind our destination branches, which brings together real depth and breadth of heavy building materials with a really compelling lightside offer and Hire and Benchmarx and the opportunity to access that both physically and digitally. So for us Toolstation is complementary to that trade offer. It doesn't mean that we're going to start altering the lightside proposition in our TP General Merchant because there's different kind of customer journeys involved. So we see that remaining fundamental to the offer through our destination branches. Toolstation is really complementary in its convenience and channel choice for our trade customers on other parts of their journeys and missions. Angela, anything you want to add that?

Angela Rushforth:

I think just that there's relatively small amount of crossover currently, so we think we don't see huge amounts of cannibalisation when we're going into a new market.

Nick Roberts:

There's a much broader conversation there Sam but we'll pick up offline. Let's stay focused on Toolstation.

Christen Hjorth (Numis):

Just going back to the gross margin improvement and the chart that you have on page 27, so I get the own brand bit and obviously the more trade, but can you just provide a little bit more colour on other areas of gross margin benefit clearly in what is a very competitive and well-served market over the next three to four years. And then just second on the store level basis, just in terms of the managers there, how important are they to the success of maturity and of the store and just how remuneration is dealt with?

Nick Roberts:

Okay, super. Let's take the second one first I, there's lots to talk about in terms of how we're enhancing the colleague proposition, which Angela touched on. So Angela, I'll come to you for that and then perhaps Lakhvir to step us through the GM improvement. So Angela on the store manager, we might want to combine that with the BGMs as well.

Angela Rushforth:

Yeah, so store managers are really critical and I think that's one of the things that we have seen and I think that's one of the key differences I think that we are looking at or have looked at over the last 6-12 months in terms of the real benefit that our people bring to that store proposition. Their engagement with our trade customer base is really important. The way that they manage their people, etc. We can see a great store manager really drives that labour turnover and low labour turnover drives really great service. So they are really critical to it and we are continuing to enhance that colleague proposition in terms of working with the LEAP programme, as Nick mentioned, in terms of providing more and greater training through our apprenticeship levy and apprenticeship schemes.

We're also looking at how we incentivise our managers as well and for the first time we've actually put in incentives for P&L. We've working with them on owning their P&L's a bit more akin to a merchant in terms of really understanding the top to bottom of their business and are incentivising them on that.

Lakhvir Sanghera:

And on the gross margin question, so there's three areas of gross margin. So the first one was around the commercial proposition, so that's really focused on what we are buying and who we're partnering with from a supplier perspective. So we talked earlier about supplier strategies, so partnering with strategic suppliers, so making sure that we're really clear on which areas we are growing and which suppliers we're partnering with in that space. I think the growth of the business from 2017 to now we can see how quickly it's growing, so that does give us advantage in scale when we're talking to those suppliers as well. We've also got the opportunity to work with our Group counterparts as well in that space. The second area is really around data, so we've got lots of invaluable data now across the board from our customers, how they shop, frequency of purchasing, what products they're buying and we've got the opportunity to work smarter with suppliers in that space as well.

And then we've also got category strategies that I mentioned earlier, so having a really targeted approach to what our proposition is for every single category so we can be really direct around what we're actually purchasing with suppliers. Angela talked a bit about SKUs earlier and products and it's really about having the right range and the right number of SKUs rather than excess SKUs in the business. The second area was really around the customer proposition. So as I mentioned in my update, buying one product on promotion versus a basket of products really does impact the profitability of a transaction massively. So we are focusing on how we drive project missions and basket purchases with our customers, which does drive gross margin improvements and as I mentioned earlier, as we focus on the customer proposition from a trade perspective, we get the benefits of an improved gross margin in that space as well. And the final one was owned brands that we've touched on earlier.

Priyal Woolf (Jefferies):

Mine was actually just to follow up on that range of SKUs. So you said you've got 31,000 SKUs in Toolstation at the moment. I'm just interested to hear how that's grown over time over the last 20 years or so. And actually is there any sort of number on where that needs to go to now as all the hard work pretty much done in terms of increasing the breadth? And then the second one was you're selling 11,000 SKUs in store at the moment, you had a couple of customers in some of your videos saying they shop across various Toolstation branches. Do you need to standardise that nationwide or actually again, do branch managers have a little bit more discretion as to what's stored in each store?

Nick Roberts:

Thank you Priyal. Angela, maybe I'll come to you on this one. It's an interesting question. As Angela said, we've changed the way we think about our SKUs as our proposition matures and actually having the depth in stock for our trade customers is really important to them.

Angela Rushforth:

So yeah, I mean we've grown massively in terms of our SKU base over the last number of years and I think again, that's one of the things that we are really looking at, which is what is it that we really require? What is it that customers want and particularly trade customers want their products to complete their mission, their job in depth. And actually when we look at some of our SKUs, I think we've got a bit of a proliferation in certain areas. We've got 10 welding helmets, we've got 30 variations of AA batteries and therefore it's around how do we curate that so that we've got the right range in the right depth and particularly in the trade brands as well. We've done an awful lot of work on trade brands that we introduced in about 2019 and those brands are really key to our trade customers and we'll continue to look at where do we put down the key trade brands and really be careful in terms of what we are doing in terms of that range expansion. We've got opportunities to expand range outside of the walls that we've got here as well in terms of the way that we use drop-ship. So that's just another way of doing it, but we see it ourselves moving to about 40,000 SKUs over the period of this plan.

Localisation of ranging? One of the key things that we don't want to do is overcomplicate the model, but we do, however, recognise that we do have a bit of a one size fits all in terms of the ranges that go out to every single one of our 563 stores and we recognise the challenges that brings in terms of a significant amount of lawnmowers that get delivered to Central London, which are not particularly useful, and therefore we are looking at how do we curate that more effectively, but in a simpler way, we don't want 563 variants, we want a few variants in terms of rural versus city locations, but we have the functionality to do that now, which we didn't have previously.

Charlie Campbell (Liberum):

Thanks very much. I've only got one actually, but it's quite a big interesting question. I can see why you are going for a slowdown in openings to improve the margin, but what I'm slightly missing is why now? Why not get to a thousand branches before slowing down the opening and moving the margin up? That's just an alternative strategy that you could present. So I just wonder why this one is preferable to that?

Angela Rushforth:

Yeah, I think we are really focused on driving the efficiency that we need to in terms of delivering on that long-term investment that's been put into the business. We do see that there's opportunity beyond the 650 that was put into this plan and we see that there's growth beyond that, but we are really focused on how do we deliver the £1billion at the 8% and really drive the efficiency of the business to make sure it's a long-term sustainable profitable business.

Charlie Campbell (Liberum):

So, as a supplementary, then when you get to the £1billion and the 8%, you would then think about accelerating the branch opening programme from there. Is that the way we should think about it?

Angela Rushforth:

Well we'd certainly look at what other opportunities there are based upon where we'd got to at that point in time. We do see opportunity beyond the £1billion and the 650, but we are really focused on that 2027 number at the moment.

Nick Roberts:

Yeah, I think Charlie, it's in response to the challenge we've given ourselves and the challenge that actually we've heard from our investors that we really want to prove out the investment case but we're not going to cap out the business. We see plenty of opportunities to develop the proposition as we unlock the opportunities that Toolstation represents as part of the broader Group. We will continue to move, we'll continue to grow, we'll continue to unlock the maturity benefits and the propositional benefits. What we're stating really is a kind of a moment in time against the plan and we have been really intentional and I hope you see this from our narrative. My narrative over the last couple years we've been really intentional through thick and thin. We certainly have had thick and thin over the last couple of years of laying down the right foundations for long-term growth and profitability and we intend to continue to do so. We need to make sure we deliver the plan, give everybody absolute confidence that we're delivering the plan, we will then talk about how we adjust that and move forward after that.

Graeme Kyle (Shore Capital):

Just on a follow up to that, does Toolstation Europe, the performance of Toolstation Europe have any influence at all on the rollout in the UK?

Nick Roberts:

Graham, thank you. As I said, I'm not going to talk about Toolstation Europe. Alright. We've talked about that on the half year. This is about Toolstation UK as we said at the half year and as I said earlier, Toolstation Europe remains on track, remains on plan, and that's all we're going to say about it today.

Graeme Kyle (Shore Capital):

Okay, thanks. And secondly, just on the six year maturity profile of the branches, has this been fairly constant over the years? What influences faster or slower maturity profile and what do you do with the slow ones?

Lakhvir Sanghera:

Yeah, so the shape to year six has been pretty consistent over the years. We probably see a slightly higher uptick in year one versus what we probably saw in previous years. We see a higher uptick in year one and then it gets to the same number from a shape perspective, but broadly they've been really consistent over the last few years. Alan, I don’t know if you want to add to that.

Alan Williams:

I think that's right. One of the factors that does help is the fact that the brand recognition has grown. So you're seeing through the brand recognition, that's why I made the earlier comment that we've got, if you were to plug these as dots on the chart to get to that average line in the last three or four years, we've got more dots which are above the line rather than below the line. That's a feature of which indicates slight acceleration. So it's a feature of choosing better locations, optimising the store size over time, and then the brand recognition that we've grown.

Nick Roberts:

Thank you Graeme. With no further questions I'm keen that you see the mighty distribution centre. So I will hand over to Lakhvir who will describe the next stage of our afternoon's activities.

Lakhvir Sanghera:

Thank you Nick. So now we'd like to use this opportunity to take you around the new distribution centre and share with you the features of the great site and the automation that we've invested in here, all of which will support future growth and efficiency of the business. I do need to emphasise that we are very early on in our journey here and every day we continue to ramp up on the volumes that have been serviced by this site. We only started sending out outbound deliveries six weeks ago from this site, and you'll see that the stock levels in the main part of the site are only just starting to build.

I'm going to start with a small introduction to the site and we will then ask you to put on your PPE, your safety shoes and your high-vis jackets. We are going to need to stay focused for this part of the session on time to make sure that we can get those of you travelling on trains back to the station on time. So we'll take a very short comfort break after my short update before we reassemble in the main reception area downstairs. So now for the important part, there will be four groups on the tour. So on your name badge you should see a small sticker, a coloured sticker, denoting which group that you're in. We going to give you headsets to wear on the tour where you can hear the update from each of the tour hosts and also have the opportunity to ask any questions by pushing the button on the headset. Please ensure you wear your headsets to listen to the briefing at each of the stations. We're going to take you through four areas today. So these will be focused around goods inward, and decanting of products, our automated storage and retrieval system known as the ASRS, chucks and picking, and then product lidding and sortation.

Now importantly from a safety perspective, please remember this is an operational warehouse with moving machinery across the site. For your own safety, please do not use your phone, take photos or make notes at any time during the tour. Your safety boots must be worn at all times and your high-vis must be zipped up and kept closed. As this is a 360 site, there will also be parts of the tour where you'll need to go up to the mezzanine floor. So please ensure that you have three points of contact at all times on the stairs. That's both hands on the rail and feet on the ground.

Before we start, I want to give you an overview of the facility and what you're going to see on the tour today. So Pineham is a highly automated distribution centre to service the needs of our customers and branches in the future. We use the phrase highly automated as you will see robots and handling machines on the floor. We're not fully automated as there will still be people involved. We've deliberately made this distinction to make sure that we retain elements of flexibility as our model grows and evolves and to allow us to flex if we need to in the future. Completed earlier this year, the new facility has been designed to vastly increase our capacity, improve our customer experience, and deliver improved stock accuracy and drive efficiency in the longer term. It allows us to reduce our overall cost to serve as it acts as a vital unlock for efficiencies in our model.

Our previous non-automated site in Bridgwater offered little opportunity for growth and capacity and was not able to be fitted with automation to enhance operational efficiency. As Angela said, we had to move as this was acting as a brake on our growth and, given this imperative, we wanted to make sure we took the opportunity to futureproof the business. So the distribution centre is approximately 500,000 square feet in size with two mezzanine floors giving us additional capacity. This is a marked departure from the previous Toolstation strategy of investing incrementally in facilities that were approximately 150,000 square feet. Whilst this is a large site, we will focus today's tour on the automation. So realistically we'll cover around 25% of the site. In addition to what you see today, we also have more traditional APR or adjustable pallet racking locations. They mirror more distribution and pick operations that you may have come across before. These more traditional operations are not yet fully operational as we wanted to focus first on getting the automation up and running. There are three main elements to the automation on site, which you'll see as you walk around. So the automated storage and retrieval system for storing products in totes, a system of robots for replenishment and picking of small and medium key product. And finally, a boxing machine with a sortation conveyor, which sends finished packed boxes straight to the dispatch area.

We've partnered with GXO logistics who are the market leaders in automated logistics operations to operate the facility on our behalf and GXO will employ approximately 200 colleagues when the site is operating fully. And that's two thirds of the labour required to operate our previous facility in Somerset to fulfil the same volume, as you would expect from such a new facility. We have considered the ESG requirements closely as part of the design. In addition to the packaging and recycling measures, you will see we also have 44 electric vehicle charging points, a significant quantity of solar panels to offset our energy consumption, rainwater harvesting in place. We are very proud of the site and excited about what it brings to our business. There's clear customer benefits from the amount of range we can hold and the accuracy and speed of service that the automation will bring. There's also the efficiency benefits that will be realised when we're at scale from a lower cost to serve and working capital consolidation of stock and optimising route to markets.

As mentioned earlier, we'll show you some of that automation today and the six main areas to highlight from unloading products, tote storage, automatic box creation, order picking by chucks, order movement and order sortation. I would characterise this automation as leading edge rather than bleeding edge. We wanted to ensure that we were in a leading position in our industry without bearing the costs and risks of brand new technology. I'm really pleased to say that given our experience of commissioning and beginning to use the technology, I think we've achieved this balance. Now, as a reminder, we'll take a very short comfort break and we'll assemble in your groups in the main reception area on the ground floor, and from there we can pick up our headsets and commence the tour. Now before we do that, at the back of the room you'll find some safety shoes, PPE available, and also a high-vis jacket. You also have the opportunity to grab a refreshment, a drink from the room where you had your lunch earlier, and also have a quick comfort break. And we'll see you downstairs in a few minutes time.