

Grafton Group plc

Final Results

Financial Year Ended 31 December 2022



Cautionary statement & notes

Cautionary statement

Certain statements made in this presentation are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied by these forward-looking statements. They appear in a number of places throughout this presentation and include statements regarding the intentions, beliefs or current expectations of Directors concerning, amongst other things, the results of the operations, financial condition, liquidity, prospects, growth, strategies and the businesses operated by the Group. The Directors do not undertake any obligation to update or revise any forward-looking statements whether as a result of new information, future developments or otherwise.

Notes and Definitions

Please refer to Notes and Definitions in Appendix 1



Eric Born
Chief Executive Officer



David Arnold
Chief Financial Officer



Introduction & highlights

ERIC BORN, CEO



First impressions



- Good business which aligned with my expectations
- Strong brands that have excellent market positions
- Experienced and driven management teams
- Geographically well diversified revenue and profit streams
- Opportunities for further organic growth and bolt on expansion in existing markets
- Further buy and build opportunities in new geographies
- Strong balance sheet to deploy capital in a disciplined manner

2022 Review



- Strong trading performance from diversified earnings base
- 60 per cent of operating profit generated outside the UK
- Excellent performance in distribution businesses in Ireland and the Netherlands
- Volumes and profitability lower in Selco against a strong comparator and softer backdrop
- Good contribution from IKH in Finland
- Profitability normalised in Woodie's but still well ahead of 2019
- UK manufacturing performed well
- £208.9 million returned to shareholders via dividend and buy back
- Good progress on ESG



2022

Financial highlights

£m	2022	2021	Change
Revenue	£2,301m	£2,110m	+9.1%
Adjusted operating profit	£285.9m	£288.0m	(0.7%)
Adjusted earnings per share	96.6p	93.0p	+3.9%
Dividend	33.0p	30.5p	+8.2%
Net cash (before IFRS 16 leases)	£458.2m	£588.0m	(£129.8m)
Adjusted operating profit margin pre property profit	11.3%	12.9%	(160bps)
Adjusted return on capital employed	17.2%	19.4%	(220bps)



Financial review

DAVID ARNOLD, CFO



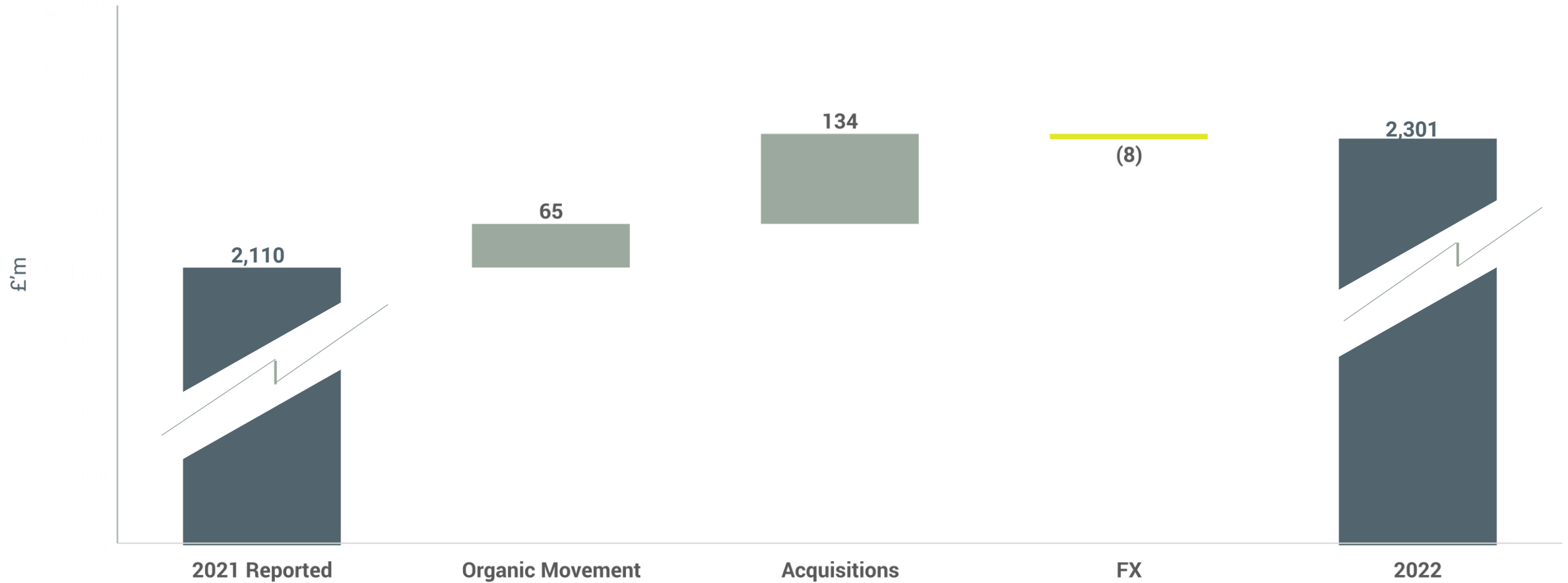
Income statement

Continuing operations

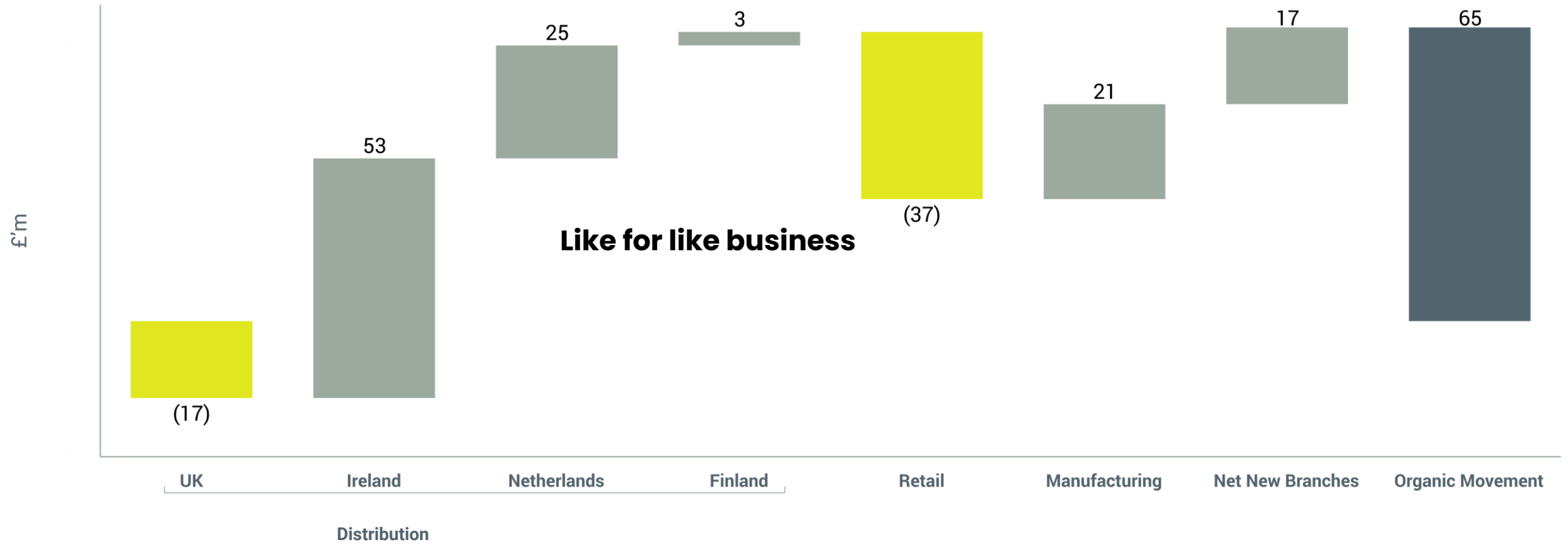
£m	2022	2021	Change
Revenue	2,301.5	2,109.9	+9.1%
Adjusted operating profit pre property profit	260.5	271.2	(4.0%)
Property profit	25.4	16.7	
Adjusted operating profit	285.9	288.0	(0.7%)
Amortisation ¹ and acquisition related items	(21.6)	(18.8)	
Statutory operating profit	264.3	269.2	(1.8%)
Net finance cost	(12.6)	(19.4)	
Statutory profit before tax	251.7	249.8	+0.8%
Adjusted profit before tax	273.3	268.6	1.7%

¹Amortisation of intangible assets arising on acquisitions

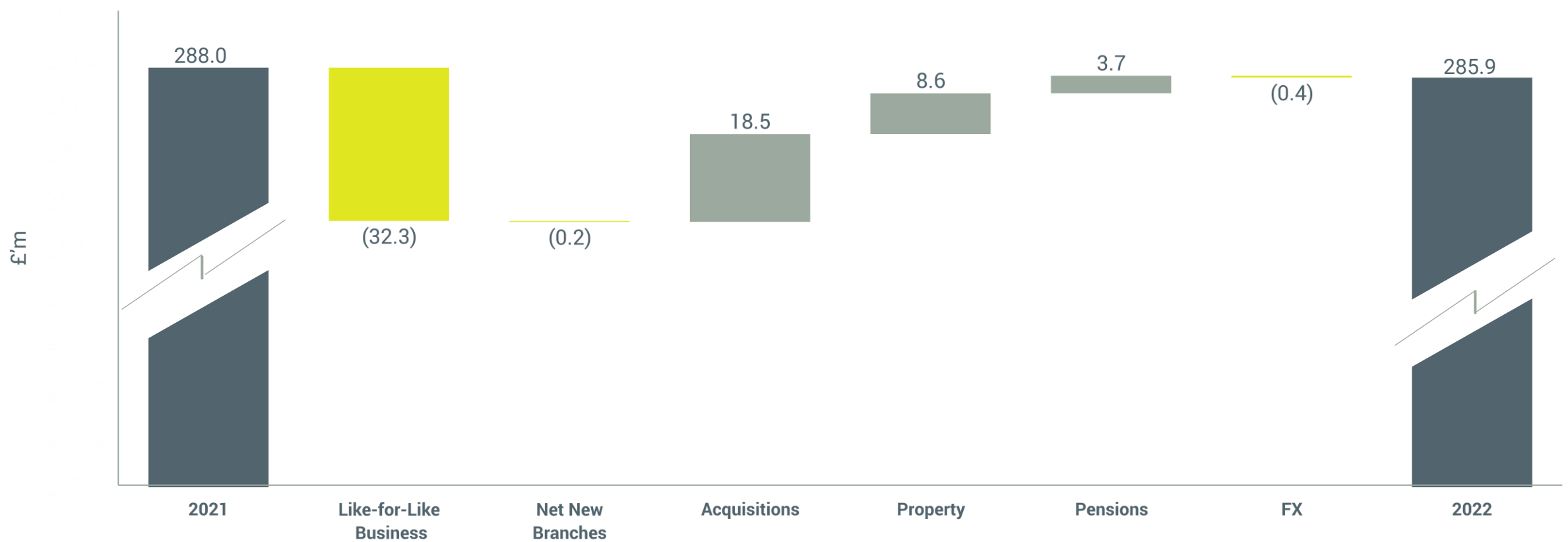
Revenue bridge



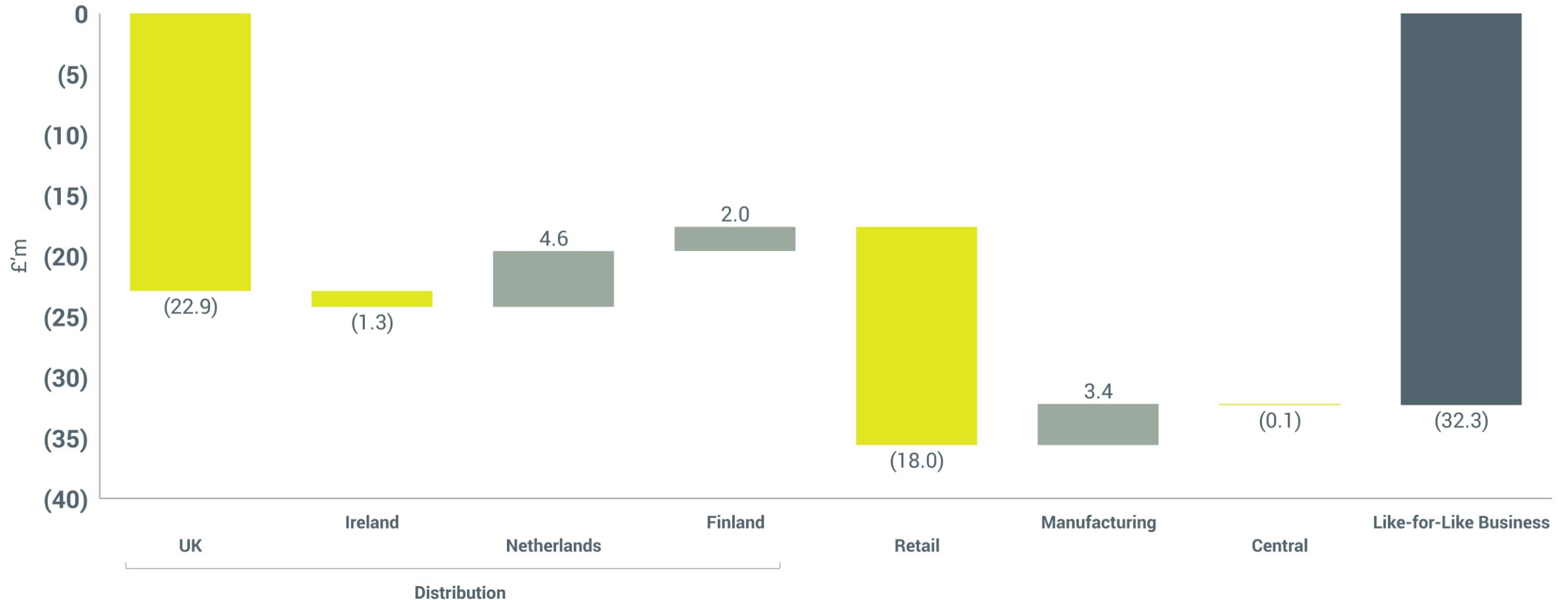
Analysis of organic movement in revenue (constant currency)



Adjusted operating profit – bridge 2021 to 2022

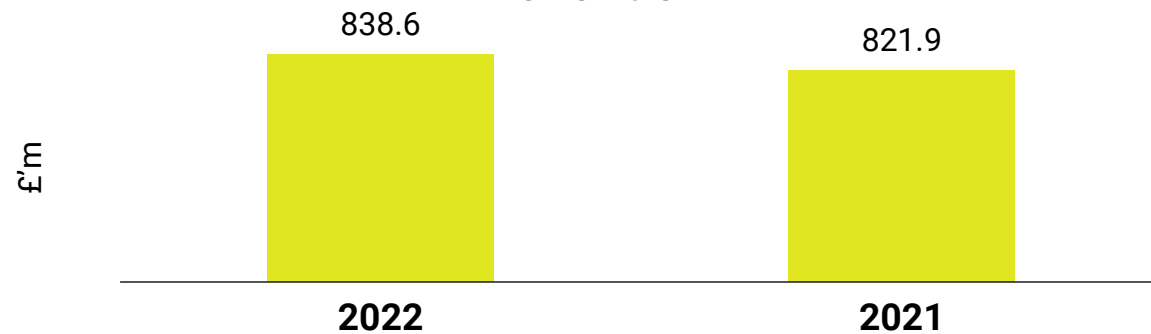


Analysis of movement in operating profit in like-for-like business

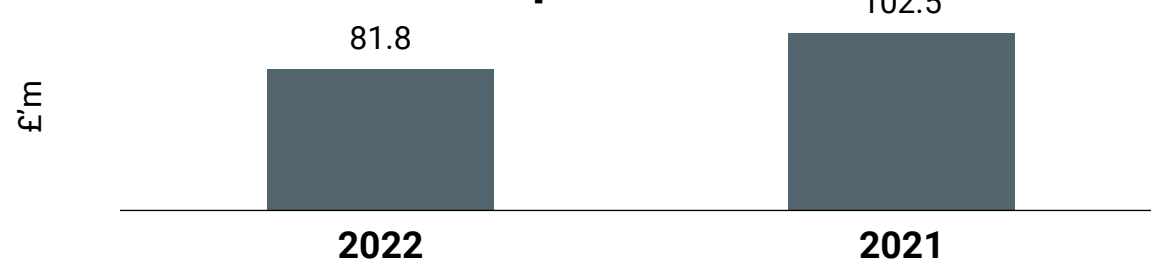


UK Distribution

Revenue



Adjusted operating profit before property profit

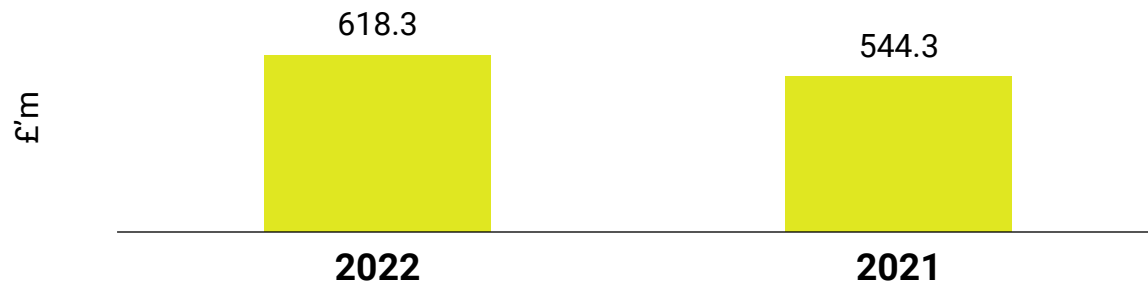


£m	2022	2021	Change
Revenue	838.6	821.9	+2.0%
Adjusted operating profit pre property	81.8	102.5	(20.2%)
Adjusted operating margin pre property	9.8%	12.5%	(270bps)

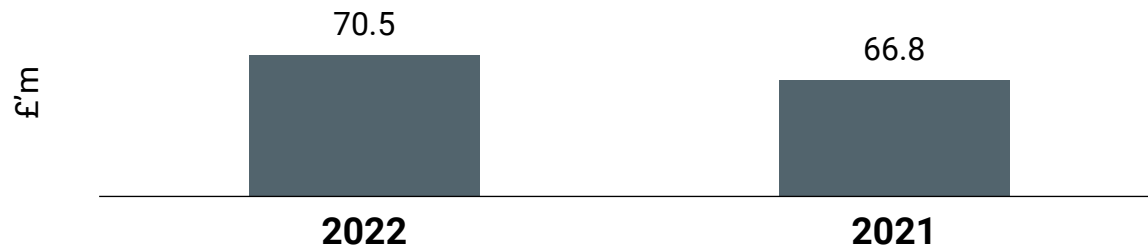
- Volumes in UK RMI lower but decline moderated in Selco in H2
- High but easing product price inflation - Selco saw cost prices of 17 per cent in H1 and 7 per cent in H2
- Gross margin was 200bps lower reflecting a normalisation of trading patterns – 2021 stock gains not repeated in 2022
- New branches and acquisitions contributed sales of £33.3m

Irish Distribution

Revenue



Adjusted operating profit before property profit

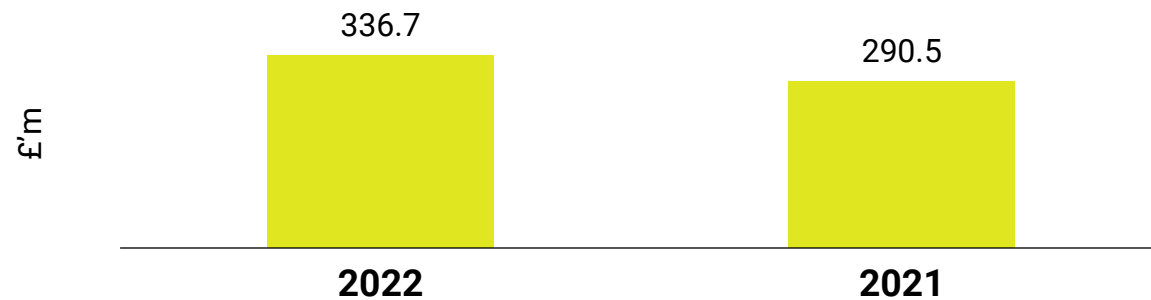


£m	2022	2021	Change
Revenue	618.3	544.3	+13.6%
Adjusted operating profit pre property	70.5	66.8	+5.5%
Adjusted operating margin pre property	11.4%	12.3%	(90bps)

- Very strong performance with trading returning to more normalised levels – volumes declined in H2 as construction activity slowed
- Supply chain pressures eased but inflation still averaged 15 per cent
- Recent Proline and Sitetech acquisitions performed well ahead of plan
- Major upgrades completed at a number of branches

Netherlands Distribution

Revenue



Adjusted operating profit before property profit

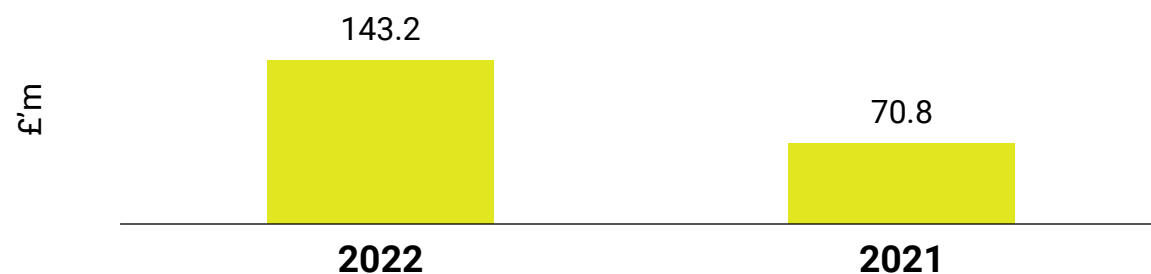


£m	2022	2021	Change
Revenue	336.7	290.5	+15.9%
Adjusted operating profit pre property	37.6	30.5	+23.2%
Adjusted operating margin pre property	11.2%	10.5%	+70bps

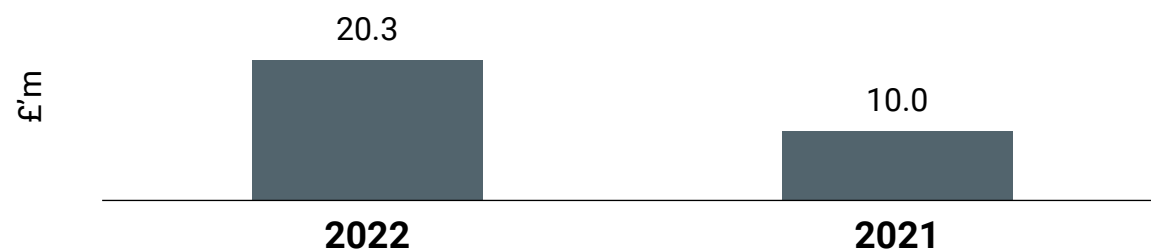
- Excellent results with a good contribution from acquisitions and benefits from performance improvement measures
- Volumes flat in H1 and up modestly in H2 - inflation averaged 8 per cent
- Gross margin higher reflecting procurement and inflation derived inventory gains
- Regts acquisition performed well – NL Group now trades from 123 branches

Finland Distribution

Revenue



Adjusted operating profit before property profit

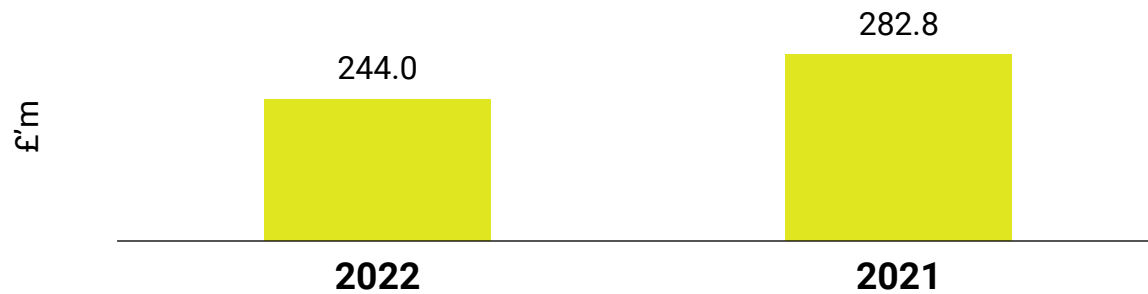


£m	2022	2021	Change
Revenue	143.2	70.8	+102.2%
Adjusted operating profit pre property	20.3	10.0	+104.2%
Adjusted operating margin pre property	14.2%	14.1%	+10bps

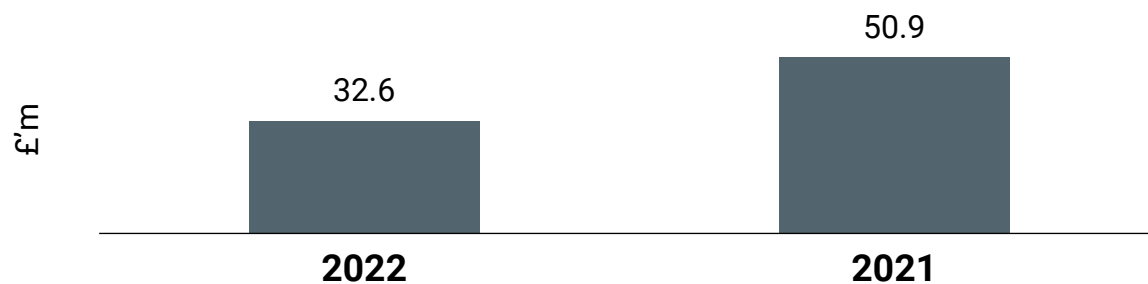
- First full year of results for IKH (acquired on 1 July 21)
- Good performance which was in line with pre acquisition expectations despite more challenging market conditions
- H1 revenue down on prior year but revenue increased by 5.4 per cent in H2 as demand recovered
- Two new owned stores opened in 2022

Retailing

Revenue



Operating profit before property profit

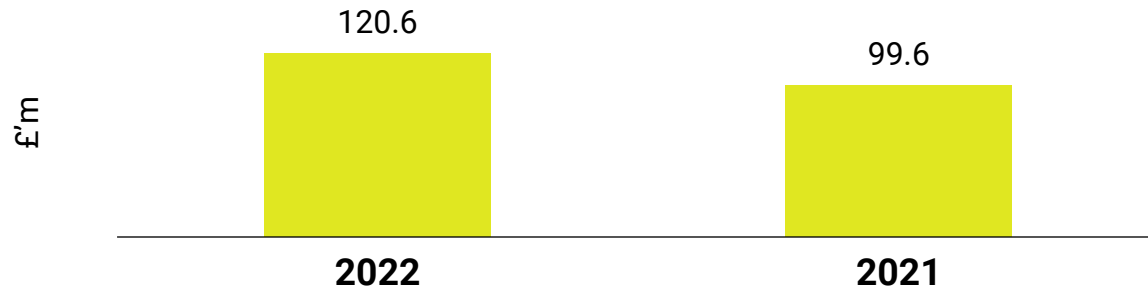


£m	2022	2021	Change
Revenue	244.0	282.8	(13.7%)
Adjusted operating profit pre property	32.6	50.9	(35.9%)
Adjusted operating margin pre property	13.3%	18.0%	(470bps)

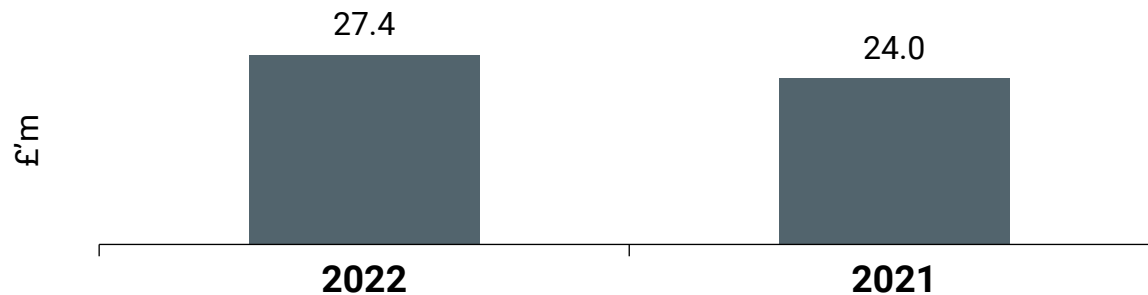
- Revenue normalised in 2022 following exceptional growth during pandemic
- Normalisation concentrated in H1 and by H2 revenue trends were broadly stable despite weaker consumer confidence
- Operating profit was 43.9 per cent higher than 2019 – a good gauge of Woodie's progress over the last three years
- Great Place to Work for seventh consecutive year

Manufacturing

Revenue



Operating profit before property profit



£m	2022	2021	Change
Revenue	120.6	99.6	+21.1%
Adjusted operating profit pre property	27.4	24.0	+13.9%
Adjusted operating margin pre property	22.7%	24.1%	(140bps)

CPI EuroMix

- Revenue growth of 22.3 per cent
- Modest growth in silo volume – bagged product slightly lower
- Volume in final quarter affected by slowdown in housebuilding
- Operating margin maintained at 20 per cent

StairBox

- Revenue growth of 18.9 per cent
- Record demand from trade customers
- New assembly operations commenced in nearby property to support growth
- Operating margin of 31 per cent

Balance Sheet

	31 December 2022	31 December 2021
Goodwill and intangible assets	789.5	744.1
Right-of-use assets	420.1	421.3
Tangible assets	384.8	351.9
Working capital	246.6	158.5
Other assets/(liabilities)	(93.9)	(83.8)
Pension (deficit)	(10.5)	(11.5)
	1,736.7	1,580.6
Net cash including IFRS 16 leases	8.9	139.0
Equity	1,745.6	1,719.6
Adjusted ROCE*	17.2%	19.4%

* ROCE calculated for continuing operations



Balance Sheet

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Net cash including IFRS 16 leases	8.9	139.0
Equity	1,745.6	1,719.6
Adjusted ROCE*	17.2%	19.4%

	31 December 2022	31 December 2021
Inventories	399.6	344.2
Trade debtors	267.7	233.5
Trade payables	(420.7)	(419.1)
	246.6	158.5

* ROCE calculated for continuing operations

Cash from operations

£m	2022	2021
Profit before taxation from continuing operations	251.7	249.8
Profit before taxation from discontinued operations	-	143.8
Profit on disposal of Group businesses	-	(125.1)
Net finance costs	12.6	20.6
Operating profit (post impact of profit on disposals)	264.3	289.1
Depreciation & amortisation of intangible assets	114.6	115.1
Property profits (total)	(25.4)	(17.1)
Other movements	(3.5)	(19.9)
(Increase) in working capital	(71.3)	(64.1)
Cash generated from operations	278.8	303.2



Cash flow

£m	2022	2021
Cash from operations	278.8	303.2
Interest and tax	(52.7)	(64.0)
Replacement capex net of asset disposals	(4.6)	(2.3)
Free cash flow	221.4	237.0
Development capex	(24.7)	(19.9)
Dividends	(73.9)	(84.9)
Share (repurchase)/issue	(140.4)	3.0
Acquisitions & business disposals (incl. debt acquired)	(46.0)	423.4
Net cash (outflow)/inflow before FX translation	(63.5)	558.5
FX translation/other	(66.6)	(64.4)
Movement in net (debt)/cash	(130.1)	494.0
Opening net cash/(debt)	139.0	(355.0)
Closing net cash	8.9	139.0
Free cash flow as a % of adjusted operating profit	77%	82%

2023 technical guidance

No significant contribution from property profits expected

Depreciation and amortisation c.£100m - £105m in total
(c.£40m on a pre IFRS 16 basis)

2023 gross capex spend (ex acquisitions and asset disposals)
- replacement spend anticipated of c.£30m and development of c.£35m

Net finance charge of c.£4m (c.£14m relates to IFRS 16 leases) but acquisition timing dependent

Tax rate for full year estimated at 20.1% and in the medium term, based on expectations of the balance of profitability across the Group and tax rates, is anticipated to increase to 22.4%

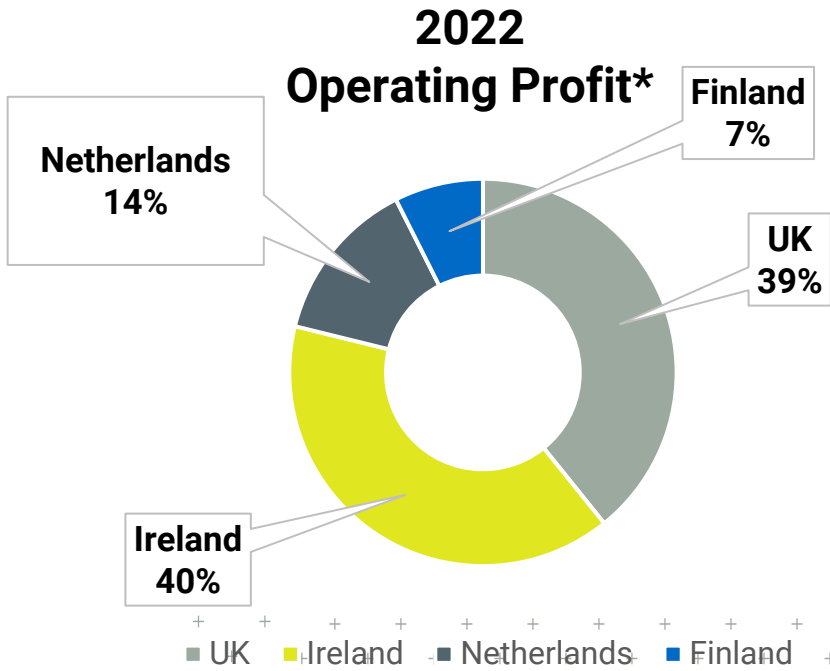
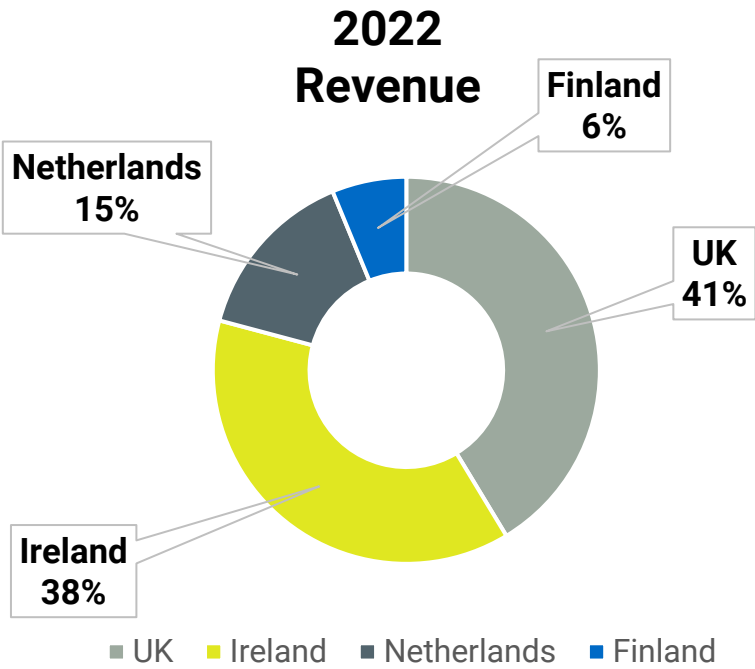


Summary, current trading & outlook

ERIC BORN, CEO



Importance of geographical diversity – 2022 revenue & operating profit by geography



* Excluding central activity costs of £13.5m and profit property profits of £25.4m

Disciplined capital allocation on the back of strong cash generation and balance sheet

Continuing to follow our disciplined capital allocation policy

FY 2022	£m	
Acquisitions	46.0	Ongoing activity examining potential acquisitions – firepower to execute quickly for the right transactions
Dividend	73.9	Dividend cover policy of 2-3x
Share buyback	135.0	Capital returns to shareholders funded by 2022 free cash flow

Sustainability update

Implementing our sustainability agenda

Sustainability Report published today. Whilst there is still much to do, the business has demonstrated strong progress in 2022 across 5 priority areas of sustainability strategy.



Planet

- 11% reduction in Scope 1 & 2 tCO2e relative to revenue (3% reduction in absolute terms vs 2021)
- 9% reduction in operational waste vs 2021 with 97% diversion from landfill
- Strong focus on energy management, renewable energy generation and alternative vehicle trials across business units
- CPI & Selco have invested in 5 forests in the UK that will capture c.34,000 tonnes of CO2 over their lifetime



Customer & Product

- 12 ECO Centres (Chadwicks) to help customers improve energy efficiency
- Rental, refurbishment and recycling offers in TG Lynes, Chadwicks, IKH & Isero



Sustainability update

Implementing our sustainability agenda



People

Diversity & Inclusion

- Important focus for all teams working to encourage an inclusive culture
- Woodie's first retailer to be accredited a gold investor in diversity by the Irish Centre for Diversity and has achieved a gender balanced workforce

Health and Safety

- Group Lost Time Injury Frequency Rate reduced by 8% vs 2021 and Lost Time Injury Severity Rate reduced by 21% vs 2021

Great Place to Work

- Selco 17th on the large companies list as part of the Best Companies Awards. Woodie's, Chadwicks and IKH recognised on the Great Place to Work surveys
- Cost of living support for colleagues



Community

- >£1m invested in communities including >£250,000 donated to Red Cross
- Support for communities included cash, volunteering and in kind donations



Ethics

- Strong focus on ethical business training programmes and compliance
- Continued to embed supply chain risk management system
- Physical climate change risk assessments carried out on property portfolio

Current trading

Average daily like-for-like revenue growth

	Q4 2022	1 Jan 2023 – 19 Feb 2023
Distribution		
UK	(0.7%)	(1.6%)
Ireland	+2.4%	(0.1%)
Netherlands	+9.7%	+0.4%
Finland	+5.7%	+6.3%
Retailing	(5.7%)	+2.4%
Manufacturing	+19.9%	+12.6%
Total Group	+2.6%	+0.7%

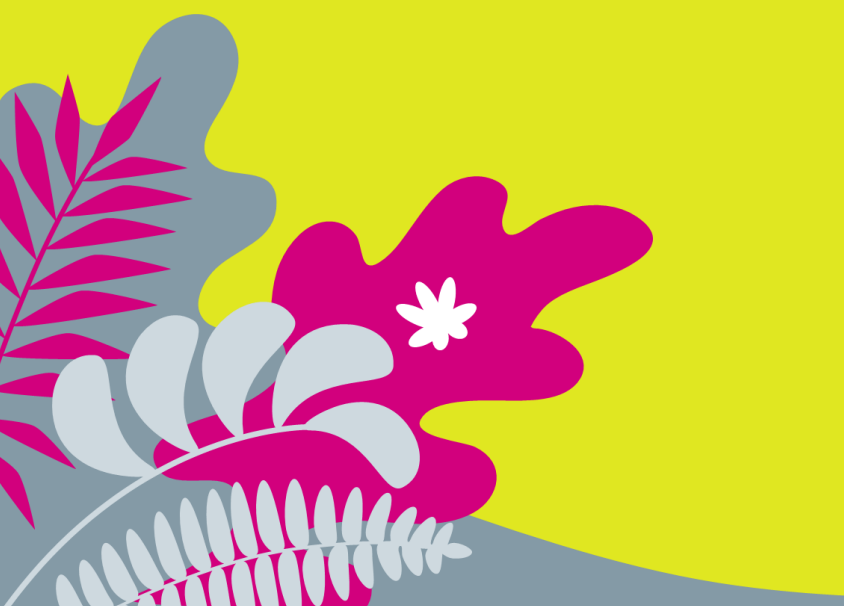
2023 has commenced in line with our expectations

In general, volumes slightly lower than same period last year and price inflation moderating

Important trading months to come

Summary and outlook

- Group performance benefited from our portfolio of strongly positioned, higher margin businesses
- Common themes across our geographies
 - RMI markets which were focused on smaller, discretionary expenditure felt earliest impact from weaker consumer confidence – fall in real incomes will weigh on RMI activity
 - Housing markets likely to soften
- Outlook brighter than many feared in the second half of last year



Summary and outlook

- Strength of our businesses, our geographic diversity and balance sheet leaves us well placed to execute our growth strategy over the medium term
- We will continue to remain disciplined in our allocation of capital
- Build on our current fundamentals by investing in our brands to support our customers and strengthening our existing market positions
- Aim to further enhance our business portfolio in selective geographies to support earnings progress, enhance our competitive position and deliver sustainable returns to shareholders

Questions

Appendices



Appendix 1

Notes & Definitions

Notes

As amounts are reflected in £'m some non-material rounding differences may arise.

Definitions

- *Adjusted earnings per share* is earnings before exceptional items, acquisition related items, intangible asset amortisation arising on acquisitions and before profit/loss on disposal of Group businesses
- *Adjusted operating profit* is earnings before exceptional items, acquisition related items, amortisation of intangible assets arising on acquisitions, profit/loss on disposal of Group businesses, net finance expense and income tax expense
- *Adjusted operating profit margin* is adjusted operating profit as a percentage of revenue
- *Adjusted operating profit (pre property profit)* is earnings before exceptional items, profit on disposal of Group properties, acquisition related items, amortisation of intangible assets arising on acquisitions, profit/loss on disposal of Group businesses, net finance expense and income tax expense
- *Adjusted operating profit (pre property profit) margin* is adjusted operating profit (pre property profit) as a percentage of revenue

Appendix 2

Revenue Growth – 2022 v 2021

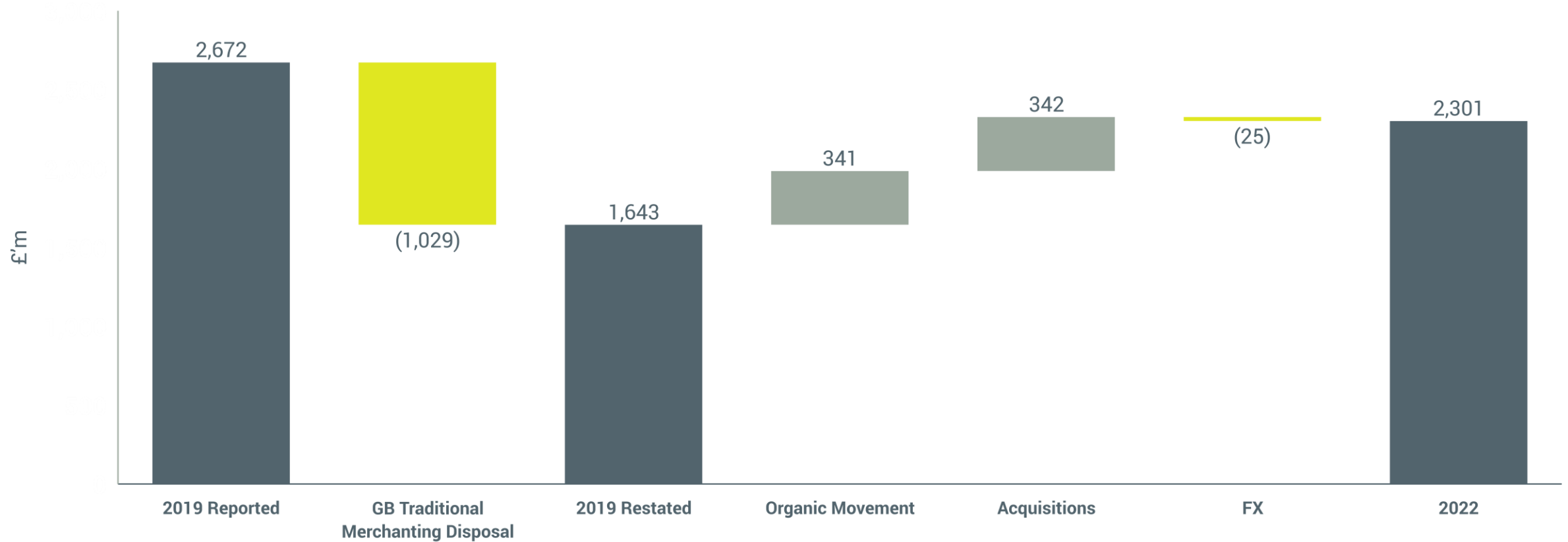
Average Daily Like-for-Like Revenue Growth

	Q1	Q2	Q3	Q4	FY	Total Revenue 2022	
Distribution						Constant Currency	Sterling
UK	4.6%	(4.0%)	(4.2%)	(0.7%)	(1.2%)	2.0%	2.0%
Ireland	41.9%	4.3%	1.9%	2.4%	10.3%	14.4%	13.6%
Netherlands	8.2%	7.0%	6.8%	9.7%	9.0%	16.8%	15.9%
Finland	-	-	2.4%	5.7%	5.4%	101.7%	102.3%
Retailing	(23.8%)	(22.1%)	0.0%	(5.7%)	(13.3%)	(13.0%)	(13.7%)
Manufacturing	24.7%	20.4%	19.2%	19.9%	23.1%	21.2%	21.1%
Total Group	10.4%	(2.0%)	1.1%	2.6%	3.0%¹	9.5%	9.1%

¹ Actual revenue growth in like for like business was 2.4% due to difference in trading days

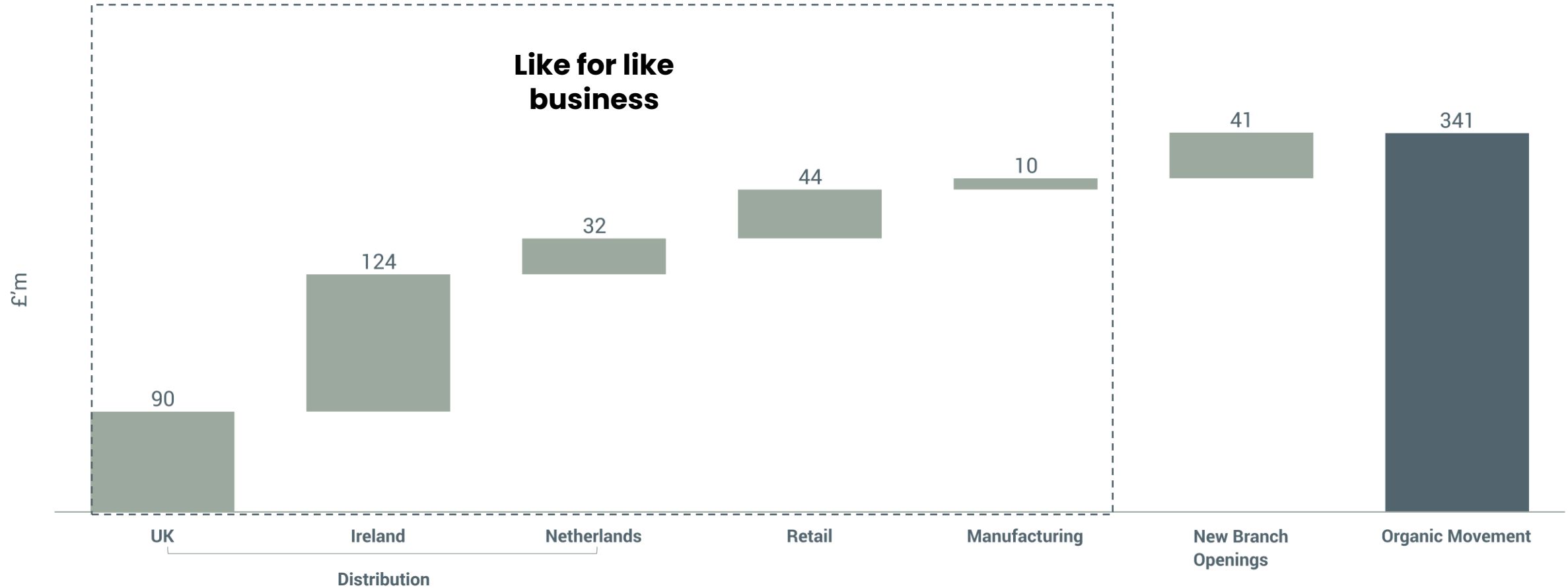
Appendix 3

Revenue bridge 3 Year (2019 – 2022)



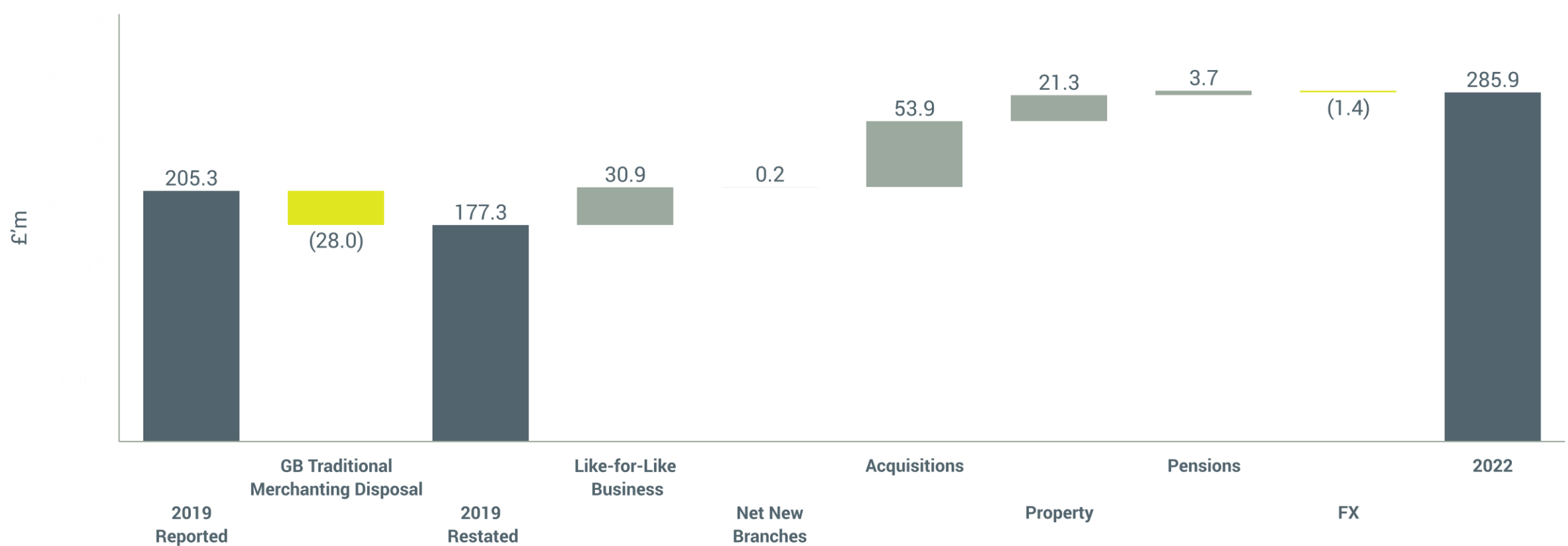
Appendix 4

Analysis of organic movement in 3 Year revenue (2019 – 2022) (constant currency)



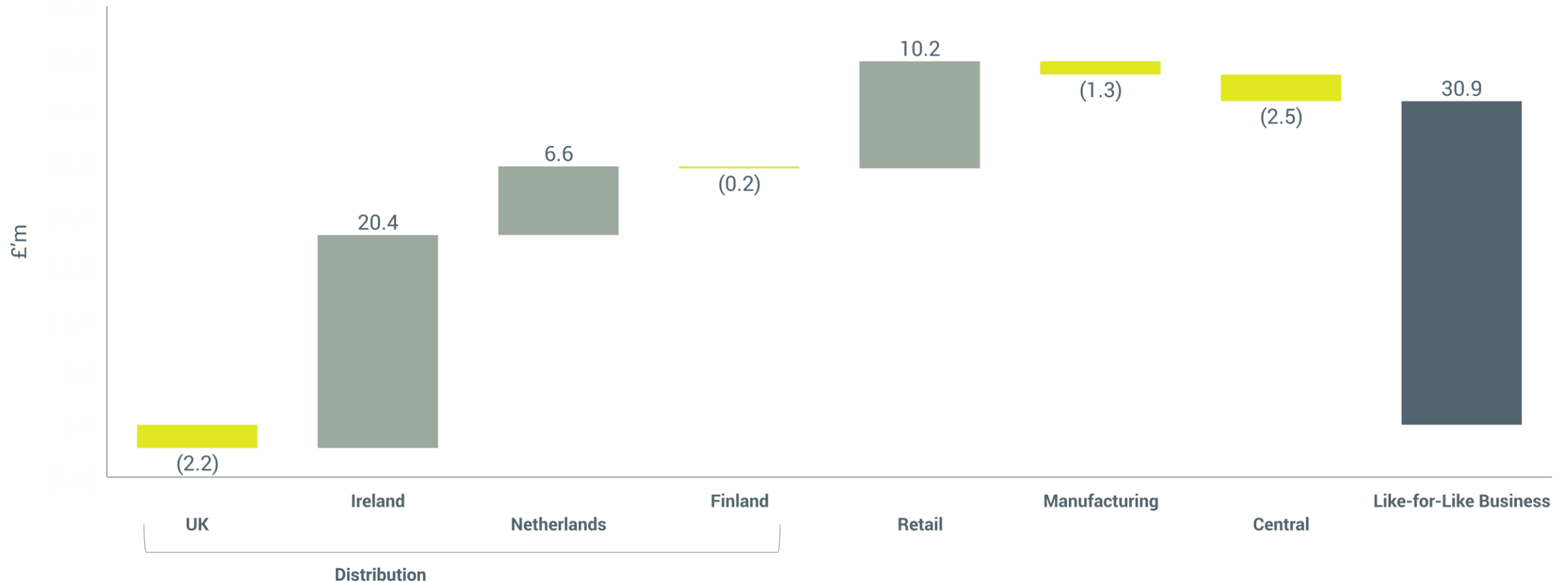
Appendix 5

Adjusted operating profit – 3 Year bridge (2019 to 2022)



Appendix 6

Analysis of movement in operating profit in like-for-like Business 3 Year Bridge (2019 – 2022)



Appendix 7

Operating Margin Analysis*

Operating Margin 2022 & 2021 H1 & H2

	H2 2022	H1 2022	H2 2021	H1 2021
UK Distribution	8.5%	11.0%	11.6%	13.3%
Irish Distribution	11.5%	12.4%	12.8%	11.6%
Netherlands Distribution	9.8%	12.5%	10.2%	10.8%
Finland Distribution	15.1%	13.2%	14.1%	-
Total Distribution	9.8%	11.9%	12.0%	12.3%
Retailing	15.0%	11.7%	13.4%	21.6%
Manufacturing	24.9%	20.4%	22.4%	25.9%
	11.5%	12.3%	12.6%	14.4%
Central Activities	(0.4%)	(0.8%)	(0.7%)	(0.5%)
Total	11.1%	11.5%	11.9%	13.9%
Property Profit	0.6%	1.6%	0.1%	1.5%
Group Operating Margin	11.7%	13.1%	12.0%	15.4%

* Excludes property profit by geography (shown separately). Margin analysis is also shown before amortisation of intangible assets arising on acquisitions but includes the curtailment gain of £3.7 million in Irish distribution in H2 2022.