

# Grafton Group plc

## Half Year Results

For The Six Months Ended 30 June 2023



# 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

The term “Adjusted” means before exceptional items and acquisition related items (see Appendix 1).

Please refer to Notes and Definitions in Appendix 1.

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



**Eric Born**  
Chief Executive Officer



**David Arnold**  
Chief Financial Officer



# Introduction & highlights

ERIC BORN, CEO



# 2023 First half review



Resilient H1 performance in challenging distribution markets

First half trading and adjusted operating profit as anticipated

Full year adjusted operating profit expectations re-affirmed

Excellent cashflow supported return of £132.7m to shareholders

Net cash at 30 June 23 almost unchanged from 31 Dec 22

+ Interim dividend growth of 8.1% on lower number of shares

+ Further £50m buyback announced

# 2023

## Financial highlights

£m	H1 2023	H1 2022	Change
Revenue	<b>£1,189m</b>	£1,153m	3.2%
Adjusted operating profit	<b>£105.1m</b>	£151.1m	(30.5%)
Adjusted earnings per share	<b>38.1p</b>	49.5p	(23.1%)
Dividend	<b>10.0p</b>	9.25p	8.1%
Adjusted operating profit margin pre property profit	<b>8.7%</b>	11.5%	(280bps)
Adjusted return on capital employed	<b>14.3%</b>	18.8%	(450bps)
	<b>30 June 23</b>	<b>31 Dec 22</b>	<b>Change</b>
Net cash (before leases)	<b>£438.4m</b>	£458.2m	(£19.8m)
Net cash (incl leases)	<b>£3.7m</b>	£8.9m	(£5.2m)



# Financial review

DAVID ARNOLD, CFO



# Income statement

£m	H1 2023	H1 2022	Change
Revenue	1,189.3	1,152.8	+3.2%
Adjusted operating profit pre property profit	103.9	132.6	(21.6%)
Property profit	1.1	18.5	
Adjusted operating profit	105.1	151.1	(30.5%)
Amortisation <sup>1</sup> and acquisition related items	(10.7)	(11.0)	
Statutory operating profit	94.3	140.1	(32.7%)
Net finance cost	(0.8)	(7.7)	
Statutory profit before tax	93.6	132.4	(29.3%)
Adjusted profit before tax	104.3	143.4	(27.3%)
Tax rate	20.1%	17.3%	
Adjusted profit after tax	83.2	118.2	(29.6%)
Adjusted earnings per share	38.1	49.5	(23.1%)

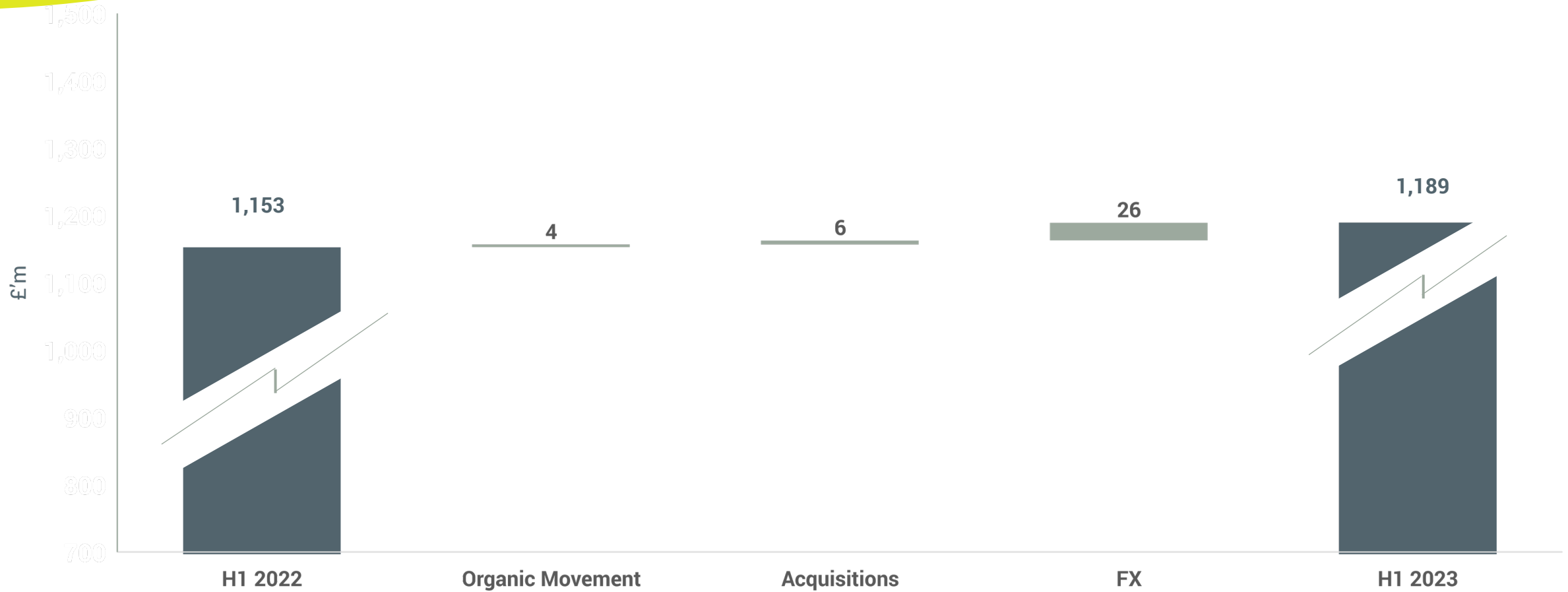
<sup>1</sup>Amortisation of intangible assets arising on acquisitions

# Income statement

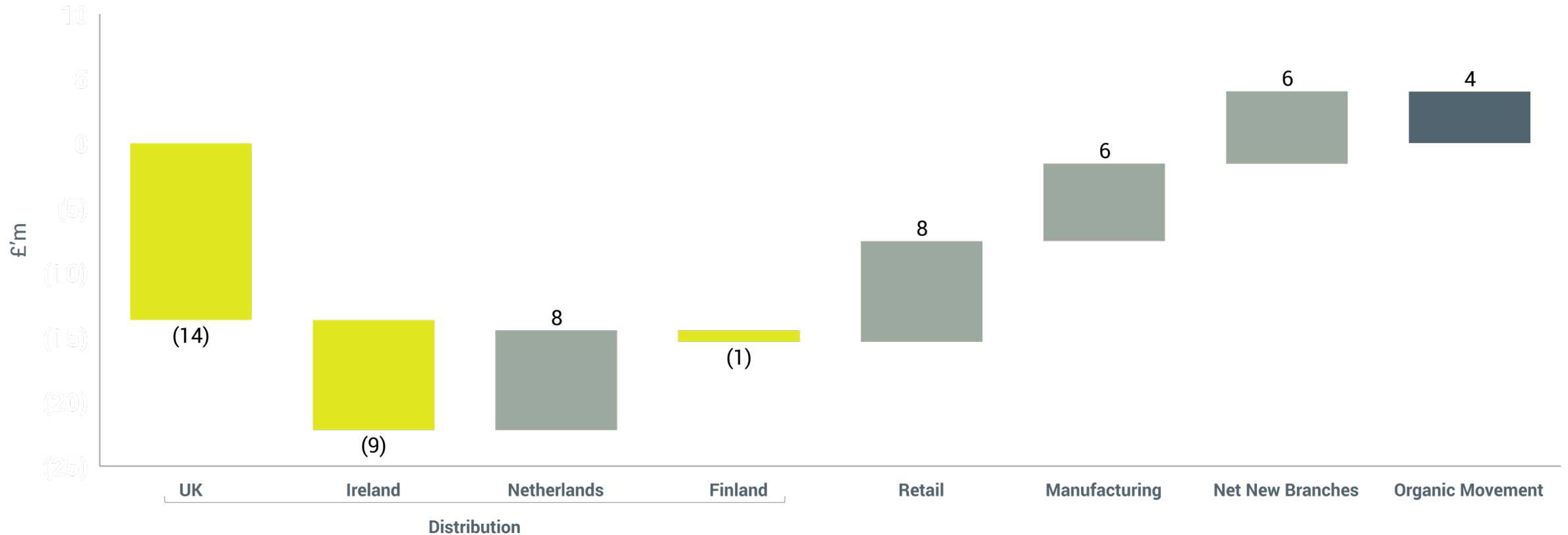
£m	H1 2023	H1 2022	Change	
Revenue	1,189.3	1,152.8	+3.2%	
Adjusted operating profit pre property profit	103.9	132.6	(21.6%)	
Property profit	1.1	18.5		No significant property profits expected in H2
Adjusted operating profit	105.1	151.1	(30.5%)	
Amortisation <sup>1</sup> and acquisition related items	(10.7)	(11.0)		
Statutory operating profit	94.3	140.1	(32.7%)	
Net finance cost	(0.8)	(7.7)		Slightly higher finance cost expected in H2
Statutory profit before tax	93.6	132.4	(29.3%)	
Adjusted profit before tax	104.3	143.4	(27.3%)	
Tax rate	20.1%	17.3%		Benefits of Irish residency - will rise to 22.5% over time
Adjusted profit after tax	83.2	118.2	(29.6%)	
Adjusted earnings per share	38.1	49.5	(23.1%)	Positive impact of buyback relative to PAT movement

<sup>1</sup>Amortisation of intangible assets arising on acquisitions

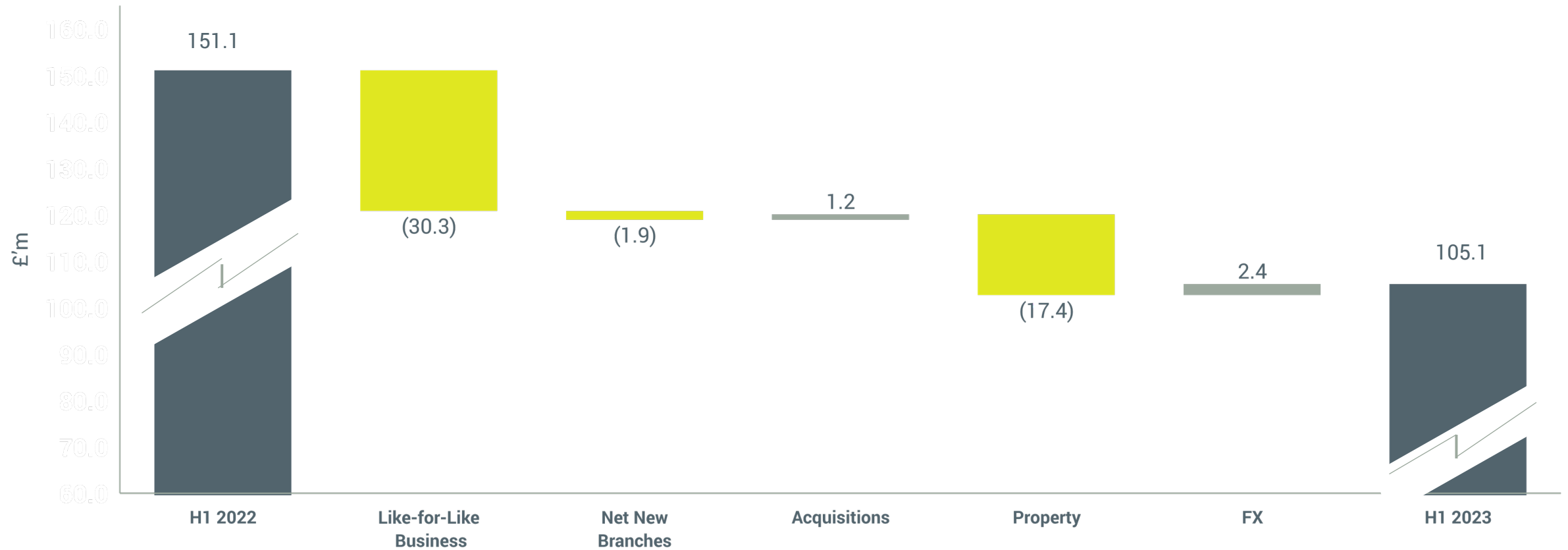
# Revenue bridge



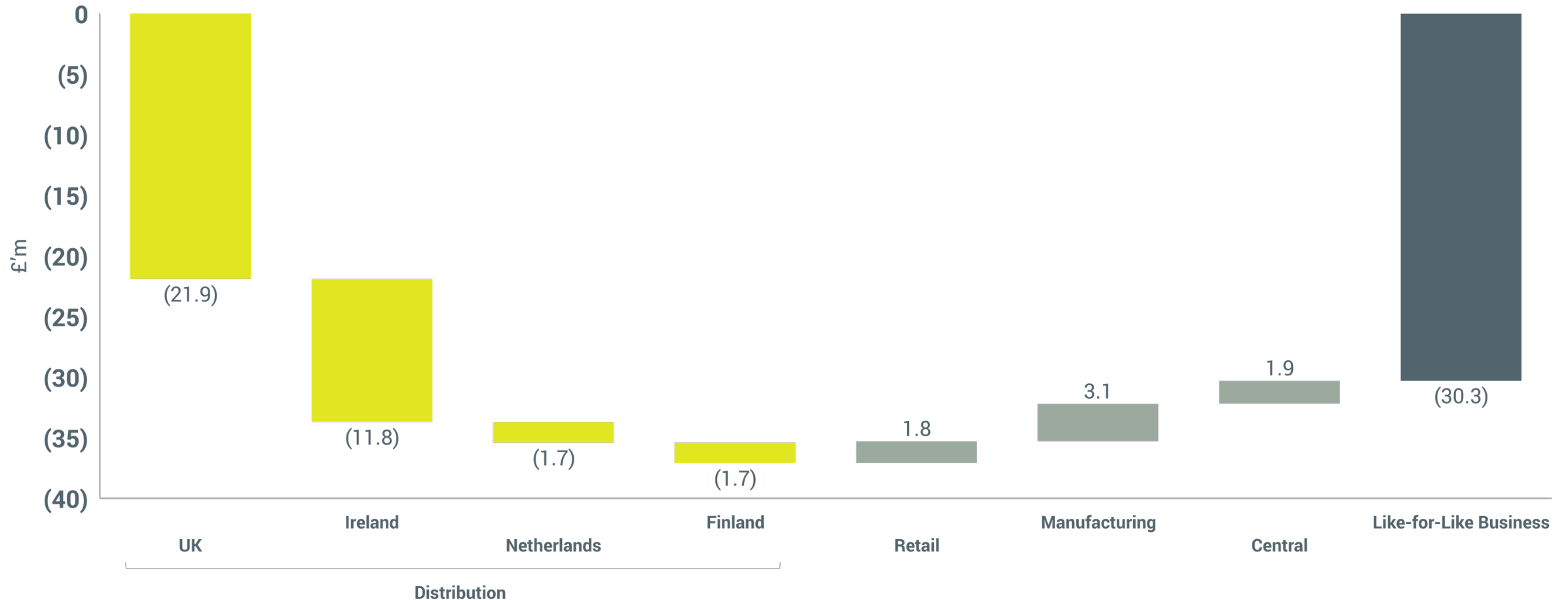
# Analysis of organic movement in revenue (constant currency)



# Adjusted operating profit – bridge H1 2022 to H1 2023

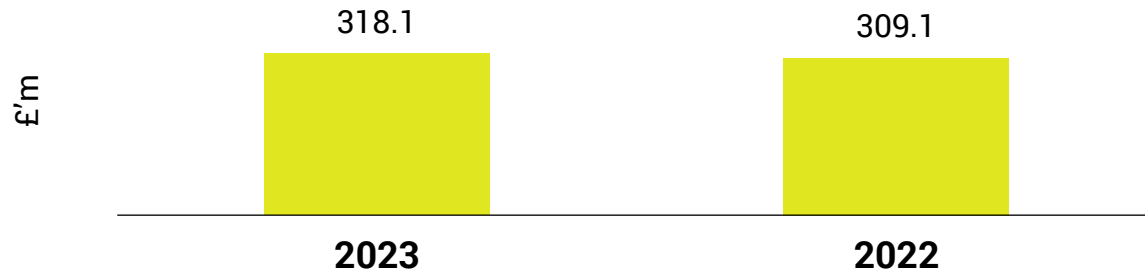


# Analysis of movement in operating profit in like-for-like business



# Irish Distribution

## Revenue



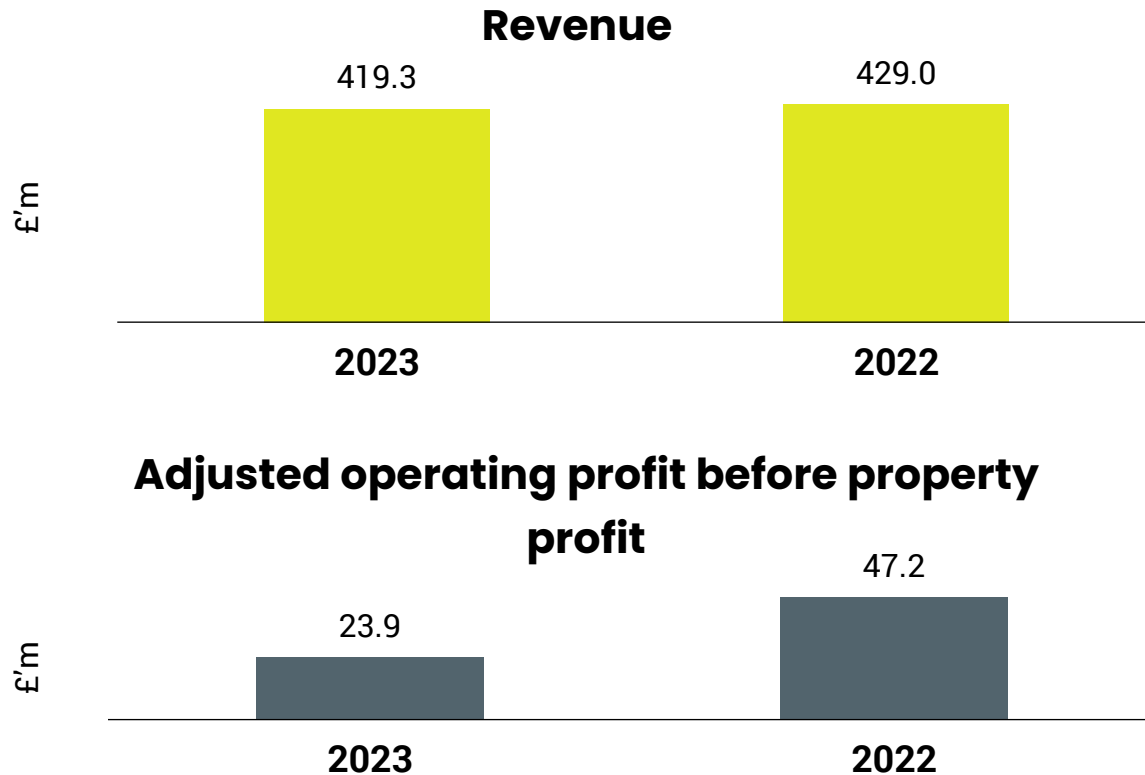
## Adjusted operating profit before property profit



£m	H1 2023	H1 2022	Change
Revenue	318.1	309.1	+2.9%
Adjusted operating profit pre property	28.9	38.5	(24.8%)
Adjusted operating margin pre property	9.1%	12.4%	(330bps)

- Strong demand fundamentals underpinned by resilient housing market – completions +6.1% and starts +10% in H1
- H1 profitability adversely affected by price deflation in steel and timber which impacted gross margin – overall sales price inflation c.1%
- New branch opened in Dublin
- Launch of YourRetrofit.ie - to support customers and households

# UK Distribution



£m	H1 2023	H1 2022	Change
Revenue	419.3	429.0	(2.2%)
Adjusted operating profit pre property	23.9	47.2	(49.4%)
Adjusted operating margin pre property	5.7%	11.0%	(530bps)

- Inflation in Selco eased considerably from +19% to +2% with pace of decline in volumes moderating
- Gross profit significantly affected by H1 timber price deflation of -16%
- Weak RMI markets affecting Selco which has pure RMI focus - cost actions implemented in H1
- New branches in Selco, LSDM and two branches acquired in MacBlair

# Netherlands Distribution

## Revenue

£'m



## Adjusted operating profit before property profit

£'m

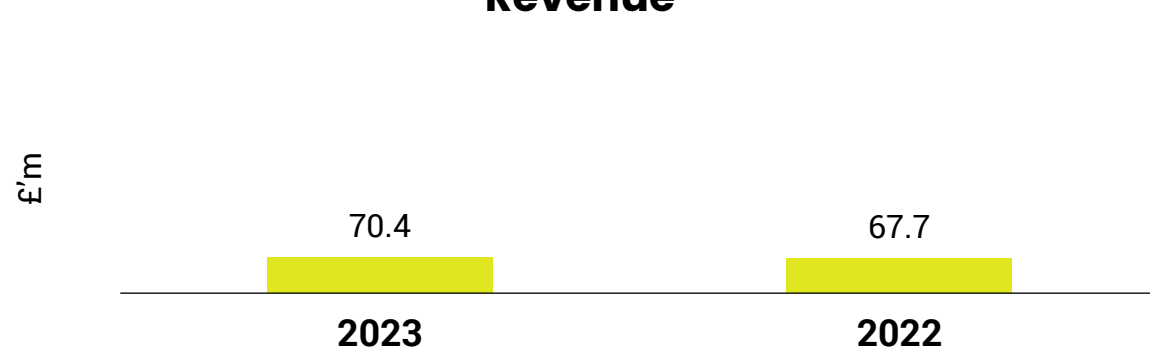


£m	H1 2023	H1 2022	Change
Revenue	184.6	168.7	+9.4%
Adjusted operating profit pre property	20.4	21.2	(3.6%)
Adjusted operating margin pre property	11.1%	12.5%	(140bps)

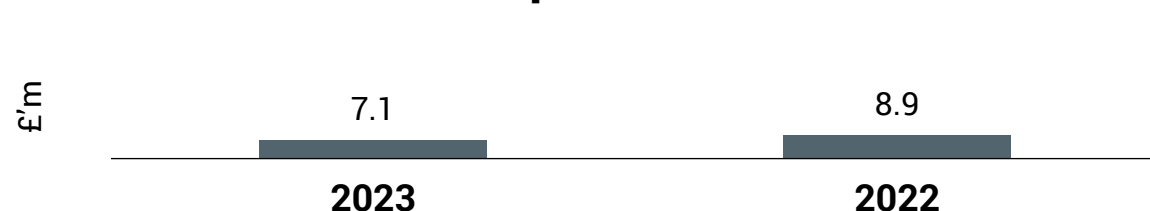
- Strong performance with business showing its scale benefits: activity supported by larger national RMI and new build customers
- Gross margin maintained despite mix shift – improved procurement
- Collective labour agreements and tight employment market in NL influencing operating costs
- Two new branches opened

# Finland Distribution

## Revenue



## Adjusted operating profit before property profit

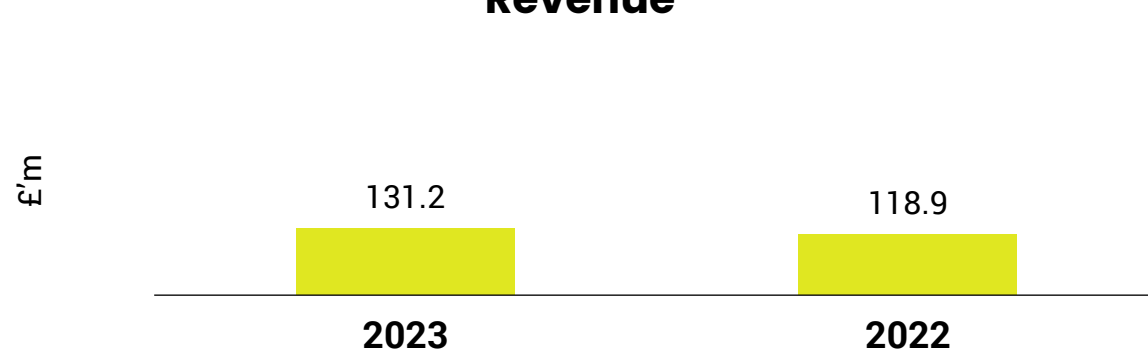


£m	H1 2023	H1 2022	Change
Revenue	70.4	67.7	+4.1%
Adjusted operating profit pre property	7.1	8.9	(20.6%)
Adjusted operating margin pre property	10.0%	13.2%	(320bps)

- Higher sales in Estonia and Sweden offset decline in Finnish construction markets
- H2 focus on competitive offering to customers and cost control against weaker market backdrop
- New branch opened in Lielaiti and partner store acquired in Kouvola - takes own store network to 15 today

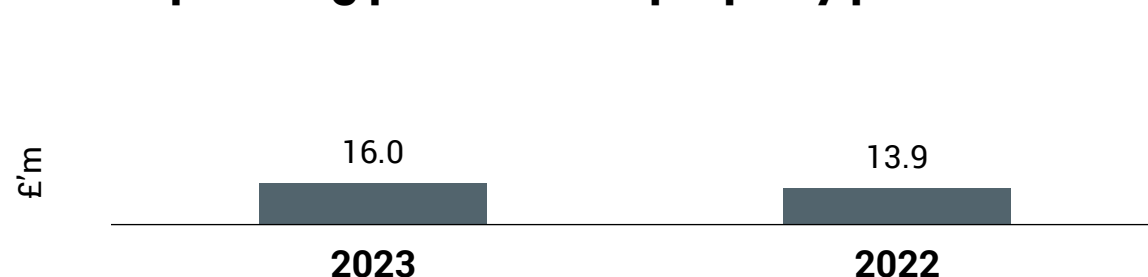
# Retailing

## Revenue



£m	H1 2023	H1 2022	Change
Revenue	131.2	118.9	+10.4%
Adjusted operating profit pre property	16.0	13.9	+15.2%
Adjusted operating margin pre property	12.2%	11.7%	+50bps

## Operating profit before property profit



- Stronger Q2 vs Q1 as weather influenced demand for seasonal categories
- Volume and value growth: H1 transactions +2.0% and ATV +4.3%
- Improved margin: Gross margin benefited from product mix and lower promotional activity - overheads remained tightly controlled
- Improving consumer sentiment despite being below long term trend; Government finances well placed to support economy

# Manufacturing

## Revenue

£'m



## Operating profit before property profit

£'m



£m

	H1 2023	H1 2022	Change
Revenue	65.6	59.4	+10.4%
Adjusted operating profit pre property	15.3	12.1	+26.1%
Adjusted operating margin pre property	23.3%	20.4%	+290bps

### CPI EuroMix

- Strong performance despite challenging housing market
- Gross and operating margins restored to trend levels as higher input costs recovered
- Weaker volume outlook – fewer silos on site
- Smooth implementation to date of new ERP system

### StairBox

- Continued volume growth
- Raw material price increases recovered
- Continuing innovation to reduce manufacturing cycle time and further increase efficiencies

# Balance Sheet

	30 June 2023	31 December 2022
Goodwill and intangible assets	767.3	789.5
Right-of-use assets	406.9	420.1
Tangible assets	384.1	384.8
Working capital	207.0	246.6
Other (liabilities)/assets	(91.5)	(93.9)
Pension (deficit)	(2.2)	(10.5)
<b>Capital employed</b>	<b>1,671.6</b>	<b>1,736.7</b>
<i>Net cash excluding leases</i>	<i>438.4</i>	<i>458.2</i>
<i>Leases</i>	<i>(434.7)</i>	<i>(449.3)</i>
<b>Net cash including leases</b>	<b>3.7</b>	<b>8.9</b>
<b>Equity</b>	<b>1,675.3</b>	<b>1,745.6</b>
Adjusted ROCE*	14.3%	17.2%

\* ROCE calculated for continuing operations



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	30-Jun 2023	31-Dec 2022	30-Jun 2022
Inventories	391.5	399.6	399.2
Trade debtors	293.0	267.7	287.1
Trade payables	(477.6)	(420.7)	(480.2)
<b>Working capital</b>	<b>207.0</b>	<b>246.6</b>	<b>206.2</b>



# Cash from operations

£m	H1 2023	H1 2022
Profit before taxation	93.6	132.4
<i>Addback</i>		
Net finance costs	0.8	7.7
Operating profit	94.3	140.1
Depreciation & amortisation of software	51.8	45.9
Amortisation of intangible assets arising on acquisitions	9.9	9.7
Property profits (total)	(1.1)	(18.5)
Other movements	0.4	0.4
Decrease/(increase) in working capital	36.0	(39.7)
Cash generated from operations	191.3	137.9

# Cash flow

£m	HI 2023	HI 2022
Cash from operations	191.3	137.9
Interest and tax	(19.7)	(29.9)
Replacement capex net of asset disposals	(12.2)	13.7
<b>Free cash flow</b>	<b>159.4</b>	121.7
Development capex	(11.4)	(12.0)
<i>Dividends</i>	<i>(51.6)</i>	<i>(52.7)</i>
<i>Net share (repurchase) incl. fees</i>	<i>(81.3)</i>	<i>(51.5)</i>
Total capital returned incl. fees	(132.9)	(104.3)
Acquisitions (incl. debt acquired)	(4.0)	(45.8)
Net cash inflow/(outflow) before FX translation/other	11.1	(40.4)
FX translation/other	(16.3)	(25.1)
Movement in net (debt)	(5.2)	(65.5)
Opening net cash	8.9	139.0
<b>Closing net cash</b>	<b>3.7</b>	73.5
<b>Free cash flow as a % of adjusted operating profit</b>	<b>152%</b>	81%

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FY gross replacement capex expected to be c.£30m and gross development c.£35m

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# Strategy, current trading & outlook

ERIC BORN, CEO



# Strategy update – Grafton today

	H1 2019	H1 2023
Revenue	1,437.3	1,189.3
Adjusted operating profit pre property	99.2	103.9
Adjusted operating profit margin	6.9%	8.7%
	<b>30 June 2019</b>	<b>30 June 2023</b>
Capital employed	1,854.0	1,671.6
Net (debt) / cash	(540.5)	3.7
Net assets	<u>1,313.5</u>	<u>1,675.3</u>

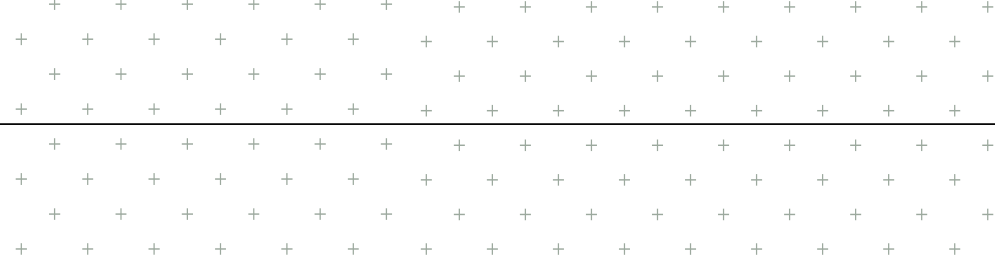
- The portfolio re-shape since 2019 created a very resilient business – 60% of revenue outside UK
- Despite challenging macro-economic conditions in H1 2023, Grafton delivered stronger results than in the last pre-Covid comparator period (H1 2019)
- Leading market positions across multiple European markets supported by lean and focused central team
- Operating management teams close to their customers and local markets
- Strong balance sheet to drive further growth

# Strategy update

## The management team conducted a strategy review in H1

- Geographic focus on existing and new European markets with structural long-term growth due to shortage of housing and the need to improve existing housing stock; including measures to reduce carbon emissions
- Our core customer group continues to be small, medium sized contractors and installers serving the RMI and new-build markets
- We focus on distribution of building materials and construction related products where we can either drive further organic development, market consolidation or enhance the existing product/service offering to our customers
- We continue to operate our businesses in a federated structure, share best practices and seek to leverage economies of scale as appropriate
- Further strengthen the business through organic development, bolt-on acquisitions in existing geographies and new platforms plus bolt-on investments in new European markets

# Strategy update – M&A



## Bolt-on acquisitions

- Solid pipeline of bolt-on targets in existing markets

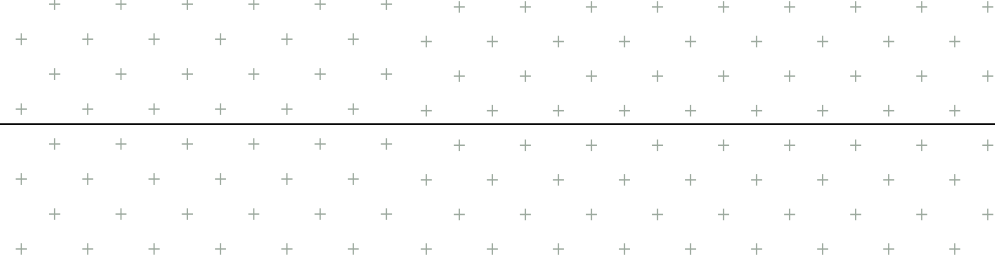
## Platform acquisitions

- Engaged in active discussions with select number of vendors in new European markets
- Timing dependent on vendor as many are founder owned
- Focus on deal quality

## Widening M&A pipeline

- Team focused on widening the M&A funnel after strategy review for new platforms and bolt-on investment

# Capital Returns



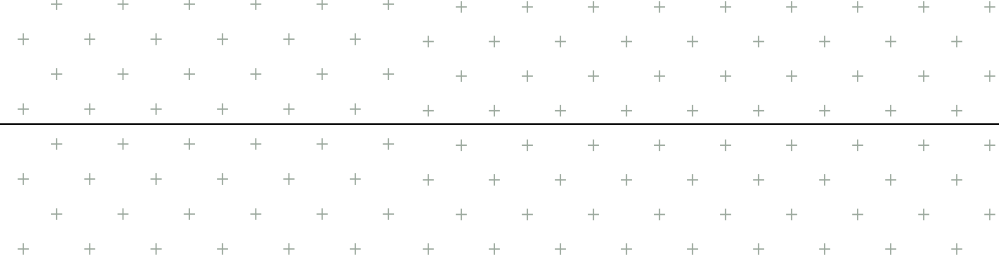
## Dividend

- Interim dividend increased by 8.1% to 10.0p per share
- In line with our progressive dividend policy
- Supported by strong balance sheet position and confidence in long term
- Maintains cash payment made for 2022 interim dividend but with lower level of shares in issue we can reward current shareholders with an increase in dps

## Buy Back

- £243m spent on cash buybacks since May 22 at an average share price of £8.34
- New £50m buyback announced today

# ESG Actions and Update



## Climate Change

- Aiming to submit net zero targets to SBTi by end Dec 23, ahead of plan. Net zero target not later than 2050
- Scope 3 data represents an estimated 98% of emissions for a distributor in our industry
- Compilation of this data is well advanced for the Group and going through final due diligence

## Corporate Sustainability Directive

- In preparation for CSRD reporting requirements double materiality assessment and gap analysis work is underway
- Stakeholder engagement plan in train

## H1 Performance

- Scope 1 & 2 carbon – positive emissions reductions. Use of HVO has accounted for 450 tonnes saving
- Community engagement - £300,000 contributed to communities
- Suppliers – continuing and growing positive engagement around risk management and carbon reduction

# Current trading

## Average daily like-for-like revenue growth

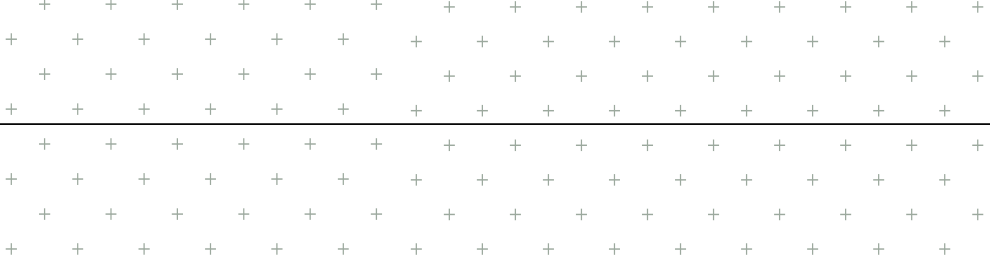
	H1 2023	1 July 2023 – 20 August 2023
<b>Distribution</b>		
Ireland	(2.6%)	+3.2%
UK	(2.3%)	(0.3%)
Netherlands	+3.7%	+2.5%
Finland	(0.8%)	(5.9%)
<b>Retailing</b>	<b>+6.3%</b>	<b>(1.6%)</b>
<b>Manufacturing</b>	<b>+10.9%</b>	<b>(3.1%)</b>
<b>Total Group</b>	<b>+0.1%</b>	<b>+0.4%</b>

Positive revenue growth since 30 June

Product inflation and pace of volume decline continues to ease

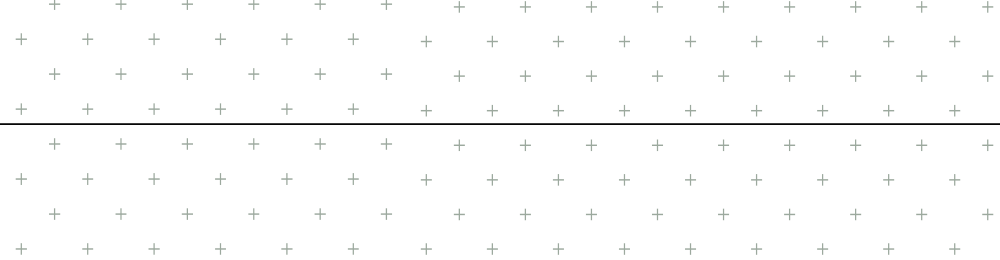
Important trading months to come

# Outlook

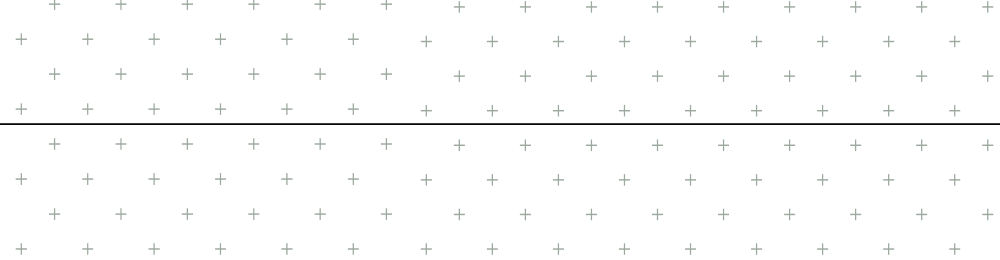


- Ireland** - the outlook has improved somewhat with stronger growth in employment and incomes which supports consumer spending in the RMI and DIY markets. House completions this year expected to be similar to last year
- UK** - further challenges expected in the housing RMI market for the remainder of the year with household discretionary spending expected to remain weak. House builders are expected to remain cautious about starting new developments in response to lower demand
- Netherlands** - the housing market remains subdued as house prices decline and transactions for existing and new homes weaken in response to interest rate increases
- Finland** - IKH's exposure to a range of end-use markets is expected to help protect it from some of the effects of a modest contraction in the economy and fall in residential and non-residential construction
- Full year adjusted operating profit expected to be in line with analyst expectations**

# Summary



- Group delivered a **resilient performance in challenging markets** and against strong comparators
- H1 traded as anticipated and **we re-affirm full year expectations**
- **Reducing inflation and greater price stability** will create a more predictable trading backdrop
- **Well positioned for recovery**
- Focused on **supporting our customers, responding to evolving market conditions** whilst continuing to **tightly manage the cost base**
- **Further £50m buyback announced** bringing total to £293m since May 2022
- **Strong optionality**: our balance sheet gives us the ability to deploy capital quickly and we are actively pursuing acquisition opportunities – timing dependent on vendors and valuations
- Confident Grafton is **exceptionally well positioned to outperform** over the cycle



*“The strength of the Group’s market positions and our experienced management teams have underpinned a resilient performance in the face of challenging conditions during the first half.*

*Grafton’s robust cash generation has enabled us to return £132.7 million to shareholders in the half year by way of share buybacks and dividends whilst leaving our net cash position broadly unchanged. This strong balance sheet, together with our nimble operating structure, will allow us to take advantage of organic and acquisitive growth opportunities.*

*Whilst uncertainties remain in the short term, we are confident that Grafton is exceptionally well positioned to benefit as the cycle turns, markets normalise and consumer confidence gains momentum.”*

# 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 – H1 2023 v H1 2022

#### Average Daily Like-for-Like Revenue Growth

	Q1	Q2	Six months to 30 June 2023	Total Revenue 1 Jan – 30 June 2023	
Distribution				Constant Currency	Sterling
Ireland	(0.5%)	(4.5%)	(2.6%)	(1.0%)	2.9%
UK	(3.8%)	(0.9%)	(2.3%)	(2.3%)	(2.3%)
Netherlands	4.8%	2.6%	3.7%	5.2%	9.4%
Finland	(1.6%)	(0.1%)	(0.8%)	0.1%	4.2%
<b>Retailing</b>	<b>(4.0%)</b>	<b>14.1%</b>	<b>6.3%</b>	<b>6.3%</b>	<b>10.4%</b>
<b>Manufacturing</b>	<b>12.0%</b>	<b>9.9%</b>	<b>10.9%</b>	<b>10.1%</b>	<b>10.4%</b>
<b>Total Group</b>	<b>(0.7%)</b>	<b>0.8%</b>	<b>0.1%</b>	<b>0.8%</b>	<b>3.2%</b>