



Final Results 2019

Financial Year Ended 31 December 2019

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

All references to 'Adjusted' mean before amortisation of intangible assets arising on acquisitions (see Appendix 1).

Please refer to Notes and Definitions in Appendix 1 and the bridge of statutory operating profit to adjusted operating profit in Appendix 2. As amounts are reflected in £'m some non-material rounding differences may arise.

Plumbase and the Belgium Merchanting business and the are now classified as discontinued operations. The revenue and operating profit of both businesses are excluded from the Group. Revenue and the operating result is reflected in the (loss)/profit after tax from discontinued operations. The prior year comparatives have been updated to conform to the current year presentation.

Any references to Change within the presentation relate to 2019 v 2018 pre any IFRS 16 "Leases" impact.

Gavin Slark
Chief Executive
Officer



David Arnold
Chief Financial
Officer



Introduction & Highlights

Gavin Slark, CEO








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31 December 2019

2019 Overview

- Softer trading in UK merchanting – weak economy and RMI market, particularly in H2
- Strong organic growth in Irish Merchanting and Retailing
- Important strategic and operational initiatives completed
- Transformational acquisition of Polvo in The Netherlands
- Divestment of Plumbase and Belgium Merchanting



Group Financial Highlights – Continuing Operations

Revenue up 3% to £2.67bn 	Adjusted operating profit up 4% to £194.3m 
Adjusted operating margin up 10bps to 7.3% 	ROCE down 30bps at 14.4% 
Adjusted EPS up 4% to 66.0p 	Dividend up 6% to 19.0p 
Strong cash generation Net cash of £7.8m 	

Financial Review

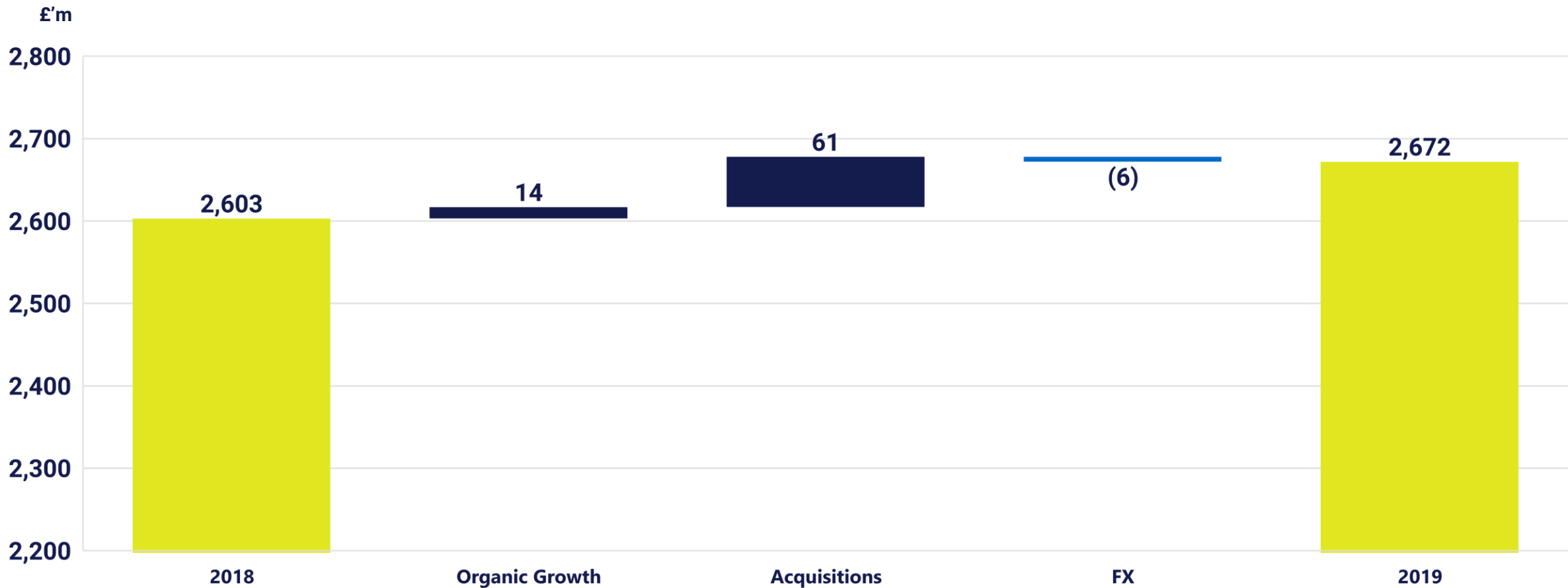
David Arnold, CFO

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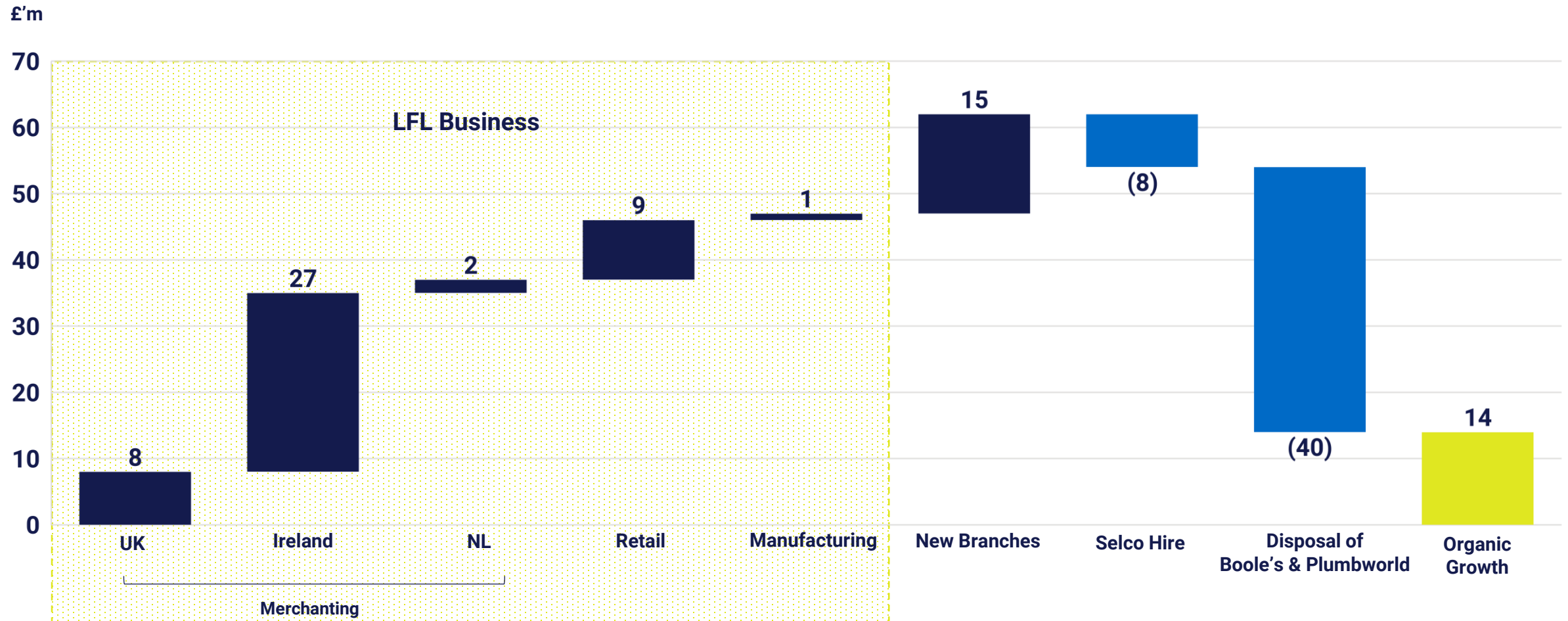
Income Statement – Continuing Operations

£m	2019	Pre IFRS 16		Change
		2019	2018 Restated	
Revenue	2,672.3	2,672.3	2,603.1	+3%
Adjusted operating profit pre property profit	197.9	187.4	182.7	+3%
Property profit	6.9	6.9	4.9	
Adjusted operating profit	204.8	194.3	187.6	+4%
Amortisation & other	(7.0)	(7.0)	(7.0)	
Statutory operating profit	197.8	187.3	180.5	
Net finance cost	(25.1)	(5.6)	(6.1)	
Statutory profit before tax	172.6	181.8	174.4	
Adjusted profit before tax	179.6	188.8	181.4	+4%

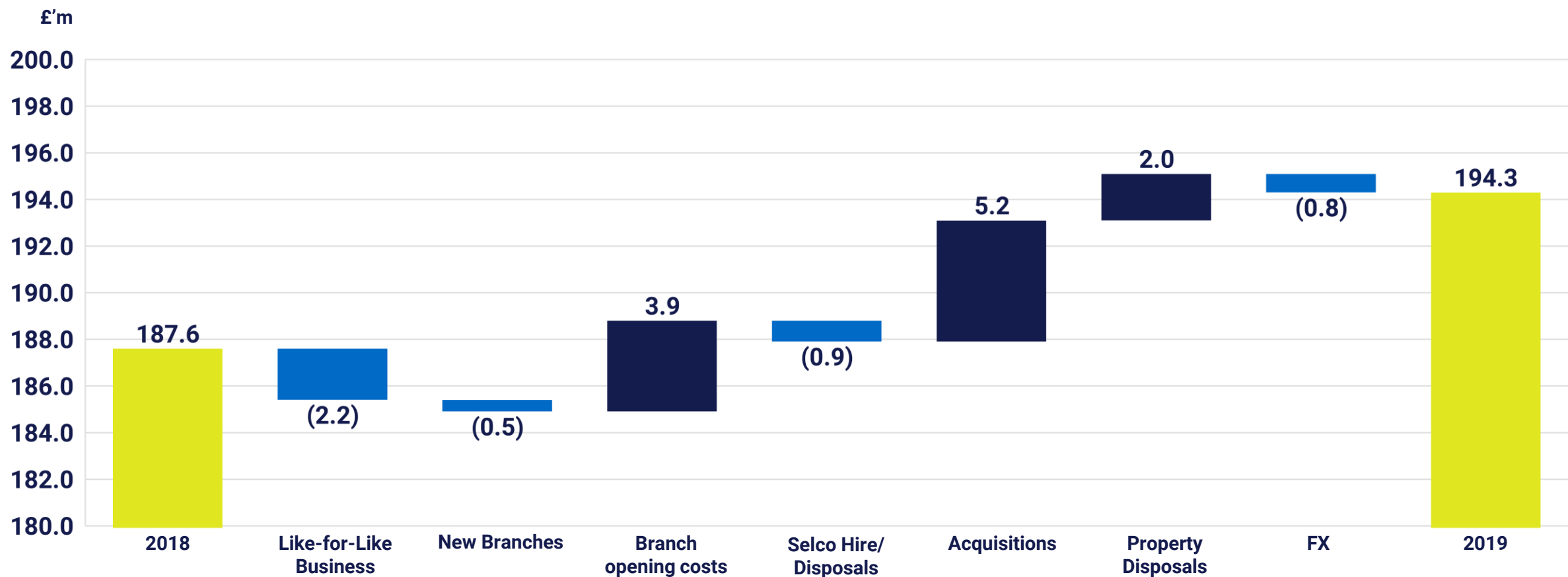
Revenue Growth Analysis



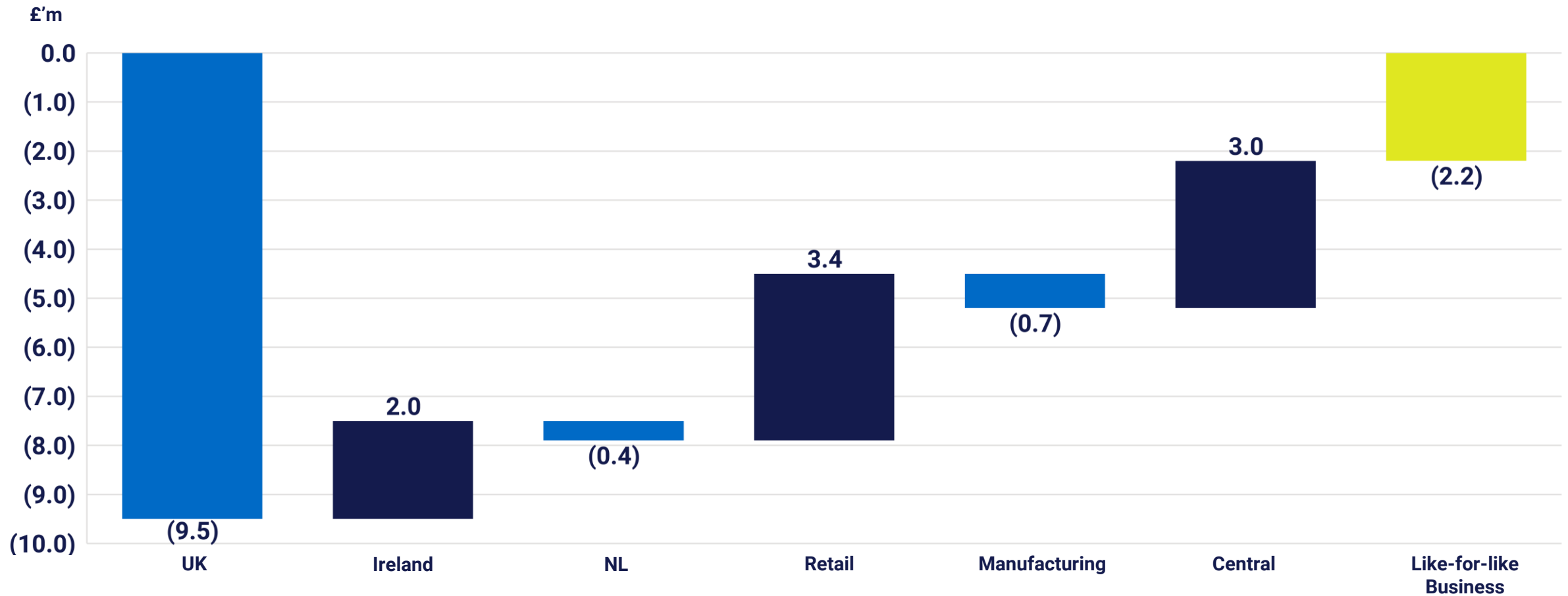
Incremental Revenue from Organic Growth (Constant Currency)



Adjusted Operating Profit Analysis



Like-for-Like Business Incremental Operating Profit Movement



UK Merchanting

£m	2019	Pre IFRS 16		Change
		2019	2018	
Revenue	1,710.8	1,710.8	1,729.5	(1.1%)
Operating profit pre property profit	105.1	98.0	104.0	(5.7%)
Operating margin pre property profit	6.1%	5.7%	6.0%	(30bps)

- UK economy and merchanting market impacted by uncertainty as year progressed
- Average FY daily like-for-like revenue growth of 0.5%. Q4: -4.0%
- Decline in volume and gross margin pressure contributed to lower profit
- Focused on productivity improvement and efficiencies - cost reduction plan executed in UK Merchanting

Irish Merchanting

£m	2019	Pre IFRS 16		Change	
		2019	2018	Reported	Constant Currency
Revenue	464.8	464.8	441.1	+5.4%	+6.2%
Operating profit pre property profit	43.1	42.8	41.3	+3.7%	+4.8%
Operating margin pre property profit	9.3%	9.2%	9.4%	(20bps)	

- Average daily like-for-like revenue growth moderated to 6.2%
- Increase in house building but continuing shortfall in supply relative to strong demand
- Small contraction in gross margin related to higher volume delivered revenue

Netherlands Merchanting

£m	2019	Pre IFRS 16		Change	
		2019	2018	Reported	Constant Currency
Revenue	211.8	211.8	155.5	+36.2%	+37.3%
Adjusted operating profit	19.9	19.6	16.0	+23.0%	+24.3%
Adjusted operating margin	9.4%	9.3%	10.3%	(100bps)	

- Significant growth in scale of business as a result of Polvo acquisition
- Average daily like-for-like revenue grew by 0.6% - uneven trading with softer conditions in H2
- Strong growth in gross margins in Isero due to procurement gains
- Operating margin in 2019 diluted, as expected, by Polvo

Retailing

£m	2019	Pre IFRS 16		Change	
		2019	2018	Reported	Constant Currency
Revenue	205.5	205.5	198.2	+3.7%	+4.7%
Operating profit	22.6	19.9	16.8	+18.8%	+20.5%
Operating margin	11.0%	9.7%	8.5%	+120bps	

- Like-for-like revenue growth of 4.7% across the 35 store estate
- Transactions up 1.5% with average transaction value up by 3.2% as a result of continued range improvement
- Growth delivered across a number of product categories
- Store upgrade programme almost complete - one freehold Dublin store to undergo major refurbishment works in 2020

Manufacturing

£m	2019	Pre IFRS 16		Change	
		2019	2018	Reported	Constant Currency
Revenue	79.4	79.4	78.8	+0.7%	+0.8%
Operating profit	18.6	18.6	19.2	(3.4%)	(3.3%)
Operating margin	23.4%	23.4%	24.4%	(100bps)	

- Strong performance following exceptional growth in prior year
- Marginal growth in volumes supplied to house builders
- Market fundamentals continue to be attractive
- CPI Euromix production facilities well invested

Balance sheet

£m	2019	Pre IFRS 16	
		2019	2018
Intangible assets	761.1	761.1	726.0
Right-of-use assets	522.2	0.0	0.0
Tangible assets	529.7	531.9	548.3
Working capital	196.5	190.6	192.6
Other assets/(liabilities)	(91.9)	(100.6)	(97.1)
Pension deficit	(21.2)	(21.2)	(20.2)
	1,896.5	1,361.8	1,349.6
Net (debt)/cash	(533.8)	7.8	(53.1)
Equity	1,362.7	1,369.6	1,296.5
ROCE	12.7%	14.4%	14.7%
Net debt/EBITDA	1.7x	-	0.2x

Cash flow

£m	2019	Pre IFRS 16	
		2019	2018
Cash from operations	291.1	219.1	209.2
Interest and tax	(56.6)	(37.0)	(30.0)
Replacement capex net of asset disposals	(9.9)	(9.9)	(21.8)
Free cash flow	224.6	172.2	157.4
Development capex	(25.2)	(25.2)	(40.9)
Dividends	(44.0)	(44.0)	(38.6)
Share issue/(repurchase)	(5.8)	(5.8)	1.3
Acquisitions & business disposals (incl. debt acquired)	(52.3)	(52.3)	(68.3)
Net cash flow before FX translation	97.4	44.9	10.9
IFRS 16 / FX translation	(578.1)	16.0	(1.1)
Movement in net debt	(480.7)	60.9	9.8
Opening net (debt)	(53.1)	(53.1)	(62.9)
Closing net (debt)/cash	(533.8)	7.8	(53.1)
Free cash flow as % of adjusted operating profit	110%	89%	81%

2020 Technical Guidance

- Full year property profits expected to be circa.£2m-£3m
- Depreciation expected to be circa.£110m post IFRS 16 or circa. £50m pre IFRS 16
- Capex spend of circa. £70m split roughly 60/40 between replacement/development
- Finance costs circa.£8m
- Increase in tax rate to circa.19.5% as a result of anticipated one-off deferred tax impact in 2020 from UK rate remaining at 19%



Strategic Update & Outlook

Gavin Slark, CEO

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Strategic Focus

- Continue to pursue focused growth strategy
- Focus remains on investing in higher margin, growth businesses with strong market positions and development potential
- Disciplined approach to allocation of capital



Focus on Higher Returning Businesses Acquisition of Polvo

- Delighted with Polvo acquisition which consolidates Isero's market leading position
- Excellent geographic fit with Isero branch network - 51 branches acquired expanded network to 113 branches at year end
- Purchase for €131m completed on 1 July
- Short term focus on aligning purchasing arrangements
- Integration of Van Enckevort branches acquired by Polvo in 2018 completed in H2 2019

Focus on Higher Returning Businesses

Divestment of Plumbase and Belgium Merchanting

Plumbase disposal completed on 1 October

- 2018 revenue of £258.0m (2017: £259.7m)
- 2018 operating profit of £6.0m (2017: £3.0m)
- Net cash consideration of £62.5m received

Belgium disposal completed on 4 October

- 2018 revenue of £91.6m (2017: £89.6m)
- 2018 operating profit of £0.8m (2017: £0.9m)
- Grafton retained freehold properties valued at c. £12.5m
- Overall business valued at c.£28.0m including disposal of branch in St.Vith in October 2018
- Non-cash charge of £24.7m treated as exceptional item in result of discontinued operations

Strategic Update – Operational Milestones Achieved in 2019



Buildbase

- ERP back office systems well established and bedded-in
- First four branches live on new trading system
- Branch rollout scheduled during 2020/21



Selco

- Delivery hub opened to service customers in North East London
- New Distribution Centre opened in Oxford to drive branch productivity and access improved buying opportunities
- New branches opened in Kingston Upon Thames and Orpington. Salford opening June 2020

Strategic Update – Operational Milestones Achieved in 2019



Chadwicks

- Rebranded and upgraded 12 branches to the new Chadwicks brand identity
- Consolidated four ERP systems on to a single platform



Woodie's

- Upgraded format covers 90% of revenue
- Online revenue grew by 51%
- Number one ranked retailer in Great Place to Work engagement survey



Isero

- Relocated to new purpose built distribution centre (120,000 sq. ft warehouse plus offices)
- Significant increase in capacity and opportunity for efficiencies
- Five regional businesses rebranded as Isero

Current Trading – 1 January 2020 to 23 February 2020

	Average Daily Like-for-Like Revenue Growth	
	Q4 2019	1 January to 23 February 2020
Merchanting		
UK	(4.0%)	(1.5%)
Ireland	2.7%	2.0%
Netherlands	(1.4%)	1.3%
Retailing	5.6%	(0.3%)
Manufacturing	(1.9%)	6.7%
Total Group	(1.8%)	(0.4%)

Outlook



United Kingdom

- Reduced uncertainty and early signs of an improvement in confidence
- May take time for a recovery in RMI market to take hold
- Structural growth opportunity in Selco
- Focus on business improvement in Buildbase



Ireland

- Outlook for economy remains positive with some moderation in growth
- Anticipate continued growth in our strongly positioned merchanting and DIY businesses
- Continued growth in home building



The Netherlands

- Positive underlying fundamentals
- Government actively addressing Nitrogen impact
- Full year contribution from Polvo acquisition



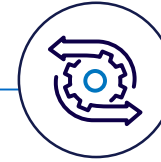
What Makes Grafton Different



Leading market positions



Exposure to diverse markets



**Balance sheet capacity and
consistent cash generation**



**Focused and disciplined
approach to capital allocation**



**M&A: Good track record
and further prospects**



Progressive dividend policy

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Questions

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Appendices

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Financial Year Ended 31 December 2019

Appendix 1 - Notes & Definitions

Notes

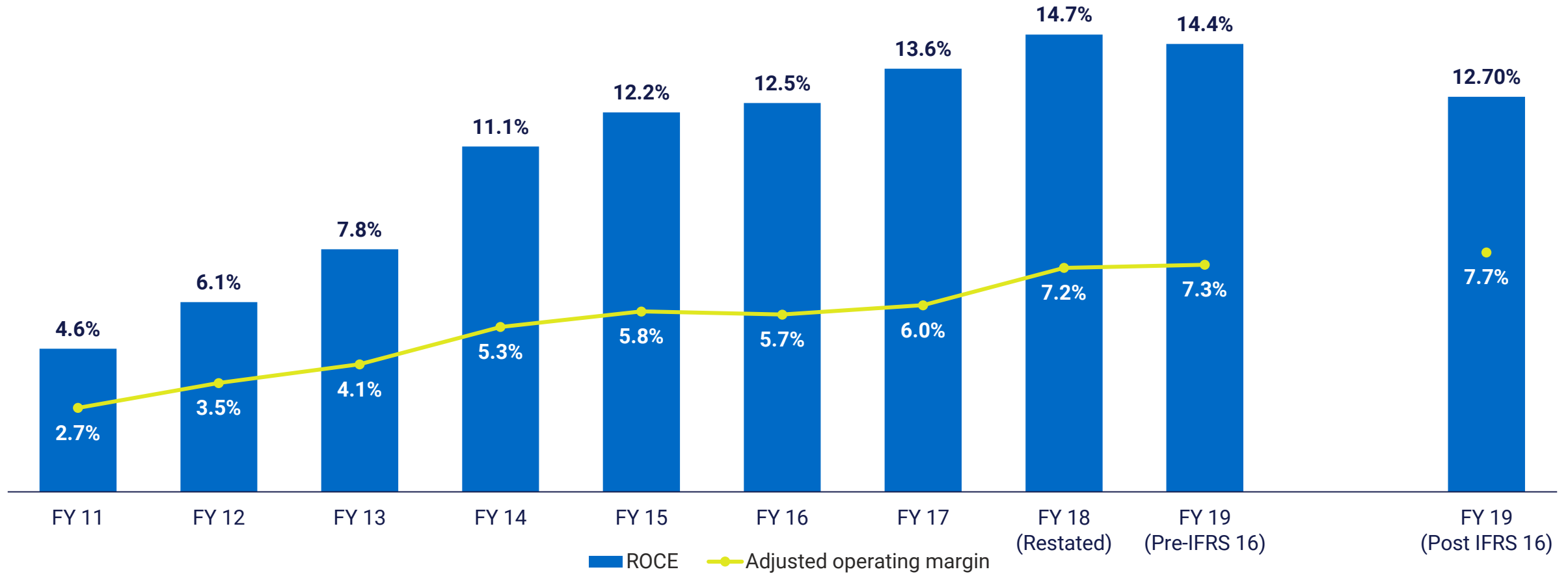
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Definitions

- Adjusted earnings per share is earnings before intangible asset amortisation arising on acquisitions and before profit/loss on disposal of Group businesses
- Adjusted operating profit is earnings before 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 profit on disposal of Group properties, 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 - Operating Profit Margin and ROCE Progression



Appendix 3 - Income Statement – Pre IFRS 16

£m	Continuing Operations 2019	Discontinued Operations 2019	Total Operations 2019	Reported 2018	Change
Revenue - total	2,672.3	251.8	2,924.1	2,952.7	(1%)
Adjusted operating profit pre property profit	187.4	5.4	192.8	189.6	+2%
Property profit	6.9	0.0	6.9	4.9	
Adjusted operating profit	194.3	5.4	199.7	194.5	+3%
Amortisation	(7.0)	0.0	(7.0)	(7.0)	
Statutory operating profit	187.3	5.4	192.7	187.5	
Net finance cost	(5.6)	0.0	(5.6)	(6.1)	
Statutory profit before tax	181.8	5.4	187.1	181.3	
Adjusted profit before tax	188.8	5.4	194.1	188.4	+3%

Appendix 4 - Income Statement - Impact of IFRS 16 and Discontinuing Operations

£m	Total Operations 2019	Discontinued Operations 2019	Continuing Operations 2019	IFRS 16 2019	Reported 2019
Revenue - total	2,924.1	(251.8)	2,672.3	0.0	2,672.3
Adjusted operating profit pre property profit	192.8	(5.4)	187.4	10.5	197.9
Property profit	6.9	0.0	6.9	0.0	6.9
Adjusted operating profit - all operations	199.7	(5.4)	194.3	10.5	204.8
Amortisation	(7.0)	0.0	(7.0)	0.0	(7.0)
Statutory operating profit	192.7	(5.4)	187.3	10.5	197.8
Net finance cost	(5.6)	0.0	(5.6)	(19.6)	(25.1)
Statutory profit before tax	187.1	(5.4)	181.8	(9.1)	172.6
Adjusted profit before tax	194.1	(5.4)	188.8	(9.1)	179.6

Appendix 5 - Operating Margin Analysis*

	H2 2019	H1 2019	H2 2018	H1 2018
UK Merchanting	5.5%	6.0%	6.0%	6.0%
Irish Merchanting	9.9%	8.5%	10.6%	8.1%
Netherlands Merchanting	8.4%	10.7%	10.0%	10.5%
Total Merchanting	6.7%	6.8%	7.2%	6.7%
Retailing	11.3%	8.1%	9.4%	7.5%
Manufacturing	24.5%	22.4%	25.4%	23.5%
	7.5%	7.4%	7.9%	7.3%
Central Activities	(0.3%)	(0.6%)	(0.5%)	(0.5%)
Total	7.2%	6.8%	7.3%	6.7%
Property Profit	0.2%	0.4%	0.0%	0.3%
Group Operating Margin	7.4%	7.2%	7.3%	7.0%

* Excludes property profit by geography (shown separately) and before amortisation of intangible assets arising on acquisitions and restructuring costs

Appendix 6 - Revenue Growth

	2019 Average Daily Like-for-Like Revenue Growth*					2019	
	Q1	Q2	Q3	Q4	FY	Total Revenue*	
Merchanting						Constant Currency	Reported
UK	6.7%	1.1%	(0.8%)	(4.0%)	0.6%	(1.1%)	(1.1%)
Ireland	12.7%	4.5%	5.9%	2.7%	6.2%	6.2%	5.4%
Netherlands	5.3%	1.1%	(2.8%)	(1.4%)	0.6%	37.3%	36.2%
Retailing							
	13.1%	(3.2%)	7.4%	5.6%	4.7%	4.7%	3.7%
Manufacturing							
	11.2%	(3.7%)	(0.7%)	(1.9%)	0.8%	0.8%	0.7%
Total Group							
	8.2%	1.1%	0.9%	(1.8%)	1.9%	2.9%	2.7%

*Continuing operations



Appendix 7 - IFRS 16 – New Lease Standard

- New lease standard became effective 1 Jan 2019
- All leases brought onto balance sheet with effect from 1 Jan 2019
- Leases reflected on balance sheet as a right-of-use asset and lease liability
- No restatement of comparatives
- No impact on cash flows, covenants or investment grade credit rating
- Investment and acquisition criteria will remain largely unchanged
- Bridges from pre-to-post IFRS 16 for primary statements follow

Appendix 8 – IFRS 16 Income Statement Bridge

£m	Pre IFRS 16	IFRS 16 Impact	Reported
Revenue	2,672,281	0	2,672,281
Operating costs	(2,491,842)	10,450	(2,481,392)
Operating profit before property profits	180,439	10,450	190,889
Property profits	6,894	0	6,894
Operating profit	187,333	10,450	197,783
Finance expense	(7,800)	(19,591)	(27,391)
Finance income	2,249	0	2,249
Profit before tax	181,782	(9,141)	172,641
Income tax expense	(30,245)	1,528	(28,717)
Profit after tax for the financial period from continuing operations	151,537	(7,613)	143,924
Result from discontinued operations	(25,135)	443	(24,692)
Profit after tax for the financial year	126,402	(7,170)	119,232

Appendix 9 – 2019 IFRS 16 Cash Flow Bridge

£m	December 2019			Dec 2018
	Pre IFRS 16	IFRS 16 Impact	Incl IFRS 16	
Cash from operations	219.1	72.0	291.1	209.2
Interest and tax	(37.0)	(19.6)	(56.6)	(30.0)
Replacement capex net of asset disposals	(9.9)	0.0	(9.9)	(21.8)
Free cash flow	172.2	52.4	224.6	157.4
Development capex	(25.2)	0.0	(25.2)	(40.9)
Dividends	(44.0)	0.0	(44.0)	(38.6)
Share issue	(5.8)	0.0	(5.8)	1.3
Acquisitions & business disposals (incl. debt acquired)	(52.3)	0.0	(52.3)	(68.3)
Net cash flow before FX translation	44.9	52.4	97.4	10.9
IFRS 16 / FX translation	16.0	(594.1)	(578.1)	(1.1)
Movement in net debt	60.9	(541.7)	(480.7)	9.8
Opening net debt	(53.1)	0.0	(53.1)	(62.9)
Closing net debt	7.8	(541.7)	(533.8)	(53.1)
Free cash flow as % of adjusted operating profit	89%	502%	110%	81%

Appendix 10 – 2019 IFRS 16 Balance Sheet Bridge

£m	December 2019		
	Pre IFRS 16	IFRS 16 Impact	Reported
Intangible Assets	761.1	0.0	761.1
Tangible Assets	531.9	(2.2)	529.7
Right of Use Asset	0.0	522.2	522.2
Working Capital	190.6	5.9	196.5
Other Assets / (liabilities)	(100.6)	8.7	(91.9)
Pension deficit	(21.2)	0.0	(21.2)
	1,361.8	534.7	1,896.5
Net Cash/(Debt)	7.8	(541.7)	(533.8)
Equity	1,369.6	(7.0)	1,362.7

Appendix 11 – 2019 IFRS 16 Segmental Bridge

£m	December 2019		
	Pre IFRS 16	IFRS 16 Impact	Reported
Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions			
UK Merchanting	98.0	7.1	105.1
Ireland Merchanting	42.8	0.3	43.1
Netherlands Merchanting	19.6	0.3	19.9
Total merchanting	160.5	7.6	168.1
Retailing	19.9	2.7	22.6
Manufacturing	18.6	0.0	18.6
Reconciliation to consolidated operating profit	199.0	10.4	209.4
Central activities	(11.6)	0.1	(11.5)
	187.4	10.5	197.9
Property profits	6.9	0.0	6.9
Operating profit before exceptional items and intangible amortisation arising on acquisitions	194.3	10.5	204.8
Amortisation of intangible assets arising on acquisitions	(7.0)	0.0	(7.0)
Operating profit	187.3	10.5	197.8

Appendix 12 – 2019 IFRS 16 EPS Bridge

£m	December 2019		
	Pre IFRS 16	IFRS 16 Impact	Reported
Numerator for basic, adjusted and diluted EPS:			
Profit after tax for the financial period from continuing operations	151.5	(7.6)	143.9
(Loss) after tax for the financial period from discontinuing operations	(25.1)	0.4	(24.7)
Numerator for basic, adjusted and diluted EPS	126.4	(7.2)	119.2
Profit after tax for the financial period from continuing operations	151.5	(7.6)	143.9
Amortisation of intangible assets arising on acquisitions	7.0	0.0	7.0
Tax relating to amortisation of intangibles assets arising on acquisitions	(1.5)	0.0	(1.5)
	157.0	(7.6)	149.4
	Number of Grafton Units	Number of Grafton Units	Number of Grafton Units
Weighted average number of Grafton Units in issue	237,785,154	237,785,154	237,785,154
Earnings per share (pence) - from continuing operations	66.0	(3.2)	62.8