

Grafton Group plc
Capital Markets Event 2026:
Q&A Session I

11th June 2026

Transcript



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- Eric Born: Thank you, Frank. So, you all see the topics we have covered. I hope you got a good sense from me about the strategies, how we look at the markets, how we execute to our operating model. David talked about our capital allocation framework and finance in general. Patrick, Damien and Pippa gave an overview about the island of Ireland and last but not least, we heard Frank talking about our businesses in GB. So, we will now come to the Q&A where we will cover those specific topics which we have covered up to now before we'll then have a second layer of Q&A covering the topics which are yet to come. After that, we will have the coffee break.
- David Arnold: So, we've got a couple of mics around. If you wouldn't mind just saying who you are and then if you would give us the liberty, if you do have more than one question, let's just ask it one at a time. If we're going to direct it to our colleagues, that would be great. And why don't we go to Shane first on the front row. Thank you.
- Shane Carberry: Cheers. Thank you, Shane Carberry from Goodbody. Just the first one, I guess when I think about the 2030 targets and the EPS, CAGR in particular, you mentioned a little bit around the background to that, but you talk about a gradual improvement in GB and Northern Europe, given what Frank has kind of talked about. When I think about that gradual improvement within the 10% EPS CAGR, am I thinking about as getting back to 2019 levels or that's not the kind of working assumption that you're using to achieve that 10% CAGR?
- Eric Born: No, look, I think on that one specifically, I think as I mentioned in my presentation, we think that the markets will gradually recover, but we do not expect to hit the margin levels of a normalised market in Northern Europe and GB over the timeframe of 2030. But if you want to add something.
- David Arnold: No, look, I think we've taken a reasonable view in terms of growth across the business over that five-year period. Euro construct, I don't know if anyone's sort of followed it, published their June report this week. There was some quite ambitious targets that they were putting out, or forecasts, I should say, that were out there. So, we're not quite in the heady heights that they're forecasting overall for the business. So, I think we've taken a sensible view, but no, we don't view Northern Europe or GB as getting back to a normalised market by which I suppose we mean somewhere around about 2019 volumes.

- Shane Carberry: And then I guess a couple on Ireland for me, maybe one on Chadwicks in terms of the branch of the future piece, is that something you could expand on and how that kind of forms into the Chadwicks growth plan and just a second one on Ireland then in terms of the white space that Damien talked about in Woodie's obviously mentioned opening in Ennis, how should we think about Woodie's rollout from here out to the end of the decade?
- David Arnold: Should we let Patrick, if you wouldn't mind sort of picking up the branch of the future piece and then hand over the baton.
- Patrick Atkinson: Sure, thanks Shane. So, the branch of the future is a four-year programme that we have that is there to really speed up the service that we have for our customers, remove paper, make the branches more sustainable really because time is money. So, customers coming in, they need to get, skip the counter, get to the yard if they don't need shop products. So, it's a whole plethora of different work streams that we have working just to make that a really slick experience for the tradesmen coming into our branches.
- Damien Dwyer: Thanks, Shane. So, in terms of Woodie's and white space from tomorrow we'll have 36 stores, but next year Woodie's will be 40 years old. So, 36 stores and 40 years. What we're, I suppose just being realistic in terms of sites and over the next while we do have ambitions, we have identified sites. We're working on a pipeline, but that's one to two stores per year, Shane, at best. We've mapped every retail park in Ireland. We know our targets, but one of the biggest constraints for us is actually having suitable sites. There has been very little retail space built in Ireland since the financial crisis and there's 96, 97% of commercial occupancy on retail parks. So, it's somewhat of a constraint, but as I said, we have identified and we have a couple in the pipeline for the next few years.
- Shane Carberry: And sorry, maybe just Damien, expand on that. Does the e-commerce side of things make you think any differently about what the right size is from a Woodie's network perspective?
- Damien Dwyer: Yeah. The site that we're opening tomorrow will be our smallest store to date. So, we've certainly looked at compressing and maximising the opportunity within a tighter footprint and how we merchandise how we range and it's certainly given us opportunities there as well, Shane. And I think in terms of broadening the range and the online only products as well, certainly gives us scope to do more there with the launch of next day delivery and supplier only drop ship ranges, definitely broader opportunities.
- Will Jones: Thanks, Will Jones from Rothschild & Co Redburn. First, just around Ireland, please, and maybe a couple of subparts, but looking at the margin target of holding broadly flat, obviously at a good level, just wonder whether distribution in Woodie's may differ potentially within that, given particularly

the level that Woodie's has hit over the last few years and then maybe just a wider update. It's a market we don't see as readily, but the competitive landscape in both businesses, how you describe.

David Arnold:

So, shall I pick up the margin piece and then we can sort of go back and talk about a competitive landscape? Yeah, look, I think as Patrick alluded to, we do see a sustainable margin on the distribution side as being 9% to 10%. We think not just in terms of the growth of the market, but also the strength and the levers that we've got, that that does feel like a sustainable margin. Woodie's always challenges me because I think in most conversations I always talk about the margin diluting back more towards 10% and the team consistently deliver some way above that. I think when we look at, again, the levers that they've got in the control, a lot of the work that they're doing around ranging and digital, I think we've provided a lot more support in terms of gross margin and outcome to hold it above that 10% level.

So when we set our margin target, if you like, of around about 10%, I think it's built up from sustainable margin in Chadwicks and Woodie's continuing to defy the CFO nicely and perhaps we just talk about the market landscape and the two elements, I think, because slightly different markets, obviously.

Patrick Atkinson:

Sure. So, the market landscape in Ireland, there's only two players ourselves and one other who have actually branches on the island of Ireland. They either operate north or in south. In the south we have five competitors who have turned over somewhere between 100 and 150 million and then there's about 350 independent merchant who operate through three different buying groups and that's how that's structured pretty much.

Damien Dwyer:

Happy to defy you, David, in a good way. So, I suppose in terms of Woodie's and competitive landscape, we serve a broad range of products, and we have both generalist and specialist competitors across the categories that we serve. I mentioned we have a strong operating model, we have a lean structure, and we have scale to support our buying as well. So generally, we're the number one buyer in terms of our suppliers and our single largest customers. So, we work really well with a small select number of suppliers. We have a very well-developed own source and exclusive brands and that gives us margin depth and strength as well and that's something that we have developed and intensified over the last couple of years as well. Our central distribution centre also gives us that opportunity for scale and probably ahead of somewhat of our competitor base as well.

Some of the brands that you would know that operate in the UK, we're three to four times the number of doors of them in the Republic of Ireland. So, in terms of our market, we have strength, we have debt, we have a strong operating model and we have scale.

Eric Born: I would probably, sorry, just to add for to be complete, I mean BNQ, Screwfix, the range, they all operate in Ireland among starters, right? But as Damien said, the proposition, the overall value proposition of what is excellent and you guys compare competition on a range-by-range basis. So, it's really category by category to make sure that the overall value proposition is superior compared to other players.

Will Jones: Thanks. And then the second was just a couple of bits around Selco. I think previously in prior years at least you talked about potentially a store network expansion to 90 plus. Is that potentially a number you're kind of stepping back from? And it's more about sweating the existing estate better from here forward. And then maybe just if you talk a little bit further about the own brand initiatives and how significant that could be, which products you're doing in, et cetera. Thanks.

Eric Born: Let me take the first one and then let Frank answer that. I think we still believe you could have 90 plus Selcos. I think the slightly different way how we look at it is we have to belong to model which works exceptionally well in and around the Greater London area, but we kind of opened the same model in other area where demand or revenue per site is much lower, which by default gives you a much lower return. So, I think part of it is there are certain locations which we have in the London area where we would love to open and if we get the ability to open or the opportunity to open, we will open with the format as we currently have. At the same time, Frank and the team kind of work on how we can make sure we have an undiluted value proposition for the small tradesmen in an operating model which is more cost efficient, i.e. Where we make the return albeit we will have less revenue per site, right?

But overall, we still think we can further grow the network over time, but the composition of the network might look slightly different over the years. Sorry, Frank.

Frank Elkins: Just in terms of own brand proposition in reality, we have good, better and best really as a proposition within a number of the ranges that we have. All of those at the moment are branded or branded product and we believe there is an opportunity to provide small trade customers with the right specification, the right value. We've signed a new deal with a Far East sourcing company, and we've got a team out there that have developed a whole portfolio of products that we plan to bring in over the medium term.

Aynsley Lammin: Thanks. Aynsley Lammin from Investec. I think I got three actually. Just on the first question or your targets return to capital employed 13%, is that more margin and recovering the P&L? You haven't really spoken about much about the balance sheet. Is there any opportunity there to squeeze out a bit more working capital, et cetera?

David Arnold: So, look, I think it is more about the margin development. When we think about return on capital employed, I mean we were just under 11% last year operating margin for the group was a little over 7% capital turn was 1.4 times. I think in better markets, achieving a capital turn of 1.5, 1.6 times is something that we should be striving for. We should be to use Will's phrase, sweating the assets harder. And I think we have that within our wherewithal. Combine that then with a margin improvement, which doesn't get back to all markets firing on all cylinders by 2030 and that's where you get back to that more 13%. So, I think there is definitely opportunity. We've seen that in businesses and Anu will talk about, for example, IKH. When we acquire particularly family-owned businesses, there is an opportunity to drive efficiency in working capital and some of the systems that we apply more broadly across the group give us that capability.

And again, I think you'll hear a bit more about that later as well.

Aynsley Lammin: Thanks. And second question, just on the big market, lots of opportunity to grow in. Should we be surprised if you acquired 20% of the market cap back in share buybacks over the next five years or do you see so many opportunities on the M&A front that's really a priority and are there any, I guess should we be surprised if you don't enter another big country in a new country or Germany or France during that period?

Eric Born: So first of all, we do have a big pipeline, and we do have a big opportunity to execute them. However, it's a bit like the bus, right? So sometimes the bus comes and you can take it sometimes there are three in a row and sometimes you stand there for hours and unfortunately the bus doesn't come, right? So the question for us and how we look at it is if we buy, we want to be clear what's the plan when we buy it and do we have both David and I firmly believe buying at the right price is a very much a key element of having a successful M&A deal, right? Yes, it's what you do with it, but if you pay, it kind of doesn't really work. So, in that sense, it's a, I don't want to dodge the question, but the quantum of share buybacks will really depend on how well can we execute on the M&A front, where is the relative value and so on and so on.

So that's why I don't think I would want to give a specific number in any way or shape. I don't think you would either, right?

David Arnold: No, but I guess the way to look at our target on earnings is that a large element of that does lie within our control precisely from deploying that free cash flow. The EPS, if you like, accretion from deploying that capital, whether it's into acquisitions or share buybacks. I mean, if I take Salvador Escoda as an example that we acquired in 24 and we've run the, well, what if we spent that money on shares instead of investing it into the acquisition? I mean, short period, but if you just looked over year one, the earnings was pretty

similar actually in terms of the accretion, but the difference was that we had 10 million more in the bank account at the end of owning Salvador. And that's, I guess, the real power, isn't it? That we generate more cash flow that enables us to do more things. And so that I think is a difference.

If we think of it through the EPS lens, through the EPS lens between acquisition and buybacks, it can contribute similar to free cash flow. It would be additive to our free cash flow targets.

Aynsley Lammin: And then just a quick one on the property profit, I think your EPS targets excluding property. Is there much scope? Have you got any capacity to do much of that or not?

David Arnold: I think in terms of the portfolio that we've got at the moment, I don't think that there will be as significant cash generation over the next five years as, for example, we saw averaged over the previous 10. If we looked over the previous 10 in total, it was about £120 million. Some of those freeholds were effectively cash following the disposal of a Buildbase as well, where we've retained the freeholders of some properties. I don't think it's going to be as low. Sorry, I don't think it will be as high going forwards.

Christen Hjorth: Christen Hjorth from Deutsche Bank. Just maybe to follow up on the own brand piece, but more on a sort of group level, because it's been mentioned several times, obviously the Iberian acquisitions are quite focused on own brand. Is that sort of a centrally driven thing? Is it something that could be centrally driven in terms of driving more owned brand? And I suppose related to it, it sort of feels in some areas that there's a bit of a blur between vertical integration and manufacturing and StairBox is a good example of that. How do you think about that across the Group, and I suppose it's digitally led as well? So that's my first question. Thank you.

Eric Born: Look, I think in the beginning when I spoke about how do we look at markets and how do we look at models? If you look at Spain and in the HVAC market in particular, the businesses which have good returns have strong own brands, right? So, if you sell the Daikin, unfortunately, you will not have the same margins. So, we also sell the Dakins, but the proportion is much, much lower. So, if you look at our overall businesses, it's not just in Spain where we have very strong own brands. If you, for example, look at IKH and I'm sure Ana will mention, we are one of the largest sellers of PP and workwear in Finland and we have a brand called Patron, which is our own brand and it is very prominent next to Helly Hansen in Finland. And of course, having systematic view on where you apply own brand in a category and where you position it is one key lever to not only hit the price point but only deliver strong gross profitability on those products.

And I guess there are more demands we didn't mention, I think Frank and Selco will actually introduce a product which originates from our colleagues at IKH, which is called Fixit, which is an own brand of IKH. So we just look more systematically if you will and call it the Grafton way, it's evolution and the businesses really talking together and Remco where are you, Remco managing our group procurement and those forums, making sure that the category manager of the different operating companies actually know what is going on and what we have in the different geographies and how that will help them to drive the portfolio or the percentage of own brand up. I think it's a key value lever at Selco, we are just very, very low. And as Damien said, in Woodie's, it's like 30% of owner proprietary brands, which we sell. So, you have to look at this as an evolutionary way, how we continuously improve the business, but it has to be locally owned.

We don't believe in going to the Selco category manager from a group point of view, "You have to hit 10% own brand, and here are the brands." And then he will just turn around, "Well, I stock them, but we don't sell them because no one wants them." So, I think it has to be driven organically if you want and we create the climate that collaboration is there and the people actually work together. And for me, it's a tremendous success to see the category team from Selco in the UK launching a brand from IKH in Finland, right? Who would have thought? But that's one step in how we continue to enhance the overall proposition.

David Arnold: The thing that I would just add to that is the importance of sensitivity to the differences in local customers. Anu's customers in Finland take a Patron pair of trousers that in Sweden wouldn't sell and so unless we're really alive to that, certainly what we're not going to do is have a common brand, a common set of products, because they won't tackle the price points or this particular specification that is wanted in a market necessarily so that it's that real sensitivity, which again, I think plays the graft in way.

Christen Hjorth: Then just the second one around capital allocation and you're very clear on the returns and capital that you've set out, but how do you think about investing countercyclically where maybe the returns might not be there immediately in year one, take GB for example, versus Iberia or Ireland where maybe the immediate returns are more obvious.

David Arnold: I think what's really important is to make sure that through the cycle we maintain brands that are really competitive and really well placed then for when the cycle turns to come out of it. I think the thing that we've learned over the years is that if you starve businesses of keeping fresh, making them look good for customers, if you wait for that upturn to then invest, what you suddenly find is it is a huge wall of capital that you have to put in that never really delivers that incremental returns. So much better to keep investing and that's why if you go and have a look around Selco, you go and have a

look around Leyland SDMs, they all look good, they all look well invested and that's really important and that's something as a principle that we hold close.

Charlie Campbell: Thanks very much, Charlie Campbell at Stifel I've got two. The first one was sort of a general question about Ireland and we're used to seeing these very strong sort of forward indicators, but there are kind of physical constraints, aren't there, in terms of planning, in terms of labour and just wondering what you think the outlook is for those and whether those constraints can ease to allow this growth to kind of continue.

David Arnold: It's probably a good one for Patrick to pick up.

Patrick Atkinson: Thanks, David. There's been four or five elements that have been restricting the growth in housing in particular over the last few years. I think the work the government have done the last 18 months to two years in terms of freeing up planning, getting financing sorted, commitment to infrastructure, they've been the three biggest things, other things around skilled labour and so forth have been an issue, but we right now have more apprentices than we've had in the middle of the boom actually in the system. So, I think they've done a really good job and it's like turning a big ship. It doesn't happen overnight, but I think that the mechanisms and the policies they put in place to free up land and to put really big commitments onto local authorities to deliver on housing numbers in each local authority, all of that is contributing and we're starting to see that momentum happen now.

Charlie Campbell: Thank you very much. Thank you. And the second one was a very quick question, I suspect. Just wondering if you would do retail anywhere else outside Ireland. I mean, it clearly works very well where you are, but would you take that to any other country?

Eric Born: The answer is kind of, and the reason I say kind of is you look at certain markets, right? There is far more a blend between. If you look at Leyland, right, Leyland has a blend of the professional painter decorator of guys who maintain apartments, apartment blocks who kind of are the handyman and they pop into a Leyland and get the stuff they need for maintaining the apartment blocks they look after. And you have people like me going to buy a hammer, dustpan and brush or whatever I need because it's just local and pop in. And many of the people in the investor community we have spoken to have over the years outed themselves as Leyland customers here in central London, right? So that is retail and if you look at certain markets, for example, you look at Portugal as part of the Iberian portfolio, we do sell product into Portugal at the moment out of our trade businesses in Iberia, but we haven't yet put in any physical presence in terms of branch locations in Portugal.

But there are a lot of models in Portugal where you have, let's say a 65% trade, 35% retail customer base. So, it's a bit more of a hybrid. I think again, you have to look at what's the distribution model that works in the local market and generates the return and do we think we can bring something on top to that model over time to drive value, right? So, in that way it's kind of, you know, would I now rush and say to my colleague Bert that we should open up Woodie's stores in the Netherlands? The answer is no, because you have pretty much every global DIY retailer with super strong positions already in that market and I think the train has left the station. Those markets have been built out, and the dominant positions are there, but that doesn't mean we wouldn't do something which crosses across trade and retail as in many markets that is the case.

- Charlie Campbell: Thank you.
- David Arnold: You'd also be a Voodie's, of course. We'll take Flor's question as the last one and then we'll break for coffee.
- Flor O'Donoghue: Flor O'Donoghue from Davy, I have two. First one actually for you David, it's a very quick one actually is just clarification on free cashflow. Your decks typically break up CapEx into development and investment. So, in your guidance here out to 2030, is that fully loaded or is it just on a replacement basis?
- David Arnold: Yeah. So, when we calculate free cash flow, it is after replacement CapEx but before development and organic CapEx. So free cash flow would fund development CapEx.
- Flor O'Donoghue: Understood. Second one, I might direct this to Patrick - Cygnum looks a really interesting deal, just like to hear a bit more about in terms of the genesis of it, what it will bring to Chadwicks, or interlink with Chadwicks the opportunity for the business under your ownership.
- Patrick Atkinson: I think to understand why we acquired Cygnum, you need to really understand where the market's gone. What we've seen in terms of how houses are built out now are much less traditional than they used to be and we're seeing timber frame representing somewhere in the 62- 63% of scheme houses. Other modern metrics of construction, there's six other ones as well, which are starting to grow. The genesis and the reason for buying Cygnum was really to stay relevant to where our customers had moved in terms of how they were building houses. Otherwise, we wouldn't have the opportunity to grow with those modern methods of construction and that's the reason for it.

