

**Grafton Group plc**  
**Capital Markets Event 2026**  
**Q&A Session II**

**11<sup>th</sup> June 2026**

**Transcript**



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David Arnold: I look at the timing and see how we have immaculately landed at 16:30 and I think anybody would think we've got a Swiss CEO. Sorry, there's a question over there.

Tom Fraine: Thank you. It's Tom Fraine from Shore Capital. I just was hoping you could comment on a potential trend that other retailers in the space have talked about products, not just small ones, but sometimes bulky items being delivered straight to site and ordered online. So, it's to save tradespeople and builders time and needing to do extra visits to physical stores. Do you see this as a potential long-term trend and if so, how well placed would you be to deal with that

Eric Born: Patrick, maybe that will be a good one for you given that you have a lot of heavy building products and a lot of the larger customers as well.

Patrick Atkinson: Sure. What we haven't seen is a lot of the larger house builders ordering online and ordering off our e-commerce site. What they are doing now is using the Trader Hub that I described earlier. So, there's two ways to do that. Their prices are all guaranteed on the system, so it's their account, their pricing, and they get to do that. The TradeHub Pro, which is the more recent one, allows our larger customers who have remote sites around the country. One of the problems they had was getting approval from their head office for acquisitions for day-to-day products every single day, day in, day out, and it was taking too long to get that. The platform we've done for them now is they can get approval direct into their buying office, which comes into ours and we deliver straight away. So that's the way we're handling the large orders at the moment.

What we are seeing the smaller trade guy who wants timber or fencing or whatever, they're buying online and we're delivering straight to them. So that's how we're handling the larger one. I hope I've answered that question.

Tom Fraine: Yeah, sure. Just how well placed are you versus maybe other retailers or other distributors that maybe have fewer physical stores relative to their online presence and therefore a lower cost space.

Patrick Atkinson: In terms of large building materials, we don't see, certainly in the market I'm in, we don't see builders buying large bulky building materials online.

Tom Fraine: Understood. Thank you. And just a question based on what Frank said regarding Selco, customers demanding better value, correct me if I'm wrong, but I assume that service levels and assurances supply is still more of a priority to customers

rather than price, but is this still a little bit of a headwind in terms of your margin growth and just related to that question at a group level, what do you expect as an average selling price increase for this year?

Frank Elkins: So, from the point of view of price, when we did our survey with the customers in the hierarchy of needs, price had moved, but in reality, as you rightly say, availability, certainty and consistency were all elements to that. My point around pricing is actually that visible price and making it really transparent for our small trade customers that we're great value and that's what we're seeing. We're seeing a more demand to ensure that actually I get the right price first time, hence our investment in shelf edge and loyalty to make that really easy and simple and also to be able to drive that price transparency online.

David Arnold: I think just as regards, sort of a general view of where do we see price inflation in the current year. It's still quite difficult to be able to predict it accurately. Some pricing on some products that we're buying in, you take anything with plastic in is double digit increases in price. Some prices have as yet been unaffected. I think the one thing that I can say with certainty is that certainly the pricing that we will see this year is going to be higher than the pricing increases that we thought we were going to get at the beginning of the year. I would think that we will probably see pricing in somewhere in the three to 5% overall level across the businesses, but different businesses will be affected quite differently, I would say. So, for example, if we take Woodies, Woodies have procured a significant proportion of their products already for the year.

2027 might be a bigger risk as regards inflation.

Bert Bunschoten: Thank you.

David Arnold: If we go across to Sam.

Sam Cullen: Yeah, thank you. Sorry, Sam Cullen from Peel Hunt. I've got a few on Spain or two on Spain, definitely. There's a comment I think Mario made around the acceleration of demand in Spain over the last few years with different weather patterns. Do you have a sense of how penetrated the Spanish market is in terms of air conditioning units, whether it's every nine out of 10 houses has an air conditioning unit now versus seven, three years ago and how much that structural story's got to run going forward?

Mario Ballarín: I don't have exact numbers, but I can tell you. In the south and eastern part of Spain where the weather is warm and humid and humid, perhaps it's 75% of the homes or even 80 has air conditioning. In the north it's less, it's 30%, but this in the last five years, this percentage is increasing a lot. Even the municipalities and the government is making that mandatory for schools, hospitals or public sectors or public buildings. Also, municipalities are building cold shelters for the people that has no air conditioning at home because they are in particular in the south and east part of Spain, they can arrive to 48 degrees, and all people is a

problem if they don't have. Then we are seeing increasing this rate of having air conditioning very, very fast. And also with high temperatures, they broke faster because the machine goes faster. It's not only the first installation, it's also the replacement.

Sam Cullen: Then the second one was just sort of related to that. When you talk about growth over the next five years and you split between organic and acquisitive, firstly, I guess, do you have a sense of how much is coming organically and how much is going to be acquisitive and then related to the acquisitions, will there be in other areas of structural growth or other areas that will still grow nicely because of the Spanish economy and the housing market there or how to think about those segments you're going to get moving into.

Mario Ballarín: We are targeting our ambition is to arrive to one billion in 2030. Last year the performance revenue was 400. This year I hope that will be 450 more or less. I think that the growth, these two companies have a growth in the last years of 11 CAGR Mercaluz, 7 CAGR Salvador Escoda. I hope that in the next year we can grow at almost 10% and then the rest will be by acquisitions and probably we need to add 350 from acquisitions and 200 from organic until 2030. And the second question was, sorry?

Sam Cullen: Just the product channels that you talk about moving into, will they be sort of macro proxies or will there be areas where you think you're going to see penetration rates increase like it has in air conditioning in the last five years?

Mario Ballarín: The HVAC sector probably is the vertical that is growing more. That's probably the reason that we have interferes in this one. But we are looking in other sectors that need to have a potential for growth. They need to be profitable, and they need to be fragmented. You have the general building material sector. The electrical material, the electrical material is much more concentrated in Spain and not so profitable. We have iron mongery, we have insulation, we have lighting, we have timber. We are analysing that, but probably the HVAC sector is the most fast-growing sector.

Bert Bunschoten: Thank you.

Eric Born: We have a decent pipeline across, let's say, multiple product specialism. And of course, HVAC is the one which is propelled at the moment in terms of growth for all the reasons Mario has mentioned. For us, the question is, what do we do with the business? So, there are other verticals which are very interesting where an entry platform could be anywhere around 50 million, but we can then significantly scale it and build it to three, four times the size over a period of time by organically and then organically bolt-on. And that's what we're interested in looking at the ROCE we can generate out of that. Now I'm the one who is the first one to say we have to be ambitious, and we have to set targets or aims because you will always directionally get there if you set the stool out. I have yet to see a sports person who has want to become last.

They all say, "I want to win." And then they might not win. They might become second, third or fifth or whatever, but directionally they want to improve. Our aim is to deliver a billion revenue by the end of 2030. Now as I said, when I mentioned it in my presentation, it will be dependent on can we execute acquisitions? Because even if the underlying growth, let's say will be seven, eight and some organic expansion, let's call it 10%, you will be short of a few hundred million. But what we will not do is kind of sacrifice the discipline in capital allocation to hit the number, right? So that's why I'm saying that's the ambition, but it is all within the framework of it has to make sense. We have to get the returns. So hopefully we will get there, and we also have to be careful in that market.

We don't want to kind of pump-up people's expectations, and we have been very disciplined and we, I think Stephen probably mentioned this in his session. We are not shy of a business has, if we have to add in more cost into a business, then we thought to have to put in, to have the standard we need, whether it's around cyber, whether that's around capability in the finance function and so on and so on. We will go back to the table and say, we thought it's X, but it's Y. So, we're going to have to have another discussion and we are prepared to walk away if we don't believe we can make it work financially. And I think those are really important issues. So, take the one billion as the directional aim. If everything works like we hope we will be across, we will be a multi-specialist HVAC will be one part and then there will be one or two other areas where we will have two platforms which we will continue to build out and achieve the billion like that.

- Ben Varrow: Ben Varrow from RBC, first one just similar in terms of organic growth up till 2030, are you able to share in terms of revenue, what you're assuming?
- David Arnold: We've taken a prudent and sensible view across the business that before we bring together all the initiatives and pull the levers and self-help and business improvements that you've heard about today, that the market will be growing somewhere between 2.5 and 3% CAGR across the period from 25 to 30. At a group level.
- Ben Varrow: Okay. Next also out through 2030, once you hit that 13% return on cap employed, is it fair to assume that each group business meets or exceeds that level?
- David Arnold: I think if we get to 13% at that point then each business will, well yes is the answer to that.
- Ben Varrow: Last one, just free cash flow. Can you talk a bit about, I think you meant there was a question on sustaining CapEx. How should we think about that through the period and then also the shape of working capital, particularly if you've assumed some sort of macro uptick at some point in UK and Europe.

David Arnold: Yeah, look, I think we've built in a sensible level of working capital requirements through the period. If we look at the business, I mean typically it runs somewhere about 10%. So, we add £100 of revenue, we need an incremental investment of £10 in working capital. We've looked at it in that respect. Then when we think about replacement CapEx, meaning general replacement CapEx, we treat it as running in line with, if I can describe it as normal traditional depreciation before you worry about leases.

Ben Varrow: Thanks.

Shane Carberry: Cheers. Thank you. Shane Carberry from Goodbody. The first one was just on Salvador and Mercaluz and I guess just expanding maybe a little bit on the kind of cross-selling opportunities that are there and perhaps just is there any kind of buying synergies that we should be aware of as well between the two businesses?

Mario Ballarín: As I explained, we are going to keep the business managed independently. They are different businesses and Mercaluz has only two categories, air conditioning and household appliance. They compete in the air conditioning also. Salvador Escoda has 35% of his sales in air conditioning, but in this they are in some way competitors, but they arrive to different customers. They compete in very few customers. Then we are not expecting huge cross-selling because they need to be independent. In the synergies, yes, of course we have some common suppliers, and we will try to achieve some cost savings.

Eric Born: The business case is not built. Let's just be very transparent. The business case is not built on massive cost synergies. Yes, the own branded ACs are sourced via the same set of big suppliers, right? There will be a conversation, but we are talking here about in the round of things, relatively small element of synergies you will get. We bought Mercaluz because it's a very different model. They have, as Mario explained, Salvador is very broad, lots of SKUs. The on- stop shop for the installer. We can see that model to be further scaled. We can see improvements we can make to that model over time and building that operating margin up from where is it today at least a bit. So, I would expect us to get somewhere towards the 80% on Salvador Escoda that over time as we manage that business effectively. Mercaluz is a totally different business.

Very small SKU is very focused on their Johnson brand and for that Johnson brand, we have the brand rights across Europe. So, we will now need to figure out also, and that's not factored into the case, what else can we do? What other markets can we use those particular brands? But the Mercaluz model has been built on how can we further scale organically because that model is really by opening more branches. How can you further scale that within Spain and drive high profitability and growth in that particular model? The investment case has not been built at all on kind of product procurement synergies.

Shane Carberry: Makes sense. Then maybe this one's for Bert, just in terms of learning a little bit more about the Dutch customer, it seems given what you talked about in terms

of kind of the store and the space sizing, maybe needing to increase in some of the stores in Isero versus when we talk about Ireland and Woody's, maybe a smaller store being an opened in Ennis and possibly smaller stores for Selco as an option as well, but it seems like the customer maybe wants something slightly different in the Netherlands. Is that how I should be thinking about the kind of layout from a store network perspective?

Bert Bunschoten: Yeah, an average store of Isero is between 750 to 000 square metres. So that is completely different and we have then between 10,000 to 14,000 items on stock. We basically have two types of stores. We have stores that we have to say collect only and we have stores where we do the regional delivery from. So those regional stores, those are a bit bigger, and the other ones are smaller, but we have a particular range of light side products. So, we don't have timber, no building materials, et cetera. So, the product portfolio is completely different. It's really power hand tools, hinges and locks, ironmongery and products like that.

Eric Born: Probably do not have any confusion. When Bert mentioned that with the help of Grafton expertise on the merchandising side, we didn't increase the footprint, but we react allocated space within the footprint. So rather than having lots and lots of products behind the counter and very little which were shopable, they developed and changed the concept to have well merchandised and less behind the counter so the customers actually come in, pick and select and buy rather than having to go for many of the products to the counter. And that's what changed, but the footprint was the same.

David Arnold: Very quick and last one, Will.

Will Jones: Thanks, Will Jones at Rothschild. Maybe just to complete the geography question on Finland, clearly, I think the business whose margin has come down most over time and it's been very tough macro, but could you give us a sense maybe of the extent of the low hanging fruit? I know you've had issues I think on aged inventory and supply chain last year, but are there any quick wins in Finland on the margin?

David Arnold: Well, certainly I think in terms of some of the self-inflicted issues that we had around stock and inventory and product availability, I think Anu and the team have done a great job in addressing that one. I don't know, do you want to pick up in terms of the immediate areas of focus on quick wins, Anu?

Anu Ora: Yeah, I think historically it's the networking capital during the past couple of years, we've freed up 27 million of networking capital by simply managing it better, but currently we are working a lot with commercial initiatives, so driving growth and that we can easily do with, I said, sharpening our approach to our B2B customers. So, there's a lot of more potential in the customer segments that we already serve. We have extremely wide customer base, but we haven't simply focused on what do they need, what we can offer and we have a lot of potential in kind of increasing the share of wallet and I also see that absolutely

there's potential in outside of Finland because the model as such that we have works well in the neighbouring markets. So, we are already up and running with the pilot of the 3PL warehouse and we see that there is interest and demand in that market.

So those would be the things that we push immediately, but otherwise it's managing the assortment, managing the pricing and so on. So, the beginning of this year has been good versus last year. So, we see that there is potential.

Eric Born:

And I will probably add that over the last 18 months and we had to wait for Anu quite a bit because we wanted to have a really strong CEO in Finland and Anu was kind of locked into her previous CEO role. So, we hired her but had to wait quite a bit until Anu landed, but in the meantime made a lot of enhancements on the management layers, which Anu already was very actively involved in those recruitment processes. I think today we have a super strong team in Finland. Yes, we do need the market to help us a bit as well and the market will turn, but I think with all the sell pad and when we'll be in Finland in two weeks for the QBR, right? Yeah. Two weeks. So we'll go through all the different initiatives when we have our quarterly in detail and they have so many layers to pull that I do expect Finland to, as Anu said, return back into clearly double digit operating profit margins, but for that we need a bit of help on volumes because we have a massive central distribution centre Kauhajoki and whether you have a bit more volume with less or you won't have less people in that fixed cost space, right?

That fixed cost base is there. It has a lot of operating leverage.

David Arnold:

Okay. All right. Excellent. Thank you very much everybody. Really appreciate everybody's coming. Thank you very much for your questions and your interest and if you are free to share a small but perfectly formed glass of something, that would be great. Thank you very much. Thank you.