

Grafton Group plc
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Transcript



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Mario Ballarín: Hello, good afternoon. I am Mario Ballarin and I joined Grafton Group just five months ago as CEO of Grafton Iberia. Before joining Grafton, I work in the British Group Bunzl for 17 years. The Bunzl Group share some similarities to Grafton as it is a decentralised business model where acquisitions play important role in its growth strategy. I held several positions during my 17 years in Bunzl. I start as finance director of Bunzl Spain after the first acquisition of Bunzl in Spain. Four years later, I moved to South America as general manager of Bunzl South America except Brazil. I was six years there with develop the region with 10 acquisitions and organic growth and after six years I came back to Spain and I held the position of managing director of South and Europe, Middle East and Orbit countries. I was overseeing an operation of 11 countries, 31 companies the last year, and 1.1-billion-euro revenue throughout my professional career I have been involved in the artist and subsequent development or approximately 30 companies.

And well, after 17 years in Bunzl, I was very happy and pleased of joining the Grafton Group after its first acquisition again in Iberia. The group enter in the Iberian market only 18 months ago providing a unique opportunity to help shape and accelerate its development in the region. The building material distribution sector in Iberia remains very fragmented and offers significantly growth potential making it an attractive market for both organic expansion and acquisitions. I am truly excited about the opportunity to contribute to the achievement of Grafton Group's ambition in Iberia.

And here you have the ambition here in bottom of Grafton in Iberia that is to achieve one billion sales by 2030 with EBITDA of close to 10% of sales. How are we going to achieve this? Well, we have two businesses in the HVAC sector, and we want to develop this sector through bolt-on acquisitions that will complement our businesses geographically or by product-wise. Also, and I will explain later, we are planning to develop organically. We have a lot of possibilities to develop organically our businesses with new brands openings, new customer channels and export and new capabilities. Also, we aim to develop new models, new verticals that we are not present. We are also only present in HVAC at the moment, and we want to develop that through anchored decisions. These verticals need to show an attractive growth potential, also need to be fragmented and has strong profitability.

Following these uncovered acquisitions in new verticals, we will develop the business organically and also operating scale cross-selling opportunities and complementarities across our existing operations. We will also hand the capabilities of our businesses by leveraging the experience and expertise of the

Grafton Group and developing the strong talent within the acquired businesses. And this is what we have now in Spain. As you know, by the video, Salvador Escoda was acquired 18 months ago. Salvador has today 95 branches, 600 employees and revenues were last year, almost 250 and EBITDA of €16 million. And just a little more than one month ago by the end of April of this year, Grafton acquired the second company is Mercaluz Group. Mercaluz has 18 branches, has 350 employees today and the revenue of Mercaluz last year was 150 million and had an EBITDA last year of 23 million.

Together these acquisitions provide Grafton Group with a strong platform for growth in the Iberian market and establish a leading position within the growing HVAC distribution sector in Iberia. Okay. Here we have some KPIs, macroeconomic KPIs in this for Spain. Among others, we can see a strong GDP growth in the last four years a CAGR of 2.9%. We can see also that population is growing at 1.1 CAGR during the last four years in a country of a population of 50 million people. And also, I want to highlight the forecast of housing completion for the next three years that is expected to increase by 15% per year due to the big shortage of houses, but also due to international demand for investment purposes and also searching for holiday homes.

I would like to highlight also the strength of the Spanish economy in the last four or five years that is above the average clearly of other European economies and this strength is due to several reasons. One is the growing population driven by immigration. Another is the boost of the touristic sector since COVID times. Another is the robust export sector and strong external services activity. Also, the diversify economy and also the diversified and relatively cheap energy mix. And there is one very important KPI here that is not in this slide but is the temperature. The increasing temperature in the last years has increased the demand of air conditioning, refrigeration and ventilation solutions and this has a very positive impact in our business. We were told that you love winter, we love summer.

Okay. This is the same KPIs for Portugal. Portugal is a 10 million people country. Typically, it's 20% of the market of Spain. From our two businesses in Spain, we have exports to Portugal are around €7 million, but our plans are to be present there through some acquisition soon. The KPIs in Portugal are similar, follow the similar trends in Spain but at more moderate pace. But it's important the housing completion in the past 9% is very significant because Portugal also has a housing problem and also a very big international investment in properties. The building material sector in Portugal is also very fragmented.

Okay. And here we have little story of Grafton in Spain that as you saw in the video, it started 18 months ago with acquisition of Salvador Escoda. Salvador Escoda is a company of 20, 52 years old, sorry. That was founded by Mr. Salvador Escoda. And it's in the HVAC sector, but a specialist in air conditioning, refrigeration and ventilation has a very strong brand. It's called MundoClima and acts as one stop shop for installers. During the 18 months since acquisition until now, many things has happened in Salvador Escoda. The first thing was the

leadership management transition. Mr. Salvador Escoda retired last year and his daughter, Marta Escoda, has become managing director of the company. You saw both in the video, Salvador and Marta. This transition was managed perfectly. Also, thanks to Grafton, there has been several new things in Salvador is the opening of seven branches for 18 months.

We have financed the teams. We have improved the teams with new capabilities in particular in the marketing department, in the HR department, IT, property management, and sustainability. We have integrated all the reporting systems, the controls and process of Grafton. And with all these new things, Salvador Escoda has been able to continue growing by 7% last year. One month ago, we acquire the company Mercaluz. Mercaluz is based in close to Alicante, has headquarters there and is a 40-year-old company also in the HVAC sector, but much more specialised in two categories, air conditioning and household appliance.

The founder was Mariano Moreno, and the sons were managing the company because the father retired 10 years ago. They were very successful. Mercaluz Group is a fast-growing company and has a very strong brand called Johnson. And the company will be continuing managed by Eloy and Paco Moreno, the two brothers. Leadership will help ensure business continuity while supporting the next phase of growth and integration within the Grafton Group. Okay. And here I will go a little deeper in explaining what is the business model and value proposition of the two companies that we have now in Iberia because both are in the HVAC sector, but they have a very different business model and value proposition.

That's the reason that they will continue to be managed independently, allowing each business to capitalise its unique strengths and fully capture the opportunities available in the market. We have the first business, Salvador Escoda, that has three main categories, air conditioning, ventilation, refrigeration, but also has the rest of categories of product that installer needs such as heating, gas, electrical materials, lighting. Then they will address mainly 85% of the sales to professional installers. The value proposition of them is to be the installers store. These slogan installer stores is in each one of the 95 branches. It's a one stop shop. The installer goes there and takes everything that they need, and they give service and they give advice and that's the reason that they have 95 branches. In all the main cities, big and medium cities, they are present. They have 800 employees. It's a strong structure and they have 140,000 SKUs.

What is not in Salvador Escoda doesn't exist. This is the value proposition. Mercaluz is another value proposition. They only have two categories, air conditioning and household appliance. 75 is own brand, the brand Johnson. And they go to professional installers, but they also go to distributors, to wholesalers and to developers. The value proposition of Mercaluz is value for money. They have a good product with a very good cost, a very good price. The professional installers and the distributors have a very good profit buying this product from

them. The structure is much leaner - only 18 branches and 350 employees today. The branches of Mercaluz are totally different to Salvador Escoda. Salvador Escoda are shops with a small warehouse. In Mercaluz is the opposite, are big warehouses and a small counter for some installer that goes there.

Well, that's the reason that the two companies will be managed independently, and we hope that maintaining the individual identities and operating models, we can maximise our reach across abroad and rapidly growing HVAC market while preserving the unique strengths that have driven the success of its business. Salvador Escoda grows during the last five years at CAGR of 7% and Mercaluz at a CAGR of 11% per year. Okay. Iberia is a highly fragmented market in the building materials distribution sector. Our growth strategy is based on both organic and acquisitions. First, we are planning to grow as I told you before with bolt on acquisition in the HVAC sector and anchor acquisition in the other models, other verticals. We also have huge opportunities to grow organically. We can arrive to new customer channels that now we arrive but with not a lot of determination. We arrived in a reactive way, but they are quite good, quite big, these channels.

Nowadays, we are focusing on the installer in particular in Salvador Escoda, almost 90%. And there are some other channels such as industry, maintenance companies, infrastructure companies, public sector, all hospitality that is restaurants, hotels that use all our products. This is something that is a source of important growth for us. Also, export markets. We are exporting about 30, 40 million between the two companies in a reactive way. When they call from France, from Germany, we sell. But we have the products, we have the volume, we have the brand.

It's quite easy if we put the resources to explode this and this other source of growth. We will also grow through cross-selling across our portfolio of companies and strengthen our digital and sustainability capabilities and expanding into other markets with our brands as you have seen here. The most important levers for increasing our profitability are based on leveraging scales and best practise and our focus in our own brands, in particular Mundoclima for Salvador Escoda, Johnson for Mercaluz. With own brands, we control the prices we control the margins. In addition, our performance will be driven by higher productivity resulting from improvements in logistic, efficiency, automation, digitalisation. In the regard, the experience and support of the Grafton Group are key enablers in achieving these objectives.

How are we going to win? Well, we have a network of 120 branches all around Spain, not yet in Portugal, but in the future will be in Portugal also. We have 1,200 very experienced employees. They have deep knowledge of the products and deep knowledge of every region of Spain, of the marketing its region. We have a product range of 150,000 SKUs. We have 70,000 customers. We have two very powerful brands, and we have all the supports of the best brands and suppliers of the market. We also benefit from Grafton Group extensive experience and capabilities to further develop key areas that's e-commerce

offerings, digital capabilities, logistics, and sustainability. All of these assets together with our strong ambition to grow make us highly optimistic about the future development of Grafton in this region.

And looking forward and as a summary, Iberia, we have two very strong economies with very good prospects in Iberia, not only in the economic side, also in the property development. The building material sector is very fragmented. There is a big opportunity to consolidate this sector in Iberia. We are now present in the HVAC sector. The HVAC sector is growing much more than the average sector; any distribution sector is growing by between 4 and 6% per year and the global warming and increasing temperatures are having an important positive effect in this sector. We also have opportunities to grow as you have seen and to develop the companies with Grafton support and help. Based on all these factors, I strongly believe that Grafton Group ambition for Iberia to achieve one billion revenue by 2030 is totally possible and we in Grafton Iberia will be very proud and delighted to make this world a reality. That's all. For Grafton Iberia, now we will hang over to our chairman, Ian Tyler and Eric to conclude.