

Grafton Group plc
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Transcript



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Frank Elkins: Thank you, Patrick, Damien, and Pippa. Good afternoon, everybody. My name's Frank Elkins. I'm the Chief Executive Officer for Grafton GB. I joined Grafton Group in August 2024. My background for those that don't know me, I've done 30 years in construction distribution. My previous employer before coming and joining Grafton Group was Travis Perkins, where I did 12 and a half years there. My last job being group COO for all of the businesses across Travis Perkins. One of the reasons that I joined Grafton Group was around what Eric has talked about earlier, the federated model that we have within the business. I as a competitor to Grafton previously have seen the value that that federated model produces. The agility and the decision making in an ever-changing market and the focus that Grafton colleagues had in terms of the proposition in an agile way. And I'm delighted to be part of the Grafton Group.

So let me just give you an overview of what's in GB. So, Grafton entered the GB market in 1988 with an acquisition of a builder's merchants, which we've since disposed of. But within GB today, we have five business units, the generalist business of Selco and four specialist businesses, CPI EuroMix, Leyland SDM, TG Lynes, and StairBox. The combined turnover of those businesses is £765 million and producing an EBITDA margin of 6.5%. I've put the map up here just to give you a flavour of the strength that we have in our London and Southeast markets. So, if I take Selco, our generalist business, it has 74 stores across the UK, but 37 of those cover London and the Southeast markets. Leyland SDM has 34 branches and all of those are in London predominantly in zone one and zone two. And TG Lynes our mechanical services business operates from a single site in Enfield and predominantly services London and the Southeast.

Our two other specialist businesses, CPI EuroMix and StairBox operate from their manufacturing facilities and cover the whole of the GB.

So let me give you a bit more flavour about the businesses that sit within GB and what they do. On this slide, I've tried to give you a view of the product range, but also importantly, the project life cycle of the businesses that we have. And if I start with Selco, Selco is our generalist business. It represents about three quarters of the turnover of GB. It provides a solution to our small trade customers as a one stop shop. So, in reality, we go through the whole project lifecycle for an extension or new build. At the beginning of the project, we can supply timber, bricks blocks, and cement. At the end of the project, we can provide kitchens, bathrooms, and all of the DIY. Selco as a

generalist business is predominantly exposed to the RMI market and services the small trade market. If I then take our specialist businesses in order of project life cycle, we start with CPI EuroMix.

CPI EuroMix provides masonry and mortar products to the new build housing market sector. It has a unique solution by providing silos to the large national house builders but also has a solution for the smaller builders through distribution of bagged products. It's predominantly exposed to the new build housing market, and its customer base is trade and large trade. If I then take the StairBox business as next in its project lifecycle, StairBox provides stairs and wooden windows and doors to the retail and trade merchant market. It's predominantly exposed to the RMI market sector. Next in that project lifecycle is TG Lynes, our mechanical services business or big plumbing exposed to the commercial market sector whereby its products are installed in schools, prisons, hospitals. Its market is mainly exposed to the commercial market sector and in reality, services the larger trade customer base. And finally, Leyland SDM. Right at the end of the project and a specialist in paint and decorating products, its customer base a split between retail and trade and predominantly exposed to the RMI market sector.

So, if we look at the GB portfolio, the reality is we have a really nice balanced portfolio of businesses. On one side in terms of exposed to the RMI exposed predominantly to the RMI but also to the new build market sector and providing a product solution across all of the needs of a small trade customer.

So, if we look at the historic performance of those five business units and this doesn't include a Plumbase which we disposed of in 2019 and Buildbase that we sold in 2021. As you can see pre-COVID, these businesses were turning over £600 million and EBITDA margin of just over 10%. In 2020, as Patrick talked about, we had to close our stores for a while due to COVID and then go to digital solution, hence the slight downturn in our business. But then in 2021 we saw the spike in terms of RMI demand due to the fact that we were all locked in our homes and seeing the requirements of repair maintenance improvement in our home and we saw really high demand for repair maintenance in that market sector and in hindsight we'd now talk about those returns being super normal profits. Since COVID, we have seen a deteriorating RMI market and it's been well versed in terms of new build and RMI stats.

The reality is the ONS data that we see from 24 and 25, certainly the ONS are questioning it and as a market sector we wouldn't recognise those numbers. I mentioned earlier the southeast market exposure. We have seen house price deflation in London and the Southeast at minus one versus the average in the UK of 2.4. We've seen the decline in housing starts from minus 30 from the previous in 2025 against the previous year and we've seen the introduction

of building safety regulations on high rise buildings putting delay to new starts in the London market sector, all causing us a downturn in our market sector.

So why do we believe that GB can perform well? Well, first of all, I know that many of you will have seen the trading update in terms of the GB businesses at minus five like for like sales. There's no question that we operate in a tough market sector. The new build housing stats are there to be seen. We've seen the lowest new housing start since 2026 and minus 20% against 2019 numbers and we're not shying away from the reality that the market is difficult, but we don't believe the housing market is derailed, it's just delayed. And why do we remain optimistic about the UK housing market? Well, housing demand is there to be seen. 1.3 million households are on the English waiting list for new homes, the highest number for a decade and a growing number over the past three years. Successive governments have recognised the need for new housing and the Labour government at the moment are trying to push for 1.5 million homes to be built in their term.

They have been helpful in terms of deregulation of planning, which encourages new build. And we believe as lower interest rates and lower inflation over the medium term begin to soften, that actually the confidence of our consumers in terms of new home buying. But as Eric mentioned, GB has the attributes that we look for from a Grafton group. It is one of the largest European construction markets. It has an under supply of housing. It has an ageing housing stock. 80% of the UK housing is 50 years or older and it's got a growing population. So, all the attributes that we look for in a market that Grafton Group wants to be in.

So, I'm now going to spend a bit of time talking about Selco because it's our largest business in GB. It has 74 stores and has a really strong brand presence. It has a unique store format in terms of the fact that we have 15,000 SKUs available for our customers to self-serve. We lay out our stores in an easy way for our customers to shop project and we have visible pricing that means there isn't the complexity or friction in that customer journey. We have highly skilled colleagues who understand the product and requirements for our trade customers and are knowledgeable and want to build relationships for small trade customers and we have a third-party distribution centre that provides us with best-in-class availability at 99% availability across those 15,000 SKUs. We also have the best in class from a merchant market sector in terms of digital penetration at 6.5% and we recognise this as an opportunity to grow, and I'll talk about that in a bit.

So, what have we done since we came or what have I done since we came to Grafton Group and looked at the Selco business? Well, we put in the largest customer survey to really understand the needs of that small trade customer and what we found from that survey was these five buckets were the most

important things to our customers, speed, certainty, value, convenience, and knowledge. The other thing that came out of that survey was that our customer base in Selco is a decade younger than in the standard merchant market sector. Why is that important? It's important because those customers are experiencing a different level of service through omnichannel experiences that they have when they shop in other ways and that means within these buckets, we've seen a heightened requirement for service and we're changing our customer proposition as a result of that.

So how are we responding to this? We have got a number of key initiatives in flight or we're developing plans to do and I'm not going to cover every single one of these. Speed is really important to our small trade customer. We've introduced a loyalty scheme, as Pippa mentioned, which rewards and differentiates our most valued customers and takes away the friction of the requirement for negotiation on price. We're in the processes of developing an app, which is trade specific, providing information around reward and savings through the loyalty scheme that our trade account customers have received and will increase the functionality around search and their ability to trade on that.

We also see that faster fulfilment, the requirement for our trade customers to get the product really quickly has increased. Click and collect is one of our fastest growing channels in Selco and we've recognised the fact that we need to put in a plan to be able to deliver a same day delivery service as well. All of this needs to be not just as an in-store experience, but actually on our web channel as well. And we've got plans in terms of how we develop our web channel through 26 and 27 to provide a better search experience and different fulfilment options through our web.

Certainty, our customers demand the fact that if I go onto a website that the product that you say or the delivery that you're going to give is certain. So, we've just rolled out across our Selco network a delivery management system. This provides an ETA to our customers. It provides the ability to track online their delivery. It gives them acknowledgement that we've picked and packed that delivery, and it gives an electronic POD and the ability to feedback at the point of delivery, the experience that they've had. We're also delighted to announce that we've been given the opportunity to invest in Selco's own distribution centre and that will give us the opportunity to drive better stock accuracy and extend the range and fulfilment options that we give both in store and online.

Value is an increasing important element to our trade customers. Price transparency and our customers demanding better value has led to us looking at how we provide our customers with a stronger shelf edge price and we have invested and started an investment programme in terms of the products that really matter for our small trade being invested in and this will

culminate in the ability in terms of a really strong shelf edge price with a loyalty scheme that rewards our loyal and largest customers. We're also very fortunate that to be in the position whereby we have first party data of all of our customers and we're using AI to be able to look at that and understand the customer journeys that they're going on and serving up to them relevant products to the projects that they are doing and promotional campaigns that are specifically relevant to them.

Finally, we've started introducing our own brand range, product that is specific to the trade at the right value. All of this is underpinned by our brilliant colleagues, and you'll hear more about what we do to train and develop them through the breakout session with Carmen and Sally later, but also data driven decision making. I talked about first party data, but we're using data in many ways to drive decisions around the Selco business and a continuous improvement as Eric talked about around operational efficiency. We have looked at our store processes and we're driving to ensure that we have the best operationally efficient network.

So how is Selco going to win the recovery? Although the market recovery is important element of returning Selco to stronger margin operating margins, we have a significant opportunity within the organic growth initiatives that we have in flight or planned. I've already mentioned our direct sourcing and own brand. It currently represents less than 1% of our total turnover. We have got the opportunity in terms of having our own new distribution centre, which provides us the opportunity to give better fulfilment online and a wider range of product. We've introduced a loyalty scheme, meaning that we'll drive a better share of wallet and also recognise our largest and most significant customers to us. We've got the opportunity to invest in digital, the launch of an app and the development of our website. Digital represents 6.5% of our total turnover in Selco at this moment and we recognise that there is an opportunity to open new branches, some in the geographies of London and the Southeast, but through the process improvement and efficiency, we think there could be an opportunity to put new stores down at a lower cost to serve in a more efficient way.

But we're not just doing that in Selco. We've looked at the customer proposition across all the GB businesses and are looking at how we develop that customer proposition. And I just want to give you a couple of examples of what we've done. CPI EuroMix has just launched the first digital app in the market sector that it serves, a unique proposition to those large customers. This provides an online digital proposition from the point of ordering, maintaining and topping up your silos, giving the large house builders the ability to be able to manage multiple sites on a digital app and making that easier for our large trade customers. Leyland SDM last year opened South Kensington store. It was in profit within the first five months, but also really importantly, the two stores that were less than a mile away from it saw no

cannibalisation as a result of it, giving us the confidence that we can still develop our network within zone one and zone two in London, giving our trade customers the convenience of pickup locations within Central London.

And finally, in terms of Window Builder, we've seen StairBox deliver a stair builder app, and we've used that as a platform to be able to develop a window builder portal for our customers. The complexity of designing a window is, believe me, very complex and we've provided a digital portal that takes that complexity out, gives you in time availability and price and you're able to order it online, making that journey really simple and easy both for a retailer and a trade customer.

So, in summary, looking at GB, we remain really positive about the outlook from a point of view of new build and RMI market in the medium term. The fundamentals are there about the lack of housing and the requirements for new housing in the market sector, which then leads to RMI. We've talked about the strengthening of our customer proposition and being really clear about what's important to our trade customers and around the buckets that we've talked about, speed, certainty, value, convenience, and knowledge. We aren't waiting for the market to recover and we're investing in these key initiatives to drive a better performance despite whatever the market throws at us. And we are looking at operational efficiency and how we drive efficiency in our network, but also with the new GB structure, how we collaborate as GB to find opportunities to drive and collaborate and you'll hear a little bit about that later as well.

And finally, through the research that we've done, we've prioritised the initiatives that really matter to our customers to make a brilliant proposition. Thank you very much. I'm now going to hand over to Eric who's going to sum up and take Q&A.