

Grafton Group plc
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Transcript



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Bert Bunschoten: Good afternoon. My name is Bert Bunschoten. I'm the CEO of the Isero and Polvo business in the Netherlands. Together with Anu Ora, we will give you some insight in the Northern European business. I joined the business in 2012 as CFO and became CEO in 2014. After a successful buy and build in the private equity ownership, the business was acquired in 2015 by Grafton. Prior to joining Isero, I worked as CFO of Intersafe, a pan-European workwear and PPE merchant and held financial roles at Hagermeyer and DSM. I started my career at the big four firm and I'm a chartered accountant. Over the past decade, I've been closely involved in building and scaling the business, transforming it into the market leader we see today.

Since Grafton entered Northern Europe just over 10 years ago, we have built a business of significantly scale and quality. We have grown from a starting position of 38 branches and approximately 90 million of turnover in 2015 to a business that generates currently 550 million in sales through a network of 265 branches and partner stores and more than 2000 staff involved with 6.3% operating profit in the low end of the cycle. The growth has been driven by a combination of acquisitions, organic expansion, and continuous development of the commercial models. An important milestone was the acquisition of IKH in the second half of 2021. The business averaged double digit margins up to COVID. However, profitability has declined predominantly driven by external cyclical factors. The Dutch economy has experienced only modest growth whereas construction activity developed more negatively. Housing completions have declined with approximately 2.5% per year since 2022 and new commercial construction is currently almost 25% below the peak in 22.

The Ukrainian war that started in 22 and the increase in European central bank interest rates impacted the finished business. Anu will explain more about that in detail. At the same time, inflation has been significant post- COVID and supplier prices have adjusted more slowly than underlying cost inflation in a weaker market environment. These effects are the key drivers for the decline in margins to 6.3% while we generated a significant amount of cash. Anu will talk more about IKH and our focus on the Dutch business.

Our growth has been underpinned by disciplined and well executed buy and built strategy. We have established ourselves as the clear market leader in the specialist distribution of (inaudible), hinges and locks, power and hand tools and workwear and PPE more than double the size of our nearest competitor. Sales are over 400 million from 121 branches with healthy operating margins. Key milestones in this journey were the acquisition of Gunters en Meuser in 2017 and Polvo in 2019, both of which strengthened our footprint and capability

significantly. These transactions were supported by Grafton's corporate development team and were instrumental in creating today's platform. The Netherlands team now has the relationships, market knowledge and execution discipline to originate and deliver M&A opportunities supported by group where necessary. We have completed multiple bolt-on acquisitions and have embedded a repeatable model for consolidation in a fragmented market. In addition to acquisitions, we have continued to expand organically, opening branches in attractive locations where acquisition opportunities don't offer the appropriate return or are just not available.

We continue to optimise our branch network through selective consolidations.

Looking ahead, we expect a gradual recovery in the Dutch housing market and construction market. There's a structural shortage of housing which is expected to support an increase in new housing completions over time. The renovation market remains robust supported by an ageing housing stock with 87% of houses completed before 2000. Population growth is expected to continue providing additional demand support while commercial construction is expected to remain broadly flat. In summary, we are operating in a market where short-term conditions are challenging but long-term fundamentals remain solid and supportive of recovery. While scale is important, a key driver of our performance is the evolution of our model. Supported by Grafton's merchandise experience, our stores have become more customer focused, increasing the space available for customers to shop and reducing the areas behind the counter. We introduce store planograms to manage the shop floor, resulting in improved collect sales and higher average order size.

At the same time, we have significantly expanded our value-added services. Today, more than 17.5% of sales include service elements. For example, in smart logs and access control, we go far beyond product distribution. We advise, manage projects, configure systems, provide installation and support and maintenance afterwards. We see a growing share from carpentry factories. We manage inventory onsite, but also in service vents of our customers, offer work web printing and digital budget tools and perform inspection and certification for equipment such as power tools. These services are increasingly embedded in our customer's operation, reducing total cost of ownership for our customers, increasing switching costs and support more stable and differentiated pricing. This is a key element in our ability to protect and structurally improve margins over time.

Our model is built on key strength. First, deep technical and product expertise. In a complex category such as our monitory, customers rely on advice and solution support, not just product availability. We have close customer and supplier relationships and thirdly, fast service and reliable delivery. Availability and speed are critical for our customers, and we consistently differentiate in this area. And finally, our ability to tailor solutions to customer needs that allows us to compete on total cost of ownership rather than price alone. Alongside this service-led model, we have developed a strong omnichannel capability. Today,

almost 10% of sales are generated online, fully integrated with our branch network, field sales teams, and technical support functions. Our dense network combined with a flexible local logistics model supported increasingly by electric vans is a structural competitive advantage. We are, for instance, able to deliver twice a day a market leading service.

As the market recovers, our focus is not only to participate in the recovery but to outperform it. We will deliver this through a combination of growth, mix improvement, and efficiency. We'll align the formats and propositions of Isero and Polvo, creating a combined offering that leverage scale, network density, and service capability in a way that competitors cannot easily match. We will leverage sales opportunities with our existing product ranges in adjacent segments such as installation and civil engineering. We will pursue growth in specialisms like PPE and workwear and access control, and we continue to build our national footprint through branch openings and disciplined bolt on acquisitions. Digital has been a clear focus, and we will continue to accelerate digital ordering. In parallel, we are executing on efficiency initiatives, including the renewal of our ICT landscape and optimisation of logistics through mechanisation and integrating Polvo logistics. Bringing these elements together, we are confident in restoring operating margins to the 8-10% level.

The improvement is expected to come from self-help initiatives that are fully within our control combined with the market recovery as volumes normalise across the construction sector.

To conclude, over the past decade, we have built a leading position in a fragmented and attractive market. We see a clear pathway to grow the business and to expand our network to approximately 135 branches while actively optimising our footprint through selective consolidations. We leverage scales with a differentiated service-led model that creates strong customer relationships and supports pricing power. We have a proven track record of discipline growth, integration, and execution, and we have clearly defined levers to improve profitability. As market conditions normalise, we are confident that we are well positioned not only to benefit from the recovery, but to outperform it in a controlled and disciplined way. Anu will now give you further insight in the IKH business. Thank you.

Anu Ora:

Thank you, Bert. So, my name is Anu Ora and I am the CEO of IKH in Finland. I joined the company in June 2025, which is exactly one year ago. And in my background, I have experience from multiple different retail and wholesale segments, including for example, IT, food, automotive spare parts and power sports. And of course, currently at IKH is a wider technical wholesale. I also worked in the beginning of my career at the strategy consulting at Boston Consulting Group. So, what attracted me to IKHs is very much the unique business model and the multichannel approach. So, we operate own stores in bigger cities. We have partner stores in Finland and international opportunities and also the B2C online channel.

IKH was established in 1956 by Alakortes family, and the family very successfully developed the company over the decades. Today the company consists of approximately 145 stores owned and partner driven and a central warehouse in Kauhajoki where all our central operations are located. While the central operations naturally bring us a lot of efficiency and ability to serve our Finnish customers with over the night deliveries, they of course are also a sizable, fixed cost base, which does not easily flex down in times of depression. Our main customer focus is in B2B, and we serve them with quite wide product assortment including, for example, work wear PPE tools and spare parts. So, let's take a closer look at the business mix of IKH. So, it's pretty equally that of the own stores in big cities and that of the partner stores in smaller cities and villages, both in Finland and then also outside of Finland.

What is very important in our business is that we have wide product range that we carry in our local distribution centre and that really is a selection of products that well suit our business to business and customers. So, work wear PPE, we have the hand tools and the power tools. We have the spare parts and accessories for work machines and tractors and then the complementing assortment of different construction and maintenance products. What is important in our assortment is that we are very strong with private labels or own brands. So, one third of our business actually comes from the own brand offering and we have a range that covers all our main categories. An interesting detail about Finland is that weather has naturally a big impact in our business. The seasons come sooner later and therefore are longer or shorter, but most importantly, we allow winter.

We love cold weather. We love a lot of snow because all that boosts our business quite a lot. So, we sell more vehicle batteries, warmer work wear, snow equipment and so on.

So, let's move on into macroeconomics. And so, Grafton acquired IKH in the second half of 2021 and in the beginning of 2022, Russia invaded Ukraine and because of the closeness of Russia, I mean, Finland have extremely long border with Russia and with our history that immediately started shaking the Finnish consumer confidence. But not only that, but also the ECB starting to increase the base interest rate rates. It was a combination that started impacting the house owners in Finland. Most part of the mortgages are actually tied into floating rates. So, the interest rate increases hit quite hard, the Finnish housing market. And as you can see in the middle graph, the housing market went down with more than 50% and is today at historically low levels. Economy also otherwise has been in stagnation, but especially the construction market has been hit very, very hard. And naturally, this has had an impact on IKH in terms of eroding the sales and also putting pressure on our margins.

So, from the double digit levels, we are down to 5% operating profit margin today. But if we want to turn this positively, there's quite the sizeable recovery opportunity in Finland because the market will recover gradually and reach the historical averages.

So how is IKH winning in the market? What is our winning format? It has a lot to do with the partner store model. I said, we do operate own stores in the bigger cities, but we approach the medium sized and smaller cities together with our partner store owners. With the centralised model and with own stores, it is difficult to go into that big of a network in a scarcely populated Nordic country like Finland or any of the other Nordics are. So with this partnership model, we have much more flexibility to build a network that really can cover the whole of the country.

One of the sweet spots of this model is that the local IKH store owners, the partner store owners, they are in their communities relevant players and can build relations to the other business owners in their community and therefore be close to their customers and be able to serve them better. So, we see the partner store model as extremely scalable. It's also resilient in chains, but it is also a capital-like way of approaching markets outside of Finland. But of course, the partner store model is not enough. We need to be able to serve our customers with a good offering. And what does the good offering them mean? It means that we have a wide assortment of products to B2B customer segments. It is a combination of leading A brands and strong own brand offering. It also means that we need robust systems and processes to support the business.

And then we have the IKH brand, which actually is extremely well recognised and appreciated in Finland. So, we win together with our partners.

How is IKH planning to win in the recovery? Well, first of all, I see that there is a sizeable recovery opportunity just in the market, but it's not enough. We are working hard on several initiatives that will take us forward and we plan to outperform the market. So, if you look at the right-hand side boxes, I think there are three main elements. One is that of the digital investments. So, the demand planning and replenishment, the ERP, and then the digital channels. The second would be that of the sharpening of our B2B customer focus and third is the expansion in Scandinavia. So, I will work you through all of this in a bit more detail. When it comes to digital investments, we have three waves. We start with the demand planning and replenishment programmes. Nathan already described that we have been given an opportunity to learn from the other group companies and we are currently in the middle of implementation of Relax, which is one of the group preferred suppliers.

And while doing so, we've received great support from the Grafton IT team and also our system companies, which have already knowledge of this system. Secondly, we've already started a design phase of our new ERP solution and with help of that, we will be able to support the development, our operative efficiency and also build a better ground for our growth in the future. And thirdly, we are also looking into improving our digital channels as omnichannel strategy is very vital also in our customer segments. Secondly, we are working with sharpening our approach to B2B customer segments. What does that mean? We've realised that there's quite a lot of untapped market potential in the B2B customer segments and therefore we have set up a separate field sales

force that has given a task to work closely with selected portfolio companies and segments to learn more about them and therefore to develop our offering towards these customer segments.

Already after first months of experience, we can say that there is good growth potential in growing the share of wallet of IKHs from these customer segments and we will continue on this path to bring growth to both our own stores and of the partner stores. And thirdly, we started working closely with the expansion outside of Finland. So IKH already has 20 plus partner stores in Sweden, which is our current focus market, but we are also in a process of widening that partner base in Sweden. Sweden has very much the similar geography, so similar opportunities for partner stores to serve many of the locations where bigger formats cannot actually successfully work. And it's not only that, but we have also made a decision to go closer to our customers to serve them better. So we've signed a contract with a 3PL warehouse solution provider and started already a pilot where we will be able to bring all our fast-moving products to Sweden and therefore serve our customers in Sweden with a lot faster order to delivery time schedule, moving from the current three plus days to over the night deliveries.

So, by serving our customers better by focusing on finding new partners, we will grow in Sweden. So, to pack this all up, we have absolutely a clear market potential when Finland goes up into the recovery of the construction market, but also with help of all of our self-help initiatives, we will outperform the market. So, in my eyes, there's a very nice path for organic growth, but also bringing IKH back to the double-digit margins where we were historically. So, it's my time to thank you and let me at the same time invite to the podium Mario Ballarin, who is our head of the Iberian operations.