Resilient results in challenging markets

8.8%

Adjusted operating profit margin before property profit

11.9%

Adjusted return on capital employed

77.9p

Adjusted earnings per share

Despite challenging market conditions, Grafton has succeeded in delivering full year adjusted operating profit above the top end of Analysts' forecasts. This is testament to our resilient market leading positions, responsive management teams and portfolio of high-returning businesses.

We generated excellent free cashflow of £205.6 million from operations and returned £228.3 million to shareholders during the year in the form of share buybacks and dividends, making a total of £437.2 million which we have returned to shareholders over the past two years.

Looking ahead, we expect to continue to benefit from the spread of the Group's operations across four geographies and exposure to a broad range of end-markets. Our strong balance sheet and record of cash generation will stand us in good stead. We will allocate capital as required to ensure that the Group's brands continue to support their customers and strengthen their market positions. In parallel, we will continue to evaluate opportunities in existing markets and new geographies, building on the progress we have made, with a view to progressing possible growth opportunities that can create enduring value for our shareholders.

While trading conditions are expected to remain challenging, demand fundamentals are supported by a structural under supply of new homes and an aging housing stock that requires upgrading including energy conservation measures. With a somewhat improving economic backdrop, we are confident that Grafton is exceptionally well positioned to benefit as the cycle turns, markets normalise and consumer confidence improves.

Grafton delivered a resilient set of results in challenging markets and measured against what was a strong comparative performance in the prior year. These results were supported by relatively stronger trading in Ireland and the Netherlands compared to the UK and Finland. They also benefitted from the timely implementation of cost reduction measures that enabled us to deliver full year adjusted operating profit consistent with the raised guidance in January 2024.

The quality of the Group's portfolio of high returning, cash generative businesses and an effective response from our management teams to evolving macro conditions were important factors in delivering this resilient performance in markets that experienced volume, margin and cost pressures. These results also demonstrate the benefits of the spread of the Group's operations across four geographies and exposure to a broad range of end-markets.

Cost-of-living pressures driven by high inflation and interest rate rises led to reduced spending by households on home improvements and weakened demand for new homes as affordability became stretched. Volumes in the distribution businesses were therefore lower in these weaker markets. Building materials price inflation gradually declined before turning to deflation in the closing months of the year.

There were sharp falls in steel and timber prices from record highs, partly reversing the post pandemic spike. Lower timber prices resulted in reduced revenue and gross profit in the Distribution businesses in Ireland and the UK. The Distribution business in Ireland was also impacted by lower revenue and gross profit on steel, a product category where we hold higher levels of inventory compared to other building materials because of the relatively long lead times between order and delivery.

Payroll inflation across the Group increased at the fastest rate in decades in tight and competitive labour markets. We responded to the weaker market conditions and cost pressures by implementing targeted reductions in payroll costs, mainly through normal rates of attrition, and discretionary overheads.

The medium and long-term underlying demand fundamentals of the Group's markets remain strong and Grafton is well positioned to benefit from favourable structural trends as its markets recover and demand normalises. Upgrading and deep retrofitting an aging housing stock to reduce carbon emissions and improve energy efficiency are positive drivers of medium-term activity in the housing Repair, Maintenance and Improvement ("RMI") market. House building volumes are well supported by demographic trends and a prolonged period of under supply that has created pent-up demand.

Distribution

Ireland

Chadwicks, Ireland's leading building materials distribution business, responded well to evolving market conditions and managed to contend with significant steel and timber price deflation, competitive pricing pressure in flat markets and operating cost inflation. Profitability declined in the first half and the business operated in line with the prior year in the second half.

UK

Selco, the UK's leading fixed price trade only builders' merchant, is almost entirely exposed to the UK residential RMI market, a segment of the construction sector that has been hardest hit in the current cyclical downturn that started in the first quarter of 2022. The rate of decline in volumes moderated from 6.0 per cent in the first half to 2.3 per cent in the second half.

Selco responded to these tougher market conditions and invested in pricing on core products, balancing volume and margin to optimise profitability. There was a sharp decline in operating profit for the year but cost reduction measures implemented to align volumes and operating costs generated material savings in the second half of the year. These helped mitigate some of the impact of the decline in volumes and gross margin.

> *Looking ahead, we expect to continue to benefit from the spread of the Group's operations across four geographies and exposure to a broad range of end-markets."*

Leyland SDM, one of the most recognisable decorating and DIY brands in Central London, performed well, increasing revenue and operating profit and opened a new store in Hammersmith in February 2023. TG Lynes, the commercial pipes and fittings distribution business in London, delivered a good result in a weaker housing market almost matching the record profitability achieved in the prior year.

MacBlair, the market leader in Northern Ireland, encountered weak trading conditions in a competitive market that reduced revenue and profitability. Market coverage was extended with the acquisition of branches in Portglenone, County Antrim and Strabane, County Tyrone.

The Netherlands

Trading in Isero, the market leading specialist distributor of ironmongery, tools and fixings, held up well in a weaker housing market. Revenue growth with key account customers engaged on large commercial construction projects and the supply of large access control systems more than offset lower sales to timber factories and smaller customers who are typically sole trader businesses operating in construction and other industries. Profitability was reduced by margin and cost pressures.

Finland

IKH, the leading specialist distributor of workwear, PPE, tools and spare parts, saw the Finnish economy and construction sector progressively weaken as the year developed leading to a softening of demand across the IKH Partner network and owned stores and a decline in revenue and profitability.

Retailing
Woodie's market leading DIY, Home and Garden business in Ireland increased revenue despite the most challenging economic conditions encountered by customers for some time and sustained a slight dip in profitability.

Manufacturing
CPI Mortars, the market leading manufacturer of dry mortars in Great Britain, maintained profitability at close to the prior year level despite experiencing a sharp decline in volumes as multiple interest rate rises led housebuilders to scale back supply in response to weaker demand for new houses.

StairBox, the on-line market leading manufacturer of bespoke staircases in Great Britain that has a pioneering focus on the use of technology, experienced good demand in a challenging housing RMI market and increased profitability on slightly lower volumes.

Property
A property profit of £1.3 million (2022: £25.4 million) was realised in the year on disposal of three surplus properties that generated proceeds of £2.2 million.

Cashflow
The Group's cashflow from operations of £334.3 million (2022: £278.8 million) highlights its exceptional track record of cash generation. Similarly, free cashflow of £205.6 million (£163.3 million) was very strong. Free cashflow benefitted from a reduction in working capital by £29.5 million that incorporated a planned reduction in inventory of £37.8 million in response to an improvement supply chains.

Cash returned to shareholders in dividend payments and share buybacks amounted to £228.3 million (2022: £208.9 million), excluding transaction costs. This brought the amount of cash returned to shareholders in 2022 and 2023 to £437.2 million.

The Group had net cash of £379.7 million before IFRS 16 lease liabilities at 31 December 2023, a decline of £78.5 million from £458.2 million at 31 December 2022. Net debt at 31 December 2023, including IFRS 16 lease liabilities, was £49.3 million which compares to net cash of £8.9 million at 31 December 2022.

Share buybacks
In line with its disciplined approach to capital allocation, Grafton has completed three share buyback programmes since May 2022 supported by its exceptionally strong financial position. These three programmes involved the repurchase of a total of 29.18 million ordinary shares at a total cost of £243.3 million and an average share price of £8.34. The closing share price on 29 December 2023 was £9.11. The shares bought back represented 12.7 per cent of the ordinary share capital.

The fourth share buyback programme launched on 31 August 2023 was extended to 31 May 2024 and the maximum aggregate consideration increased from £50 million to £100 million. The Group had completed £47.5 million of this buyback programme by 31 December 2023 and £81.4 million by 5 March 2024.

A total of £290.8 million was returned to shareholders through share buybacks between 9 May 2022 and 31 December 2023 reflecting confidence in the Group's trading prospects, its strong balance sheet and cash generative operations while significant capacity was retained to invest in strategic growth opportunities.

Implementing our sustainability strategy
Sustainability is at the core of how we conduct business and we took a number of major steps in implementing our sustainability strategy during 2023. Given the strategic importance of sustainability to our businesses, we established an Executive Sustainability Committee chaired by me and whose membership includes the Group CFO, Group Head of Sustainability and the CEOs of our largest businesses. The purpose of the Committee is to develop and implement the Group's sustainability strategy subject to approval and ultimate oversight by the Board. It will also ensure that sustainability considerations are appropriately embedded into the wider business strategy and commercial decision-making process.

In preparation for the new EU Corporate Sustainability Reporting Directive ("CSRD"), we completed a Double Materiality Exercise and undertook extensive stakeholder engagement as part of the process. Stakeholder engagement is a central part of our preparation for the implementation of the CSRD and included reaching out to major shareholders as part of the consultation process. This engagement contributed to our 'double materiality' assessment which looks at sustainability issues through two lenses, the impact that a business has on society and the environment as well as the financial impact an issue may have on the business's performance. It also helped inform the future development of our ESG strategy and reporting plans.

Grafton is committed to delivering net zero carbon emissions no later than the end of 2050. We take our climate change responsibilities very seriously. We completed the calculation of Scope 3 emissions and submitted net zero targets to the Science Based Targets Initiative ("SBTi") for validation prior to the year-end which was one year ahead of our target date. This was a clear priority for the stakeholders that we engaged with during the year.

Scope 3 Greenhouse Gas ("GHG") emissions are estimated to account for 98 per cent of the Group's total GHG emissions and one of the Group's areas of focus is on achieving targeted reductions in GHG emissions by working increasingly more closely with manufacturers, suppliers and other stakeholders who have committed to set GHG emissions reduction targets through SBTi. We developed a transition plan that shows how these targets will be achieved, how progress will be monitored and the estimated financial impact of implementation.

Today we are publishing an assessment and update on our 2023 sustainability performance which is integrated within our 2023 Annual Report and Accounts.

In line with its disciplined approach to capital allocation, Grafton has completed three share buyback programmes since May 2022 supported by its exceptionally strong financial position."

Chief Executive Officer's review continued

This covers five priority areas to build a more sustainable future being: Planet, Customer & Product, People, Community and Ethics. While there is still much to do, our overall Group and individual businesses have demonstrated very strong progress during 2023 as shown below:

Planet

- Achieved a 12.2 per cent reduction in Scope 1 and 2 tCO_2e per £'million of revenue. This was equivalent to an 11.5 per cent reduction in absolute emissions.
- Achieved a 98 per cent diversion of operational waste from landfill.
- Continued investment in building energy management systems and solar PV and alternative fuels to drive reductions in energy usage and our Scope 1 and 2 GHG.
- Calculated Scope 3 GHG emissions and submitted net zero targets for validation.

Customer & product

- Hire, refurbishment and recycling offerings are available in a number of our businesses.
- Responsible timber sourcing is an important area of focus for our distribution businesses and we began to further strengthen our due diligence to meet forthcoming European legislation.

People

- Our Diversity and inclusion working groups continued to support our businesses to encourage an inclusive culture that promotes diversity. Whilst the overall number of females across the Group declined slightly year on year, we are delighted that five of our businesses, CPI Euromix, TG Lynes, MacBlair, IKH and Isero, increased their gender diversity in 2023.
- Woodie's was one of only three organisations to be listed as a Best Workplace for Women for five consecutive years in Ireland. CPI EuroMix became a platinum member of Women into Construction and Chadwicks achieved silver status in Diversity from the Irish Centre for Diversity.
- Our conviction that 'there is nothing we do that is so urgent we cannot do it safely' drove our health and safety programme across the Group. All businesses have maintained their focus on reducing risk across all operations from supplier deliveries through store operations to ultimate delivery to customers which resulted in a further seven per cent reduction in the Lost Time Injury Frequency Rate against 2022 and a 20 per cent overall reduction against the base year of 2018.

Community

- Grafton invested £830,000 in its communities through cash contributions, volunteering and in-kind products and services which was in line with our commitment to spend 0.4 per cent of our operating profit on good causes. In addition, £780,000 was raised through colleague and customer fundraising. The Group's commitment to community investment will increase to 0.6 per cent of operating profit in 2024.

Ethics

- A strong focus was placed on ethical business training programmes and there was 86 per cent compliance with the business conduct and ethics programme.
- A new information security training and awareness programme was launched across the Group during the year. By the year end, 78 per cent of Group colleagues had completed IT and cyber security training.
- The Group's businesses continued to embed a supply chain management system in partnership with an expert risk management company and the supplier response rate increased to 81 per cent from 67 per cent in the prior year.

Grafton's sustainability agenda is focused on those areas that are most material to the business and deliver tangible results and outcomes that will make a real difference to all its stakeholders. The Group's sustainability programme also informs capital allocation and day to day operational decisions and recognises the positive connection between sustainable business practices and financial performance.

Current trading and outlook

While trading conditions are expected to remain challenging during 2024, the backdrop has improved with inflation easing and markets starting to anticipate interest rate reductions that will ease pressure on mortgage holders and improve affordability. In recent months income growth has outpaced the rise in inflation in tight labour markets and households have seen a real increase in disposable incomes.

While we remain cautious about the near-term prospects for our markets, we are confident that the commitment and hard work of our 9,000 colleagues and the agility and resolve of our management teams in our market leading brands will continue to deliver a strong proposition for our customers.

Demand fundamentals in the Group's markets are underpinned by an under supply of new homes to meet demand over a prolonged period and an aging housing stock requiring investment to upgrade including energy conservation measures.

Grafton has a portfolio of cash generative businesses and exited 2023 in an excellent financial position that provides a strong platform for the future growth and development of our Group.

Whilst uncertainties remain in the short term, we are confident that Grafton is exceptionally well positioned to benefit as the cycle turns, markets normalise and consumer confidence improves.

In Ireland, the economy is now entering a period of more moderate growth as the pace of job creation slows and investment eases. We expect resilient demand in the residential RMI and DIY markets. House completions should continue to increase on the back of strong underlying demand and the allocation of €5.1 billion by the Government of Ireland to investment in housing.

In the UK, while we remain cautious on the near-term outlook for discretionary spending on home improvements by households there are signs that consumer confidence is improving with inflation falling, real take home pay rising and the housing market starting to recover on the prospect of interest rates being cut. The rise in interest rates has made new homes less affordable for many households and we expect housing supply and the build-out rate of new developments to slow in response to the fall experienced last year in reservation rates.

In the Netherlands, declining inflation and strong growth in real incomes is expected to support household spending. There are some early indications that the downturn in the housing market has bottomed out and that transactions for existing and new homes should start to increase.

In Finland, the economy is in a mild recession and the recovery is expected to be slow. Residential and non-residential construction is expected to decline further in the near term.

Taking the individual markets into account, we currently expect overall like-for-like revenue for the financial year to be relatively flat, with the first half activity levels likely to be weaker than the prior year comparator but with more reasons for optimism that we could start to see signs of improvement emerge in the second half. As with the last financial year, operating profit will face the headwind of operating cost inflation, largely attributable to the impact of statutory employment cost increases and collective labour agreements. The Group will remain focused on operating as efficiently as possible without compromising its market leading customer propositions or the longer terms prospects of its brands.

Group average daily like-for-like revenue in the period from 1 January 2024 to 29 February was 5.3 per cent lower than the same period last year. Average daily like-for-like revenue in the UK Distribution business was 9.0 per cent down on the prior year. There was a reduction of 1.0 per cent in the Distribution business in Ireland, 2.2 per cent in the Netherlands and 10.7 per cent in Finland. Retailing average daily like-for-like revenue grew by 4.2 per cent while Manufacturing was down by 22.6 per cent.

Price deflation and wet weather, particularly in the UK, contributed to weaker than anticipated revenue in January and February. Woodie's had a good start to the year with consumer spending in Ireland showing resilience. Profitability in the first two months was in line with our expectations.

We will continue to allocate organic development capital as required to ensure that the Group's brands continue to support their customers and strengthen their market positions. In parallel, we will continue to evaluate and progress possible acquisition opportunities and engage with potential vendors in our chosen market segments across Europe.

Eric Born
Chief Executive Officer
6 March 2024