

Final Results Presentation  
Year ended 31 December 2013

5 March 2014



Grafton Group plc

## Cautionary Statement

Certain statements made in this presentation are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied by these forward looking statements. They appear in a number of places throughout this presentation and include statements regarding the intentions, beliefs or current expectations of Directors concerning, amongst other things, the results of the operations, financial condition, liquidity, prospects, growth, strategies and the businesses operated by the Group. The Directors do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.



Grafton Group plc



Grafton Group plc

Gavin Slark  
Group Chief Executive Officer



- Revenue up 8% to £1.9bn
- Operating profit up 27% to £77.2m
- Profit before tax up 35% to £64.9m
- Group operating margin increased by 60 basis points to 4.1%
- UK merchanting operating margin increased by 60 basis points to 5.5%
- Ireland – economy stabilises and underlying improvement in market conditions
- Focus on our three core strategic pillars
  - Revenue growth
  - Margin uplift
  - Capital turn increase

Note: Unless indicated otherwise, figures in this presentation have been calculated on an underlying basis and use operating profit before pensions credit and property impairment in 2013 and operating profit before restructuring costs and amortisation in 2012



Grafton Group plc

David Arnold  
Group Chief Financial Officer



	2013	2012	Change
Revenue (£m)	1,899.8	1,760.8	+7.9%
Operating profit (£m)	77.2	61.0	+26.6%
Statutory profit before tax (£m)	67.7	25.1	+169.7%
Profit before tax (£m)	64.9	48.1	+34.9%
Earnings per share (pence)	22.3	15.1	+47.7%
Dividend (pence)	8.5	7.0	+21.4%
Dividend cover (times)	2.6x	2.2x	+0.4x
Cash generated from operations (£m)	95.3	85.7	+11.2%
Net debt (£m)	133.7	164.9	(31.2)
Operating margin	4.1%	3.5%	+0.6%pt
Capital turn (times)	1.9x	1.8x	+0.1x
ROCE	7.8%	6.1%	+1.7%pt



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## Average Daily Like for Like Revenue Growth

	Q1	Q2	Q3	Q4	FY	Total Revenue
UK Merchanting	(0.6%)	+4.2%	+5.4%	+3.9%	+3.2%	+6.7%
Irish Merchanting	+2.4%	(0.6%)	+5.8%	+6.7%	+3.6%	+1.9%
Irish Retailing	(12.3%)	+8.5%	+4.7%	+2.7%	1.5%	(0.9%)
Manufacturing	(10.3%)	+8.0%	+22.2%	+44.3%	+14.5%	+7.1%



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Irish Retailing	<b>(12.3%)</b>	+8.5%	+4.7%	+2.7%	1.5%	(0.9%)
Manufacturing	<b>(10.3%)</b>	+8.0%	+22.2%	+44.3%	+14.5%	+7.1%

Freezing weather affected start to 2013 across the Group – Irish Merchanding affected by poor weather in April

Q1 2014 comparables will include beneficial uplift from better weather in Jan/Feb 2014



## Average Daily Like for Like Revenue Growth


	Q1	Q2	Q3	Q4	FY	Total Revenue
UK Merchandising	(0.6%)	<b>+4.2%</b>	<b>+5.4%</b>	+3.9%	+3.2%	+6.7%
Irish Merchandising	+2.4%	(0.6%)	<b>+5.8%</b>	+6.7%	+3.6%	+1.9%
Irish Retailing	(12.3%)	<b>+8.5%</b>	<b>+4.7%</b>	+2.7%	1.5%	(0.9%)
Manufacturing	(10.3%)	<b>+8.0%</b>	<b>+22.2%</b>	+44.3%	+14.5%	+7.1%

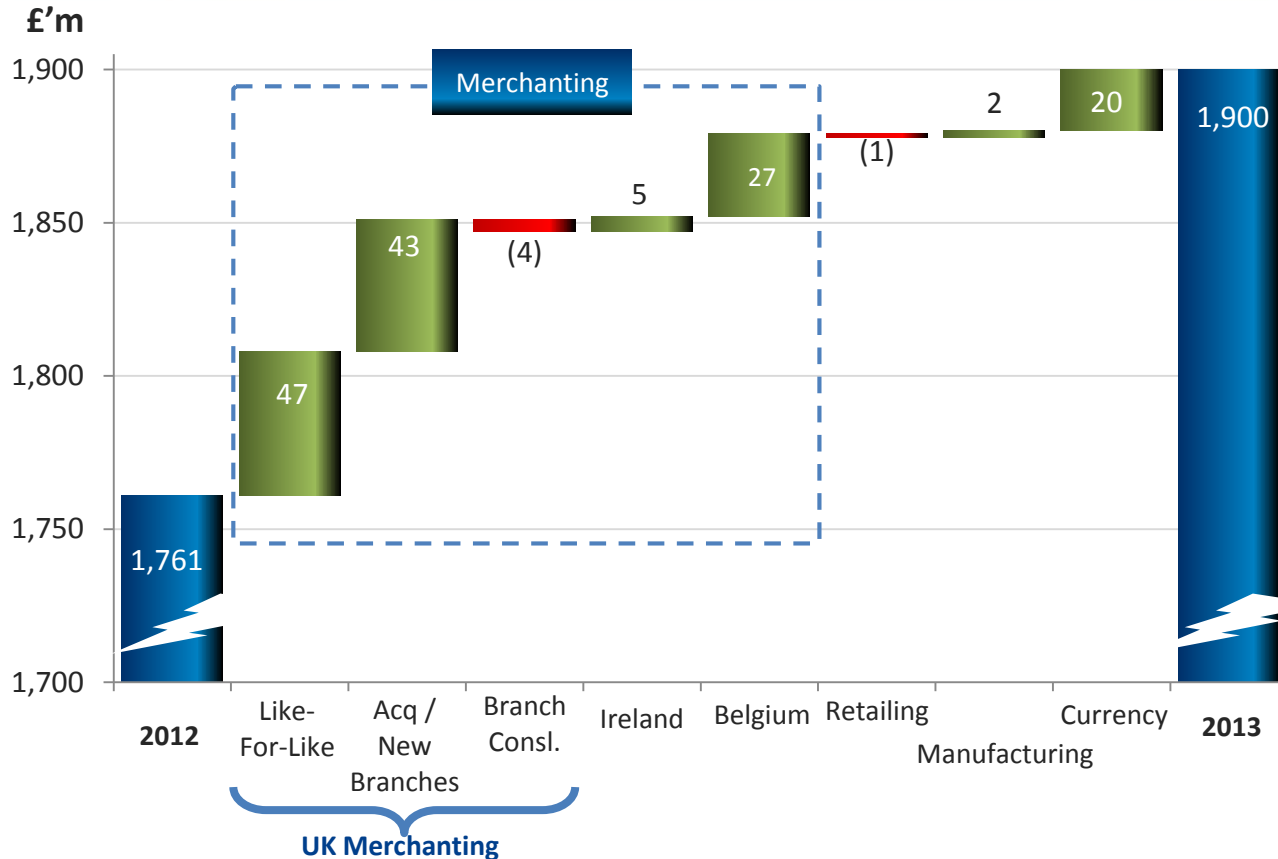
- Good weather in 2013 summer months supported momentum building from underlying recovery
- Irish retailing benefited from higher ticket items e.g. garden furniture, barbeques



## Average Daily Like for Like Revenue Growth

	Q1	Q2	Q3	Q4	FY	Total Revenue
UK Merchanting	(0.6%)	+4.2%	<b>+5.4%</b>	<b>+3.9%</b>	+3.2%	+6.7%
Irish Merchanting	+2.4%	(0.6%)	<b>+5.8%</b>	<b>+6.7%</b>	+3.6%	+1.9%
Irish Retailing	(12.3%)	+8.5%	+4.7%	+2.7%	1.5%	(0.9%)
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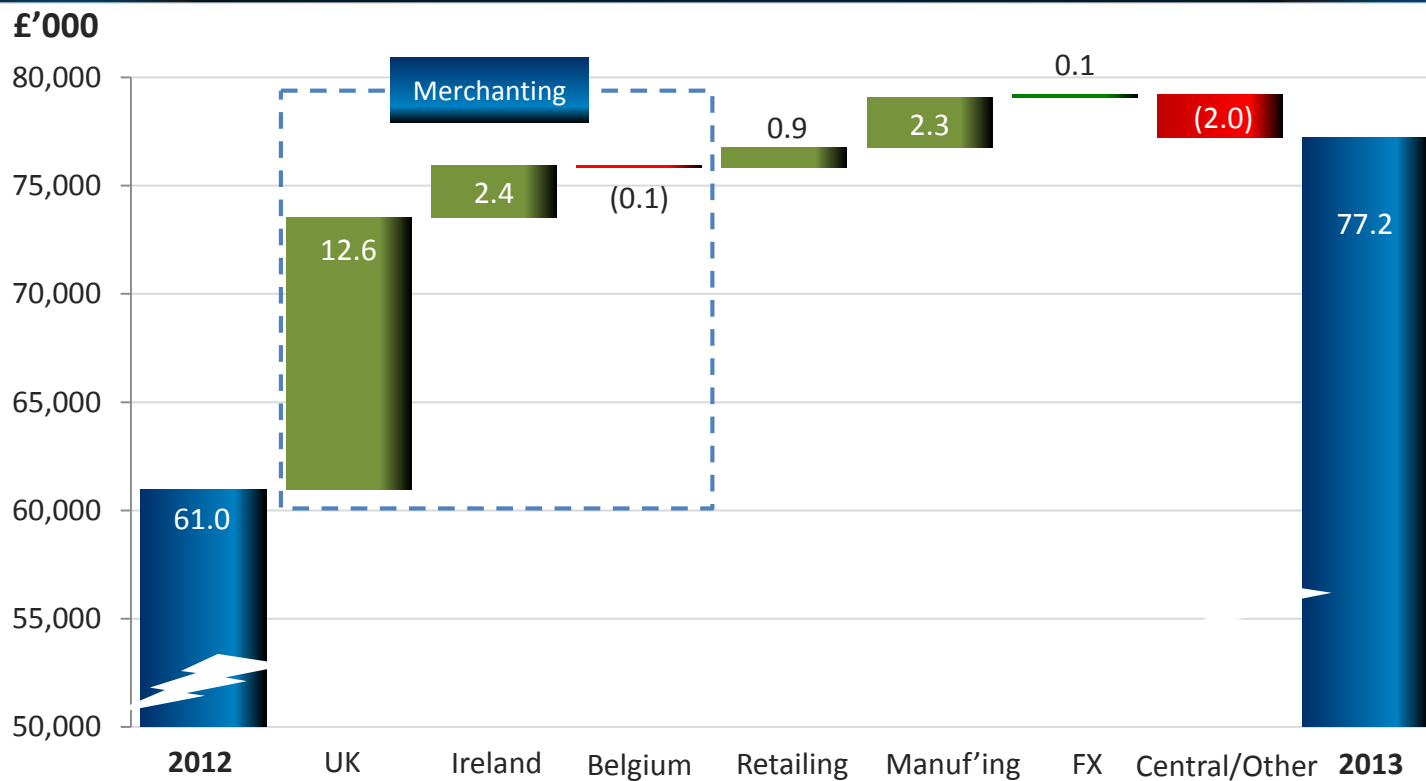
 H2 markets continued to improve, led by recovery in the housing markets in both the UK and Ireland



# Operating Profit Analysis



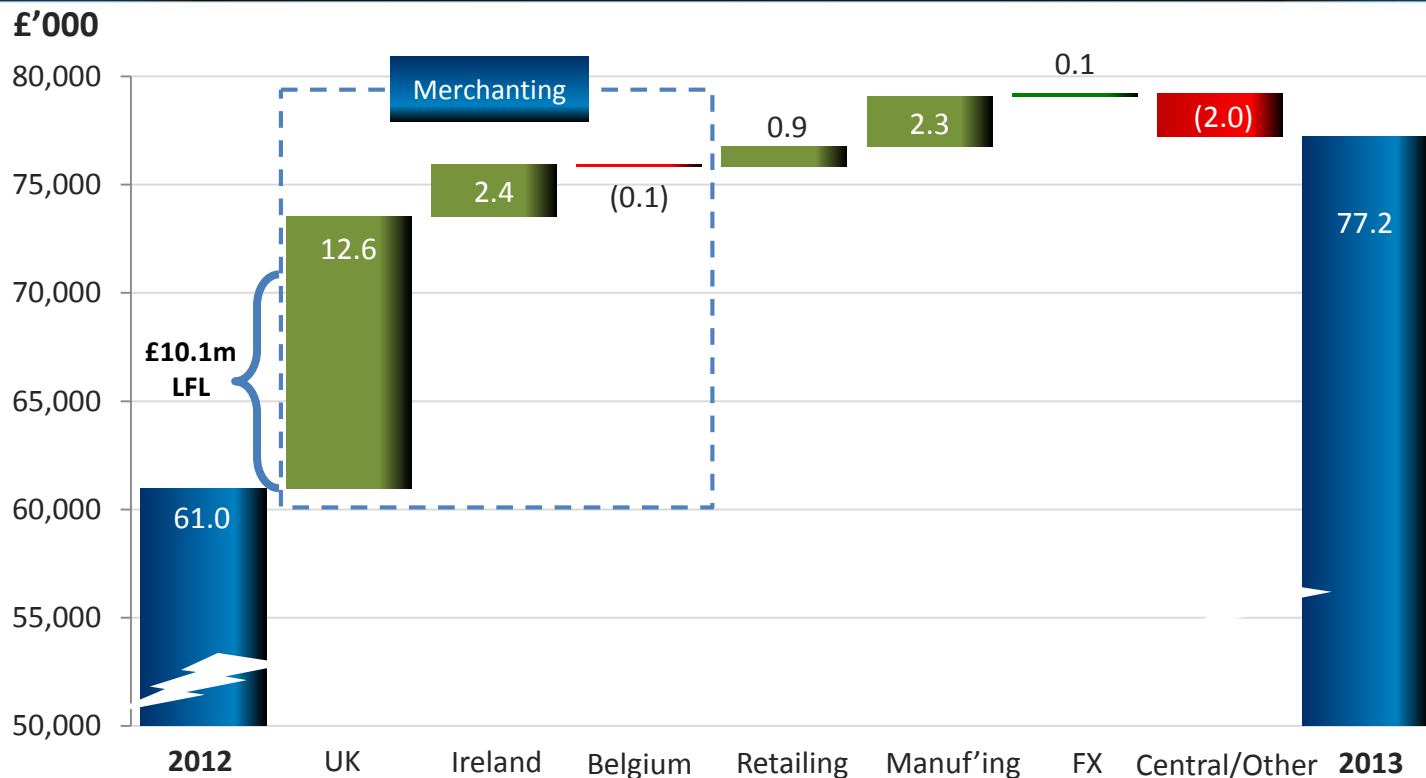
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# Operating Profit Analysis



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	2013 £m	2012 £m	% Change
Revenue	1,393.0	1,305.9	+6.7%
Operating profit	75.9	63.4	+19.8%
Operating margin	5.5%	4.9%	

## Market

- Recovery in UK economy gained momentum in recent quarters
- Significant growth in employment
- Housing transactions increased by 15%
- Mortgage approvals increased by 20%
- Housing starts up by 23%

## Trading

- Growth in average daily like-for-like turnover of 3.2%
- Merchenting volumes increased by 1.4%
- Materials price inflation estimated at 1.8%
- Gross margin slightly lower – favourable mix helped offset impact of competitive market pressures



	2013 £m	2012 £m	% Change	
			Reported	Constant Currency
Revenue	243.0	227.7	+6.7%	+1.9%
Operating profit	5.2	2.7	+95.4%	+86.5%
Operating margin	2.1%	1.2%		

## Market

- Modest GDP growth for third consecutive year
- Mild recovery in domestic demand – first year since the crisis began in 2007
- Housing transactions rose by 15% to 29,000
- House building estimated at 4,500 units - housing market indicators showed improvement in the second half
- Evidence of housing shortage in Dublin

## Trading

- Like-for-like turnover growth of 3.6%
- Gross margin flat year on year
- Profit improvement driven by:
  - Improvement in market conditions
  - Growth in plumbing and heating revenues
  - Cost reductions from branch consolidations in 2012



	2013 £m	2012 £m	% Change	
			Reported	Constant Currency
Revenue	58.8	30.8	+91.1%	+82.4%
Operating profit	0.6	0.7	-9.6%	-13.6%

## Market

- Belgian economy broadly flat
- Weak residential construction and RMI markets

## Trading

- Acquisition and a change of accounting treatment from JV to a subsidiary accounted for revenue growth
- Disruption to trading due to adverse weather conditions in the first quarter; like for like trading lower overall in year
- MPRO acquisition completed in February 2014
- New country CEO appointed



	2013 £m	2012 £m	% Change	
			Reported	Constant Currency
Revenue	167.9	161.8	+3.8%	-0.9%
Operating profit	1.2	0.2	+460.1%	+435.9%

## Market

- Irish retail sales recovered in the second half - up 3% in 2013 following declines in the previous five years
- Consumer sentiment improved to its highest level for six years but customers remained cautious

## Trading

- Segment turnover up by 1.5% in the like-for-like branches
- Significant benefit from the restructuring completed in H2 of 2012
  - Consolidation of two stores and lower rents in ten stores
  - 2013 results include a property credit of £0.9m
- Good demand for seasonal products during summer
- Transactions
  - Volumes in Woodie's DIY flat at over eight million
  - Average transaction value increased by 2.4%
- New CEO appointed to Woodie's DIY in August 2013



	2013 £m	2012 £m	% Change
Revenue	37.0	34.5	+7.1%
Operating profit	3.9	1.7	+137.9%

## Market

## Trading

- Strong recovery in UK housing market
- Housing registrations up 28% to 134,000
- Housing starts increased by 23% to 122,600
- EuroMix is market leader in the silo based mortar market with significant spare capacity in 9 mortar plants
- Trading
  - Flat in the first half due to adverse weather in the first quarter
  - Revenue increased by 35% in the second half in a very favourable market
- Rationalisation of Irish manufacturing business in 2012



- Pensions
  - New arrangements based on sharing the cost of funding the deficits
  - Future benefits now more sustainable and at a more affordable cost
  - Reduced the level of financial risk and volatility related to operating the schemes
  - Active members continue to accrue benefits
- No changes to arrangements for existing pensioners
- A payment of £5.0m to schemes to be made over next 3 years
- Credit of £30.0m in pension liabilities recognised in 2013 Income Statement
- IAS 19 pre-tax deficit reduced to £7.1m from £51.4m



- Non cash impairment charge of £27.2m recognised, largely against Irish property
- Properties held for resale
  - 26 properties in the UK and one in Ireland are held for resale
  - All properties are being actively marketed
  - Carrying value of £11.4 million
- Investment Properties
  - 16 properties in Ireland and 3 in the UK held as investment properties
  - These are vacant properties where the timing of disposal will be influenced by market conditions and development opportunities
  - Carrying value of £19.9 million



	2013	2012
Net debt: EBITDA	1.2x	1.8x
Gearing	15%	20%
EBITDA Interest cover*	10.7x	8.6x

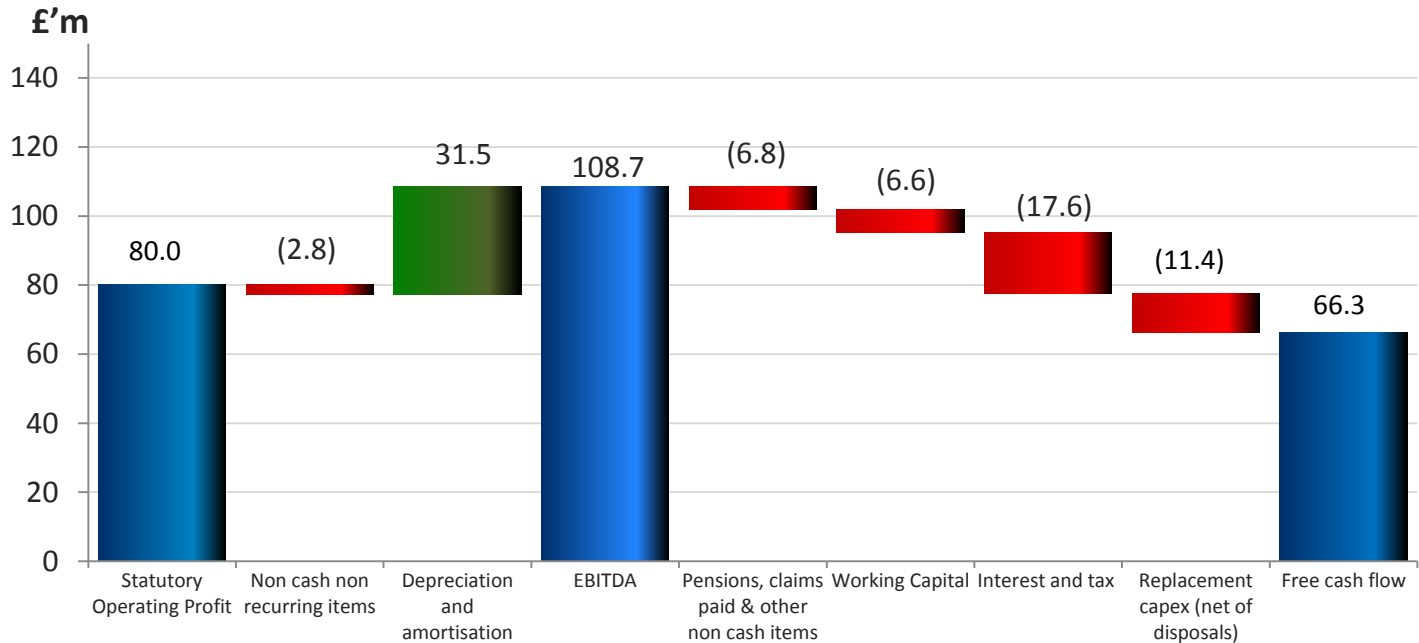
*\*As defined for bank covenant purposes*

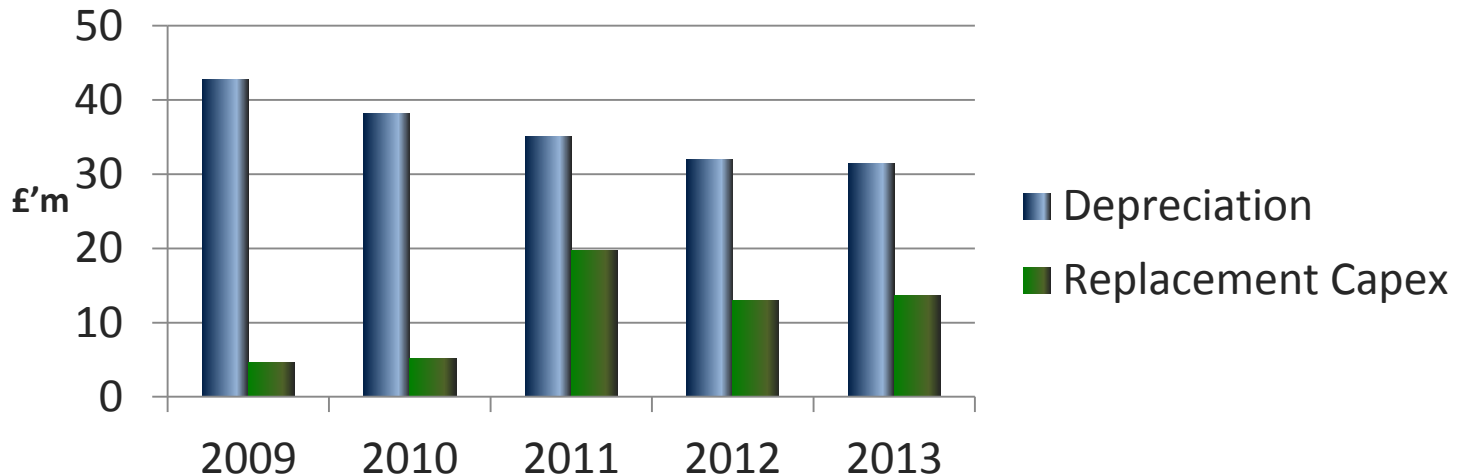
- Finance charge reduced by £0.6m to £12.3m
- Interest on net debt down by £1.1 million
- Improving market for bank funding
- New and refinanced term loan facilities:
  - New three year term loan facility for €50 million with Barclays
  - Maturity of term loan facility for €85 million with Ulster Bank extended from August 2014 to October 2016
  - Belgium debt refinanced
- 2013 effective tax rate 20.4% (2012: 27.5%). 2014 estimated rate c.22.5%

# Free Cash Flow



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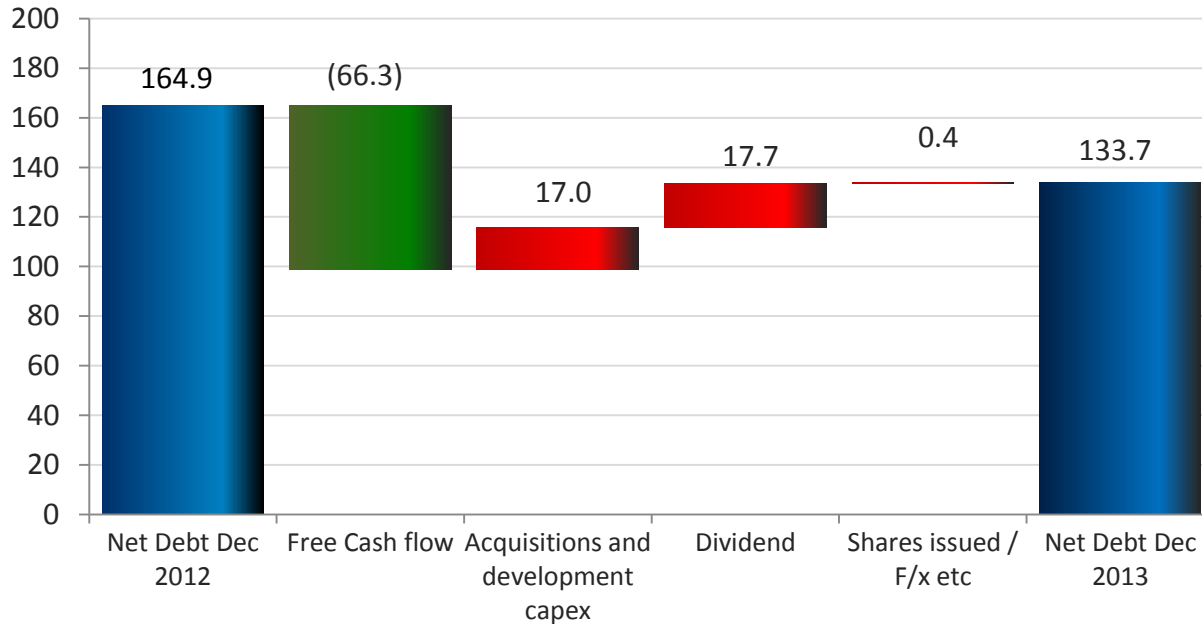
- Cash flow focus during recession saw a necessary reduction in replacement capex
- Improving markets will see a normal process of cyclical reinvestment
- 2014 organic investment levels (both replacement and development spend):
  - Anticipated to be 1.5x-2.0x depreciation
  - Includes the first stage of proposed IT investment into new trading/back office system

# Movement in Net Debt



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£'m





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Gavin Slark  
Group Chief Executive Officer



**Revenue**

**Operating  
Margin**

**Capital  
Turn**



## 2013 Progress

**Revenue**

**+7.9%**

**Operating  
Margin**

**+0.6%pts**

**Capital  
Turn**

**+0.1x**



## **Implants**

- Hirebase and Selco Hire: continued development of tool, plant and equipment hire implants
  - 15 new Hirebase implants opened taking total to 93 at end Dec 13
  - 2 new Selco Hire implants trialled
- Electricbase: Implants in 20 Buildbase branches

## **Greenfield developments**

- Selco opened two branches in South London: Old Kent Road and Wimbledon
- Two specialist merchanting branches and one general merchanting branch opened

## **New Formats**

- Plumbase Industrial launched with first branch opened in Hayes, West London

## **Acquisitions**

- Buildbase extended market coverage with the acquisition of five branches in the North East of England and one in Scotland



## **Implants**

- Hirebase implants: c.110 forecast in existing branches by end Q1 (Dec 13: 93)
- Selco Hire: further expansion of branches planned for H2 2014
- Electricbase: c.35 implants in existing branches by end Q1 (Dec 13: 20)

## **Greenfield developments**

- Agreement to lease signed for new Selco store in Isleworth which will open in H2

## **New Formats**

- Plumbase Industrial: second branch opened in Barking. Five branches open by end Q1 (Dec 13: 1)

## **Acquisitions**

- MPRO acquisition completed in Belgium in February



- UK merchanting daily like-for-like revenue up by 9.8%
- Irish merchanting like-for-like revenue up 7.1%
- Retailing like-for-like revenue up 1.6%



## UK

- Growth in economy gained momentum in recent quarters
- Clear signs that the revival in the housing market has strengthened
- Improving trend in housing starts, housing transactions and mortgage approvals
- Economic and housing market backdrop supportive of increased volumes in merchanting market
- Internal developments also providing a platform for growth



## Ireland

- Moderate improvement in economy expected in 2014
- A very gradual pick-up in house building in Dublin and regional cities is expected
- RMI market is expected to return to growth
- Housing transactions and mortgage approvals increasing from a very low base
- Pressure on disposable incomes and households paying down debt likely to weigh on DIY market in 2014
- New management team in Woodie's with a focus on refreshing customer proposition and improving operational efficiencies
- Strong market position in merchanting will be principal lever for profit growth



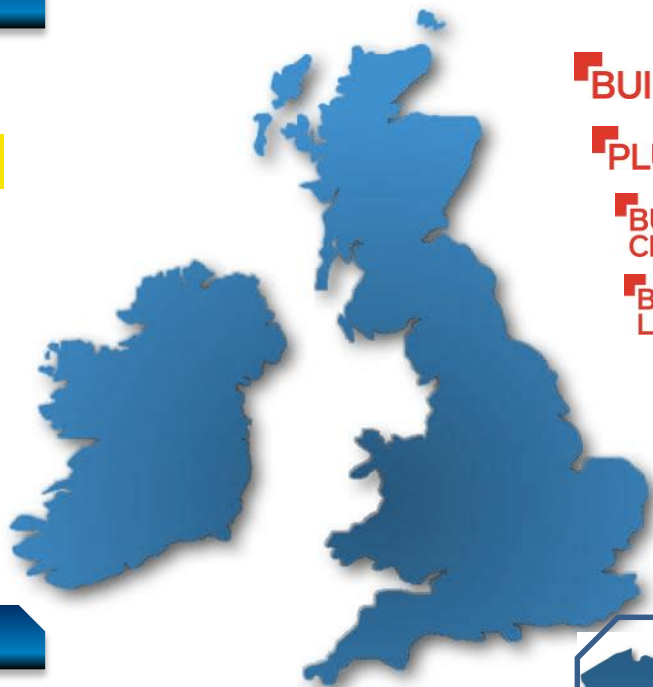
- Strong 2013 performance, especially in UK merchanting
- H2 return to growth for Irish merchanting
- Irish DIY market stabilised but still challenging
- Good progress made implementing strategy
- Overall outlook more favourable
- Current trading encouraging
- Gradual recovery anticipated



Merchanting Ireland



DIY Ireland



Merchanting UK



Manufacturing



Belgium





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Supplementary Information



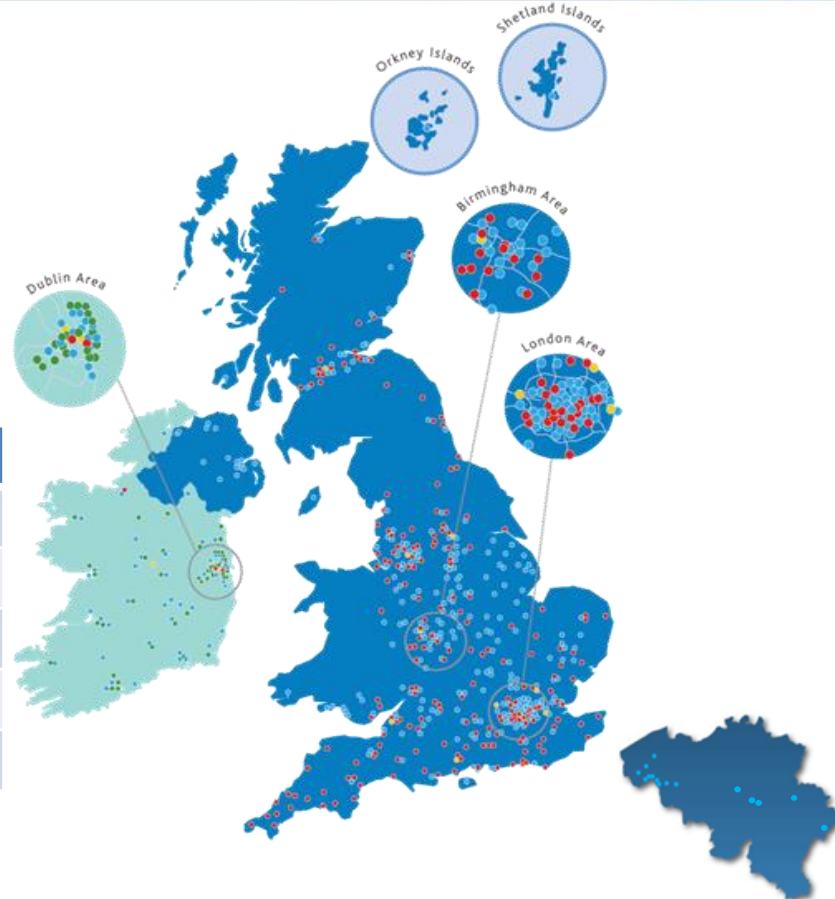
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## Over 600 Trading Locations

- Builders Merchenting
- Plumbers Merchenting
- DIY Retailing
- Manufacturing

	UK	ROI	BE	Total
● Builders Merchenting	273	40	17	330
● Plumbers Merchenting	224	2	-	226
● DIY Retailing	-	45	-	45
● Manufacturing	9	1	-	10
<b>Total</b>	<b>506</b>	<b>88</b>	<b>17</b>	<b>611</b>



# Summary Balance Sheet

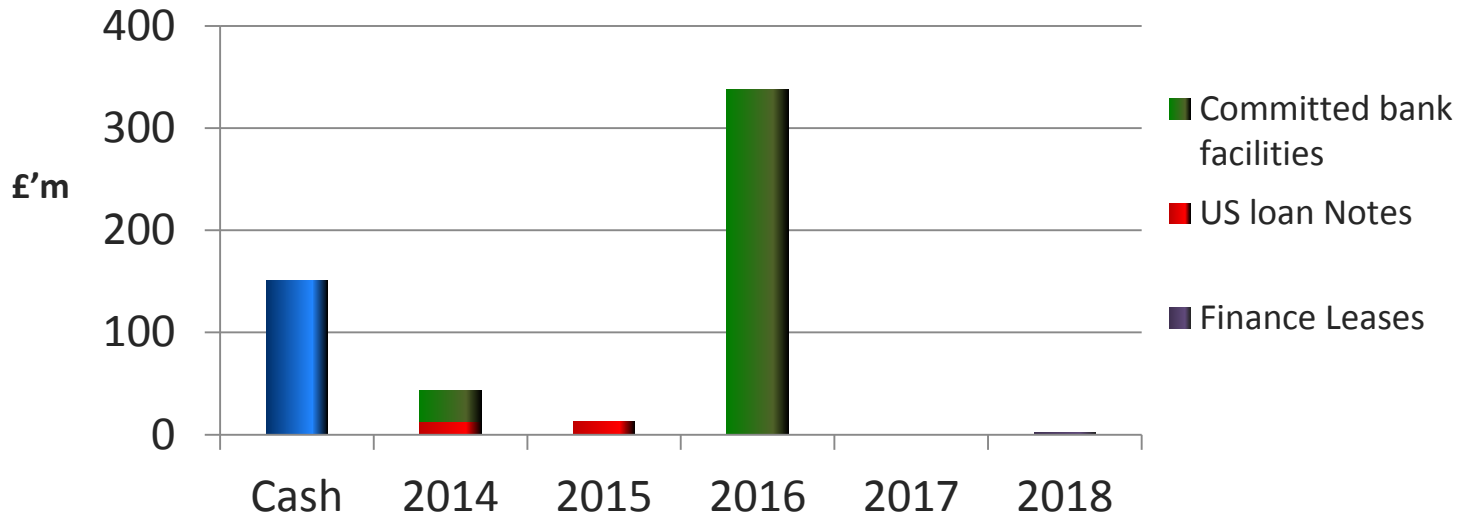


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	31 December 2013 £m	31 December 2012 £m	Change £m
Property, plant and equipment	424.7	472.8	(48.1)
Investment property	19.9	-	19.9
Intangibles	481.0	476.2	4.8
Financial assets	0.1	0.1	-
	<b>925.7</b>	<b>949.1</b>	<b>(23.4)</b>
Working capital	144.0	137.4	6.6
Income and deferred tax	(21.3)	(20.2)	(1.1)
Retirement benefit obligations	(7.1)	(51.4)	44.3
Provisions	(33.3)	(32.4)	(0.9)
	<b>1,008.0</b>	<b>982.5</b>	<b>25.5</b>
Net debt	(133.7)	(164.9)	31.2
<b>Shareholders' Equity</b>	<b>874.3</b>	<b>817.6</b>	<b>56.7</b>
Gearing	15%	20%	



			H1		H2	
	2013	2012	2013	2012	2013	2012
UK Merchanting	5.5%	4.9%	5.0%	4.8%	5.9%	4.9%
Irish Merchanting	2.1%	1.2%	1.3%	0.7%	2.9%	1.7%
Belgium Merchanting	1.1%	2.3%	0.9%	3.1%	1.3%	1.7%
Total Merchanting	4.8%	4.3%	4.3%	4.2%	5.3%	4.4%
Retailing	0.7%	0.1%	0.3%	-3.6%	1.1%	3.8%
Manufacturing	10.7%	4.8%	5.1%	2.1%	15.3%	8.2%
	4.6%	3.9%	4.0%	3.4%	5.1%	4.4%
Central Activities	-0.5%	-0.4%	-0.5%	-0.4%	-0.5%	-0.4%
Total	4.1%	3.5%	3.4%	3.0%	4.7%	3.9%



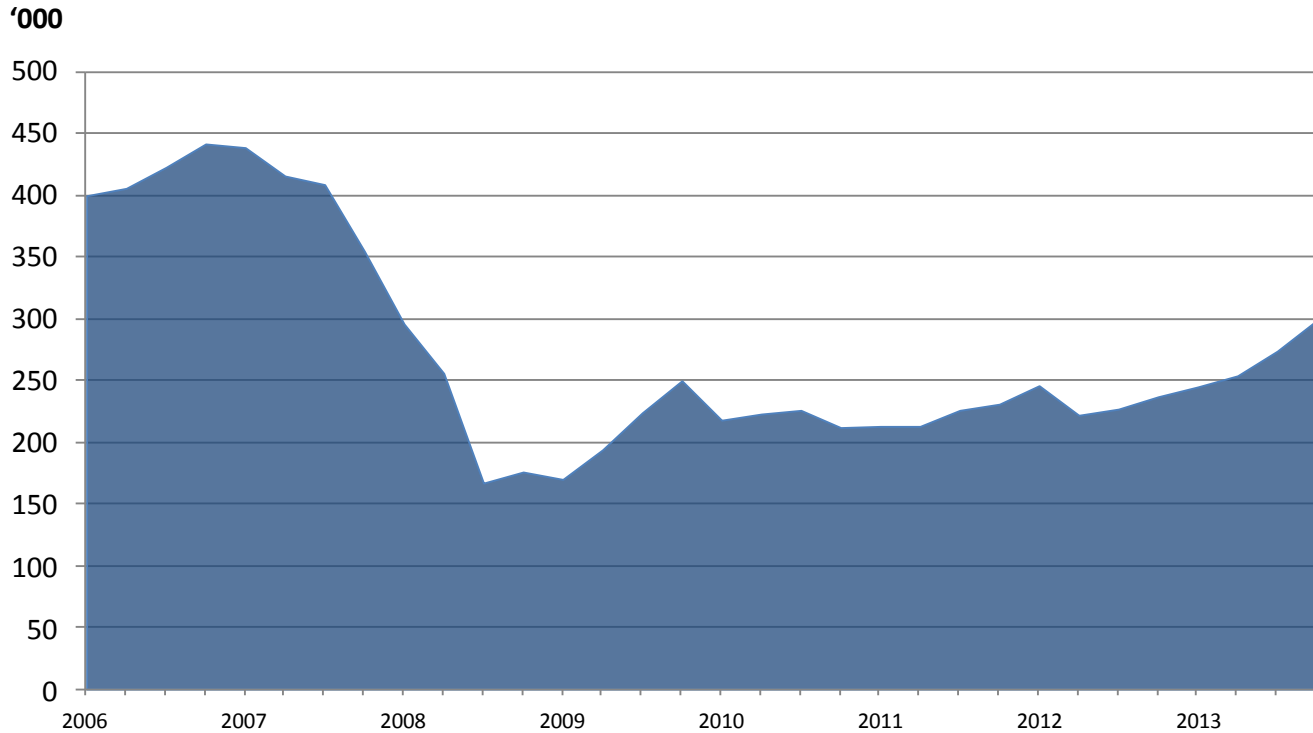
■ Total Group debt facilities amount to £368m of which £112m was undrawn at 31 Dec 13

■ Weighted average maturity profile of circa 2.5 years

# UK Housing Transactions 2006 – 2013

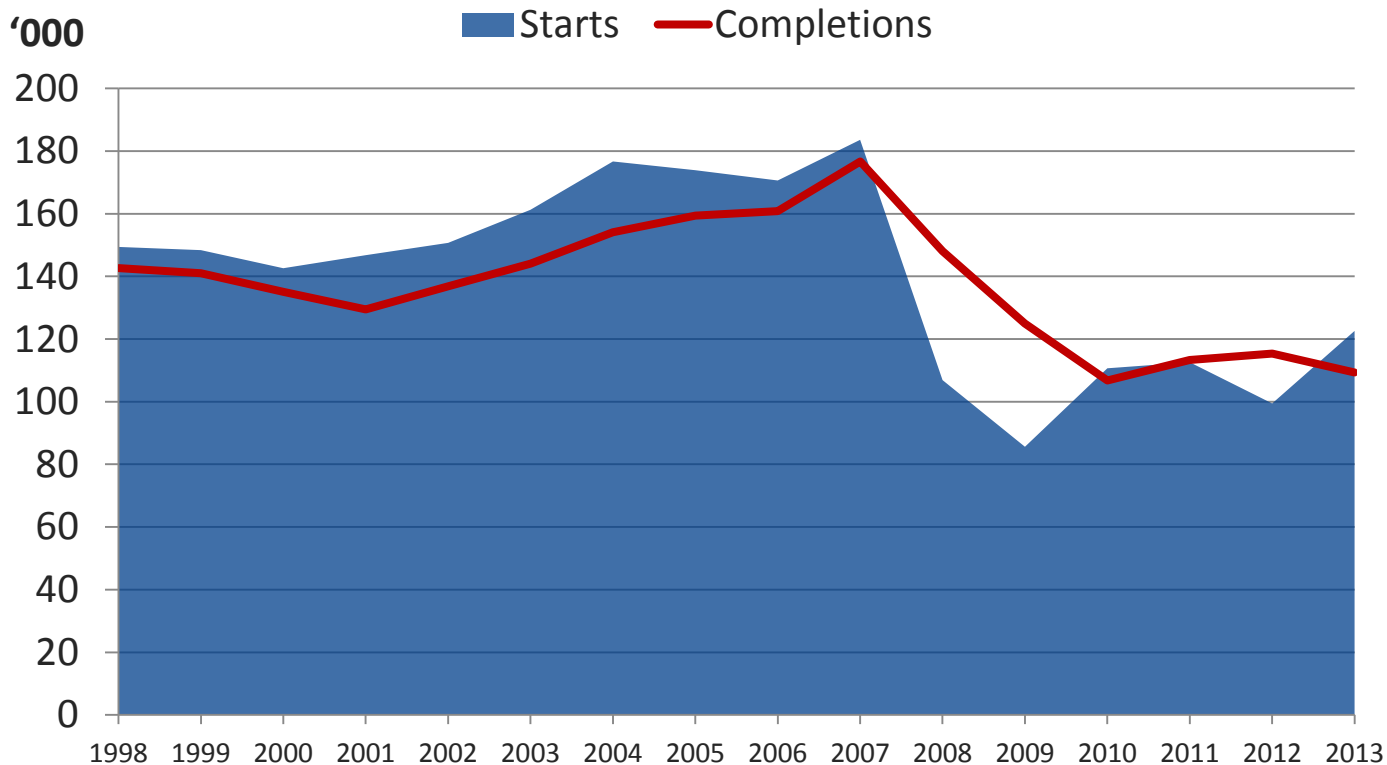


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•Quarterly Seasonally Adjusted

Source: HM Revenue & Customs UK Property Transactions Count



Source: UK Department for Communities & Local Government

# UK Mortgage Approvals UK: 2008 – 2013



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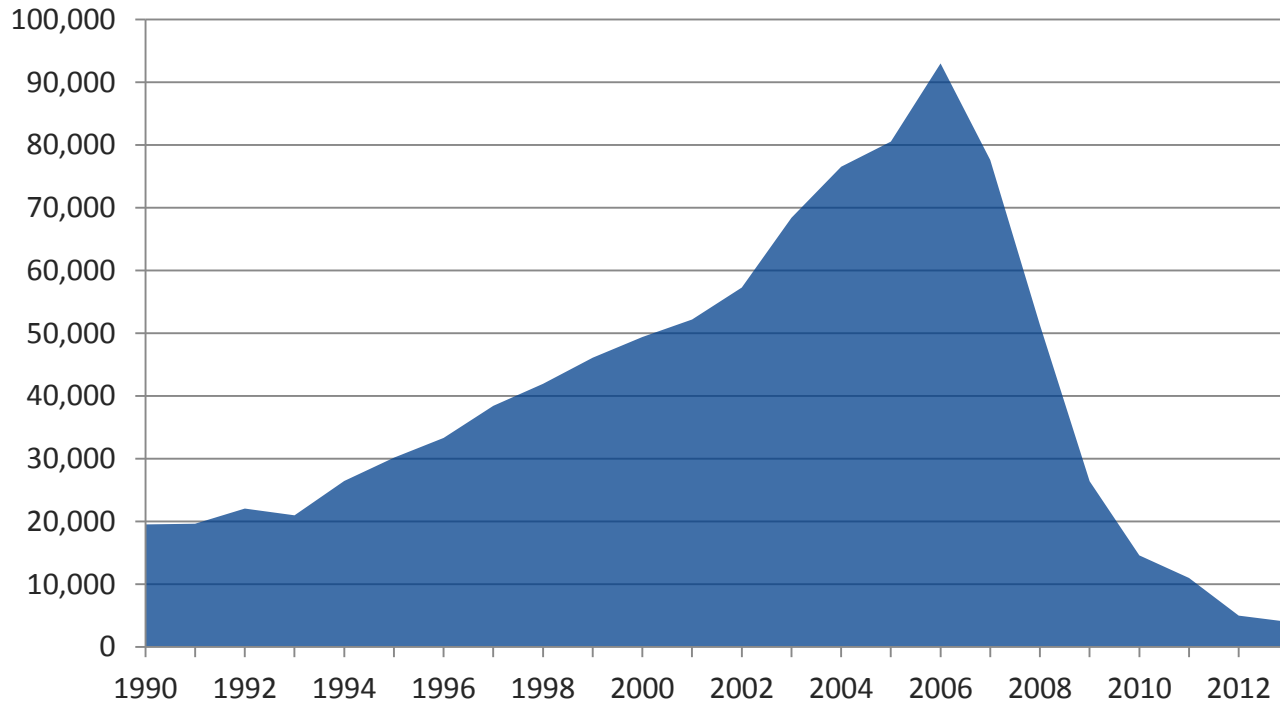


Source: Bank of England Statistics

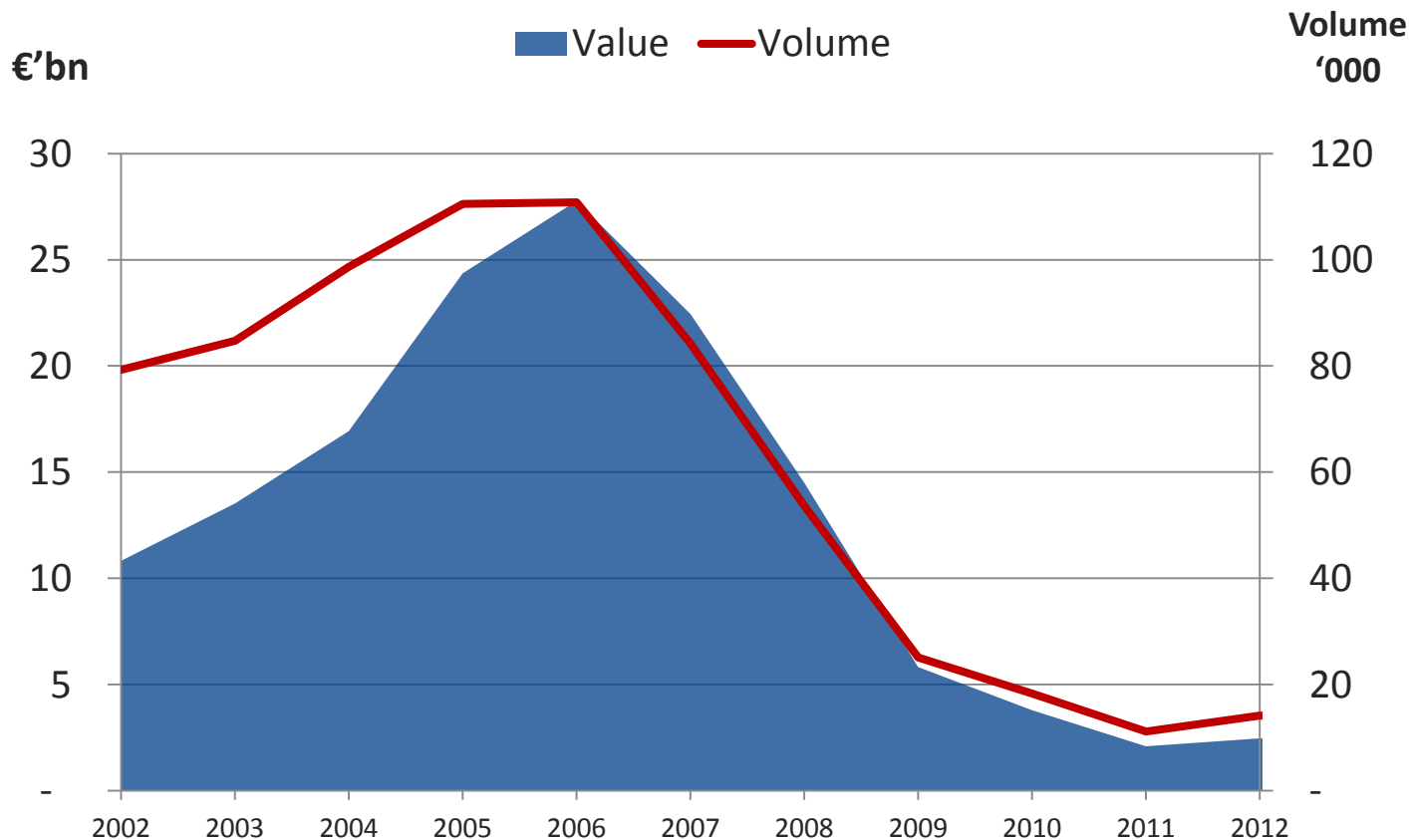
# House Completions – Ireland 1990 – 2012 (Grafton Estimate 2011-2013)



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Source: Department of the Environment, Community & Local Government - (DoELG)



## For Further Information



Grafton Group plc

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David Arnold           Chief Financial Officer

Charles Rinn           Group Financial Controller / Secretary

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