



Grafton Group plc

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Interim  
Results  
2017

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# Cautionary Statement and Notes

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## **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.*

## **Notes**

*Please refer to Notes and Definitions in Appendix 1 and bridge of statutory operating profit to adjusted operating profit in Appendix 2*

*All references to 'Adjusted' mean before exceptional items and amortisation of acquired intangible assets on acquisitions (see Appendix 1)*

# Agenda

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- ▶ **Introduction & Highlights**      **Gavin Slark**
- ▶ **Financial Review**      **David Arnold**
- ▶ **Strategic Progress & Outlook**      **Gavin Slark**
- ▶ **Questions**

# Group Financial Highlights

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- ▶ **Revenue up 9% to £1.3bn (6.2% in constant currency)**
- ▶ **Adjusted operating profit before property profit up 19% to £77.0m**
- ▶ **Adjusted EPS up 16% and dividend up 11%**
- ▶ **Adjusted operating profit margin (pre property profits) up 50bps to 5.8%**
- ▶ **ROCE up 70 bps to 13.2%**

# Strong H1 Performance Across the Business

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- ▶ **Profit improvement generated primarily in like-for-like operations**
- ▶ **Good progress in UK Merchanting**
- ▶ **Very good profit growth in Irish Merchanting and DIY Retailing**
- ▶ **Growth in scale and profitability of Netherlands Merchanting**
- ▶ **Return to profitability in Belgium**
- ▶ **Significant profit improvement in UK Mortar Manufacturing**

# Grafton – What Differentiates Us?

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## ► Selco

- RMI focus offers more stable growth prospects over medium term
- Proven track record in rolling out the Selco brand
- Ongoing store opening programme to drive future growth
- Nine new branches opened in the year to date with at least two more to open this year
- Strong contributor to UK sales growth in H1



BECKTON



CRAYFORD



GUILDFORD



CAMBERLEY



S CARDIFF



THURROCK



WARRINGTON



POOLE



BASILDON



# BRANCH OPENINGS

# Grafton – What Differentiates Us?

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## ▶ Ireland

- Market leading brands with exposure to a fast growing economy
- Strong improvement in operating margin in H1
- Increased branch footprint in Merchanting
- Continued successful investment in reformatting Woodie's stores



# Grafton – What Differentiates Us?

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## ► The Netherlands

- Favourable outlook for economy and construction market
- Strong and growing presence as market leader
- G&M acquisition in January performing in line with expectations
- Ongoing opportunities for organic and acquisitive growth



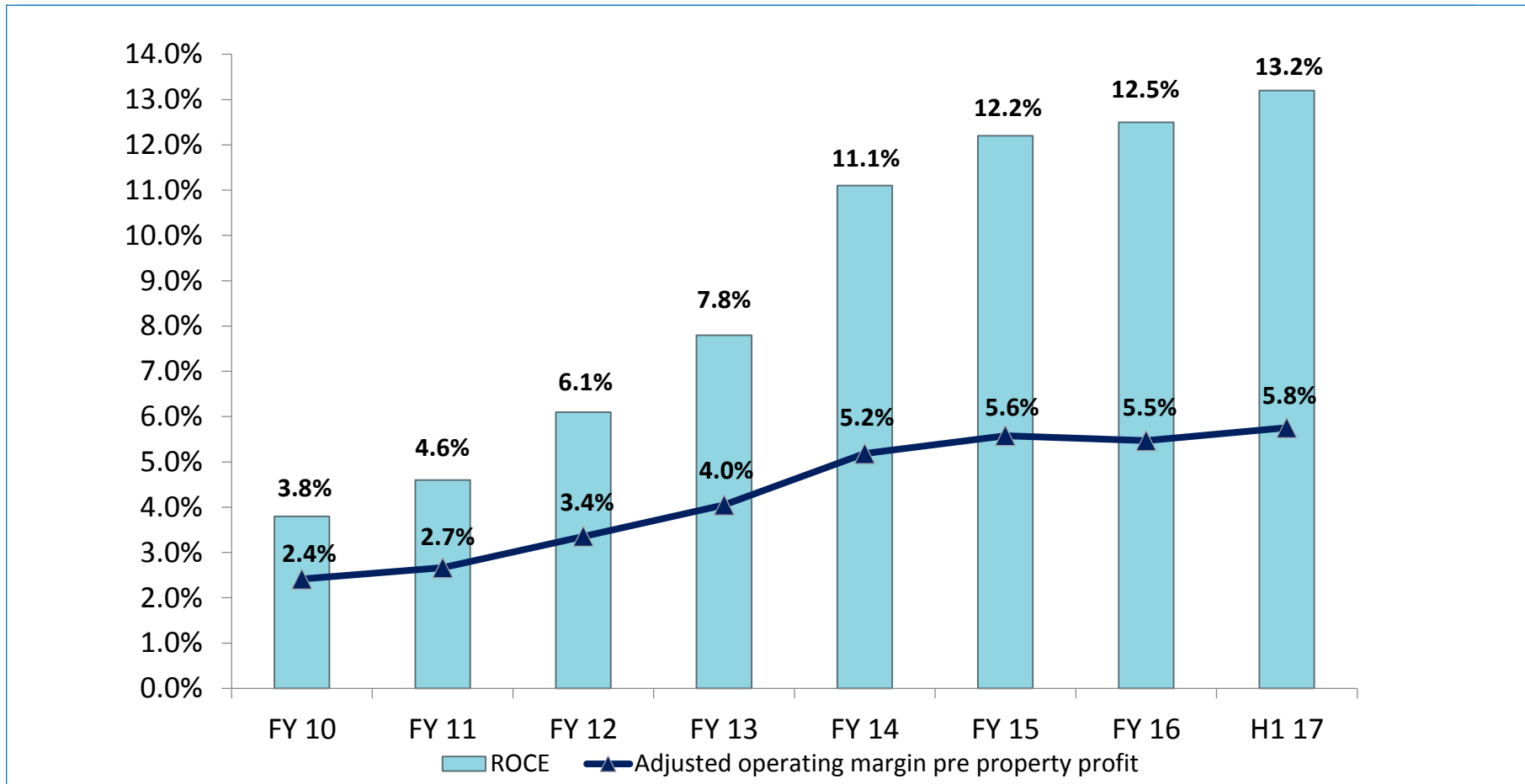
# Grafton – What Differentiates Us?

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## ► Financial Strength and Track Record

- Further improvement in operating margin and ROCE
- Another period of strong cash generation - gearing down to 7%
- Dividend increase of 11% with improved cover
- Strong record of investing in organic and acquisitive growth

# Operating Profit Margin and ROCE – 2010 to 2017





# Income Statement

£m	Movement			
	2017	2016	Reported	Constant currency
Revenue	1,338.6	1,228.4	+9.0%	+6.2%
Adjusted operating profit pre property profits	77.0	64.8	+18.8%	
Property profit	2.0	3.5		
Adjusted operating profit	79.1	68.4	+15.6%	
<i>Exceptional charge</i>	0.0	(1.2)		
<i>Amortisation</i>	(1.4)	(1.1)		
<i>Statutory operating profit</i>	77.7	66.1		
Net finance cost	(3.6)	(3.3)		
<i>Statutory profit before tax</i>	74.1	62.8		
Adjusted profit before tax	75.4	65.0	+16.0%	

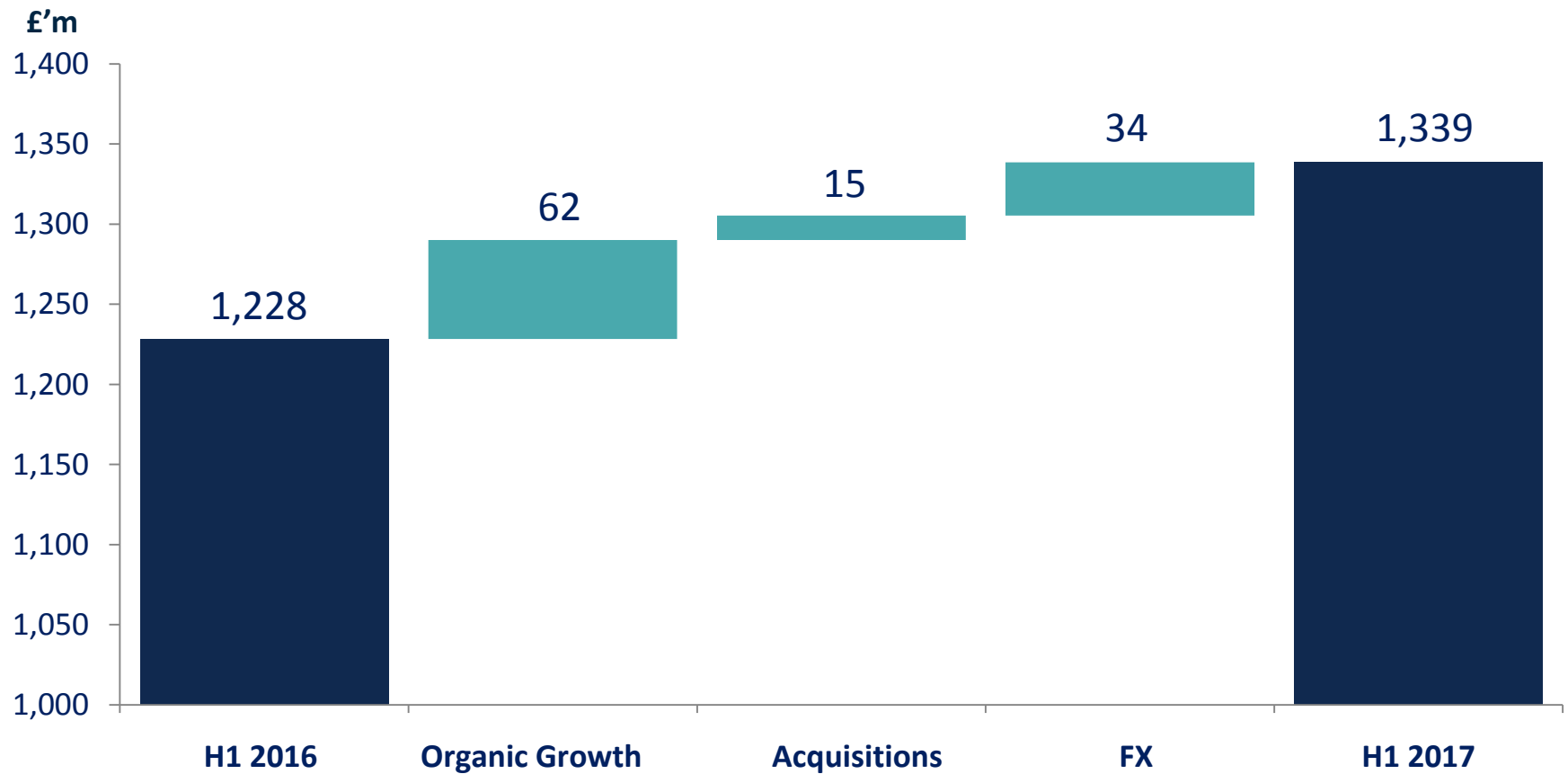
# Income Statement (cont'd)

	<b>2017</b>	2016	<b>Movement</b>
Adjusted operating margin pre property profits	<b>5.8%</b>	5.3%	<b>+50 bps</b>
Adjusted operating margin	<b>5.9%</b>	5.6%	<b>+30 bps</b>
Underlying tax rate	<b>18.5%</b>	20.0%	<b>(150 bps)</b>
Adjusted earnings per share	<b>25.9p</b>	22.3p	<b>+16.1%</b>
Dividend per share	<b>5.25p</b>	4.75p	<b>+10.5%</b>

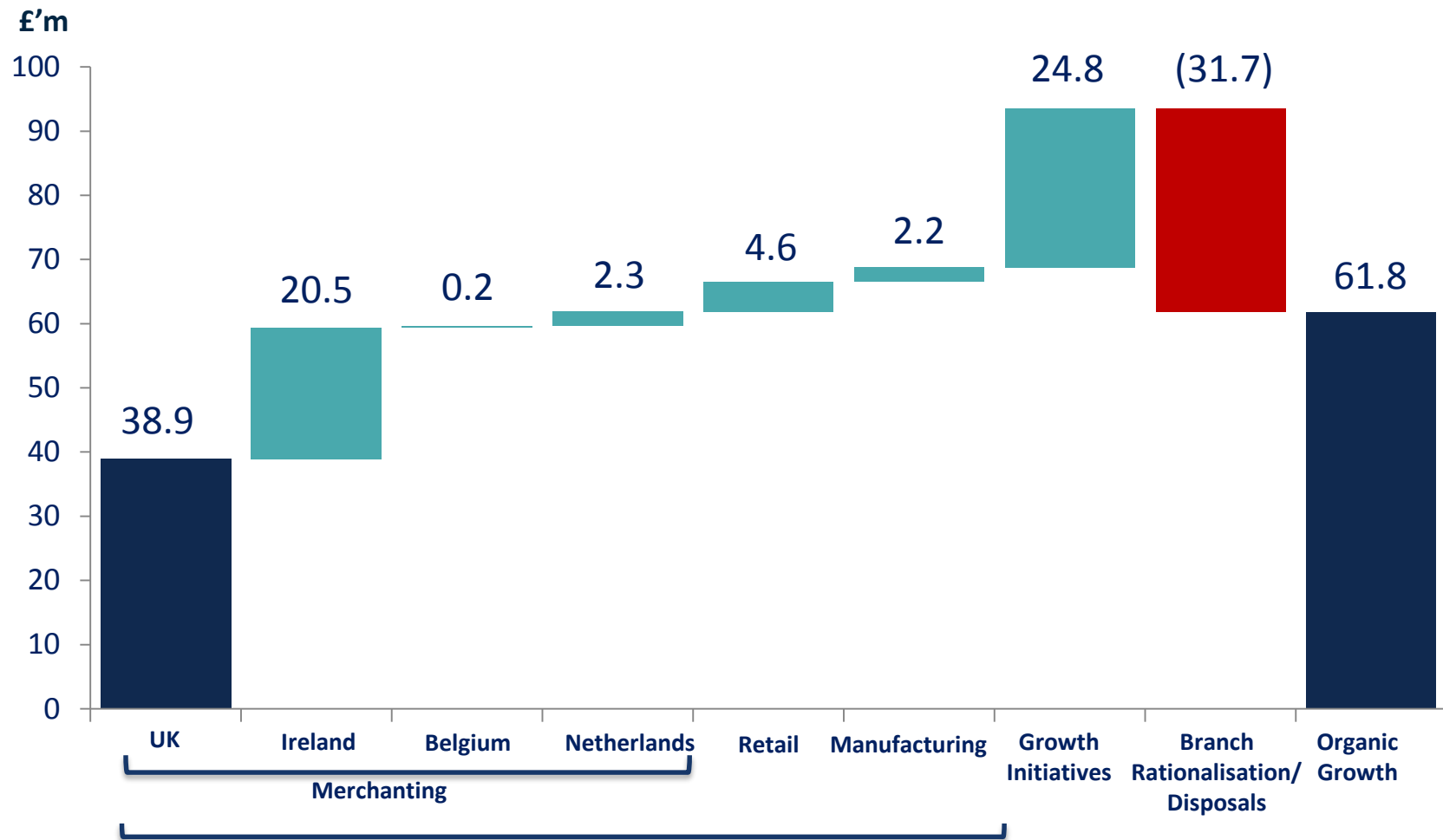
# Revenue Growth

	Like-for-Like Daily Revenue					H1 2017	
	2016		2017			Total Revenue	
	Q3	Q4	Q1	Q2	H1	Constant Currency	Reported
<b>Merchanting</b>							
UK	0.5%	4.6%	4.4%	4.7%	4.5%	4.0%	4.0%
Ireland	11.8%	11.4%	14.6%	10.2%	12.2%	10.6%	21.9%
Belgium	(3.2%)	(6.9%)	(4.5%)	6.2%	1.5%	0.4%	10.8%
Netherlands	-	-	4.2%	4.4%	4.3%	38.1%	52.5%
<b>Retailing</b>	4.1%	5.4%	4.4%	8.1%	6.6%	4.7%	15.5%
<b>Manufacturing</b>	7.1%	9.5%	3.6%	14.6%	9.1%	8.9%	9.6%
<b>Total Group</b>	2.4%	5.3%	5.5%	5.9%	5.7%	6.2%	9.0%

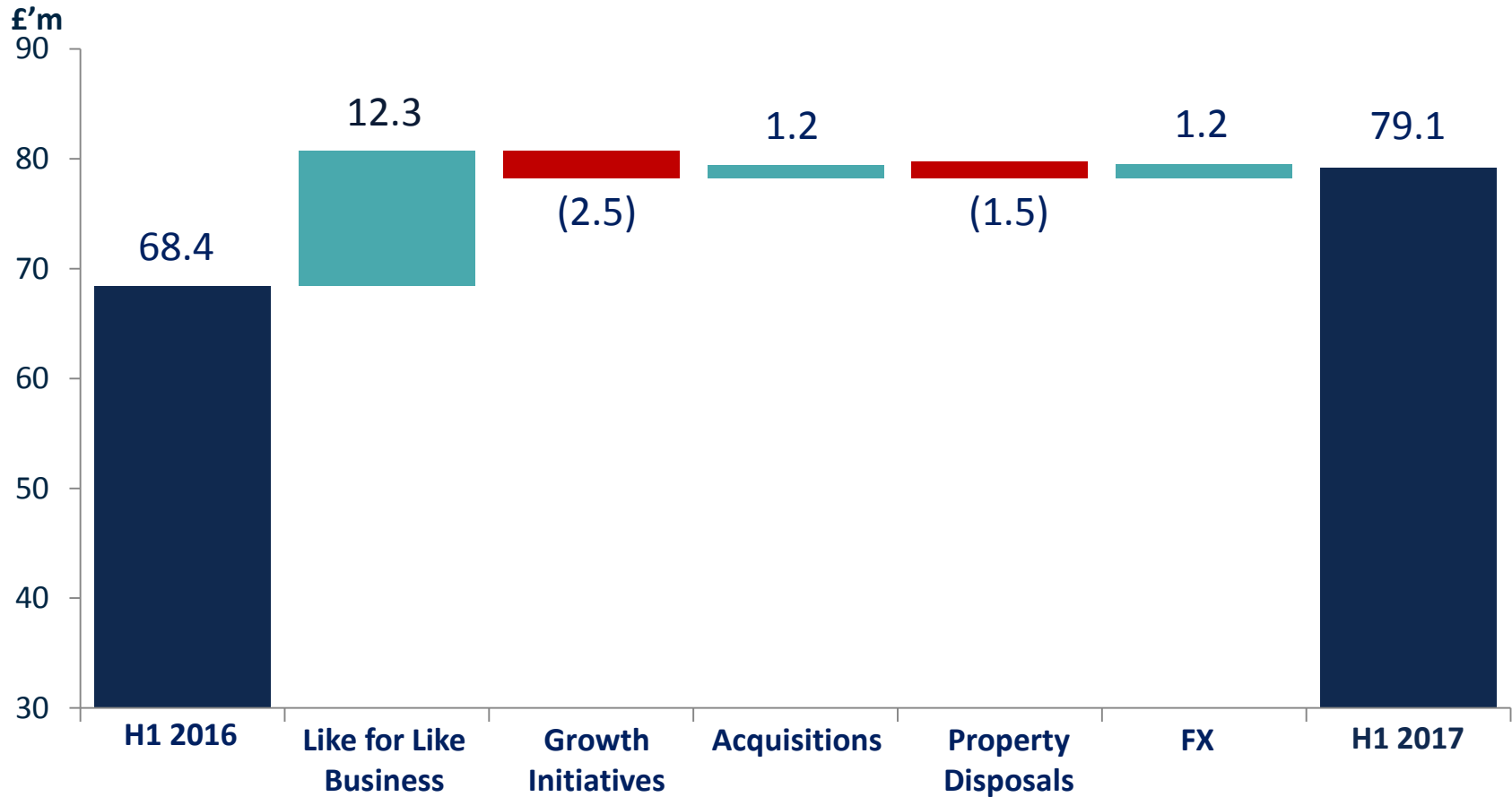
# Revenue Growth Analysis



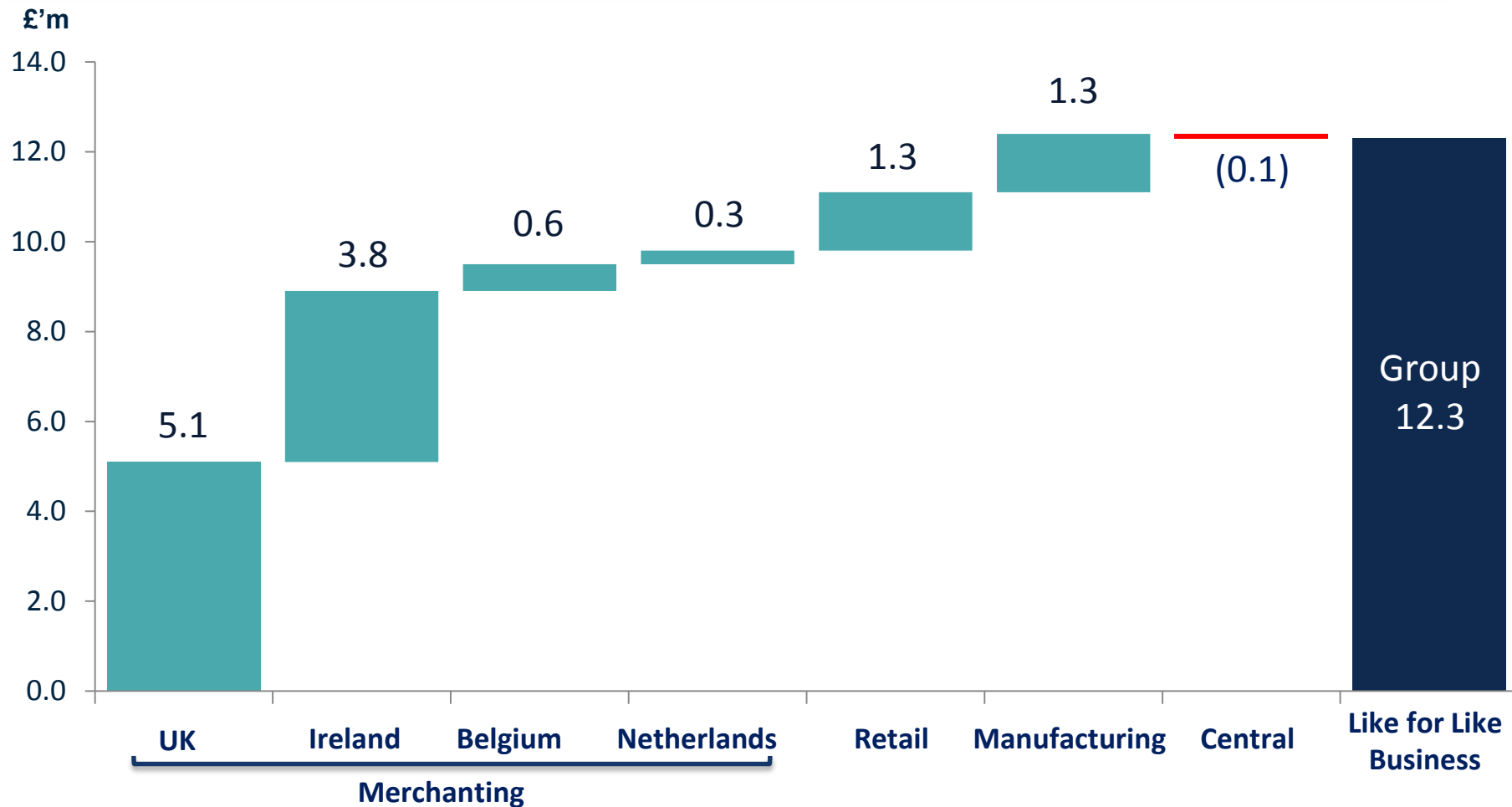
# Organic Revenue Growth Analysis (Constant Currency)



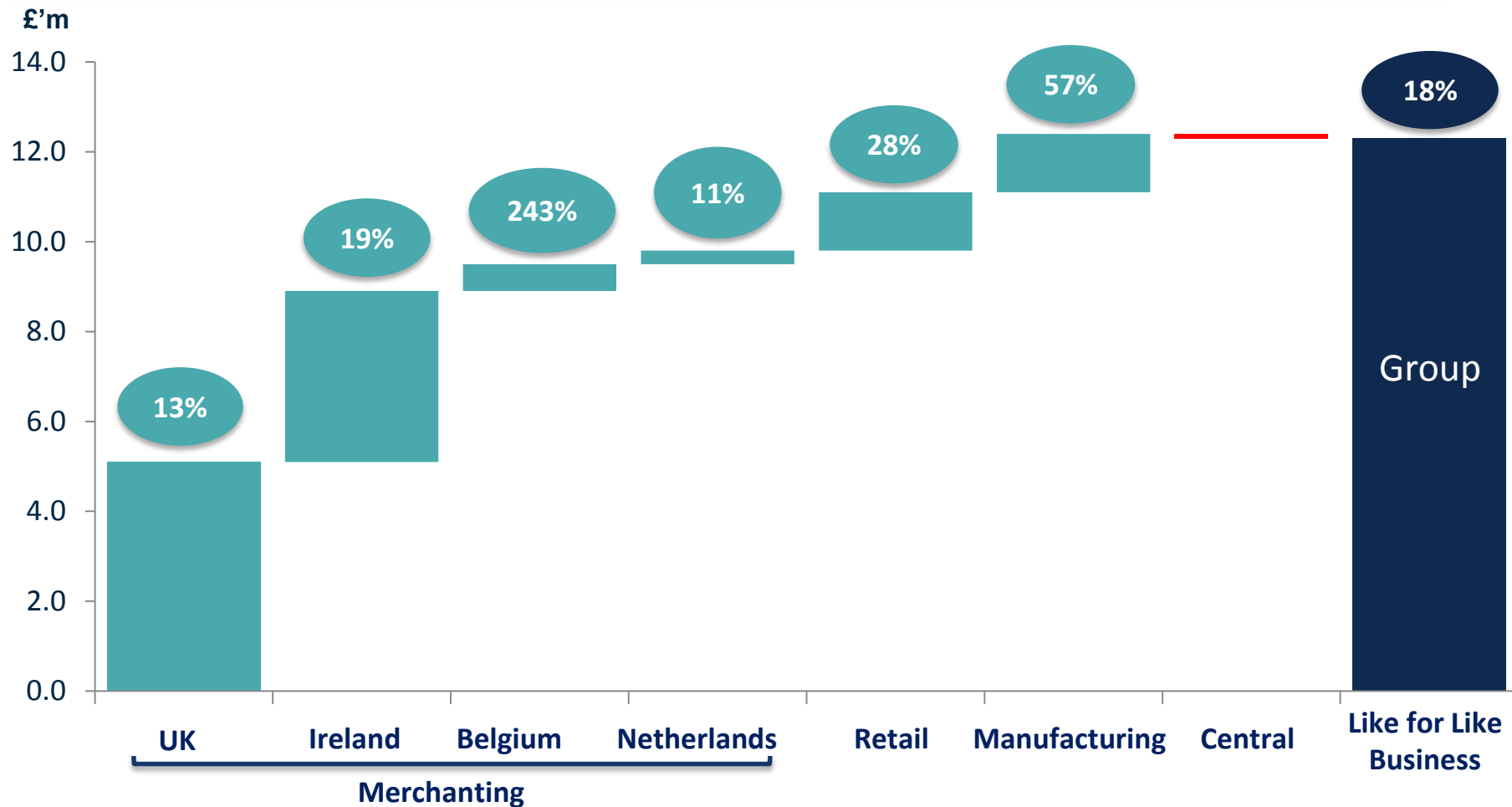
# Adjusted Operating Profit Analysis



# Incremental Drop Through Analysis



# Incremental Drop Through Analysis



# UK Merchanting

£m	2017	2016	Movement
Revenue	919.5	884.0	+4.0%
Adjusted operating profit pre property profits	50.1	46.9	+6.8%
Adjusted operating profit	51.1	50.5	+1.2%
Adjusted operating margin pre property profits	5.5%	5.3%	+20 bps
Adjusted operating margin	5.6%	5.7%	(10bps)

- ▶ Like-for-like revenue growth +4.5% - c.2.5% price and c.2.0% volume
- ▶ Gross margin ahead by 30 bps – benefitted from faster growth in Selco
- ▶ Pleased with profit recovery in Traditional Merchanting following 2016 restructuring
- ▶ Selco branch opening costs £2.7m higher than H1 2016

# Irish Merchanding

£m	2017	2016	Movement	
			Reported	Constant Currency
Revenue	<b>193.0</b>	158.3	<b>+21.9%</b>	+10.6%
Operating profit pre property profits	<b>15.4</b>	10.7	<b>+44.1%</b>	+30.4%
Operating profit	<b>16.5</b>	10.7	<b>+54.0%</b>	+39.4%
Operating margin pre property profits	<b>8.0%</b>	6.8%	<b>+120 bps</b>	
Operating margin	<b>8.5%</b>	6.8%	<b>+170 bps</b>	

- ▶ **Continuing to outperform in recovering market**
- ▶ **Strong residential RMI market and recovery in new build markets gathered pace**
- ▶ **Gross margin ahead despite higher proportion of direct sales**
- ▶ **Increased investment into frontline resources in response to higher volumes**

# Netherlands Merchanding

£m	2017	2016	Movement	
			Reported	Constant Currency
Revenue	63.3	41.5	+52.5%	+38.1%
Adjusted operating profit	6.6	4.7	+39.3%	+26.0%
Adjusted operating margin	10.4%	11.3%	(90bps)	

- ▶ Like-for-like revenue growth of 4.3%
- ▶ 14 branch G&M acquisition completed January 2017 - first phase of integration completed
- ▶ Market leader in ironmongery, tools and fixings market with scope for further expansion
- ▶ Strong presence established in the Netherlands' five largest cities

# Belgium Merchating

£m	2017	2016	Movement	
			Reported	Constant Currency
Revenue	45.6	41.2	+10.8%	+0.4%
Operating profit	0.4	(0.1)	+459.4%	+365.1%
Operating margin	0.9%	(0.3%)	+120 bps	

- ▶ Pleased to see return to profitability in H1
- ▶ Continuing to refocus on more profitable elements of customer base
- ▶ Costs remain under tight control
- ▶ Good progress on Brussels branch re-development project

# Retailing



£m	2017	2016	Movement	
			Reported	Constant Currency
Revenue	<b>84.4</b>	73.1	<b>+15.5%</b>	+4.7%
Operating profit	<b>4.7</b>	3.1	<b>+53.2%</b>	+41.0%
Operating margin	<b>5.6%</b>	4.2%	<b>+140bps</b>	

- ▶ Continued investment transforming the Woodie's shopping experience for customers
- ▶ Four stores upgraded in the first half and a further four planned for second half
- ▶ 20 stores accounting for 65% of revenue will be upgraded by the year end

# Manufacturing

£m	2017	2016	Movement
Revenue	32.8	29.9	+9.6%
Operating profit	7.0	5.7	+22.5%
Operating margin	21.4%	19.1%	+230bps

- ▶ Market leadership position in UK silo mortar market
- ▶ Good growth in volumes supplied to house building market
- ▶ Improvement in gross margin and tight control of overheads

# Balance Sheet

£m	June 2017	Dec 2016
Intangible assets	640.2	610.8
Tangible assets	514.5	491.8
Working capital	152.7	166.7
Other assets/(liabilities)	(85.6)	(76.5)
Pension deficit	(20.2)	(31.3)
	<u>1,201.6</u>	<u>1,161.5</u>
Net debt	(80.2)	(96.3)
Equity	<u>1,121.4</u>	1,065.2
ROCE	13.2%	12.5%
Net debt/EBITDA	0.4x	0.5x

# Cash Flow

£m	June 2017	June 2016
Cash from operations	<b>117.9</b>	108.0
Interest and tax	<b>(10.2)</b>	(8.9)
Replacement capex net of disposals	<b>(8.1)</b>	(3.9)
Free cash flow	<b>99.6</b>	95.2
Investment capex	<b>(25.1)</b>	(17.9)
Dividends	<b>(21.3)</b>	(18.8)
Share issue	<b>0.1</b>	0.5
Acquisitions	<b>(30.7)</b>	(11.9)
Net cash flow before FX translation	<b>22.6</b>	47.1
FX translation/other	<b>(6.4)</b>	(29.2)
Movement in net debt	<b>16.1</b>	17.9
Opening net debt	<b>(96.3)</b>	(113.6)
Closing net debt	<b>(80.2)</b>	(95.7)
Free cash flow as % of adjusted operating profit	<b>126%</b>	139%



## Current Trading & Outlook Gavin Slark, CEO

# Current Trading – 1 July to 27 August 2017

	Like-for-like Daily Revenue	
	H1 2017	1 July to 27 Aug 2017
<b>Merchandising</b>		
UK	4.5%	5.5%
Ireland	12.2%	9.3%
Belgium	1.5%	(2.7%)
Netherlands	4.3%	5.9%
<b>Retailing</b>	6.6%	10.8%
<b>Manufacturing</b>	9.1%	20.3%
<b>Total Group</b>	5.7%	6.5%

# Outlook

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## ▶ UK

- Housing RMI market expected to be broadly flat and competitive
- House building activity expected to hold up well

## ▶ Ireland

- Outlook for economy remains positive
- Strong market positions in merchanting and retailing

## ▶ The Netherlands and Belgium

- Favourable outlook for Dutch economy and housing market
- Looking to build on return to profitability in Belgium

# Summary – Strong H1 Performance

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- ▶ **Strong market positions in fast growing economies of Ireland and the Netherlands**
- ▶ **Good progress improving performance of the traditional UK merchanting business**
- ▶ **Continued investment in resilient Selco model**
- ▶ **Making progress towards medium term targets of 7% operating margin and 15% ROCE**
- ▶ **Strong balance sheet provides robust platform for ongoing growth, further investment and dividend progression**



## Questions



# Appendix 1

## Notes & Definitions

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### Notes

- ▶ As amounts are reflected in £'m some non-material rounding differences may arise.

### Definitions

- ▶ *Adjusted earnings per share* is earnings before intangible asset amortisation relating to acquisitions and exceptional costs
- ▶ *Adjusted operating profit* is operating profit before exceptional restructuring costs (see Appendix 2 for calculation)
- ▶ *Adjusted profit before tax* is Adjusted operating profit less net finance costs
- ▶ *Operating profit* is earnings before interest, tax and intangible asset amortisation relating to acquisitions
- ▶ *Adjusted operating profit margin* is Adjusted operating profit divided by revenue for the period

Refer to interim announcement for details on Alternative Performance Measures ("APM's")

## Appendix 2

# Operating Profit Bridge – Statutory to Adjusted

	H1 2017 £'m	H1 2016 £'m	Change £'m
Revenue	1,338.6	1,228.4	+110.2
Statutory operating profit	77.7	66.1	+11.6
Exceptional items	0.0	1.2	(1.2)
Amortisation of acquired intangible assets	1.4	1.1	+0.3
Adjusted operating profit	79.1	68.4	+10.7
Property profit	(2.0)	(3.5)	+1.5
Adjusted operating profit (pre property profits)	77.0	64.8	+12.2
Statutory operating margin	5.8%	5.4%	+40 bps
Operating margin	5.9%	5.6%	+30 bps
Operating margin (pre-property profit)	5.8%	5.3%	+50 bps

# Appendix 3

## Operating Margin Analysis\*

	H1 2017	H2 2016	H1 2016	H2 2015	H1 2015	H2 2014	H1 2014
UK Merchanting	5.5%	5.4%	5.3%	6.1%	5.8%	6.1%	5.9%
Irish Merchanting	8.0%	8.6%	6.8%	7.9%	5.7%	6.8%	4.1%
Netherlands Merchanting	10.4%	9.5%	11.3%	3.8%	-	-	-
Belgium Merchanting	0.9%	(1.3%)	(0.3%)	(1.7%)	0.8%	0.4%	1.5%
<b>Total Merchanting</b>	<b>5.9%</b>	<b>5.8%</b>	<b>5.5%</b>	<b>6.1%</b>	<b>5.6%</b>	<b>5.9%</b>	<b>5.4%</b>
Retailing	5.6%	5.0%	4.2%	4.1%	1.0%	2.9%	0.9%
Manufacturing	21.4%	22.0%	18.9%	20.0%	16.9%	18.8%	13.3%
	6.3%	6.2%	5.8%	6.3%	5.6%	6.1%	5.3%
Central Activities	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.6%)	(0.5%)
<b>Total</b>	<b>5.8%</b>	<b>5.7%</b>	<b>5.3%</b>	<b>5.8%</b>	<b>5.1%</b>	<b>5.5%</b>	<b>4.8%</b>
Property Profit	0.1%	0.1%	0.3%	0.0%	0.5%	0.1%	0.2%
<b>Group Operating Margin</b>	<b>5.9%</b>	<b>5.8%</b>	<b>5.6%</b>	<b>5.8%</b>	<b>5.6%</b>	<b>5.6%</b>	<b>5.0%</b>

\* Excludes property profit by geography (shown separately) and before amortisation of intangible assets arising on acquisitions and restructuring costs

# Appendix 4

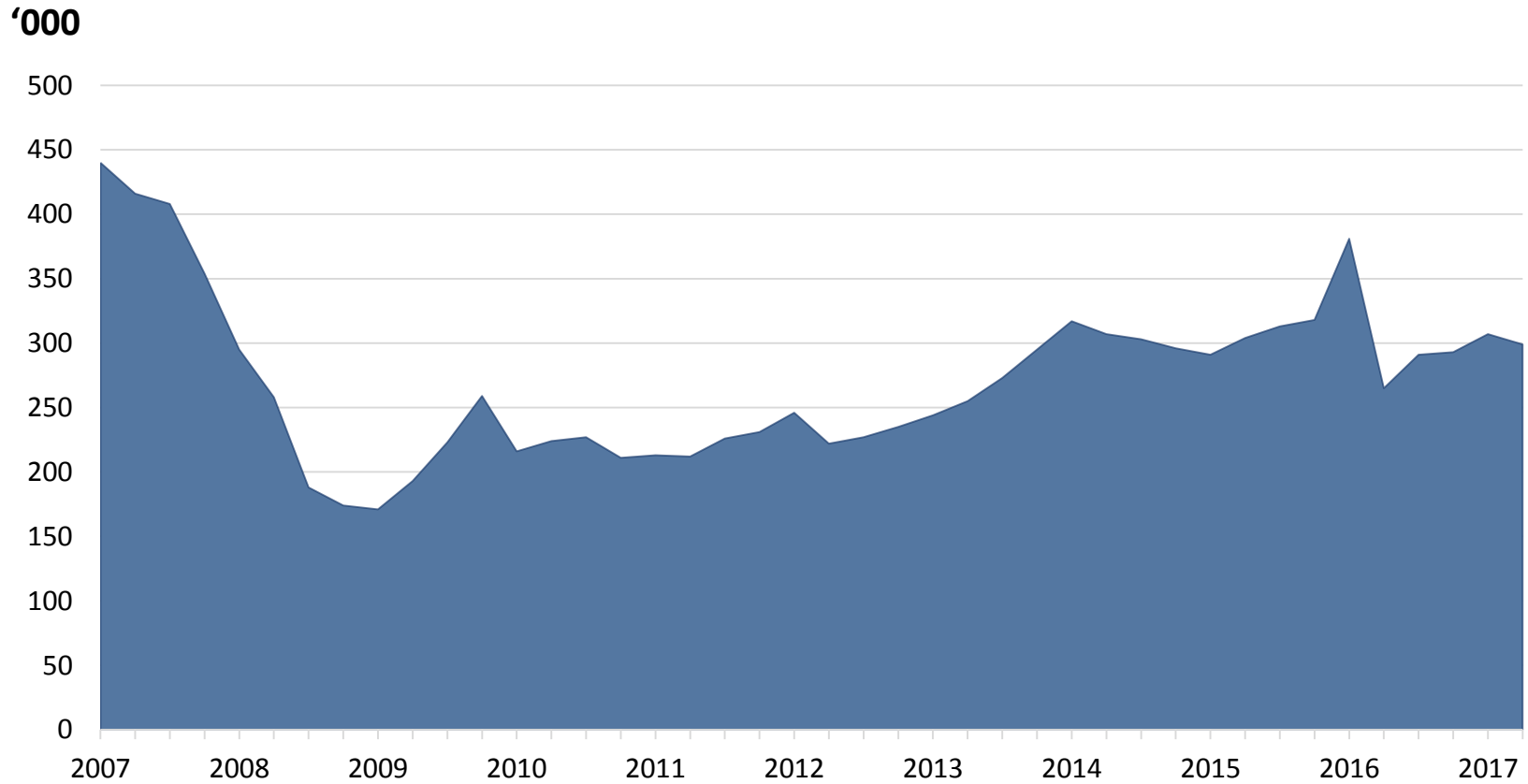
## Operating Margin Analysis\*

	H1 2017	H2 2016	H1 2016	H2 2015	H1 2015	H2 2014	H1 2014
UK Merchanting	5.6%	5.5%	5.7%	6.2%	6.5%	6.1%	6.1%
Irish Merchanting	8.5%	8.6%	6.8%	7.9%	5.7%	7.4%	4.1%
Netherlands Merchanting	10.4%	9.5%	11.3%	3.8%	-	-	-
Belgium Merchanting	0.9%	(1.3%)	(0.3%)	(1.7%)	0.8%	0.4%	1.5%
<b>Total Merchanting</b>	<b>6.1%</b>	<b>6.0%</b>	<b>5.8%</b>	<b>6.1%</b>	<b>6.2%</b>	<b>6.0%</b>	<b>5.6%</b>
Retailing	5.6%	5.0%	4.2%	4.1%	1.0%	2.9%	0.9%
Manufacturing	21.4%	22.0%	19.1%	20.0%	16.9%	18.8%	13.3%
	6.4%	6.3%	6.1%	6.3%	6.1%	6.1%	5.4%
Central Activities	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.6%)	(0.5%)
<b>Total</b>	<b>5.9%</b>	<b>5.8%</b>	<b>5.6%</b>	<b>5.8%</b>	<b>5.6%</b>	<b>5.6%</b>	<b>5.0%</b>

\* Including property profit but before amortisation on intangible assets arising on acquisitions and restructuring costs

# Appendix 5

## UK Housing Transactions 2007 – 2017

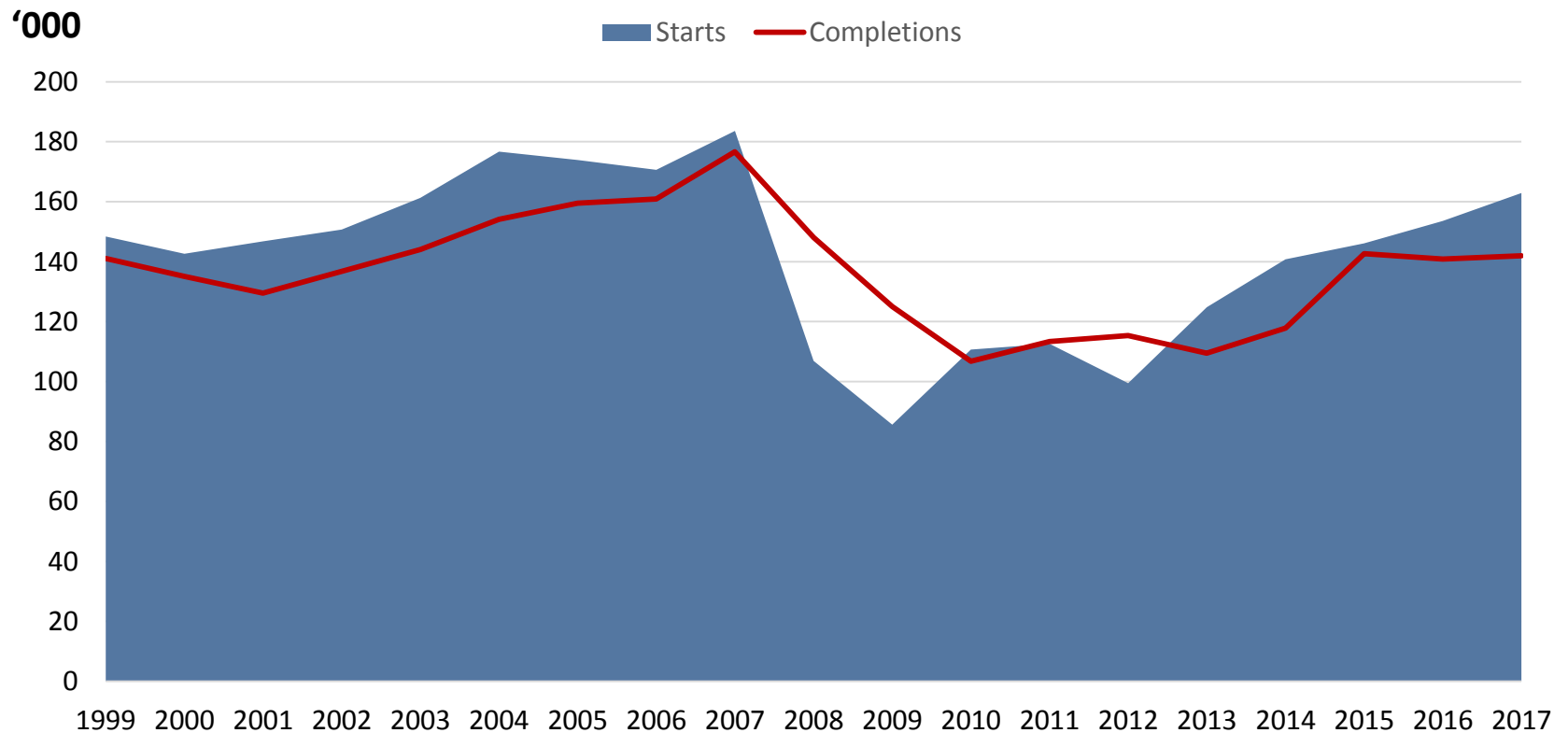


*\*Quarterly Seasonally Adjusted*

*Source: HM Revenue & Customs UK Property Transactions Count*

# Appendix 6

## Housing Starts & Completions – England: 1999 - 2017



Source: UK Department for Communities & Local Government on a rolling 12 month basis

# Appendix 7

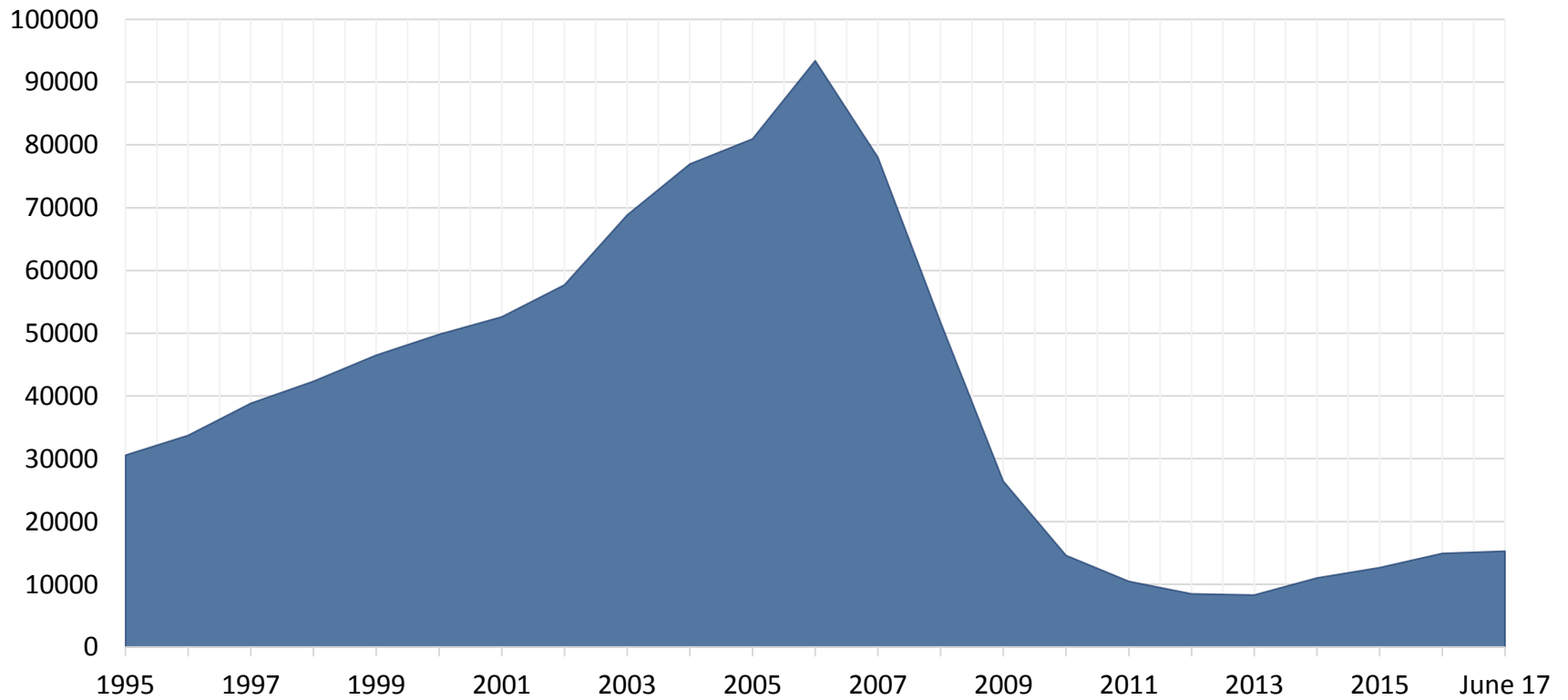
## UK Mortgage Approvals: 2008 - 2017



Source: Bank of England

# Appendix 8

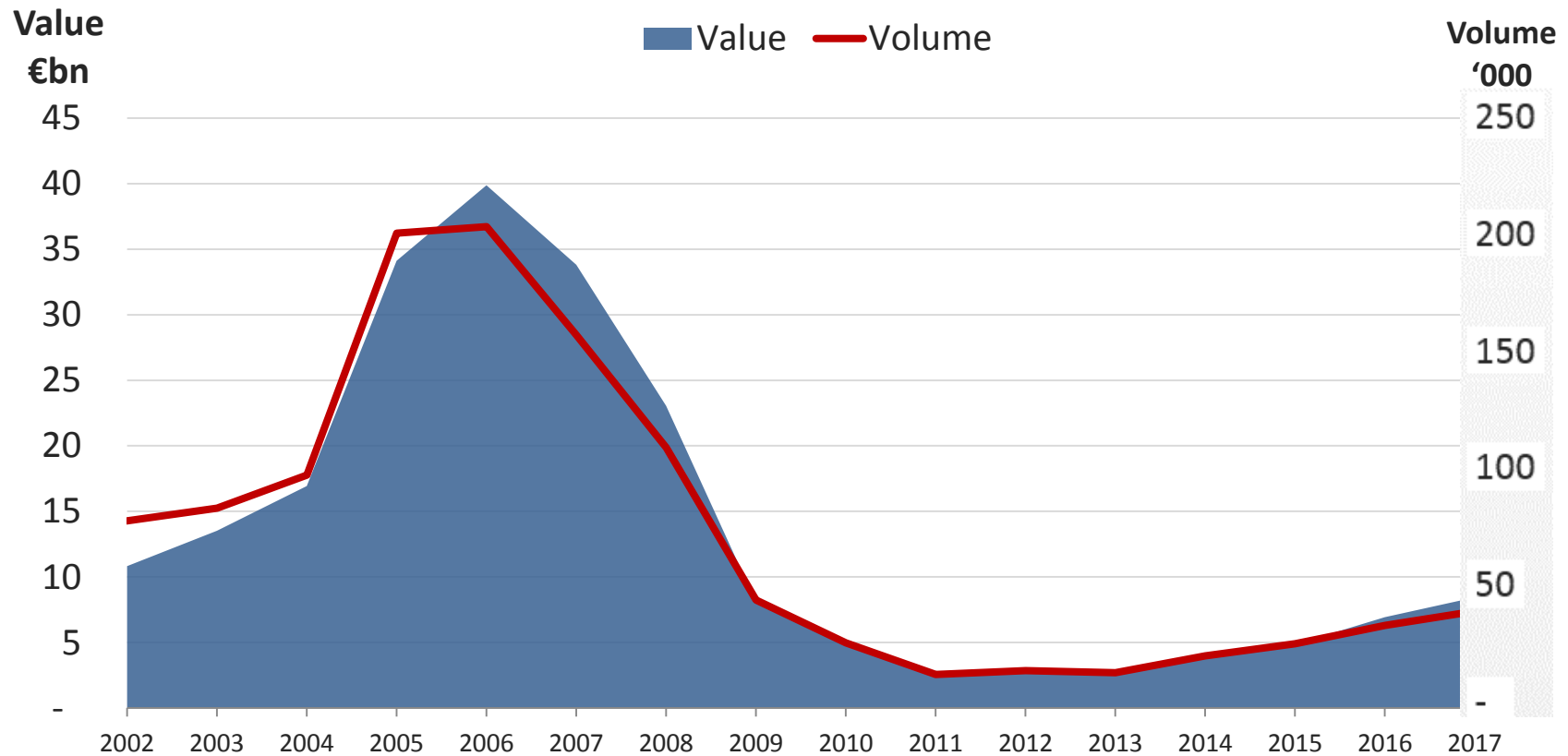
## House Completions – Ireland 1995 - 2017



Source: Department of Housing, Planning, Community and Local Government - on a rolling 12 month basis

# Appendix 9

## Mortgages Approvals in Ireland: 2002 - 2017



Source: BPIFI on a rolling 12 month basis