



Grafton Group plc

Final Results 2017

Financial Year Ended

31 December 2017



# Cautionary Statement and Notes

## **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)*

# Introduction & Highlights

Gavin Slark  
CEO



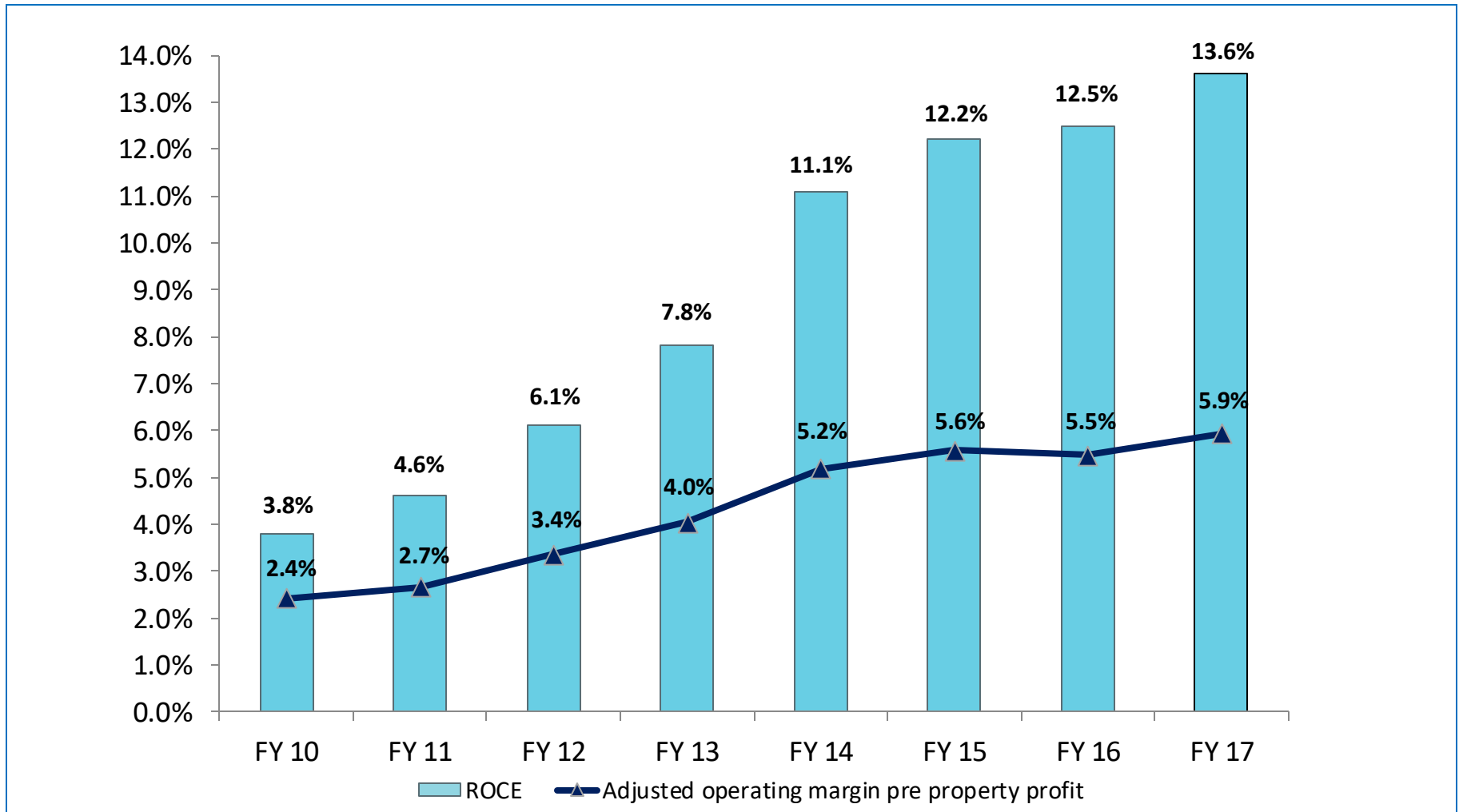
# Group Financial Highlights

- ◆ Revenue up 9% to £2.7bn (7% in constant currency)
- ◆ Adjusted operating profit before property profit up 17% to £160.9m
- ◆ Adjusted EPS up 15% and dividend up 13%
- ◆ Adjusted operating profit margin (pre property profits) up 40bps to 5.9%
- ◆ ROCE up 110bps to 13.6%

# Another Year of Group Progress

- ◆ Growth in profitability across all segments and geographies
- ◆ Saw benefit of organic growth and exposure to multiple markets
- ◆ Opened record number of new Selco branches
- ◆ Delivered benefits of 2016 restructuring in UK Merchanting
- ◆ Increased Dutch network by 19 stores through acquisition

# Operating Profit Margin and ROCE



# Financial Review

David Arnold  
CFO



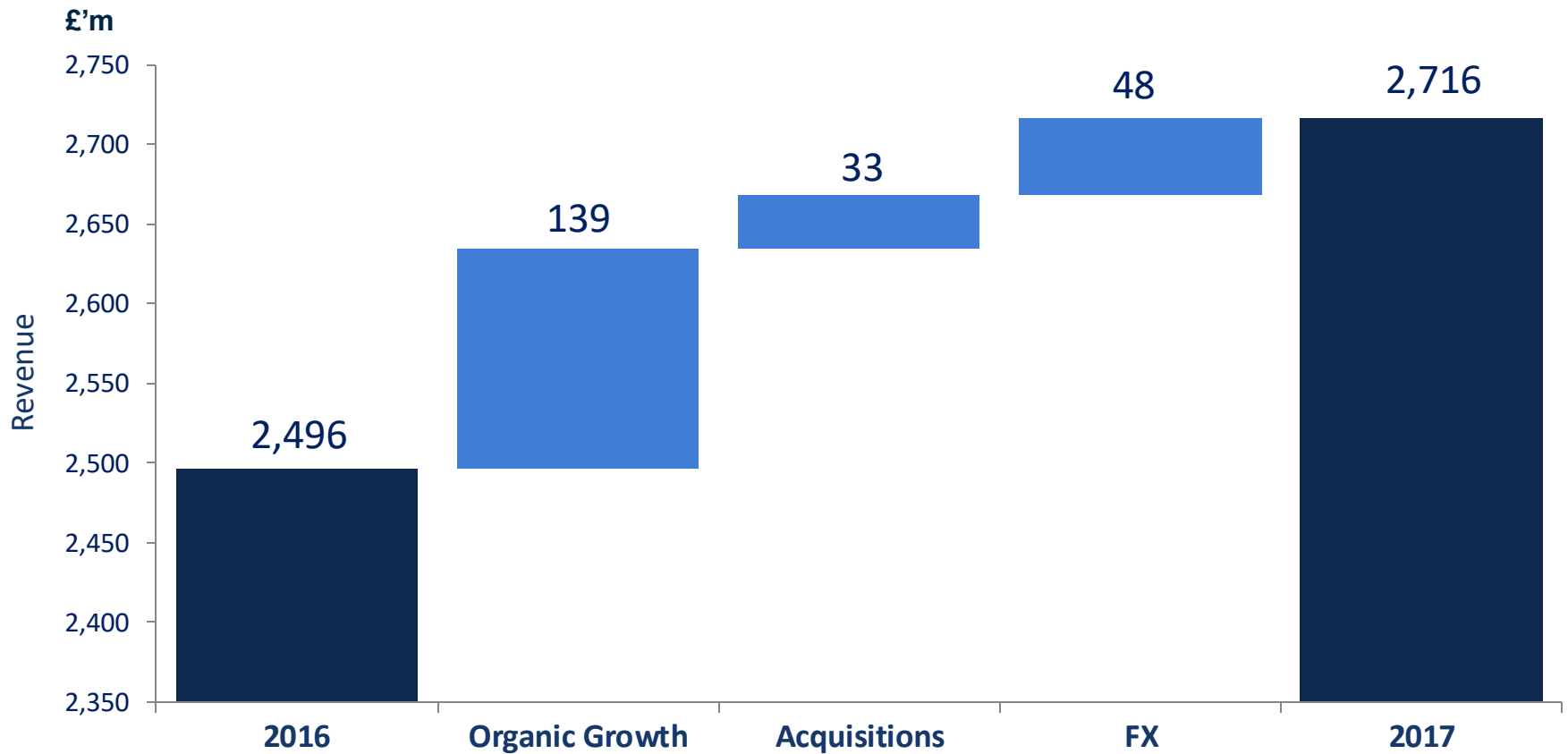
# Income Statement

£m	Dec 2017	Dec 2016	Movement	
			Reported	Constant Currency
Revenue	2,715.8	2,496.4	+8.8%	+6.8%
Adjusted operating profit pre property profits	160.9	137.1	+17.4%	
Property profit	2.7	4.9		
Adjusted operating profit	163.7	142.0	+15.2%	
<i>Exceptional charge</i>	-	(19.7)		
<i>Amortisation and other</i>	(2.8)	(2.2)		
<i>Statutory operating profit</i>	160.9	120.1		
Net finance cost	(6.4)	(5.9)		
<i>Statutory profit before tax</i>	154.5	114.2		
Adjusted profit before tax	157.2	136.2	+15.4%	

# Key Income Statement Metrics

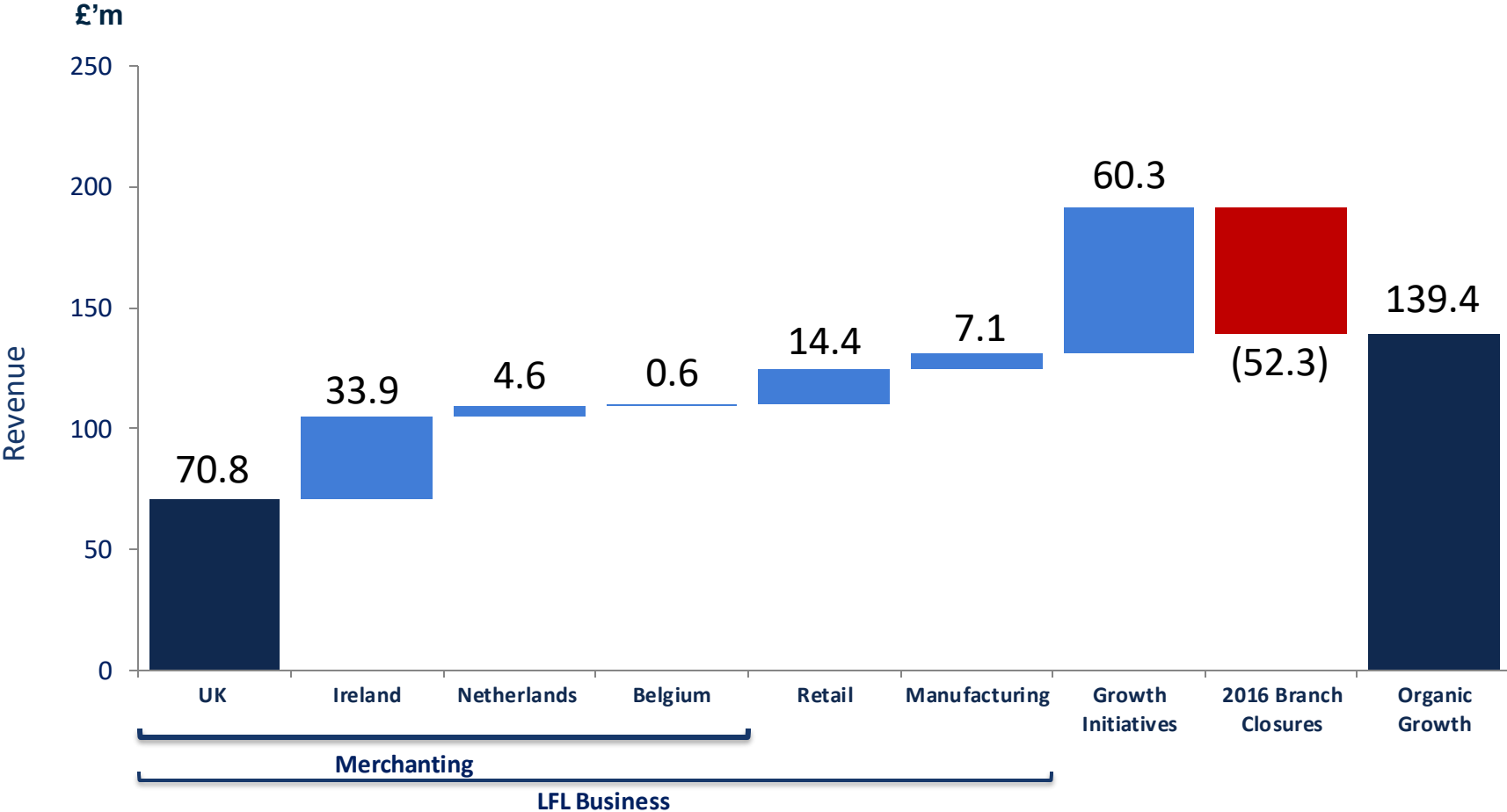
£m	2017	2016	Movement
Adjusted operating margin pre property profits	5.9%	5.5%	+40 bps
Adjusted operating margin	6.0%	5.7%	+30 bps
Headline tax rate	17.2%	18.5%	(130 bps)
Underlying tax rate	18.5%	19.0%	(50 bps)
Adjusted earnings per share	54.9p	47.7p	+15.1%
Dividend per share	15.50p	13.75p	+12.7%
Dividend cover	3.5x	3.5x	-

# Revenue Growth Analysis

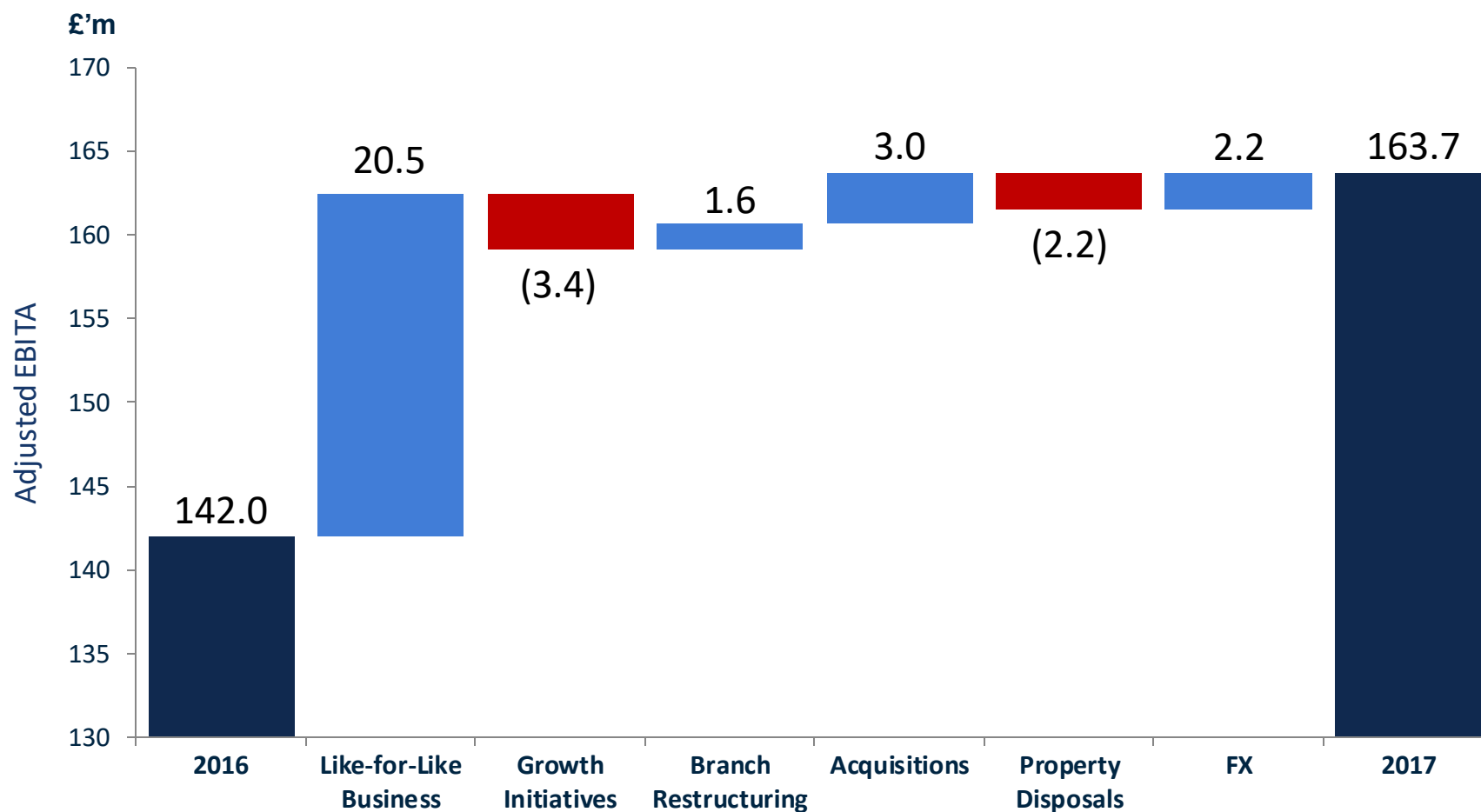


# Organic Revenue Growth Analysis

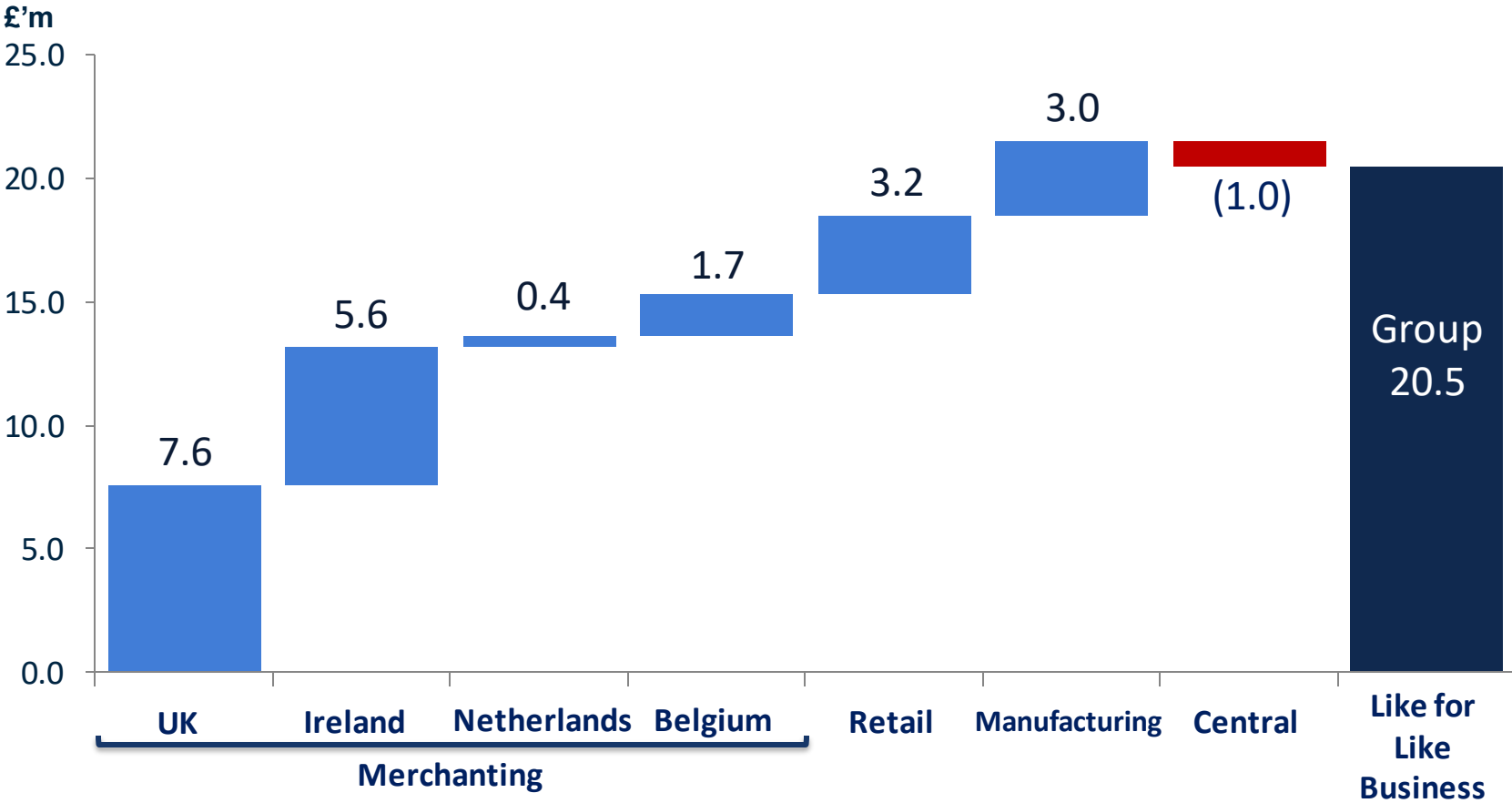
(Constant Currency)



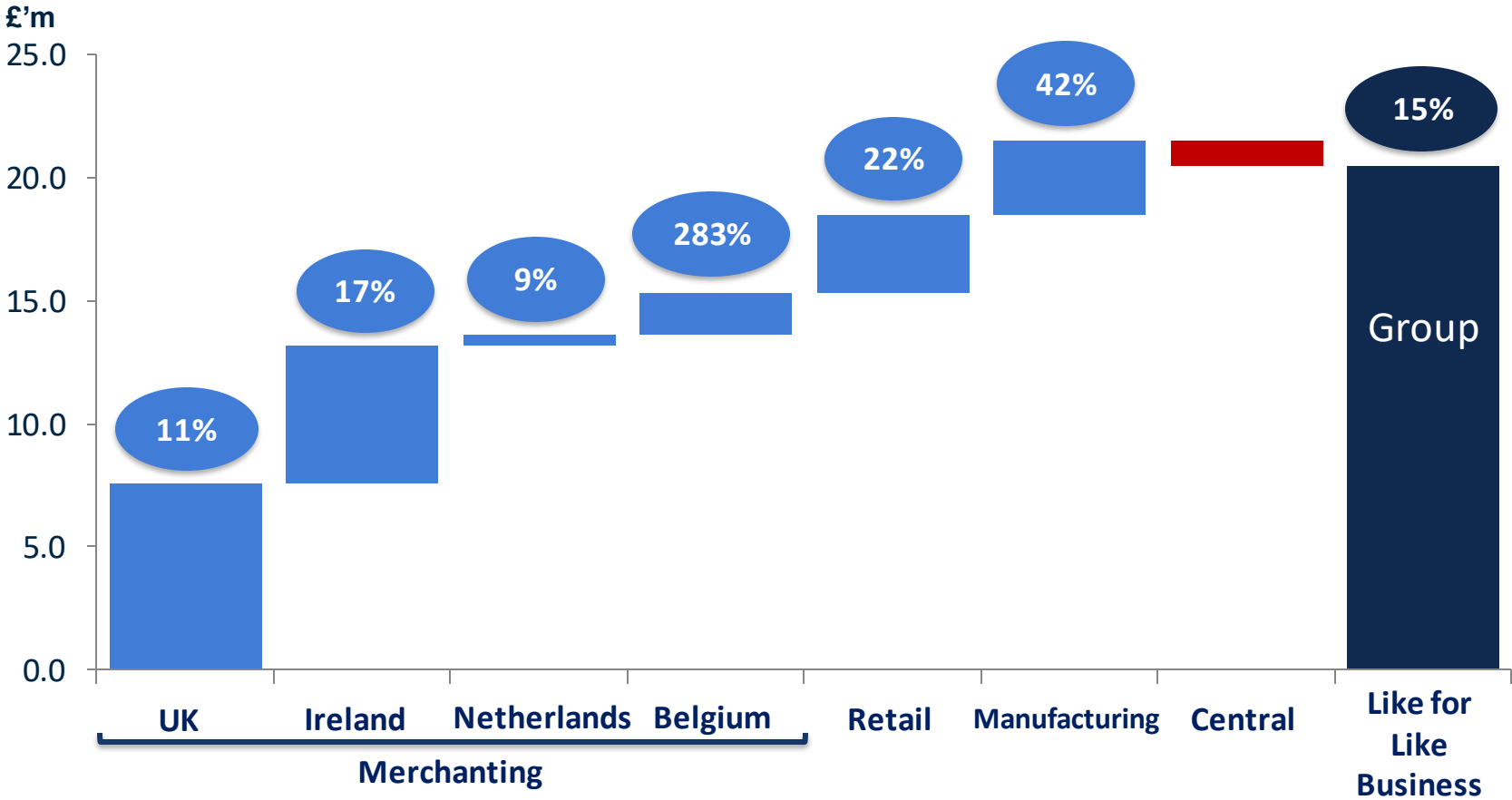
# Adjusted Operating Profit Analysis



# Incremental Operating Profit Drop Through Analysis



# Incremental Operating Profit Drop Through Analysis



# UK Merchandising

£m	2017	2016	Movement
Revenue	1,845.1	1,762.3	+4.7%
Operating profit pre property profit	100.9	94.8	+6.5%
Operating margin pre property profit	5.5%	5.4%	+10bps

- Revenue and like-for-like growth rate similar – growth from new Selco branches offset by branch closures in Plumbase and Contracts
- Overall gross margin improved on mix. Buildbase and Plumbase gross margins maintained
- Selco branch opening costs £3m higher than 2016 due to record number of new stores – 2018 expected to be c.£3.5m lower
- Incremental deployment costs of c.£3m in 2018 on AX trading system roll out in Buildbase

# Irish Merchanding

£m	2017	2016	Movement	
			Reported	Constant Currency
Revenue	403.6	347.3	+16.2%	+8.9%
Operating profit pre property profit	34.5	27.1	+27.3%	+19.7%
Operating margin pre property profit	8.5%	7.8%	+70bps	

- Fourth consecutive year of double digit like-for-like revenue growth
- Continued improvement in gross margin despite higher proportion of direct and delivered sales
- H2 operating margin 9.0% (H2 16: 8.7%)
- Three new branches opened in Dublin and incremental investment in headcount to support higher volumes

# Netherlands Merchanding

£m	2017	2016	Movement	
			Reported	Constant Currency
Revenue	131.0	87.7	+49.4%	+39.8%
Adjusted operating profit	12.6	9.1	+38.1%	+29.3%
Adjusted operating margin	9.6%	10.4%	(80bps)	

- Like-for-like revenue growth of 5.4%
- Three acquisitions completed in 2017 which increased network to 58 branches
- Improvement in gross margin due to mix effect and procurement gains
- Ongoing investment to improve digital platform and on new distribution centre

# Belgium Merchancing

£m	2017	2016	Movement	
			Reported	Constant Currency
Revenue	89.6	83.4	+7.5%	+0.5%
Operating profit/(loss)	0.9	(0.7)	+234.4%	+220.0%
Operating margin	1.0%	(0.8%)	+180bps	

- Achieved first base objective to return to profitability
- Focus on improving gross margins through mix and purchasing initiatives
- Acquired remaining 35 per cent of You Build not owned
- Brussels branch was severely affected by redevelopment work in the year but new branch formally opens for business in March

# Retailing

# Woodie's

£m	2017	2016	Movement	
			Reported	Constant Currency
Revenue	180.4	157.1	+14.8%	+7.4%
Operating profit	11.2	7.3	+53.1%	+44.3%
Operating margin	6.2%	4.7%	+150bps	

- Like for like revenue growth of 9.1% - average transaction value up 5% to €26
- Sales responded well to transformation programme of recent years
- 20 stores now upgraded (representing two thirds of revenue)
- On-line revenue doubled – increased investment made into new website

# Manufacturing

£m	2017	2016	Movement
Revenue	66.1	58.7	+12.5%
Operating profit	15.1	12.1	+24.5%
Operating margin	22.9%	20.7%	+220bps

- Outstanding performance from UK market leading dry silo mortars business
- Record volumes achieved in year with significant growth from new house build market
- Significant revenue growth from bagged product

# Balance Sheet

£m	Dec 2017	Dec 2016
Intangible assets	646.1	610.8
Tangible assets	531.5	491.8
Working Capital	169.5	166.7
Other assets/(liabilities)	(86.1)	(76.5)
Pension Deficit	(23.5)	(31.3)
	<b>1,237.5</b>	<b>1,161.5</b>
Net Debt	(62.9)	(96.3)
Equity	<b>1,174.6</b>	<b>1,065.2</b>
ROCE	13.6%	12.5%
Net debt/EBITDA	0.3x	0.5x

# Cash Flow

£m	Dec 2017	Dec 2016
Cash from operations	210.7	168.6
Interest and tax	(23.9)	(21.9)
Replacement capex net of disposals	(23.3)	(12.9)
Free cash flow	163.5	133.8
Investment capex	(49.3)	(37.6)
Dividends	(33.7)	(30.0)
Share issue	1.9	0.5
Acquisitions	(40.4)	(11.9)
Net cash flow before FX translation	42.0	54.8
FX translation/other	(8.6)	(37.5)
Movement in net debt	33.4	17.3
Opening net debt	(96.3)	(113.6)
Closing net debt	(62.9)	(96.3)
Free cash flow as % of adjusted operating profit	100%	94%

◆ 2018 Capex expected to be circa 2x depreciation charge

# LSDM, Current Trading & Outlook

Gavin Slark  
CEO



# Acquisition of Leyland SDM

- ◆ Purchase Consideration - £82.4m
- ◆ Completed 16 February 2018
- ◆ 2017 revenue £47.8m and underlying EBITA £7.3m
- ◆ Possesses key characteristics our customers want:
  - Convenience
  - High product availability
  - Comprehensive offering
  - Exceptional service

# Leyland SDM – Convenience Led



- ◆ Exceptional locations in areas with strong demographics
- ◆ Often set in prominent position on high street and/or on arterial routes in/out of London
- ◆ Many with loading bays/parking

# Leyland SDM – Proven Format

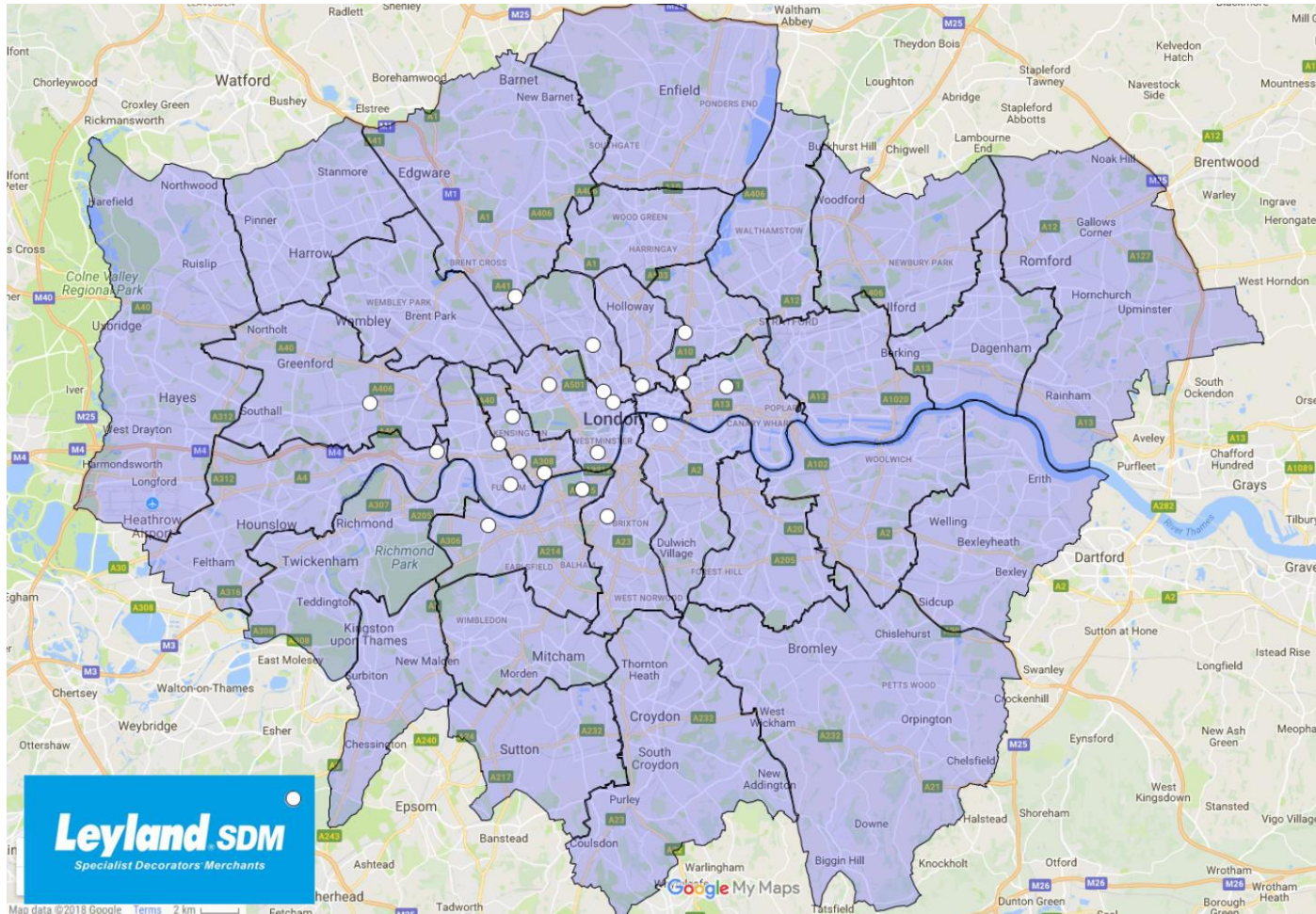


- ◆ Proven track record
- ◆ Market leading brands

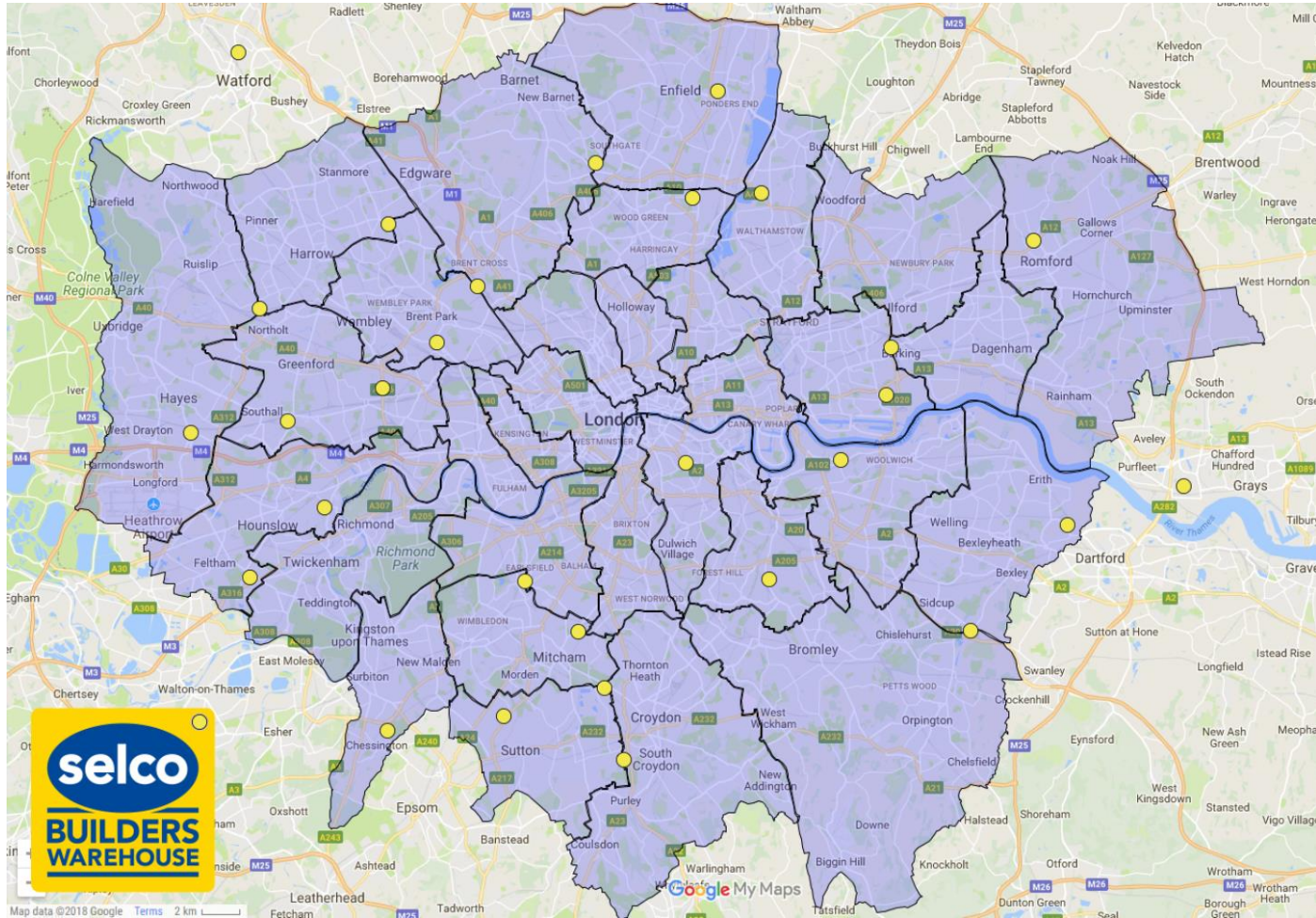
- ◆ Exceptionally wide range of stock
- ◆ Great product knowledge



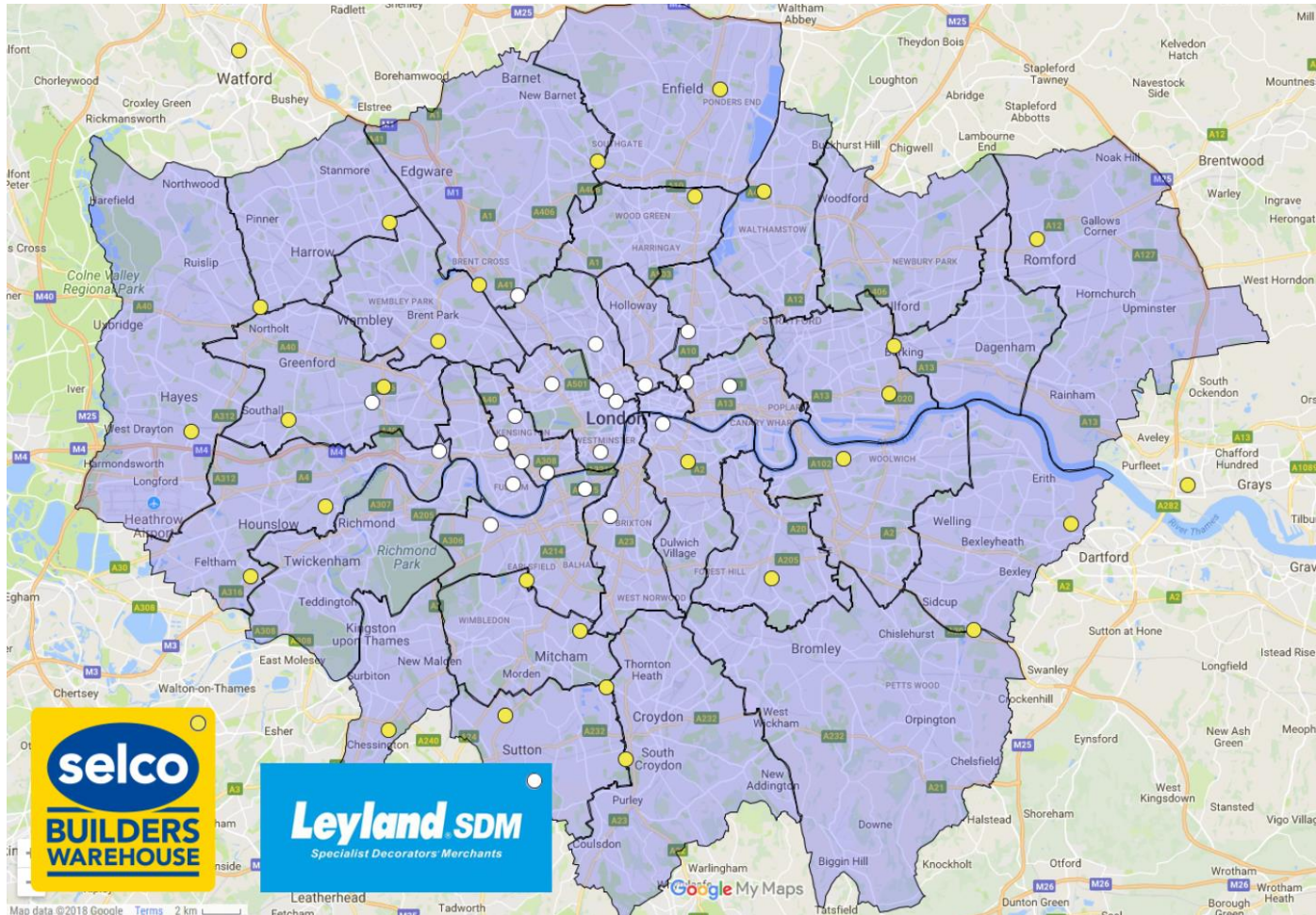
# Acquisition of LDSM Increases Coverage in London and Complements Selco



# Acquisition of LDSM Increases Coverage in London and Complements Selco



# Acquisition of LDSM Increases Coverage in London and Complements Selco



# Leyland SDM – Future Growth Potential

- ◆ We believe that in the long run capital cities grow faster
- ◆ Continued expansion of London branch footprint
- ◆ Potential to experiment with a broader product offering
- ◆ Possible expansion of LSDM format into other UK cities
- ◆ Opportunity for further acquisitions in this market segment

# Current Trading – 1 January 2018 to 18 February 2018

	Like-for-like daily revenue	
	Q4 2017	1 January 18 – 18 February 18
<b>Merchanting</b>		
UK	3.0%	1.0%
Ireland	5.1%	5.6%
Netherlands	5.8%	11.0%
Belgium	2.5%	7.2%
<b>Retailing</b>	12.5%	17.0%
<b>Manufacturing</b>	14.0%	25.7%
<b>Total Group</b>	4.4%	3.8%

# Outlook

## ◆ UK

- Overall conditions expected to remain flat
- Further progress focused on continuing self help, not reliant on the market
- Acquisition of Leyland SDM gives medium term options

## ◆ Ireland

- Market leading positions in Merchanting and Retail
- Economic outlook remains favourable
- Rate of growth likely to moderate

## ◆ The Netherlands and Belgium

- Opportunities in The Netherlands to benefit from increasing scale of business
- Favourable outlook for Dutch economy and housing market
- Belgium should see benefit from internal initiatives and 100% ownership
- Belgian economy expected to see modest growth

# Summary – Strong Performance

- ◆ Delivered growth in profitability across all segments and geographies
- ◆ Made further progress to medium term financial targets
- ◆ Strength in depth across the management
- ◆ Another year of strong cash conversion– balance sheet in excellent shape
- ◆ Continue to see good growth opportunities – both organic and acquisitive – to generate incremental value for shareholders

# Questions



# Appendices



# Appendix 1

## Notes & Definitions

### 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

	2017 £'m	2016 £'m	Change £'m
Revenue	2,715.8	2,496.4	+219.4
Statutory operating profit	160.9	120.1	+40.8
Exceptional items	0.0	19.7	(19.7)
Amortisation of acquired intangible assets	2.8	2.2	+0.6
Adjusted operating profit	163.7	142.0	+21.6
Property profit	(2.7)	(4.9)	+2.2
Adjusted operating profit (pre property profits)	160.9	137.1	+23.8
Statutory operating margin	5.9%	4.8%	+110 bps
Adjusted operating margin	6.0%	5.7%	+30 bps
Adjusted operating margin (pre-property profit)	5.9%	5.5%	+40 bps

# Appendix 3

## Operating Margin Analysis\*

	H2 2017	H1 2017	H2 2016	H1 2016
UK Merchanting	5.5%	5.5%	5.4%	5.3%
Irish Merchanting	9.0%	8.0%	8.7%	6.8%
Netherlands Merchanting	8.9%	10.4%	9.5%	11.3%
Belgium Merchanting	1.1%	0.9%	(1.3%)	(0.3%)
<b>Total Merchanting</b>	<b>6.1%</b>	<b>6.0%</b>	<b>5.9%</b>	<b>5.6%</b>
Retailing	6.7%	5.6%	5.0%	4.2%
Manufacturing	24.4%	21.4%	22.3%	19.1%
	6.6%	6.3%	6.2%	5.8%
Central Activities	(0.5%)	(0.5%)	(0.5%)	(0.5%)
<b>Total</b>	<b>6.1%</b>	<b>5.8%</b>	<b>5.7%</b>	<b>5.3%</b>
Property Profit	0.0%	0.1%	0.1%	0.3%
<b>Group Operating Margin</b>	<b>6.1%</b>	<b>5.9%</b>	<b>5.8%</b>	<b>5.6%</b>

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

# Appendix 4

## Revenue Growth

	2017 Like-for-Like					2017	
	Q1	Q2	Q3	Q4	FY	Total Revenue	
Merchanting						Constant Currency	Reported
UK	4.4%	4.7%	6.3%	3.0%	4.5%	4.7%	4.7%
Ireland	14.6%	10.2%	10.6%	5.1%	10.1%	8.9%	16.2%
Netherlands	4.2%	4.4%	6.8%	5.8%	5.4%	39.8%	49.4%
Belgium	(4.5%)	6.2%	(0.1%)	2.5%	1.4%	0.5%	7.5%
Retailing	4.4%	8.1%	10.1%	12.5%	9.1%	7.4%	14.8%
Manufacturing	3.6%	14.6%	16.3%	14.0%	12.4%	12.0%	12.5%
Total Group	5.5%	5.9%	7.0%	4.4%	5.7%	6.8%	8.8%