Grafton Group plc

Interim Results 2018

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

All references to 'Adjusted' mean before amortisation of intangible assets arising on acquisitions

(see Appendix 1)

Please refer to Notes and Definitions in Appendix 1 and bridge of statutory operating profit to adjusted operating profit in Appendix 2. As amounts are reflected in £'m some non-material rounding differences may arise.

Introduction & Highlights

Gavin Slark
CEO

Group Financial Highlights

Revenue
up 9% to £1.45bn (8% in constant currency)

Adjusted operating profit pre property profit
up 14% to £88.0m

Adjusted EPS
up 19%

Dividend
up 14%

Adjusted operating profit margin
up 50bps to 6.4%

ROCE
up 80bps to 14.0%

Continued Group Progress

Strong set of results with all segments reporting growth

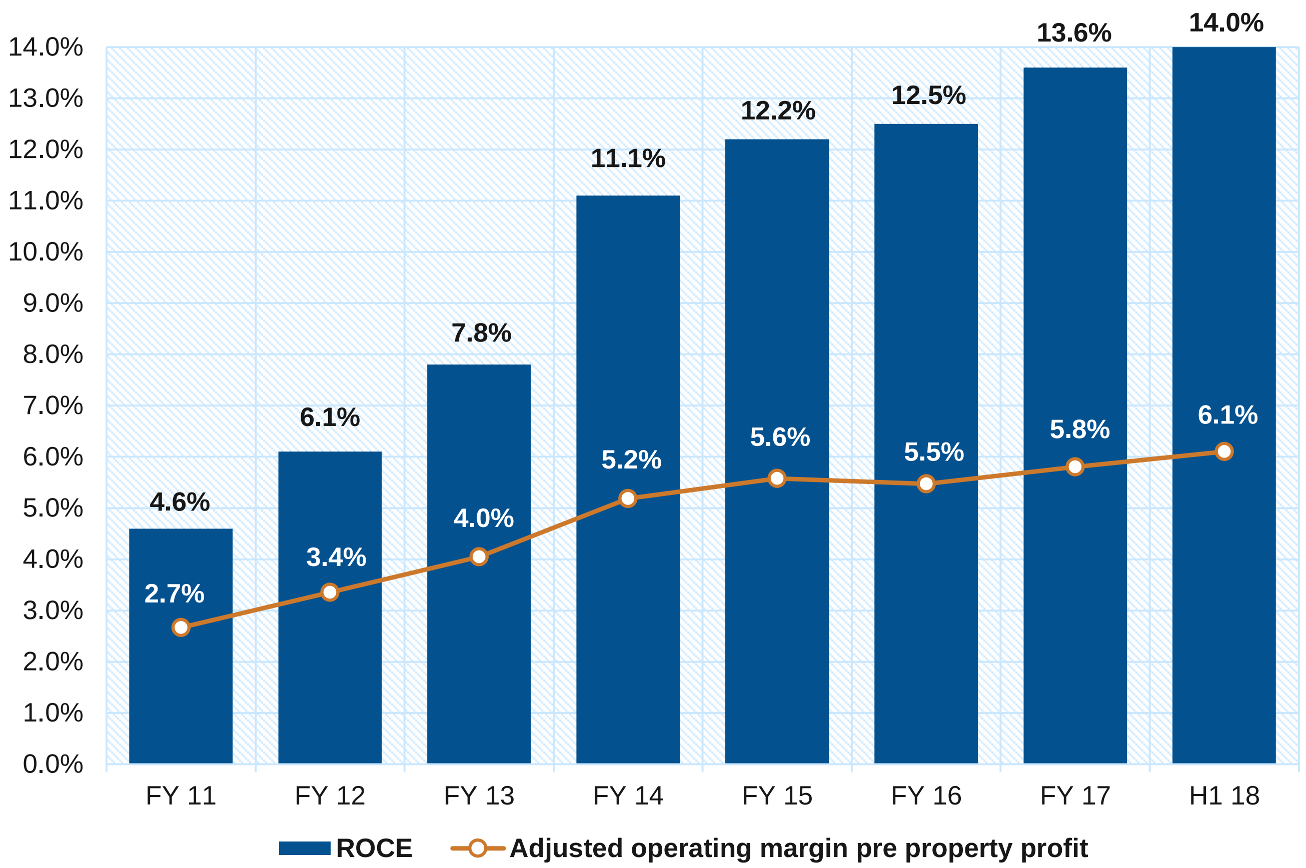
Further progress towards medium term financial targets of 7% operating margin and 15% ROCE

Diversified business model delivering benefits

Continued to generate good cash flow which enabled us to reinvest in further growth opportunities

Pleased with acquisition and progress of Leyland SDM

Operating Profit Margin and ROCE



Financial Review

David Arnold
CFO

Income Statement

£m	2018	2017	Movement Reported	Movement Constant Currency
Revenue*	**1,448**	1,333	+9%	+8%
Adjusted operating profit pre property profits	**88.0**	77.0	+14%	
Property profit	**4.5**	2.0		
Adjusted operating profit	**92.5**	79.1	+17%	
Amortisation	**(2.4)**	(1.4)		
Statutory operating profit	**90.1**	77.7		
Net finance cost	**(2.5)**	(3.6)		
Statutory profit before tax	**87.6**	74.1		
Adjusted profit before tax	**90.0**	75.4	+19%	

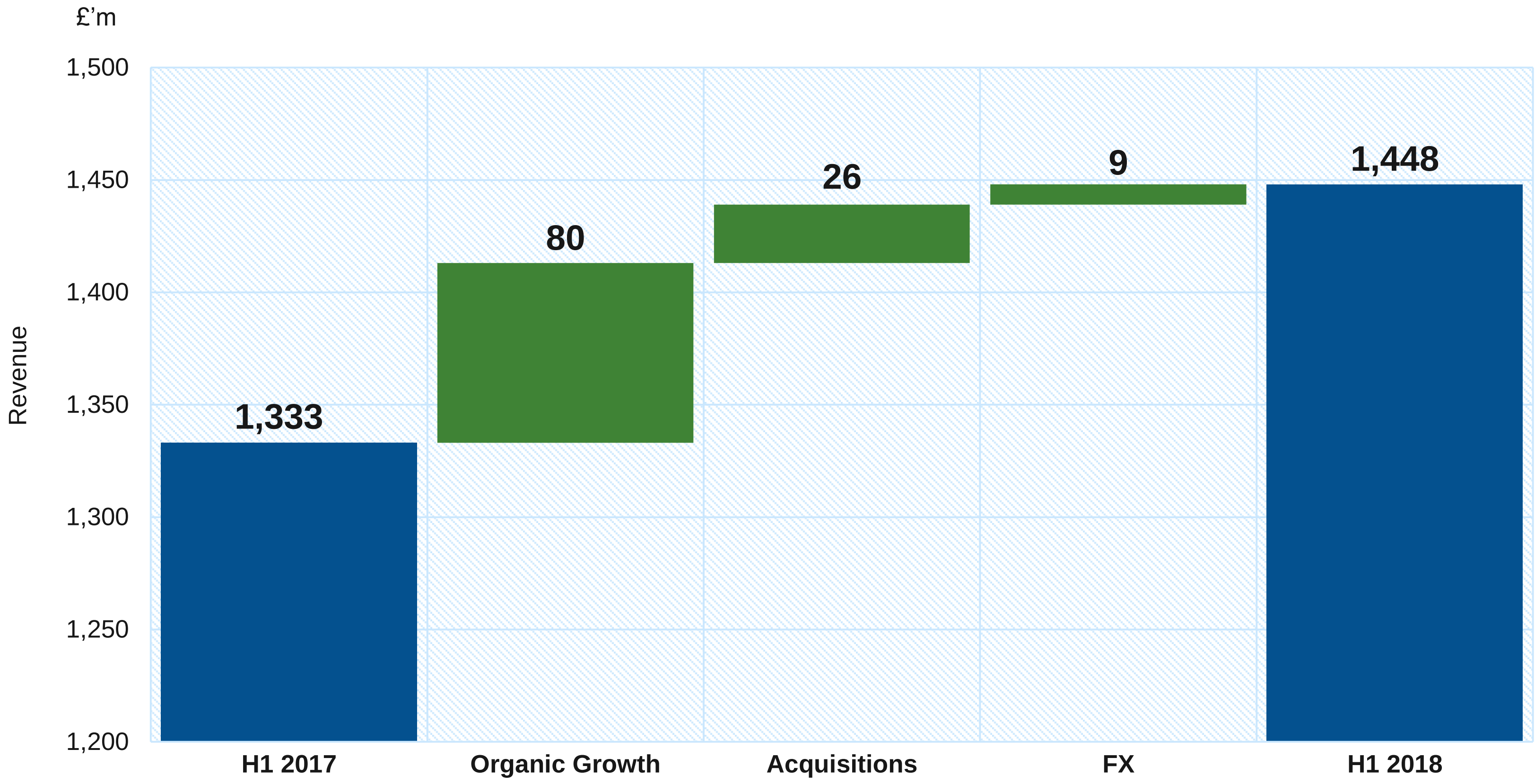
*2017 H1 revenue has been updated to reflect a change in the presentation of rebates payable to customers and the segmental presentation has also been updated. There was no impact on operating profit as a result of this change.

Operating Margin Progression

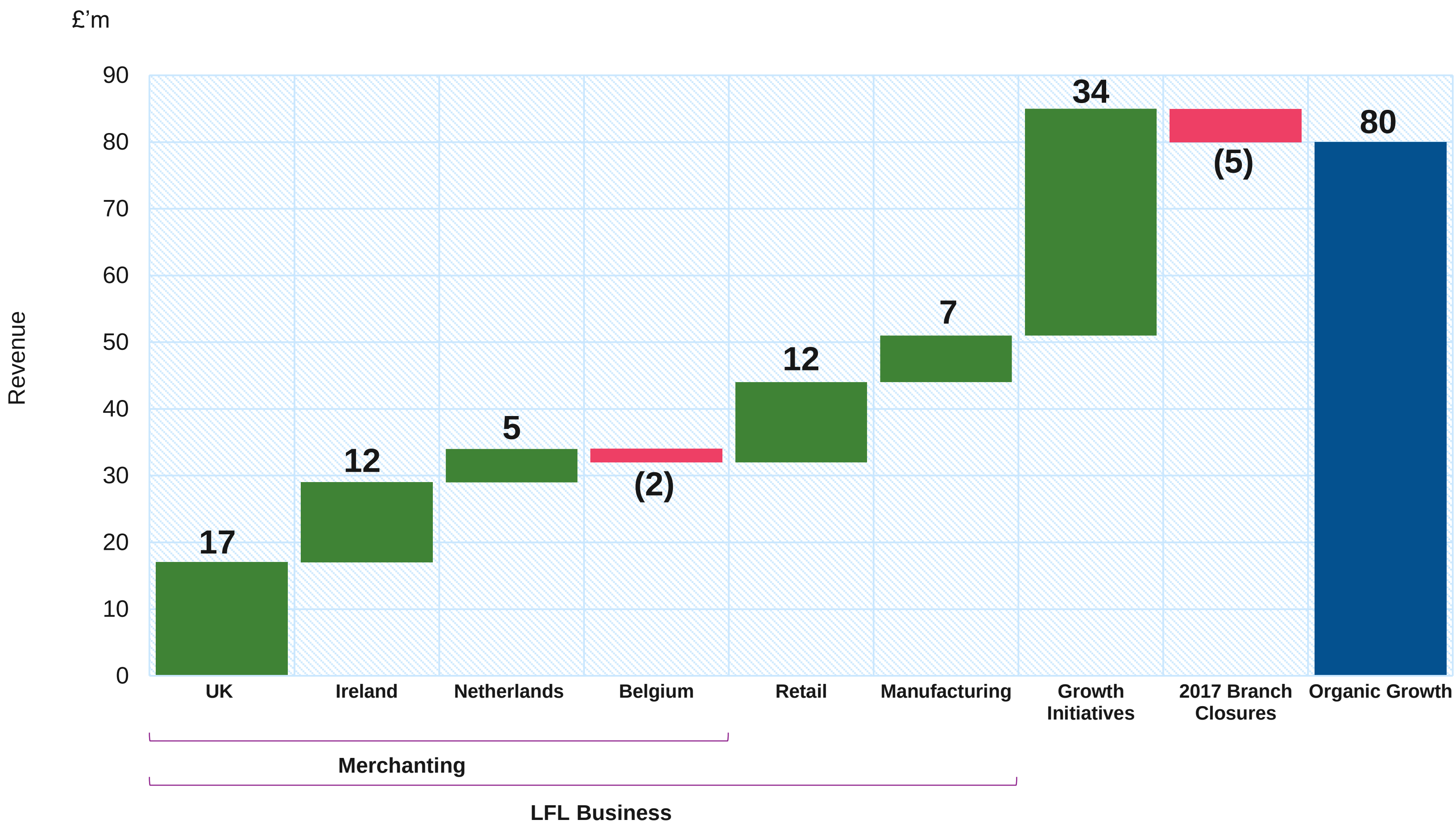
H1 2017 operating margin pre property profits	**5.8%**
Increase in Group gross margin	**0.2%**
Improvement in operating expense efficiency	**0.1%**
H1 2018 operating margin pre property profits	**6.1%**
Property profits	**0.3%**
H1 2018 operating margin	**6.4%**

- Improvement in gross margin a function of investment in recent years into higher margin businesses
- Mix benefits have more than offset competitive market conditions
- Tight control of cost base has increased operating expense efficiency
- Operating margin of 6.4% is 50bps higher than H1 2017

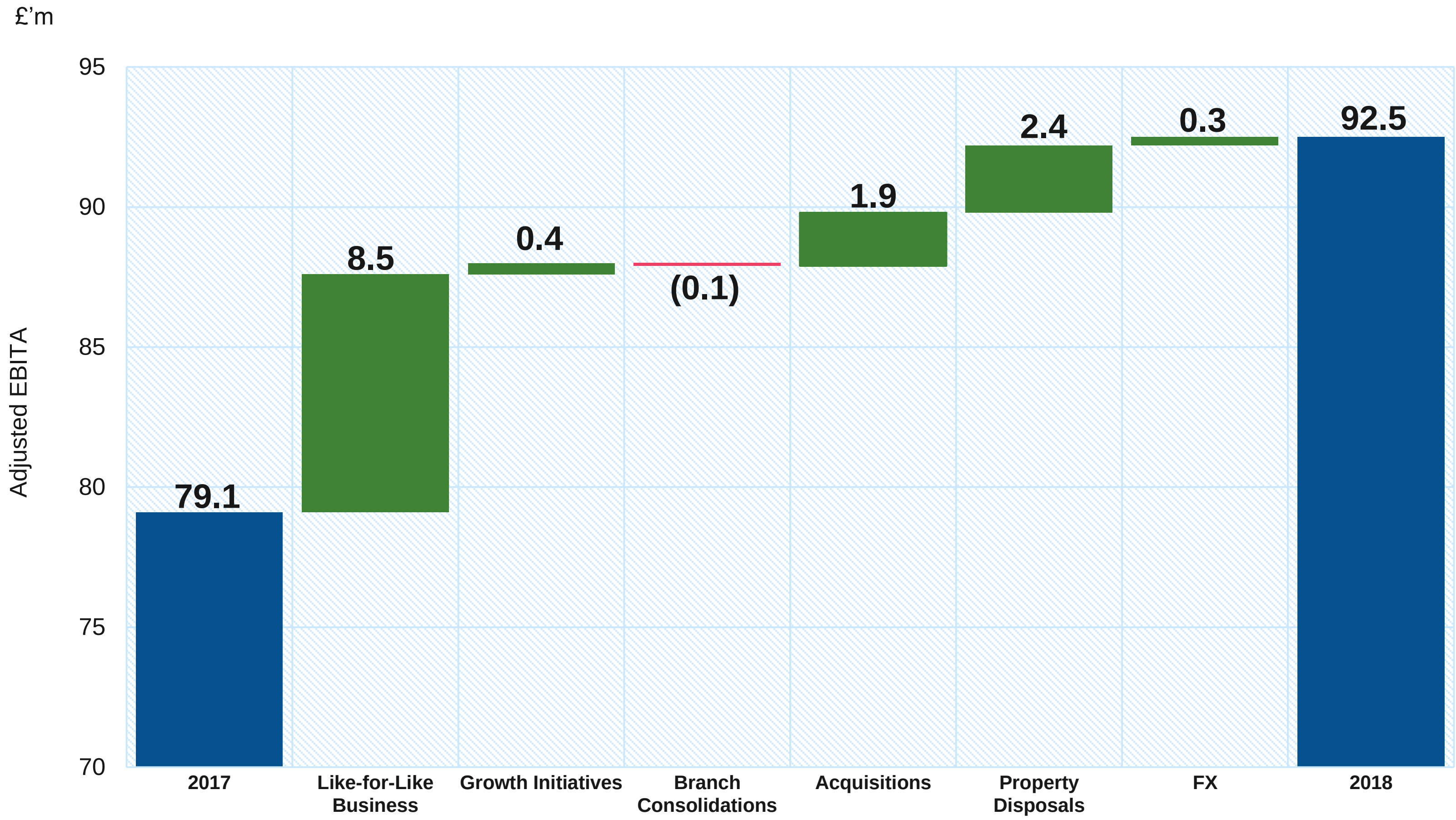
Revenue Growth Analysis



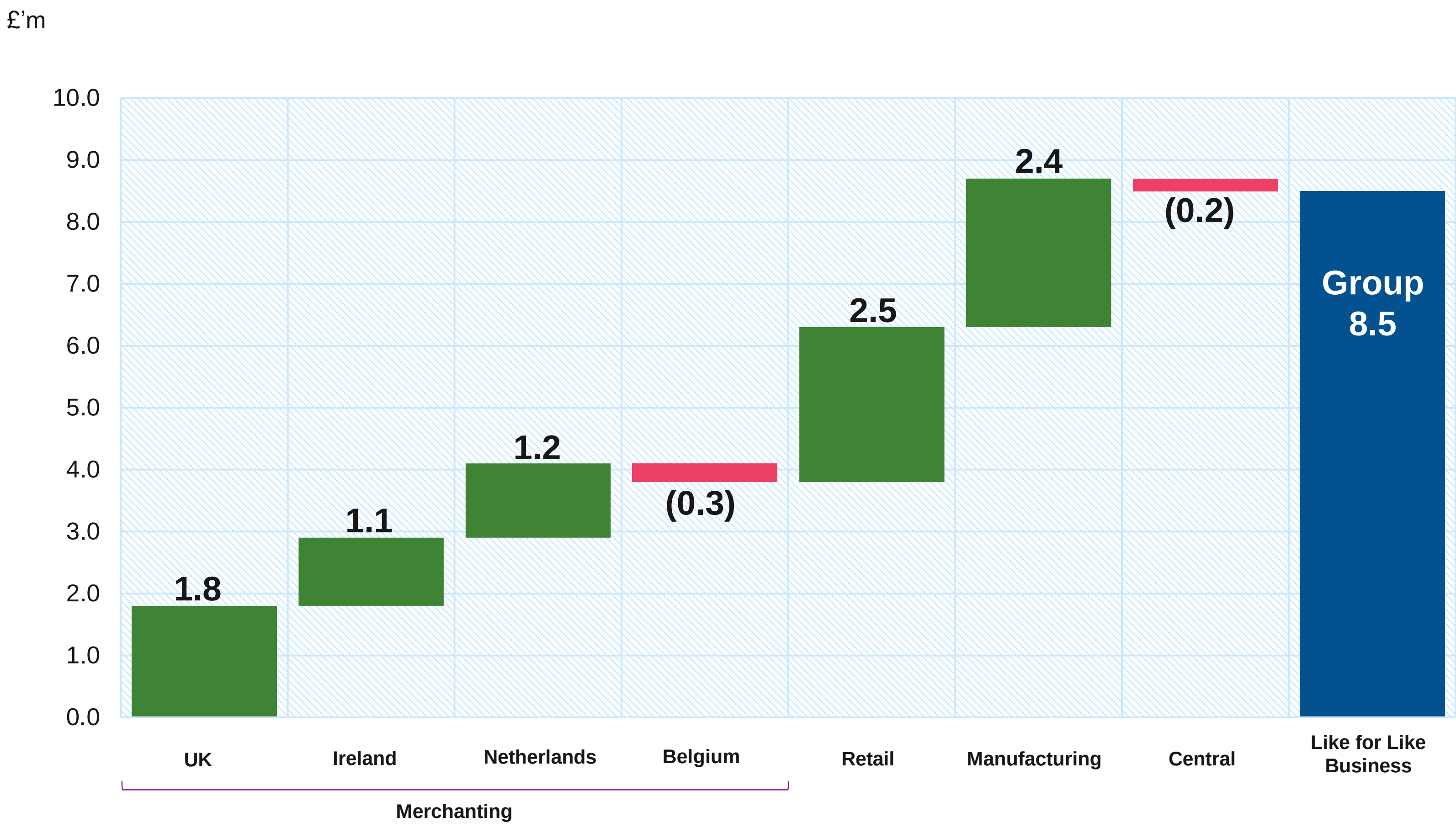
Incremental Revenue from Organic Growth
(Constant Currency)



Adjusted Operating Profit Analysis



Incremental Operating Profit Drop Through Analysis



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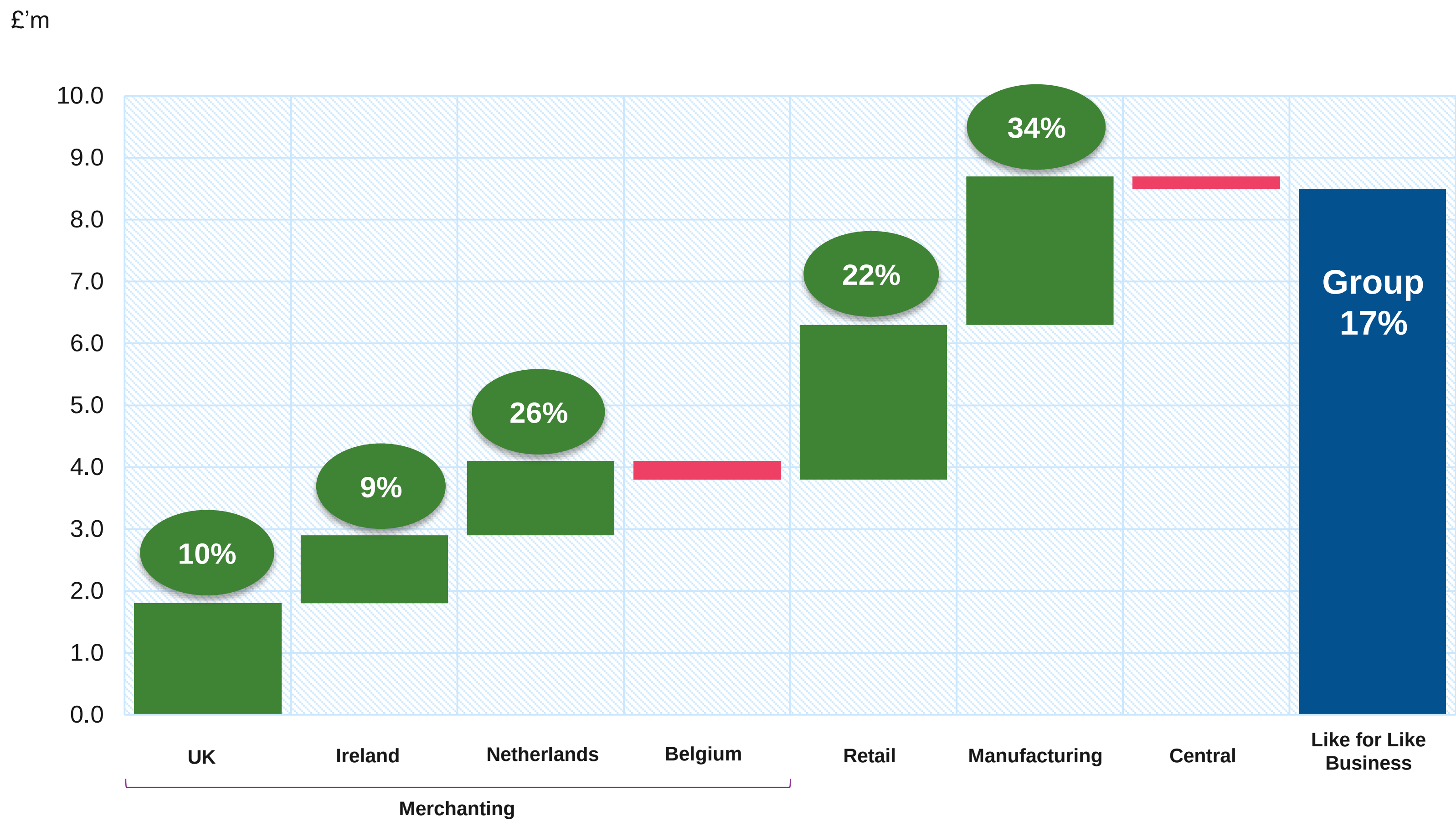


UK Merchanting

£m	2018	2017	Movement
Revenue	**976.0**	914.3	+6.7%
Adjusted operating profit pre property profit	**53.7**	50.1	+7.1%
Adjusted operating margin pre property profit	**5.5%**	5.5%	-

- Average daily like-for-like revenue growth of 1.8% – price inflation of c.3% more than offset anticipated modest volume decline
- Overall gross margin continued to improve on mix, benefiting from Selco expansion and acquisition of Leyland SDM
- Selco profit very marginally down on H1 2017 due to impact of 19 new branches opened in 2017/18; store opening costs expected to be c.£3.5m lower in FY 2018
- New Buildbase trading system in end-to-end testing with first rollout anticipated to commence at year end

Irish Merchanting

£m	2018	2017	Movement: Reported	Movement: Constant Currency
Revenue	**212.1**	192.8	+10.0%	+7.6%
Operating profit pre property profit	**17.1**	15.4	+10.7%	+8.7%
Operating margin pre property profit	**8.1%**	8.0%	+10bps	

- Average daily like-for-like revenue growth of 6.3% - 3 new branches opened last year making excellent progress
- Gross margin reduced as expected due to continued expansion of proportion of delivered product to new build customers
- Significant pick-up in infrastructure activity after many years of relative inactivity

Netherlands Merchanting

£m	2018	2017	Movement Reported	Movement Constant Currency
Revenue	**76.8**	63.3	+21.4%	+18.8%
Adjusted operating profit	**8.1**	6.6	+23.0%	+20.5%
Adjusted operating margin	**10.5%**	10.4%	+10bps	

- Average daily like-for-like revenue growth of 7.9% with good expansion of activity with national key account customers
- Operating profit increase driven by volume uplift and procurement gains from expanded footprint
- Continued focus on both acquisitive and organic growth

Belgium Merchanting

£m	2018	2017	Movement Reported	Movement Constant Currency
Revenue	**45.2**	45.5	(0.8%)	(2.9%)
Operating profit	**0.1**	0.4	(81.2%)	(79.9%)
Operating margin	**0.2%**	0.9%	(70 bps)	

- After promising start to the year, the business experienced weakened demand in housebuilding sector
- Focus on continuing to improve returns by enhancing gross margins and executing operating efficiencies
- New Brussels branch opened in March

Retailing

£m	2018	2017	Movement: Reported	Movement: Constant Currency
Revenue	**97.8**	84.4	+15.8%	+13.4%
Operating profit	**7.3**	4.7	+55.0%	+52.8%
Operating margin	**7.5%**	5.6%	+190 bps	

- Average daily like-for-like revenue growth of 13.4% - broadly split between transactions and average transaction value
- Seasonal products, including barbeques and garden furniture performed particularly well
- Store upgrade programme will cover 80% of revenue by the year end

Manufacturing

£m	2018	2017	Movement
Revenue	**39.9**	32.9	+21.1%
Operating profit	**9.4**	7.0	+33.7%
Operating margin	**23.5%**	21.3%	+220 bps

- Another outstanding performance from CPI Euromix, the UK’s market leading dry silo mortars business
- Volume growth and operational improvements increased the operating margin by 220bps
- New housing market expected to continue to support demand

Balance Sheet

£m	June 2018	Dec 2017	June 2017
Intangible assets	**727.0**	646.1	640.2
Tangible assets	**547.1**	531.5	514.5
Working capital	**172.6**	169.5	152.7
Other assets/(liabilities)	**(97.5)**	(86.1)	(85.6)
Pension deficit	**(15.3)**	(23.5)	(20.2)
	1,333.9	1,237.5	1,201.6
Net debt	**(101.7)**	(62.9)	(80.2)
Equity	**1,232.2**	1,174.6	1,121.4
ROCE	**14.0%**	13.6%	13.2%
Net debt/EBITDA	**0.5x**	0.3x	0.4x

- €160m debt finance raised in US private placement market
- 2.5% average coupon split equally over 10 and 12 years
- Proceeds to be received in September and will be used to reduce drawn bank facilities

Cash Flow

£m	June 2018	June 2017
Cash from operations	**109.7**	117.9
Interest and tax	**(12.4)**	(10.2)
Replacement capex net of disposals	**(8.2)**	(8.1)
Free cash flow	**89.1**	99.6
Development capex	**(26.0)**	(25.1)
Dividends	**(24.3)**	(21.3)
Share issue	**1.3**	0.1
Acquisitions (incl. debt acquired)	**(79.7)**	(30.7)
Net cash flow before FX translation	**(39.6)**	22.6
FX translation/other	**0.8**	(6.4)
Movement in net debt	**(38.8)**	16.1
Opening net debt	**(62.9)**	(96.3)
Closing net debt	**(101.7)**	(80.2)
Free cash flow as % of adjusted operating profit	**96%**	126%

Full Year Guidance

- Full year property profits not expected to be materially different from H1 (£4.5m)
- Depreciation currently anticipated to be c.£43m in 2018
- Total 2018 capex currently anticipated to be c.2x depreciation – split equally between development and replacement capex (note excludes acquisition spend)
- H2 interest charge modestly higher reflecting US private placement
- H1 tax rate of 18.5% consistent with full year expectation

IFRS 16 – New Lease Standard

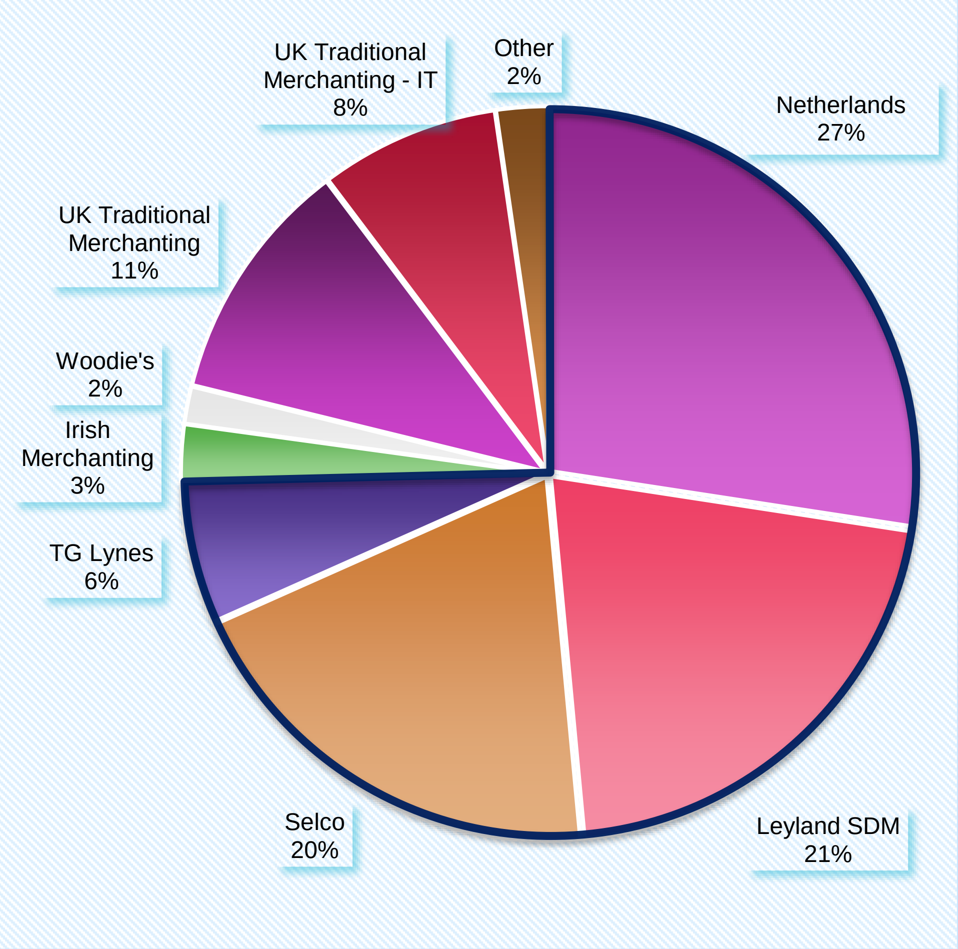
- New lease accounting standard (IFRS 16) effective from 1 Jan 2019
- Modified retrospective approach will be adopted which brings all leases onto balance sheet from the date of transition with no restatement of comparatives
- Balance sheet liability based on current lease portfolio estimated to be £500m-£600m or c.7.5x annual lease rental
- Impact on PBT is neutral over the life of a lease but will result in higher charge in the early years and a lower charge in the latter years

Group Development, Current Trading & Outlook

Gavin Slark
CEO

Development Investment Since 1 Jan 2015

- Invested c. £370m since 1 Jan 2015 into the business, split c. 38% on organic investments and c. 62% on acquisitions
- Almost three quarters of development investment made into double digit operating margin businesses
- Focus of Group investment remains on continuing to improve overall returns



Group Development - UK

Opened 7 new Selco stores to date. Plans well advanced to relocate major Cricklewood store to nearby location

Selco performing well – H1 operating profit down slightly due to significant increase in new stores in early life cycle

c. 4 new Selco stores planned for 2019 – consistent with medium term plans

Leyland SDM performing in line with expectations. Now actively pursuing growth opportunities

Group Development cont.

Investment in Ireland focused on maximising strong competitive position of Merchanting and Retailing estate

Netherlands - opportunities for further acquisitive and organic growth towards our medium term revenue target of €200m-€250m

Continuing to invest in new distribution and e-commerce capabilities in the Netherlands

Pipeline of opportunities to expand further the Group’s operations

Current Trading – 1 July 2018 to 31 July 2018

	Average Daily Like-for-Like Revenue Growth	
	H1 2018	**July 18**
Merchanting		
UK	1.8%	2.6%
Ireland	6.3%	8.1%
Netherlands	7.9%	5.3%
Belgium	(3.9%)	(1.7%)
Retailing	13.4%	(3.2%)
Manufacturing	21.0%	18.5%
Total Group	**3.8%**	**3.3%**

Outlook

UK

- Continuing competitive market backdrop
- Price inflation should help to offset any risk to volumes
- Ongoing benefits from self-help and investment in Selco and Leyland SDM

Ireland

- Economic outlook remains favourable
- Like-for-like growth rate in Merchanting could be slightly up on H1
- Woodie’s well positioned for H2 seasonal categories

The Netherlands and Belgium

- Continue to benefit in The Netherlands from increasing scale of business
- Favourable outlook for Dutch economy
- Focus in Belgium operations on H2 profit growth
- Belgian economy expected to see modest growth

Summary – Strong Performance

Growth in profitability across all segments	Further progress towards medium term financial targets	Ongoing focus on growth initiatives	Balance sheet in excellent shape to invest in further growth

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 arising on acquisitions
- Adjusted operating profit is earnings before amortisation of intangible assets arising on acquisitions, net finance expense and income tax expense
- Adjusted operating profit margin is adjusted operating profit as a percentage of revenue
- Adjusted operating profit (pre property profit) is earnings before profit on disposal of Group properties, amortisation of intangible assets arising on acquisitions, net finance expense and income tax expense
- Adjusted operating profit (pre property profit) margin is adjusted operating profit (pre property profit) as a percentage of revenue

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

Appendix 2 - Operating Profit Bridge – Statutory to Adjusted

	H1 2018 £'m	H1 2017 £'m	Change £'m
Revenue*	**1,447.7**	1,333.2	+114.5
Statutory operating profit	**90.1**	77.7	+12.4
Amortisation of intangible assets arising on acquisitions	**2.4**	1.4	+1.0
Adjusted operating profit	**92.5**	79.1	+13.4
Property profit	**(4.5)**	(2.0)	(2.4)
Adjusted operating profit (pre property profits)	**88.0**	77.0	+11.0
Statutory operating margin	**6.2%**	5.8%	+40 bps
Adjusted operating margin	**6.4%**	5.9%	+50 bps
Adjusted operating margin (pre-property profit)	**6.1%**	5.8%	+30 bps

*2017 H1 revenue has been updated to reflect a change in the presentation of rebates payable to customers and the segmental presentation has also been updated. There was no impact on operating profit as a result of this change.

Appendix 3 - Operating Margin Analysis*

	H1 2018	H2 2017	H1 2017	H2 2016	H1 2016
UK Merchanting	5.5%	5.5%	5.5%	5.4%	5.3%
Irish Merchanting	8.1%	9.0%	8.0%	8.6%	6.8%
Netherlands Merchanting	10.5%	8.9%	10.4%	9.5%	11.3%
Belgium Merchanting	0.2%	1.1%	0.9%	(1.3%)	(0.3%)
Total Merchanting	6.0%	6.1%	6.0%	5.8%	5.5%
Retailing	7.5%	6.7%	5.6%	5.0%	4.2%
Manufacturing	23.5%	24.4%	21.3%	22.0%	18.9%
	6.6%	6.6%	6.3%	6.2%	5.8%
Central Activities	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Total	6.1%	6.1%	5.8%	5.7%	5.3%
Property Profit	0.3%	0.0%	0.1%	0.1%	0.3%
Group Operating Margin	6.4%	6.1%	5.9%	5.8%	5.6%

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

Appendix 4 - Revenue Growth

	Average Daily Like-for-Like Revenue Growth					H1 2018	
	2017		2018				
	Q3	Q4	Q1	Q2	H1	Total Revenue	
Merchanting						**Constant Currency**	**Reported**
UK	6.3%	3.0%	(0.4%)	3.8%	1.8%	**6.7%**	**6.7%**
Ireland	10.6%	5.1%	3.7%	8.6%	6.3%	**7.6%**	**10.0%**
Netherlands	6.8%	5.8%	7.6%	8.3%	7.9%	**18.8%**	**21.4%**
Belgium	(0.1%)	2.5%	(4.4%)	(3.9%)	(3.9%)	**(2.9%)**	**(0.8%)**
Retailing	10.1%	12.5%	8.4%	16.5%	13.4%	**13.4%**	**15.8%**
Manufacturing	16.3%	14.0%	13.2%	27.9%	21.0%	**21.0%**	**21.1%**
Total Group	7.0%	4.4%	1.3%	6.0%	3.8%	**7.9%**	**8.6%**