

Interim Results 2019



Grafton Group plc



2019

Cautionary Statement & 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.

Gavin Slark
Chief Executive
Officer



David Arnold
Chief Financial
Officer





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Introduction & Highlights

Gavin Slark, CEO

What Makes Grafton Different



Leading market positions



Exposure to faster growing European markets



Balance sheet capacity and consistent cash generation



M&A: Good track record and further prospects



Steady improvement in margin and ROCE

H1 Highlights

- **Strong organic growth in Ireland**
- **Good growth in The Netherlands and scale increased with Polvo**
- **Operating margin in UK Merchanting ahead in softer market – focus on self help**
- **Conditional agreement to exit Belgium**
- **Important operational milestones achieved in a number of businesses**
- **Another period of strong cash flow: 100% cash conversion and £0.1m net debt at end June**

Group Financial Highlights

Revenue

up 2% to £1.44bn



Adjusted operating profit

up 6% to £97.7m



Adjusted EPS

up 6%



Dividend

Up 8% to 6.50p



Adjusted operating margin

up 20bps to 6.8%



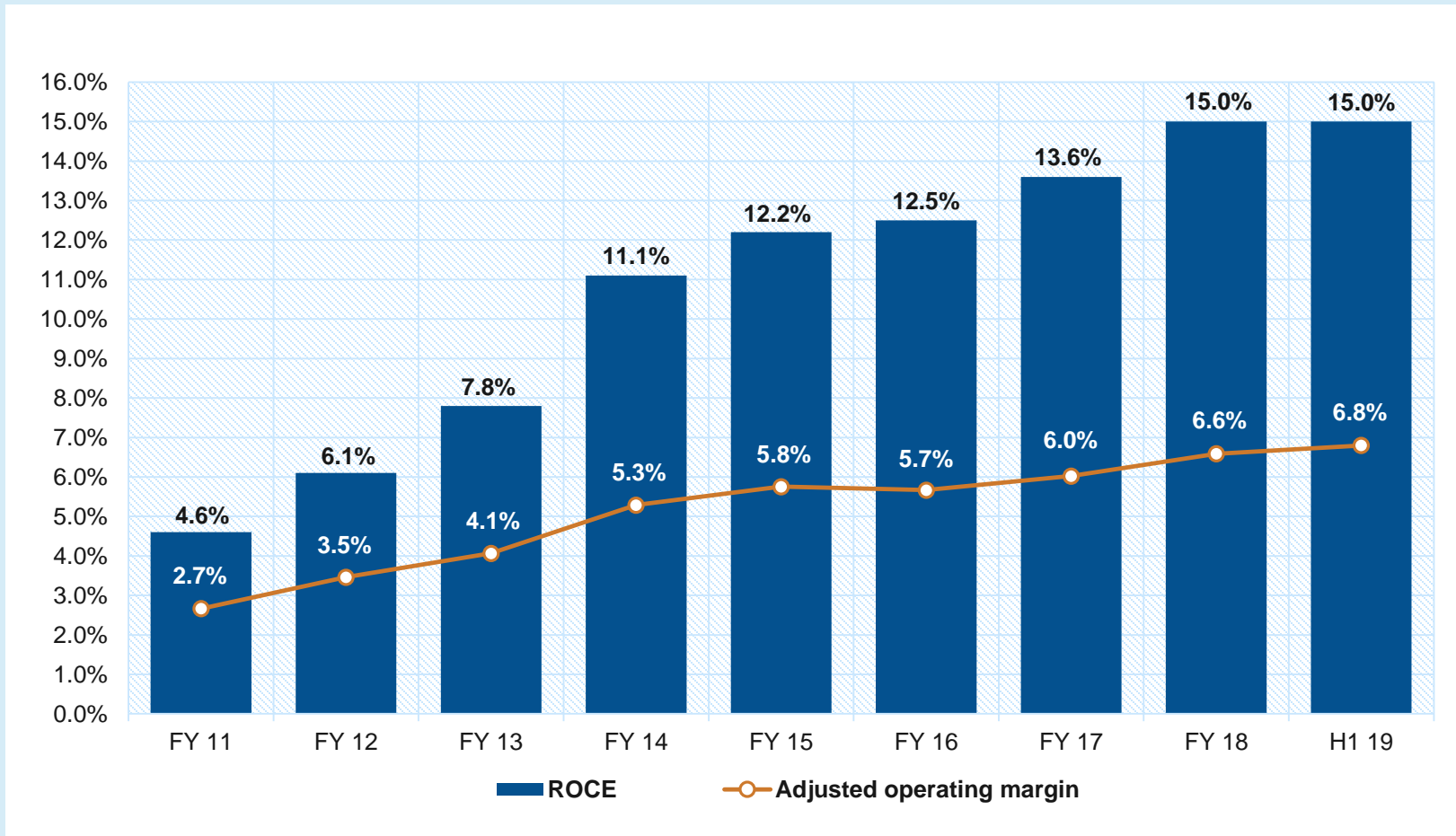
ROCE

up 100bps to 15.0%



All figures shown before the impact of IFRS 16

Operating Profit Margin and ROCE Progression



All figures shown before the impact of IFRS 16



Financial Review

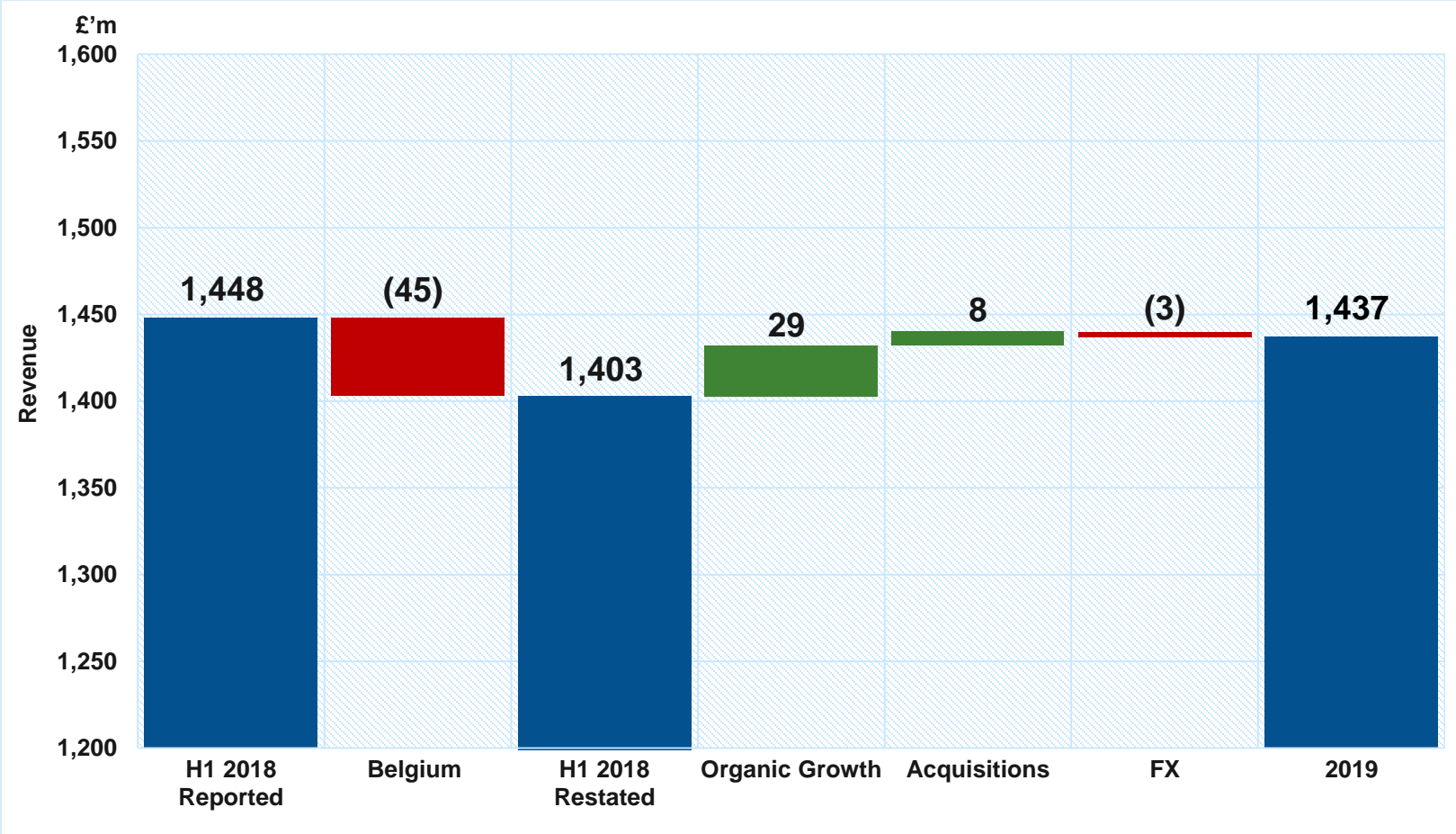
David Arnold, CFO

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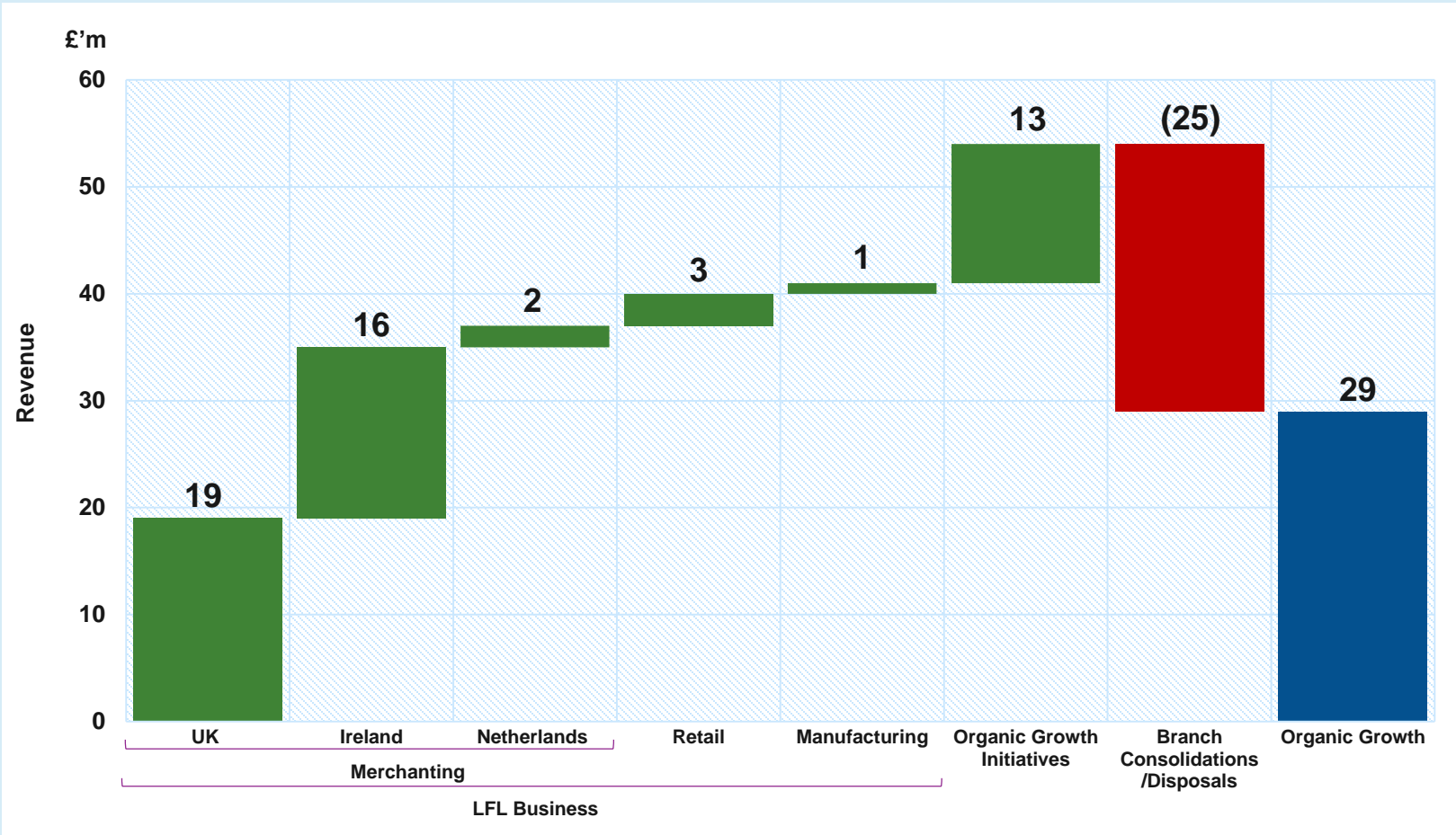
Income Statement – continuing operations

£m	Reported IFRS 16 H1 2019	Pre IFRS 16		Movement (pre IFRS 16)	
		H1 2019	H1 2018	Reported	Constant Currency
Revenue	1,437.3	1,437.3	1,402.5	+2%	+3%
Adjusted operating profit pre property profit	99.2	93.0	88.0	+6%	
Property profit	4.7	4.7	4.5		
Adjusted operating profit	103.9	97.7	92.4	+6%	
<i>Amortisation</i>	(2.7)	(2.7)	(2.4)		
<i>Statutory operating profit</i>	101.2	95.1	90.0		
Net finance cost	(13.0)	(3.5)	(2.5)		
<i>Statutory profit before tax</i>	88.2	91.6	87.6		
Adjusted profit before tax	90.9	94.3	90.0	+5%	

Revenue Growth Analysis

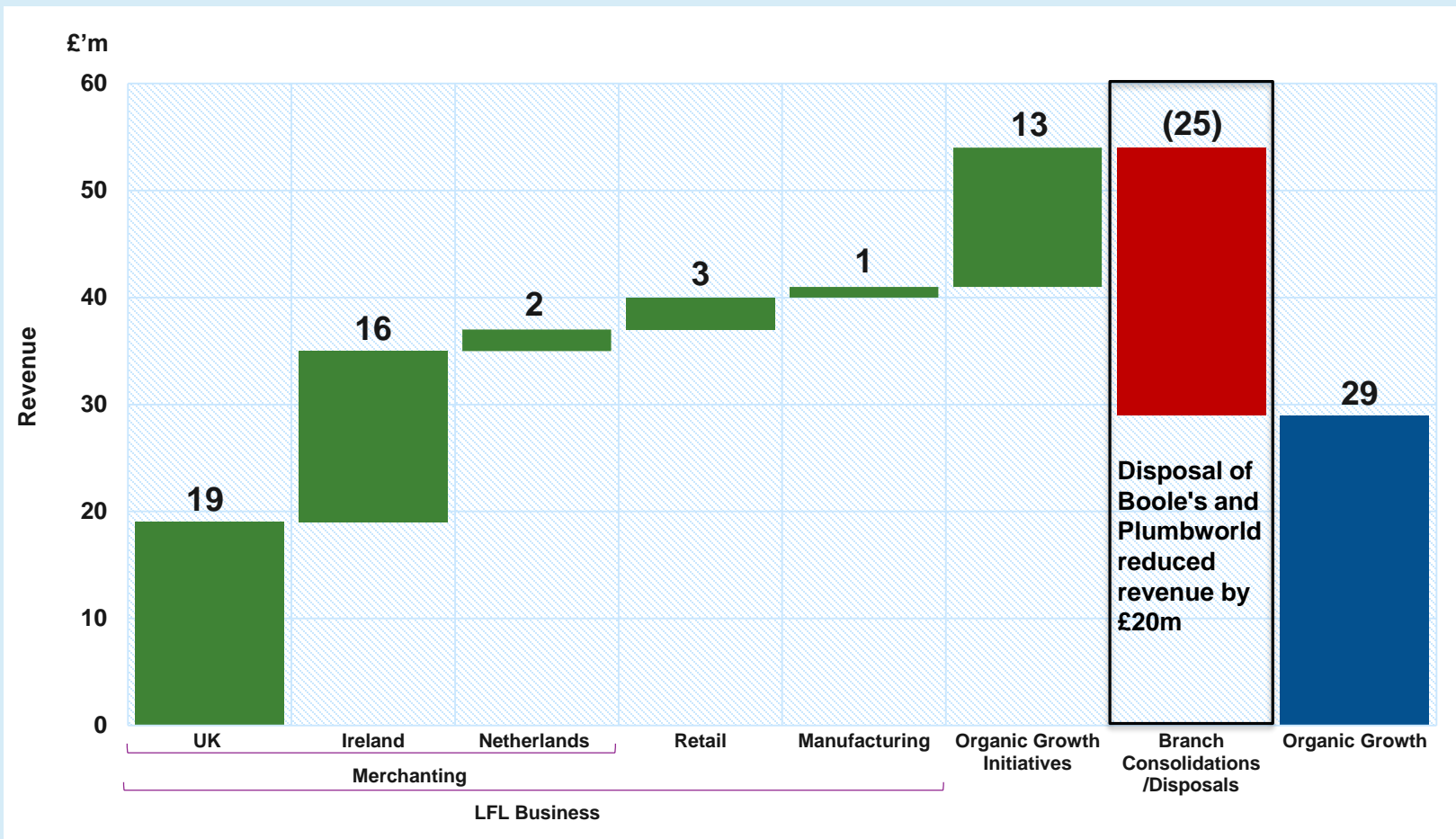


Incremental Revenue from Organic Growth (Constant Currency)



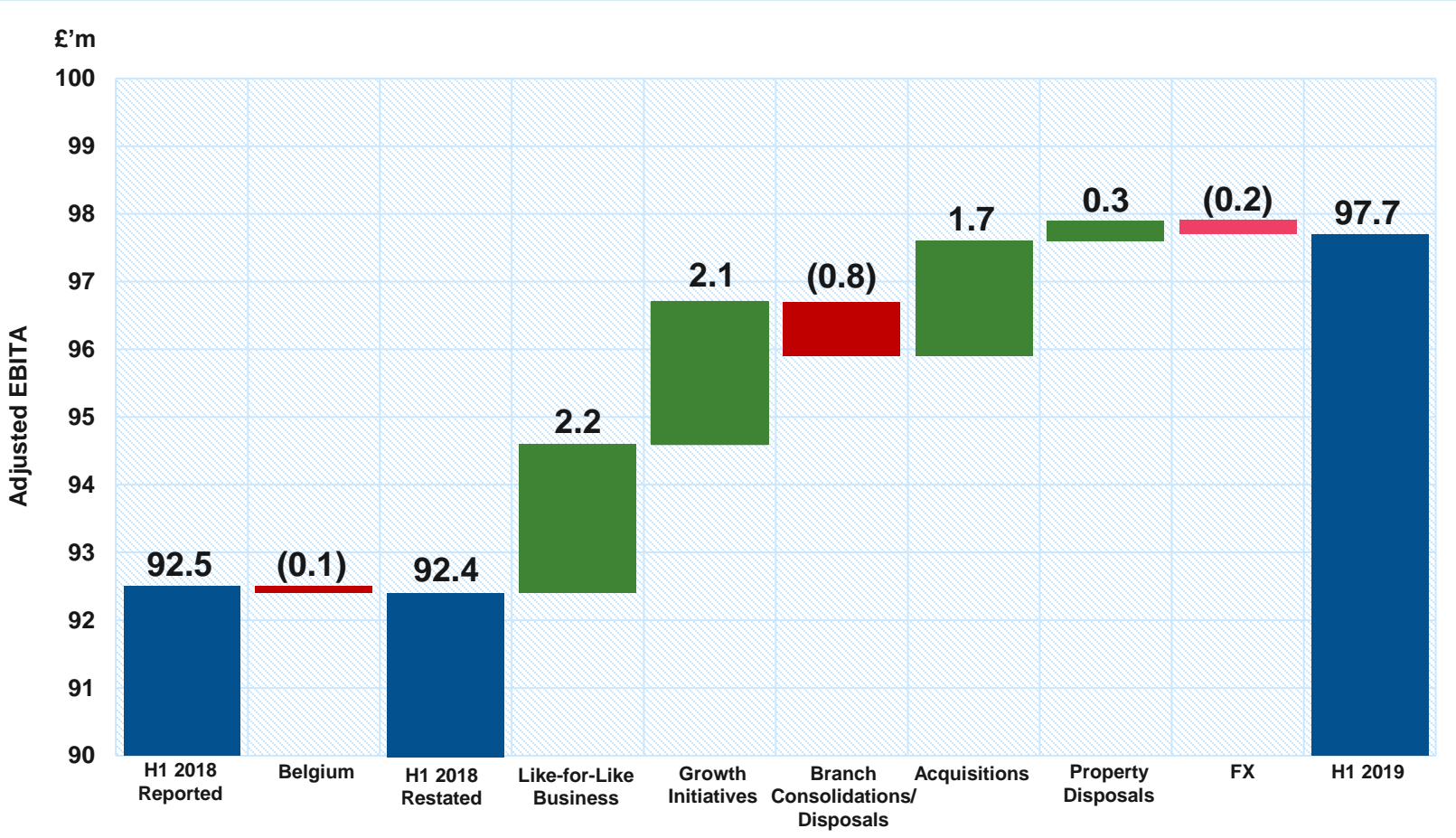
All figures shown before the impact of IFRS 16

Incremental Revenue from Organic Growth (Constant Currency)



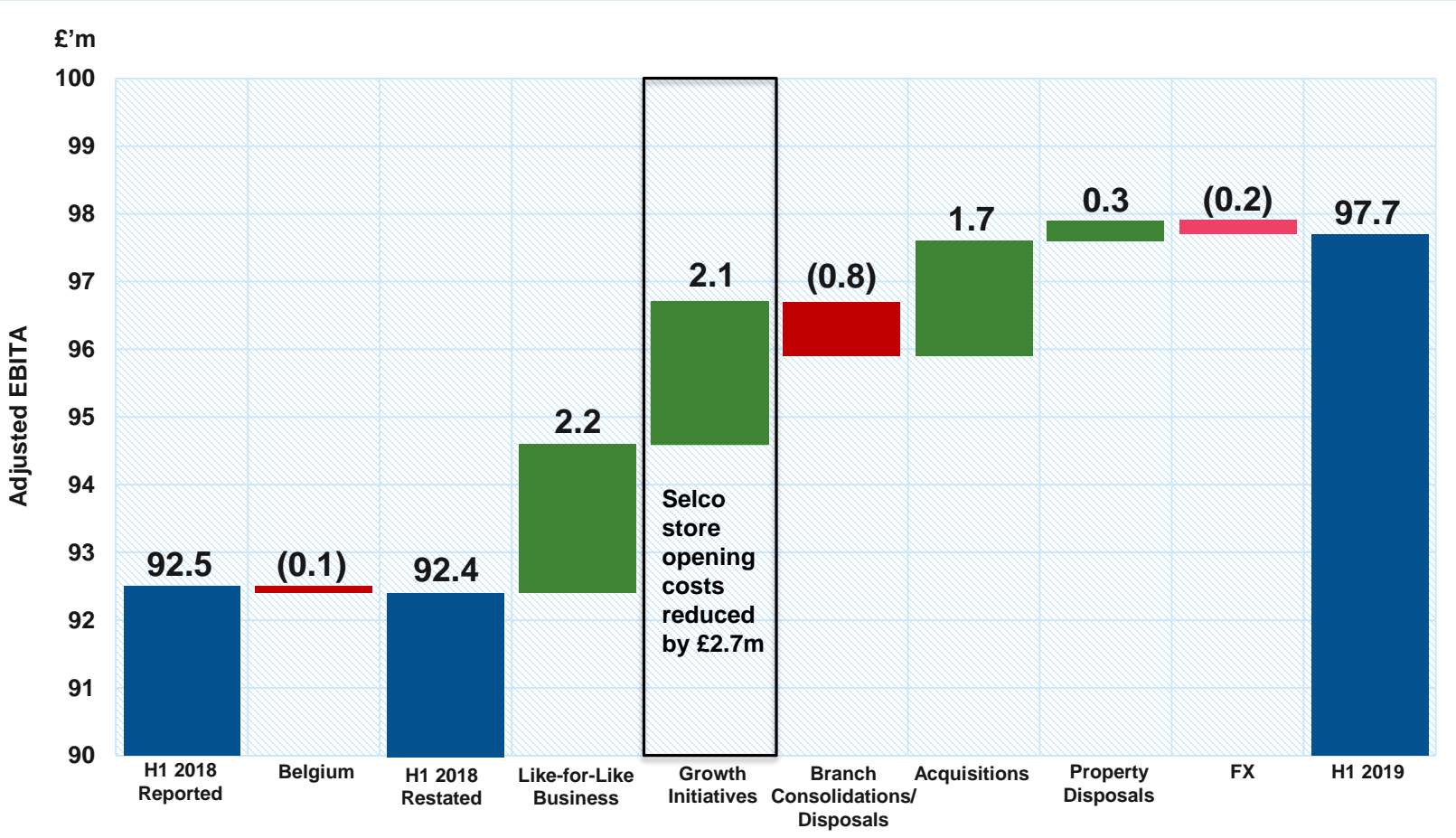
All figures shown before the impact of IFRS 16

Adjusted Operating Profit Analysis



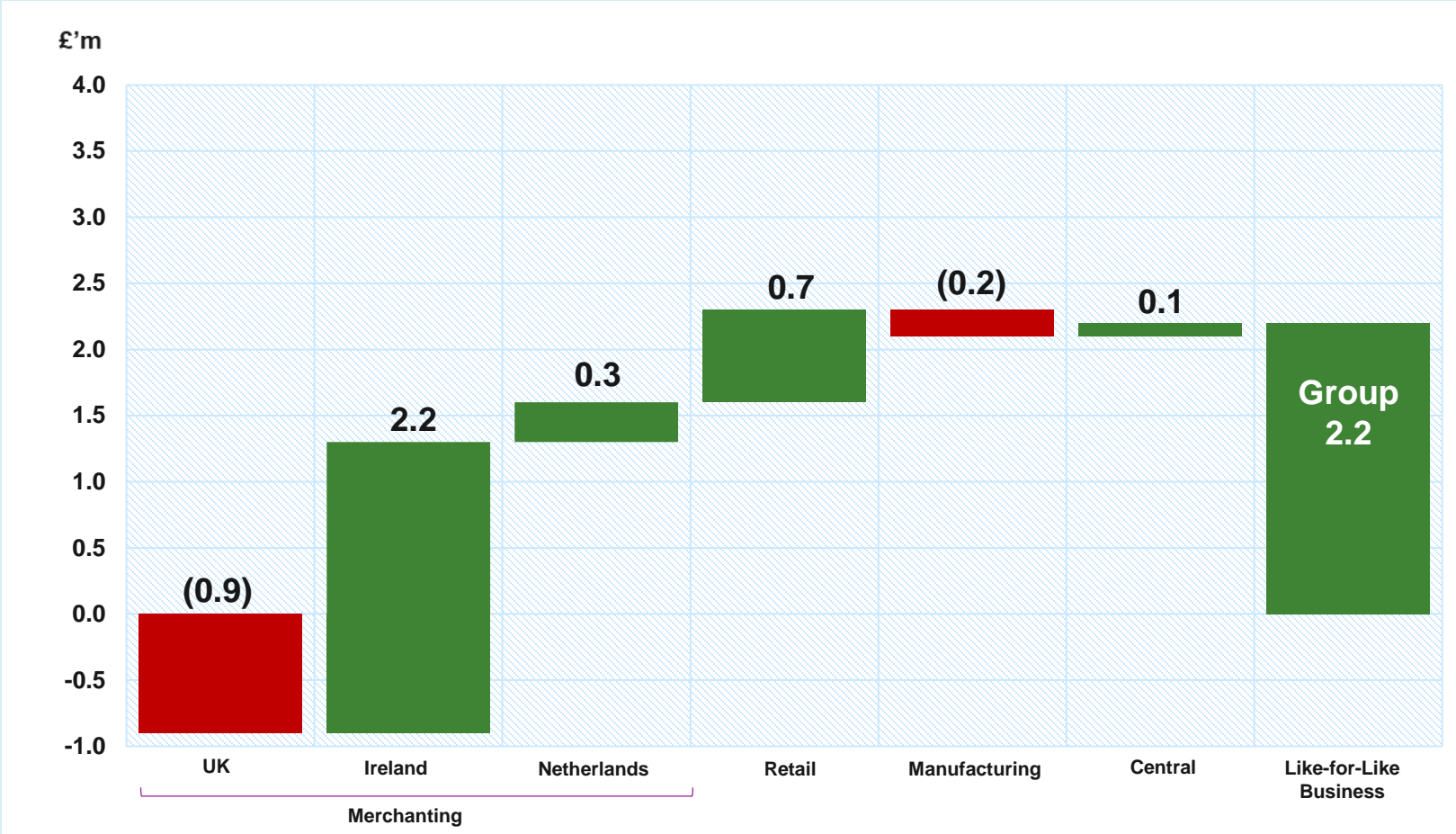
All figures shown before the impact of IFRS 16

Adjusted Operating Profit Analysis



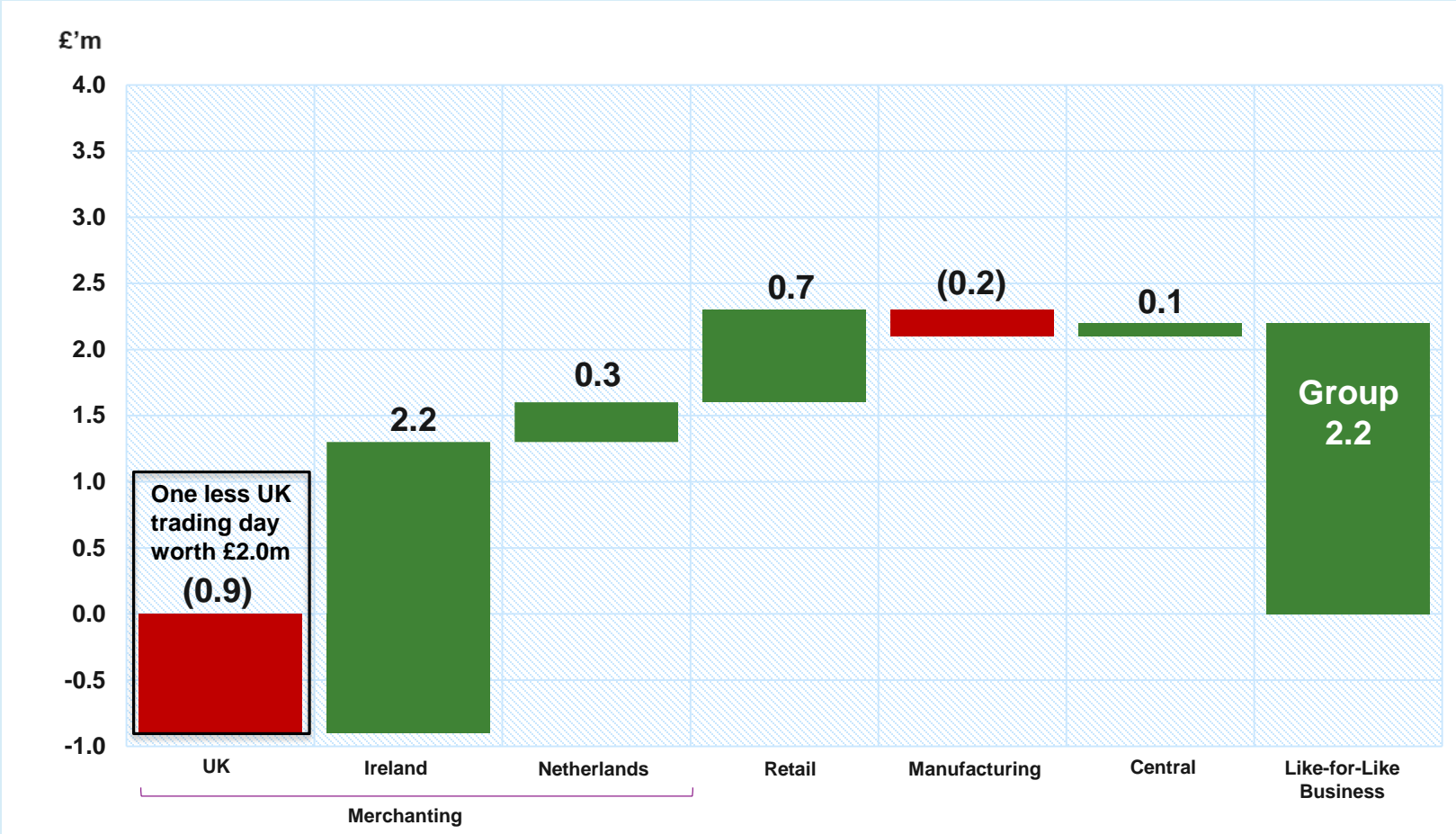
All figures shown before the impact of IFRS 16

Like-for-Like Business Incremental Operating Profit Drop-Through Analysis



All figures shown before the impact of IFRS 16

Like-for-Like Business Incremental Operating Profit Drop-Through Analysis



All figures shown before the impact of IFRS 16

Like-for-Like Business Incremental Operating Profit Drop-Through Analysis



All figures shown before the impact of IFRS 16

UK Merchants

£m	Reported IFRS 16 H1 2019	H1 2019	H1 2018	Movement (pre IFRS 16)
Revenue	989.5	989.5	976.0	+1.4%
Adjusted operating profit pre property profit	59.6	55.5	53.7	+3.3%
Adjusted operating margin pre property profit	6.0%	5.6%	5.5%	+10bps

- Average daily like-for-like revenue growth of 2.8% - c.2% price & c.0.8% volume
- One less trading day in H1 19 – reduced operating profit by c.£2.0m
- Gross margin constant - market remains competitive
- Tight focus on cost base in light of continued uncertainty in UK

Irish Merchanting

£m	Reported IFRS 16 H1 2019	H1 2019	H1 2018	Movement (pre IFRS 16)	
				Reported	Constant Currency
Revenue	226.2	226.2	212.1	+6.7%	+7.4%
Operating profit pre property profit	19.3	19.2	17.1	+12.0%	+12.5%
Operating margin pre property profit	8.5%	8.5%	8.1%	+40bps	

- Strong average daily like-for-like revenue growth of 8.3% - broadly balanced growth across sectors
- Growth continues in new home completions but output remains well short of annual requirement
- Gross margin slightly diluted on mix movement – as expected
- Ongoing investment into branch estate to maintain our market leading position

Netherlands Merchanting

£m	Reported IFRS 16 H1 2019	H1 2019	H1 2018	Movement (pre IFRS 16)	
				Reported	Constant Currency
Revenue	80.9	80.9	76.8	+5.4%	+6.2%
Adjusted operating profit	9.0	8.6	8.1	+7.1%	+8.1%
Adjusted operating margin	11.1%	10.7%	10.5%	+20bps	

- Average daily like-for-like revenue growth of 3.1% - good activity from branch based business and national account customers
- Strong gross margin improvement on procurement gains
- Gunters en Meuser integration onto Isero systems progressing well
- New distribution centre opened near Rotterdam and Polvo acquisition now completed

Retailing

£m	Reported IFRS 16 H1 2019	H1 2019	H1 2018	Movement (pre IFRS 16)	
				Reported	Constant Currency
Revenue	99.9	99.9	97.8	+2.2%	+2.9%
Operating profit	9.5	8.0	7.3	+9.8%	+10.0%
Operating margin	9.5%	8.1%	7.5%	+60bps	

- Average daily like-for-like revenue growth of 2.9% broadly split between transactions and average transaction value
- Good gains in key DIY, Kitchens and Homeware segments
- Store investment programme drawing to a conclusion – 88% of revenue now covered by new formats
- Continuing investment into digital with online revenue up c.50% in H1

Manufacturing

£m	Reported IFRS 16 H1 2019	H1 2019	H1 2018	Movement (pre IFRS 16)
Revenue	40.7	40.7	39.9	+2.1%
Operating profit	9.2	9.1	9.4	(2.6%)
Operating margin	22.5%	22.4%	23.5%	(110bps)

- Very solid performance given prior year comparator
- Average daily like-for-like revenue growth of 2.9%
- Volumes up modestly adjusting for one off contract in prior year
- Gross margin slightly lower on higher input costs

Balance Sheet

£m	Reported IFRS 16 H1 2019	H1 2019	H1 2018
Intangible Assets	714.8	714.8	727.0
Tangible Assets	534.9	537.3	547.1
Right of Use Asset	525.5	-	-
Lease Receivable	2.4	-	-
Working Capital	186.9	182.3	172.6
Other Assets / (liabilities)	(92.5)	(100.8)	(97.5)
Assets / Liabilities - Discontinuing Operations	2.5	2.5	0.0
Pension deficit	(20.5)	(20.5)	(15.3)
	1,854.0	1,315.6	1,333.9
Net Debt	(540.5)	(0.1)	(101.7)
Equity	1,313.5	1,315.5	1,232.2
ROCE	N/A	15.0%	14.0%
Net Debt / EBITDA	N/A	0.0x	0.5x

- For covenant purposes, all calculations are undertaken on a pre IFRS 16 basis

Cash Flow

£m	Reported IFRS 16 H1 2019	H1 2019	H1 2018
Cash from operations	157.6	118.9	109.7
Interest and tax	(27.3)	(17.5)	(12.4)
Replacement capex net of asset disposals	(2.8)	(2.8)	(8.2)
Free cash flow	127.5	98.6	89.1
Development capex	(8.6)	(8.6)	(26.0)
Dividends	(28.5)	(28.5)	(24.3)
Share (purchase)/issue	(6.1)	(6.1)	1.3
Acquisitions & business disposals (incl. debt acquired)	-	-	(79.7)
Net cash flow before FX translation	84.3	55.4	(39.6)
FX translation/other (incl. IFRS 16 opening)	(571.8)	(2.4)	0.8
Movement in net debt	(487.5)	53.0	(38.8)
Opening net debt	(53.1)	(53.1)	(62.9)
Closing net debt	(540.6)	(0.1)	(101.7)
Free cash flow as % of adjusted operating profit	122%	100%	96%

- Polvo acquisition completed 1 July 2019 and added €131m (£117m) to net debt

IFRS 16 – New Lease Standard

- **New lease standard effective 1 Jan 2019**
- **Adopted modified retrospective approach. All leases brought onto balance sheet on a consistent basis with effect from 1 Jan 2019**
- **No restatement of comparatives**
- **Bridges from pre to post IFRS 16 included in appendices**
- **No impact on cash flows or covenants**
- **Investment grade credit rating unaffected**
- **Investment and acquisition criteria will remain largely unchanged**

Full Year Technical Guidance

- Full year property profits expected to be c.£5.5m (previous guidance c.£3m)
- Depreciation currently forecast at c.£110m in total – £46m on a pre IFRS 16 basis
- Guidance on 2019 gross capex spend (ex acquisitions) unchanged i.e. replacement spend of c.£50m and development c.£25m
- Interest charge c.£8m-£8.5m (previous guidance c.£7.5m)
- Tax rate slightly lower at 17.7% (previous guidance 18.5%)



Strategic Update & Outlook

Gavin Slark, CEO

Strategic Update

- **Focus remains on higher margin, growth markets with strong market positions and further potential, such as The Netherlands**
- **Significant operational milestones achieved**
- **Sale of Belgium business following strategic review**
- **Acquisition of Polvo an important transaction for our Dutch operations**
- **Strong balance sheet and cash generation underpins further investment in growth, M&A and operations**

Strategic Update – Significant Operational Milestones Achieved

- **Buildbase**

- ✓ **First branch live on new trading system**
- ✓ **Backoffice functionality up and running**
- ✓ **Branch rollout scheduled over next 18-24 months**

- **Selco**

- ✓ **New delivery hub opened in Edmonton, north London**
- ✓ **Delivers direct to customers on behalf of 4 branches (to increase to 7)**
- ✓ **Significantly improves branch efficiency**

- **Isero**

- ✓ **New purpose built DC opened (11,000 sqm warehouse plus offices)**
- ✓ **Successful relocation from Woerden**
- ✓ **Significant increase in capacity and opportunity for efficiencies**

Strategic Update – Agreement to Sell Belgium Merchanding

- **Strategic review prompted sale of Belgian business**
- **Belgium 2018 operating profit £0.8m (2017: £0.9m)**
- **Entered into a conditional agreement to sell to Aurelius for EV of £11m**
- **Grafton retains freehold properties valued at c.£12.5m – separate disposal to follow**
- **Overall business valued at c.£28m taking into account disposal of St Vith branch in October 2018**
- **Non-cash charge of £26m recognised as exceptional item**

Strategic Progress – Purchase of Polvo Completed

- **Acquisition of Polvo for €131m completed on 1 July**
- **Excellent geographic fit with Isero network - 51 branches acquired which expands network to 113 branches in total**
- **Consolidates Isero's market leading position – combined business will have revenue in excess of €300m**
- **Minimal disruption of day-to-day business – short term focus on purchasing arrangements**

Current Trading – 1 July 2019 to 31 July 2019

	Average Daily Like-for-Like Revenue Growth	
	H1 2019	July 2019
Merchanting		
UK	2.8%	1.4%
Ireland	8.3%	5.9%
Netherlands	3.1%	0.5%
Retailing	2.9%	16.9%
Manufacturing	2.9%	(0.1%)
Total Group – continuing operations	3.6%	3.0%
Belgium – discontinued operations	10.9%	3.0%
Total Group	3.9%	3.0%

Outlook

UK

- Softer market backdrop
- Expect some continuing volume and pricing pressure
- Focus on self-help initiatives



Ireland

- Outlook for economy remains positive
- Further growth in consumer spending expected with some moderation in pace
- Anticipate continued growth in our strongly positioned merchandising and DIY businesses



The Netherlands

- Outlook for economy remains favourable with growth set to continue to moderate
- Acquisition of Polvo provides opportunity to benefit from scale of increased footprint



Summary – Well Positioned

**Continued H1
progress in margin
and ROCE**



**Ongoing focus on
growth and self
help**



**Robust balance
sheet supported
by a pedigree of
strong cash
generation**



**Confident in long
term prospects**





Questions

04



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 and before profit/loss on disposal of Group businesses
- Adjusted operating profit is earnings before amortisation of intangible assets arising on acquisitions, profit/loss on disposal of Group businesses, 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, profit/loss on disposal of Group businesses, 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

Appendix 2 - Income Statement – Pre IFRS 16

£m	Continuing Operations H1 2019	Discontinued Operations H1 2019	Total Operations H1 2019	Reported H1 2018	Movement (pre IFRS 16)
Revenue - total	1,437.3	45.3	1,482.6	1,447.7	2%
Adjusted operating profit pre property profit	93.0	0.4	93.4	88.0	6%
Property profit	4.7	0.0	4.7	4.5	
Adjusted operating profit – all operations	97.7	0.4	98.1	92.5	6%
<i>Amortisation</i>	(2.7)	(0.0)	(2.7)	(2.4)	
<i>Statutory operating profit</i>	95.1	0.4	95.5	90.1	
Net finance cost	(3.5)	(0.0)	(3.5)	(2.5)	
<i>Statutory profit before tax</i>	91.6	0.4	92.0	87.6	
Adjusted profit before tax	94.3	0.4	94.7	90.1	5%

Appendix 3 - Income Statement - Impact of IFRS 16 and Discontinuing Operations

£m	Total Operations H1 2019	Discontinued Operations H1 2019	Continuing Operations H1 2019	IFRS 16 H1 2019	Reported H1 2019
Revenue - total	1,482.6	(45.3)	1,437.3	-	1,437.3
Adjusted operating profit pre property profit	93.4	(0.4)	93.0	6.2	99.2
Property profit	4.7	0.0	4.7	0.0	4.7
Adjusted operating profit - all operations	98.1	(0.4)	97.7	6.2	103.9
Amortisation	(2.7)	0.0	(2.7)	0.0	(2.7)
Statutory operating profit	95.5	(0.4)	95.1	6.2	101.2
Net finance cost	(3.5)	0.0	(3.5)	(9.5)	(13.0)
Statutory profit before tax	92.0	(0.4)	91.6	(3.4)	88.2
Adjusted profit before tax	94.7	(0.4)	94.3	(3.4)	90.9

Appendix 4 - Operating Margin Analysis

	H1 2019	H2 2018	H1 2018	H2 2017	H1 2017
UK Merchanting	5.6%	5.6%	5.5%	5.5%	5.5%
Irish Merchanting	8.5%	10.6%	8.1%	9.0%	8.0%
Netherlands Merchanting	10.7%	10.0%	10.5%	8.9%	10.4%
Total Merchanting	6.4%	6.7%	6.2%	6.3%	6.1%
Retailing	8.1%	9.4%	7.5%	6.7%	5.6%
Manufacturing	22.4%	25.4%	23.5%	24.4%	21.3%
	7.0%	7.4%	6.8%	6.8%	6.5%
Central Activities	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Total	6.5%	6.9%	6.3%	6.3%	5.9%
Property Profit	0.3%	0.0%	0.3%	0.0%	0.1%
Continuing Operations	6.8%	6.9%	6.6%	6.3%	6.1%
Discontinued Belgium Merchanting	0.9%	1.5%	0.2%	1.1%	0.9%
Group Operating Margin	6.6%	6.8%	6.4%	6.1%	5.9%

Appendix 5 - Revenue Growth

	Average Daily Like-for-Like Revenue Growth					H1 2019	
	2018		2019			Total Revenue	
	Q3	Q4	Q1	Q2	H1		
Merchanting						Constant Currency	Reported
UK	3.9%	3.4%	5.3%	0.6%	2.8%	1.4%	1.4%
Ireland	8.5%	9.8%	12.7%	4.5%	8.3%	7.4%	6.7%
Netherlands	6.0%	3.6%	5.3%	1.1%	3.1%	6.2%	5.4%
Retailing	4.1%	5.3%	13.1%	(3.2)%	2.9%	2.9%	2.2%
Manufacturing	19.4%	13.6%	11.2%	(3.7)%	2.9%	2.1%	2.1%
Continuing Operations	5.1%	4.8%	7.1%	0.8%	3.6%	2.7%	2.5%
Discontinued - Belgium	2.3%	7.4%	17.8%	6.0%	10.9%	1.0%	0.3%
Total Group	5.0%	4.9%	7.3%	0.9%	3.9%	2.6%	2.4%

Appendix 6 – H1 19 IFRS 16 Income Statement Bridge

£	Pre IFRS 16	IFRS 16 Impact	Reported
Revenue	1,437,316	0	1,437,316
Operating costs	(1,346,982)	6,156	(1,340,826)
Operating profit before property profits	90,334	6,156	96,490
Property profits	4,737	0	4,737
Operating profit	95,071	6,156	101,227
Finance expense	(3,989)	(9,545)	(13,534)
Finance income	510	0	510
Profit before tax	91,592	(3,389)	88,203
Income tax expense	(16,251)	670	(15,581)
Profit after tax for the financial period from continuing operations	75,341	(2,719)	72,622
Result from discontinued operations	(25,720)	18	(25,702)
Profit after tax for the financial year	49,621	(2,701)	46,920

Appendix 7 – H1 19 IFRS 16 Cash Flow Bridge

£m	June 2019			June 2018
	Pre IFRS 16	IFRS 16 Impact	Incl IFRS 16	
Cash from operations	118.9	38.7	157.6	109.7
Interest and tax	(17.5)	(9.8)	(27.3)	(12.4)
Replacement capex net of asset disposals	(2.8)	0.0	(2.8)	(8.2)
Free cash flow	98.6	28.9	127.5	89.1
Development capex	(8.6)	0.0	(8.6)	(26.0)
Dividends	(28.5)	0.0	(28.5)	(24.3)
Share issue	(6.1)	0.0	(6.1)	1.3
Acquisitions & business disposals (incl. debt acquired)	0.0	0.0	0.0	(79.7)
Net cash flow before FX translation	55.4	28.9	84.3	(39.6)
FX translation/other	(2.4)	(569.4)	(571.8)	0.8
Movement in net debt	53.0	(540.5)	(487.5)	(38.8)
Opening net debt	(53.1)	0.0	(53.1)	(62.9)
Closing net debt	(0.1)	(540.5)	(540.6)	(101.7)
Free cash flow as % of adjusted operating profit	100%	453%	122%	96%

Appendix 8 – June 19 IFRS 16 Balance Sheet Bridge

£m	June 2019		
	Pre IFRS 16	IFRS 16 Impact	Reported
Intangible Assets	714.8	0.0	714.8
Tangible Assets	537.3	(2.4)	534.9
Right of Use Asset	0.0	525.5	525.5
Lease Receivable	0.0	2.4	2.4
Working Capital	182.3	4.5	186.9
Other Assets / (liabilities)	(100.8)	8.4	(92.5)
Assets / Liabilities - Discontinued Operations	2.5	0.0	2.5
Pension deficit	(20.5)	0.0	(20.5)
	1,315.6	538.4	1,854.0
Net Debt	(0.1)	(540.4)	(540.5)
Equity	1,315.5	(2.0)	1,313.5

Appendix 9 – H1 19 IFRS 16 Segmental Bridge

£m	June 2019		
	Pre IFRS 16	IFRS 16 Impact	Reported
Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions			
UK Merchanting	55.5	4.1	59.6
Ireland Merchanting	19.2	0.1	19.3
Netherlands Merchanting	8.6	0.4	9.0
Total merchanting	83.3	4.6	87.9
Retailing	8.0	1.5	9.5
Manufacturing	9.1	0.0	9.2
Reconciliation to consolidated operating profit	100.4	6.1	106.6
Central activities	(7.4)	0.1	(7.4)
	93.0	6.2	99.2
Property profits	4.7	0.0	4.7
Operating profit before exceptional items and intangible amortisation arising on acquisitions	97.7	6.2	103.9
Amortisation of intangible assets arising on acquisitions	(2.7)	0.0	(2.7)
Operating profit	95.1	6.2	101.2

Appendix 10 – H1 19 IFRS 16 EPS Bridge

£m	June 2019		
	Pre IFRS 16	IFRS 16 Impact	Reported
Numerator for basic, adjusted and diluted EPS:			
Profit after tax for the financial period from continuing operations	75.3	(2.7)	72.6
(Loss) after tax for the financial period from discontinuing operations	(25.7)	0.0	(25.7)
Numerator for basic, adjusted and diluted EPS	49.6	(2.7)	46.9
Profit after tax for the financial period from continuing operations	75.3	(2.7)	72.6
Amortisation of intangible assets arising on acquisitions	2.7	0.0	2.7
Tax relating to amortisation of intangibles assets arising on acquisitions	(0.5)	0.0	(0.5)
	77.5	(2.7)	74.8
	Number of Grafton Units	Number of Grafton Units	Number of Grafton Units
Weighted average number of Grafton Units in issue	237,778,336	-	237,778,336
Earnings per share (pence) - from continuing operations	31.7	-	30.5