Final Results 2018

Grafton Group plc

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.

Final Results 2018

Gavin Slark
CEO

David Arnold
CFO

selco BUILDERS WAREHOUSE
PLUMBASE
BUILDBASE
MacBlair Your LOCAL Builders' Merchant
Leyland SDM

ISERO IJZERWARENGROEP
GUNTERS en MEUSER IJZERWAREN - GEREEDSCHAPPEN
M PRO
YouBuild We Supply
CHADWICKS LET'S GET IT DONE

Heiton Buckley BUILDERS MERCHANTS
Woodie's
EuroMix
MFP

Introduction & Highlights

Gavin Slark, CEO

Record Set of Results

Revenue

up 9% to £2.95bn (8% in constant currency)

Adjusted operating profit

up 19% to £194.5m

Adjusted EPS

up 20%

Dividend Up 16%

Sixth consecutive year of double digit growth

Adjusted operating profit margin

up 60bps to 6.6%

ROCE

up 140bps to 15.0%

Strong Performance On All Key Metrics

All segments ahead of last year

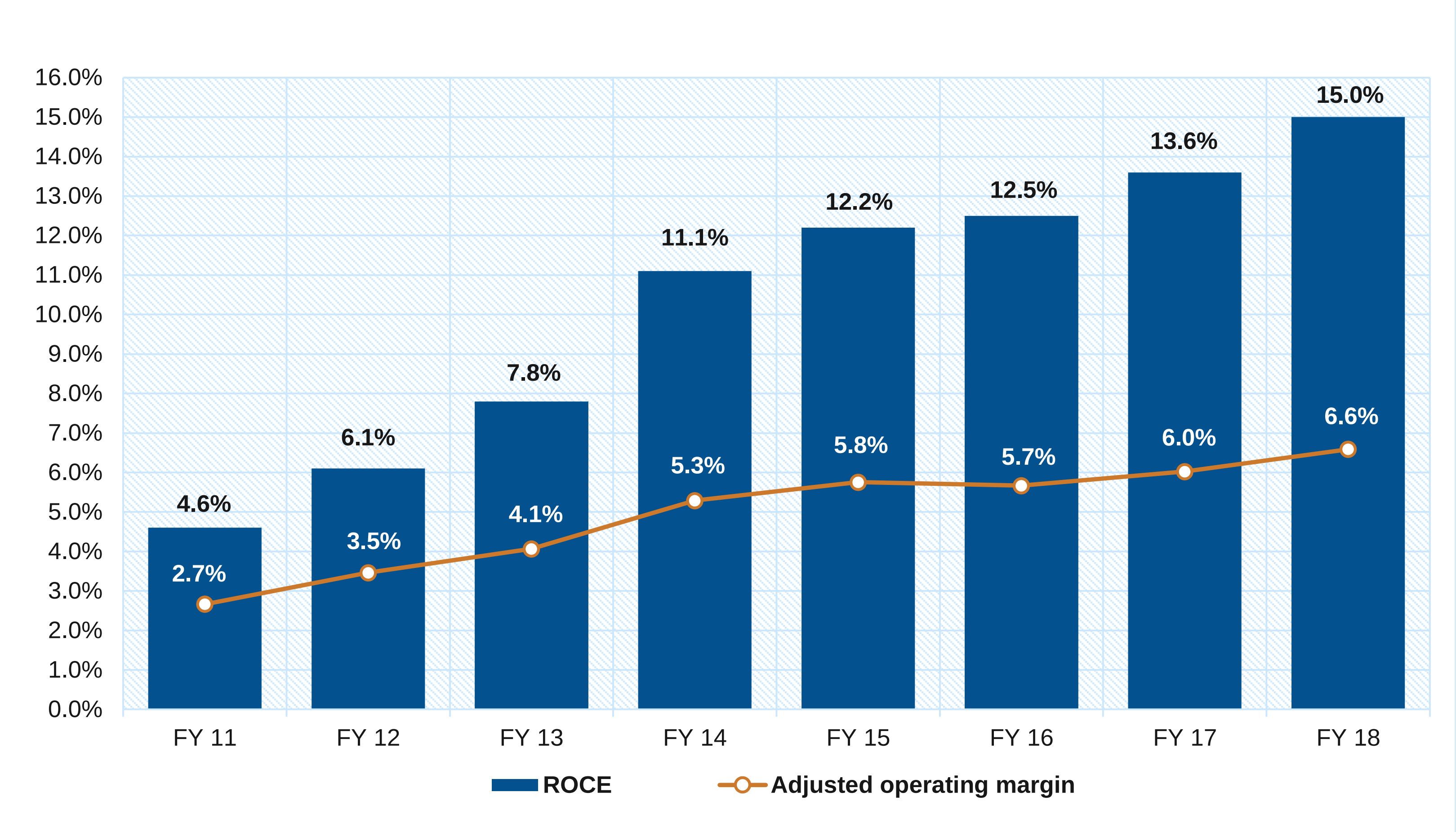
Broadly based organic growth

Integration of Leyland SDM progressing well

Excellent progress towards medium term financial targets

Continued strong cash flow and low net debt enables us to reinvest in further growth opportunities

Operating Profit Margin and ROCE



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Financial Review

David Arnold, CFO

Income Statement

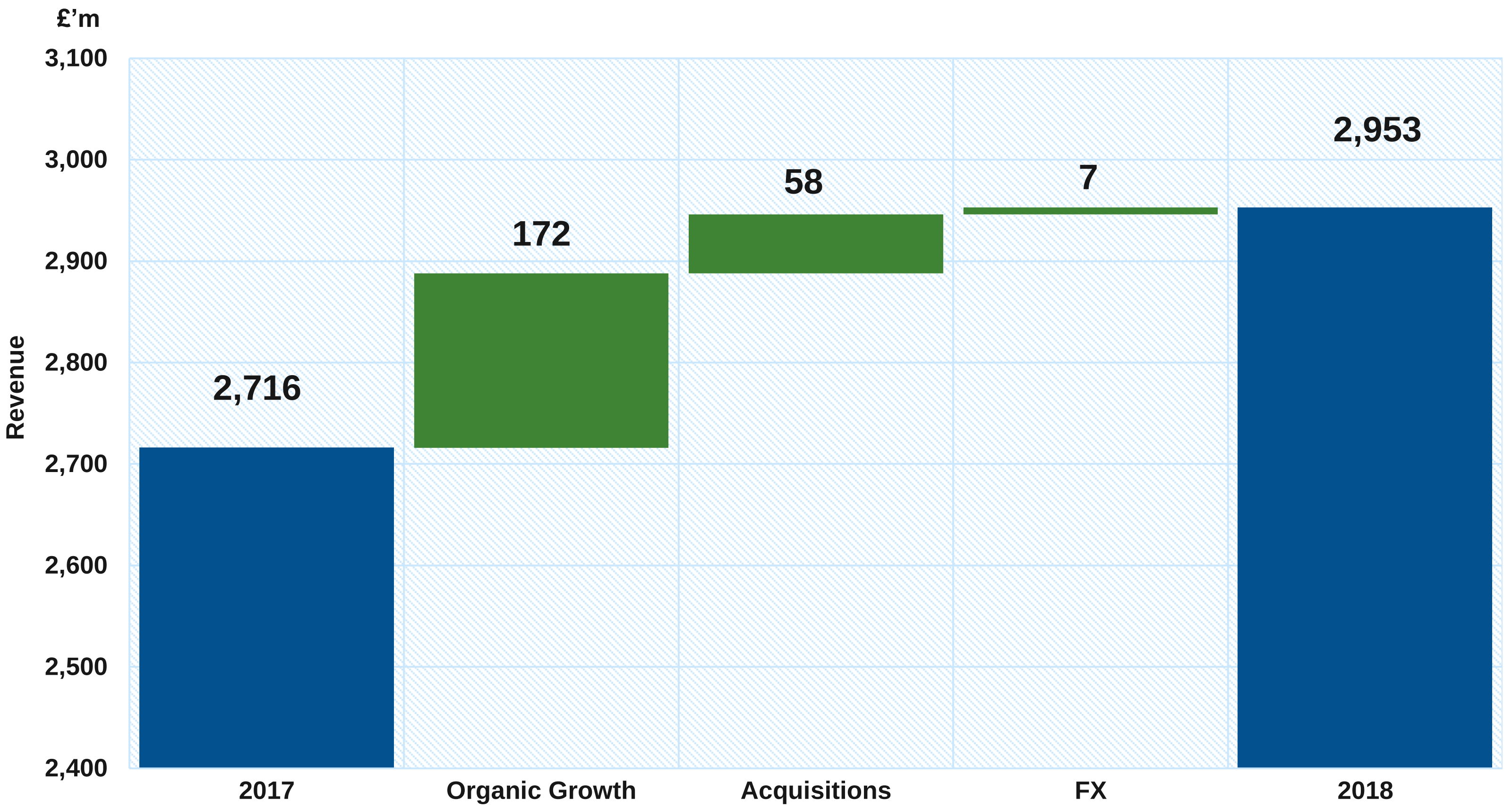
£m	2018	2017	Movement Reported	Movement Constant Currency
Revenue	**2,952.7**	2,715.8	**+9%**	**+8%**
Adjusted operating profit pre property profit	**189.6**	160.9	**+18%**	
Property profit	**4.9**	2.7		
Adjusted operating profit	**194.5**	163.7	**+19%**	
Amortisation & loss on disposal of Group businesses	**(7.0)**	(2.8)		
Statutory operating profit	**187.5**	160.9		
Net finance cost	**(6.1)**	(6.4)		
Statutory profit before tax	**181.3**	154.5		
Adjusted profit before tax	**188.4**	157.2	**+20%**	

Mix benefits of investment and faster growth more than offset competitive market conditions

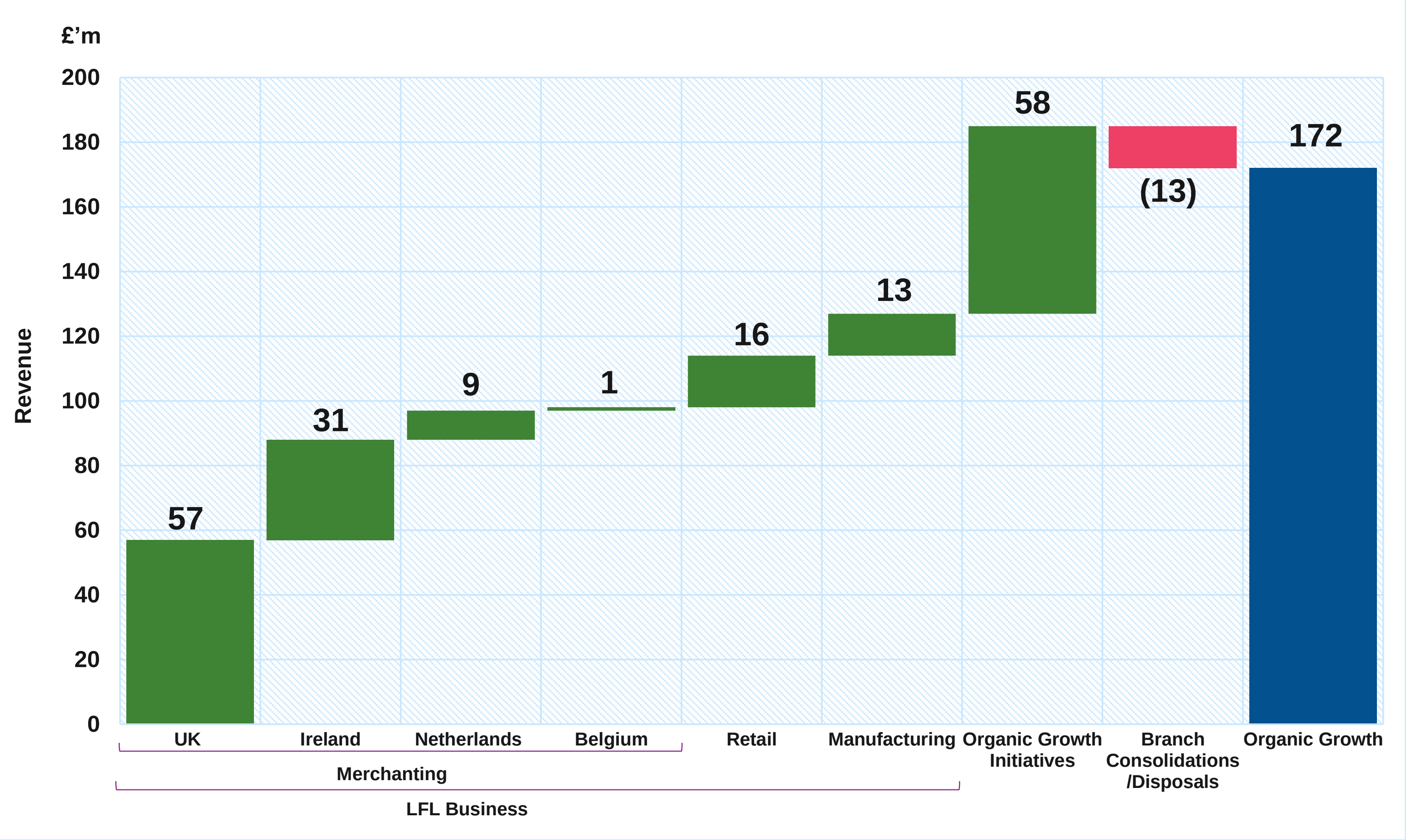
	Pre Property Profits	Property Profits	Incl. Property Profits
2017 operating margin	5.9%	0.1%	6.0%
Increase in Group gross margin	0.2%	-	0.2%
Improvement in operating expense efficiency	0.3%	-	0.3%
2018 operating margin	6.4%	0.1%	6.5%
Property profits (£4.9m)	-	0.1%	0.1%
2018 operating margin	**6.4%**	**0.2%**	**6.6%**

- Improvement in operating margin a balance between:
  - ✓ gross margin improvement
  - ✓ increase in operating cost efficiency and tight control of cost base
- Property profits delivered an incremental 10bps on their prior year contribution

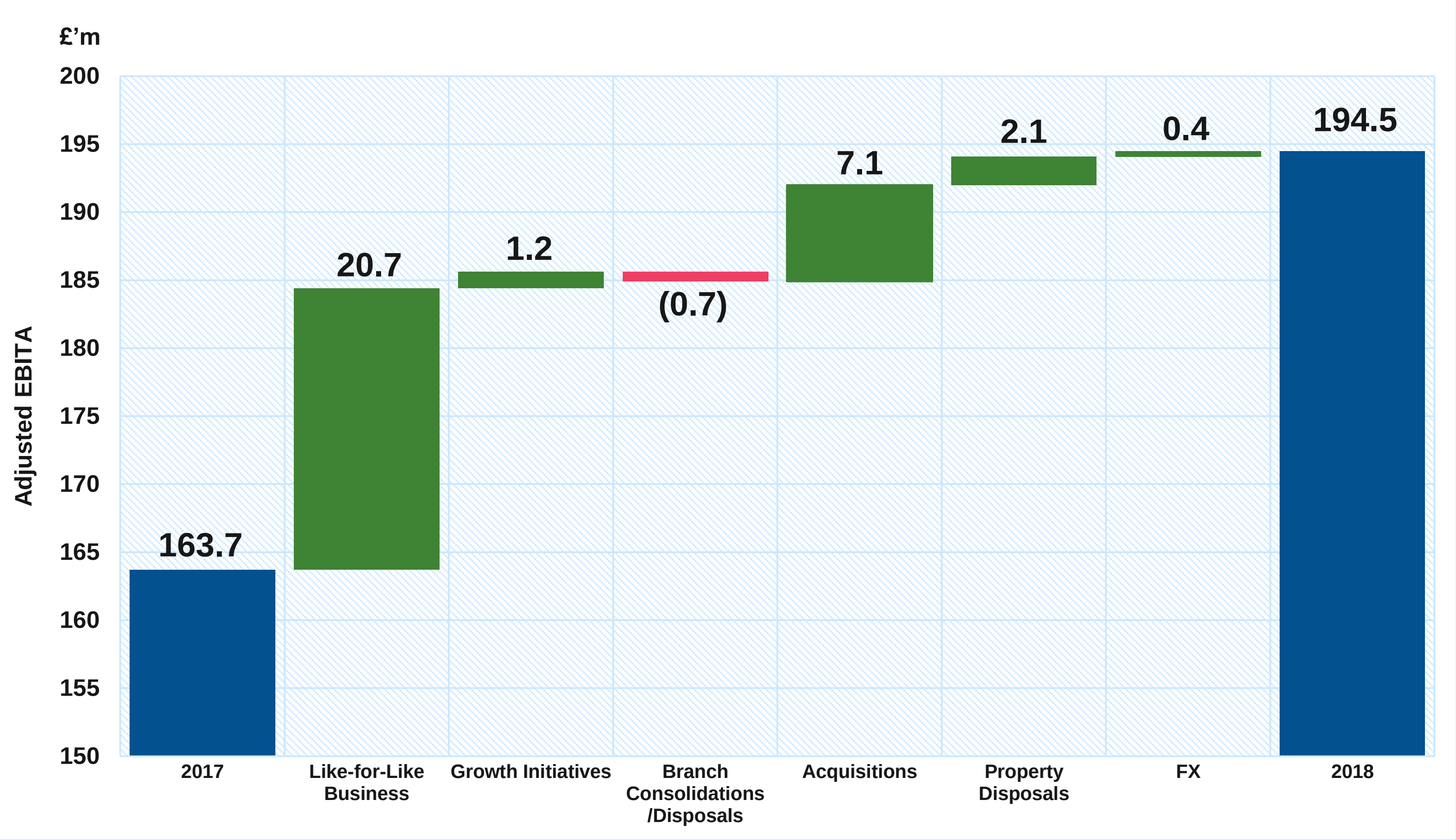
Revenue Growth Analysis



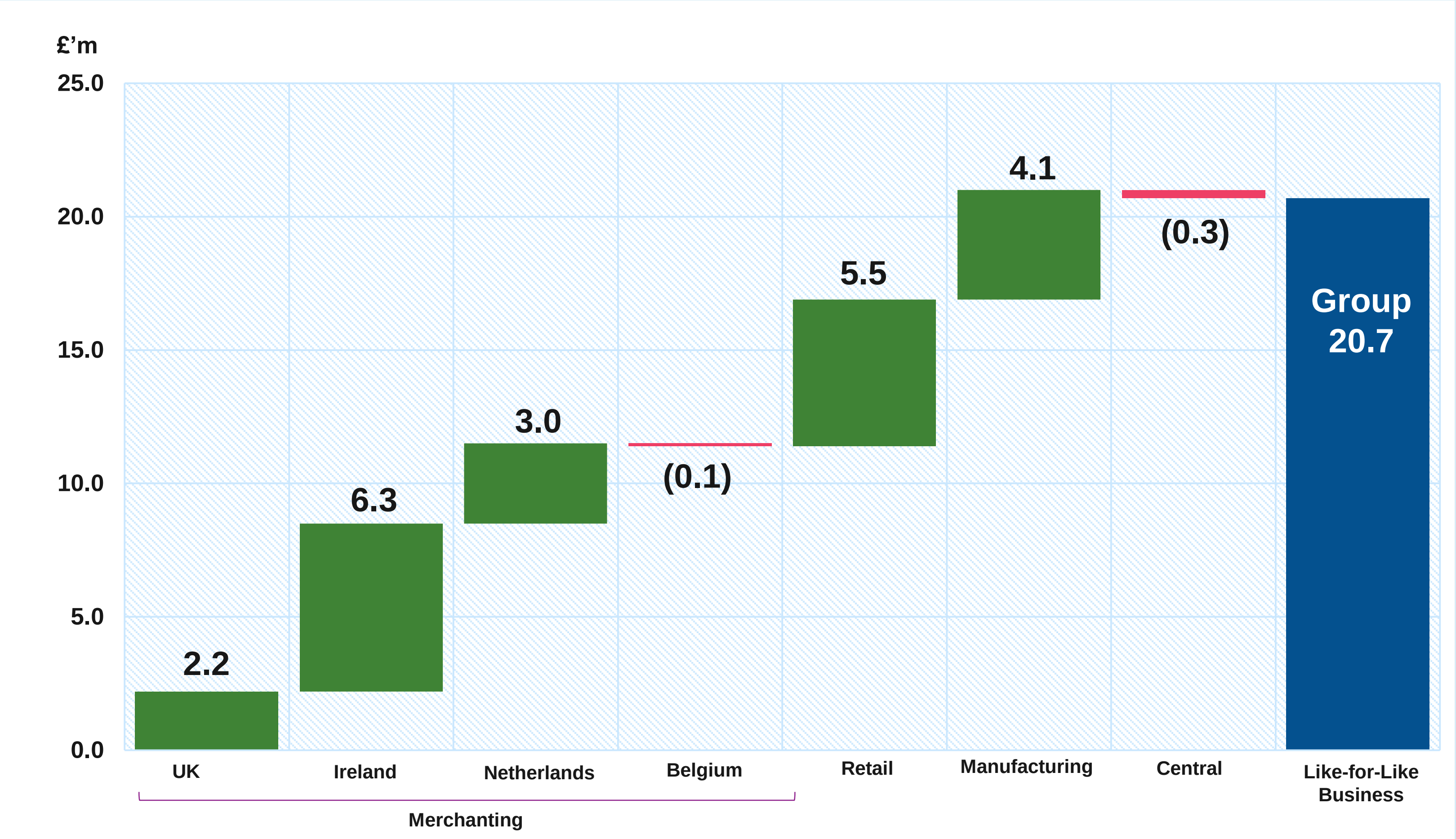
Incremental Revenue from Organic Growth
(Constant Currency)



Adjusted Operating Profit Analysis



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



Like-for-Like Business
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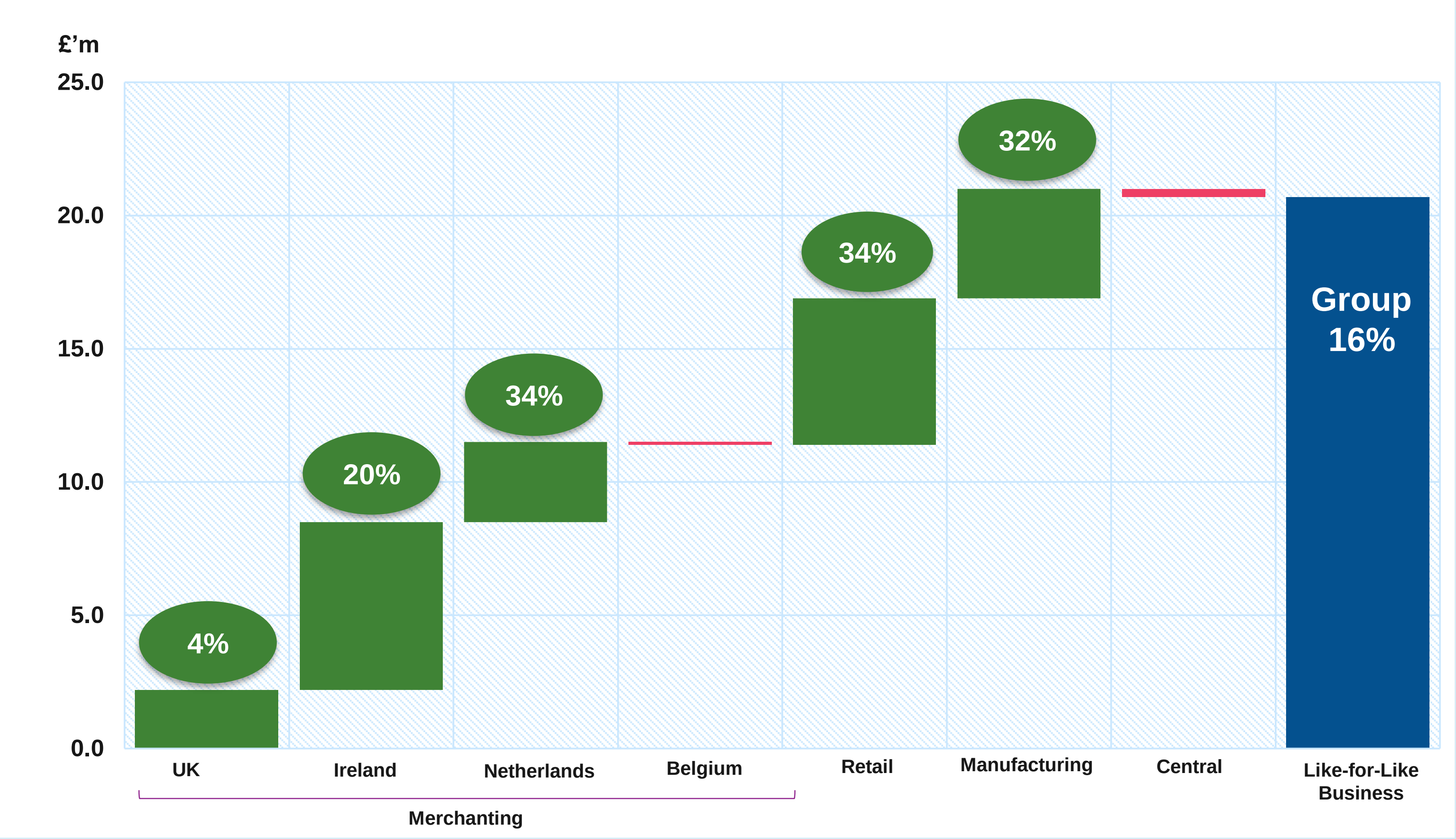


UK Merchanting

£m	2018	2017	Movement
Revenue	1,987.6	1,845.1	+7.7%
Adjusted operating profit pre property profit	110.1	100.9	+9.1%
Adjusted operating margin pre property profit	5.5%	5.5%	-

- Average daily like-for-like revenue growth of 2.7% – volumes broadly in line with last year
- Overall gross margin improved by 30bps – mix benefits of Selco expansion and acquisition of Leyland SDM more than offset pricing pressure experienced across UK merchanting
- Selco profit ahead of last year due to lower store opening costs
- Further investment in new Buildbase trading system – branch rollout to start Q2 - will lead to an increase in IT operating expenses of c.£3m in 2019

Irish Merchanting

£m	2018	2017	Movement Reported	 Constant Currency
Revenue	**441.1**	403.6	**+9.3%**	**+8.4%**
Operating profit pre property profit	**41.3**	34.5	**+19.8%**	**+18.9%**
Operating margin pre property profit	**9.4%**	8.5%	**+90bps**	

- **Average daily like-for-like revenue growth of 7.7%**
- **House completions increased to 18,000 from 14,400 but remain well short of annual requirement of circa. 40,000 new homes pa**
- **Gross margin reduced as expected due to continued expansion of proportion of delivered products to new build customers**
- **New trading format trialled and rolled out to five branches with further investment across the estate planned**

Netherlands Merchanting

£m	2018	2017	Movement Reported	Movement Constant Currency
Revenue	**155.5**	131.0	**+18.7%**	**+17.6%**
Adjusted operating profit	**16.0**	12.6	**+26.9%**	**+25.9%**
Adjusted operating margin	**10.3%**	9.6%	**+70bps**	

- **Average daily like-for-like revenue growth of 6.6% with good activity across the branch network and with national key account customers**
- **Procurement gains and efficiencies contributed to margin improvement**
- **Two branches acquired and two new branches opened in 2018**
- **Construction commenced on new distribution centre which will open in H2**

Belgium Merchanting

£m	2018	2017	Movement Reported	Movement Constant Currency
Revenue	**91.6**	89.6	**+2.2%**	**+1.3%**
Operating profit	**0.8**	0.9	**(12.2%)**	**(11.9%)**
Operating margin	**0.9%**	1.0%	**(10bps)**	

- **After a slow start to the year, the second half saw an improved financial performance**
- **Disposal of geographically peripheral St Vith branch completed in 2018**
- **Focus on driving continued efficiencies and operational improvements**

Retailing

£m	2018	2017	Movement Reported	Movement Constant Currency
Revenue	**198.2**	180.4	**+9.9%**	**+8.8%**
Operating profit	**16.8**	11.2	**+50.1%**	**+48.7%**
Operating margin	**8.5%**	6.2%	**+230bps**	

- **Average daily like-for-like revenue growth of 8.8% - broadly split between transactions and average transaction value**
- **Seasonal products performed strongly in 2018 - barbeques and garden furniture during excellent summer period and Christmas category**
- **Store upgrade programme has now covered 85% of revenue**
- **Continuing investment into digital offer – online revenue up 70% in year**

Manufacturing

£m	2018	2017	Movement
Revenue	**78.8**	66.1	**+19.3%**
Operating profit	**19.2**	15.1	**+27.3%**
Operating margin	**24.4%**	22.9%	**+150bps**

- **Another record year for CPI Euromix, Great Britain's market leading dry silo mortars business**
- **Volume growth significantly outperformed growth in housebuilding**
- **150bps increase in operating margin due to volume growth and operating efficiencies**
- **Continued growth in packaged products**

Balance Sheet

£m	31 Dec 2018	31 Dec 2017
Intangible assets	**726.0**	646.1
Tangible assets	**548.3**	531.5
Working capital	**192.6**	169.5
Other assets/(liabilities)	**(97.1)**	(86.1)
Pension deficit	**(20.2)**	(23.5)
	1,349.6	1,237.5
Net debt	**(53.1)**	(62.9)
Equity	**1,296.5**	1,174.6
ROCE	**15.0%**	13.6%
Net debt/EBITDA	**0.2x**	0.3x

- **€160m debt finance raised in US private placement market – proceeds received in September**
- **2.5% average coupon split equally over 10 and 12 years**
- **Medium term target of 15% ROCE achieved**

Cash Flow

£m	2018	2017
Cash from operations	209.2	210.7
Interest and tax	(30.0)	(23.9)
Replacement capex net of asset disposals	(21.8)	(23.3)
Free cash flow	157.4	163.5
Development capex	(40.9)	(49.3)
Dividends	(38.6)	(33.7)
Share issue	1.3	1.9
Acquisitions & business disposals (incl. debt acquired)	(68.3)	(40.4)
Net cash flow before FX translation	10.9	42.0
FX translation/other	(1.1)	(8.6)
Movement in net debt	9.8	33.4
Opening net debt	(62.9)	(96.3)
Closing net debt	(53.1)	(62.9)
Free cash flow as % of adjusted operating profit	81%	100%

2019 Guidance

- Full year property profits currently expected to be c.£3m
- Depreciation currently forecast at c.£49m (excluding impact of IFRS 16)
- Total 2019 capex currently anticipated to be c.£75m – replacement c.£50m and development c.£25m (note excludes acquisition spend)
- Interest charge c.£7.5m reflecting higher coupon on US private placement notes
- Tax rate of 18.5%

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**
- **No impact on cash flows**
- **No impact on covenants (frozen GAAP)**

IFRS 16 – Impact

- **Balance sheet liability based on current lease portfolio estimated to be £565m-£585m or c.7.5x 2018 operating lease charge**

- **Instead of a lease rental the P&L will show a separate depreciation charge and imputed interest cost**

- **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, principally as a result of mortgage style effect of higher interest cost in earlier years**

    - ➢ **EBITDAR unaffected**
    - ➢ **EBITA higher: depreciation charge lower than existing operating lease charge**
    - ➢ **PBT lower in early years because depreciation + imputed interest cost higher than existing operating lease charge**

03

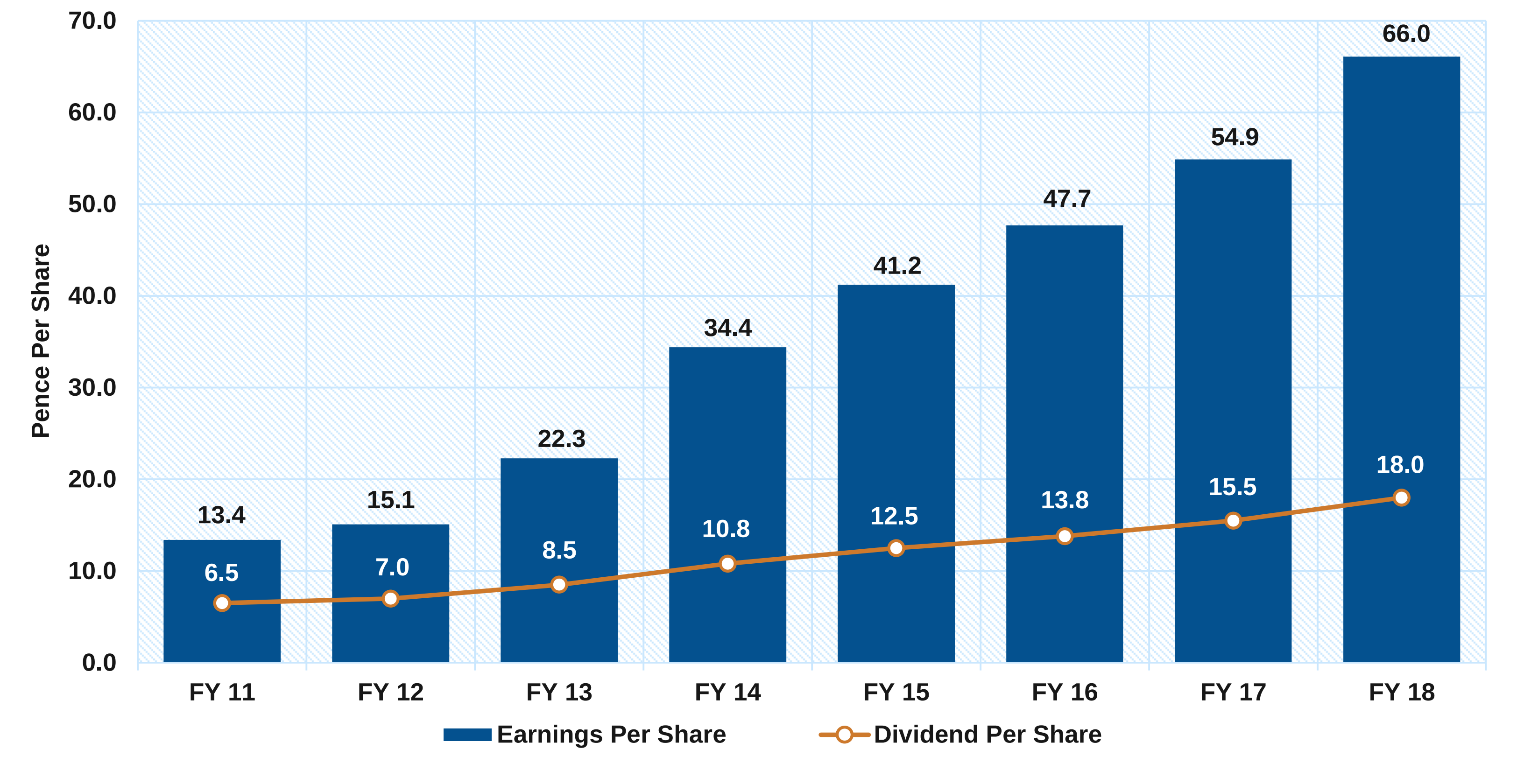
Current Trading & Outlook

Gavin Slark, CEO

What Makes Grafton Different

- Good market positions
- Geographic spread with exposure to faster growth points
- Decentralised, federated structure with a real focus on our customers
- Strong financial base
- Track record of delivery

Earnings and Dividend Per Share



- **Since 2011, CAGR of EPS has been 25.6%**
- **Sixth consecutive year of double digit dividend increase – consistent with progressive policy**

Grafton's Journey

3

Driving earnings through investment and improvement

Organic and acquisitive growth

2

Improving the quality of the returns

7% operating margin and 15% ROCE targets

1

Achieving financial respectability

5% operating margin and double digit ROCE

Current Trading – 1 January 2019 to 17 February 2019

	Average Daily Like-for-Like Revenue Growth	
	Q4 2018	1 January 19 – 17 February 19
Merchanting		
UK	**3.4%**	**1.9%**
Ireland	**9.8%**	**10.5%**
Netherlands	**3.6%**	**4.6%**
Belgium	**7.4%**	**5.5%**
Retailing	**5.3%**	**5.6%**
Manufacturing	**13.6%**	**1.3%**
Total Group	**4.9%**	**3.7%**

Outlook

UK

- Our focus remains on outperforming the market
- Activity likely to be slightly weaker with housing RMI modestly lower
- Price inflation and self help should help to offset volume risk
- Continuing competitive market backdrop

Ireland

- Should continue to benefit from positive outlook for the economy
- Forward indicators point to sustained growth in new build and RMI
- Some moderation in pace of growth expected but Ireland remains one of Europe's fastest growing economies

The Netherlands and Belgium

- Outlook for the Dutch economy remains positive
- Should continue to benefit from increasing scale in The Netherlands
- Belgium should benefit from self help initiatives

Summary – Strong Performance

Growth in profitability across all segments

Excellent progress towards medium term financial targets

Ongoing focus on growth and self help

Balance sheet continues to be in excellent shape to support future development

04

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 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 - Operating Profit Bridge – Statutory to Adjusted

	2018 £'m	2017 £'m	Change £'m
Revenue	2,952.7	2,715.8	+236.9
Statutory operating profit	187.5	160.9	+26.6
Amortisation of intangible assets arising on acquisitions and net profit/loss on disposal of Group businesses	7.0	2.8	+4.3
Adjusted operating profit	194.5	163.7	+30.8
Property profit	(4.9)	(2.7)	(2.2)
Adjusted operating profit (pre property profits)	189.6	160.9	+28.7
Statutory operating margin	6.3%	5.9%	+40bps
Adjusted operating margin	6.6%	6.0%	+60bps
Adjusted operating margin (pre-property profit)	6.4%	5.9%	+50bps

Appendix 3 - Operating Margin Analysis*

	H2 2018	**H1 2018**	H2 2017	H1 2017
UK Merchanting	**5.6%**	**5.5%**	5.5%	5.5%
Irish Merchanting	**10.6%**	**8.0%**	9.0%	8.0%
Netherlands Merchanting	**10.0%**	**10.5%**	8.9%	10.4%
Belgium Merchanting	**1.5%**	**0.2%**	1.1%	0.9%
Total Merchanting	**6.5%**	**6.0%**	6.1%	6.0%
Retailing	**9.4%**	**7.5%**	6.7%	5.6%
Manufacturing	**25.4%**	**23.5%**	24.4%	21.3%
	7.2%	**6.6%**	6.6%	6.3%
Central Activities	**(0.5%)**	**(0.5%)**	(0.5%)	(0.5%)
Total	**6.8%**	**6.1%**	6.1%	5.8%
Property Profit	**0.0%**	**0.3%**	0.0%	0.1%
Group Operating Margin	**6.8%**	**6.4%**	6.1%	5.9%

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

Appendix 4 - Revenue Growth

	2018 Average Daily Like-for-Like Revenue Growth					2018	
	Q1	Q2	Q3	Q4	FY	Total Revenue	
Merchanting						**Constant Currency**	**Reported**
UK	**(0.4%)**	**3.8%**	**3.9%**	**3.4%**	**2.7%**	**7.7%**	**7.7%**
Ireland	**3.7%**	**8.6%**	**8.5%**	**9.8%**	**7.7%**	**8.4%**	**9.3%**
Netherlands	**7.6%**	**8.3%**	**6.0%**	**3.6%**	**6.6%**	**17.6%**	**18.7%**
Belgium	**(4.4%)**	**(3.9%)**	**2.3%**	**7.4%**	**0.1%**	**1.3%**	**2.2%**
Retailing	**8.4%**	**16.5%**	**4.1%**	**5.3%**	**8.8%**	**8.8%**	**9.9%**
Manufacturing	**13.2%**	**27.9%**	**19.4%**	**13.6%**	**18.7%**	**19.2%**	**19.3%**
Total Group	**1.3%**	**6.0%**	**5.0%**	**4.9%**	**4.3%**	**8.4%**	**8.7%**

Appendix 5 - IFRS 16 – Estimated Effect

Lease Adjusted Net Debt to EBITDAR 2018

	2018
	£'m
EBITDA	236
Operating Lease Expense	77
EBITDAR	313
Net Debt	53
Estimated lease liabilities	575
IFRS 16 adjusted net debt	628
IFRS 16 adjusted net debt: EBITDAR	2.0x

Estimated net effect on Income Statement

	2019	
	£'m	
EBITDAR	-	*No impact*
EBITA effect	80	*IAS 17 lease charge*
Depreciation	(70)	*IFRS 16 depreciation charge*
EBITA post IFRS 16	10	
Interest	(20)	*IFRS 16 interest charge*
Profit before tax	(10)	*IFRS 16 net effect*

Assumes no change in leases as at 1 January 2019. Impact on PBT reduces over time – neutral in c.2023 and becomes favourable beyond then as move towards lease end dates