# Final Results
## For the Year Ended 31 December 2020

# Grafton Group plc
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## *Resilient performance – progressing strategic initiatives*

Grafton Group plc ("Grafton"), the building materials distributor and DIY retailer with operations in the UK, Ireland and the Netherlands, is pleased to announce its final results for the year ended 31 December 2020.

| **Continuing Operations** | **2020** | 2019 | Change |
|---|---|---|---|
| Revenue | **£2,509m** | £2,672m | -6.1% |
| Adjusted operating profit | **£193.3m** | £204.8m | -5.6% |
| Adjusted operating profit before property profit | **£190.7m** | £197.9m | -3.6% |
| Adjusted profit before tax | **£166.4m** | £179.6m | -7.4% |
| Adjusted earnings per share | **56.7p** | 62.8p | -9.8% |
| Dividend | **14.5p** | 19.0p | -23.7% |
| Net cash (before IFRS 16 leases) | **£181.9m** | £7.8m | +£174.1m |
| Net (debt) - reported | **(£355.0m)** | (£533.8m) | +£178.8m |

| **Statutory Results – Continuing Operations** | **2020** | 2019 | Change |
|---|---|---|---|
| Operating profit | **£159.7m** | £197.8m | -19.3% |
| Profit before tax | **£132.7m** | £172.6m | -23.1% |
| Basic earnings per share | **45.1p** | 60.5p | -25.4% |

[1] *Supplementary financial information in relation to Alternative Performance Measures (APMs) is set out on pages 39 to 49.*
[2] *A bridge between the pre IFRS 16 and the related IFRS impact is set out within the APM's.*
[3] *The term "Adjusted" means before exceptional items and amortisation of intangible assets arising on acquisitions in both years.*

### Financial Highlights

- Revenue in continuing operations down 6% to £2.5 billion, reflecting the impact of first half branch closures in response to the pandemic
- Operating profit in continuing operations down 6% to £193.3 million and 4% before property profit, exceeding management expectations outlined in January trading update
- Strong recovery in profitability in second half with adjusted operating profit up 47%, reflecting robust residential repair, maintenance and improvement markets in the UK and Ireland:
    - Exceptional performance by Woodie's DIY, Home and Garden business in Ireland
    - Particularly strong second half recovery by Chadwicks in Ireland and Selco in the UK
    - Strong second half recovery in Buildbase aided by increased margin and cost control
- Netherlands business traded successfully through the pandemic and Polvo acquisition increased scale and profitability
- Over 90% of Group profit derived from businesses with reported operating margin in excess of Group's 7% target
- Record cash generated from operations of £377.7 million included the benefit of strong day-to-day management of working capital

### Operational Highlights

- Safe trading environment maintained in branches and stores for customers and colleagues
- Accelerated our investment into e-commerce capabilities
- Three acquisitions completed in the second half of 2020 and another two this year, in line with our strategy of acquiring specialist high quality businesses with attractive returns
- Good progress advancing sustainability agenda

**Gavin Slark, Chief Executive Officer of Grafton Group plc commented:**

*"Grafton today is a stronger, more resilient, more digitally and sustainability savvy business than it was before the outset of the Covid-19 pandemic. That evolution reflects not just the commitment and hard work of our colleagues and the agility and resolve of our businesses in a challenging year, but also our multi-year transformation and investment journey principally targeting the more resilient construction sectors of repair, maintenance and improvement, underpinned by an improved customer proposition across all of our businesses.*

*We are very encouraged by the Group's strong performance through the second half of last year and while we remain cautious about first half revenue trends in our markets in light of Covid uncertainty, we expect to make further progress in the current year and are confident that our 11,000 colleagues will continue to deliver for our customers. We finished last year in an excellent financial position that provides a strong platform for the future growth and development of our Group."*

**Webcast Details**

A pre-recorded results presentation and a copy of the results presentation document are available at 7:00am today via the home page of the Company's website www.graftonplc.com.

A live audio conference call for analysts and investors will be hosted by Gavin Slark and David Arnold at 10:00am today. If investors would like to listen to the conference call, they can do so via the "Live Audio Conference Call" webcast link on the home page of the Company's website www.graftonplc.com.

Analysts will be invited to raise questions on the call. Should investors wish to submit a question in advance, they can do so before 9.15am today by sending an email to ir@graftonplc.com. A recording of the call will be available on the Company's website later today.

**Grafton Group plc + 353 1 216 0600**
Gavin Slark, Chief Executive Officer
David Arnold, Chief Financial Officer

**Murray + 353 1 498 0300**
Pat Walsh

**MHP Communications + 44 20 3128 8549**
Tim Rowntree / Rachel Mann

**Cautionary Statement**
Certain statements made in this announcement 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 announcement and include statements regarding the intentions, beliefs or current expectations of Directors and senior management concerning, amongst other things, the results of 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.

# Final Results
# For the Year Ended 31 December 2020

## Introduction from Gavin Slark, Chief Executive Officer

**An extraordinary performance by our colleagues**

As we all know too acutely, things didn't turn out as anyone had planned for 2020 and Covid-19 swept across the globe causing much pain, disruption and damage in the process. For Grafton to emerge as a better business at the end of the year, is testament to the tremendous fortitude, resilience, resourcefulness and sheer hard work of all of our 11,000 colleagues; we are very grateful to all our colleagues for their exceptional support and commitment.

**Health and safety was our priority**

From the very start of the pandemic our focus has been on the health and safety of our colleagues, customers and suppliers. At the end of March 2020, we responded quickly and decisively to the rapidly changing situation. In Ireland and the UK we closed all of our locations except those required to provide emergency supplies and our estate was not fully reopened for normal trading until the middle of June. In the Netherlands, our business was categorised as an essential service and remained open.

**Benefit of our strategic focus**

Inevitably the trading performance of the Group suffered in the first half, refected in reported adjusted operating profit that was 61 per cent lower than the prior year at £39.4m.

Our strategic growth focus over several years has been to invest into higher returning businesses where we have or can achieve good market positions and provide a differentiated offering to our customers. Many of these businesses are principally targeting the more resilient construction sectors of repair, maintenance and improvement and we saw the benefits of our investment focus in the recovery. As a result, when trading resumed after the first wave of the pandemic and the UK and Irish economies gradually reopened, we were able to benefit from strong underlying market growth in the second half that helped to drive a recovery in trading across our businesses and to report adjusted operating profit for the year of £193.3m, only 6% lower than 2019.

**Over 90 per cent of profit was derived from businesses reporting operating margins in excess of 7 per cent**

When we look at the relative financial performance of the Group's businesses during 2020, it is notable that our businesses which have strong market positions and have been the focus for ongoing reinvestment in recent years have performed the most strongly. Included in this category are Chadwicks, Woodie's and MacBlair on the island of Ireland, Selco and CPI Mortars in Great Britain and businesses that were more recently acquired and grown, namely the Netherlands business, Leyland SDM and TG Lynes. Collectively, these businesses were the foundation of the Group's financial returns for 2020, contributing over 90 per cent of adjusted operating profit at an operating margin greater than the Group's target of 7 per cent. They accounted for just over two thirds of Group revenue.

**Strong cash performance**

The Group's net cash position (pre leases) significantly improved from £7.8m at the start of the year to £181.9m at the year end. This demonstrates the continued strong cash conversion and our discipline of reducing working capital when activity levels turn down. This a very robust position to be in and one which provides a very strong platform to invest in further growth. The pandemic restricted opportunities to evaluate acquisitions and our transaction spend was lower than anticipated at the start of the year.

**Excellent progress advancing strategic and operational objectives**

Our original financial plan for 2020 targeted a continued increase in the level of Group profitability, with further expansion of the Group through acquisitions of good businesses and with a firm eye on our long term Group financial objectives to deliver a 7 per cent operating margin and 15 per cent return on capital employed (both on a pre IFRS 16 basis).

In an extraordinary year, we may not have achieved the financial objectives that we set in December 2019, but we think everyone across the Group can feel justifiably proud of the financial achievements we are able to report today. But perhaps what is even more remarkable, and is solely attributable to the determination of our colleagues, is that when we look back at the objectives we set ourselves in December 2019 we can say we have delivered on our 2020 operational targets, as follows:

- we accelerated our digital investment programme by an agile deployment of platforms that have improved functionality for customers and we recruited colleagues with data analytics skills;
- in many of our businesses we made excellent progress upgrading our core trading systems;
- we improved the quality of our customer proposition with investment in the branch estate, our logistics capabilities and colleague training;
- we made further progress on the broad sustainability agenda; and
- despite restrictions which prevented us undertaking physical due diligence of targets in new geographies, we made some excellent acquisitions in the UK and Ireland, with a new acquisition in the Netherlands completing shortly after the year end.

We enter 2021 with stretching targets and are confident in both our strategy and in the capability of our colleagues to respond to the opportunities and challenges that lie in the year ahead.

Gavin Slark
Chief Executive Officer

## Group Results – Summary and Outlook

The results for the year reflect the significant impact of the pandemic on our markets and the resilience and agility of our response to this unique event.

A significant investment was made to ensure that all of our locations operate to the highest standards of health and safety and a wide range of protocols and social distancing measures were implemented and operated effectively.

During the lockdowns we supported essential services and the emergency needs of households with the supply of building materials. We also took a range of steps to protect and further strengthen the financial position of the overall Group.

Trading was in line with expectations until the second half of March. The Group was heavily impacted by the closure of all branches and stores in Ireland and the majority in the UK, except for emergency supplies, from the end of March. There was an immediate recovery in some of our businesses and a steady recovery in others on reopening during the months of May and June. Trading was stronger than anticipated in the second half and we were very encouraged by the level of activity across the overall Group.

First half revenue was down by 19.4 per cent to £1.06 billion (2019: £1.31 billion) and adjusted operating profit before property profit declined by 58.9 per cent to £39.1 million (2019: £95.1 million).

Second half revenue increased by 6.8 per cent to £1.45 billion (2019: £1.36 billion) and adjusted operating profit before property profit increased by 47.5 per cent to £151.6 million (2019: £102.8 million). The second half operating profit margin was 10.4 per cent, an increase of 280 basis points from 7.6 per cent in the second half of 2019.

## Distribution

The majority of the **UK** Distribution branches were closed on 24 March and reopened on a phased basis between the beginning of May and the end of June. The overall business returned to growth in the second half and profitability recovered strongly. The significant strategic investment we have made over recent years into Selco paid off as the large, well stocked and strategically located branches and self-select operating model was ideally placed to support an increased level of spending on home and garden improvement projects. Profitability recovered strongly in Buildbase in the second half supported by an increase in gross margin and cost control that included a number of branch closures.

Chadwicks, our market leading distribution business in **Ireland,** was closed between 28 March and 18 May except for essential deliveries. Second half trading was very strong across its nationwide network with revenue up by 12.0 per cent as households spent more time in their homes and invested in a wide range of maintenance and improvement projects. The recovery in house building progressed through the second half while the non-residential construction market remained weak.

Following the acquisition of Polvo in 2019, our market leading business in the **Netherlands** performed well, despite pandemic related disruption to the economy, supported by its designation as an essential service.

## Retailing

**Woodie's** market leading DIY, Home and Garden business in Ireland was closed for 51 days between 28 March and 18 May, except for digital transactions. Colleagues across the business responded magnificently to the exceptional trading experienced in the second half to report record annual revenue. The operating profit margin was up by 600 basis points to 17.0 per cent for the year.

## Manufacturing

Demand in the market leading **CPI EuroMix** mortar manufacturing business in Great Britain was affected by the closure of its plants during the lockdown and by the slower recovery in house building in the second half. The business has a flexible and resilient operating model and produced an operating margin of 21.3 per cent for the year. The **StairBox** business acquired on 30 November 2020 traded strongly prior to acquisition and this trend continued in December.

## Exceptional Charge

Branch and organisational changes were implemented in our traditional UK merchanting business in the second half of 2020. These measures provide sustainable benefits to the business and resulted in an exceptional charge of £24.7 million including changes related to defined benefit pension scheme arrangements. These measures are expected to result in a net cash outflow of £15.2 million inclusive of a cash inflow from unwinding working capital and disposal of freehold property in the branches affected.

## Repayment of Government Support

For those businesses which were able to continue to trade throughout the pandemic, or where there was a sufficiently strong recovery in our markets to deliver profitability at or above 2019 levels, Grafton repaid Government employment subsidies totalling £8.9 million which had been received in Ireland under the Temporary Wage Subsidy Scheme or in the UK under the Job Retention Scheme ("JRS").

The effect of this approach was that no Government subsidy was received in The Netherlands, that all businesses South and North of the border on the island of Ireland repaid all job subsidies received and that Leyland SDM, an essential supplier with a retail exposure in Central London which remained open throughout 2020, also repaid the amount received under the JRS. The UK trade businesses with branches that were closed in the first half of 2020 as a result of the pandemic received support of £19.6 million under the JRS which partially offset their losses during this period.

## Cash Flow

The Group had net cash of £181.9 million before lease liabilities at the year end having started the year with net cash of £7.8 million. This outcome was driven by better trading in the Group's cash generative businesses and included cashflow of £81.2 million released from working capital. The reduction in working capital related primarily to lower receivables from trade customers and a decline in procurement rebates due from suppliers.

Net debt on an IFRS 16 basis including lease liabilities was £355.0 million (31 December 2019: £533.8 million), an improvement of £178.8 million over the course of the year.

## Dividend

On 24 March 2020, the Group announced that, as a precautionary measure to preserve liquidity in light of Covid-19, it was suspending the second interim dividend for 2019 of 12.5p per share, which was due to be paid on 6 April 2020. On 21 January 2021, the Group announced the reinstatement of this dividend and it was paid on 19 February 2021 in the amount of £29.9 million.

The Board is acutely aware of the need to balance the interests of all stakeholders and of the importance of dividends to the Group's shareholders. Following the decision not to declare an interim dividend, and in light of the Group's profitable trading in the second half of 2020 and net cash position at the end of the year, the Board has given much consideration to the payment of a final dividend for the 2020 financial year. A final dividend for the year ended 31 December 2020 of 14.5p per ordinary share in Grafton Group plc is proposed for approval by shareholders at the AGM on 28 April 2021. This is down 23.7 per cent on total dividends of 19.0p paid for 2019. Dividend cover was 3.9 times (2019: 3.3 times).

The final dividend for 2020 and future dividends will be paid by Grafton Group plc following the simplification of the Grafton Unit which was approved by shareholders at the EGM on 21 January 2021 and which takes effect at 6.00pm on 7 March 2021.

It is proposed to pay the final dividend for 2020 on 5 May 2021 to shareholders on the Register of Members at the close of business on 9 April 2021, the record date. The Ex-dividend date is 8 April 2021.

A liability in respect of any future dividend has not been recognised at 31 December 2020, as there was no present obligation to pay any dividends at year end.

## Implementing Our Sustainability Strategy

Our sustainability strategy commits Grafton to building a sustainable future, for everyone. Grafton has a federated Group structure and our strategy is therefore designed to be purposeful, inclusive, useful and relevant across our businesses and to our stakeholders. We intend to play a leading role on sustainability in the DIY and construction materials sectors .

In 2020, our Sustainability team worked actively with each of our businesses to do much more on sustainability and to establish realistic but ambitious goals for the short and medium term. Our intention is to set a high standard and we recognise that we have much work to do with our supplier base, our colleagues and our customers to progress our sustainability strategy.

Using the UN Sustainable Development Goals ("SDGs") framework as our foundation, Grafton adopted five SDGs as part of our Group Strategy although individual businesses may also contribute to other SDGs as part of their local strategies. The Group's five key focus areas are:

**Customer and Product** – providing our customers with ethical, sustainable and high quality products
**People** – creating the culture for everyone to thrive inside and outside our business
**Resources** – reducing, reusing and recycling across our operations
**Community** – making a positive contribution to the communities and customers we serve
**Ethics** – ensuring every part of our business operates with integrity

An investment of £3.2 million was made to install LED lighting in the 30 remaining Selco branches that operated with traditional light fittings. This investment resulted in a substantial reduction in power usage and a significant improvement in energy efficiency. Other projects undertaken during the year as part of the sustainability agenda included a pilot trial of compressed natural gas trucks in Selco, investment in electric vans in Isero and the addition of electric vehicles options for colleagues in the UK and the Netherlands.

The Netherlands and Irish distribution businesses contracted for the supply of 100 per cent green energy. The overall waste diverted away from landfill across the Group improved from 84 per cent in 2019 to 90 per cent in 2020 following the engagement of a new waste management supplier in the UK distribution business and investment in training and awareness. As a result of the Group's investment in initiatives aimed at reducing our carbon footprint, Group carbon emissions per £'m of turnover reduced by 13.7 per cent since 2019.

Woodie's Heros campaign raised over €400,000 for four Charities in Ireland and Selco raised £100,000 for Global's Make Some Noise, a UK charity that helps disadvantaged children and young people living with illness, disability or lack of opportunity.

## Outlook

Whilst the outlook for the Group's businesses remains uncertain we are optimistic that the successful rollout of vaccines over the coming months will mean that overall economic and construction related activity increases. It is likely that Governments and health authorities will require social distancing and other prevention measures to remain in place for some time, including local or national lockdowns which may have a bearing on productivity for our end customers.

In the UK, construction activity has been allowed to continue despite the Covid-19 restrictions imposed on other parts of the economy and the Group's branches continue to trade. Nevertheless, activity is softer than it would have been if a lockdown had not been in operation. The UK housing RMI market benefitted in 2020 from pent-up demand, home working and reduced spending on travel, leisure and hospitality. We believe that this trend is likely to continue in the coming months given the phased exit from lockdown with longer term demand driven by broader economic fundamentals. The recovery in housebuilding is expected to continue, supported by strong underlying demand, but will remain sensitive to the confidence of households to make long term commitments of this nature and in particular the availability of mortgage finance to first time buyers.

While the current lockdown measures in Ireland have seen the temporary closure of most construction activity since 9 January, the Chadwicks branches have remained open albeit operating at a lower level of activity to support those elements of construction that are permitted to continue operating. The lifting of the current restrictions on construction sector should see activity in Chadwicks revert to the pre-lockdown level. The revenue trends in the DIY, Home and Garden market seen in the final months of last year have continued in the current year and the near term outlook remains positive for Woodie's.

We expect subdued growth in the Netherlands economy in the coming months and a gradual recovery later in the year. Our businesses continued to operate during the crisis and were less impacted by the pandemic and are therefore expected to see modest revenue growth in the current year.

Average daily like-for-like Group revenue reduced by 1.0 per cent in the period from 1 January to 21 February. This comprised a decrease of 0.9 per cent in UK Distribution, a decrease of 12.7 per cent in Irish Distribution and an increase of 1.1 per cent in the Netherlands Distribution. Average daily like-for-like revenue increased by 40.8 per cent in Retailing and reduced by 29.8 per cent in Manufacturing.

Grafton continues to benefit from its strong strategic focus and financial discipline as well as its agility to respond to a changing market environment. We are very encouraged by the strong performance that was sustained by the overall Group through the second half of last year and while we remain cautious about first half revenue trends in our markets, we expect to make further progress in the current year.

## Operating Review – Continuing Operations

### Distribution Segment* (88% of Group Revenue)

| | 2020<br>£'m | 2019<br>£'m | Change |
|---|---|---|---|
| Revenue | 2,201.2 | 2,387.4 | (7.8%) |
| Adjusted operating profit before property profit | 146.8 | 168.1 | (12.7%) |
| Adjusted operating profit margin before property profit | 6.7% | 7.0% | (30bps) |
| Adjusted operating profit | 149.4 | 175.0 | (14.6%) |
| Adjusted operating profit margin | 6.8% | 7.3% | (50bps) |

** Excludes Plumbase and the Belgium distribution business in 2019*

The distribution businesses in the UK, Ireland and the Netherlands contributed 88 per cent of Group revenue (2019: 89 per cent), retailing 10 per cent (2019: 8 per cent) and manufacturing 2 per cent (2019: 3 per cent). UK distribution generated 58 per cent (2019: 64 per cent) of Group revenue.

## UK Distribution*

| | 2020<br>£'m | 2019<br>£'m | Change |
|---|---|---|---|
| Revenue | 1,460.7 | 1,710.8 | (14.6%) |
| Adjusted operating profit before property profit | 76.4 | 105.1 | (27.3%) |
| Adjusted operating profit margin before property profit | 5.2% | 6.1% | (90bps) |
| Adjusted operating profit | 79.1 | 108.0 | (26.7%) |
| Adjusted operating profit margin | 5.4% | 6.3% | (90bps) |

** Excludes Plumbase business disposed of in 2019*

Revenue in the UK distribution business was down for the year because of the measures adopted in the second quarter to contain the spread of Covid-19 that resulted in closure of the majority of branches on 24 March. The reopening of branches started on a phased basis at the beginning of May and was gradually extended to a full service offering in all branches by the end of June. First half revenue in the like-for-like business declined by £258.6 million due to the pandemic.

The very gradual recovery in construction activity in May and June gathered pace over the summer months as Covid-19 restrictions and social distancing measures were eased. The overall UK distribution business returned to growth in the second half and like-for-like revenue increased by £23.7 million.

The GDC Paints acquisition contributed revenue of £4.2 million and revenue from new Selco and Leyland branches was £9.1 million. The consolidation and closure of branches in the traditional merchanting business reduced revenue by £28.9 million.

First half operating profit before property profit declined by almost 96 per cent to £2.3 million (H1 2019: £55.5 million). Second half operating profit increased by 49.3 per cent to £74.1 million (H1 2019: £49.6 million). The second half operating profit margin was up by 280 basis points on the prior year to 8.7 per cent from 5.9 per cent.

The UK distribution business received support of £18.7 million through the Coronavirus Job Retention Scheme for colleagues who were furloughed when branches were closed or operating at reduced capacity principally during the second quarter. The UK distribution business also received rates relief of £9.0 million.

Gross margin increased in the second half by 170 basis points due to both the stronger growth experienced in the higher gross margin businesses such as Selco and Leyland SDM as well as improvements in mix within the distribution businesses more generally. This more than offset a first half decline of 150 basis points that was mainly driven by competitive market conditions in the traditional distribution market. Gross margin for the year was up by 30 basis points with the benefit of a higher weighting of revenue in the second half.

**Selco Builders Warehouse**

Selco Builders Warehouse traded in line with expectations in the period up to the lockdown on 24 March 2020 when all branches were closed. 42 branches reopened for Click & Collect and Click & Delivered trading on 6 May and the remaining 26 branches on 18 May. All branches were open for self-select trading by 22 June 2020 and Sunday trading resumed on 9 August 2020. First half revenue declined by 30.7 per cent.

Selco traded strongly in the second half increasing average daily like-for-like revenue by 13.1 per cent and total revenue by 14.1 per cent. The growth rate was stronger in branches located outside of the M25 as commercial construction activity in central London was slower to return. A backlog of work following the lockdown, home working and a higher proportion of disposable income available for home improvement projects provided favourable trading conditions for Selco which has a trading format that is ideally suited to maintaining social distancing.

Revenue and gross margin growth, together with a close attention to the cost base by Selco's management team delivered a second half operating profit margin of 11.3 per cent.

Selco accelerated its investment to improve the digital experience for its customers with a major upgrade to its website in February. The Selco class leading website now incorporates several new features that make it easier for customers to transact online. This investment increased web traffic and customer registrations. There was significant growth in online sales, which accounted for 5.3 per cent of second half revenue, of which 80 per cent was click-and-deliver.

Selco opened new branches in Orpington and Salford and now trades from 69 locations. New branches are scheduled to open in Liverpool and Canning Town in the first half of 2021. The Bristol branch was relocated to an enlarged facility, configured with online activity in mind and the Chessington branch was extended into an adjoining unit. A major upgrade was completed to the Wimbledon branch as part of a rolling investment programme that will include the Barking, Ruislip and Catford branches in the current year. Mini upgrades will be also completed this year on 15 branches.

Designed to support the improvements to Selco's e-commerce investment, the new distribution centre in Oxford is now providing a branch fulfilment service for over 6,000 lightside products sourced from almost 100 suppliers. This development halved the number of inbound branch deliveries and freed up capacity in branches. The delivery hub in Edmonton centralised customer deliveries for six branches in North London and a second hub to support deliveries for the seven branches in the Birmingham Area will be operational next month. These hubs increase the efficiency fulfilling Click & Deliver orders placed online.

**Buildbase**

Buildbase, which operates from a network of 149 locations across England, reported modest growth in average daily revenue in the period up to the lockdown on 24 March. A limited service was maintained from 40 branches during the lockdown to provide materials for public infrastructure and essential supplies for homes. The phased reopening of branches commenced in early May and all branches were fully operational by mid-June. First half revenue was down by 30.1 per cent.

Second half revenue in the like-for-like business recovered well but was marginally down on the prior year. With its national coverage and traditional builders merchanting model, Buildbase serves a broad spread of generally locally based customers. A stronger recovery was seen with builders focused on private residential repair, maintenance and improvement whilst activity levels with local developers engaged in new housing construction and public sector maintenance activities were slightly softer than the prior year.

Management priorities from a financial perspective were focused on the gross margin and cost control throughout 2020. Second half operating profit was substantially ahead of the same period in 2019 due to an increase in the gross margin by 160 basis points as a combination of management initiatives, a reduction in pricing pressure and favourable changes in mix delivered a beneficial outcome. As indicated in the half year results, a number of underperforming branches were closed as part of the strong focus on cost control and profit improvement.

Whilst operating in the traditional merchanting segment of the market, the Buildbase management team have placed systems at the heart of its modernisation programme. Improvements in the website were accelerated in response to the pandemic and, as a consequence, there was a significant increase in online revenue from £0.5m in 2019 to £7.0m in 2020.

The significant multi-year investment programme to transform the branch operating system and processes took an important step forward when the Microsoft AX ERP system went live in a number of branches prior to the lockdown and was operational in 29 branches at the year end. The new system is scheduled to be deployed across the majority of the branch network by the end of 2021 and will provide better and more timely information for decision making as well as supporting profit improvement opportunities.

**Civils & Lintels**

Civils & Lintels, a distributor of heavyside building materials and lintels to groundworks and civils sub-contractors operating in the new housing market, was materially impacted by the closure of its branch network between 24 March and 11 May and by the moderate rate of recovery over the remainder of the first half. The pace of demand for groundworks materials and lintels picked-up in the second half and the business finished the year strongly, sustained by the phased reopening of housing sites and the commencement of work on new developments. Demand for new houses was supported by the help to buy scheme and the stamp duty holiday that ends on 1 April 2021. Second half revenue was in line with the prior year.

**PDM Buildbase**

PDM Buildbase branches in Scotland were significantly impacted by the prolonged lockdown. Trading recovered well in the months following reopening and revenue was up by 2.1 per cent in the second half on the prior year driven by the house building and RMI sectors with good demand for a broad range of landscaping products.

**Leyland SDM**

Leyland SDM, London's largest specialist decorators' merchant, was categorised as an essential business and continued to trade during the year while observing strict social distancing and health and safety measures. Revenue declined by 1.0 per cent but tight control of overheads contributed to an increase in operating profit and the operating margin widened by 70 basis points to 17.8 per cent.

Trading in the Central London stores was impacted by the decline in construction activity and reduced footfall by trade customers while stores located in the commuter belt made gains from increased spending by households and trade customers on painting and decorating products. The Farringdon Road and Goodge Street stores were upgraded.

In July, GDC Paints, a decorator's merchant trading from five complementary locations in London, was acquired and performed ahead of expectation in the second half. Leyland SDM reached an agreement with Farrow & Ball to supply its premium paint brand to all Leyland SDM stores in addition to the five GDC Paints stores that it already supplied.

The new stores that were opened last year in Maida Vale and Streatham performed well and a new store was opened in Kingston-Upon-Thames in November increasing the estate to 29 stores.

**MacBlair**

The Northern Ireland distribution business traded well up to the lockdown on 24 March. Branches were closed for an average of six weeks and reopened on a phased basis between 30 April and 13 May. The business traded strongly in the period to the end of the half year and this trend continued through the second half. Revenue for the year declined by 6.0 per cent comprising a decline of 20.0 per cent in the first half and growth of 8.5 per cent in the second half.

MacBlair's strong market position and customer proposition meant it was well placed to respond to strong demand in the residential RMI market where a focus by households and trades people on outdoor projects saw exceptional demand for landscaping, fencing, decking, timber and paint products from both trade and private customers. Revenue growth from internal projects was centred on bathrooms, flooring and hardware products. The recovery in the new housing and commercial markets was slower and revenue from these markets was marginally down in the second half while infrastructure projects showed good growth. Changes to end-use markets supplied and product mix contributed to a favourable gross margin outcome and the operating profit margin for the year was up by 50 basis points to 8.6 per cent on lower revenue.

**TG Lynes**

TG Lynes, a leading distributor of commercial pipes and fittings in London, supported essential services during the lockdown and fully reopened in late April. Revenue recovered to 80 per cent of the prior year level in the month of June and was down by 30 per cent in the first half. Second half revenue and profitability recovered almost to the prior year level. Product pricing was maintained in a more competitive market and a high double-digit operating profit margin was reported for the year. Demand from subcontractors engaged in upgrades to existing properties, residential new build, public sector and RMI projects held up reasonably well despite project delays caused by the pandemic. Activity in the hotel, leisure, retail and office sub-sectors of the market was concentrated on projects that were already committed and many pipeline projects were delayed or put on hold until there is greater clarity on the outlook for these markets.

## Irish Distribution

| | 2020<br>£'m | 2019<br>£'m | Change | Constant Currency Change |
|---|---|---|---|---|
| Revenue | 463.9 | 464.8 | (0.2%) | (1.7%) |
| Adjusted operating profit before property profit | 41.8 | 43.1 | (2.8%) | (5.1%) |
| Adjusted operating profit margin before property profit | 9.0% | 9.3% | (30bps) | |
| Adjusted operating profit | 41.8 | 47.1 | (11.2%) | (12.7%) |
| Adjusted operating profit margin | 9.0% | 10.1% | (110bps) | |

Chadwicks revenue was marginally ahead of the prior year in January and February. The rate of growth gathered pace in the period to 28 March when all branches were closed, except for nineteen that remained partially open to provide emergency supplies. Revenue in the first quarter was ahead of the prior year by 2.9 per cent.

Revenue was materially lower during the lockdown which ended on 18 May with the reopening of all branches on a full-service basis. Average daily like-for-like revenue was down by 5.0 per cent between 18 May and the month end and increased by 7.3 per cent in June. Revenue declined by 33.9 per cent in quarter two and by 16.0 per cent in the first half.

Our market leading business generated a second half revenue increase of 12.0 per cent supported initially by the strength in the residential RMI market as customers benefited from a healthy pipeline of work and pent up demand following the reopening of the economy. Households spent more time in their homes because of the pandemic and home working and invested in a wide variety of home maintenance and improvement projects. Demand during the summer months was initially focused on external projects including decking and landscaping.

The recovery in the new housing market gained momentum through the second half as house builders focused on completing phases in existing developments. There was good demand for starter homes and house completions were stronger than anticipated for the year at 20,676 units, two per cent below the outturn for 2019.

Construction continued on commercial and civil engineering projects that were already underway, but the disruption caused by the pandemic led to some projects being deferred with challenging trading conditions impacting investment in the non-food retail, tourism, travel and hospitality sectors in particular.

The programme for rebranding the distribution branches in Ireland under the Chadwicks brand continued with the upgrading and rebranding of six more branches. An additional Chadwicks Fixing Centre was opened in the Cork City branch, following a successful launch in the Thomas Street branch in Central Dublin. Fixing Centres supply a broad range of fixings and tools to builders, engineers and specialist tradespeople.

In July Daly Brothers (North East) Ltd., a single branch builders distribution business located in Dundalk, County Louth, was acquired. The revenue and operating profit contribution were in line with the forecast for the second half. The acquisition of Proline Architectural Hardware, a leading distributor of a wide range of high quality traditional and contemporary ironmongery products for doors, completed earlier this month.

Development commenced during the year on a new digital platform that will provide click and collect and click and deliver functionality for trade customers. A Product Information Management System that enables suppliers to provide enriched product data through a dedicated portal was developed to support the sale of products across all market channels. An electronic proof of delivery system that captures customers signatures digitally and provides real time visibility on deliveries and assists with route planning was also developed and is currently being trialled ahead of rollout to over 200 drivers of delivery vehicles operating across the branch estate.

The phased replacement of forklift trucks continued with a fleet of 100 energy efficient models now in use in branches and, as part of its commitment towards creating a sustainable future, Chadwicks entered an agreement for the supply of 100 per cent green energy with Energia, a leading energy provider focused on renewable technology.

## Netherlands Distribution

| | 2020<br>£'m | 2019<br>£'m | Change | Constant Currency Change |
|---|---|---|---|---|
| Revenue | 276.6 | 211.8 | 30.6% | 28.8% |
| Adjusted operating profit | 28.5 | 19.9 | 43.3% | 40.8% |
| Adjusted operating profit margin | 10.3% | 9.4% | +90bps | |

The Isero and Polvo ironmongery, tools and fixings business continued to trade over the course of the year as construction was classified as an essential activity and permitted to continue operating provided health and safety and social distancing measures were put in place.

Average daily like-for-like revenue in Isero was down by 0.7 per cent for the half year reflecting modest growth in January and February, market weakness in March and April and a return to growth in May and June. Average daily like-for-like revenue increased by 1.8 per cent in the second half and by 0.7 per cent for the year despite a fall of three per cent in residential new build and renovation volumes.

The Dutch economy suffered a milder decline in economic activity than other European economies but is nevertheless estimated to have contracted by four to five per cent for the year as a whole. Demand for houses was strong with transactions up by over seven per cent to near record annual levels. House prices were nine per cent higher than a year earlier as the labour market held up well and a shortage of houses under construction, at a time of strong demand and low mortgage rates, contributed to the rise.

Lockdown measures put in place at the end of March were eased over the summer months with the reopening of most of the economy. Measures to contain the spread of the virus were reintroduced in October and extended in mid-December.

There was good demand from core customers operating in the domestic RMI market and from national key account customers engaged in house building, commercial construction and renovation projects. In the first half revenue from corporations that undertake repairs and maintenance on social housing was down due to restricted access to these properties and delays to major projects saw key customers defer purchases of power tools, scaffolding, PPE and other products. Demand was weaker in the tourism, leisure and entertainment sectors due to the pandemic. Revenue shortfalls in these segments of the market was offset by stronger demand from the core customer base of tradespeople engaged in private residential RMI projects whose customers used the lockdown as an opportunity to undertake home renovations.

The Group's strategy for the integration of its market leading Netherlands business continued in line with plan for the year despite the challenges presented by the pandemic. The Polvo business acquired on 1 July 2019 performed in line with plan in its first full year under Grafton ownership despite the pandemic. Integration was focused on supplier consolidation and harmonisation of procurement terms.

The Gunters en Meuser branches in Amsterdam were transferred to the Isero Microsoft AX ERP system. This development facilitated twice daily stock replenishment and access to a wider range of products from the distribution centre that opened last year in Waddinxveen, North East Rotterdam. The Gunters en Meuser branches were aligned with the Isero branch operating model and customer deliveries in the Amsterdam Area were centralised from a single location. The Schiphol branch acquired in November 2019 was integrated into the Polvo branch network.

One of the Rotterdam branches was relocated, and a number of branches were upgraded. Since the year end, Polvo acquired Van den Anker IJzerhandel Katwijk B.V., a distributor of tools, ironmongery, hinges, locks and fasteners from a single branch in Katwijk aan Zee, on the mid-western coast of the Netherlands.

## Retail Segment (10% of Group Revenue)

| | 2020 £'m | 2019 £'m | Change | Constant Currency Change |
|---|---|---|---|---|
| Revenue | 246.6 | 205.5 | 20.0% | 17.5% |
| Operating profit | 42.0 | 22.6 | 85.6% | 79.1% |
| Operating profit margin | 17.0% | 11.0% | +600bps | |

Woodie's, Ireland's leading DIY, Home and Garden retailer, embarked on a programme of change several years ago that was centred around customers and colleagues. The physical environment was updated in nearly all stores and colleagues were provided with the leadership and training to provide a superior shopping experience for customers. Woodie's colleagues reached out to support customers during a challenging year by introducing new measures to create a very safe shopping environment and this added a new dimension to the customer experience. Customers were reassured by the response to the pandemic from an empathic management team and store colleagues and they rewarded the business with an exceptional level of trust and loyalty.

Woodie's position as a community minded retailer was reflected in its heart-warming Christmas ad which told the story of a simple act of kindness by a teenager for his elderly neighbour and captured the imagination of millions of viewers in Ireland and overseas. Woodie's Heros campaign raised over €400,000 in vital funds for four Charities in Ireland in a year when many charities had to cancel traditional fund-raising events.

Woodie's was for the fifth successive year ranked as A Great Place to Work in Ireland with a 99 per cent colleague participation rate. This recognition was measured by a definitive international standard and benchmarked against the country's major international and domestic employers.

2020 was a year of exceptional growth for Woodie's that established new records for revenue, operating profit and the operating margin which increased by 600 basis points to 17.0 per cent.

There was a marginal decline in revenue in January and February that was more than offset by growth in March as customers engaged in forward buying ahead of the closure of all stores on 28 March and overall constant currency revenue growth was 4.1 per cent in the first quarter.

Stores remained closed for 51 days and reopened on 18 May to a surge in demand that saw revenue for the 14 trading days to the month end increase by 153 per cent on the same period in the prior year. The rate of growth moderated to 62 per cent in June and half year revenue was down by 1.5 per cent.

Woodie's experienced exceptional demand in the second half increasing constant currency revenue by 35.6 per cent. The rate of growth moderated in November and December from the remarkable levels reported in the months that followed the lifting of restrictions and reopening of the business.

Growth in revenue for the year of 17.5 per cent comprised an increase in average transaction values by 19.5 per cent and a decline in the number of transactions by two per cent to 8.2 million.

Revenue growth was driven by exceptional levels of demand for decorative products including interior and exterior paint, speciality paint, woodcare products and accessories. Range innovation contributed to record demand for Christmas products. The DIY category also showed good growth due to strong demand for power and hand tools, workwear and ironmongery products. There was also very strong demand for shrubs and plants, garden furniture, barbeques, outdoor sheds, fencing and tools.

An increase in the gross margin was driven by a change in mix including increased revenue from seasonal products.

Operating costs were marginally up as store operating cost savings during the lockdown, a lower spend on marketing and renewal of a number of leases on terms that restored rents to current open market levels were reinvested in Covid-19 costs to protect customers and colleagues and increased payroll costs to support the high level of customer demand in the second half.

An investment in LED lighting in stores created an improved backdrop for showcasing products, generated cost savings and reduced carbon emissions.

Woodie's digital revenue increased to 3.6 per cent of revenue from 1.6 per cent in 2019 as the pandemic caused consumer behaviour and shopping patterns to change. The business is accelerating the adoption of digital technology to create a more seamless online experience and is using data analytics to strengthen its connection to customers. In November 2020, 50,000 click and collect transactions were completed compared to 6,000 in November 2019.

In response to the fast moving pace of the pandemic in March 2020, Woodie's accelerated its transition to an upgrade of its established Microsoft ERP system that delivers the latest retail technology at the point of sale and provides improved technology to support the planned growth in digital revenue.

## Manufacturing Segment (2% of Group Revenue)

| | 2020 £'m | 2019 £'m | Change | Constant Currency Change |
|---|---|---|---|---|
| Revenue | 61.3 | 79.4 | (22.7%) | (22.8%) |
| Operating profit | 13.3 | 18.6 | (28.6%) | (28.7%) |
| Operating profit margin | 21.7% | 23.4% | (170bps) | |

Trading in CPI EuroMix, the market leading dry mortar manufacturing business that operates nationally from ten plants in Great Britain, was in line with expectations in the period to 24 March 2020 when a decision was taken to temporarily close all plants due to the pandemic. The nine plants in England were reopened on a phased basis during late April and early May and the plant in Scotland reopened at the end of June.

Volumes were negligible in April, recovered to one-third of the prior year level in May and seventy per cent in June as house building sites gradually reopened. There was an overall double digit decline in average daily like-for-like revenue in the second half as volumes recovered. A good recovery in demand for new houses in the second half was aided by the temporary reduction in stamp duty and fulfilled from the existing stock of finished units and the completion of houses that were at an advanced stage of construction when sites reopened.

There was significant disruption to house building as the lockdown delayed building programmes and reduced the number of sites that were actively under construction. Housing starts, which are a key driver of mortar volumes, are estimated to have declined by 32.4 per cent for the year and completions by 21.8 per cent as house builders focused on closing transactions for units that were contractually agreed or reserved.

Underlying demand remains strong in the new housing market supported by a shortage of supply, a broadly favourable lending environment and support for first time buyers through a new phase of the Help to Buy Scheme.

The CPI EuroMix resilient and flexible operating model was responsive to the decline in volumes and delivered an excellent operating margin, good returns on invested capital and strong cash flows despite the substantial decline in revenue due to the pandemic.

StairBox, the innovative staircase manufacturer, was acquired on 30 November 2020 and the manufacturing segment incorporates its results for December 2020. Demand for staircase solutions in the residential RMI market was very strong in the second half of the year and this trend continued in December. Stairbox supported its customer base in Great Britain through its pioneering use of technology to design and manufacture an extensive range of high-quality customised staircases from its facility in Stoke-on-Trent.

## Operating Review – Discontinued Operations

On 1 October 2019 the Group completed the disposal of Plumbase, a specialist UK plumbing and heating business, and on 4 October 2019 the disposal of the Group's distribution business in Belgium was completed. These businesses were reported within discontinued operations in the 2019 financial statements. An exceptional loss after tax of £24.7 million was recognised within discontinued operations, comprising a loss of £24.7 million after tax on the disposal of the Belgium distribution business including disposal costs and net of the profit after tax for the period to 4 October 2019, and a profit after tax of £26,000 on the disposal of Plumbase including disposal costs and net of the profit after tax for the period to 1 October 2019. 2019 revenue from discontinued operations was £251.8 million and operating profit was £6.5 million.

## Revenue

Group revenue from continuing operations declined by 6.1 per cent to £2.51 billion (2019: £2.67 billion) and by 6.6 per cent in constant currency. Revenue in the like-for-like business declined by £228.2 million (8.6 per cent). Acquisitions contributed revenue of £69.8 million and new branches £9.5 million. Revenue was reduced by £28.5 million from branch consolidations and closures. Currency translation gain increased revenue by £15.2 million.

The UK accounted for 60.5 per cent (2019: 66.8 per cent) of Group revenue, Ireland for 28.5 per cent (2019: 25.3 per cent) and the Netherlands 11.0 per cent (2019: 7.9 per cent).

## Adjusted Operating Profit

Adjusted operating profit from continuing operations of £193.3 million (2019: £204.8 million) declined by 5.6 per cent due principally to a decline in profitability in the UK distribution and manufacturing businesses.

Adjusted operating profit before property profit of £190.7million (2019: £197.9 million) declined by 3.6 per cent.

The adjusted operating profit margin before property profit increased by 20 basis points to 7.6 per cent and was unchanged at 7.7 per cent including property profit.

## Net Finance Income and Expense

The net finance expense increased by £1.8 million to £26.9 million (2019: £25.1 million). The recognition of leases on the balance sheet under IFRS 16 created an interest charge on lease liabilities of £18.3 million (2019: £19.7 million).

Interest payable on bank borrowings and US Private Placement Senior Unsecured Notes, net of bank interest received on deposits, increased by £1.5 million to £7.5 million (2019: £6.0 million). The increase was mainly due to the temporary drawndown of £261.1 million in revolving bank facilities as a precautionary measure to increase liquidity in the early stages of the Covid-19 crisis. The rate of interest receivable on bank deposits declined during the year because of excess liquidity in the banking system which led to lower interest rates on sterling deposits and more negative rates on euro deposits.

The net finance expense included a foreign exchange translation loss of £0.8 million which compares to a gain of £1.2 million in the same period last year. Other components reduced the net finance expense by £0.2 million.

## Taxation

The income tax expense of £25.2 million (2019: £28.7 million) is equivalent to an effective tax rate of 19.0 per cent on profit from continuing operations (2019: 16.6 per cent). This is a blended rate of corporation tax on profits in the countries where the Group operates and is lower than the rate of 19.5 per cent guided at the time of our 2019 Final Results Announcement due to the higher proportion of profit in Ireland which is taxed at the rate of 12.5% and a favourable outcome in respect of prior years.

Legislation that was passed in 2016 to reduce the UK rate of corporation tax by two per cent to 17 per cent with effect from 1 April 2020 was reversed leading to a one-off increase in the charge for deferred tax which increased the Group rate by 1.4 per cent for the year.

Certain items of expenditure charged in arriving at profit before tax, including depreciation on buildings, are not eligible for a tax deduction. This factor increased the rate of tax payble on profits above the headline rates that apply in the UK, Ireland and the Netherlands.

## Cashflow

Cash generated from operations increased to £377.7 million (2019: £291.1 million) compromising EBITDA of £281.0 million (2019: £312.6 million), the release of £81.2 million from working capital (2019: £23.3 million investment in working capital) and £15.5 million from other sources (2019: £1.8 million).

Expenditure on acquisitions and capital expenditure amounted to £84.6 million (2019: £145.0 million).

## Capital Expenditure and Investment in Intangible Assets

In response to the pandemic, very close control was maintained on the level of capital expenditure with priority maintained on any health and safety investment whilst discretionary expenditure was under tighter scrutiny. Gross capital expenditure was £35.2 million (2019: £50.4 million) and there was also expenditure of £1.9 million (2019: £2.1 million) on intangible assets. Proceeds of £7.2 million (2019: £17.4 million) were received on disposal of fixed assets and the net investment on capital expenditure and intangible assets was £29.9 million (2019: £35.1 million).

The Group incurred capital expenditure of £15.1 million (2019: £23.1 million) on development initiatives that included new Selco branches, upgrades to Woodie's and Chadwicks branches in Ireland, energy-efficient lighting systems and other projects of a development nature.

Asset replacement capital expenditure of £20.1 million (2019: £27.3 million) compares to the pre-IFRS 16 depreciation charge for the period of £45.0 million (2019: £44.2 million) and related principally to replacement of the distribution fleet that supports customer deliveries, replacement of fixtures and fittings, plant and machinery, forklifts, plant and tools for hire by customers and other assets required to operate the Group's branch network. An investment of £1.9 million (2019: £2.1 million) was made on software development projects including Woodie's IT system upgrade.

## Pensions

The defined benefit pension schemes are valued under IAS 19 while the funding of the schemes is determined by the Trustees' triennial valuations or funding proposals as required. The IAS 19 deficit was £50.6 million at 31 December 2020, an increase of £29.4 million from £21.2 million at 31 December 2019.

The increase in the deficit comprised actuarial losses on scheme liabilities of £27.9 million due to changes in assumptions, experience losses on liabilities of £4.4 million and an exceptional charge that increased liabilities by £7.5 million. The effect of these was partly offset by actuarial gains on assets of £10.6 million.

The fall in corporate bond yields over the period has resulted in a lower discount rate, placing a higher value on scheme liabilities. The rate used to discount UK liabilities fell by 70 basis points since the end of 2019 to 1.4 per cent and the rate used to discount Irish liabilities fell by 35 basis points to 0.70 per cent. These changes in the discount rates increased scheme liabilities by £27.8 million.

The UK scheme was closed to future accrual at 31 December 2020 which increased scheme liabilities by £2.5 million, which is expensed as an exceptional item in the income statement, as 89 members who were previously active but not receiving increases to pensionable salary will now receive deferred revaluations. As part of the closure to future accrual process, a further increase in liabilities of £6.5 million has been recognised comprising £5.0 million that has also been expensed as an exceptional item in the income statement and £1.5 million of an experience loss that is included in the Group Statement of Comprehensive Income.

The actuarial gain on assets of £10.6 million was due to the investment performance in the year exceeding the assumed interest income on assets.

## Net Cash/Debt

The Group's net cash position, before recognising lease liabilities, increased to £181.9 million at 31 December 2020 from £7.8 million at 31 December 2019. The Group remains in a very strong financial position with pre-IFRS 16 EBITDA interest cover of 27.4 times (31 December 2019: 39.9 times).

Net debt including IFRS 16 lease obligations declined by £178.8 million to £355.0 million at 31 December 2020 from £533.8 million at 31 December 2019.

The Group's policy is to retain its investment grade credit rating while investing in acquisitions and organic development opportunities that are expected to generate attractive returns and to maintain a progressive dividend policy.

## Liquidity

Grafton started the year in a very strong financial position and was well placed to respond to the adverse impact that the pandemic had on trading in the second quarter with excellent liquidity, a net cash position before IFRS 16 lease liabilities and a robust balance sheet.

The Group had liquidity of £811.2 million at 31 December 2020 (31 December 2019: £616.2 million) of which £452.0 million (31 December 2019: £344.8 million) was held in accessible cash and £359.2 million (31 December 2019: £271.4 million) in undrawn revolving bank facilities.

The Group had bilateral loan facilities of £490.7 million with six relationship banks at 31 December 2020 (31 December 2019: £ 476.7 million) and debt obligations of £143.8 million (31 December 2019: £136.1 million) from the issue of unsecured senior notes in the US Private Placement market.

The average maturity of the committed bank facilities and unsecured senior notes at 31 December 2020 was 3.7 years.

The Group secured access to the Bank of England's Covid Corporate Financing Facility as a precautionary measure and was approved to borrow up to £300 million. This facility was not utilised and a decision was made to allow it to lapse prior to the year end.

The Group's key financing objective continues to be to ensure that it has the necessary liquidity and resources to support the short, medium and long term funding requirements of the business. These resources together with strong cash flow from operations provide good liquidity and the capacity to fund investment in working capital, routine capital expenditure and development activity including acquisitions.

The Group's gross debt is drawn in euros and provides a hedge against exchange rate risk on euro assets in the businesses in Ireland and the Netherlands.

## IFRS 16 Leases

Leases that are recorded on the balance sheet principally relate to distribution and DIY branch properties, office buildings, cars and distribution vehicles.

IFRS 16 increased operating profit by £13.0 million (£12.8 million before exceptional loss) and the finance (interest) expense by £18.1 million in the year. Profit before tax was reduced by £5.1 million and profit after tax by £4.3 million as a result of IFRS 16. A bridge showing the impact of IFRS 16 is set out within the APM's.

It should be noted that the overall impact on the Income Statement of adopting IFRS 16 will be neutral over the life of a lease but will result in a higher charge in the earlier years following implementation and a lower charge in the later years.

The right-of-use asset in the balance sheet at 31 December 2020 was £505.9 million (31 December 2019: £522.2 million) and lease liabilities were £536.9 (31 December 2019: £543.4 million).

IFRS 16 did not alter the overall cashflows or the economic effect of the leases to which the Group is a party. Similarly, there was no effect on Grafton's banking covenants as a result of the implementation of IFRS 16 in 2019.

## Shareholders' Equity and Balance Sheet

The Group's balance sheet strengthened further with shareholders' equity up by £104.4 million to £1.47 billion (31 December 2019: £1.36 billion). Profit after tax increased shareholders' equity by £107.5 million and there was a gain of £11.8 million on translation of euro denominated net assets to sterling. Shareholders' equity was reduced by £18.1 million for a remeasurement loss on pension schemes and other changes increased equity by £3.2 million.

## Return on Capital Employed

Return on Capital Employed declined by 80 basis points to 13.6 per cent (2019: 14.4 per cent) and by 40 basis points to 10.4 per cent (2019: 10.8 per cent) including right of use assets under IFRS 16. The decline reflects the fall in profitability in the first half caused by the Covid-19 pandemic.

## Principal Risks and Uncertainties

The primary risks and uncertainties affecting the Group are set out on pages 48 to 53 of the 2019 Annual Report and will be updated in the 2020 Annual Report. These risks refer to Macro Economic Conditions in the UK, Ireland and the Netherlands including the Impact of Brexit; Colleagues; Pandemic Risk – Covid-19 Virus; Competition in Distribution, DIY and Mortar Markets; Information Technology Systems and Infrastructure; Cyber Security and Data Protection; Health and Safety; Acquisition and Integration of New Businesses; Supplier Management and Rebates; Internal Controls and Fraud; and Sustainability.

The Covid-19 pandemic has increased the potential impact of certain of these risks and the longer term impacts will depend on a range of factors including the duration and scope of the pandemic, the impact of the pandemic on economic activity in the UK, Ireland and the Netherlands and the nature and severity of measures adopted by governments in these countries, including restrictions on or temporarily requiring the closure of the Group's businesses including, distribution branches, DIY, Home and Garden stores, mortar manufacturing plants and StairBox, travel, regulations that require avoiding large gatherings and orders to self-quarantine or self-isolate. The Covid-19 pandemic may have significant negative impacts in the medium and long term on the Group's businesses. Changes in consumer behaviour as a result of government imposed lock downs and the need for people to self-quarantine or self-isolate or observe social distancing for an indeterminate period of time may lead to the closure of distribution branches, DIY, Home and Garden stores, mortar manufacturing plants and StairBox. The severity of government-imposed lock downs and the period for which they continue in the UK, Ireland and the Netherlands will have an impact on customer demand in those countries. A deterioration in the financial position of customers and consumers as a result of the Covid-19 pandemic may also impact demand for the Group's distribution, DIY and manufacturing products. In addition, disruptions as a result of Covid-19 to manufacturing, supply and distribution arrangements may also adversely impact the performance of the overall Group.

## Grafton Group plc

## Group Income Statement
### For the year ended 31 December 2020

| | Notes | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|---|
| **Revenue** | **2** | **2,509,089** | 2,672,281 |
| Operating costs | | **(2,327,338)** | (2,481,392) |
| Property profits | **3** | **2,613** | 6,894 |
| **Operating profit before exceptional items** | | **184,364** | 197,783 |
| Exceptional items | **3** | **(24,685)** | - |
| **Operating profit** | | **159,679** | 197,783 |
| Finance expense | **4** | **(27,639)** | (27,391) |
| Finance income | **4** | **698** | 2,249 |
| **Profit before tax** | | **132,738** | 172,641 |
| Income tax expense | **17** | **(25,196)** | (28,717) |
| **Profit after tax for the financial year from continuing operations** | | **107,542** | 143,924 |
| Loss after tax from discontinued operations | **14** | **-** | (24,692) |
| **Profit after tax for the financial year** | | **107,542** | 119,232 |
| | | | |
| ***Profit attributable to:*** | | | |
| Owners of the Company | | **107,542** | 119,232 |
| ***Profit attributable to:*** | | | |
| Continuing operations | | **107,542** | 143,924 |
| Discontinued operations | | **-** | (24,692) |
| | | | |
| **Earnings per ordinary share (continuing operations) - basic** | **5** | **45.1p** | 60.5p |
| **Earnings per ordinary share (continuing operations) - diluted** | **5** | **45.1p** | 60.3p |
| **Earnings per ordinary share (discontinued operations) - basic** | **5** | **-** | (10.4p) |
| **Earnings per ordinary share (discontinued operations) - diluted** | **5** | **-** | (10.3p) |
| **Earnings per ordinary share (total) - basic** | | **45.1p** | 50.1p |
| **Earnings per ordinary share (total) - diluted** | | **45.1p** | 50.0p |

## Grafton Group plc

## Group Statement of Comprehensive Income
**For the year ended 31 December 2020**

| | Notes | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| Profit after tax for the financial year | | **107,542** | 119,232 |
| **Other comprehensive income** | | | |
| **Items that are or may be reclassified subsequently to the income statement** | | | |
| **Currency translation effects:** | | | |
| - on foreign currency net investments | | **11,777** | (8,474) |
| - on disposal of Group businesses | | **-** | (664) |
| | | **11,777** | (9,138) |
| **Fair value movement on cash flow hedges:** | | | |
| - effective portion of changes in fair value of cash flow hedges | | **(74)** | (90) |
| - net change in fair value of cash flow hedges transferred from equity | | **-** | 151 |
| Deferred tax on cash flow hedges | | **-** | (9) |
| | | **11,703** | (9,086) |
| **Items that will not be reclassified to the income statement** | | | |
| Remeasurement loss on Group defined benefit pension schemes | 13 | **(21,779)** | (1,291) |
| Deferred tax on Group defined benefit pension schemes | | **3,709** | 373 |
| | | **(18,070)** | (918) |
| **Total other comprehensive income/(expense)** | | **(6,367)** | (10,004) |
| **Total comprehensive income for the financial year** | | **101,175** | 109,228 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **101,175** | 109,228 |
| **Total comprehensive income for the financial year** | | **101,175** | 109,228 |

## Grafton Group plc - Group Balance Sheet as at 31 December 2020

| | Notes | 31 Dec 2020 £'000 | 31 Dec 2019 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 15 | **704,064** | 657,845 |
| Intangible assets | 16 | **115,905** | 103,268 |
| Property, plant and equipment | 9 | **493,539** | 500,924 |
| Right-of-use asset | 8 | **505,922** | 522,245 |
| Investment properties | 9 | **12,328** | 12,526 |
| Deferred tax assets | | **13,386** | 7,600 |
| Lease receivable | | **2,015** | 2,417 |
| Retirement benefit assets | 13 | **2,099** | 756 |
| Other financial assets | | **128** | 127 |
| **Total non-current assets** | | **1,849,386** | 1,807,708 |
| | | | |
| **Current assets** | | | |
| Properties held for sale | 9 | **18,058** | 16,274 |
| Inventories | 10 | **321,558** | 317,632 |
| Trade and other receivables | 10 | **336,944** | 388,023 |
| Lease receivable | | **301** | 297 |
| Cash and cash equivalents | 11 | **456,028** | 348,787 |
| Derivative financial instruments | 11 | **-** | 7 |
| **Total current assets** | | **1,132,889** | 1,071,020 |
| | | | |
| **Total assets** | | **2,982,275** | 2,878,728 |
| | | | |
| **EQUITY** | | | |
| Equity share capital | | **8,569** | 8,516 |
| Share premium account | | **216,496** | 213,719 |
| Capital redemption reserve | | **621** | 621 |
| Revaluation reserve | | **12,733** | 12,954 |
| Shares to be issued reserve | | **6,714** | 12,889 |
| Cash flow hedge reserve | | **(65)** | 9 |
| Foreign currency translation reserve | | **81,919** | 70,142 |
| Retained earnings | | **1,143,933** | 1,047,698 |
| Treasury shares held | | **(3,897)** | (3,897) |
| **Total equity attributable to owners of the Parent** | | **1,467,023** | 1,362,651 |
| | | | |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 11 | **274,030** | 339,261 |
| Lease liabilities | 11 | **479,019** | 487,999 |
| Provisions | | **20,620** | 15,785 |
| Retirement benefit obligations | 13 | **52,683** | 21,939 |
| Deferred tax liabilities | | **54,399** | 47,109 |
| **Total non-current liabilities** | | **880,751** | 912,093 |
| | | | |
| **Current liabilities** | | | |
| Lease liabilities | 11 | **57,915** | 55,368 |
| Derivative financial instruments | 11 | **65** | - |
| Trade and other payables | 10 | **545,949** | 511,855 |
| Current income tax liabilities | | **21,116** | 27,461 |
| Provisions | | **9,456** | 9,300 |
| **Total current liabilities** | | **634,501** | 603,984 |
| | | | |
| **Total liabilities** | | **1,515,252** | 1,516,077 |
| | | | |
| **Total equity and liabilities** | | **2,982,275** | 2,878,728 |

# Grafton Group plc - Group Cash Flow Statement
## For the year ended 31 December 2020

| | Notes | 31 Dec 2020 £'000 | 31 Dec 2019 £'000 |
|---|---|---|---|
| Profit before taxation from continuing operations | | **132,738** | 172,641 |
| (Loss) before taxation from discontinued operations | 14 | **-** | (23,564) |
| **Profit before taxation** | | **132,738** | 149,077 |
| Finance income | | **(698)** | (2,249) |
| Finance expense *(continuing and discontinued)* | | **27,639** | 27,391 |
| **Operating profit** | | **159,679** | 174,219 |
| Depreciation | 8,9 | **107,212** | 105,137 |
| Amortisation of intangible assets | 16 | **14,146** | 9,634 |
| Share-based payments charge | | **719** | 6,171 |
| Movement in provisions | | **3,954** | 4,876 |
| Asset impairment and fair value (gains)/losses | 8,9 | **5,498** | 1,982 |
| Loss/(profit) on sale of property, plant and equipment | 9 | **1,294** | (672) |
| Property profit | 9 | **(2,613)** | (6,894) |
| Loss on disposal of Group businesses | 14 | **-** | 19,828 |
| Contributions to pension schemes in excess of IAS 19 charge | | **6,639** | 116 |
| Decrease/(increase) in working capital | 10 | **81,164** | (23,261) |
| **Cash generated from operations** | | **377,692** | 291,136 |
| Interest paid | | **(27,272)** | (25,911) |
| Income taxes paid | | **(34,087)** | (31,752) |
| **Cash flows from operating activities** | | **316,333** | 233,473 |
| **Investing activities** | | | |
| *Inflows* | | | |
| Proceeds from sale of property, plant and equipment | 9 | **816** | 2,651 |
| Proceeds from sale of properties held for sale | 9 | **6,378** | 14,705 |
| Proceeds from sale of Group businesses (net) | 14 | **-** | 66,513 |
| Interest received | | **698** | 1,059 |
| | | **7,892** | 84,928 |
| *Outflows* | | | |
| Acquisition of subsidiary undertakings (net of cash acquired) | 14 | **(47,508)** | (92,583) |
| Investment in intangible assets – computer software | 16 | **(1,893)** | (2,059) |
| Purchase of property, plant and equipment | 9 | **(35,182)** | (50,375) |
| | | **(84,583)** | (145,017) |
| **Cash flows from investing activities** | | **(76,691)** | (60,089) |
| **Financing activities** | | | |
| *Inflows* | | | |
| Proceeds from the issue of share capital | | **2,830** | 291 |
| Proceeds from borrowings | | **261,099** | 116,256 |
| | | **263,929** | 116,547 |
| *Outflows* | | | |
| Repayment of borrowings | | **(348,636)** | (59,590) |
| Dividends paid | 6 | **-** | (43,986) |
| Treasury shares purchased | | **-** | (6,080) |
| Payment on lease liabilities | | **(56,493)** | (52,835) |
| | | **(405,129)** | (162,491) |
| **Cash flows from financing activities** | | **(141,200)** | (45,944) |
| **Net increase in cash and cash equivalents** | | **98,442** | 127,440 |
| Cash and cash equivalents at 1 January | | **348,787** | 222,984 |
| Effect of exchange rate fluctuations on cash held | | **8,799** | (1,637) |
| **Cash and cash equivalents at the end of the year** | | **456,028** | 348,787 |
| **Cash and cash equivalents are broken down as follows:** | | | |
| Cash at bank and short-term deposits | | **456,028** | 348,787 |

# Grafton Group plc - Group Statement of Changes in Equity

| | Equity share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Revaluation reserve £'000 | Shares to be issued reserve £'000 | Cash Flow hedge reserve £'000 | Foreign currency translation reserve £'000 | Retained earnings £'000 | Treasury shares £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year to 31 December 2020** | | | | | | | | | | |
| At 1 January 2020 | 8,516 | 213,719 | 621 | 12,954 | 12,889 | 9 | 70,142 | 1,047,698 | (3,897) | 1,362,651 |
| Profit after tax for the financial year | - | - | - | - | - | - | - | 107,542 | - | 107,542 |
| **Total other comprehensive income** | | | | | | | | | | |
| Remeasurement loss on pensions (net of tax) | - | - | - | - | - | - | - | (18,070) | - | (18,070) |
| Movement in cash flow hedge reserve (net of tax) | - | - | - | - | - | (74) | - | - | - | (74) |
| Currency translation effect on foreign currency net investments | - | - | - | - | - | - | 11,777 | - | - | 11,777 |
| **Total other comprehensive income** | - | - | - | - | - | (74) | 11,777 | (18,070) | - | (6,367) |
| **Total comprehensive income** | - | - | - | - | - | (74) | 11,777 | 89,472 | - | 101,175 |
| **Transactions with owners of the Company recognised directly in equity** | | | | | | | | | | |
| Dividends paid (Note 6) | - | - | - | - | - | - | - | - | - | - |
| Issue of Grafton Units | 53 | 2,777 | - | - | - | - | - | - | - | 2,830 |
| Share based payments charge | - | - | - | - | 719 | - | - | - | - | 719 |
| Tax on share based payments | - | - | - | - | (352) | - | - | - | - | (352) |
| Transfer from shares to be issued reserve | - | - | - | - | (6,542) | - | - | 6,542 | - | - |
| Transfer from revaluation reserve | - | - | - | (221) | - | - | - | 221 | - | - |
| | 53 | 2,777 | - | (221) | (6,175) | - | - | 6,763 | - | 3,197 |
| **At 31 December 2020** | 8,569 | 216,496 | 621 | 12,733 | 6,714 | (65) | 81,919 | 1,143,933 | (3,897) | 1,467,023 |
| | | | | | | | | | | |
| **Year to 31 December 2019** | | | | | | | | | | |
| At 1 January 2019 | 8,514 | 213,430 | 621 | 13,146 | 11,220 | (43) | 79,280 | 974,271 | (3,897) | 1,296,542 |
| Profit after tax for the financial year | - | - | - | - | - | - | - | 119,232 | - | 119,232 |
| **Total other comprehensive income** | | | | | | | | | | |
| Remeasurement loss on pensions (net of tax) | - | - | - | - | - | - | - | (918) | - | (918) |
| Movement in cash flow hedge reserve (net of tax) | - | - | - | - | - | 52 | - | - | - | 52 |
| Currency translation effect on foreign currency net investments | - | - | - | - | - | - | (9,138) | - | - | (9,138) |
| **Total other comprehensive income** | - | - | - | - | - | 52 | (9,138) | (918) | - | (10,004) |
| **Total comprehensive income** | - | - | - | - | - | 52 | (9,138) | 118,314 | - | 109,228 |
| **Transactions with owners of the Company recognised directly in equity** | | | | | | | | | | |
| Dividends paid (Note 6) | - | - | - | - | - | - | - | (43,986) | - | (43,986) |
| Issue of Grafton Units | 2 | 289 | - | - | - | - | - | - | - | 291 |
| Share based payments charge | - | - | - | - | 6,171 | - | - | - | - | 6,171 |
| Tax on share based payments | - | - | - | - | 485 | - | - | - | - | 485 |
| Transfer from shares to be issued reserve | - | - | - | - | (4,987) | - | - | 4,987 | - | - |
| Purchase of treasury shares | - | - | - | - | - | - | - | - | (6,080) | (6,080) |
| Cancellation of treasury shares | - | - | - | - | - | - | - | (6,080) | 6,080 | - |
| Transfer from revaluation reserve | - | - | - | (192) | - | - | - | 192 | - | - |
| | 2 | 289 | - | (192) | 1,669 | - | - | (44,887) | - | (43,119) |
| **At 31 December 2019** | 8,516 | 213,719 | 621 | 12,954 | 12,889 | 9 | 70,142 | 1,047,698 | (3,897) | 1,362,651 |

# Grafton Group plc
## Notes to Final Results for the year ended 31 December 2020

### 1. General Information

Grafton Group plc ("Grafton" or "the Group") is an international distributor of building materials to trade customers who are primarily engaged in residential repair, maintenance and improvement projects and house building.

The Group has leading regional or national market positions in the distribution markets in the UK, Ireland and the Netherlands. Grafton is also the market leader in the DIY retailing market in Ireland and is the largest manufacturer of dry mortar in Great Britain.

The Group's origins are in Ireland where it is headquartered, managed and controlled. It has been a publicly quoted company since 1965 and its Units (shares) are quoted on the London Stock Exchange where it is a constituent of the FTSE 250 Index and the FTSE All-Share Index.

The financial information presented in this preliminary release does not constitute full statutory financial statements. The Final Results Announcement was approved by the Board of Directors. The annual report and financial statements will be approved by the Board of Directors and reported on by the auditors in due course. Accordingly, the financial information is unaudited. The Annual Report for the year ended 31 December 2019 has been filed with the Irish Registrar of Companies. The audit report on those statutory financial statements was unqualified.

### Basis of Preparation, Accounting Policies and Estimates

*(a) Basis of Preparation and Accounting Policies*

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('EU'); and those parts of the Companies Act 2014 applicable to companies reporting under IFRS.

The financial information in this report has been prepared in accordance with the Group's accounting policies. Full details of the accounting policies adopted by the Group are contained in the consolidated financial statements included in the Group's Annual Report for the year ended 31 December 2019 which is available on the Group's website; www.graftonplc.com.

The accounting policies and methods of computation and presentation adopted in the preparation of the Group financial information are consistent with those described and applied in the annual report for the year ended 31 December 2019, except for those noted below. The financial information includes all adjustments that management considers necessary for a fair presentation of such financial information. All such adjustments are of a normal recurring nature. Certain tables in the financial information may not add precisely due to rounding.

*Going Concern*

The Group's net cash position, before recognising lease liabilities, increased to £181.9 million at 31 December 2020 from £7.8 million at 31 December 2019. The Group had liquidity of £811.2 million at 31 December 2020 of which £452.0 million was held in accessible cash and £359.2 million in undrawn revolving bank facilities. No refinancing of debt is due until March 2023, the Group does not have a leverage (net debt/EBITDA) covenant in its financing arrangements and its assets are unsecured.

Having made appropriate enquiries and regard to the above information, the Directors have a reasonable expectation that Grafton Group plc, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future, being 12 months from the date of approval of the Full Year Report. Having reassessed the principal risks, as detailed on page 19, in particular the impact of the Covid-19 pandemic and based on expected cashflows, the strong liquidity position of the Group, the directors considered it appropriate to adopt the going concern basis of accounting in preparing its financial statements.

## 1. General Information (continued)

*(b) Estimates*

In preparing the Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2019. Actual results may differ from estimates calculated using these judgements and assumptions.

*Goodwill*

Goodwill is subject to impairment testing on an annual basis and at any time during the year if an indicator of impairment is considered to exist. In view of the impact on the Group's businesses in the UK and Ireland from the introduction of national lockdowns which resulted in the temporary closure of the majority of the branches, the impairment review conducted at the end of 2019 was updated at 31 December 2020. The impairment testing process resulted in no impairment of goodwill.

### Impacts of standards and interpretations in issue but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods or on transactions in the foreseeable future.

### Impacts of standards effective from 1 January 2020

Certain new accounting standards and interpretations have been published that are effective from 1 January 2020. These standards did not have a material impact on the Group in the current reporting period and are not expected to have a material impact on future reporting periods and on foreseeable future transactions.

## 2. Segmental Analysis

The amount of revenue and operating profit under the Group's reportable segments of Distribution, Retailing and Manufacturing is shown below. Segment profit measure is operating profit before exceptional items and amortisation of intangible assets arising on acquisitions. The impact of IFRS 16 "Leases" on the individual CGU's is set out within the APM's.

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| **Revenue** | | |
| UK distribution | **1,460,732** | 1,710,829 |
| Ireland distribution | **463,894** | 464,784 |
| Netherlands distribution | **276,563** | 211,820 |
| Total distribution – continuing | **2,201,189** | 2,387,433 |
| Retailing | **246,576** | 205,465 |
| Manufacturing | **71,723** | 92,362 |
| Less: inter-segment revenue – manufacturing | **(10,399)** | (12,979) |
| **Total revenue from continuing operations** | **2,509,089** | 2,672,281 |
| | | |
| **Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions** | | |
| UK distribution | **76,392** | 105,145 |
| Ireland distribution | **41,848** | 43,051 |
| Netherlands distribution | **28,538** | 19,915 |
| Total distribution – continuing | **146,778** | 168,111 |
| Retailing | **42,028** | 22,641 |
| Manufacturing | **13,301** | 18,633 |
| | **202,107** | 209,385 |
| **Reconciliation to consolidated operating profit** | | |
| Central activities | **(11,419)** | (11,522) |
| | **190,688** | 197,863 |
| Property profits | **2,613** | 6,894 |
| **Operating profit before exceptional items and intangible amortisation arising on acquisitions** | **193,301** | 204,757 |
| | | |
| Amortisation of intangible assets arising on acquisitions | **(8,937)** | (6,974) |
| **Operating profit before exceptional items** | **184,364** | 197,783 |
| | | |
| Exceptional items | **(24,685)** | - |
| **Operating profit** | **159,679** | 197,783 |
| | | |
| Finance expense | **(27,639)** | (27,391) |
| Finance income | **698** | 2,249 |
| **Profit before tax** | **132,738** | 172,641 |
| | | |
| Income tax expense | **(25,196)** | (28,717) |
| **Profit after tax for the financial year from continuing operations** | **107,542** | 143,924 |
| | | |
| Loss after tax from discontinued operations | **-** | (24,692) |
| **Profit after tax for the financial year** | **107,542** | 119,232 |

## 2. Segmental Analysis (continued)

The amount of revenue by geographic area is as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Revenue*** | | |
| United Kingdom | **1,517,093** | 1,785,451 |
| Ireland | **715,433** | 675,010 |
| Netherlands | **276,563** | 211,820 |
| Total revenue – continuing operations | **2,509,089** | 2,672,281 |

*Service revenue, which is recognised over time, amounted to £29.8 million for the year (2019: £35.9 million).

Operating segment assets are analysed below:

| | 31 Dec 2020 £'000 | 31 Dec 2019 £'000 |
|---|---|---|
| **Segment assets** | | |
| Distribution | **2,190,663** | 2,259,418 |
| Retailing | **216,907** | 213,167 |
| Manufacturing | **103,064** | 48,866 |
| | **2,510,634** | 2,521,451 |
| **Unallocated assets** | | |
| Deferred tax assets | **13,386** | 7,600 |
| Retirement benefit assets | **2,099** | 756 |
| Other financial assets | **128** | 127 |
| Derivative financial instruments (current) | **-** | 7 |
| Cash and cash equivalents | **456,028** | 348,787 |
| **Total assets** | **2,982,275** | 2,878,728 |

Operating segment liabilities are analysed below:

| | 31 Dec 2020 £'000 | 31 Dec 2019 £'000 |
|---|---|---|
| **Segment liabilities** | | |
| Distribution | **861,964** | 858,124 |
| Retailing | **225,258** | 203,684 |
| Manufacturing | **25,737** | 18,499 |
| | **1,112,959** | 1,080,307 |
| **Unallocated liabilities** | | |
| Interest bearing loans and borrowings (non-current) | **274,030** | 339,261 |
| Retirement benefit obligations | **52,683** | 21,939 |
| Deferred tax liabilities | **54,399** | 47,109 |
| Current income tax liabilities | **21,116** | 27,461 |
| Derivative financial instruments (current) | **65** | - |
| **Total liabilities** | **1,515,252** | 1,516,077 |

## 3. Operating Profit & Exceptional Items

Operating profit includes Government Assistance of £19.6 million in respect of the Coronavirus Job Retention Scheme in the UK. Any assistance received in respect of the Temporary Covid-19 Wage Subsidy Scheme in Ireland was subsequently repaid. In addition, rates relief income in the UK and Ireland amounted to £11.1 million and is included in operating profit. The Group incurred additional costs in relation to Covid-19 with regard to PPE, safety screens, signage, training and other items and this amounted to £3.6 million in the year.

The property profit of £2.6 million (2019: £6.9 million) relates to the disposal of eight properties in the UK and one property in the Netherlands (2019: seven UK properties and three Irish properties).

Branch and organisational changes were implemented in our traditional UK merchanting business in the second half. These measures provide sustainable benefits to the business and resulted in an exceptional charge of £24.7 million, including changes related to defined benefit pension scheme arrangements.

| | **Exceptional items £'000** |
|---|---|
| Redundancy | **7,653** |
| Fixed asset write-offs | **1,809** |
| Inventory write-offs | **1,151** |
| Pension (Note 13) | **8,019** |
| Lease impairments/terminations | **2,176** |
| Dilapidation provisions | **838** |
| Other | **3,039** |
| **Total exceptional items recognised in the income statement** | **24,685** |

## 4. Finance Expense and Finance Income

| | **2020 £'000** | | 2019 £'000 | |
|---|---|---|---|---|
| **Finance expense** | | | | |
| Interest on bank loans, US senior notes and overdrafts | **8,218** | * | 7,101 | * |
| Net change in fair value of cash flow hedges transferred from equity | **-** | | 151 | |
| Interest on lease liabilities | **18,256** | * | 19,728 | * |
| Net finance cost on pension scheme obligations | **339** | | 411 | |
| Foreign exchange loss | **826** | | - | |
| | **27,639** | | 27,391 | |
| **Finance income** | | | | |
| Interest income on bank deposits | **(698)** | * | (1,059) | * |
| Foreign exchange gain | **-** | | (1,190) | |
| | **(698)** | | (2,249) | |
| Net finance expense | **26,941** | | 25,142 | |

* Net bank/loan note interest of £7.5 million (2019: £6.0 million). Including interest on lease liabilities, this amounts to £25.8 million (2019: £25.8 million).

## 5. Earnings per Share

The computation of basic, diluted and underlying earnings per share is set out below.

| | **Year Ended 31 Dec 2020 £'000** | Year Ended 31 Dec 2019 £'000 |
|---|---|---|
| **Numerator for basic, adjusted and diluted earnings per share:** | | |
| Profit after tax for the financial year from continuing operations | **107,542** | 143,924 |
| Loss after tax for the financial year from discontinued operations | **-** | (24,692) |
| **Numerator for basic and diluted earnings per share** | **107,542** | 119,232 |
| Profit after tax for the financial year from continuing operations | **107,542** | 143,924 |
| Exceptional items | **24,685** | - |
| Tax relating to exceptional items | **(3,980)** | - |
| Amortisation of intangible assets arising on acquisitions | **8,937** | 6,974 |
| Tax relating to amortisation of intangible assets arising on acquisitions | **(2,013)** | (1,474) |
| **Numerator for adjusted earnings per share** | **135,171** | 149,424 |
| | **Number of Grafton Units** | Number of Grafton Units |
| **Denominator for basic and adjusted earnings per share:** | | |
| Weighted average number of Grafton Units in issue | **238,379,488** | 237,785,154 |
| Dilutive effect of options and awards | **82,675** | 797,483 |
| **Denominator for diluted earnings per share** | **238,462,163** | 238,582,637 |
| **Earnings per share (pence) – from total operations** | | |
| - Basic | **45.1** | 50.1 |
| - Diluted | **45.1** | 50.0 |
| **Earnings per share (pence) – from continuing operations** | | |
| - Basic | **45.1** | 60.5 |
| - Diluted | **45.1** | 60.3 |
| **Earnings per share (pence) – from discontinued operations** | | |
| - Basic | **-** | (10.4) |
| - Diluted | **-** | (10.3) |
| **Adjusted earnings per share (pence) – from continuing operations** | | |
| - Basic | **56.7** | 62.8 |
| - Diluted | **56.7** | 62.6 |

## 6. Dividends

On 24 March 2020, the Group announced that, as a precautionary measure to preserve liquidity in light of Covid-19, it was suspending the second interim dividend for 2019 of 12.5p per share, which was due to be paid on 6 April 2020. On 21 January 2021, the Group announced the reinstatement of this dividend and it was paid on 19 February 2021 in the amount of £29.9 million.

The Board is acutely aware of the need to balance the interests of all stakeholders and of the importance of dividends to the Group's shareholders. Following the decision not to declare an interim dividend, and in the light of the Group's profitable trading in the second half of 2020 and net cash position at the end of the year, the Board has given much consideration to the payment of a final dividend for the 2020 financial year. A final dividend for the year ended 31 December 2020 of 14.5p per ordinary share in Grafton Group plc is proposed for approval by shareholders at the AGM on 28 April 2021. This is down 23.7 per cent on total dividends of 19.0p paid for 2019. Dividend cover was 3.9 times (2019: 3.3 times).

The final dividend for 2020 and future dividends will be paid by Grafton Group plc following the simplification of the Grafton Unit which was approved by shareholders at the EGM on 21 January 2021 and which takes effect at 6.00pm on 7 March 2021.

It is proposed to pay the final dividend for 2020 on 5 May 2021 to shareholders on the Register of Members at the close of business on 9 April 2021, the record date. The ex-dividend date is 8 April 2021.

Shareholders existing currency elections and currency payment defaults will remain in place unless revoked or otherwise amended by shareholders. Therefore, the final dividend will be paid in Pounds Sterling or in euro in accordance with their existing payment instructions. If no such instructions are in place, the currency for dividend payments will be Pounds Sterling. The position is different for investors holding CREST Depositary Interests ("**CDIs**") as they will need to set their default currency with Euroclear UK & Ireland Limited. Investors holding their interests in the Euroclear Bank system, will be paid in Pounds Sterling, unless a currency election is made through the Euroclear Bank system. The latest date for receipt of currency elections (and shareholder DWT exemption forms) by the Company's registrar is the close of business on 16 April 2021. Earlier closing dates may apply to holders in Euroclear Bank and in CREST.

A liability in respect of any future dividend has not been recognised at 31 December 2020, as there was no present obligation to pay any dividends at year end.

## 7. Exchange Rates

The results and cash flows of subsidiaries with euro functional currencies have been translated into sterling using the average exchange rate for the year. The balance sheets of subsidiaries with euro functional currencies have been translated into sterling at the rate of exchange ruling at the balance sheet date. The average sterling/euro rate of exchange for the year ended 31 December 2020 was Stg88.97p (2019: Stg87.78p). The sterling/euro exchange rate at 31 December 2020 was Stg89.90p (2019: Stg85.08p).

## 8. Right-Of-Use Asset

| | Right-of-use asset £'000 |
|---|---|
| **Recognised at 1 January 2020** | 522,245 |
| Additions | 20,003 |
| Acquisitions (Note 14) | 8,669 |
| Depreciation | (62,240) |
| Impairments | (3,448) |
| Disposals | (4,545) |
| Remeasurements | 12,690 |
| Currency translation adjustment | 12,548 |
| **As at 31 December 2020** | 505,922 |

Further detail on the impact of IFRS 16 "Leases" is set out within the APM's.

## 9. Property, Plant and Equipment, Properties Held for Sale and Investment Properties

| | Property, plant and equipment £'000 | Properties held for sale £'000 | Investment properties £'000 |
|---|---|---|---|
| **Net Book Value** | | | |
| **As at 1 January 2020** | 500,924 | 16,274 | 12,526 |
| Additions | 35,182 | - | - |
| Acquisitions (Note 14) | 2,428 | - | - |
| Depreciation | (44,972) | - | - |
| Disposals | (2,110) | (3,765) | - |
| Impairments & property revaluations | (2,025) | (25) | - |
| Transfer to properties held for sale | (3,901) | 3,901 | - |
| Transfer to investment properties | (313) | - | 313 |
| Transfer from investment properties | 101 | 810 | (911) |
| Currency translation adjustment | 8,225 | 863 | 400 |
| **As at 31 December 2020** | 493,539 | 18,058 | 12,328 |

## 10. Movement in Working Capital

| | Inventories £'000 | Trade and other receivables £'000 | Trade and other payables £'000 | Total £'000 |
|---|---|---|---|---|
| **At 1 January 2020** | 317,632 | 388,023 | (511,855) | 193,800 |
| Currency translation adjustment | 7,524 | 6,930 | (10,554) | 3,900 |
| Acquisitions (Note 14) | 4,974 | 1,933 | (5,211) | 1,696 |
| Deferred acquisition consideration (Note 14) | - | - | (5,679) | (5,679) |
| Working capital movement in 2020 | (8,572) | (59,942) | (12,650) | (81,164) |
| **At 31 December 2020** | 321,558 | 336,944 | (545,949) | 112,553 |

## 11. Interest-Bearing Loans, Borrowings and Net Debt

| | 31 Dec 2020 £'000 | 31 Dec 2019 £'000 |
|---|---|---|
| **Non-current liabilities** | | |
| Bank loans | **130,842** | 203,814 |
| US senior notes | **143,188** | 135,447 |
| **Total non-current interest-bearing loans and borrowings** | **274,030** | 339,261 |
| | | |
| **Leases** | | |
| Included in non-current liabilities | **479,019** | 487,999 |
| Included in current liabilities | **57,915** | 55,368 |
| **Total leases** | **536,934** | 543,367 |
| | | |
| **Derivatives** | | |
| Included in current assets | **-** | (7) |
| Included in current liabilities | **65** | - |
| **Total derivatives** | **65** | (7) |
| | | |
| **Cash and cash equivalents** | **(456,028)** | (348,787) |
| **Net debt** | **355,001** | 533,834 |
| | | |
| **Net cash – excluding the impact of leases** | **181,933** | 7,823 |

The following table shows the fair value of financial assets and liabilities including their level in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | 31 Dec 2020 £'000 | 31 Dec 2019 £'000 |
|---|---|---|
| **Liabilities/(assets) measured at fair value** | | |
| *Designated as hedging instruments* | | |
| Interest rate swaps and other derivatives (Level 2) | **65** | (7) |
| | | |
| **Liabilities not measured at fair value** | | |
| *Liabilities at amortised cost* | | |
| Bank loans | **131,521** | 205,295 |
| US senior notes | **143,840** | 136,128 |
| Lease liabilities | **536,934** | 543,367 |
| | **812,295** | 884,790 |

*Financial assets and liabilities recognised at amortised cost*
Except as detailed above, it is considered that the carrying amounts of financial assets and liabilities including trade payables, trade receivables, net debt and deferred consideration, which are recognised at amortised cost in the year-end financial statements, approximate to their fair values.

*Financial assets and liabilities carried at fair value*
All of the Group's financial assets and liabilities which are carried at fair value are classified as Level 2 in the fair value hierarchy. There have been no transfers between levels in the current year. Fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The fair values of interest rate swaps are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using forward currency rates and market interest rates as applicable for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate.

## 12. Reconciliation of Net Cash Flow to Movement in Net Debt

The impact of IFRS 16 on net debt is also set out within the APM's.

| | **31 Dec 2020 £'000** | 31 Dec 2019 £'000 |
|---|---|---|
| Net increase in cash and cash equivalents | **98,442** | 127,440 |
| Net movement in derivative financial instruments | **(72)** | 61 |
| Bank loans and loan notes acquired with subsidiaries (Note 14) | **-** | (27,420) |
| Bank loans and loan notes disposed (Note 14) | **-** | 1,177 |
| Movement in debt and lease financing | **107,329** | (610,062) |
| **Change in net debt resulting from cash flows** | **205,699** | (508,804) |
| Currency translation adjustment | **(26,866)** | 28,057 |
| **Movement in net debt in the year** | **178,833** | (480,747) |
| Net debt at 1 January | **(533,834)** | (53,087) |
| **Net debt at end of the year** | **(355,001)** | (533,834) |
| **Gearing** | **(24%)** | (39%) |

## 13. Retirement Benefits

The principal financial assumptions employed in the valuation of the Group's defined benefit scheme liabilities for the current and prior year were as follows:

| | Irish Schemes | | UK Schemes | |
|---|---|---|---|---|
| | **At 31 Dec 2020** | At 31 Dec 2019 | **At 31 Dec 2020** | At 31 Dec 2019 |
| Rate of increase in salaries | **2.25%** | 2.30% | **0.00%*** | 0.00%* |
| Rate of increase of pensions in payment | **-** | - | **2.70%** | 2.90% |
| Discount rate | **0.70%** | 1.05% | **1.40%** | 2.10% |
| Inflation | **1.05%** | 1.10% | **2.00%**** | 1.90%** |

* Pensionable salaries are not adjusted for inflation
** The inflation assumption shown for the UK is based on the Consumer Price Index (CPI)

The following table provides a reconciliation of the scheme assets (at bid value) and the actuarial value of scheme liabilities:

| | Assets | | Liabilities | | Net asset/(deficit) | |
|---|---|---|---|---|---|---|
| | **Year to 31 Dec 2020** | Year to 31 Dec 2019 | **Year to 31 Dec 2020** | Year to 31 Dec 2019 | **Year to 31 Dec 2020** | Year to 31 Dec 2019 |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| **At 1 January** | **249,933** | 230,671 | **(271,116)** | (250,834) | **(21,183)** | (20,163) |
| Acquired in year | **-** | - | **-** | (227) | **-** | (227) |
| Disposed in year | **-** | (1,575) | **-** | 1,998 | **-** | 423 |
| Interest income on plan assets | **3,998** | 5,352 | **-** | - | **3,998** | 5,352 |
| Contributions by employer | **4,209** | 2,956 | **-** | - | **4,209** | 2,956 |
| Contributions by members | **598** | 621 | **(598)** | (621) | **-** | - |
| Benefit payments | **(11,701)** | (11,376) | **11,701** | 11,376 | **-** | - |
| Current service cost | **-** | - | **(2,443)** | (2,443) | **(2,443)** | (2,443) |
| Other long-term benefit expense | **-** | - | **(81)** | (49) | **(81)** | (49) |
| Past service cost– exceptional (Note 3) | **-** | - | **(5,000)** | - | **(5,000)** | - |
| Curtailment cost– exceptional (Note 3) | **-** | - | **(2,463)** | - | **(2,463)** | - |
| Settlement cost | **-** | - | **-** | (580) | **-** | (580) |
| Interest cost on scheme liabilities | **-** | - | **(4,337)** | (5,763) | **(4,337)** | (5,763) |
| Administration costs– exceptional (Note 3) | **(556)** | - | **-** | - | **(556)** | - |
| Administration costs | **(305)** | - | **-** | - | **(305)** | - |
| **Remeasurements** | | | | | | |
| Actuarial (loss)/gains from: | | | | | | |
| -experience variations | **-** | - | **(4,433)** | 1,579 | **(4,433)** | 1,579 |
| -financial assumptions | **-** | - | **(27,394)** | (31,178) | **(27,394)** | (31,178) |
| -demographic assumptions | **-** | - | **(534)** | (1,048) | **(534)** | (1,048) |
| Return on plan assets excluding interest income | **10,582** | 29,356 | **-** | - | **10,582** | 29,356 |
| Translation adjustment | **6,846** | (6,072) | **(7,490)** | 6,674 | **(644)** | 602 |
| **At 31 December** | **263,604** | 249,933 | **(314,188)** | (271,116) | **(50,584)** | (21,183) |
| Related deferred tax asset (net) | | | | | **8,660** | 3,228 |
| **Net pension liability** | | | | | **(41,924)** | (17,995) |

## 13. Retirement Benefits (continued)

The net pension scheme deficit of £50.6 million is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £52.7 million and retirement benefit assets (non-current assets) of £2.1 million. £18.3 million of the retirement benefit obligations relates to schemes in Ireland and the Netherlands and £34.4 million relates to one UK scheme. £2.1 million of the retirement benefit asset relates to one scheme in Ireland.

The 2019 net pension scheme deficit of £21.2 million is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £21.9 million and retirement benefit assets (non-current assets) of £0.7 million. £10.8 million of the retirement benefit obligations relates to schemes in Ireland and the Netherlands and £11.1 million relates to one UK scheme. £0.3 million of the retirement benefit asset relates to a second UK scheme and £0.4 million to one scheme in Ireland.

## 14. Acquisitions and Discontinued Operations

**Acquisitions**

On 3 July 2020, the Group acquired the entire share capital (100%) of GDC Paints Ltd. ("GDC"). GDC is a five branch decorators merchant based in London. The acquisition of this leading specialist business provides Leyland SDM with complementary trading locations in Acton, Greenford, Cricklewood, Fulham and Tooting and increases the store network to 29. The business is incorporated in the distribution segment.

On 16 July 2020, the Group acquired the entire share capital (100%) of Daly Brothers (North East) Limited ("Daly's"). Daly's is a single branch builders distribution business located in Dundalk, County Louth that complements the Chadwicks branch network. The business is incorporated in the distribution segment.

On 30 November 2020, the Group announced the acquisition of AVC (StairBox) Ltd, an industry leading UK manufacturer and distributor of bespoke wooden staircases trading as "StairBox". With a production facility in Stoke-on-Trent, StairBox primarily delivers staircase solutions directly to trade customers operating in the residential repair, maintenance and improvement market across the UK and has a strong market position and brand that is synonymous with quality, value and exceptional customer service. The business is incorporated in the manufacturing segment.

*The provisional fair value of assets and liabilities acquired in 2020 are set out below:*

| | StairBox £'000 | Other £'000 | Total £'000 |
|---|---|---|---|
| Property, plant and equipment | 1,034 | 1,394 | 2,428 |
| Right-of-use asset | 6,233 | 2,436 | 8,669 |
| Intangible assets – customer relationships | - | 1,773 | 1,773 |
| Intangible assets – trade names | 5,936 | 340 | 6,276 |
| Intangible assets – technology | 14,466 | - | 14,466 |
| Inventories | 1,859 | 3,115 | 4,974 |
| Trade and other receivables | 383 | 1,550 | 1,933 |
| Trade and other payables | (2,619) | (2,592) | (5,211) |
| Lease liability | (6,233) | (2,436) | (8,669) |
| Corporation tax asset/(liability) | (471) | (331) | (802) |
| Deferred tax liability | (4,011) | (341) | (4,352) |
| Cash acquired | 7,279 | 4,351 | 11,630 |
| Net assets acquired | 23,856 | 9,259 | 33,115 |
| Goodwill | 26,291 | 5,411 | 31,702 |
| **Consideration** | 50,147 | 14,670 | 64,817 |
| | | | |
| *Satisfied by:* | | | |
| Cash paid | 44,868 | 14,270 | 59,138 |
| Deferred consideration (Note 10) | 5,279 | 400 | 5,679 |
| | 50,147 | 14,670 | 64,817 |
| | | | |
| **Net cash outflow – arising on acquisitions** | | | |
| | | | |
| Cash consideration | 44,868 | 14,270 | 59,138 |
| Less: cash and cash equivalents acquired | (7,279) | (4,351) | (11,630) |
| | 37,589 | 9,919 | 47,508 |

## 14. Acquisitions and Discontinued Operations (continued)

The fair value of the net assets acquired have been determined on a provisional basis. Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies to be realised as part of the enlarged Group.

Acquisitions contributed revenue of £9.6 million and operating profit of £1.5 million for the period from the date of acquisition to 31 December 2020. If all three acquisitions had occurred on 1 January 2020, they would have contributed revenue of £35.9 million and operating profit of £8.3 million in the year. The Group incurred acquisition costs of £1.4 million in 2020 (2019: £0.5 million) which are included in operating costs in the Group Income Statement.

**31 December 2019 - Discontinued Operations – Belgium Merchanting & Plumbase Limited**

The Group conducted a strategic review of its operations in Belgium in the context of its allocation and reallocation of capital. This resulted in a decision to divest of the business and a process was initiated to dispose of the operations. The Group completed the disposal of the Belgian distribution business on 4 October 2019. The Belgium Group was reported as a discontinued operation. The related goodwill allocated to the Belgium Group was written off in the year.

On 1 October 2019 the Group completed the disposal of Plumbase, its specialist UK plumbing and heating business, to Plumbing and Heating Investments Limited ("PHIL"), a UK company engaged in the distribution of plumbing and heating products, for an enterprise value of £66.75 million. After allowing for adjustments for debt-like items and working capital, net cash proceeds of £60.5m were received on completion with an additional £2.0 million due to the Group. The disposal of Plumbase is in line with the Group's strategy of orientating towards higher returning businesses with good long-term growth prospects. Plumbase was reported as a discontinued operation. The related goodwill allocated to the Plumbase was written off in the year.

*The carrying value of assets and liabilities disposed are set out below:*

| | Belgium | Plumbase | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Property, plant and equipment | 4,076 | 12,451 | 16,527 |
| Right-of-use asset | 9,728 | 14,188 | 23,916 |
| Inventories | 14,017 | 35,802 | 49,819 |
| Trade and other receivables | 15,839 | 45,042 | 60,881 |
| Trade and other payables | (14,992) | (48,049) | (63,041) |
| Lease liability | (9,712) | (13,761) | (23,473) |
| Provisions | - | (1,753) | (1,753) |
| Employee benefits | (423) | - | (423) |
| Corporation tax asset/(liability) | 25 | (527) | (502) |
| Deferred tax asset | 1,161 | - | 1,161 |
| Deferred tax liability | (1,698) | (56) | (1,754) |
| Debt disposed | (1,177) | - | (1,177) |
| Cash disposed | 2,185 | 8,236 | 10,421 |
| Goodwill disposed | 9,113 | 19,000 | 28,113 |
| Net assets disposed | 28,142 | 70,573 | 98,715 |
| Consideration received | (8,167) | (68,767) | (76,934) |
| Consideration receivable | - | (1,953) | (1,953) |
| **Loss/(profit) on disposal of Group businesses** | 19,975 | (147) | 19,828 |

**Net cash movement on disposal of Group businesses**

| | | | |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Proceeds on disposal | 8,167 | 68,767 | 76,934 |
| Cash and cash equivalents | (2,185) | (8,236) | (10,421) |
| **Total cash flow movement** | 5,982 | 60,531 | 66,513 |

## 14. Acquisitions and Discontinued Operations (continued)

**Amounts recognised in 2019 within discontinued operations**

| | £'000 | £'000 | £'000 |
|---|---|---|---|
| Loss/(profit) on disposal of Group businesses | 19,975 | (147) | 19,828 |
| Foreign currency reserve on disposed businesses | 664 | - | 664 |
| Result for the year from discontinued operations | (813) | (3,852) | (4,665) |
| Disposal costs* | 4,892 | 3,973 | 8,865 |
| **Total amount recognised as discontinued operations** | 24,718 | (26) | 24,692 |

*Disposal costs include professional fees of £4.5 million, asset impairments of £1.0 million, future lease commitment costs of £0.9 million, property registration costs of £1.2 million and other costs related to the divested businesses of £1.3 million.

**Results from discontinued operations**

| | 31 December 2019 £'000 |
|---|---|
| **Revenue** | 251,792 |
| Operating costs | (245,297) |
| **Operating profit pre exceptional items** | 6,495 |
| Exceptional items (see above) | (29,357) |
| **Operating (loss)/profit** | (22,862) |
| Net finance costs | (702) |
| **(Loss)/profit before tax** | (23,564) |
| Income tax | (1,128) |
| **(Loss)/profit after tax for the financial year** | (24,692) |

## 15. Goodwill

Goodwill is subject to impairment testing on an annual basis and more frequently if an indicator of impairment is considered to exist. The Board is satisfied that the carrying value of goodwill has not been impaired.

| | **Goodwill £'000** |
|---|---|
| **Net Book Value** | |
| **As at 1 January 2020** | **657,845** |
| Arising on acquisitions (Note 14) | **31,702** |
| Currency translation adjustment | **14,517** |
| **As at 31 December 2020** | **704,064** |

## 16. Intangible Assets

| | **Computer Software £'000** | **Trade Names £'000** | **Customer Relationships & Technology £'000** | **Total £'000** |
|---|---|---|---|---|
| **Net Book Value** | | | | |
| **As at 1 January 2020** | **36,195** | **5,507** | **61,566** | **103,268** |
| Additions | **1,893** | **-** | **-** | **1,893** |
| Arising on acquisitions (Note 14) | **-** | **6,276** | **16,239** | **22,515** |
| Amortisation | **(5,209)** | **(813)** | **(8,124)** | **(14,146)** |
| Currency translation adjustment | **67** | **187** | **2,121** | **2,375** |
| **As at 31 December 2020** | **32,946** | **11,157** | **71,802** | **115,905** |

## 16. Intangible Assets (continued)

The computer software asset of £32.9 million at 31 December 2020 (2019: £36.2 million) reflects the cost of the Group's investment on upgrading the IT systems and infrastructure that supports a number of UK businesses as part of a multi-year programme of investment.

The amortisation expense of £14.1 million (2019: £9.6 million) has been charged in 'operating costs' in the Group Income Statement. Amortisation on acquired intangibles amounted to £8.9 million (2019: £7.0 million).

## 17. Taxation

The income tax expense of £25.2 million (2019: £28.7 million) was equivalent to an effective tax rate of 19.0 per cent on profit from continuing operations (2019: 16.6 per cent). The rate is lower than the rate of 19.5 per cent guided at the time of our 2019 Final Results Announcement due to the higher proportion of profit in Ireland which is taxed at the rate of 12.5% and a favourable outcome in respect of prior years. The rate is based on the prevailing rates of corporation tax and the mix of profits between the UK, Ireland and the Netherlands. The tax rate is impacted by the disallowance of a tax deduction for certain overheads including depreciation on property. The tax rate for the Group is sensitive to changes in the UK rate of corporation tax which is currently 19 per cent. Legislation that was passed in 2016 to reduce the UK rate of corporation tax by two per cent to 17 per cent with effect from 1 April 2020 was reversed leading to a one-off increase in the charge for deferred tax which increased the Group rate by 1.4 per cent.

The liability shown for current taxation includes a liability for tax uncertainties and is based on the Directors' estimate of (i) the most likely amount; or (ii) the expected value of the probable outflow of economic resources that will be required. As with all estimates, the actual outcome may be different to the current estimate.

*Accounting estimates and judgements*
Management is required to make judgements and estimates in relation to taxation provisions and exposures. In the ordinary course of business, the Group is party to transactions for which the ultimate tax determination may be uncertain. As the Group is subject to taxation in a number of jurisdictions, an open dialogue is maintained with Revenue Authorities with a view to the timely agreement of tax returns. The amounts provided/recognised for tax are based on management's estimate having taken appropriate professional advice. If the final determination of these matters is different from the amounts that were initially recorded such differences could materially impact the income tax and deferred tax liabilities and assets in the period in which the determination was made.

*Deferred tax*
At 31 December 2020, there were unrecognised deferred tax assets in relation to capital losses of £1.7 million (31 December 2019: £1.6 million), trading losses of £2.0 million (31 December 2019: £1.9 million) and deductible temporary differences of £7.7 million (31 December 2019: £2.2 million).
Deferred tax assets were not recognised in respect of certain capital losses as they can only be recovered against certain classes of taxable profits. The Directors believe that it is not probable that such profits will arise in the foreseeable future. The trading losses arose in entities that have incurred losses in recent years and the Directors believe that it is not probable there will be sufficient taxable profits in the relevant entities against which they can be utilised. Separately, the Directors believe that it is not probable the deductible temporary differences will be utilised.

## 18. Related Party Transactions

There have been no new related party transactions. There were no other changes in related parties from those described in the 2019 Annual Report that materially affected the financial position or the performance of the Group during the year to 31 December 2020.

## 19. Events after the Balance Sheet Date

There have been no other material events subsequent to 31 December 2020 that would require adjustment to or disclosure in this report.

## 20. Board Approval

This announcement was approved by the Board of Grafton Group plc on 24 February 2021.

# Supplementary Financial Information

## Alternative Performance Measures

Certain financial information set out in this consolidated financial statements is not defined under International Financial Reporting Standards ("IFRS"). These key Alternative Performance Measures ("APMs") represent additional measures in assessing performance and for reporting both internally and to shareholders and other external users. The Group believes that the presentation of these APMs provides useful supplemental information which, when viewed in conjunction with IFRS financial information, provides readers with a more meaningful understanding of the underlying financial and operating performance of the Group.

None of these APMs should be considered as an alternative to financial measures drawn up in accordance with IFRS. The key Alternative Performance Measures ("APMs") of the Group are set out below. As amounts are reflected in £'m some non-material rounding differences may arise. Numbers that refer to 2019 are available in the 2019 Annual Report.

**Note:** *Plumbase and the Belgium Merchanting business are classified as discontinued operations for the year ended 31 December 2019. The revenue and operating profit of both businesses are excluded from the Group. Revenue and the operating result is reflected in the (loss)/profit after tax from discontinued operations.*

| APM | Description |
|---|---|
| **Adjusted operating profit/EBITA** | Profit before amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense. |
| **Operating profit/EBITA margin** | Profit before net finance expense and income tax expense as a percentage of revenue. |
| **Adjusted operating profit/EBITA before property profit** | Profit before profit on the disposal of Group properties, amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense. |
| **Adjusted operating profit/EBITA margin before property profit** | Adjusted operating profit/EBITA before property profit as a percentage of revenue. |
| **Adjusted profit before tax** | Profit before amortisation of intangible assets arising on acquisitions, exceptional items and income tax expense. |
| **Adjusted profit after tax** | Profit before amortisation of intangible assets arising on acquisitions and exceptional items but after deducting the income tax expense. |
| **Capital Turn** | Revenue for the previous 12 months divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end). |
| **Constant Currency** | Constant currency reporting is used by the Group to eliminate the translational effect of foreign exchange on the Group's results. To arrive at the constant currency change, the results for the prior period are retranslated using the average exchange rates for the current period and compared to the current period reported numbers. |
| **Dividend Cover** | Group earnings per share divided by the total dividend per share for the Group. |

| | |
|---|---|
| **EBITDA** | Profit before exceptional items, net finance expense, income tax expense, depreciation and amortisation of intangible assets arising on acquisitions. EBITDA (rolling 12 months) is EBITDA for the previous 12 months. |
| **EBITDA Interest Cover** | EBITDA divided by net bank/loan note interest. |
| **Gearing** | The Group net debt divided by the total equity attributable to owners of the Parent times 100, expressed as a percentage. |
| **Like-for-like revenue** | Changes in like-for-like revenue is a measure of underlying revenue performance for a selected period. Branches contribute to like-for-like revenue once they have been trading for more than twelve months. Acquisitions contribute to like-for-like revenue once they have been part of the Group for more than 12 months. When branches close, or where a business is disposed of, revenue from the date of closure, for a period of 12 months, is excluded from the prior year result. |
| **Return on Capital Employed** | Operating profit divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100, expressed as a percentage. |
| **Adjusted Earnings per Share** | A measure of underlying profitability of the Group. Adjusted profit after tax is divided by the weighted average number of Grafton Units in issue, excluding treasury shares. |

### Adjusted Operating Profit/EBITA before Property Profit

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Revenue - continuing | **2,509.1** | 2,672.3 |
| | | |
| Operating profit | **159.7** | 197.8 |
| Property profit | **(2.6)** | (6.9) |
| Exceptional items | **24.7** | - |
| Amortisation of intangible assets arising on acquisitions | **8.9** | 7.0 |
| Adjusted operating profit/EBITA before property profit | **190.7** | 197.9 |
| Adjusted operating profit/EBITA margin before property profit | **7.6%** | 7.4% |

### Operating Profit/EBITA Margin

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Revenue - continuing | **2,509.1** | 2,672.3 |
| | | |
| Operating profit | **159.7** | 197.8 |
| Operating profit/EBITA margin | **6.4%** | 7.4% |

### Adjusted Operating Profit/EBITA

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Revenue - continuing | **2,509.1** | 2,672.3 |
| | | |
| Operating profit | **159.7** | 197.8 |
| Exceptional items | **24.7** | - |
| Amortisation of intangible assets arising on acquisitions | **8.9** | 7.0 |
| Adjusted operating profit/EBITA | **193.3** | 204.8 |
| Adjusted operating profit/EBITA margin | **7.7%** | 7.7% |

### Adjusted Profit before Tax

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Profit before tax | **132.7** | 172.6 |
| Exceptional items | **24.7** | - |
| Amortisation of intangible assets arising on acquisitions | **8.9** | 7.0 |
| Adjusted profit before tax | **166.4** | 179.6 |

### Adjusted Profit after Tax

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Profit after tax | **107.5** | 143.9 |
| Exceptional items | **24.7** | - |
| Tax on exceptional items | **(4.0)** | - |
| Amortisation of intangible assets arising on acquisitions | **8.9** | 7.0 |
| Related tax on amortisation of intangible assets arising on acquisitions | **(2.0)** | (1.5) |
| Adjusted profit after tax | **135.2** | 149.4 |

### Reconciliation of Profit to EBITDA

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Profit after tax | **107.5** | 143.9 |
| Net finance expense | **26.9** | 25.1 |
| Income tax expense | **25.2** | 28.7 |
| Depreciation | **107.2** | 105.1 |
| Intangible asset amortisation | **14.1** | 9.6 |
| EBITDA | **281.0** | 312.6 |

### Net Debt to EBITDA

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| EBITDA (rolling 12 months) | **281.0** | 312.6 |
| Net debt | **355.0** | 533.8 |
| Net debt to EBITDA – times | **1.26** | 1.71 |

### EBITDA Interest Cover

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| EBITDA | **281.0** | 312.6 |
| Net bank/loan note interest including interest on lease liabilities | **25.8** | 25.8 |
| EBITDA interest cover – times | **10.9** | 12.1 |

### Gearing

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Total equity | **1,467.0** | 1,362.7 |
| Group net debt | **355.0** | 533.8 |
| Gearing | **24%** | 39% |

### Return on Capital Employed

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Operating profit | **159.7** | 197.8 |
| Exceptional items | **24.7** | - |
| Amortisation of intangible assets arising on acquisitions | **8.9** | 7.0 |
| Adjusted operating profit | **193.3** | 204.8 |
| | | |
| Total equity – current period end (continuing operations) | **1,467.0** | 1,362.7 |
| Net debt – current period end | **355.0** | 533.8 |
| Capital employed – current period end | **1,822.0** | 1,896.5 |
| | | |
| Total equity – prior period end (continuing operations) | **1,362.7** | 1,276.7 |
| Net debt – prior period end | **533.8** | 625.8 |
| Capital employed – prior period end | **1,896.5** | 1,902.5 |
| | | |
| Average capital employed | **1,859.3** | 1,899.5 |
| | | |
| Return on capital employed | **10.4%** | 10.8% |

### Capital Turn

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Total revenue for previous 12 months | **2,509.1** | 2,672.3 |
| Average capital employed | **1,859.3** | 1,899.5 |
| Capital turn - times | **1.3** | 1.4 |

### Dividend Cover

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Group adjusted EPS – basic (pence) | **56.7** | 62.8 |
| Group dividend (pence) | **14.5** | 19.0 |
| Group dividend cover - times | **3.9** | 3.3 |

### Liquidity

| | 2020 £'m | 2019 £'m |
|---|---|---|
| Cash and cash equivalents | **456.0** | 348.8 |
| Less: cash held against letter of credit | **(4.0)** | (4.0) |
| Accessible cash | **452.0** | 344.8 |
| | | |
| Undrawn revolving bank facilities | **359.2** | 271.4 |
| | | |
| Liquidity | **811.2** | 616.2 |

# Alternative Performance Measures – pre IFRS 16

## Reconciliation of Profit to EBITDA – pre IFRS 16

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Profit after tax | **111.8** | 151.5 |
| Net finance expense | **8.8** | 5.6 |
| Income tax expense | **26.1** | 30.2 |
| Depreciation | **45.0** | 44.2 |
| Intangible asset amortisation | **14.1** | 9.6 |
| EBITDA | **205.8** | 241.1 |

## EBITDA Interest Cover – pre IFRS 16

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| EBITDA | **205.8** | 241.1 |
| Net bank/loan note interest excluding interest on lease liabilities | **7.5** | 6.0 |
| EBITDA interest cover – times | **27.4** | 39.9 |

## Return on Capital Employed – pre IFRS 16

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Operating profit | **146.7** | 187.3 |
| Exceptional items | **24.9** | - |
| Amortisation of intangible assets arising on acquisitions | **8.9** | 7.0 |
| Adjusted operating profit | **180.5** | 194.3 |
| | | |
| Total equity – current period end (continuing operations) | **1,478.7** | 1,369.6 |
| Net (cash) – current period end | **(181.9)** | (7.8) |
| Capital employed – current period end | **1,296.8** | 1,361.8 |
| | | |
| Total equity – prior period end (continuing operations) | **1,369.6** | 1,276.7 |
| Net (cash)/debt – prior period end | **(7.8)** | 53.1 |
| Capital employed – prior period end | **1,361.8** | 1,329.8 |
| | | |
| Average capital employed | **1,329.3** | 1,345.8 |
| | | |
| Return on capital employed | **13.6%** | 14.4% |

## Supplementary Financial Information

## Alternative Performance Measures

## Overall impact of IFRS 16 "Leases"

**Group Income Statement**
For the year ended 31 December 2020

| | 2020 (Unaudited) Pre IFRS 16 Impact £'000 | 2020 (Unaudited) IFRS 16 Impact £'000 | 2020 (Unaudited) Reported £'000 |
|---|---|---|---|
| **Revenue** | 2,509,089 | - | **2,509,089** |
| Operating costs | (2,340,129) | 12,791 | **(2,327,338)** |
| **Operating profit before property profits** | 168,960 | 12,791 | **181,751** |
| Property profits | 2,613 | - | **2,613** |
| **Operating profit before exceptional items** | 171,573 | 12,791 | **184,364** |
| Exceptional items | (24,893) | 208 | **(24,685)** |
| **Operating profit** | 146,680 | 12,999 | **159,679** |
| Finance expense | (9,498) | (18,141) | **(27,639)** |
| Finance income | 698 | - | **698** |
| **Profit before tax** | 137,880 | (5,142) | **132,738** |
| Income tax expense | (26,063) | 867 | **(25,196)** |
| **Profit after tax for the financial year** | 111,817 | (4,275) | **107,542** |
| **Earnings per ordinary share - basic** | 46.91 | (1.79) | **45.11** |
| **Earnings per ordinary share - diluted** | 46.89 | (1.79) | **45.10** |

## Group Balance Sheet as at 31 December 2020

| | 2020 (Unaudited) Pre IFRS 16 Impact | 2020 (Unaudited) IFRS 16 Impact | 2020 (Unaudited) Reported |
|---|---|---|---|
| **ASSETS** | **£'000** | **£'000** | **£'000** |
| **Non-current assets** | | | |
| Goodwill | 704,064 | - | **704,064** |
| Intangible assets | 115,905 | - | **115,905** |
| Property, plant and equipment | 495,531 | (1,992) | **493,539** |
| Right-of-use asset | - | 505,922 | **505,922** |
| Investment properties | 12,328 | - | **12,328** |
| Deferred tax assets | 12,516 | 870 | **13,386** |
| Lease receivable | - | 2,015 | **2,015** |
| Retirement benefit assets | 2,099 | - | **2,099** |
| Other financial assets | 128 | - | **128** |
| **Total non-current assets** | 1,342,571 | 506,815 | **1,849,386** |
| | | | |
| **Current assets** | | | |
| Properties held for sale | 18,058 | - | **18,058** |
| Inventories | 321,558 | - | **321,558** |
| Trade and other receivables | 344,893 | (7,949) | **336,944** |
| Lease receivable | - | 301 | **301** |
| Cash and cash equivalents | 456,028 | - | **456,028** |
| **Total current assets** | 1,140,537 | (7,648) | **1,132,889** |
| **Total assets** | 2,483,108 | 499,167 | **2,982,275** |
| | | | |
| **EQUITY** | | | |
| Equity share capital | 8,569 | - | **8,569** |
| Share premium account | 216,496 | - | **216,496** |
| Capital redemption reserve | 621 | - | **621** |
| Revaluation reserve | 12,733 | - | **12,733** |
| Shares to be issued reserve | 6,714 | - | **6,714** |
| Cash flow hedge reserve | (65) | - | **(65)** |
| Foreign currency translation reserve | 82,188 | (269) | **81,919** |
| Retained earnings (prior years) | 1,054,868 | (7,170) | **1,047,698** |
| Retained earnings (current year) | 100,510 | (4,275) | **96,235** |
| Treasury shares held | (3,897) | - | **(3,897)** |
| **Total equity** | 1,478,737 | (11,714) | **1,467,023** |
| | | | |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 274,030 | - | **274,030** |
| Lease liabilities | 912 | 478,107 | **479,019** |
| Provisions | 27,946 | (7,326) | **20,620** |
| Retirement benefit obligations | 52,683 | - | **52,683** |
| Deferred tax liabilities | 54,399 | - | **54,399** |
| **Total non-current liabilities** | 409,970 | 470,781 | **880,751** |
| | | | |
| **Current liabilities** | | | |
| Lease liabilities | 466 | 57,449 | **57,915** |
| Derivative financial instruments | 65 | - | **65** |
| Trade and other payables | 558,586 | (12,637) | **545,949** |
| Current income tax liabilities | 22,641 | (1,525) | **21,116** |
| Provisions | 12,643 | (3,187) | **9,456** |
| **Total current liabilities** | 594,401 | 40,100 | **634,501** |
| **Total liabilities** | 1,004,371 | 510,881 | **1,515,252** |
| | | | |
| **Total equity and liabilities** | 2,483,108 | 499,167 | **2,982,275** |

## Group Cash Flow Statement

| | 2020 (Unaudited) Pre IFRS 16 £'000 | 2020 (Unaudited) IFRS 16 Impact £'000 | 2020 (Unaudited) Reported £'000 |
|---|---|---|---|
| **Profit before taxation** | 137,880 | (5,142) | **132,738** |
| Finance income | (698) | - | **(698)** |
| Finance expense | 9,498 | 18,141 | **27,639** |
| **Operating profit** | 146,680 | 12,999 | **159,679** |
| Depreciation | 44,972 | 62,240 | **107,212** |
| Amortisation of intangible assets | 14,146 | - | **14,146** |
| Share-based payments charge | 719 | - | **719** |
| Movement in provisions | 6,953 | (2,999) | **3,954** |
| Asset impairment / fair value adjustments | 2,050 | 3,448 | **5,498** |
| Loss on sale of property, plant and equipment | 1,294 | - | **1,294** |
| Property profit | (2,613) | - | **(2,613)** |
| Contributions to pension schemes in excess of IAS 19 charge | 6,639 | - | **6,639** |
| Decrease/(increase) in working capital | 82,646 | (1,482) | **81,164** |
| **Cash generated from operations** | 303,486 | 74,206 | **377,692** |
| Interest paid | (9,131) | (18,141) | **(27,272)** |
| Income taxes paid | (34,087) | - | **(34,087)** |
| **Cash flows from operating activities** | 260,268 | 56,065 | **316,333** |
| | | | |
| **Investing activities** | | | |
| *Inflows* | | | |
| Proceeds from sale of property, plant and equipment | 816 | - | **816** |
| Proceeds from sale of properties held for sale | 6,378 | - | **6,378** |
| Interest received | 698 | - | **698** |
| | 7,892 | - | **7,892** |
| *Outflows* | | | |
| Acquisition of subsidiary undertakings (net of cash acquired) | (47,508) | - | **(47,508)** |
| Investment in intangible assets – computer software | (1,893) | - | **(1,893)** |
| Purchase of property, plant and equipment | (35,182) | - | **(35,182)** |
| | (84,583) | - | **(84,583)** |
| **Cash flows from investing activities** | (76,691) | | **(76,691)** |
| | | | |
| **Financing activities** | | | |
| *Inflows* | | | |
| Proceeds from the issue of share capital | 2,830 | - | **2,830** |
| Proceeds from borrowings | 261,099 | - | **261,099** |
| | 263,929 | - | **263,929** |
| *Outflows* | | | |
| Repayment of borrowings | (348,636) | - | **(348,636)** |
| Dividends paid | - | - | **-** |
| Payment on lease liabilities | (428) | (56,065) | **(56,493)** |
| | (349,064) | (56,065) | **(405,129)** |
| **Cash flows from financing activities** | (85,135) | (56,065) | **(141,200)** |
| | | | |
| **Net increase in cash and cash equivalents** | 98,442 | - | **98,442** |
| Cash and cash equivalents at 1 January | 348,787 | - | **348,787** |
| Effect of exchange rate fluctuations on cash held | 8,799 | - | **8,799** |
| **Cash and cash equivalents at the end of the year** | 456,028 | - | **456,028** |

## Reconciliation of Net Cash Flow to Movement in Net Debt

| | 2020 (Unaudited) Pre IFRS 16 Impact £'000 | 2020 (Unaudited) IFRS 16 Impact £'000 | 2020 (Unaudited) Reported £'000 |
|---|---|---|---|
| Net increase in cash and cash equivalents | 98,442 | - | **98,442** |
| Net movement in derivative financial instruments | (72) | - | **(72)** |
| Movement in debt and lease financing | 87,965 | 19,364 | **107,329** |
| **Change in net debt resulting from cash flows** | 186,335 | 19,364 | **205,699** |
| Currency translation adjustment | (13,603) | (13,263) | **(26,866)** |
| **Movement in net debt in the year** | 172,732 | 6,101 | **178,833** |
| Net debt at 1 January | 7,823 | (541,657) | **(533,834)** |
| **Net cash/(debt) at end of the year** | 180,555 | (535,556) | **(355,001)** |
| Current finance leases included in pre IFRS 16 impact | 466 | | |
| Non-current finance leases included in pre IFRS 16 impact | 912 | | |
| **Net cash at end of the year – pre IFRS 16 leases** | **181,933** | | |

## Segmental Analysis

| | 2020 (Unaudited) Pre IFRS 16 Impact £'000 | 2020 (Unaudited) IFRS 16 Impact £'000 | 2020 (Unaudited) Reported £'000 |
|---|---|---|---|
| **Revenue** | | | |
| UK distribution | 1,460,732 | - | **1,460,732** |
| Ireland distribution | 463,894 | - | **463,894** |
| Netherlands distribution | 276,563 | - | **276,563** |
| Total distribution | 2,201,189 | - | **2,201,189** |
| Retailing | 246,576 | - | **246,576** |
| Manufacturing | 71,723 | - | **71,723** |
| Less: Inter-segment revenue - manufacturing | (10,399) | - | **(10,399)** |
| **Total revenue** | 2,509,089 | - | **2,509,089** |
| **Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions** | | | |
| UK distribution | 68,429 | 7,963 | **76,392** |
| Ireland distribution | 41,662 | 186 | **41,848** |
| Netherlands distribution | 27,469 | 1,069 | **28,538** |
| Total distribution | 137,560 | 9,218 | **146,778** |
| Retailing | 38,510 | 3,518 | **42,028** |
| Manufacturing | 13,313 | (12) | **13,301** |
| | 189,383 | 12,724 | **202,107** |
| **Reconciliation to consolidated operating profit** | | | |
| Central activities | (11,486) | 67 | **(11,419)** |
| | 177,897 | 12,791 | **190,688** |
| Property profits | 2,613 | - | **2,613** |
| **Operating profit before exceptional items and intangible amortisation arising on acquisitions** | 180,510 | 12,791 | **193,301** |
| Amortisation of intangible assets arising on acquisitions | (8,937) | - | **(8,937)** |
| **Operating profit before exceptional items** | 171,573 | 12,791 | **184,364** |
| Exceptional items | (24,893) | 208 | **(24,685)** |
| **Operating profit** | 146,680 | 12,999 | **159,679** |
| Finance expense | (9,498) | (18,141) | **(27,639)** |
| Finance income | 698 | - | **698** |
| **Profit before tax** | 137,880 | (5,142) | **132,738** |
| Income tax expense | (26,063) | 867 | **(25,196)** |
| **Profit after tax for the financial year** | 111,817 | (4,275) | **107,542** |

## Earnings per Share

| | 2020 (Unaudited) Pre IFRS 16 Impact £'000 | 2020 (Unaudited) IFRS 16 Impact £'000 | 2020 (Unaudited) Reported £'000 |
|---|---|---|---|
| **Numerator for basic, adjusted and diluted earnings per share:** | | | |
| Profit after tax for the financial year | 111,817 | (4,275) | **107,542** |
| **Numerator for basic and diluted earnings per share** | | | |
| Profit after tax for the financial year | 111,817 | (4,275) | **107,542** |
| Exceptional items | 24,893 | (208) | **24,685** |
| Tax relating to exceptional items | (4,020) | 40 | **(3,980)** |
| Amortisation of intangible assets arising on acquisitions | 8,937 | - | **8,937** |
| Tax relating to amortisation of intangible assets arising on acquisitions | (2,013) | - | **(2,013)** |
| **Numerator for adjusted earnings per share** | 139,614 | (4,443) | **135,171** |
| | **Number of Grafton Units** | **Number of Grafton Units** | **Number of Grafton Units** |
| **Denominator for basic and adjusted earnings per share:** | | | |
| Weighted average number of Grafton Units in issue | 238,379,488 | 238,379,488 | **238,379,488** |
| Dilutive effect of options and awards | 82,675 | 82,675 | **82,675** |
| **Denominator for diluted earnings per share** | 238,462,163 | 238,462,163 | **238,462,163** |
| **Earnings per share (pence)** | | | |
| - Basic | 46.91 | (1.79) | **45.11** |
| - Diluted | 46.89 | (1.79) | **45.10** |
| **Adjusted earnings per share (pence)** | | | |
| - Basic | 58.57 | (1.86) | **56.70** |
| - Diluted | 58.55 | (1.86) | **56.68** |