Grafton Group plc

Trading Update

Strong Trading in First Half and Increased Operating Profit Guidance for Continuing Operations

Grafton Group plc ("Grafton" or "the Group"), the international building materials distributor and DIY retailer, issues this trading update for the period from 1 January 2021 to 30 June 2021 in advance of its half year results which will be released on 25 August 2021.

Highlights

- Completed acquisition of IKH in Finland
- Disposal of the Traditional Merchanting business in Great Britain announced on 1 July 2021 for an enterprise value of £520 million (the "Discontinued Operations")
- Revenue growth ahead of expectations in May and June
- Group Adjusted operating profit[1] for the year in continuing operations upgraded to circa £240 million
- All branches, stores and manufacturing plants now fully operational

Covid-19 Update

The health and safety of our colleagues and customers is our number one priority and we continue to operate in line with the Covid-19 guidance provided locally by Governments and health authorities in the countries where we operate.

Trading Performance

Group revenue for the half year was £1.55 billion, an increase of 46.5 per cent from £1.06 billion in the first half of 2020, a period that was impacted by the temporary closure of branches, stores and manufacturing plants in the UK and Ireland except for the provision of materials to essential services. Group revenue was 18.0 per cent higher compared to same period in 2019.

The strong revenue growth trends, in continuing operations, that developed in March and April were sustained in May and June led by Woodie's in Ireland and Selco in the UK. The strength of our customer propositions together with good underlying demand in the residential repair, maintenance and improvement ("RMI") and new housing markets contributed to this very encouraging performance.

This outcome was achieved despite pressure on supply chains caused by increased international demand for building materials, limitations on manufacturing capacity, a shortage of certain raw materials and container shipping logistics issues that affected the movement of goods internationally. These procurement challenges resulted in shortages of core building materials, an extension of delivery lead times, certain products being placed on allocation and a sharp increase in product price inflation across a range of categories in the UK and Ireland.

Discontinued Operations

The Group completed its planned disposals having recently announced that it had entered into an agreement to divest the Traditional Merchanting business in Great Britain which will be classified as a discontinued operation in the Half Year and Full Year results in line with International Financial Reporting Standards. Revenue in the Discontinued Operations increased by 47.4 per cent to £522.9 million on the first half of 2020 and was up by 0.3 per cent on the first half of 2019. There was a solid recovery in trading in the half year with average daily like-for-like revenue ahead of the first half of 2019 by 5.2 per cent.

Increase in Operating Profit Guidance for the Continuing Operations

Following a stronger than anticipated first half performance, together with the inclusion of the expected second half returns from the IKH acquisition, we now upgrade our expectations for Group adjusted operating profit[1] for the current financial year in continuing operations to circa £240 million. This is close to the current consensus[2] forecasts of £243 million which itself includes operating profit attributable to the Discontinued Operations.

Segment Trading – Continuing Operations

The table below shows the changes in average daily like-for-like revenue and in total revenue in continuing operations compared to the same period in 2020 and 2019.

Segment	Average Daily Like-for-Like Constant Currency Revenue Growth		Total Revenue Sterling	Total Revenue Sterling
	Period from 1 January to 30 June		Period from 1 January to 30 June	
	2021 vs 2020	2021 vs 2019	2021 vs 2020	2021 vs 2019
Distribution				
- UK (Continuing Operations)	**63.5%**	**16.7%**	**64.9%**	**20.0%**
- Ireland	**33.8%**	**11.7%**	**36.0%**	**14.3%**
- Netherlands	**5.6%**	**3.0%**	**6.8%**	**82.2%**
Retailing	**62.9%**	**59.7%**	**59.4%**	**58.4%**
Manufacturing	**44.3%**	**(10.6%)**	**93.2%**	**20.5%**
Group (Continuing Operations)	**43.3%**	**17.8%**	**45.9%**	**29.6%**

Group total revenue from continuing operations which excludes the Discontinued Operations increased by 46.1 per cent to £1.03 billion from £703.7 million in the first half of 2020 and was up by 29.6 per cent from £792.2 million in the first half of 2019.

UK Distribution

Selco performed strongly in the half year with average daily like-for-like revenue up 74.4 per cent on the prior year, which was impacted by the closure of branches in late March and gradual reopening during May and June. Average daily like-for-like revenue increased by 18.4 per cent compared to the first half of 2019 reflecting the strong growth momentum from March through to the end of June which saw trading in the Regions outperform the Greater London Area. Early indications of trading in the new Liverpool branch that was opened in April are very encouraging and two further branch openings are scheduled before the year end.

Ireland Distribution

Average daily like-for-like revenue in the Chadwicks branches was down by circa 2.0 per cent in the period to mid-April compared to the same period in 2019 as branches traded at lower levels of activity supplying those parts of the construction sector that were permitted to continue operating. Following the phased reopening of the sector in mid-April, the business performed at its highest level of activity since 2008 and ended the half year with average daily like-for-like revenue up by 11.7 per cent on the first half of 2019 driven by a buoyant residential RMI market and the restarting of house building in Dublin and provincial cities.

Netherlands Distribution

Trading in the specialist ironmongery, tools and fixings distribution business in the Netherlands, that was permitted to continue operating throughout 2020, improved in March and continued to gather pace with good volume and revenue growth in the second quarter. The increase in activity was supported by generally favorable trading conditions in the housing market, the resumption of RMI work on social housing and the lifting of restrictions on trading with retail customers. Geographic coverage was extended with the acquisition of five branches in two transactions and the opening of a new branch which increased the branch footprint in the Netherlands to 117.

Retailing

The Woodie's DIY, Home and Garden business in Ireland was classified as an essential retailer and experienced exceptional growth across all product categories in the half year. The rate of growth moderated as anticipated following the full reopening in May of non-essential retail and other elements of the economy as Covid-19 restrictions were lifted.

Manufacturing

Mortar volumes started to recover in March and continued on an improving trend over the first half although output in June was restricted by a shortage of bulk cement.

StairBox, the staircase manufacturing business acquired on 30 November 2020, had an excellent half year under Grafton ownership outperforming pre-acquisition expectations.

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

"I again wish to acknowledge the exceptional commitment of colleagues across the Group and to thank them for safely supporting high levels of customer demand in our branches, stores and manufacturing operations.

We made significant progress implementing our strategy in the period that resulted in agreement to divest the Traditional Merchanting business in Great Britain on favorable terms and completion of the value enhancing IKH acquisition in Finland. Grafton traded ahead of expectations in the first half and, despite some ongoing uncertainty caused by the pandemic and sector-wide supply chain pressures, the Group has increased current year profit guidance for continuing operations supported by its market leading businesses and strong financial position."

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[1] Adjusted operating profit is defined as profit before amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax charge.

[2] Grafton compiled analyst consensus forecasts for 2021 show adjusted operating profit[1] of £243 million which includes the Traditional Merchanting Business in Great Britain that is being divested.

Ends

Webcast Details

A live audio conference call for analysts will be hosted by Gavin Slark and David Arnold at 8:15am this morning. If investors would like to listen to the conference call, they can do so via the "Register Here for the Audio Webcast" link on the home page of the Company's website www.graftonplc.com. A recording of the conference call will also be made available on the Company's website following the call.

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About Grafton

Grafton Group plc is an international distributor of building materials to trade customers and has leading regional or national positions in the building markets in the UK, Ireland, the Netherlands and now in Finland following the recent acquisition of IKH which also trades in Scandinavia and the Baltics. Grafton is also the market leader in the DIY retailing market in Ireland and is the largest manufacturer of dry mortar in the UK where it also operates a leading staircase manufacturing business.