Grafton Group plc

Grafton Group plc Half Year Results

FOR THE SIX MONTHS ENDED 30 JUNE 2022

Cautionary statement & notes

Cautionary statement

Certain statements made in this presentation are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied by these forward-looking statements. They appear in a number of places throughout this presentation and include statements regarding the intentions, beliefs or current expectations of Directors concerning, amongst other things, the results of the operations, financial condition, liquidity, prospects, growth, strategies and the businesses operated by the Group. The Directors do not undertake any obligation to update or revise any forward-looking statements whether as a result of new information, future developments or otherwise.

Notes

The term "Adjusted" means before exceptional items and acquisition related items (see Appendix 1).

Please refer to Notes and Definitions in Appendix 1 as amounts are reflected in £'m some non-material rounding differences may arise.

The adjustment of acquisition related items to the adjusted operating results was a change on previous years and thus the June 2021 comparatives have been restated to conform to current year presentation.

Gavin Slark

Chief Executive Officer

David Arnold

Chief Financial Officer

Introduction & highlights

GAVIN SLARK, CEO

2022 First Half Review

- Strength of overall performance benefitted from geographic diversification
- Excellent performance in distribution businesses in Ireland and the Netherlands
- Profitability in Selco and Woodie's lower relative to last year's exceptional performances as trading normalised
- Good profit contribution from IKH in Finland at 13.2% operating margin
- Double digit operating profit margin in all segments (before property profit)
- Strong adjusted return on capital employed of 18.8%
- Net cash of £520.5 million (before IFRS 16 lease liabilities) provides significant optionality
- Further progress made on sustainability agenda

2022
Financial highlights

	H1 2022	H1 2021 (Restated)[1]	Change
Revenue	**£1,153m**	£1,028m	**+12.2%**
Adjusted operating profit	**£151.1m**	£158.0m	**(4.4%)**
Adjusted earnings per share	**49.5p**	50.5p	**(1.9%)**
Dividend	**9.25p**	8.50p	**+8.8%**
Net cash (before IFRS 16 leases)	**£520.5m**	£198.7m	**+£321.8m**
Adjusted operating profit margin pre property profit	**11.5%**	13.9%	**(240bps)**
Adjusted return on capital employed[2]	**18.8%**	20.6%	**(180bps)**

[1] Restated refers to income statement only
[2] ROCE calculated for continuing operations

Sustainability update
Implementing our sustainability agenda

- Rosie Howells, our New Group Head of Sustainability, joins the business in September
- Completed our second Carbon Disclosure Project (CDP) Climate Change submission for 2021
- Continuing to develop our sustainability systems
- CPI Mortars installs its first solar PV installation
- Trialling use of Hydrotreated Vegetable Oil (HVO)
- New debt funding includes incentives connected to the achievement of targets aligned to the Group's Sustainability Strategy

Grafton Group plc

Financial review

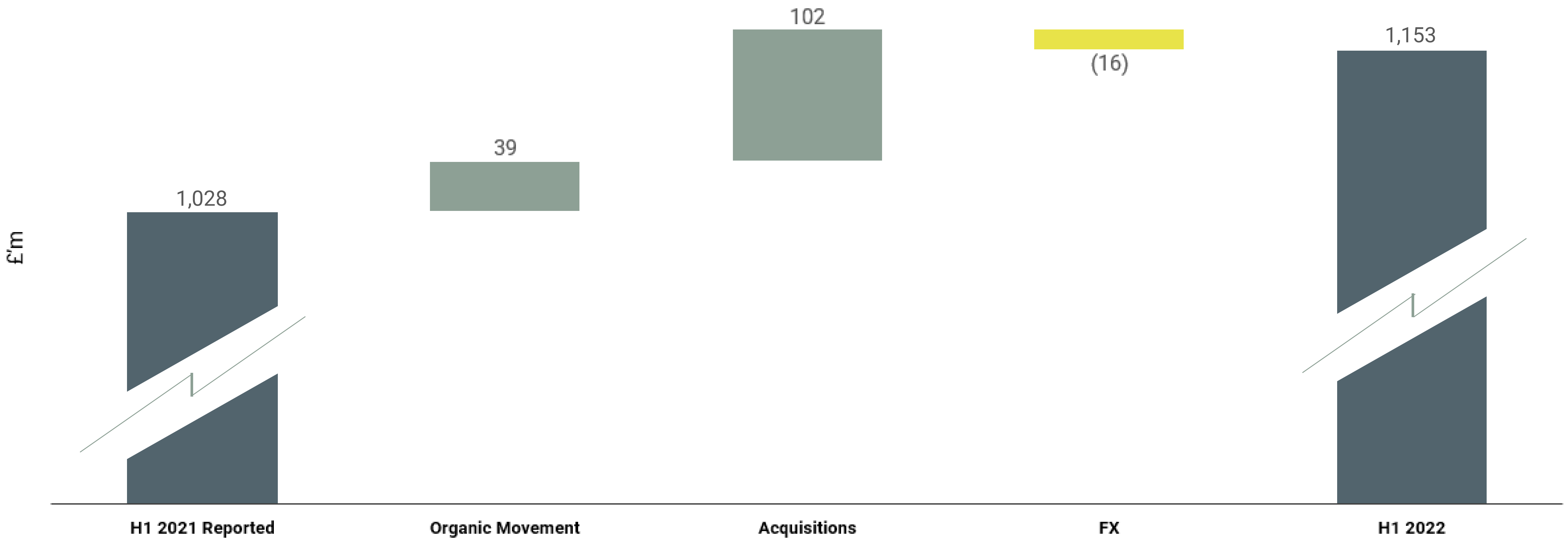
DAVID ARNOLD, CFO

Income statement
Continuing operations

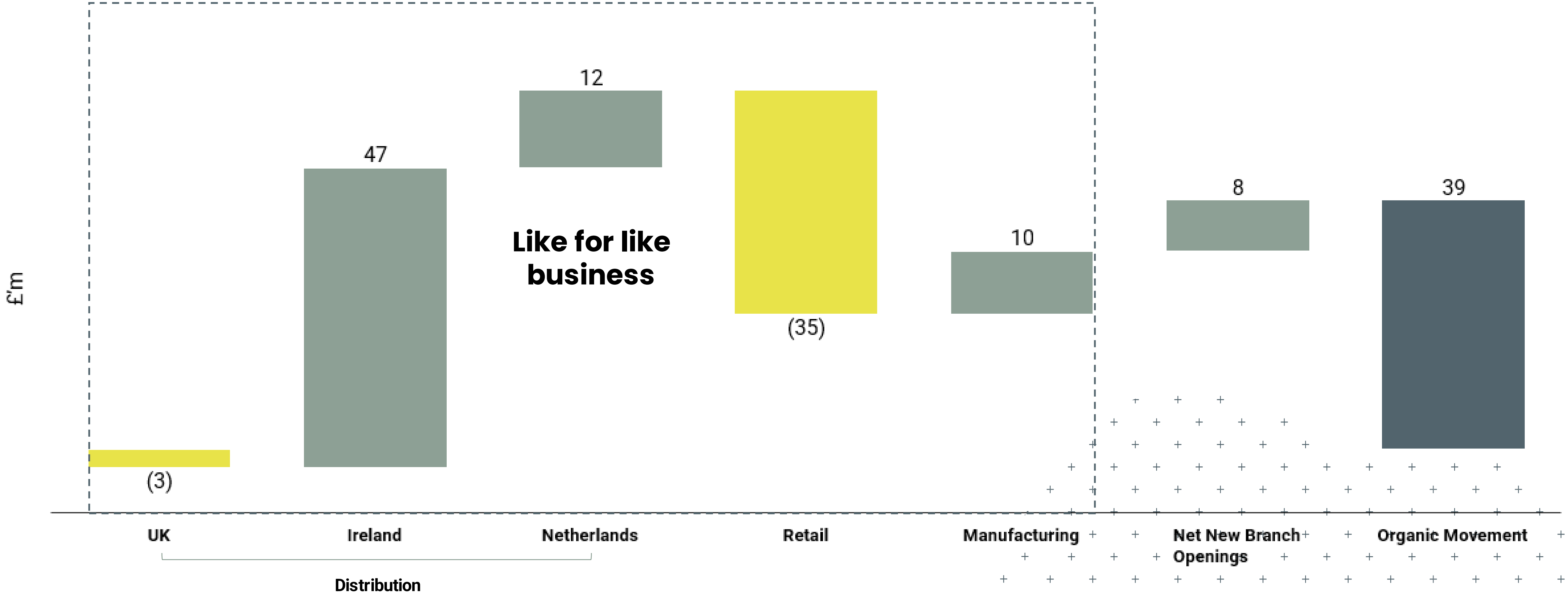
£m	2022	2021[2]	Change
Revenue	1,152.8	1,027.8	+12.2%
Adjusted operating profit pre property profit	132.6	142.6	(7.0%)
Property profit/(loss)	18.5	15.4	
Adjusted operating profit	151.1	158.0	(4.4%)
Amortisation[1] and acquisition related items	(11.0)	(5.9)	
Statutory operating profit	140.1	152.1	(7.9%)
Net finance cost	(7.7)	(9.2)	
Statutory profit before tax	132.4	142.9	(7.3%)
Adjusted profit before tax	143.4	148.8	(3.6%)

[1]Amortisation of intangible assets arising on acquisitions
[2]The adjustment of acquisition related items to the adjusted operating results was a change on previous years and thus the June 2021 comparatives have been restated to conform to current year presentation

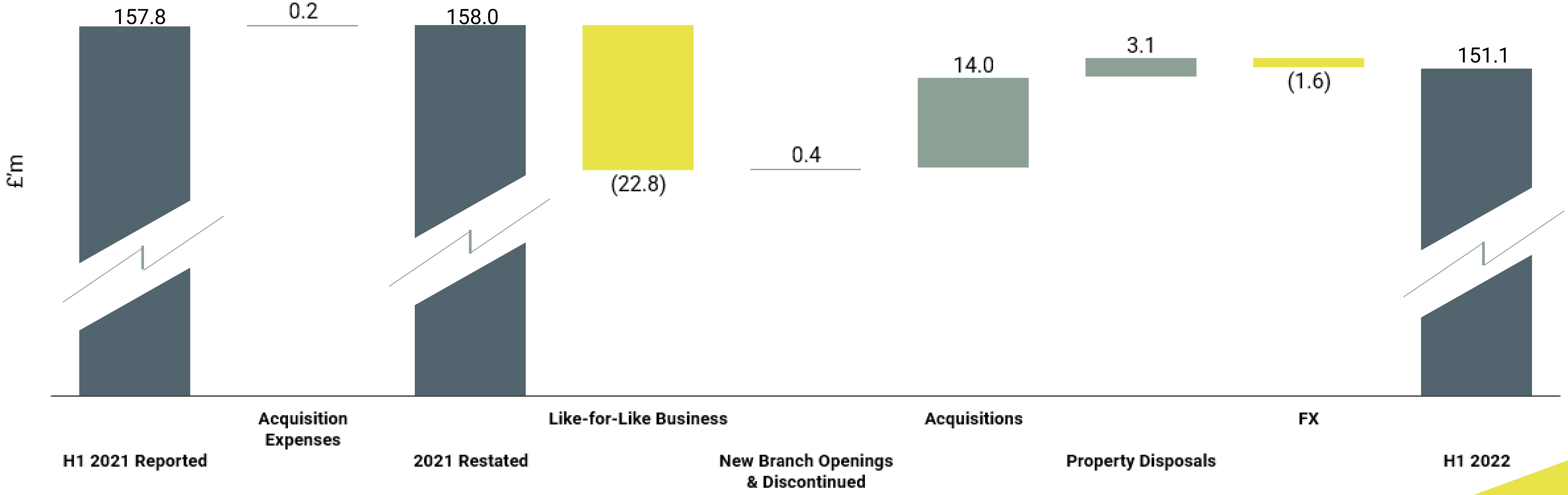
Revenue bridge



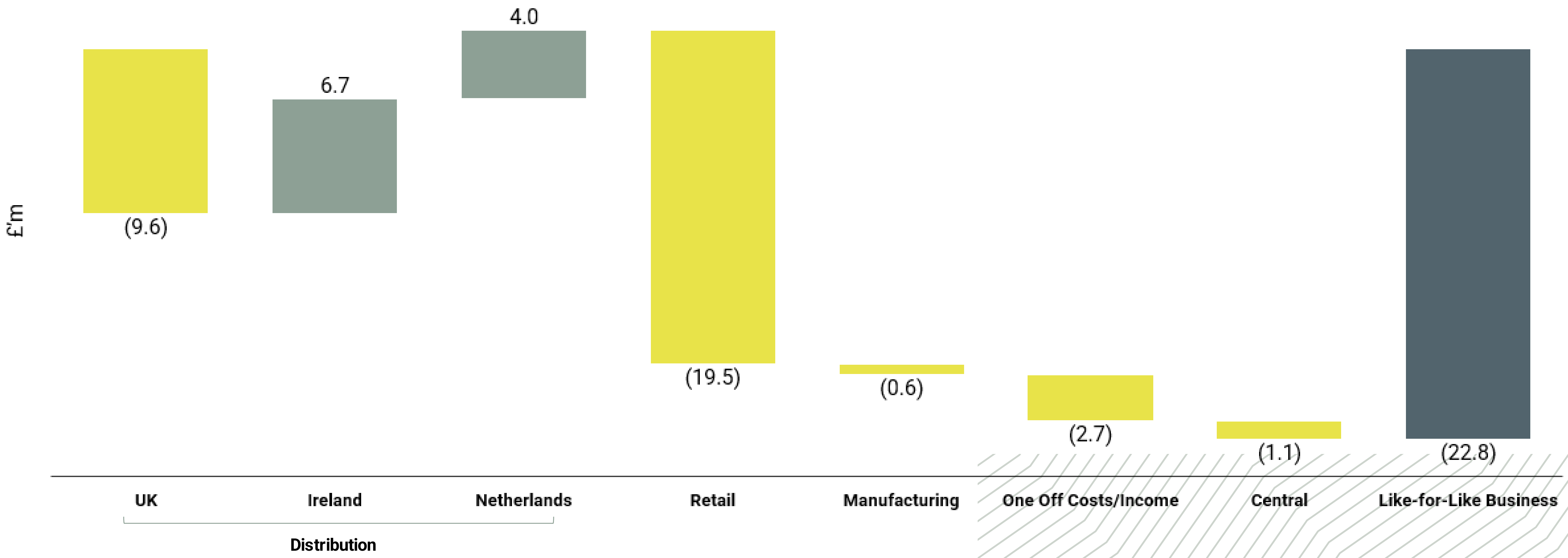
Analysis of organic movement in revenue (constant currency)



Adjusted operating profit – bridge H1 2021 to H1 2022 (IFRS 16)



Analysis of movement in operating profit in like-for-like business



UK Distribution

Revenue

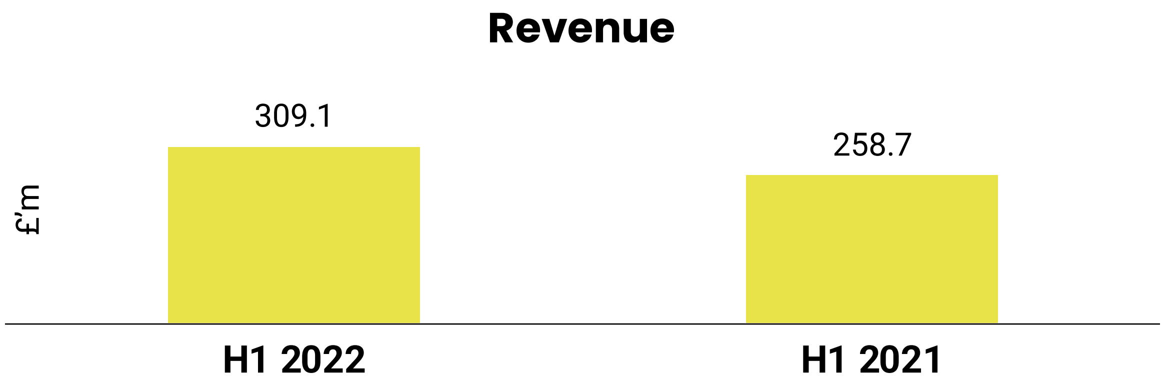
Adjusted operating profit pre property profit

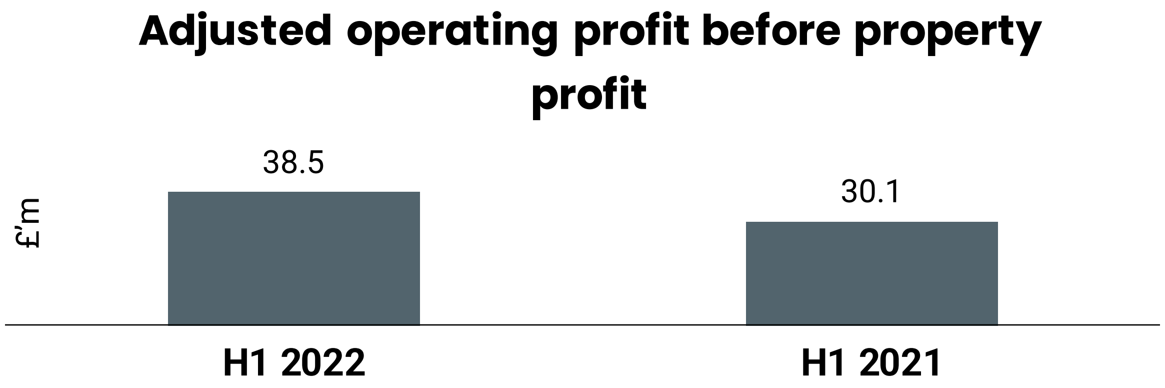
The adjustment of acquisition related items to the adjusted operating results was a change on previous years and thus the June 2021 comparatives have been restated to conform to current year presentation

£m	H1 2022	H1 2021 (restated)	Change
Revenue	429.0	414.1	+3.6%
Adjusted operating profit pre property	47.2	55.2	(14.5%)
Adjusted operating margin pre property	11.0%	13.3%	(230bps)

- High product price inflation - Selco saw cost prices of +19% in H1 with timber price increases particularly strong
- Substantial normalisation in volumes, mix and gross margins as DIY demand returned to pre pandemic levels
- New Selco and Leyland SDM branches contributed revenue of £8.8m
- MacBlair acquisitions traded strongly with revenue of £9.0m

Irish Distribution





£m	H1 2022	H1 2021	Change
Revenue	309.1	258.7	+19.5%
Adjusted operating profit pre property	38.5	30.1	+27.8%
Adjusted operating margin pre property	12.4%	11.6%	+80bps

- Severe Covid restrictions on construction activity during Q1 21
- Q1 22 like for like growth of 41.9 per cent eased to 4.3 per cent in Q2
- Customer and product mix normalisation as trade customers returned to their normal proportion of sales
- New housing market remains robust
- Proline and Sitetech acquisitions performed ahead of plan

Netherlands Distribution

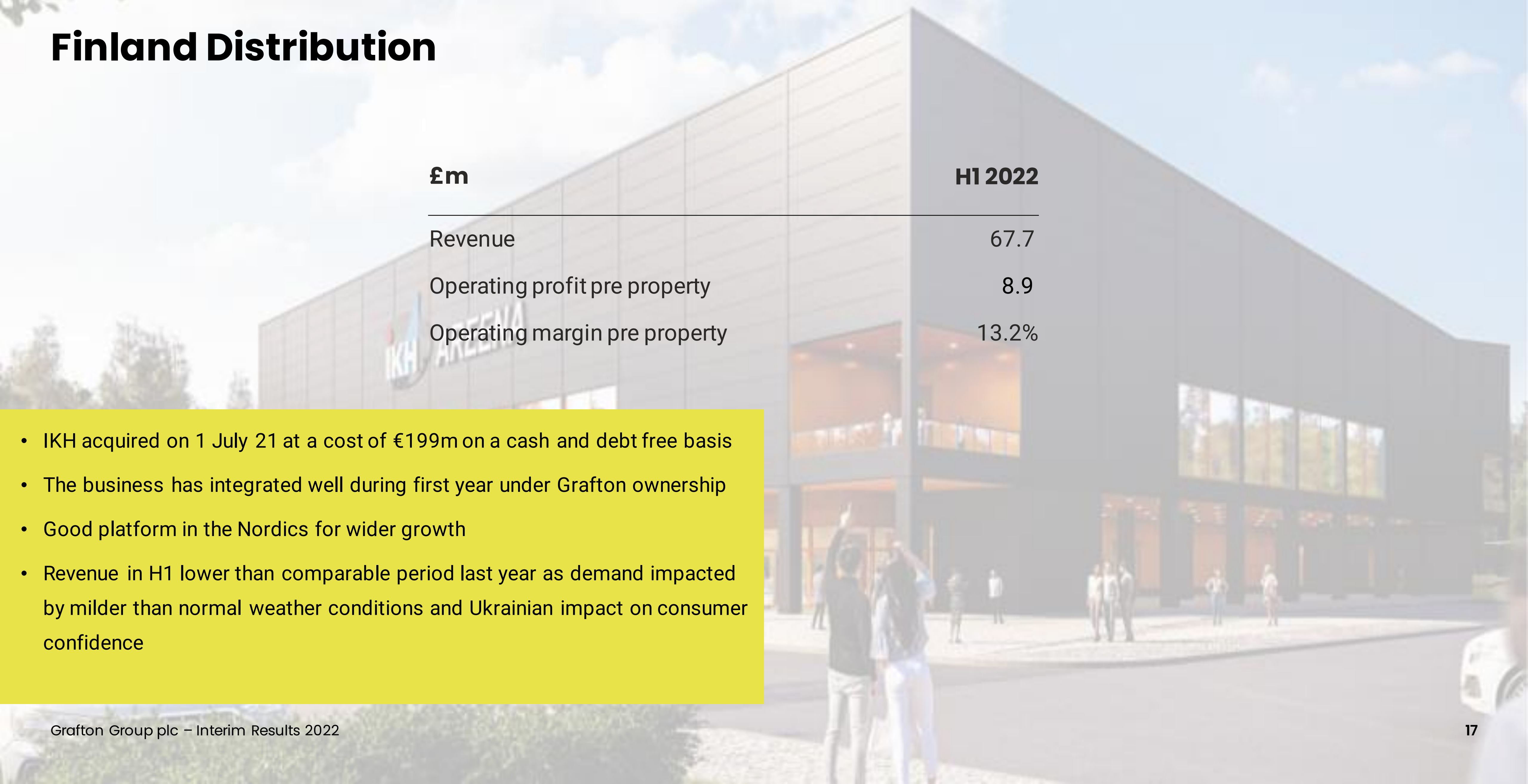
Revenue

Adjusted operating profit before property profit

£m	H1 2022	H1 2021	Change
Revenue	168.7	147.5	+14.4%
Adjusted operating profit pre property	21.2	16.0	+32.2%
Adjusted operating margin pre property	12.5%	10.8%	+170bps

- The Netherlands business performed consistently well during 2020/21 and was least Covid affected of our markets
- Average daily like-for-like revenue up by 7.5%, driven by price inflation with volumes broadly flat
- Strong demand in residential and commercial new build sectors
- Very positive performance from Regts (acquired in January 22) which together with Govers (acquired April 21) expanded our coverage into Northeast region

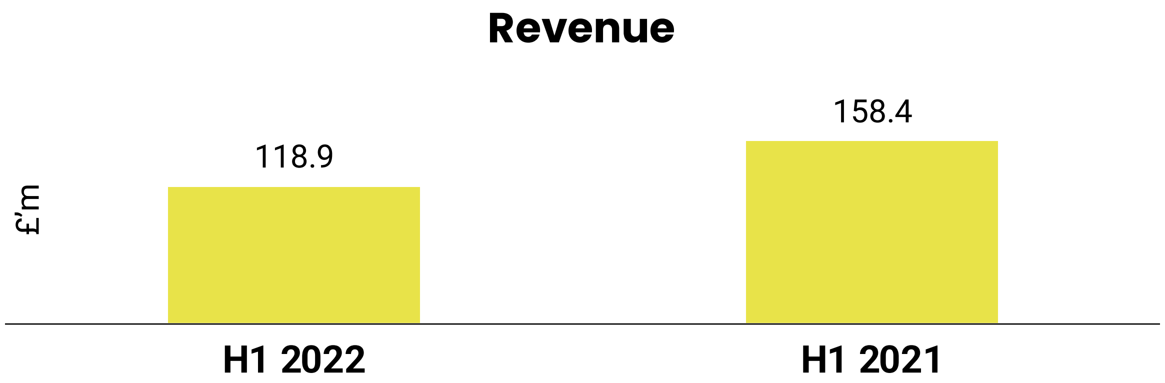
Finland Distribution

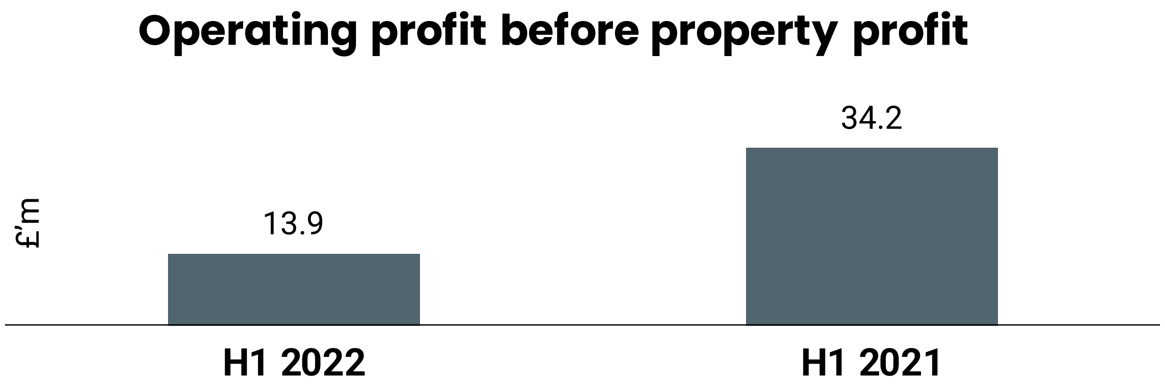


£m	H1 2022
Revenue	67.7
Operating profit pre property	8.9
Operating margin pre property	13.2%

- IKH acquired on 1 July 21 at a cost of €199m on a cash and debt free basis
- The business has integrated well during first year under Grafton ownership
- Good platform in the Nordics for wider growth
- Revenue in H1 lower than comparable period last year as demand impacted by milder than normal weather conditions and Ukrainian impact on consumer confidence

Retailing

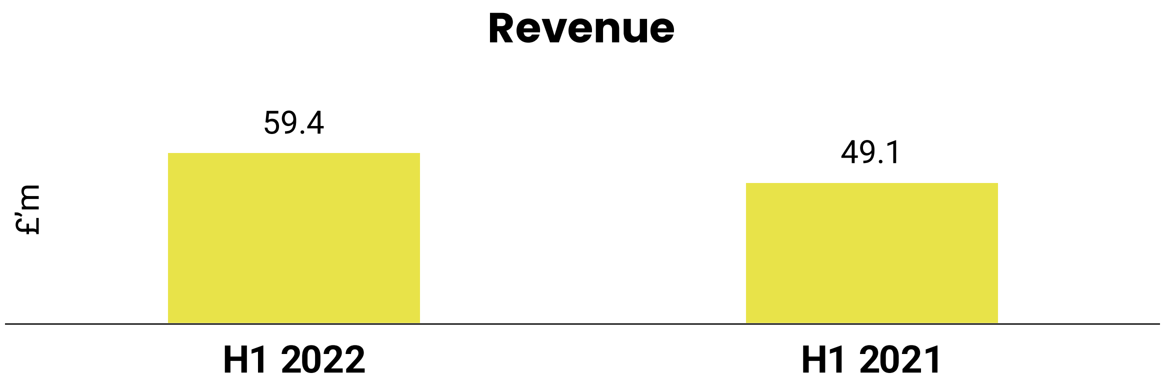


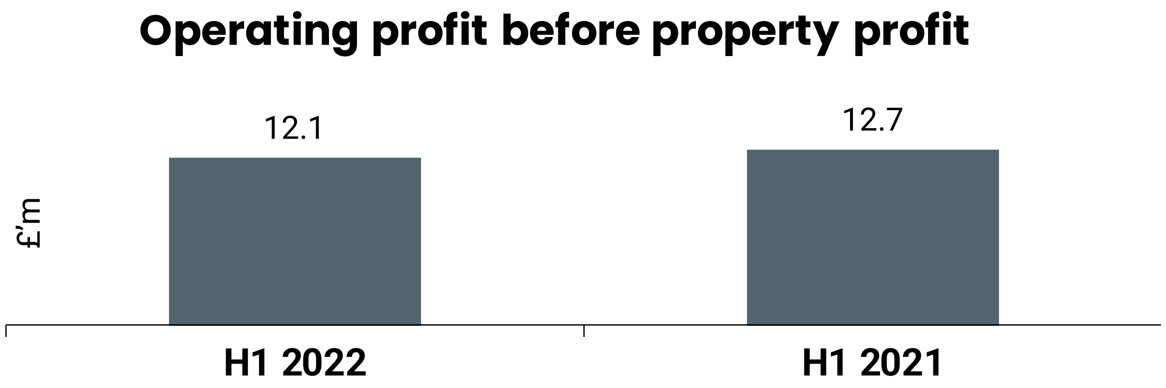


£m	H1 2022	H1 2021	Change
Revenue	118.9	158.4	(24.9%)
Operating profit pre property	13.9	34.2	(59.4%)
Operating margin pre property	11.7%	21.6%	(990bps)

- Good first half performance - trading returned to more normalised levels
- Woodie's was deemed an essential retailer through Covid restrictions
- Lower number of transactions in H1 22 but average transaction value only modestly down
- H1 22 operating profit of £13.9m was £4.4m higher than H1 19 (+46%)

Manufacturing





£m	H1 2022	H1 2021	Change
Revenue	59.4	49.1	+21.1%
Operating profit pre property	12.1	12.7	(4.5%)
Operating margin pre property	20.4%	25.9%	(550bps)

CPI EuroMix

- Revenue growth of 18.4%
- Operating profit behind prior year due to higher input costs and more challenging trading environment
- Record number of silos on site although throughput not yet returned to pre pandemic levels

StairBox

- Strong growth in revenue
- New property provides additional capacity
- Very good demand from housing RMI trade customers
- On track to deliver 27,000 staircases this year

Balance Sheet

	30 June 2022	31 December 2021
Goodwill and intangible assets	**784.0**	744.1
Right-of-use assets	**418.1**	421.3
Tangible assets	**359.2**	351.9
Working capital	**206.2**	158.5
Other assets/(liabilities)	**(93.0)**	(83.8)
Pension surplus/(deficit)	**7.7**	(11.5)
	1,682.2	1,580.6
Net cash including IFRS 16 leases	**73.5**	139.0
Equity	**1,755.7**	1,719.6
Adjusted ROCE*	**18.8%**	19.4%

* ROCE calculated for continuing operations

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	1,682.2	1,580.6
Net cash including IFRS 16 leases	**73.5**	139.0
Equity	**1,755.7**	1,719.6
Adjusted ROCE*	**18.8%**	19.4%

	30 June 2022	31 December 2021
Inventories	399.2	344.2
Trade debtors	287.1	233.5
Trade payables	(480.2)	(419.1)
	206.2	**158.5**

* ROCE calculated for continuing operations

Cash from operations

£m	H1 2022	H1 2021
Profit before taxation from continuing operations	**132.4**	142.9
Profit before taxation from discontinued operations	**-**	124.8
Profit on disposal of Group businesses	**-**	(107.2)
Net finance costs	**7.7**	10.5
Operating profit (post impact of profit on disposals)	**140.1**	171.0
Depreciation & amortisation of intangible assets	**55.6**	61.7
Property profits (total)	**(18.5)**	(15.8)
Other movements	**0.4**	0.7
(Increase)/decrease in working capital	**(39.7)**	37.7
Cash generated from operations	**137.9**	255.3

Cash flow

£m	H1 2022	H1 2021
Cash from operations	**137.9**	255.3
Interest and tax	**(29.9)**	(35.1)
Replacement capex net of asset disposals	**13.7**	5.1
Free cash flow	**121.7**	225.4
Development capex	**(12.0)**	(5.7)
Dividends	**(52.7)**	(64.6)
Share (repurchase)/issue	**(49.8)**	1.5
Acquisitions & business disposals (incl. debt acquired)	**(45.8)**	(12.3)
Net cash (outflow)/inflow before FX translation	**(38.6)**	144.2
FX translation/other	**(26.9)**	0.9
Movement in net cash/(debt)	**(65.5)**	145.1
Opening net cash/(debt)	**139.0**	(355.0)
Closing net cash – total operations	**73.5**	(209.9)

2022 Technical guidance

Material property transactions completed in H1 - no additional property profit currently anticipated in H2

Depreciation and amortisation c.£90m - £95m in total (c.£40m on a pre IFRS 16 basis)

2022 gross capex spend (ex acquisitions and asset disposals) – replacement spend anticipated of c.£40m and development of c.£35m

Net finance charge of c.£15m (c.£14m relates to IFRS 16 leases) but acquisition timing dependent

Tax rate for full year estimated at 17.3% with medium term direction likely to head towards c.22% as a result of increasing corporation tax rates

Strategic Update & Outlook

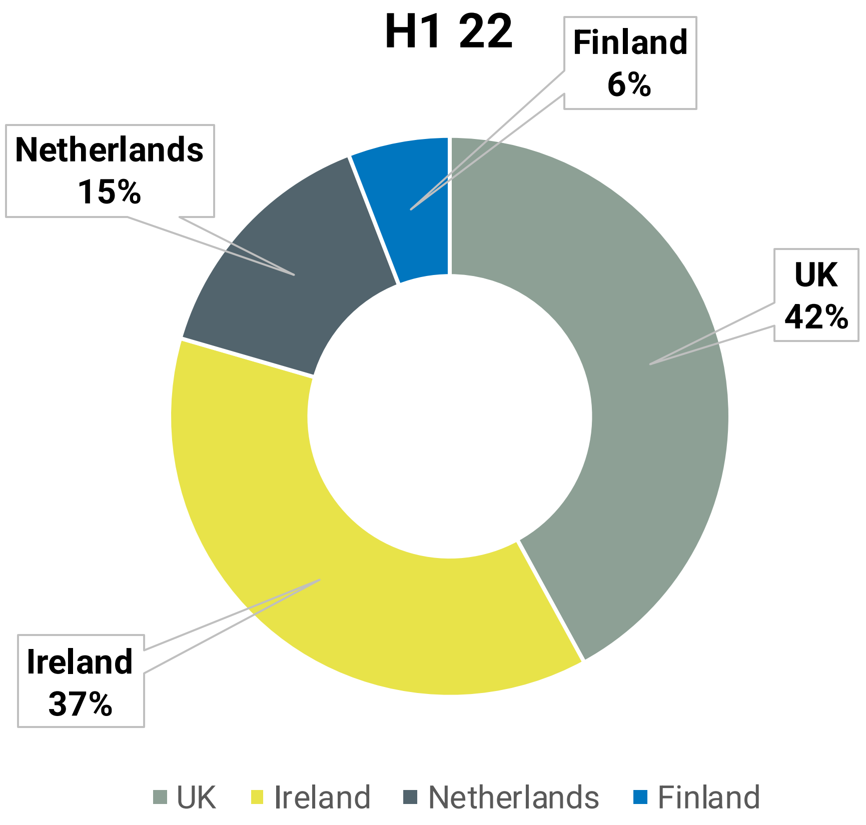
GAVIN SLARK, CEO

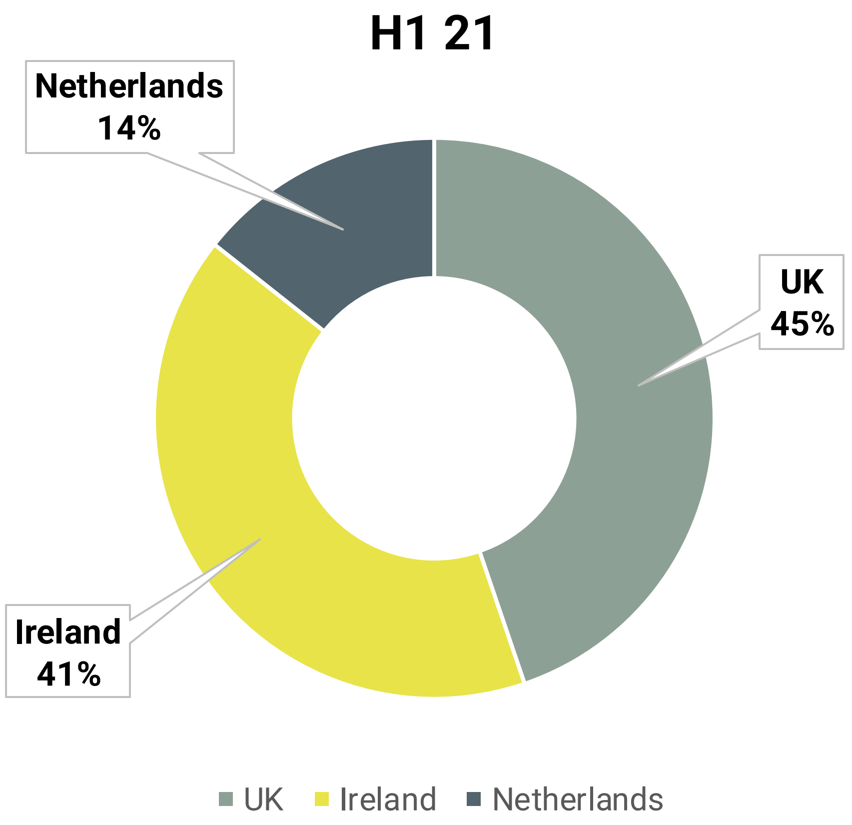
2022
Financial highlights compared to 2019

	H1 2022	H1 2019 Reported[1]	Change
Total revenue	**£1,153m**	£1,483m	**(22.3%)**
Adjusted operating profit pre property profit	**£132.6m**	£99.2m	**+33.7%**
Adjusted earnings per share	**49.5p**	31.4p	**+57.6%**
Dividend	**9.25p**	6.50p	**+42.3%**
Net cash/(debt)	**£73.5m**	(£540.5m)	**+£614.0m**
Adjusted operating profit margin pre property profit	**11.5%**	6.9%	**+460bps**
Adjusted return on capital employed[2]	**18.8%**	12.9%	**+590bps**

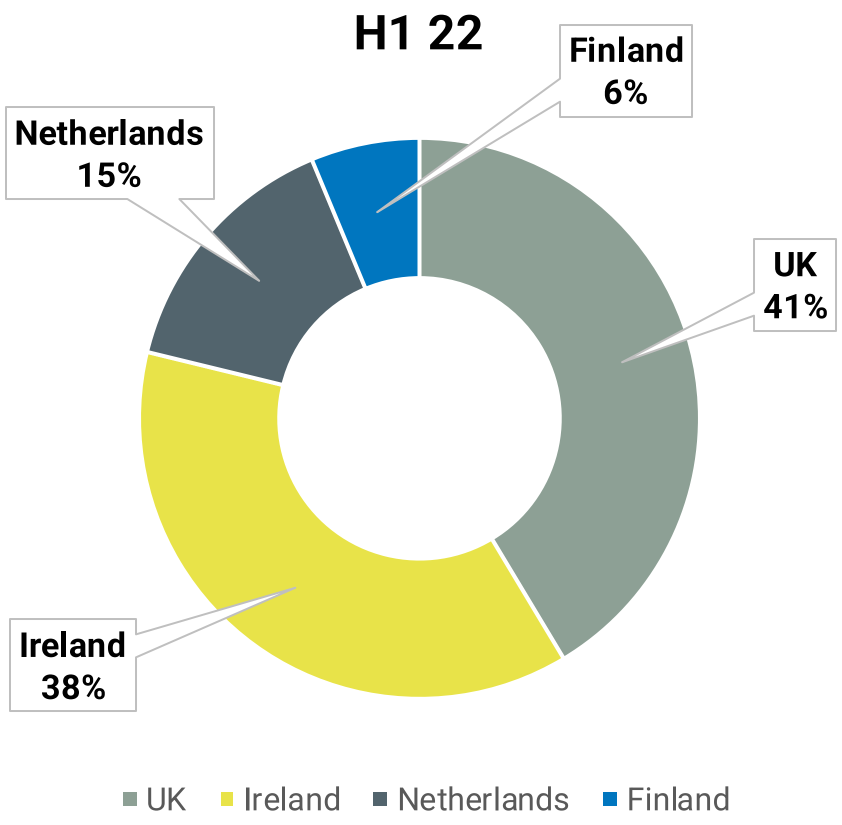
[1] Reported on 30 August 2019
[2] ROCE calculated for continuing operations

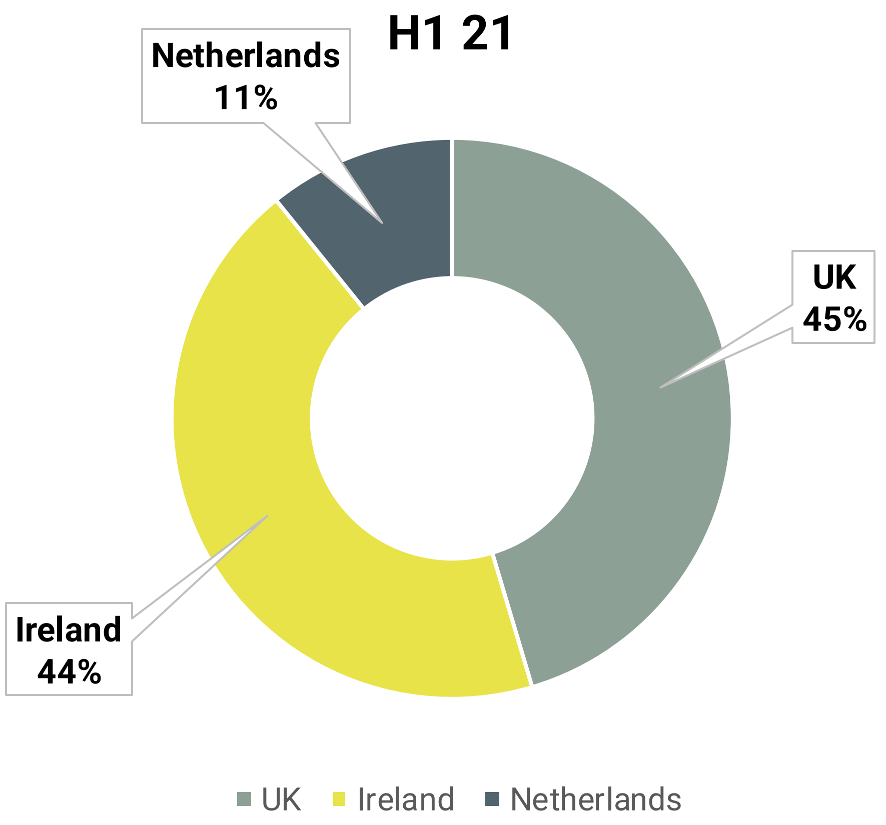
Importance of Geographical Diversity - Revenue by Geography





Importance of Geographical Diversity - Operating Profit by Geography





Strong Cash Generation and Balance Sheet Provides Optionality

Continuing to follow our disciplined capital allocation policy

H1 2022	£m	
Acquisitions	45.8	Activity reviewing potential acquisitions continues at a healthy level
Dividend	52.7	Dividend cover policy of 2-3x
Share buyback	43.9	Funded by 2022 free cash flow (pre development spend)

Future Group Development

Organic development

- Continued investment in expanding the branch footprints of Selco, Leyland SDM, the Netherlands and Finland
- Investment into future growth of StairBox with lease of additional premises

Acquisitions

- Acquisitions completed in the first half of Sitetech (Ireland), Wood Floor Warehouse (Northern Ireland) and Regts (Netherlands)
- Continuing to progress discussions with vendors on future acquisitions

Current trading

	Average daily like-for-like revenue growth	
	H1 2022	1 July 2022 – 14 August 2022
Distribution		
UK	(0.2%)	(5.2%)
Ireland	+19.5%	+1.5%
Netherlands	+7.5%	+1.8%
Finland	-	(10.5%)
Retailing	(22.8%)	+6.8%
Manufacturing	+22.3%	+30.4%
Total Group	+3.4%	+0.0%

Distribution businesses have seen a slightly weaker trading period than anticipated in July and August – impacted by hot weather and holidays

Retailing normalised relatively quickly in H2 21

Good growth in volumes in CPI in early July

Summary and Outlook

- Good trading performance in the first half from diversified earnings base
- Outlook for all our markets is weaker now than when we came into the year given prevailing headwinds
- We are on track to deliver full year expectations though this remains dependent on the usual seasonal upturn in the important trading months of September through to the end of November

Summary and Outlook

- Good trading performance in the first half from diversified earnings base
- Outlook for all our markets is weaker now than when we came into the year given prevailing headwinds
- We are on track to deliver full year expectations though this remains dependent on the usual seasonal upturn in the important trading months of September through to the end of November

- Grafton has a portfolio of strong, resilient businesses with excellent market positions
- Long track record of disciplined capital allocation
- Balance sheet strength provides optionality
- We are well placed to continue to outperform through the cycle

Grafton Group plc

Questions

Appendices

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Appendix 1
Notes & Definitions

Notes

As amounts are reflected in £'m some non-material rounding differences may arise.

The adjustment of acquisition related items to the adjusted operating results was a change on previous years and thus the June 2021 comparatives have been restated to conform to current year presentation.

Definitions

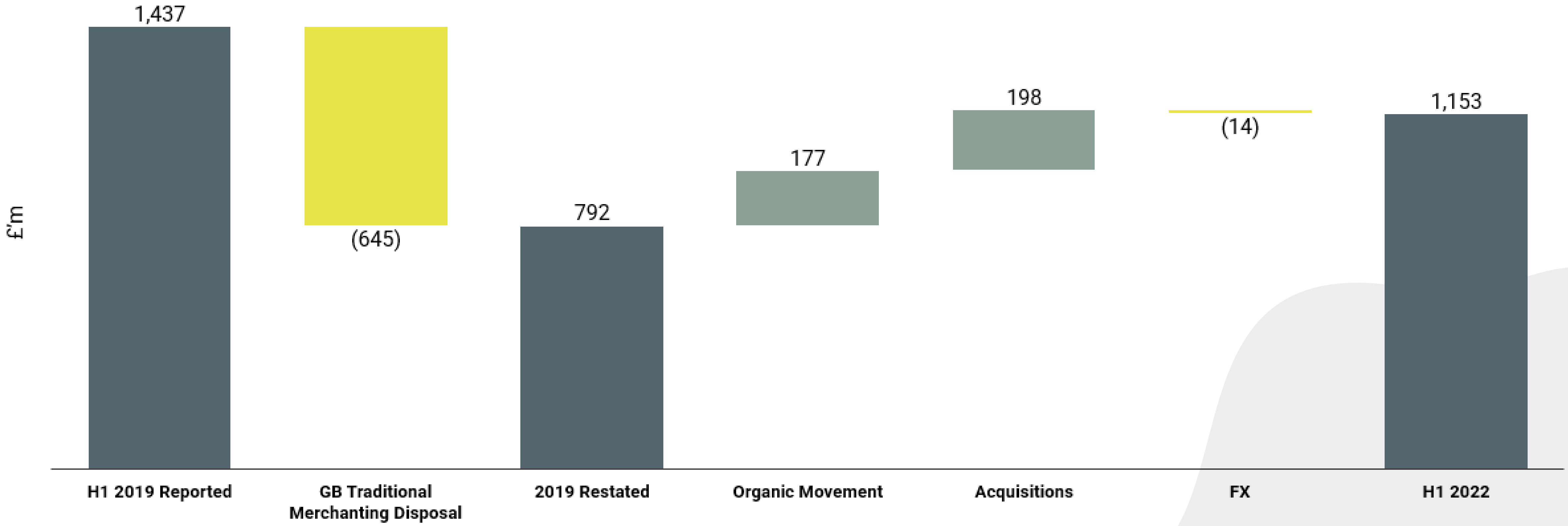
- Adjusted earnings per share is earnings before exceptional items, acquisition related items, intangible asset amortisation arising on acquisitions and before profit/loss on disposal of Group businesses
- Adjusted operating profit is earnings before exceptional items, acquisition related items, amortisation of intangible assets arising on acquisitions, profit/loss on disposal of Group businesses, net finance expense and income tax expense
- Adjusted operating profit margin is adjusted operating profit as a percentage of revenue
- Adjusted operating profit (pre property profit) is earnings before exceptional items, profit on disposal of Group properties, acquisition related items, amortisation of intangible assets arising on acquisitions, profit/loss on disposal of Group businesses, net finance expense and income tax expense
- Adjusted operating profit (pre property profit) margin is adjusted operating profit (pre property profit) as a percentage of revenue

Appendix 2
Revenue Growth – H1 2022 v H1 2021

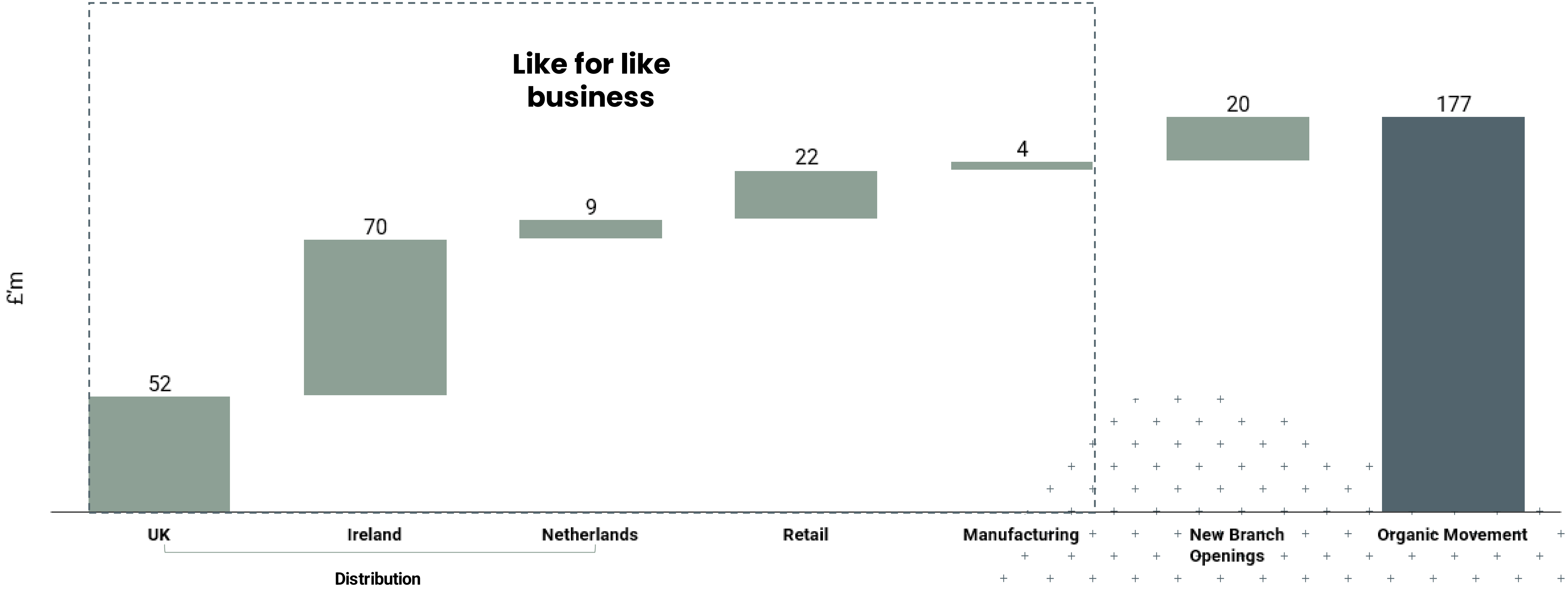
	Average Daily Like-for-Like Revenue Growth - Continuing			
	Qtr 1	Qtr 2	Six months to 30 June 2022	Total Revenue 1 Jan – 30 June 2022
Distribution				**Actual (Sterling)**
UK	4.6%	(4.0%)	(0.2%)	3.6%
Ireland	41.9%	4.3%	19.5%	19.4%
Netherlands	8.2%	7.0%	7.5%	14.4%
Retailing	**(23.8%)**	**(22.1%)**	**(22.8%)**	**(24.9%)**
Manufacturing	**24.7%**	**20.4%**	**22.3%**	**21.1%**
Total Group	**10.4%**	**(2.0%)**	**3.4%**[1]	**12.1%**

[1] Actual revenue growth in like for like business was 3.0% due to difference in trading days

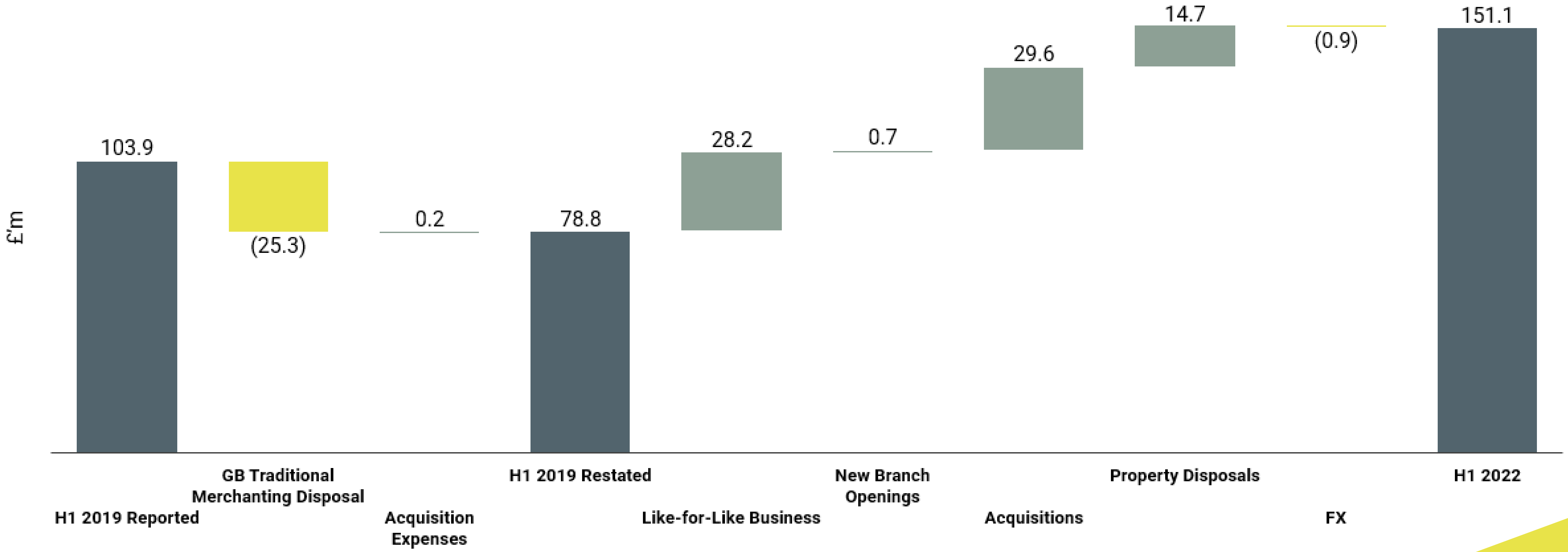
Appendix 3
Revenue bridge 3 Year (H1 19 - H1 22)



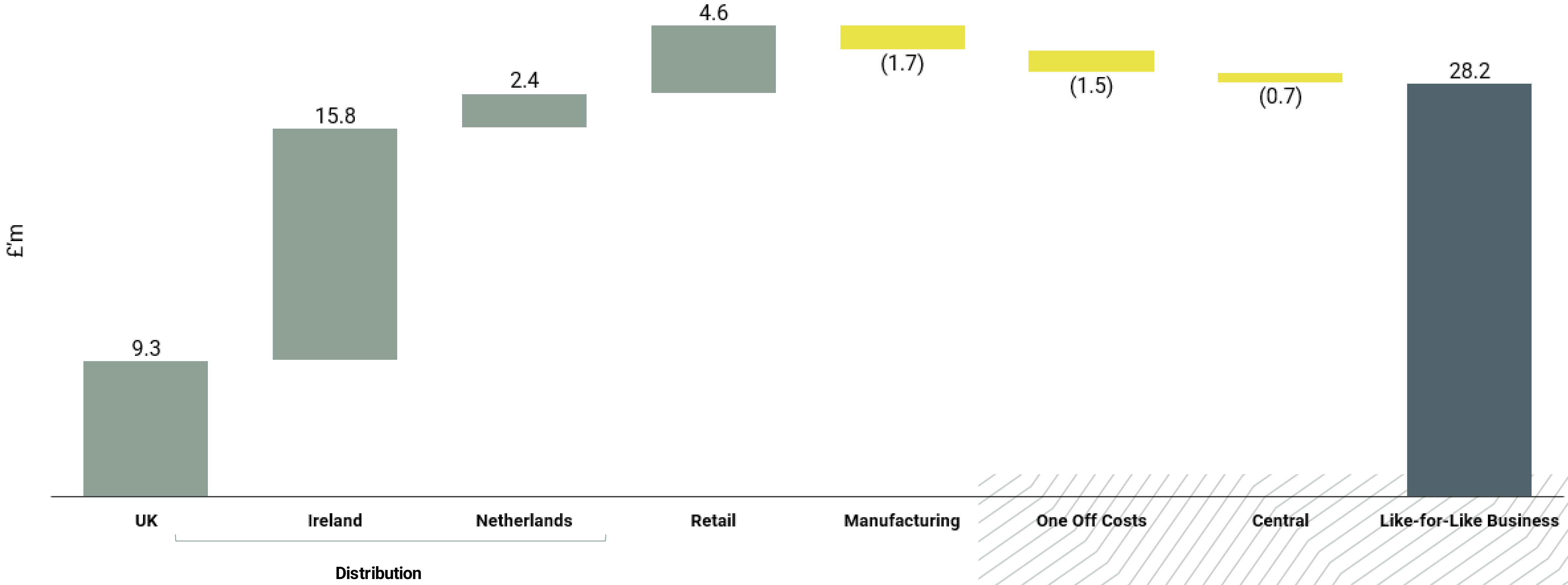
Appendix 4
Analysis of organic movement in 3 Year revenue (H1 19 – H1 22) (constant currency)



Appendix 5
Adjusted operating profit – 3 Year bridge (H1 19 to H1 22)



Appendix 6
Analysis of movement in operating profit in like-for-like Business
3 Year Bridge (H1 19 – H1 22)



Appendix 7
Revenue Growth – H1 2022 v H1 2019

	Average Daily Like-for-Like Revenue Growth - Continuing			
	Qtr 1	**Qtr 2**	**Six months to 30 June 2022**	**Total Revenue 1 Jan – 30 June 2022**
Distribution				**Actual (Sterling)**
UK	17.3%	15.3%	16.2%	24.5%
Ireland	32.5%	34.2%	33.3%	36.7%
Netherlands	9.9%	13.6%	11.7%	108.5%
Retailing	**29.2%**	**19.2%**	**23.3%**	**19.0%**
Manufacturing	**6.4%**	**13.5%**	**10.1%**	**46.0%**
Total Group	**21.6%**	**20.8%**	**21.2%**[1]	**45.5%**

[1] Actual revenue growth in like for like business was 19.9% due to difference in trading days