Travis Perkins plc

# 2018 FULL-YEAR RESULTS

## 26 February 2019

# Agenda

# WELCOME

## STUART CHAMBERS

# INTRODUCTION

## JOHN CARTER

# Introduction

**Solid performance in challenging markets**

- Encouraging H2 underpinned by cost reduction activities
- Strong outperformance in Contracts and Toolstation
- General Merchanting solid in a subdued market
- Improved trading momentum in Wickes in H2
- Successful transformation in Plumbing & Heating

**Focus on Trade, Simplify the Group**

- Market outlook uncertain, but fundamental drivers strong
- Focus capital allocation on advantaged trade businesses
- Simplify the Group to reduce complexity and costs
- Drive earnings progression and cash flow generation to grow shareholder returns

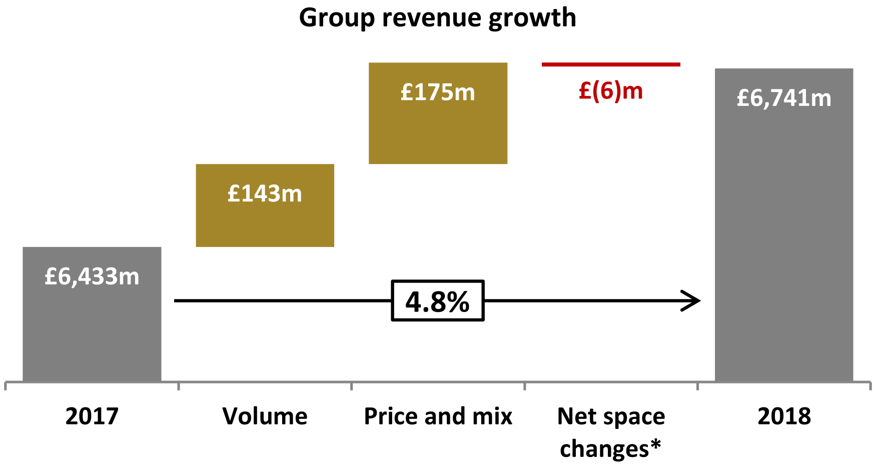
# FINANCIAL REVIEW

## ALAN WILLIAMS

# Key financial highlights

| *Year ended 31 December* | 2018 | 2017 | Δ |
|---|---|---|---|
| Revenue | £6,741m | £6,433m | 4.8% |
| Like-for-like sales growth | 4.9% | 3.3% | *+1.6ppts* |
| Adjusted EBITA | £375m | £380m | *(1.3)%* |
| Adjusted earnings per share | 114.5p | 110.4p | *+3.7%* |
| Dividends per share | 47.0p | 46.0p | *+1.0p* |
| Net debt | £(354)m | £(342)m | *£(12)m* |
| Lease adjusted ROCE | 10.5% | 10.7% | *(0.2)ppts* |

# Steady improvement in like-for-like growth rate

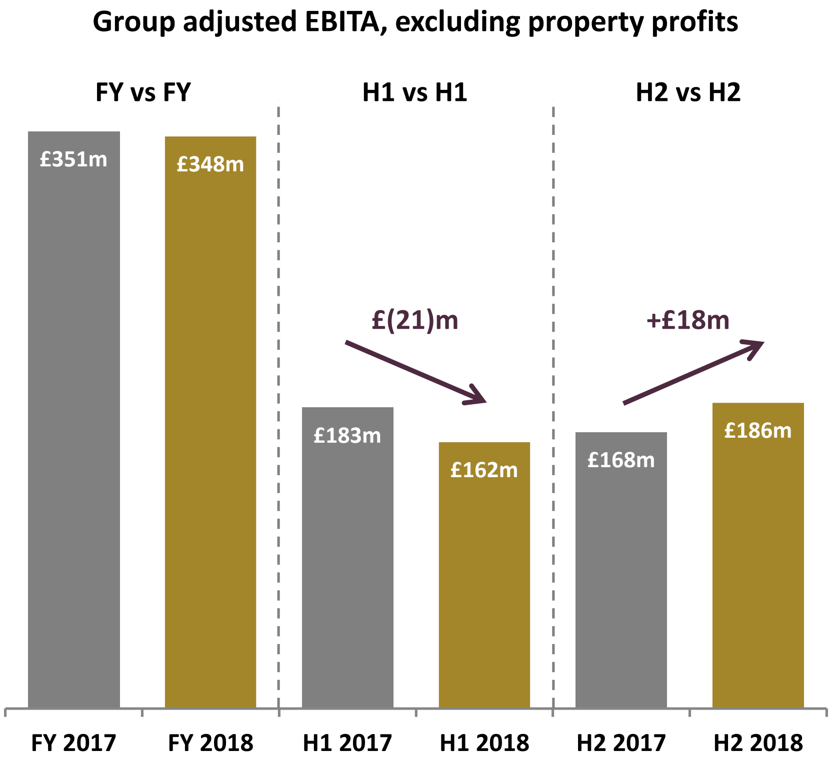



| LFL growth | Q1 | Q2 | H1 | Q3 | Q4 | H2 | FY |
|---|---|---|---|---|---|---|---|
| **2017** | 2.7% | 2.7% | 2.7% | 4.1% | 3.2% | 3.7% | 3.3% |
| **2018** | 3.0% | 5.9% | 4.2% | 4.1% | 6.9% | 5.5% | 4.9% |

- Like-for-like sales growth of 4.9%
- Volume growth concentrated in Contracts, P&H and Toolstation
- Cost of goods inflation passed through in trade businesses
- Toolstation network expansion broadly offset by P&H closures

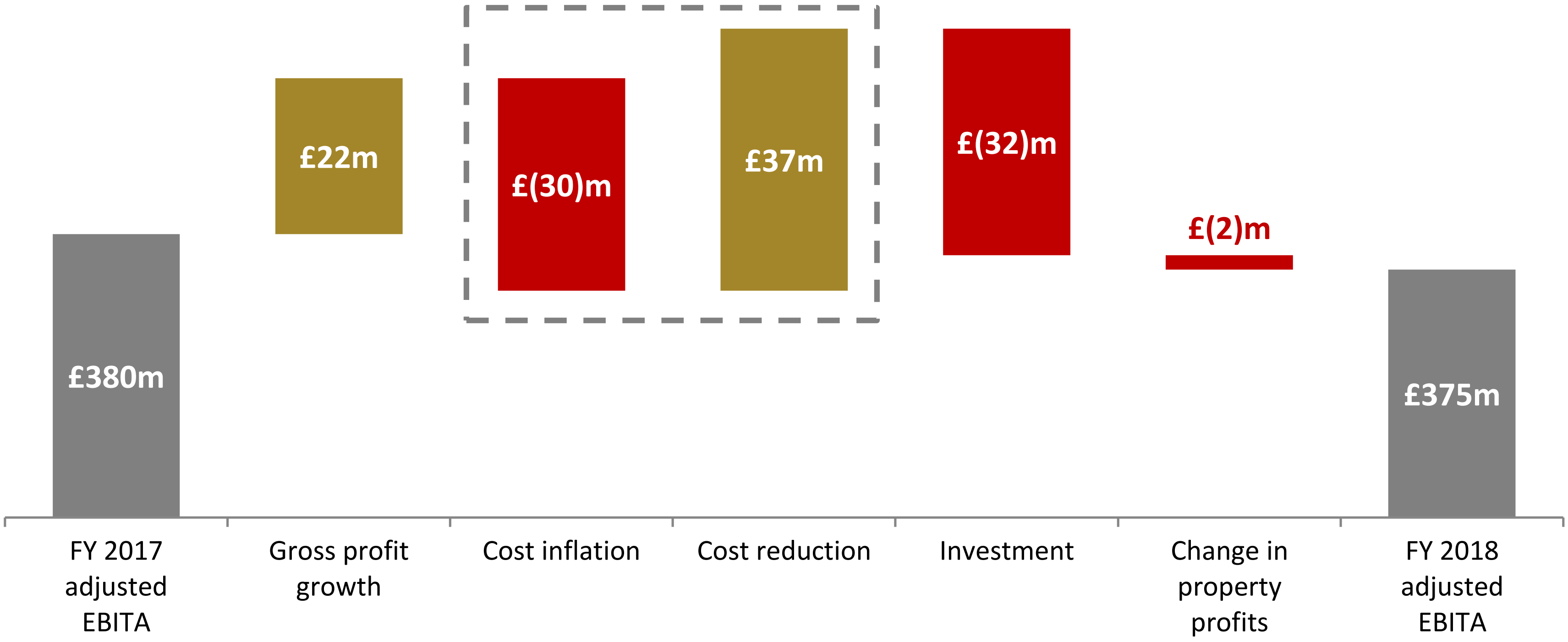
*Net space changes includes acquisitions and disposals

# Strong recovery in EBITA performance in H2

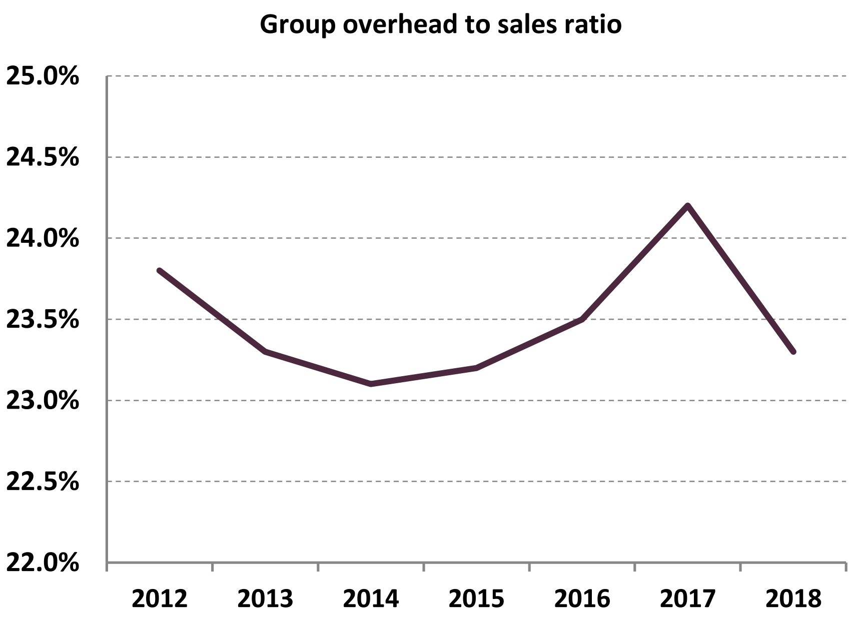



- H1 2018 EBITA under pressure:
  - Weather impacts in February and March
  - Higher cost base in GM from range centre extension
  - Weak consumer trading environment
  - Competitive pricing pressures in Wickes
- H2 2018 EBITA progression:
  - Improving trading volumes, particularly in Contracts and Wickes K&B
  - Significant overhead cost reduction actions taken in TP and Wickes

# Self help actions offset inflationary pressures



# Overhead costs as a proportion of sales improving




- Sharp decline in overhead / sales ratio in 2018 - still plenty more to do
- Significant ongoing investment in proposition, especially Toolstation network
- Cost reduction programmes in Wickes & General Merchanting
- Branch closures in P&H, operating leverage in Contracts
- Targeting further annualised savings of £20m-30m by mid-2020

# General Merchanting - EBITA progression in H2

| | **FY 2018** | FY 2017 | Δ |
|---|---|---|---|
| Total revenue | **£2,137m** | £2,109m | *1.3%* |
| Like-for-like growth | 1.4% | 1.2% | *0.2ppt* |
| Adjusted operating profit* | **£179m** | £183m | *(2.2)%* |
| Adjusted operating margin* | **8.4%** | 8.7% | *(30)bps* |
| LAROCE** | 12% | 12% | - |
| Branch network | **837** | 849 | *(12)* |

TP Travis Perkins

BENCHMARX Kitchens and Joinery

- Like-for-like sales growth driven by recovery of cost inflation
- Volume trend improving through H2
- Gross margins broadly stable across the year
- Positive impact from overhead cost reduction driving year-on-year profit increase of £7m in H2

*Business adjusted operating profit and margin figures are quoted excluding property profits
**2017 LAROCE calculations exclude property profits from the EBITA figure (2017 figure restated on this basis)

# Contracts - strong growth and market share gains

| | **FY 2018** | FY 2017 | *Δ* |
|---|---|---|---|
| Total revenue | **£1,472m** | £1,369m | *7.5%* |
| Like-for-like growth | **7.0%** | 8.4% | *(1.4)ppt* |
| Adjusted operating profit* | **£94m** | £86m | *9.3%* |
| Adjusted operating margin* | **6.4%** | 6.3% | *10bps* |
| LAROCE** | **15%** | 14% | *1ppt* |
| Branch network | **164** | 169 | *(5)* |

Keyline BSS Pipeline & Heating Solutions CCF

- Strong like-for-like sales growth driven by volume and recovery of cost inflation
- All three businesses delivering significant market outperformance
- EBITA growth achieved through good operating leverage and continued focus on processes and efficiency
- LAROCE increased to 15%

*Business adjusted operating profit and margin figures are quoted excluding property profits
**2017 LAROCE calculations exclude property profits from the EBITA figure (2017 figure restated on this basis)

# Consumer - improved Wickes performance in H2

| | FY 2018 | FY 2017 | Δ |
|---|---|---|---|
| Total revenue | **£1,604m** | £1,589m | *0.9%* |
| Like-for-like growth | **(1.3)%** | 3.0% | *(4.3)ppt* |
| Adjusted operating profit* | **£69m** | £82m | *(15.9)%* |
| Adjusted operating margin* | **4.3%** | 5.2% | *(90)bps* |
| LAROCE** | **7%** | 8% | *(1)ppt* |
| Branch network*** | **712** | 666 | *46* |

## Wickes

- Like-for-like sales trend improving through the year, with positive finish in Q4 (+4.0%)
- Profit growth in H2, driven by significant overhead reduction actions

## Toolstation UK

- Sales growth of 18% and LFL of 11.4% demonstrates continued outperformance
- Flat profits due to investment in network expansion and new distribution centre

*Business adjusted operating profit and margin figures are quoted excluding property profits
**2017 LAROCE calculations exclude property profits from the EBITA figure (2017 figure restated on this basis)
***Branch network includes 40 stores relating to Toolstation Europe (2017: 23 stores), an associate of the Group

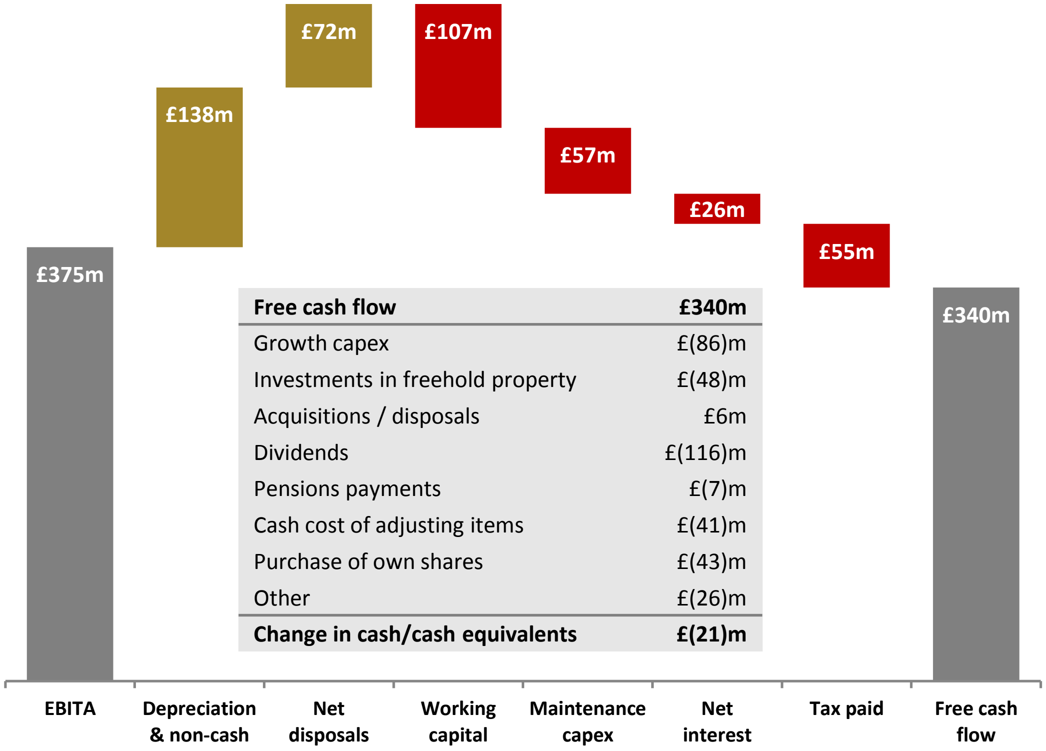
# P&H - transformation driving outperformance

| | **FY 2018** | FY 2017 | Δ |
|---|---|---|---|
| Total revenue | **£1,528m** | £1,366m | *11.9%* |
| Like-for-like growth | **16.1%** | 2.1% | *14.0ppt* |
| Adjusted operating profit* | **£39m** | £31m | *25.8%* |
| Adjusted operating margin* | **2.6%** | 2.3% | *30bps* |
| LAROCE** | **11%** | 9% | *2ppt* |
| Branch network | **377** | 391 | *(14)* |

- Strong like-for-like sales growth driven by proposition improvements in all channels
- Strong outperformance of the market
- Lower gross margins driven by business mix and greater promotional activity
- EBITA growth underpinned by lower costs from branch closures and restructuring
- LAROCE improvement of 2ppt driven by EBITA growth on a stable capital base

*Business adjusted operating profit and margin figures are quoted excluding property profits
**2017 LAROCE calculations exclude property profits from the EBITA figure (2017 figure restated on this basis)

# Strong free cash flow generation continues




| Free cash flow | £340m |
|---|---|
| Growth capex | £(86)m |
| Investments in freehold property | £(48)m |
| Acquisitions / disposals | £6m |
| Dividends | £(116)m |
| Pensions payments | £(7)m |
| Cash cost of adjusting items | £(41)m |
| Purchase of own shares | £(43)m |
| Other | £(26)m |
| **Change in cash/cash equivalents** | **£(21)m** |

- Increase in working capital:
  - Growing merchant sales
  - Inventory build up ahead of Brexit
  - Timing of supplier rebates
- Higher maintenance capex driven by vehicle replacement
- Net cash flow impacted by cash cost of adjusting items and one-off purchase of own shares

# Capital expenditure reducing from peak

| (£m) | 2018 | 2017 |
|---|---|---|
| Maintenance | (57) | (48) |
| IT | (42) | (49) |
| Growth capex | (44) | (69) |
| **Base capital expenditure** | **(143)** | **(166)** |
| Freehold property | (48) | (61) |
| **Gross capital expenditure** | **(191)** | **(227)** |
| Property disposals | 98 | 114 |
| **Net capital expenditure** | **(93)** | **(113)** |

- Growth capex £25m lower with fewer refits and new merchant branches
- Recycling of property assets delivered net £50m cash inflow and £27m profit
  - Nearly all Retail space now leased
- New freehold purchases concentrated in merchant businesses
  - New, better placed TP sites
  - Larger branches to consolidate multiple smaller sites
- IT investment continues to develop digital capabilities for the future

# Balance sheet remains strong

| | Medium Term Guidance | **2018** | 2017 | Δ |
|---|---|---|---|---|
| Net debt | | **£354m** | £342m | £12m |
| Lease debt | | **£1,479m** | £1,525m | £(46)m |
| Lease adjusted net debt | | **£1,833m** | £1,867m | £(34)m |
| Lease adjusted gearing | | **43.7%** | 42.6% | *1.1ppt* |
| Fixed charge cover | 3.5x | **3.2x** | 3.1x | 0.1x |
| LA net debt : EBITDAR | 2.5x | **2.7x** | 2.7x | - |

**Strong balance sheet underpins Group strategic plan**

# Outlook and guidance

- Planning for uncertain market conditions to continue
- Expect adjusted operating profit in 2019 to be similar to 2018
- Cost reduction programmes expected to broadly offset overhead inflation
- Technical guidance:
  - Property profits of around £20m
  - Capex in the range of £110m - £130m
  - Progressive dividend underpinned by strong cash generation
  - H1 / H2 EBITA split more normalised in 2019

# OPERATIONAL REVIEW & STRATEGIC UPDATE

## JOHN CARTER

# Grow shareholder value through two key themes

| Long-term drivers remain positive, but challenges in the short-term | The Group has grown… …but also become more complex |
|---|---|

**Focus on Trade**

**Simplify the Group**

| Drive market outperformance | Lean cost structure | Disciplined capital allocation |
|---|---|---|

# Re-defining the Group's reporting structure

Travis Perkins plc

**Trade focused businesses**

- **MERCHANTING**: Travis Perkins, Keyline, BSS, CCF, Benchmarx Kitchens and Joinery
- **TOOLSTATION**: Toolstation

**RETAIL**: Wickes, Tile Giant

**Seeking disposal in 2019**

- **PLUMBING & HEATING**: City Plumbing Supplies, PTS Plumbing Trade Supplies, Connections, F & P, Primaflow – We simply deliver more

# Removing the Merchanting divisional structure

Frank Elkins
COO - Merchanting

Travis Perkins

Kieran Griffin

Keyline

Paul Beaman

BSS Pipeline & Heating Solutions

Angela Rushforth

CCF

Dean Pinner

BENCHMARX Kitchens and Joinery

John O'Keeffe

- Flatter structure will enable faster decisions made closer to the customer
- Empowers branch managers to act in the best interests of customers
- Branch colleagues to spend more time on deepening local customer relationships

# Customers set the bar for expectations

# Actions underway to refocus business

## Early progress

- New management team in place
- Communication across branch manager community with positive feedback
- Messaging centred on winning local market share
- Benchmarx to be treated as a specialist merchant, with strong growth potential

## Still to come

- Empowered to make faster and better decisions in the interests of customers
- Bespoke pricing arrangements, customer by customer
- Encouraged to widen and deepen branch stock range to satisfy local demands
- Tailored branch manager incentives to drive sales and earnings

**Above-branch functions must serve branches and customers better**

# Maintain momentum of specialist merchants

| | |
|---|---|
| **Customer** | • Strong focus on deepening local and national customer relationships<br>• Exploit specific product category and customer knowledge to extend market leadership |
| **Range and Delivery** | • Develop and extend adjacent specialist ranges to improve customer proposition<br>• Small bolt-on acquisitions to access adjacent categories |
| **Network** | • Optimised branch networks delivering fast, efficient, convenient service to local and national customers |

Keyline BSS Pipeline & Heating Solutions CCF BENCHMARX Kitchens and Joinery

# Investing to accelerate growth in 2019

TOOLSTATION

## Toolstation UK

- Leverage low cost, capital-light model to maintain value leadership
- Focus on trade-credible range - increase extended range towards 15,000 SKUs
- New website is increasing online sales conversion
- Network roll out accelerating - up to 60 stores to be opened in 2019
- Build on better colleague engagement and continue to improve staff retention

## Toolstation Europe

- New DC opened in the Netherlands in 2018 can support 150+ stores; 32 stores currently open
- Planning 25+ store openings in 2019
- Online and store sales growth mirroring experience of UK business
- Promising performance from French store trial – further openings in 2019
- Belgium online growth encouraging, plans for initial stores in 2019

# Strong P&H transformation ahead of schedule

- Outstanding 2018 - strong market outperformance in all three channels
- Rate of growth expected to moderate in 2019
- Branch network optimised - CPS + PTS working as one
- Improved breadth and depth of branch stock range, including new electrical implants
- Dedicated supply chain driving significant improvement in product availability
- Specialist online categories trading well and leveraging local branch network


**Progressing towards successful separation of P&H division**

# Encouraging signs of improving Wickes performance

- Challenging UK DIY market with significant competitor disruption in H1
- Maintaining value leadership
- H2 recovery underpinned by cost reduction programme
- TradePro scheme rewarding loyal trade customers and supporting core sales
- Showroom delivering excellent end-to-end customer service
  - 54% of kitchens sold with installation in 2018 (2017: 44%)
  - Good “leads” trend into Q4 gives confidence for 2019


**Most advantaged business in a challenging UK DIY market**

# Summary

**Group well positioned to face uncertain outlook**

- Market outlook uncertain, but fundamental drivers strong
- Drive sales growth ahead of the market
- Expect 2019 adjusted operating profit to be similar to 2018 underpinned by self-help initiatives
- Setting ourselves up to win in a low-growth market

**Focus on Trade, Simplify the Group**

- Simplify the Group to reduce complexity and costs
- Focus capital allocation on advantaged trade businesses
- Drive earnings progression and cash flow generation to grow shareholder returns

# QUESTIONS

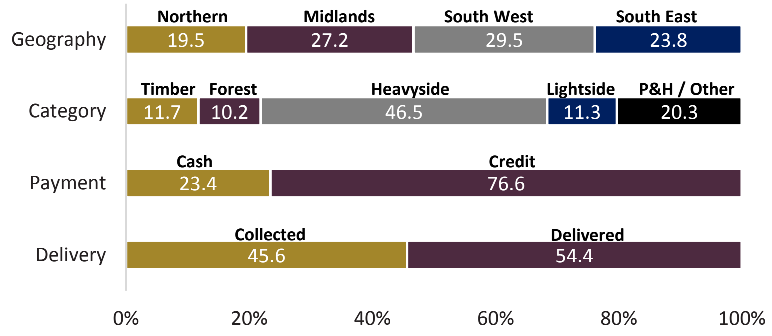
# APPENDICES

# I - Reconciliation from adjusted to statutory results

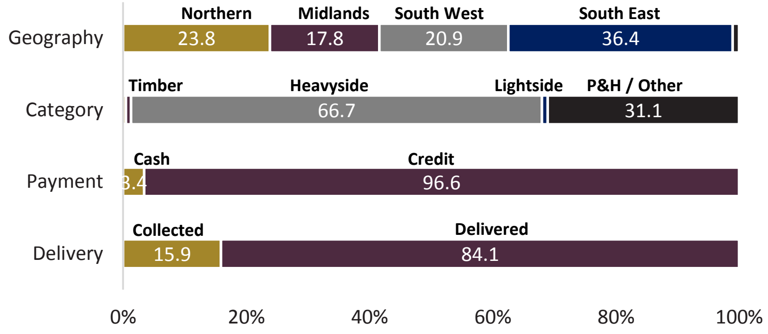
| *Full year ended 31 December* | FY 2018 | FY 2017 |
|---|---|---|
| **Adjusted EBITA** | **374.5** | **380.1** |
| Plumbing & Heating division transformation | (45.3) | (40.9) |
| Impairment of Wickes & Tile Giant goodwill | (252.1) | - |
| IT-related impairment charge | (15.7) | - |
| Restructuring costs | (58.4) | - |
| Pension related items | (4.9) | - |
| Loss on disposal of BPT | (10.3) | - |
| Amortisaton of acquired intangible assets | (9.5) | (12.3) |
| **Operating (loss)/profit** | **(21.7)** | **326.9** |
| Share of associates results | (4.0) | (2.2) |
| Net finance costs | (23.7) | (35.0) |
| **(Loss)/profit before tax** | **(49.4)** | **289.7** |

# II - Divisional revenue analysis - 31 December 2018

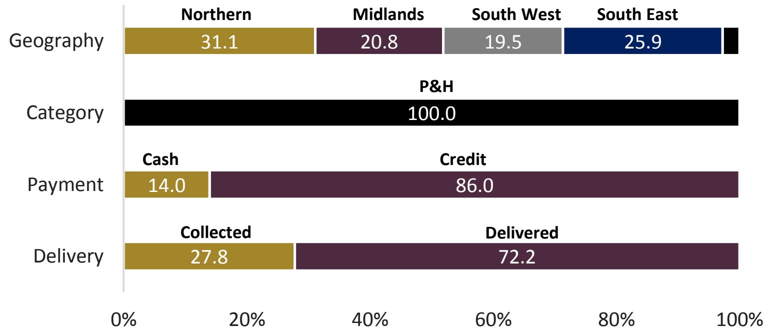
## General Merchanting



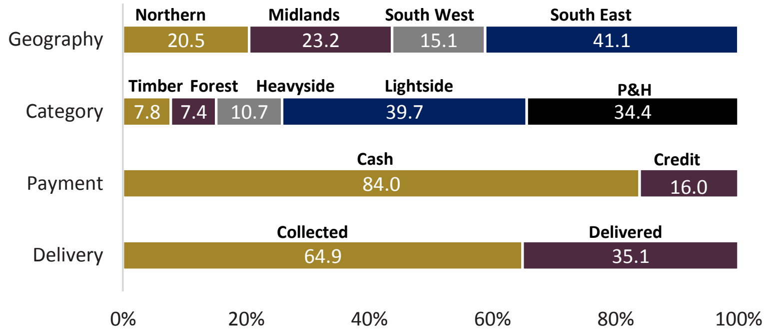

## Contracts



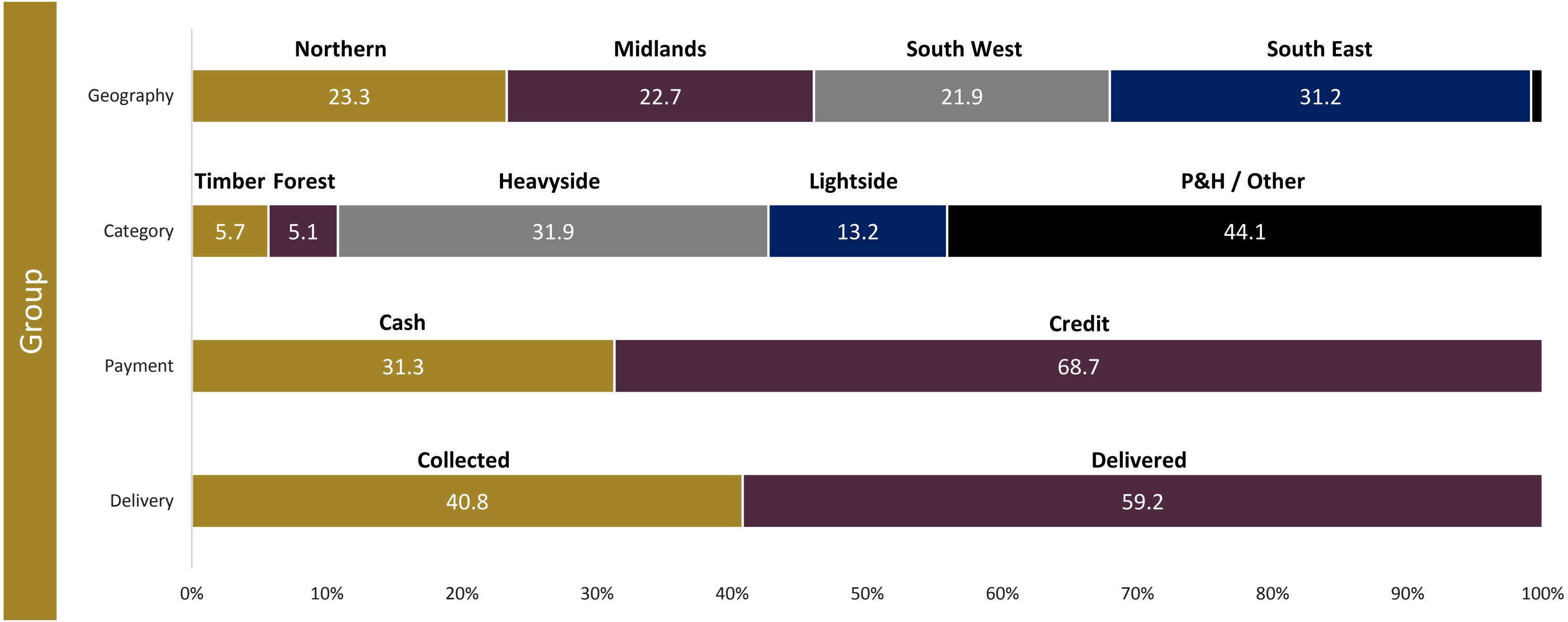

## Plumbing & Heating




## Consumer



# III - Group revenue analysis - 31 December 2018



# IV - Market lead indicators

**Housing**

| | | |
|---|---|---|
| Site visitors | FY 18 (8)% | |
| Site reservations | FY 18 1% | |
| Mortgage approvals | Dec 18 4% | FY 18 (2)% |
| Housing transactions | Jan 19 1% | FY 18 (3)% |
| Housing prices | Jan 19 0% | |

**Retail**

| | |
|---|---|
| Consumer confidence | Jan 19 (14)pt |
| Climate for purchases | Jan 19 2pt |
| Equity withdrawal | Q3 18 (0.5)% |
| Retail Sales growth | Jan 19 1.8% |

**Construction**

| | |
|---|---|
| Architect work load | Q4 18 10% |
| Construction output | FY 18 1% |
| Expected workload | Q1 19 (9)ppt |
| Trade confidence | Q1 19 4pt |
| New construction orders | Q3 18 (31)% |

# V - Branch numbers

| | 31-Dec-17 | New | Closures | Acquisitions | Divestment | 31-Dec-18 |
|---|---|---|---|---|---|---|
| Travis Perkins | **666** | 7 | (19) | 1 | | **655** |
| Benchmarx | **183** | 5 | (6) | - | | **182** |
| **General Merchanting** | **849** | **12** | (25) | 1 | | **837** |
| City Plumbing | **305** | 1 | (10) | - | | 296 |
| PTS | **70** | - | (4) | - | | 66 |
| Other | **16** | - | - | - | (1) | 15 |
| **Plumbing & Heating** | **391** | **1** | (14) | - | (1) | **377** |
| Keyline & Rudridge | **66** | - | (6) | - | | 60 |
| BSS & TF Solutions | **62** | 1 | - | - | | 63 |
| CCF | **41** | - | - | - | | 41 |
| **Contracts** | **169** | **1** | (6) | - | | **164** |
| Wickes | **244** | 3 | (6) | - | | 241 |
| Toolstation UK | **295** | 40 | - | - | | 335 |
| Toolstation Europe | **23** | 17 | - | - | | 40 |
| Tile Giant | **104** | - | (8) | - | | 96 |
| **Consumer** | **666** | **60** | (14) | - | | **712** |
| Built | **1** | | - | - | | **1** |
| **Group** | **2,076** | **74** | (59) | 1 | (1) | **2,091** |

## Historical network growth

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Opening | 1,262 | 1,303 | 1,813 | 1,868 | 1,896 | 1,939 | 1,975 | 2,028 | 2,053 | **2,076** |
| New | 46 | 519 | 120 | 48 | 58 | 101 | 124 | 82 | 86 | **75** |
| Closures | (5) | (9) | (65) | (20) | (15) | (65) | (71) | (57) | (63) | **(60)** |
| **Closing** | **1,303** | **1,813** | **1,868** | **1,896** | **1,939** | **1,975** | **2,028** | **2,053** | **2,076** | **2,091** |

*Branch numbers exclude City Heating Spares and Toolhire implants*
*Built has been reclassified out of General Merchanting and into its own reporting line*

# VI - Sales drivers by division

| Total revenue | General Merchanting | Plumbing & Heating | Contracts | Consumer | Group |
|---|---|---|---|---|---|
| Volume | (1.4%) | 13.3% | 2.5% | (2.0%) | 2.2% |
| Price and mix | 2.8% | 2.8% | 4.5% | 0.7% | 2.7% |
| **Like-for-like revenue growth** | **1.4%** | **16.1%** | **7.0%** | **(1.3%)** | **4.9%** |
| Network expansion and acquisitions | (0.1%) | (4.2%) | 0.5% | 2.2% | (0.1%) |
| Trading days | - | - | - | - | - |
| **Total revenue growth** | **1.3%** | **11.9%** | **7.5%** | **0.9%** | **4.8%** |

# VII - Like-for-like sales growth

## Like-for-like by quarter

| | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| General | 4.7% | 1.1% | 0.6% | 0.3% | (0.3)% | 0.3% | 2.4% | 2.6% | (1.3)% | 3.0% | 1.3% | 2.8% |
| P&H | 2.2% | (1.4)% | (4.1)% | (2.7)% | (1.1)% | (1.9)% | 5.4% | 6.1% | 19.7% | 20.1% | 14.8% | 12.0% |
| Contracts | 2.1% | 3.1% | 5.7% | 9.2% | 12.1% | 6.4% | 7.7% | 7.9% | 0.9% | 9.5% | 8.9% | 8.8% |
| Consumer | 7.3% | 6.4% | 6.3% | 5.8% | 2.9% | 6.5% | 2.4% | (2.6)% | (4.6)% | (3.1)% | (4.2%) | 5.6% |
| **Group** | **4.2%** | **2.3%** | **2.0%** | **2.5%** | **2.7%** | **2.7%** | **4.1%** | **3.2%** | **3.0%** | **5.9%** | **4.1%** | **6.9%** |

## Like-for-like by half

| | H1 2016 | H2 2016 | FY 2016 | H1 2017 | H2 2017 | FY 2017 | H1 2018 | H2 2018 | FY 2018 |
|---|---|---|---|---|---|---|---|---|---|
| General | 2.9% | 0.5% | 1.7% | (0.1)% | 2.5% | 1.2% | 0.6% | 2.0% | 1.4% |
| P&H | 0.4% | (3.4)% | (1.6%) | (1.2)% | 5.8% | 2.1% | 19.8% | 12.9% | 16.1% |
| Contracts | 2.7% | 7.3% | 5.0% | 9.1% | 7.7% | 8.4% | 5.1% | 8.9% | 7.0% |
| Consumer | 6.5% | 6.2% | 6.4% | 4.7% | 0.1% | 3.0% | (4.2)% | 1.0% | (1.3%) |
| **Group** | **3.1%** | **2.2%** | **2.7%** | **2.7%** | **3.7%** | **3.3%** | **4.2%** | **5.5%** | **4.9%** |

# VIII - 2018 results reflecting new reporting structure

| *Revenue £m* | FY 2018 | FY 2017 | Δ | H1 2018 | H1 2017 | Δ | H2 2018 | H2 2017 | Δ |
|---|---|---|---|---|---|---|---|---|---|
| Merchants | 3,609 | 3,478 | 3.8% | 1,783 | 1,730 | 3.1% | 1,826 | 1,748 | 4.5% |
| Toolstation | 354 | 300 | 18.0% | 169 | 144 | 17.4% | 185 | 156 | 18.6% |
| Retail | 1,250 | 1,289 | (3.0%) | 638 | 678 | (5.9%) | 612 | 611 | 0.2% |
| P&H | 1,528 | 1,366 | 11.9% | 774 | 669 | 15.7% | 754 | 697 | 8.2% |
| Central | - | - | - | - | - | - | - | - | - |
| **Underlying Group** | **6,741** | **6,433** | **4.8%** | **3,364** | **3,221** | **4.4%** | **3,377** | **3,212** | **5.1%** |
| Property | - | - | - | - | - | - | - | - | - |
| **Group** | **6,741** | **6,433** | **4.8%** | **3,364** | **3,221** | **4.4%** | **3,377** | **3,212** | **5.1%** |

| *Adjusted EBITA £m* | FY 2018 | FY 2017 | Δ | H1 2018 | H1 2017 | Δ | H2 2018 | H2 2017 | Δ |
|---|---|---|---|---|---|---|---|---|---|
| Merchants | 273 | 269 | 1.5% | 129 | 138 | (6.5%) | 144 | 131 | 9.9% |
| Toolstation | 22 | 22 | - | 9 | 11 | (18.2%) | 13 | 11 | 18.2% |
| Retail | 47 | 60 | (21.7%) | 20 | 34 | (41.2%) | 27 | 26 | 3.8% |
| P&H | 39 | 31 | 25.8% | 20 | 13 | 53.8% | 19 | 18 | 5.6% |
| Central | (33) | (31) | (6.5)% | (16) | (13) | (23.1)% | (17) | (18) | 5.6% |
| **Underlying Group** | **348** | **351** | **(0.9%)** | **162** | **183** | **(11.5%)** | **186** | **168** | **10.7%** |
| Property | 27 | 29 | (6.9%) | 17 | 7 | 142.9% | 10 | 22 | (54.5%) |
| **Group** | **375** | **380** | **(1.3%)** | **179** | **190** | **(5.8%)** | **196** | **190** | **3.2%** |

# IX - Impact of IFRS 16 - Leases

- New accounting rules in 2019
- No impact on cash flows or underlying economics
- Significant impact on financial statements:
  - All future lease payments recognised as debt
  - Corresponding asset for “right of use” leased assets
  - Rental charge replaced with depreciation and interest
  - Operating profit will increase
  - PBT and EPS will decrease
- Group will adopt at HY19; HY18 comparison will be on an indicative basis and will not be fully restated

# IX - Impact of IFRS 16 - income statement

| 2018 indicative view | Current rules | Remove rent | Add depreciation and interest | New rules |
|---|---|---|---|---|
| Revenue | 6,741 | - | - | 6,741 |
| Gross profit | 1,917 | - | - | 1,917 |
| **Adjusted operating profit** | **375** | **210** | **(155)** | **430** |
| Share of associates’ results | (4) | - | - | (4) |
| Interest | (24) | - | (60) | (84) |
| **Adjusted profit before tax** | **347** | **210** | **(215)** | **342** |

**Notes for 2018 indicative view:**

- Based on new accounting rules in 2019
- Gives indication of the impact of the new rules if applied “prospectively” from Jan 2018
- Based on leases and debt costs in Jan 2018
- No consideration of impact on rent reviews and calculation of onerous lease provisions
- Impact when applied prospectively (with certain right-of-use assets measured retrospectively) will differ in Jan 2019
- Full details of modelling assumptions, transition approach and accounting policy choices in Annual Report

# IX - Impact of IFRS 16 – balance sheet

| **2018 indicative view** £m | **Current rules** | **Recognise leases*** | **Onerous lease -> impairment** | **New rules** |
|---|---|---|---|---|
| Tangible fixed assets | 913 | 1,200 | (10) | 2,103 |
| *Total assets* | *5,118* | *1,200* | *(10)* | *6,308* |
| Lease liability | - | (1,350) | - | (1,350) |
| Provisions | (78) | - | 10 | (68) |
| *Total liabilities* | *(2,400)* | *(1,350)* | *10* | *(3,740)* |
| **Net assets** | **2,718** | **(150)** | **-** | **2,568** |

*Numbers are rounded to the nearest £50m

# IX - Impact of IFRS 16 - ROCE

| 2018 indicative view | Current rules: Lease-adjusted ROCE | New rules: ROCE |
|---|---|---|
| Adjusted operating profit | 375 | 430 |
| 50% of property operating lease rentals | 92 | - |
| *Lease-adjusted operating profit* | *467* | *430* |
| Average capital employed | 2,989 | 4,189 |
| Property operating lease rentals x8 | 1,479 | - |
| *Lease-adjusted capital employed* | *4,468* | *4,189* |
| **Lease-adjusted return on capital employed** | **10.5%** | **10.3%** |

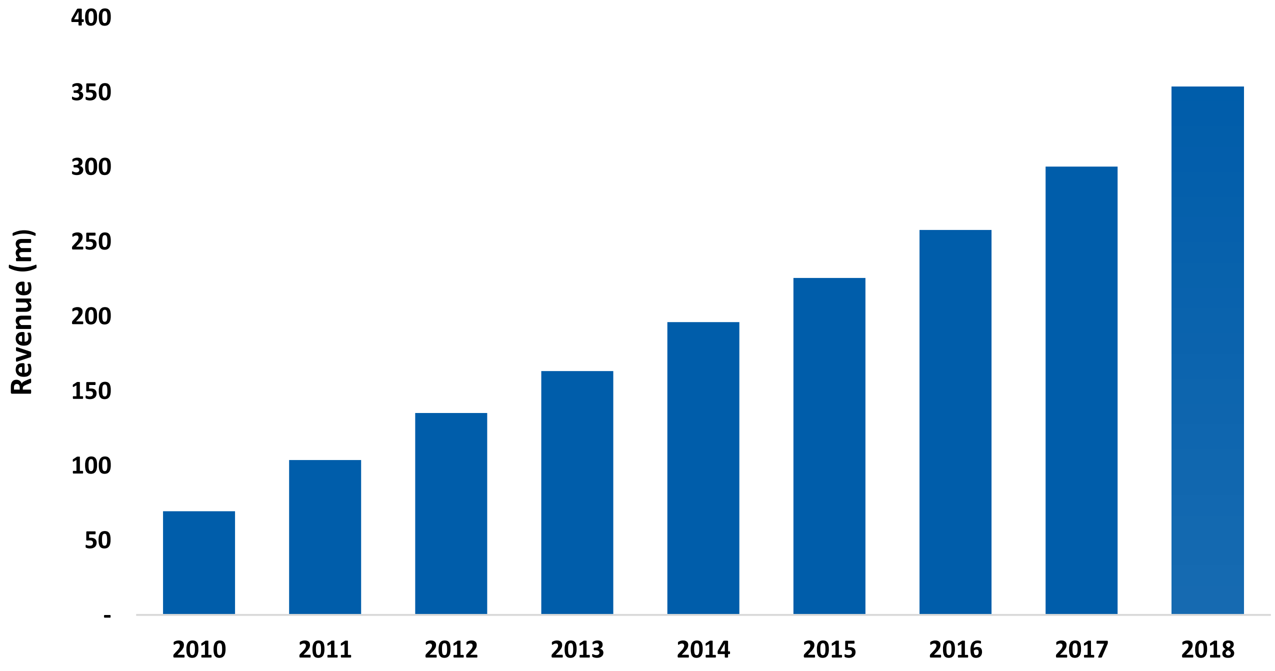
# IX - Impact of IFRS 16 – KPI's

| | Impact | Explanation |
|---|---|---|
| Operating profit and operating margin % | ⇑ | Rental charge replaced with depreciation and interest |
| PBT and EPS | ⇓ | New rules front-load expenses |
| Return on capital | ⇔ | New rules ROCE broadly in line with current LAROCE |
| Debt covenants | ⇔ | Frozen GAAP so no impact |

- New rules put leases on balance sheet, so no need to make lease adjustment to ROCE
- Covenants based on frozen GAAP so continued reporting of existing debt-related metrics

# X – Toolstation UK - Performance

**2010-18: Revenue CAGR 23%**



# XI – Summary capital allocation priorities

**Aim to invest in business to maintain advantaged propositions and drive market outperformance**

**Simplified and refocused business allows reduction in capital expenditure levels**

| | | | |
|---|---|---|---|
| Ongoing Maintenance Capex expected to be ~£60m | Investments in GM estate self financing over 12-24 months | Continue to drive Toolstation and Specialist Merchanting | IT Investment of ~£50m per annum over next three years |

**Growth in Return on Capital Employed driven by earnings momentum and enhanced capital allocation**

**Progressive Dividend payout underpinned by strong cash generation**

**Maintain LA net debt/EBITDAR target of 2.5x**

# XII - Definitions

| Metric | Definition |
|---|---|
| EBITA | Earnings before interest, tax and amortisation |
| Earning per share ("EPS") | Ratio of net profit after taxation to weighted number of ordinary shares outstanding |
| Adjusted EBITA / Adjusted EPS | EBITA or EPS adjusted for exceptional items and amortisation (see Appendix II for reconciliation) |
| Lease adjusted ROCE | Ratio of earnings before interest, tax, amortisation and 50% of annual property rental expense to debt plus equity plus eight times annual property rental expense |
| Lease adjusted debt | On-balance sheet debt (excluding derivative fair valuation adjustments) plus eight times annual property rental expense |
| LA Gearing | Ratio of lease adjusted debt to equity plus lease adjusted debt |
| Fixed charge cover | Ratio of earnings before interest, tax, depreciation, amortisation and property rentals to interest plus property rentals |
| LA Debt : EBITDAR | Ratio of lease adjusted debt to earnings before interest, tax, depreciation, amortisation and property rentals |
| Dividend cover | Ratio of earnings per share to dividends per share |
| Free cash flow ("FCF") | Net cash flow before dividends, growth capital expenditure, pension contributions & financing cash flows |
| Total Shareholder Return ("TSR") | Ratio of opening market price per share to closing market price per share less opening market price per share plus dividends per share during the period |
| WALE | Weighted average expiry of property leases |

# XII - Definitions (continued)

| Metric | Definition |
| --- | --- |
| Site visitors | House Builders Federation Survey / monthly / December 2018 / Balance score compared to a year ago |
| Site reservations | House Builders Federation Survey / monthly / December 2018 / Balance score compared to a year ago |
| Mortgage approvals | Bank of England / monthly / December 2018 / number of approvals % change year on year |
| Housing transactions | HM Revenue & Customs / monthly / December 2018 / number of houses sold above £40k % change year on year |
| Housing prices | Nationwide / monthly / January 2019 / house price inflation % change year on year |
| Consumer confidence | GFK / monthly / January 2019 / index score |
| Climate for purchases | GFK / monthly / January 2019 / index score |
| Equity withdrawal | Bank of England / quarterly / Q3 2018 / Change in Equity withdrawal as % of net earnings compared to previous quarter |
| Retail sales growth | British Retail Consortium / monthly / January 2019 / LFL % change year on year |
| Architect work load | Mirza and Nacey Survey / quarterly / Q3 2018 / Index - balance score |
| Construction output | Construction output YTD ONS / monthly / December 2018 / % change year on year |
| Trade confidence | Travis Perkins survey materials spend / quarterly / Q4 2018 view of Q1 2019 / Balance score (sample: 3,571) |
| Expected workload | Federation of Master Builders / quarterly / Q4 2018 view of Q1 2019 / Balance score (publish later than TP survey, smaller sample of ~400) |
| New construction orders | Office for National Statistics / quarterly / Q3 2018 / % change year on year |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