Travis Perkins plc

A LEADER IN BUILDERS' MERCHANTING & HOME IMPROVEMENT RETAILING

Travis Perkins Plc – Preliminary Results for Year Ended 31st December 2011

On 22 February 2012, we announced our results for the Year Ended 31 December 2011. The highlights are as follows:

FINANCIAL HIGHLIGHTS

- Group revenue up 52% at £4,779m, up 6% on a like-for-like basis
- Adjusted profit before tax up 37% to £297m
- Adjusted EPS up 21% to 93.1p
- Proforma adjusted group operating margin maintained at 6.6%
- Net debt reduced by £191m to £583m with adjusted net debt to EBITDA of 1.3x
- Total dividend per share up by 33% to 20p, including a final dividend of 13.5p

OPERATING HIGHLIGHTS

- BSS acquisition synergies realised in 2011 exceeded expectations at £20m
- Expected synergies for 2012 increased to £30m
- BSS integration ahead of schedule
- Strong like-for-like performance and market share gains
- Toolstation acquisition completed on 3 January 2012
- 13 ex-Focus stores acquired and trading ahead of expectations

Geoff Cooper, Chief Executive, commented:

"2011 was a good year for Travis Perkins. Despite a depressed construction market, we improved services to customers, gained market share, even before the expansion of our network and exceeded our targets from the integration of BSS, continued to outperform our markets, and won further market share. This meant we achieved a good set of financial results with improvements in all key figures."

"Having built the UK's largest distributor of building materials, we will be focusing on growing returns. With the prospect of the market softening as we go into 2012, the continued improvement in our offer to customers and gains from strategic developments will be the engine of this growth. Our management team has proven itself capable of performing well in tough markets and outgrowing our competitors. We look forward to another year of solid progress."

2011	2010		
	£m	**%**	£m
Revenue	**4,779.1**	**51.6**	3,152.8
Adjusted*:			
Operating profit (note 6a)	**313.2**	**31.0**	239.0
Profit before taxation (note 6b)	**296.7**	**36.9**	216.7
Profit after taxation (note 6b)	**219.0**	**39.6**	156.9
Adjusted earnings per ordinary share (pence) (note 10b)	**93.1**	**20.6**	77.2
Statutory:			
Operating profit	**290.5**	**32.2**	219.8
Profit before taxation	**269.6**	**37.0**	196.8
Profit after taxation	**212.4**	**50.3**	141.3
Basic earnings per ordinary share (pence)	**90.3**	**29.7**	69.6
Total dividend declared per ordinary share (pence) (note 11)	**20.0p**	**33.3**	15.0p

Summary

We have made good progress, in both strategic development and in financial results, despite overall market volumes declining by between 4% and 5%. Whilst our primary focus has been on integrating the BSS businesses into the Group and maximising synergies, we have continued to outperform in the majority of our markets through the successful implementation of self-help initiatives and cautious expansion.

Financial Performance

Revenue for 2011 was £4,779m (2010: £3,153m), an increase of £1,626m. Excluding BSS, most of the revenue increase came from our merchanting division with all businesses and product groups seeing strong growth. Of the 51.6% increase in revenue, like-for-like ("LFL") sales increased by 6.0%, with inflation of 4.7% and volumes increasing by 1.3%, whilst BSS accounted for 43.7% and other expansion provided 2.2%. One fewer working day reduced sales by 0.3%. These gains in LFL sales reflect the work we have done to improve further the merchanting and retail businesses by continuously improving our offer to customers. Significant progress has been made on customer service, product availability, product presentation and improved sourcing in both divisions.

Adjusted operating profit increased by £74m to £313m (2010: £239m), which resulted in adjusted group operating margin of 6.6%, in line with last year on a proforma basis. Our trading strategies in 2011 have been aimed at maximising operating profits by sustaining our volume outperformance and using these to drive economies of scale. With market volumes likely to fall in 2012, we aim to modify this stance on a selective basis to reflect market trends in order to protect margins, as we have done successfully in the past.

Clearly, the inclusion of BSS contributed the major part of this increase in profits - on an adjusted proforma basis, operating profits were up by £11m, an increase of 3.6%. This increase reflects our ability to drive synergies and outperform.

Whilst the operating margins of individual divisions are still strong, there has been a limited amount of erosion during the year in merchanting. The overheads to sales ratio reduced by 0.4% due to the combined impact of good cost control and the operational gearing effect of the fixed element of our cost base and synergy benefits contributed 0.2%. However, these were not enough to prevent merchanting operating margins falling by 0.2% to 8.6% (2010: 8.8%) as gross margins eased 0.8% due to mix (direct to site deliveries grew strongly, so diluting gross margins), input price pressure, investment in warehouse facilities and some investment in market share.

In our retail business, despite a 1.3% gross margin improvement due to a combination of improved purchasing terms, direct sourcing and lower sales incentives, adjusted operating margin fell by 1.4% to 4.5% (2010: 5.9%). This reflects an increase in overheads due to higher marketing spend, the initial costs of opening all of the new stores acquired from Focus and restructuring.

BSS adjusted operating margins including synergies improved by 0.4% to 4.6% (2010: 4.2% on a proforma basis) as the benefits of our synergy programme more than offset the effects of sales mix, which reduced operating margins, due to significantly increased turnover with British Gas from April.

Dividend

The Board's stated intention is to reduce the multiple by which dividends are covered by post tax earnings to between 2.5 times and 3.5 times over the medium term from the current cover of 4.7 times. As a step towards meeting that target, the Board is pleased to recommend a final dividend of 13.5 pence per share, payable to shareholders on the register on 4 May 2012, which will give a total dividend for 2011 of 20 pence per share. The proposed 33% increase in dividend over 2010 will result in a cash outflow of £47m.

Markets

The market predictions we made for the year were broadly correct, although the first quarter of last year proved to be better than expected and we, like others, did not foresee the full extent and impact of the Eurozone related uncertainty later in the year. The latter part of the year saw markets slowing as a result of fewer property transactions in the spring and increasing public sector spending cuts.

Our underlying organic strategy has delivered good returns against a background of weak macro indicators and the key indicators that we follow show that the market remains weak. We believe that market volumes for trade are still some 30% below their 2007 peak whilst in retail, the situation is marginally better at minus 25%.

Divisional Progress

Our culture of continuous improvement has driven the business forward again, enabling us to retain our position as the UK's leading provider of building materials.

Our merchanting division has performed strongly with each of our businesses recording impressive growth and outperforming both national and independent merchants. Sales increased in aggregate by £231m, or 10.9% with LFL sales improving by 9.4%, sales from new branches contributing 2.2% and closures and one less working day reducing sales by 0.7%. Volumes increased by 3.9% supported by higher than expected price inflation of 5.5%. Adjusted operating profit was up 9.4% to £201.8m.

Poor consumer confidence and lower levels of disposable income have had a detrimental effect on our retail businesses in 2011. Revenue is up £15m (1.5%) to £1,018m (2010: £1,003m), due to the expansion from new sites which increased sales by 2.9%. Despite having a strong product offering and competitive prices a fall in demand for delivered kitchen and bathroom products caused total LFL delivered sales to fall by 1.4%. Overall volumes fell by 4.3% whilst inflation increased turnover by 2.9%. Retail division adjusted operating profit fell by £14m to £45m as lower sales and increased overheads in Wickes, due to investment in store expansion and reorganisation costs, outweighed the benefits of an improved gross margin.

Proforma LFL sales for BSS increased by 2.9%. Inflation was 4.5%, but volumes fell by 1.6%, even though the expanded British Gas contract, during the last nine months of the year,added 2.4% to volumes. New branches accounted for additional sales of 0.5%, whilst the branches sold at the insistence of the OFT and one fewer working day reduced sales by 3.3%. On a proforma basis adjusted operating profit, including synergies, increased by 9.5% to £67m (2010: £61m).

Reported revenue for BSS has decreased, on a proforma basis, by £22m to £1,436m due to a number of structural changes. In the early part of the year, at the insistence of the OFT, 14 PTS branches were sold. In June the trade of UGS was transferred into our Keyline business and on 30 September the trade and assets of Buck and Hickman were sold to Brammer plc.

The integration project has progressed well thanks to the very effective work of a team of colleagues drawn from across the Group. Their focus has been to integrate BSS colleagues and businesses into the TP group and identify and realise synergies. New operating and financial systems have been developed for our PTS and BSS Industrial businesses, cross brand selling opportunities have been realised, the management team has been strengthened and we have invested in expanding the warehousing facilities at Magna Park in Leicestershire and Chorley in Lancashire.

The first year of the BSS synergy project has exceeded our expectations. The initial target of £8m, for 2011, has been surpassed as we achieved a total of £20m of synergies in 2011 - £15m from purchasing and £5m from overheads. We are on course to deliver £30m in 2012. This is one year earlier than we anticipated, and £5m more than our original 2013 target.

Early in 2012 we completed the acquisition of ToolStation by purchasing the 70% of issued share capital we did not already own. The company has experienced rapid organic growth over the last three years and now trades from 103 outlets as well as strongly via the telephone and the internet. The IT system and multichannel expertise of the ToolStation management makes it a valuable and profitable addition to the Group.

In early February, the OFT contacted us to raise concerns about the acquisition. Given our agreement with ToolStation has created a new and robust competitor in the multi-channel market we are surprised they contacted us. We are in the process of responding to the initial enquiry and are confident that the issue will be satisfactorily resolved.

Financial Overview
Our principal financial objectives for 2011 were to support the Group's strategy by delivering the synergies anticipated at the time of the BSS acquisition, further reducing group borrowings, managing margins and costs in the face of increasingly difficult markets and ensuring increased profitability by leveraging the investments we made in product and service initiatives and branch expansion.

The Group incurred £10m of exceptional operating charges in 2011 (2010: £19m) as a result of integrating BSS into the Group. The charges arose mainly as a result of the on-going programme to integrate BSS colleagues, systems and processes into the Group, although there was a £2m charge due to the closure or disposal of businesses that were determined to be non-core to the Group's operations. After charging the exceptional operating items, operating profit was £291m (2010: £220m).

Despite incurring increased interest charges due to the acquisition of BSS late in 2010, overall net financing costs before exceptional charges have reduced in 2011 by £6m to £17m. Gains on derivatives, mainly one-off, were £7m higher than in 2010 as the Group benefited from revaluing forward currency contracts taken out during the course of the year to fix the exchange rate at which goods sourced in foreign currency will be purchased. In addition other finance income associated with the pension scheme increased by £6m due to significantly higher asset values at the start of 2011 than 2010. The average effective interest rate during the year was 3.0% (2010: 3.1%).

Exceptional integration related finance costs of £4m (2010: £1m) were incurred as a result of repaying $125m of BSS private placement notes before their contractual maturity dates.

Profit before tax, after charging £14m (2010: £20m) of exceptional costs and £13m of intangible asset amortisation (2010: £nil), rose by £73m to £270m (2010: £197m).

Excluding the combined tax effect of the exceptional operating and financing costs of £4m (2010: £2m) and an exceptional deferred tax credit of £13m (2010: £2m) caused by the reduction in the corporation tax rate to 25% from April 2012, the tax charge for the period was £74m (2010: £60m), which represents an effective rate of 26.2%, (2010: 27.6%). The reduction from last year reflects the drop in the statutory tax rate during the year.

Basic earnings per share were 30% higher at 90.3 pence (2010: 69.6 pence). Adjusted earnings per share (note 10) were 93.1 pence (2010: 77.2 pence), a 21% increase, which is primarily due to the acquisition of BSS towards the end of 2010. The proforma increase in adjusted EPS was 11%. There is no significant difference between basic and diluted earnings per share.

Continued Focus on Strong Cash Generation
Careful control of capital investment together with a strong focus on working capital management and integration synergies arising from aligning supplier payment terms meant that net debt was reduced by

£191m during the year to £583m. Our net debt to EBITDA ratio continues to fall towards our target of around one times. At 31 December, it was 1.3 times (2010: 1.9 times). Free cash flow for the year was £294m (2010: £278m) (note 12).

Gross capital and investment expenditure totalled £121m. £55m was spent on capital replacements, and £66m on expansion. We believe our culture of undertaking small incremental improvement projects with strict return criteria for each expansion project is a major strength of the Group.

We have continued to take opportunities where they have met our stringent investment criteria and have added around 2.5% to revenue on an annualised basis. The administration of Focus, a competitor in the DIY market, allowed us to acquire 13 new stores in high priority catchment areas. Also we have added a new sales channel to the Group by acquiring 25% of a small roofing supplies company based in the North of England. Should our investment prove to be successful then we have the option to acquire the entire company at a future date.

In December 2011, we signed a new £550m forward start banking agreement with a syndicate of banks. The £550m revolving credit facility, which runs until December 2016, can be drawn from April 2013, the expiry date for the Group's existing £800m facility agreement. At 31 December 2011, the Group had undrawn committed facilities of £475m (2010: £455m).

Pension Fund Performance

The Travis Perkins' final salary pension scheme started the year with an accounting surplus of £32m, whilst the aggregate gross deficits on the three BSS related defined benefit schemes totalled £60m.

During 2011 high quality corporate bond yields have fallen dramatically, which has reduced the discount rate applied to scheme liabilities. This, combined with lower than anticipated returns from investments, particularly equity, has resulted in an actuarial loss of £50m. At 31 December 2011 the combined accounting gross deficit was £46m (2010: £28m).

Outlook and Strategy

On 1 January 2012 we reorganised the Group's divisional structure so that the Group now operates through four distinct divisions; general merchanting, specialist merchanting, consumer and plumbing and heating.

The year has started satisfactorily with Group LFL sales for the first seven weeks up 1.8%. LFL sales for the general merchanting division have increased by 5.4% and for the specialist merchanting division they are up 3.9%. Delivered sales, on a LFL basis, for the retail division (excluding ToolStation since it remains non-LFL until 2013) have decreased by 3.1%, whilst on an ordered basis they are up 0.9%. The addition of ToolStation's own LFL performance would have increased the retail division's ordered LFL sales to 2.7% Plumbing and heating division LFL sales are up 0.9%.

Our research suggests that markets will remain subdued in 2012. We expect trade market volumes to decline slightly, responding to the decrease in the number of housing transactions in the first half of 2011 and to the contraction in public sector expenditure, for which we have less than a 20% exposure. The consumer sector is likely to decline by a more substantial amount as consumer confidence remains low, unemployment rises and disposable income remains under pressure.

Against a backdrop of generally weak lead indicators including mortgage approvals, property transactions and consumer confidence we will further grow revenue by continuously improving our businesses. Although we will continue to target outperformance against the competition on a like-for-like basis, we will actively balance this objective with maintaining gross margins and limiting cost growth. In a weakening market, we judge this slight modification of our trading stance will yield the best outcome in terms of absolute profits and trend of operating margin. In 2012 our priorities will be threefold:

· Leverage our self-help initiatives including the incremental return from the 13 ex-Focus stores added in 2011 and the growth in profit from the maturity of the ToolStation stores 100% owned from January 2012;

· Use our strong cash flow to pay down debt (targeting a reduction of £125m for the year), maintain selective expansion investment and increase dividends;

· Continue the successful integration of BSS into the Group by adding trading systems to the already integrated financial systems, whilst working to realise our increased synergy target of £30m for 2012.

We therefore look forward to another year of solid progress in 2012.

Going Concern

After reviewing the Group's forecasts and risk assessments and making other enquiries, the Directors have formed a judgement at the time of approving the financial statements, that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In arriving at their opinion the Directors considered the:

· Group's cash flow forecasts and revenue projections;

· Reasonably possible changes in trading performance;

· Committed facilities available to the Group to late 2016 and the covenants thereon;

· Group's robust policy towards liquidity and cash flow management; and

· Group management's ability to successfully manage the principal risks and uncertainties pertaining to the business during periods of uncertain economic outlook and challenging macro economic conditions.

Link to press release:
http://online.hemscottir.com/servlet/HsPublic?context=ir.access&ir_option=RNS_NEWS&item=931851136952047&ir_client_id=1511