Grafton Group plc

Interim Results 2016

Period Ended 30 June 2016

Agenda

- **Introduction & Highlights** — **Gavin Slark**
- **Financial Review** — **David Arnold**
- **Strategic Progress & Outlook** — **Gavin Slark**
- **Questions**

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.

Introduction & Highlights

Gavin Slark, CEO

Group Financial Highlights

- Revenue up 13% to £1.23 billion (12% in constant currency)
- Like-for-like revenue growth of 4%
- Adjusted EBITA before property profit up 18%
- 6% increase in dividend in line with progressive dividend policy
- Excellent cash generation from operations of £108.0m (2015: £73.2 million)
- Investment of £40.1m on acquisitions and capex to support future growth
- Net debt declined by £17.9m in H1 to £95.7m - gearing of 9%

Please refer to Notes and Definitions in Appendix 1 and bridge of statutory operating profit to Adjusted EBITA in Appendix 2

Group Operational Highlights

- After an encouraging start in Q1, market conditions in the UK merchanting business grew progressively more challenging in Q2
- Contrasting H1 performance between Selco and traditional merchanting
- Organisational restructuring in UK traditional merchanting to mitigate market conditions
- Selco continued to perform strongly – investment in new store openings gathered pace
- Significant profit improvement in both the Irish merchanting and retail businesses
- In the Netherlands, Isero, acquired in November 2015, performed strongly – very happy with progress
- Belgian market continues to have challenges – cost base reduced to reflect prospects

Financial Review

David Arnold, CFO

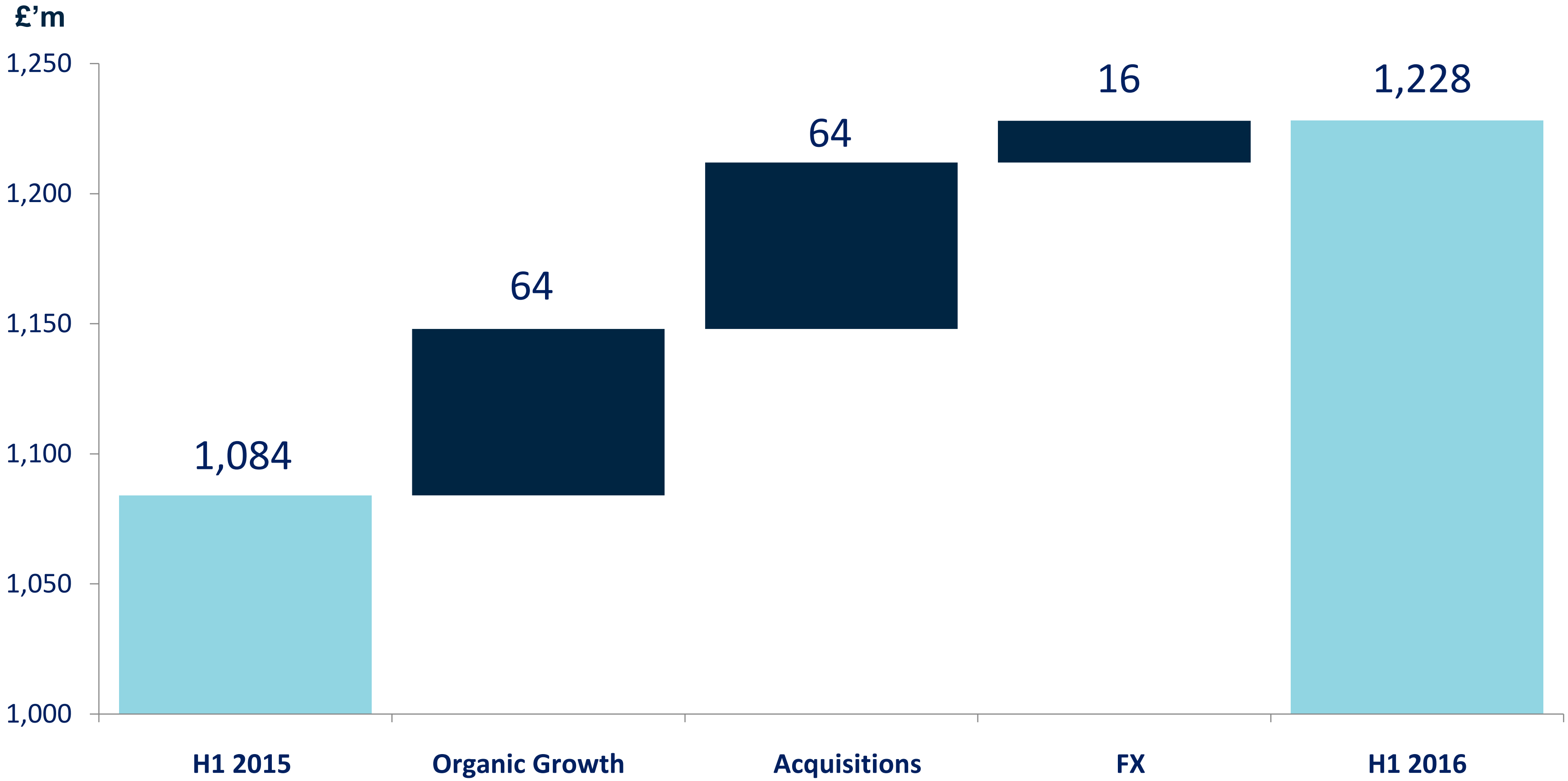
Income Statement – H1 2016

£m	2016	2015	Movement Reported	Movement Constant currency
Revenue	**1,228.4**	1,083.7	**+13.3%**	+11.7%
Adjusted EBITA pre property profits	**64.8**	55.1	**+17.6%**	
Property profits	**3.5**	6.1		
Adjusted EBITA	**68.4**	61.2	**+11.8%**	
Net finance cost	**(3.3)**	(3.3)		
Adjusted profit before tax	**65.0**	57.9	**+12.3%**	+12.1%
Operating margin pre property profits	**5.3%**	5.1%	**+20 bps**	
Operating margin	**5.6%**	5.6%	**-**	
Underlying tax rate	**20.0%**	21.0%	**(100 bps)**	
Adjusted earnings per share	**22.3p**	20.2p	**+10.4%**	
Dividend per share	**4.75p**	4.50p	**+5.6%**	

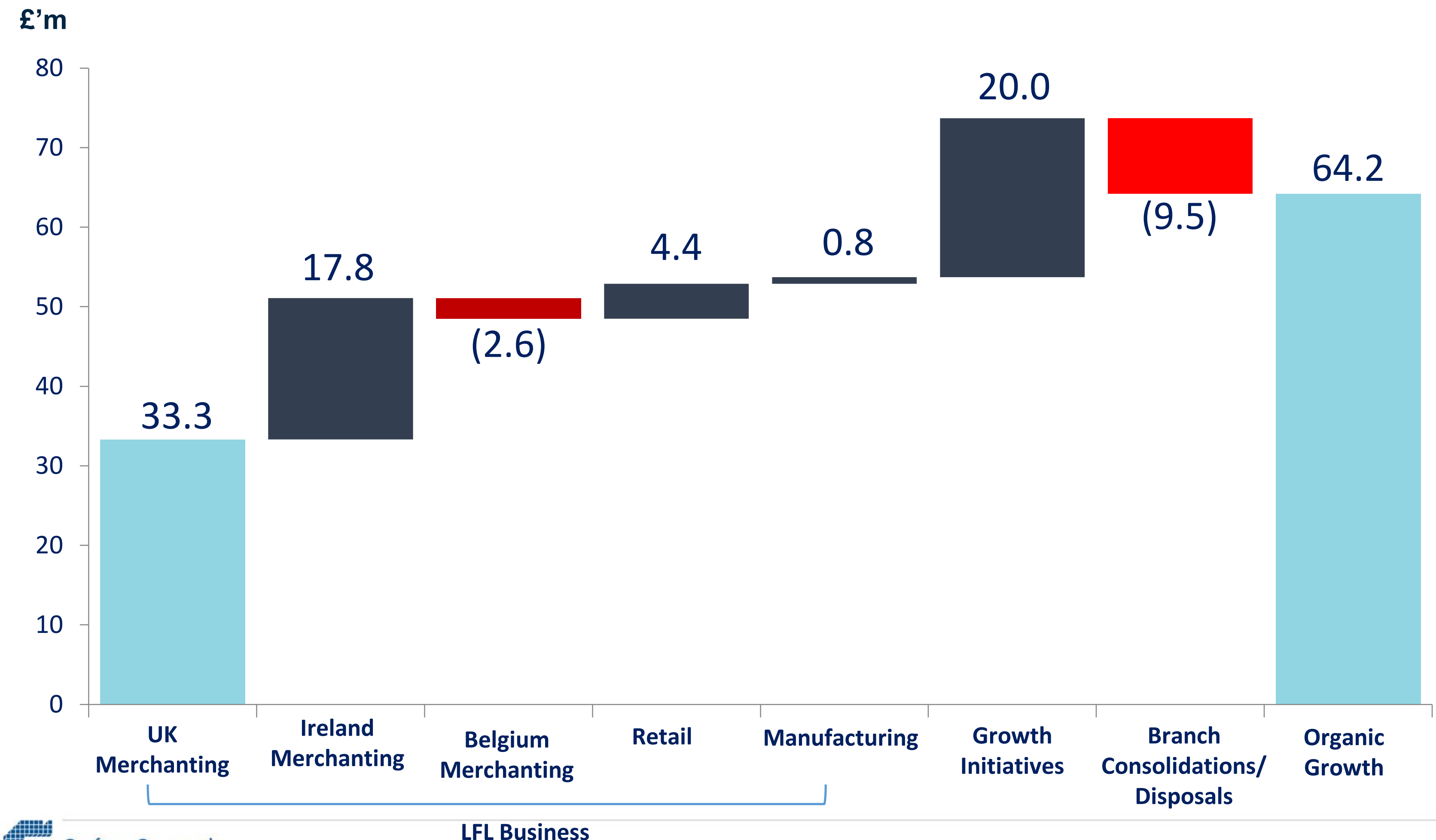
Revenue Growth

	Like-for-Like daily revenue					H1 2016	
	2015		2016			Total Revenue	
	Q3	Q4	Q1	Q2	H1	Constant currency	Reported
Merchanting							
UK	3.8%	3.3%	5.3%	1.6%	3.3%	**8.2%**	**8.2%**
Ireland	6.2%	7.9%	12.3%	10.9%	11.7%	**12.6%**	**19.8%**
Belgium	(0.2%)	(3.9%)	(5.4%)	(9.5%)	(7.4%)	**(13.3%)**	**(7.4%)**
Retailing	5.4%	7.9%	10.0%	4.2%	6.4%	**6.4%**	**13.8%**
Manufacturing	(3.3%)	(2.3%)	6.0%	(1.8%)	2.1%	**14.9%**	**15.3%**
Total Group	3.9%	3.8%	6.2%	2.4%	4.2%	**11.7%**	**13.3%**

Revenue Growth Analysis

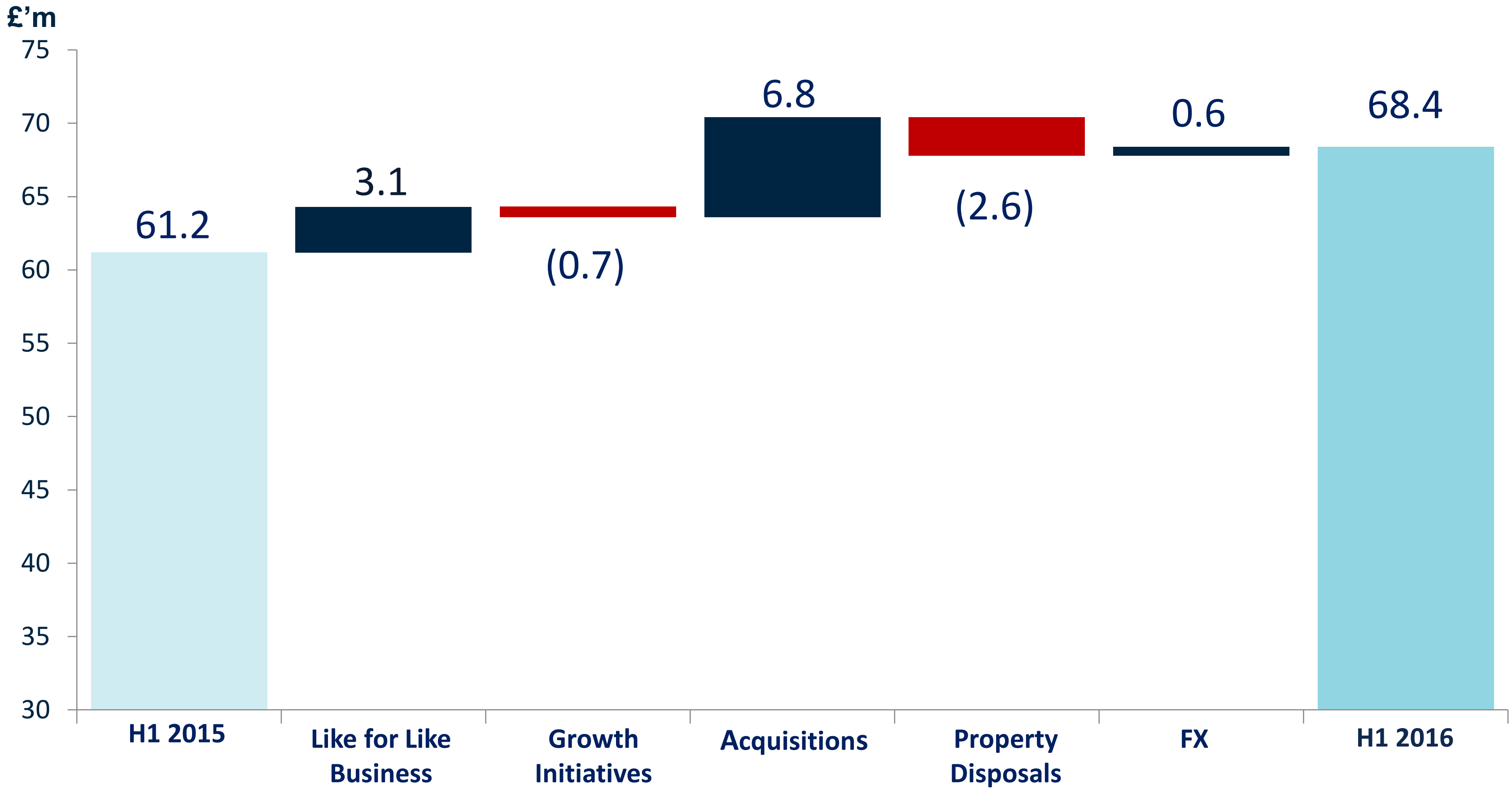


Organic Revenue Growth Analysis

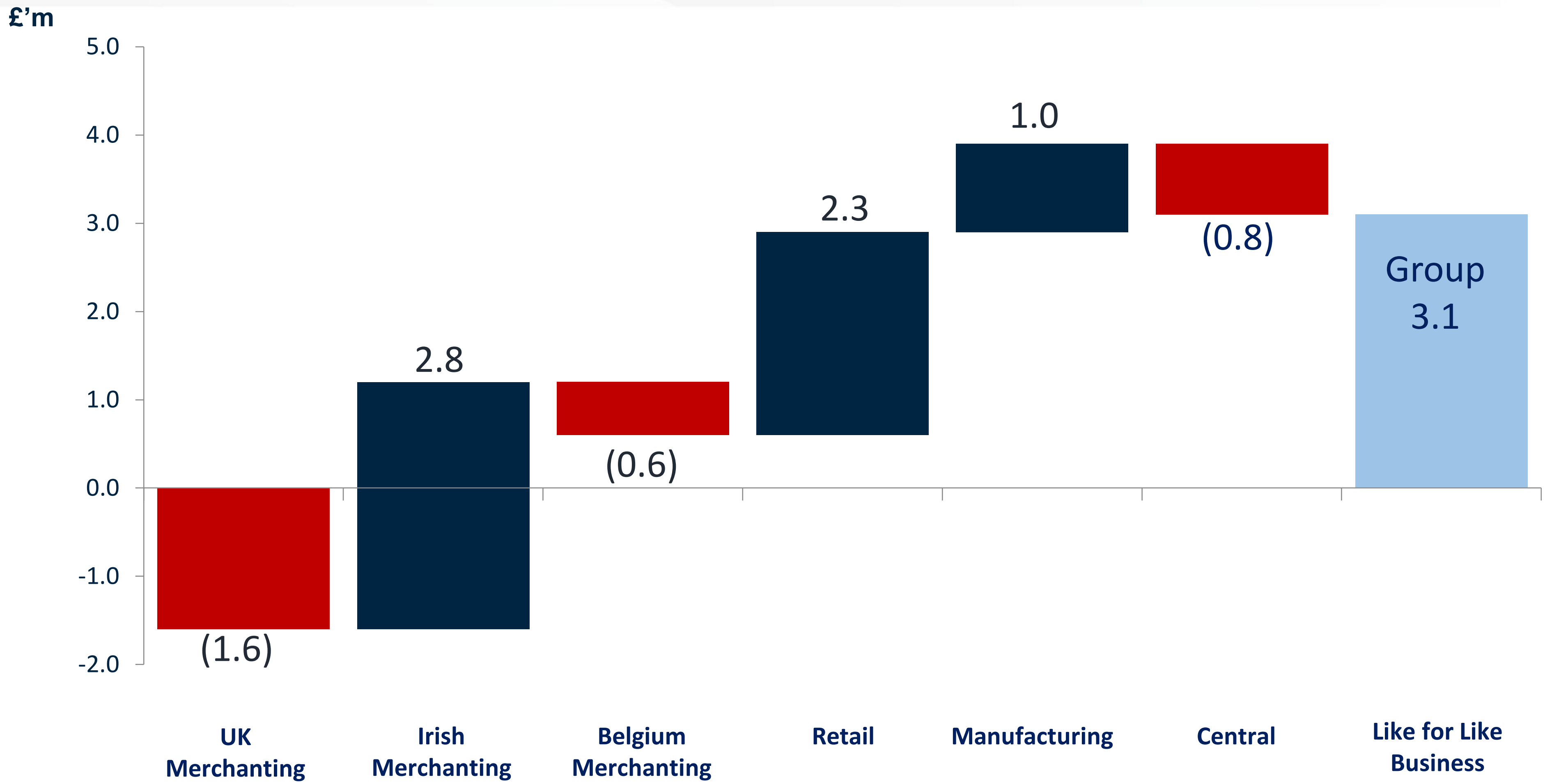


Constant currency

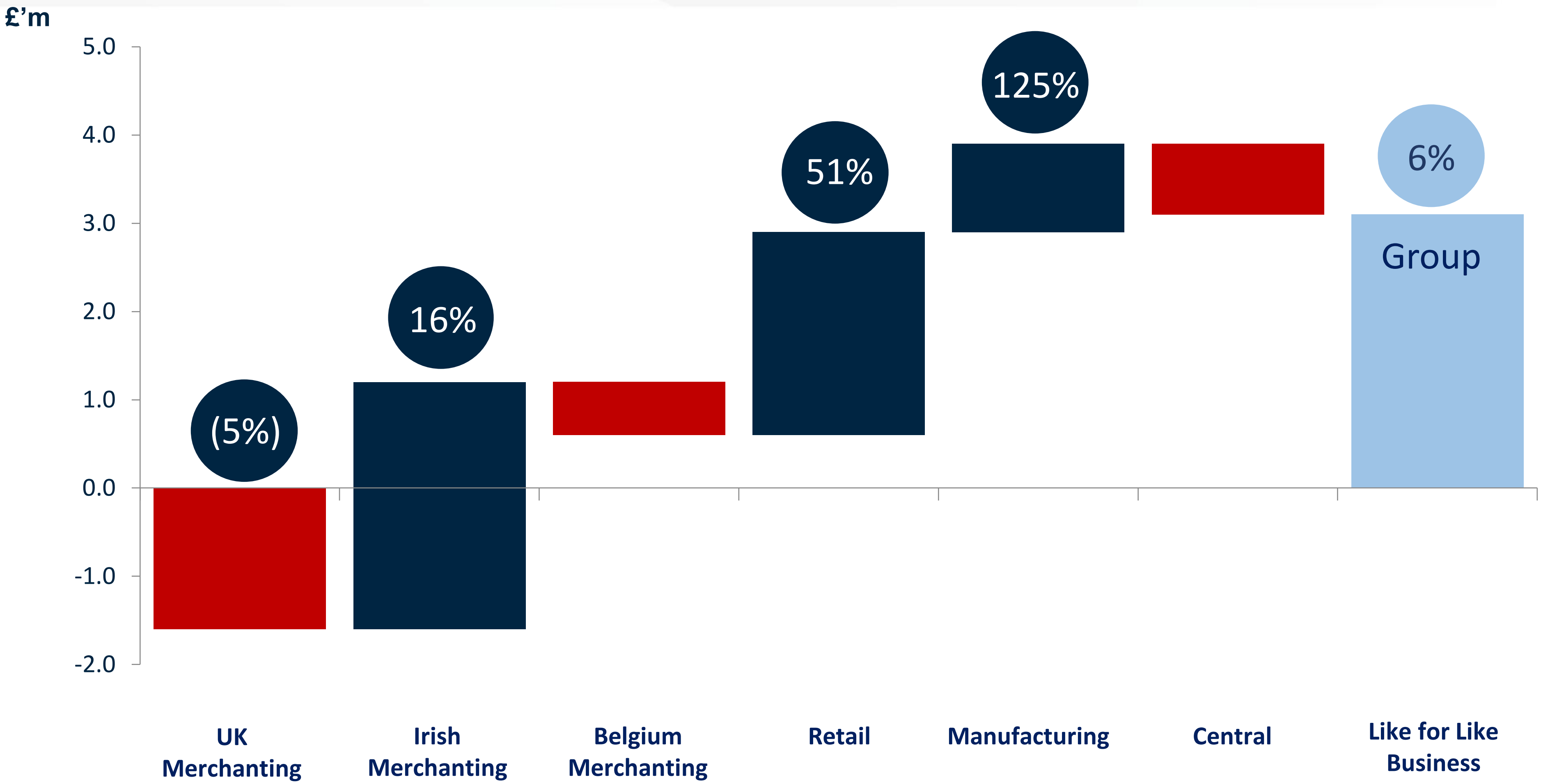
Adjusted EBITA Analysis



Like for Like Business EBITA Analysis



Like for Like Business EBITA Analysis



UK Merchanting

£m	2016	2015	Movement
Revenue	884.0	816.7	+8.2%
Adjusted EBITA pre-property profits	46.9	47.4	(0.9%)
Adjusted EBITA	50.5	53.5	(5.6%)
Operating margin pre-property profits	5.3%	5.8%	(50bps)
Operating margin	5.7%	6.6%	(90bps)

- **Growth in average daily like-for-like turnover of 3.3% - volume growth of c.4.6%**
- **H1 gross margin 20bps lower - initiatives mitigated competitive pricing pressure**
- **Gross margin pressure intensified in Q2 in traditional merchanting**
- **Plumbing & Heating market faces ongoing structural issues**
- **H1 exceptional restructuring charge of £1.2m in traditional merchanting business**

Irish Merchanting

£m	2016	2015	Movement Reported	Movement Constant Currency
Revenue	**158.3**	132.1	**+19.8%**	+12.6%
EBITA	**10.7**	7.5	**+43.5%**	+35.1%
Operating margin	**6.8%**	5.7%	**+110 bps**	

- **Strong market leadership position leveraged to outperform recovering market**
- **Customer focus, national network and breadth of proposition delivered LFL growth of 11.7%**
- **Market growth concentrated on residential RMI market**
- **Still at an early stage in recovery of new housing and commercial markets**
- **In-House kitchens business (H1 2016: €11m revenue), now under merchanting, returned more meaningful profit contribution**

Belgium Merchanting

£m	2016	2015	Movement: Reported	Movement: Constant Currency
Revenue	**41.2**	44.4	**(7.4%)**	(13.3%)
EBITA	**(0.1)**	0.4	**(132.9%)**	(131.8%)
Operating margin	**(0.3%)**	0.8%	**(110 bps)**	

- **Trading adversely affected by weakness in the Belgium economy, particularly Brussels**
- **Cost reductions and efficiencies implemented to align cost base with current growth prospects**
- **Disposal of non-core readymix business in 2015 contributed to revenue decline (£3.5m)**
- **Total redevelopment of major Brussels branch ongoing**

Retailing

£m	2016	2015	Movement Reported	Movement Constant currency
Revenue	**73.1**	64.2	**+13.8%**	+6.4%
EBITA	**3.1**	0.6	**+404.9%**	+288.2%
Operating margin	**4.2%**	1.0%	**+320 bps**	

- **Significantly refocussed business to a more customer centred, service driven proposition**
- **7 stores reformatted – c.25% of revenue in reformatted stores at end June 2016**
- **Growth in household spending, supported by gains in employment and disposable income**
- **Gross margin increased as a result of operational initiatives**
- **Overheads tightly controlled**

Manufacturing

£m	2016	2015	Movement
Revenue	**30.4**	26.3	**15.3%**
EBITA	**5.7**	4.5	**28.7%**
Operating margin	**18.9%**	16.9%	**+200 bps**

- **Overall growth in volumes in H1 in UK mortar business**
- **Slowing housing activity as H1 progressed led to volume decline in Q2**
- **Strong management action on pricing and operational efficiency**
- **Acquisition of Carlton in 2015 has broadened capabilities – on track**
- **In Ireland, MFP performed strongly – new contract wins for ducting in wind farm sector**

Balance Sheet

£m	June 2016	June 2015
Intangible assets	598.9	483.3
Tangible assets	483.0	443.7
Working capital	141.9	135.0
Other assets/(liabilities)	(66.6)	(53.2)
Pension deficit	(46.2)	(18.8)
	1,111.0	990.0
Net debt	(95.7)	(51.1)
Equity	1,015.3	938.9
ROCE	12.1%	12.2%
Net debt/EBITDA	0.6x	0.3x

Working Capital

£m	June 2016	June 2015	
Trading working capital at 1 January	166.1	127.1	
FX translation, interest accrual and other	3.6	6.1	
Acquisitions net of disposals	(0.6)	4.0	
H1 working capital (reduction)	(27.2)	(2.2)	(£25.0m)
Trading working capital at 30 June	141.9	135.0	
H1 Revenue	1,228.4	1,083.7	
Trading working capital as % of revenue	11.6%	12.5%	

Cash Flow

	2016	2015	
Cash from operations	108.0	73.2	+£34.8m
Interest and tax	(8.9)	(10.3)	
Replacement capex net of disposals	(3.9)	(6.2)	
Free cash flow	95.2	56.7	+£38.5m
Investment capex	(17.9)	(10.8)	
Dividends	(18.8)	(16.3)	
Share issue	0.5	0.1	
Acquisitions	(11.9)	(21.4)	
Net cash flow before FX translation	47.1	8.3	
FX translation / Other	(29.2)	15.9	
Movement in net debt	17.9	24.2	
Opening net debt	(113.6)	(75.3)	
Closing net debt	(95.7)	(51.1)	
Free cash flow as % of Adjusted EBITA	139%	93%	

Strategic Progress & Outlook

Gavin Slark, CEO

Grafton Group plc

Strategic Progress and Outlook

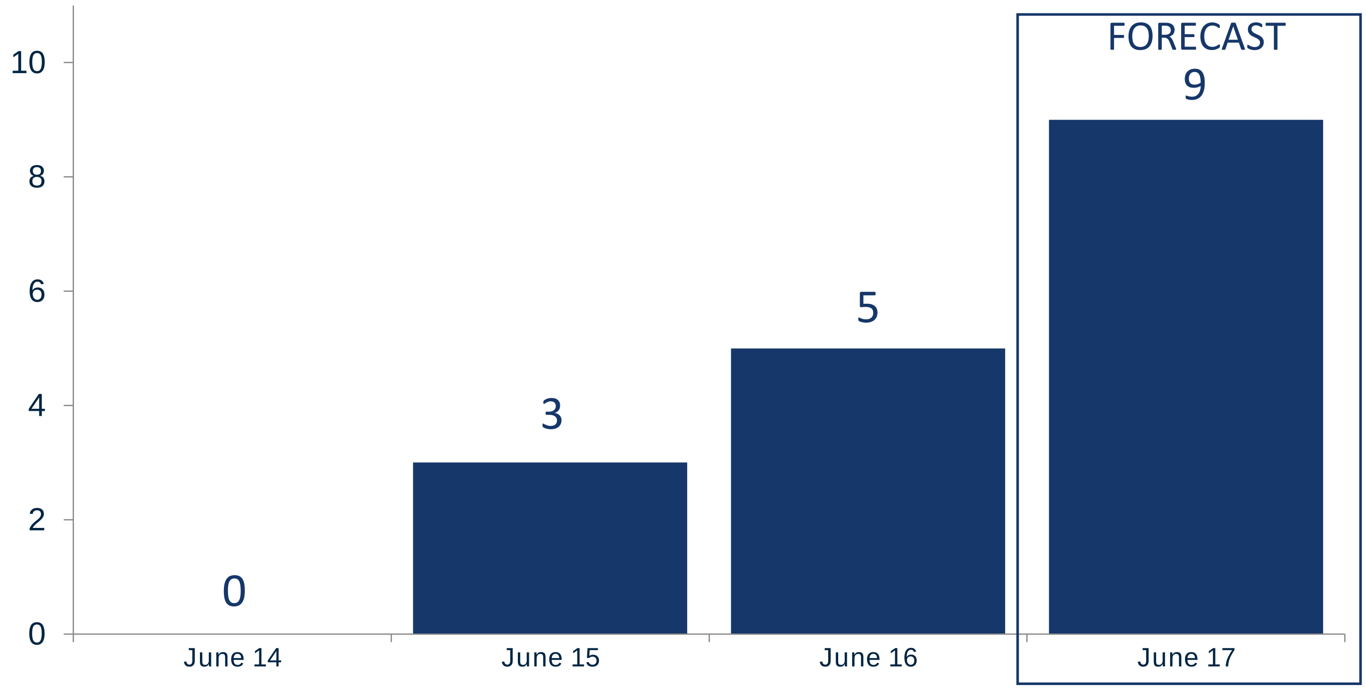
- Addressing UK traditional merchanting market challenges
- Continuing to invest in growth in Selco
- Isero – performing well
- Current trading
- Outlook and summary

UK Traditional Merchanting Market

- **Pricing under relatively greater pressure than volume in traditional merchanting**
- **Plumbing and Heating and Contract sectors remain structurally most challenged - lower gross margins and less differentiated proposition between competitors**
- **Our focus is on those parts of the business that are sustainably profitable and capable of differentiation**
- **Addressing under-performing areas of business in H2 to deliver sustainable benefits in 2017**
- **Exceptional restructuring charge in FY 2016 of c.£20m (£1.2m incurred in H1)**
- **c. 3.5 years P&L payback**
- **Cash outflow on redundancies/property costs in 2016 but overall net positive cash impact from unwinding working capital and disposal of property**

Selco – Investment in New Stores

Stores Opened / To be Opened in 12 months ended



Stores open at end	34	37	42	51

Grafton Group plc

Selco Investment Delivering

- **Selco delivers strong operating margins and ROCE – key growth focus for Grafton**
- **Selco's unique trade only product and service model is primarily focused on customers engaged in small residential RMI projects**
- **R&M spend historically less volatile – Improvement spend more discretionary**
- **New store investments delivering expected returns**
- **42 stores currently: 2016 and H1 2017 openings on track**
- **Increased opex investment to support new stores**
- **Broadening geography and store size format**
- **Selco Hire available in all stores, Click & Collect within 1 hour and Selco Direct**

Isero – Good Progress to Date

- **Acquired in November 2015 for €91.5m (£64.1m equivalent)**
- **H1 EBITA €6.0m (£4.7m) representing an operating margin of 11%**
- **Pleased with performance to date – consistent with expectations**
- **Generally positive news flow on Dutch economy and housing market**
- **Acquisition and organic development opportunities in fragmented market**
- **New branch opened in North Amsterdam on 25 August – 39 branches in total**

Current Trading – 1 July to 21 August 2016

	Like-for-like daily revenue	
	H1 2016	1 July to 21 Aug 2016
Merchanting		
UK	3.3%	0.1%
Ireland	11.7%	11.2%
Belgium	(7.4%)	(7.5)%
Retailing	6.4%	3.6%
Manufacturing	2.1%	9.1%
Total Group	4.2%	1.8%

Outlook - UK

- **Still too early to assess likely impact on UK economy of vote to leave the EU**
- **Demand was relatively flat during July and August with markets remaining very price competitive**
- **Progressing a number of initiatives with a focus on cost control and sustainable improvements to help mitigate market pressure going into 2017**
- **Organic development will be principally focused on growth of the Selco branch network which has resilience because of its R&M exposure**

Outlook – Ireland

- **Quality and strength of our Irish businesses should continue to support market outperformance**
- **Irish economy continues to grow robustly and the momentum is expected to be sustained**
- **Consumer spending and investment expected to be key drivers of growth**
- **Recovery in house building and commercial property look set to continue in response to pent-up demand and under supply in recent years**

Outlook – The Netherlands and Belgium

The Netherlands

- Good opportunities for further growth – both organic and acquisition
- Recovery in Dutch economy expected to be sustained and the outlook is positive
- Strong demand fundamentals should support growth in spending from a low base on house building and renovation work

Belgium

- Anticipating that Belgian market will remain challenging
- Confident we have the right senior team in place to address the market

Summary

- **Continuing to invest in Selco – strong returns and good growth potential**
- **Taking decisive action to address performance in more uncertain UK market – tougher market conditions expected to continue**
- **Significant exposure to the faster growing economies of Ireland and the Netherlands**
- **Financial strength and spread of businesses over a number of markets leave the Group well placed to take advantage of appropriate development opportunities**


Just ask!
Woodie's

WALLS & CEILINGS
WOOD & METAL
Soft Sheen Emulsion
Kitchen & Bathroom
Washable
Colour Vibe
Non Drip Gloss
Quick Dry Satin
Woodie's

Questions


BUILDBASE
BUILDING MATERIALS | CIVI
Part of Grafton Group pl
BUILDBASE
PALFINGER

Appendices

Appendix 1
Notes & Definitions

Notes

- With effect from 1 January 2016, In-House Kitchens has been reclassified from the Retail to Merchanting segment. It is now shown within Irish Merchanting. Prior year comparatives have been restated, where applicable, to reflect this change.
- No like-for-like analysis has been included for the Netherlands as Isero, the sole component, was acquired in November 2015.
- As amounts are reflected in £'m some non-material rounding differences may arise.

Definitions

- *Adjusted earnings per share* is calculated using earnings before intangible asset amortisation relating to acquisitions and exceptional costs
- *Adjusted EBITA* is defined as EBITA before exceptional restructuring costs (see Appendix 2 for calculation)
- *Adjusted profit before tax* is defined as Adjusted EBITA less net finance costs
- *EBITA* is defined as earnings before interest, tax and intangible asset amortisation relating to acquisitions
- *Operating margin* is defined as Adjusted EBITA divided by revenue for the period

Refer to interim announcement for details on Alternative Performance Measures ("APM's")

Appendix 2
Operating Profit Bridge – Statutory to Adjusted

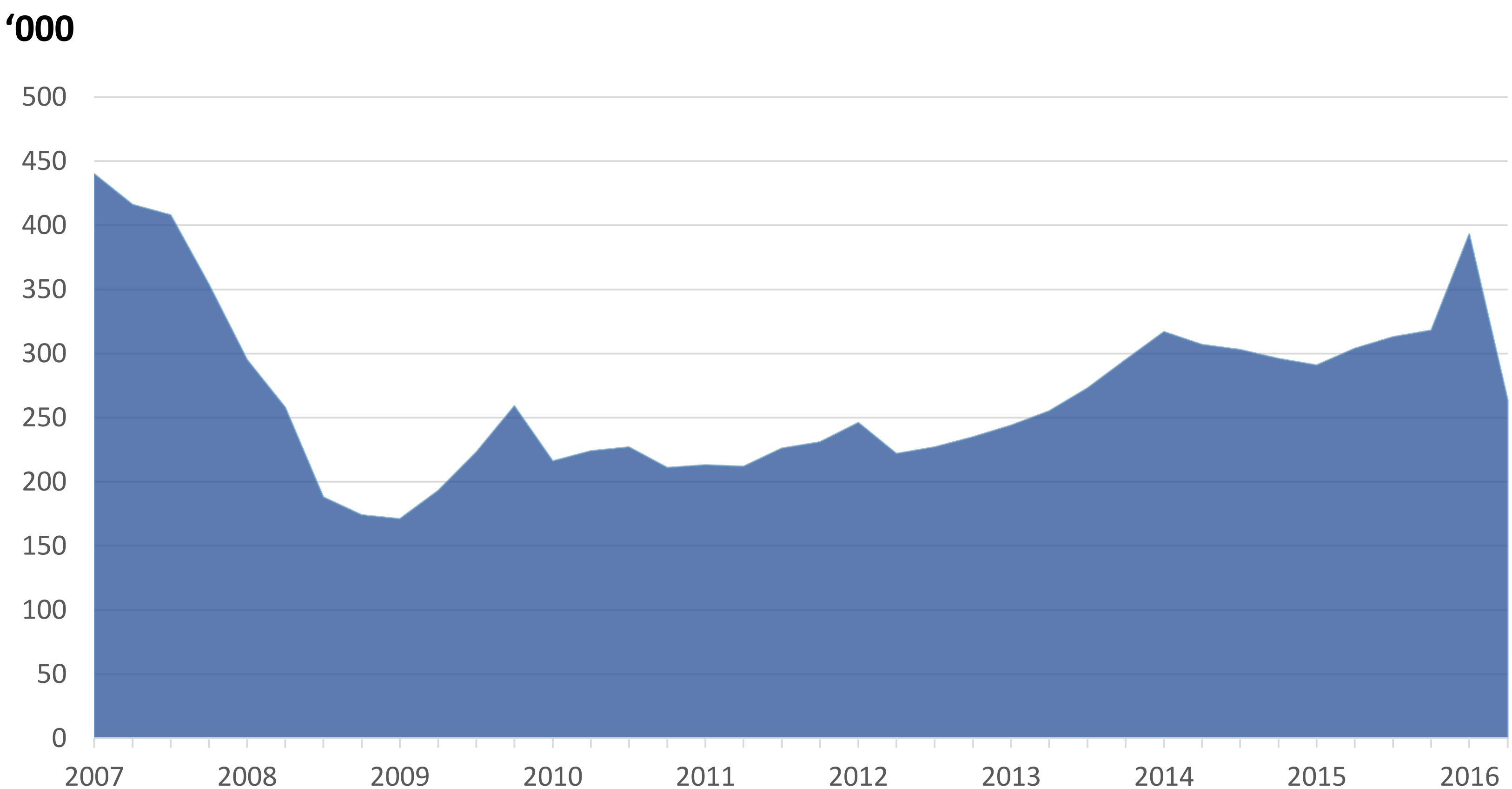
	H1 2016 £'m	H1 2015 £'m	Change £'m
Revenue	**1,228.4**	1,083.7	144.7
Statutory operating profit	**66.1**	61.2	4.9
Intangible asset amortisation on acquisitions	**1.1**	-	1.1
Exceptional restructuring costs	**1.2**	-	1.2
Adjusted EBITA	**68.4**	61.2	7.2
Property profit	**(3.5)**	(6.1)	2.6
Adjusted EBITA (pre-property profits)	**64.8**	55.1	9.8
Statutory operating margin	**5.4%**	5.6%	(20 bps)
Operating margin	**5.6%**	5.6%	
Operating margin (pre-property profit)	**5.3%**	5.1%	+20 bps

Appendix 3
Operating Margin Analysis*

	H1 2016	H2 2015	H1 2015	H2 2014	H1 2014
UK Merchanting	**5.7%**	6.2%	6.5%	6.1%	6.1%
Irish Merchanting	**6.8%**	7.9%	5.7%	7.4%	4.1%
Belgium Merchanting	**(0.3%)**	(1.7%)	0.8%	0.4%	1.5%
Netherlands Merchanting	**11.3%**	3.8%	-	-	-
Total Merchanting	**5.8%**	6.1%	6.2%	6.0%	5.6%
Retailing	**4.2%**	4.1%	1.0%	2.9%	0.9%
Manufacturing	**18.9%**	20.0%	16.9%	18.8%	13.3%
	6.1%	6.3%	6.1%	6.1%	5.4%
Central Activities	**(0.5%)**	(0.5%)	(0.5%)	(0.5%)	(0.4%)
Total	**5.6%**	**5.8%**	**5.6%**	**5.6%**	**5.0%**

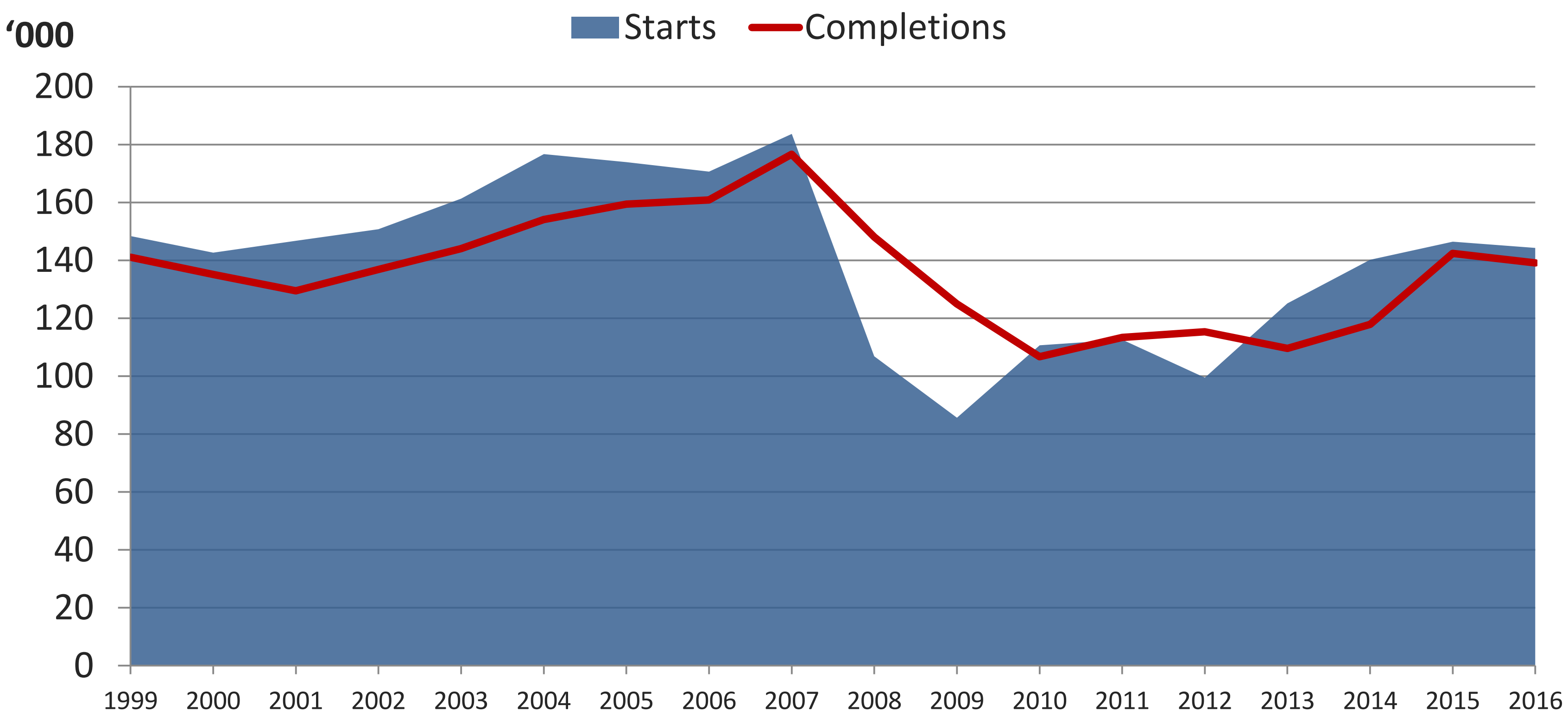
* Including property profit but before intangible asset amortisation on acquisitions and restructuring costs

Appendix 4
UK Housing Transactions 2007 - 2016



•Quarterly Seasonally Adjusted
Source: HM Revenue & Customs UK Property Transactions Count

Appendix 5
Housing Starts & Completions – England: 1999 - 2016

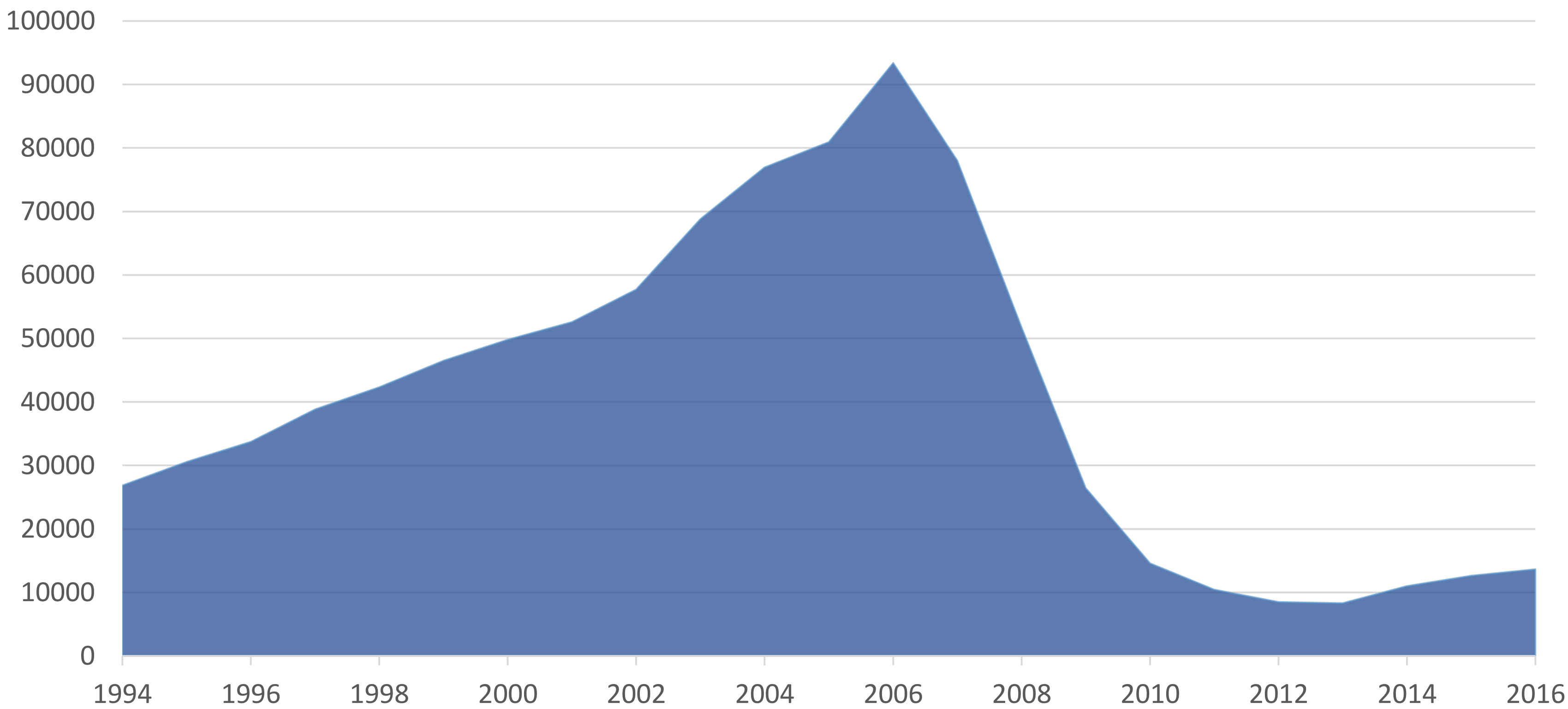


Source: UK Department for Communities & Local Government on a rolling 12 month basis

Appendix 6
UK Mortgage Approvals UK: 2008 - 2016

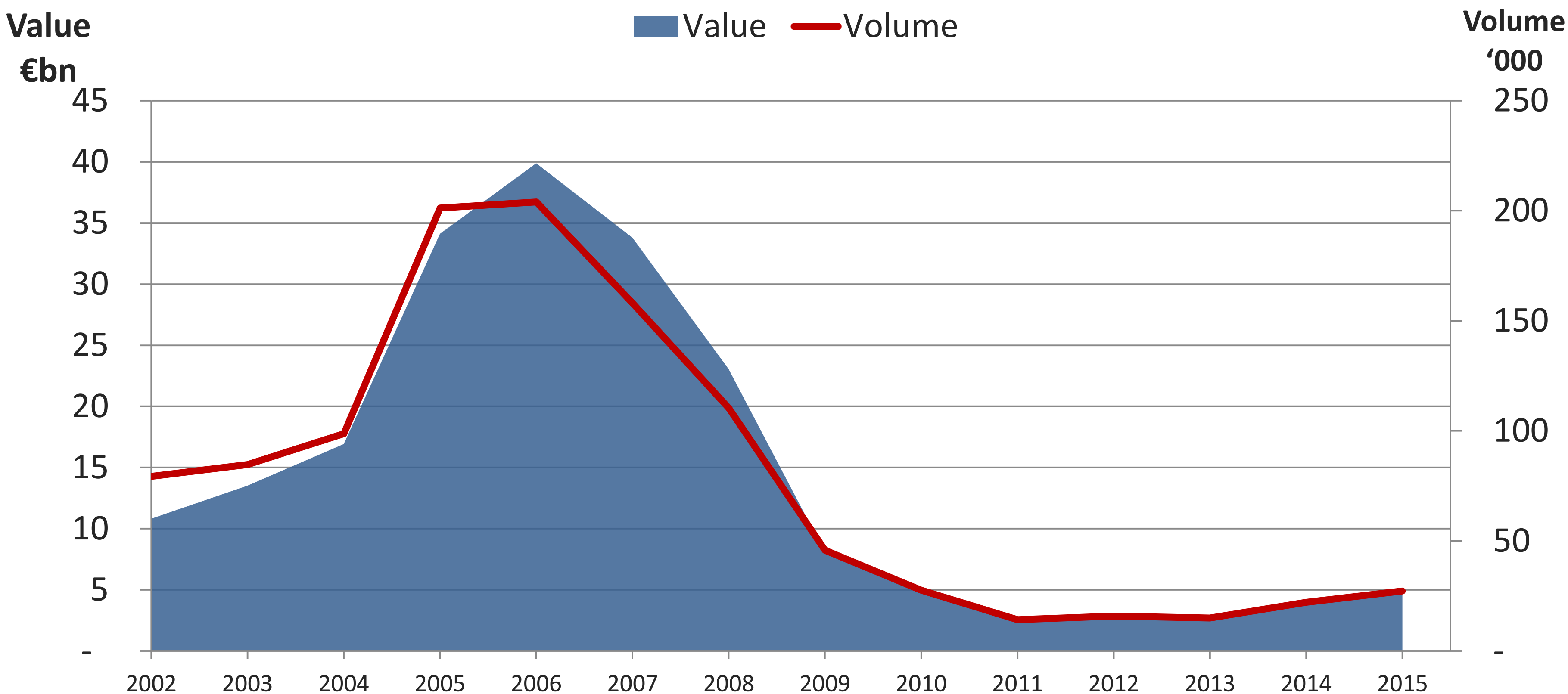
Source: Bank of England

Appendix 7
House Completions – Ireland 1994 - 2016



Source: Department of the Environment, Community & Local Government - (DoELG) on a rolling 12 month basis

Appendix 8
Mortgages Approvals in Ireland: 2002 - 2015



Source: IBF on a rolling 12 month basis