Travis Perkins plc – 19 October 2016

Third quarter 2016 trading update

Continued outperformance against an uncertain UK outlook

- Total sales growth of 3.4%, like-for-like growth of 2.0%
- Market outperformance by Consumer, Contracts and General Merchanting businesses
- Plumbing & Heating performance not satisfactory albeit in a challenging market
- Continued disciplined investment in market leading and structurally advantaged businesses

John Carter, Chief Executive, commented: "General Merchanting delivered a solid result in the third quarter alongside very strong performances in our Consumer and Contracts businesses where we materially outperformed our markets. Our Plumbing & Heating results were disappointing and whilst market conditions have worsened, we are not satisfied with our performance and will commence reviewing these operations. Our operational focus remains on improving all of our customer propositions, optimising our networks, intensifying our use of space and exploiting the scale advantage we have created. We expect this focus to underpin our outturn for 2016, albeit with Adjusted EBITA slightly below current market consensus of around £415 million".

It is still too early to predict customer demand in 2017 with certainty and we will continue to monitor our lead indicators closely. Given this uncertainty we will be closing over 30 branches and making further efficiency driven changes in the supply chain, resulting in an exceptional charge of £40-50 million this year. We have a proven track record developed over many years of taking swift action to take advantage of opportunities as they arise in whichever part of the cycle we find ourselves. The strength of the Group's balance sheet and the competitive advantage we have created through the investments we have made position us well to continue outperforming the markets we compete in and drive shareholder value over the medium term."

Third quarter 2016 sales growth

	General Merchanting(1)	Consumer(2)	Plumbing & Heating(1)	Contracts(1)	Group
Total sales	3.8%	9.1%	(3.9%)	4.0%	**3.4%**
Like-for-like	0.6%	6.3%	(4.1%)	5.7%	**2.0%**
Two-year like-for-like	2.4%	8.8%	(2.5%)	11.5%	**4.6%**

Year-to-date 2016 sales growth

	General Merchanting(3)	Consumer(4)	Plumbing & Heating(3)	Contracts(3)	Group
Total sales	5.7%	9.2%	0.3%	3.4%	**4.9%**
Like-for-like(5)	2.1%	6.4%	(1.1%)	3.7%	**2.7%**
Two-year like-for-like	7.1%	11.9%	(2.3%)	14.9%	**7.6%**

Group sales grew by 3.4% during the third quarter and by 2.0% on a like-for-like basis. Sales for the nine months ended September grew by 4.9% and 2.7% on a like-for-like basis. On a two-year basis like-for-like sales grew by 4.6% during the third quarter and are up 7.6% for the year to date.

General Merchanting sales grew by 3.8% in the third quarter and 0.6% on a like-for-like basis. Total sales growth benefitted from the 11 new Benchmarx and TP branches opened and 13 branches transferred from Keyline in Q1 2016. Despite the volatility in demand seen during July and softer market conditions in August and September margin was well managed and benefitted from the work we have been undertaking over the last two years to provide our branch managers with better information to win business.

Consumer sales grew by 9.1% in the third quarter, 6.3% on a like-for-like basis. Investments in better value, improving range, in the supply chain, in the convenience offered by the growing network of stores and in the delivery service helped both Wickes and Toolstation to materially outperform the market.

Plumbing & Heating sales declined by (3.9)% in the third quarter and by (4.1)% on a like-for-like basis. The combination of weak demand, changing customer buying behaviours and the impact of previous government boiler replacement incentive schemes has meant the plumbing, heating and bathroom markets have been challenging. The operations of the division will be fully reviewed and the outcome of the review and any associated costs will be communicated in 2017.

Contracts' sales grew by 4.0% in the third quarter and 5.7% on a like-for-like basis. Like-for-like sales growth was higher than total sales growth due to the effect of transferring 13 Keyline branches to Travis Perkins in Q1 2016.

Given that levels of future demand remain difficult to predict the Group has chosen to implement a number efficiency programmes and branch closures to further optimise the network. This work includes the closure of ten smaller distribution and fabrication centres, the write off of certain IT legacy equipment and over 30 branch closures in our trade businesses. All of the 600 affected employees are aware of the changes and as a result the Group will incur exceptional charges in 2016 of between £40m and £50m of which approximately two-thirds will be non-cash write offs. The cash cost of the restructuring is expected to be recovered by the efficiencies generated within 18 months and provide on-going benefits to the Group thereafter.

Strategic plan update

The Group is now in the second phase of its five-year plan, first outlined in December 2013, and remains focused on making selective investments to create and extend structural advantages over the medium to longer term. Despite an uncertain market outlook, significant investment opportunities remain to achieve strong incremental returns on capital and underpin continued outperformance in the markets in which the Group's businesses compete.

Accelerate innovation of customer propositions

The Wickes new store format is delivering significant improvements in sales and returns with 12 Wickes stores refitted in Q3 bringing the total number of stores operating in the new format to 50. The multichannel experience has been improved in Wickes with delivery slot of choice now launched and the trial of deliveries within an hour underway. Toolstation has reduced the lead time on Click & Collect and Travis Perkins has launched 2 hour Click & Collect nationwide. Further investments in value, as well as range enhancement and extension in Wickes, Toolstation, Benchmarx and Travis Perkins are delivering both a better customer experience and improved returns for shareholders.

Expand the network and intensify use of space

The Group remains committed to expanding its network, principally in Wickes, Travis Perkins, Toolstation, CCF and Benchmarx, as well as through trade parks where a number of businesses can co-locate. These businesses have significant headroom to grow, are delivering strong marginal returns on invested capital and convenience can be further improved for customers through a broader network of shops and branches. In the third quarter the Group opened a net four new Travis Perkins branches, seven new Benchmarx branches, a net three new Wickes stores and nine new Toolstation stores.

Exploit scale advantage

The three heavyside range centres in Warrington, Cardiff and Tilbury have continued to perform well with strong customer uptake of the extended range of 3,000 heavyside and timber products available for next day delivery and the additional 3,000 products available within 48 hours. The Group is in the final design stage to develop new merchanting-led IT systems and will begin configuration in 2017 which, once implemented, will further improve the digital experience of trade customers.

Enhanced portfolio management

Over the past three years the Group has made significant improvements in the strength and depth of management teams who have proven track records of managing performance through the cycle. The Group has also significantly improved its balance sheet with very significant committed, but unutilised, long-term debt capacity. The Group is therefore very well positioned to respond to market conditions and to continue to make selective investments to outperform its markets.

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Footnotes

1. *Sales growth for the three month period ended 30 September 2016 compared to the three month period ended 30 September 2015.*
2. *Total sales and like-for-like sales growth for the 13 week period ended 1 October 2016 compared to the 13 week period ended 3 October 2015.*
3. *Sales growth for the nine month period ended 30 September 2016 compared to the nine month period ended 30 September 2015.*
4. *Total sales and like-for-like sales growth for the 40 week period ended 1 October 2016 compared to the 40 week period ended 3 October 2015.*
5. *The year-to-date like-for-like sales growth rates for the General Merchanting, Plumbing & Heating and Contracts divisions have been adjusted for one additional trading day in 2016. There is no trading day adjustment required for the third quarter sales growth.*