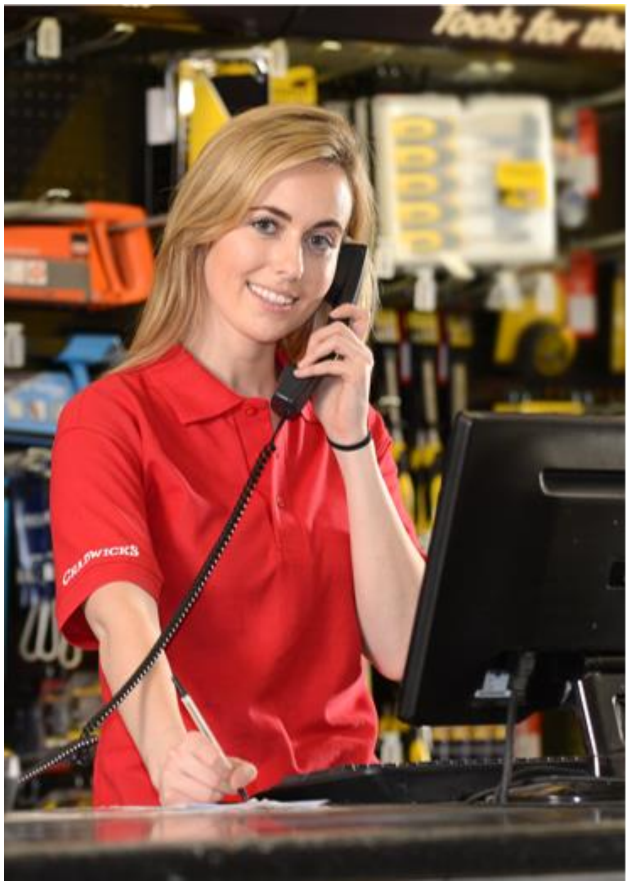
Grafton Group plc

Final Results for the Financial Year Ended 31 December 2016



Agenda

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

Introduction & Highlights

Gavin Slark, CEO

Grafton – What differentiates us?

- **Selco**
  - Tried and trusted format focused on RMI market
  - Higher returns than traditional Merchanting model
  - An increasing proportion of UK revenue
  - Focus for continued investment

- **Ireland**
  - Market leading positions in Merchanting and DIY
  - Recovering economy – three years of double digit LFL growth
  - Economic recovery now more broadly based across Ireland
  - Growth opportunities with new branches, formats and expansion of kitchens business

Grafton – What differentiates us?

- **The Netherlands**
  - Strong platform to grow in a fragmented market
  - Good management and strong returns
  - Favourable outlook for economy and construction sector
  - G&M acquisition brings market leadership position in Greater Amsterdam area
- **Financial strength and track record**
  - Strong cash generation and balance sheet
  - Capacity and capability to grow the business
  - Ability to react quickly to changing markets
  - Progressive dividend policy supported by healthy cover

Group Financial Highlights

- **Revenue up 13% to £2.5bn (10% in constant currency)**
- **Adjusted EBITA up 12% to £142.0m**
- **Adjusted EPS up 16% and dividend up 10%**
- **Adjusted EBITA margin (pre property profits) constant at 5.5%**
- **ROCE up 30 basis points to 12.5%**

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

Group Operational Highlights

- Selco continued to perform well – investment in new store openings gathered pace
- Restructuring completed in UK Plumbing & Heating and Contracts businesses
- Significant profit increase in Irish Merchanting and Woodie's
- Isero performed strongly in first full year
- Strong growth in profitability in manufacturing businesses

Financial Review

David Arnold, CFO

Income Statement

£m	2016	2015	Movement Reported	Movement Constant currency
Revenue	**2,507.3**	2,212.0	**13.4%**	+10.4%
Adjusted EBITA pre property profits	**137.1**	120.6	**+13.7%**	
Property profits	**4.9**	6.7		
Adjusted EBITA	**142.0**	127.3	**+11.5%**	
Exceptional charge	***(19.7)***			
Amortisation and other	***(2.2)***	*0.9*		
Statutory operating Profit	***120.1***	*128.2*		
Net finance cost	**(5.9)**	(7.9)		
Adjusted profit before tax	**136.2**	119.4	**+14.1%**	
Statutory profit before tax	***114.2***	*120.3*		

All references to 'Adjusted' mean before exceptional items and amortisation of acquired intangible assets on acquisitions (see Appendix 1)

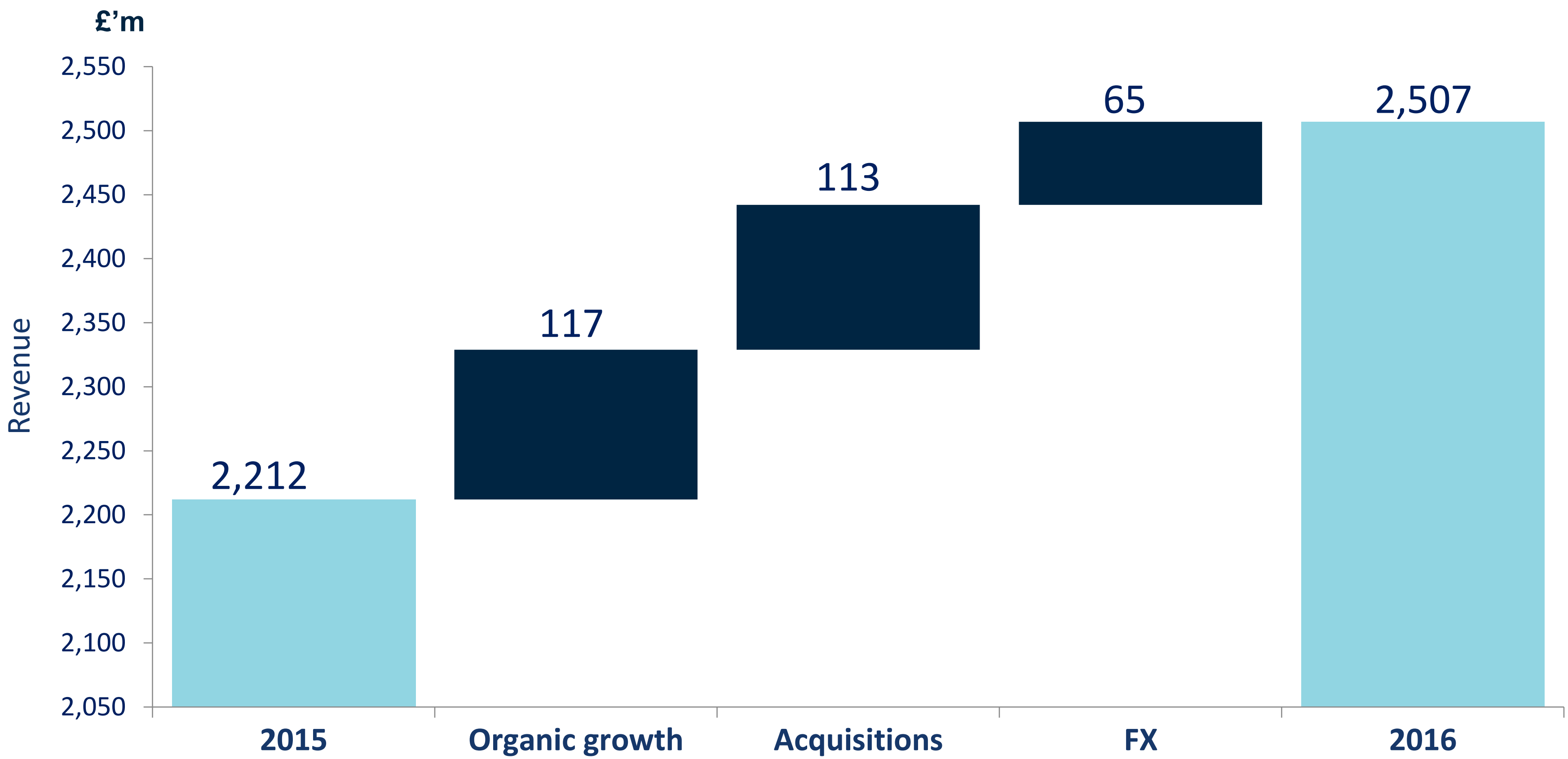
Income Statement (cont'd)

	2016	2015	**Movement**
Adjusted EBITA margin pre property profit	**5.5%**	5.5%	**-**
Adjusted EBITA margin	**5.7%**	5.8%	**(10 bps)**
Underlying tax rate	**19.0%**	21.0%	**(200 bps)**
Adjusted earnings per share	**47.7p**	41.2p	**+15.8%**
Dividend per share	**13.75p**	12.50p	**+10.0%**
Dividend cover	**3.5x**	3.3x	**+0.2x**

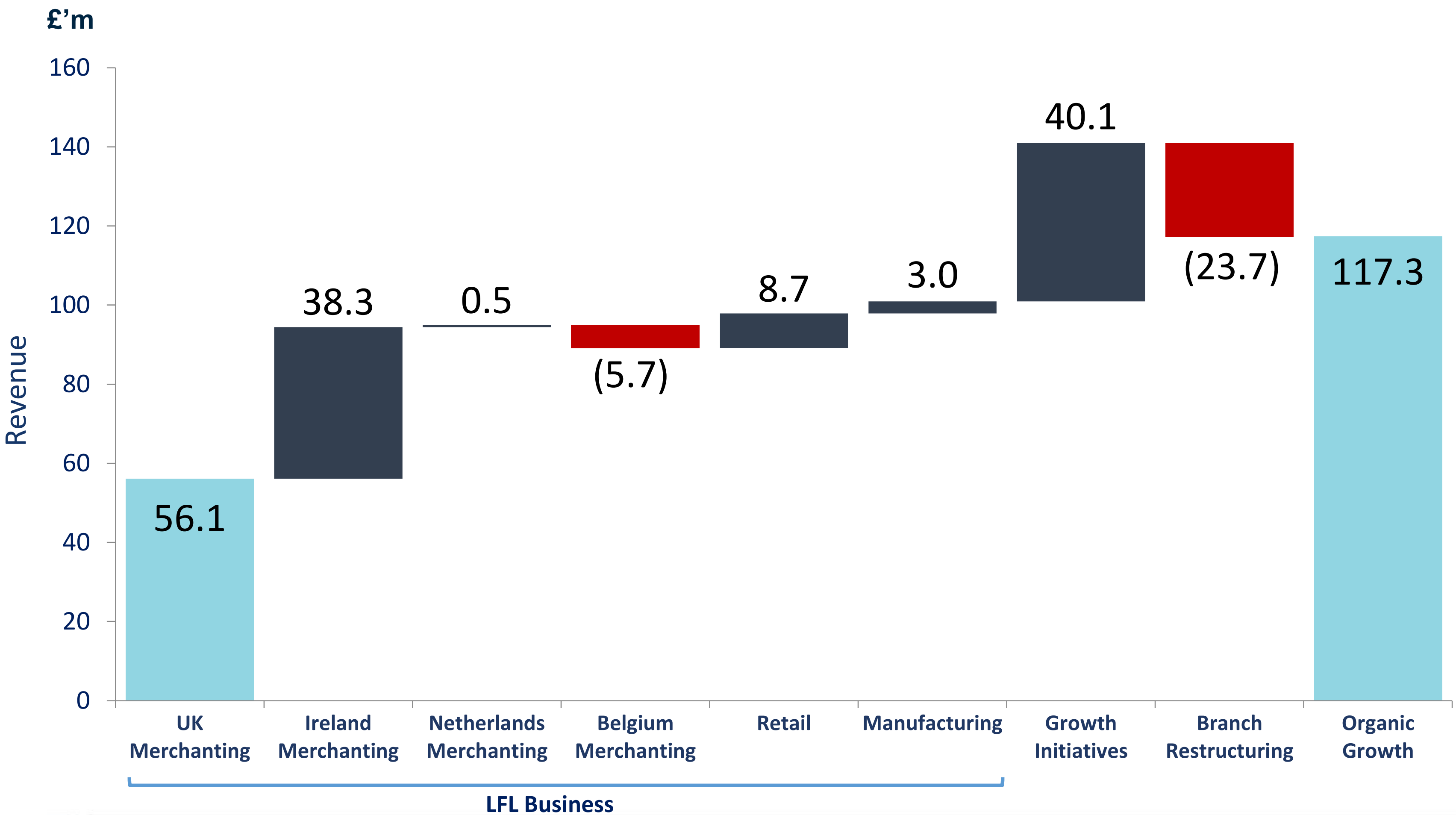
Exceptional Items

- **2016 exceptional charge of £19.7m in line with previous guidance**
- **£16.1m relates to restructuring in traditional UK Merchanting**
- **Moved quickly to address under performing areas of the business in Plumbing & Heating / Contracts with the closure of 47 branches in total**
- **£5.0m in annualised benefits in 2017 and beyond**
- **These restructuring actions are cash positive once the disposal of the freehold properties and reduction in working capital investment are taken into account**
- **£3.6m balance of exceptional charge largely relates to additional onerous lease provisions in Ireland relating to pre 2007 property leases**

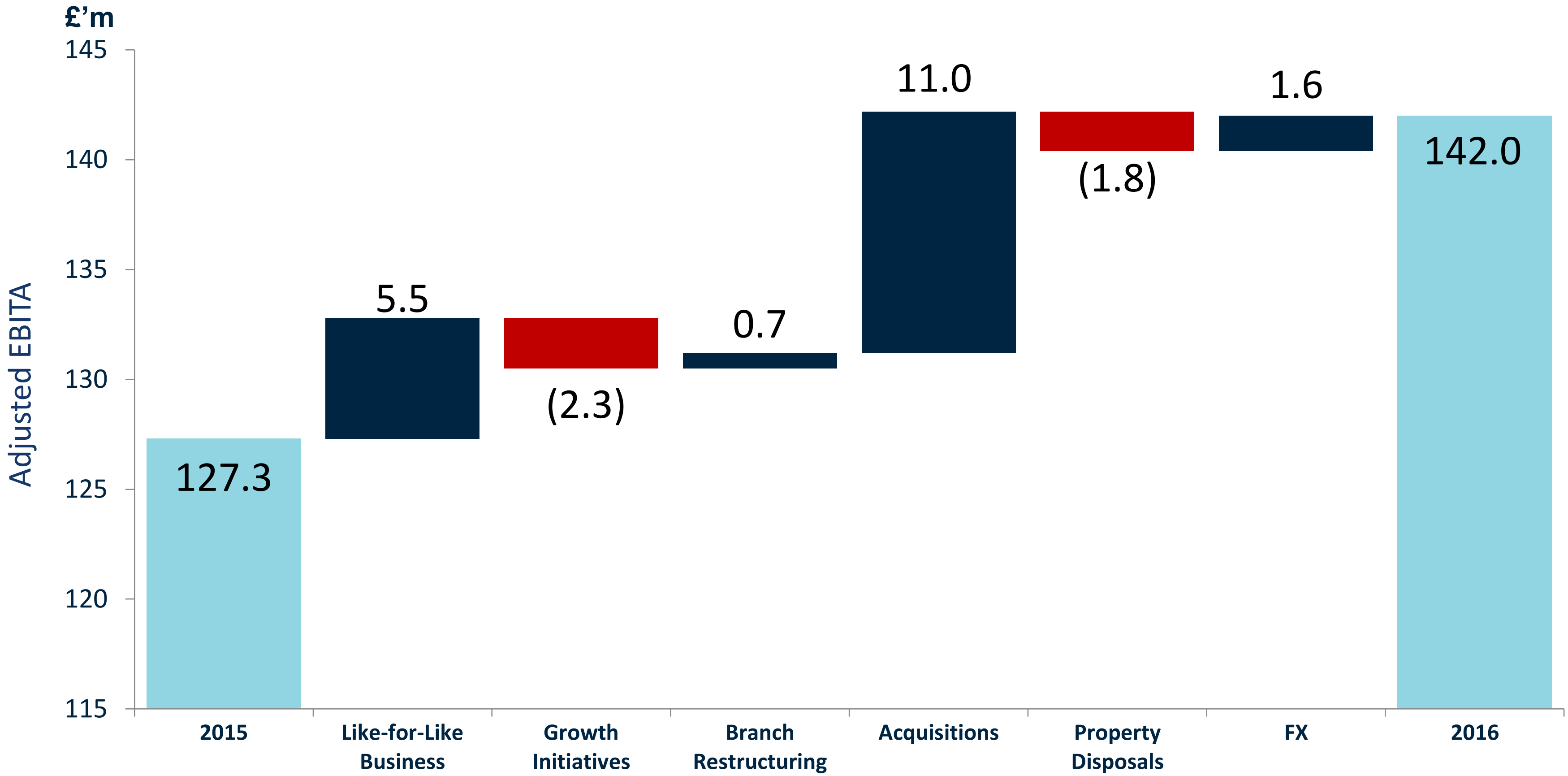
Revenue Growth Analysis



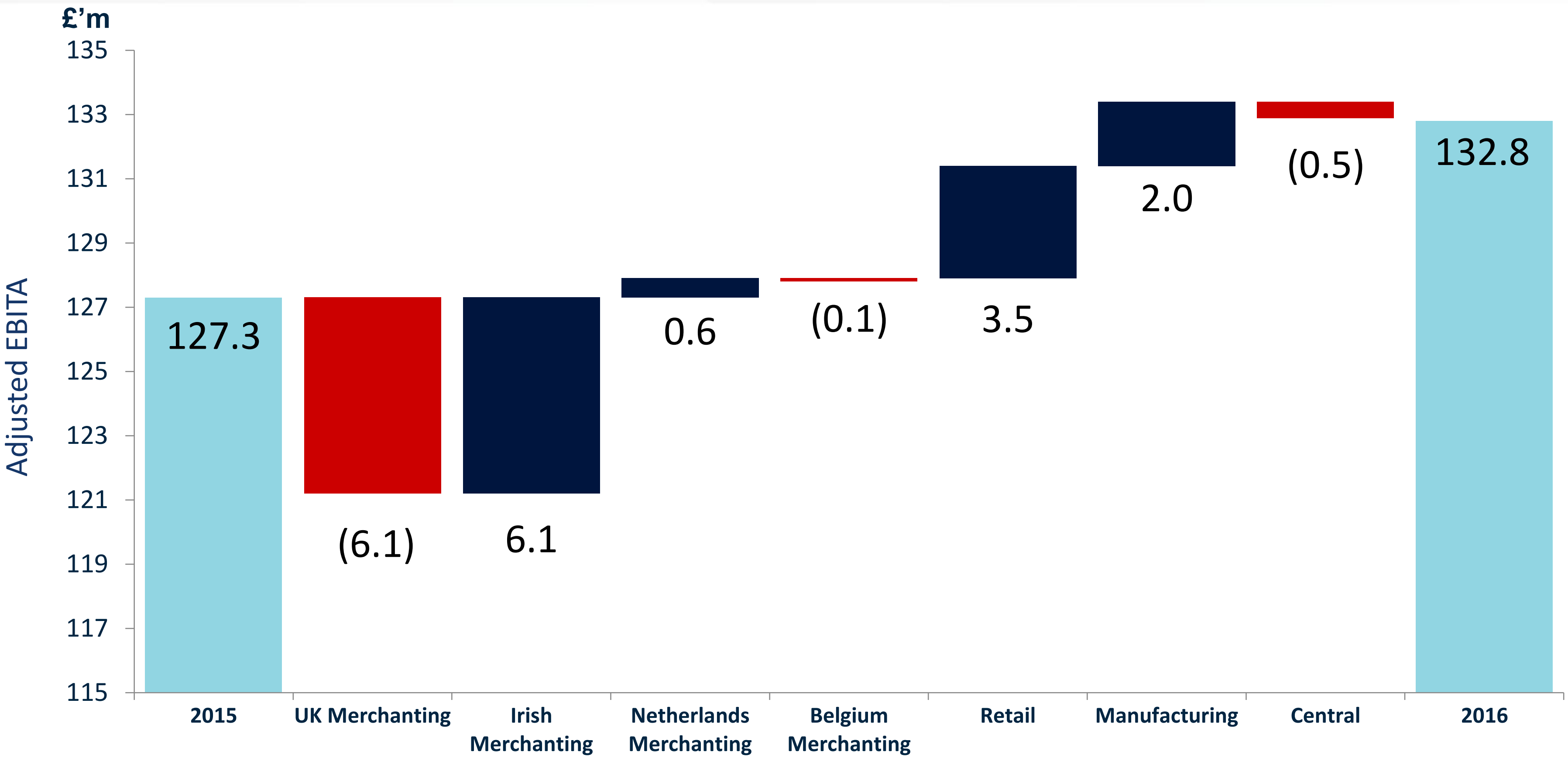
Organic Revenue Growth Analysis
(Constant Currency)



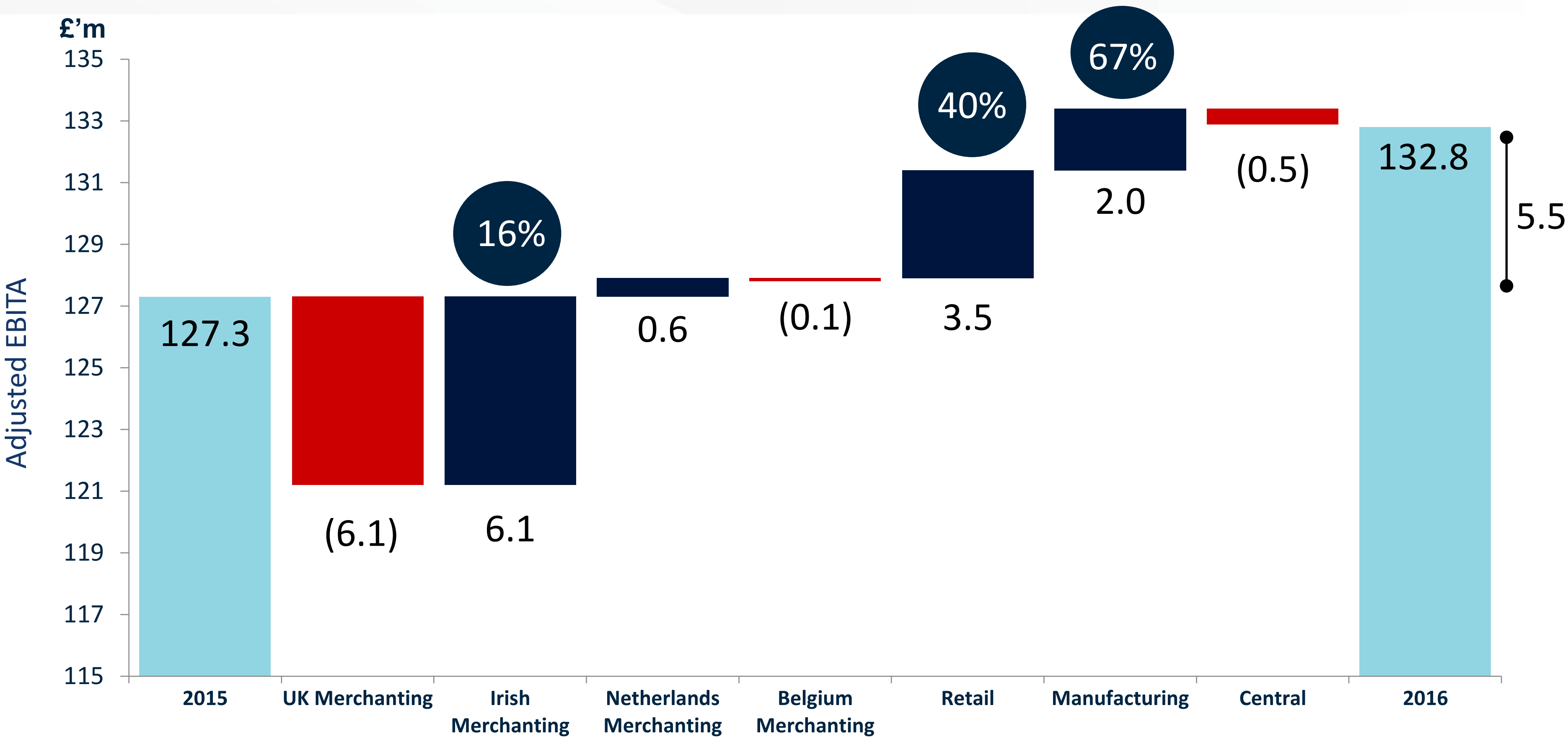
Adjusted EBITA Analysis



Like for Like Business EBITA Analysis



Like for Like Business EBITA Analysis



Grafton Group plc

UK Merchanting

£m	2016	2015	Movement
Revenue	**1,771.7**	1,662.0	+6.6%
Adjusted EBITA pre property profits	**94.8**	99.2	(4.5%)
Adjusted EBITA	**99.7**	105.9	(5.9%)
Adjusted EBITA margin pre-property profits	**5.4%**	6.0%	(60bps)
Adjusted EBITA margin	**5.6%**	6.4%	(80bps)

- **Growth in average daily like-for-like revenue of 2.9% - volume growth of 4.2%**
- **Selco increased revenue to £400m**
- **Gross margin 70 bps lower due to competitive pricing pressure**
- **New pricing initiatives launched towards end of year**

Irish Merchanting

£m	2016	2015	Movement Reported	Movement Constant Currency
Revenue	**347.7**	274.5	**+26.7%**	+11.9%
EBITA	**27.1**	18.7	**+44.6%**	+27.0%
EBITA margin	**7.8%**	6.8%	**100bps**	

- **Market share gains in a recovering market**
- **3rd successive year of double digit like for like organic growth**
- **Recovery more broadly based across Ireland**
- **House building increased but supply remained well short of demand**

Netherlands Merchanting

£m	2016	2015
Revenue	**87.7**	8.5
EBITA	**9.1**	0.5
EBITA margin	**10.4%**	5.4%

- **Excellent first full year of trading from Isero under Grafton ownership**
- **New branch opened in North Amsterdam with further branch opening planned in Q2**
- **Gunters en Meuser acquisition completed in January 2017 – trades from 14 branches in the Greater Amsterdam area where it is the market leader**
- **Group now has strong market positions in the country's five largest cities**

Belgium Merchanting

£m	2016	2015	Movement Reported	Movement Constant Currency
Revenue	**83.5**	82.8	**+0.9%**	**(10.6%)**
Adjusted EBITA	**(0.7)**	(0.3)	**(130.9%)**	**(149.9%)**
Adjusted EBITA margin	**(0.8%)**	(0.4%)	**(40bps)**	

- **Trading adversely affected by weakness in construction sector**
- **Cost reductions and efficiencies implemented**
- **Focus on lower volume, higher margin collect business**
- **Redevelopment of major Brussels branch in progress**

Retailing

£m	2016	2015	Movement Reported	Movement Constant currency
Revenue	**157.1**	131.4	**+19.5%**	+5.6%
Adjusted EBITA	**7.3**	3.3	**+119.2%**	+90.9%
Adjusted EBITA margin	**4.6%**	2.5%	**+210 bps**	

- **Continuing improvements in sourcing, merchandising and supply chain management**
- **Gross margin increased and overheads tightly controlled**
- **Store upgrade programme rolled out to a further eight stores – c.45% of revenue in 12 stores upgraded at end of 2016**
- **Planned upgrade to a further eight stores in 2017 covering c.65% of revenue by end 2017**

Manufacturing

£m	2016	2015	Movement
Revenue	**59.6**	52.8	12.8%
EBITA	**12.2**	9.8	24.6%
EBITA margin	**20.4%**	18.5%	190 bps

- **Good volume growth in CPI Euromix, our UK mortar business**
- **Investment in commercial initiatives contributed to margin gains**
- **In Ireland, MFP performed strongly – growth in housing and new infrastructure projects**

Balance Sheet

£m	Dec 2016	Dec 2015
Intangible assets	610.8	554.2
Tangible assets	491.8	458.7
Working capital	166.7	166.1
Other assets/(liabilities)	(76.5)	(59.8)
Pension deficit	(31.3)	(16.6)
	1,161.5	1,102.6
Net debt	(96.3)	(113.6)
Equity	1,065.2	989.0
Adjusted ROCE	12.5%	12.2%
Net debt/Adjusted EBITDA	0.54x	0.70x

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Net debt/Adjusted EBITDA	0.54x	0.70x

Working capital reduction ex FX

Working Capital

£m	Dec 2016	Dec 2015
Working capital at 1 January	**166.1**	127.1
FX translation, interest accrual and other	**5.1**	0.7
Acquisitions and disposals	**(1.5)**	24.5
Working capital reduction	**(3.0)**	13.8
Trading working capital at 31 December	**166.7**	166.1
Revenue	**2,507.3**	2,212.0
Trading working capital as % of revenue	**6.6%**	7.5%

- **Continuing efficiency in stock management over the last five years – stock as a percentage of revenue has been reduced from 14.2% to 11.7%**
- **Right stock in the right place, right in front of customers**

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Impact of reduction in discount rates

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Adjusted ROCE	12.5%	12.2%
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Low financial leverage despite impact of exchange rate

Cash Flow

£m	Dec 2016	Dec 2015
Cash from operations	168.6	139.3
Interest and tax	(21.9)	(25.7)
Replacement capex net of disposals	(12.9)	(8.9)
Free cash flow	133.8	104.7
Investment capex	(37.6)	(31.4)
Dividends	(30.0)	(26.8)
Share issue	0.5	3.3
Acquisitions	(11.9)	(98.6)
Net cash flow before FX translation	54.8	(48.8)
FX translation / Other	(37.5)	10.5
Movement in net debt	17.3	(38.3)
Opening net debt	(113.6)	(75.3)
Closing net debt	(96.3)	(113.6)
Free cash flow as % of Adjusted EBITA	94%	82%

Cash Flow

£m	Dec 2016	Dec 2015		
Cash from operations	168.6	139.3	+£29.3m	+21%
Interest and tax	(21.9)	(25.7)		
Replacement capex net of disposals	(12.9)	(8.9)		
Free cash flow	133.8	104.7		
Investment capex	(37.6)	(31.4)		
Dividends	(30.0)	(26.8)		
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Over the last 5 years cash from operations has represented 125% adjusted EBITA

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Net capex – 1.4x depreciation

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Replacement capex net of disposals	(12.9)	(8.9)		
Free cash flow	133.8	104.7	+£29.1m	+28%
Investment capex	(37.6)	(31.4)		
Dividends	(30.0)	(26.8)		
Share issue	0.5	3.3		
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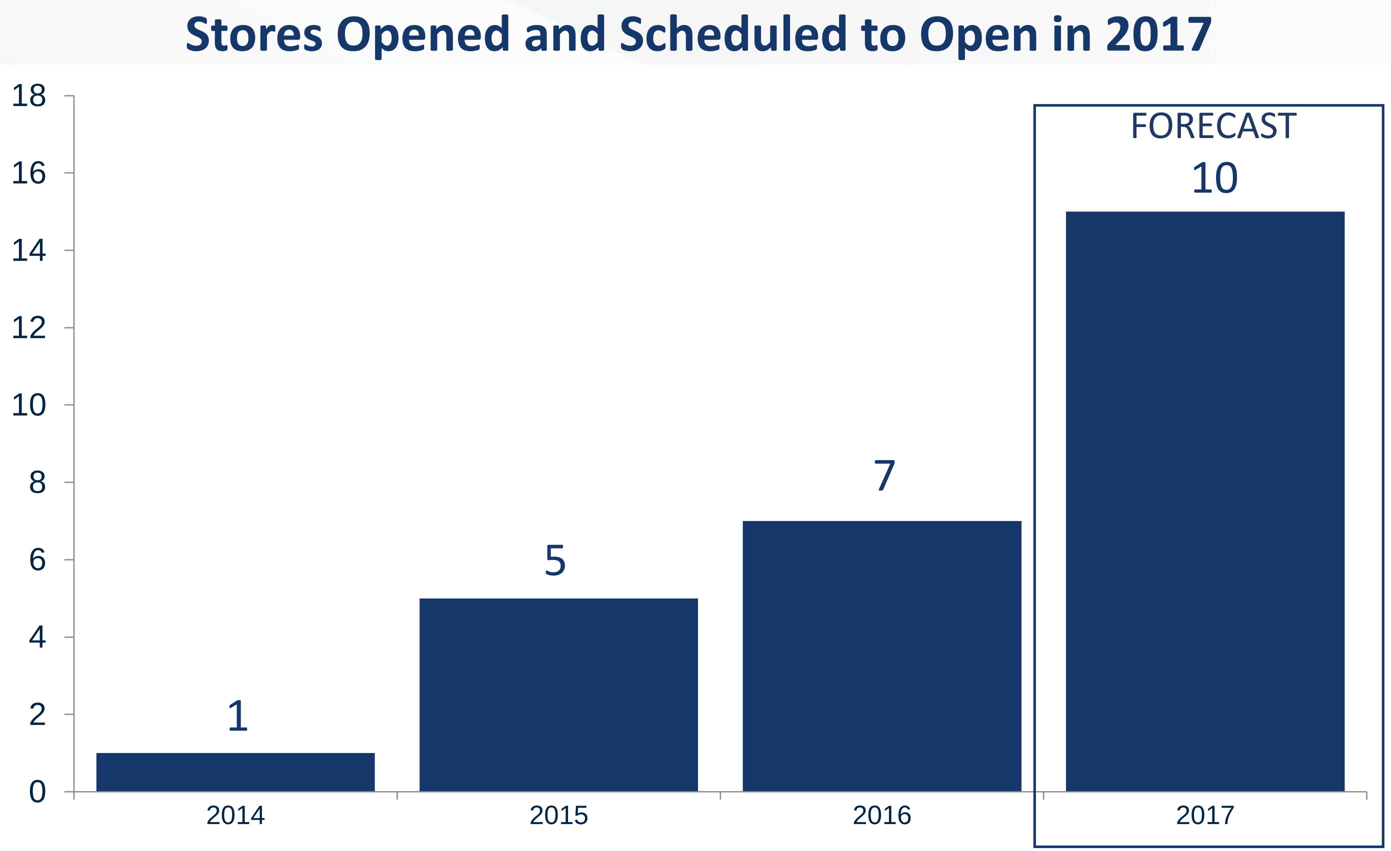
Strong free cash flow conversion again

Strategic Progress & Outlook

Gavin Slark, CEO

Selco – Investment in New Stores



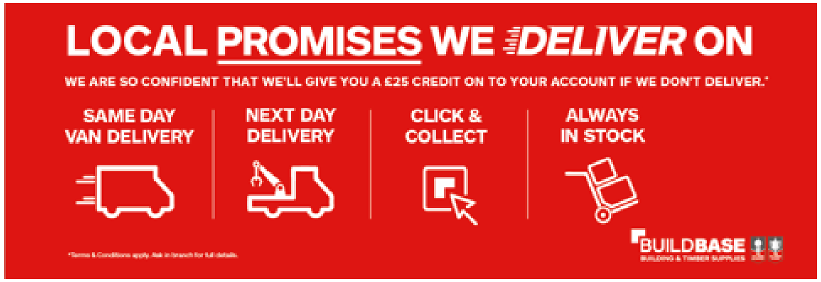
Number of Branches	35	40	47	57

Selco Investment

- Selco delivers strong operating margins and ROCE – key growth focus for Grafton
- 48 branches currently - 2017 openings on track with at least 10 new branches planned. New Beckton branch opened last week
- Expanding our geographic base
- Investment will create significant value in the medium term but acceleration of openings acts as a short term profit drag

UK Traditional Merchanting Market

- Intense focus on gross margin improvement programme
- A number of initiatives in train - there is no single solution
- Service innovations, for example guaranteed same day delivery
- Electricbase generated sales of £42m and incremental contribution of £2.2m in 2016 – now a major electrical distributor grown organically since 2013



Development of Merchanting Business in the Netherlands

- **Delighted with first year performance - EBITA of £9.1m at 10.4% margin**
- **Positive news flow on Dutch economy and housing market**
- **Organic growth and market consolidation opportunities**
- **Excellent management team**
- **Gunters en Meuser acquisition completed in January 2017 - adds 14 branches bringing the total number of branches to 53**

GUNTERS en MEUSER
IJZERWAREN - GEREEDSCHAPPEN

Current Trading – Two months to end February 2017

	Like-for-like daily revenue	
	Q4 2016	2 months to Feb 2017
Merchanting		
UK	4.6%	4.0%
Ireland	11.4%	13.9%
Netherlands	N/a	2.9%
Belgium	(6.9%)	(12.3%)
Retailing	5.4%	5.7%
Manufacturing	9.5%	(3.5%)
Total Group	5.3%	4.7%

Outlook

- **UK**

  Recent UK macro indicators suggest modest increase in volume

  Competitive conditions likely to remain against inflationary backdrop

- **Ireland**

  Irish economy forecast to remain strong

  Market leading positions should continue to support market outperformance

- **The Netherlands**

  Outlook for Dutch economy and housing market is positive

  Integration of G&M, investment in distribution centre and online route to market operational priorities for 2017

Summary

- Exposure to the faster growing economies of Ireland and the Netherlands are a distinct advantage
- Continuing to invest in Selco – strong returns and good growth potential
- Decisive action taken to address performance in more uncertain UK market
- Financial strength and spread of businesses over a number of markets and economies
- Well placed to take advantage of development opportunities that will increase shareholder value


selco
BUILDERS
WAREHOUSE


SERVICE
selco
BUILDERS
WAREHOUSE

Questions

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 3 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

	2016 £'m	2015 £'m	Change £'m
Revenue	**2,507.3**	2,212.0	+295.3
Statutory operating profit	**120.1**	128.2	(8.1)
Exceptional items	**19.7**	-	+19.7
Amortisation of acquired intangible assets	**2.2**	0.5	+1.7
Defined benefit pension scheme past service credit	**-**	(2.9)	+2.9
Asset Impairment - Belgium	**-**	1.5	(1.5)
Adjusted EBITA	**142.0**	127.3	14.7
Property profit	**(4.9)**	(6.7)	1.8
Adjusted EBITA (pre-property profits)	**137.1**	120.6	16.5
Statutory operating margin	**4.8%**	5.8%	(100 bps)
Operating margin	**5.7%**	5.8%	(10 bps)
Operating margin (pre-property profit)	**5.5%**	5.5%	-

Appendix 3
Revenue Growth

	2016 Like-for-Like					2016	
	Q1	Q2	Q3	Q4	FY	Total Revenue	
Merchanting						**Constant currency**	**Reported**
UK	5.3%	1.6%	0.5%	4.6%	2.9%	**6.6%**	**6.6%**
Ireland	12.3%	10.9%	11.8%	11.4%	11.6%	**11.9%**	**26.7%**
Belgium	(5.4%)	(9.5%)	(3.2%)	(6.9%)	(6.4%)	**(10.6%)**	**0.9%**
Retailing	10.0%	4.2%	4.1%	5.4%	5.6%	**5.6%**	**19.5%**
Manufacturing	6.0%	(1.8%)	7.1%	9.5%	5.2%	**11.9%**	**12.8%**
Total Group	**6.2%**	**2.4%**	**2.4%**	**5.3%**	**4.1%**	**10.4%**	**13.4%**

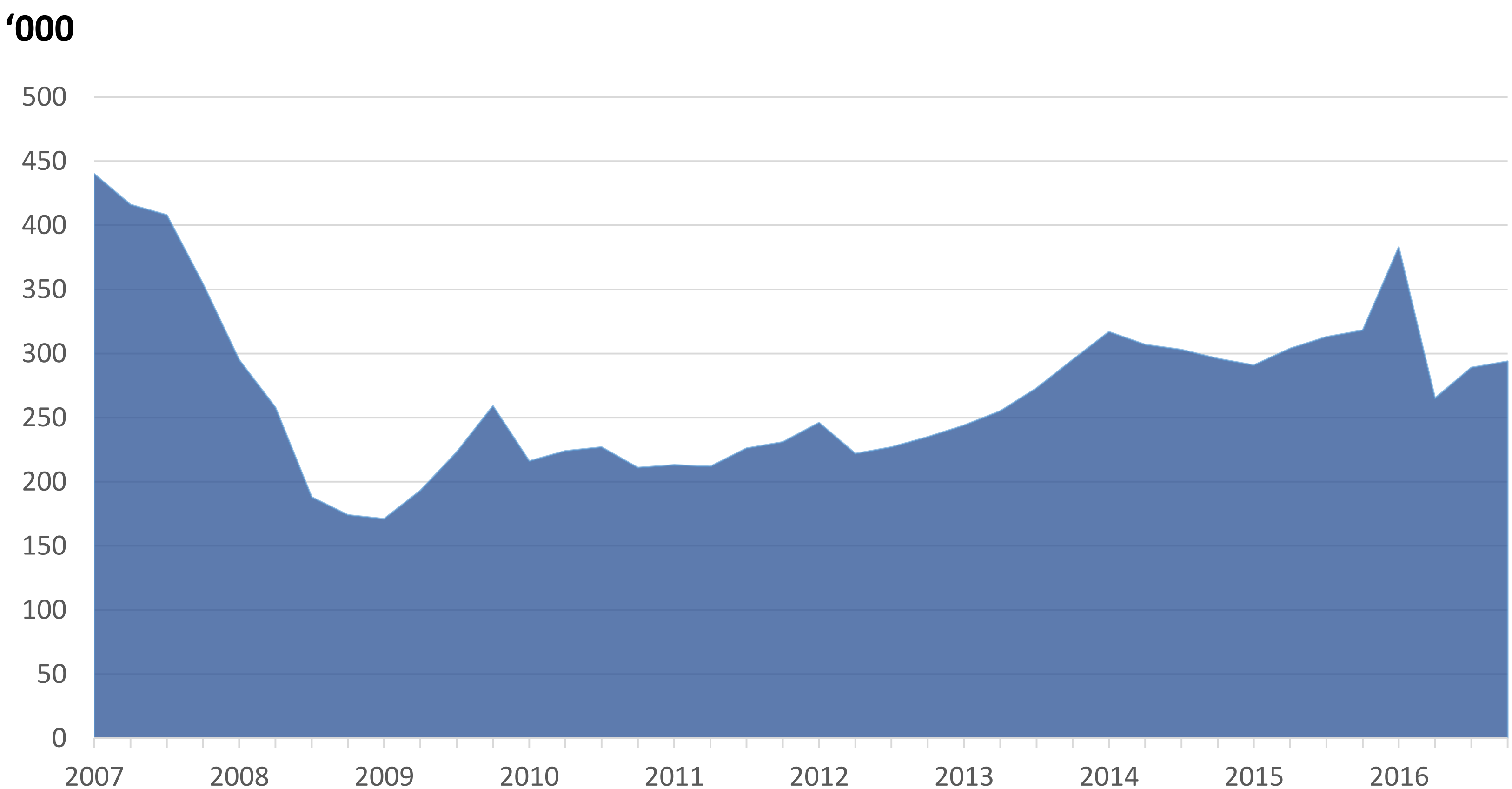
Appendix 4
Operating Margin Analysis*

	H2 2016	**H1 2016**	H2 2015	H1 2015	H2 2014	H1 2014
UK Merchanting	**5.5%**	**5.7%**	6.2%	6.5%	6.1%	6.1%
Irish Merchanting	**8.6%**	**6.8%**	7.9%	5.7%	7.4%	4.1%
Netherlands Merchanting	**9.5%**	**11.3%**	3.8%	-	-	-
Belgium Merchanting	**(1.3%)**	**(0.3%)**	(1.7%)	0.8%	0.4%	1.5%
Total Merchanting	**6.0%**	**5.8%**	6.1%	6.2%	6.0%	5.6%
Retailing	**5.0%**	**4.2%**	4.1%	1.0%	2.9%	0.9%
Manufacturing	**22.0%**	**18.9%**	20.0%	16.9%	18.8%	13.3%
	6.3%	**6.1%**	6.3%	6.1%	6.1%	5.4%
Central Activities	**(0.5%)**	**(0.5%)**	(0.5%)	(0.5%)	(0.5%)	(0.4%)
Total	**5.8%**	**5.6%**	**5.8%**	**5.6%**	**5.6%**	**5.0%**

Grafton Group plc

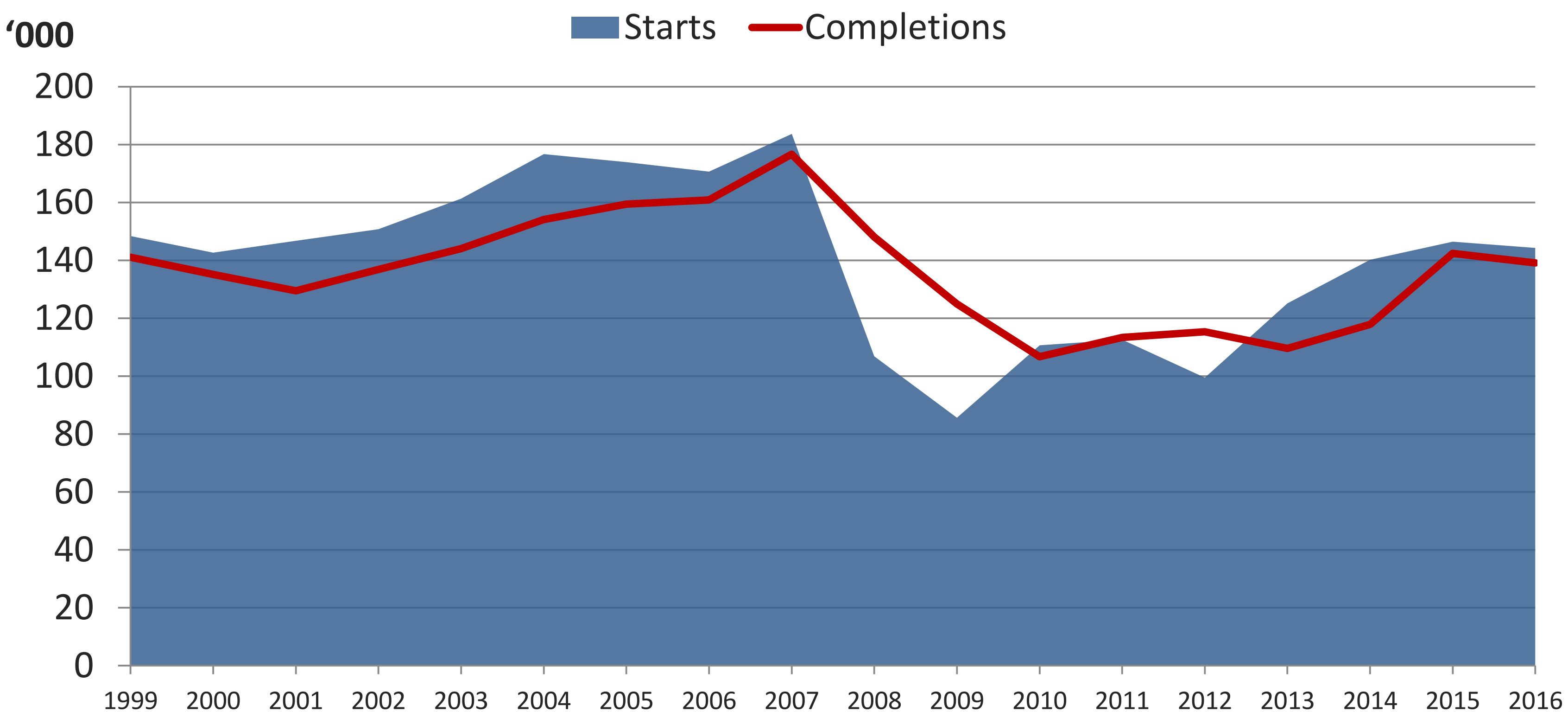
* Including property profit but before amortisation on acquired intangible assets and restructuring costs

Appendix 5
UK Housing Transactions 2007 - 2016



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

Appendix 6
Housing Starts & Completions – England: 1999 - 2016

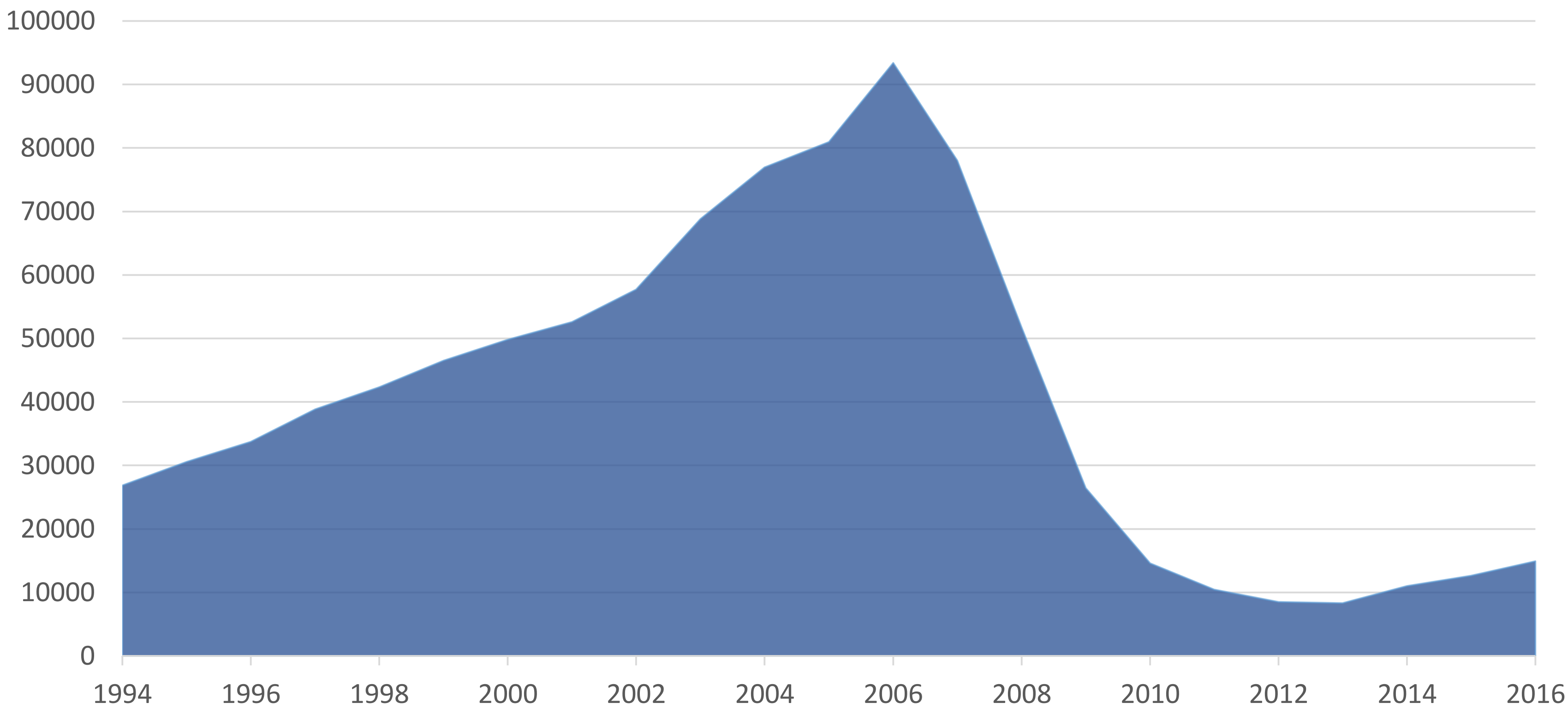


Source: UK Department for Communities & Local Government on a rolling 12 month basis

Appendix 7
UK Mortgage Approvals: 2008 - 2016

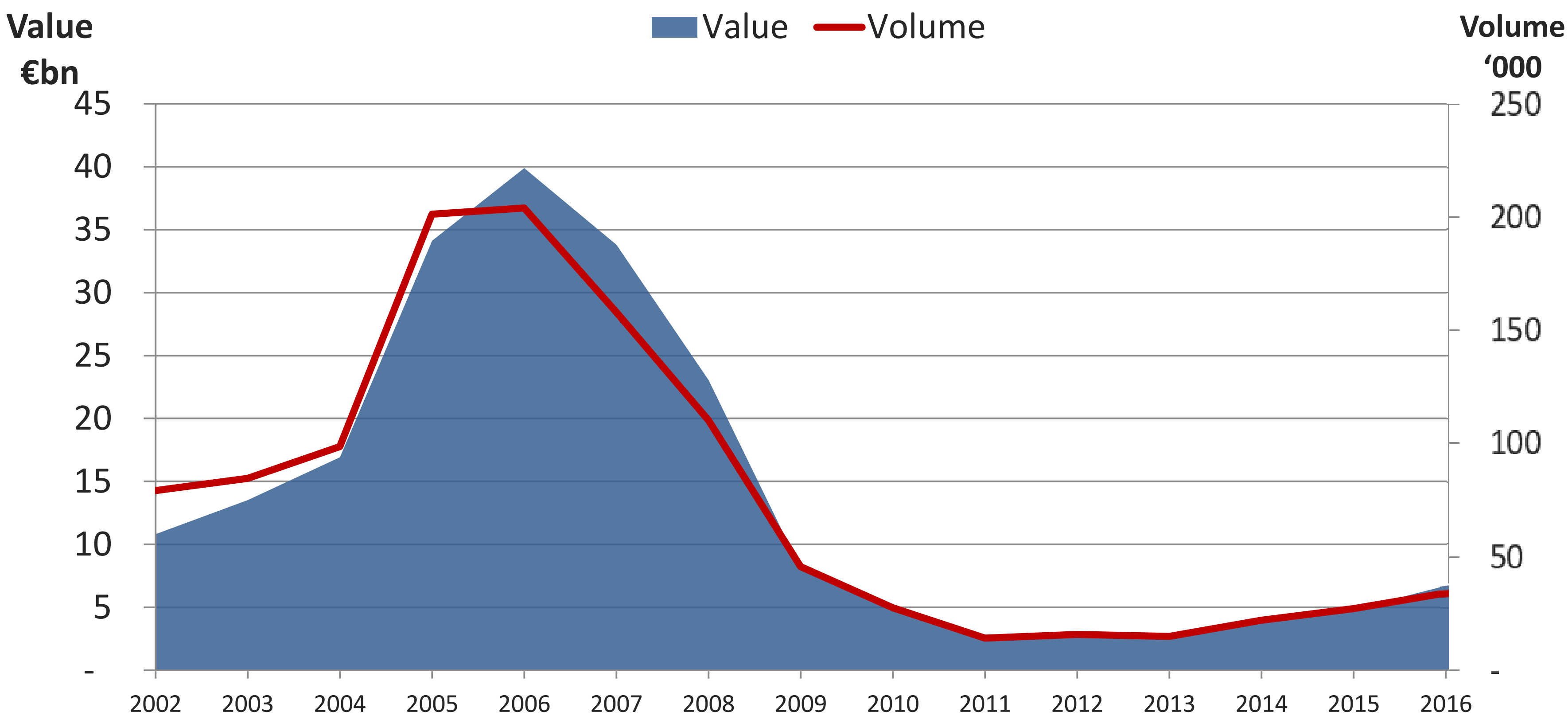
Source: Bank of England

Appendix 8
House Completions – Ireland 1994 - 2016



Source: Department of Housing, Planning, Community and Local Government - on a rolling 12 month basis

Appendix 9
Mortgages Approvals in Ireland: 2002 - 2016



Source: BPFI on a rolling 12 month basis