Dynamics impacting the Group's end markets resulted in 2023 being a difficult year with earnings down notably, but I am confident that we are taking the right decisions to drive profit recovery, enhance cash generation and strengthen the business for the long term.

Jasmine Whitbread
Chair

Distributions to shareholders

In 2021 the Group laid out clear guidance on shareholder returns and I am pleased to reiterate those principles here. The Group will deliver returns to shareholders by:

- Achieving the best earnings number available, given market conditions and in accordance with our values and long-term views.
- Paying out 30–40% of those earnings each year as an ordinary dividend.
- Ensuring that we fund this through strong cash conversion, disciplined capital allocation and remaining within our published leverage targets of 1.5–2 times net debt/EBITDA.

2023 was a challenging year for the Group as a combination of macroeconomic uncertainty, progressively weakening end market demand, sharp deflation on commodity products and overhead inflation made business planning difficult, weighing heavily on the Group's earnings performance during the year. Whilst some good progress has been made against our strategic priorities, management's primary focus is now to drive efficiencies through the transformation of the Group's operating model and prioritise capital allocation to support the recovery of profitability and reduction of leverage in the medium term.

Taking into account all of these factors, I am confident that we are taking the right decisions to drive profit recovery, enhance cash generation and strengthen the business for the long term, and for 2023 the Board recommended a final dividend of 5.5 pence per share (2022: 26.5 pence per share) to give a full year dividend of 18.0 pence per share (2022: 39.0 pence per share), in line with the Group's previously communicated policy.

This reduction reflects the reduction in earnings and the Board's clear commitment to ensuring that the Group swiftly returns leverage to the target range.

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I ended my statement in the 2022 review with a thought on how it would be very hard to predict the shape of the UK economy in 2023 and what level of recovery, if any, we would see in the construction sector. During the last year we have seen a number of dynamics impacting the Group's end markets that have resulted in 2023 being a difficult period with earnings down notably which is reflected in the Group's share price. At a macroeconomic level, persistently higher consumer inflation, leading to elevated interest rates has resulted in a pronounced slowdown in the new housebuilding market. In addition, deflationary pressures on commodity products and a sustained slowdown in the domestic RMI market have led to declining revenues throughout the year.

Throughout 2023 the Group's businesses have adapted to address near term trading conditions while continuing to build a stronger business for the future and ensuring that we balance the needs of our investors, customers, suppliers and colleagues. Stronger and more urgent focus on using customer data to help retain and win back customers helped protect and grow our market share, while the modernisation of branches and processes in the Travis Perkins General Merchant contributed to efficiencies.

In September, the Group held a Toolstation UK Capital Markets Update. The update set out the pathway for the Toolstation UK business to deliver £1bn of revenue at a high single digit operating margin by 2027. We shared the Group's confidence in the underlying economic model and the platform we have created for future profitable growth. Toolstation UK is integral to the Group as a highly complementary offer for UK tradespeople with an excellent opportunity to continue to grow share in a large and fragmented market.

People and culture

Our colleagues adapted to changing market conditions, embracing new technology and processes to deliver better customer service. Recognising the importance of a skilled workforce in delivering great customer service and expertise, the Group updated its knowledge, learning, and development offering via a new learning management system called Thrive, complementing its industry-leading apprenticeship programme.

There was continued focus on colleague voice and engagement. A Group-wide engagement survey was completed, yielding a score of 73, two points higher than in 2022 and the external benchmark. Louise Hardy assumed the role of the designated workforce engagement Non-Executive Director. Externally, the Group a founding member of The Construction Inclusion Coalition (CIC), focusing on raising standards for equity, diversity, and inclusion, particularly regarding gender representation in its first year.

Board and leadership

During the course of the year we have been able to inject new and relevant public company and industry experience and perspectives to the Board managing anticipated Executive and Board changes.

Jez Maiden was appointed to the Board in June as a Non-executive and Senior Independent Director. Jez brings significant public company and diverse industry experience.

After nearly nine years as Non-executive Directors, Pete Redfern and Coline McConville stepped down from the Board in December. Coline and Pete's departure necessitated changes to the membership of the Board's Committees and other responsibilities which are set out on pages 88 to 89.

Alan Williams retired as Chief Financial Officer and stepped down from the Board in January 2024 after seven years in the role. In July the Board announced the appointment of Duncan Cooper, to succeed Alan and Duncan started with the Group on 9 January 2024. Duncan has industry experience from his time as Chief Financial Officer at Crest Nicholson plc and retail experience from roles at J Sainsbury plc. In addition to a strong finance background he has experience in corporate communication, strategy, design and implementation of large scale technology change.

My thanks to Pete, Coline, and Alan for their significant contributions and service to the Group and a warm welcome to Duncan and Jez.

After 20 years with the Group Chief Operating Officer, Frank Elkins decided to leave the Group to pursue other leadership opportunities. The Executive Leadership team under Nick Roberts was further strengthened by the appointment of Dave Castle as the new managing director of BSS. Dave was previously Regional Managing Director for South West and Wales in the Travis Perkins General Merchant business.

Dave's move to BSS, Angela Rushforth's move to Toolstation in March 2023 and James Mackenzie's move to Travis Perkins General Merchant demonstrate the Group's ability and intention to cross fertilise ideas and to develop senior leadership talent.

Summary and looking forward

A recovery in the UK construction sector is unlikely to gather any momentum before the UK general election is concluded with the Group's customers, large and small, inevitably waiting to see if there is a post-election government stimulus package for the sector and also seeking clarity on the future direction of interest rates.

Mindful of these challenges, management is planning for another year of weak demand, with decisive actions taken with regards to overheads and cash management actions. Lead indicators and customer feedback will be closely monitored to inform further actions during the year. I am confident that we are taking the right decisions for 2024 and beyond.