5 March 2024

Dissemination of a Regulatory Announcement that contains inside information according to REGULATION (EU) No 596/2014 (MAR)

Travis Perkins plc, a leading partner to the construction industry, announces its unaudited full year results for the year to 31 December 2023

A challenging year in weak market conditions; driving actions to support profit recovery and enhance cash generation

Protecting market position in challenging conditions

- Progressive downturn in new build housing and private domestic RMI markets leading to Group revenue (2.7)% lower than prior year
- Combination of lower volumes, overhead cost inflation and rapid commodity price deflation in H2 resulted in full year adjusted operating profit of £180m (2022: £295m)
- Invested to protect and build market positions with market share gains in both Toolstation and Travis Perkins General Merchant

Transforming the operating model to build a stronger business

- Step change reduction in non-branch cost base delivered with £35m annualised savings
- Working on a plan for a potential exit of Toolstation France; strategic review of options for Toolstation Benelux
- Optimising Benchmarx branch network with focus on integrated offer within destination General Merchant branches and profitable standalones
- Continued rationalisation of legacy Toolstation UK supply chain, following successful opening of the new Pineham distribution centre
- Delivering profit enhancements through simplification of Group structures, lowering supply chain costs and harnessing benefits from new technology
- Operating profit of £110m (2022: £285m) reflects trading performance and adjusting items of £60m recognised in 2023 (of which around £16m is cash) related to impairments in Toolstation France and Benchmarx, together with restructuring actions

Enhancing cash generation to support future capital allocation

- Reduced capital expenditure requirements in near term; £80m guidance for 2024
- Review of working capital opportunities underway
- Refinancing completed, supporting robust balance sheet; no funding maturities before 2026
- In line with the Board's policy, 2023 proposed full year dividend of 18.0 pence per share (2022: 39.0 pence per share)

£m *(unless otherwise stated)*	*Note*	**2023**	2022	*Change*
Revenue	*6*	**4,862**	4,995	*(2.7)%*
Adjusted operating profit[1]	*7*	**180**	295	*(39.0)%*
Adjusted earnings per share[1]	*14b*	**45.7p**	94.6p	*(51.7)%*
Return on capital employed[1]	*17*	**6.3%**	10.8%	*(4.5)ppt*
Net debt / adjusted EBITDA[1]	*18*	**2.6x**	1.8x	*(0.8)x*
Ordinary dividend per share	*13*	**18.0p**	39.0p	*(53.8)%*
Operating profit	*7*	**110**	285	*(61.4)%*
Profit after tax		**38**	192	*(80.2)%*
Basic earnings per share		**18.1p**	90.8p	*(80.1)%*

(1) Alternative performance measures are used to describe the Group's performance. Details of calculations can be found in the notes listed.

Nick Roberts, Chief Executive Officer, commented:

"Ongoing economic challenges have significantly impacted our trading performance, driven by weakness in the new build housing and domestic RMI sectors, and compounded by deflationary pressures on commodity products. Faced with these challenges, we have invested to protect and build our leading market positions.

With market conditions expected to remain a headwind through 2024, the business is fully focused on improving profitability and enhancing cash generation. We have successfully acted to optimise our cost base and are actively addressing the impact of our loss-making businesses. We are also accelerating changes to our operating model, leveraging our scale to create a simpler, more efficient business. This will be achieved by simplifying our operational structures, consolidating our supply chain, creating shared procurement capability, and embedding new technology.

While the timing of recovery in our end markets is uncertain, the long-term growth drivers of our industry remain robust. The proactive steps we are taking to rebuild profitability and strengthen our balance sheet will create a more resilient business and, together with our strong customer relationships and differentiated offer, will see the Group well positioned to emerge stronger when markets recover."

Analyst Presentation

Management are hosting a results presentation at 8.15am. For details of the event please contact the Travis Perkins Investor Relations team as below. The presentation will also be available via a listen-only webcast - please register at the following link:

https://travis-perkins-2023-full-year-results.open-exchange.net/

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Summary

2023 was a challenging year for the Group as a combination of macroeconomic uncertainty, progressively weakening end market demand, sharp deflation on commodity products in the second half and overhead inflation made business planning difficult, weighing heavily on the Group's earnings performance during the year. Reflecting the expectation of continued challenging market conditions, 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.

2023 Performance

The Group delivered revenue of £4,862m, down (2.7)% versus 2022. The decline in revenue was driven by the Merchanting businesses with rising interest rates leading to a significant reduction in new build housing activity. A lack of secondary housing transactions, coupled with weak consumer confidence and pressure on household finances, resulted in the domestic RMI market also remaining subdued. Toolstation saw good revenue growth in both the UK and Europe with maturity benefits being realised and further market share gains.

Adjusted operating profit of £180m was £(115)m, or (39.0)%, lower than in 2022 with the prior year reported adjusted operating profit also including a £15m restructuring charge. Around £(64)m of the profit decline resulted from lower sales volumes whilst approximately £(24)m was attributable to lower gross margins, with deflation on timber products in the second half a significant contributory factor.

Although the Group delivered overhead savings in 2023 of around £35m, the remaining profit reduction was due to these savings being more than offset by overhead increases. The majority of these increases related to inflation, primarily on salaries, and included an £8m cost-of-living payment in January 2023. The increase in overheads also included £(20)m investment in Toolstation, primarily in the new distribution centres at Pineham (UK) and Rotterdam (Netherlands and Belgium) plus the ongoing expansion of the European network.

Transformation of the Group's operating model

Given the significant impact of the macroeconomic environment on the Group's profitability, and with uncertainty remaining as to the timing and speed of recovery in the Group's key end markets, management has commenced further significant actions which will transform the business for the future.

The first phase of this review, completed in the fourth quarter, will deliver further cost savings of around £35m in 2024, primarily from a reduction in central and regional headcount and the closure of the Toolstation Bridgwater distribution centre.

The next phase commenced in February 2024 with 39 standalone Benchmarx branches closed as part of a review of the strategy of the business. The focus is now on optimising the profitability of the remaining standalone branches and growing the network through integrated solutions in new General Merchant branches which provide a lower cost model with a convenient customer journey.

In March 2024 the Group announced the proposed closure of the Toolstation Daventry distribution centre which represents the next stage of supply chain consolidation within Toolstation UK.

Work to deliver further structural efficiencies will continue over the medium term and be focused on the following areas:

- Supply chain consolidation - reviewing and optimising the Group's supply chain to deliver greater economies of scale and efficiencies
- Technology enablement - driving benefits from new technology starting with the implementation of a new Oracle finance system to improve processes, data, and control
- Simplifying our structures - streamlining the interactions between businesses to enhance the customer experience
- Shared procurement capability - consolidating separate procurement functions across businesses to harness the buying power of the Group’s combined scale

Adjusting items

There were £60m of adjusting items in the year (2022: nil) as set out below:

	£m
Restructuring charge	17
Benchmarx branch closures	10
Toolstation France impairment	33
Total	**60**

The restructuring charge relates primarily to severance payments made as a result of headcount reductions in Q4 2023, the majority of these roles being in central functions or regional sales and support teams. Also included in the charge are the costs related to the closure of the Toolstation UK Bridgwater distribution centre and other supply chain restructuring activity.

The charge associated with the Benchmarx branch closures related to fixed asset impairments and property closure costs.

The Toolstation France impairment charge relates to the write-down of goodwill, property and right-of-use assets under IAS36.

Capital structure and shareholder returns

The Group has previously set a medium-term leverage target of 1.5x – 2.0x net debt / adjusted EBITDA (on an IFRS 16 basis), this target range being consistent with the maintenance of investment grade credit metrics. The Group’s balance sheet remains robust with the refinancing of the 2023 bond completed during the year and the renewal of the revolving credit facility of £375m (see “Funding” section for more details) providing adequate liquidity for its future plans.

However, with net debt / adjusted EBITDA rising to 2.6x at the year-end, management has set out the following medium-term capital allocation priorities:

- Maintaining an investment grade credit rating by returning leverage to the target range as soon as possible
- A disciplined approach to capital allocation, focused on maintaining asset quality and sources of competitive advantage
- Improving working capital management and an ongoing review of loss-making activities
- An attractive and sustainable dividend

Taking into account all of these factors, for 2023 the Board is recommending 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.

The commitment to lowering leverage will result in a planned reduction in capital expenditure to £80m in 2024 (compared to medium-term guidance of £125m). Property activity will continue in order to enhance the quality of the Group's branch network but with the objective of generating a cash surplus from property transactions in the year.

Outlook

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 overhead and cash management actions supporting financial performance. Lead indicators and customer feedback will be closely monitored to inform further actions during the year. Pricing benefit is expected to be minimal in 2024 with lower timber pricing rolling over into H1 and limited manufacturer increases.

Whilst it is still early in the trading year, the Group has seen a continuation of the weak trading environment experienced in the second half of 2023. Accordingly, management's best estimate at this stage is that FY24 adjusted operating profit will be in the range of £160m to £180m, inclusive of around £10m of property profits and around £(20)m of losses in Toolstation France.

Technical guidance

The Group's technical guidance for 2024 is as follows:

- Expected ETR of around 29% on UK generated profits
- Base Capital expenditure of around £80m
- Property profits of around £10m

Segmental performance

Merchanting

	2023	2022	*Change*
Revenue	**£4,036m**	£4,220m	*(4.4)%*
Adjusted operating profit	**£212m**	£314m	*(32.5)%*
Adjusted operating margin	**5.3%**	7.4%	*(210)bps*
ROCE	**9%**	15%	*(6)ppt*
Branch network	**769**	767	*2*

Note - all figures above exclude property profits

The Merchanting segment had a challenging year with revenue down by (4.4)% and adjusted operating profit reduced by (32.5)% to £212m, reflecting the high operational gearing of the Merchant businesses. Revenue decline was consistent although the drivers moved significantly through the year with pricing starting off at elevated levels due to the rollover of 2022 increases before falling away rapidly. Deflation on commodity products, notably timber, became a major factor in the H2 with overall pricing turning negative, having been +9% in Q1. By contrast, volumes started the year weakly, driven by a reduction in new build housing activity, before levelling off in H2 as comparatives eased and actions on pricing delivered market share gains in the General Merchant.

Throughout a difficult year, the Merchant businesses remained focused on meeting customers' needs, notably in the second half when pricing was adjusted to reflect the weak demand environment and ensure that existing customers were retained alongside winning new work. There was continued progress on the development of digital capability and increased penetration of higher margin, value-added services, particularly Hire which delivered revenue growth of 6%

The private domestic RMI market, the Merchant segment's largest end market which is primarily serviced by the Group's General Merchant business, remained depressed throughout the year. Pressures on household finances, the significant rise in the costs of building materials and labour and the rise in the cost of borrowing have all contributed to lower levels of activity in the renovation and improvement market.

The private domestic new-build market, primarily serviced by Keyline, CCF and Staircraft working with national and regional housebuilders, was significantly impacted by the economic turmoil in autumn 2022 with activity down by around one-fifth in the year. This reduction in activity has weighed heavily on the performance of all three businesses with each deriving at least half of their revenue from this customer base in normal market conditions.

The Merchant segment's other end markets - commercial, industrial and public sector - which represent around half of the segment's revenue, remained relatively stable, supported by long-term projects. This stability was reflected in a more resilient performance in BSS, which derives the majority of its revenue from these sectors, and in the Group's Managed Services business where revenue increased by 5% as the business continues to benefit from its tailored proposition to partner with social housing providers.

Adjusted operating margin reduced by (210)bps as a result of lower gross margins and high levels of operational gearing in the Merchant businesses. Overhead inflation, mainly driven by payroll costs, remained elevated with underlying inflation of around 5%. Cost actions and volume related savings of around £35m in 2023 mitigated the overall cost increase to around 1% for the year.

Toolstation

	2023	2022	*Change*
Revenue	**£826m**	£775m	*6.6%*
Like-for-like growth	**4.0%**	(3.7)%	
Adjusted operating profit - UK	**£23m**	£21m	*9.5%*
Adjusted operating profit - Europe	**£(37)m**	£(30)m	*(23.3)%*
Adjusted operating profit - Total	**£(14)m**	£(9)m	*(55.6)%*
Adjusted operating margin	**(1.7)%**	(1.2)%	*(50)bps*
ROCE	**(2)%**	(2)%	-
Store network (UK)	**570**	563	*7*
Store network (Benelux)	**119**	113	*6*
Store network (France)	**51**	45	*6*

Note - all figures above exclude property profits

Toolstation made good progress during the year with 6.6% sales growth demonstrating the businesses' ability to win share in difficult markets.

In the UK, where sales grew by 5.3%, network expansion was limited in the year to a net seven new stores reflecting a combination of market outlook, significant investment in the network in recent years and management focus on the opening of the new distribution facility in Pineham, Northamptonshire. Pineham opened in Q3 with 500,000 square feet of capacity and semi-automation technology providing distribution capability as the business grows over the next decade. As a result of Pineham coming on-line, the Bridgwater distribution centre was closed in Q2 2023. A further review of the retail distribution network proposed closing the Daventry distribution centre which was announced in Q1.

UK adjusted operating profit grew by 9.5% to £23m which included around £13m of higher operating costs related to start-up and dual running costs at Pineham. Management expects to recover these costs over the next three years as supply chain efficiencies come through.

In September the Toolstation UK management team set out their vision for the future of the business at a Capital Markets Update with the ambition to grow revenue to £1bn by 2027 with operating margin increasing to around 8% through scale efficiencies and margin enhancement opportunities. The materials from the event can be accessed via the following link:

https://www.travisperkinsplc.co.uk/investors/results-reports-and-presentations/?year=2023

Toolstation Europe

France

Toolstation France delivered sales growth of 29% in the year but losses increased to £(18)m as six new stores were added alongside further investment in infrastructure.

Despite some positive progress in the past year, the business in France faces long-term challenges which significantly increase the time and investment needed to achieve profitability. These challenges include:

- Building brand awareness
- Serving the trade in a less populated region
- Ongoing weak end-market demand

Taking these factors into consideration, and with forecast losses expected to increase to £(20)m in 2024, management has concluded that the investment required to reach profitability is no longer sustainable and today confirms that it is working on a plan for a potential exit of the business. Any decision would be subject to a prior consultation process with the relevant employee representatives.

Benelux

Although sales grew by 11%, performance overall in Benelux in 2023 was significantly below management expectations with a loss of £(19)m in the year (2022: £(15)m). The increase in losses was a result of weak gross margins, cost inflation and the additional costs of the second distribution centre alongside six new stores.

Management expects losses to narrow to around £(12)m in 2024 in Benelux and now anticipates that the Netherlands business will reach break-even point, on an annual basis, by 2025 with Belgium forecast to break-even by 2028. With end-market conditions expected to remain challenging in the near term and the extended period to reach profitability, management has commenced a strategic review of both businesses and will provide a further update as soon as the review is concluded.

Property

The Group generated property profits of £15m in the year, with £67m of cash proceeds. The main transaction in the year was the sale-and-leaseback of seven sites in March 2023 for £23m.

The Group continued with its policy of reinvesting freehold sale proceeds with the purchase of a 6.25 acre industrial site in Selsdon, near Croydon for £22m the major purchase during the year.

Building for the future

The Group made good progress towards its ambitious carbon reduction targets, as detailed below:

- Reduction of 7% in absolute Scope 1 & 2 carbon, now 33% below the 2020 target baseline
- Scope 3 carbon reduced by 3% in 2023, now 6% below the 2020 target baseline. The ratio of Scope 3 carbon emissions to revenue has improved by 28% against the 2020 baseline
- 11% of revenue in 2023 was from products for which the Group now holds Environmental Product Declarations, enabling the provision of product-level carbon reports to customers to help them in calculating and managing their own carbon.
- The Group is switching up to 1,100 forklift trucks from diesel to electric by mid-2024 in a multi-million pound investment that is one of the largest change programmes of its kind. Once complete, it is estimated that this change will reduce the Group's Scope 1 carbon emissions by 6,600 tonnes per annum.

Recognising the importance of leading change in the construction industry, the Group became a partner of the National Retrofit Hub, with representation on all its working groups, helping to shape retrofit planning for the UK. According to market estimates, the need to retrofit around 30 million UK properties in the next fifteen years could require investment of over £300 billion. The Group was also ranked in the top 8% of companies globally by CDP for its engagement with suppliers on climate change.

Developing a skilled workforce is key to the Group being able to deliver the expertise and service required to remain close to our customers In 2023 a total of 414 colleagues and industry partners graduated in apprenticeships facilitated by LEAP, the Group's Early Careers and Apprenticeship provider. The 1,000th apprentice graduated through the programme run by the Group in 2023, a major milestone on the journey towards 10,000 graduated apprentices by 2030. The Group was awarded a 'Good' Ofsted rating across all aspects of its Apprenticeship programme.

CEO Nick Roberts became the Construction Leadership Council ("CLC") Industry Sponsor for People and Skills, to support delivery of the agreed workstreams and energise colleagues, attract diverse talent, enhance skills for the future and ensure policy development addresses the sector's business requirement.

Travis Perkins plc is a founding member of The Construction Inclusion Coalition ('CIC'), which was established by CEOs at leading organisations, including Aliaxis, Baxi, Bradfords, Highbourne Group, Ibstock, Knauf, Wavin, Wolseley, the Builders Merchants Federation and the National Merchant Buying Society, to raise standards on equity, diversity and inclusion, with an immediate focus on gender representation.

Financial Performance

Revenue analysis

The Merchanting business saw consistently challenging trading conditions across the year, although the drivers of performance varied significantly. At the start of the year price inflation remained high, largely driven by the rollover of 2022 increases. By contrast, volumes were weak, particularly in the new house building sector following the impact of the “mini-budget” in late 2022.

From May onward, a sharp decline in the price of commodity products, notably on timber, saw the overall basket of goods move into deflation as price reductions were passed on to customers. Volumes stabilised in the second half as comparatives eased and more competitive pricing delivered market share gains in the General Merchant.

Toolstation also gained market share across the year in both the UK and Europe with volume growth despite a declining market and robust pricing. Maturity benefits from the investment in the store network and customer proposition continue to come through.

Volume, price and mix analysis

	Merchanting	Toolstation	Group
Price and mix	1.3%	5.4%	**1.9%**
Like-for-like volume	(5.7)%	(1.4)%	**(5.0)%**
Like-for-like revenue growth	**(4.4)%**	**4.0%**	**(3.1)%**
Network changes and acquisitions / disposals	(0.4)%	2.3%	**0.0%**
Trading days	0.4%	0.3%	**0.4%**
Total revenue growth	**(4.4)%**	**6.6%**	**(2.7)%**

Quarterly revenue analysis

		Total Revenue		Like-for-like revenue	
		2023	**2022**	**2023**	**2022**
Merchanting	Q1	(3.2)%	17.9%	(4.2)%	15.3%
	Q2	(5.6)%	9.2%	(5.2)%	8.5%
	H1	**(4.5)%**	**13.3%**	**(4.8)%**	**11.7%**
	Q3	(3.4)%	11.5%	(2.9)%	8.7%
	Q4	(5.1)%	4.7%	(5.2)%	2.3%
	H2	**(4.2)%**	**7.3%**	**(4.1)%**	**5.6%**
	FY	**(4.4)%**	**10.3%**	**(4.4)%**	**8.7%**
Toolstation	Q1	8.6%	(6.0)%	4.6%	(11.9)%
	Q2	9.7%	(3.2)%	7.2%	(9.2)%
	H1	**9.0%**	**(4.6)%**	**5.9%**	**(10.6)%**
	Q3	7.3%	6.1%	4.4%	0.2%
	Q4	1.1%	12.7%	0.0%	7.2%
	H2	**4.1%**	**8.9%**	**2.2%**	**3.7%**
	FY	**6.6%**	**1.9%**	**4.0%**	**(3.7)%**
Total Group	Q1	(1.5)%	13.6%	(2.9)%	10.5%
	Q2	(3.3)%	7.1%	(3.3)%	5.6%
	H1	**(2.5)%**	**10.3%**	**(3.2)%**	**7.9%**
	Q3	(1.8)%	10.7%	(1.8)%	7.4%
	Q4	(4.0)%	6.0%	(4.3)%	3.1%
	H2	**(2.9)%**	**7.5%**	**(3.0)%**	**5.3%**
	FY	**(2.7)%**	**8.9%**	**(3.1)%**	**6.6%**

Operating profit

£m	2023	2022	Change
Merchanting	212	314	*(32.5)%*
Toolstation	(14)	(9)	*(55.6)%*
Property	15	25	*(40.0)%*
Unallocated costs	(33)	(35)	*5.7%*
Adjusted operating profit	**180**	**295**	***(39.0)%***
Amortisation of acquired intangible assets	*(10)*	*(10)*	
Adjusting items	*(60)*	-	
Operating profit	**110**	**285**	

Finance charge

Net finance charges were in line with prior year at £40m (see note 10 for details).

Taxation

The tax charge before adjusting items was £44m (2022: £55m) giving an adjusted effective tax rate (adjusted 'ETR') of 31.5% (standard rate: 23.5%, 2022 actual: 21.7%). The adjusted ETR rate is substantially higher than the standard rate due to the effect of expenses not deductible for tax purposes, the largest item being unutilised overseas losses.

The statutory tax charge for 2023 was £32m (2022: £53m) giving an effective tax rate of 45.6% (2022: 21.6%). This is higher than the adjusted ETR as a result of the tax effect of the impairment of goodwill.

Earnings per share

The Group reported a total profit after tax of £38m (2022: £192m) resulting in basic earnings per share of 18.1 pence (2022: 90.8 pence). Diluted earnings per share were 17.8 pence (2022: 89.2 pence).

Adjusted profit after tax was £96m (2022: £200m) resulting in adjusted earnings per share (note 14) of 45.7 pence (2022: 94.6 pence). Diluted adjusted earnings per share were 45.0 pence (2022: 92.9 pence).

Cash flow and balance sheet

Free cash flow

£m	2023	2022	Change
Group adjusted operating profit excluding property profits	**165**	270	(105)
Depreciation of PPE and other non-cash movements	100	97	3
Change in working capital	(22)	(76)	54
Net interest paid (excluding lease interest)	(25)	(17)	(8)
Interest on lease liabilities	(26)	(21)	(5)
Tax paid	(41)	(58)	17
Adjusted operating cash flow	**151**	195	(44)
Capital investments			
Capex excluding freehold transactions	(109)	(110)	1
Proceeds from disposals excluding freehold transactions	2	10	(8)
Free cash flow before freehold transactions	**44**	95	(51)

The Group delivered free cash flow conversion of 81% in the year (2022: 67%). Working capital increased year on year driven by a reduction in other creditors. Trade debtors and payables reduced in line with volumes and revenue across the Group whilst stock remained flat.

Capital investment

£m	2023	2022
Strategic	51	75
Maintenance	52	28
IT	6	7
Base capital expenditure	**109**	**110**
Freehold property	33	38
Gross capital expenditure	**142**	**148**
Disposals	(68)	(23)
Net capital expenditure	**74**	**125**

Base capital expenditure in cash terms was in line with prior year and below the Group’s medium-term guidance (of £125m per annum), reflecting the weaker demand outlook.

Strategic capex was £(24)m lower than prior year, reflecting a significant slowdown in the Toolstation store rollout in both the UK and Europe, with new 23 stores in 2023 compared to 70 in 2022, and the spend on Toolstation distribution capacity in the prior year.

Maintenance capex increased by £24m, principally as a result of overdue fleet replacement.

Uses of free cash flow

£m	2023	2022	Change
Free cash flow	**44**	**95**	**(51)**
Investments in freehold property	(33)	(38)	5
Disposal proceeds from freehold transactions	67	12	55
Dividends paid	(82)	(82)	-
Net purchase / sale of own shares	-	(172)	172
Cash payments on adjusting items	(11)	(7)	(4)
Drawdown of borrowings	100	75	25
Repayment of bonds	(180)	(120)	(60)
Other	3	-	3
Change in cash / cash equivalents	**(92)**	**(237)**	

Cash and cash equivalents reduced by £(92)m in the year primarily as a result of financing activity. The remaining 2023 bond (£180m) was repaid during the year, being largely replaced with £100m of US private placement notes (details below).

In 2022, the Group repurchased £120m of bonds early via a tender offer as part of the ongoing management of its debt maturity profile, these bonds being partly replaced by a £75m term loan. The Group also completed a £240m share buyback programme in 2022 to return the proceeds of the sale of the Plumbing & Heating division in 2021.

Net debt and funding

	31 Dec 2023	31 Dec 2022	Change	Covenant
Net debt	**£922m**	£819m	£(103)m	
Net debt / adjusted EBITDA	**2.6x**	1.8x	(0.8)x	<4.0x
Net debt excluding leases	**£314m**	£279m	£(35)m	
Net debt excluding leases / adjusted EBITDA	**0.9x**	0.8x	(0.1)x	

Note - All covenant metrics measured post IFRS16

Overall net debt increased by £103m of which £68m related to increased lease commitments. The higher lease commitments were principally a result of the Group investing in a new Toolstation UK distribution centre, a new manufacturing facility for Staircraft and the sale-and-leaseback package of seven sites completed in March 2023.

Funding

As at 31 December 2023, the Group's committed funding of £800m comprised:

- £250m guaranteed notes due February 2026, listed on the London Stock Exchange
- £75m bilateral bank loan due August 2027
- A revolving credit facility of £375m, refinanced in November 2023 and maturing in November 2028
- £100m of US private placement notes, maturing in equal tranches in August 2029, August 2030 and August 2031

As at 31 December 2023, the Group had undrawn committed facilities of £375m (2022: £400m) and deposited cash of £102m (2022: £194m), giving overall liquidity headroom of £492m (2022: £594m).

The Group's credit rating from Fitch Ratings was affirmed at BBB-, albeit on negative watch, following a review in October 2023.

Principal risks and uncertainties

Maintaining a dynamic and effective risk management process is central to the successful delivery of the Group's strategic objectives and building resilience, as the Group manages the impacts of a challenging external environment, an evolving risk landscape and continued uncertainty. The Group takes a balanced approach to manage risks in a proactive, efficient and effective way, targeted at the most significant risks, particularly where there is a low tolerance for risk or uncertainty.

The Group's principal risks are regularly reviewed and reassessed through a process that considers both internal and external factors. No principal risks have been added or removed in the latest risk review and, although all risks and associated mitigations have evolved over the past year, the overarching trends and inherent risk levels are assessed to be broadly consistent year-on-year. As set out in the half year results, the Board no longer considers the risk trend in relation to supply chain resilience to be increasing albeit the inherent risk remains high. The Group has a good track record of navigating through supply challenges and its well established programme of stock monitoring, supplier engagement and independent testing helps to ensure a continuous supply of quality materials. All other risk trends are unchanged.

Accordingly, the 2023 Annual Report and Accounts will report risks under the following captions: long-term market trends, macroeconomic volatility, supply chain resilience, managing change, climate change & carbon reduction, cyber threat & data security, health, safety & wellbeing, legal compliance and critical asset failure.

The Group seeks to capture emerging risks that do not currently present a significant risk but which may have the potential to adversely impact its operations in the future and these are also regularly considered and monitored by the Directors. The potential for an escalation of the war in Ukraine continues to be monitored as an emerging risk. The Group continues to ensure compliance with sanctions and that timber purchases are from certified sources and exclude timber from Russia or Belarus. In the event that hostilities escalate in Europe, sourcing and supply could be impacted,so the situation is closely monitored. More generally, the Group is exposed to geopolitical risks across its supply chain, including the direct sourcing operation in China. The Board is watchful of developments in the Middle East and how unrest in the region may create further macroeconomic uncertainty and impact trade relations. There are no other emerging risks considered significant enough to report at this time.

Consolidated income statement

For the year ended 31 December 2023

£m	Notes	**2023**	2022
Revenue	6	**4,861.9**	4,994.8
Gross profit		**1,305.1**	1,384.7
Charge for impairment losses for trade receivables		**(16.8)**	(11.0)
Selling and distribution		**(835.0)**	(805.4)
Administrative expenses – other		**(297.1)**	(314.0)
Profit on disposal of properties		**15.1**	25.3
Other operating income		**9.1**	15.7
Adjusted operating profit		**180.4**	295.3
Administrative expenses – adjusting items	8	**(60.0)**	–
Administrative expenses – amortisation of acquired intangible assets		**(10.5)**	(10.5)
Operating profit	7	**109.9**	284.8
Interest on lease liabilities	10	**(26.2)**	(21.5)
Other finance costs	10	**(25.8)**	(27.5)
Finance income	10	**12.1**	9.2
Profit before tax		**70.0**	245.0
Tax	11	**(31.9)**	(52.8)
Profit for the year		**38.1**	192.2

Total profit for the year is all attributable to the owners of the Company.

Earnings per ordinary share:

	Notes	**2023**	2022
Adjusted basic earnings per share	14	**45.7p**	94.6p
Adjusted diluted earnings per share	14	**45.0p**	92.9p
Basic	14	**18.1p**	90.8p
Diluted	14	**17.8p**	89.2p

The accompanying notes form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2023

£m	Notes	**2023**	2022
Profit for the year		**38.1**	192.2
Items that will not be reclassified subsequently to profit and loss:			
Actuarial loss on defined benefit pension schemes	12	**(41.0)**	(145.3)
Income tax relating to other comprehensive income		**10.2**	36.3
Items that may be reclassified subsequently to profit and loss:			
Foreign exchange differences on retranslation of foreign operations		**(1.2)**	5.5
Fair value (loss) / gain on cash flow hedges		**(1.4)**	4.3
Deferred tax on cash flow hedges		**0.4**	(1.1)
Total other comprehensive loss for the year net of tax		**(33.0)**	(100.3)
Total comprehensive income for the year		**5.1**	91.9

All other comprehensive income is attributable to the owners of the Company.

Consolidated balance sheet

As at 31 December 2023

£m	Notes	**2023**	2022
Assets			
Non-current assets			
Goodwill		**847.9**	859.0
Other intangible assets		**99.9**	115.9
Property, plant and equipment		**848.4**	847.3
Right-of-use assets		**530.4**	451.7
Long-term prepayments and other receivables		**14.2**	17.2
Deferred tax asset		**18.0**	15.0
Derivative financial instruments		**2.9**	4.3
Retirement benefit asset	12	**100.6**	135.9
Total non-current assets		**2,462.3**	2,446.3
Current assets			
Inventories		**727.6**	727.8
Trade and other receivables		**689.6**	725.9
Tax debtor		**14.5**	0.7
Cash and cash equivalents, excluding bank overdrafts		**131.5**	235.7
Total current assets		**1,563.2**	1,690.1
Total assets		**4,025.5**	4,136.4
Equity and liabilities			
Capital and reserves			
Issued share capital		**23.8**	23.8
Share premium account		**545.6**	545.6
Cash flow hedge reserve		**2.9**	4.3
Merger reserve		**326.5**	326.5
Revaluation reserve		**10.8**	12.1
Own shares		**(14.1)**	(34.3)
Foreign exchange reserve		**8.4**	9.6
Other reserves		**1.4**	1.4
Retained earnings		**1,135.0**	1,213.2
Total equity		**2,040.3**	2,102.2
Non-current liabilities			
Interest-bearing loans and borrowings		**445.1**	349.1
Lease liabilities		**518.8**	438.3
Deferred tax liabilities		**92.8**	96.0
Long-term provisions		**3.8**	4.9
Total non-current liabilities		**1,060.5**	888.3
Current liabilities			
Interest-bearing loans and borrowings		**–**	192.5
Lease liabilities		**89.6**	74.3
Derivative financial instruments		**0.4**	0.2
Trade and other payables		**795.4**	852.4
Short-term provisions		**39.3**	26.5
Total current liabilities		**924.7**	1,145.9
Total liabilities		**1,985.2**	2,034.2
Total equity and liabilities		**4,025.5**	4,136.4

Consolidated statement of changes in equity

For the year ended 31 December 2023

£m	Share capital	Share premium	Cash flow hedge reserve	Merger reserve	Revaluation reserve	Own shares - treasury	Own shares - ESOT	Foreign exchange reserve	Other	Retained earnings	**Total equity**
At 1 January 2022	**25.2**	**545.6**	**–**	**326.5**	**10.5**	**(53.8)**	**(7.6)**	**4.1**	**–**	**1,387.3**	**2,237.8**
Profit for the year	–	–	–	–	–	–	–	–	–	192.2	**192.2**
Other comprehensive income for the year net of tax	–	–	4.3	–	–	–	–	5.5	–	(110.1)	**(100.3)**
Total comprehensive income for the year	–	–	4.3	–	–	–	–	5.5	–	82.1	**91.9**
Dividends paid	–	–	–	–	–	–	–	–	–	(81.7)	**(81.7)**
Adjustments in respect of revalued fixed assets	–	–	–	–	(1.1)	–	–	–	–	1.1	**–**
Shares purchased in share buyback	–	–	–	–	–	(125.5)	(46.6)	–	–	–	**(172.1)**
Sale of own shares	–	–	–	–	–	–	3.8	–	–	–	**3.8**
Own shares movement	–	–	–	–	–	–	16.1	–	–	(16.1)	**–**
Cancelled shares	(1.4)	–	–	–	–	179.3	–	–	1.4	(179.3)	**–**
Equity-settled share-based payments net of tax	–	–	–	–	–	–	–	–	–	14.7	**14.7**
Tax on revalued assets	–	–	–	–	2.7	–	–	–	–	5.1	**7.8**
At 1 January 2023	**23.8**	**545.6**	**4.3**	**326.5**	**12.1**	**–**	**(34.3)**	**9.6**	**1.4**	**1,213.2**	**2,102.2**
Profit for the year	–	–	–	–	–	–	–	–	–	38.1	**38.1**
Other comprehensive income for the year net of tax	–	–	(1.4)	–	–	–	–	(1.2)	–	(30.4)	**(33.0)**
Total comprehensive income for the year	–	–	(1.4)	–	–	–	–	(1.2)	–	7.7	**5.1**
Dividends paid	–	–	–	–	–	–	–	–	–	(82.1)	**(82.1)**
Adjustments in respect of revalued fixed assets	–	–	–	–	(1.3)	–	–	–	–	1.3	**–**
Own shares movement	–	–	–	–	–	–	20.2	–	–	(20.2)	**–**
Equity-settled share-based payments net of tax	–	–	–	–	–	–	–	–	–	14.6	**14.6**
Tax on revalued assets	–	–	–	–	–	–	–	–	–	0.5	**0.5**

At 31 December 2023	**23.8**	**545.6**	**2.9**	**326.5**	**10.8**	**–**	**(14.1)**	**8.4**	**1.4**	**1,135.0**	**2,040.3**

Consolidated cash flow statement

For the year ended 31 December 2023

£m	**2023**	2022
Cash flows from operating activities		
Operating profit	**109.9**	284.8
Adjustments for:		
Depreciation of property, plant and equipment	**80.3**	73.6
Depreciation of right-of-use assets	**91.1**	79.0
Amortisation of other intangibles	**4.6**	6.5
Amortisation of acquisition-related intangibles	**10.5**	10.5
Share-based payments	**14.6**	17.0
Gain on disposal of property, plant and equipment	**(15.1)**	(25.3)
Purchase of tool hire assets	**(7.8)**	(8.9)
Decrease / (increase) in inventories	**0.2**	(3.4)
Decrease / (increase) in receivables	**36.3**	(19.2)
(Decrease) in payables	**(58.7)**	(53.9)
Adjusting items payments less than / (greater than) the charge	**49.5**	(7.2)
Cash generated from operations	**315.4**	353.5
Interest paid and debt arrangement fees	**(31.0)**	(18.3)
Interest on lease liabilities	**(26.2)**	(21.5)
Income taxes paid	**(40.6)**	(57.6)
Net cash from operating activities	**217.6**	256.1
Cash flows from investing activities		
Interest received	**6.0**	1.4
Proceeds on disposal of property, plant and equipment	**69.1**	22.5
Purchase/development of computer software	**(2.9)**	(7.0)
Purchases of land and buildings	**(33.2)**	(38.0)
Purchases of other property, plant and equipment	**(97.9)**	(94.1)
Net cash outflow from investing activities	**(58.9)**	(115.2)
Cash flows from financing activities		
Shares purchased in share buyback	**–**	(172.1)
Sale of own shares	**–**	3.8
Repayment of lease liabilities	**(84.5)**	(78.8)
Payments to pension scheme	**(3.8)**	(3.7)
Dividends paid	**(82.1)**	(81.7)
Drawdown of borrowings	**100.0**	75.0
Repayment of bonds	**(180.0)**	(120.0)
Net cash used in financing activities	**(250.4)**	(377.5)
Net decrease in cash and cash equivalents	**(91.7)**	(236.6)
Cash and cash equivalents at 1 January	**223.2**	459.8
Cash and cash equivalents at 31 December (note 22)	**131.5**	223.2

Notes

1. The Group's principal accounting policies are set out in the 2022 Annual Report & Accounts, which is available on the Company's website www.travisperkinsplc.co.uk. All accounting policies have been applied consistently in 2023.

2. The Directors are recommending a final dividend of 5.5p in respect of the year ended 31 December 2023 (2022: 26.5p). The dividend will be paid on 9 May 2024 to shareholders on the register at the close of business on 2 April 2024. The Company's shares will go ex-dividend on 28 March 2024. The Company operates a Dividend Reinvestment Plan, elections for which must be received by the Company's registrar by 5.30pm on 17 April 2024.

3. The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2022 or 2023. The financial information for 2022 is derived from the statutory accounts for the year ended 31 December 2022 which have been delivered to the registrar of companies. The auditor has reported on the 2022 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for 2023 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies in due course.

4. This announcement was approved by the Board of Directors on 4 March 2024.

5. It is intended to post the Annual Report & Accounts to shareholders on 20 March 2024 and to hold the Annual General Meeting on 22 April 2024. Copies of the annual report prepared in accordance with IFRS will be available from the Company Secretary, Travis Perkins plc, Lodge Way House, Lodge Way, Harlestone Road, Northampton, NN5 7UG from 18 March 2024 and will be available on the Group's website at www.travisperkinsplc.co.uk.

6. **Revenue reconciliation and like-for like sales**

£m	Merchanting	Toolstation	**Total**
2022 revenue	4,219.8	775.0	**4,994.8**
Network change	(52.0)	(2.7)	**(54.7)**
Trading days	20.2	2.3	**22.5**
2022 like-for-like revenue	4,188.0	774.6	**4,962.6**
Like-for-like change	(185.5)	30.9	**(154.6)**
2023 like-for-like revenue	4,002.5	805.5	**4,808.0**
Network change	33.3	20.6	**53.9**
2023 revenue	4,035.8	826.1	**4,861.9**
Like-for-like revenue growth	(4.4%)	4.0%	**(3.1%)**
Total revenue growth	(4.4%)	6.6%	**(2.7%)**

Like-for-like sales are a measure of underlying sales performance for two successive periods. Branches and stores contribute to like-for-like sales once they have been trading for more than 12 months. Revenue included in like-for-like is for the equivalent times in both years being compared, including changes to the number of trading days. When branches close, revenue is excluded from the prior year figures for the months equivalent to the post-closure period in the current year.

7. Profit

a. Operating profit

	2023	2022
Revenue	**4,861.9**	4,994.8
Cost of sales	**(3,556.8)**	(3,610.1)
Gross profit	**1,305.1**	1,384.7
Selling and distribution	**(851.8)**	(816.4)
Administrative expenses	**(367.6)**	(324.5)
Profit on disposal of properties	**15.1**	25.3
Other operating income	**9.1**	15.7
Operating profit	**109.9**	284.8
Adjusted operating profit	**180.4**	295.3
Adjusted operating profit before property disposals	**165.3**	270.0

There are no gains or losses on the disposal of property, plant and equipment except for the profit on disposal of properties of £15.1m (2022: £25.3m).

b. Adjusted profit

£m	2023	2022
Profit before tax	**70.0**	245.0
Adjusting items (note 8)	**60.0**	–
Amortisation of acquired intangible assets	**10.5**	10.5
Adjusted profit before tax	**140.5**	255.5
Total tax	**(31.9)**	(52.8)
Tax on adjusting items	**(9.7)**	–
Tax on amortisation of acquired intangible assets	**(2.6)**	(2.6)
Adjusted profit after tax	**96.3**	200.1

Adjusted profit excludes adjusting items and amortisation of acquired intangible assets.

8. Adjusting items

£m	**2023**	2022
Restructuring	**16.8**	–
Benchmarx branch closures	**10.1**	–
Toolstation France impairments	**33.1**	–
	60.0	–

Restructuring

As part of the Group's strategy of simplifying how its businesses interact with each other and in response to the continued weakness in the construction market, the Group has commenced the restructuring of distribution, administrative and sales functions. The first steps in this programme were completed in 2023 with associated costs as follows:

- £5.4m of property and fixed asset impairment costs
- £11.4m of redundancy and other people costs

Benchmarx branch closures

A charge of £10.1m has been recognised in respect of the impairment of right-of-use assets and tangible fixed assets and the recognition of property-related provisions for 39 standalone Benchmarx branches. These branches were closed after the balance sheet date in February 2024.

Toolstation France impairment

Following a change in strategy, a charge of £33.1m was recognised as a result of the impairment review of the Toolstation France cash-generating unit. This charge consists of a £14.4m impairment of right-of-use assets, a £7.2m impairment of tangible fixed assets, a £9.6m impairment of goodwill and a £1.9m impairment of other intangible fixed assets.

9. Business segments

The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM"), which is considered to be the Board, to assess performance and allocate capital.

Segment result represents the result of each segment without allocation of certain central costs, finance costs and tax. Adjusted segment result is the result of each segment before adjusting items, the amortisation of acquired intangible assets and property profits. Unallocated segment assets and liabilities comprise financial instruments, current and deferred tax, cash, borrowings and pension scheme assets and liabilities.

Both operating segments sell building materials to a wide range of customers, none of which are dominant, and operate almost exclusively in the United Kingdom.

	2023			
£m	Merchanting	Toolstation	Unallocated	**Consolidated**
Revenue	4,035.8	826.1	–	**4,861.9**
Operating profit	198.9	(55.6)	(33.4)	**109.9**
Amortisation of acquired intangible assets	7.6	2.9		**10.5**
Adjusting items	20.9	38.3	0.8	**60.0**
Adjusted operating profit	227.4	(14.4)	(32.6)	**180.4**
Less property profits	(15.1)	–	–	**(15.1)**
Adjusted operating profit excluding property profits	212.3	(14.4)	(32.6)	**165.3**
Adjusted operating margin	5.6%	(1.7%)	–	**3.7%**
Average capital employed	2,262.9	612.9	(202.0)	**2,673.8**
Segment assets	2,943.0	764.6	317.5	**4,025.1**
Segment liabilities	(1,070.6)	(375.1)	(539.5)	**(1,985.2)**
Consolidated net assets	1,872.8	389.5	(222.0)	**2,040.3**
Capital expenditure	123.4	19.1	–	**142.5**
Capital expenditure excluding property	89.5	19.1	–	**108.6**
Amortisation of acquired intangible assets	7.6	2.9	–	**10.5**
Depreciation of fixed assets and software amortisation	67.8	17.1	–	**84.9**
Depreciation of right-of-use assets	56.8	34.3	–	**91.1**

£m	2022 Merchanting	Toolstation	Unallocated	**Consolidated**
Revenue	4,219.8	775.0	–	**4,994.8**
Operating profit	331.3	(11.8)	(34.7)	**284.8**
Amortisation of acquired intangible assets	7.6	2.9	–	**10.5**
Adjusted operating profit	338.9	(8.9)	(34.7)	**295.3**
Less property profits	(25.3)	–	–	**(25.3)**
Adjusted operating profit excluding property profits	313.6	(8.9)	(34.7)	**270.0**
Adjusted operating margin	7.4%	(1.1%)	–	**5.9%**
Average capital employed	2,181.3	572.9	(83.4)	**2,670.8**
Segment assets	2,959.1	743.8	433.6	**4,136.5**
Segment liabilities	(1,083.3)	(309.4)	(641.6)	**(2,034.3)**
Consolidated net assets	1,875.8	434.4	(208.0)	**2,102.2**
Capital expenditure	91.6	49.9	–	**141.5**
Capital expenditure excluding property	60.1	49.9	–	**110.0**
Amortisation of acquired intangible assets	7.6	2.9	–	**10.5**
Depreciation of fixed assets and software amortisation	65.6	14.6	–	**80.2**
Depreciation of right-of-use assets	49.5	29.5	–	**79.0**

10. Net finance costs

£m	**2023**	2022
Items in the nature of interest:		
Interest on bonds and other loans	(20.6)	(22.8)
Interest on bank facilities and overdrafts	(1.5)	(0.8)
Pension scheme SPV interest	(1.7)	(1.7)
Other finance costs:		
Amortisation of issue costs of bank loans	(1.5)	(1.5)
Unwinding of discounts – property provisions	(0.1)	(0.4)
Remeasurement:		
Net loss on remeasurement of derivatives at fair value	(0.2)	(0.3)
Loss on remeasurement of foreign exchange	(0.2)	-
Finance costs before lease interest	(25.8)	(27.5)
Interest on lease liabilities - property	(25.3)	(21.2)
Interest on lease liabilities - equipment	(0.9)	(0.3)
Finance costs	(52.0)	(49.0)

Items in the nature of interest:		
Interest receivable	5.7	1.8
Remeasurement:		
Net gain on remeasurement of foreign exchange	–	2.1
Other finance income – pension scheme	6.4	5.3
Finance income	12.1	9.2
Net finance costs	(39.9)	(39.8)

11. Tax

£m	**2023**	2022
Current tax:		
Current year	**33.0**	56.2
Prior year	**(6.1)**	1.4
Total current tax	**26.9**	57.6
Deferred tax:		
Current year	**(1.4)**	(2.5)
Prior year	**6.4**	(2.3)
Total deferred tax	**5.0**	(4.8)

Total tax charge	**31.9**	52.8

12. Pension schemes

£m	**2023** Gross assets	Gross obligations	**Net**	2022 Gross assets	Gross obligations	Net
Gross pension asset as at 1 January	1,097.4	(961.5)	**135.9**	1,742.2	(1,466.4)	275.8
Amounts recognised in income:						
Current service costs and administration expenses	(2.3)	–	**(2.3)**	(1.5)	(0.2)	(1.7)
Interest income / (interest cost)	51.5	(45.1)	**6.4**	33.4	(28.1)	5.3
Other movements:						
Contributions from sponsoring companies	1.4	–	**1.4**	1.5	–	1.5
Foreign exchange	0.2	(0.1)	**0.1**	0.8	(0.5)	0.3
Benefits paid	(44.1)	44.1	**–**	(50.4)	50.4	–
Amounts recognised in other comprehensive income:						
Return on plan assets (excluding amounts included in net interest)	(7.2)	–	**(7.2)**	(628.6)	_	(628.6)
Actuarial loss arising from changes in demographic assumptions	–	8.6	**8.6**	_	7.5	7.5
Actuarial gain arising from changes in financial assumptions	–	(20.4)	**(20.4)**	_	550.6	550.6
Actuarial gain arising from experience adjustments	–	(21.9)	**(21.9)**	_	(74.8)	(74.8)
Gross pension asset as at 31 December	1,096.9	(996.3)	**100.6**	1,097.4	(961.5)	135.9

13. Dividends

Amounts were recognised in the financial statements as distributions to equity shareholders as follows:

£m	**2023**	2022
Final dividend for the year ended 31 December 2022 of 26.5 pence (2021: 26.0 pence) per ordinary share	**55.8**	55.5
Interim dividend for the year ended 31 December 2023 of 12.5 pence (2022: 12.5 pence) per ordinary share	**26.3**	26.2
Total dividend recognised during the year	**82.1**	81.7

The Directors are recommending a final dividend of 5.5p in respect of the year ended 31 December 2023. The anticipated cash payment in respect of the proposed final dividend is £11.7m.

14. Earnings per share

a. Basic and diluted earnings per share

£m	**2023**	2022
Profit attributable to the owners of the parent	**38.1**	192.2
Weighted average number of shares for the purposes of basic earnings per share	**210,530,726**	211,630,413
Dilutive effect of share options on potential ordinary shares	**3,616,786**	3,789,212
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**214,147,512**	215,419,625
Earnings per share	**18.1p**	90.8p
Diluted earnings per share	**17.8p**	89.2p

A total of 620,310 share options (2022: 528,262 share options) had an exercise price in excess of the average market value of the shares during the year. As a result, these share options were excluded from the calculation of diluted earnings per share.

b. Adjusted earnings per share

Adjusted earnings per share is calculated by excluding the effect of adjusting items and amortisation of acquired intangible assets from earnings.

£m	**2023**	2022
Earnings for the purposes of earnings per share	**38.1**	192.2
Adjusting items	**60.0**	–
Amortisation of acquired intangible assets	**10.5**	10.5
Tax on adjusting items	**(9.7)**	–
Tax on amortisation of acquired intangible assets	**(2.6)**	(2.6)
Earnings for adjusted earnings per share	**96.3**	200.1
Adjusted earnings per share	**45.7p**	94.6p
Adjusted diluted earnings per share	**45.0p**	92.9p

15. Net debt

£m	Cash and cash equivalents, including overdraft	Leases	Term loan	Senior unsecured notes	Liability to pension scheme	Total
At 1 January 2022	**(459.8)**	**489.2**	**(1.5)**	**548.2**	**28.5**	**604.6**
Additions to leases	–	114.7	–	–	–	**114.7**
Disposals of leases	–	(12.5)	–	–	–	**(12.5)**
Cash flow	236.6	(100.3)	75.0	(120.0)	(3.7)	**87.6**
Finance charges and fees	–	–	(0.1)	0.8	-	**0.7**
Discount unwind on liability to pension scheme	–	–	–	–	1.9	**1.9**
Discount unwind on lease liabilities	–	21.5	–	–	-	**21.5**
At 1 January 2023	**(223.2)**	**512.6**	**73.4**	**429.0**	**26.7**	**818.5**
Additions to leases	–	185.5	–	–	–	**185.5**
Disposals of leases	–	(5.2)	–	–	–	**(5.2)**
Cash flow	91.7	(110.7)	–	(80.0)	(3.7)	**(102.7)**
Finance charges and fees	–	–	(1.9)	–	–	**(1.9)**
Discount unwind on liability to pension scheme	–	–	–	–	1.6	**1.6**
Discount unwind on lease liabilities	–	26.2	–	–	–	**26.2**
31 December 2023	**(131.5)**	**608.4**	**71.5**	**349.0**	**24.6**	**922.0**
Less: lease liability						**(608.4)**
Net debt before leases						**313.6**

16.Cash flow metrics

a. Free cash flow

£m	**2023**	2022
Adjusted operating profit	**180.4**	295.3
Less: Profit on disposal of properties	**(15.1)**	(25.3)
Adjusted operating profit excluding property profit	**165.3**	270.0
Share-based payments	**14.6**	17.0
Other net interest paid	**(25.0)**	(16.9)
Interest on lease liabilities	**(26.2)**	(21.5)
Income tax paid	**(40.6)**	(57.6)
Movement on working capital	**(22.2)**	(76.5)
Depreciation of property, plant and equipment	**80.3**	73.6
Amortisation and impairment of internally-generated intangibles	**4.6**	6.5
Capital expenditure excluding freehold purchases	**(108.6)**	(110.0)
Disposal of plant and equipment	**2.0**	10.1
Free cash flow	**44.2**	94.7

b. Cash conversion

£m	**2023**	2022
Adjusted operating profit excluding property profit	**165.3**	270.0
Movement on working capital	**(22.2)**	(76.5)
Depreciation of property, plant and equipment	**80.3**	73.6
Amortisation and impairment of internally-generated intangibles	**4.6**	6.5
Share-based payments	**14.6**	17.0
Capital expenditure excluding freehold purchases	**(108.6)**	(110.0)
Adjusted free cash flow for cash conversion	**134.0**	181.6
Cash conversion	**81%**	67%

17.Return on capital employed

Group return on capital employed is calculated as follows:

£m	**2023**	2022
Operating profit	**109.9**	284.8
Amortisation of acquired intangible assets	**10.5**	10.5
Adjusting items	**60.0**	-
Adjusted operating profit	**180.4**	295.3

Opening net assets	2,102.2	2,237.8
Net pension surplus	(102.0)	(207.0)
Net debt	818.5	604.6
Opening capital employed	2,818.7	2,635.4
Closing net assets	2,040.3	2,102.2
Net pension surplus	(75.5)	(102.0)
Net debt	922.0	818.5
Closing capital employed	2,886.8	2,818.7
Average capital employed	2,852.8	g2,727.1

Group return on capital employed is calculated as follows:

£m	**2023**	2022
Adjusted operating profit	180.4	295.3
Average capital employed	2,852.8	2,727.1
Return on capital employed	6.3%	10.8%

18.Net debt to adjusted EBITDA

£m	**2023**	2022
Operating profit	**109.9**	284.8
Depreciation and amortisation	**186.5**	169.6
Adjusting operating items	**60.0**	–
Adjusted EBITDA	**356.4**	454.4
Net debt	**922.0**	818.5
Net debt to adjusted EBITDA	**2.6x**	1.8x