28 February 2023

Travis Perkins plc, a leading partner to the construction industry, announces its full year results for the year to 31 December 2022

A resilient trading performance in rapidly changing market conditions

Financial Highlights

- Robust revenue growth of 8.9% with elevated levels of materials cost inflation diligently managed
- Adjusted operating profit of £295m, impacted principally by lower year-on-year property profits and a £15m charge related to restructuring activities in Q4
- Adjusted earnings per share of 94.6p with lower operating profit partially offset by reduced share count
- Proactive cost actions to deliver benefits of around £25m in 2023
- Good cash conversion at 67%; lease-adjusted leverage (net debt / EBITDA) of 1.8x remains comfortably within target range
- Total ordinary dividend increased to 39.0 pence per share (2021: 38.0 pence per share)

Operational Highlights

- Solid performance in the Travis Perkins General Merchant, with further share gains, driven by focus on enhancement of digital capability and expansion of value-added services primarily across Hire, Benchmarx kitchens and Managed Services
- Continued strong performance from the Group's specialist distributors – BSS, Keyline and CCF. Staircraft now integrated and enhancing the Group's housebuilder proposition.
- Toolstation returned to good growth in H2 after tough prior year comparatives in H1. Significant investment in expanding infrastructure across both the UK and Europe.
- Positive progress towards sustainability targets, notably a 34% reduction in Scope 1 & 2 carbon emissions during the year

£m *(unless otherwise stated)*	*Note*	**2022**	2021*	*Change*
Revenue	*6*	**4,995**	4,587	*8.9%*
Adjusted operating profit[1]	*7a*	**295**	353	*(16.4)%*
Adjusted operating profit excluding property profits and restructuring charge[1]		**285**	304	*(6.3)%*
Adjusted earnings per share[1]	*15b*	**94.6p**	107.3p	*(11.8)%*
Adjusted ROCE[1]	*18*	**10.8%**	14.1%	*(3.3)ppt*
Adjusted ROCE excluding property profits and restructuring charge[1]		**10.5%**	12.1%	*(1.6)ppt*
Net debt / adjusted EBITDA[1]	*19*	**1.8x**	1.2x	(0.6)x
Ordinary dividend per share	*14*	**39.0p**	38.0p	*2.6%*
Operating profit		**285**	349	*(18.3)%*
Total profit after tax		**192**	241	*(20.3)%*
Basic earnings per share	*15a*	**90.8p**	103.9p	*(12.6)%*

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

* For continuing businesses only. The Retail and Plumbing & Heating segments are treated as discontinued operations.

Nick Roberts, Chief Executive Officer, commented:

"The Group delivered a resilient trading performance in 2022 which is testament to the capability of our colleagues and the strength of our market leading propositions. I would like to thank our teams for their hard work throughout the year and their flexibility to meet customer needs amidst rapidly changing market dynamics.

In the second half of the year we made some difficult decisions in response to the weaker trading environment and we continue to be watchful of market trends, working closely with our customers and suppliers to stay on the front foot. Investment continues in our strategic growth programmes including selectively exploring new destination branches for the Travis Perkins General Merchant, rolling out Toolstation in both the UK and Europe and investing in growing our value-added services, notably Hire, Benchmarx kitchens and our Staircraft business, always being mindful to flex the pace of the programme to reflect market conditions.

Whilst it is early in the year and macroeconomic uncertainty remains, the combination of our diverse end market exposure, appropriate cost actions and further market share gains driven by continued strategy execution, will enable the Group to deliver another resilient trading performance in the year ahead.

As a market-leading distributor of building materials products, we continue to benefit from long-term strategic growth drivers in our markets including new environmental and safety legislation and commitments from both public and private sector customers to deliver against net zero targets. We are committed to being at the forefront of both decarbonising the construction industry alongside developing the next generation of talent to create value for all of our stakeholders."

Analyst Presentation

Management are hosting a results presentation at 8.30am. 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://stream.brrmedia.co.uk/broadcast/63caa8e1777efd4a8b51373b

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Summary

2022 was a challenging year and the Group adapted well to rapidly changing market conditions, making further progress towards its ambition of being the leading partner to the construction industry. The Group will continue to balance delivery of near-term performance with longer term strategic objectives as it focuses on outperforming its end markets and generating strong cash flow to invest in strategic initiatives and provide attractive returns to shareholders.

2022 Performance

The Group delivered a resilient performance with revenue of £4,995m, up 8.9% versus 2021. The Merchanting businesses delivered further market share gains and Toolstation returned to good growth in the second half of 2022 following tough comparatives in the first half. The Group again demonstrated its ability to recover significant levels of materials cost inflation and continues to benefit from its diverse end market exposure.

While adjusted operating profit of £295m was £(58)m, or (16)%, lower than in 2021, this was predominantly driven by lower year on year property profits (£(24)m) and £(15)m of restructuring charges associated with the Group's cost reduction actions. Despite two fewer trading days (impacting operating profit by around £(9)m), the Merchanting segment improved its underlying operating profit performance with further market share gains. Although second half performance was good, full year operating profit in Toolstation was significantly lower than prior year as the business faced very challenging first half comparatives and continued to invest in its distribution and network capability across both the UK and Europe to underpin future growth.

As outlined in the September 2021 strategic update, the Group is focusing on elevating relationships with customers through the growth of value-added services. This approach is paying dividends with the value-added services representing around 16% of Group revenue.

Maintaining operational agility and discipline in capital allocation

With the expectation of lower levels of activity in the UK construction sector in the year ahead, management implemented a number of cost reduction actions in Q4 2022 to ensure that the Group's cost base appropriately reflects the trading environment. These actions are expected to deliver around £25m of cost savings in 2023 with the cost to achieve those savings, of around £15m, recognised in 2022.

These actions resulted in the closure of 19 branches in the General Merchant and Benchmarx and a headcount reduction of approximately 400 across those branches and central support functions. These changes represent an acceleration of plans to modernise the business by exiting smaller branches and continuing to invest in larger, more capable, destination branches which incorporate value-added services such as Hire and kitchen showrooms.

The Group also flexed its capital investment programme in the year to reflect the trading environment with spend being around £15m lower than medium term guidance (of £125m p.a.). This prudent approach will continue into 2023 with capital spend anticipated to be c. £25m lower than medium term guidance at around £100m.

Capital structure and shareholder returns

The Group has 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 investment grade credit metrics. The Group's balance sheet remains strong with year-end net debt / adjusted EBITDA in the middle of the target range at 1.8x, leaving the Group well positioned to navigate the current uncertain market conditions. The current leverage position, together with the cash generative nature of the business, allows the Group scope to continue to invest in driving future growth while also returning surplus capital to shareholders when towards the lower end of this target range.

Given the strong balance sheet position and confidence in the prospects for the Group, the Board has proposed an increase in the dividend to 39.0 pence per share (2021: 38.0 pence per share).

Outlook

Management is mindful of the current macroeconomic uncertainty and, in line with industry forecasts, is planning for a decline in overall market volumes in the mid to high single digit range in 2023. This will vary across end markets with private domestic new-build and RMI more challenged while the commercial, industrial and public sectors are expected to remain more resilient.

Product cost inflation is expected to moderate into 2023 although Management does not currently expect to see any notable deflation in manufactured products. Management therefore expects to see mid to high single digit percentage product cost inflation overall driven by the rollover of prior year increases and further new increases already announced so far this year.

Whilst the expected market dynamics point to a challenging year ahead, Management continues to anticipate delivering a performance in line with market expectations. The actions taken to create a more agile business, with broad end market exposure, enable management to remain confident in the Group's ability to outperform its markets and deliver attractive returns to shareholders over the medium term.

Technical guidance

The Group's technical guidance for 2023 is as follows:

- Effective tax rate of 25%
- Base capital expenditure of around £100m
- Property profits of around £20m

Segmental performance

Merchanting

	2022	2021	*Change*
Revenue	**£4,220m**	£3,826m	*10.3%*
Adjusted operating profit*	**£314m**	£320m	*(1.9)%*
Adjusted operating profit excluding restructuring charges*	**£329m**	£320m	*2.8%*
Adjusted operating margin*	**7.4%**	8.4%	*(100)bps*
Adjusted operating margin excluding restructuring charges*	**7.8%**	8.4%	*(60)bps*
ROCE**	**15%**	16%	*(1)ppt*
Branch network	**767**	781	*(14)*

** Excluding property profits*

The Merchanting segment delivered a robust performance overall with revenue up by 10.3% and growth in operating profit** of 2.8% to £329m. After significant price increases during 2021, driven by a rapid post-pandemic recovery in demand, price inflation continued to accelerate through 2022 before moderating slightly in the fourth quarter. Increases were mainly driven by manufacturers passing through rising energy costs with prices increasing by around 15% in H1, rising to around 17% in H2. The Merchanting businesses have again managed these challenges well through proactive engagement with customers and providing transparency.

Since 2018, the significant programme of work to evolve the customer proposition and empower the branch teams has delivered strong financial benefits. Supported by a rationalisation of the network and much improved data to aid in-branch decision making, operating profit has grown by 18%**, £95m of capital has been removed and ROCE has moved forward by 280 bps**. The Group is confident in its ability to make further progress on these metrics.

From an end-market perspective, the Merchanting segment benefits from broad exposure providing a degree of insulation from volatility in any one end market.

The Private domestic RMI market represents approximately 35% of Merchanting revenue and is primarily serviced by the Group's General Merchant business working with smaller trade customers. Following a strong start to the year, volume performance weakened against a tough comparator period and this was exacerbated in the second half by high levels of materials inflation and increasing macroeconomic uncertainty, leading to home-owners delaying or reducing the scope of improvement work. The challenging backdrop seen in the second half of the year is expected to continue into 2023.

For the smaller trade customer the focus remains on the core elements of service. For account customers the number of managed accounts has been increased and for non-account customers, who are more transient in nature, further improvements have been made to ensure transparent and consistent pricing, complemented by the right range and depth of stock in branch. These improvements have been backed up by further investments in our hire fleet and sales team, driving increased penetration, and in our digital proposition.

The private domestic new-build market represents approximately 19% of Merchanting revenue and is primarily serviced by Keyline, CCF and Staircraft working with national and regional housebuilders. The businesses engage at different stages of the build process with Keyline typically first on site and CCF and Staircraft delivering at a later stage of the process. While the housing market slowed later in H2, this did not feed through notably into volumes as completions continued but is expected to be seen in 2023 with new housing starts currently forecast to slow.

Within this sector, the Group continues to enjoy long standing partnerships with the major national housebuilders and to focus growth initiatives on the regional housebuilder market where the introduction of Staircraft and the development of the Benchmarx proposition are providing customers with innovative solutions to reduce waste, complexity and the need for specialist labour. CCF and Keyline continue to enhance their proposition in this market by using newly developed data and delivery management capability to provide data on embodied carbon which is helping customers to address changing preferences, manage projects more effectively and win work.

The commercial and industrial market represents approximately 22% of Merchanting revenue and incorporates new build and refurbishment activity across offices, warehouses, multi occupancy and student accommodation alongside industrial maintenance. The market is primarily serviced by the Group's BSS and CCF businesses. This sector held up well during the year with a post-pandemic backlog of work remaining and an increasing requirement for logistics space and office remodelling, a trend that is expected to continue.

The public sector market represents approximately 24% of Merchanting revenue and covers projects across infrastructure, public assets such as schools, hospitals and prisons, and social housing maintenance. The market is primarily serviced by the Group's BSS, Keyline and Travis Perkins Managed Services businesses. Demand remained robust in this market throughout the year with ongoing government backing for investment in public buildings and infrastructure alongside the continued catch up in social housing maintenance and the impact of tighter legislation on social housing standards. These factors are expected to continue to support demand into next year.

Adjusted operating margin** reduced by (60)bps as a result of the dilutive effect of very high levels of inflation on the gross margin percentage and also a shift in customer mix towards larger accounts where gross margins are lower. Although the Merchant businesses experienced high levels of overhead inflation, with significant increases in payroll, utility and fuel costs leading to overall overhead inflation of around 7%, this was proactively managed and the cost to serve percentage remained in line with prior year.

*** Excluding £15m restructuring charge in 2022*

Toolstation

	2022	2021	*Change*
Revenue	**£775m**	£761m	*1.9%*
Like-for-like growth	**(3.7)%**	12.3%	
Adjusted operating profit	**£(9)m**	£22m	*(140.9)%*
Adjusted operating margin	**(1.1)%**	2.9%	*(400)bps*
ROCE	**(2)%**	5%	*(7)ppt*
Branch network (UK)	**563**	530	*33*
Branch network (Europe)	**158**	123	*35*
Memo: UK adjusted operating profit	**£21m**	£42m	*(50.0)%*

Overall, 2022 proved a challenging year for Toolstation as financial performance reflected further significant investment in network and distribution capabilities to build the business for the future alongside lower DIY-related volumes following exceptional sales during the pandemic. Performance improved through the year with revenue growth in H2 of 8.9% compared to a fall of (4.6%) in H1.

UK adjusted operating profit fell to £21m given the volume impact, continued infrastructure investment and overhead inflationary pressures. Toolstation will continue to focus its propositional development on the trade customer base given the higher frequency of orders, larger basket size and better product mix which provide a more predictable revenue stream and a larger market opportunity.

A further 33 branches were added to the UK network during 2022 taking the total to 563. Reflecting macroeconomic conditions, the pace of rollout was slowed and this will also be the case in 2023 with around 10 new branches planned to open. Having opened 268 new branches since 2017, only around half of the network is mature and, with new branches continuing to perform at least in line with mature cohorts, these branches have the potential to add over £300m of revenue over the next five years.

The Group has invested £28m to date (£17m in 2022) in a new c. 500,000 square foot distribution centre in Pineham, Northamptonshire which incorporates automation technology and will initially provide the capability to fulfil direct to customer orders. The facility is due to be fully operational by the second half of 2023 and is an important strategic investment both to support revenue growth and increase operational efficiency.

The European business saw very similar dynamics in terms of both revenue and operating profit performance. Benelux continues to progress well and, with 27 further branches added to take the total to 113, is approaching the "critical mass" required to take the business into profitability. During the year the Group also invested in a second distribution facility in the Netherlands with around 200,000 square feet of capacity which will provide the capability to build the network out to around 250 branches. In France, where sales grew by 50%, 8 new branches were added to take the total to 45 as the business continues to refine the customer service proposition alongside optimising the choice of location and local market plans.

With the European business investing for the future and also experiencing similar volume dynamics as the UK, losses for the year were £30m. A similar outcome is expected in 2023 although this will reflect narrowing losses in the Netherlands and the impact of increased investment in France and Belgium.

Central costs

Central costs reduced by £3m year-on-year due principally to lower management incentive payments.

Property

The Group generated a property profit of £25m in the year, in line with the long run average, with £12m of cash proceeds. The majority of the profit relates to a site sold in Cambridge for which consideration of £22m is deferred to 2023 / 24.

For 2023 the Group expects property profits of around £20m with cash receipts in excess of that figure.

Building for better

Recognising the impact that the sharply increasing cost of living in the UK had on colleagues, the Group offered financial wellbeing advice and support and additional benefits where possible as well as maintaining a strong focus on building a safety culture where everyone returns home safe and well every day.

Looking externally, in 2022 the Group undertook an in-depth ESG materiality assessment, engaging with stakeholders to deepen the Group's understanding of the ESG issues that matter most to a range of different audiences. While the assessment confirmed that the focus areas within the previous framework remain relevant, it demonstrated that carbon is the principal issue for stakeholders, making it the Group's sustainability priority moving forwards.

In 2021, the Group set out targets for reduction in Scope 1, 2 and 3 carbon that were approved by the Science-Based Target initiative ("SBTi") as being in line with a 1.5˚ pathway as below:

- A commitment to reduce Scope 1 and 2 carbon (relating to the Group's fleet and estate) by 80% by 2035, offsetting any remaining emissions thereafter
- On Scope 3, which represents 99% of the Group's footprint, targeting a 63% carbon reduction in the Group's supply chain emissions by 2035, primarily focused on purchased goods and services (manufactured carbon) and the in-use emissions of goods sold

Further information, including the Group's roadmaps to 2035 for scopes 1, 2 and 3, can be found on its corporate website (https://www.travisperkinsplc.co.uk).

With regards to progress on carbon reduction during the year, the Group made excellent progress with Scope 1 & 2 footprint reduced by 34%, which is a 35% reduction against the 2020 baseline. Scope 3 carbon reduced by 2% year-on-year and 54% of product spend was with suppliers who are engaged on carbon.

The Group set interim targets for 2027 during the year with plans in place to reduce carbon by 40% across the Group's property portfolio and by 27% across the Group's fleet, both against the 2020 baseline.

The Group has also set out an ambitious target to upskill both its people and those across the wider sector in Green and Future skills with 10,000 graduated apprentices by 2030. During the year the Group saw its 1,000th apprentice graduate and, as part of the overall programme, is now the Early Careers and Apprenticeship provider to the Builders Merchant Federation with 340 people from outside the Group enrolled on a Travis Perkins delivered apprenticeship.

Financial Performance

Revenue analysis

As revenue comparatives normalised post the impacts of the pandemic, the Merchanting business and Toolstation saw contrasting dynamics though 2022.

The Merchanting business saw robust overall revenue growth driven by price inflation which accelerated rapidly through the year before slightly moderating in the fourth quarter. With the Merchanting pricing model largely based around the pass through of materials cost price inflation, as manufacturer increases picked up from the second quarter onward (due primarily to energy cost increases), this fed through into sales price inflation as the Merchant businesses passed through these increases in a disciplined manner.

Overall volumes weakened sequentially throughout the year, notably in the smaller customer segment of the private domestic RMI market, with the impact of inflation, normalisation of comparatives from a very strong market in 2021 and concerns over project affordability weighing on sentiment.

Toolstation experienced significant volume decline in the first half as the business cycled pandemic impacted comparatives before returning to solid revenue growth in the second half with volumes broadly flat. Whilst the impact of materials cost inflation was not as pronounced on lightside products as on heavyside, inflation was still notable at around 9%. The Toolstation team have had to carefully balance the requirement to recover materials cost inflation with the desire to maintain value leadership with recent performance demonstrating that this has been managed well.

Merchanting revenue was 14% ahead of 2019 levels. Taking into account the reduction in space due to the 2020 restructuring and three-year cumulative inflation, Merchanting volumes were broadly in line with 2019. Toolstation revenues are around 74% ahead of 2019. On a similar basis and adjusting for the impact of consolidating Toolstation Europe, volumes are around 45% higher than 2019.

Volume, price and mix analysis

	Merchanting	Toolstation	Group
Volume	(5.8)%	(7.1)%	(6.0)%
Price and mix	16.1%	9.0%	14.9%
Total revenue growth	**10.3%**	**1.9%**	**8.9%**
Network changes and acquisitions / disposals	(2.4)%	(5.9)%	(3.0)%
Trading days	0.8%	0.3%	0.7%
Like-for-like revenue growth	**8.7%**	**(3.7)%**	**6.6%**

Quarterly revenue analysis

		Total revenue*		Like-for-like revenue	
		2022	**2021**	**2022**	**2021**
Merchanting	Q1	17.9%	5.7%	15.3%	15.7%
	Q2	9.2%	87.8%	8.5%	94.1%
	H1	**13.3%**	**37.5%**	**11.7%**	**47.3%**
	Q3	11.5%	15.1%	8.7%	15.2%
	Q4	4.7%	13.6%	2.3%	11.9%
	H2	**7.3%**	**14.4%**	**5.6%**	**13.7%**
	FY	**10.3%**	**24.8%**	**8.7%**	**28.2%**
Toolstation	Q1	(6.0)%	49.8%	(11.9)%	42.1%
	Q2	(3.2)%	29.0%	(9.2)%	19.7%
	H1	**(4.6)%**	**38.7%**	**(10.6)%**	**29.8%**
	Q3	6.1%	9.1%	0.2%	1.4%
	Q4	12.7%	1.7%	7.2%	(5.1)%
	H2	**8.9%**	**5.3%**	**3.7%**	**(2.0)%**
	FY	**1.9%**	**20.2%**	**(3.7)%**	**12.3%**
Total Group	Q1	13.6%	11.5%	10.5%	19.5%
	Q2	7.1%	74.6%	5.6%	76.9%
	H1	**10.3%**	**37.7%**	**7.9%**	**44.1%**
	Q3	10.7%	14.1%	7.4%	13.1%
	Q4	6.0%	11.4%	3.1%	8.8%
	H2	**7.5%**	**12.8%**	**5.3%**	**11.0%**
	FY	**8.9%**	**24.0%**	**6.6%**	**25.4%**

** Trading day adjusted*

Operating profit

£m	**2022**	**2021**	**Change**
Merchanting	314	320	*(1.9)%*
Toolstation	(9)	22	*(140.9)%*
Property	25	49	*(49.0)%*
Unallocated costs	(35)	(38)	*7.9%*
Adjusted operating profit	**295**	**353**	***(16.4)%***
Amortisation of acquired intangible assets	*(10)*	*(11)*	
Adjusting items	-	*7*	
Operating profit	**285**	**349**	

Adjusted operating in 2022 is stated after £15m of restructuring charges in the Merchanting segment.

There were no adjusting items in the year. During 2021, the Group successfully exited the leases on a number of branches closed in 2020 for less than the contractual lease liability, which generated a net credit to adjusting items of £7m.

Finance charge

Net finance charges, shown in note 10 were £40m (2021: £43m) with the reduction primarily due to favourable foreign exchange movements.

Taxation

The tax charge for 2022 was £53m (2021: £65m excluding discontinued operations).

The tax charge for the year gives an effective tax rate ("ETR") of 21.6% (standard rate 19%, 2021 actual 19.7%). The ETR rate is higher than the standard rate due to the effect of expenses not deductible for tax purposes, the largest items being the depreciation of property and unutilised overseas losses.

Earnings per share

The Group reported a total profit after tax of £192m (2021: £241m, excluding discontinued operations) resulting in basic earnings per share of 90.8 pence (2021: 103.9 pence, excluding discontinued operations). Diluted earnings per share were 89.2 pence (2021: 102.6 pence excluding discontinued operations).

Adjusted profit after tax was £200m (2021: £249m) resulting in adjusted earnings per share (note 20(b)) of 94.6 pence (2021: 107.3 pence). Diluted adjusted earnings per share were 92.9 pence (2021: 105.9 pence).

Cash flow and balance sheet

Free cash flow

£m	2022	2021	Change
Group adjusted operating profit excluding property profits	**270**	304	(34)
Depreciation of PPE and other non-cash movements	97	98	(1)
Change in working capital	(76)	(152)	76
Net interest paid (excluding lease interest)	(17)	(14)	(3)
Interest on lease liabilities	(21)	(21)	0
Tax paid	(58)	(60)	2
Adjusted operating cash flow	**195**	155	40
Capital investments			
Capex excluding freehold transactions	(110)	(95)	(15)
Proceeds from disposals excluding freehold transactions	10	5	5
Free cash flow before freehold transactions	**95**	65	30

The Group delivered good free cash flow conversion of 67% in the year (2021: 51%). This included a working capital increase of £76m which was largely driven by a decrease in trade creditors. Stock and debtors were well controlled given the impact of high inflation with debtor days reducing by one day and stock volumes reducing by a double-digit percentage, partly attributable to high levels held in prior year given supply chain concerns but also reflective of tight stock management.

Capital investment

£m	2022	2021
Strategic	75	66
Maintenance	28	20
IT	7	9
Base capital expenditure	**110**	**95**
Freehold property	38	81
Gross capital expenditure	**148**	**176**
Disposals	(23)	(82)
Net capital expenditure	**125**	**94**

Base capital expenditure in cash terms was £15 higher than the prior year as the Group continued to invest in the strategic properties set out in 2021. The total expenditure was below medium-term guidance (of £125m p.a.) which reflects a more cautious approach during the second half with greater macroeconomic uncertainty.

In line with the Group's plan for growth, strategic capex was almost exclusively focused on Toolstation (70 new branches and distribution centre investments in the UK and the Netherlands), Travis Perkins General Merchant new branches and investment in the Group's value-added services offerings, primarily Benchmarx and Hire.

Maintenance capex increased by £8m but this was principally a result of 2021 being well below the long-run average due to the redeployment of fleet assets from the 2020 restructuring programme in lieu of new purchases.

With regards to freehold property activity, 2021 was an exceptional year as the cash generated from the sale of properties vacated as part of the restructuring programme was recycled into new Merchant branches. With property activity returning to more normal levels in the year, the Group continued with this value-generative approach to managing its property portfolio, using proceeds generated to primarily purchase the freeholds of several General Merchant branches in the South-East of England to protect these key trading assets for the future.

Uses of free cash flow

	2022	2021	Change
Free cash flow (£m)	**95**	**65**	**30**
Investments in freehold property	(38)	(81)	43
Disposal proceeds from freehold transactions	12	78	(66)
Acquisitions / disposals	-	249	(249)
Dividends paid	(82)	(105)	23
Net purchase / sale of own shares	(172)	(70)	(102)
Cash payments on adjusting items	(7)	(33)	26
Drawdown of borrowings	75	-	75
Repayment of bonds	(120)	-	(120)
Other	-	(150)	150
Change in cash and cash equivalents	**(237)**	**(47)**	**(190)**

Cash and cash equivalents reduced by £237m in the year which was predominantly a result of c. £170m of share repurchases funded by the sale of the Group's Plumbing & Heating business in 2021 (the proceeds from which are reflected in the prior year disposals, net of the acquisition cost of Staircraft).

The remainder of the movement principally relates to £120m of bonds being repurchased early via a tender offer as part of the Group's ongoing management of its debt maturity profile due to advantageous market conditions. These bonds have been partly replaced by a £75m term loan with details of this facility outlined below. The "Other" category in the prior year contains around £130m of cash used to capitalise the Wickes business upon demerger.

Dividend payments returned to normal levels in the year. The prior year reflected a special dividend following the sale of the Plumbing & Heating Business and only an interim payment following the temporary suspension of the dividend during the worst of the pandemic in 2020.

Net debt and funding

	31 Dec 2022	31 Dec 2021	Change	Covenant
Net debt under IFRS 16	£819m	£605m	£(214)m	
IFRS 16 net debt / adjusted EBITDA	1.8x	1.2x	(0.6)x	
Covenant metrics*				
Covenant net debt	£279m	£87m	£(192)m	
Covenant net debt / EBITDA	0.8x	0.2x	(0.6)x	<3.0x

**All covenant metrics measured pre IFRS16*

Covenant net debt increased by £192m across the year to £279m. As noted above, this movement is principally a result of the 2021 closing position including c. £170m of net proceeds from the sale of the Plumbing & Heating business which were returned to shareholders via the share buyback programme during 2022.

Funding

As at 31 December 2022, the Group's committed funding of £905m comprised:

- £180m guaranteed notes due September 2023, listed on the London Stock Exchange
- £250m guaranteed notes due February 2026, listed on the London Stock Exchange
- £75m bilateral bank loan due August 2027
- A revolving credit facility of £400m, refinanced in January 2019, of which £54m matures in January 2024 and the remaining £346m matures in April 2025

As at 31 December 2022, the Group had undrawn committed facilities of £400m (2021: £400m) and deposited cash of £194m (2021: £435m), giving overall liquidity headroom of £594m.

In April 2022, the Group completed a tender offer on the 2023 guaranteed notes, repurchasing £120m principal amount of notes which were subsequently cancelled.

In August 2022, the Group entered into a £75m five-year bilateral loan with one of its relationship banks, pari passu with existing facilities. The bilateral loan bears a floating interest rate, which was fixed at the point of issuance via an interest rate swap.

The Group's credit rating from Fitch Ratings was affirmed at BBB- with stable outlook following a review in October 2022.

Principal risks and uncertainties

Risk management is integral to building the Group's resilience and supporting delivery of its strategic objectives, which will both protect and create stakeholder value. Heightened uncertainty in the external environment, alongside the need to successfully implement a number of transformational programmes internally, drive an increasingly dynamic risk landscape for the Group to navigate, underlining the importance of maintaining effective and timely risk management processes.

The Group's risks are regularly reviewed and reassessed through a process that considers both internal and external factors. Based on the latest review, the Directors have made the following changes to the principal risk set:

- The **Pandemic** risk has been removed from the principal risk set given the Group has developed proven ways of working to continue to operate whilst promoting the safety and wellbeing of colleagues, customers and suppliers. The Group remains vigilant in the ongoing assessment of, and response, to public health concerns. The ongoing impact of the pandemic on global markets is considered within the Macroeconomic Volatility risk.
- A **Macroeconomic Volatility** risk was introduced in 2021 in light of availability challenges and early signs of inflation. Whilst the former has resolved in 2022, this risk has been reshaped to focus on the uncertain and volatile macroeconomic and geopolitical environment, which the Group is not alone in facing. The Directors consider this to present a high level of inherent risk to the Group with an increasing risk trend, although action has been taken on many fronts during 2022 to manage and mitigate the impacts.

Accordingly, the 2022 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.

For the principal risks brought forward from 2021, the Directors consider the risk trend to be stabilising in relation to critical asset failure and climate change & carbon reduction. All other risk trends are unchanged.

Emerging risks, which are known risks that are currently difficult to fully assess and/or quantify, are also regularly considered and monitored by the Directors. The potential for an escalation of conflict in Europe in relation to the war in Ukraine continues to be monitored as an emerging risk, with the potential to impact sourcing and supply. During 2022 the Board also considered potential emerging risks related to international relations with China and renewed calls for a referendum on Scottish Independence.

Consolidated income statement

For the year ended 31 December 2022

	Notes	2022	2021
Revenue	6	**4,994.8**	4,568.7
Adjusted operating profit	7(a)	**295.3**	352.8
Adjusting items	8	**–**	6.8
Amortisation of acquired intangible assets		**(10.5)**	(11.1)
Operating profit	7(a)	**284.8**	348.5
Interest on lease liabilities		**(21.5)**	(21.1)
Other finance costs	10	**(27.5)**	(25.7)
Finance income	10	**9.2**	3.9
Profit before tax	7(b)	**245.0**	305.6
Adjusting items – deferred tax		–	**(4.7)**
Tax on adjusting items		–	**(1.6)**
Other tax		**(52.8)**	(58.5)
Total tax	11	**(52.8)**	**(64.8)**
Profit from continuing operations		**192.2**	240.8
Profit from discontinued operations	12	**–**	38.1
Profit for the year		**192.2**	278.9

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

	Notes	2022	2021
Earnings per ordinary share			
Adjusted basic earnings per share	15(b)	**94.6p**	107.3p
Basic			
- from continuing operations	15(a)	**90.8p**	103.9p
- total	15(a)	**90.8p**	120.3p
Diluted			
- from continuing operations	15(a)	**89.2p**	102.6p
- total	15(a)	**89.2p**	118.8p

Consolidated statement of comprehensive income

For the year ended 31 December 2022

£m	Notes	2022	2021
Profit for the year		**192.2**	278.9
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss) / gain on defined benefit pension schemes	13	**(145.3)**	94.9
Income tax relating to other comprehensive income		**36.3**	(34.3)
Items that may be reclassified subsequently to profit and loss:			
Foreign exchange differences on retranslation of foreign operations		**5.5**	2.9
Fair value gains on cash flow hedges		**4.3**	–
Deferred tax on cash flow hedges		**(1.1)**	–
Total other comprehensive (loss) / income for the year net of tax		**(100.3)**	63.5
Total comprehensive income for the year		**91.9**	342.4

Total comprehensive income for the year attributable to the owners of the Company arises from:		
Continuing operations	**91.9**	304.3
Discontinued operations	**–**	38.1
	91.9	342.4

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

Consolidated balance sheet

As at 31 December 2022

£m	2022	2021
Assets		
Non-current assets		
Goodwill	**859.0**	853.0
Other intangible assets	**115.9**	125.7
Property, plant and equipment	**847.3**	800.1
Right-of-use assets	**451.7**	439.8
Long term prepayments and other receivables	**17.2**	0.7
Deferred tax asset	**15.0**	13.9
Derivative financial instruments	**4.3**	–
Retirement benefit asset	**135.9**	275.8
Total non-current assets	**2,446.3**	2,509.0
Current assets		
Inventories	**727.8**	724.4
Derivative financial instruments	**–**	0.2
Trade and other receivables	**725.9**	706.7
Tax debtor	**0.7**	–
Cash and cash equivalents, excluding bank overdrafts	**235.7**	459.8
Total current assets	**1,690.1**	1,891.1
Total assets	**4,136.4**	4,400.1
Equity and liabilities		
Capital and reserves		
Issued share capital	**23.8**	25.2
Share premium account	**545.6**	545.6
Cash flow hedge reserve	**4.3**	–
Merger reserve	**326.5**	326.5
Revaluation reserve	**12.1**	10.5
Own shares	**(34.3)**	(61.4)
Foreign exchange reserve	**9.6**	4.1
Other reserves	**1.4**	–
Retained earnings	**1,213.2**	1,387.3
Total equity	**2,102.2**	2,237.8
Non-current liabilities		
Interest-bearing loans and borrowings	**349.1**	575.2
Lease liabilities	**438.3**	414.7
Deferred tax liabilities	**96.0**	140.4
Long-term provisions	**4.9**	6.8
Total non-current liabilities	**888.3**	1,137.1
Current Liabilities		
Interest-bearing loans and borrowings	**192.5**	–
Lease liabilities	**74.3**	74.5
Derivative financial instruments	**0.2**	–
Trade and other payables	**852.4**	921.1
Tax liabilities	**–**	0.4
Short-term provisions	**26.5**	29.2
Total current liabilities	**1,145.9**	1,025.2
Total liabilities	**2,034.2**	2,162.3
Total equity and liabilities	**4,136.4**	4,400.1

Consolidated statement of changes in equity

For the year ended 31 December 2022

£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 2021	25.2	545.6	–	326.5	14.3	–	(39.5)	1.2	–	1,840.5	**2,713.8**
Profit for the year	–	–	–	–	–	–	–	–	–	278.9	**278.9**
Other comprehensive income for the year net of tax	–	–	–	–	–	–	–	2.9	–	60.6	**63.5**
Total comprehensive income for the year	–	–	–	–	–	–	–	2.9	–	339.5	**342.4**
Demerger dividend	–	–	–	–	–	–	–	–	–	(679.7)	**(679.7)**
Other dividends	–	–	–	–	–	–	–	–	–	(105.4)	**(105.4)**
Adjustments in respect of revalued fixed assets	–	–	–	–	(1.1)	–	–	–	–	1.1	**–**
Shares purchased in share buyback and held as treasury shares	–	–	–	–	–	(53.8)	–	–	–	–	**(53.8)**
Shares purchased in share buyback and held as own shares by ESOT	–	–	–	–	–	–	(16.7)	–	–	–	**(16.7)**
Sale of own shares	–	–	–	–	–	–	17.4	–	–	–	**17.4**
Own shares movement	–	–	–	–	–	–	31.2	–	–	(31.2)	**–**
Equity-settled share-based payments	–	–	–	–	–	–	–	–	–	23.2	**23.2**
Tax on equity-settled share-based payments	–	–	–	–	–	–	–	–	–	(0.7)	**(0.7)**
Tax on revalued assets	–	–	–	–	(2.7)	–	–	–	–	–	**(2.7)**
At 31 December 2021	25.2	545.6	–	326.5	10.5	(53.8)	(7.6)	4.1	–	1,387.3	**2,237.8**

£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**
Other dividends	–	–	–	–	–	–	–	–	–	(81.7)	**(81.7)**
Adjustments in respect of revalued fixed assets	–	–	–	–	(1.1)	–	–	–	–	1.1	**–**
Shares purchased in share buyback and held as treasury shares	–	–	–	–	–	(125.5)	–	–	–	–	**(125.5)**
Shares purchased in share buyback and held as own shares by ESOT	–	–	–	–	–	–	(46.6)	–	–	–	**(46.6)**
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	–	–	–	–	–	–	–	–	–	17.0	**17.0**
Tax on Equity-settled share-based payments	–	–	–	–	–	–	–	–	–	(2.3)	**(2.3)**
Tax on revalued assets	–	–	–	–	2.7	–	–	–	–	5.1	**7.8**
At 31 December 2022	**23.8**	**545.6**	**4.3**	**326.5**	**12.1**	**–**	**(34.3)**	**9.6**	**1.4**	**1,213.2**	**2,102.2**

Consolidated cash flow statement

For the year ended 31 December 2022

£m	**2022**	2021
Cash flows from operating activities		
Operating profit	**284.8**	348.5
Adjustments for:		
Depreciation of property, plant and equipment	**73.6**	69.2
Depreciation of right-of-use assets	**79.0**	80.0
Amortisation of other intangibles	**10.5**	9.7
Amortisation of acquisition-related intangibles	**6.5**	11.1
Share-based payments	**17.0**	19.1
Foreign exchange	**–**	(0.2)
Gain on disposal of property, plant and equipment	**(25.3)**	(48.9)
Purchase of tool hire assets	**(8.9)**	(11.2)
Increase in inventories	**(3.4)**	(204.5)
Increase in receivables	**(19.2)**	(171.5)
(Decrease) / increase in payables	**(53.9)**	224.2
Payments in respect of adjusting items in excess of the income statement charge	**(7.2)**	(27.4)
Cash generated from operations	**353.5**	298.1
Interest paid and debt arrangement fees	**(18.3)**	(15.1)
Interest on lease liabilities	**(21.5)**	(21.1)
Income taxes paid	**(57.6)**	(59.9)
Net cash from continuing operating activities	**256.1**	202.0
Net cash from discontinued operating activities	**–**	127.3
Net cash from operating activities	**256.1**	329.3
Cash flows from investing activities		
Interest received	**1.4**	1.4
Proceeds on disposal of property, plant and equipment	**22.5**	82.2
Purchase/development of computer software	**(7.0)**	(2.2)
Purchases of freehold land and buildings	**(38.0)**	(80.9)
Purchases of other property, plant and equipment	**(94.1)**	(81.6)
Acquisition of subsidiary, net of cash acquired	**–**	(32.3)
Disposal of subsidiaries	**–**	266.9
Cash flows from other investments	**–**	2.6
Net cash inflow / (outflow) from continuing investing activities	**(115.2)**	156.1
Net cash (outflow) / inflow from discontinued investing activities	**–**	(13.3)
Net cash inflow / (outflow) from investing activities	**(115.2)**	142.8
Cash flows from financing activities		
Bank facility fee	**–**	(0.5)
Shares purchased in share buyback	**(172.1)**	(70.5)
Sale of own shares	**3.8**	17.4
Repayment of lease liabilities	**(78.8)**	(75.5)
Payments to pension scheme	**(3.7)**	(3.6)
Dividends paid	**(81.7)**	(105.4)
Financing transactions with discontinued operations	**–**	(127.4)
Drawdown of borrowings	**75.0**	–
Repayment of bonds	**(120.0)**	–
Repayment of borrowings	**–**	(12)
Net cash used in continuing financing activities	**(377.5)**	(377.5)
Net cash used in discontinued financing activities	**–**	(140.4)
Net cash used in financing activities	**(377.5)**	(517.9)
Net decrease in cash and cash equivalents	**(236.6)**	(45.8)
Cash and cash equivalents at 1 January	**459.8**	505.6
Cash and cash equivalents at 31 December	**223.2**	459.8

Notes

1. The Group's principal accounting policies are set out in the 2022 Annual Report & Accounts, which is available from 28 February 2023 on the Company's website www.travisperkinsplc.co.uk.

2. The Directors are recommending a final dividend of 26.5p in respect of the year ended 31 December 2022 (2021: 26.0p). The dividend will be paid on 18 May 2023 to shareholders on the register at the close of business on 11 April 2023. The Company's shares will go ex-dividend on 6 April 2023. The Company operates a Dividend Reinvestment Plan, elections for which must be received by the Company's registrar by 5.30pm on 27 April 2023.

3. The financial information set out in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2022 or 31 December 2021, but is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered in due course. The auditor has reported on those accounts: their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their reports and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The audit of the statutory accounts for the year ended 31 December 2022 is now complete. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRS") this announcement does not itself contain sufficient information to comply with IFRS.

4. This announcement was approved by the Board of Directors on 27 February 2023.

5. It is intended to post the Annual Report & Accounts to shareholders on 24 March 2023 and to hold the Annual General Meeting on 4 May 2023. 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 22 March 2023 and it is available on the Group's website at www.travisperkinsplc.co.uk.

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

£m	Merchanting	Toolstation	**Total**
2021 revenue	3,826.1	760.6	**4,586.7**
Network change	(9.2)	(11.9)	**(21.1)**
Trading days	(32.0)	(2.0)	**(34.0)**
2021 like-for-like revenue	3,784.9	746.7	**4,531.6**
Like-for-like change	434.9	28.3	**463.2**
2022 revenue	4,219.8	775.0	**4,994.8**
Network change	(107.0)	(55.7)	**(162.7)**
2022 like-for-like revenue	4,112.8	719.3	**4,832.1**
Like-for-like revenue %	8.7%	(3.7)%	**6.6%**
Total revenue growth %	10.3%	1.9%	**8.9%**

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

£m	**2022**	2021
Revenue (note 6)	**4,994.8**	4,586.7
Cost of sales	**(3,610.1)**	(3,277.9)
Gross profit	**1,384.7**	1,308.8
Selling and distribution	**(816.4)**	(729.6)
Administrative expenses	**(324.5)**	(291.3)
Profit on disposal of properties	**25.3**	48.9
Other operating income	**15.7**	11.7
Operating profit	**284.8**	348.5
Adjusting items (note 8)	**–**	(6.8)
Amortisation of acquired intangible assets	**10.5**	11.1
Adjusted operating profit	**295.3**	352.8
Profit on disposal of properties	**(25.3)**	(48.9)
Adjusted operating profit before property disposals	**270.0**	303.9

b. Adjusted profit

£m	**2022**	2021
Profit before tax	**245.0**	305.6
Adjusting items (note 8)	**–**	(6.8)
Amortisation of acquired intangible assets	**10.5**	11.1
Adjusted profit before tax	**255.5**	309.9
Total tax	**(52.8)**	(64.8)
Tax on adjusting items	**–**	1.6
Adjusting items - deferred tax	**–**	4.7
Tax on amortisation of acquired intangible assets	**(2.6)**	(2.7)
Adjusted profit after tax	**200.1**	248.7

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

8. Adjusting items

In 2021, the Group was able to exit the leases of a number of branches closed in 2020 for less than the contractual lease liability, which generated a net credit of £6.8m.

The 2021 tax charge includes an adjusting charge of £14.3m arising from the increase in the rate of UK corporation tax from 19% to 25% effective on 1 April 2023 and an adjusting credit of £9.6m arising from the recognition of a deferred tax asset in respect of losses in the Toolstation Netherlands business).

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 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.

The Wickes business was demerged on 27 April 2021 and the Plumbing & Heating business was sold on 30 September 2021 and are excluded from the 2021 comparatives.

		2022		
£m	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**
Adjusting items	–	–	–	**–**
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	8.0%	(1.1%)	–	**5.9%**
Adjusted operating margin excluding property profits	7.4%	(1.1%)	–	**5.4%**
Average capital employed	2,183.3	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	434.47	(208.0)	**2,102.2**
Capital expenditure	91.6	49.9	–	**141.5**
Amortisation of acquired intangible assets	7.6	2.9	–	**10.5**
Depreciation and amortisation of software	65.6	14.6	–	**80.2**

9. **Business segments** continued

£m	Merchanting	Toolstation	Unallocated	**Consolidated**
Revenue	3,826.1	760.6	–	**4,586.7**
Operating profit	369.8	16.9	(38.2)	**348.5**
Amortisation of acquired intangible assets	6.1	5.0	–	**11.1**
Adjusting items	(6.8)	–	–	**(6.8)**
Adjusted operating profit	369.1	21.9	(38.2)	**352.8**
Less property profits	(48.9)	–	–	**(48.9)**
Adjusted operating profit excluding property profits	320.2	21.9	(38.2)	**303.9**
Adjusted operating margin	9.6%	2.9%	–	**7.7%**
Adjusted operating margin excluding property profits	8.4%	2.9%	–	**6.6%**
Average capital employed	2,055.8	486.4	(36.1)	**2,506.1**
Segment assets	2,933.2	694.2	772.7	**4,400.1**
Segment liabilities	(1,121.5)	(307.1)	(733.7)	**(2,162.3)**
Consolidated net assets	1,811.7	387.1	39.0	**2,237.8**
Capital expenditure	142.9	30.4	–	**173.3**
Amortisation of acquired intangible assets	6.1	5.0	–	**11.1**
Depreciation and amortisation of software	68.2	10.7	–	**78.9**

10. **Net finance costs**

£m	**2022**	2021
Interest on bank loans and overdrafts	**(0.8)**	(0.6)
Interest on bonds	**(21.5)**	(20.0)
Interest on loan and interest rate swap	**(1.3)**	–
Amortisation of issue costs of bank loans	**(1.5)**	(1.2)
Unwinding of discounts – property provisions	**(0.4)**	(0.1)
Pension scheme SPV interest	**(1.7)**	(2.0)
Net loss on remeasurement of foreign exchange	**–**	(1.3)
Net loss on remeasurement of derivatives at fair value	**(0.3)**	(0.5)
Finance costs before lease interest	**(27.5)**	(25.7)
Interest on lease liabilities	**(21.5)**	(21.1)
Finance costs	**(49.0)**	(46.8)
Net gain on remeasurement of foreign exchange	**2.1**	–
Other finance income – pension scheme	**5.3**	2.4
Interest receivable	**1.8**	1.5
Finance income	**9.2**	3.9
Net finance costs	**(39.8)**	(42.9)

11. Tax

£m	**2022**	2021
Current tax:		
Current year	**56.2**	62.1
Prior year	**1.4**	0.6
Total current tax	**57.6**	62.7
Deferred tax:		
Current year	**(2.5)**	1.9
Prior year	**(2.3)**	0.2
Total deferred tax	**(4.8)**	2.1
Total tax charge	**52.8**	64.8

12. Discontinued operations

During the year ended 31 December 2021, the Group completed the demerger of the Wickes business and the disposal of the Plumbing & Heating business. The Wickes business was demerged on 27 April 2021 and the Group recognised the distribution at a fair value of £679.7m. The difference between the fair value of the Wickes business and the carrying amount of the assets distributed has been recognised as an expense of £69.4m.

The Plumbing & Heating business was sold to H.I.G. Capital on 30 September 2021 for cash consideration of £303.4m. Total net assets sold were £210.4m and transaction costs were £12.0m, generating a profit on disposal of £81.0m. The Company received cash of £28.7m in 2021 from the Plumbing & Heating business before the completion of the sale.

Results of discontinued operations

£m	2021
Revenue	1,469.2
Operating profit	56.0
Net finance costs - interest on lease liabilities	(18.4)
Profit before tax	37.6
Tax	(11.1)
Profit for the period of discontinued operations	26.5
Pre-tax profit on disposal of P&H and loss after tax recognised on the remeasurement of assets held for distribution for Wickes	11.6
Profit for the period from discontinued operations	38.1

13. Pension schemes

£m	**2022**	2021
At 1 January actuarial asset	**275.8**	178.4
Amounts recognised in income:		
Current service costs and administration expenses	**(1.7)**	(1.9)
Interest income	**5.3**	2.5
Other movements:		
Contributions from sponsoring companies	**1.5**	1.9
Foreign exchange	**0.3**	–
Amounts recognised in other comprehensive income:		
Return on plan assets (excluding amounts included in net interest)	**(628.6)**	(2.2)
Actuarial (loss)/gain arising from changes in demographic assumptions	**7.5**	(15.5)
Actuarial gain arising from changes in financial assumptions	**550.6**	93.5
Actuarial gain arising from experience adjustments	**(74.8)**	19.1
Gross pension asset at 31 December	**135.9**	275.8
Deferred tax liability	**(33.9)**	(68.8)
Net pension asset at 31 December	**102.0**	207.0

14. Dividends

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

£m	**2022**	2021
Final dividend for 2021 of 26.0 pence (2020: no final dividend) per ordinary share	**55.5**	–
Interim dividend for 2022 of 12.5 pence (2021: 12.0 pence) per ordinary share	**26.2**	26.9
Special dividend of nil pence (2021: 35.0 pence) per ordinary share	**–**	78.5
Total dividend recognised during the year	**81.7**	105.4

The Directors are recommending a final dividend of 26.5p in respect of the year ended 31 December 2022. The anticipated cash payment in respect of the proposed final dividend is £56.3m.

Share buyback
The Group concluded its buyback programme in May 2022 as announced in 2021 following the disposal of the Plumbing and Heating business.

A total of 12.3m shares were purchased in 2022 (2021: 4.6m), of which none were held as treasury shares (2021: 3.5m) and 3.3m were transferred to the Employee Share Ownership Trust (2021: 1.1m). The shares were acquired at an average price of £13.70 per share (2021: £15.19 per share), with prices ranging from £11.72 to £16.20 (2021: £14.58 to £15.76). The total cost of £172.1m, including £2.2m of after-tax transaction costs (2021: £70.5m including £0.3m of after-tax transaction costs), was deducted from shareholder’s equity.

15. Earnings per share

a. Basic and diluted earnings per share

£m	2022	2021
Profit attributable to the owners of the parent		
- from continuing operations	**192.2**	240.8
- from discontinued operations	**–**	38.1
Weighted average number of shares for the purposes of basic earnings per share	**211,630,413**	231,766,613
Dilutive effect of share options on potential ordinary shares	**3,789,212**	2,967,694
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**215,419,625**	234,734,307
Earnings per share		
- from continuing operations	**90.8p**	103.9p
- from discontinued operations	**–**	16.4
- total	**90.8p**	120.3p
Diluted earnings per share		
- from continuing operations	**89.2p**	102.6p
- from discontinued operations	**–**	16.2p
- total	**89.2p**	118.8p

528,262 share options (2021: 6,545 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. Share options that would be anti-dilutive due to the Group generating a loss have also been excluded from the calculation.

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	2022	2021
Earnings for the purposes of earnings per share	**192.2**	240.8
Adjusting items	**–**	(6.8)
Amortisation of acquired intangible assets	**10.5**	11.1
Tax on adjusting items	**–**	1.6
Adjusting deferred tax	**–**	4.7
Tax on amortisation of acquired intangible assets	**(2.6)**	(2.7)
Earnings for adjusted earnings per share	**200.1**	248.7
Adjusted earnings per share	**94.6p**	107.3p
Adjusted diluted earnings per share	**92.9p**	105.9p

16. Net debt

a. Covenant net debt

£m	2022	2021
Cash and cash equivalents, including bank overdraft	**223.2**	459.8
Current interest-bearing loans and borrowings	**(180.0)**	–
Non-current interest-bearing loans and borrowings	**(349.1)**	(575.2)
Non-current lease liabilities	**(438.3)**	(414.7)
Current lease liabilities	**(74.3)**	(74.5)
Net debt	**(818.5)**	(604.6)
Less: Liability to pension scheme	**26.7**	28.5
Less: Lease liabilities	**512.6**	489.2
Covenant net debt	**(279.2)**	(86.9)

b. Movement in net debt

£m	Cash and cash equivalents	Leases	Term loan, revolving credit facility and loan notes	Sterling bonds	Liability to pension scheme	Total
At 1 January 2021	**(505.6)**	**1,327.1**	**(2.0)**	**547.6**	**30.1**	**1,397.2**
Additions to leases	–	92.4	–	–	–	**92.4**
Disposals of leases	–	(13.6)	–	–	–	**(13.6)**
Debt taken on following acquisition	–	–	12.0	–	–	**12.0**
Cash flow	45.8	(96.7)	(12.5)	–	(3.6)	**(67.0)**
Finance charges movement	–	(841.1)	–	–	–	**(841.1)**
Amortisation of swap cancellation receipt	–	–	1.0	0.6	–	**1.6**
Discount unwind on liability to pension scheme	–	–	–	–	2.0	**2.0**
Discount unwind on lease liabilities	–	21.1	–	–	–	**21.1**
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 movement	–	–	(0.1)	0.7	–	**0.6**
Amortisation of swap cancellation receipt	–	–	–	0.1	–	**0.1**
Discount unwind on liability to pension scheme	–	–	–	–	1.9	**1.9**
Discount unwind on lease liabilities	–	21.5	–	–	–	**21.5**
31 December 2022	**(223.2)**	**512.6**	**73.4**	**428.9**	**26.7**	**818.5**

17. Free cash flow

£m	2022	2021
Adjusted operating profit	**295.3**	352.8
Less: Profit on disposal of properties	**(25.3)**	(48.9)
Adjusted operating profit excluding property profit	**270.0**	303.9
Share-based payments	**17.0**	19.1
Other net interest paid	**(16.9)**	(13.7)
Interest on lease liabilities	**(21.5)**	(21.1)
Income tax paid	**(57.6)**	(59.9)
Movement on working capital	**(76.5)**	(151.8)
Depreciation of property, plant and equipment	**73.6**	69.2
Amortisation and impairment of internally-generated intangibles	**6.5**	9.7
Capital expenditure excluding freehold purchases	**(110.0)**	(95.0)
Disposal of plant and equipment	**10.1**	4.4
Free cash flow	**94.7**	64.8

18. Return on capital ratios

Group return on capital employed is calculated as follows:

£m	2022	2021
Operating profit	**284.8**	348.5
Amortisation of acquired intangible assets	**10.5**	11.1
Adjusting items	**–**	(6.8)
Adjusted operating profit	**295.3**	352.8
Opening net assets	**2,237.8**	2,713.8
Net pension surplus	**(207.0)**	(144.5)
Net debt	**604.6**	1,397.2
Less: net assets of discontinued operations	**–**	(747.7)
Less: net borrowings of discontinued operations	**–**	(842.1)
Opening capital employed	**2,635.4**	2,376.7
Closing net assets	**2,102.2**	2,237.8
Net pension surplus	**(102.0)**	(207.0)
Net debt	**818.5**	604.6
Closing capital employed	**2,818.7**	2,635.4
Average capital employed	**2,727.1**	2,506.1

18. Return on capital ratios continued

Group return on capital employed is calculated as follows:

£m	**2022**	2021
Adjusted operating profit	**295.3**	352.8
Average capital employed in continuing operations	**2,727.1**	2,506.1
Return on capital employed	**10.8%**	14.1%

19. Net debt to adjusted EBITDA

£m	**2022**	2021
Operating profit	**284.8**	348.5
Depreciation and amortisation	**169.6**	170.0
EBITDA	**454.4**	518.5
Adjusted operating items	**–**	(6.8)
Adjusted EBITDA	**454.4**	511.7
Net debt	**818.5**	604.6
Net debt to adjusted EBITDA	**1.8x**	1.2x
Covenant net debt	**279.2**	86.9
Covenant net debt to adjusted EBITDA	**0.6x**	0.2x
Memo: covenant net debt to pre-IFRS 16 adjusted EBITDA	***0.8x***	*0.2x*