Travis Perkins plc
Full year results for the year ended 31 December 2021

A year of significant strategic and operational progress building a strong platform for future growth

Highlights

- Successfully refocused the organisation around the Group's ambition to become the leading partner to the construction industry
- Completed portfolio actions with Wickes demerged and Plumbing & Heating (P&H) business sold
- Strong revenue performance driven by enhanced customer proposition and robust recovery in key market segments. Like-for-like revenue grew by 25.4% and was 14.4% ahead of 2019*
- Adjusted operating profit of £353m (inclusive of £49m of property profits) (2020: £128m inclusive of property profits of £9m), 19% ahead of 2019*
- Excellent performance in Merchanting resulting from volume growth, improved operational focus and a streamlined cost base
- Another strong year for Toolstation with the UK rollout accelerated and scale building in Europe
- Total ordinary dividend of 38.0 pence per share. P&H net sale proceeds returned to shareholders in full via a 35.0 pence per share special dividend and ongoing buyback programme which has today been extended to £240m
- Continued progress towards sustainability goals with Scope 1 & 2 and new Scope 3 carbon targets approved by the Science-Based Target initiative ("SBTi") as being in line with a 1.5˚ pathway and over 1,300 colleagues enrolled onto apprenticeships or Kickstart programmes

£m *(unless otherwise stated)*	*Note*	**2021**	2020*	*Change*
Revenue		**4,587**	3,698	*24.0%*
Like-for-like revenue growth[1]	*6*	**25.4%**	(10.0)%	
Adjusted operating profit[1]	*7a*	**353**	128	*175.8%*
Adjusted earnings per share[1]	*15b*	**107.3p**	21.0p	*411.0%*
Adjusted ROCE[1]	*18*	**14.1%**	5.3%	*8.8ppt*
Adjusted ROCE excluding property profits[1]		**12.1%**	4.9%	*7.2ppt*
Net debt / adjusted EBITDA[1]	*19*	**1.2x**	2.0x	0.8x
Ordinary dividend per share	*14*	**38.0p**	n/a	
Operating profit		**349**	26	
Total profit / (loss) after tax		**241**	(35)	
Basic earnings / (loss) per share	*15a*	**103.9p**	(14.3)p	

(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:

“2021 has been a year of significant operational and strategic progress for the Group, completing our portfolio actions and subsequently setting out our ambition to be the leading partner to the construction industry. Whilst the rapidly recovering market created challenges around inflation and product availability, we have navigated them well to deliver an outstanding financial performance, enabled once again by the hard work of our fantastic colleagues.

The Group has built a strong platform for growth and, given robust end market demand and a positive start to the new year, we remain confident of making further progress in 2022. We continue to develop new capabilities to complement our market leading positions and we see exciting opportunities in both new and adjacent markets, driven by our desire to be at the forefront of delivering change and decarbonisation within our industry. The long-term fundamentals of our end markets continue to be robust and the Group is well placed to invest in growth opportunities 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 webcast - please register at the following link:

https://webcasting.brrmedia.co.uk/broadcast/61f91137d0a01d0d75c3c623

Enquiries:

Travis Perkins
Matt Worster
+44 (0) 7990 088548
matt.worster@travisperkins.co.uk

Powerscourt
James White
+44 7855 432699
travisperkins@powerscourt-group.com

Heinrich Richter
+44 (0) 7392 125417
heinrich.richter2@travisperkins.co.uk

Summary

The Group has made excellent progress during the year at both a strategic and operational level. The business has been dramatically simplified and the Group has laid out its new ambition, to be the leading partner to the construction industry. The decisive actions taken in 2020 to refocus the business and improve operational capability, combined with the portfolio rationalisation in 2021, have created a platform for the Group to drive growth, generate cash and deliver enhanced shareholder returns.

2021 Performance

The Group delivered a strong performance in 2021 with revenue of £4,587m, up 24.0% versus 2020 and 10.6% ahead of 2019*. This performance reflects the extensive work undertaken to enhance the customer proposition, through investment in network capacity and technological capability, coupled with the robust recovery in both the RMI and new house building markets.

Actions taken to restructure the business and improve operational effectiveness, coupled with disciplined management of increasing inflation and product availability challenges, enabled the business to increase overall operating margin in continuing businesses by 60bps vs 2019 and deliver an adjusted operating profit of £353m, 19% ahead of 2019*.

Strategic development

During the first half of the year, the Group completed its stated portfolio actions. The demerger of Wickes was successfully completed in April, shortly followed by the sale of the Plumbing & Heating business in late May to an affiliate of H.I.G. Capital, a leading global alternative investment firm, for an enterprise value of £325m, with the proceeds returned to shareholders.

In September, the Group held a Capital Markets Update to set out its ambition to become the leading partner to the construction industry. The pace of change within the construction industry and the need for investment to address sustainability challenges in the UK's built environment are both significant which creates opportunities for the Group to use its considerable assets and capabilities to do more for its customers; providing services, equipment and expertise in addition to remaining the largest distributor of building materials to the trade.

Within the Group's portfolio of market-leading businesses, the focus is on deepening customer relationships by providing simple, convenient ways to transact through our branch or digital channels and elevating customer relationships by delivering value-added services that directly address customer challenges and remove costs and complexity.

Furthermore, the Group is enhancing collaboration between its businesses to provide even more convenience to customers, while introducing new capabilities to help them navigate changes to the construction process. The acquisition of Staircraft in late 2021, a leader in technology and design-led timber engineering, is a significant step on our journey towards providing innovative solutions to remove cost and complexity from our customers' projects.

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

Capital Structure and shareholder returns

The Group's balance sheet has been transformed by a combination of strong financial performance and portfolio actions with net debt under IFRS 16 reducing from £1,788m (2.5x adjusted EBITDA) at the end of 2019 to £605m (1.2x adjusted EBITDA) at the end of 2021 or 1.5x EBITDA on a pro-forma basis when adjusting for proceeds from the Plumbing & Heating disposal still to be returned via share buybacks.

These actions have enabled the Group to set a medium term leverage target (on an IFRS 16 basis) of 1.5x – 2.0x net debt / adjusted EBITDA (on a rolling 12 months basis). This target range is consistent with investment grade credit metrics. Given the cash generative nature of the business, the Group's strong balance sheet provides the flexibility for the Group to invest in attractive opportunities that open up new or adjacent markets, such as the recent acquisition of Staircraft or the expansion of TF Solutions, at the same time as creating capacity to return surplus capital to shareholders when at the lower end of this target range.

The strong performance during 2021 and the strength of the Group's balance sheet enabled the Board to reinstate the ordinary dividend in August with an interim dividend of 12.0 pence per share. The Group has set out a policy of distributing between 30% and 40% of full year adjusted earnings as a regular dividend and is today proposing a final dividend of 26.0 pence per share.

Following the sale of the Plumbing and Heating business, £78m of the net proceeds was returned directly to shareholders via a 35.0 pence per share special dividend. The balance of the net proceeds are being returned to shareholders via a share buyback programme. The programme of £170m is now largely complete (31 December 2021 £70m) and today it has been extended by a further £70m to £240m, which will complete the programme.

Outlook

The strong performance of the Group's end markets has demonstrated the importance of the construction sector to the UK economy. The rapid recovery of demand has led to well-documented challenges, particularly with respect to inflation and product availability, and the Group's businesses have demonstrated their ability to manage these effectively.

Although macroeconomic uncertainties remain, the Group's lead indicators for the year ahead are encouraging with improved levels of housing transactions, the continued move to hybrid working arrangements and year-on-year growth in new housing developments expected to support volumes in the Group's core trade markets. Given robust end market demand and a positive start to the new year, the Group remains confident of making further progress in 2022.

Over the longer term, the requirement to expand and decarbonise the UK housing stock offers significant growth opportunities for the Group. Government policy remains supportive across all sectors, recognising the essential role that construction will play in delivering a sustainable UK economy.

Technical guidance

The Group's technical guidance for 2022 is as follows:

- Effective tax rate of 20%
- Base capital expenditure of around £140m, inclusive of £15m on the new Toolstation lightside direct fulfilment centre in Northampton (see below)
- Property profits of around £25m

FTSE Russell ICB Reclassification

As a result of the significant changes to the Group's portfolio and end market exposure during 2021, Travis Perkins plc's Industry Classification Benchmark (ICB) has been revised to *50205010 - Industrial Suppliers*. This change was effective from the start of 2022.

Segmental performance

Merchanting

	2021	2020	*Change*
Total revenue	**£3,826m**	£3,065m	*24.8%*
Adjusted operating profit*	**£320m**	£152m	*110.5%*
Adjusted operating margin	**8.4%**	5.0%	*340bps*
ROCE	**15.6%**	7.3%	*8.3ppt*
Branch network	**860**	846	*14*

** Excluding property profits*

The Merchanting businesses delivered an excellent performance, led by the rejuvenated Travis Perkins General Merchant and complemented by record profit delivery in both BSS and Keyline. Underpinning this strong operational delivery was the robust recovery in domestic RMI demand and new housebuilding, alongside continued investment in UK infrastructure. Overall Merchanting revenue was up 24.8% versus 2020, where trading was significantly affected by the pandemic, and 3.3% ahead of 2019. Factoring in the 2020 branch closure programme, like-for-like revenue growth was 28.2% and 11.9% when compared to 2019.

The robust sales performance, combined with solid gross margins and cost benefits from the restructuring programme, delivered an adjusted operating profit of £320m, up 13% versus 2019, and an operating margin of 8.4%, some 70bps ahead of 2019. Operating margin benefitted from around 40 bps of inflation gains in stock given the high input cost inflation experienced. These are not expected to repeat in 2022.

Price inflation accelerated through the year, with prices increasing by around 4% in H1, rising to around 13% in H2, driven by shortages of product as the pace of demand recovery outstripped the rebuilding of manufacturing capacity. The Merchanting businesses have managed these challenges extremely well, utilising the Group's extensive supply chain expertise to maximise product availability and providing transparency on pricing to customers.

Travis Perkins General Merchant delivered a very strong performance as actions taken during the previous two years to refocus the business enabled both branch and central teams to respond quickly and effectively to the opportunities presented by the rapid recovery in demand. The changes to the business have been extensive with processes and commercial deals simplified, shelf edge pricing overhauled and decision making on pricing and range now locally driven, enabling our branch teams to meet the needs of their local customers.

The General Merchant also continues to leverage the benefits of its scale and multifaceted customer proposition. The integration of Benchmarx, the introduction of web-based ordering and bespoke sustainability training packages in Managed Services and significant investment in tool hire have all enhanced the service offering to customers. These propositional developments are being complemented by investment in the branch network with three new branches opening in the year, four more relocated to improved sites and a dedicated tool hire hub opened in London.

The specialist businesses continue to trade well, with BSS in particular demonstrating the value of its best-in-class technical capabilities to lead in the commercial RMI market. BSS continues to build on its deep product expertise and long standing relationships with innovative new solutions such as “design to use” which will enable the business to provide an even greater range of services to its customers.

As outlined at the Capital Markets Update, TF Solutions represents an exciting growth opportunity in the air conditioning and refrigeration markets. Over time, the Group intends to grow the business to a network of around 30 branches and this expansion plan is well underway with 5 new branches added during the year, doubling the network capacity.

Keyline also delivered a very strong performance in 2021, being ideally placed to benefit from the UK’s infrastructure investment and the ongoing strong demand for new housebuilding. The business continues to gain advantage from its operationally efficient model whilst from a customer proposition perspective, the focus remains on Keyline extending its capabilities to become a true partner to the civils industry. These enhancements are being delivered by providing new and sustainable solutions throughout the supply chain in collaboration with suppliers and customers incorporating service offerings on logistics, technical specification and project management.

CCF saw the most significant impact in terms of product availability during the year and responded well to the situation by continuing to focus on quality of business and service proposition development, resulting in an operating margin ahead of 2019. The clear momentum now that supply challenges have eased has been reflected in the opening of three high quality new branches in Ruislip (relocation from West London), Enfield and Birmingham alongside recent investment in technical resources to broaden the offering to customers.

Across the Merchanting businesses, the Group continues to invest in new platform technologies to develop customer propositions at pace, layering these on the stable foundations of its heritage platforms. In 2021, this structured approach to development delivered new features and capabilities to the Travis Perkins General Merchant website and saw the launch of the TP App, as well as migrating CCF and Keyline onto this digital platform. The Group’s new delivery management solution has been rolled out across CCF, Keyline and all core General Merchant branches, with tool hire to follow in 2022, providing our customers with a best-in-class delivery notification service.

Toolstation

	2021	2020	*Change*
Total revenue	**£761m**	£633m	*20.2%*
Like-for-like growth	**12.3%**	22.2%	
Adjusted operating profit*	**£22m**	£8m	*175.0%*
Adjusted operating margin	**2.9%**	1.3%	*160bps*
ROCE	**4.5%**	1.8%	2.7ppt
Branch network (UK)	**530**	460	*70*
Branch network (Europe)	**123**	83	40
Memo:			
UK adjusted operating profit*	**£42m**	£24m	*75.0%*

** Excluding property profits*

2021 was another year of great progress for Toolstation with 20.2% revenue growth demonstrating the strength of the customer proportion and representing further market share gains. Toolstation has now more than doubled its revenue in the last three years and, on the back of this sustained outperformance, the Group continues to drive the expansion of the branch network in both the UK and Europe.

In the UK, a net 70 new branches were opened during the year as the Group's more focused capital allocation strategy enabled the acceleration of planned openings. Whilst network expansion is a key enabler of future growth, the development of Toolstation's market-leading value proposition is also central to attracting new trade customers and growing the share of wallet from existing customers.

As a further enhancement of its trade customer proposition, the UK business introduced trade credit at the start of the year which has been well received by customers and driven an increase of over 25% in average order value on credit sales. Toolstation has continued to drive the digital agenda with the Toolstation App launched in 2021, making it even more convenient for customers to interact. The Toolstation App has achieved a Trustpilot rating of 4.7 to date, from over 300,000 reviews. New front of branch merchandising has been rolled out across the Toolstation network, providing easy access for customers to key products. This has been complemented by the addition of c. 3,600 products to the range, again primarily focused on trade customers.

The operating margin of Toolstation UK at 6.3% continues to develop in line with management expectations, reflecting the significant investment in the business over the last three years, with 195 new branches opened.

Looking forward, a further 60 branches are expected to open in 2022. The branch network will be complemented by the opening of a new 500,000 square feet lightside direct fulfilment centre in Northampton. In order to mitigate risks around future labour availability, the decision has been taken to automate the facility. While this will lead to an incremental capital investment of £15m in 2022, it will deliver future operating cost benefits. Start-up costs of approximately £5m are expected to be incurred in 2022 in relation to the distribution centre project.

The European business continues to make encouraging progress as brand awareness and scale build. Overall revenue grew by 35% in 2021 and in Benelux, where sales were up 32%, 22 more branches were opened, taking the total to 86. In France, sales grew by 61% with 18 new branches opened, taking the total to 37. The new c. 100,000 square feet distribution centre just outside Lyon is now fully operational, which will facilitate the continued expansion of Toolstation France.

Customer feedback continues to be very positive with Toolstation Netherlands achieving a Trustpilot rating of 4.5 and France at 4.7, both equivalent to a rating of "Excellent". The "Click & Collect in 10 minutes" offer remains well ahead of the competition in terms of speed of service.

Toolstation Europe overall made a loss of £20m in 2021, in line with management expectations, as the business continues to build scale across its territories. Losses in 2022 are expected to be of similar magnitude as the rollout continues with 40-50 more branch openings targeted.

Central costs

Central costs reduced slightly year-on-year as savings generated from the restructuring programme in 2020 more than offset the reinstatement of management incentives.

Property transactions

Excellent progress has been made in exiting both freehold and leasehold sites vacated as part of the restructuring programme announced in June 2020, with solutions having now been found for the vast majority of properties.

These transactions, alongside a profit of £28m on the sale of the former Tilbury distribution centre, have generated significant upside with £49m of total property profits recognised during the year and cash receipts of £78m.

Financial Performance

Revenue analysis

Both business segments delivered strong revenue growth in 2021 although the dynamics impacting the businesses across the year were quite different.

The Merchanting business was comparing to a period of low activity in Q2 2020 at the start of the pandemic and comparisons to 2020 are also impacted by the subsequent restructuring programme where around 15% of Merchanting branches were closed, equating to approximately a 9% reduction in revenue due to the branches being smaller, operationally challenged sites.

Taking these factors into account, the 11.9% revenue growth of like-for-like Merchant branches versus 2019 provides a much more meaningful comparison and represents a very strong performance, demonstrating both the resilience of end markets and the ability of the Merchant businesses to navigate the many challenges they have faced during the year, notably in terms of materials price increases and product availability.

After a relatively benign Q1, input cost inflation accelerated from Q2 onwards as a result of the strong recovery in construction and subsequent shortage of key materials. In Merchanting, prices are updated in line with manufacturer increases which are invariably communicated clearly to the market and all businesses have managed this well, focusing on ensuring that we can meet the needs of all of our different customer cohorts.

Toolstation delivered another year of strong growth, resulting in market share gains across both the UK and Europe. Price increases were much lower than in the Merchant businesses, reflecting both lower input cost inflation on lightside products and also the different pricing model with Toolstation seeking to maintain its value leadership position. On a two year basis, Toolstation UK revenue was up 54.2% or 32.8% higher on a like-for-like basis.

Volumes in H1 2020 were not as significantly affected by the pandemic as Toolstation pivoted to a "dark store" format and was able to maintain a good level of trade through the first lockdown. Throughout the first 14 months of the pandemic, until the easing of Covid restrictions in late May 2021, the business saw a dramatic increase in DIY customer spend and this is reflected in the relative sales performance during H2. Management expects this to continue through H1 2022 before comparatives normalise in H2 2022 when the business will again cycle against a primarily trade customer mix.

Volume, price and mix analysis

Total revenue	**Merchanting**	**Toolstation**	**Group**
Volume	18.9%	9.2%	17.2%
Price and mix	9.3%	3.1%	8.2%
Like-for-like revenue growth	28.2%	12.3%	25.4%
Network changes and acquisitions / disposals	(3.0)%	7.9%	(1.1)%
Trading days	(0.4)%	0.0%	(0.3)%
Total revenue growth	**24.8%**	**20.2%**	**24.0%**

Quarterly like-for-like revenue analysis

		Like for like revenue		Total revenue	
		2021 vs 2020	2021 vs 2019	2021 vs 2020	2021 vs 2019
Merchanting	Q1	15.7%	5.8%	5.7%	(2.6)%
	Q2	94.1%	16.1%	87.8%	6.4%
	H1	**47.3%**	**11.0%**	**37.5%**	**1.9%**
	Q3	15.2%	11.7%	15.1%	3.0%
	Q4	11.9%	14.0%	13.6%	6.7%
	H2	**13.7%**	**12.8%**	**14.4%**	**4.7%**
	FY	**28.2%**	**11.9%**	**24.8%**	**3.3%**
Toolstation*	Q1	42.1%	47.6%	49.8%	96.4%
	Q2	19.7%	38.7%	29.0%	83.9%
	H1	**29.8%**	**42.9%**	**38.7%**	**89.9%**
	Q3	1.4%	25.2%	9.1%	63.6%
	Q4	(5.1)%	26.4%	1.7%	45.9%
	H2	**(2.0)%**	**25.8%**	**5.3%**	**54.2%**
	FY	**12.3%**	**33.8%**	**20.2%**	**70.8%**
Total Group	Q1	19.5%	10.2%	11.5%	7.00%
	Q2	76.9%	18.6%	74.6%	14.3%
	H1	**44.1%**	**14.5%**	**37.7%**	**10.7%**
	Q3	13.1%	13.3%	14.1%	9.2%
	Q4	8.8%	26.4%	11.4%	11.8%
	H2	**11.0%**	**14.4%**	**12.8%**	**10.4%**
	FY	**25.4%**	**14.4%**	**24.0%**	**10.6%**

**Toolstation Europe is only included in comparatives from Q4 2019 onward as it was previously not wholly owned by the Group*

Operating profit and margin

2020 was significantly impacted by the first national Covid-19 lockdown and hence the rebuilding of revenue, alongside good gross margin management and the benefits of the restructuring programme undertaken in 2020, resulted in significantly increased adjusted operating profit.

A more meaningful comparison is against 2019 where adjusted operating profit for the continuing businesses was £296m. The actions described above have delivered a 19% improvement against this benchmark.

£m	**2021**	**2020**	**Change**
Merchanting	320	152	*110.5%*
Toolstation	22	8	*175.0%*
Property	49	9	*n/m*
Unallocated costs	(38)	(41)	*7.3%*
Adjusted operating profit	**353**	**128**	***175.8%***
Amortisation of acquired intangible assets	*(11)*	*(9)*	
Adjusting items	*7*	*(93)*	
Operating profit	**349**	**26**	

During 2021, the Group successfully exited the leases on a number of branches closed in 2020 for less than the contractual lease liability, which has generated a net credit to adjusting items of £7m. The prior year charge primarily related to the restructuring programme undertaken in June 2020.

Finance charge

Net finance charges, shown in note 10, were £43m (2020: £47m). The key driver of the reduction was a £10m accelerated interest payment in 2020 related to bond refinancing. This was partly offset by foreign exchange movements.

Taxation

The tax charge for continuing activities for 2021, including the effect of adjusting items, was £65m (2020: £15m).

The tax charge for the year before adjusting items was £58m (2020: £27m) giving an adjusted effective tax rate ('ETR') of 19.7% (standard rate 19%, 2020 actual 20.1%). The adjusted ETR rate is higher than the standard rate due to the effect of expenses not deductible for tax purposes, such as the depreciation of property and unutilised overseas losses, partially offset by the increase in the deferred tax asset related to employee share schemes following an increase in the share price in 2021.

An adjusting deferred tax charge of £5m was recognised as a result of the increase in the UK corporation tax rate, partly offset by the recognition of a deferred tax asset in respect of Toolstation Netherlands.

Earnings per share

The Group reported a total profit after tax of £279m (2020: loss of £22m) resulting in basic earnings per share of 120.3 pence (2020: loss of 9.0 pence). Excluding the £38.1m profit from discontinued operations (2020: £13.2m), basic earnings per share were 103.9 pence (2020: loss of 14.3 pence) and diluted earnings per share for continuing operations were 102.6 pence (2020: loss of 14.3 pence).

Adjusted profit after tax was £249m resulting in adjusted earnings per share (note 15(b)) of 107.3p (2020: 21.0 pence). Diluted adjusted earnings per share were 105.9 pence (2020: 21.0 pence).

Cash flow and balance sheet

Free cash flow

£m	2021	2020
Group adjusted operating profit excluding property profits	**304**	**119**
Depreciation of PPE and other non-cash movements	98	84
Change in working capital	(152)	197
Net interest paid (excluding lease interest)	(14)	(28)
Interest on lease liabilities	(21)	(21)
Tax paid	(60)	(28)
Adjusted operating cash flow	**155**	**323**
Capital investments		
Capex excluding freehold transactions	(95)	(87)
Proceeds from disposals excluding freehold transactions	5	5
Free cash flow	**65**	**241**

2021 saw the rebuilding of working capital as trading volumes returned to pre-pandemic levels. The increase was driven by the strong recovery of revenue in the Merchant businesses, where sales are predominantly on credit terms. While stock levels increased by £205m reflecting input cost inflation and business growth, this was fully mitigated by a corresponding increase in creditors.

Capital investment

£m	2021	2020
Strategic	66	42
Maintenance	20	34
IT	9	11
Base capital expenditure	**95**	**87**
Freehold property	81	26
Gross capital expenditure	**176**	**113**
Disposals	(82)	(55)
Net capital expenditure	**94**	**58**

Base capital expenditure was £8m higher than the prior year, but there was a significant shift towards growth investment as the business pushed ahead with expansion plans given the strong market recovery. Strategic capex was almost exclusively focused on Toolstation (117 new branches), Travis Perkins General Merchant new branches and investment in new tool hire assets, including a new hub in London.

Maintenance capex was significantly lower than 2020 due to the redeployment of fleet assets from the 2020 restructuring programme and also the shift from tool hire replacement spend into the purchase of new assets. The level of spend is expected to normalise in 2022 to around £40-45m.

Freehold property purchases were significantly higher as the cash generated from the sale of properties vacated as part of the restructuring programme was recycled into new Merchant branches. This included Travis Perkins sites in Battersea (which was previously leased) and Watford and a new Keyline branch in Birmingham. Disposal proceeds were £27m ahead of prior year with the sale of the former distribution centre at Tilbury the key driver of this upside.

Uses of free cash flow

	2021	**2020**
Free cash flow (£m)	**65**	**241**
Net freehold transactions	(3)	29
Acquisitions / disposals	249	1
Dividends	(105)	-
Cash payments on adjusting items	(33)	(60)
Share buybacks	(70)	-
Wickes capitalisation	(130)	-
Other	(20)	86
Change in cash or cash equivalents	**(47)**	**297**

With respect to acquisitions and disposals, the key transactions during the year were the disposal of the P&H business and the acquisition of Staircraft.

Strong cash generation and actions taken to strengthen the balance sheet enabled the Group to reinstate the dividend during the year. The amounts shown above includes both the 2021 interim dividend and the special dividend paid in connection with the P&H disposal.

Net debt and funding

	2021	2020	(Increase) / Decrease
Covenant net debt	**£87m**	£40m	£(47)m
Covenant net debt / adjusted EBITDA	**0.2x**	0.1x	(0.1)x
Net debt under IFRS16	**£605m**	£1,397m	£792m
IFRS16 net debt excluding discontinued operations / adjusted EBITDA	**1.2x**	2.0x	0.8x

Covenant net debt increased by £47m across the year to £87m. This movement is principally a result of cash outflows relating to the Wickes demerger being partially offset by the remaining c. £170m of net proceeds from the sale of the Plumbing & Heating business which will be returned to shareholders via the share buyback programme.

The significant reduction in net debt under IFRS 16 is due to the reduction in lease liabilities associated with the demerger of Wickes and the sale of the P&H business. The Group has set a target of being in the range of 1.5 – 2.0x net debt / adjusted EBITDA and, adjusting for the remaining P&H sale proceeds mentioned above, was at the lower end of that range at the end of 2021.

Funding

As at 31 December 2021, the Group's committed funding of £950m comprised:

- £300m guaranteed notes due September 2023, listed on the London Stock Exchange
- £250m guaranteed notes due February 2026, listed on the London Stock Exchange
- A revolving credit facility of £400m, refinanced in January 2019, of which £54m matures in 2024 and the remaining £346m matures in 2025

As at 31 December 2021, the Group had undrawn committed facilities of £400m (2020: £400m) and deposited cash of £435m (2020: £455m), giving overall liquidity headroom of £835m.

The Group's Standard and Poor's credit rating was affirmed at BB+ following a review in August 2021, with the outlook revised to stable from negative. The Group's credit rating from Fitch Ratings was affirmed at BBB- with stable outlook following a review in October 2021.

Building for better

2021 has been a year of great progress for the Group towards its ambition of leading the industry in sustainability. The key highlights are set out below and more 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).

- A Scope 3 supply-chain carbon target was set and both the Scope 1 & 2 and new Scope 3 targets were approved by the Science-Based Target initiative ("SBTi") as being in line with a 1.5˚ pathway.
- 409 under-25 colleagues were recruited via the Kickstart scheme and 902 apprenticeships commenced, of which 340 were with new starters.
- The Group's diversity networks and Advisory Board have driven significant change through the business, upgrading family policies and creating strong engagement and awareness.

With regards to reducing the embodied and in-use carbon of products sold, the Group has developed the following plans:

Scope 3 (represents 99% of the Group's footprint)

- Targeting a 63% carbon reduction in the Group's supply chain emissions by 2035, primarily focused on the purchasing of goods and services and the in-use emissions of goods sold.
- Working with the whole value chain to phase out fossil-fuel boilers from sales by 2035. This primarily relates to commercial gas boilers sold by the BSS business.
- Reducing the Group's total forecast emissions in 2035 by 25% through reduction of the embodied carbon in the goods the Group sells. This will be achieved through influencing supplier action and supporting their uptake of new technologies such as carbon capture and storage and introducing alternative products where carbon reduction is not viable. Improving in-use product efficiencies at a higher rate than International Energy Agency modelling between now and 2025.

Scopes 1 & 2 (represents 1% of the Group's footprint)

- Focus is primarily on decarbonisation of the fleet and estate with the target of an 80% reduction and a net zero commitment to offset any remaining Scope 1 & 2 carbon by 2035
- Phasing in the use of hydrotreated vegetable oil ("HVO") fuel for diesel engines from 2021, scaling up over 5 years. The first 30 HGVs were moved to HVO in 2021.
- Introducing electric or alternate technology HGVs from 2026 at the latest. The first electric HGV was deployed in 2021 as a pilot to inform the Group's roadmap and the Managed Services fleet now has two electric vans.
- Improving the energy efficiency of buildings. In 2021, the Group moved to a 100% renewable energy tariff for all UK sites.
- Continuing to move from gas boilers to air-source heat pumps and other low-carbon technologies to heat the Group's branches and offices.

With regards to progress on carbon reduction during 2021, Scope 1 and 2 carbon reduced in absolute terms by 1.7% from the 2020 baseline. Scope 3 carbon increased by 4% in that timeframe but, importantly, reduced by 14% per £m revenue as the Group's trading recovered from the impacts of the pandemic, showing the first signs of decoupling Scope 3 carbon from revenue growth.

Principal risks and uncertainties

The Group does not operate in a static risk environment and the risks and uncertainties that it faces continue to evolve. Against a backdrop of continued pandemic-related disruption and wider economic change, the Group has continued to take a proactive approach to risk management to identify and pursue opportunities, successfully deliver its strategic priorities, and, most importantly, prioritise the safety and well-being of colleagues and customers.

During the year, the Directors have regularly reviewed and reassessed the Group's principal risks. Whilst a small number of risks remain aligned to those described on pages 44 to 51 of the 2020 Annual Report and Accounts, the Board has made the following key changes to the principal risk set in 2021:

- ***Portfolio Management*** is no longer considered to represent a principal risk, following the successful completion of the Wickes and P&H transactions;
- Risks in relation to *Market Conditions* and the *Changing Customer & Competitor Landscape* have been combined under ***Long Term Market Trends***, which present both risk and opportunity for the Group as it executes its new strategy;
- In light of availability challenges and inflation during 2021, a shorter-term ***Macroeconomic Volatility*** risk has been introduced, whilst the Group actively manages these developments;
- Supplier risk has been re-focused on ***Supply Chain Resilience***, which remains an area of focus post-Brexit and in light of ongoing pandemic-related impacts. Our ESG commitments may also impact future sourcing decisions.
- A new ***Managing Change*** risk acknowledges the risks and opportunities associated with delivering the strategy through capability-led and technology-enabled change.
- We are committed to responding to climate change impacts in our own business and helping the construction industry to decarbonise. Given our ambitions, and commitment to industry-leading net zero carbon targets, we have recognised ***Climate Change & Carbon Reduction*** as a principal risk for the Group; and

- As we add new fulfilment channels, services and systems to the Group, our risk profile is changing, leading to the inclusion of a new principal risk in relation to ***Critical Asset Failure***.

Accordingly, the 2021 Annual Report and Accounts will report risks under the following captions: long term market trends, pandemic, macroeconomic volatility, supply chain resilience, managing change, climate change & carbon reduction, cyber threat & data security, health, safety & well-being, legal compliance and critical asset failure.

For the principal risks brought forward from 2020, the Directors consider the risk trend to be stabilising in relation to pandemic and legal compliance risks. All other risk trends are unchanged.

Consolidated income statement

For the year ended 31 December 2021

£m	**2021**	2020 (re-presented[1])
Revenue	**4,586.7**	3,697.5
Adjusted operating profit (note 7)	**352.8**	128.3
Adjusting items – operating (note 8)	**6.8**	(92.7)
Amortisation of acquired intangible assets	**(11.1)**	(8.6)
Operating profit (note 7)	**348.5**	27.0
Share of associates' result	**-**	0.1
Interest on lease liabilities	**(21.1)**	(21.2)
Other finance costs (note 10)	**(25.7)**	(37.1)
Finance income (note 10)	**3.9**	10.9
Profit / (loss) before tax	**305.6**	(20.3)
Adjusting items – deferred tax (note 8)	**(4.7)**	(9.0)
Tax on adjusting items	**(1.6)**	20.9
Other tax	**(58.5)**	(26.7)
Total tax	**(64.8)**	(14.8)
Profit / (loss) from continuing operations	**240.8**	(35.1)
Profit from discontinued operations (note 12)	**38.1**	13.2
Profit / (loss) for the year	**278.9**	(21.9)
Attributable to:		
Owners of the Company	**278.9**	(22.4)
Non-controlling interests	**-**	0.5
	278.9	(21.9)

Earnings / (loss) per ordinary share (note 15):		
Adjusted basic earnings per share	107.3p	21.0p
Basic		
– from continuing operations	103.9p	(14.3)p
– total	120.3p	(9.0)p
Diluted		
– from continuing operations	102.6p	(14.3)p
– total	118.8p	(9.0)p

[1] Figures for the year ended 31 December 2020 have been re-presented to exclude the results of the Retail and Plumbing & Heating segments, which are now presented as discontinued operations.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

£m	**2021**	2020 (re-presented)
Profit / (loss) for the year	**278.9**	(21.9)
Items that will not be reclassified subsequently to profit and loss:		
Actuarial gain on defined benefit pension schemes	**94.9**	113.1
Income tax relating to other comprehensive income	**(34.3)**	(22.2)
Items that may be reclassified subsequently to profit and loss:		
Foreign exchange differences on retranslation of foreign operations	**2.9**	(2.0)
Total other comprehensive income for the year net of tax	**63.5**	88.9
Total comprehensive income for the year	**342.4**	67.0

Total comprehensive income for the year attributable to the owners of the Company arises from:		
Continuing operations	**304.3**	53.8
Discontinued operations	**38.1**	13.2
	342.4	67.0

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

Consolidated balance sheet

As at 31 December 2021

£m	**2021**	2020
Assets		
Non-current assets		
Goodwill	**853.0**	1,358.5
Other intangible assets	**125.7**	312.0
Property, plant and equipment	**800.1**	830.4
Right-of-use assets	**439.8**	1,145.5
Investments	**-**	9.2
Other receivables	**0.7**	-
Deferred tax asset	**13.9**	-
Retirement benefit asset	**275.8**	178.4
Total non-current assets	**2,509.0**	3,834.0
Current assets		
Inventories	**724.4**	840.7
Derivative financial instruments	**0.2**	-
Trade and other receivables	**706.7**	892.7
Tax debtor	**-**	6.5
Cash and cash equivalents	**459.8**	505.6
Total current assets	**1,891.1**	2,245.5
Total assets	**4,400.1**	6,079.5
Equity and liabilities		
Capital and reserves		
Issued share capital	**25.2**	25.2
Share premium account	**545.6**	545.6
Merger reserve	**326.5**	326.5
Revaluation reserve	**10.5**	14.3
Own shares	**(61.4)**	(39.5)
Foreign exchange reserve	**4.1**	1.2
Retained earnings	**1,387.3**	1,840.5
Total equity	**2,237.8**	2,713.8
Non-current liabilities		
Interest-bearing loans and borrowings	**575.2**	575.7
Lease liabilities	**414.7**	1,168.3
Deferred tax liabilities	**140.4**	77.2
Long-term provisions	**6.8**	21.9
Total non-current liabilities	**1,137.1**	1,843.1
Current Liabilities		
Lease liabilities	**74.5**	158.8
Derivative and other financial instruments	**-**	1.6
Trade and other payables	**921.1**	1,304.2
Tax liabilities	**0.4**	-
Short-term provisions	**29.2**	58.0
Total current liabilities	**1,025.2**	1,522.6
Total liabilities	**2,162.3**	3,365.7
Total equity and liabilities	**4,400.1**	6,079.5

Consolidated statement of changes in equity

For the year ended 31 December 2021

£m	Share capital	Share premium	Merger reserve	Revaluation reserve	Own shares	Foreign exchange reserve	Other	Retained earnings	**Total equity before non–controlling interest**	Non–controlling interest	**Total equity**
At 1 January 2020	**25.2**	**545.6**	**326.5**	**14.5**	**(50.8)**	**3.2**	**(4.1)**	**1,722.6**	**2,582.7**	**4.4**	**2,587.1**
(Loss)/profit for the year	–	–	–	–	–	–	–	(22.4)	(22.4)	0.5	**(21.9)**
Other comprehensive (loss)/income/for the period net of tax	–	–	–	–	–	(2.0)	–	90.9	88.9	–	**88.9**
Total comprehensive (loss)/income for the year	**–**	**–**	**–**	**–**	**–**	**(2.0)**	**–**	**68.5**	**66.5**	**0.5**	**67.0**
Sale of own shares	–	–	–	–	6.4	–	–	–	6.4	–	**6.4**
Option on non-controlling interest	–	–	–	–	–	–	–	4.9	4.9	(4.9)	**–**
Adjustments in respect of revalued fixed assets	–	–	–	(0.2)	–	–	–	0.2	–	–	**–**
Exercise of options over non-controlling interest	–	–	–	–	–	–	4.1	(4.1)	–	–	**–**
Adjustment to IFRS 16 - Leases transition	–	–	–	–	–	–	–	40.3	40.3	–	**40.3**
Equity-settled share-based payments	–	–	–	–	–	–	–	15.6	15.6	–	**15.6**
Tax on equity-settled share-based payments	–	–	–	–	–	–	–	(1.7)	(1.7)	–	**(1.7)**
Tax on revalued assets	–	–	–	–	–	–	–	(0.9)	(0.9)	–	**(0.9)**
Own shares movement	–	–	–	–	4.9	–	–	(4.9)	–	–	**–**
At 1 January 2021	**25.2**	**545.6**	**326.5**	**14.3**	**(39.5)**	**1.2**	**–**	**1,840.5**	**2,713.8**	**–**	**2,713.8**
Profit for the year	-	-	-	-	-	-	-	278.9	278.9	–	**278.9**
Other comprehensive income for the year net of tax	–	–	–	–	–	2.9	-	60.6	63.5	-	**63.5**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**2.9**	**–**	**339.5**	**342.4**	**–**	**342.4**
Demerger dividend	–	–	–	–	–	–	–	(679.7)	(679.7)	–	**(679.7)**
Other dividends	–	–	–	–	–	–	–	(105.4)	(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)	–	**(53.8)**
Shares purchased in share buyback and held as own shares by ESOT					(16.7)				(16.7)		**(16.7)**
Sale of own shares	–	–	–	–	17.4	–	–	–	17.4	–	**17.4**
Own shares movement	–	–	–	–	31.2			(31.2)	-	–	**-**
Equity-settled share-based payments	–	–	–	–	–	–	–	23.2	23.2	–	**23.2**
Tax on equity-settled share-based payments	–	–	–	–	–	–	–	(0.7)	(0.7)	–	**(0.7)**
Tax on revalued assets				(2.7)				-	(2.7)		**(2.7)**
At 31 December 2021	**25.2**	**545.6**	**326.5**	**10.5**	**(61.4)**	**4.1**	**-**	**1,387.3**	**2,237.8**	**-**	**2,237.8**

Consolidated cash flow statement

For the year ended 31 December 2021

£m	**2021**	2020 (re-presented)
Cash flows from operating activities		
Operating profit	**348.5**	27.0
Adjustments for:		
Depreciation of property, plant and equipment	**69.2**	60.0
Depreciation of right-of-use assets	**80.0**	78.0
Amortisation and impairment of internally-generated intangibles	**9.7**	11.5
Amortisation of acquisition-related intangibles	**11.1**	8.6
Share-based payments	**19.1**	17.3
Foreign exchange	**(0.2)**	2.0
Gain on disposal of property, plant and equipment	**(48.9)**	(9.2)
Purchase of toolhire assets	**(11.2)**	(6.4)
(Increase) / decrease in inventories	**(204.5)**	70.0
(Increase) / decrease in receivables	**(171.5)**	500.4
Increase / (decrease) in payables	**224.2**	(373.0)
Payments in respect of adjusting items in excess of the income statement charge	**(27.4)**	27.7
Pension payments in excess of the income statement charge	**-**	(11.5)
Cash generated from operations	**298.1**	402.4
Interest paid and debt arrangement fees	**(15.1)**	(29.6)
Interest on lease liabilities	**(21.1)**	(21.2)
Income taxes paid	**(59.9)**	(27.7)
Net cash from continuing operating activities	**202.0**	323.9
Net cash from discontinued operating activities	**127.3**	162.0
Net cash from operating activities	**329.3**	485.9
Cash flows from investing activities		
Interest received	**1.4**	1.3
Proceeds on disposal of property, plant and equipment	**82.2**	55.4
Purchase/development of computer software	**(2.2)**	(2.5)
Purchases of freehold land and buildings	**(80.9)**	(21.6)
Purchases of other property, plant and equipment	**(81.6)**	(78.2)
Acquisition of subsidiary, net of cash acquired	**(32.3)**	-
Disposal of subsidiaries	**266.9**	1.3
Disposal of other investments	**1.0**	-
Dividends received from other investments	**1.6**	-
Net cash inflow / (outflow) from continuing investing activities	**156.1**	(44.3)
Net cash (outflow) / inflow from discontinued investing activities	**(13.3)**	36.6
Net cash inflow / (outflow) from investing activities	**142.8**	(7.7)
Cash flows from financing activities		
Bank facility fee	**(0.5)**	(2.9)
Shares purchased in share buyback	**(70.5)**	-
Sale of own shares	**17.4**	6.4
Repayment of lease liabilities	**(75.5)**	(73.2)
Payments to pension scheme	**(3.6)**	(3.4)
Dividends paid	**(105.4)**	-
Financing transactions with discontinued operations	**(127.4)**	(76.3)
Bond issue	**-**	248.5
Repayment of borrowings	**(12.0)**	(260.0)
Net cash used in continuing financing activities	**(377.5)**	(8.3)
Net cash used in discontinued financing activities	**(140.4)**	(172.2)
Net cash from financing activities	**(517.9)**	(180.5)
Net (decrease) / increase in cash and cash equivalents	**(45.8)**	297.7
Cash and cash equivalents at 1 January	**505.6**	207.9
Cash and cash equivalents at 31 December	**459.8**	505.6

Notes

1. The Group's principal accounting policies are set out in the 2021 Annual Report & Accounts, which is available from 1 March 2022 on the Company's website www.travisperkinsplc.co.uk.
2. The Directors are recommending a final dividend of 26p in respect of the year ended 31 December 2021. No dividend was paid in respect of the year ended 31 December 2020.
3. The financial information set out in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2021 or 31 December 2020, but is derived from those accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 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 2021 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 28 February 2022.
5. It is intended to post the Annual Report & Accounts to shareholders on 22 March 2022 and to hold the Annual General Meeting on 29 April 2022. 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 2022 or is available on the Group's website at www.travisperkinsplc.com.

6. Revenue reconciliation and like-for like sales

£m	Merchanting	Toolstation	**Total**
2020 revenue (re-presented)	3,064.8	632.7	**3,697.5**
Network change	(104.8)	(6.2)	**(111.0)**
Trading days	(13.4)	(1.5)	**(14.9)**
2020 like-for-like revenue	2,946.6	625.0	**3,571.6**
Like-for-like change	879.5	135.6	**1,015.1**
2021 revenue	3,826.1	760.6	**4,586.7**
Network change	(47.7)	(58.7)	**(106.4)**
2021 like-for-like revenue	3,778.4	701.9	**4,480.3**
Like-for-like revenue %	28.2%	12.3%	**25.4%**

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	2021	2020 (re-presented)
Revenue	**4,586.7**	3,697.5
Cost of sales	**(3,277.9)**	(2,661.3)
Gross profit	**1,308.8**	1,036.2
Selling and distribution costs	**(729.6)**	(712.1)
Administrative expenses	**(291.3)**	(314.8)
Profit on disposal of properties	**48.9**	9.2
Other operating income	**11.7**	8.5
Operating profit	**348.5**	27.0
Adjusting items	**(6.8)**	92.7
Amortisation of acquired intangible assets	**11.1**	8.6
Adjusted operating profit	**352.8**	128.3
Profit on disposal of properties	**(48.9)**	(9.2)
Adjusted operating profit before property disposals	**303.9**	119.1

Other operating income consists of rents receivable.

b. Adjusted profit

£m	2021	2020 (re-presented)
Profit / (loss) before tax	**305.6**	(20.3)
Adjusting items (note 8)	**(6.8)**	92.7
Amortisation of acquired intangible assets	**11.1**	8.6
Adjusted profit before tax	**309.9**	81.0
Total tax	**(64.8)**	(14.8)
Tax on adjusting items	**1.6**	(20.9)
Adjusting items - deferred tax	**4.7**	9.0
Tax on amortisation of acquired intangible assets	**(2.7)**	(1.6)
Adjusted profit after tax	**248.7**	52.6

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

8. Adjusting items

£m	**2021**	2020 (re-presented)
Adjusting items – operating		
Branch closures and restructuring	**(6.8)**	96.9
IT-related settlement and impairment charge	-	(4.2)
	(6.8)	92.7
Adjusting items – tax		
Recognition of deferred tax asset	**(9.6)**	-
Deferred tax rate change	**14.3**	9.0
	4.7	101.7

Branch closures and restructuring

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

Adjusting items – tax

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 (2020: charge of £9.0m arising from the increase in the rate from 17% to 19% effective on 1 April 2020) 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.

2020 adjusting items

In June 2020, the Group announced the closure of 144 branches and the restructuring of distribution, administrative and sales functions. Costs recognised in 2020 in relation to these closures were as follows:

- £46.2m of property costs arising on the closure of branches and office locations, including a £25m impairment charge in respect of right-of-use assets
- £29.7m of redundancy and other restructuring costs
- £9.1m of fixed asset impairments
- £11.9m of inventory provisions in respect of closed branches and associated restructuring

The 2020 gain of £4.2m was the result of the full and final settlement of claims in relation to the cancelled replacement of the Group's merchant ERP system.

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 therefore these segments are excluded from the segmental analysis. Information about these discontinued operations is provided in notes 12 and 20.

9. Business segments continued

£m	Merchanting	Toolstation	Unallocated	**Consolidated**
		2021		
Revenue	3,826.1	760.6	-	**4,586.7**
Segment result	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 segment result	369.1	21.9	(38.2)	**352.8**
Less property profits	(48.9)	-	-	**(48.9)**
Adjusted segment result excluding property profits	320.2	21.9	(38.2)	**303.9**
Adjusted segment margin	9.6%	2.9%	-	**7.7%**
Adjusted segment 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**

		2020 (re-presented)		
£m	Merchanting	Toolstation	Unallocated	**Consolidated**
Revenue	3,064.8	632.7	–	**3,697.5**
Segment result	65.7	4.3	(43.0)	**27.0**
Amortisation of acquired intangible assets	6.2	2.4	-	**8.6**
Adjusting items	89.1	0.9	2.7	**92.7**
Adjusted segment result	161.0	7.6	(40.3)	**128.3**
Less property profits	(9.2)	-	-	**(9.2)**
Adjusted segment result excluding property profits	151.8	7.6	(40.3)	**119.1**
Adjusted segment margin	5.0%	1.2%	-	**3.2%**
Adjusted segment margin excluding property profits	4.6%	1.2%	-	**3.2%**
Average capital employed	2,084.4	430.1	(70.7)	**2,443.8**
Segment assets	2,583.5	567.5	739.7	**3,890.7**
Segment liabilities	(963.5)	(271.2)	(689.9)	**(1,924.6)**
Consolidated net assets	1,620.0	296.3	49.8	**1,966.1**
Capital expenditure	68.4	17.1	26.2	**111.7**
Amortisation of acquired intangible assets	6.2	2.4	–	**8.6**
Depreciation and amortisation of software	65.5	5.5	2.5	**73.5**

10. Net finance costs

£m	2021	2020 (re-presented)
Interest on bank loans and overdrafts	**(0.6)**	(3.0)
Interest on bonds	**(20.0)**	(19.5)
Amortisation of issue costs of bank loans	**(1.2)**	(2.3)
Accelerated interest on repayments of 2014 bond	**–**	(10.0)
Unwinding of discounts – property provisions	**(0.1)**	(0.2)
Unwinding of discounts – pension SPV loan	**(2.0)**	(2.1)
Net loss on remeasurement of foreign exchange	**(1.3)**	–
Net loss on remeasurement of derivatives at fair value	**(0.5)**	–
Finance costs before lease interest	**(25.7)**	(37.1)
Interest on lease liabilities	**(21.1)**	(21.2)
Finance costs	**(46.8)**	(58.3)
Net gain on remeasurement of foreign exchange	**–**	6.4
Net gain on remeasurement of derivatives at fair value	**–**	1.4
Other finance income – pension scheme	**2.4**	1.1
Interest receivable	**1.5**	2.0
Finance income	**3.9**	10.9
Net finance costs	**(42.9)**	(47.4)

11. Tax

£m	2021	2020 (re-presented)
Current tax:		
Current year	**62.1**	16.0
Prior year	**0.6**	3.6
Total current tax	**62.7**	19.6
Deferred tax:		
Current year	**1.9**	(4.9)
Prior year	**0.2**	(0.1)
Total deferred tax	**2.1**	(4.8)
Total tax charge	**64.8**	14.8

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. As a result, the Plumbing & Heating and Retail segments are presented as part of discontinued operations and the figures for the year ended 31 December 2020 have been re-presented.

12. Discontinued operations continued

The Wickes business was demerged on 27 April 2021. In accordance with IFRIC 17 – Distributions of Non-cash Assets to Owners, the Group recognised the distribution at a fair value of £679.7m, as measured by the volume-weighted average price on the day the demerged business was admitted to the market. The difference between the fair value of the Wickes business and the carrying amount of the assets distributed has been recognised as an expense. The loss on the revaluation of the Wickes business that was distributed to shareholders was £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 (2020: £nil) from the Plumbing & Heating business before the completion of the sale.

a. Results of discontinued operations

£m	**Year ended 31 December 2021**	Year ended 31 December 2020
Revenue	**1,469.2**	2,460.0
Operating profit	**56.0**	50.1
Net finance costs	**(18.4)**	(37.5)
Profit before tax	**37.6**	12.6
Tax	**(11.1)**	0.6
Profit for the period of discontinued operations	**26.5**	13.2
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**	13.2

The revenue for the year ended 31 December 2021 of £1,469.2m (2020: £2,460.0m) consists of £921.3m (2020: £1,068.8m) relating to the Plumbing & Heating business and £547.9m (2020: £1,391.2m) relating to Wickes. The operating profit of £56.0m (2020: £50.1m) consists of £28.4m (2020: loss of £1.0m) relating to the operation and sale of the Plumbing & Heating business and £27.6m (2020: £51.1m) relating to the Wickes business and its demerger.

b. Net assets distributed and disposed

Net assets distributed through the Wickes demerger and disposed of through the sale of the Plumbing & Heating business are as follows:

	£m
Assets	
Property, plant and equipment	**137.1**
Right-of-use assets	**674.3**
Goodwill	**522.7**
Intangible fixed assets	**181.4**
Inventory	**347.9**
Trade and other current receivables	**321.7**
Deferred tax asset	**4.8**
Cash and cash equivalents	**263.9**
Total assets	**2,453.8**

12. Discontinued operations continued

	£m
Liabilities	
Trade and other payables	**(631.4)**
Lease liabilities	**(841.1)**
Provisions	**(21.8)**
Total liabilities	**(1,494.3)**
Net assets	**959.5**

c. Cash flows relating to discontinued operations

£m	2021	2020
Net cash from operating activities	**127.3**	162.0
Net cash (outflow) / inflow from investing activities	**(13.3)**	36.6
Net cash used in financing activities	**(140.4)**	(172.2)
Net cash flows for the year for discontinued operations	**(26.4)**	26.4

Net cash flows used in investing activities represent the purchase of tangible fixed assets, offset in 2020 by proceeds of £52.4m from the disposal of Primaflow F&P, the Plumbing & Heating business' wholesale operation.

Net cash used in discontinued financing activities in 2021 consists of the repayment of £29.8m of lease liabilities, dividend payments from P&H to the continuing Group of £28.7m, the settlement of intra-group debt of £156.1m and £238.0m of cash and cash equivalents within Wickes at the date of its demerger.

Net cash used in discontinued financing activities in 2020 represents the £6.0m purchase of a non-controlling interest, the repayment of £89.9m of lease liabilities and the settlement of intra-group debt.

Within the continuing cash flow statement, financing transactions with discontinued operations in 2021 represents an outflow of £127.4m for £156.1m settlement of intra-group debt and the dividend payment from P&H of £28.7m. In 2020, the £76.3m inflow represented settlement of intra-group debt.

13. Pension schemes

£m	2021	2020
At 1 January actuarial asset	**178.4**	52.6
Amounts recognised in income:		
Current service costs and administration expenses	**(1.9)**	(1.6)
Interest income	**2.5**	1.1
Other movements:		
Contributions from sponsoring companies	**1.9**	13.0
Foreign exchange	**-**	0.1
Amounts recognised in other comprehensive income:		
Return on plan assets (excluding amounts included in net interest)	**(2.2)**	193.3
Actuarial (loss)/gain arising from changes in demographic assumptions	**(15.5)**	60.5
Actuarial gain/(loss) arising from changes in financial assumptions	**93.5**	(163.5)
Actuarial gain arising from experience adjustments	**19.1**	22.9
Gross pension asset at 31 December	**275.8**	178.4
Deferred tax liability	**(68.8)**	(33.9)
Net pension asset at 31 December	**207.0**	144.5

14. Dividends

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

£m	2021	2020
Final dividend for the year ended 31 December 2020 of nil pence (2020: nil pence) per ordinary share	–	–
Interim dividend for the year ended 31 December 2021 of 12.0 pence (2020: nil pence) per ordinary share	26.9	–
Special dividend of 35.0 pence (2020: nil pence) per ordinary share	78.5	–
Total dividend recognised during the year	105.4	–

The Directors are recommending a final dividend of 26p in respect of the year ended 31 December 2021. The anticipated cash payment in respect of the proposed final dividend is £58.5m (2020: £nil).

Share buyback

Following the disposal of the Plumbing & Heating business on 30 September 2021, the Company announced a special dividend of £78.5m and a share buyback programme of £170.0m. The Directors' intention is to extend the share buyback programme in 2022 in order to distribute the full net proceeds of the sale. The share buyback is taking place within the limitations of the authority granted to the Board at the Company's annual general meeting held on 27 April 2021. Whilst the intention was to extend the programme in 2022, the contract for the share buy back arrangement specifically states that the programme is cancellable, and therefore no liability has been recognised for the remaining shares that were not yet purchased at 31 December 2021.

15. Earnings per share

a. Basic and diluted earnings per share

£m	2021	2020 (re-presented)
Profit / (loss) attributable to the owners of the parent		
- from continuing operations	240.8	(35.6)
- from discontinued operations	38.1	13.2
Weighted average number of shares for the purposes of basic earnings per share	231,766,613	248,566,317
Dilutive effect of share options on potential ordinary shares	2,967,694	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	234,734,307	248,566,317
(Loss) / earnings per share		
- from continuing operations	103.9p	(14.3)p
- from discontinued operations	16.4p	5.3p
Diluted (loss) / earnings per share		
- from continuing operations	102.6p	(14.3)p
- from discontinued operations	16.2p	5.3p

15. Earning per share continued

6,545 share options (2020: 382,770 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	**2021**	2020 (re-presented)
Earnings for the purposes of earnings per share	**240.8**	(35.6)
Adjusting items	**(6.8)**	92.7
Amortisation of acquired intangible assets	**11.1**	8.6
Tax on adjusting items	**1.6**	(20.9)
Adjusting deferred tax	**4.7**	9.0
Tax on amortisation of acquired intangible assets	**(2.7)**	(1.6)
Earnings for adjusted earnings per share	**248.7**	52.2
Adjusted earnings per share	**107.3p**	21.0p
Adjusted diluted earnings per share	**105.9p**	21.0p

16. Net debt

a. Covenant net debt

£m	**2021**	2020
Cash and cash equivalents	**459.8**	505.6
Non-current interest-bearing loans and borrowings	**(575.2)**	(575.7)
Non-current lease liabilities	**(414.7)**	(1,168.3)
Current lease liabilities	**(74.5)**	(158.8)
Net debt	**(604.6)**	(1,397.2)
Less: Liability to pension scheme	**28.5**	30.1
Less: Lease liabilities	**489.2**	1,327.1
Covenant net debt	**(86.9)**	(40.0)

16. Net debt continued

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 2020	(207.9)	1,412.3	(2.1)	553.9	31.5	**1,787.7**
Additions to leases	–	99.3	–	–	–	**99.3**
Disposals of leases	–	(21.4)	–	–	–	**(21.4)**
Cash flow	(297.7)	(222.1)	(0.5)	–	(3.4)	**(523.7)**
Finance charges movement	–	–	0.6	(0.5)	–	**0.1**
Amortisation of swap cancellation receipt	–	–	–	(5.8)	–	**(5.8)**
Discount unwind on liability to pension scheme	–	–	–	–	2.0	**2.0**
Discount unwind on lease liabilities	–	59.0	–	–	–	**59.0**
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)**
Derecognition of lease liabilities on the demerger and disposal of subsidiaries	-	(841.1)	-	-	-	**(841.1)**
Finance charges movement	-	-	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**
31 December 2021	**(459.8)**	**489.2**	**(1.5)**	**548.2**	**28.5**	**604.6**

17. Free cash flow

£m	2021	2020 (re-presented)
Adjusted operating profit	**352.8**	128.3
Less: Profit on disposal of properties	**(48.9)**	(9.2)
Adjusted operating profit excluding property profit	**303.9**	119.1
Share-based payments	**19.1**	12.2
Other net interest paid	**(13.6)**	(28.3)
Interest on lease liabilities	**(21.2)**	(21.3)
Income tax paid	**(59.9)**	(27.6)
Movement on working capital	**(151.8)**	197.4
Depreciation of property, plant and equipment	**69.2**	60.0
Amortisation and impairment of internally-generated intangibles	**9.7**	11.5
Capital expenditure excluding freehold purchases	**(95.0)**	(87.1)
Disposal of plant and equipment	**4.4**	5.4
Free cash flow	**64.8**	241.3

18. Return on capital ratios

Group return on capital employed is calculated as follows:

£m	2021	2020 (re-presented)
Operating profit	**348.5**	27.0
Amortisation of acquired intangible assets	**11.1**	8.6
Adjusting items	**(6.8)**	92.7
Adjusted operating profit	**352.8**	128.3
Opening net assets	**2,713.8**	2,587.1
Net pension surplus	**(144.5)**	(43.7)
Net debt	**1,397.2**	1,787.7
Less: net assets of discontinued operations	**(747.7)**	(902.3)
Less: net borrowings of discontinued operations	**(842.1)**	(918.7)
Opening capital employed	**2,376.7**	2,510.1
Closing 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)
Closing capital employed	**2,635.4**	2,376.7
Average capital employed	**2,506.1**	2,443.4

18. Return on capital ratios continued

Group return on capital employed is calculated as follows:

£m	**2021**	2020 (re-presented)
Adjusted operating profit	**352.8**	128.3
Average capital employed	**2,506.1**	2,443.4
Return on capital employed	**14.1%**	5.3%

19. Net debt to adjusted EBITDA

£m	**2021**	2020 (re-presented)
Operating profit	**348.5**	27.0
Depreciation and amortisation	**170.0**	158.1
EBITDA	**518.5**	185.1
Adjusting operating items	**(6.8)**	92.7
Share of associates' results	**-**	0.1
Adjusted EBITDA	**511.7**	277.9
Net debt	**604.6**	1,397.2
Net debt to adjusted EBITDA	**1.2x**	5.0x
Memo: Net debt excluding discontinued operations to adjusted EBITDA	**1.2x**	2.0x

20. Business combinations

a. Demerger of Wickes

On 27 April 2021 Wickes business was demerged, as described in note 12. As a result of this transaction, £455.2m of goodwill and £162.5m of intangible fixed assets were derecognised by the Group.

b. Disposal of Plumbing & Heating

On 30 September 2021 the Group sold the Plumbing & Heating distribution business to an affiliate of H.I.G. Capital, as described in note 12. As a result of this transaction, £67.5m of goodwill was derecognised by the Group.

c. Acquisition of Staircraft business

On 26 October 2021 the Group acquired an additional 85% of the ordinary share capital of P.H. Properties Limited ("Staircraft") for consideration of £48.0m, giving the Group a 100% equity share of the business. Staircraft is a market-leading business that provides integrated stair, floor and door solutions. This acquisition expands the Group's customer proposition by adding digital component design, timber engineering and production capability.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	£m
Cash consideration paid	38.2
Financial liabilities assumed from the seller	0.8
Settlement of pre-existing loans	2.3
Fair value of pre-existing equity investments	6.7
Total consideration	48.0

20. Business combinations continued

Fair values ascribed to the identifiable assets and liabilities acquired and the goodwill recognised are:

	£m
Property, plant and equipment	27.6
Intangibles	0.5
Intangible assets – R&D	2.0
Intangible assets – customer relationships	7.4
Inventory	9.3
Trade and other receivables	9.1
Cash	5.9
Deferred tax liability	(8.8)
Trade and other payables	(13.5)
Provisions	(1.0)
Loans	(12.0)
Net identifiable assets acquired	26.5
Goodwill	21.5
Net assets acquired	48.0

The goodwill recognised is principally made up of the value of the assembled workforce. It will not be deductible for tax purposes.

Outflow of cash to acquire subsidiary, net of cash acquired:

	£m
Cash consideration	38.2
Less: cash acquired	(5.9)
Net outflow of cash – investing activities	32.3

Revenue and profit contribution
In 2021, the acquired business contributed revenue of £10.2m and a net loss of £0.3m to the Group results. If the acquisition had occurred on 1 January 2021, the Group's revenue for the year ended 31 December 2021 would have been £49.4m higher and the Group's profit for the year would have been £3.9m higher. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the Group and Staircraft, and
- the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2021, together with the consequential tax effects.

Acquisition-related costs
Acquisition-related costs of £0.2m are included in administrative expenses in the statement of profit or loss and in operating cash flows in the statement of cash flows.

20. **Business combinations** continued

d. 2020 acquisitions and disposals

On 31 January 2020, the Group sold the Primaflow F&P wholesale business for cash consideration of £50.1m. Total net assets sold were £48.3m generating profit on disposal of £1.8m. As a result of this transaction, £2.9m of goodwill was derecognised by the Group. On 30 September 2020, the Group sold Tile Giant Limited for a total consideration of £6.1m generating profit on disposal of £1.4m. Total consideration consisted of cash consideration of £3.3m and loan notes of £2.8m.

On 30 October 2020, the Group acquired an additional 10% of the issued share capital of The Underfloor Heating Store Limited for cash consideration of £6.0m, resulting in the Group controlling 100% of the issued share capital. On 17 December 2020, the Group acquired an additional 10% of the issued share capital of the TFS Holdings Limited for consideration of £1.9m, resulting in the Group controlling 100% of the issued share capital.