

Chief Executive's statement



Whilst external markets will be challenged throughout 2024, the actions we are taking, alongside the previous investments we have made to build long-term competitive advantage, will ensure that the Group is well positioned to benefit when demand recovers.

Nick Roberts
Chief Executive Officer

A challenging year

Continued macroeconomic uncertainty and weak market conditions significantly impacted the Group's trading performance during the year with notable volume weakness across new build housing and domestic RMI as well as challenging deflationary dynamics on commodity products.

We are taking tough but necessary decisions to navigate these challenging market conditions including addressing our cost base and finding solutions to reduce the impact of our loss-making businesses. We are also transforming our operating model to capitalise on our scale and create a simpler and more efficient business. These actions will be underpinned by a highly disciplined approach to overhead management and capital expenditure that will enhance cash generation and ensure that the Group continues to benefit from a strong balance sheet.

Our teams are continuing to grow market share in both Toolstation UK and the General Merchant, reflecting our market leading positions and positive customer response to our differentiated offer.

Whilst the timing of any recovery remains uncertain, the structural drivers for the Group, including the acute shortage of both public and private housing and the increasing need to decarbonise the UK's built environment, remain compelling. The actions we are taking, alongside the previous investments we have made to build long-term competitive advantage, will ensure that the Group is well positioned to benefit when demand recovers.



What are your thoughts on the Group's performance in 2023?

A: It has been a difficult year for the Group with volatile market conditions making business planning challenging. We had expected a tough first quarter with September 2022's "mini-budget" driving up interest rate expectations and significantly reducing new build housing volumes. However, we had also anticipated an improvement into the second quarter which did not materialise as persistently high consumer inflation raised interest rate expectations further.

In the second half we saw the market price of timber – the Group's largest product category – fall sharply, leading to overall price deflation on our basket of goods, placing pressure on trading margins. We focused on ensuring that we passed this through to customers to win work and were rewarded by market share gains in the second half, although the impact on overall profitability was significant. We also experienced high levels of overhead inflation through the year as we sought to protect our colleagues from the cost-of-living impact with, firstly, a one-off payment in January to all colleagues earning under £50,000 and then a minimum 6% pay award in April for all but senior management.

Towards the end of 2023 it became clear that market conditions would remain subdued in 2024, so we accelerated plans to continue the transformation of the business, starting with a reduction in central and regional headcount alongside efficiencies realised within the Group's supply chain. These actions will deliver annualised savings of around £35m and resulted in a one-off restructuring charge of £17m in 2023.

Throughout the year we sought to balance short-term trading actions with long term strategic priorities but the combined impact of these factors on trading has led to the Group delivering a financial performance notably below that which we had envisaged at the start of the year.

Q Although this has clearly been a very challenging year in terms of trading, what progress has the Group made towards long-term strategic goals?

A: We had to adapt our trading stance, maintain competitive pricing and service levels and adjust our costs and operations to the conditions. While near-term conditions necessarily occupied much of our focus we did continue to make progress on modernising the business with the introduction of digital branch processes in our Merchant businesses and enhancing our future distribution capacity and capability with our new Pineham distribution centre for Toolstation UK. Internally we progressed updates to our core technology systems to support more agile decision making by business managers. Culturally our data literacy has improved, colleagues have embraced the changes and it's making service quicker and easier for our customers. From a market share, modernisation, technology and safety perspective I think we're ahead of our competition and that means we can emerge more strongly when the market recovers.

Q Have you seen different dynamics in the end markets the Group serves?

A: That has certainly been the case with marked differences across our end markets. New house building activity has fallen sharply, driven mainly by increasing interest rates. This has significantly impacted on our CCF, Keyline and Staircraft businesses. Domestic RMI, the bedrock of our Travis Perkins General Merchant business, has remained subdued. Although Toolstation is also exposed to this market, alongside DIY, the business has delivered good revenue growth during the year, driven by the benefits of its maturing store network and the compelling value and service proposition that we have developed.

Other end-markets – namely public sector, commercial and industrial – have been more resilient which has been reflected in a more robust performance in BSS and a good performance in our Managed Services division which services social housing. We've also seen an excellent performance from our Hire division, reflecting the investment we've made in the business and the benefit this service provides to our customers who enjoy the flexibility of this service given the current pressures on their businesses.

Q How have you had to adapt?

A: Every colleague in the business has had to be absolutely focused on meeting our customers' needs and using data and information to predict and respond to customer behaviour and competitor activity. We can still get better at this and it will be even more critical for 2024. Our sharpened customer propositions will always be competitive on price: not always the cheapest, but ahead of others on the depth, breadth and quality of our service and solutions. For these reasons we will continue to invest in areas such as digital processes, delivery management, destination branches, in the skills of our people and in reducing waste and carbon in our operations.

Q Looking across the wider construction industry have you seen any changes in behaviour attitudes that you expect to endure?

A: I joined the Construction Leadership Council Board as Industry Sponsor for People and Skills. This has enhanced my view that there are still compelling and long-term positive drivers of growth within the construction industry in our markets, the need for more homes, to retrofit them and the need for enhanced economic and social infrastructure.

I have heard an increased recognition among policy makers of the need to get beyond the political and economic turmoil of the last year and give more clarity and certainty about long term policy and incentives. For People and Skills our challenge is one of absorption and retention within the industry, how we attract more young people or career changers and retain and up-skill those who have already chosen construction in the right competence standards and future skills. We as a Group, powered by our LEAP Apprenticeship infrastructure which in 2023 was rated Good by Ofsted, will keep a focus on developing the next generation workforce as we see this as crucial to sharpening the quality of our customer service here and now, as well as vital for our long term productivity and differentiation.

Q What are your views on market dynamics in 2024 and the outlook for the Group?

A: We believe that our end markets will remain challenging throughout 2024. A UK general election is probable this year and geopolitical instability will continue to bring uncertainty to markets for a sustained period of time. Against this uncertainty we must focus on what we can control and ensure that we execute our decisions well and at pace.

We announced the first phase of a structural reorganisation predominantly across our central and regional operations at the end of 2023 which has resulted in a £35m overhead reduction. We will be disciplined in our capital allocation with a reduction in investment from previously guided levels, and we will focus on our working capital to ensure that every pound invested provides a robust return.

From a customer perspective we will continue to provide a greater focus on the 'deepening' element of our strategy as we use our internal and external data to support our customers through the year ahead. Making sure that we are there to provide great prices, great availability and great project support to our existing and new customers.