



Travis Perkins Plc
Q3 2024 Trading Update
24th October 2024



Speakers

Pete Redfern, Chief Executive Officer

Duncan Cooper, Chief Financial Officer

Questions From

Annelies Vermeulen, Morgan Stanley

Emily Biddulph, Barclays

Arnaud Lehmann, Bank of America Merrill Lynch

Priyal Woolf, Jefferies

Marcus Cole, UBS

Ami Galla, Citigroup

Ben Wild, Deutsche Bank

Zaim Beekawa, JP Morgan

Clyde Lewis, Peel Hunt

Charlie Campbell, Stifel

Harry Goad, Berenberg Bank

Shane Carberry, Goodbody



Introduction

Telephone Operator

Good morning everyone and welcome to today's Travis Perkins Plc Q3 trading update call. My name is Dru and I'll be the operator today.

During today's call there will be a Q&A session. If you would like to register a question, please press * followed by 1 on your telephone keypad and if you wish to withdraw your question then it is * followed by 2.

I'm now going to turn the call over to Pete Redfern to begin, please go ahead when you're ready.

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Key Highlights

Pete Redfern, Chief Executive Officer

Thank you Dru, welcome everybody, thank you for joining us. I'll make probably slightly longer opening comments than usual because I want to cover the backdrop, trading, the market, but also talk a little bit about my own early observations of the Group and some of the areas on which we'll focus over the course of the next few months.

There's nothing in here that I would call strategy, it's obviously far too early for that and you know we won't be taking questions on that. But happy to talk quite openly about where we will put our emphasis and some of the things that we think we can do with the Group during the course of 2025.

Before I start, I would say that I'm going to split in my remarks the market from our own performance because I think historically, we've tended to lump the two things together. And I don't think that reflects reality or is particularly helpful to us. I think it's quite important to distinguish that this is a business with lots of levers, it has complexities, but its complexities give it choices into how it faces into the market. And by joining the two together we imply that we're just at the whim of the market and I don't believe that we are or that we should be.

But on this occasion, I think we also have to call out that our own performance relative to the market in some parts of the business has been lacking. And I think it's important that we call that out because only by being really clear do we focus our attention on how we make that better.

So, my opening comments are about the business in general and then I'll move on to what I've been doing myself and some of the things that I've seen about the Group over the course of the last five weeks.

So, first of all on the market. Quarter three was not massively different to half one. There were moving parts within it - for instance in Toolstation there remained a slight uptick relative to the previous year and I think the business has developed that well.

But in Merchanting, where obviously we have businesses facing into different parts of the market, you see different behaviours and particularly different paces as the business starts to see some very early signs of recovery.



In BSS as we had a very, very weak quarter two. And we saw a very slight recovery in quarter three, but not back to previous levels or our expectations at the beginning of the year. But I'd say the trend exiting quarter three was actually slightly up.

In CCF a very tough market but largely due to competitor action rather than due to any shift in underlying demand.

I think you'll find Keyline the most interesting because obviously facing into housebuilders and particularly into groundworks you see the earliest signs of increased activity. With my former hat on I can easily see people starting up new phases in existing sites. We're not yet seeing any uptick in site numbers, and I think we'll need to see shifts in planning permission numbers for that to happen. But definitely it's the one part of the business where you do see increased activity and increased interest in a more meaningful way.

General Merchant business - and here just to be clear I am very much talking about the market - remains tough. I'm not saying for a second that 2024 hasn't been a pretty difficult year in the market regardless of our own performance. But I would say that the General Merchant environment isn't materially worse in quarter three than it was in the first half - I think that's pretty important.

General overall sense is that we're seeing the very early signs of a shallow recovery, but it probably is quite patchy. I think with the backdrop of mixed political messages the sense of a general election settled has helped but there's a lack of clarity on how quickly we'll see infrastructure spend change and how much that will move. And I think a delayed budget has quite a lot of things left slightly hanging.

Our overall sense is not of seeing projects cancelled, as I've gone around the business which I'll come back to, very few examples of cancelled projects, but projects that are there waiting to go. And whether they're directly related to budget conclusions, or whether that's more of a confidence issue, we might see a slight change after we get through the budget period.

Going back to trading performance, and distinguishing it from the external market, as I touched on, Toolstation performance was solid and reflected the positive performance in the first half.

In the Specialist Merchants there are Group-led, as I would describe it, distractions which continue to affect their performance. But, overall, in the context of their market and taking into account those Group-led distractions I think they're performing reasonably well. We need to remove some of those distractions which I'll come back to and give their leaders a chance to perform as they can.

I think there are specific challenges in CCF as I touched on which are market-led and looking into that next year and working out how we adjust our strategy to make sure we face into the market well is quite important.

Spending a bit longer on General Merchanting, a few overall comments. I think the business is distracted, there have just been too many projects driven particularly from a Group perspective but not solely. I think we've lost volume in some instances because of this, and we've taken the emphasis of our frontline teams away from their own sense of control and their ability to face into the market.



In some places - and I'm looking over a longer period than just quarter three here - we've used price to recover some of that volume position and we haven't always done it tactically well. And our strategy has been too reactive and changed from one angle to another too quickly.

We can do a lot better than this - some of it is relatively straightforward and we can resolve quite quickly, some of it inevitably will take longer. But it's not fundamentally a broken business it's just a business that needs a clearer strategy, far clearer leadership and management, and just the opportunity to do what it can do in the marketplace.

If I go back to what I've spent my time on over the course of the last five weeks, just to give you a flavour, I've visited about 40 different branches and stores. I've had somewhere between 600 and 700 different conversations with members of staff around the Group from people in the yard through to the leadership teams of most of the major businesses. That's given me a really good in-depth flavour of what's happening. And a lot of the comments that I'm making are taken from that, taken from my own observations from the outside, from my own history with the business. But I've reflected them to the staff. And to be honest, the response has been "yeah, that's kind of how we see it". And to be honest, they're relieved to have somebody actually call it out and say these are the challenges these are things we can deal with. This is a great business that has potential to perform significantly better.

When I touch on the site visits or the branch visits it's very clear that there hasn't been enough of that both in general and from the CEO role, particularly over the last two years but, arguably, over a longer period. And it makes a massive difference to that local ground level morale, but also to you understanding what changes you need to make and particularly to understanding how they land.

If I touch on the cost savings - just to be clear - this business needed to make cost savings, it was too top heavy and it was too cost heavy. But the way in which they were executed hasn't really taken the time to understand where those levers should be pulled. And in places we've shot ourselves in the foot because we've taken cost out in critical areas and not really worked out how we would replace the work that those people were doing.

As well as those internal visits and conversations, I've started to have some early contact with customers and suppliers. And it is relatively small numbers, I will have a much bigger programme of that during November, December and January. And the messages that I get from those customers and suppliers are very encouraging, whilst they can see some of the issues that I've just touched on, they want Travis Perkins to be successful, arguably they need Travis Perkins to be successful.

They reflect to me what I'm about to talk say on the strength of our branch network, it's very important to them that our business works, and they're really interested in where we're going to go.

I think those relationships are strong at the ground level and they've just been crying out for better connection into the business as a whole and for us to clarify some of the areas in which we work and where we want to go.

When I look at what I've seen as I've gone around the branches one of the things - and it's the sort of thing everybody says but I'm going to give you a bit more depth - we have great people, but I don't just mean nice decent people who care about Travis Perkins. I mean people who are skilled commercially, who have strong customer



relationships and are passionate about the business and are frustrated and reflect some of the challenges that I've just talked about.

I think, if I'm honest, we have lost the dressing room, but the reality is people want to come back into the fold and are eager to do so, both the many, many people who are still in the business and passionate about it, but even some that have left.

Talking about our branches - you can see it from the outside but when you really go around and spend time with our own business going to look at where our competitors are positioned, we have a great branch network. There are places in towns where we have unique branches, where nobody can compete because of the location that we have. And that I think is something that our competitors are jealous about.

I think one very strong piece of good news is where we've put new branches on the ground those are good investments, both the locations that we've chosen and the way that we've set those branches up. They're performing well even given some of the distractions that I talk about and the potential for them to perform outstandingly well is there.

While some of the Group-led projects I think have not been a good use of the Group's capital, where we've invested in our core businesses that's been done well and gives you confidence about the teams that have performed those investments.

I think in the centre there's a similar pattern to branches - perhaps surprisingly so, and I know it may not feel this way from the outside, there's actually really good knowledge, capable and skilled people. But there are confused structures and mismanaged change. We've added too much cost and then botched how we've taken it out.

There are clear cost savings that we should be going at in this business, but if you go at them too early and if we really don't get clarity of what we're doing then I think we risk repeating those mistakes. So, getting that right is really important.

There is a huge amount of unlocked potential in the Group, lots of areas where we can add value. Some of it's quite quick, some of it is actually just about refocusing people and not making it too complex. Some of it will take longer. It makes it hard to give you a clarity on the pace of that turnaround, but we'll come back and talk about it at every communication that we have next year. We'll start talking about it in a bit more depth at the prelims. And later on in the year I think we'll give you a much clearer conclusion about where we're heading, what the numbers look like and what the timing looks like.

I'm just going to talk briefly about the decision in General Merchanting and the leadership of General Merchanting. It's really important that the Group CEO is close to this business. You can see some of the challenges where that's not been the case in the past. You need a clarity of communication, a speed of decision making. You need to build on what's an underlying strong culture and really leverage it and have our people fired up and facing into our customers. And we also need to be able to develop the strategy with a much closer relationship with the business, both day-to-day and the leadership teams.

So, for me to take the two roles and sit within that General Merchanting leadership team, who I believe have a lot of experience and a lot of strength, feels right and I think has been received well within the business as we've announced it this morning.



That's enough from me for now. I'm going to hand over to Duncan, who I'm sure will touch on France, management of the balance sheet and anything else that he wants to cover.

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Duncan Cooper, Chief Financial Officer

Thanks, Pete. Just two very brief points for me to pick up on those two items as referenced in the statement. In respect of Toolstation France, that business will be closed by the end of the year as per our previous guidance and will be reported as a discontinued operation when we present our year-end results.

And on the balance sheet, we continue to maintain a strong vigilance in respect of cash and working capital and are making good progress. I'm not going to give any specific further guidance and updates on that other than what we've said to you previously, other than to say we're continuing to make good progress and see further opportunities of that in the second half, which we're focused on.

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Pete Redfern, Chief Executive Officer

So, if we can open up for questions then, please, Dru.

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Questions and Answers

Telephone Operator

Of course. If you would like to ask a question on today's call, please press * followed by 1 on your telephone keypad. And if you wish to withdraw your question, then it is * followed by 2.

Our first question today comes from Annelies Vermeulen from Morgan Stanley. Your line is now open. Please go ahead.

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Annelies Vermeulen, Morgan Stanley

Hi, good morning, Pete, Good morning, Duncan. Thank you for the comprehensive overview. Helpful comments there. I have three questions, please. So, firstly, at the half year results, I think you talked about wanting to maintain market share in Merchanting. That clearly hasn't been the case through the summer, despite some of those changes you outlined to optimise pricing. So, could you just elaborate a little bit on what you did with pricing, why wasn't it successful, and what your competitors have done that means you've lost that market share? And do you think this is something that will continue into Q4 and early into next year before you're able to make some of the changes you hope to do going forward?

And then just secondly, on leverage and the balance sheet, I appreciate, Duncan, that you're not quantifying it. But again, I think previously you've talked about wanting to de-lever or at least maintain leverage on a year-on-year basis, given the guidance down this morning, is that still the case?

And then just lastly, Pete, in terms of your review of the business and all the conversations you're having, how long do you expect that process to take? You mentioned updating the market through 2025, but also wanting to get it right. So, I'm



just wondering what the trajectory could look like next year and some of the changes you hope to implement. Thank you.

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Pete Redfern, Chief Executive Officer

Thanks, Annelies. I'll pick up the first and the last, let's deal with them in order. So, I'll do the first and then hand over to Duncan and I'll come back to the last question.

I mean, obviously, I wasn't here at the half year, but I recognised the messaging, and I don't think it was wrong as an intent. But I think if I give you an example, and I think it's a good example - it gives you a flavour because the intent was very logical. And actually, the execution, I don't think was particularly wrong. But there's a slight naivety in not understanding that there's an inevitability to a transition period. And having this kind of transition when you're at such a sensitive point in terms of market performance is something I think you should try and avoid.

So, the business is very focused - and should be - on winning back its market share of general builders - it's a core part of the value added by the General Merchandising business at a local level. And it quite rightly looked at its pricing around key products for that market.

But the strategy, which is, as I say, perfectly valid, was to get the pricing right and clear. And a lot of this is about how we present our prices, not just what those prices are, so it was slightly inevitably going to result in a small price decline through the transition. But then with what we would hope would be a long, but extended, recovery in volume sales to those same builders. So, the gain is much bigger than the cost, but the gain comes over a longer period of time.

So, it's slightly unsurprising then in quarter three that has a net negative impact, it's the timing that I would question rather than either the strategy or even the execution.

But if I hand over to Duncan for the second question and then come back to the third.

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Duncan Cooper, Chief Financial Officer

On the leverage point, Annelies, the aspiration is still wholly there. It's a fair question based on the number. I'll just remind you as well, obviously, that taking France out is worth about 20 bps on that lease adjusted net debt to EBITDA ratio.

It will depend as to where we land in relation to stock and the other moving parts of working capital at the end of the year. But what I would say is, we would like to get that number down, but we're not going to do anything dysfunctional, which puts us in a weak position entering 2025 with an expected market recovery.

The main point is that the outlook for the business is that we expect that leverage position to come down steadily and sensibly over the course of 2025 and into 2026. Thanks.

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Pete Redfern, Chief Executive Officer

Thanks, Duncan. And going back to the timing of when we'll be talking to the market during the course of next year, I'd divide it into two things. And obviously, you'd expect



this. There is a series of operational things that I think we can do quickly. And some of those we've started doing already and we'll do over the next few weeks. And certainly, when we come to the prelims, we'll talk about those more fully.

Then you have strategy. And of course, the dividing line between the two is never completely black and white. And actually, as a result of that strategy, setting out for you where we think this business can go and when. And I would expect that to be roughly in the autumn of next year.

So, by the end of next year, you'll have a full picture. But it will come as we develop short term actions and priorities and then the longer-term goals of the business.

I would say that I would expect us more than has been the case with this Group in recent years to map out more clearly what investors can expect in terms of financial returns and performance and where our key target priorities are. But as I say, that will come later in the year.

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Annelies Vermeulen, Morgan Stanley

Thank you both. That's helpful.

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Pete Redfern, Chief Executive Officer

Thanks. Back to you, Dru.

Telephone Operator

Our next question comes from Emily Biddulph from Barclays. Your line is now open. Please go ahead.

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Emily Biddulph, Barclays

Hey, guys. Really great to hear from you. I've got three questions, please. The first one is just on you flagging that you expect improved profit performance, but not until H2 next year. Should we look at this and think that we should be modelling a meaningful decline in Merchanting profitability in H1 next year that's sufficient that it makes it difficult to grow overall Merchanting profitability in 2025? Or is it a decline that you might expect for the first half of next year – hopeful that market recovery might drive profit growth in Merchanting next year.

Secondly, you talked about efficiencies and some of those efficiencies that were made in the business not necessarily taking costs out in the right place, or not working out who's going to do this job when someone's taken out. Does that mean there's any costs that need to go into the business in the short term? Or should we still look at this that there are sufficient efficiencies that it's just a case of redistribution?

And then thirdly, you talk about improvement in incentivisation of branch staff?

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Pete Redfern, Chief Executive Officer

Thank you, Emily. I think if you go to the market, we're not particularly trying to flag in the outlook about profit performance. We're talking about views about the market. It's clearly related to profit performance, but it's not quite as clear cut as "it's all half two". And I don't think we're expecting the kind of dip half one followed by massive recovery in half two that you're talking about there. And we can talk to you in a little bit more detail separately about what's reasonable.

But it's more that those outlook comments are more genuinely about our market expectations for next year and the market benefit. And I think there are some of the levers that I think we can, and should, pull that I think affect our underlying performance in the half year, regardless of the market. And therefore, I don't think we're flagging a big decline. And I certainly don't think we see it as leaving us with a difficult hole to get out of to improve the Merchanting performance overall for next year. Our guidance is not going to end up being a decline next year. It's going to end up being growth.

I think it's hard for us to give you in detail today exactly what the shape of that is. But we're definitely expecting to grow total Merchant performance next year, even if the market were flat. And we're expecting a bit of market uptick in the second half that helps that a little bit. I think that's the best overall view.

On incentivisation, our existing structures can be made to work and be okay. We don't need to go back totally the drawing board. And obviously, I've worked in an industry and a culture which has a broadly similar incentivisation structure. The complexity here is the sheer number of branches, but in some ways, other elements, such as dependence on factors outside your control, like planning permission, is less complex.

It's the way we've used the levers that we've got in recent history that I think has lacked any degree of incentivisation. Most of our branch managers coming into this year got their targets extremely late and didn't have any belief in those targets when they arrived. So, it's contributed to an overall sense of "however well I do, I'm not going to get recognised and rewarded". That we can deal with very quickly, both with how we message and with how we set up structures for next year. It's not a whole new, totally different system. It's using what we've got better.

And when I talk about some of the low hanging fruit that we can deal with, that's a good example. We should use it as a tool that we've got, not see it as purely a cost, because we definitely benefit net-net if we get that process right.

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Telephone Operator

Our next question comes from Arnaud Lehmann from Bank of America Merrill Lynch, your line is now open, please go ahead.

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Arnaud Lehmann, Bank of America Merrill Lynch

Thank you very much. Two questions for me, please. You mentioned market share losses during the summer. Who do you think is gaining share relative to Travis Perkins? Is it mostly the small independents that have been more aggressive with pricing? That's my first question.



And my second question is on the UK strategy. You mentioned you've started visiting branches. What's your initial take on the size of the Merchanting network and the various brands that you have in this business? Do you think the number of branches is the right one? Or do you see potential to maybe either open or shut down some of the branches? Thank you.

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Pete Redfern, Chief Executive Officer

Thanks. I think I'm probably going to duck the first question Arnaud, which I know is not like me! But actually, talking about which of our competitors gained market share isn't necessarily where I think we should be.

And now I'm going to answer your question, or the substance of it. I don't think we see a massive "gainer" in one part of the sector. I don't think it's all about small or all about large. I see that the challenge we've got is one that we're in control of rather than being a big, aggressive shift from one particular part of the competitor base.

And in a very broad sense, when we talk about the branch network of the business, it's in a good place. The closures of the last few years have generally been rational. There may be one or two areas where I think we could have worked harder to work out what the underlying challenge was. And we could have actually recovered some of those branches rather than just through a closure. But that's a small kind of frustration on the outside.

Generally, I think they've been the right answer. They've been the wrong branches in the wrong locations. And we see areas where the business can continue to grow and develop, but it isn't a huge acquisition programme. We're in a good place with a strong branch network, but as ever in any business, and the branch network is obviously fundamental to this business, there'll be areas where you see opportunities.

I don't see a big closure programme at all, but I see accumulative additions, but not massive.

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Telephone Operator

Our next question comes from Priyal Woolf from Jefferies. Your line is now open. Please go ahead.

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Priyal Woolf, Jefferies

Morning. Thank you. I've got two questions. The first one is just on the guidance for 2024, that £15m cut. Could you just give us a sense of how much of that is Q3 and then how much is just factoring in some conservatism into Q4, basically, just trying to work out how conservative that new guidance is.

And then the second question, you've touched on it already, but just to elaborate a little bit more on the comment that a lot of the branch managers were too focused internally. Is this not understanding the pricing structures, the incentive structures, or is there something else going on there? Thank you.

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Pete Redfern, Chief Executive Officer

I'll pick up the second, but Duncan, do you want to touch on guidance?

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Duncan Cooper, Chief Financial Officer

Yeah, Priyal, look I think you've answered your own question. It's reflective of how we've performed through Q3 and anticipate how we trade through to Q4, recognising we only really have 10 trading weeks of the year left and December is traditionally for our sector quite a quiet month. So, it's what we think is our most realistic and best estimate of our outturn for the year. I wouldn't say anything more than that, to be honest.

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Pete Redfern, Chief Executive Officer

Thanks, Duncan. And Priyal, if I pick up your second question, I'm not saying - just to be clear - that our branch managers were too focused internally. I think there's a little bit of truth in that, but it's because there was so much change and disruption that it was hard for them not to have that focus. I'm saying that we collectively were too focused internally and weren't giving them the support and the tools that they needed to have to do the best job possible. So, it's more of a centrally led piece.

I think they are focused externally and want to be able to focus even more externally and have the right tools and resources to do the job well.

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Telephone Operator

Thank you. Our next question today comes from Marcus Cole from UBS. Your line is now open. Please proceed.

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Marcus Cole, UBS

Hi, good morning. I've got three questions. So, the first one is just on this year's guidance. Can you clarify if France is included and then what the property profit expectations are?

The second one is more on the structural recovery. Do you think Merchanting can get back to a 7% to 8% margin over the medium term?

And then the last one is just on the exit in France. Can you just remind us on what the cash impact and the timing of those cash outflows is? Thank you.

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Pete Redfern, Chief Executive Officer

Duncan, do you want to pick up the first?

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Duncan Cooper, Chief Financial Officer

Yeah. So, it does include France. So, the guidance at the half year was we would expect around a £16m loss for the year for France. So, all things being equal, if that becomes discontinued at the end of the year, you need to add that back on to the to the £135m.



At the half year, we gave updated guidance around property profits being between £5m and £10m. That guidance remains in place, Marcus.

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Pete Redfern, Chief Executive Officer

And Marcus, your second question is entirely fair. It's just not an entirely fair question to ask today, but it's clearly a fundamental part of what we need to set out and will set out. But that is one of the things that we will come back to, particularly as we get into the autumn of next year.

And we're looking at it at the moment. What I would say is there is absolutely clear margin improvement that's very possible in this General Merchancing business. But exactly where is the right long-term goal and when, most importantly, we think it's reasonable to expect to get there, that's something that we will set out as we set out our strategy.

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Duncan Cooper, Chief Financial Officer

And just on the France exit costs; to be helpful, guidance again remains unchanged from the half year. Costs obviously incurred across '24 and into '25, but of a similar quantum. And I'll give a more detailed update on that as is appropriate at the end of the year.

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Telephone Operator

Our next question comes from Ami Galla from Citigroup. Your line is now open. Please go ahead.

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Ami Galla, Citigroup

Thank you. Morning, guys. Just a few questions for me. The first one was just on Merchancing. As you work to turn around the Merchancing business, what do you think would be your biggest challenge to get numbers back to a normalised level? And essentially, we kind of agree that there's probably a recovery on the cards. But in terms of the internal processes, do you see more structural problems to get numbers back to normal normalised levels?

The second question was just on the structures in the business. Where would you say are there more opportunities to optimise costs further in the business today?

And the last one was just on the Managed Services business. Can you give us some colour as to how is the demand pipeline shaping there? And post budget, do we expect some tailwinds from that public sector demand in that subsegment? Thank you.

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Pete Redfern, Chief Executive Officer

Thanks. I think I'll take the first two parts of the first question together about where the biggest challenges are and what we need to do.



I think on terms of cost, it's weighted towards what I would describe as very central costs that is where the biggest need is. And it's very easy to see this business as you've got branch costs and you've got above branch costs, but there is a significant and value-added engine room around procurement and sales that's really, really important and getting that right is really critical.

I also think there's some hangover costs that are that are relatively easy to get through over the course of a year or so of past projects - things that are still hanging around that need to be just closed down and exited from. And those aren't about people. They're just about stop doing things that aren't going to add long-term value.

I think on the structural side it's both a frustration, but also a massive opportunity. This Group does not have a structural disadvantage. It has a structural advantage. It just hasn't been using it very well. Running a series of Specialist Merchants alongside a General Merchant gives you some complexities of cost structure. And some of those are inevitable, but that's where the value is as well. And there is far more value potential to be added than there is cost. I just think we can simplify how we do it. Removing it is the wrong answer. Simplifying it and making it much clearer makes sense.

And on the demand side, yes, I think, what you see in our comments around the second half are about how we expect a developing tailwind during the course of next year on both larger infrastructure projects, potentially on investment in schools, hospitals and other projects, on housebuilding as both the market and hopefully the planning environment improve. I think what we're flagging is, and I don't think you'll see this as being too different from what others are saying right now, we are waiting for a budget and waiting for real clarity. There's a bit of uncertainty around how strong that tailwind will be, when it will develop, which sectors it will be strongest in, but we do expect that to be there. But as we say, not seeing it in a really material way until into the second half of next year.

I'm not sure if I picked up all of the parts of the questions that you asked, Ami, so feel free to repeat one if I've missed something.

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Telephone Operator

Ami has gone back into the queue, so we'll move on to our next question, which is from Ben Wild from Deutsche Bank. Your line is now open, please go ahead.

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Ben Wild, Deutsche Bank

Yeah, good morning, everyone. Thank you. Three questions from me as well, please. I think previously, the Group has discussed market share in Merchanting as a whole. Specifically on market share in the General Merchanting business, you've discussed quite clearly some of the distractions that have been in place there. Can you maybe talk about how long that business has been losing market share, and how do you stem those losses going forward?

Secondly, I think you talked about the potential of the businesses branch network. You're going through an Oracle ERP implementation at the moment. How is that progressing? And what's your initial view of the Group's core business systems?

And then finally, a fair question, but perhaps not a fair question today. From what you've discussed in Merchanting, and the General Merchant in particular, would you



consider disaggregating reporting of the Merchanting businesses going forward, as the Group used to do in the past? Thank you.

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Pete Redfern, Chief Executive Officer

Yeah, I mean, I think I saw three questions there, because the first and the last were very linked, about how we talk about market share within the Merchant business, then about how long there has been some declining market share in the General Merchanting business. And then IT implementation, which I'll leave to Duncan.

So taking, as I set them out, the first two, I don't see us splitting out Merchant market share into individual components, apart from to give you a flavour, because it's useful for getting a sense of where the overall market is and where the future might go. Apart from telling you the key trends in each of them, as I did at the beginning of this call, I don't see us splitting them, because I don't think there's a lot of value in that.

And there's too much overlap. Actually, one of the strengths of this Group is we might consciously choose that we want to see more growth in one area and less in another. So, splitting them out kind of gives you the wrong sense.

If I put it differently, I think our commentary has tended to be to market share led, rather than looking at the areas where we can do things that are different to what's happening in the overall market.

In terms of the second question, which is absolutely fair, around how long the General Merchanting business has been losing market share, I would say it's not an unfair question. It's an important question. I would say it's not just quarter three, it has varied. And so, there's not a kind of fixed pattern of a decline. But I think my sense is that that business has been underperforming for a relatively extended period of at least the last 18 months or so.

And we'll perhaps touch on that in a little bit more detail at the prelims. Although, as you can imagine, my primary interest is looking forward to what we can do about it rather than looking back too much, particularly as we go past today's update.

And then Duncan.

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Duncan Cooper, Chief Financial Officer

Ben, on Oracle and the wider technology platform, so it went live on the 1st of July, as you know. Look, it's not without its challenges. It's the biggest piece of technological transformation we've done in the Group for arguably 30 years, but we're making good progress.

We've got a very, very good team of external people supporting us on that and also internally. But obviously, as with any kind of tech change of this size and scale, there is an adaptation process for colleagues and also for the way we interact with other members of the business and externally. So that's going well.

I think in respect of the underlying technology platform, actually, there's lots of what we've got, which is still very, very fit for purpose. The finance platform was definitely an area we needed to invest and make changes in, hence why we've introduced Oracle. But much of the rest of the estate and the technology tools that it sits on, we think can



be upgraded quite carefully and in quite a modular fashion over a period of time. And actually, the core platforms that they sit on are still absolutely fit for purpose. We may just choose to put a different front end on them for the way colleagues have the user experience in a branch.

But we've faced into and fixed the biggest and the most difficult piece in addressing Oracle.

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Telephone Operator

Our next question comes from Zaim Beekawa from JP Morgan. Please go ahead.

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Zaim Beekawa, JP Morgan

Morning, Pete and Duncan. Thanks for taking my questions. Just two on my side. One would be, given the house building exposure and expectations for growth, is there anything you need to do to your portfolio to benefit the most from that?

And then, quite quickly, on the latest trends or inflation, deflation expectations into next year? Thank you.

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Pete Redfern, Chief Executive Officer

Thanks. Thanks, Zaim. I'll touch on the house building and let Duncan touch on inflation.

I think we are naturally set up to serve house builders, small and large. And you're right that there are growth signals that they are giving corporately with the large house builders. And we can see the early stages of that, as I touched on in the ground in Keyline. So, I don't think there's anything material that we need to do.

There is a slight inevitability to there being meaningful bottlenecks for the industry as a whole in materials over the course of the next two to three years, given the low base and the likely recovery. And so, making sure that we're well set up to manage those bottlenecks for our customers is particularly important. But it's not about structural change. It's about our interactions with our supplier base and how we set ourselves up to make sure that we have the right supply for our customers.

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Duncan Cooper, Chief Financial Officer

And in terms of deflation, I talked at the half year on how we'd come from quite a strong double-digit position of input deflation at the beginning part this year to starting to move, by the time we talked at the half year, to mid-single digits and that we were trending to flat. And that trend has continued as we've approached the end of the year. There are still some categories which are very moderately deflationary from an input perspective. But, by and large, we're trending back to zero.

What we need to see is some sales price inflation come into the sector with some cost price increases flowing through from suppliers. And we are starting to see early signs of that in some material categories and with some material suppliers, which I obviously won't mention or name, starting to take effect from the 1st of January or Q1 next year.



So, starting, I think, to pivot into a moderately inflationary position in the space at the beginning of next year.

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Telephone Operator

Our next question today comes from Clyde Lewis from Peel Hunt. Your line is now open. Please proceed.

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Clyde Lewis, Peel Hunt

Good morning, Pete. Morning, Duncan. Two, if I may, please. One on your view around the current CPA estimates and whether you think that they're pessimistic or optimistic there?

And the second question was really coming back to the market share and the losses that you talked about, Pete. Do you think that's been in any particular category? Has it been in deliveries or end markets in any shape that you've been able to get your hand around as to understanding where the share has gone? Is it just more general across the board?

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Pete Redfern, Chief Executive Officer

Thanks Clyde. I think in terms of the estimates, I mean, first of all, I never placed too much emphasis on those estimates. So, I think any estimate anyway, you have to have your own view, and you take in lots of data points of which that is one. There is nothing in their current estimates that I think is daft, but there's lots of other areas that I think we can focus on.

But I do go back to my general point. If we look at an estimate like that for a very broad, diverse market and say that's going to be a good reflection of our business, and either if it's growing or that's a clear win for us, or if it's not, then that's a clear loss, then I think we've got the wrong attitude. Of course, it sets an important part of the backdrop, but we should be working out how we make the best of what's there.

Which kind of takes you neatly on to the second question. I don't think there's any one category or area, if you really stand back and look at the last 18 months or so, where you could say "yeah, that's a problem". It's more a general focus issue. In any particular quarter, there might have been a particular trend that you can see, but there isn't a pattern that you can pick out.

And it's why I'm confident that actually removing the distractions, make things simpler for the guys, give them the tools, and we not only stop losing market share, we get it back quite quickly. Just to be clear, I am not sat here thinking we need to suddenly take some price action to drive volume. That is a clumsy tool - in targeted, focused areas, sometimes it's the right answer, but our prices are not in the wrong place. That's not what this is about. This is about organisation and clarity and focus, not about a pure pull a lever on price and you get a volume answer, pull a lever on volume, and you have to deal with price.

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Telephone Operator

Our next question today comes from Charlie Campbell from Stifel. Your line is now open, please go ahead.

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Charlie Campbell, Stifel

Thanks so much for taking the question and good morning. Probably most of the things I was going to ask have been answered, but just to widen that discussion around pricing. You talked about lots of branch visits, lots of branch manager conversations. What are they telling you about where pricing is? And is there a complaint from them about "if we were allowed to be more competitive on price, we could do better". I just wonder where those conversations land at the moment in terms of Travis's pricing in terms of the industry, particularly in General Merchanting.

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Pete Redfern, Chief Executive Officer

Thanks, Charlie. It's a good question. And the easy answer is no. And it's actually a comforting answer as well. I can honestly say in all of those conversations, not once has the primary issue or even a significant secondary issue been that the branch manager has been concerned about price. Our prices are - and I know historically they have not been - competitive and in the right place. That is not the challenge that they're dealing with.

Occasionally, and it's the one exception, a bit more sense that they know what they have control of themselves, but it's not about using price to generate high volume. It's about their relationship with the customer and their own flexibility of where they make their return and their margin. But it's not about our underlying prices being wrong.

So, we're not in a bad place in terms of how we set off on a journey to get to give a bit more sense of ownership and control back to them, but also to face into the market. Price is not their biggest problem. It is things like "I've got business I can do, but I'm not allowed to have another driver, but I've got a vehicle". It's when I say it's been unclear and distracted, it's those kinds of basic things that the resources aren't quite there in the right places at the right time.

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Telephone Operator

Our next question today comes from Harry Goad from Berenberg. Your line is now open. Please go ahead.

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Harry Goad, Berenberg Bank

Hi, good morning. I've got two questions, please. The first I guess is, Pete, a bit of a continuation of your last answer, but obviously there's been a lot of discussion around market share and pricing. But if you think about over the next couple of years, what do you ultimately want the customer proposition for General Merchanting to be - I mean, what do you want your customers to know you for away from pricing? Is it ranging, availability, online capabilities, distribution, all these sorts of factors and I guess what do you want the standalone factors to be that drive market share?



And then the second point separately is just Toolstation, obviously, there was some quite ambitious growth forecast previously for this franchise, how do you think about that over the next few years? Thank you.

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Pete Redfern, Chief Executive Officer

Yeah, thanks, Harry. It is a bit early to answer the first question. You can imagine I've got thoughts and people around the business have got thoughts, and some of them are pretty rational. It's a conversation we're having, but I don't think we're quite ready yet. And the problem is with that, if I kind of give you a view now, it becomes fixed far too early. And I think it's quite important.

And it's also quite important to get the description of it right, because the words do matter on something like that. It says how we're facing into the market, and they can be over read.

On Toolstation, we haven't spent much time on this call. And there's a reason for that. It's because it's basically in good shape. And I'm not going to sit here today and say, the targets are exactly right, and the dates that are set are exactly right. But that's not because I think they're necessarily wrong. It's something we need to review in more detail. But I don't see it as the same challenge as the Merchanting business.

It's something we'll come back to and give you a clear view on. But I think that business has come through the last couple of years with far more clarity on its goals. And they own those goals. And they're not daft, as we stand here today.

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Telephone Operator

Our final question on today's call is from Shane Carberry from Goodbody. Your line is now open. Please go ahead.

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Shane Carberry, Goodbody

Thank you. Morning, Pete. Morning, Duncan. Just two quick ones for me. Just in terms of the loss of market share in the General Merchant, could you actually quantify the loss for us in Q3, it would be really helpful, just in terms of modelling going forward.

And then just in terms of CCF specifically, you mentioned at the start of the call that things were particularly difficult there - competitive intensity, etc. Could you just give us a little bit of a sense of whether this is just competitors being much more proactive from a pricing perspective, or is there more going on there as well that we should be aware of?

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Pete Redfern, Chief Executive Officer

If I pick up the second very quickly, it's largely about pricing. And I'm not sure it's sustainable, which is why I say as we go into next year, we have to look at how that market is set up. Duncan, if you're all right to pick up.

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Duncan Cooper, Chief Financial Officer

Yeah, Shane, look we don't disclose it. We have a GFK market share measure where us and all the relevant competitors submit information into a black box, and it's calculated. I think we've talked previously about the fact we've been moderately taking market share in historical terms. And I would say, to be helpful, we've swung from moderately taking market share to moving to flat over the summer to moderately losing market share. But there is a trend there, which Pete is highlighting in his quote and in the comments and the way we've answered the questions this morning.

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Telephone Operator

That concludes today's Q&A session. Thank you all for your participation. I'll hand back over to Pete Redfern for any closing remarks.

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Closing Remarks

Pete Redfern, Chief Executive Officer

Thank you, Dru. And thanks, everybody, for the time and the questions this morning. I won't take long. I'll just leave you with the thought that we know there are things about this business that could be better.

It does have structural advantages. It's our job to tap into them. And it's our job through the course of next year to show you what we can do with this business and where it can go. I look forward to spending more time with you in March.

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Telephone Operator

Thank you all for your time on today's call. That does conclude the call. You may now disconnect your line.

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