

H1 23 Results

7 September 2023



Agenda

Overview

Shanker Patel, CEO

Financial review

Chris Day, CFO & COO

Strategy update

Shanker Patel / Chris Day

Outlook

Shanker Patel

Q&A



Overview



Scott, AW Lumb, Tamworth

H1 23 Highlights

Continued momentum with strategic targets well on track and growth opportunities strong despite challenging market conditions

- Customer focused proposition enables market outperformance, tremendous credit goes to our 895 colleagues
- Record performance with half year results inline with our expectations
- Continued progression toward adjusted EBITDA margin target of 7.5%
- Despite positive H1 23 performance, Lords is not immune to impacts of the macro trading environment, revised full year targets confirmed
- 7 new locations added to the network in good markets through organic and acquisition expansion strategy
- Lords remains <1% of a £55bn market – growth strategy based on consolidation, product range extension and branch expansion



Helena, Hevey Building Supplies,
Kettering

The Lords Investment Case

A leading, high growth distributor of building materials in the UK

Unique Customer First Proposition

- Customer service excellence is the central pillar of our strategy
- Engaged colleagues, fundamental to differentiated customer service
- Specialist highly-recognisable brands, local and regional leadership
- Creates loyal, long-term customer relationships

Substantial Organic & Margin Accretive Growth

- New markets and customers via new store roll out of existing brands
- Accelerating digital capability creates new repeat customers
- Increasing share of customer wallet through marketing new products
- Growing penetration of decarbonisation products drives margin expansion

Well Positioned In Substantial UK RMI Market

- <1% market share in highly fragmented market
- 45% of revenue within essential and resilient “Repair” sector of RMI
- Track record of high growth – 5yr revenue CAGR of 50.7% vs market growth¹ of 1.4%

Successful Value-Creative M&A History

- Independent merchants (£2-£100m turnover) hold 40% of market and are prime for consolidation
- Attractive buyer for family businesses – good continuity and development
- Lords track record of acquiring specialist merchants at 4-6x EBITDA which are earnings accretive
- 15 acquisitions in last 5 years, delivering 20%+ return on investment

Strong Financial Profile

- Well on track to deliver £500m revenue target by 2024
- Growth levers aiming to enhance EBITDA margin to 7.5% in medium term
- Highly cash generative, attractive working capital profile
- Progressive dividend policy

Management Track Record

- Recognised industry leaders and aligned with shareholders via significant majority shareholding
- Management team have in excess of 200 years industry experience
- CEO has led the Group that has delivered growth in previous 3 economic downturns

¹ Office for National Statistics 2017 to 2022, All R&M

Financial Review



Terry, Mr Central Heating, Croydon

H1 23 Financial Highlights

	H1 23	H1 22 (Restated) ¹	Change
Revenue	£222.6m	£214.2m	+£8.4m / +3.9%
Adjusted EBITDA	£15.1m	£14.2m	+£0.9m / +6.1%
Adjusted EBITDA Margin	6.8%	6.6%	+0.2%
Operating Profit	£8.1m	£7.3m	+£0.8m / +11.6%
Adjusted Profit Before Tax	£7.7m	£8.4m	-£0.7m / -8.4%
Adjusted Earnings Per Share	3.39p	3.87p	-0.48p / -12.5%
Dividend per share	0.67p	0.67p	-
Free Cash flow conversion % ²	-54.7%	63.3%	-186.4%

- Resilient first half performance in line with our expectations
- Strong Adjusted EBITDA result despite macro environment
- Adjusted EBITDA margin momentum continues despite inflation pressures
- Strong Operating Profit growth in H1 23, +11.6%
- EPS reduction reflective of Tax and Interest rate movements

1. Restatement of put and call options in Hevey Building Supplies Ltd and Condell Ltd. Adjustment is non-cash in nature with no impact on adjusted EBITDA.

2. Full calculation on slide 11.

H1 23 Financial Highlights - Merchenting

A record half year with continued momentum in Adjusted EBITDA margin.

6 months ended 30 June (£m)	H1 23	H1 22	Change
Total revenue	£109.4m	£105.9m	+£3.5m / +3.3%
<i>LFL Growth vs HY22</i>	<i>-5.1%</i>		
Adjusted EBITDA	£8.5m	£7.7m	+£0.8m / +10.4%
<i>Margin</i>	<i>7.7%</i>	7.3%	+0.4%

- Merchenting division delivered record revenues up 3.3%, with like-for-like decrease of 5.1% outperforming the market
- Trading decisions focused on EBITDA margin improvement enabling progression despite LFL decline
- Continued momentum in RMI segment whilst new build housing segment impacted by macroeconomic environment
- FY22 / H1 23 acquisitions are earnings accretive, and all are performing in line with or ahead of our expectations



H1 23 Financial Highlights – P&H

Plumbing & Heating division delivers solid first half despite prevailing trading environment.

6 months ended 30 June (£m)	H1 23	H1 22	Change
Total revenue	£113.2m	£108.3m	+£4.9m / +4.5%
<i>LFL Growth vs HY22</i>	-3.8%		
Adjusted EBITDA	£6.6m	£6.5m	+£0.1m / +1.9%
<i>Margin</i>	5.8%	6.0%	-0.2%

- Record revenues of £113.2 million, representing growth of 4.5% and 3.8% decrease on a LFL basis.
- EBITDA margin reduced by 0.2% in H1 23, reflecting trading decisions in light of reduced market volumes towards the end of the period.
- New Mr Central Heating branch opened in Edinburgh, the second new location as management continue to build towards an accelerated roll out programme – targeting 40 new locations over the next 5 years



H1 23 Financial highlights – Working Capital

£m	H1 21	H1 22	H1 23
Decrease / (Increase) in inventories	2.4	(0.3)	(1.6)
Decrease / (Increase) in trade and other receivables	3.2	0.4	2.1
(Decrease) / Increase in trade and other payables	(6.4)	(0.7)	(16.6)
Total working capital movement	(0.8)	(0.5)	(16.1)

- Total working capital outflow of £(16.1)m in H1 23 linked to trade payables movement within P&H division
- Trade payables linked to forward cash flow model of P&H division against seasonal revenue trends and normalised stock purchasing
- With industry wide boiler supply issues now resolved, P&H division working capital profile to normalise to cash through H2 23
- Similar trend in H1 21 trade payables movement (H1 21: £(6.4) million), H1 22 industry wide boiler supply shortages disrupted seasonal fluctuations which distorted overall working capital position
- Free cash flow presentation distorted by timing impact within working capital in H1 23

H1 23 Financial highlights – Free cash flow

£m	H1 23	H1 22 (Restated)
EBITDA (IFRS)	14.7	13.1
Exceptional Items and share based payments	0.4	1.1
Adjusted EBITDA	15.1	14.2
Working capital movement	(16.1)	(0.5)
Tax	(1.4)	(2.3)
Adjusted Cash generated by operating activities	(2.5)	11.4
Capex	(4.3)	(1.9)
Interest paid	(1.4)	(0.5)
Free cash flow	(8.2)	9.0
<i>Free cash flow / Adjusted EBITDA %¹</i>	<i>(54.7)%</i>	<i>63.3%</i>

Free cash flow presentation distorted by phasing of stock purchases and normal seasonal fluctuations in working capital

Free cash flow (from IFRS EBITDA) of £(8.2)m

Capex investments totalled £4.3m in H1 23 including £2.2m in relation to the George Lines freehold purchase

Interest paid reflects movement in base rates and debt position

¹ Cash conversion from IFRS EBITDA and thus FCF conversion shown excluding lease payments

Strategic Update



Dean, Lords Builders Merchants, Sutton

Renewables range

- Sales momentum continues with positive customer response to extended product range – revenue growth of 75% in H1 23 in the renewables category¹
- Demand for energy efficient technology being driven by energy prices and government 'green initiatives'
- Lords is uniquely positioned to supply – distribution, merchandising and consumer channels
- Products are margin accretive and delivered via existing in-house network

¹ Air Source Heat Pumps, Controls, Under Floor Heating, Air Conditioning, Electric Boilers



Acquisition – Chiltern Timber

- Single site specialist timber merchant delivering £2.6 million revenue and £0.25 million EBITDA prior to acquisition in April 2023
- Fully integrated into Lords merchanting network enabling product range extension to wider customer base
- Chilterns specialist ranges allow Merchanting division to grow its customer base and take a greater share of each customers wallet
- Acquired on a 3.2x completion multiple net of excess cash. Contingent targets based on EBITDA growth



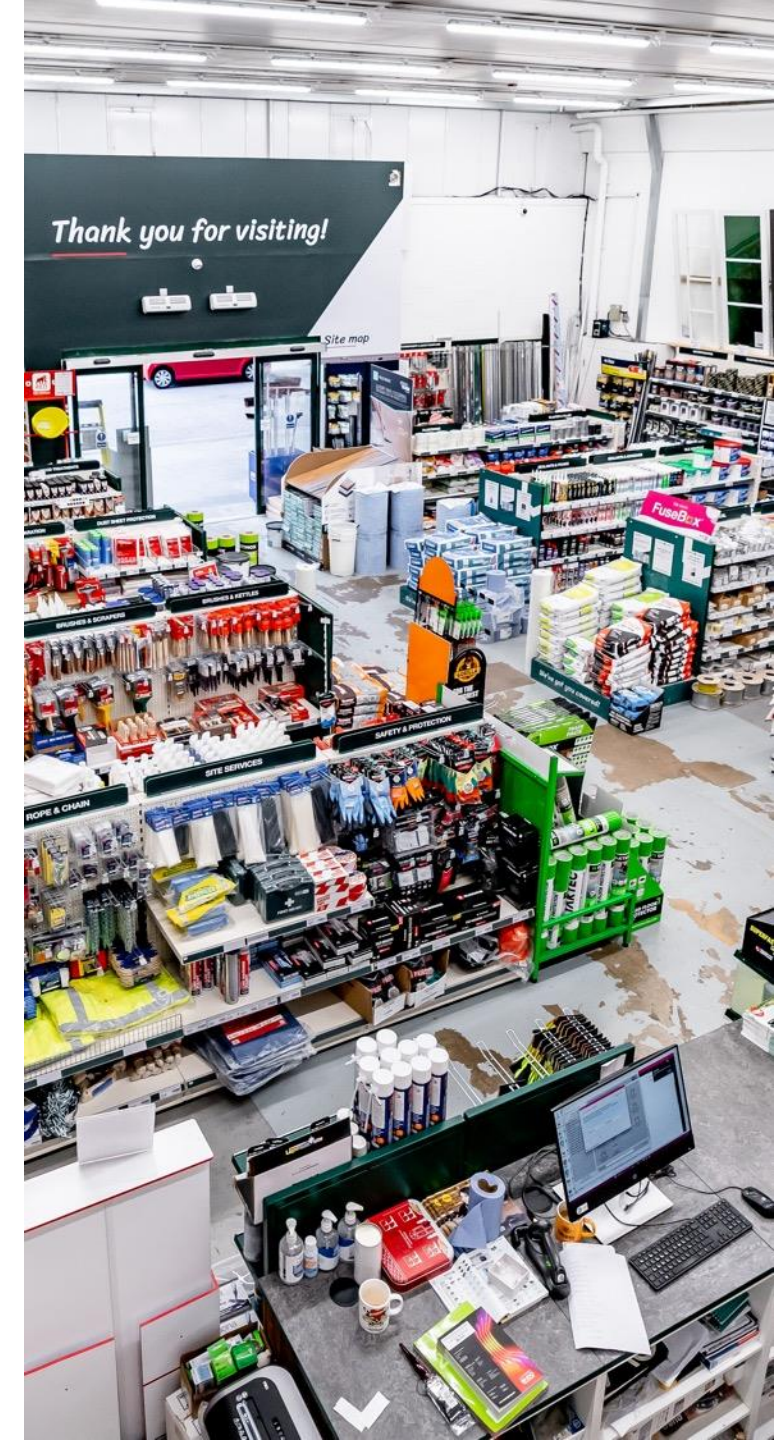
Delivering Growth – Beaconsfield

- 4 acre site within a substantial market catchment. Acquired in 2017, the business was delivering revenue of £2.5m and represented a significant turnaround project
- Lords have transformed via 3 P's investment across People, Plant and Premises. Significant product range extension;
 - Heavy side range extension - timber, insulation, drylining, paving, roofing and drainage
 - Light side - plumbing & heating, decorating ironmongery, paint, bathrooms, tools and fixings
- Highly empowered management team have grown revenue to £10m (344% increase) and Adjusted EBITDA to £1.0m (1100% increase) in FY22.



Delivering Growth – Ladbroke Grove

- Single site general merchant located in West London, acquired in August 2021 for £0.6 million consideration – a turnaround acquisition
- Highly empowered management team have grown revenue by 70% and adjusted EBITDA by 400% (for the H1 23 period)
- Site has benefited from our 3Ps investment with new dedicated trade counters to enable extended product range:
 - Plumbing & Heating
 - Architectural Ironmongery
 - Electrical
 - Lightside – decorating, tools, flooring



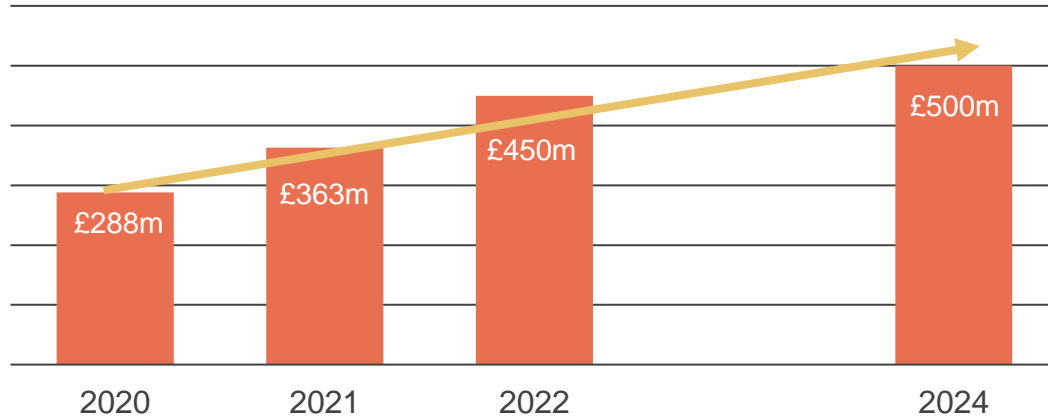
Acquisition – Alloway Timber

- Five site general merchant delivering £15.9 million revenue and £(1.0) million EBITDA prior to acquisition in September 2023
- Transaction is in the Lords ‘sweet spot’ of turnaround transactions, expected to be earnings accretive from 2024 financial year with significant revenue and cost synergies
- Highly strategic geographic expansion, growing Lords presence in the South East – Mitcham, Byfleet, Putney, Cheam, Kingston
- Acquired for a total cash outlay of £3.3 million of which £2.6 million was payable upon completion.



Medium Term Targets

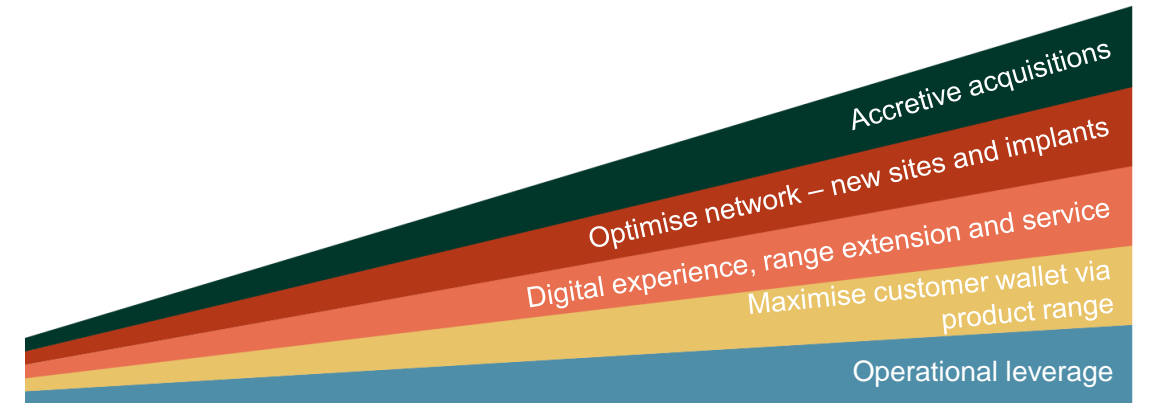
Revenue growth target: £500m by 2024



Revenue growth driven by:

- Organic – product range extension, new geographies
- Digital – in-house expertise, high growth opportunity
- Core Acquisitions – £5m to £50m revenue per transaction, 3 to 4 transactions per annum

Medium term EBITDA margin of 7.5%



Illustrative and not to scale

Our targets:

1. Grow revenues to £500m by 2024, +38% upside v FY21
2. 1.5% growth in EBITDA margin over medium term v FY21
3. Maintain progressive dividend policy

Outlook



Chris, Stephen, Tony, Aimee, Jack, Claude, Reece, and Dean, Lords Builders Merchants, Sutton

Outlook

- The Group has delivered a resilient performance in H1 23 and the Board believes that the Group is currently outperforming the market¹ but is not immune to persistent macro-economic pressures
- The persistent high levels of inflation, increasing interest rates and weaker consumer confidence have continued to reduce demand in the Group's key end markets of RMI and new build housing and consequently demand for the Group's products
- The Board now anticipates that demand will remain at current levels throughout the remainder of H2 23 and accordingly expects the Group to deliver full year revenues of approximately £450 million and Adjusted EBITDA of approximately £27 million

¹ The Construction Product Association's (CPA) January forecasts were for a reduction of 11%. and 9%. in new build housing and private housing RMI, respectively, in 2023. The CPA's latest forecasts, published in July, are for a reduction of 19%. and 11% in new build housing and private housing RMI, respectively, in 2023



Reina, Branch Manager, Lords
Builders Merchants, Beaconsfield

Outlook

The fundamentals of the Lords investment proposition remain:

- Experienced management team and agile divisional structure allows Lords to seize opportunities in more challenging markets
- Significant organic growth levers – including new sites and extended product range
- Lords holds <1% of a £55bn building materials market: large market share and consolidation opportunity
- On track to deliver £500 million revenue in 2024 and 7.5% EBITDA margin in the medium term



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