

Group Chief Executive's overview

“We are now placing much greater emphasis on accelerating profitable growth and improving our business models.”



In summary

- ▶ Another strong performance in the USA with a record trading margin. Challenging markets in the rest of the Group.
- ▶ 18 bolt-on acquisitions completed.
- ▶ Continued investment in new business models, technology and infrastructure.

Performance 2

The highlight of these results was another strong performance by Ferguson in the USA where we achieved strong like-for-like revenue growth ahead of the market and a 50 basis point improvement in the trading margin to 8.2 per cent, which is a record. We continued to face challenging markets in the rest of the Group and have remained focused on improving growth rates, protecting gross margins and keeping the cost base tight.

The Group generated revenue in the ongoing business of £13,300 million, 10.1 per cent ahead of last year at constant exchange rates. Improving gross margin remains a key focus and this was 10 basis points ahead in the ongoing business. Operating expenses in the ongoing business were 10 per cent higher at constant exchange rates, including three per cent from acquisitions. Trading profit in the ongoing business was £857 million, 11.4 per cent ahead of last year on a constant exchange rate basis and we have now returned the Group to its pre-financial crisis trading margin of 6.4 per cent.

One of our key areas of focus remains on driving revenue growth and margin expansion. We saw a good improvement in like-for-like revenue growth and good gains in market share. This was driven across the Group by improvements in service, product availability, the scale and efficiency of our sales teams, and more tailored customer propositions.

For more about our performance see **pages 20 to 35**

Wolseley's investment case

The focus of this year's Annual Report is Wolseley's investment case (pages 1 to 5) and we have set out what we believe are the principal attributes that make Wolseley an attractive business to invest in for shareholders over the long term. In recent years, we have substantially reshaped the Group and today we are a focused specialist distribution business in the attractive markets of plumbing and heating and building materials. In addition, the business is supported by a very strong balance sheet which enables us to both invest in profitable growth and to maintain attractive shareholder returns.

We primarily serve the robust repairs, maintenance and improvement markets which represented 59 per cent of revenues this year. Today, our businesses operate with market leading positions which means we can generate benefits of scale particularly in the areas of procurement, operations, supply chain and technology.

Our markets are generally highly fragmented which means we have an attractive growth opportunity from both organic expansion and bolt-on acquisitions. Another inherent quality of the business today is low volatility. For example, through one of the most severe recessions in living memory, our gross margins were between 26.7 per cent and 28.0 per cent and our businesses generated strong free cash flows through the cycle (see key performance indicators on pages 16 and 17).

We have embedded a strong execution culture in our business, both in terms of our people and service, but also our ambition to constantly improve our business model to enhance service and ultimately margins.

What does this mean our shareholders can expect? Put simply, we want to generate great returns through sustained good trading margins and excellent returns on capital employed leading to dependable and progressive dividends.

Group strategy 1 6

Our strategy is unchanged and you can read about our progress this year throughout this Strategic report and our six strategic objectives are set out on page 10. Central to our approach has been embedding the process of allocating capital for investment to those businesses capable of generating the best returns for shareholders. The heavy lifting on the portfolio has been substantially completed and over the past six years we have disposed of 31 non-core businesses which generated revenue of £4.6 billion and trading losses of £138 million.

Now that we have a great set of businesses to invest in and grow, our central focus is to continue driving the strategy through each business unit, which is working well. We are placing much greater emphasis on accelerating profitable growth and improving our business model. Like last year, much of our energy and focus has centred here and I will go on to discuss some of the major work streams in more detail in this statement.

We should not forget that, in addition to organic growth, the structural growth opportunity in these markets remains significant. Due to our strong balance sheet, where appropriate, we will supplement organic growth with bolt-on acquisitions that enable us to generate synergies and create

shareholder value. In the long term, we remain very positive about the opportunities to grow the business and we are well positioned to capitalise on the significant growth potential in our markets.

Accelerating profitable growth 3

We have been focusing on a number of levers (see diagram below) in each business unit to improve our organic growth rates. Delivering excellent customer service is fundamental and we work at continuous improvement in terms of having better product availability, fast service at our counters and a broader product range than the competition. To deliver great customer service, employee engagement is also incredibly important and we aim to employ the best people in the industry, who are highly trained to serve our customers well. Our experience is that where we have managed to build this capability in our people, it gives us a real edge over competitors.

We are continuing to roll-out new customer segmentation models to develop better targeted customer propositions than our competitors. This also enables us to better match our cost to serve customers – so a large national contractor that is often tendering for work may value competitive pricing whereas a local plumber doing

Levers for accelerating profitable growth 3

Customer service	Customer segmentation	Employee engagement	Sales management	Network expansion	Pricing management
High product availability	Different needs	Best trained employees in the industry	Winning bids	Geographic expansion	Competitive and consistent
Speed of service	Tailored propositions	Engaged branch and sales employees	Problem solving and advice	Supply chain and logistics	Structured
Range	Flexible order and fulfilment options		Efficiency and productivity	Leverage cost base	Charge for services
Relationships/advice			Competitive advantage		
Price					

For more information on our Key performance indicators see **pages 16 and 17**

Chief Executive's overview and strategy
 The symbols below denote the areas of the Chief Executive's overview which relate to the strategic objectives set out on **page 10**.



regular repairs work may value immediate product availability over price. In the UK, for example, we have created eight customer segments based on customers' size, business type, service needs and transactional behaviour (see page 23 for an example from the USA).

Given the fragmented nature of our industry, we have a significant opportunity to expand our network in all our geographies, particularly where we are under-represented and in the faster growing metro areas in the USA, Canada and Europe. For example, on page 2 you can see our approach to expanding our market share in the New York Metro area, a region where we were traditionally under-represented and which itself is a \$6 billion metropolitan market for our products. Having a large and high quality sales team who are able to solve our customers' problems is critical to winning new work. By ensuring that more sales resources are deployed more efficiently, we can drive increased market share in our businesses.

Finally, pricing management is becoming even more important as larger commercial projects return to the market as the economic recovery gathers pace. We believe being able to be competitive and consistent on price across geographies for the same regional customer will build trust and wallet share over time. In the USA, for example, we have created regional pricing centres so that all bid work is undertaken by specially trained employees who can provide a fast and efficient service on a consistent basis to our field sales teams and customers.

Drive evolution of our business model 4 5

As planned, we have stepped up the rate of investment over the last couple of years to support our organic expansion initiatives. In 2015, capital investment of £231 million was split broadly evenly between technology, freehold property acquisitions and routine maintenance expenditure to ensure our existing facilities remain well invested.

Our investment strategy for property is to ensure we own the strategically important sites such as large distribution centres which are often in critical locations to support our logistics operations. This year, investment in freehold property principally related to distribution centres and hubs and in particular, the new Cossackie distribution centre and Secaucus ship hub supporting network expansion in New York and the North East of the USA.

Investment in technology projects supports our business model improvements. We began investment in a unified IT infrastructure several years ago to ensure we had a low cost and highly secure environment to run our business applications globally. We now have two pairs of data centres supporting our Group businesses, one pair in North America and the other in Europe. All business critical IT services operate out of a common and secure IT environment which can be rapidly recovered should the worst happen.

In the last four to five years we have also been investing in best-in-class business applications along with master data and business intelligence tools to enhance the capability of the business and improve the management information provided to our leaders. Historically, our legacy Enterprise Resource Planning ("ERP") systems have delivered effective transactional processing but have not provided the appropriate technology foundations for enhancing customer service, optimising our supply chain or supporting the introduction of new channels to market. To address this

“We have stepped up the rate of organic investment.”

we have connected modern databases to the “back end” of our legacy ERPs and implemented middleware solutions so we can efficiently connect the best-in-class business applications. This covers areas such as finance, warehouse management, e-commerce, customer relationship management and sales management into our legacy ERPs.

This approach has increased the adoption of common business applications across the Group, enabling the rapid transfer of best practice between business units, including new channels such as e-commerce. Our customers are highly receptive to this channel and therefore we want to continue to have the best e-commerce applications in the industry. E-commerce today is 13 per cent of Group revenue (£1.7 billion) and growing rapidly. We see e-commerce as an efficient way to meet the needs of our customers at the appropriate cost to serve through leveraging the current branch and logistics network without added extra branch capacity. It also enables our customers to do business with us 24/7 which often suits their working practices.

Our unified technology approach is generating synergies across regions. There is a natural convergence in our approach and fast execution as we learn from standard deployments in one country which minimise cost the next time round. There is an associated investment in operating costs although naturally we expect a sensible pay back on all of our investments in terms of improved productivity.

Bolt-on acquisitions and disposals 1

During the year, we invested £105 million in 18 businesses in our existing regions with annualised revenue of £220 million. The majority of these companies were rapidly integrated into our existing operations to deliver improved returns and cost synergies as quickly as possible. We have been very clear that we will only acquire businesses that will help us achieve our strategic goals, where we can deliver rapid integration synergies and obtain a fair price.

During the year, we disposed of five non-core businesses which generated revenues of £278 million and a trading profit of £8 million. We continue to work hard on concluding the sale of our remaining Building Materials business in France and are making good progress with the sale process. You can read more about this in John Martin's Financial and operating review.

For the Financial and operating review see **pages 30 to 35**

Sustainability 3 5

We have made some good progress across all health and safety metrics this year. Compared to last year, our injury rate improved by 2.1 per cent with lost workdays down 6.3 per cent and our collision rate 9.6 per cent lower. This is good news and shows the plans put into place last year are working. We are working hard to ensure all our branches meet the standards we expect of ourselves and will continue to improve health and safety across all areas of our business.

We also have some good news to report in terms of carbon and waste reduction. Carbon per £m revenue has reduced by 10.5 per cent and waste per £m revenue has reduced by 8.6 per cent this year. Both of these exceeded our two-year targets in the first year and we will be more ambitious in our goals going forward. Our businesses have executed many good ideas to achieve this. Wolseley Canada has moved a significant proportion of its distribution to freight trains and are now saving approximately 1,800 tonnes of carbon a year.

We do need to further focus our efforts around waste segregation. We achieved a small improvement in the proportion of our waste that is recycled from 23.5 per cent to 24.7 per cent but we have a two-year target to achieve 29 per cent. There have been a number of one-off projects (new distribution centres, new branches, branch refurbishments) which have increased waste volumes in the short term. We have redoubled our efforts in this area and hope to achieve this target next year.

For more about our sustainability programme see **pages 36 to 43**

Looking ahead

We expect to generate good growth in the first half with like-for-like revenue growth of about 4 per cent. In the USA, we expect continued good growth in Blended Branches, Waterworks, HVAC, B2C and Fire and Fabrication underpinned by decent Commercial and Residential markets. However, Industrial markets in North America, which account for about 15 per cent of revenue in the region, were challenging in the fourth quarter and we expect this to continue. We expect a continued steady recovery of our markets in the Nordics, although the heating market in the UK is expected to remain very competitive with little growth. Overall, we expect to make continued progress in 2016.

Our people

Patrick Headon was appointed as UK Managing Director on 1 May 2015, succeeding Steve Ashmore. Ole Mikael Jensen will step down as CEO of the Nordic region on 30 September 2015 and the search for a successor is underway. The Board would like to thank Steve and Ole for their significant contribution to the business.

Finally, I'm immensely proud of the incredible skill and commitment of our people and I would like to thank everyone who has worked tirelessly over the last year to deliver this set of results. It is the continued efforts, dedication and great work of all involved at Wolseley that means our customers keep coming back which, ultimately, drives value for our shareholders. There is much more work we can do over the coming year to drive further sustainable, profitable growth and I know that our talented team is eager to capitalise on the opportunities that lie ahead.



Ian Meakins
 Group Chief Executive

The symbols below denote the areas of the Chief Executive's overview which relate to the strategic objectives set out on **page 10**.

1 2 3 4 5 6