

Summary

	1996	1995
Turnover	518.5m	491.6m
Operating profit before exceptional costs	39.8m	36.1m
Exceptional Costs	(1.5m)	-
Operating profit after exceptional costs	38.3m	36.1m
Profit on sale of properties	1.1m	0.3m
Net interest receivable	0.4m	0.1m
Profit before tax	39.8m	36.5m
Earnings per share	25.8p	23.7p
Headline earnings per share	24.8p	23.4p
Dividend per share	10.0p	9.3p

Chairman's Statement

The Group's pre-tax profit for the year to 31 December 1996 increased by 9.0 per cent to £39.8million from £36.5 million in 1995. Turnover at £518.5 million, including £20.8 million from acquisitions, was 5.5 per cent ahead of the previous year.

Operating profit before exceptional items rose by 10.1 per cent to £39.8 million, equivalent to 7.7 per cent of sales. Excluding the effect of acquisitions the rise in operating profit was 5.3 per cent. There was an exceptional reorganisation charge of £1.5 million associated with the integration of BMSS plc which was acquired in January 1996. Profit on the sale of surplus properties increased to £1.1 million and net interest received amounted to £0.4 million.

Net earnings per share were 25.8 pence, compared with 23.7 pence in 1995, an increase of 8.9 per cent. Using the headline earnings per share definition of the Institute of Investment Management and Research, earnings per share were 24.8 pence against 23.4 pence in 1995.

Net cash inflow from operating activities was £48.1 million. After net capital expenditure and acquisition costs of £29.9 million, and allowing for interest and share issue receipts, and tax and dividend payments, the net cash position of the company at 31 December 1996 was £13.4 million against £15.4 million at the end of 1995. In January 1996, as part of the consideration for BMSS plc, the Group issued £9.651 million of 5.5 per cent loan notes redeemable at par on or before 31st July 2001.

The board has decided to recommend a final dividend of 7.0 pence per share, giving a total dividend for the year of 10.0 pence per share, an increase of 7.5 per cent, compared with 9.3 pence per share for 1995.

Demand for the wide range of timber and building materials distributed by our principal subsidiary Travis Perkins Trading Company Limited remained subdued throughout the year. Underlying sales, after a level first half, grew a little in the second six months, though the improvement was at a lower rate than our earlier

expectations and the available business was keenly contested. As in 1995, the average selling price of the Company's product range remained little changed over the previous year.

In these circumstances the Company's priority has been to contain expenses and to maintain gross margin levels. On a like for like basis, it was successful in holding overall cost increases below the rate of inflation. This was achieved even though the Company continued to increase expenditure on systems development and other security measures to give better control over its assets. Gross margins increased slightly on the previous year's level. The charge for bad and doubtful debts decreased in the year, from 0.6 per cent of credit sales to 0.4 per cent. While average numbers employed increased over 1995 due to acquisitions, turnover per employee continued to move forward. At the end of a taxing year it is satisfying to report that the Trading Company managed to move its operating profit ahead of the level achieved in 1995.

The year also saw a significant development in the branch network of the Trading Company, particularly with the acquisition of the 26 branches of BMSS plc, located mainly in the West Midlands, Greater Manchester and Wales.

The initial three month period after the acquisition saw these branches rebranded as Travis Perkins and the staff operating our standard systems. This was followed by a programme of stock development and branch improvements. Stock development has provided the branches with a wider product range in line with the Company's national stocking policy. The branch improvement programme has involved significant expenditure, with priority given to branch security, product presentation and yard and warehouse development. This investment will continue during 1997 and 1998. The operating profit of the BMSS branches for the eleven months to 31st December 1996 was £1.6 million on sales of £17.5 million. Sales from these branches gained momentum in the last quarter of 1996 and this trend is continuing in the current year. We anticipate an improved contribution from the acquisition in 1997.

As well as purchasing BMSS, the Company acquired eight other independent businesses during the year, in towns where it had not previously been represented. These included two locations in Scotland, two in the north west, one in Devon, one in west London, one in Oxfordshire and an outlet in Worcestershire. This latter business is the most significant and consists of the merchandising assets of R & M Walker Ltd of Kidderminster, a major supplier of timber and timber based products in the region. The product range distributed by this business will be broadened to include building materials and plumbing and heating equipment, creating a major branch to support the Company's existing interests in the West Midlands.

D.W. Archer Limited, which trades as a specialist timber importer and merchant in the West Midlands and Thames Valley again produced a creditable result in difficult market conditions with operating profit similar to previous year. In April 1996 it opened its tenth branch on a greenfield site at West Bromwich, where it is steadily building its market share.

Travis Perkins (Properties) Limited acts as a holding company for the Group's properties. Its principal activity is the management of the limited number of investment properties held by the Group and the disposal of properties surplus to our trading requirements. Some further progress was made with disposals, with the sale of seven sites generating a profit of £1.1 million in 1996.

Board of Directors. As previously announced, as a result of the restructuring of our Group head office, Terry Best left the company during the year, and I would like to thank him for his valuable service. Paul Hampden Smith, previously finance director of the Trading Company was appointed finance director of the Group in October and I welcome him to our board.

Group Staff. I would once again like to record my thanks to all those staff throughout the group whose commitment has enabled us to continue to grow the business. It is the profits generated through their efforts in established outlets, that allows us to expand and to forward our ambition to be a truly national distributor of building materials.

The Outlook. The level of new house sales and total housing transactions has progressively increased since the second half of last year. This greater activity encourages the industry to build new houses and, at a later stage, increases the amount of improvement work carried out on the existing housing stock. Our like for like sales in the first two months of the current year are modestly ahead, but prospects are better and I anticipate an improving trend as the year proceeds.

A. Travis
Chairman