

## Summary

	<b>1997</b>	1996	<b>Increase</b>
	<b>£'000</b>	£'000	<b>%</b>
Turnover	<b>555,839</b>	518,494	<b>7.2</b>
Operating profit before exceptional costs	<b>47,440</b>	39,802	<b>19.2</b>
Profit on ordinary activities before taxation	<b>49,680</b>	39,762	<b>24.9</b>
Profit on ordinary activities after taxation	<b>35,095</b>	26,694	<b>31.5</b>
Earnings per share	<b>33.8p</b>	25.8p	<b>31.0</b>
Headline earnings per share	<b>32.8p</b>	24.8p	<b>32.3</b>
Dividend per share	<b>11.0p</b>	10.0p	<b>10.0</b>

## Chairman's Statement

In a year when underlying demand for the products we distribute grew more slowly than anticipated I am pleased to report that our focus on improving gross margin resulted in a very satisfactory improvement in our performance.

## Results

The Group's pre-tax profit for the year to 31<sup>st</sup> December 1997 increased by 24.9 percent to £49.7 million from £39.8 million in 1996. Turnover at £555.8 million was 7.2 percent ahead of the previous year. After adjusting for the effect of acquisitions, like for like sales were 4.8 percent ahead.

Operating profit before exceptional items rose by 19.2 percent to £47.4 million, equivalent to 8.5 percent of sales. Profit on the sale of surplus properties was £1.0 million and net interest received amounted to £1.3 million.

Net earnings per share were 33.8 pence compared with 25.8 pence in 1996, an increase of 31.0 percent. Under the headline earnings per share definition of the Institute of Investment Management and Research, earnings per share were 32.8 pence against 24.8 pence in 1996, and increase of 32.3 percent.

Net cash inflow from operating activities was £52.0 million, of which £15.8 million was used to fund net capital expenditure and acquisition costs. After adding receipts from interest and share issues and deducting payments for tax charges and dividend distributions, the net cash position of the Company at 31<sup>st</sup> December 1997 was £30.3 million against £13.4 million at the end of 1996. During the year £7.3 million of the £9.7 million of 5.5 percent loan notes issued as part of the consideration for BMSS plc were redeemed.

This year, for the first time, we are including in the report a review of the operations by our group managing director, Ted Adams. I shall therefore refrain from commenting in any detail on the operating results, except to say that we can draw encouragement from the gains achieved in a year when our market moved forward slowly.

## The Industry

Over the past year, the builders' merchants industry has continued to consolidate and the top five merchants by sales in the United Kingdom now account for approximately 40 percent of the merchant's market, with Travis Perkins in third position with a little over 7 percent.

It is our view that the industry will steadily continue to consolidate. We are happy with the position we hold and will continue to develop our branch network when appropriate opportunities arise, both through acquisition and by developing greenfield sites.

### **Acquisition**

At the end of February this year, we announced the acquisition of Sherry & Haycock Limited. This well established business operates seven timber and builder's merchants branches in Dorset, Wiltshire and Somerset, together with two roof truss operations at Bridgwater and Ferndown. The acquisition complements and enhances our existing network of branches in the south west and provides us with an opportunity to develop Sherry & Haycock's traditional strength in the distribution of timber, wood products and structural building materials through the addition of plumbing and heating products and tool hire facilities.

### **The Dividend**

The board is recommending a final dividend of 7.7 pence per share, giving a total dividend for the year of 11.0 pence per share, compared with 10.0 pence per share for 1996, increase of 10.0 percent.

### **Group Staff**

I would very much like to thank all our staff for the way they continue to meet and respond to the challenges facing our Group as we strive to improve the quality of our performance.

### **Board of Directors**

I referred in my interim report to the sad loss of Timothy Perkins who had been deputy chairman of the board since the formation of Travis Perkins in 1988. He played a central role in the development of the business over 40 years with the company and is greatly missed by his many friends and business colleagues.

### **The Outlook**

Rising private housing starts and property transactions in 1997 helped stimulate the level of demand for building materials. While most major builders anticipate an increase in housing sales in 1998, recent trends suggest the improvement will be subdued and it is more likely that we will benefit from the greater repair and maintenance activity. Although the continuing strength of sterling is putting downward pressure on the average cost price of our products, our like for like sales in the first two months of the current year are 10 percent ahead of the figure for the same period of 1997. They have however been helped by the mild winter and should not be taken as a reliable guide for the year as a whole. Overall I feel we can look forward to a year of further progress.

*A. Travis*  
*Chairman*

## **Group Managing Director's Review of Operations**

### **Results**

Total Group sales improved by 7.2 percent over the 1996 levels and were 4.8 percent ahead after adjusting for the effect of acquisitions.

Indications are that compared with returns made by other members of the Builders Merchants Federation, our principal operating subsidiary, **Travis Perkins Trading Company Limited**, increased its market share. Sales in all major product sectors of the business increased with heavyside sales showing the strongest gain. The market for plumbing and heating materials was the most difficult but we held on to our share and in the process improved the gross profit and rebate percentage of sales by 0.7 percent in this product sector.

Gross profit and rebate for all product groups expressed as a percentage of sales increased by 1.1 percent above the 1996 level. Average cost price inflation for our product range during 1997 was 1.6 percent and was lower than the average inflationary increase in our overheads.

Overheads as a percentage of sales were 0.2 percent up on 1996 due mainly to combination of higher distribution costs, a slightly higher bad debt ratio and additional security costs. Theft is an increasing problem in our industry and we have taken steps to contain our losses in this area.

The net operating profit before exceptional items at £47.4m was 19.2 percent up on 1996. As a percentage of sales, the net operating margin has increased to 8.5 percent in 1997 from 7.7 percent in 1996.

### **Developments**

We have a strategy of upgrading our branches in terms of product offering and customer service facilities. During 1997 thirteen branches had major developments where the main thrust was to widen the product range particularly in plumbing, heating and timber products. We also added six new tool hire departments which at the year end gave us a total of 72. Tool hire revenue in 1997 rose by 16.5 percent above the 1996 income. Three branches were expanded by moving to new and improved locations. There were many other branch upgrades of a more minor nature which will improve sales performance in these locations.

At the end of 1996 the expansion of our plumbing and heating business had begun to strain the facilities offered by our central distribution warehouse based in Northampton. We decided to expand these facilities and this was completed during the second half of 1997. The extra warehouse space will enable us to increase central distribution throughput by over 40 percent with approximately 10 percent planned to occur in 1998.

There have been a number of major customer initiatives during the year. Automatic pricing of negotiated terms is now available for both credit account and cash customers who are able to access their agreed prices through our information technology network. We are also tailoring our systems to specific

customer needs. Systems development is also taking place with suppliers with an increasing number of invoices being transmitted electronically and price checks being carried out automatically.

All branches now operate with an electronic purchase ordering system and the stock management system rollout will see our major branches operating the system during 1998.

### **Acquisitions**

The BMSS business, acquired at the beginning of 1996, performed up to our expectations during the year. We continued with our policy of acquiring businesses which can be enhanced and as a result add value to the Group as a whole. We acquired sixteen new branches which taken together did not contribute to profits in the year, but will do so in the future. We also opened two greenfield sites and closed four branches. At the end of 1997 we had a total of 265 branches.

Included in these new branches were the outlets acquired on 31<sup>st</sup> December 1997 with the purchase of W H Newson Holdings Limited. This company operates as a timber and builders' merchant in seven locations, six of which are in Greater London. They significantly strengthen our central London position and we intend to increase the product range stocked by these branches particularly in heavyside materials and plumbing and heating equipment.

The other businesses acquired were spread over the country with outlets in Tottenham, Burnham on Crouch, Caenarfon, Porthmadog, Folkestone, Felixstowe, Inverurie, Mitcham and Putney.

**D W Archer Limited**, which trades as a specialist timber importer and merchant in the West Midlands and Thames Valley, increased its sales by 6.3 percent despite encountering continued difficult pricing conditions within its particular market. Pressure on margins translated into a small reduction in the net operating profit of this operation.

**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 trading requirements. Further progress was made with disposals with the sale of 9 sites generating a profit of £1.0 million in 1997 compared with £1.1 million in the previous year.

### **Management and Staff**

The success of our Company is dependent on having good, well motivated and well trained staff. Management has been strengthened through our new advanced management development programme and we have also launched a more specific course for prospective managers. We have a very successful management trainee programme and have substantially increased the intake of new trainees this year. Other staff are being continuously trained in the skills and competencies for their jobs.

Regrettably, the Government announced last year that the profit related pay scheme is being phased out during 1998 and 1999. Both the company and its

employees have benefited from this in 1996 and 1997. In the current year we are replacing it with the introduction of a Company bonus scheme.

It is through the efforts of our staff that the Company once again has been able to improve its profit performance and my sincere thanks go to them for their hard work and contribution.

*E.C. Adams*