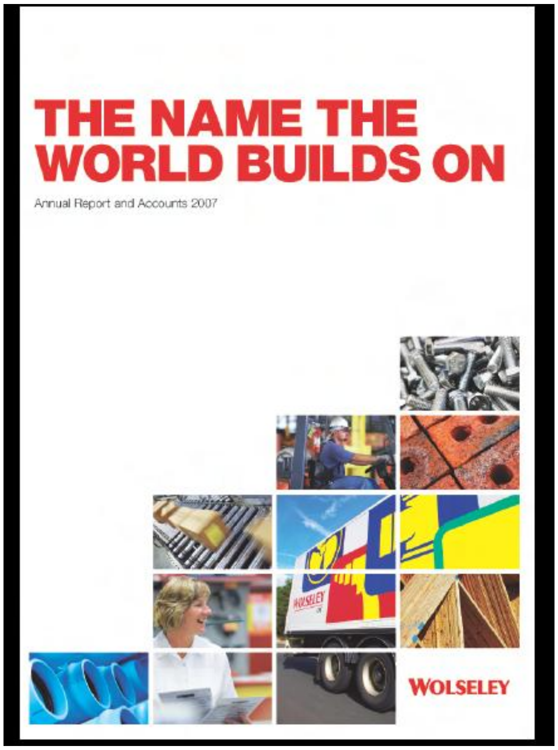
# Report of the Month

ReportWatch e.com **January 2008**

## Wolseley plc

Reading, **United Kingdom**




## Report Facts

**Company name:** Wolseley plc

**Fiscal year end:** July 31, 2007

**Report title:** *The name the world builds on*

**Chairman:** John W Whybrow

**Chief Executive Officer:** Chip Hornsby

**Number of books:** 1

**Report length:** 132 pages

**Auditors:** PricewaterhouseCoopers LLP

**Design agency:** 35 London

**E-mail:** investor@wolseley.com

## Report Rating: ★★★(★)

(Rating scale below)

## Profile-Mission (Excerpts, as from the report)

*The world's number one distributor of heating and plumbing products to the professional market and a leader supplier of building materials… Our strong brands* (°) *are represented through… 5,296 branches across 28 countries.* (ifc, p 3. Italics are own company's words)

(°) Brands include: Wolseley, Pipe Center, Stark, Reseau Pro, Bathstore, Brossette, Parts Center…

## Key Figures

**Group revenue:** £ 16.2 billion

**Trading profit:** £ 877 million

**Trading margin:** 5.4%

**Profit before tax:** £ 634 million

**Earnings per share:** £ 73.52 pence (basic)

**Dividend:** £ 21.55 pence (recommended)

**Return on gross capital employed:** 13.7%

**Gearing ratio:** 71.5%

(Source: figures sourced from the annual report)

## Some Competitors

- **Saint-Gobain Building**
- **Travis Perkins**
- **84 Lumber**
- **B&Q**
- **Kingfisher**

# ***Report Rating:*** ★★★(★)

## ***Very good***

> Rock-solid and matter-of-fact *Performance review* introduced and signed off by the CFO: logically built, strongly backed with graphs putting numbers in perspective (often over five years) (see selected page).
> One page to review *Key Performance Indicators* and year achievements.
> Risk management is part and parcel of the performance analysis. Mitigation is addressed under the *Resource management* title next to each category of risk (see selected page).
> Corporate governance up to UK's best practice, with an emphasis placed on the audit committee's work.
> Classy Board portraits with fair background information for directors.

## ***Good***

> All key brands displayed on pp 2-3 Why there? Well, why not?
> Acquisitions fairly reported.
> Worthy *Remuneration report*.

## ***Buts***

> *Financial highlights* must be taken for granted until further check (year-on-year growth percentages only).
> Can (the impact of) tremendous external growth be effectively measured? Not that easily…
> Why focusing on the *Return on gross capital employed* and leaving out the key *Return on equity*?
> The visual route could have been paved much deeper, longer and livelier than over six spreads. The inside doesn't fully live up to the very ambitious front cover title.

## ***Responsible?***

> A seven-page *Corporate social responsibility report* gives a good picture of steps taken on various issues. However, measures are not used for all them; the structure is not perfect; and neither progress is really measured nor targets are visibly set.

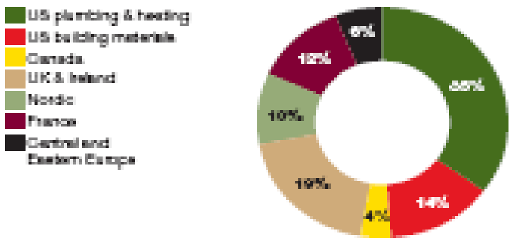
**Rating Scale**

★★★★★: World-class ★★★★(★): First-rate ★★★★: Excellent ★★★(★): Fine ★★★: Average
★★(★): Uneven ★★: Ordinary ★(★): Deficient ★: Unsatisfactory (★): Uncompetitive
The rating is based on ReportWatch internal desk research and does not take into account the independent Rating Panel's judgment.

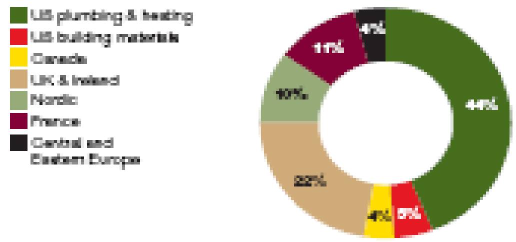
*How does the company report in key areas? What are the main report pluses and minuses?*
*The **Report Scan** gives an overview of strengths and weaknesses, and scores each item.*
*Contact [e.com@reportwatch.net](mailto:e.com@reportwatch.net)*

# Selected Page (p 37 of Wolseley *Annual Report 2007*)

### Group revenue




### Group trading profit




## Risk

**Credit risk**

Wolseley provides sales on credit terms to many of its customers. There is an associated risk that customers may not be able to pay outstanding balances.

Stock also provides loans to finance the construction of properties. There is an associated risk that customers may not be able to pay outstanding loan balances.

## Resource management

Each of the businesses have established procedures in place to review and collect outstanding receivables. Significant outstanding and overdue balances are reviewed on a regular basis and resulting actions are put in place on a timely basis. In many cases, protection is provided through lien rights on projects or through credit insurance arrangements.

All of the major businesses use professional, dedicated credit teams, in some cases field based. Not only does this lessen the risk of non-payment but it can also provide opportunities where these teams can work with higher risk customers to provide innovative, secured credit arrangements.

Historic write-off rates are low and appropriate provisions are made for debts that may be impaired on a timely basis.

Stock's construction loans are secured on the related properties and are managed by a dedicated lending team within that business. Policies are also applied to provide further protection and KPIs are monitored regularly by management outside the business.

## Financial review

### Revenue and operating profit

After taking account of currency translation, Group revenue increased by 14.6 per cent from £14,158 million to £16,221 million.

Operating profit decreased by 9.7 per cent from £834 million to £753 million. Trading profit decreased by 0.6 per cent from £882 million to £877 million, before deducting amortisation and impairment of acquired intangibles of £124 million (2006: £48 million).

### Currency translation

Currency translation decreased Group revenue by £776 million (5.5 per cent) and Group trading profit by £51 million (5.8 per cent) compared with 2006. Over the past five years the constant currency growth of the Group is as follows:

| Annual growth in constant currency | % 2007 | % 2006 | % 2005 | % 2004 | % 2003 |
|---|---|---|---|---|---|
| Revenue growth | 21.2 | 22.8 | 14.2 | 29.5 | 8.5 |
| Trading profit growth | 5.5 | 21.6 | 19.7 | 37.2 | 6.9 |

Note: 2007, 2006 and 2005 figures prepared under IFRS. 2004 and 2003 figures prepared under UK GAAP.

The effect of US dollar depreciation has been to decrease translated US profits by £46 million (8.2 per cent) compared with 2006. US dollar denominated profits account for 53.7 per cent of the Group's trading profit.

There has been a less significant reduction in the Euro translation rate which has decreased Euro trading profits by £2 million (1.7 per cent) compared with 2006. Euro denominated profits accounted for 17.8 per cent of Group trading profit in 2007. If the results of the Group are translated into dollars at the average rate for the respective year the results of the Group are as follows:

| US$ million | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Revenue in US$ | 31,810 | 25,322 | 20,839 | 17,746 | 13,113 |
| Trading profit in US$ | 1,709 | 1,577 | 1,311 | 1,085 | 754 |
| Operating profit in US$ | 1,467 | 1,491 | 1,300 | 1,017 | 706 |

Note: 2007, 2006 and 2005 figures prepared under IFRS. 2004 and 2003 figures prepared under UK GAAP.

Further US$ figures and the basis of computation of the above figures can be found within the information in US dollars section on page 125.

### Finance costs

Net finance costs of £119 million (2006: £65 million) reflect an increase in Group debt as a result of the acquisition of DT Group and other acquisitions and an increase in interest rates, partly offset by the effect of strong operating cash flow. Net interest receivable on construction loans amounted to £11 million (2006: £12 million). Interest cover was 7 times (2006: 14 times).

### Tax

The effective tax rate, being tax payable on profit before tax and amortisation and impairment of acquired intangibles, decreased from 28.4 per cent to 25.4 per cent. This is due to a higher proportion of the Group's profits coming from lower tax jurisdictions in Europe following the DT Group acquisition, the reduction in tax rates in some companies and the impact of deferred tax on share options.