Capital Allocation Policy Update

25 July 2023

Trading on track, dividend maintained and buyback commences

- **Good start to 2023: positive first half LFL, comfortable with consensus expectations**[1]
- **Updating capital allocation framework** to reflect strength of the balance sheet and to deliver an efficient capital structure:
    - **Balance sheet target to focus on net cash basis,** retaining at least £50m cash at the year-end (seasonal low point)
    - **Investing to drive growth:** c.3% of sales before adoption of IAS38 (c.2% post IAS38)
    - **Plan to maintain dividend at 10.9p for FY2023: policy moves to 1.5 - 2.5x cover** from 40% payout ratio
- **Surplus cash to be returned to shareholders; £25m buyback** to commence imminently
- **Increased focus on SaaS investments in future will impact Adjusted PBT** over the next few years, no effect on cash

1. On a Pre-IAS38 Adjusted PBT basis, ie excluding the shift in IT investment from capex to opex (see page 10)

Wickes investment case: double-digit Total Shareholder Return over the cycle

Mid single digit sales growth	• Home improvement **market growth broadly in line with GDP** over an economic cycle • **Anticipate consistent market share gains**, driven by our balanced business model and proven growth levers, including: digital leadership; Trade Pro; store refits; and new stores
Profit growth higher than sales growth	• **Operating leverage** as business grows: e.g. property costs, operational efficiency • **Lean cost model** with productivity mindset throughout the business • **IT investment driving further growth and efficiencies**
Regular Dividend	• **1.5x-2.5x dividend cover range in medium term** • **Intention to maintain 10.9p dividend per share until profit growth brings cover into 1.5x-2.5x range**
Surplus cash	• **Cash generative after maintenance and growth capex** • **Surplus cash to be returned to shareholders**

Our updated capital allocation priorities

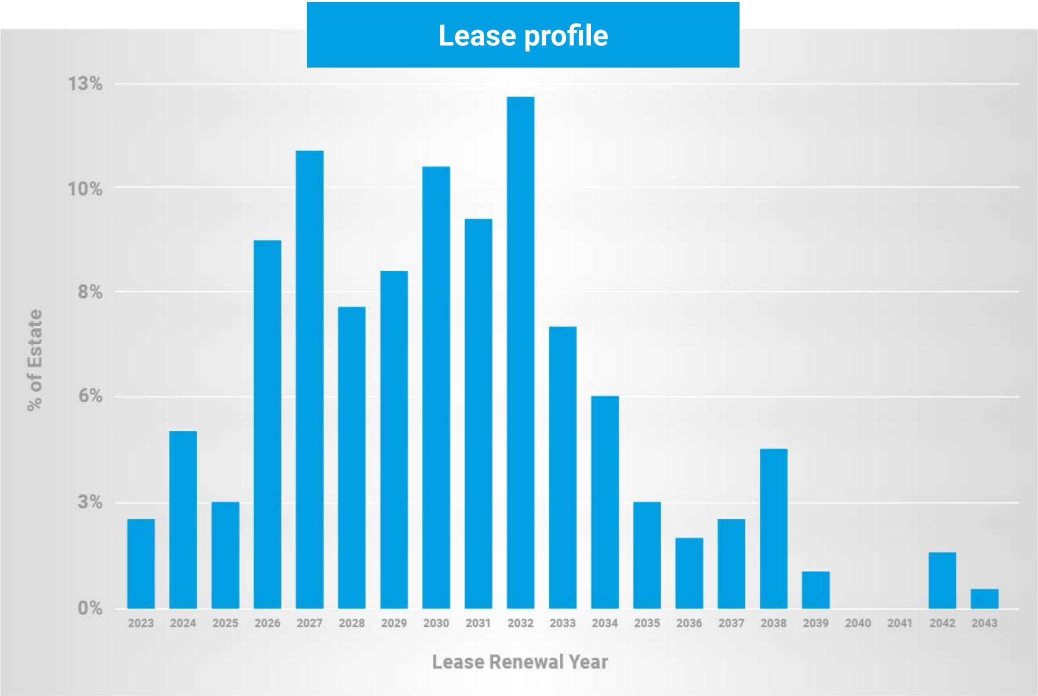
Strong balance sheet supports growth and capital returns

	Strong balance sheet	Investing in the business	Ordinary dividend	Return of surplus cash
Policy	Operate with net cash at all times Net cash of at least £50m at year end RCF as back-up support only	Capex c.2%[1] of sales, (c.3% on a pre-IAS38 basis) Focus on refits, new stores and IT Target blended ROIC >15% across all investment	Dividend policy reset to 1.5 - 2.5x cover in normal trading Cover builds in future years as profits recover	Seek to return excess cash to shareholders
2023	Start and end 2023 with c. £100m cash; average during year significantly higher	£30-35m[1] projected capex spend for FY2023	Plan to maintain dividend at 10.9p per share	£25m share buy back to commence as soon as practically possible

1. Lower capex numbers than previous guidance as a result of accounting treatment of SaaS projects - see slide 10. Pre IAS38 capex for FY2023 would be £40-45m and c3% of sales.

IFRS16 net debt is heavily influenced by our lease profile

- Lease profile reflects timing of expansion in the past; **renewals are unevenly distributed in coming years**
- As a result, **leasehold debt is currently falling by £40-50m p.a.** and will then rise from 2026 onwards
- **No impact on the underlying business, as cash rents are stable** and lease renewals see little or no inflation
- **Fixed charge cover covenant is based on cash rents**
- Important to recognise size of lease obligations but **lease debt is not our preferred lead metric for leverage targets**

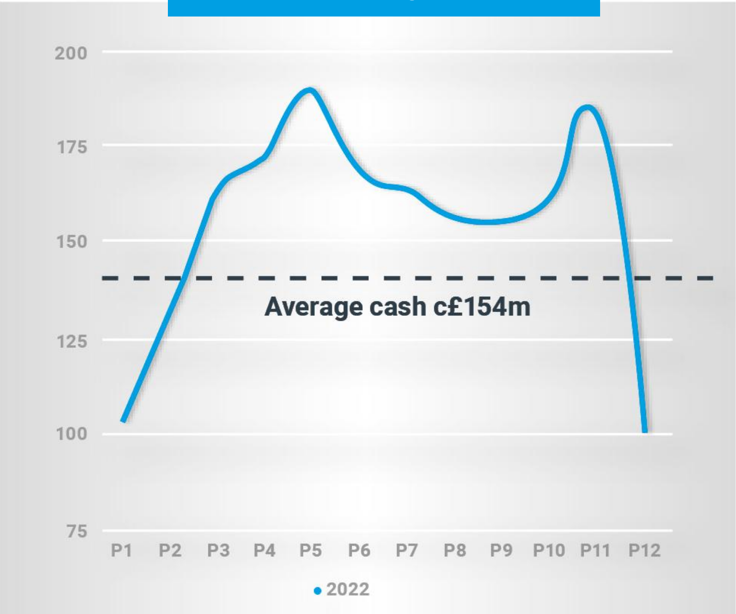


Switch to cash metric retains balance sheet strength without lease volatility

Maintaining a strong balance sheet

- Prudent approach to balance sheet, reflecting a business with operational gearing and significant lease obligations; **aim to hold net cash at all times**
- Seasonal working capital pattern means that **low point for cash is in December** each year:
  - 2022 year end net cash £100m;
  - Average across 2022 £154m;
  - £190m as at 1 July 2023
- Intra-month cash cycle typically no more than £40m
- **New policy to have at least £50m cash at year end**; supports intra-month working capital fluctuations and protects against downturns
- £80m RCF provides additional back-up liquidity

Cash balance cycle in 2022



New policy of at least £50m net cash at year end strikes right balance between balance sheet efficiency and downside protection

Capex and investment principles

Capex & Return on Capital

Capex at c.2%[1] of revenue targeting blended ROIC >15%

	Incremental ROIC
Property Maintenance Capex: Store repairs; Range reviews	Assumed 0%
Property Growth Capex: Store refits; New store openings	> 25%
IT capex: System replacement; Revenue-driving; Efficiency / cost saving	0 - 30%

- **Property Maintenance Capex:**
  - Store repairs
  - Range reviews
- **Property Growth Capex:**
  - Store refits
  - New store openings
- **IT capex:**
  - System replacement
  - Revenue-driving
  - Efficiency / cost saving

Total blended ROIC: >15%

1. Pre IAS38 capex at c.3% of sales.

IT Investment

IT investment c.£17m in FY23, rising to c.£25m p.a. from FY25

- Successful IT separation from Travis Perkins completed; all key applications now under Wickes' control;
- Developed in-house IT function and moved all key systems on to cloud-based infrastructure;
- Now implementing next phase of digital strategy to:
  - Modernise / replace systems inherited from TP;
  - Further improve our customers' digital experience;
  - Employ tech to improve operational efficiency;
- IT project investment anticipated to be c.£17m in FY2023 and grow to c.£25m per year from FY2025;
- 50-75% future spend will be opex rather than capex due to focus on Software as a Service (SaaS); accounting impact explained on slide 8

Focus on SaaS applications for future IT spend - accounting implications

- Following completion of the IT separation programme and assessment of future plans, it is now expected that a high proportion of future IT investment will be in SaaS-based systems. As a result, and in accordance with IAS38 clarification on accounting for SaaS, **we anticipate 50-75% of IT investment will be expensed going forwards, rather than capitalised**
- Impact of this switch from capex to opex for some of the costs will have **no effect on future cash flow**
- **For four years, Profit Before Tax (PBT) will be reduced until the higher IT opex is offset by lower IT amortisation**. The estimated impact on PBT is shown in the table below
- In FY2023 only, we will also report Pre-IAS38 Adjusted PBT (ie the profit that would have been delivered if all of the IT investment had been capitalised), in order to align with analysts' original forecasts for the year

Impact of shift in focus to SaaS projects		**2023**	**2024**	**2025**	**2026**
		£m	**£m**	**£m**	**£m**
Cash	Increase in IT Opex from shift to SaaS	(9-11)	(11-17)	(13-19)	(13-20)
	Reduction in IT Capex from shift to SaaS	9-11	11-17	13-19	13-20
	Total impact on cash flow	**-**	**-**	**-**	**-**
P&L	Additional IT Opex from shift to SaaS	(9-11)	(11-17)	(13-19)	(13-20)
	Lower IT Amortisation from shift to SaaS	1	5-6	9-12	12-17
	Total impact on PBT	**(8-10)**	**(6-11)**	**(4-7)**	**(1-3)**

Dividend cover of 1.5 - 2.5x adjusted EPS

- Moving from a fixed payout (40% of adjusted PAT) to a **dividend cover range of 1.5 - 2.5x range**
- **Plan to maintain 10.9p full-year dividend per share for FY2023**; >£10m incremental cash to shareholders in FY2023 versus the previous policy
- **Intention to maintain the 10.9p dividend until cover moves back into the target range** as profits recover

Surplus cash and share buyback plans

Surplus cash

- Over the medium/long term we expect to generate sufficient operational cash flow to:
    - **Fund the capex for growth initiatives**;
    - **Pay a regular dividend**; AND
    - **Return excess cash to shareholders**
- Year-end 2023 **cash forecast significantly higher than policy** of “at least £50m at year end”
    - Today announcing **share buyback of £25m** to commence immediately

Wickes investment case: double-digit Total Shareholder Return over the cycle

Mid single digit sales growth

Profit growth higher than sales growth

Regular Dividend

Surplus cash

Q&A

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