Continued momentum

Annual report and financial statements | **2023**

LORDS
GROUP TRADING

We are a specialist **UK distributor** of **building, plumbing, heating** and **DIY** goods.

Through our two divisions, **Merchanting** and **Plumbing and Heating**, we sell to local tradespeople, small to medium-sized plumbing and heating merchants, construction companies and directly to the public.

Established over 35 years ago as a family business, we now operate from 48 sites as we grow our national presence.

Read more about our purpose, vision and values on page 16

Alawi, Plumbing Supervisor, Lords Builders Merchants, Ladbroke Grove

We're committed to taking action on sustainability.

This annual report contains important information on our financial and operating performance which can also be found online. To do your bit for sustainability, switch your shareholder communications to digital.

www.lordsgrouptradingplc.co.uk

Cover image: Terry, Branch Manager, Mr Central Heating, Croydon

Lords Builders Merchants

Winner – Best Merchant of the Year (six to 20 branches)

Builders' Merchants Awards 2023

BUILDERS' MERCHANTS AWARDS 2023

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Merchanting

Read more on pages 23 to 25

Plumbing and Heating

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Sustainability

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Financial highlights

Revenue
£462.6m **2.8%**
2022: £450.0m

Adjusted profit before tax[1]
£10.4m **(40.7)%**
2022: £17.4m

EBITDA[1]
£23.5m **(18.1)%**
2022: £28.6m

Basic earnings per share
0.84p **(85.2)%**
2022: 5.68p

Adjusted EBITDA[1]
£26.8m **(10.5)%**
2022: £30.0m

Adjusted basic earnings per share[1]
4.35p **(45.8)%**
2022: 8.02p

Adjusted EBITDA margin[1]
5.8% **(0.9)pts**
2022: 6.7%

Dividends per share
2.0p
2022: 2.0p

Profit before tax
£3.0m **(76.8)%**
2022: £12.8m

Net debt[1]
£28.5m **47.0%**
2022: £19.4m

1. See alternative performance measures (page 133).

All year-on-year percentage changes throughout the report are based on underlying, not rounded, figures.

Operational highlights

Lords Group Foundation donation
£200,000
2022: £200,000

Lords Group Foundation initiative communities
27
2022: 13

Carbon emissions per £1 million of turnover
137 tonnes CO_2e **(2.1%)**
2022: 140

At a glance

Lords was established over 35 years ago as a **family business**. Our first retail unit was in Gerrards Cross, Buckinghamshire, and we currently operate from 48 locations in the UK.

Since 1991, turnover has increased from £0.6m to **£462.6m**

Branches have increased from 3 in NW London to **48** across the UK

And we've grown from 6 to **958** colleagues

Our divisions

We operate through **two** complementary **divisions**.

Merchanting

We supply building materials and DIY goods through our network of merchant businesses and online platforms. We operate in both the 'light side' (timber and building materials) and the 'heavy side' (civils and landscaping), through 31 locations in the UK.

Revenue

£214.9m **(2.6)%**

2022: £220.8m

Adjusted EBITDA

£14.0m **(13.4)%**

2022: £16.1m

Read more on pages 23 to 25

Plumbing and Heating

We are a specialist distributor of plumbing and heating products to a UK network of independent merchants, installers and the public. We have an attractive multi-channel offering for customers and our 17 locations enable nationwide next-day delivery.

Revenue

£247.7m **8.0%**

2022: £229.3m

Adjusted EBITDA

£12.9m **(7.1)%**

2022: £13.8m

Read more on pages 26 to 28

Our equity story

A leading UK distributor of building materials with significant growth ambitions.

We believe the following factors make us a compelling proposition for investors.

We have a unique customer first proposition

- Customer service excellence is the central pillar of our strategy.
- Our highly engaged colleagues are fundamental to providing differentiated customer service.
- Our specialist and highly recognisable brands give us local and regional leadership.
- Our approach creates loyal, long-term customer relationships.
- Colleagues aligned with success of Group through shareholding.

Substantial organic and margin accretive growth opportunity

- We open up markets and gain customers by rolling out new stores under existing brands.
- Our accelerating digital capabilities create repeat customers.
- We are increasing our share of customers' wallets by offering new products.
- Our growing presence in renewable products drives margin expansion.

We are well positioned in the substantial UK market

- We have less than 1% of highly fragmented markets, giving us real scope to grow.
- 45% of our revenue comes from the essential and resilient 'repair' sector.
- We have a track record of revenue growth, with a ten-year compound annual growth rate of 36%.

We have a history of successful value-creative acquisitions

- We have a track record of acquiring specialist merchants at 4-6x EBITDA.
- We have made 13 acquisitions between 2016 and 2022, delivering 25%+ return on investment.
- Independent merchants hold 42% of the market and are prime for consolidation.
- We are an attractive buyer for family businesses, offering good continuity and development.

Our management has a strong record in the industry

- We are recognised industry leaders.
- Management is aligned with fellow shareholders via a significant shareholding.
- The Group has grown through the last three economic downturns. Our CEO was part of the Group through all three cycles.
- Management team has more than 200 years' industry experience.

We have a strong financial profile

- Growth levers will further increase our revenues and enhance our EBITDA margin to 7.5% in the medium term.
- Our business is highly cash generative, with an attractive working capital profile.
- Our policy is to progressively grow our dividend.

Our story so far

We have a long history of **growing organically** and through 15 successful acquisitions since 2016.

2016
Acquisition of George Lines (Merchants) Limited

2017
Acquisition of 75% of Hevey Building Supplies Limited

Acquisition of E. Hussey & Sons Limited (trading as Hussey & Saunders)

2018
Acquisition of Kings Langley Buildings Supplies Limited

2019
Acquisition of Huntingdon Timber Limited

Opened second George Lines branch

Acquisition of APP Wholesale Limited

2020
Established first Lords Plumbing and Heating branch

2021
Acquisition of MAP Building & Civil Engineering Supplies Ltd

Acquisition of Condell Limited

Shares admitted to trading on AIM

Acquisition of Nu-Line Builders Merchants site

2022
Acquisition of Advance Roofing Supplies

Acquisition of A.W. Lumb

Opened third George Lines branch

Acquisition of Grafton Sudbury branch

Acquisition of HRP Trade / Direct Heating

Purchase of remaining 25% of Hevey Building Supplies

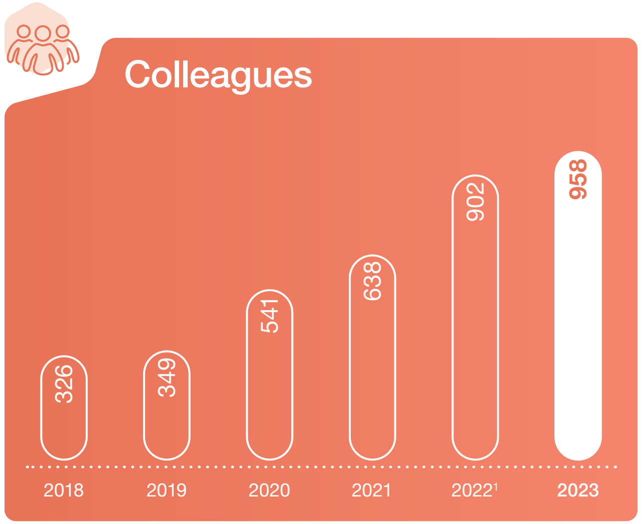
Opened tenth Mr Central Heating branch in West Bromwich

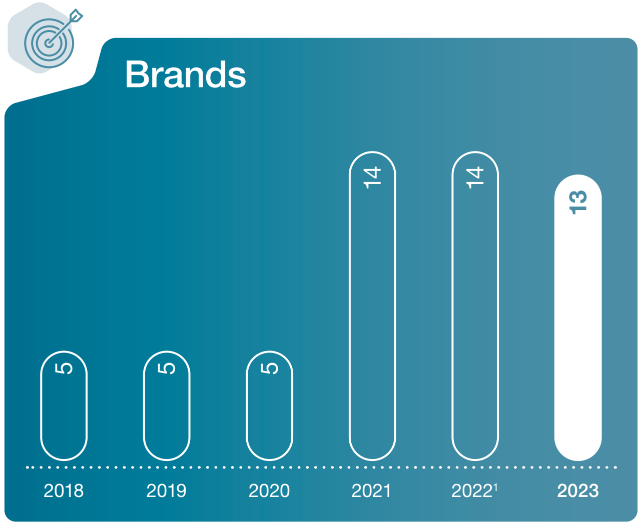
2023
Disposal of Lords at Home

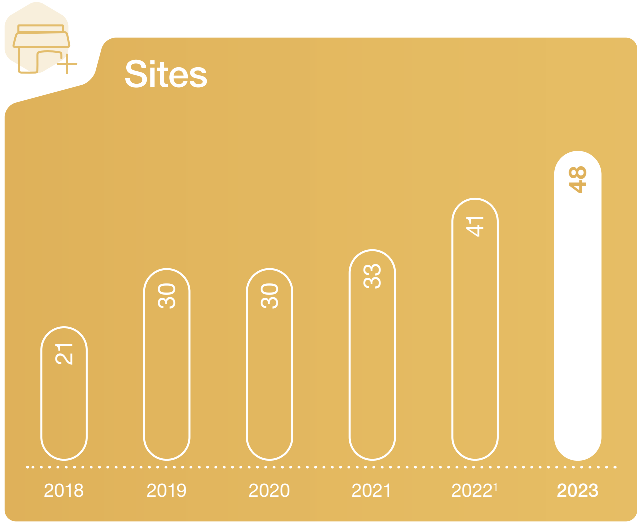
Acquisition of Chiltern Timber Supplies

Acquisition of Alloway Timber

Opened eleventh Mr Central Heating branch in Edinburgh







1. Stats are presented post LAH disposal completed in February 2023.

Chairman's statement

"The Group demonstrated its resilience in FY23, as we outperformed the market. Near-term conditions remain uncertain but we see big opportunities and the Board is looking forward with confidence."

Gary O'Brien
Independent Non-Executive Chairman

Lords demonstrated its resilience in FY23 and outperformed the wider sector despite the challenging economic environment. This outperformance has largely been achieved due to approximately 80% of our revenues coming from the essential areas of the repairs, maintenance and improvement (RMI) sector where purchases are not discretionary. This has helped ensure a consistent level of underlying demand in both our core divisions. We also believe that our superior customer engagement is now helping our brands take market share, using the product preference insights and customer loyalty, through periods of market volatility.

Our performance and growth strategy

Over recent years, the Group's growth strategy has substantially broadened the business and diversified our revenue streams, and we saw the benefit of this in FY23. On a like-for-like (LFL) basis, Group revenues held up well and were 1.2% lower than in FY22. This was the result of 3.7% LFL revenue growth in the Plumbing and Heating (P&H) division offsetting a LFL decrease of 6.3% in the Merchanting division, where some product categories have seen price deflation. Adjusted EBITDA reduced in the period to £26.8 million (FY22: £30.0 million) reflecting the challenging market conditions in our higher-margin Merchanting division and the impact of loss-making Alloway Timber as anticipated at acquisition. Adjusted profit before tax of £10.4 million (FY22: £17.4 million) reflected market conditions and interest rate movements.

Mindful of macro conditions, we continue to leverage our differentiated customer first position to swiftly respond to volatile market conditions and ensure we manage the business prudently, focusing on our profitability and cash flows whilst exercising caution about capital allocation where required.

Furthermore, we selectively completed two acquisitions in the year, which were a strong geographical and product extension fit and both are performing in line with our expectations.

Our acquisition strategy is unique among our peers and aims to increase our market share and profitability, while further diversifying our revenue. This is delivering CAGR beyond our peer group and demonstrating our ability to scale in the sector. The markets we operate in are highly fragmented, with numerous specialist independent merchants, and we consistently demonstrate that Lords is a great home for these businesses given our customer and colleague-focused culture, making us an acquirer of choice. Even so, in current economic conditions, maintaining our balance sheet discipline is crucial and we are taking a very considered approach to further acquisitions but remain well positioned as macro conditions improve.

Dividends

The Board is recommending a final dividend of 1.33 pence per share, to give a total dividend in respect of the year of 2.0 pence per share, unchanged on FY22.

While the Group's profits were lower in FY23, the total dividend is 2.2 times covered by adjusted earnings per share and the Board concluded it was appropriate to maintain the level of payout. This reflects our confidence in the future growth of the business, its inherent resilience and commitment to a progressive dividend. Subject to Shareholder approval at the Annual General Meeting ("AGM"), the final dividend will be paid on 28 June 2024, with a record date of 24 May 2024 and an ex-dividend date of 23 May 2024.

Our purpose and culture

The Group's culture is one of its key strengths. It helps us to stand out as an employer and deliver great service for our customers, driving organic growth through increased loyalty and share of wallet expansion.

As we continue to grow, we are focused on maintaining the key parts of our culture, such as the family feel of the business, while ensuring we are flexible enough to seize the opportunities ahead. We have therefore done a considerable amount of work this year to more formally define our culture and the values that support it, and we are now integrating our refreshed values into the way we recruit and manage our people. This allows wider stakeholders to understand why independent vendors, customers and employees alike are choosing Lords. You can find more information in the People section of the annual report (page 41) and my introduction to corporate governance (page 63).

Chairman's statement continued

Our purpose and culture continued

As part of this process, we also refined our vision for the Group, which is set out on page 16. This encapsulates our fundamental purpose and the factors that make us stand out in our market, and will help to ensure all stakeholders are aligned to deliver Lords' growth strategy.

Environmental, social and governance (ESG) matters

The Group's environmental footprint has always been a priority for all of our management teams. While the Board has ultimate responsibility for this, the actions that determine our performance are taking place across our business. We have therefore looked to increase accountability in the divisions and across local and regional brands, agreeing reduction plans and incentivised targets. We are in the process of identifying appropriate key performance indicators at divisional and Group level, so we can set targets and incentivise delivery, including for the executive directors. Since the end of the year, the Board has approved an updated environmental policy which is published on our website.

Our business is built on great customer service and that needs highly engaged and motivated people. Our regular surveys continue to show strong employee engagement, reflecting our people-focused culture and the example set by our CEO, Shanker Patel.

As I noted in my report to you last year, Dawn Moore stepped down as a non-executive director at the 2023 AGM, to focus on her executive responsibilities. The Board greatly valued Dawn's expertise in human resources and we were keen to recruit a new director with a similar skill set. We were therefore delighted to welcome Sheena Mackay in September 2023.

Sheena's background as a global HR Director in public companies made her the ideal candidate and she has taken over as Chair of the nomination and remuneration committees. She also has experience as Chair of the ESG committee, helping oversee our efforts to formalise our sustainability commitments.

Since the year end, Chris Day informed the Board that he will be leaving to take up a new opportunity and we thank him for his service. On 8 May 2024, we were delighted to announce that Stuart Kilpatrick will be joining the Board as our new Chief Financial Officer (CFO) on 4 June 2024. Stuart is a highly experienced CFO, with a particular track record in M&A delivery, and we believe he will make a significant contribution to our continued success. Lords is well supported by its strong, well established finance team who will ensure a smooth transition from Chris's departure to Stuart joining.

Looking forward

In the near term, Lords remains focused on driving organic and margin accretive growth, accessing new markets and customers via new store roll-outs of existing brands, accelerating our digital capabilities and an increasing share of customer wallet through marketing new products. In addition, the Group's access to the growing decarbonisation product market is further increasing margin expansion.

Whilst we are seeing wider market conditions remaining uncertain in the near term, and we will continue to manage the business carefully and prudently, we are confident in the medium-term M&A opportunities that exist. We continue to hold active conversations with a number of independent merchants across the UK. As the Group monitors its pipeline of opportunities, Lords' prudence and commitment to protecting its market reputation in the name of long-term success is vital. We continue to believe in our differentiated proposition and diversified growth strategy and, as we move into the second half of the year, the Board looks to the future with confidence.

Gary O'Brien
Independent Non-Executive Chairman

14 May 2024

Chief Executive Officer's review

"FY23 has demonstrated that we have successfully built a sustainable growth business. Despite the challenging macroeconomic backdrop, the Group has once again grown its top line and gained market share, while continuing to invest to deliver future growth."

Shanker Patel
Chief Executive Officer

Being a decentralised and flexible business has helped us to navigate difficult conditions in FY23, by allowing our branches to respond to their customers' needs. Our relentless focus on customer service continues to bear fruit, as we strive to provide a combined price and service proposition that our larger, less agile competitors cannot match. This provides us with a strong base of loyal and satisfied customers who value their relationship with us, as reflected in our customer satisfaction scores, our Trusted Partner accreditation on Feefo and the multiple industry awards we received in FY23. We will continue to take market share as we leverage our best-in-class customer engagement to get closer to customers. In addition, we continue to deploy technology and digitalise our processes to increase efficiency and reduce costs.

Performance

Group revenue reached a new high in FY23 of £462.6 million, up 2.8% on the £450.0 million achieved in FY22. As the Chairman has discussed in his statement, like-for-like revenues were resilient overall, with underlying LFL growth in P&H largely offsetting the impact of market conditions on our Merchanting division. Our digital revenues have started to benefit from the launch in the period of new websites for most of our key brands, improving the customer online experience and customer choice, which is paramount whether in store in an increasing number of quality physical locations or online.

We also continue to see strong growth in newer product lines such as the renewables range in P&H, which has excellent prospects as well as enhanced margins.

Adjusted EBITDA was 10.5% lower at £26.8 million (FY22: £30.0 million), with the adjusted EBITDA margin down 0.9 percentage points to 5.8% (FY22: 6.7%). This reflects market conditions and the greater proportion of Group revenues generated by P&H in FY23, which has a lower margin than Merchanting. We remain confident of achieving our medium-term EBITDA margin target of 7.5% and have several levers to do so, including further accretive acquisitions, improving our productivity and efficiency, growing our higher-margin product lines and operational leverage.

Once again our cash flow was strong, with adjusted cash generated by operating activities[1] of £22.5 million (FY22: £24.1 million), while free cash flow[1] was £13.9 million (FY22: £19.1 million). Free cash flow conversion[1] was 59.2% (FY22: 66.9%), supporting disciplined investment in our 3Ps – people, plant and premises – to deliver further growth. Our capital expenditure in FY23 was £4.9 million (FY22: £3.5 million), including the initial £2.2 million payment to acquire the George Lines' Heathrow site.

The Group's cash flow and our focus on maintaining a robust and prudent balance sheet resulted in a year-end net debt position of £28.5 million (31 December 2022: £19.4 million).

The movement is explained by the combination of 2023 acquisitions, freehold purchase and deferred consideration relating to prior year acquisitions. Combined, these total £13.0 million. At 31 December 2023 we had £46.7 million of headroom in our bank facilities and £19.0 million of accessible cash, giving us a robust liquidity position. Our balance sheet is also backed by our freehold property portfolio, which has a book value of at least £13.0 million.

Strategy

We made good progress with our growth strategy, which aims to deliver margin-accretive growth by opening new branches, margin-accretive acquisitions, extending our product range and expanding our digital revenues, through carefully targeted capital expenditure. Whilst the majority of this progress in FY23 was driven by organic growth, we also acquired two businesses that add to our geographical presence and product range.

New branch openings

All our brands have the strong localised reputation which allows us to open new branches and access new customers, with regional brand power offering faster market penetration. In particular, we see excellent prospects for Mr Central Heating and George Lines. We opened Mr Central Heating's eleventh branch, in Edinburgh, and have identified further sites to expand the brand to up to 50 branches over the medium term.

1. See alternative performance measures (page 133).

Chief Executive Officer's review continued

Strategy continued

New branch openings continued

George Lines, our civils and landscaping merchant, currently has three branches in the South East of England and our plans will see it grow to ten branches nationwide. This will give us national coverage, with each branch having a delivery radius of 30 to 50 miles.

Product range extension

We are continually introducing complementary or innovative products, so we can capture untapped demand and further enhance our customer loyalty. Our renewables range is a prime example of an innovative category, as customers increasingly demand energy-efficient technologies. This range, which includes air source heat pumps, controls, under-floor heating and air conditioning, delivered a 60% revenue increase in FY23 (see page 28 of the annual report for more information).

In Q1 2024, the Government's position was that the Clean Heat Market Mechanism (CHMM) would come into effect in Q2 2024. The CHMM incentivises boiler manufacturers and homeowners to accelerate the transition towards renewable energy sources in UK homes, increasing demand for renewable products including air source heat pumps. Some manufacturers have claimed that the initiatives applied to promote air source heat pump sales will also force an increase in the unit price of gas boilers, which will be passed through to consumers.

In March 2024, the Government confirmed its commitment to the CHMM but announced a twelve-month adjustment to its introduction, to April 2025. Lords remains well placed to benefit from the shift in demand towards air source heat pumps when it comes into force.

An example of the team putting data and customer insights into practice to broaden product range, demonstrating our agility, is following the success of the Advance Roofing implant into our Beaconsfield branch where we are targeting further growth in roofing supplies. Electrical supplies are also a natural complement to our existing product range in Merchanting, and we are starting to offer them in selected branches.

Digital expansion

Our online presence is an important tool for attracting and retaining customers, allowing them to shift between online and in-store as they prefer, improving their buying experience and helping us to reach new customers. This year, our in-house digital team has launched upgraded websites for our Lords, Condell and George Lines brands, increasing their functionality and conversion rates. We continue to see online platforms as a growing part of the customers' purchasing journey as they move across channels in their decision process.

Acquisitions

As the Chairman has outlined, there is a substantial consolidation opportunity in our sector of independent local merchants, and potential vendors see us as an attractive buyer given our proven track record, integrating 15 acquisitions over the past seven years. In FY23 we acquired Chiltern Timber Supplies and Alloway Timber in the Merchanting division, adding six branches to our network and increasing our product range through Chiltern's specialist timber offering. We were delighted to welcome 93 new colleagues to the Group with these businesses. Both acquisitions are performing in line with market expectations and are helping to drive EBITDA margin expansion.

Our approach to M&A remains disciplined given the wider volatility and value fluctuations. For example, we withdrew from two other transactions due to the more challenging market conditions, remaining disciplined about securing acquisitions on our stated target range of 4 to 6x EBITDA basis. This discipline is a key driver of our 25%+ return on investment enjoyed across 13 transactions between 2016 and 2022.


Scott, HGV Driver, George Lines, Horsham

Chief Executive Officer’s review continued

Strategy continued

Our 3Ps – people, plant and premises

We continuously invest in our people through promotions, training and recruitment. The Workvivo platform we introduced in FY23 has been brilliant for colleague communication and engagement, and we held our first colleague conference in March 2024, bringing together 100 colleagues to discuss our strategy, growth ambitions and ESG initiatives. Our strong engagement scores continue and we have maintained our average length of service, which is six years.

We have an ongoing programme of modernising our plant with new trucks and forklifts, and we continue to invest in our systems to support productivity and customer service. Our investment in premises in FY23 included relocating our Glasgow branch and refurbishments of other selected locations. In FY24, we are planning refits at five branches, including four of the recently acquired Alloway Timber locations.

Outlook

In line with the wider market, trading in FY24 has begun with market conditions remaining uncertain and Q1 FY24 was impacted by a combination of macro conditions and wet weather. During Q1 FY24, demand in the Group’s P&H division was volatile following the postponement of the Government’s CHMM but LFL revenue performance has improved across both divisions during April 2024.

Looking ahead, and whilst there remain risks associated with macroeconomic shocks that could potentially affect our supply chains, I am confident that Lords is in a very strong position with less than 1% of the UK building materials market and a proven, differentiated growth strategy. Furthermore, we remain well placed to capture the UK’s transition to renewable energy sources in homes and the Board continues to be cautiously optimistic as to the Group’s ability to gain market share via organic growth levers and value-added acquisition opportunities.

We will continue to manage the business prudently, particularly when looking at M&A opportunities and in relation to our supply chain, where we continue to invest in our supplier relationships and to ensure that we hold sufficient inventory to meet customer needs, while ensuring we carefully manage our working capital levels.

Shanker Patel
Chief Executive Officer
14 May 2024

Market opportunity

We are strongly positioned for further **growth**, with a **significant market share** opportunity. We operate in a large, growing and highly fragmented market, with important **defensive characteristics**.

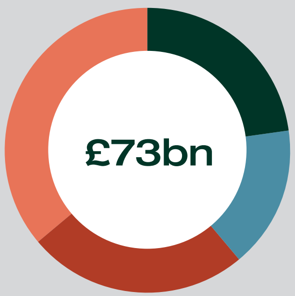
The building materials market

The UK building materials market totals £73 billion. We operate in the general merchants, specialist merchants, direct-to-site via merchant and pure play online merchanting segments, so our addressable market is around £55 billion.

Long-term drivers of demand for building materials include the need for more homes to meet the UK's significant housing shortage, as well as investment in commercial properties.

The building materials market[1]

A	Private and domestic new build	23%
B	Repairs, maintenance and improvements	16%
C	Commercial and industrial	25%
D	Public sector	36%



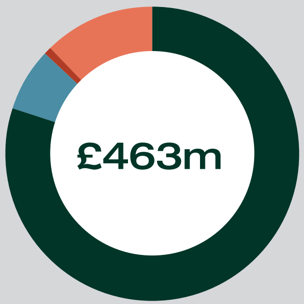
The repairs, maintenance and improvements (RMI) market

The RMI segment accounts for around 80% of our revenues. Housing transactions, employment rates and interest rates are short-term lead indicators for RMI spend. Longer term the outlook for RMI remains favourable, with demand likely to be driven by:

- the age of the UK's housing stock, with 78% of the UK's 27.8 million homes built before 1980;
- energy efficiency improvements, such as insulation, double glazing and low-carbon heating, to reduce energy costs and carbon emissions; and
- the continuing housing stock shortage and demand for new homes.

Lords Group turnover by demand segment[2]

A	Repairs, maintenance and improvements market turnover	80%
B	Infrastructure turnover	7%
C	Commercial turnover	1%
D	New house build turnover	12%



1. Source: Travis Perkins plc investors website and 2023 annual accounts.

2. Source: Management information.

Market opportunity continued

Lords holds **less than 1%** of **£55 billion** addressable market.

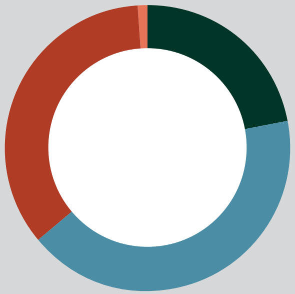
The UK merchanting market

The market is highly fragmented, with 2,300 merchants listed in the national directory. The national chains (Travis Perkins and Wolseley) make up 22% of the market by turnover, with 42% attributable to independent merchants, which are often family run. We currently account for less than 1% of the market.

The national chains have found it difficult to increase their market share and some have divested business units. Few independent merchants are pursuing a buy-and-build strategy like ours, and we therefore believe we are very well placed to take further market share through consolidation, offering vendors a unique colleague and customer-first approach.

Industry market share by turnover[1]

A	Nationals	22%
B	Independents	42%
C	Private equity backed	35%
D	Lords Group Trading	<1%



1. Source: National Merchant Buying Society.

The plumbing and heating market

P&H supplies independent plumbers' merchants, alongside one other national competitor. We also sell directly to installers and homeowners, which is a more competitive market. Our digital presence and deep stock cover give us an advantage over some national competitors, who sell through more traditional channels.

Boilers account for around 72% of P&H's revenues. Their natural replacement cycle means there is consistent demand, and we typically deliver around 0.20 million of the 1.2 million replacement boilers annually. We rely on a small number of boiler suppliers but we are a key route to market for them. Lower-carbon technology offers growth potential for us and we are well placed to benefit from legislative changes regarding carbon efficiency of the UK's housing stock.

Business model

Our business model delivers outstanding service for customers through highly engaged colleagues, which creates value for all our stakeholders.

The inputs to our business

Our business depends on the following resources:

People
At the year end, the Group employed 958 people, who are passionate about delivering for our customers.

Relationships
We build long-term relationships with our customers, based on exemplary service, and with our suppliers, based on close engagement and collaboration.

Premises and plant
We serve our customers from 48 sites, supported by physical plant (including our delivery fleet) and our investment in digital technology and platforms.

Knowledge
We have a highly experienced management team, with deep knowledge of the sector, and employ product specialists across the Group.

Financial
The Group is highly cash generative and has a strong balance sheet, which has enabled us to invest in organic growth and acquisitions.

How we create value

Customer service

As 'customer-obsessed product specialists' we focus on offering the best customer experience, as this builds long-term relationships and differentiates us from our competitors. We pride ourselves on flexibility and offer our customers access to thousands of different products, sourced from a diverse range of suppliers. Customers can buy from us through the channel that suits them best, whether that is face-to-face in store or increasingly by mixing digital and offline channels in their purchasing journey.

The breadth of our customer base means we are not reliant on any particular customer for our revenue.

Customer satisfaction score

4.6 out of 5.0

2022: 4.7 out of 5.0

Link to ESG

Social

Product specialists and a people-focused culture

Our culture is a key strength, supporting high employee engagement and retention, which in turn contributes to impressive levels of customer satisfaction and repeat business.

Customers often require advice about what to buy, so we employ experienced people who are specialists in the products they sell. We invest in our people, help them to develop their skills, frequently promote from within and focus on their health and safety.

Colleague average length of service

6 years

2022: 6 years

Link to ESG

Social

Investment in our locations and technology

To support the customer experience, we focus on prime locations with well-invested and modern sites, and look to add new locations over time, to serve a growing customer base.

We have invested heavily in our digital platforms, which helps us to stand out from more traditional merchants, and continue to enhance the digital experience.

We now have seven transactional websites, developed and managed in-house. Our continual investment in technology also drives our efficiency and helps our colleagues be more productive.

Digital revenues

3.6% or £16.6m

2022: 4.6% or £20.7m

Link to ESG

Environmental Governance

Business model continued

Through our business model, we create value for a wide range of stakeholders.

Ben, Operations Manager, Adam, Sales Executive, Hevey Building Supplies, Kettering

How we create value continued

Long-term supplier relationships

We build strong relationships with our suppliers, which help us to maintain continuity of supply for our customers and to source new products.

In Merchanting, we have a well-diversified supply chain, with some of our supplier relationships dating back more than 20 years. In P&H, we have highly collaborative relationships with a group of key suppliers who contribute to the majority of the division's sales. We believe these relationships provide a high barrier to entry in this market.

Top 20 supplier relationships

14.4 years

2022: 13.4 years

Link to ESG

Governance

Track record of successful acquisitions

Our track record of successful acquisitions with high returns on investment is a key strength. Vendors frequently approach us, as they see us as the ideal home for their businesses.

We look for acquisitions that expand our geographical footprint, our product range or our digital sales, and have a strong cultural fit. We then look to grow and improve them through investment and synergies with our other operations. We often acquire businesses with strong brands and we can also rebrand them under one of our existing businesses.

Number of acquisitions completed

2

2022: 4

Link to ESG

Governance

The value we create

Customers

Customers benefit from the best buying experience we can give them, which is reflected in our consistently high customer satisfaction score.

Customer satisfaction score

4.6 out of 5.0

2022: 4.7 out of 5.0

Colleagues

Our colleagues can develop their careers in a supportive environment that wants to bring out the best in them. We aim for them to benefit from our success, through share ownership and incentive schemes.

Employee engagement score

4.8 out of 5.0

2022: 4.5 out of 5.0

Suppliers

We offer our suppliers an important route to market and the potential to grow their businesses alongside ours.

Total spend with suppliers

£399 million

2022: £394 million

Shareholders

Shareholders benefit from our ability to grow organically and inorganically, which supports a progressive dividend policy. Our business is highly profitable and cash generative, underpinning our ability to invest while maintaining a prudent balance sheet.

Dividend

2.0p

2022: 2.0p

Communities

The communities around our locations benefit from our contribution to the local economy, through the jobs we provide and our sales to local tradespeople and companies, and through our donations to community projects through the Lords Group Foundation.

Number of community initiatives

27

2022: 13

For the key challenges facing our business model and how we are addressing them, see the Performance and Outlook sections of the Chief Executive Officer's review on pages 9 to 11.

Our strategy

We grow our business by expanding our geographical presence, broadening our product range and investing in our digital capabilities, underpinned by our investment in our 'three Ps' – people, plant and premises.


Craig, Branch Manager, Mr Central Heating, West Bromwich

Our purpose
Our purpose is to be a key partner to our trade and retail customers, helping them to deliver their projects on time and on budget. We do this by supporting our colleagues to give the best customer experience, both in store and online.

Our vision
Our vision is to be the leading UK distributor of building materials, using our deep understanding and appreciation of our local markets, people and products.

Our culture
We have a strong culture, focused on outstanding customer service provided by highly engaged colleagues. Our culture is underpinned by being professional and ethical in everything we do.

Our strategy

Geographical expansion
We gain customers by opening new locations for our existing brands. We also acquire businesses that broaden our geographical reach.

Read more on page 17

Broadening our product range
We look to increase our share of the customer wallet, further improve service and enhance margins by offering new products.

Read more on page 18

Investing in our digital capabilities
Our combined online and in-store service model drives deeper customer engagement and long-term trading relationships.

Read more on page 19

Enabling growth

People
Investment in our people helps them to develop their skills and careers, and to provide even better services to our customers.

Read more on page 20

Plant
Investment in our plant ensures it is modern and efficient. This includes using digital technology to generate efficiencies and enhance the customer experience.

Read more on page 20

Premises
Investment in our premises ensures they remain fit for purpose, improves the environment for customers and employees, and provides capacity for growth.

Read more on page 20

Our strategy continued

Geographical expansion

We gain customers by **opening new locations** for our existing brands. We also **acquire businesses** that broaden our geographical reach.

Progress in 2023 – organic

- Opened new branch for Mr Central Heating in Edinburgh.
- George Lines Horsham reached its targeted revenue and EBITDA maturity within three years, two years ahead of the investment case.
- Advance Roofing implant at Lords Builders Merchants Beaconsfield site expands the brand's regional presence.

Progress in 2023 – acquisitions

- Added six new locations through acquisitions, strengthening our position in the South East of England.
- Chiltern Timber added a specialist timber branch to the Merchanting network. Based in Hemel Hempstead, the site offers specialist milling capability and an extended product range.
- Alloway Timber added five branches in South London, which are highly complementary to the existing South East focused Merchanting division.

Priorities in 2024

- Continue to add new branches for Mr Central Heating, which offers strong return on investment and accretive EBITDA margins.
- Pursue further new George Lines branches to secure national presence following strong performance of the Horsham site since opening in 2021.
- Further selective acquisitions that meet our disciplined hurdles.

Risks

- Inability to identify new locations that deliver expected return on investment.
- Local competition responds through price promotion to retain market share.

Marc, Lighting Supervisor, Lords Builders Merchants, Ladbroke Grove

Our strategy continued

Broadening our product range

We look to increase our share of the customer wallet, further improve service and enhance margins by offering new products. We also acquire businesses with products that complement our existing ranges and bring new supplier relationships.

Progress in 2023 – organic

- Grew revenues from renewable products in P&H, such as air source heat pumps, under-floor heating and electric boilers (see case study on page 28).
- Continued to roll out implants in our branches, for example increasing the availability of plumbing supplies and the number of bathroom showrooms in Lords Builders Merchants branches.

Progress in 2023 – acquisitions

- Extended our product range in timber through the acquisition of Chiltern Timber Supplies (see case study on page 25).

Priorities in 2024

- Continue to broaden our product range organically, including growing revenues of the renewables range and electrical supplies, and consider complementary acquisitions.
- Consider further implants for Advance Roofing Supplies.

Risks

- Low customer uptake on extended range leads to increase in aged stock and reduced ROCE.

Our strategy continued

Investing in our digital capabilities

Our combined online and in-store service model drives deeper customer engagement and long-term trading relationships.

Progress in 2023 – organic

- Launched new websites for the Lords, Condell and George Lines brands.
- Expansion of delivery options, including national delivery on the Lords Builders Merchants site.
- Improved search functionality utilising AI.
- Upgrade of P&H websites in readiness for integration into ERP.
- Appointment of a Head of Marketing and Digital for P&H.

Progress in 2023 – acquisitions

- Continued to leverage our in-house digital capabilities and collaborate across the Group.
- Acquisitions have expanded our product ranges further, which have started to benefit our online proposition.

Priorities in 2024

Within Merchanting, refining the user experience through information architecture improvements and other initiatives, including:

- Expansion of product ranges available online.
- Working towards visibility of live stock availability.
- Launching an online account sign-up portal.

Complete P&H integration of ERP and e-commerce platform enhancements, including:

- Visibility online of live stock availability.
- Expansion of multi-channel including purchase online and collection in store.
- Portal for wholesale customers.
- Digital POD.

Risks

- Pace and level of changes set for release in 2024 require discipline and timely execution across the business.
- The continued cyber security threats, including from state-sponsored actors to e-commerce operators.
- Online pricing competition through existing and new pure-play online competitors.
- Instability in boiler pricing in the digital market caused by changes in the Clean Heat Market Mechanism legislation.

Peter, Counter Assistant, Lords Builders Merchants, Beaconsfield

Our strategy continued

People, plant and premises

Duncan, Sales, and Jake, Assistant Manager, Condell Building Supplies, Horsham

People

Investment in our people helps them to develop their skills and careers, and to provide even better services to our customers.

Progress in 2023

- Continued to achieve high employee satisfaction ratings in our regular surveys.
- Launched Workvivo app to improve employee communication and engagement.
- Defined the Group's culture and refreshed the values.
- Began a range of initiatives to support people development, including succession planning and an improved learning offer.
- Awarded Builders' Merchant of the Year at prestigious Builders' Merchant Awards 2024, recognising the tremendous efforts of our colleagues.

Priorities in 2024

- Continue to embed the Group's values.
- Continue to roll out succession planning.
- Introduce a new learning management system and further develop the training offer.
- Deliver continuous improvement in health and safety performance.

Risks

- Market downturn forces review of headcount and creates instability in workforce.
- An ageing workforce within an industry that is not perceived as attractive creates recruitment challenges.

Plant

Investment in our plant ensures it is modern and efficient. This includes using digital technology to generate efficiencies and enhance the customer experience.

Progress in 2023

- Further invested in energy efficiency and reducing carbon emissions, for example by continuing to replace diesel forklift trucks with electric vehicles.
- 64% of forklift fleet is now electric (FY22: 54%) and 83% of the company car fleet is electric or hybrid (FY22: 76%).
- Integrated Hevey Building Supplies onto the existing Lords Builders Merchants ERP system, supporting operational efficiency and customer cross-sell.
- Integrated the newly acquired Chiltern Timber Supplies and Alloway Timber businesses onto the Lords ERP system.
- Progressed project to implement a new ERP system in P&H.

Priorities in 2024

- Complete implementation of the P&H ERP system.
- Select and implement new health and safety management system.
- Continue to ensure our other plant is well invested.

Risks

- Management bandwidth.
- Extended completion timescales delay anticipated project returns and enhancements.

Premises

Investment in our premises ensures they remain fit for purpose, improves the environment for customers and employees, and provides capacity for growth.

Progress in 2023

- Completed relocation of Mr Central Heating's Glasgow branch.
- Acquired George Lines' site near Heathrow.

Priorities in 2024

- Continue to invest in existing premises to maximise use of space and further improve the customer experience.
- Continue to implement our pre-acquisition business plan for Alloway Timber, to ensure all its branches are in line with the Group's standards.

Risks

- Increasing property costs restrict expansion plans.

Key performance indicators

We use the following KPIs to measure progress with our strategy.

Financial KPIs

Revenue growth

Definition

The percentage increase in Group revenue year-on-year.

Relevance to strategy

This is a key measure of the success of our growth strategy.

Performance in the year

We continued to grow revenue despite challenging market conditions, with an overall increase of 2.8%. This was driven by 8.0% growth in P&H, with Merchanting seeing a revenue decline of 2.6%. Like-for-like revenues were 1.2% lower.

2023	£462.6m
2022	£450.0m
2021	£363.3m

Adjusted EBITDA[1]

Definition

Earnings before interest, tax, depreciation, amortisation and impairment charge, excluding exceptional items and share-based payments.

Relevance to strategy

This is an important indicator of our profit generation, which is also directly linked to operating cash flow and our ability to invest in the business.

Performance in the year

Adjusted EBITDA was £26.8 million, down 10.5%, reflecting the impact of market conditions on pricing and volumes.

2023	£26.8m
2022	£30.0m
2021	£22.3m

Adjusted EBITDA margin[1]

Definition

Adjusted EBITDA as a percentage of revenue.

Relevance to strategy

This is a key measure of the efficiency of our operations and our ability to grow profitably.

Performance in the year

The adjusted EBITDA margin was 0.9 percentage points lower at 5.8%. This reflects market conditions and the greater proportion of Group revenues generated by P&H, which has a lower margin than Merchanting.

2023	5.8%
2022	6.7%
2021	6.1%

Adjusted earnings per share (EPS)[1]

Definition

Earnings attributed to equity holders adjusted for exceptional items, share-based payments and amortisation of intangible assets and impairment charge divided by closing shares in issue.

Relevance to strategy

This is a core measure of our post-tax profitability and our ability to pay dividends to shareholders.

Performance in the year

Adjusted EPS was 4.35 pence, resulting from lower operating profits, an increase in net finance expenses due to interest rate rises, and the higher UK corporation tax rate from 1 April 2023.

2023	4.35p
2022	8.02p
2021	6.10p

Free cash flow[1]

Definition

Net cash generated by operating activities less capital expenditure, exceptional items and interest paid.

Relevance to strategy

Free cash flow provides a good measure of the cash we generate, which can subsequently be reinvested to grow the Group.

Performance in the year

Free cash flow in the year was robust at £13.9 million, reflecting our rigorous focus on managing working capital. Despite the positive cash generation, free cash flow did reduce year on year due to a reduction in adjusted EBITDA and the impact of increased interest rates on a higher net debt position.

2023	£13.9m
2022	£19.1m
2021	£19.9m

Return on capital employed (ROCE)[1]

Definition

Earnings before interest and tax (EBIT) divided by capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100. Net debt is defined as lender facilities utilised less cash and cash equivalents.

Relevance to strategy

ROCE is a measure of how efficiently the Group deploys its capital, which is key in a business with multiple organic and inorganic growth opportunities.

Performance in the year

ROCE was 11.5%, down 11.3 percentage points, reflecting the Group's lower profitability in the year.

2023	11.5%
2022	22.8%
2021	27.5%

1. Refer to the Alternative performance measures glossary for a full list of measures and their definitions.

Key performance indicators continued

Non-financial KPIs

Colleague engagement

Definition
A measure of connection and engagement between colleagues and Lords, based on quarterly engagement surveys to all colleagues. Results measured out of 5.0.

Relevance to strategy
People are a core enabler of our organic growth strategy and fundamental to our ability to deliver excellent customer service.

Performance in the year
Our colleague engagement score remained strong at 4.8 out of 5.0, up from 4.5 in FY22 and reflecting the importance we place on having a workforce that feels valued and motivated.

2023	4.8/5.0
2022	4.5/5.0
2021	4.6/5.0

Customer satisfaction

Definition
A measure of customer satisfaction with Lords products and / or services based on feedback received through Google Reviews, Trust Pilot and Feefo. Results measured out of 5.0.

Relevance to strategy
High levels of customer satisfaction differentiate us from our competitors and help us to generate repeat business over the long term.

Performance in the year
Our score of 4.6 shows that we continue to deliver high levels of customer service.

2023	4.6/5.0
2022	4.7/5.0
2021	4.7/5.0

Lost time injury rate

Definition
A measure of lost time injuries per 100,000 hours worked.

Relevance to strategy
Providing a safe environment for our colleagues and customers is a moral duty for us. It also helps us to maintain high levels of colleague engagement, as well as benefiting our efficiency.

Performance in the year
We had another good year for health and safety, with an LTI of 0.8, broadly unchanged from FY22. We have continued to enhance the way we manage health and safety, as discussed on page 44.

2023	0.8
2022	0.8
2021	0.5

Carbon emissions per £1.0 million turnover

Definition
The carbon emissions we generate from our operations, measured in kilogrammes per £1.0 million of revenue.

Relevance to strategy
Stakeholders are increasingly focused on the environmental performance of businesses and we need to do our part to maintain our reputation. In the process, we can also reduce our energy costs.

Performance in the year
With our ESG strategy and targets now fully defined, we anticipate annual reductions through initiatives from 2024 onwards.

2023	137 tonnes CO_2e
2022	140 tonnes CO_2e

Lee, Warehouse Manager, and Reina, Branch Manager, Lords Builders Merchants, Beaconsfield

Operational review

Merchanting

Through our customer focus, exceptional service, superior product knowledge and highly engaged management teams, we aim to be local leaders across our locations.

Revenue
£214.9m (2.6)%
2022: £220.8m

Adjusted EBITDA
£14.0m (13.4)%
2022: £16.1m

Adjusted EBITDA margin
6.5% (0.8)%
2022: 7.3%

Branches
31 +6
2022: 25

Lou, Driver, Hevey Building Supplies, Kettering

Operational review | Merchanting continued

Financial performance

Merchanting delivered a resilient performance in FY23, in a challenging trading environment that included price deflation in some core product categories. The division outperformed the wider sector and is well placed to benefit from a market upturn.

Revenue in the year was £214.9 million (FY22: £220.8 million), down 2.6% overall or 6.3% LFL, reflecting market conditions and our increased focus on serving more-profitable customers. Adjusted EBITDA was £14.0 million (FY22: £16.1 million), resulting in an adjusted EBITDA margin of 6.5% (FY22: 7.3%). The margin reduction reflected lower sales volumes and some impact from Alloway Timber, which was loss-making on acquisition.

Driving operational performance

Merchanting benefits from a loyal customer base that values the quality of service we provide. This has been particularly important in a year which has seen some merchants competing on price or not passing on inflationary cost increases to customers.

Against this backdrop, we looked to further improve our service levels. For example, we want to be able to offer our customers the quickest delivery to their sites. In FY23, we reduced delivery times from around two hours to approximately 90 minutes. We achieved this by sharing orders between our branches, with our transport managers continuously communicating with each other to make best use of our fleet.

Feedback from customers has shown they recognise the uplift in service. We also launched an instant personalised text message service when customers open a credit facility, confirming the details of the facility and encouraging them to start using it.

During FY23 we integrated Hevey Building Supplies into our ERP system, to increase our ability to cross-sell and our operational efficiency, while reducing the number of control environments operating in the Group. This also supported the improvements in delivery times discussed above, with Hevey's fleet now using the same electronic proof of delivery system as our other brands.

Our online presence is a powerful tool for attracting and retaining customers, by offering them a better buying experience. In FY23, we refreshed and relaunched the websites for our Lords, Condell and George Lines brands. We have also made specialist products available online, such as a roofing range, and have exclusive deals on certain products that are only available through Lords. In 2024, we intend to introduce live stock levels online, to further improve customer service and give them confidence that we can quickly fulfil their order.

The Group's organic growth strategy includes adding implants for our brands in existing branches, to expand their product range.

For example, in FY22 we opened a Condell implant in Kings Langley and an Advance Roofing Supplies implant in Beaconsfield, which both had successful first full years in FY23. We now have four implants offering plumbing supplies, having opened one in Hayes this year, and we have begun to offer electrical supplies in our Ladbroke Grove branch, building on the capability of the Sudbury branch we acquired in 2022.

During FY23 we carried out customer research on our Lords Builders Merchants brand, which showed that existing customers had high levels of trust in us. It also highlighted opportunities to invest in the brand and increase awareness of it, so we can continue to build our customer base across broader geographies.

Extending our product range and geographical reach through value-adding acquisitions

We completed two acquisitions in the year, Chiltern Timber Supplies in April and Alloway Timber in September. These added six branches to the division, increased our product range in timber and brought new colleagues into the business. Both have traded in line with our expectations since joining the Group and we have successfully integrated them, including moving them onto our ERP system.

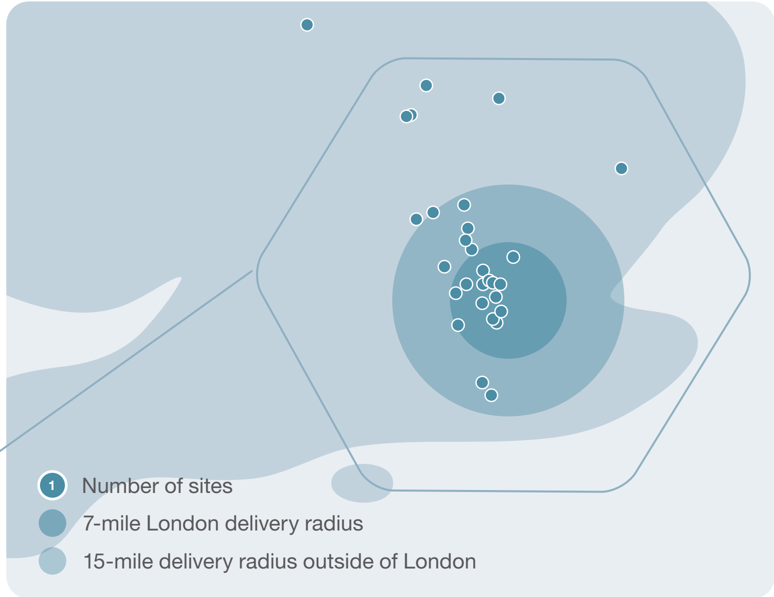
As noted above, Alloway Timber was a turnaround acquisition and we have moved quickly to implement the business plan we developed before we bought it.

This has included removing central costs, improving the management of the branches where needed and reviewing their product ranges. We expect the business will be accretive to earnings in FY24.

More information on Chiltern Timber Supplies and Alloway Timber can be found in the case studies on pages 25 and 32 respectively.

Disposal of Lords at Home

In February 2023, we announced the sale of Lords at Home, our homewares retailer, for £0.8 million. The business was non-core and the disposal reflects our capital discipline and focus on our core areas.



Case study: strategy in action

Chiltern Timber Supplies: broadening our geographical footprint and product offer

We bought Chiltern Timber Supplies in April 2023. The business is an excellent strategic fit, increasing our geographical footprint and extending our product range. It also met our financial criteria, with an attractive initial multiple of 3.2x EBITDA, earnings accretion from completion and the expectation of a strong return on capital employed, as we optimise its overheads.

Chiltern trades from a modern site in Hemel Hempstead, Hertfordshire. The Group did not previously have a branch in the town, which is in an affluent part of the country with a growing population and strong demand for new housing.

The business specialises in hardwoods, special timber sections, timber landscaping products and veneered sheet material. In addition, it has a modern milling facility on site, which differentiates it from its local competitors and from our previous timber offer.

The business has been rapidly integrated into the Group and is trading well. We see good scope for strong growth, through cross-selling Chiltern's products into our wider customer base.

Link to strategy

Geographical expansion

Broadening our product range

Operational review

Plumbing and Heating

P&H offers its customers specialist product knowledge, outstanding service and an attractive in-store and online proposition

Revenue	£247.7m	8.0%	2022: £229.3m
Adjusted EBITDA	£12.9m	(7.1)%	2022: £13.8m
Adjusted EBITDA margin	5.2%	(0.8)%	2022: 6.0%
Branches	17	+1	2022: 16

Ryan, Management Accountant, HRP, Chelmsford

Operational review | Plumbing and Heating continued

Financial performance

Despite challenging markets, P&H delivered revenue of £247.7 million (FY22: £229.3 million), up 8.0%. This was the result of 3.7% LFL revenue growth and a full year of the Direct Heating and HRP Trade businesses we acquired in 2022, both of which have performed as expected.

Adjusted EBITDA was £12.9 million (FY22: £13.8 million), resulting in an adjusted EBITDA margin of 5.2% (FY22: 6.0%). The margin movement was largely due to pricing, partly offset by higher-margin product growth. Customer profitability is a key focus for us and we will continue to work on this in FY24, for example by looking to improve the mix of products that current lower-margin customers buy from us.

Driving operational performance

During the year, we opened the eleventh Mr Central Heating branch in Edinburgh, which is trading well and in line with our expectations. We have identified a further 39 target markets, to bring the number of branches to 50. Mr Central Heating is well placed to deliver this growth, through its access to the wider P&H product range and its mature online proposition. All new branches have delivered accretive EBITDA margins once they reach maturity and have exceeded our return hurdles.

The renewable products range continued to grow rapidly in FY23, with revenues up 60%. See the case study on page 28 for more on how we have driven uptake of these products.

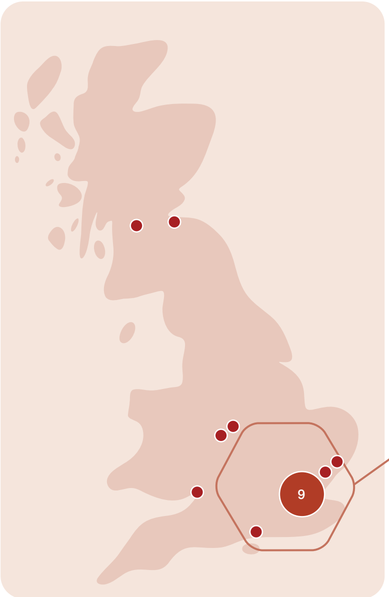
We also continued to expand other parts of our product range. For example, we added boiler spares to our trade counters, began to offer power tools and added further Revive bathroom showrooms, bringing the total to five. Our intention is to include a bathroom showroom alongside a trade counter in each new store.

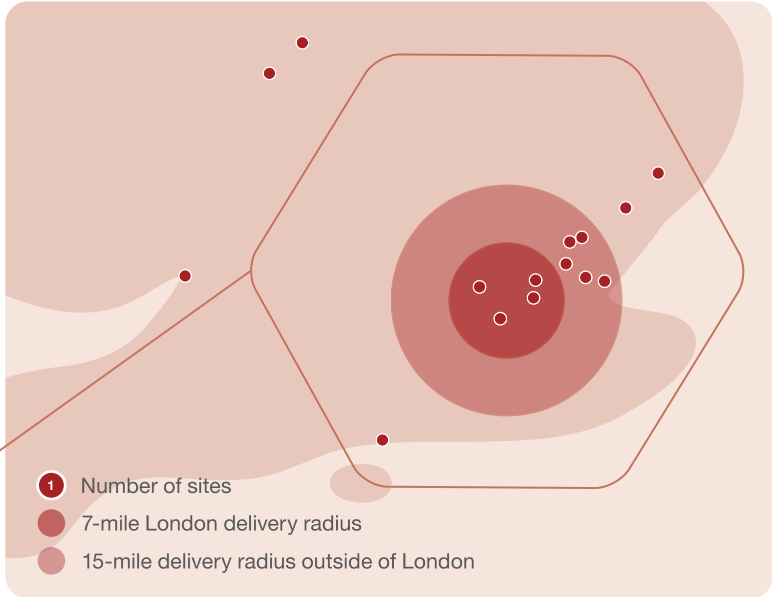
Since the year end, our new Head of Marketing and Digital has joined us. Her remit includes promoting our broader product range, including the bathroom showrooms, renewables and boiler spares, as well as further developing our digital strategy to drive online revenues.

We continued to progress our ERP upgrade, which we expect to go live at the start of Q3 2024.

This will support further improvements to customer service, for example by providing a digital portal for merchant customers where they can see stock levels and place their own orders, enabling click-and-collect sales for Mr Central Heating, allowing us to display live stock levels online and integrating with the PODFather electronic proof of delivery system that we have implemented alongside it.

During FY24, we intend to start work on network optimisation, to improve service levels in the North of England while balancing overall operational efficiency.





Case study: strategy in action

Renewables range: delivering strong growth in an exciting product category

Homeowners and housebuilders are increasingly keen to decarbonise their properties, leading to growing demand for products such as air source heat pumps, under-floor heating, air conditioning, electric boilers and controls. This demand is reflected in the rapid increase in revenues from our renewables range, with growth of 49% in FY22 and 60% in FY23.

We recognise that education is a barrier to adopting these technologies. Merchants, installers and consumers must have the information they need to understand what the products do and how to design a heating system that can maximise their effectiveness.

To help bridge that gap, our APP business recruited a National Business Development Manager for renewables in FY23 and we began a programme to train Renewables Champions in our branches. We are working hard to help our merchant customers get up to speed, visiting their branches, giving presentations and leveraging the manufacturers' own educational efforts, such as the training days they offer.

Government policy is pushing the market forward, with the Future Homes Standard coming into force in 2025. This will require new homes to have low-carbon heating and use technologies that support substantial improvements in energy efficiency.

While the Government has delayed the introduction of another of its policies, known as the Clean Heat Market Mechanism, from January 2024 to April 2025, we see demand growing rapidly for sustainable heating products in any event. With our unique infrastructure, growing trading relationships with heat pump manufacturers and our ability to knowledgeably support our customers, we believe we are well placed to continue to benefit from this growth.

Link to strategy

Geographical expansion

Broadening our product range

Engaging stakeholders

Customers

We want to be our customers' merchant or supplier of choice, so we look to offer the best possible service. Through regular dialogue, we can ensure we are meeting or exceeding their needs.

Stakeholder issues

- Product range, price and quality.
- Convenience and accessibility.
- Customer service.
- Fair and accurate marketing.
- Customer safety.
- Responsible use of personal data.
- Environment and sustainability.
- Ethics.

How we engage

- The CEO and divisional managing directors maintain direct dialogue with a large number of customers.
- Directors and management visit stores regularly.
- We hold regular business development meetings with customers.
- We run frequent surveys of customer satisfaction.
- We offer advice on products and energy efficiency.

How the Board is kept informed

- Customer KPIs are reported in management and Board packs.

Engagement outcomes

- Maintained a strong customer satisfaction score of 4.6 out of 5.0.
- Regular communication with customers supported our ability to manage pricing changes during the year.
- Customer research on the Lords Builders Merchant brand showed high levels of trust, as well as opportunities to raise brand awareness.

Colleagues

We can only provide superior service and expert knowledge through the hard work and commitment of our colleagues. We therefore need to ensure Lords is a great place to work.

Stakeholder issues

- Fair employment, pay and benefits, including gender pay.
- Training, development and career opportunities.
- Health and safety.
- Diversity and inclusion.
- Responsible use of personal data.
- Environment and sustainability.
- Ethics.
- Ensuring all colleagues are rewarded for the Group's success.

How we engage

- Directors and executive Board members visit stores and sites regularly.
- Regular communications on business performance, market conditions and financial performance, including CEO updates and newsletters.
- Surveys to understand employee engagement and where we can improve. See page 43.
- Commitment to training and development, with a target of 16 hours per year.
- Introduced Workvivo app to enhance internal communications.
- Health, wellbeing and fun initiatives for colleagues and families.

How the Board is kept informed

- Colleague KPIs are reported in management and Board packs.

Engagement outcomes

- Maintained a high employee engagement score of 4.8 out of 5.0.
- Workvivo app proving highly successful, with 61% of colleagues now using the platform.
- Colleague input was key to our work on culture and values (see page 41).

Suppliers

We rely on our suppliers for the products we sell. We therefore need to maintain strong relationships with suppliers and manufacturers worldwide, who meet our high standards.

Stakeholder issues

- Anti-bribery.
- Ethics.
- Preventing modern slavery.
- Environment and sustainable sourcing.
- Operational improvement.

How we engage

- Regular strategy sessions held with key suppliers, to develop sustainable long-term relationships.
- CEO is a Board member of the Builders Merchants Federation and H&B Buying Group.
- Our divisional teams build strong day-to-day relationships with their suppliers.

How the Board is kept informed

- Supplier payment terms reported to the Board.
- Board receives an annual presentation on ethical trading and modern slavery.

Engagement outcomes

- Strong supplier relationships, with average length of relationship of 14.4 years for the top 20 suppliers.
- Continued expansion of our product range, through suppliers who recognise our track record of taking new products to market.
- Engagement with suppliers continues to help us manage cost inflation.
- Working with sector peers to develop a joint approach to engaging with suppliers on ESG topics (see page 36).

Engaging stakeholders continued

Communities

We aim to be responsible members of our communities, reflecting our principle of doing the right thing. This is also important to our colleagues, customers and shareholders.

Stakeholder issues

- Charitable donations.
- Employment opportunities.
- Environmental impact.
- Fair tax.

How we engage

- We invite community groups to apply to the Lords Group Foundation for funding for their projects (see page 46).

How the Board is kept informed

- The executive directors provide regular ESG updates to the Board, including charitable donations.

Engagement outcomes

- Undertook 27 community projects during the year, through the Foundation (see page 15).

Shareholders

To succeed in the long term, we need a supportive and well-informed shareholder base. We therefore look to ensure regular and open communications with our shareholders, while delivering strong and consistent performance.

Stakeholder issues

- Financial and operational performance.
- Strategy.
- Market trends.
- Acquisition pipeline and successful integration.
- Governance, Board and management.
- Sustainability and responsible business.
- Management pay and incentives.
- Dividend policy.

How we engage

- One-to-one and group meetings, and results presentations, including retail investor engagement on the Investor Meet Company platform.
- Annual general meeting.
- Publication of newsflow, financial results and the annual report.

How the Board is kept informed

- The executive directors engage directly with shareholders and the Board receives regular shareholder feedback and annual summary of donations.

Engagement outcomes

- Topics discussed with shareholders included appropriate levels of gearing, which aligns with our focus on balance sheet discipline.
- We maintained the dividend for the year at 2.0 pence per share, reflecting the importance of dividends to many shareholders and the Board's confidence in the Group's prospects.

Shaun, Warehouse Supervisor, Lords Builders Merchants, Beaconsfield

Section 172 statement

Section 172 of the Companies Act gives company directors a number of duties they need to take account of as they carry out their roles.

Here we explain how the Board has considered those duties during the year.

The directors have had regard for the matters set out in section 172(1)(a)-(f) of the Companies Act 2006 when performing their duties under section 172. They consider that they have acted in good faith in the way that would be most likely to promote the success of the Company for the benefit of its members as a whole, while also considering the broad range of stakeholders who interact with and are impacted by our business, especially with regard to major decisions.

Information on our stakeholder engagement, including how the Board keeps itself informed about stakeholder views, can be found on pages 29 and 30.

Matter	Response
a) The likely consequence of any decision in the long term.	The directors prioritise a long-term view in their thinking about the business, for example in looking to develop multi-year relationships with customers and suppliers. The Chief Executive Officer has been active in the business since 1993. The Board took a number of decisions in the year which the directors determined were in the long-term interests of the Group and its stakeholders. These included approving the two acquisitions and maintaining the total dividend for 2023 at 2.0 pence per share. The Board also supported the focus on maintaining balance sheet strength, which contributed to the Group walking away from two potential acquisitions in FY23.
b) The interests of the Company's employees.	As noted throughout this report, the directors believe the Group's employees are vital to its success. Key examples of the Board considering colleagues' interests in the year include the focus on formalising the Group's values and culture and the appointment of Sheena Mackay as a non-executive director, reflecting her significant experience as an HR director in major companies. Anne Prince also joined the executive management team as Group Human Resources Director.
c) The need to foster the Company's business relationships with suppliers, customers and others.	The Board is heavily focused on the Group's relationship with its customers and regularly reviews the results of customer surveys, to ensure that customer service remains strong. The acquisitions and organic investments the Board approved during the year are also designed to improve the customer offer, either by increasing the product range we can provide, expanding the number of customers we can reach by adding new locations, or by enhancing our digital presence. Suppliers are critical partners for our business, particularly in P&H where we are a key route to market for a relatively small number of boiler manufacturers. Strong relationships with suppliers enabled us to continue to expand our product range during the year.
d) The impact of the Company's operations on the community and environment.	The directors recognise the significance of protecting the environment and of being seen as good neighbours by the communities around our premises. The Board has approved the Group's decarbonisation targets (see page 38) and an updated environmental policy.
e) The desirability of the Company maintaining a reputation for high standards of business conduct.	The Group is founded on the principles of being ethical and professional in all its dealings. We have key policies in place, for example to prevent bribery and corruption or modern slavery, and the Board has kept these policies under review. The Board approved the Group's cultural blueprint (see page 42), which sets out our values and makes explicit our commitment to doing the right thing. The Group also issued a new Supplier Code of Conduct, which was signed off by the CEO and briefed to the Board, and conducted a review of modern slavery compliance in the supply chain (see page 40).
f) The need to act fairly between members of the Company.	The Board is keenly aware of the need to treat all shareholders equally. At the date of this report, the Chief Executive Officer held or controlled the voting rights of 32.51% of the Company's shares. At the time of the IPO, he therefore entered into a relationship agreement (see page 78), so the Company can carry on its business at arm's length. The independent directors form a majority on the Board, ensuring the interests of all shareholders are fully considered in decisions.

Stakeholder considerations

When making decisions, the Board considers the interests of the stakeholders affected and the impact the decision may have in the long term. Set out below is one example of a key Board decision in FY23.

Key Board decision:
acquisition of Alloway Timber

Background

On 1 September 2023, we announced the acquisition of Alloway Timber, adding five branches to the Merchanting division in complementary locations in the South East of England. The business was acquired for a total cash outlay of £2.25 million, of which £1.53 million was payable upon completion.

Long-term implications of the decision

While in the short term Alloway requires us to devote some management time and investment to improve its performance, it offers compelling longer-term benefits. Our expanded geographical presence, broader customer base and the attractive financial returns profile mean the acquisition is in the best interests of shareholders and the Group's other stakeholders.

We acquired the business as a turnaround, reflecting its loss of c.£1.0 million of EBITDA in FY22.
In approving the acquisition, the Board took account of the following potential impacts on stakeholders:

Customers

The acquisition has brought new customers to the Group, who will benefit from our high service standards, our ability to invest in the branches to improve their offering and our strategy to broaden our product range.

Colleagues

Alloway employed 83 people on acquisition. While our business plan for turning the company around required us to reduce headcount in its central functions, the acquisition should be beneficial for our other new colleagues. They are now part of a large, robust and growing group, who can invest in their training and development, ensure high standards of health and safety and offer the potential for career progression.

Suppliers

Alloway's suppliers will benefit from our focus on growing the business and our approach to building long-term supplier relationships.

Shareholders

The acquisition is attractive both strategically and financially. The branches complement our existing locations and we expect the transaction to deliver a strong return on capital as we realise synergies and improve its margins to the level of the wider Merchanting division.

Macro conditions are a key consideration for the Board in all acquisition diligence periods; in H2 2023 the Group aborted two further transactions, adopting prudence in a more challenging environment.

Sustainability

Sustainability is an important **focus** for us and increasingly for our **stakeholders.**

Sustainability continued

Our sustainability strategy

Sustainability is increasingly important for us and our stakeholders.

We have continued to progress our approach in FY23, implementing the strategy we developed in FY22 and carrying out considerable work on climate-related matters, which has enabled us to produce our first climate-related financial disclosures report (see pages 47 to 52). We have also set targets to decarbonise the business, with the ultimate aim of achieving net zero carbon emissions.

Our sustainability strategy

In FY22, we carried out a materiality assessment, which identified eight material issues for the Group. These form the basis of our sustainability strategy, as shown in the following table. For more information on our materiality assessment, see pages 34 and 35 of the 2022 annual report.

1. Waste and packaging

Strategy
Reduce the volume of waste created and improve recycling rates.

ESG aspect: Environment

Read more
Page 37

2. Energy

Strategy
Reduce Scope 1 and 2 energy use and increase our capacity for renewable energy generation across the Group.

ESG aspect: Environment

Read more
Page 37

3. Productivity and efficiency

Strategy
Improve productivity and reduce inefficiencies, in terms of absenteeism, stock and transport.

ESG aspect: Environment, Social

Read more
Reducing absenteeism – page 41
Telematics – page 38

4. Low-carbon products strategy

Strategy
Develop an energy-saving product range, where relevant, across the Group.

ESG aspect: Environment

Read more
Page 39

5. Supply chain

Strategy
Work with our suppliers and partners within the industry to ensure that the negative environmental and social impacts of our supply chain are continually monitored and incrementally reduced.

ESG aspect: Environment, Social, Governance

Read more
Page 40

6. Colleague morale

Strategy
Seek to continually improve colleague morale by making the Group a desirable place to work.

ESG aspect: Environment

Read more
Page 43

7. Diversity

Strategy
To make Lords a place where everyone can fit in and enjoy working.

ESG aspect: Social, Governance

Read more
Employee diversity – page 43
Board diversity – page 68

8. Community

Strategy
Support our local communities through the Lords Group Foundation.

ESG aspect: Social

Read more
Page 46

Key to ESG aspects: Environment Social Governance

Sustainability | Strategy continued

Our ESG governance

Governance structure

The governance structure for ESG mirrors our risk management structure and is summarised in the following diagram:

The Board

- Ultimately responsible for the Group's ESG strategy and reviewing its effectiveness.
- Establishes and communicates ESG policy.
- Sets the 'tone' and culture for ESG.
- Reviews overall Group progress against the ESG strategy.

The ESG committee

- Reports to the Board on status of progress against the ESG strategy.
- ESG objectives and performance management through a short, medium and long-term lens.
- Highlights where minimum standards are not complied with.
- Devolution of ESG targets to divisions.
- Annual horizon scanning for changes in the ESG landscape.

Executive Board

- Responsibility for ESG prioritisation at divisional / functional level ensuring that minimum requirements are met.
- Reviews ESG progress at divisional level and escalates compliance issues to the ESG committee when necessary.

Group ESG Manager

- Keeps abreast of ESG developments that may affect the Group.
- Coordinates ESG management activities – develop, improve and maintain the necessary infrastructure for delivery of the ESG strategy.
- Supports ESG Divisional / Business and Materiality Owners to embed the strategy.
- Provides a consolidated ESG report to the ESG committee / Board.

ESG Divisional / Business Owners

- Drive and coordinate local ESG reporting process at divisional level.
- Facilitate divisional / functional ESG discussions (as part of existing management meetings or separate ESG meeting).
- Actively share knowledge and best practice through the Group ESG Manager.

ESG Materiality Owners

- Take responsibility for the materiality issues within the division / business, their evaluation, monitoring and reporting their status.
- Coordinate and contribute to the development and maintenance of an appropriate control environment and reporting the ongoing effectiveness of controls.
- In combination with the ESG Divisional / Business Owners, update ESG reporting on a regular basis.

Sustainability | Strategy continued

We created the ESG committee in FY23, to enhance our Group-wide oversight of ESG issues and to provide a direct link between management and the Board on these topics. The committee's members are Shanker Patel (CEO), Chris Day (CFO and COO) and Jess Harris (Marketing & eCommerce Director).

The committee meets quarterly. During FY23, the topics it discussed included:

- updates to our modern slavery statement and a risk assessment of our top 40 suppliers by spend;
- revisions to our Supplier Code of Conduct;
- development of an in-depth supplier risk assessment, alongside the Builders Merchants Federation (BMF);
- carbon emissions data collection and measurement for FY22 and FY23;
- our net zero roadmap;
- branch energy audits;
- development of our updated environmental policy;
- climate scenario analysis, exploring risks and opportunities for the business;
- the Group's participation in the H&B Buying Group's Sustainability Forum and the BMF's Sustainability Working Group; and
- Lords Group Foundation activities.

Information on all these topics can be found on the following pages.

The committee reports to the Board after each meeting, providing summaries of the matters it discussed. This enables the Board to assess our progress with key aspects of our ESG strategy, including how we are identifying and managing our climate-related risks and opportunities (see page 48).
To promote collaboration across the Group, we have set up a range of working groups on specific topics, including energy, waste, transport, supply chain, diversity and inclusion, and community. This allows us to share ideas and best practices, and ensure our workstreams across the Group support our overall strategy.

Working with the industry to improve sustainability performance

We can achieve greater impact, more quickly and more efficiently, by working with our peers in the industry to develop a shared approach to ESG issues. For example, we were one of four members of the H&B Buying Group who worked with Mazars in FY22 to create our sustainability strategy, with the aim of developing a blueprint that other members can apply to their businesses, in addition to sharing feedback and lessons learned.

We are now working with other members of the BMF to develop a centralised process for obtaining ESG-related information from the supply chain. This will be significantly more efficient for us and our suppliers, with each supplier only having to respond once and that information then being shared with the BMF's members.

Sustainability continued

Environmental

During FY23, we have continued to focus on reducing our environmental impact, including our commitment to decarbonising the business.

This section of the report includes the required disclosures under Streamlined Energy and Carbon Reporting (SECR).

Our environmental policy

During FY23, we reviewed and enhanced our environmental policy. This ensures we have a clear stance on how to address our most significant environmental impacts, such as waste, energy and water use, and acknowledges the importance of our supply chain in meeting our environmental targets. The Board has approved the new policy since the year end, allowing us to begin communicating and embedding it across the Group.

Material issue 1: Waste and packaging

In developing our new environmental policy, we have set a target for 100% of our waste to be diverted from landfill. To achieve this, we promote the reduction, reuse and recycling of materials throughout our operations.

In FY23, we audited waste and recycling across the Group, to help us understand our performance. This showed a 90.2% reduction in Scope 3 emissions from waste in 2023 compared with 2022. Actions in the year included our A.W. Lumb business contracting with its waste handling provider to divert all its waste to recycling from FY24.

Working with the supply chain will be an important factor in driving down waste production, by encouraging suppliers to reduce unnecessary packaging. This will be part of our approach to engaging with suppliers at an industry level, as described on page 36, so we can use our combined influence to drive change.

Material issue 2: Energy

Our vehicle fleet contributes 93.9% of our Scope 1 carbon emissions and we continue to look at ways to increase its energy efficiency. This includes actions to maximise the fleet's utilisation in Merchanting (see page 24) and our increasing use of telematics (see page 38).

We carried out energy audits in several branches in FY23, starting with those with the greatest energy use and carbon emissions. These audits enable us to identify actions and behaviour changes to reduce our electricity consumption, which we can also apply across our other branches. We will continue the audits in FY24 and ultimately aim to have a rolling audit programme, so each branch is reviewed every few years. We are also looking at procuring green energy and increasing our production of renewable energy, for example by installing further solar panels at our branches.

In Merchanting, we continue to replace our diesel forklifts with electric vehicles as leases come up for renewal. All our forklifts in P&H are electric. At 31 December 2023, 64% of the Group's forklift fleet was electric (31 December 2023: 54%). Our company car policy also encourages us to replace petrol and diesel cars at lease renewal and 83% of the company car fleet is now hybrid or fully electric (31 December 2022: 76%).

Our energy use and greenhouse gas emissions

Reporting methodology

We follow the HM Government Environmental Reporting Guidelines and use the GHG Reporting Protocol – Corporate Standard to calculate emissions. We have set 2022 as our baseline year and reported our total emissions using the financial control boundary. Our methodology aligns with the Department for Environment, Food and Rural Affairs' (Defra) Environmental Reporting Guidelines and uses the Government's GHG reporting conversion factors to quantify emissions and energy consumption.

Scope 1 refers to direct emissions from building operations released into the atmosphere, such as emissions from plants and boilers serving our properties and emissions from company vehicles. Scope 2 refers to indirect emissions released into the atmosphere associated with consumption of purchased electricity. Scope 3 refers to other indirect emissions that cannot be classified as Scope 2 emissions.

Data coverage and estimates

Four of our subsidiaries meet the criteria for reporting under SECR – APP Wholesale Limited, Carboclass Limited, A.W. Lumb and Hevey Building Supplies Limited, however our carbon emission figures are based on all Group companies rather than only those covered by the SECR reporting requirements.

We have used miles driven to establish our baseline energy consumption and the CO_2 emissions of our vehicles. We have used our kWh usage to establish energy consumption of electricity and gas.

Within Scope 1, we have excluded emissions from air conditioning and refrigeration units as we do not have the data. There are no process emissions within the businesses reporting.

Sustainability | Environmental continued

Material issue 2: Energy continued

UK GHG emissions and energy use data

	FY23		FY22		Change	
	Energy consumption kWh	Emissions tonnes CO_2e	Energy consumption kWh	Emissions tonnes CO_2e	Energy consumption kWh	Emissions tonnes CO_2e
Scope 1	**18,991,384**	**4,965**	22,676,546	5,811	(16%)	(15%)
Scope 2	**2,205,241**	**461**	1,924,139	373	15%	24%
Scope 3		**58,020**		56,969		2%
Total		**63,446**		63,153		
Intensity ratios						
Tonnes CO_2e per employee		**69**		72		(5%)
Tonnes CO_2e per £million of turnover		**137**		140		(2%)

Our absolute energy consumption and carbon emissions increased in FY23, reflecting the continued growth in the business.

However, we saw the benefits of energy efficiency and emission-reduction actions, with emissions per employee reducing by 5% and emissions per £1 million of turnover declining by 2%. Our carbon emission figures have been updated to include all Group companies this year rather than only those covered by the SECR reporting requirements. The FY22 figures have been updated to be comparable.

Our commitment to decarbonisation

One of our key workstreams this year was to establish our commitment to decarbonising the business, with the ultimate aim of achieving net zero carbon emissions. Our targets are to achieve 90% reductions in Scope 1 and 2 emissions by 2035 and Scope 3 emissions by 2050. This is aligned with the requirements of the Science-based Targets initiative to reduce Scope 1, 2 and 3 emissions to zero or to a residual level consistent with reaching net-zero emissions.

As part of this work, we have established our baseline carbon emissions for FY22 as shown in the table above. Our Scope 3 emissions accounted for 91.5% of our total emissions in that year, reflecting the emissions from our supply chain.

The charts on the following page illustrate our roadmap to achieving our decarbonisation goals.

We are now determining the actions we need to take to meet our targets. These will encompass several of our material issues, notably waste and packaging, energy, productivity and efficiency, low-carbon products and our supply chain. Our new working groups described on page 35 will play an important role in identifying and implementing these actions.

Material issue 3: Productivity and efficiency

Telematics systems record a range of data about the condition and use of fleet vehicles. This allows us to identify ways to cut fuel consumption and we intend to invest in driver efficiency training to support this. Other important benefits of telematics include a lower risk of road accidents and cheaper insurance.

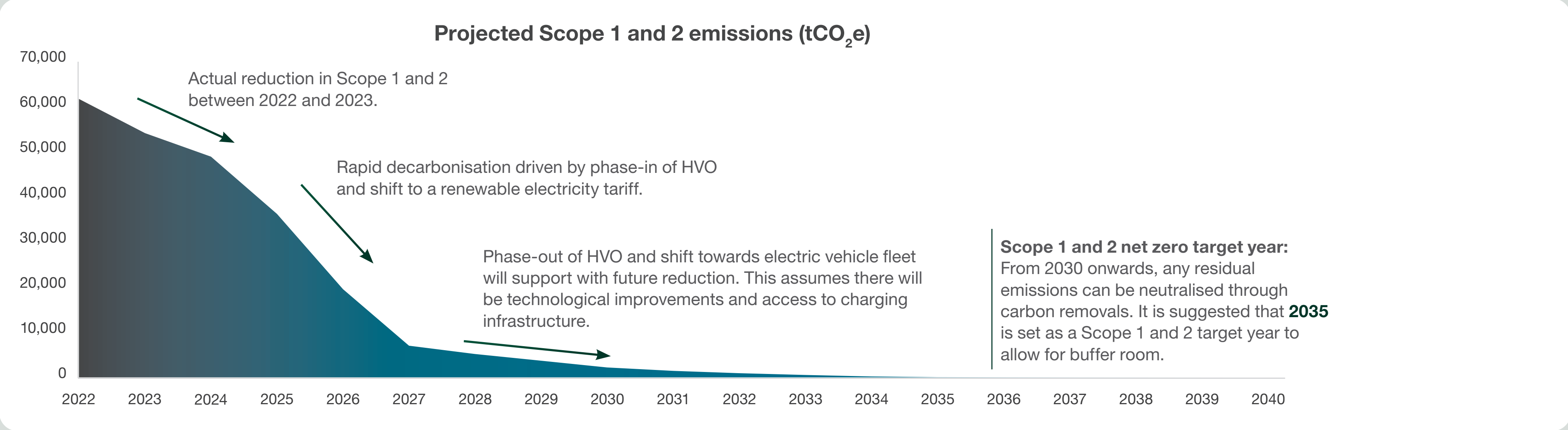
During the year, an additional 71 vehicles were fitted with telematics, bringing the total to 120 by the end of 2023.

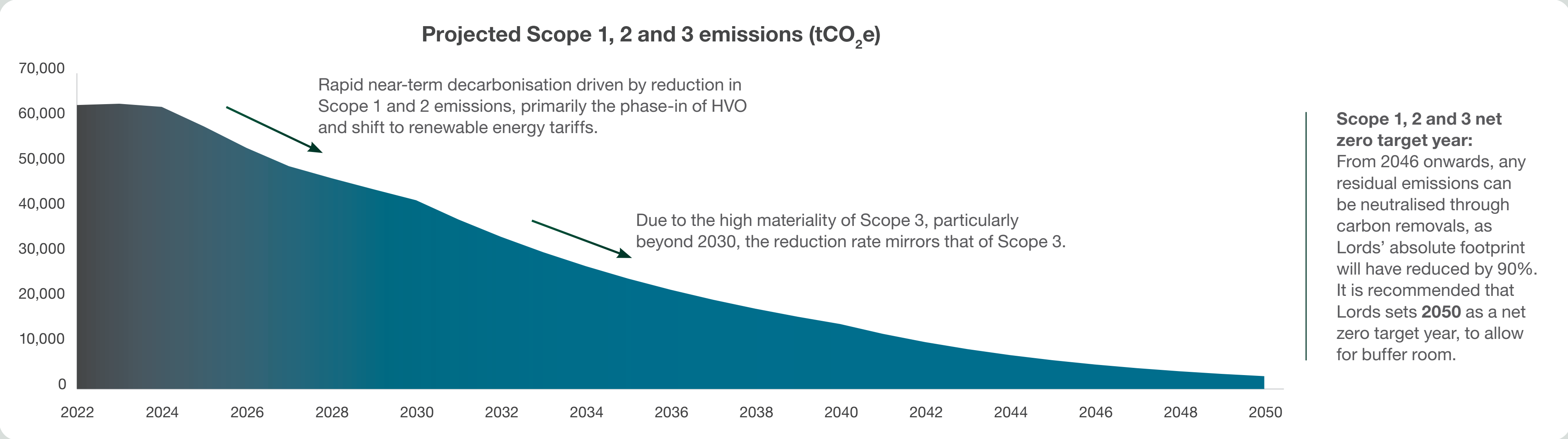
Sustainability | Environmental continued

Material issue 4: Low-carbon products strategy

We made excellent progress in FY23 with increasing revenues from P&H's renewables range. See the case study on page 28 for more information.

Roadmap to achieving our decarbonisation goals





Sustainability continued

Social | supply chain

Material issue 5: Supply chain

During FY23, we engaged Mazars to review the risk of modern slavery in our supply chain. The project considered our 40 largest suppliers by spend, across both Merchanting and P&H, to assess whether they were required to publish a modern slavery statement under the Modern Slavery Act, and if so whether they had:

- complied with the requirements;
- disclosed the geographies in which they operated and from which they sourced products; and
- made publicly available a policy that prohibited modern slavery in the company and in its supply chain.

The analysis identified that 31 of the 40 suppliers were in scope to publish a modern slavery statement and that all of them had done so. The review also highlighted some product types and countries of origin where issues such as forced labour were a potential risk. We intend to use the industry-level supplier engagement discussed on page 36 to ensure suppliers are taking appropriate action to identify and prevent any modern slavery in their businesses and supply chains.

In addition, we updated our Supplier Code of Conduct (the 'Code') during FY23. This requires our suppliers to commit to meeting our standards in the following areas:

- Health, safety and wellbeing.
- Fair working conditions.
- Discrimination and harassment.
- Financial integrity.
- Forced labour.
- Child labour and young workers.
- Personal information.
- Environment.
- Fair competition.
- Anti-corruption and anti-bribery.
- Confidentiality and information security.

Suppliers must sign the Code to confirm their agreement and we have the right to audit their compliance. The Code also sets out when suppliers must report misconduct or a concern.

The Supplier Code of Conduct and our modern slavery statement can be found on our website at: **www.lordsgrouptradingplc.co.uk/about-us/ethical-supply-chain**.

Responsible sourcing

Ensuring we responsibly source products is important to us and all our timber is FSC or PEFC certified.

We also support our customers' ability to source responsibly. For example, as a proud British manufacturer, Weldit allows its customers to reduce shipping from the Far East.

Blake, Warehouse Operative, HRP, Chelmsford

Sustainability | Social continued

Social | people

Our people are central to the business and we continued to welcome new colleagues to the Group during FY23.

At the year end, we employed 958 people, up from 902 at the start of the year. Of these, 93 joined us through acquisitions, while 30 colleagues left the Group with the sale of the Lords at Home business.

Strengthening our HR capabilities

Our first Group Human Resources Director joined us in February 2023, with a remit to enhance the way we manage and engage our people. This has included filling vacancies in divisional-level HR roles and moving to a business partner model, enabling the HR team to get out into the branches. This gives them more insight into the business, so they can support the branches more effectively. For example, in line with our focus on productivity and efficiency (material issue 3) the team is helping to manage absences more proactively, by looking to understand the causes and help people back to work.

We have also established a set of HR key performance indicators, which we report at Group and divisional level each month. These include metrics such as turnover, sick leave rates, headcounts, revenue per head and gross profit per head, enabling us to take a more targeted approach to addressing any issues.

In addition, we now have an in-house role to support recruitment and we have worked to improve the process, such as introducing competency-based interviews and specific tests for drivers and forklift operators. We will continue to roll this out to other jobs during FY24.

Our culture and values

We have long believed that our culture is a key strength and that it differentiates us from our competitors. As the Group continues to grow, we need to ensure we retain the aspects of our culture that our people particularly value – notably the family feel of the business and the way they are empowered and accountable for delivery – while being able to embrace new opportunities. After surveying more than 100 colleagues throughout the business in FY23, we have formalised our cultural blueprint, which is shown in the graphic on the following page.

The blueprint includes a refreshed set of values, which we have begun to roll out across the business. As well as influencing our day-to-day behaviours, the values will play an important part in many aspects of how we manage our people, from recruitment to performance and development. The Board has a keen interest in overseeing the Group's culture, as the Chairman describes in his introduction to governance on page 63.

Helena, Cleaner, Hevey Building Supplies, Kettering

Sustainability | Social | people continued

Our cultural blueprint

Our vision

Empowering Progress, Building Futures

Our vision is to be at the forefront of the building material supply industry, driving progress through a commitment to excellence in service, products and relationships

The roof is the overarching purpose

Our values: we are...

Family
We care for each other – even when it's not easy

Empowered
We are trusted and accountable for our actions

Continuously improving
We are committed to growing our business

Customer focused
We treat every customer interaction with the same care and attention

Learning always
We know we can be better, so we have a growth mindset

Adaptable and flexible
We embrace change and the opportunities it brings

The walls are our behaviours which demonstrate our values inside

Our support systems

Investment
We invest in our people, plant and property

Wellbeing and safety
We know we are happier and more productive when we are safe and well

Doing the right thing
We are committed to being professional, respectful and honest

The foundations underpin all we do

Sustainability | Social | people continued

Material issue 6: Colleague morale

We run a programme of regular engagement surveys, to understand how our people are feeling and identify where we are doing well and any issues to address. All colleagues are offered the chance to take part and in FY23 we began communicating the response rates by branch, which has encouraged more people to complete the questionnaire. Our most recent survey had a response rate of 69%, up from around 45% in previous years. Engagement remains high and has improved during FY23, with a score of 4.8 out of 5.0 in the last survey (FY22: 4.5 out of 5.0).

In response to the surveys during the year, we introduced the Workvivo platform to improve colleague communication. This is available through a smartphone or tablet app, helping us to reach team members who are not desk based. It enables us to publish a wide range of content, such as business updates, welcomes for new starters and recognition for great performance, as well as encouraging colleague-generated content, feedback and engagement. Different parts of the business can also have their own space on the app, so they can communicate directly with their teams. Workvivo has been very well received and around 61% of our people were using the app in mid-February 2024, with uptake continuing to grow.

In addition, following survey feedback we have reviewed our approach to documenting performance and to learning and development (see Developing our people). The divisions have also implemented their own improvement actions, supported by our HR business partners.

Material issue 7: Diversity

As an equal opportunity employer, we recognise the importance of diversity and inclusion, and the business benefits that diverse teams can bring. At the year end, our gender diversity was as follows:

	Female	Male
Board	1	4
Senior management	4	26
Other colleagues	153	770

Approximately 16% of our workforce is female. This low level of representation is standard in the industry and we continue to look to recruit more women into roles at all levels across the Group.

Ethnic diversity is also an essential consideration for us. At the year end, 87% of our workforce identified as white and 10% as non-white. Our ethnic diversity reflects our local communities and is marginally ahead of the UK average.

We remain committed to driving further diversity across the Group.

Developing our people

During FY23, we improved the way we document our people's appraisals, so we are capturing information about their career aspirations and their mobility. This supports our succession planning, which we have completed at senior levels and are now rolling out to all parts of the Group. This will become an annual process, to ensure we have the bench strength to cover potential vacancies.

The appraisal process also now identifies our colleagues' development needs, giving us a clearer understanding of training requirements across the Group. We have introduced a learning and development offer, called Learning at Lords, and we are creating training matrices for every role, which specify the mandatory and optional training available for that role. In FY24, we will be launching a learning management system to provide online content.

We introduced new training packages in the year, to help our managers lead their teams effectively. Examples include training on recruitment, absence management, and completing performance and development reviews.

Bringing fresh talent into the Group is also important and we have pledged to employ 50 apprentices by 2030, as part of the BMF's initiative to promote apprenticeships in the industry.

Sustainability | Social | people continued

Health and safety

Our business involves handling and transporting significant volumes of heavy and bulky materials. This means we must have a rigorous approach to health and safety. This is underpinned by our in-house programme, called 'Safety – Take the Lead', and our health and safety management system, Safety Cloud. The system contains all our certifications, licences, training and reporting.

Ultimate responsibility for health and safety rests with the Board. Within the divisions, the operations directors and branch management are responsible for day-to-day safety. However, we expect every colleague in the business to look out for each other, work safely and ensure we maintain the required standards. The Group has a formal health and safety policy, which is reviewed annually, and carries out risk assessments for each location and for specific tasks. Safety performance is discussed weekly at branch level and reported monthly to the Board.

The Group has a range of health and safety training for colleagues, including an e-learning suite approved by the Royal Society for the Prevention of Accidents (RoSPA) covering numerous topics, such as manual handling, loading and unloading, and fire hazards. This training is mandatory for colleagues and must be completed every year.

Our health and safety initiatives in FY23

The changes we made in FY22 to enhance our overall approach to health and safety have continued to bear fruit. The safety consultants we appointed have helped us to create a roadmap for safety and to identify the priority areas. The Group's Safety Board has ensured continuity of focus and messaging, and reviews actions across the Group each month.

We have continued to enhance our management of safety in FY23. For example, in Merchanting we have appointed a Customer Operations Director who will be the division's lead on the Safety Board, and now have a dedicated Safety Manager, who has taken on responsibilities that previously sat with the Operations Managers. In addition, we held a safety innovation day with the branch managers, which reinforced their day-to-day ownership of safety on their sites.

Workvivo is also helping us to communicate about safety. It has a safety thread where we celebrate positive safety behaviours and culture, and we encourage our people to post examples of good and bad practice, so everyone across the Group can learn from them. More generally, we are ensuring that all of our businesses use consistent terminology and branding to communicate about health and safety, under the Take the Lead banner.

Training is a key part of health and safety. In FY23, we continued the safety leadership training for branch managers, which we also extended to assistant branch managers.

We have identified falls from our delivery vehicles as an area to address, following two incidents during the year. We have reviewed our safe systems of work around accessing the bed of the vehicle and issued several instructions, such as the requirement to wear a hard hat when working around the vehicle. We are now progressing towards a policy of only accessing the vehicle bed as a last resort and looking to retrofit handling equipment where needed to enable this. In addition, we are fitting bars and handles to prevent falls from vehicle tail lifts.

Our priorities for FY24 include specifying and implementing a new safety portal to replace Safety Cloud. This will improve our safety management by enabling us to tailor the portal to our business and continue to adapt it as we grow. We will also continue to focus on moving beyond compliance to really driving our safety culture and colleague behaviour, so safety becomes ingrained in our business and is part of everyone's working day.

Health and safety performance

Our key performance indicator for health and safety is the lost time injury frequency rate, with the Group recording a lost time injury rate of 0.8 (2022: 0.8). This was a good performance but we will continue to work to reduce it.

We closely monitor the outcomes of our bi-annual safety audits, with the results forming part of the bonus calculation for all colleagues. In FY23, we changed the basis of these audits to ensure they focused on safe behaviour and our overall safety culture, as well as on compliance. We set a target score of 85% for this year and our mean score was above 90%. We also carried out partial audits of the Alloway Timber branches we acquired, which confirmed our pre-acquisition assessment that their health and safety level was solid but work was needed to bring some branches up to our higher standards, which we will focus on in FY24.

Our people and ethics-related policies

We have a full suite of formal HR policies, including those covering equality and dignity at work, disciplinary procedures, preventing discrimination, bullying and harassment, and use of computers and IT. Line managers throughout the business are responsible for ensuring compliance with our policies, with performance reported to the Board. We are currently reviewing all our policies to ensure they fully reflect our culture and values.

Maintaining an ethical culture

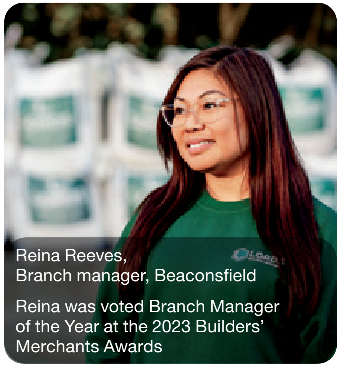
Doing the right thing is one of the foundations of our culture (see page 42), making explicit our commitment to being professional, respectful and honest in everything we do. The HR policies described above are designed to reinforce this within our business, while our Supplier Code of Conduct (see page 40) aims to ensure ethical behaviour within our supply chain. In addition, we have long-standing policies in place covering anti-bribery and corruption, whistleblowing, anti-money laundering and share dealing.

Sustainability | Social | people continued

"Being named Branch Manager of the Year at the Builders' Merchants Awards was fantastic. It's great to be recognised by your peers and it reflects the strength of the whole team."

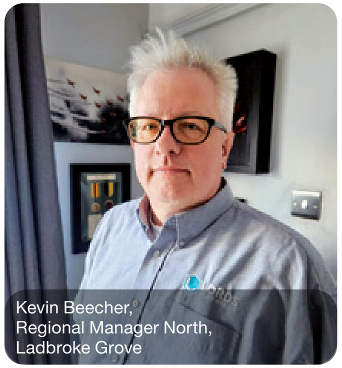
Reina Reeves,
Branch manager, Beaconsfield

Working at Lords Group



Reina Reeves,
Branch manager, Beaconsfield

Reina was voted Branch Manager of the Year at the 2023 Builders' Merchants Awards



Kevin Beecher,
Regional Manager North,
Ladbroke Grove

Our people and culture are among our biggest strengths. We asked two of our managers – Reina Reeves (Beaconsfield) and Kevin Beecher (Ladbroke Grove) – about their experiences of working for the Group.

Q: What do you most enjoy about working at Lords?

R: The colleagues and the senior team I work with. I was fully supported through the branch refurb, there's always help available and they genuinely care about your wellbeing.

K: Being given the freedom and trust to do your role, while also being supported – it's not every company where your directors text to check that you're ok. That personal touch makes a big difference and I enjoy being part of a far bigger team, who are all looking to achieve the same thing.

Q: How does the independence you have as branch managers help you to serve customers better?

R: We have a lot more ability to trade. We all have margins to adhere to but we're able to be flexible when it comes to winning orders and making commercial decisions.

K: The ability to manage your branch independently is fantastic. I'm given the latitude to stock new or unusual products, as long as it helps to drive the numbers.

Q: What benefit does your branch get from being part of the wider Lords business?

R: We can offer so many products and materials to the customer. The refurb in Beaconsfield means we've got everything from general building materials to landscaping, roofing, a bathroom showroom and even equipment hire under one roof.

If customers need something more, it's often only a phone call away and we'll have an expert on it in the Group.

K: For me, it's the extra buying power, the ability to sell a wider range of goods and being able to contact colleagues in different businesses and use their knowledge to drive our sales.

Q: What else drives you to succeed?

R: I enjoy mentoring and coaching colleagues. For example, one of my colleagues was keen to learn about different roles but his previous employers hadn't provided any training.

In less than two years, he's progressed from the yard to the counter and on to the telesales team. He's now signed up for a BMF Leap sales apprenticeship that will develop the practical skills he needs.

I'm happy to know I've made a positive difference to his career and I've started to take work experience students into the branch, hoping I can ignite a passion in them for this industry.

K: There are things that as a manager I've always known would succeed but in my past roles they've been blocked by upper management. Lords gives you the freedom to make a difference.

Sustainability | Social continued

Social | community

Material issue 8: Community

Being local leaders in our markets is fundamental to our business. This comes with the responsibility to be a good neighbour and to have a positive impact on the surrounding communities. One way we do this is by supporting the local economy, both directly through the people we employ and indirectly by helping our customers' businesses to succeed, by providing the products they need with outstanding service.

We also look to give back to our communities through the Lords Group Foundation. The Foundation aims to build stronger communities and improve people's quality of life, by supporting projects and helping to provide facilities for community groups who need them. This can include supporting youth groups, older people, people with infirmities or disabilities, or those facing financial hardship or difficult social circumstances.

The Group donates £200,000 per annum to the Foundation and we work with our colleagues, suppliers and customers to raise even more. The Foundation provides an opportunity for our colleagues to determine how we support their local communities, with teams identifying partner projects close to their branches. We also look to harness their passion for local causes by offering match funding for their own charitable initiatives, up to a value of £1,000. In FY23, we supported 27 charities and awarded match funding to 21 colleagues for their fundraising efforts. Grants and match funding totalled £123,000 for the year.

Aylesbury Youth Motor Project

Aylesbury Youth Motor Project (AYMP) provides hands-on motor vehicle experience and qualifications to disadvantaged young people aged 12-25. This alternative route within education has been proven to engage even the most-detached young person. By working in a live workshop, young people gain vocational, communication and team-working skills. This helps them to change their attitudes, reducing reoffending and antisocial behaviour.

One example is Lewis, a 14-year-old who showed difficulties with social interaction and communication. He found it challenging to follow a structured lesson plan, was anxious in a group setting and would not eat or drink around people he did not feel comfortable with.

Despite his anxiety, it was clear that he could become a great asset to the team, due to his eagerness and attitude to learning. The project allowed Lewis to take things at his own speed and he gradually built friendships and started eating meals with his friends.

Having discovered a passion for cars, Lewis decided to pursue a career in the motor industry. He progressed well in the classroom and was one of the most capable students in the workshop. He then secured a two-week work placement at a classic car restoration garage. At the end of his placement, Lewis was offered a permanent position, alongside attending Bicester College to continue his Institute of Motor Industry Certification.

The Foundation has supported AYMP through a grant to buy tools, overalls and protective equipment. The students now have their own tools for the first time and are taking pride in looking after them. Our Aylesbury branch has also supported AYMP with other projects, such as donating timber for the renovation of its laundry area.

Sustainability continued

Climate-related financial disclosures (CRFD)

This section of the report contains the disclosures required by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. The Regulations contain eight required disclosures, labelled (a) to (h), which are set out below.

a) Describe the Company's governance arrangements in relation to assessing and managing climate-related risks and opportunities

The 'Our ESG governance' section on page 35 describes our governance structure for ESG issues, including climate-related risks. It explains the roles of the Board, the ESG committee and divisional management, and the information the Board receives to enable it to oversee our approach.

Our new environmental policy, which is described on page 37, recognises our responsibility for contributing to climate-change mitigation and sets out the key steps we will take to achieve our decarbonisation ambitions (see page 38).

The Board has approved the policy and will monitor and review the policy and associated procedures each year. The policy applies to all Group businesses, colleagues and contractors.

Climate change and the transition to a low-carbon economy also present opportunities for us. For example, our culture and focus on customer service mean we are constantly looking to identify emerging customer needs and expand our product range to meet those needs. The ESG strategy on page 34 specifically includes our objective to develop a low-energy product range across the Group, with the renewables range in P&H being a prime example (see page 28). These products can be higher margin than more traditional ranges, giving us scope to increase profitability and revenues.

We will therefore continue to diversify our offer over time, as our customers look for new products that will help them to decarbonise buildings or adapt them so they stay fit for purpose in a warmer climate. Our net zero pathway for Scope 3 emissions will also include engaging with our supply chain and identifying opportunities to decarbonise our broader product offering. Our divisional management teams are primarily responsible for identifying the opportunities in their markets, ensuring they address them and including them in their strategic plans and annual budgets. This enables divisional management, the executive directors and the Board to oversee performance.

b) Describe how the Company identifies, assesses and manages climate-related risks and opportunities

During FY23, we worked with Mazars to identify the key physical and transitional risks we face and their potential impact on the Group. This project began with a workshop to identify and prioritise a longlist of potential risks, from which we selected the most significant for further analysis by expert consultants. This analysis considered risks facing the Group as a whole, such as the introduction of carbon pricing, as well as risks specific to the divisions. These included timber scarcity in Merchanting and risks that varied by branch location, such as the potential impact of acute heat on revenue and our colleagues, the potential for coastal or riverine flooding, and water stress.

We then aggregated these branch-level risks to determine their overall impact.

The key risks identified by the analysis are summarised on the following page, along with the mitigations we have in place to help us manage them. Our process for identifying, assessing and managing climate-related opportunities is described under (a) above.

Sustainability | CRFD continued

c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the Company's overall risk management process

Our risk management framework is described on page 55. We continued to enhance this framework during FY23, including implementing risk registers at Group and divisional levels. Our key climate-related risks are now incorporated into our risk registers and the Board reviews the Group register at least annually, with the most recent review taking place in March 2024. This ensures that climate-related risks are now integrated into our overall risk framework and are overseen and managed in the same way as our other key risks.

We have identified sustainability and climate as a principal risk for the Group, as described on page 57.

d, e and f) Our climate-related risks and opportunities, timescales and scenarios

This section covers requirements (d), (e) and (f) in the Regulations, specifically:

d) A description of the principal climate-related risks and opportunities arising in connection with the Company's operations and the time periods by reference to which those risks and opportunities are assessed.

e) A description of the actual and potential impacts of the principal climate-related risks and opportunities on the Company's business model and strategy.

f) An analysis of the resilience of the Company's business model and strategy, taking into account consideration of different climate-related scenarios.

Timescales

We considered the risks and opportunities at the following points in time:

- short term: 2030, which is around the mid-point of our net zero target period to 2035;
- medium term: 2040, which is halfway between our short-term and long-term time horizons; and
- long term: 2050, which aligns to the Paris Accord and reflects the growth period for new timber, which is a key climate-related risk for our business (see below).

Climate scenarios

In assessing the impacts of climate change, we considered the following climate scenarios. These are taken from the Intergovernmental Panel on Climate Change's Shared Socioeconomic Pathways (SSPs):

- SSP 1-2.6: This scenario assumes we, 'take the green road', with society shifting gradually to a sustainable path, which limits the temperature increase to 1.3°C above pre-industrial levels by 2100.
- SSP 2-4.5: This is a 'middle of the road' scenario, which assumes current global socioeconomic trends continue. This results in a temperature increase of 2.1°C by 2100.
- SSP 5-8.5: This is a 'fossil fuelled development' scenario, in which society pushes for economic development based on exploiting fossil fuels and people around the world adopt resource and energy intensive lifestyles. This results in a temperature increase of 3.3°C by 2100.

We selected these scenarios as they represent a broad range of plausible outcomes, with different potential impacts on our business. For example, the 1.3°C scenario requires society to make material changes as it shifts to a low-carbon economy, which increases the potential transitional risks and decreases physical risks. Conversely, the 3.3°C scenario presents few transitional risks but greater physical risks.

Our risks and opportunities

The table opposite describes our key risks and opportunities, the mitigations and the potential impact. Where possible, this analysis was based on financial data and asset locations we provided to our consultants, which they used to measure and rank each risk based on:

- its potential financial cost to the Group, calculated using impact curves showing the range of possible outcomes; and
- its probability of occurring, assessed using different climate and economic models to create a probability curve.

The cost and probability were then multiplied together, to produce an estimate of the impact.

We have not yet modelled some of our risks, where we require further information to do so. In particular:

- climate-related impact on the supply chain: we are engaging with suppliers and developing an assessment in collaboration with the BMF, which will support modelling of this risk;
- timber scarcity: we have not modelled the physical risk of timber scarcity but will explore this once we roll out supply chain assessments, which will give us more information on timber sources; and
- impact of rainfall on sales: we will model this risk in our next analysis.

Where we have modelled our risks, we will continue to refine and increase the granularity of our analysis, to further develop our understanding of the risks and any additional mitigations we may require.

Our analysis to date shows that the +3.3°C scenario presents the greatest risks to the Group, followed by the 1.3°C scenario. Timber scarcity is the single largest risk across all scenarios.

Sustainability | CRFD continued

d, e and f) Our climate-related risks and opportunities, timescales and scenarios continued

Risk	Potential impact			Mitigations and business resilience
	Short term	Medium term	Long term	
Timber scarcity Climate change may affect the availability of some or all species of timber, resulting in increased costs and / or unreliable or disrupted supply. **Risk type:** physical and transitional **Risk category:** resilience	⬢			• Ongoing discussions and collaboration with suppliers. • Diversification of the supply chain. • Ongoing monitoring of the market and timber prices.
Impact of acute heat on revenues and productivity Unusual temperature spikes could reduce general sales due to construction activity slowing down, result in lower demand for heating products and negatively impact transportation, causing delays in stock replenishment and deliveries to customers. Product quality and lifespan could also be affected. Extreme heat could also reduce the productivity of our colleagues and customers. **Risk type:** physical **Risk category:** resilience	⬢			• Acute heat has been assessed through our climate scenario exercise and will be reassessed regularly.
Carbon pricing The Government may increase carbon taxes in order to achieve the UK's 2050 net zero target, resulting in an increase in costs for us. **Risk type:** transitional **Risk category:** energy source	⬢			• Comprehensive net zero roadmap and yearly carbon measurement enable us to monitor the potential impact of changes to carbon tax across the business.
Climate-related impact on the supply chain Our supply chain could be affected by a range of climate-related impacts including transitional impacts (such as carbon pricing) or physical impacts, such as damage to their assets caused by extreme weather or flooding. This could increase our costs and / or make the supply of products or materials unreliable. **Risk type:** transitional and physical **Risk category:** resilience	⬢	⬢		• Ongoing discussions and collaboration with suppliers. • Diversification of the supply chain. • Ongoing monitoring of the market and supply costs.

Sustainability | CRFD continued

d, e and f) Our climate-related risks and opportunities, timescales and scenarios continued

Risk	Potential impact: Short term	Potential impact: Medium term	Potential impact: Long term	Mitigations and business resilience
Restrictions on retrofitting If demolition for refurbishment is banned or stricter building and environmental codes are introduced, it could have a detrimental impact on our product sales. **Risk type:** transitional **Risk category:** products and service	⬢	⬢		• Continued diversification of product lines, as a core part of our growth strategy. • Ongoing monitoring of potential legislation.
Changing consumer preferences Demand for more eco-friendly products, sustainable building materials and heating solutions could reduce our revenues. This also presents opportunities for us (see opposite). **Risk type:** transitional **Risk category:** products and service	⬢			• Supplier engagement to ensure sustainable sourcing. • Diversification of products such as renewable product ranges and products with recycled content. • Ongoing engagement with customers, to ensure products are meeting demand.
Uncertainty around future fossil fuel-based transportation Reduced availability or a significant increase in the cost of fossil fuel-based energy for transport could have a detrimental effect on transportation and our business operations. This also presents an opportunity to reduce fuel costs and increase productivity (see opposite). **Risk type:** transitional **Risk category:** resource efficiency	⬢	⬢		• Increasing use of electric vehicles. • Diversification of fuel sources, such as hydrotreated vegetable oil (HVO). • Ongoing monitoring of the fuel market.

Assumptions

In conducting the scenario analysis set out above, we have made a wide range of assumptions. Key examples of these assumptions include:

- potential GDP growth rates and their impact on demand for, and prices of, key products such as timber;
- the relationship between local temperatures and revenue performance for our branches;
- potential carbon prices and the Group's ability to reduce its carbon emissions; and
- the relationship between temperature increases and lost working time.

Sustainability | CRFD continued

d, e and f) Our climate-related risks and opportunities, timescales and scenarios continued

Opportunity	Actions
Changing consumer preferences Demand for more sustainable products, such as our renewables range (see page 28), could open up new and rapidly growing revenue streams, with the potential for higher margins. **Opportunity type:** transitional **Opportunity category:** products and services	• Increasing sales of low-carbon products is a core part of ESG strategy. • Group growth strategy looks to continually broaden the product range, to secure a greater share of the customer wallet. • Engagement with suppliers on sustainable sourcing and with customers to understand their needs. • See page 28 for specific actions taken to grow the renewables range.
Increased efficiency and reduced costs Our work to decarbonise the business may increase our efficiency and reduce our costs, for example by cutting our energy use and increasing the generation of renewable energy on our sites. **Opportunity type:** transitional **Opportunity category:** energy source	• Energy audits to understand usage and identify reduction opportunities. • Ongoing switch to electric forklifts. • Driver training to adopt more fuel-efficient driving. • Reviewing potential for increased deployment of PV panels to generate renewable electricity.
Increased resilience through supplier engagement and diversification We can enhance the resilience of our business by engaging with our suppliers on their decarbonisation programmes and by continuing to diversify our sources of supply. **Opportunity type:** transitional **Opportunity category:** resilience	• Engagement with suppliers, in particular at an industry level through the BMF and H&B Buying Group (see page 29). • Continuing to add new suppliers to the Group, as we broaden our product range.

Sustainability | CRFD continued

g and h) Metrics and targets

This section covers requirements (g) and (h) in the Regulations, specifically:

(g) A description of the targets used by the Company to manage climate-related risks and to realise climate-related opportunities and performance against those targets.

(h) The key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.

		Performance		
Metric	Related risk or opportunity	**FY23**	FY22	Target
Risks				
Scope 1 and 2 emissions	Carbon pricing	**5,426 tonnes CO_2e**	5,848 tonnes CO_2e	Net zero by 2035
Scope 3 emissions	Carbon pricing	**58,020 tonnes CO_2e**	56,969 tonnes CO_2e	Net zero by 2035
Opportunities				
Growth in revenues from the renewables range	Changing consumer preferences	**60%**	49%	No target

Financial review

The Group demonstrated its resilience during FY23 and our focus on controlling our cost base and carefully managing our financial resources leaves us well placed for further growth, as market conditions turn more positive.

More information on divisional financial performance in FY23 can be found in the operational reviews on pages 23 to 28 of the annual report.

Revenue

Group revenue was £462.6 million (FY22: £450.0 million), up 2.8%. Excluding acquisitions and new locations, LFL revenue was down 1.2%. Acquisitions made in the year contributed revenue of £5.4 million in FY23.

In the year, P&H performed well, with LFL revenue growth of 3.7%, benefiting from extended product ranges, and contributing to total revenue growth of 8.0% as a result of the full-year effect of the Direct Heating and HRP Trade businesses acquired in 2022. Market conditions for Merchanting presented a difficult trading environment in 2023, with LFL revenues declining by 6.3%, albeit generally outperforming the wider sector. Overall sales were down 2.6% on FY22, offset by the positive impacts from the contributions of the 2023 acquisitions of Chiltern Timber Supplies and Alloway Timber.

Administrative expenses

Administrative expenses (excluding depreciation, amortisation, impairment, exceptional items and share-based payments) totalled £61.3 million (FY22: £54.9 million), an increase of 11.6%. This partly resulted from the additional overheads in the businesses we acquired in the year with overhead synergies delivered in Q4 2023 of £0.5 million.

On a like-for-like basis, administrative expenses were £1.5 million higher in FY23, reflecting the impact of inflation and our continued investment to support the Group's growth, including appointing a Group Human Resources Director in February 2023 and strengthening our finance teams.

Depreciation, amortisation and impairment

Depreciation and amortisation rose by 12.3% to £13.8 million (FY22: £12.3 million). Of this, £7.7 million relates to right-of-use assets (FY22: £6.9 million), with the increase resulting from leases in the acquired businesses. A further £3.5 million related to intangible assets (FY22: £3.3 million) and £2.6 million to property, plant and equipment (PPE) (FY22: £2.1 million). Additionally, in 2023 a £0.5 million impairment charge was taken in the year relating to two loss-making sites within the Group, having assessed the recoverable value of the right-of-use assets and PPE at these sites.

Exceptional items

The Group incurred exceptional costs of £2.8 million in FY23. The most significant items related to: £0.9 million of costs associated with business combinations completed in the year and for potential acquisitions which will not occur or did not occur by the end of 2023; £1.4 million in relation to the impact of the Group reassessing its estimation basis for stock provisioning within the Merchanting division as well as an isolated stock theft at one site, and £0.6 million for Group simplification activities as a result of Group reorganisation in the year to streamline management structures and generate operational efficiency.

Exceptional items in FY22 totalled a net cost of £0.9 million, with the largest component being diligence costs associated with acquisitions.

Profitability

EBITDA for FY23 was £23.5 million (FY22: £28.6 million). Adjusted EBITDA, which excludes the exceptional items set out above as well as share-based payments, was £26.8 million, down 10.5% from £30.0 million in FY22. The decline in Adjusted EBITDA reflects challenging market conditions in the higher-margin Merchanting division and the anticipated impact of the loss-making Alloway Timber at acquisition. The adjusted EBITDA margin was 5.8% (FY22: 6.7%).

The table below shows adjusted EBITDA by division:

	FY23 £m	**FY23 margin**	FY22 £m	FY22 margin
Plumbing and Heating	**12.9**	**5.2%**	13.8	6.0%
Merchanting and other services	**14.0**	**6.5%**	16.1	7.3%
Total Group	**26.8**	**5.8%**	30.0	6.7%

Presented numbers are based on underlying, not rounded, figures.

Net finance costs

Net finance costs were £6.2 million (FY22: £3.5 million), with the increase mainly due to rising interest rates during the year and higher levels of borrowings as a result of acquisitions made across 2022 and 2023. The interest expense associated with the Group's leases was £2.3 million (FY22: £1.9 million).

Profit before tax and adjusted profit before tax

Adjusted profit before tax, which excludes exceptional items, share-based payments and amortisation of intangible assets, was £10.4 million (FY22: £17.4 million). The Group generated profit before tax for the year of £3.0 million (FY22: £12.8 million).

Earnings per share and adjusted earnings per share

Adjusted earnings per share (as defined in the alternative performance measures section on page 133 of the annual report) was 4.35 pence (FY22: 8.02 pence). Basic earnings per share was 0.84 pence (FY22: 5.68 pence).

Financial review continued

Dividend

The Board has recommended a final dividend of 1.33 pence per share. Combined with the interim dividend of 0.67 pence per share, this gives a total dividend for the year of 2.0 pence per share, unchanged on FY22. The final dividend will be paid on 28 June 2024 to shareholders on the register at the close of business on 24 May 2024. The cash cost of the total dividend for the year will be £3.3 million (FY22: £3.3 million). At the year end, the Company had distributable reserves of £15.8 million (31 December 2022: £19.5 million).

Cash flow

Adjusted cash generated by operating activities was £22.5 million (FY22: £24.1 million) while free cash flow was £13.9 million (FY22: £19.1 million). Free cash flow conversion, which is free cash flow as a percentage of EBITDA, was 59.2% (FY22: 66.9%). In FY23, the Group used £5.1 million to acquire Chiltern Timber Supplies and Alloway Timber. The Group paid deferred consideration of £3.1 million related to six prior acquisitions (FY22: £2.7 million) and £2.1 million to buy out non-controlling interests (FY22: £2.5 million).

Deferred consideration was higher than typical due to the number of transactions Lords completed in the aftermath of the Covid pandemic, and will return to a lower level in FY24 and beyond. The Group maintained its capital discipline during the year, with capital expenditure of £4.9 million (FY22: £3.5 million). This included the initial £2.2 million payment to acquire the George Lines site near Heathrow. Underlying capital expenditure was therefore £2.7 million, as we invested to deliver our strategic growth initiatives.

Debt financing and liquidity

In April 2023, we refinanced the Group's £70.0 million facilities with HSBC and agreed new facilities totalling £95.0 million with HSBC, NatWest and BNP Paribas. The facilities comprise a £70.0 million revolving credit facility (RCF) and a £25.0 million receivables financing facility. The RCF includes a £20.0 million accordion option and both facilities run for an initial three years, with two one-year extension options. The accordion and extension options are subject to lender approval.

At 31 December 2023, the Group had net debt (defined as borrowings less cash and cash equivalents, and before recognising lease liabilities) of £28.5 million (31 December 2022: £19.4 million). The Group had substantial headroom of £46.7 million (31 December 2022: £34.6 million) within its debt facilities at the year end, and a further £19.8 million of accessible cash (31 December 2022: £16.0 million).

Working capital

Inventory decreased by £3.9 million, from £53.2 million at 31 December 2022, to £49.3 million at the year end. This included inventories acquired from acquisitions of £1.3 million, and an underlying reduction in inventories of £5.2 million, as seen in the cash flow, as a result of management focus on inventory optimisation at its sites. The year-end balance equated to 48 days of stock (31 December 2022: 50 days).

Current trade and other payables were £4.6 million higher at £98.9 million (31 December 2022: £94.3 million), equating to trade creditor days of 61 (31 December 2022: 56 days). Current trade and other receivables rose by £10.2 million to £81.2 million (31 December 2022: £71.0 million), resulting in trade debtor days of 45 at the year end (31 December 2022: 40 days). The movement in trade debtor days is the result of a surge in demand in December 2023 from B2B customers in our P&H segment ahead of the now postponed Clean Heat Market Mechanism levy implementation.

Intangible assets

Intangible assets rose to £46.2 million (31 December 2022: £45.3 million), mainly as a result of the acquisitions during the year, which resulted in the recognition of customer relationships of £1.2 million, trade names of £0.4 million and goodwill of £2.1 million, partially offset by the amortisation charge of £3.5 million.

Non-current liabilities

Trade and other payables relate to deferred consideration liabilities. The liability has increased by £1.2 million to £5.9 million as at 31 December 2023 (31 December 2022: £4.7 million), primarily as a result of the additional consideration payable from 2025 in relation to businesses acquired in the year.

Right-of-use assets

Leases that are recorded on the balance sheet principally relate to properties, cars and distribution vehicles. The right-of-use asset in the balance sheet at 31 December 2023 was £47.4 million (31 December 2022: £39.0 million). The movement is reflective of additional lease commitments relating to the six sites acquired in the Chiltern Timber Supplies and Alloway Timber transactions in FY23.

Post balance sheet events

Since the end of FY23:

- The Group has exercised its extension option under the banking facilities agreement in relation to the Group's existing £95 million lending facilities. The terms of the facilities, which consist of a £70 million revolving credit facility (the 'RCF') and a £25 million receivables financing facility, were announced by the Company on 6 April 2023 and, pursuant to the extension now entered, the RCF has now been extended from its initial three-year term by twelve months such that the RCF will now expire on 5 April 2027.
- Chris Day, Chief Financial Officer and Chief Operating Officer, informed the Board of his decision to leave the Company to take up another professional opportunity on 9 January 2024. On 8 May 2024, it was announced that Stuart Kilpatrick will be joining the Board as the new Chief Financial Officer on 4 June 2024.

Chris Day
Chief Financial Officer and Chief Operating Officer
14 May 2024

Principal risks and uncertainties

Effective risk management is key to delivering our strategy, requiring us to have a robust framework for identifying, managing and mitigating the principal risks we face, and ensuring we identify emerging risks on a timely basis.

During FY23, we continued our work to develop the Group's risk management framework, with the support of KPMG. See the audit committee report on page 71 for more information.

Our risk management framework

The Group's risk management framework has four layers:

The Board

One of the Board's key roles is to understand, evaluate and monitor the Group's key risks and internal controls. During FY23, we created risk registers at divisional level, with the most significant risks feeding up into a Group-level risk register. The Board will review the Group risk register annually, with the first review taking place during the year.

The Board's oversight is supported by Board papers, which explain the effectiveness of particular controls and recommendations for developing them. Board members then use their experience to push these developments forwards. The Board is also responsible for determining our risk appetite.

Audit committee

The audit committee monitors and reviews our internal control systems (see page 71), guided by the Chief Financial Officer and the Group Financial Controller. The committee receives reports from management on risk management and controls, approves the external audit scope and receives reports from the auditor on internal controls. The committee also monitors emerging risks.

Executive management team

Our executive management team implements the Group's strategy, within the risk appetite set by the Board. It has overall responsibility for managing risks day-to-day and for implementing actions arising from the Board and the audit committee.

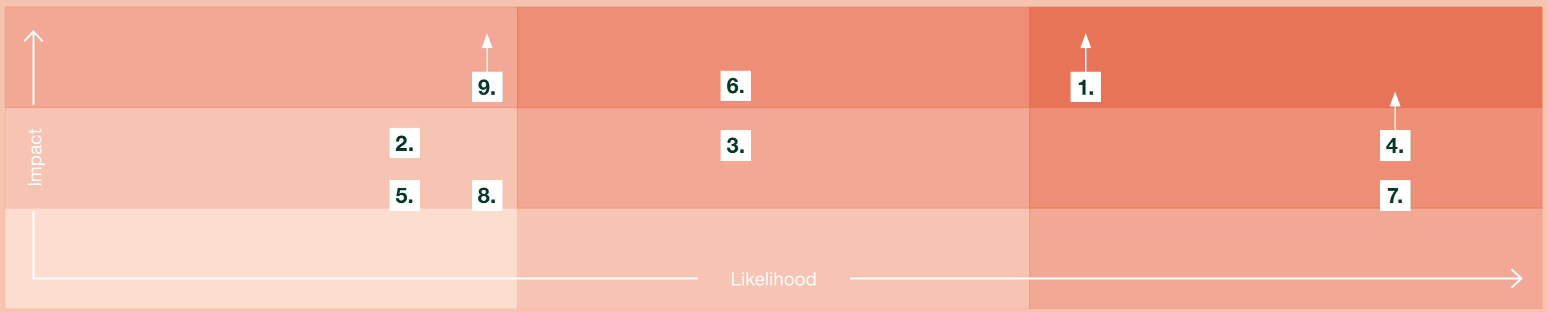
Business units, Group functions and colleagues

Everyone in the Group has a responsibility for sharing and identifying risk and reporting anything that concerns them.

Heatmap key

1. Macroeconomic conditions in the UK
2. Colleagues
3. Competition in our markets
4. Sustainability and climate
5. Technology and IT infrastructure
6. Health and safety
7. Acquisition and integration
8. Supplier management
9. Finance and liquidity

Risk heatmap



Principal risks and uncertainties continued

The Board's assessment of the Group's principal risks and uncertainties and the mitigations in place are set out below:

1. Macroeconomic conditions in the UK

Inherent risk: High
Trend: Rising
Impact: Adverse effect on customer service, leading to reduced financial performance

Description

Our markets are cyclical and a proportion of our revenue depends on households' willingness to spend on home improvements. Economic conditions can therefore affect demand.

Our customers are mainly tradespeople engaged in RMI activity and these markets are influenced by trends in home improvements and maintenance.

Demand is also linked to inflation, interest rates, change in property values, demographic trends, employment levels and consumer savings.

Mitigation:

- The Group has less than 1% of the market, giving us opportunities to grow by taking market share even in difficult economic conditions. Our mitigation strategy also includes cost controls in response to changing market conditions.
- Our business is intentionally exposed to the less cyclical element of our market, RMI. Demand for boilers, which provide 72% of sales in P&H, is even less cyclical, reflecting the natural replacement cycle of these products.
- We have continued to diversify our activities by product category, sector, channel and geographical reach.
- Our management has experienced multiple downturns and understands that capital allocation, efficiency and customer service are key.
- Assessment of macro trends helps inform capital allocation and cost control measures.

2. Colleagues

Inherent risk: Medium
Trend: Stable
Impact: Adverse effect on customer service, leading to reduced financial performance

Description

We have 958 highly engaged colleagues across the Group. They are fundamental to our success, as they drive market opportunities using their experience and knowledge. We need to continue to attract, retain and invest in our people, particularly in the current tight labour market, and ensure they are appropriately incentivised.

Mitigation:

- We are committed to high standards of employment practice.
- We apply significant resources to training, development, mentoring, 360 feedback, incentive structures, safety and mental health.
- The majority of our colleagues are shareholders, through the Share Incentive Plan set out at IPO.
- We carry out regular surveys across all colleagues and act on their feedback.
- We benefit from an average length of service of 5.5 years and look to promote from within.
- The remuneration committee reviews all key aspects affecting the workforce.
- We continue to improve the way we manage every aspect of the employment lifecycle, under the leadership of our Group Human Resources Director, who joined the Group in FY23 (see page 41 for more).

3. Competition in our markets

Inherent risk: Medium
Trend: Stable
Impact: Adverse effect on financial performance

Description

We face competition across the Group. Our competitors' actions apply price pressure and we need to remain competitive.

In Merchanting, we compete with builders' merchants and retailers of varying sizes, while P&H competes with plumbers merchants in the B2C market and one other national distributor in the independent B2B channel.

Some competitors have greater financial resources and economies of scale, which may give them an advantage.

New business models also pose a threat, alongside changing customer behaviours enabled by technology.

Mitigation:

- As a service-led group, we look to compete on our customer proposition rather than solely on price.
- We continually monitor gross margins and have an effective strategy for passing through inflation.
- Digital is a strength of our business and we have invested in our in-house expertise.
- We have invested in our marketing function, to drive our value message rather than price.
- Our membership of a buying group helps offset the scale gap.
- We conduct regular customer surveys and have received a Trusted Partner award from Feefo for our outstanding customer service.

Principal risks and uncertainties continued

4. Sustainability and climate

Inherent risk: High
Trend: Rising
Impact: Adverse effect on our reputation and our financial performance

Description

We recognise the need to be a responsible business, including minimising the environmental impact of our operations. ESG is an increasing focus for our stakeholders and we therefore need an ethical and sustainable model to deliver long-term growth.

Mitigation:

- We have a clear ESG strategy focused on the material ESG issues facing the business (see page 34), which includes growing our revenues from low-carbon products, such as the renewables range in P&H.
- We have established our decarbonisation commitments (see page 38) and undertaken considerable work to understand our climate-related risks and opportunities (see page 47).
- We are developing environmental KPIs to allow us to set targets and incentivise performance at Group and divisional levels.
- The Lords Group Foundation supports charitable causes in the 48 local communities we serve.
- We have Group-wide policies in place for anti-bribery, modern slavery and timber sourcing. All our timber has FSC and PESC accreditation.
- We have reviewed the risk of modern slavery in our supply chain (see page 40).

5. Technology and IT infrastructure

Inherent risk: Medium
Trend: Stable
Impact: Adverse effect on customer service, leading to reduced financial performance

Description

Our ability to trade depends on our IT infrastructure and we are therefore exposed to the risk of system failure. Over time, the pace of technology change could mean our systems become outdated, making our business processes inefficient, or that they become more vulnerable to unauthorised access.

Mitigation:

- We rigorously test system changes and ensure business acceptance prior to launch.
- Our brands operate on different ERP systems, which would limit the consequences to the Group if one of these systems suffered an outage.
- We provide colleague training on information security to raise awareness of the potential threats.
- We have appointed BDO to provide internal audit services from FY24 and intend for BDO to conduct a 'deep dive' on cyber security.

6. Health and safety

Inherent risk: Medium
Trend: Stable
Impact: Adverse effect on colleagues, our reputation and our financial performance

Description

Our operations have inherent health and safety risks to colleagues, customers and third parties on site. Prevention of injury and death is an absolute Board priority.

The primary health and safety risks in our operations are manual handling, slips, trips, falls, transferring materials, road traffic incidents, and incidents involving mechanical handling equipment and delivery vehicles.

Mitigation:

- Health and safety is a Board priority and an agenda point at all of its meetings.
- Our external advisers help us to drive improved reporting, risk assessment and safety control across the Group.
- We have a Group-wide training programme on health and safety, incorporating culture and change, risk management, accident investigation and governance.
- We complete external safety audits of our sites twice a year.
- We have an established process for reporting near misses and accidents, allowing us to apply lessons learned to prevent future incidents.
- We have invested significant resources in our individual businesses on awareness, training, management, risk assessment and corrective actions.
- Our Take the Lead safety programme drives overall progress and coordinates continuous improvement.

Principal risks and uncertainties continued

7. Acquisition and integration

Inherent risk: High
Trend: Stable
Impact: Adverse effect on financial performance

Description

Acquisitions are a key element of our growth strategy and the Group's development. We may not be able to identify targets on acceptable terms, that are sufficiently accretive and cash generative, or that meet our return on investment criteria. Failure to effectively integrate our acquisitions may delay or reduce the expected returns.

Larger transactions carry an elevated risk, given their increased importance relative to the Group as a whole.

Mitigation:

- We have significant in-house resource, with a dedicated M&A team and a long-established and experienced integration team.
- Our acquisition decision-making is underpinned by strategic and financial criteria and Board approval.
- We conduct regular post-investment reviews, for the first five years post-transaction.

8. Supplier management

Inherent risk: High
Trend: Stable
Impact: Adverse effect on customer service and financial performance

Description

Consistent product availability is key. If suppliers fail to deliver the products we need on a timely basis, it will impact our customer proposition and our sales volumes.

Mitigation:

- The Group maintains strong relationships with its key suppliers and works closely with them to agree mutually beneficial contracts, conduct due diligence in line with the Group's commitment to responsible sourcing, and ensure a continuous supply of quality materials.
- To ensure continuity of supply, where possible, contracts exist with more than one supplier for key products, to reduce the risks of dependency on a sole supplier. The Group keeps stock levels under constant review and, helped by the Group's market position, has a track record of effectively managing availability issues in conjunction with suppliers.

9. Finance and liquidity

Inherent risk: Medium
Trend: Rising
Impact: Adverse effect on financial performance

Description

We face the following financial risks:

- Credit risk – the risk that accounts receivable will not be settled, leading to financial loss.
- Liquidity risk – the risk that we have insufficient funds to finance our operations or growth strategy.
- Interest rate risk – increases in interest rates would raise the cost of servicing debt.

Mitigation:

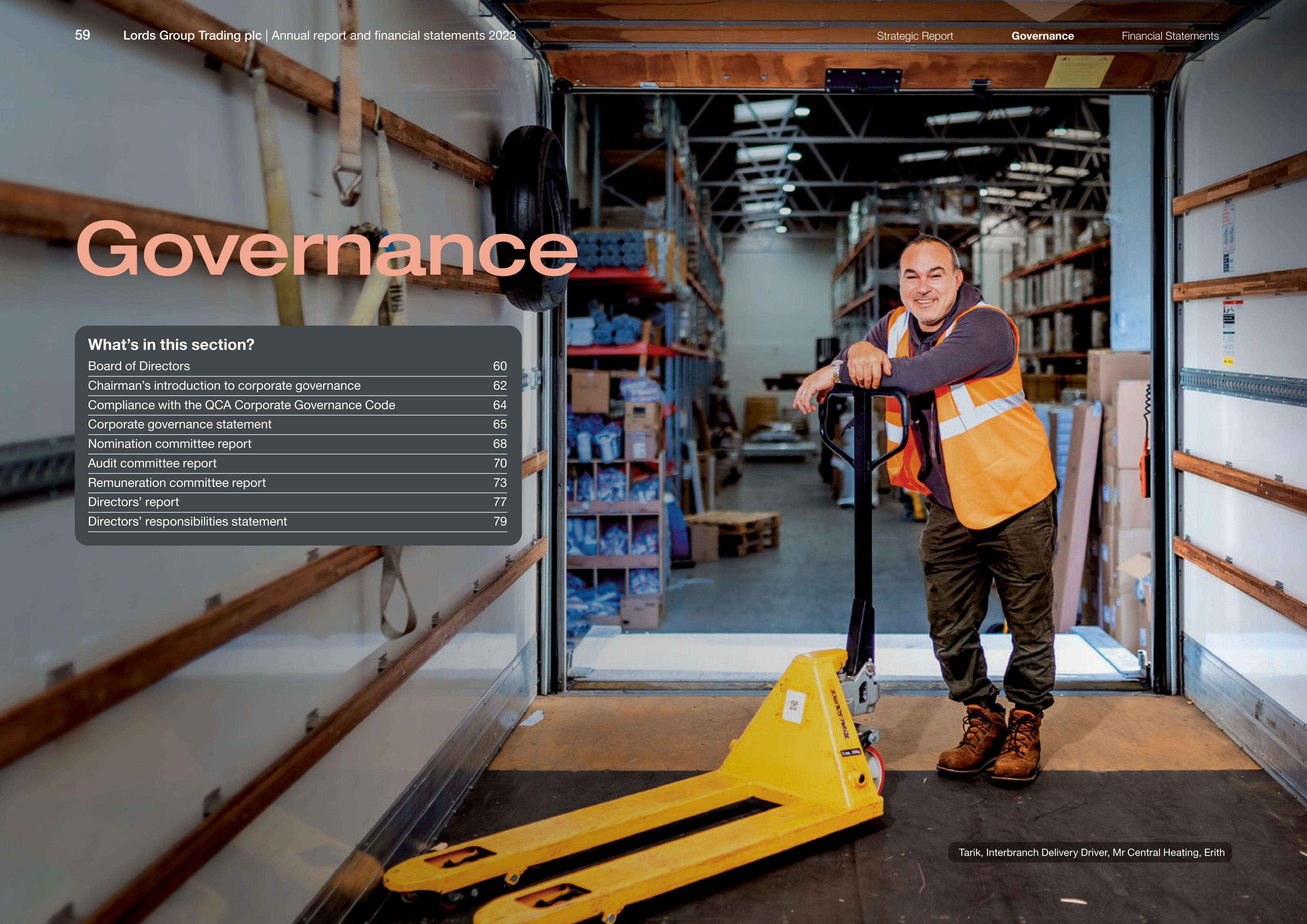
- Credit risk is managed locally in each subsidiary, with oversight by the Chief Financial Officer. We utilise credit insurance and perform credit limit reviews, based on each customer's creditworthiness.
- Liquidity risk – we undertake rigorous forecasting and regularly model severe downside scenarios, to ensure we maintain sufficient funding and facilities.
- Interest rate risk – our operations are financed by a mix of retained profits and bank borrowings based on floating rates. We model interest rates in severe downside scenarios. Our focus on balance sheet discipline limits the impact of higher interest rates.

This strategic report has been approved by the Board and signed on its behalf by:

Chris Day
Chief Financial Officer and Chief Operating Officer

14 May 2024

Governance



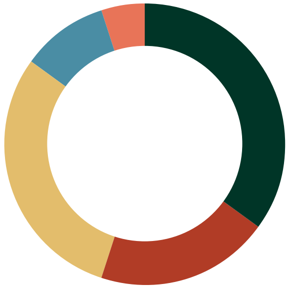
What's in this section?

Tarik, Interbranch Delivery Driver, Mr Central Heating, Erith

Board of Directors

We have a strong and experienced Board, with a good balance of backgrounds, knowledge and skills.

Board activities



A	Strategy	**35%**
B	Business updates	**20%**
C	ESG	**30%**
D	Financial performance and budgeting	**10%**
E	Investor relations	**5%**

Board skills and experience

	Digital	M&A	Climate change and sustainability	Strategy	International operations	Distribution	Emerging markets	Service industry	Finance	Supply chain	Customers
Gary O'Brien	●	●		●	●	●		●	●	●	●
Shanker Patel	●	●	●	●	●	●	●		●		●
Chris Day	●	●	●	●		●		●	●	●	●
Sheena Mackay	●	●	●	●	●	●	●		●	●	●
Andrew Harrison		●	●	●	●	●	●		●		●

A D R N

Gary O'Brien

Independent Non-Executive Chairman

Appointed to the Board: 1 July 2020

Skills and experience

- One of the most seasoned leaders in the retail sector, having held numerous senior roles in major retail businesses.
- Extensive public company experience, as a director of both Main Market and AIM companies.
- Significant experience of business transformations, including refinancings.
- Management and advisory expertise in private businesses across corporate finance, telecommunications, IT and financial services marketing.
- Excellent understanding of the Group, having worked with the business since 2014, contributing financial acumen and strategic guidance.

Other current appointments

- Director of several private property and investment funds.

Past appointments

- Chairman, John Lewis of Hungerford; CFO, Signet Group; Deputy CFO of Burton Group plc; Deputy Managing Director and Finance Director, Max Factor Corporation.

Shanker Patel

Chief Executive Officer

Appointed to the Board: 22 October 2018

Skills and experience

- Deep understanding of the Group and its markets, having worked within the business since 1993 and as CEO since 2001.
- Successfully driven the Group's growth strategy, with a strong track record of delivering both organic and acquisitive growth.
- Committed to developing people and maintaining a strong culture.
- BSc from the London School of Economics, Law degree and an Exec Ed from Harvard Business School.

Other current appointments

- Designated member of the H&B Buying Group that represents Lords.
- Board member of the Builders Merchants Federation.
- Chair of West London Business.

Past appointments

- Managing Director of Lords Group Trading, prior to appointment as CEO.

Board of Directors continued

D

Chris Day

Chief Operating Officer and Chief Financial Officer

Appointed to the Board: 2 January 2019

Skills and experience

- Significant experience in both finance and supply chain management.
- Successfully driven the Group's growth strategy, focusing on capital allocation to deliver the Group's strategic plan.
- Overseen 14 acquisitions at Lords since joining in 2017, as well as helping to structure many parts of the business in readiness for growth.
- Chartered Global Management Accountant and holds a BA (Hons) from Cardiff University and an MSc in Supply Chain Management from Cranfield.

Other current appointments

- None.

Past appointments

- Senior finance roles at Travis Perkins plc and Monsoon Accessorize.

A R N

Andrew Harrison

Senior Independent Director

Appointed to the Board: 1 March 2021

Skills and experience

- Highly experienced in the merchant industry, with an executive career spanning more than 40 years.
- Held strategic roles in sales, marketing and operations, and has run sector-leading teams such as procurement, supply chain, international sourcing and category management.
- Headed up numerous business acquisitions and their integration into the Travis Perkins Group.
- Deep experience and knowledge of business transformation, governance and customer relationship strategy across the home improvement, timber and builders merchant sector.

Other current appointments

- None.

Past appointments

- Chief Executive Officer of the Plumbing and Heating division, Travis Perkins; Chief Operating Officer, Travis Perkins; Managing Director of Keyline, Benchmarx and CCF.

A R N

Sheena Mackay

Non-Executive Director

Appointed to the Board: 6 September 2023

Skills and experience

- Executive career of more than 30 years in human capital management.
- Led global and international human resources functions across a range of FTSE 100 and FTSE 250 business.
- Experienced non-executive director, having chaired the remuneration and ESG committees at Foxtons Group plc.
- Culture and business transformation.

Other current appointments

- None.

Past appointments

- Non-executive director at Foxtons Group plc.
- Group Human Resources Director at Smiths Group plc, Aggreko plc, BBA Aviation plc and SSL International Group plc.

N Nomination committee member

A Audit committee member

D Disclosures committee member

R Remuneration committee member

Committee Chair

Chairman's introduction to corporate governance

"Lords Group has strong corporate governance and we continued to reinforce it during the year, with particular focus on further embedding our work on risk management and enhancing our oversight of the Group's culture, which are both critical to our ongoing success."

Gary O'Brien
Chairman

Continued compliance

I am pleased to introduce our corporate governance report for FY23. We have continued to follow the QCA Corporate Governance Code (the 'QCA Code'), which is specifically designed for small to mid-sized companies with ambitions to grow. The 2018 version of the QCA Code was applicable during FY23 and we complied with all of its requirements (see page 64).

In November 2023, the QCA released an updated version of the Code, which has more emphasis on areas such as risk, internal controls, ESG and remuneration. We have been developing our corporate governance framework since before our IPO in 2021 and while the new QCA Code only applies to the Group from the start of FY25, we already meet many of its new provisions. We are working to address the remaining gaps, with the intention of complying in full by the end of FY24. The Group became a member of the QCA in January 2024, which will support our efforts to further develop our governance.

A strong Board

The directors continue to work well together and our latest evaluation of the Board and its committees produced positive results (see page 69). Between us, we have a good blend of skills, experience and professional backgrounds, which supports our discussions and decision-making.

As discussed in my statement in the strategic report, Dawn Moore stepped down from the Board in June 2023. In considering her replacement, we reviewed the skills and experience on the Board and noted that we had valued Dawn's expertise in human resources, given how important people are to the business. We therefore set out to recruit a successor with a similar skillset, ideally while maintaining the Board's diversity. We were therefore pleased to welcome Sheena Mackay to the Board in September.

Sheena spent three decades in HR, including several global HR director roles in major public companies, which along with her previous plc board experience made her the ideal candidate to chair the nomination and remuneration committees. Below Board level, the appointment of our first Group HR Director has also strengthened the Group's people-management capabilities.

Shortly after the year end, we announced that Chris Day would be leaving the Group in the second quarter of 2024. Chris was progressively moving into the Chief Operating Officer (COO) role and we had already started the process of identifying and recruiting a new Chief Financial Officer. As noted in my statement in the strategic report, we announced Stuart Kilpatrick's appointment as our new CFO on 8 May 2024. We will keep the need for a COO under review.

The nomination committee report on pages 68 and 69 has more information on our director recruitment and succession planning.

Chairman's introduction to corporate governance continued

Reinforcing and overseeing our culture

The Group's culture is a key strength and a credit to our senior management, in particular Shanker Patel. He goes to great lengths to be a visible presence across the business and to make our people feel valued.

The FY22 Board evaluation identified that we wanted a more formalised approach to overseeing the culture. During FY23, the Group engaged consultants to speak to more than 100 colleagues at every level of the business, building on an earlier survey of our managers. This showed that our people enjoy the family feel at Lords and the way they are both empowered to deliver and accountable for doing so.

As we continue to grow, we will have to actively manage and develop our culture, so we remain true to our roots while embracing opportunities. This means we need a clear articulation of the culture we want to have, the values that underpin it and the behaviours that align to those values. We have captured this in our 'cultural blueprint' (see page 42 of the strategic report), which includes a refreshed set of values.

The Group has begun to roll out the values and as they are increasingly embedded in the business, we will have a wider range of ways to monitor and reinforce the culture. For example, the Group's quarterly engagement surveys will include questions to measure awareness and adoption of the values. The values will also be an important part of how the Group manages its people, from recruitment and onboarding to performance and development reviews, as well as how we integrate acquisitions. Culture is now a Board agenda item and we intend to discuss it once per quarter.

Strengthening our risk management and internal controls

In FY23, we continued to work with KPMG on our risk management framework, including maintaining risk registers at divisional and Group levels (see page 55). We will continue to build on this work in FY24. We also further strengthened our internal controls, as described in the audit committee report on pages 70 to 72.

Since the year end, the Board has approved the appointment of BDO to provide internal audit services to the Group (see page 71), including deep dives in key areas.

Priorities for FY24

In the year ahead, the Board's priorities include overseeing a smooth transition of CFO responsibilities to Stuart Kilpatrick, who joins the Group on 4 June 2024. We will also ensure there are plans in place to develop managers throughout the Group, so we have the leadership we will need to support our growth plans.

Gary O'Brien
Chairman
14 May 2024

Compliance with the QCA Corporate Governance Code

The table below sets out where the information required by the QCA Code can be found within this annual report.

Principle 1

Establish a strategy and business model which promote long-term value for shareholders

Purpose	page 7
Business model	pages 14 and 15
Strategy	pages 16 to 20
Challenges to business model and strategy	pages 11 and 12

Principle 2

Seek to understand and meet shareholder needs and expectations

Stakeholder engagement	pages 29 and 30

Principle 3

Take into account wider stakeholder and social responsibilities and their implications for long-term success

Stakeholder engagement	pages 29 and 30
s172 statement	page 31
Sustainability	pages 33 to 52

Principle 4

Embed effective risk management, considering both opportunities and threats, throughout the organisation

Principal risks and uncertainties	pages 55 to 58
Internal controls	page 67
Audit committee report	pages 70 to 72

Principle 5

Maintain the Board as a well-functioning, balanced team led by the chair

Board biographies	pages 60 and 61
Board composition and diversity	page 68
Chairman's introduction	pages 62 and 63
Directors' roles	page 65
Directors' time commitment	page 66
Non-executive director independence	page 66

Principle 6

Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

Board biographies	pages 60 and 61
Nomination committee report	page 68 and 69
Company Secretary and advice for directors	page 66

Principle 7

Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

Nomination committee report	page 68 and 69

Principle 8

Promote a corporate culture that is based on ethical values and behaviours

Our culture and values	page 41
Maintaining an ethical culture	page 44
Chairman's introduction	pages 62 and 63

Principle 9

Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

Corporate governance statement	pages 65 to 67

Principle 10

Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Stakeholder engagement	pages 29 and 30
Audit committee report	pages 70 to 72
Remuneration committee report	pages 73 to 76
Nomination committee report	pages 68 and 69

A statement of compliance with the QCA Code is available from the corporate governance section of the Company's website.

Corporate governance statement

The Board's role

The Board is responsible for the Group's overall management, including formulating and approving the Group's long-term objectives and strategy, approving budgets, overseeing the Group's operations, maintaining sound internal control and risk management systems, and implementing the Group's strategy, policies and plans.

There is a formal schedule of matters reserved for the Board's decision. This encompasses:

- strategy and management;
- structure and capital;
- financial reporting and controls;
- internal controls;
- major contracts and projects;
- communication;
- Board membership and other appointments;
- remuneration of directors and senior management;
- delegation of authority;
- corporate governance matters;
- policies; and
- other matters, including appointment of advisers, litigation and insurance matters.

A full schedule of matters reserved for Board decision is available from the corporate governance section of the Company's website.

The Board also delegates specific responsibilities to senior management. This is governed by a formal policy and a delegated authority matrix.

Board committees

The Board has audit, remuneration and nomination committees, with formally delegated duties and responsibilities. Their composition and work are described in their respective reports on pages 68 to 76

The Board also had a disclosure committee, which it disbanded in March 2023 as the Board as a whole approves disclosure of inside information.

The directors' roles

The directors' respective roles are set out in the following table. The roles of Chairman and CEO are clearly defined and set out in writing. A more detailed description of their responsibilities is available from the corporate governance section of the Company's website.

Role	Key responsibilities
Chairman	• Board oversight. • Ensuring that the whole Board participates in a full and constructive manner to developing and determining the Group's strategy and overall commercial objectives. • Acting as guardian of the Board's decision-making processes.
Chief Executive Officer	• Running the Group's business. • Proposing and developing the Group's strategy and overall commercial objectives, in close consultation with the Chairman and the Board. • With the executive team, implementing the decisions of the Board and its committees.
Chief Financial Officer and Chief Operating Officer	• Supporting the Chief Executive Officer in developing the strategy and objectives. • Managing the Group's financial performance. • Managing the Group's financial resources and liquidity. • Chief Operating Officer for the Group's Merchanting division.
Senior Independent Director	• Acting as a sounding board for the Chairman. • Acting as an alternative line of communication between the Chairman and other directors. • Acting as an alternative line of communication for shareholders as required. • Appraising the Chairman's performance.
Non-executive directors	• Acting as a sounding board for the Chairman and a source of reciprocal feedback for other members of the Board and shareholders, where required.

Corporate governance statement continued

Board and committee meetings

The table below shows attendance at Board and committee meetings during the year.

Only the non-executive directors are members of the Board's committees. Where appropriate, Shanker Patel and Chris Day are invited to attend committee meetings, to provide input and support the committees' discussions.

Director	Board	Audit committee	Remuneration committee	Nomination committee
Gary O'Brien	7/7	4/4	4/4	3/3
Shanker Patel	7/7	—	—	—
Chris Day	7/7	—	—	—
Andrew Harrison	7/7	4/4	4/4	3/3
Sheena Mackay[1]	2/2	1/1	—	1/1
Dawn Moore[2]	4/4	2/3	3/3	1/1

1. Appointed to the Board on 6 September 2023.
2. Stepped down from the Board on 20 June 2023.

Provision of information to the directors

The directors receive appropriate and timely information in advance of Board and committee meetings. A calendar of meetings and the principal matters to be discussed are agreed at the beginning of each year. This enables the authors of documents for the Board and committees to be informed of deadlines for submission.

Board and committee papers and presentations are focused on key issues requiring decisions to be made. Papers are collated by the Board or committee Chair, the Company Secretary and the Chief Financial Officer and Chief Operating Officer. The papers are then compiled into a pack and circulated at least five working days before meetings, allowing time for full consideration.

Management supplies the Board with appropriate and timely information and the directors are free to seek any further information they consider necessary. Committee Chairs report to the Board after each committee meeting and at Board meetings.

Where a director is unable to attend a Board or committee meeting, he or she is provided with all relevant papers and information relating to that meeting and encouraged to discuss issues arising with the respective Chairs and other Board and committee members.

Company Secretary and advice for directors

ONE Advisory Limited is the Company Secretary. The Company Secretary is available to advise all the directors and ensure that the Board's procedures are followed and that applicable rules and regulations are complied with.

The Company also has procedures to enable the directors to obtain independent professional advice, at the Company's expense, if required to enable the directors to fulfil their duties.

Non-executive director independence

Factors that can affect a director's independence include the length of their Board tenure, the size of their shareholding, any prior or current commercial or contractual relationships with the Company or with executive directors, and significant incentive pay arrangements beyond a director's fee.

The Board has considered these issues and confirms that it considers Gary O'Brien, Andrew Harrison and Sheena Mackay to be independent. The Board therefore meets the QCA Code recommendation of having at least two independent non-executive directors.

Directors' time commitment

All the non-executive directors must be able to devote sufficient time to the Group to discharge their duties effectively. This includes preparing for and attending scheduled Board and committee meetings, as well as other meetings or calls as necessary. The Board confirms that all the non-executive directors are able to commit the time required to fulfil their roles.

Any proposed external roles for Board members must be discussed with the Chairman and approved. This is to ensure the individual can still carry out their responsibilities to the Company, in terms of both their time commitment and avoiding conflicts of interest.

Corporate governance statement continued

Service agreements and letters of appointment

The executive directors, Shanker Patel and Chris Day, are appointed to the Board under service agreements dated 14 July 2021. These agreements may be terminated by six months' notice by either side. As previously noted, Chris Day informed the Board in January 2024 that he will be leaving the Group to take on a new role.

The non-executive directors are appointed to the Board under letters of appointment, which were dated 14 July 2021 for Gary O'Brien and Andrew Harrison, and 6 September 2023 for Sheena Mackay. Non-executive appointments run for an initial term of three years from the appointment date and are subject to three months' notice by either side.

Election by shareholders

Under the Company's Articles of Association, one-third of the Board are required to stand for re-election each year. However, the QCA Code recommends that all directors are re-elected on an annual basis and as a result, all the directors will be standing for election or re-election at the 2024 AGM.

Internal controls

The Board is responsible for establishing and maintaining the Company's system of internal financial controls. The audit committee assists the Board in discharging these duties.

Internal financial control systems are designed to meet the Company's particular needs and the risks it faces. Any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The controls in place include strategic planning, approval of annual budgets, regular monitoring of performance against budget (including full investigation of significant variances), control of capital expenditure, compliance matters and ensuring proper accounting records are maintained.

During FY23, the Group implemented improvements to controls, in particular to ensure we accurately accrue for goods received from suppliers but not yet invoiced by them (see the audit committee report on page 70 to 72).

Following this work, the directors have reviewed the effectiveness of the Group's internal controls and consider that they are appropriate to the nature and scale of the Group's operations.

Conflicts of interest

The directors are required to disclose any conflicts of interest at the start of all Board and committee meetings and this is a formal agenda item.

For information on the relationship agreement between the Company, Cavendish Capital Markets and Shanker Patel, see the directors' report on page 77 and 78.

Annual general meeting (AGM)

The AGM provides opportunities for dialogue between the Board and the Company's shareholders. The AGM will be held on 20 June 2024 at the offices of Cavendish Capital Markets, One Bartholomew Close, London, EC1A 7BL. Shareholders can also access the meeting online via the Investor Meet Company platform.

The Notice of Meeting, setting out the resolutions proposed, is contained in a separate document and is available on the Group's website.

Nomination committee report

"In a fast-growing and ambitious business, the Board must have the right balance of skills and capabilities to effectively oversee the strategy. The nomination committee has a key role in ensuring the Group is led effectively."

Sheena Mackay
Nomination committee Chair

Having the right leadership is fundamental to the Group's success, so we established a nomination committee at the start of 2023 to ensure we can devote sufficient focus to Board composition and succession planning. This work had previously been done by the remuneration committee, which has the same membership as the nomination committee and means we are fully aware of the workstreams and overlaps between these two areas.

Committee membership and meetings

All the committee members are independent directors. I became the committee Chair when I joined the Board in September 2023 and the other members are Gary O'Brien and Andrew Harrison. Dawn Moore chaired the committee until she stepped down from the Board in June 2023.

Details of the committee members' attendance at our meetings can be found on page 66. Shanker Patel also attends our meetings by invitation.

The committee's role

Our role is described in detail in our terms of reference, which are available on the corporate governance section of the Company's website.

In summary, our key responsibilities are to:

- regularly review the Board's structure, size and composition, including skills, knowledge, experience and diversity;
- consider succession planning for directors and other senior executives, including the skills and expertise the Board will need in the future;
- identify and nominate candidates when Board vacancies arise, taking into account the skills, knowledge, experience and diversity on the Board;
- review the results of the Board performance evaluation process related to the Board's composition; and
- make recommendations on re-appointing non-executive directors at the end of their term and for the annual re-election of directors by shareholders.

Board composition and diversity

The Board reviewed its composition during the year and included a question on this topic in the evaluation questionnaires. We concluded that the Board is currently the right size for this stage of the Group's development and that our skill base is strong across most of the areas we require.

The Board does not have a formal diversity policy or targets. Our diversity was unchanged in 2023, with one female director and one from an ethnic background. The Board is very aware of the importance of diversity and the benefits of differing experiences and perspectives. We fully consider diversity as part of appointments to the Board, as discussed below.

Succession planning

The committee discussed succession planning at Board level and received a presentation from the Group HR Director about succession planning at an operational level. This included looking at the Group's talent, capability and the relative strengths and weaknesses in the various functions and operations. This work is particularly important as it enables us to identify people who can take bigger roles as the Group grows, understand the training and development they need, and potentially bring people through who could fill executive positions in the future.

Nomination committee report continued

Director recruitment and induction

When considering appointments to the Board, our terms of reference require us to:

- consider candidates from a wide range of backgrounds;
- take account of the benefits of diversity on the Board, including gender, ethnicity and socioeconomic background; and
- assess candidates on merit and against objective criteria.

The Chairman has discussed my appointment to the Board in his introduction on page 62. I had a thorough induction, which included visits to several branches in both divisions. This allowed me to see first-hand how the business works, understand people's roles, talk to them about some of the challenges they face and get an insight into the Group's culture. Shanker Patel and Chris Day accompanied me on some visits, enabling me to get to know the executive directors. I also met the heads of key functions, such as finance, HR, marketing and procurement, as well as the Company's advisers. The timing of my induction was particularly useful, as I had already been out in the business ahead of my first Board meeting.

As committee Chair, I have been heavily involved in our search for a new CFO. In addition to seeking a candidate with a strong financial background, we want the CFO to be an effective partner for Shanker Patel during the next phase of the Group's growth.

This means recruiting someone who can act as a trusted counsel for Shanker, debate strategic matters and help ensure we are delivering against our strategic plan.

Having conducted a competitive process, we selected Bailey Montagu as the search firm. It has been involved in several senior recruitments for Lords Group, including my own, and therefore knows the firm well. We received a good list of diverse candidates and following a thorough interview process, recommended Stuart Kilpatrick's appointment to the Board.

Stuart is highly qualified for the role, having led the finance function at large public and private companies across a range of industries. His extensive experience includes both AIM-traded businesses and M&A, making him well placed to support our growth strategy. He will join the Board in June 2024, with Chris Day stepping down in May. In the interim, the Group's strong and established finance team will ensure a smooth transition.

Board effectiveness

The FY22 Board evaluation identified two areas for the Board to address, as shown below:

Matters identified	Action in FY23
Additional training for the directors, to ensure they remain current with developments in corporate governance and stakeholder views.	The Company Secretary provided training on the Market Abuse Regulation, the QCA Code and other statutory reporting requirements. We will build on this to provide additional training in 2024, reflecting the responses to the 2023 evaluation.
Consider a more systematic approach to monitoring and overseeing the Group's culture.	We have done considerable work on culture, as explained in the Chairman's introduction on page 63.

This year, we completed our second evaluation of the Board and the committees. This process was completed internally, with the Chairman working with the Company Secretary to develop a set of online questionnaires. The evaluation focused on Board composition, responsibilities, culture, quality of information and individual performance.

The Company Secretary collated the responses, and the Chairman presented the results to the Board. The evaluation showed that the Board and the committees ranked in the top quartile for their performance. The responses identified continuous professional development as an area for improvement and we will focus on this in 2024.

FY24 priorities

In addition to recruiting and inducting a new CFO, in 2024 the committee will focus on overall Board succession planning and reviewing our policies, to ensure all areas are appropriately documented.

Sheena Mackay
Nomination committee Chair

14 May 2024

Audit committee report

"The committee has continued to focus on embedding the Group's risk management framework and the effectiveness of the internal controls. These will remain our priorities in the year ahead."

Gary O'Brien
Audit committee Chair

I am pleased to present the audit committee report for FY23. The committee plays an important part in the Group's governance, through its focus on the integrity of financial reporting and the quality and effectiveness of external audit, risk management and the system of internal control.

Committee membership

All the committee members are independent non-executive directors. I chair the committee and its other members are Andrew Harrison and Sheena Mackay. The Company Secretary acts as secretary to the committee.

I am considered to have recent and relevant financial experience, given my background as the finance director of public companies. The other committee members also bring valuable experience and perspectives to our work. Andrew Harrison has deep knowledge of the industry and the control environment that is necessary to operate successfully in our sector. Sheena Mackay has senior management experience in major public companies, giving her insight into how successful businesses operate and the issues they face.

The committee's role

The committee's responsibilities include:

- monitoring the integrity of the Group's financial statements, including its annual and half-yearly reports and any other formal statements relating to its financial performance;
- reviewing significant financial reporting issues and judgements;
- reviewing and challenging accounting policies;
- reviewing the effectiveness of the Group's internal control and risk management systems;
- overseeing the relationship with the external auditor, including advising on its appointment, agreeing the scope of the audit and reviewing the audit findings;
- reviewing the adequacy and security of whistleblowing arrangements and ensuring proportionate and independent investigation of any matters; and
- considering at least annually the need for an internal audit function.

A full list of the committee's responsibilities can be found in its terms of reference, which are available from the corporate governance section of the website.

Committee meetings

The committee meets at least three times a year, at appropriate intervals in the financial reporting and audit cycle. Attendance at the committee's meetings can be found on page 66.

In addition to the committee members, Chris Day and the Group Financial Controller attended meetings at the committee's invitation during the year. We also meet the Group's external auditor to discuss the scope and findings from the audit, as well as meeting the lead audit partner without management being present.

Key activities in FY23

In last year's report, we identified two priorities for 2023. These were to oversee the effective implementation of our work on risk and to review Plumbing and Heating's project to upgrade its ERP platform.

As part of the Group's work on risk management, we drafted an Enterprise Risk Management (ERM) framework and ERM policy, which the Board approved at its meeting in March 2023. The audit committee has responsibility for ongoing oversight of the ERM framework and ERM policy.

The P&H division has progressed its ERP implementation and this is now expected to be finalised in Q2 of 2024. Information on the benefits of the new system can be found in the P&H operating review on page 27.

Audit committee report continued

Internal controls and internal audit

In our FY22 annual report, the Board communicated the need to continuously improve its financial reporting and the effectiveness of the internal control processes across the Group. I'm pleased to report that we've made good progress in all areas of our control environment, with a number of initiatives delivered by our CFO and wider finance function. Whilst recognising the progress, we also embrace a journey of continuous improvement over the coming years to further enhance controls and reporting effectiveness.

During FY23, management has taken the following actions to strengthen the Group's controls in this area:

- engaging KPMG to help us test and redefine our divisional and Group balance sheet reconciliation process;
- strengthening the divisional finance functions, with a new finance director in P&H and new financial controllers in both divisions;
- employing a Group balance sheet accountant, who signs off the divisional balance sheets each month, along with the divisional financial controllers; and
- simplifying the Group's structure to reduce the number of entities. This included integrating the Hevey Building Supplies, Chiltern Timber Supplies and Alloway Timber businesses into Carboclass Limited, which is one of the Group's main subsidiaries. This reduced the number of control environments and processes within the Group, with these businesses now on the same ERP system.

In addition, we have reinforced our controls to prevent customers from being extended credit that exceeds the Group's insurance coverage, with these changes being reflected in our accounting procedures manual.

The audit committee discussed the need for an internal audit function during the year and concluded that given the Group's increasing scale, it would benefit from this capability. In January 2024, the Board approved the committee's recommendation to appoint BDO to provide these services. In addition to routine assessments of the Group's internal control framework, BDO will carry out 'deep dives' on areas of specific interest to the committee and the Board, starting with inventory.

Financial Reporting Council review

During 2023, the Financial Reporting Council reviewed the Group's 2022 annual report and accounts. The review raised two points, which are discussed below.

Purchase of non-controlling interest

In FY22, the Group acquired the remaining 25% non-controlling interest in Hevey Building Supplies Limited for £6.2 million, of which £2.5 million was payable on completion of the transaction. This payment was classified as a cash flow from investing activities in the consolidated statement of cash flows, which is the typical treatment when acquiring a business.

However, as there was no change of control in Hevey resulting from the transaction, the payment should have been classified as a financing activity. We have therefore restated the FY22 cash flow to reflect this, as described in note 3.3 on page 101. This is purely a classification issue and has no impact on the Group's cash position or financial results.

Supplier rebates

The Group accrues for rebates due from its suppliers at the year end. At 31 December 2022, the financial statements included £7.36 million of rebates due from suppliers, within other debtors.

The audit committee report in the 2022 annual report identified accounting for supplier rebates as an area of complexity and uncertainty. The annual report also included supplier rebates and management as part of a principal risk. However, the report did not list accounting for supplier rebates in the key accounting estimates and assumptions in note 3.2 to the financial statements.

Having reviewed the Group's controls over the management of supplier rebates, and the fact that £6.22 million of the £7.36 million of rebates outstanding had been settled by the audit sign-off for the 2022 accounts, the Board was satisfied that supplier rebates are not a key accounting estimate. As a result, we have not included supplier rebates as an area of complexity or uncertainty in this report, or as part of the principal risk related to suppliers.

Financial reporting and significant judgements

One of the committee's key responsibilities is to consider the significant areas of complexity, judgement and estimation that have been applied in preparing the financial statements for the year under review.

For FY23, the key areas were as follows:

Inventory

Inventory is a significant asset for the Group, representing £49.3 million of the Group's total assets of £264.5 million at 31 December 2023. Calculating inventory provisions, to ensure stock is held at the lower of cost and net realisable value, involves significant estimation and judgement, including consideration of expected future losses on the sale of inventory and any inventory obsolescence. In 2023 the Group reassessed its estimation basis for inventory provisioning to better identify and account for ageing stock, resulting in a higher level of inventory provision. In addition, due to the number of locations which hold inventory, there is a risk of a mismatch between physical stock and the Group's stock records.

Audit committee report continued

Financial reporting and significant judgements continued

Business combinations

The Group completed two acquisitions during the year. Assigning fair values to the separately identifiable intangible assets at the acquisition date requires a significant degree of management estimation and judgement.

Impairment review

In light of the more difficult trading conditions experienced in FY23, there continue to be indicators of a potential risk of impairment. The committee has focused on the carrying value of the Group's tangible and intangible assets, including goodwill and right-of-use-assets, and ensuring they are appropriately tested for any impairment. In order to eliminate the judgement in assessing the indicators of impairment for assets other than goodwill, impairment reviews were conducted for all branch-level cash-generating units. The reviews involve significant levels of management estimations and judgements surrounding discount and growth rates applied to the cash-generating units, and focus was placed on considering the sensitivity of the outcome of impairment testing to the use of different assumptions.

The committee's conclusions

We discussed the areas outlined above with management and with the auditor. In considering the treatment of these items, we also took into account, where necessary, advice from internal and external advisers, common practice within the industry and its knowledge of the business. We concluded that the treatment of these items was appropriate.

External auditor

The Group appointed RSM as external auditor in 2021. The auditor typically attends three of our committee meetings during the year, so we can discuss:

- its findings from its review of the Group's interim results;
- the audit plan for the full-year results, including the overall planning materiality and the auditor's assessment of the audit risks; and
- its findings from the audit.

Following the delay in completing the audit of the 2022 financial statements, the committee was keen to ensure more regular communication with the auditor during the course of the audit. I have therefore held calls with the audit partner every two weeks during the audit of the 2023 financial statements.

As part of the committee's formal meetings with the auditor, we receive a report from it that formally confirms its independence, which we can challenge if necessary. While we do not have a written policy regarding the auditor providing non-audit services and can consider any proposed work on a case-by-case basis, in practice we do not ask RSM to tender for other consultancy projects. RSM's only non-audit work for the Group during the year was its review of our interim report and financial statements. We are therefore satisfied that the auditor remains independent.

Priorities for FY24

Our priorities for 2024 are to oversee the continued embedding of the Group's risk framework and to begin the internal audit deep dives.

Gary O'Brien
Audit committee Chair

14 May 2024

Remuneration committee report

"We recognise the importance of carefully designing remuneration packages to incentivise performance and reward long-term value creation. We will continue to review our approach to pay in 2024, to ensure it achieves our objectives."

Sheena Mackay
Remuneration committee Chair

Annual statement

I joined Lords Group in September 2023 and am delighted to present this remuneration report for 2023. I would like to thank Dawn Moore, who stepped down in June 2023, for chairing the committee and the good progress that was made during her time with the Group.

While we are not required to report in the same depth as a company listed on the Main Market, we believe it is important to be transparent about our remuneration arrangements and the principles underlying them. We therefore follow the QCA Remuneration Committee Guide. We are also aware of the increased focus on remuneration reporting in the 2023 QCA Code and will look to take the new requirements into account in our 2024 annual report.

Committee membership and meetings

I am the committee Chair, and the other members are Gary O'Brien and Andrew Harrison.

Details of the committee members' attendance at our meetings can be found on page 66. The executive directors attend our meetings by invitation but are not involved in any discussion regarding their own pay. Similarly, none of the non-executive directors are involved in determining their own fees.

The committee's role

The committee's responsibilities include determining, and agreeing with the Board, the remuneration framework for all the directors and other designated senior management and ensuring that remuneration packages for any new appointments are appropriate and objective.

Remuneration policy

The committee's policy is to ensure that executive directors and senior management are rewarded for their individual contributions to the Company's overall performance, and to provide them with a fair and competitive remuneration package (including long-term incentive plans) to attract, retain and motivate individuals with the experience and competence required to ensure that the Group is managed effectively and successfully having regard to the interests of shareholders. The committee will review this policy from time to time and take whatever action it considers necessary to ensure that remuneration is aligned with the Group's overall strategic objectives.

Our remuneration objectives

We aim to design executive remuneration packages that:

- are appropriate to our business, with an appropriate mix of annual bonus and longer-term structures that support stretching performance, ongoing motivation and retention;
- reward performance against our business plan;
- are aligned to the business strategy;
- are cost effective in delivery;
- are well communicated and relevant; and
- are simple, inclusive and transparent.

Advisers to the remuneration committee

The committee receives support and information from the executive directors and the Group Human Resources Director and is also authorised to obtain outside professional advice and expertise as needed. As noted on the following page, Korn Ferry provided benchmarking services during the year but the committee does not have a retained remuneration adviser.

Remuneration committee report continued

Our key activities in FY23

In our 2022 report, we set out the following priorities for the committee in 2023:

Ensuring that remuneration packages remain competitive and aligned to our principles

We engaged Korn Ferry to benchmark our executive remuneration packages and compared the non-executive directors' fees to those in similar companies. This showed that our executive and non-executive compensation was competitive in the main, and highlighted that Shanker Patel does not currently participate in a long-term incentive plan.

While the committee is not responsible for determining pay for the wider workforce, we do monitor remuneration across the Group and provide guidance as necessary. The Group is currently introducing a grading structure which allows for comparative sizing of roles and associated remuneration packages, enabling effective benchmarking in support of our desire for motivational, transparent and competitive pay structures. This project will be ongoing in 2024.

Aligning incentive payments to appropriate ESG criteria

The criteria for the 2023 annual bonus included delivering a net zero roadmap with clearly defined milestones and deliverables over short, medium and long-term horizons.

Reviewing all incentive plans, including for the wider workforce

We want to ensure there is a suitable balance between short and medium-term reward, aligned to the business objectives, and we want the whole workforce to share in the Group's success.

During 2023, the Company awarded nil cost share options to divisional executives, with performance targets related to their specific business units. This is designed to ensure that the Group's senior employees are all aligned with its success in the medium and long term.

All colleagues take part in an annual bonus scheme linked to their branch or division's EBITDA and safety performance. The scheme is based on trigger, target and stretch criteria, which incrementally increases rewards for beating last year, achieving budget and exceeding budget.

Ensuring the committee's activities align effectively with the new nomination committee

The nomination and remuneration committees have the same membership, ensuring we are fully aware of the activities and decisions of both.

Remuneration outcomes for FY23

In determining remuneration outcomes for the year, the committee took into account the Group's financial and operational performance and the remuneration principles outlined above.

This resulted in 9% achievement in respect of the 2023 performance-related bonus for the CEO (£32,000) and the CFO (£19,000). The CEO did not accept the amount achieved but determined that this amount would be invested in training and development for employees.

Our priorities for 2024

For 2024, our priorities will be to:

- review the directors' remuneration policy and consider the need to set out the Group's approach in specific areas, such as recruitment, shareholding guidelines and pensions; and
- oversee the completion of the management role grading exercise and remuneration benchmarking.

Executive directors' remuneration

The details of individual components of the remuneration package are discussed below:

Salary

The base salaries of the executive directors are set at levels considered to be appropriate when they enter into service agreements with the Company. The base salaries are reviewed by the remuneration committee annually and any increases are awarded having regard to performance and salary levels in comparable organisations, along with those of the wider workforce.

Benefits in kind

A range of taxable benefits are available to the executive directors. These benefits primarily comprise private healthcare, life assurance and the provision of a car or car allowance.

Performance-related bonuses

The Company operates bonus arrangements for the executive directors, with the primary measures being the achievement of financial targets and personal performance.

Deferred Bonus Plan

The Group operates a Deferred Bonus Plan, under which certain directors and senior management have been granted options to subscribe for ordinary shares. All options were equity settled. The options are subject to service and performance conditions.

Pension contributions

The Company makes contributions into personal pension schemes, or makes payments in lieu of contributions, of 10% of basic salary for the executive directors.

Remuneration of non-executive directors

The remuneration of non-executive directors is reviewed annually in December and becomes effective on 1 January. Their level of remuneration is based on outside advice and a review of current practices in other companies. The fee is approved by the Board, mindful of the time commitment and responsibilities of their roles and of current market rates for comparable organisations and appointments. The Chairman and non-executive directors are reimbursed for travelling and other minor expenses incurred.

Remuneration committee report continued

Directors' contracts

Information on the executive directors' service agreements and the non-executive directors' appointment letters can be found on page 67.

Directors' emoluments

	Salary / fee		Bonus		Benefits		Remuneration for qualifying services		Pension benefit		Gain on share options exercised		Total	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Shanker Patel	**428**	400	**—**	305	**8**	8	**436**	713	**39**	—	**—**	—	**475**	713
Chris Day	**263**	213	**19**	150	**8**	8	**290**	371	**24**	15	**—**	2,083	**314**	2,469
Gary O'Brien	**94**	85	**—**	—	**—**	—	**94**	85	**—**	—	**—**	—	**94**	85
Andrew Harrison	**59**	45	**—**	—	**—**	—	**59**	45	**—**	—	**—**	—	**59**	45
Sheena Mackay[1]	**17**	—	**—**	—	**—**	—	**17**	—	**—**	—	**—**	—	**17**	—
Dawn Moore[2]	**25**	45	**—**	—	**—**	—	**25**	45	**—**	—	**—**	—	**25**	45
	886	788	**19**	455	**16**	16	**921**	1,259	**63**	15	**—**	2,083	**984**	3,357

1. Appointed to the Board on 6 September 2023.
2. Stepped down from the Board on 20 June 2023.

Directors' interest in shares under the Long-Term Incentive Plan

Director	Number at 1 January 2023	Awarded in year	Exercised in year	Lapsed in year	Number at 31 December 2023	Date of grant
Chris Day[1]	2,355,755	—	—	(2,355,755)	—	27/06/2019
Chris Day[2]	2,105	—	—	—	2,105	20/09/2021
Chris Day[3]	13,158	—	—	—	13,158	01/10/2021
Chris Day[4]	238,950	—	—	—	238,950	30/06/2022
Chris Day[5]	—	276,073	—	—	276,073	20/09/2023
	2,609,968	**276,073**	**—**	**(2,355,755)**	**530,286**	

1. 2016 Company Share Option Plan.
2. 2021 Share Incentive Plan.
3. 2021 Deferred Bonus Plan.
4. 2022 Long-Term Incentive Plan.
5. 2023 Long-Term Incentive Plan

Remuneration committee report continued

2016 Company Share Option Plan (CSOP)

All options have an exercise price of £0.005. The CSOP performance measures target Group EBITDA growth, as reported in the Company's audited financial statements, in the five-year period commencing from the vesting commencement date and running to 31 December 2021. All the executive director options under the CSOP vested on 28 June 2022.

2021 Share Incentive Plan

On listing on AIM, all employees with over six months' service were awarded 2,105 options. All options vest automatically at no cost to the employee on 30 September 2024, as long as they are still employed by the Group. The options must be exercised before 30 September 2031.

2021 Deferred Bonus Plan

The Group issued a deferred bonus plan to certain key management personnel. Under the 2021 Deferred Bonus Plan, options vest automatically at no cost to the employee on 30 January 2024, as long as they are still employed by the Group. The options must be exercised before 1 October 2031.

2022 Long-Term Incentive Plan

The options vest from 1 April 2025 subject to continued service and achieving certain market and non-market conditions relating to earnings per share and total shareholder return.

2023 Long-Term Incentive Plan

The performance targets attached to the 2023 LTIP awards are based on the EBITDA of the awardee's respective division achieving a minimum growth rate over a three-year performance period to 31 December 2025. For the awards issued in September 2023, the performance conditions are based on adjusted earnings per share and total shareholder return, over the three-year performance period to 31 December 2025. Subject to the conditions being met, 50% of the LTIP awards vest after three years, with a further 25% vesting after four years and five years respectively.

Directors' interests in the Company's shares

At 31 December 2023, the directors had the following interests in the Company's shares:

Director	Number of shares
Shanker Patel[1]	53,821,386
Chris Day	1,695,177
Gary O'Brien[2]	229,442
Andrew Harrison	283,679
Sheena Mackay	—

1. Includes ordinary shares held by his related trust and children.
2. On 8 July 2021, Gary O'Brien entered into an agreement to transfer the ordinary shares he acquired at admission to trading on AIM to his Small Self Administered Scheme (SSAS) at the placing price. Gary remains the beneficial owner.

Sheena Mackay
Remuneration committee Chair

14 May 2024

Directors' report

Principal activity

The Company is incorporated and registered in England and Wales, with registered number 11633708. Its shares are traded on the Alternative Investment Market of the London Stock Exchange.

The Company is the ultimate holding company of the Group. The Group's principal activities are described in the strategic report on pages 14 to 28.

Statutory information contained elsewhere in the annual report

Information required to be part of this directors' report can be found elsewhere in the annual report and is incorporated into this report by reference, as indicated below:

- financial results and dividends, pages 53 and 54;
- future developments, page 11;
- carbon reporting disclosures, page 37 to 39;
- corporate governance statement, pages 65 to 67;
- directors' names and biographies, pages 60 and 61;
- directors' interests in shares, page 76;
- engagement with suppliers, customers and others with business relationships with the Company and impact on key decisions made in the year, pages 29 and 30 and page 32;
- engagement and communication with employees and consideration of employee interests in decision making, pages 29 to 30, page 32 and pages 41 to 45,
- share incentive plan, page 76;
- financial risk management, including credit, interest rate, foreign exchange and liquidity risks, page 58;
- financial instruments, note 36, pages 120 to 122;
- share capital, note 30, page 116;
- events subsequent to the year-end date, note 40, page 125; and
- annual general meeting, page 67.

Qualifying third-party indemnity provisions

The Company had qualifying third-party indemnity provisions for the benefit of its directors during the period. These provisions remain in force at the date of signing these financial statements.

Restrictions on transfer of securities in the Company

The Company's shares were admitted to trading on AIM on 20 July 2021. Certain individuals who were shareholders in the Company prior to the IPO agreed not to sell, transfer or dispose of any shares held at admission for twelve months following admission and to only dispose of shares through Cavendish Capital Markets for twelve months from the first anniversary of admission. Shanker Patel undertook not to sell, transfer or dispose of any shares he held at admission for a period of 18 months following admission.

These restrictions came to an end during 2023. As a result, there are now no restrictions on transfer of securities in the Company.

Voting rights and securities carrying special rights

The holders of ordinary shares are entitled to one vote per share at the Company's general meetings.

No person holds securities in the Company carrying special rights with regard to control of the Company.

Change of control

The Company is not aware of any person who directly owns or controls the Company, or of any arrangements whose operations may give rise to a change in control of the Company. As described in the Company's admission document, there is a concert party of founding shareholders, who owned 51.1% of the Company's shares as at 1 May 2024. The concert party is therefore considered the Company's ultimate controlling party, for the purposes of IAS 24: Related Party Disclosures.

Substantial shareholdings

Based on the share register analysis as at 31 December 2023, and as far as the Company is aware, the following represents interests in excess of 3% of its ordinary share capital:

Shareholder	Investment style	Shares	%
Mr Shanker Patel (UK)	—	53,821,386	32.50
Mr Allan Pierce (UK)	—	17,890,860	10.81
Premier Miton Investors (London)	Multi style	15,454,999	9.34
Mr Rajen Patel (UK)	—	15,204,540	9.19
Mr Nilesh Patel (UK)	—	15,204,540	9.19
Charles Stanley (London)	Private client broker	11,746,813	7.10
Schroder Investment Mgt (London)	Growth	8,320,500	5.03
Slater Investments (London)	Multi style	7,050,000	4.26
Hargreaves Lansdown Asset Mgt (Bristol)	Private client broker	6,995,025	4.23

Directors' report continued

Relationship agreement

On 14 July 2021, the Company, Cenkos (now Cavendish Capital Markets) and Shanker Patel entered into a relationship agreement pursuant to which Mr Patel has undertaken that, inter alia, the Group and the business shall be managed for the benefit of the shareholders as a whole and independently of him and his associates, and all transactions, agreements and arrangements between any member of the Group and him and his associates shall be on an arm's length basis and on normal commercial terms.

Mr Patel and his associates will also, inter alia:

(a) exercise their respective voting rights to ensure that the independence of the Board is maintained; and

(b) not exercise their voting rights in favour of any resolution to cancel the Company's admission to trading on AIM.

Mr Patel has also undertaken to the Company and Cavendish Capital Markets that he shall and, in relation to his associates, shall procure (so far as he is reasonably able to do so) that each of his associates shall ensure that no contract or arrangement between the Company or any member of the Group and Mr Patel or (so far as he is able) his associates shall be entered into or varied after admission unless it has been approved by a majority of the independent directors and (if Mr Patel is a director at such time) he shall abstain from voting on any resolution of the Board relating to any such contract or arrangement.

The agreement will terminate automatically upon:

(a) the ordinary shares ceasing to be traded on AIM; or

(b) Mr Patel, together with his associates, ceasing to have, in aggregate, an interest in 20% or more of the voting rights attaching to the Company's ordinary shares.

Policy on employment of disabled people

The Group is an equal opportunities employer and its policies for the recruitment, training, career development and promotion of employees are based on the relevant merits and abilities of the individuals concerned. It recognises its responsibilities towards disabled people and gives full and fair consideration to applications for employment from them, having regard to their aptitudes and abilities. So far as particular disabilities permit, the Group will continue to employ and arrange appropriate training for any existing employee who becomes disabled. The Group's policy is that the training, career development and promotion of disabled persons should as far as possible be identical to that of other employees.

Political donations

The Company made no political donations during the year.

Auditor

RSM UK Audit LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint it will be proposed at the forthcoming AGM.

Going concern

After making enquiries and as more fully explained in the going concern review on page 92, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Disclosure of information to the auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware; and
- the director has taken all the steps that he / she ought to have taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

Approval

This directors' report was approved on behalf of the Board on 14 May 2024.

Chris Day
Chief Financial Officer and Chief Operating Officer

14 May 2024

Directors' responsibilities statement

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. The directors have elected under company law and are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with UK-adopted International Accounting Standards and have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The Group financial statements are required by law and UK-adopted International Accounting Standards to present fairly the financial position and performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing each of the Group and Company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and accounting estimates that are reasonable and prudent;
c. for the Group financial statements, state whether they have been prepared in accordance with UK-adopted International Accounting Standards;
d. for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
e. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Lords Group Trading plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Gary O'Brien
Independent Non-Executive Chairman

14 May 2024

Financial Statements

What's in this section?

Independent auditor's report to the members of Lords Group Trading plc

Opinion

We have audited the financial statements of Lords Group Trading plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2023 which comprise consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company statement of financial position, company statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted International Accounting Standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	**Group** • Valuation of inventory. • Supplier rebates. • Goodwill impairment. **Parent company** • None.
Materiality	**Group** • Overall materiality: £925,000 (2022: £961,000). • Performance materiality: £601,000 (2022: £720,000). **Parent company** • Overall materiality: £915,000 (2022: £950,000). • Performance materiality: £594,000 (2022: £712,000).
Scope	Our audit procedures covered 94% of revenue, 97% of total assets and 81% of adjusted EBITDA.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of Lords Group Trading plc continued

Key audit matters continued

Valuation of inventory

Key audit matter description

At 31 December 2023, the Group Consolidated statement of financial position records inventory of £49.3 million (2022: £53.2 million). This amount is net of an inventory provision of £2.5 million (2022: £2.0 million).

As described in note 3 to the financial statements, the Group carries significant levels of inventory and key judgements are made by management in estimating the level of provisioning required for slow-moving inventory. Provision estimates are forward looking and are formed using a combination of factors including historical experience, management's knowledge of the industry, group discounting and sales pricing.

There is significant estimation involved in the calculation of inventory provisions to ensure that inventory is held at the lower of cost and net realisable value. This involves consideration of information relating to when sales were last made in relation to each item of inventory held and also when purchases were last made.

The cost of inventory, pre any provision, is determined on the first-in, first-out (FIFO) method. Inventory values are also reduced by the amount of supplier rebates receivable in proportion to the value of purchases still in inventory to total purchases.

Due to the factors explained above, as well as the fact this area of work took up a significant amount of audit resource, we have identified the valuation of inventory as a key audit matter.

How the matter was addressed in the audit

In respect of inventory valuation we:

- assessed the appropriateness of management's inventory provision calculations, including testing the accuracy and completeness of the data used and the mathematical accuracy of the provisioning model;
- critically challenged the assumptions made in the inventory provision models based on sales post year end, using data analytics techniques, and other data available;
- critically challenged the appropriateness of the assumptions applied in the change in estimate in the Merchanting segment;
- performed substantive testing in respect of the cost of inventory by verifying to a sample of stock items to purchase invoices;
- in respect of rebates held against inventory at the year end, we recalculated the adjustments made by management for the total rebates held in stock based on the average rebates received across the year and included in cost of sales or verified to a sample of underlying agreements where appropriate;
- assessed the accuracy of the prior year inventory provision estimate for the largest component in the group; and
- assessed the disclosures in the financial statements to ensure appropriate disclosure of the judgements and estimates involved in the group's inventory provisioning.

Independent auditor's report to the members of Lords Group Trading plc continued

Key audit matters continued

Accounting for supplier rebates

Key audit matter description

The group accrues for rebates due from its suppliers at the period end. At 31 December 2023, the Group Consolidated statement of financial position records supplier rebates of £8.3 million (2022: £7.4 million).

As described in note 2 to the financial statements, rebates received from suppliers for the purchase of inventory are netted off against purchases. Rebates are accrued in accordance with rebate agreements and recognised in the period to which they relate. Inventory values are reduced by the amount of rebates receivable in proportion to the value of purchases still in inventory to total purchases. The remainder of the rebate is released to and reduces cost of sales.

Management must assess the value of the rebates which are yet to be received at the year end. This can be complex to calculate given the number of agreements and suppliers the group have in place. They also can significantly impact one of the group's primary measures for assessing performance, adjusted EBITDA.

Due to the factors explained above, we have identified accounting for supplier rebates as a key audit matter.

How the matter was addressed in the audit

In respect of supplier rebate accruals, we:

- obtained confirmations from a sample of suppliers of the year end balances recognised. Variances were followed up and corroborated as required;
- examined supplier rebate agreements and determined whether rebates have been recognised in line with these for a sample of suppliers; and
- verified a sample of rebates accrued for to post year end credit notes from suppliers.

In addition, we performed work over rebates netted off against inventory as set out in the Valuation of inventory section above.

Goodwill impairment

Key audit matter description

As at 31 December 2023, the group has goodwill of £46.2 million (2022: £45.3 million). We identified the carrying value of goodwill as a significant assessed risk of material misstatement due to the level of estimation required in forecasting profitability levels supporting the goodwill of the cash-generating units (CGUs).

Under International Accounting Standard (IAS) 36 'Impairment of Assets', management is required to test goodwill annually for impairment. Determining whether the carrying value of goodwill is recoverable is a significant judgement based on forecast cash flows, relying on several key assumptions including sales growth, EBITDA growth and appropriate discount rates for each CGU.

Due to the factors explained above, we have identified the impairment of goodwill as one of the most significant matters in the Group audit and it is therefore considered to be a key audit matter.

How the matter was addressed in the audit

We challenged the significant assumptions within management's models through:

- critically challenging whether the assumptions in management's forecasts appear realistic, achievable, and consistent with other internal and external evidence, including market and industry data;
- assessing whether management's calculations, including the methodology upon which they are based, have been made in accordance with IAS 36 'Impairment of Assets';
- testing whether the assumptions applied in management's forecasts were consistent with those applied elsewhere in the financial statements, such as for going concern;
- comparing forecast sales and EBITDA with recent historical information to assess whether they are consistent with those assumed in management's forecasts;
- comparing the discount rate used with that independently calculated by our internal valuation expert;
- challenging management's sensitivity analysis and performing our own analysis based on further sensitising of the models to take account of reasonably possible scenarios that could arise from the risks identified; and
- critically evaluating the appropriateness of the disclosures made, including in respect of the key source of estimation uncertainty and sensitivity analysis.

We assessed whether the disclosures within the financial statements comply with the requirements of IAS 36.

Independent auditor’s report to the members of Lords Group Trading plc continued

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users, we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£925,000 (2022: £961,000)	£915,000 (2022: £950,000)
Basis for determining overall materiality	3.5% of adjusted EBITDA	4.3% of net assets (capped at overall group materiality)
Rationale for benchmark applied	Adjusted EBITDA is a key performance indicator reported in the consolidated financial statements.	The parent company does not trade and therefore net assets is considered to be the most appropriate benchmark.
Performance materiality	£601,000 (2022: £720,000)	£594,000 (2022: £712,000)
Basis for determining performance materiality	65% of overall materiality	65% of overall materiality
Reporting of misstatements to the audit committee	Misstatements in excess of £46,200 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £45,700 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of eight components, all of which are based in the UK.

	Number of components	Revenue	Total assets	Adjusted EBITDA
Full scope audit	5	90%	94%	81%
Specific audit procedures	1	4%	3%	0%
Total	**6**	**94%**	**97%**	**81%**

Analytical procedures at group level were performed for the remaining two components.

Of the above, full scope audits for one component were undertaken by component auditors.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors’ assessment of the group’s and parent company’s ability to continue to adopt the going concern basis of accounting included:

- assessing the forward-looking assumptions used by management in their assessment of going concern and challenging these based on current year financial performance and expected growth and other changes expected in the industry in which the group operates;
- considering the adequacy of management’s sensitivity analysis;
- checking the integrity and mechanism of the forecast model provided by management;
- obtaining evidence of Board approval of the budgets and forecasts;
- obtaining evidence of the extension of the Group’s financing arrangement post year end;
- re-calculating management’s covenant calculations to assess the risk of forecast non-compliance; and
- evaluating the adequacy of going concern related disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group’s or the parent company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditor's report to the members of Lords Group Trading plc continued

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 79, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

Independent auditor’s report to the members of Lords Group Trading plc continued

The extent to which the audit was considered capable of detecting irregularities, including fraud continued

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team and component auditors:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operate in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud; and
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

All relevant laws and regulations identified at a group level and areas susceptible to fraud that could have a material effect on the financial statements were communicated to component auditors. Any instances of non-compliance with laws and regulations identified and communicated by a component auditor were considered in our audit approach.

The most significant laws and regulations were determined as follows:

Legislation / regulation	Additional audit procedures performed by the Group audit engagement team and component auditors included:
Tax compliance regulations	Inspection of tax computations from external tax advisers.
UK-adopted IAS, FRS 102 and Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation. Completion of disclosure checklists to identify areas of non-compliance.

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Revenue recognition	Obtaining an understanding of the processes and controls around revenue recognition. Transactions posted to nominal ledger codes outside of the normal revenue cycle were identified using a data analytic tool and investigated.
Inventory existence and valuation	Attending year-end stock takes for a sample of branches. The results of these stock takes were reconciled to year-end stock listings. Performing work in respect of inventory provisions and inventory cost as set out in the key audit matters section above.
Supplier rebate accruals	Performing work in respect of supplier rebates not received at 31 December 2023 as set out in the key audit matters section above.
Goods received not invoiced (GRNI) accruals	Testing transactions either side of the year end to confirm the completeness of the GRNI accrual. Testing a sample of items included in the GRNI accrual to check whether they related to goods delivered before the year end and not invoiced at the year end. Testing reconciling items within the supplier statement reconciliations were consistent with the GRNI accrual.
Management override of controls	Testing the appropriateness of journal entries and other adjustments. Assessing whether the judgements made in making accounting estimates are indicative of a potential bias. Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Independent auditor's report to the members of Lords Group Trading plc continued

The extent to which the audit was considered capable of detecting irregularities, including fraud continued

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **http://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

EUAN BANKS (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor

Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

14 May 2024

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	Note	**2023 £'000**	2022 £'000
Revenue	4, 5	**462,601**	450,020
Cost of sales		**(370,238)**	(361,237)
Gross profit		**92,363**	88,783
Other operating income	6	**766**	681
Distribution expenses		**(5,057)**	(4,632)
Administrative expenses		**(61,252)**	(54,866)
Adjusted EBITDA[1]		**26,820**	29,966
Share-based payments		**(513)**	(400)
Exceptional items	7	**(2,849)**	(929)
EBITDA[2]		**23,458**	28,637
Depreciation		**(2,610)**	(2,069)
Amortisation		**(11,214)**	(10,240)
Impairment charge		**(501)**	—
Operating profit		**9,133**	16,328
Finance income	12	**196**	42
Finance expense	13	**(6,356)**	(3,572)
Profit before taxation		**2,973**	12,798
Taxation	14	**(1,273)**	(3,257)
Profit for the year		**1,700**	9,541
Other comprehensive income		**—**	—
Total comprehensive income		**1,700**	9,541

	Note	**2023 £'000**	2022 £'000
Total comprehensive income for the year attributable to:			
Owners of the parent company		**1,382**	9,117
Non-controlling interests		**318**	424
		1,700	9,541
Earnings per share			
Basic earnings per share (pence)	16	**0.84**	5.68
Diluted earnings per share (pence)	16	**0.82**	5.36

1. Adjusted EBITDA is EBITDA but also excluding exceptional items and share-based payments.
2. EBITDA is defined as earnings before interest, tax, depreciation, amortisation and impairment charge.

The results for the year arise solely from continuing activities.

The notes on pages 92 to 125 form part of these financial statements.

Consolidated statement of financial position

As at 31 December 2023

	Note	2023 £'000	2022 £'000
Non-current assets			
Intangible assets	17	**46,205**	45,331
Property, plant and equipment	18	**20,233**	13,647
Right-of-use assets	19	**47,364**	38,968
Other receivables	22	**200**	279
Investments	20	**180**	85
		114,182	98,310
Current assets			
Inventories	21	**49,292**	53,177
Trade and other receivables	22	**81,171**	71,023
Assets classified as held for sale		**—**	1,333
Cash and cash equivalents	24	**19,811**	16,038
		150,274	141,571
Total assets		**264,456**	239,881
Current liabilities			
Trade and other payables	25	**(98,915)**	(94,343)
Borrowings	26	**(9,507)**	(10,348)
Lease liabilities	19	**(7,815)**	(5,496)
Liabilities classified as held for sale		**—**	(675)
Current tax liabilities		**(7)**	(1,700)
Total current liabilities		**(116,244)**	(112,562)

	Note	2023 £'000	2022 £'000
Non-current liabilities			
Trade and other payables	25	**(5,917)**	(4,716)
Borrowings	26	**(38,239)**	(25,086)
Lease liabilities	19	**(43,953)**	(37,024)
Other provisions	28	**(1,565)**	(1,283)
Deferred tax	29	**(7,373)**	(7,022)
Total non-current liabilities		**(97,047)**	(75,131)
Total liabilities		**(213,291)**	(187,693)
Net assets		**51,165**	52,188
Equity			
Share capital	30	**828**	813
Share premium	32	**28,293**	28,293
Merger reserve	32	**(9,980)**	(9,980)
Share-based payment reserve	32	**1,009**	497
Retained earnings	32	**29,386**	31,237
Equity attributable to owners of the parent company		**49,536**	50,860
Non-controlling interests	33	**1,629**	1,328
Total equity		**51,165**	52,188

The financial statements on pages 88 to 125 were approved and authorised for issue by the Board and were signed on its behalf on 14 May 2024.

Chris Day
Director

Consolidated statement of changes in equity

For the year ended 31 December 2023

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	Share-based payments reserve £'000	Retained earnings £'000	Equity attributable to owners of parent company £'000	Non-controlling interests £'000	Total equity £'000
As at 1 January 2023	813	28,293	(9,980)	497	31,237	50,860	1,328	52,188
Profit for the financial period and total comprehensive income	—	—	—	—	1,382	1,382	318	1,700
Share-based payments	—	—	—	512	—	512	—	512
Share capital issued	15	—	—	—	—	15	—	15
Put and call options over non-controlling interests	—	—	—	—	78	78	—	78
Corporation tax on options	—	—	—	—	515	515	—	515
Deferred tax on options	—	—	—	—	(515)	(515)	—	(515)
Capital repayment	—	—	—	—	—	—	(17)	(17)
Dividends paid	—	—	—	—	(3,311)	(3,311)	—	(3,311)
As at 31 December 2023	**828**	**28,293**	**(9,980)**	**1,009**	**29,386**	**49,536**	**1,629**	**51,165**

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	Share-based payments reserve £'000	Retained earnings £'000	Equity attributable to owners of parent company £'000	Non-controlling interests £'000	Total equity £'000
As at 1 January 2022	788	28,293	(9,980)	96	20,527	39,724	4,337	44,061
Profit for the financial period and total comprehensive income	—	—	—	—	9,117	9,117	424	9,541
Share-based payments	—	—	—	400	—	400	—	400
Share capital issued	25	—	—	—	—	25	—	25
Put and call options over non-controlling interests	—	—	—	—	(609)	(609)	—	(609)
Corporation tax on options	—	—	—	—	606	606	—	606
Deferred tax on options	—	—	—	1	515	516	—	516
Non-controlling interests share of acquisitions	—	—	—	—	—	—	745	745
Acquisition of non-controlling interest	—	—	—	—	4,168	4,168	(4,168)	—
Capital repayment	—	—	—	—	—	—	(10)	(10)
Dividends paid	—	—	—	—	(3,087)	(3,087)	—	(3,087)
As at 31 December 2022	813	28,293	(9,980)	497	31,237	50,860	1,328	52,188

Consolidated statement of cash flows

For the year ended 31 December 2023

	2023 £'000	2022 (restated[1]) £'000
Cash flows from operating activities		
Profit before taxation	**2,973**	12,798
Adjusted for:		
Depreciation of property, plant and equipment	**2,610**	2,069
Amortisation of intangibles	**3,515**	3,317
Amortisation of right-of-use assets	**7,699**	6,923
Impairments of property, plant and equipment	**77**	—
Impairments of right-of-use assets	**424**	—
Profit on disposal of property, plant and equipment	**(368)**	(151)
Profit on sale of business	**(119)**	—
Write off of investment	**56**	—
Share-based payment expense	**513**	400
Finance income	**(196)**	(42)
Finance expense	**6,356**	3,572
Operating cash flows before movements in working capital	**23,540**	28,886
Decrease / (increase) in inventories	**5,199**	(8,438)
Increase in trade and other receivables	**(8,067)**	(526)
Increase in trade and other payables	**2,112**	6,918
Cash generated by operations	**22,784**	26,840
Corporation tax paid	**(3,124)**	(3,679)
Net cash generated by operating activities	**19,660**	23,161
Cash flows from investing activities		
Purchase of intangible assets	**(734)**	(236)
Business acquisitions (net of cash acquired)	**(5,150)**	(26,854)
Deferred consideration paid	**(3,116)**	(2,683)
Purchase of property, plant and equipment	**(4,905)**	(3,516)
Purchase of investments	**(150)**	—
Proceeds on disposal of property, plant and equipment	**4,160**	195
Cash received on sale of business	**340**	—
Interest received	**196**	42
Net cash used in investing activities	**(9,359)**	(33,052)

	2023 £'000	2022 (restated[1]) £'000
Cash flows from financing activities		
Principal paid on lease liabilities	**(6,912)**	(6,482)
Interest paid on lease liabilities	**(2,340)**	(1,913)
Issue of share capital	**15**	25
Dividends	**(3,311)**	(3,087)
Purchase of non-controlling interest of Hevey	**(2,126)**	(2,480)
Capital repayment to non-controlling interests	**(17)**	(10)
Proceeds from borrowings	**109,116**	110,976
Repayment of borrowings	**(97,853)**	(80,450)
Bank interest paid	**(2,917)**	(1,306)
Interest paid on invoice discounting facilities	**(805)**	(124)
Net cash (outflow) / inflow from financing activities	**(7,150)**	15,149
Net increase in cash and cash equivalents	**3,151**	5,258
Cash and cash equivalents at the beginning of the year	**16,660**	11,402
Cash and cash equivalents at the end of the year	**19,811**	16,660
Cash and cash equivalents	**19,811**	16,038
Cash and cash equivalents included in assets held for sale	**–**	622
Cash and cash equivalents at the end of the year	**19,811**	16,660

1. See note 3.3 for details regarding the restatement.

Notes to the financial statements

For the year ended 31 December 2023

1. General information

Lords Group Trading plc (the 'Company') is a public company limited by shares, listed on AIM and incorporated and domiciled in England. The address of the Company's registered office and principal place of business is 2nd Floor, 12-15 Hanger Green, London, England, W5 3EL.

The principal activity of the Company together with its subsidiary undertakings (the 'Group') throughout the period is the distribution of building materials, heating goods and DIY goods to local tradesmen, large-scale developers, small and medium construction companies and retail customers.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 14 May 2024. The directors have the power to amend and reissue the financial statements.

2. Accounting policies

2.1 Basis of preparation of financial statements

The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards (IFRS).

The financial statements have been prepared on a going concern basis under the historical cost convention unless otherwise specified within these accounting policies. The financial information is presented in pounds sterling and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

2.2 Going concern

At 31 December 2023, the Group had £46.7 million of undrawn facilities as disclosed in note 26 and £19.8 million of cash. On 1 May 2024, the Group exercised its option under the facilities agreement signed in 2023 to extend the expiry date by an additional year to 5 April 2027.

Accounting standards require that the foreseeable future covers a period of at least twelve months from the date of approval of the financial statements, although they do not specify how far beyond twelve months a board should consider. The Board has considered cash flow projections over an extended period coinciding with the expiry date of the banking facilities on 5 April 2027. The Group is expected to have at least £28.7 million of headroom over its facilities at all times until 5 April 2027.

The cash flow forecasts have been stress tested by considering the most likely risks impacting the Group. These are considered to be growth below forecast, increased working capital requirements through increased debtors and increased incidence of customer default. The Group's cash flow projections indicate covenants on facilities will not be breached unless, instead of the anticipated growth, the Group's projected EBITDA falls by £8.9 million, debtors increase by 24% or the incidence of customer default is five times greater than that seen in 2023. While none of these are likely to occur, the Group has mitigating actions at its disposal that it can take in downside scenarios, such as delaying capital expenditure and maintaining a strong credit control function across the Group supported by credit insurance and restructuring the Group to reduce costs.

Cash flow forecasts are reforecast in the event of a potential acquisition not already in the forecast. The Group prepares weekly cash flow projections, daily sales flashes and monthly management accounts compared to budget with key performance indicators which together will provide an early warning system to indicate whether any mitigating actions are necessary in any part of the Group.

In all reasonable scenarios the Group is projected to be compliant with its banking covenants and therefore the directors are satisfied that the Group has adequate resources to continue operations for the foreseeable future.

After reviewing the Group and Company's forecasts and risk assessments and making other enquiries, the Board has formed the judgement at the time of approving the financial statements that there is a reasonable expectation that the Group and its subsidiaries have adequate resources to continue in operational existence until at least 5 April 2027.

Accordingly, the directors continue to adopt the going concern basis in preparing the Group and Company financial statements.

2.3 New accounting standards, interpretations or amendments adopted by the Group

In the current year, the Group has applied a number of amendments to standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2023.

The amendments relevant to the Group are:

Amendments to standards

- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction.
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates.
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Disclosure of Accounting policies.

By adopting the above, there has been no material impact on the financial statements.

Notes to the financial statements continued

For the year ended 31 December 2023

2. Accounting policies continued

2.3 New accounting standards, interpretations or amendments adopted by the Group continued

International Financial Reporting Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following amendments to IFRS Standards that have been issued but are not yet effective:

- Amendments to IAS 1 – Non-current Liabilities with Covenants;
- Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback; and
- Amendments to IAS 7 and IFRS 7 – Supplier Finance Arrangements.

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group.

2.4 Basis of consolidation

The consolidated financial statements present the results of the Company and its subsidiaries as if they form a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full. The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.5 Revenue recognition

IFRS 15: Revenue from Contracts with Customers is a principle-based model of recognising revenue from contracts with customers. It has a five-step model that requires revenue to be recognised when control over goods and services is transferred to the customer.

The Group operates through branch point of sale transactions, website and telephone orders. Revenue is recognised when the Group delivers a product to the customer, whether this be at point of sale or delivery. Payment of the transaction price is due immediately when the customer purchases the product and takes delivery or, in the case of certain Group transactions, payable on set credit terms.

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes or duty. Production-based taxes are not included in revenue, they are paid on production and recorded within cost of sales. Customers have a right of return within a specified period and this gives rise to variable consideration under IFRS 15. The right of return asset is recognised within inventory less any expected costs to recover those products (including potential decreases in the value to the Group of returned products), with the refund liability due to customers on return of their goods recognised within trade and other payables.

Amounts received in advance for future sales are recorded as contract liabilities and revenue is recognised as the performance obligations are met.

2.6 Other operating income

Other operating income represents all other income received by the Group.

Commissions are accrued into the period in which they are due in accordance with when the sale was made within the branch.

2.7 Rebates

Rebates received from suppliers for the purchase of inventory are netted off against purchases. Rebates are accrued in accordance with rebate agreements and recognised in the period to which they relate.

Inventory values are reduced by the amount of rebate receivable in proportion to the value of purchases still in inventory to total purchases. The remainder of the rebate is released to and reduces cost of sales.

Rebates payable on sales are offset against turnover. Rebates are accrued in accordance with rebate agreements and recognised in the period to which they relate.

2.8 Employee benefits: pension obligations

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid, the Group has no further payment obligations.

The contributions are recognised as an expense in the consolidated statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the Group in independently administered funds.

2.9 Net finance costs

Finance income

Finance income relates to bank deposit income.

Finance expense

Finance expense comprises of borrowing costs and lease costs which are expensed in the period to which they relate. Upfront facilitation fees are spread over the borrowing period.

2.10 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company and the Group operate and generate income.

Notes to the financial statements continued

For the year ended 31 December 2023

2. Accounting policies continued

2.10 Current and deferred taxation continued

Deferred tax balances are recognised in respect of all temporary differences under IFRS that have originated but not reversed by the statement of financial position date, except that:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profit;
- any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met;
- where they relate to temporary differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future; and
- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits.

2.11 Intangible assets

Goodwill

Goodwill represents the excess of the cost of acquisition of businesses over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses. Goodwill is considered to have an indefinite useful life.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the profit or loss as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is charged to administrative expenses in the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. The Group has no assets with indefinite lives, other than goodwill, throughout the reporting periods. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows on a straight-line basis:

The estimated useful lives range as follows:

Trade names	9-14 years
Computer software	3-10 years
Customer relationships	9-14 years

The estimated useful lives are as estimated based upon management's best estimate of the expected life of the asset. Useful lives are reconsidered if circumstances relating to the asset change or if there is an indication that the initial estimate requires revision.

2.12 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold property	2%
Long-term leasehold property	In accordance with the leasing arrangements
Plant and machinery	20%
Motor vehicles	20%
Fixtures and fittings	20%
Office equipment	10%-33%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

2.13 Impairment of tangible and intangible assets and right-of-use assets

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit (CGU). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

Notes to the financial statements continued

For the year ended 31 December 2023

2. Accounting policies continued

2.14 Valuation of investments

Investments in listed company shares are remeasured to market value at each statement of financial position date. Gains and losses on remeasurement are recognised in profit or loss for the period.

The Group places seed investments in promising new companies through Lords Group Ventures Ltd. These investments represent financial assets measured at fair value through other comprehensive income as they represent equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

2.15 Inventories

Inventories are valued at the lower of cost and net realisable value, where net realisable value is an estimate of the selling price less cost to complete and sell. Inventories are recognised as an expense in the period in which the related revenue is recognised.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the income statement. Where a reversal of the impairment is required, the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the income statement.

Cost is determined on the first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties and transport and handling costs directly attributable to bringing the inventories to their present location and condition.

2.16 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether: a physically distinct asset can be identified; and the Group has the right to obtain substantially all of the economic benefits from the asset throughout the period of use and has the ability to direct the use of the asset over the lease term, being able to restrict the usage of third parties as applicable.

The Group applies the short-term lease recognition exemption to those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option. It also applies the low-value asset recognition exemption to leases of assets below £5,000. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Lease liabilities are initially measured at the present value of the lease payments that are due over the lease term, discounted using the Group's incremental borrowing rate. The Group's incremental borrowing rate is the rate that would have to be paid for a loan of a similar term, and with similar security, to obtain an asset of similar value. The Group's borrowing rate is appropriate as all Group companies are able to borrow from the Group company.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to take that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of the termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term. When the Group revises its estimate of the term of any lease (because, for example, it reassesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at a revised discount rate representing the incremental borrowing rate at the date of reassessment. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount; and
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease, with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Right-of-use assets include assets associated with the long-term lease commitments of the Group. Any leasehold improvements made to the assets, typically buildings, are included within property, plant and equipment. The costs of the improvements are depreciated over the remaining lifespan of the lease.

Notes to the financial statements continued

For the year ended 31 December 2023

2. Accounting policies continued

2.16 Leases continued

A sale and leaseback transaction is one in which the Group sells an asset for consideration and then immediately reacquires the use of the asset by entering into a lease arrangement with the buyer. The sale occurs when the control of the underlying asset passes to the buyer. Where the transaction is judged to reflect the asset's fair value, any gain or loss that arises on rights transferred to the buyer are recognised in the income statement. If sale proceeds received were determined to not be at the asset's fair value, any below-market terms would be recognised as a prepayment of lease payments, and above-market terms recognised as additional financing provided by the lessor.

In the Group cash flow statement, sale and leaseback proceeds received are classified as investing cash flows, unless the proceeds exceed the fair value of the asset sold, in which case the excess proceeds are classified as financing cash flows.

As part of the acquisition of Alloway Timber, the acquired freehold property was immediately sold back to the vendor at market value, and the Group entered into leasing arrangements for the property for initial terms between five to ten years at market rents. The consideration was deemed to be equal to the fair value of the property, resulting in no gain or loss recognised in the income statement, and the sale proceeds of £3.6 million were presented under Proceeds from disposal of property, plant and equipment.

2.17 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.18 Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances, and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.19 Financial assets

Management determines the classification of its financial assets at initial recognition.

Financial assets recognised at amortised cost

The Group's financial assets held at amortised cost comprise trade and other receivables, cash and cash equivalents in the consolidated statement of financial position.

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables).

They are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed using a provisions matrix using fixed rates of credit loss provisioning where the provisions are representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group has the option to invoice finance, with recourse, a proportion of up to 90% of its trade receivables. Trade receivables are stated gross of all amounts received for invoice financing and the invoice financing is recorded in other loans within borrowings falling due within one year.

Impairment provisions for other receivables are recognised based on the general impairment model within IFRS 9. In doing so, the Group follows the three-stage approach to expected credit losses. Step one is to estimate the probability that the debtor will default over the next twelve months. Step two considers if the credit risk has increased significantly since initial recognition of the debtor. Finally, step three considers if the debtor is credit impaired, following the criteria under IFRS 9.

2.20 Financial liabilities

The Group measures its financial liabilities, other than put and call options over non-controlling interest (see note 20.29), at amortised cost. Financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provision of the instrument.

Financial liabilities measured at amortised cost

The Group's financial liabilities held at amortised cost comprise trade payables and other short-dated monetary liabilities, and bank and other borrowings, in the consolidated statement of financial position.

Trade payables and other short-dated monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Bank and other borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position.

Notes to the financial statements continued

For the year ended 31 December 2023

2. Accounting policies continued

2.20 Financial liabilities continued

Financial liabilities measured at amortised cost continued

For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Unless otherwise indicated, the carrying values of the Group's financial liabilities measured at amortised cost represents a reasonable approximation of their fair values.

2.21 Borrowing costs

Upfront borrowing costs are capitalised and amortised at a consistent rate over the term of the loan.

2.22 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

2.23 Exceptional items

The Group classifies certain charges or credits that do not reflect the underlying performance of the Group, and that have a material impact on the Group's financial results, as exceptional items. These are disclosed separately to provide further understanding of the financial performance of the Group.

2.24 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of directors of the Group. The Group will provide information to the CODM on the basis of products and services; being the sale and distribution of plumbing and heating goods, and the sale and distribution of all other merchanting services.

2.25 Equity instruments

Equity comprises the following:

- 'called up share capital' represents the nominal value of equity shares;
- 'share premium' represents amounts paid for shares in excess of nominal value;
- 'merger reserve' represents reserves created instead of share premium in accordance with section 612 of the Companies Act;
- 'share-based payment reserve' represents the value of share options awarded to employees. See note 2.26;
- 'retained earnings' represents retained earnings less retained losses; and
- 'non-controlling interests' represents the amount not attributable to the parent company.

2.26 Share-based payments

The Group awards share options to some employees in exchange for the services rendered, which are equity settled. Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition. A binomial model is used to value options with no market performance conditions and a Monte Carlo model is used where there are market performance conditions.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Group keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

Deferred tax is recognised on share-based payments based on the expected number of options to vest multiplied by the share price on the last day of the financial year. The calculated cost is spread over the number of years from granting the options to vesting and charged to retained earnings.

2.27 Provisions

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the consolidated statement of comprehensive income in the year that the Group becomes aware of the obligation. Provisions are measured at the present value of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. Finance costs are incurred over the life of the provision. When payments are made, they are charged to the provision carried in the statement of financial position.

2.28 Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

Notes to the financial statements continued

For the year ended 31 December 2023

2. Accounting policies continued

2.28 Business combinations continued

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability are recognised in profit or loss.

Deferred consideration to be transferred by the acquirer is recognised at the acquisition-date fair value after being discounted to present value. The discounting unwinds over the period of the deferment and costs are included within finance expenses.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either the earlier of (i) twelve months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

2.29 Accounting for written put and call options over shares held by non-controlling interests

The Group gives precedence to IFRS 10 over IAS 32 in determining the accounting for put and call arrangements over non-controlling interests. When a put and call option is put in place, a liability equal to the present value of the exercise price of the put option is recorded. A risk and rewards analysis is undertaken regarding the ownership of non-controlling interest shares.

Where the Group does not have the risks and rewards of the non-controlling interest's shares, the 'debit' arising on recognition of the put option liability is recognised in the Group's retained earnings and a non-controlling interest is also recognised in equity. Subsequently, profits and losses (and where relevant, dividends) are allocated to the non-controlling interests and subsequent changes in the present value of the put option liability are recorded in the Group's equity.

Where the Group is assessed as having the risks and rewards of the non-controlling interest's shares, the put option liability forms part of the acquisition consideration of 100% of the business and no non-controlling interest is recognised. Subsequent changes in the present value of the put option liability are recorded as a finance cost within the income statement and changes in the forecast payment within exceptional items in the income statement.

Any amounts payable under the put and call arrangements that, in substance, represent compensation for employee services, are excluded from the accounting described above. Such amounts payable are separately accounted for as employee benefit plans and are recognised over the service period as a long-term or short-term benefit.

2.30 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Lords Group Trading plc, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

2.31 Materiality

In preparing the financial statements, the Board considers both quantitative and qualitative factors in forming its judgements, and related disclosures, and is mindful of the need to best serve the interests of its stakeholders and to avoid unnecessary clutter borne of the disclosure of immaterial items. In making this assessment, the Board considers the nature of each item, as well as its size, in assessing whether any disclosure omissions or misstatements could influence the decisions of users of the financial statements.

2.32 Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of any non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Notes to the financial statements continued

For the year ended 31 December 2023

2. Accounting policies continued

2.32 Non-current assets or disposal groups classified as held for sale continued

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

3. Critical accounting judgements, estimates and errors

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Key accounting judgements

Recognition of legal and regulatory provisions

A key area of judgement applied in the preparation of these financial statements is determining whether a present obligation exists and, where one does, in estimating the probability, timing and amount of any outflows. In determining whether a provision needs to be made and whether it can be reliably estimated, we consult relevant professional experts and reassess our judgements on an ongoing basis as facts change. In the early stages of legal and regulatory matters, it is often not possible to reliably estimate the outcome and in these cases we do not provide for their outcome but instead include further disclosures outlining the matters within our contingent liabilities note.

Assessment of who has the risk and reward of ownership of non-controlling interests with put and call options

A key area of judgement applied in the preparation of these financial statements is determining whether the risk and rewards of ownership resides with the non-controlling interests or the Group when an acquisition has put and call options.

Where the pricing is at a variable price, the Group assesses the risks and rewards reside with the non-controlling interests. This is because the exposure to any increase or decrease in the value of the business resides with the non-controlling interest, as they will either retain the investment indefinitely (if neither party exercises) or they can recover the fair value of the business through the exercise price.

Where the exercise price is a fixed amount (or an amount that varies only for the passage of time), then the risks and rewards reside with the Group. This is because once the put and call become exercisable, one party will be incentivised to exit because they benefit from doing so.

On 31 March 2022, the Group acquired a 90% interest in the plumbing and heating businesses DH&P Trade Counters Holdings Limited and DH&P HRP Holdings Limited and has a put and call policy over the remaining 10%. The purchase price is based on a formula that approximates market value. There is also a service agreement which impacts 50% of the price paid for the shares but as the price paid is still variable the Group assesses the risk and rewards remain with the non-controlling interest.

In April 2021, the Group acquired a 75% interest in Condell Limited with put and call interests over the remaining 25%. The purchase price of the options was at market value and there was no service contract. The Group assesses that risk and reward remained with the non-controlling interest.

APMs – Adjusting items

Adjusting items relate to certain costs or income that occur based on events or transactions that fall within the normal activities of the Group but which are excluded from the Group's APMs by virtue of their size and nature, in order to provide a helpful alternative perspective of the year-on-year trends, performance and position of the Group's trading business that is more comparable over time. This alternative view is consistent with how management views the business, and how it is reported internally to the Board. Management exercises judgement in determining the adjustments to apply to IFRS measurements, based on the nature of the item, the origin of the occurrence and the size of impact of that item on the performance of the Group, as well as consistency with prior periods. The amount and timing of adjusting items can be unpredictable and subject to a higher level of scrutiny by users of the financial statements. Adjusting items can include, but are not limited to: amortisation of acquired intangibles, share-based payment expenses, impairment charges and reversals; Group simplification; restructuring and redundancy costs; profits or losses on disposal of businesses; fair value remeasurements of financial instruments; and items of income and expense that are considered material, either by their size and / or nature. The tax effect of such items is also classified as adjusting.

3.2 Key accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of intangible and tangible assets

The annual amortisation and depreciation charge for intangible and tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on cash-generating unit performance, technological advances, future investments, economic utilisation and the physical condition of the assets.

Inventories

The Group carries significant levels of inventory and key judgements are made by management in estimating the level of provisioning required for slow-moving inventory. Provision estimates are forward looking and are formed using a combination of factors including historical experience, management's knowledge of the industry, Group discounting and sales pricing. Management use a number of internally generated reports to monitor and continually reassess the adequacy and accuracy of the inventory provision.

Notes to the financial statements continued

For the year ended 31 December 2023

3. Critical accounting judgements, estimates and errors continued

3.2 Key accounting estimates and assumptions continued

Inventories continued

In arriving at their conclusion, the directors consider inventory ageing and turn analysis. In 2023 the Group reassessed its estimation basis for inventory provisioning to better identify and account for ageing stock, as a result of experience of market conditions gained in 2023. The impact of this change in estimation resulted in a higher level of inventory provision and a charge of £751,000 recorded in the income statement in the year ended 31 December 2023. The change in estimation basis is not expected to have a material impact on profit and loss in future years. The charge was recorded as an exceptional item. The inventory provision is 5.0% of inventory (2022: 3.8%). Doubling the provision would increase cost of sales / reduce the carrying value of inventory by £2,489,000 in 2023 (2022: £1,997,000).

Fair value of goodwill and intangible assets on acquisition

The fair value of customer relationship assets and trade names separately acquired through business combinations involves the use of valuation techniques and the estimation of future cash flows to be generated over several years. The estimation of the future cash flows requires a combination of assumptions including assumptions for customer attrition rate, EBIT and discount rates. The relief from royalty rate is the value that would be obtained by licensing trade names out to a third party, as a percentage of sales. See note 12 for the carrying value of the assets. Goodwill is measured as the excess of the consideration transferred over the Group's interest in acquisition-date identifiable assets acquired less liabilities assumed. Therefore changing the assumptions selected by management could significantly affect the allocation of the purchase price paid between goodwill and other acquired intangibles.

The assumptions applied by the directors in respect of the business combinations are as follows:

				Trade names	
	Customer attrition rate	EBIT as a % of revenue	Discount rate	Relief from royalty rate	Discount rate
Chiltern Timber Limited	—	—	—	3.0%	19.9%
Alloway Timber Group	10.1%	3.5%	18.7%	—	—

These assumptions are no longer provisional as at 31 December 2023.

Impairment of goodwill, intangible assets, tangible assets and right-of-use assets

Under IAS 36, the Group is required to test goodwill annually for impairment, and to assess its right-of-use assets and property, plant and equipment for any indicators of impairment. For impairment testing purposes, the Group has determined that each branch is a separate cash-generating unit (CGU) on the basis that each branch has distinct assets at each location and is able to control their own cash flow. In order to eliminate the judgement in assessing the indicators of impairment, management has performed an impairment test for all CGUs by assessing whether the carrying amount exceeds its recoverable amount.

As part of its review, the Group calculates the recoverable amount of cash-generating units by estimating future cash flows using latest forecast information. The key assumptions involved in estimating the recoverable amount include future performance and growth rates of the CGUs and the discount rates used. These are underpinned by a number of judgements based on management's expectation, based on historic performance, understanding of the market environment, and assessment of the macroeconomic and industry conditions. The future revenue and cash flow projections of the CGUs are inherently uncertain and are considered most sensitive to changes in sector demand and wider market conditions which have been subdued over the last twelve months. Changing the assumptions selected by management could significantly affect the amount of any impairment.

For the purposes of testing goodwill and acquired intangibles, CGUs are aggregated to match the branches acquired at the time of each specific business combination.

For the individual branch CGU asset impairment assessment, the cash flows are extrapolated to cover the period to the end of the lease term. The key assumptions in the calculations are as follows:

Sales growth rate	4.0%-17.2%
Long-term growth rate	2.0%
Discount rate	15.6%

The results of the review indicated that two of the branches within the Merchanting segment, which were loss-making in 2023, had cash flow projections that did not support the carrying value of the assets held at the CGU. An assessment was made on the recoverable value of the assets in question, and assets which were not easily transferable to other sites, such as vehicles, were fully impaired. This resulted in an impairment charge of £424,000 within right-of-use leasehold property, and a £77,000 impairment charge against the property, plant and equipment at these sites. This charge is disclosed separately on the face of the consolidated income statement.

Notes to the financial statements continued

For the year ended 31 December 2023

3. Critical accounting judgements, estimates and errors continued

3.3 Correction of error in cash flow presentation of option to acquire minority interest

On 22 October 2022, the Group acquired the remaining 25% non-controlling interest of Hevey Building Supplies Limited ('Hevey'), exercising the option entered into as part of the agreement to purchase an initial 75% interest in Hevey in October 2017. On exercise of the option, the Group acquired the non-controlling interest for £6.2 million in cash, with 40% payable on completion of the acquisition of the non-controlling interest and the remaining 60% paid as fixed deferred consideration in seven equal quarterly instalments over the subsequent two years.

The 2022 consolidated statement of cash flows has been restated to reclassify the £2,480,000 payment made in 2022 from investing activities to financing activities, as no change in control occurred on exercise of this option. There was no impact on net cash flows for the period.

The above changes were prompted by an inquiry from the Corporate Reporting Review team of the Financial Reporting Council (FRC) as part of its regular review and assessment of the quality of corporate reporting in the UK. They requested further information in relation to the Company's 2022 annual report and accounts.

The Group agreed to make the above changes within its 2023 financial statements. The FRC's role is not to verify the information provided but to consider compliance with reporting requirements. Their review was limited to the published 2022 annual report; the FRC does not benefit from a detailed understanding of underlying transactions and provides no assurance that the annual report and accounts are correct in all material respects.

4. Revenue

All of the Group's revenue was generated from the sale of goods in the UK and was recognised at a point in time (rather than over time). No one customer makes up 10% or more of revenue in the year (2022: nil).

Notes to the financial statements continued

For the year ended 31 December 2023

5. Segmental analysis

The Group has two reporting segments, being the distribution of plumbing and heating, and the sale and distribution of merchanting and other services.

2023	**Plumbing and Heating £'000**	**Merchanting £'000**	**Total £'000**
Revenue	**247,667**	**214,934**	**462,601**
Gross profit	**33,234**	**59,129**	**92,363**
Adjusted EBITDA	**12,860**	**13,960**	**26,820**
Share-based payments	**(156)**	**(357)**	**(513)**
Exceptional items	**(838)**	**(2,011)**	**(2,849)**
EBITDA	**11,866**	**11,592**	**23,458**
Depreciation	**(485)**	**(2,125)**	**(2,610)**
Amortisation	**(3,815)**	**(7,399)**	**(11,214)**
Impairment charge	**—**	**(501)**	**(501)**
Operating profit	**7,566**	**1,567**	**9,133**
Finance income			**196**
Finance costs			**(6,356)**
Profit before taxation			**2,973**
Taxation			**(1,273)**
Profit for the year			**1,700**
Additions to non-current assets	**5,281**	**28,670**	**33,951**

2022	Plumbing and Heating £'000	Merchanting £'000	Total £'000
Revenue	229,264	220,756	450,020
Gross profit	32,793	55,990	88,783
Adjusted EBITDA	13,846	16,120	29,966
Share-based payments	(136)	(264)	(400)
Exceptional items	—	(929)	(929)
EBITDA	13,710	14,927	28,637
Depreciation	(305)	(1,764)	(2,069)
Amortisation	(2,442)	(7,798)	(10,240)
Impairment charge	—	—	—
Operating profit	10,963	5,365	16,328
Finance income			42
Finance costs			(3,572)
Profit before taxation			12,798
Taxation			(3,257)
Profit for the year			9,541
Additions to non-current assets	10,420	35,495	45,915

Notes to the financial statements continued

For the year ended 31 December 2023

6. Other operating income

	2023 £'000	2022 £'000
Commission	**437**	434
Parking income	**163**	175
Other	**166**	72
	766	681

7. Exceptional items

Exceptional items are presented separately as one-off costs that are unlikely to reoccur or costs outside normal business trading.

	2023 £'000	2022 £'000
HS2 compensation	**—**	(748)
Group simplification	**594**	—
Stock provisioning / theft	**1,382**	—
Profit on disposal of Lords at Home Ltd	**(119)**	—
Costs of business combinations	**936**	842
Retentions employment costs on acquisitions	**219**	681
National insurance (recovery) / payments	**(13)**	338
Reduction in contingent consideration	**(150)**	(184)
	2,849	929

Year ended 31 December 2023

The Group hived up its Hevey Building Supplies, Alloway Timber and Chiltern Timber businesses into Carboclass Limited and reorganised the Group to make a number of other subsidiaries dormant. The cost of these exercises amounted to £594,000.

The Group reassessed its estimation basis for stock provisioning in 2023 (see note 3.2). It also suffered a major theft at one of its Plumbing and Heating branches during the Christmas period. The total impact of these events amounted to £1,382,000.

The Group disposed of Lords at Home Limited on 1 February 2023. The Group recorded a profit in excess of the carrying value of the net assets of the company of £119,000.

The costs associated with the business combinations detailed in note 19 have been expensed and disclosed as exceptional items. The total expense, which amounts to £936,000 (2022: £842,000), also includes costs associated with other potential acquisitions which will not occur or had not occurred before the balance sheet date. Where the business combinations include retention payments to key staff as part of the acquisitions, or amounts payable under put and call arrangements that, in substance, represent compensation for employee services, the cost of these is expensed over the period to which it relates. The costs in the year were £219,000 (2022: £681,000).

On migrating to a new payroll system in 2016, two of the Group's subsidiary entities determined that there had been an error in the calculation of employer and employee national insurance over the last four years such that there was an underpayment of national insurance. The Group promptly notified HMRC of the error upon discovery in 2022 and agreed to pay a full and final payment of £338,000 to cover all national insurance due in 2022. The Group agreed to meet this cost directly if employees stayed with the Group for three years. In the event of leaving the cost is recovered from the leaver and £13,000 was recovered in 2023.

The first instalment of the contingent consideration for the purchase of Chiltern Timber Supplies Limited was due in April 2024. At the balance sheet date, the Group assessed the likelihood of future EBITDA targets being met and reduced the contingent liability by £150,000, which resulted in a closing contingent consideration amount of £285,000. In 2022, £184,000 of the contingent liability in relation to Condell Limited was released, and the final contingent consideration was settled in April 2023.

Year ended 31 December 2022

The Group received compensation from HS2 for business disruption that has occurred to the Lords Builders Merchants Park Royal branch of £748,000.

8. Employee benefit expenses

Staff costs of continuing operations, including directors' remuneration, were as follows:

	2023 £'000	2022 £'000
Wages and salaries	**36,864**	31,298
Social security costs	**3,749**	3,050
Defined contribution costs	**999**	697
Share-based payments	**513**	400
	42,125	35,445

The average monthly number of employees of continuing operations, including the directors, during the year were as follows:

	2023	2022
Management and administration	**127**	110
Sales, retail and manufacturing	**799**	770
	926	880

Notes to the financial statements continued

For the year ended 31 December 2023

9. Directors' and key management remuneration

Statutory directors of Lords Group Trading plc

	2023 £'000	2022 £'000
Remuneration for qualifying services	**921**	1,259
Company contributions to money purchase pension schemes	**63**	15
	984	1,274

Directors participating in defined contribution pensions as at the period end 2023 was none (2022: none). Directors participating in money purchase schemes as at the period end 2023 was one (2022: one).

No director (2022: one) exercised share options during the year. See the directors' remuneration report for details.

Remuneration disclosed above includes the following amounts paid to the highest paid director:

	2023 £'000	2022 £'000
Remuneration for qualifying services	**436**	713
	436	713

The highest paid director did not exercise any share options during the year.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including all executives of the Group.
The Group directors and managing directors of each division are deemed to be the key management of the Group.

	2023 £'000	2022 £'000
Remuneration for qualifying services	**1,872**	2,496
Social security contributions and similar taxes	**342**	278
Company contributions to money purchase pension schemes	**80**	57
Share-based payments	**101**	24
	2,395	2,855

10. Expenses by nature

Operating profit is stated after charging / (crediting):

	2023 £'000	2022 £'000
Depreciation of property, plant and equipment	**2,610**	2,069
Amortisation of intangible assets	**3,515**	3,317
Amortisation of right-of-use assets	**7,699**	6,923
Impairment charge	**501**	–
Inventories recognised as an expense	**370,238**	361,237
Short-term and low-value lease payments	**114**	142
Foreign exchange gains	**(25)**	(6)
Share-based payments	**513**	400
Increase / (release) of impairment of inventories	**492**	(307)
Profit on disposal of property, plant and equipment	**(286)**	(151)
Defined contribution pension plan	**999**	697

11. Auditors' remuneration

For the year ended 31 December 2023, the remuneration provided to the auditors, RSM UK Audit LLP, was as detailed below.

	2023 £'000	2022 £'000
Audit services – statutory audit of the parent and consolidated financial statements	**221**	181
Statutory audit of subsidiary companies	**598**	265
Audit-related assurance services	**29**	26
	848	472

£234,000 of the audit fees in 2023 relate to additional costs incurred to complete the statutory audits in 2022. (2022 included £50,000 of additional costs in relation to 2021).

Notes to the financial statements continued

For the year ended 31 December 2023

12. Finance income

	2023 £'000	2022 £'000
Bank interest receivable	**196**	42
	196	42

13. Finance expense

	2023 £'000	2022 £'000
Bank loans and overdrafts	**2,917**	1,306
Invoice discounting facilities	**805**	124
Unwinding of deferred consideration and call and put options	**236**	183
Interest on dilapidation provision	**58**	46
Lease liabilities	**2,340**	1,913
	6,356	3,572

14. Taxation

	2023 £'000	2022 £'000
Corporation tax		
Current tax on profit for the year	**1,975**	3,883
Adjustments in respect of previous periods	**(28)**	87
	1,947	3,970
Deferred tax		
Originating and reversal of temporary differences	**(289)**	(762)
Adjustments in respect of previous periods	**(346)**	46
Effect of changes in tax rates	**(39)**	3
	(674)	(713)
Total tax charge	**1,273**	3,257

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2022: higher than) the standard rate of corporation tax in the UK of 23.5% (2022: 19%). The difference is explained below:

	2023 £'000	2022 £'000
Profit before taxation	**2,973**	12,798
Profit multiplied by standard rate of corporation tax in the UK of 23.5% (2022: 19.0%)	**699**	2,432
Adjustments in respect of previous periods	**(374)**	133
Expenses not deductible	**1,306**	660
Income not deductible	**(284)**	(148)
Changes in tax rates	**(39)**	3
Share-based payments	**(35)**	70
Deferred tax not recognised	**–**	107
Total tax charge for the year	**1,273**	3,257

Factors that may affect future tax charges

Deferred taxes at the balance sheet date have been measured using tax rates enacted at that time.

15. Dividends

	2023 £'000	2022 £'000
Interim paid	**1,109**	1,090
Final paid	**2,202**	1,997
	3,311	3,087

In 2023 dividends paid per share was 2.00 pence (2022: 1.93 pence). The final dividend proposed but unpaid for 2023 was 1.33 pence (2022: 1.33 pence).

Notes to the financial statements continued

For the year ended 31 December 2023

16. Earnings per share

	2023	2022
Basic earnings per share		
Earnings from continuing activities (pence)	**0.84**	5.68
Diluted earnings per share		
Earnings from continuing activities (pence)	**0.82**	5.36

Weighted average shares for basic earnings per share	**164,340,814**	160,523,582
Number of dilutive share options	**3,750,887**	9,552,402
Weighted average number of shares for diluted earnings per share	**168,091,701**	170,075,984

Earnings attributable to the equity holders of the parent (£'000)	**1,382**	9,117

Both the basic and diluted earnings per share have been calculated using the earnings attributable to shareholders of the parent company, Lords Group Trading plc, of £1,382,000 (2022: earnings of £9,117,000) as the numerator, meaning no adjustment to profit was necessary in either year.

The Group has also presented adjusted earnings per share. Adjusted earnings per share have been calculated using earnings attributable to shareholders of the parent company, Lords Group Trading plc, adjusted for the after-tax effect of exceptional items (see note 7), share-based payments and amortisation of intangible assets.

	2023 £'000	2022 £'000
Earnings attributable to the equity holders of the parent	**1,382**	9,117
Add back / (deduct):		
Exceptional items	**2,849**	929
Share-based payments	**513**	400
Amortisation of intangible assets	**3,515**	3,317
Impairments	**501**	—
Less tax impact of adjustments	**(1,617)**	(883)
Adjusted earnings	**7,143**	12,880
Adjusted basic earnings per share		
Earnings from continuing activities (pence)	**4.35**	8.02
Adjusted diluted earnings per share		
Earnings from continuing activities (pence)	**4.25**	7.57

Notes to the financial statements continued

For the year ended 31 December 2023

17. Intangible assets

	Software £'000	Customer relationships £'000	Trade names £'000	Goodwill £'000	Total £'000
Year ended 31 December 2023					
Opening net book value	**1,112**	**25,316**	**2,607**	**16,296**	**45,331**
Additions	**734**	**—**	**—**	**—**	**734**
Acquired through business combinations	**—**	**1,167**	**350**	**2,138**	**3,655**
Amortisation charge	**(242)**	**(2,933)**	**(340)**	**—**	**(3,515)**
Closing net book value	**1,604**	**23,550**	**2,617**	**18,434**	**46,205**
At 31 December 2023					
Cost	**2,443**	**34,722**	**3,741**	**18,434**	**59,340**
Accumulated amortisation and impairment	**(839)**	**(11,172)**	**(1,124)**	**—**	**(13,135)**
Net book value	**1,604**	**23,550**	**2,617**	**18,434**	**46,205**
Year ended 31 December 2022					
Opening net book value	952	12,454	1,797	7,470	22,673
Additions	236	—	—	—	236
Reclassification from tangible assets	—	—	—	1,649	1,649
Acquired through business combinations	140	15,649	1,124	7,177	24,090
Amortisation charge	(216)	(2,787)	(314)	—	(3,317)
Closing net book value	1,112	25,316	2,607	16,296	45,331
At 31 December 2022					
Cost	1,709	33,555	3,391	16,296	54,951
Accumulated amortisation and impairment	(597)	(8,239)	(784)	—	(9,620)
Net book value	1,112	25,316	2,607	16,296	45,331

Software intangible assets include the inventory management system of a subsidiary undertaking which was created by an external development firm for the subsidiary's specific requirements. The asset is carried at £111,000 (2022: £126,000) and has a remaining amortisation period of five years (2022: six years). In addition, another subsidiary company implemented an ERP and stock management system with a carrying value at year end of £466,000 (2022: £557,000) and with a remaining amortisation period of six years (2022: seven years). There are no other individually material intangible assets.

Goodwill is systematically tested for impairment at each balance sheet date. The Group has no assets with indefinite lives, other than goodwill. No intangible assets were identified by management which needed to be impaired.

Notes to the financial statements continued

For the year ended 31 December 2023

17. Intangible assets continued

Cash-generating unit (CGU) assessment

The Group tests the carrying amount of goodwill annually for impairment or more frequently if there are indications that their carrying value might be impaired. The carrying amounts of other intangible assets are reviewed for impairment if there is an indication of impairment. Impairment is calculated by comparing the carrying amounts to the value-in-use derived from discounted cash flow projections for each CGU to which the intangible assets are allocated. A CGU is deemed to be the branch or group of branches acquired at the time of a business combination. The carrying amount of goodwill is allocated across multiple cash-generating units and the amount allocated to each unit is not significant in comparison with the entity's total carrying amount of goodwill.

The breakdown of the net book value of intangible assets by operating segment is:

	2023 £'000	2022 £'000
Merchanting	**34,847**	33,104
Plumbing and Heating	**11,358**	12,227
	46,205	45,331

The total recoverable amount in relation to these CGUs at 31 December 2023 was £299,884,000 (2022: £271,995,000). The value-in-use calculations are based on five-year management forecasts with a terminal growth rate applied thereafter, representing management's estimate of the long-term growth rate of the sector served by the CGUs. The recoverable amounts of the CGUs in both 2023 and 2022 were in excess of the carrying value of the net assets of the CGU and so no goodwill was impaired.

The key assumptions, which are equally applicable to each CGU, in the cash flow projections used to support the carrying amount of goodwill were as follows:

	Plumbing and Heating	Merchanting
Five-year sales growth	4.6%-6.2%	4.0%-17.2%
Terminal sales growth	2.0%	2.0%
Discount rate	15.6%	15.6%

Sensitivity analysis

A reasonable change in a key assumption would not cause the carrying value of either CGU to exceed its recoverable amount; the table below shows the amount of headroom and the revised assumptions required to eliminate the headroom in full at 31 December 2023. The headroom relates to the excess of the recoverable amount over the carrying value of the goodwill, intangible assets and other applicable net assets of the CGUs.

	Plumbing and Heating	Merchanting
Recoverable amount of CGU	£123,507,000	£176,377,000
Current headroom	£80,721,000	£81,011,000
Five-year sales growth[1]	<0%	<0%-5%
Terminal sales growth	<0%	<0%
Discount rate	16%-38%	14%-28%

1. The majority of CGUs do not require any five-year sales growth in order to maintain positive headroom, with the following exceptions:
   - Three CGUs within the Merchanting division are more sensitive to assumptions on sales growth, and require projected sales growth over the initial five-year period at between 1-2% per annum in order to support a value-in-use higher than the carrying value. This is rationalised by anticipated market recovery over the coming years. The recoverable amount of these three CGUs is £38,050,000 and the base headroom is £10,845,000.
   - A further two CGUs require sales growth of 5% per annum for no impairment charge to be recognised, including a recent acquisition, acquired as a loss-making business but expected to significantly benefit from joining the Lords network, and a business more heavily exposed to the house building sector expecting a more significant recovery. These growth rates are within management forecast projections. The recoverable amount of these CGUs is £39,093,000 and the base headroom is £21,891,000.

Notes to the financial statements continued

For the year ended 31 December 2023

18. Property, plant and equipment

	Land and buildings £'000	Land and building leasehold improvements £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Office equipment £'000	Total £'000
Year ended 31 December 2023							
Opening net book value	**6,962**	**2,542**	**1,451**	**832**	**1,275**	**585**	**13,647**
Additions	**6,494**	**1,077**	**211**	**85**	**735**	**373**	**8,975**
Disposals	**(3,838)**	**—**	**(12)**	**(34)**	**—**	**—**	**(3,884)**
Acquired through business combinations	**3,600**	**142**	**190**	**38**	**140**	**72**	**4,182**
Impairment	**—**	**(7)**	**(14)**	**—**	**(43)**	**(13)**	**(77)**
Depreciation charge	**(243)**	**(690)**	**(614)**	**(275)**	**(524)**	**(264)**	**(2,610)**
Closing net book value	**12,975**	**3,064**	**1,212**	**646**	**1,583**	**753**	**20,233**
At 31 December 2023							
Cost	**13,539**	**7,471**	**2,962**	**1,286**	**4,337**	**1,703**	**31,298**
Accumulated depreciation and impairment	**(564)**	**(4,407)**	**(1,750)**	**(640)**	**(2,754)**	**(950)**	**(11,065)**
Net book value	**12,975**	**3,064**	**1,212**	**646**	**1,583**	**753**	**20,233**
Year ended 31 December 2022							
Opening net book value	1,845	3,617	1,306	75	925	282	8,050
Additions	307	1,393	264	548	628	376	3,516
Disposals	—	—	(4)	(40)	—	—	(44)
Reclassification to intangible assets	—	(1,649)	—	—	—	—	(1,649)
Reclassification	—	—	—	34	(34)	—	—
Acquired through business combinations	4,979	36	13	537	148	150	5,863
Transferred to disposal group held for sale	—	(11)	—	—	—	(9)	(20)
Depreciation charge	(169)	(844)	(128)	(322)	(392)	(214)	(2,069)
Closing net book value	6,962	2,542	1,451	832	1,275	585	13,647
At 31 December 2022							
Cost	7,283	6,252	2,573	1,197	3,462	1,258	22,025
Accumulated depreciation and impairment	(321)	(3,710)	(1,122)	(365)	(2,187)	(673)	(8,378)
Net book value	6,962	2,542	1,451	832	1,275	585	13,647

As part of the acquisition of Alloway Timber, the acquired freehold property was immediately sold back to the vendor at market value of £3.6 million, and the Group entered into a leasing arrangement for the property. This was accounted for as a sale of fair value, included within disposals in the table above, and as an addition to right-of-use assets and lease liabilities.

Notes to the financial statements continued

For the year ended 31 December 2023

19. Leases and right-of-use assets

Nature of leasing activities

The Group leases a number of assets with all lease payments fixed over the lease term. The Group has property leases, plant and machinery and motor vehicles in the scope of IFRS 16, including retail branches, warehouses, lorries and other vehicles.

	2023	2022
Number of active leases	**289**	240

Description of payments

	2023 £'000	2022 £'000
Principal lease payments	**6,912**	6,482
Interest on dilapidation provision	**58**	46
Interest payments on leases	**2,340**	1,913
Short-term and low-value lease costs	**114**	142
	9,424	8,583

Short-term and low-value lease costs relates to individual vans which are rented on a monthly basis by subsidiaries of the Group.

Right-of-use assets

	Leasehold property £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Year ended 31 December 2023				
Opening net book value	**34,015**	**2,381**	**2,572**	**38,968**
Additions	**5,044**	**330**	**5,031**	**10,405**
Acquired through business combinations	**5,519**	**113**	**378**	**6,010**
Lease modifications	**818**	**(262)**	**372**	**928**
Disposals	**(819)**	**—**	**(5)**	**(824)**
Impairment	**(424)**	**—**	**—**	**(424)**
Amortisation charge	**(4,901)**	**(819)**	**(1,979)**	**(7,699)**
Closing net book value	**39,252**	**1,743**	**6,369**	**47,364**
At 31 December 2023				
Cost	**57,726**	**4,881**	**9,861**	**72,468**
Accumulated amortisation and impairment	**(18,474)**	**(3,138)**	**(3,492)**	**(25,104)**
Net book value	**39,252**	**1,743**	**6,369**	**47,364**
Year ended 31 December 2022				
Opening net book value	26,516	3,030	3,725	33,271
Additions	7,346	40	738	8,124
Acquired through business combinations	3,988	—	98	4,086
Lease modifications	410	—	—	410
Amortisation charge	(4,245)	(689)	(1,989)	(6,923)
Closing net book value	34,015	2,381	2,572	38,968
At 31 December 2022				
Cost	48,961	5,995	8,904	63,860
Accumulated amortisation and impairment	(14,946)	(3,614)	(6,332)	(24,892)
Net book value	34,015	2,381	2,572	38,968

Notes to the financial statements continued

For the year ended 31 December 2023

19. Leases and right-of-use assets continued

Lease liabilities

	Leasehold property £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
At 1 January 2023	**37,699**	**1,945**	**2,876**	**42,520**
Additions	**4,894**	**329**	**5,029**	**10,252**
Acquired through business combinations	**5,402**	**113**	**378**	**5,893**
Disposals	**(901)**	**—**	**(5)**	**(906)**
Lease modifications	**838**	**45**	**38**	**921**
Interest expenses	**1,933**	**90**	**317**	**2,340**
Lease payments (including interest)	**(5,699)**	**(978)**	**(2,575)**	**(9,252)**
At 31 December 2023	**44,166**	**1,544**	**6,058**	**51,768**
At 1 January 2022	30,065	2,979	3,588	36,632
Additions	7,302	39	738	8,079
Acquired through business combinations	3,783	—	98	3,881
Lease modifications	410	—	—	410
Interest expenses	1,602	167	144	1,913
Lease payments (including interest)	(5,463)	(1,240)	(1,692)	(8,395)
At 31 December 2022	37,699	1,945	2,876	42,520

Reconciliation of minimum lease payments and present value

	2023 £'000	2022 £'000
Within 1 year	**9,769**	5,963
Later than 1 year and less than 5 years	**26,182**	19,415
Later than 5 years and less than 10 years	**19,303**	14,670
Later than 10 years and less than 15 years	**7,878**	8,955
After 15 years	**5,709**	6,550
Total including interest cash flows	**68,841**	55,553
Less interest cash flows	**(17,073)**	(13,033)
Total principal cash flows	**51,768**	42,520

Reconciliation of current and non-current lease liabilities

	2023 £'000	2022 £'000
Current	**7,815**	5,496
Non-current	**43,953**	37,024
Total	**51,768**	42,520

20. Investments

	2023 £'000	2022 £'000
Cost		
Listed investments	**1**	1
Other investments	**179**	84
	180	85

21. Inventories

	2023 £'000	2022 £'000
Raw materials and consumables	**298**	436
Finished goods and goods for resale	**48,994**	52,741
	49,292	53,177

The difference between the purchase price or production cost of stock and their replacement cost is not material.

Group inventories are stated after a provision for impairment of £2,489,000 (2022: £1,997,000). Inventory provisions are based on estimates and assumptions by management and include consideration of slow-moving items, damaged items and possibility of theft. The Group reassessed its estimation basis for stock provisioning in 2023 as set out in note 3.2.

Movement in the inventory provision is recognised in cost of sales in the statement of comprehensive income.

Notes to the financial statements continued

For the year ended 31 December 2023

22. Trade and other receivables

	2023 £'000	2022 £'000
Non-current		
Other receivables	**200**	279
	200	279
Current		
Trade receivables	**68,083**	60,673
Other receivables	**1,640**	282
Supplier rebates	**8,267**	7,358
Prepayments	**3,181**	2,710
	81,171	71,023

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. The majority of trade and other receivables are non-interest bearing. Where the effect is material, trade and other receivables are discounted using discount rates which reflect the relevant costs of financing. The carrying amount of trade and other receivables approximates fair value.

The Group has recognised a loss of £111,000 (2022: £524,000) in the profit or loss in respect of the expected credit losses for the year ended 31 December 2023.

Analysis of trade receivables based on age of invoices:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2023	2022	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Not overdue	**0.2%**	0.2%	**32,830**	20,072	**63**	36
31-60 days	**0.3%**	0.1%	**29,713**	30,297	**86**	29
61-90 days	**2.3%**	1.0%	**4,237**	7,569	**98**	74
Greater than 90 days	**31.4%**	19.8%	**2,261**	3,582	**711**	708
			69,041	61,520	**958**	847
Less bad debt provision			**(958)**	(847)		
Trade receivables			**68,083**	60,673		

The Group has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay due to the weakening economic outlook. As a result, the calculations of expected credit losses have been revised as at 31 December 2023 and rates have increased in the greater than 90 days category.

Notes to the financial statements continued

For the year ended 31 December 2023

22. Trade and other receivables continued

Movements in the allowance for expected credit losses are as follows:

	2023 £'000	2022 £'000
Opening balance	**847**	323
Additional provisions recognised	**958**	796
Receivables written off during the year as uncollectable	**(756)**	(97)
Unused amounts reversed	**(91)**	(175)
Closing balance	**958**	847

The Group applies the IFRS 9 simplified approach to measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade receivables. The ECL balance has been determined based on historical data available to management in addition to forward-looking information utilising management knowledge.

23. Disposal of subsidiary

On 2 February 2023, the Group sold its wholly owned subsidiary undertaking, Lords at Home Ltd ('Lords at Home') including the Lords at Home brand. The subsidiary, which had 31 employees, was considered non-core to the Group's principal focus of building, plumbing, heating and DIY goods. The sale was for cash consideration of £805,000 settled in full on completion. As at 31 December 2022, the assets and liabilities of the subsidiaries were classified as held for sale.

The net assets of Lords at Home on disposal on 2 February 2023 were as follows:

	£'000
Non-current assets	
Property, plant and equipment	**12**
Deferred tax asset	**25**
Current assets	
Inventories	**504**
Trade and other receivables	**127**
Cash and cash equivalents	**465**
Total assets	**1,133**
Current liabilities	
Trade and other payables	**(417)**
Provisions	**(30)**
Total liabilities	**(447)**
Net assets	**686**
Gain on disposal	**119**
Cash consideration	**805**
Net cash inflow arising on disposal:	
Consideration received	**805**
Less cash and cash equivalents disposed	**(465)**
	340

The results of the business in the current and prior period were as follows:

	2023 £'000	2022 £'000
Revenue	**248**	3,019
Profit before tax	**100**	(29)

The taxation charge for the year in relation to the disposed subsidiary was £36,000 (2022: £10,000). The results form part of the Merchanting reporting segment.

There were no disposals of subsidiaries made in 2022.

Notes to the financial statements continued

For the year ended 31 December 2023

24. Cash and cash equivalents

	2023 £'000	2022 £'000
Cash at bank	**19,811**	16,038
	19,811	16,038

25. Trade and other payables

	2023 £'000	2022 £'000
Amounts falling due within one year:		
Trade payables	**82,645**	72,469
Other taxation and social security	**4,485**	3,974
Other payables	**3,880**	5,714
Accruals	**7,905**	12,186
	98,915	94,343
Amounts falling due after one year:		
Other payables	**5,917**	4,716
	5,917	4,716

Other payables comprise deferred consideration relating to various acquisitions and the anticipated cost of acquiring non-controlling interests where put and call options are in place. Other payables due after one year is discounted using discount rates which reflect the relevant costs of financing when material.

The directors consider that the carrying value of trade and other payables approximates to their fair value.

26. Borrowings

	2023 £'000	2022 £'000
Current		
Other loans	**9,507**	10,348
Total current borrowings	**9,507**	10,348
Non-current		
Bank loans	**38,239**	25,086
Total non-current borrowings	**38,239**	25,086
Total borrowings	**47,746**	35,434

A maturity analysis of the Group's borrowings is shown below:

	2023 £'000	2022 £'000
Less than 1 year	**9,507**	10,348
Later than 1 year and less than 5 years	**38,239**	25,086
Total borrowings	**47,746**	35,434

Total transaction costs were £758,000 at the date of issue and unamortised transaction costs of £580,000 (2022: £207,000) have been offset against the bank loans.

Unrestricted access was available at the reporting date to the following lines of credit:

	2023 £'000	2022 £'000
Total facilities		
Revolving credit facility	**70,000**	50,000
Invoice drawdown facility	**25,000**	20,000
	95,000	70,000
Used at 31 December		
Revolving credit facility	**38,819**	25,293
Invoice drawdown facility	**9,507**	10,348
	48,326	35,641
Unused at 31 December		
Revolving credit facility	**31,181**	24,707
Invoice drawdown facility	**15,493**	9,652
	46,674	34,359

The Group amended its banking facilities with HSBC UK Bank plc on 5 April 2023 and increased its invoice drawdown facility to £25 million and its revolving loan facility to £70 million. Details of the facilities are:

- An invoice financing facility of £25 million attracting an interest rate of UK base rate + 1.4%.
- A revolving credit facility of £70 million attracting an interest rate of SONIA + 2.5% at 31 December 2023 with fixed tiers between 2.00% and 2.80% based on leverage.

As at 31 December 2023, all facilities were with an expiry date of 5 April 2026. On 1 May 2024, the expiry date was extended to 5 April 2027.

The banking facilities are subject to cross guarantees from the relevant group undertakings.

Notes to the financial statements continued

For the year ended 31 December 2023

27. Reconciliation of liabilities arising from financial activities

	Current liability		Non-current liability		Total borrowings	
	Borrowings £'000	Lease liability £'000	Borrowings £'000	Lease liability £'000	Borrowings £'000	Lease liability £'000
At 1 January 2022	2,783	5,114	2,125	31,518	4,908	36,632
Acquired through business combinations	—	387	—	3,494	—	3,881
Proceeds from borrowings	7,565	—	103,411	—	110,976	—
Repayment of borrowings	—	—	(80,450)	—	(80,450)	—
Lease payments	—	(8,395)	—	—	—	(8,395)
Other non-cash movements	—	1,913	—	—	—	1,913
New leases	—	3,688	—	4,391	—	8,079
Modifications / remeasurement and transfers from current to non-current	—	2,789	—	(2,379)	—	410
At 31 December 2022	10,348	5,496	25,086	37,024	35,434	42,520
At 1 January 2023	**10,348**	**5,496**	**25,086**	**37,024**	**35,434**	**42,520**
Acquired through business combinations	**—**	**574**	**1,049**	**5,319**	**1,049**	**5,893**
Proceeds from borrowings	**—**	**—**	**109,116**	**—**	**109,116**	**—**
Repayment of borrowings	**(841)**	**—**	**(97,012)**	**—**	**(97,853)**	**—**
Lease payments	**—**	**(9,252)**	**—**	**—**	**—**	**(9,252)**
Other non-cash movements	**—**	**2,340**	**—**	**—**	**—**	**2,340**
New leases	**—**	**8,752**	**—**	**1,500**	**—**	**10,252**
Disposal of leases	**—**	**(906)**	**—**	**—**	**—**	**(906)**
Modifications / remeasurement and transfers from current to non-current	**—**	**811**	**—**	**110**	**—**	**921**
At 31 December 2023	**9,507**	**7,815**	**38,239**	**43,953**	**47,746**	**51,768**

Notes to the financial statements continued

For the year ended 31 December 2023

28. Other provisions

	2023 £'000	2022 £'000
Lease liability dilapidations	**1,565**	1,283
	1,565	1,283

	Leasehold property £'000
At 31 December 2022	1,283
Additions	**82**
Acquired through business combinations	**142**
Interest	**58**
As at 31 December 2023	**1,565**

As part of the Group's property leasing arrangements there is an obligation to repair damages which occur during the life of the lease, such as wear and tear. The cost is charged to profit or loss as the obligation arises. The provision is expected to be utilised between 2024 and 2129 as the leases terminate. The provision has been calculated using historical experience of actual expenditure incurred on dilapidations and estimated lease termination dates.

29. Deferred taxation

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2023 £'000	2022 £'000
Accelerated capital allowances	**3,010**	1,691
Leases	**(1,325)**	(1,031)
Intangible assets arising on business combinations	**5,774**	7,170
Losses	**71**	(307)
Share-based payments	**(157)**	(501)
Net deferred tax liability	**7,373**	7,022

Movement in period

	2023 £'000	2022 £'000
At beginning of the year	**7,022**	2,940
Charged to income statement	**(674)**	(713)
Credited to equity	**515**	(516)
Movement arising from business combinations	**510**	5,311
Net deferred tax liability	**7,373**	7,022

30. Share capital

	2023 £'000	2022 £'000
Allocated, called up and fully paid		
165,532,000 (2022: 162,511,000) ordinary shares of £0.005 each	**828**	813

Movements in the year

	2023 Nominal value £'000	2023 Shares '000
Beginning of the year	**813**	**162,511**
Shares issued on exercise of share options	**15**	**3,021**
	828	**165,532**

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Notes to the financial statements continued

For the year ended 31 December 2023

31. Share-based payments

A share option plan has been established by Lords Group Trading plc whereby at the discretion of the remuneration committee it may grant options over ordinary shares in the Company to certain key management personnel. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the remuneration committee.

Set out below are summaries of options granted under the plan:

2022 grant date	Expiry date	Exercise price	Balance at start of year	Granted	Exercised	Forfeited	Balance at end of year
27/06/2019	26/12/2029	0.005p	12,936,670	—	(3,986,499)	—	8,950,171[1]
01/10/2021	01/10/2031	0p	481,106	—	—	(45,132)	435,974[2]
15/05/2022	15/05/2032	0p	—	705,170	—	(598,374)	106,796[3]
30/06/2022	30/06/2032	0p	—	59,738	—	—	59,738[4]
30/06/2022	30/06/2032	83.7p	—	179,212	—	—	179,212[4]
			13,417,776	944,120	(3,986,499)	(643,506)	9,731,891
Weighted average exercise price			0.005	15.888	0.005	—	1.546

2023 grant date	Expiry date	Exercise price	Balance at start of year	Granted	Exercised	Forfeited	Balance at end of year
27/06/2019	26/12/2029	0.005p	8,950,171	—	(3,021,478)	(5,928,693)	—[1]
01/10/2021	01/10/2031	0p	435,974	—	—	(11,843)	424,131[2]
15/05/2022	15/05/2032	0p	106,796	—	—	(14,565)	92,231[3]
30/06/2022	30/06/2032	0p	59,738	—	—	—	59,738[4]
30/06/2022	30/06/2032	83.7p	179,212	—	—	—	179,212[4]
25/05/2023	25/05/2033	0p	—	4,034,125	—	—	4,034,125[5]
20/09/2023	20/09/2033	0p	—	276,073	—	—	276,073[5]
			9,731,891	4,310,198	(3,021,478)	(5,955,101)	5,065,510
Weighted average exercise price			1.546	—	0.005	0.005	2.961

1. 2016 Company Share Option Plan.
2. 2021 Deferred Bonus Plan.
3. 2022 Deferred Bonus Plan.
4. 2022 Long-Term Incentive Plan.
5. 2023 Long-Term Incentive Plan.

The table excludes SIP awards to all Company employees on 30 September 2021, who had been with the Company for six months prior to IPO. These shares were issued and held in trust, with no potentially dilutive impact to earnings per share.

Notes to the financial statements continued

For the year ended 31 December 2023

31. Share-based payments continued

2016 Company Share Option Plan

The CSOP performance measures target Group EBITDA growth, as reported in the Company's audited financial statements, in the five-year period commencing from the vesting commencement date and running to 31 December 2021 and 31 December 2022.

2021 and 2022 Deferred Bonus Plan

The Group issued a deferred bonus plan to certain key management personnel. Under the Deferred Bonus Plan, options vest automatically at no cost to the employee after a three-year holding period.

2022 Long-Term Incentive Plan

The options vest on 31 December 2024 subject to continued service and achieving certain market and non-market conditions relating to earnings per share and total shareholder return as defined under IFRS 2.

2023 Long-Term Incentive Plan

The performance targets attached to the LTIP awards are based on the earnings before interest, tax, depreciation and amortisation (EBITDA) of the awardee's respective division achieving a minimum growth rate of 25% over a three-year performance period from January 2023 to December 2025. The growth rate targets account for EBITDA growth stemming from acquisitions through a calculation factoring in a cost of capital charge. The awards will not vest if the division performs below the minimum target. The vesting of the final number of LTIP awards granted after the three-year performance period will be split with 50% of the final LTIP awards vesting and will be exercisable any time from May 2026, with a further 25% of the final LTIP awards vesting from May 2027, and the remaining 25% of the final LTIP awards vesting from May 2028.

For the awards issued in September 2023, the performance conditions are based on adjusted earnings per share and total shareholder return, over the three-year performance period to 31 December 2025.

Notes to the financial statements continued

For the year ended 31 December 2023

31. Share-based payments continued

Other share-based payment information

No options were exercisable at the end of the financial year (2022: nil).

The weighted average share price during the year was 64.64 pence (2022: 83.82 pence). The options were exercised in the year when the share price was 70.00 pence.

The weighted average remaining contractual life of the remaining options outstanding at the end of the financial year was 9.2 years (2022: 7.2 years).

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date are as follows:

2022 grant date	Expiry date	Options issued	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
15/02/2022	15/02/2032	705,185	1.250	—	40.00%	1.20%	1.50%	0.989
30/06/2022	30/06/2032	29,869	0.735	—	40.00%	2.60%	1.90%	0.690
30/06/2022	30/06/2032	89,606	0.735	83.7p	40.00%	2.60%	1.90%	0.136
30/06/2022	30/06/2032	29,869	0.735	—	40.00%	2.60%	1.90%	0.314
30/06/2022	30/06/2032	89,606	0.735	83.7p	40.00%	2.60%	1.90%	0.148

2023 grant date	Expiry date	Options issued	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
25/05/2023	25/05/2033	4,034,125	0.685	—	35.00%	2.90%	4.40%	0.593-0.628
20/09/2023	20/09/2033	276,073	0.610	—	35.00%	2.90%	4.40%	0.529-0.559

The expected volatility reflects the assumption that the historical volatility over a period, similar to the life of the options, is indicative of future trends, which may not necessarily be the actual outcome.

A binomial model is used to value options with no market performance conditions and a Monte Carlo model is used where there are market performance conditions.

32. Reserves

Share premium

The share premium account represents the excess of the amount raised from issuing shares above their nominal value less costs associated with the capital raise.

Merger reserve

Merger reserve relates to non-distributable amounts in excess of the nominal value of ordinary shares issued in connection with the share-for-share exchange with Lords Builders Merchants Holdings Limited.

Capital redemption reserve

Capital redemption reserve relates to amounts transferred following the redemption or purchase of the Company's own shares.

Share-based payment reserve

The share-based payment reserve relates to the fair value, at the date of grant, of share-based payments to directors and employees which are expensed to profit and loss on a straight-line basis over the vesting period, with the corresponding credit going to the share-based payment reserve.

Retained earnings

Retained earnings relate to cumulative net gains and losses less distributions made. Movements in put and call options where risk is deemed to be with the Group are included within retained earnings.

Notes to the financial statements continued

For the year ended 31 December 2023

33. Non-controlling interests

A complete list of subsidiary companies with non-controlling interests is included in note 45.

	2023 £'000	2022 £'000
At 1 January	**1,328**	4,337
Total comprehensive income	**318**	424
Arising on business combinations	**–**	745
Acquisition of non-controlling interest	**–**	(4,168)
Capital repayment	**(17)**	(10)
At 31 December	**1,629**	1,328

The Group has non-controlling interests in Condell Limited, Direct Heating & Plumbing Merchants Limited, Direct Heating & Plumbing Trade Counters Limited and Weldit LLP.

On 22 October 2022, the Group acquired the remaining 25% non-controlling interest of Hevey Building Supplies Limited ('Hevey'). The Group originally purchased a 75% interest in Hevey in October 2017.

34. Retirement benefit scheme

	2023 £'000	2022 £'000
Defined contribution scheme		
Charge to income statement	**999**	697
	999	697

The Group operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The outstanding pension contributions at each year end were £139,000 (2022: £183,000).

35. Contingent liabilities

The contingent liabilities detailed below are those which could potentially have a material impact, although their inclusion does not constitute any admission of wrongdoing or legal liability. The outcome and timing of these matters is inherently uncertain. Based on the facts currently known, it is not possible as at 31 December 2023 to predict the outcome of any of these matters or reliably estimate any financial impact. As such, at the reporting date no provision has been made for any of these cases within the financial statements.

In May 2021, the Group Chief Financial Officer wrote to the HMRC Anti-Money Laundering division to bring to their attention that it had identified a historic breach of The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 by A P P Wholesale Limited, a company that was acquired by Lords Group Trading plc in December 2019. The Group has identified a number of occasions where cash banked in a single transaction was in excess of €10,000 or where smaller sums of cash were banked which could be regarded as linked transactions in breach of the regulations.

The breaches occurred over a ten-year period from August 2010, cumulatively amounting to up to nearly £3,000,000. The Board is unable to predict the outcome of this reporting to HMRC and therefore the level of any potential fines. Our legal advice is that penalties for breaches of the regulations varies between nominal fines to fines which can equate to the full amount of the cash sum received in contravention of the regulations, depending on the level of culpability.

The Group has since conducted training for certain staff members within A P P Wholesale Limited and has updated and implemented improved systems and controls which were overseen by the Board and supported by professional advisers. The Board is confident that the situation has been remedied and the risks in the business are now being appropriately managed. We continue to engage and fully co-operate with our regulators in relation to these matters. At this stage it is not practicable to identify the likely outcome or estimate the potential financial impact with any certainty.

There has been no correspondence with HMRC since the Group wrote to them in May 2021.

36. Financial instruments

Financial assets

Financial assets measured at amortised cost comprise trade receivables, other receivables, accrued income and cash. It does not include prepayments. The carrying amount is a reasonable approximation of fair value.

	2023 £'000	2022 £'000
Trade receivables	**68,083**	60,673
Other receivables	**1,840**	561
Supplier rebates	**8,267**	7,358
Cash at bank and in hand	**19,811**	16,038
	98,001	84,630

Fair value measurement

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market-observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items;

Level 2: Observable direct or indirect inputs other than Level 1 inputs; and

Level 3: Unobservable inputs, thus not derived from market data.

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

Notes to the financial statements continued

For the year ended 31 December 2023

36. Financial instruments continued

Fair value measurement continued

Financial assets and liabilities measured at fair value include derivative financial assets and liabilities, as follows:

Fair value measurement	Level	**2023 £'000**	2022 £'000
Listed investments	1	**1**	1
Unlisted investments	3	**179**	84
		180	85
Call and put options	3	**1,283**	1,362

The Group holds call and put options over shares held by some of its non-controlling interests. The purchase price is at market value or a multiple of earnings before interest, tax, depreciation and amortisation (EBITDA). At year end the option price is reassessed and any increase or decrease charged or credited to retained earnings. See note 2.29 for the accounting policy on call and put options.

The movement in call and put options in the year was as follows:

	2023 £'000	2022 £'000
Balance at 1 January	**1,362**	5,310
Options exercised	**–**	(4,158)
Options added by business acquisition	**–**	619
Reassessment of amount payable	**(79)**	(409)
Balance at 31 December	**1,283**	1,362

One of the Group's subsidiaries sometimes makes international purchases in foreign currencies; the subsidiary may seek to reduce the foreign exchange risk by entering into forward contracts. At year end, the Group had no forward contracts with sterling equivalent.

Financial liabilities

Financial liabilities measured at amortised cost comprise trade payables, other payables, accruals and borrowings. It does not include deferred income and other taxation and social security or liabilities held for sale. The fair value of the Group's borrowings at 31 December 2023 was £48,326,000 (31 December 2022: £35,641,000). For the other financial liabilities presented below, the carrying amount is a reasonable approximation of fair value.

Financial liabilities	**2023 £'000**	2022 £'000
Trade payables	**82,645**	72,469
Other payables	**9,797**	10,430
Accruals	**7,905**	12,186
Lease liabilities	**51,768**	42,520
Borrowings	**47,746**	35,434
	199,861	173,039

Financial risk management

The Group is exposed through its operations to the following financial risks: credit risk, interest rate risk, foreign exchange risk and liquidity risk. Risk management is carried out by the directors of the Group. The Group uses financial instruments to provide flexibility regarding its working capital requirements and to enable it to manage specific financial risks to which it is exposed.

The Group finances its operations through a mixture of debt finance, cash and liquid resources and various items such as trade debtors and trade payables which arise directly from the Group's operations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In order to minimise the risk, the Group endeavours only to deal with companies which are demonstrably creditworthy and this, together with the aggregate financial exposure, is continuously monitored. The maximum exposure to credit risk is the gross debt before provisions of trade and other receivables and cash and cash equivalents as disclosed in notes 22 and 24.

The Group seeks to obtain charging orders over the property of trade receivables, where appropriate. The receivables' age analysis is also evaluated on a regular basis for potential doubtful debts, considering historic, current and forward-looking information. Further disclosures regarding trade and other receivables are provided in note 22.

Credit risk also arises on cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating B+ are accepted.

Currently, all financial institutions whereby the Company holds significant levels of cash are rated from AA- to A+.

Notes to the financial statements continued

For the year ended 31 December 2023

36. Financial instruments continued

Interest rate risk

The Group's current main interest rate risk arises from long-term borrowings which are financed at interest rates between SONIA + 2.0% and SONIA + 2.8%, and an invoice financing facility at a rate of UK base rate + 1.4%. Bank and other borrowings outstanding at 31 December 2023 amounted to £47,746,000 (2022: £35,434,000). An increase / decrease in interest rates of 1% would decrease / increase profit before tax by £477,000 (2022: £354,000).

Foreign exchange risk

Foreign exchange risk arises when the Group enters into transactions in a currency other than its functional currency. The Group's policy is, where possible, to settle liabilities denominated in a currency other than its functional currency with cash already denominated in that currency.

Liquidity risk

The Group seeks to maintain sufficient cash balances. Management reviews cash flow forecasts on a regular basis to determine whether the Group has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities.

A maturity analysis of the Group's non-derivative liabilities within trade and other payables and loans is shown below. A maturity analysis of leases is set out in note 19.

Liquidity risk	2023 £'000	2022 £'000
Less than one year	**103,937**	100,792
Between one and two years	**758**	27,693
Between two and five years	**40,048**	829
	144,743	129,314

The only derivate liabilities within the Group are put and call options to acquire non-controlling interests which are included within other creditors. A maturity analysis of the Group's derivative liabilities is shown below:

Liquidity risk	2023 £'000	2022 £'000
Less than one year	**—**	—
Between one and two years	**—**	—
Between two and five years	**1,474**	1,502
	1,474	1,502

Capital disclosures

The capital structure of the business consists of cash and cash equivalents, debt and equity. Equity comprises share capital, share premium and retained profits and losses and is equal to the amount shown as 'Equity' in the balance sheet. Cash and cash equivalents comprise cash and bank accounts and marketable securities that can be converted into cash within 90 days. Debt comprises various items which are set out in further detail above and in the notes to the accounts.

The Group's current objectives when maintaining capital are to:

- safeguard the Group's ability to continue as a going concern so that it can continue to pursue its growth plans;
- maintain its credit rating status while investing in organic developments and acquisition opportunities that are expected to generate attractive returns; and
- maintain a progressive dividend policy which provides a reasonable expectation of future returns to shareholders.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. In the year, the Group increased its borrowing facilities by £25 million to £95 million. The Group has maintained its total dividend for the year at 2.00 pence per share in 2023 (2022: 2.00 pence per share).

These capital management policies have remained unchanged from the prior year.

Notes to the financial statements continued

For the year ended 31 December 2023

37. Business combinations

Chiltern Timber Supplies Limited

On 3 April 2023, the Group acquired 100% of Chiltern Timber Supplies Limited ('Chiltern Timber'), an independent timber merchant, for a consideration of £1,596,000, of which £1,175,000 has been paid on completion and the balance of £421,000 is deferred equally over twelve, 24 and 36 months on a contingent basis subject to Chiltern Timber delivering certain earnings targets. On the acquisition date, Chiltern Timber had excess cash of £303,000 which was also paid to the vendor on completion. Chiltern Timber is a £2,600,000 turnover single-site operation based in Hemel Hempstead. The principal reason for the acquisition was due to strong growth potential and synergies from Chiltern Timber operating within the Lords business. The assets and liabilities of the business were subsequently hived into Carboclass Limited.

The acquired business contributed revenues of £2,009,000 and a profit before tax of £28,000 to the consolidated entity for the period from acquisition to 31 December 2023. The following table summarises the fair value of assets acquired and liabilities assumed at the acquisition date:

	Fair value £'000
Intangible asset – trade names	350
Property, plant and equipment	230
Right-of-use assets	970
Inventories	406
Trade and other receivables	172
Cash	746
Trade and other payables	(412)
Dilapidation provision	(25)
Lease liabilities	(970)
Deferred tax liability	(131)
Total fair value	**1,336**
Consideration	1,899
Goodwill	**563**

The fair values include recognition of an intangible asset relating to trade names of £350,000, which will be amortised over 14.5 years on a straight-line basis. The goodwill of £563,000 comprises the potential value of additional new customers which is not separately recognised. Deferred tax has been calculated on the value of the intangible assets acquired at a corporation tax rate substantially enacted at the acquisition date. Acquisition costs totalled £89,000 and are disclosed within exceptional expenses in the statement of comprehensive income.

Purchase consideration:	£'000
Cash on completion	1,175
Excess cash	303
Contingent payment	421
Total consideration	**1,899**

The contingent consideration of £475,000 has been discounted to a present value of £421,000 using an interest rate of 6.25%. Contingent consideration is paid in three equal payments across the next three years.

The net cash expended on the acquisition is as follows:

	£'000
Cash paid as consideration on acquisition	1,478
Less cash acquired at acquisition	(746)
Net cash movement	**732**

Notes to the financial statements continued

For the year ended 31 December 2023

37. Business combinations continued

Alloway Timber

On 1 September 2023, the Group concluded a 100% share capital purchase of Alloway Holdings Limited and subsidiaries ('Alloway Timber') for a consideration of £4,996,000, of which £4,770,000 has been paid on completion and the balance of £226,000 is due twelve months after the date of completion. Alloway Timber is a £15,900,000 turnover five-site operation based in the South East of England at Mitcham, Cheam, Byfleet, Kingston and Putney. The principal reason for the acquisition was due to strong growth potential and synergies from Alloway Timber operating within the Lords business. The acquired business contributed revenues of £3,414,000 and a loss before tax of £844,000 to the consolidated entity for the period from acquisition to 31 December 2023. The assets and liabilities of the business were subsequently hived into Carboclass Limited.

	Fair value £'000
Intangible asset – customer relationships	1,167
Property, plant and equipment	3,952
Right-of-use assets	5,040
Investments	1
Inventories	908
Trade and other receivables	1,830
Cash	353
Borrowings	(1,049)
Trade and other payables	(3,362)
Dilapidation provision	(117)
Lease liabilities	(4,923)
Deferred tax liability	(378)
Total fair value	**3,422**
Consideration	4,996
Goodwill	**1,574**

The fair values include recognition of an intangible asset relating to customer relationships of £1,167,000, which will be amortised over 13.83 years on a straight-line basis. The goodwill of £1,574,000 comprises the potential value of additional new customers which is not separately recognised. Deferred tax has been calculated on the value of the intangible assets acquired at a corporation tax rate of 25%, which is the effective tax rate substantially enacted at the acquisition date. Acquisition costs totalled £201,000 and are disclosed within the statement of comprehensive income within exceptional items.

Purchase consideration:	£'000
Cash on completion	4,770
Deferred consideration	226
Total consideration	**4,996**

The deferred consideration of £250,000 has been discounted to a present value of £226,000 using an interest rate of 10.25%. The deferred consideration is due to be paid in September 2024.

The net cash expended on acquisition is as follows:

	£'000
Cash paid as consideration on acquisition	4,770
Less cash acquired at acquisition	(353)
Net cash movement	**4,417**

38. Commitments and contingencies

At 31 December 2023, the Group had the following capital commitments:

Contracts for future capital expenditure not provided in the financial statements:

	2023 £'000	2022 £'000
Property, plant and equipment	–	871

39. Related party transactions

Parent entity

Lords Group Trading plc is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 45.

Key management personnel

Disclosures relating to key management personnel are set out in note 9.

Notes to the financial statements continued

For the year ended 31 December 2023

39. Related party transactions continued

Transactions with related parties

Gempoint 2000 Limited, a company of which Shanker Patel is also a director, owned properties leased by operating branches of the Group. The leases were transferred to Old Oak Wharf Limited on 30 September 2023, the holding company of Gempoint 2000 Limited, of which Shanker Patel is also a director. The Group was charged rentals by Gempoint of £945,000 (2022: £963,000) and at 31 December 2023 the Group owed Gempoint £140,000 (2022: £187,000). The Group was charged rentals by Old Oak Wharf Limited of £75,000 (2022: £nil) and at 31 December 2023 owed it £87,700 (2022: £nil).

The Group directors received dividends in the year from the Company as follows.

	2023 £'000	2022 £'000
Shanker Patel	**1,034**	1,028
Chris Day	**34**	11
Andrew Harrison	**6**	3
Gary O'Brien	**3**	1

The following transactions occurred between Group companies and companies that are not wholly owned within the Group:

Condell Limited paid management fees of £130,000 (2022: £320,000), and at 31 December 2023 were owed by / (owed to) wholly owned Group companies £337,000 (2022: £252,000). Condell made purchases of £101,000 (2022: £224,000) and sales of £494,000 (2022: £701,000) from wholly owned Group companies and was owed a net balance of £47,000 (2022: £89,000) on these transactions at 31 December 2023.

Weldit LLP paid management fees of £27,000 (2022: £22,500), interest of £24,000 (2022: £19,000) and made purchases of £nil (2022: £nil) to wholly owned Group companies. At 31 December 2023, Weldit LLP owed £679,000 (2022: £710,000) to wholly owned Group companies.

Direct Heat and Plumbing purchased £4,065,000 (2022: £361,000) and sold £919,000 (2022: £2,800,000) to wholly owned Group companies. At 31 December 2023, Direct Heat and Plumbing was owed £12,000 (2022: £13,000) by wholly owned Group companies.

40. Post balance sheet events

Resignation of Chris Day

Chris Day, Chief Financial Officer and Chief Operating Officer, informed the Board of his decision to leave the Company to take up another professional opportunity on 9 January 2024. On 8 May 2024, it was announced that Stuart Kilpatrick will be joining the Board as the new Chief Financial Officer on 4 June 2024.

Extension of Group facilities

The Group has exercised its extension option under the banking facilities agreement in relation to the Group's existing £95 million lending facilities. The terms of the facilities, which consist of a £70 million revolving credit facility (the 'RCF') and a £25 million receivables financing facility, were announced by the Company on 6 April 2023 and, pursuant to the extension now entered, the RCF has now been extended from its initial three-year term by twelve months such that the RCF will now expire on 5 April 2027.

Parent company statement of financial position

For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Fixed assets			
Investments	45	**48,202**	47,755
		48,202	47,755
Current assets			
Debtors	46	**1,440**	5,924
Cash at bank and in hand	47	**145**	64
		1,585	5,988
Creditors: amounts falling due within one year	48	**(782)**	(2,272)
Net current assets		**803**	3,716
Total assets less current liabilities		**49,005**	51,471
Creditors: amounts falling due after more than one year	49	**(3,075)**	(2,361)
Net assets		**45,930**	49,110
Capital and reserves			
Called up share capital	29	**828**	813
Share premium		**28,293**	28,293
Share-based payment reserve	32	**1,009**	496
Retained earnings	32	**15,800**	19,508
Total equity		**45,930**	49,110

The Company has taken advantage of the exemptions under section 408 of the Companies Act 2006 from presenting its own income statement in these financial statements. The Company's loss after tax for the financial period was £397,000 (2022: £969,000).

The parent company financial statements on pages 126 to 132 were approved and authorised for issue by the Board and were signed on its behalf on 14 May 2024.

Chris Day
Director

Registered number 11633708

The notes on pages 128 to 132 form part of these financial statements.

Parent company statement of changes in equity

For the year ended 31 December 2023

	Called up share capital £'000	Share premium £'000	Share-based payments reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2022	788	28,293	96	22,958	52,135
Loss for the financial period and total comprehensive loss	—	—	—	(969)	(969)
Taxation on share options exercised	—	—	—	606	606
Transactions with owners in their capacity as owners					
Share capital issued	25	—	—	—	25
Share-based payments	—	—	400	—	400
Dividends paid	—	—	—	(3,087)	(3,087)
As at 31 December 2022	813	28,293	496	19,508	49,110

	Called up share capital £'000	Share premium £'000	Share-based payments reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2023	**813**	**28,293**	**496**	**19,508**	**49,110**
Loss for the financial period and total comprehensive loss	**—**	**—**	**—**	**(397)**	**(397)**
Taxation on share options exercised	**—**	**—**	**—**	**—**	**—**
Transactions with owners in their capacity as owners					
Share capital issued	**15**	**—**	**—**	**—**	**15**
Share-based payments	**—**	**—**	**513**	**—**	**513**
Dividends paid	**—**	**—**	**—**	**(3,311)**	**(3,311)**
As at 31 December 2023	**828**	**28,293**	**1,009**	**15,800**	**45,930**

Notes to the parent company financial statements

For the year ended 31 December 2023

41. General information

Lords Group Trading plc is a private company limited by shares and is incorporated in the United Kingdom and registered in England. The registered office is Unit 1, Radford Industrial Estate, Goodhall Street, London, NW10 6UA. The Company's principal activity is to act as the holding company of the Group.

42. Accounting policies

42.1 Statement of compliance

These financial statements have been prepared in accordance with FRS 102 'The Financial Reporting Standard' applicable in the UK and Republic of Ireland (FRS 102) and the requirements of the Companies Act 2006.

42.2 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis under the historical cost convention unless otherwise specified within these accounting policies.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 43.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to conditions.

The Company has taken advantage of the following exemptions in its individual financial statements:

- from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows;
- from the financial instrument disclosures, required under FRS 102 paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b), 11.48(c), as the information is provided in the consolidated financial statement disclosures;
- from disclosing the Company key management personnel compensation and share option information, as required by FRS 102 paragraph 33.7; and
- from section 26 'Share-based Payment' – Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements.

The following principal accounting policies have been applied consistently.

42.3 Going concern

At 31 December 2023, the Group had £46.7 million of undrawn facilities as disclosed in note 26 and £19.8 million of cash. On 1 May 2024 the Group exercised its option under the facilities agreement signed in 2023 to extend the expiry date by an additional year to 5 April 2027.

Accounting standards require that the foreseeable future covers a period of at least twelve months from the date of approval of the financial statements, although they do not specify how far beyond twelve months a board should consider. The Board has considered cash flow projections over an extended period coinciding with the expiry date of the banking facilities on 5 April 2027. The Group is expected to have at least £28.7 million of headroom over its facilities at all times until 5 April 2027.

The cash flow forecasts have been stress tested by considering the most likely risks impacting the Group. These are considered to be growth below forecast, increased working capital requirements through increased debtors and increased incidence of customer default. The Group's cash flow projections indicate covenants on facilities will not be breached unless, instead of the anticipated growth, the Group's projected EBITDA falls by £8.9 million, debtors increase by 24% or the incidence of customer default is five times greater than that seen in 2023. While none of these are likely to occur, the Group has mitigating actions at its disposal that it can take in downside scenarios, such as delaying capital expenditure and maintaining a strong credit control function across the Group supported by credit insurance and restructuring the Group to reduce costs.

Cash flow forecasts are reforecast in the event of a potential acquisition not already in the forecast. The Group prepares weekly cash flow projections, daily sales flashes and monthly management accounts compared to budget with key performance indicators which together will provide an early warning system to indicate whether any mitigating actions are necessary in any part of the Group.

In all reasonable scenarios the Group is projected to be compliant with its banking covenants and therefore the directors are satisfied that the Group has adequate resources to continue operations for the foreseeable future.

After reviewing the Group and Company's forecasts and risk assessments and making other enquiries, the Board has formed the judgement at the time of approving the financial statements that there is a reasonable expectation that the Group and its subsidiaries have adequate resources to continue in operational existence until at least 5 April 2027.

Accordingly, the directors continue to adopt the going concern basis in preparing the Group and Company financial statements.

Notes to the parent company financial statements continued

For the year ended 31 December 2023

42. Accounting policies continued

42.4 Share-based payments

The Company issues from time-to-time equity-settled share-based payments to certain directors and employees of the Company and its subsidiaries. These are measured at fair value at the date of grant, which is expensed to profit and loss on a straight-line basis over the vesting period, with the corresponding credit going to equity.

Non-market vesting conditions are not taken into account in determining grant date fair value. Instead, they are taken into account by adjusting the number of equity instruments to vest. At the end of each reporting period the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. Any revisions, if any, are recognised in profit and loss with an adjustment to equity.

Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted using the binomial model.

42.5 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- deferred tax balances are not recognised in respect of permanent differences. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

42.6 Investment in subsidiaries

Interests in subsidiary undertakings are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. Any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary undertaking is an entity controlled by the Company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

42.7 Debtors

Short-term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

42.8 Impairment of investment in and loans to subsidiary undertakings

Interests in subsidiaries are assessed for impairment at each reporting date. If an indication of impairment is identified, the Company performs an impairment test to assess the recoverable amount of the subsidiary. An impairment loss is recognised for the amount by which the subsidiary undertaking's carrying amount, being the sum of investments and loans, exceeds its recoverable amount.

Recoverable amount is the higher of the subsidiary undertaking's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the subsidiary undertaking using a pre-tax discount rate.

42.9 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

42.10 Creditors

Short-term creditors are measured at transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

42.11 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities such as trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Borrowings are initially recognised at the transaction price, including transaction costs (unless the arrangement constitutes, in effect, a financing transaction, in which case it is initially recognised at the present value of future payments discounted at a market rate of interest for a similar debt instrument) and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar expenses.

Financial assets that are measured at amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Notes to the parent company financial statements continued

For the year ended 31 December 2023

42. Accounting policies continued

42.11 Financial instruments continued

Trade, group and other creditors (including accruals) payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being transaction price less any amounts settled.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

42.12 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

42.13 Equity

Equity comprises the following:

- 'called up share capital' represents the nominal value of equity shares;
- 'share premium' represents amounts paid for shares in excess of nominal value;
- 'retained earnings' represents retained earnings less retained losses; and
- 'share-based payment reserve' represents charges in relation to equity-settled share-based payments.

43. Critical accounting judgements and estimation of uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

43.1 Critical judgements in applying the accounting policies

There are no critical judgements in the parent company financial statements.

43.2 Key accounting estimates and assumptions

Impairment of investment in and loans to subsidiary undertakings of the Company

Each year the Company considers whether there are any indications that the investments or loans in its subsidiary undertakings are impaired. Some indications of impairment are both external, such as changes in technology and interest rates on the subsidiary undertaking, and internal, such as losses incurred in the year. In the event indicators of impairment are identified, the Company performs stress-tested net cash flow assessments on the forecasted cash flow projections of the subsidiary undertaking and provides for any shortfall in the carrying value of the subsidiary undertaking against future cash flow projections. See note 45 for the carrying amount of the asset, note 46 for amounts owed by Group undertakings and note 42.8 for the accounting policies. No impairment has been recognised as a result of the Company's assessment.

44. Staff numbers

The average number of employees in the Company during the year (including directors) was 13 (2022: 5) and the aggregate employee costs relating to these persons were:

	2023 £'000	2022 £'000
Wages and salaries	**2,040**	—
Social security costs	**265**	—
Defined contribution costs	**27**	—
Share-based payments	**66**	—
	2,398	—

From 2023, the directors and employees have been remunerated directly through Lords Group Trading plc. Prior to 2023, there were no direct employees and the directors were remunerated through Carboclass Limited, a subsidiary undertaking. Details of the directors' remuneration can be found in the directors' remuneration report.

45. Investments

	2023 £'000	2022 £'000
Subsidiary undertakings	**48,202**	47,755
	48,202	47,755

The movement on the investment in subsidiary undertakings relates to the share-based payment charge which is a capital contribution to the Company's subsidiary undertakings.

Notes to the parent company financial statements continued

For the year ended 31 December 2023

45. Investments continued

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Parent company	Segment	Entity type	Class of shares	Holding	Registered numbers	Parental guarantee
APP Wholesale Limited	Lords Builders Merchants Holding Limited	Plumbing and Heating	Trading	Ordinary	100%	06552800	
Direct Heating & Plumbing Merchants Limited	DH&P HRP Holdings Limited	Plumbing and Heating	Trading	Ordinary	90%	04039026	Yes
Direct Heating & Plumbing Trade Counters Limited	DH&P Trade Counter Holdings Limited	Plumbing and Heating	Trading	Ordinary	90%	12888477	Yes
Carboclass Limited	Fastlane Limited	Merchanting	Trading	Ordinary	100%	01906203	
A.W. Lumb (Northern) Limited	A.W. Lumb & Co. Limited	Merchanting	Trading	Ordinary	100%	01487194	
A.W. Lumb (Midlands) Limited	A.W. Lumb & Co. Limited	Merchanting	Trading	Ordinary	100%	01270417	
Condell Limited	Carboclass Limited	Merchanting	Trading	Ordinary	75%	05701638	Yes
Weldit LLP	Carboclass Limited	Merchanting	Trading	Ordinary	75%	OC303415	Yes
Lords Group Ventures Limited	Lords Group Trading plc	Merchanting	Non-trading	Ordinary	100%	12956319	Yes
Hevey Building Supplies Limited	Carboclass Limited	Merchanting	Non-trading	Ordinary	100%	04251567	
DH&P HRP Holdings Limited	APP Wholesale Limited	Plumbing and Heating	Non-trading	Ordinary	90%	12888160	Yes
DH&P Trade Counter Holdings Limited	APP Wholesale Limited	Plumbing and Heating	Non-trading	Ordinary	90%	12888351	Yes
AWLC Limited	Lords Builders Merchants Holding Limited	Merchanting	Non-trading	Ordinary	100%	10551863	Yes
A.W. Lumb & Co. Limited	AWLC Limited	Merchanting	Non-trading	Ordinary	100%	00799448	Yes
Lords Builders Merchants Holding Limited	Lords Group Trading plc	Merchanting	Non-trading	Ordinary	100%	10058191	Yes
Fastlane Investments Limited	Lords Builders Merchants Holding Limited	Merchanting	Non-trading	Ordinary	100%	03619301	Yes
Ebuildingsupplies Limited	Lords Builders Merchants Holding Limited	Merchanting	Non-trading	Ordinary	100%	06814518	Yes
Alloway Holdings Limited	Carboclass Limited	Merchanting	Non-trading	Ordinary	100%	12540950	
Alloway Properties Limited	Carboclass Limited	Merchanting	Non-trading	Ordinary	100%	12552646	Yes
Putney Builders Merchants Limited	Carboclass Limited	Merchanting	Non-trading	Ordinary	100%	04589342	Yes
Alloway Timber (Southern) Limited	Alloway Holdings Limited	Merchanting	Non-trading	Ordinary	100%	01019516	
Chiltern Timber Limited	Carboclass Limited	Merchanting	Non-trading	Ordinary	100%	08415193	Yes
Alloway Timber Limited	Alloway Timber (Southern) Limited		Dormant	Ordinary	100%	01010692	
Advance Roofing Supplies Limited	Carboclass Limited		Dormant	Ordinary	100%	02971503	
Huntingdon Timber Limited	Hevey Building Supplies Limited		Dormant	Ordinary	100%[1]	04864631	
E. Hussey and Sons Limited	Carboclass Limited		Dormant	Ordinary	100%[1]	00757302	
George Lines (Merchants) Limited	Carboclass Limited		Dormant	Ordinary	100%[1]	00469855	
Kings Langley Building Supplies Limited	Carboclass Limited		Dormant	Ordinary	100%[1]	01379046	
Newstore Limited	Carboclass Limited		Dormant	Ordinary	100%[1]	03856066	
Bomax Limited	George Lines (Merchants) Limited		Dormant	Ordinary	100%[1]	02475043	
MAP Building and Civil Engineering Supplies Limited	Hevey Building Supplies Limited		Dormant	Ordinary	100%[1]	04827102	
Easidrain Ltd	A.W. Lumb & Co. Limited		Dormant	Ordinary	100%[1]	01282644	

1. Company struck off on 23 April 2024.

Notes to the parent company financial statements continued

For the year ended 31 December 2023

45. Investments continued

Subsidiary undertakings continued

The Group agreed a parental guarantee with those companies shown above, and as a result those companies were exempt from audit under section 479A-479C of the Companies Act 2006 for the annual financial statements for the year ended 31 December 2023. All the companies classified as dormant are exempt from audit by virtue of section 479A of the Companies Act 2006.

All companies are incorporated in England and Wales with their registered office at Unit 1, Radford Industrial Estate, Goodhall Street, London, NW10 6UA.

The directors believe that the investment in subsidiaries is supported by their value-in-use and no impairment has therefore been recognised.

46. Debtors

	2023 £'000	2022 £'000
Amounts falling due after more than one year		
Amounts owed by Group undertakings	**1,296**	5,269
Amounts falling due in less than one year		
Corporation tax	**—**	606
Prepayments	**144**	49
	1,440	5,924

All amounts owed by Group undertakings are repayable on 31 December 2026. All amounts owed are unsecured borrowings, attracting an interest rate of SONIA + 2.5% as at 31 December 2023.

47. Cash at bank and in hand

	2023 £'000	2022 £'000
Cash at bank	**145**	64
	145	64

48. Creditors: Amounts falling due within one year

	2023 £'000	2022 £'000
Trade payables	**214**	—
Corporation tax	**137**	—
Other taxation and social security	**173**	—
Other creditors	**—**	1,458
Accruals and deferred income	**258**	814
	782	2,272

49. Creditors: Amounts falling due after more than one year

	2023 £'000	2022 £'000
Amounts owed to Group undertakings	**3,075**	2,361
	3,075	2,361

All amounts owed to Group undertakings are repayable on 31 December 2026. All amounts owed are unsecured borrowings, attracting an interest rate of SONIA + 2.5% as at 31 December 2023.

50. Employee share schemes

Employees of the Company's subsidiaries have at various times been granted awards in the form of nil cost options over ordinary shares in Lords Group Trading plc. Refer to note 31 of the consolidated financial statements for more detail on these schemes. The cost of the share-based remuneration is passed to the relevant subsidiary in the form of a capital contribution.

Alternative performance measures

In addition to the various performance measures defined under IFRS, the Group uses alternative performance measures (APMs) as part of its financial reporting, which are designed to assist with the comprehension of the performance of the Group by improving the comparability of information between reporting periods and divisions, and to aid the reader in further understanding the activities taking place within the Group. These measures are not defined under IFRS and therefore may not be directly comparable with other companies' APMs, and can exclude significant recurring business expenses. The adjusted measures below exclude amortisation of intangibles acquired in business combinations but include the revenues and benefits from the acquired operations. APMs should therefore be considered in addition to, and are not designed to be a substitute for, any of the IFRS measures of performance.

The alternative view presented by these APMs is consistent with how management views the business, and how it is reported internally to the Board of directors for performance analysis, planning, reporting, decision-making and incentive-setting purposes.

Further information on the Group's adjusting items, which is a critical accounting judgement, can be found in notes 3 and 7.

Income statement APMs

EBITDA

Adjusted EBITDA

- EBITDA is defined as earnings before interest, tax, depreciation, amortisation and impairment charge.
- Adjusted EBITDA is EBITDA but excluding exceptional items and share-based payments.
- The closest IFRS measure is operating profit.
- The Group uses EBITDA as it is a metric widely used by analysts, investors and other users of the financial statements to evaluate profitability of companies. Adjusted EBITDA is an important indicator of the Group's profit generation which is also directly linked to operating cash flow.

	2023 £'000	2022 £'000
Operating profit	**9,133**	16,328
Depreciation	**2,610**	2,069
Amortisation	**11,214**	10,240
Impairment charge	**501**	—
EBITDA	**23,458**	28,637
Exceptional items	**2,849**	929
Share-based payments	**513**	400
Adjusted EBITDA	**26,820**	29,966

Adjusted profit before tax

- Adjusted profit before tax is defined as profit before tax before exceptional items, share-based payments, amortisation of intangible assets, and impairment charges.
- The closest IFRS measure is profit before taxation.

	2023 £'000	2022 £'000
Profit before tax	**2,973**	12,798
Exceptional items	**2,849**	929
Share-based payments	**513**	400
Impairment charge	**501**	—
Amortisation of intangible assets	**3,515**	3,317
Adjusted profit before tax	**10,351**	17,444

Alternative performance measures continued

Income statement APMs continued

			2023 £'000	2022 £'000
Adjusted basic earnings per share	• Earnings attributed to equity holders adjusted for exceptional items, share-based payments, impairment charges and amortisation of intangible assets, divided by the weighted average number of shares in the year. • Adjusted EPS is a core measure of the Group's post-tax profitability and the ability to pay dividends to shareholders. This is a key management incentive metric.	**Earnings attributable to the equity holders of the parent**	**1,382**	9,117
		Exceptional items	**2,849**	929
		Share-based payments	**513**	400
		Amortisation of intangible assets	**3,515**	3,317
		Impairments	**501**	–
		Tax impact of adjustments	**(1,617)**	(883)
		Adjusted earnings	**7,143**	12,880
		Weighted average number of shares	**164,340,814**	160,523,582
		Adjusted basic earnings per share	**4.35**	8.02
		Weighted average number of shares – diluted	**168,091,701**	170,075,984
		Diluted earnings per share	**4.25**	7.57

Balance sheet APMs

			2023 £'000	2022 £'000
Net debt	• Net debt is defined as lender facilities utilised less cash and cash equivalents before recognising lease liabilities. From 2023 capitalised debt costs included within borrowings have been added back to arrive at net debt following the refinancing in 2023. As at 31 December 2023, this figure amounted to £0.6 million (2022: £0.2 million). • Net debt is a useful measure to assess the outcome of the Group's cash-generating activities and efforts strengthening its balance sheet position. It is a measure widely used by credit rating agencies.	Short-term borrowings	**(9,507)**	(10,348)
		Long-term borrowings	**(38,239)**	(25,086)
		Cash and cash equivalents	**19,811**	16,038
		Less capitalised debt costs	**(580)**	–
		Net debt	**(28,515)**	(19,396)

Alternative performance measures continued

Cash flow APMs

Adjusted cash generated by operating activities
- Adjusted cash generated by operating activities is defined as net cash generated by operating activities plus exceptional items.

Free cash flow
- Free cash flow is defined as net cash generated by operating activities plus exceptional items, less capital expenditure, taxation and interest paid.

Cash flow conversion
- Free cash flow conversion is free cash flow as a percentage of EBITDA.
- The closest IFRS measure is net cash generated by operating activities.
- Using the APMs for cash flow provides a view on cash flow generated by the Group's operations which is more predictable and comparable over time, and accordingly reflects the generation of cash available to shareholders.

	2023 £'000	2022 £'000
Net cash generated by operating activities	**19,660**	23,161
Exceptional items	**2,849**	929
Adjusted cash generated by operating activities	**22,509**	24,090
Net cash generated by operating activities	**19,660**	23,161
Exceptional items	**2,849**	929
Capital expenditure	**(4,905)**	(3,516)
Bank interest paid	**(2,917)**	(1,306)
Interest paid on invoice discounting facilities	**(805)**	(124)
Free cash flow	**13,882**	19,144
EBITDA	**23,458**	28,637
Cash flow conversion	**59.2%**	66.9%

Financial calculations and ratios

Adjusted EBITDA margin
- Adjusted EBITDA as a percentage of revenue.
- This metric is a key measure of the efficiency of the Group's operations and ability to grow profitability.

Return on capital employed (ROCE)
- ROCE is defined as operating profit as a percentage of capital employed (where capital employed is the sum of total equity and net debt at each period end).
- ROCE is a measure of how efficiently the Group deploys its capital, which is key in a business with multiple organic and inorganic growth opportunities.
- Sales growth excluding the impact of acquisitions and new locations, by adjusting for their incremental sales relative to the prior year.

Like-for-like sales
- Like-for-like revenue growth effectively shows comparable organic sales growth for the business as it existed at the start of the year.

	2023 £'000	2022 £'000
Revenue	**462,601**	450,020
Adjusted EBITDA	**26,820**	29,966
Adjusted EBITDA margin	**5.8%**	6.7%
Operating profit	**9,133**	16,328
Total equity	**51,165**	52,188
Net debt	**28,515**	19,396
Capital employed	**79,680**	71,584
ROCE	**11.5%**	22.8%

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Financial calendar

15 May 2024
Final results

20 June 2024
Annual general meeting

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