

Glossary – Alternative performance measures

Introduction

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ('APMs'). These measures are not defined by UK-adopted international accounting standards. As adjusted results and measures include the benefits of certain separately disclosed items (as detailed in note 3), but exclude significant costs related to those items, they should not be regarded as a complete picture of the Group's financial performance, which is presented on the face of the Income Statement under Total results. The exclusion of these items may result in Adjusted operating profit being materially higher or lower than Total operating profit. In particular, where significant impairments, restructuring charges and legal costs are excluded in any year, Adjusted operating profit will be higher than Total operating profit.

Purpose

The Directors believe that APMs assist the user of the Annual Report and Accounts in providing useful information around trends, performance and the position of the Group between reporting periods and across operating divisions by adjusting for non-recurring factors assessing the Total results of the Group, as well as aiding users in understanding the Group's performance. APMs are commonly used by management for performance review, budget setting and forecasting across the Group.

Some of the metrics shown for the Group are translated at constant exchange rates. Constant rates compares both 2021 and 2020 figures at the average and year-end exchange rates for 2021, in order to remove the impact of currency translation from the Group's growth figures.

Changes to APMs

There have been no significant changes to the definitions of existing APMs or the APMs used by the Group in the year.

Reconciliations

Reconciliations between statutory and adjusted measures can be found in the Financial Review on page 30.

APM	Closest equivalent statutory measure	Adjustments to reconcile adjusted to statutory	Definition and purpose
Like-for-like revenue ('Lfl')	No direct equivalent	Acquisitions, business disposals and rebates (2020 only).	<p>Including acquisitions following their 12-month anniversary of ownership and removing the historical contribution of any business disposals/closures. For 2020, Lfl revenue has been adjusted to present certain rebates net within revenue to permit comparability period to period where 2021 Lfl revenue is also presented net of rebates.</p> <p>Excluding acquisitions and disposals demonstrates the Group's performance for comparable operations year-on-year by removing any inflation of revenue in the current year or prior year contributed from new acquisitions or disposals.</p>
Adjusted free cash flow	Net cash flows from operating activities	<p>Includes cash flows from acquisition and sale of PPE, repayment of lease liabilities and interest received.</p> <p>Excludes the impact of cash flow SDIs.</p>	Free cash flow includes net cash flows from operating activities and certain cash flows from investing activities and the repayment of lease liabilities. The following items are excluded: all other cash flows from financing activities. This measure reflects the cash available to shareholders. This is a key performance metric for the incentive scheme
Adjusted operating profit*	Statutory Operating profit*	Separately disclosed items (see note 3) including amortisation of acquisition intangibles; impairment of goodwill and other assets; the profit or loss on disposals of businesses or other significant non-current assets; costs of acquiring and integrating acquisitions; the cost of any fundamental restructuring; material claims and settlements; significant recycling of amounts from equity to the income statement; and unrealised market or fair value gains or losses on financial assets or liabilities, including contingent consideration.	Adjusted operating profit is a key measure of Group's performance and is based on operating profit before the impact of separately disclosed items. These items relate to income or costs that are excluded from adjusted operating profit due to their nature or size to provide readers with a clear and consistent view of the business performance of the Group and its operating divisions on a year-on-year basis.

Glossary – Alternative performance measures Continued

APM	Closest equivalent statutory measure	Adjustments to reconcile adjusted to statutory	Definition and purpose
Adjusted operating margin	Statutory operating margin	As per Adjusted operating profit.	Adjusted operating profit divided by revenue, both before the impact of separately disclosed items. These items relate to income or costs that are excluded from adjusted operating profit due to their nature or size to provide readers with a clear and consistent view of the business performance of the Group and its operating divisions on a year-on-year basis.
Adjusted diluted earnings per share	Statutory Diluted Earnings per share	Separately disclosed items after tax (see note 3) including amortisation of acquisition intangibles; impairment of goodwill and other assets; the profit or loss on disposals of businesses or other significant non-current assets; costs of acquiring and integrating acquisitions; the cost of any fundamental restructuring; material claims and settlements; significant recycling of amounts from equity to the income statement; and unrealised market or fair value gains or losses on financial assets or liabilities, including contingent consideration.	This metric relates to profit after tax before separately disclosed items divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of potentially dilutive shares. This is a key performance metric for the incentive scheme
Adjusted cash flow from operations	Cash flow from operations	Cash flows relating to separately disclosed items, as identified in the cash flow statement.	This excludes the impact of the cash flows relating to separately disclosed items to reflect the cash flows available during recurring operations.
Adjusted net financing costs	Statutory net finance costs	Changes in fair value of contingent consideration.	Adjusted net financing costs exclude income or costs that due to their nature or size provide the readers with a clear and consistent view of the business performance of the Group on a year-on-year basis.
Adjusted profit after tax	Statutory profit after tax	As per Adjusted profit and additionally any separately disclosed tax related items are excluded.	Adjusted profit after tax is based on profit after tax before the impact of separately disclosed items. These items relate to income or costs that are excluded from adjusted operating profit due to their nature or size to provide readers with a clear and consistent view of the business performance of the Group and its operating divisions on a year-on-year basis.
ROIC (based on adjusted profit)	No direct equivalent	Adjusted operating profit is the profit measure used in calculating ROIC.	Adjusted profit after tax (as defined above) divided by invested capital. This is a key performance metric for the incentive scheme.
Organic ROIC (based on adjusted profit)	No direct equivalent	Adjusted operating profit is the profit measure used in calculating organic ROIC, excluding acquisitions following their 12-month anniversary of ownership and removing the historical contribution of any business disposals/closures.	Adjusted profit after tax (excluding acquisitions as defined above) divided by invested capital (excluding invested capital in acquisitions).
Net financial debt	No direct equivalent	Total net debt less lease liabilities.	This measure shows the non-operational financial debt of the Group, excluding lease liabilities.
Adjusted EBITDA	Statutory EBITDA	Earnings before interest, tax, depreciation and amortisation and excluding separately disclosed items (see note 3) including amortisation of acquisition intangibles; impairment of goodwill and other assets; the profit or loss on disposals of businesses or other significant non-current assets; costs of acquiring and integrating acquisitions; the cost of any fundamental restructuring; material claims and settlements; significant recycling of amounts from equity to the income statement; and unrealised market or fair value gains or losses on financial assets or liabilities, including contingent consideration.	This metric removes the impact of both separately disclosed items and interest, tax, depreciation and amortisation to provide a clear and consistent view of the business performance of the Group year-on-year at a level before the impact of some non-cash items and financing costs.

* Operating profit is presented on the Group income statement. It is not defined per IFRS, however, is a generally accepted profit measure.