

# Progressing to a sustainable future



*Our substantial investments in recycling demonstrate that sustainability sits right at the heart of our business.*

**Bob Lawson**  
Chair

In 2019 we made good progress with our strategic priorities and, against generally weak or subdued end markets, continued to consolidate our strong market positions in both divisions. The substantial investments we have made in recycling leave Eurocell as the leading UK-based recycler of PVC windows, demonstrating clearly that sustainability sits right at the heart of our business.

## **Financial and operating performance**

We delivered strong sales growth across the Group in 2019, with revenue up 10% (or 8% excluding acquisitions), together with a good improvement in gross margin.

Manufacturing performance was also better, following capital investment to improve manufacturing efficiency and increase extrusion capacity. However, we have continued to incur additional warehousing and distribution costs and, with the benefit of our new Chief Operating Officer's expertise, have identified new warehousing as essential to facilitate future growth and improve operating efficiency. We have therefore put plans in place to enable this (see below).

Adjusted EBITDA increased by 5% to £31.7 million (pre-IFRS 16). Adjusted profit before tax was £22.7 million, or £23.1 million on a pre-IFRS 16 basis (2018: £22.5 million). Adjusted basic earnings per share were 19.3 pence per share, or 19.7 pence per share on a pre-IFRS 16 basis (2018: 19.1 pence per share).

Cash conversion was impacted by a planned investment in working capital to support growth and a stock build programme to improve availability in our branches and help mitigate the risk of disruption from Brexit. Excluding the impact of IFRS 16, net debt at year end was £34.6 million (31 December 2018: £23.5 million). Reported net debt was £68.7 million. We have a strong balance sheet which provides flexibility and options for the future.

## **Strategy**

In January 2020, we conducted our annual review of the Company's strategy, our markets and activities. At the conclusion of this process, we reaffirmed that our overall objective remains to deliver sustainable growth in shareholder value by increasing sales and profits at above our market level growth rates.

We have made good progress against each of our five strategic priorities in 2019, with the key aspects of our performance described in the Chief Executive Officer's Review.

The successful deployment of our commercial strategies across the business has led to sales substantially exceeding our expectations over the last few years. Our excellent market share growth has been achieved without any meaningful gross margin erosion. However, profits have lagged more recently as we build operating capacity to service our sales and we have experienced inefficiencies and extra costs.

We have worked hard to resolve manufacturing issues through investment in new capacity, but warehousing remains a constraint.

However, I am very pleased to say that we have now secured a new state-of-the-art warehouse facility, located close to our primary operating sites near Alfreton. This will allow us to modernise our storage and picking solutions, providing a safer and more productive environment for employees and demonstrates our commitment to the locality. The new site will facilitate future growth and the delivery of further operating efficiencies. We expect it to be operational early in 2021. The costs associated with the new site are set out in the Group Financial Review.

With additional, efficient capacity, there is good potential to continue to outperform our markets in the medium-term.

### Governance

As a Board, we are committed to the highest standards of corporate governance and ensuring effective communication with shareholders. We continue to comply with the UK Corporate Governance Code.

### Dividends

We paid an interim dividend of 3.2 pence per share in October 2019. The Board proposes a final dividend of 6.4 pence per share, resulting in total dividends for the year of 9.6 pence per share, representing growth of 3%.

### People

The progress we have made in 2019 is testament to the hard work and dedication of our teams in every part of our business. On behalf of shareholders and of the Board, I offer our sincere thanks.

### Bob Lawson

Chair

## INVESTMENT CASE

### CLEAR STRATEGY

#### Five clear strategic priorities

- Increase the use of recycled materials.
- Target growth in market share.
- Expand our branch network.
- Develop innovative new products.
- Explore potential bolt-on acquisitions.

We made good progress with all our strategic priorities during 2019.

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### STRONG ON SUSTAINABILITY

#### In-house, closed-loop recycling facility

We are the leading UK recycler of PVC windows.

We recycle both customer factory offcuts ('post-industrial' waste) and old windows ('post-consumer' waste). The recycled material is used to generate brand new extruded plastic products.

Recycling helps to lower material costs and improve product and business sustainability.

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### COMPELLING BUSINESS MODEL

#### Recycling, manufacturing and own distribution network

We are a leading manufacturer of rigid and foam PVC profiles. Our branches are conveniently located, offering a wide range of products and providing excellent service to local customers and nationwide groups alike.

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### EXPERIENCED LEADERSHIP

#### Strong and experienced team

We have an effective Board and a strong senior management team with the requisite and complementary skills, knowledge and experience to secure the future success of the business.

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