

Divisional Review

Profiles

The Profiles division manufactures extruded rigid and foam PVC profiles.

We make rigid and foam products using virgin PVC compound, the largest component of which is resin. Our rigid products also include recycled PVC compound, produced at our market-leading recycling facilities.

Rigid PVC profiles are sold to third-party fabricators, who produce windows, trims, cavity closer systems, patio doors and conservatories for installers, retail outlets and house builders. Foam products are used for roofline and are supplied to customers through our nationwide branch network in the Building Plastics division.

As such, all of our manufacturing margin is recorded within the Profiles division, which therefore also benefits from expansion of the branch network.

The Profiles division also includes Vista Panels, S&S Plastics and Eurocell Recycle North (formerly 'Ecoplas').

Profiles	2019 £m	2018 £m	Change %
Third-party Revenue	115.7	107.7	7%
Organic	110.8	105.4	5%
Eurocell Recycle North ¹	4.9	2.3	113%
Inter-segmental Revenue	59.5	51.8	15%
Total Revenue	175.2	159.5	10%
Operating Profit pre-IFRS 16	17.8	17.8	–
Operating Profit post-IFRS 16	17.9		

1 Formerly Ecoplas, acquired August 2018.

Revenue

Third-party revenue was up 7% in 2019 to £115.7 million (2018: £107.7 million), which includes a like-for-like sales increase of 5%. This growth includes the impact of selling price increases implemented to recover cost inflation. The remaining growth was driven by the full year effect of the acquisition of Eurocell Recycle North in August 2018.

Like-for-like sales growth reflects strong contributions from both existing and new accounts from across our fabricator base. It also includes a strong contribution from Vista Panels, where sales were up 20%, driven by higher sales of composite doors to new build. Across the Profiles division, new build represents approximately one-third of sales.

We have been pleased with recent market share gains and are now consolidating our position as the largest supplier of rigid profile to the UK market. Our specifications teams continue to be successful in generating demand, well supported by our ability to supply a comprehensive product range through the fabricator network. As well as windows, this includes composite doors, PVC and aluminium bi-fold doors, a cavity closure system and products to support off-site construction.

Following the introduction of c.40 new accounts in 2017/18, we have added selectively a small number of account wins in 2019 and our prospect pipeline remains very strong.

In terms of Eurocell Recycle North, as described above, we suffered some initial delays with our project to expand capacity, which led to a shortfall in external sales. However, the investment programme is now well advanced and performance is starting to meet expectations more consistently.

Operating profit

Operating profit for 2019 on a pre-IFRS 16 basis was £17.8 million (2018: £17.8 million).

Gross margin percentage in Profiles was ahead of 2018. As noted above, we implemented selling price increases to recover cost inflation and increased the use of recycled material in our primary extrusion processes.

Higher overheads in Profiles includes the impact on direct labour from higher production volumes and the acquisition of Eurocell Recycle North, as well as wage and other inflation. It also includes additional warehousing and distribution costs as described in the Chief Executive's Review. As a result, return on sales percentage for 2019 was below 2018. However, we are implementing plans to improve further operating efficiency, particularly the expansion of our warehousing capacity.

Manufactured products

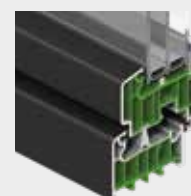
→ PVC rigid products

Within the manufacture of PVC rigid profile, we look to include as much recycled content as possible. Our modus and Eurologik window systems contain approximately 44% of recycled material.



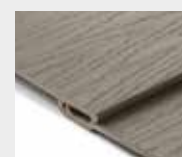
→ Foiled products

All of our manufactured window systems are available in over 30 different colour options, with lead times of just 7 days.



→ PVC foam products

We manufacture PVC foam profiles which are used for roofline, these are supplied to customers through the branch network.



Building Plastics

Building Plastics distributes a range of Eurocell manufactured and branded PVC foam roofline products and Vista doors, as well as third-party manufactured ancillary products.

These include windows made by our fabricator customers using products manufactured by Profiles, sealants, tools and rainwater products.

Distribution is through our national network of 206 branches to installers, small and independent builders, house builders and nationwide maintenance companies. The branches also sell roofline products to independent wholesalers.

The Building Plastics division includes Security Hardware, Kent Building Plastics and Trimseal. Security Hardware is a supplier of locks and hardware, primarily to the RMI market, and Kent Building Plastics and Trimseal are both suppliers of building plastic materials.

	2019 £m	2018 £m	Change %
Building Plastics			
Third-party Revenue	163.4	146.0	12%
Organic	159.5	145.7	9%
Kent Building Plastics ¹	3.4	0.3	1,033%
Trimseal ²	0.5	–	n/a
Inter-segmental Revenue	1.3	1.4	–
Total Revenue	164.7	147.4	12%
Operating Profit pre-IFRS 16	8.4	7.4	14%
Operating Profit post-IFRS 16	8.6		

1 Acquired December 2018.

2 Acquired March 2019.

Revenue

Building Plastics third-party revenue was up 12% to £163.4m (2018: £146.0m), with growth comprising an increase in like-for-like sales of 8%, as well as the impact of branch openings and the acquisitions of Kent Building Plastics and Trimseal. This growth includes the impact of selling price increases implemented to recover cost inflation.

Like-for-like sales includes growth from branches opened in 2017 and prior, as the more recent sites from that vintage begin to mature. This growth also reflects the positive impact from better stock availability, particularly for manufactured products, and the management team driving improvements in operating standards.

In terms of new branches, there were 4 new sites in 2019 (including the acquisition of Trimseal), compared to 12 in 2018 (including the acquisition of Kent Building Plastics). We now have an estate of 206 branches providing national coverage across the UK, which offers a significant competitive advantage. Branches opened in 2018/19 (excluding the acquisitions) added £2.2 million to sales in 2019.

Operating profit

Operating profit for 2019 on a pre-IFRS 16 basis was £8.4 million (2018: £7.4 million), an increase of 14%.

Gross margin percentage and operating profit in Building Plastics have improved compared to 2018. As noted above, we implemented selling price increases in 2019 to recover cost inflation. Other initiatives implemented to improve profitability include the introduction of a more rigid pricing architecture, revised sales and account management structures and better stock availability.

Higher overheads in Building Plastics includes the impact of new branches and acquisitions in 2018/19, as well as wage and other inflation. It also includes the additional warehousing and distribution costs described in the Chief Executive's Review.

We plan to open 4 new sites in 2020. New branches are a key driver of sales and profit growth in the medium-term, but they do create downward pressure on profitability in the short-term due to the investment in our teams at new sites and in supporting central infrastructure. However, our initiatives to reduce time to break-even have now driven this point below 24 months. We do not expect the 4 branches to be opened in 2020 to have a meaningful impact on profit for the year.

Branch network

No. of branches (at the end of the year)

2019	206
2018	202
2017	190

Average revenue per branch (£000)

2019	718
2018	679
2017	674

Indicative branch economics (rounded)

Branch open	< 2 years	2–4 years	> 4 years
No. of Branches ¹	11	50	140
Average Sales per Branch (£000)	300	500	850
Return on Sales per Branch (%) ²	Small loss	Up to 10%	Mid-teen %

1 Excluding Kent Building Plastics and Trimseal.

2 EBITDA as % of revenue, before regional infrastructure and central costs, and IFRS 16 adjustments.