> We delivered robust financial results and progressed major investments in the growth and sustainability of our business

Michael Scott
Chief Financial Officer

IFRS 16
We have adopted IFRS 16 Leases, with effect from 1 January 2019, which requires all qualifying operating leases to be brought onto the Statement of Financial Position. The impact on the Consolidated Income Statement was for overheads to reduce by £10.7 million (being the removal of lease rental charges), for depreciation to increase by £10.2 million (being the amortisation of right-of-use assets over the remaining lease term) and for interest to increase by £0.9 million (being the unwind of discounting of lease liabilities).

To provide better comparability, we have presented both the reported and pre-IFRS 16 financial information, and in explaining variances we have disclosed both the impact of the new standard and the underlying variance to 2018.

Revenue
Revenue for 2019 was £279.1 million (2018: £253.7 million), which represents growth of 10%, or 8% excluding acquisitions. Like-for-like sales growth (i.e. excluding the impact of acquisitions and branches opened in 2018/19) was 7%.

Sales have been driven by good organic growth in Profiles (£5.4 million, or 5% for the division), strong like-for-like growth in the branch network (£11.6 million, or 8% for the division) and the positive impact from branches opened in 2018/19 (£2.2 million, or 2% for the division). Acquisitions added £6.2 million to sales in 2019.

Gross margin
Overall, our gross margin increased by 170 bps from 49.5% in 2018 to 51.2% in 2019. This has been achieved through a combination of selling price increases, implemented to recover cost inflation, the increased use of recycled material and an improved manufacturing performance following the completion of our capex programme to expand extrusion capacity.

Distribution costs and administrative expenses (overheads)
Excluding the impact of IFRS 16, overheads for the year were £111.2 million (2018: £95.3 million). The increase of c.£16 million includes c.£1 million as a result of new branches opened in 2018/19, c.£4 million from acquisitions and c.£3 million as a result of wage and other inflation (including the impact of higher prices for transport).

Of the remaining increase, we estimate c.£5 million is driven by volume, being the impact on direct labour and distribution of higher production and sales (both up 10%).

The balance of c.£3 million includes an increased bad debt charge and the extra warehousing and distribution costs described in the Chief Executive's Review.

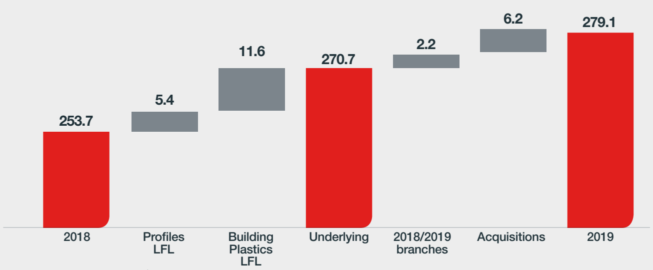
Depreciation and amortisation
Depreciation and amortisation for 2019 was £17.8 million. Excluding the impact of IFRS 16 (lease-related depreciation), depreciation and amortisation was £7.6 million (2018: £7.1 million).

Finance costs
Finance costs for 2019 were £1.9 million. Excluding the impact of IFRS 16, finance costs were £1.0 million (2018: £0.8 million), reflecting higher average net debt in 2019.

Group	2019 (Reported) £m	2019 (pre-IFRS 16) £m	2018 £m
Revenue	**279.1**	**279.1**	**253.7**
Gross profit	142.9	142.9	125.6
Gross margin %	51.2%	51.2%	49.5%
Overheads	(100.5)	(111.2)	(95.3)
Adjusted[1] EBITDA	**42.4**	**31.7**	**30.3**
Depreciation and amortisation	(17.8)	(7.6)	(7.1)
Adjusted[1] operating profit	**24.6**	**24.1**	**23.2**
Finance costs	(1.9)	(1.0)	(0.7)
Adjusted[1] profit before tax	**22.7**	**23.1**	**22.5**
Tax	(3.4)	(3.4)	(3.3)
Adjusted[1] profit after tax	**19.3**	**19.7**	**19.2**
Adjusted[1] basic EPS (pence per share)	**19.3**	**19.7**	**19.1**
Non-underlying items	–	–	0.4
Reported profit before tax	**22.7**	**23.1**	**22.1**
Reported profit after tax	**19.3**	**19.7**	**19.6**
Reported basic EPS (pence per share)	**19.3**	**19.7**	**19.6**

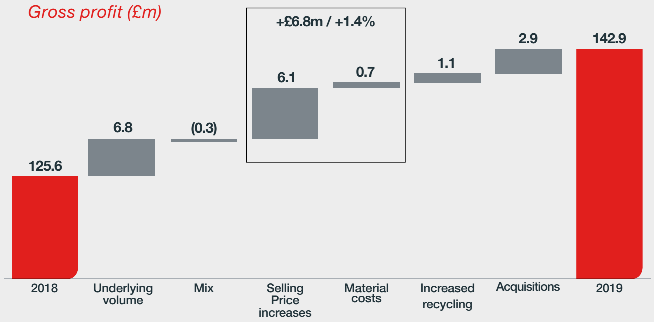
1 See adjusted profit measures.

Revenue (£m)

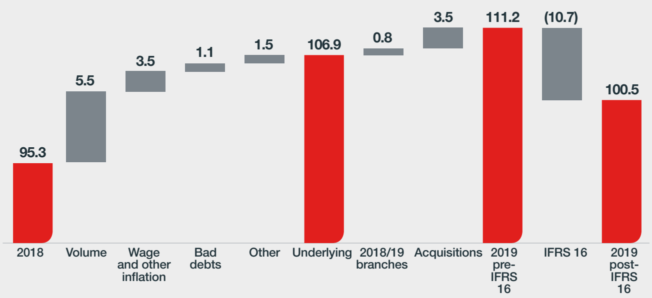


1 Like-for-like sales up 7%.

Gross profit (£m)

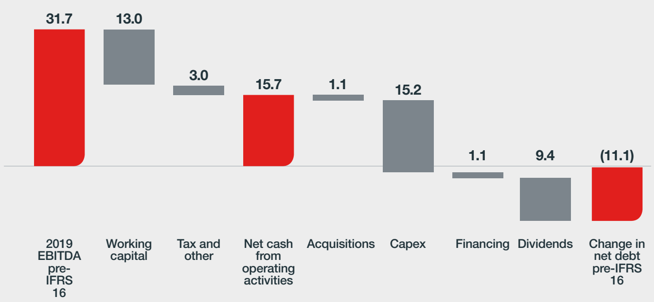


Overheads[2] (£m)



1 Like-for-like overheads up 12%.
2 Distribution costs and administration expenses.

Cashflow (£m)



Adjusted profit measures

EBITDA represents profit before interest, tax, depreciation and amortisation. Adjusted EBITDA, adjusted operating profit and adjusted profit before tax all exclude non-underlying items (see below), of which there were none in 2019.

Adjusted profit after tax and adjusted earnings per share exclude non-underlying expenses, the related tax effect and any other non-underlying tax items.

We classify some material items of income and expense as non-underlying when the nature and infrequency merit separate presentation. Alongside statutory measures, this facilitates a better understanding of financial performance and comparison with prior periods.

Non-underlying items

There are no non-underlying items in 2019.

Non-underlying expenses in 2018 of £0.4 million included professional fees related to the acquisitions of Eurocell Recycle North and Kent Building Plastics, as well as unamortised arrangement fees from our previous bank facility expensed following the refinancing in December 2018. Non-underlying tax for 2018 includes the tax associated with non-underlying expenses and the benefit of a second Patent Box claim in the period (£0.8m). Patent Box is an HMRC approved scheme, allowing a 10% tax rate on profits derived from products that incorporate patents. The second claim in 2018 was presented as non-underlying because we would typically expect to make only one claim in each financial year.

Profit before tax

Reported profit before tax was £22.7 million. Excluding the impact of IFRS 16, profit before tax was £23.1 million (2018: £22.1 million).

Tax

The effective tax rate on both reported and adjusted profit before tax for 2019 of 14.7% is consistent with the adjusted rate for 2018, and is lower than the standard corporation tax rate for the year due to the benefit of one Patent Box claim recognised in the year.

The effective tax rate on reported profit before tax in 2018 was 11.3% due to the recognition of a second Patent Box claim in the year.

During the year we were pleased to receive the Fair Tax Mark accreditation, reflecting our commitment to paying the right amount of tax at the right time (see page 35).

Earnings per share

Taking into account all of the factors described above, earnings per share were as follows:

	2019 (Reported) pence	2019 (pre-IFRS 16) pence	2018 pence
Basic earnings per share	**19.3**	**19.7**	19.6
Adjusted basic earnings per share	**19.3**	**19.7**	19.1
Diluted earnings per share	**19.2**	**19.6**	19.5
Adjusted diluted earnings per share	**19.2**	**19.6**	19.1

Acquisitions

We acquired Trimseal, a distributor of building plastic materials, on 6 March 2019 for a total net consideration of £0.4 million. Payments of deferred consideration of £0.7 million were made in respect of the acquisitions of S&S Plastics, Security Hardware and Kent Building Plastics.

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 (2018: 9.3 pence per share). This represents an increase of 3%. The dividend will be paid on 20 May 2020 to Shareholders registered at the close of business on 24 April 2020. The ex-dividend date will be 23 April 2020.

Retained earnings as at 31 December 2019 were £67.1 million (2018: £57.2 million). The Company takes steps to ensure distributable reserves are maintained at an appropriate level through intra-Group dividend flows.

Capital expenditure

Capital expenditure for 2019 was £15.2 million (2018: £8.7 million).

We incurred capital expenditure of £4.8 million in 2019 to expand production capacity and improve manufacturing efficiency in our primary extrusion facilities, including an additional 7 extrusion lines. We also invested £5.7 million to expand capacity and improve the operating environment at our two recycling plants and in the associated co-extrusion tooling. Other capex of £4.7 million includes new branches, as well as a general maintenance capex, branch refurbishments and various IT-related costs.

Cash flow

Net cash generated from operating activities was £26.4 million. Excluding the impact of the reclassification of lease payments to financing activities, net cash generated from operating activities was £15.7 million, compared to £17.7 million in 2018.

This includes a net outflow from working capital for 2019 of £13.0 million, comprising an increase in stocks of £9.0 million, an increase in trade and other receivables of £1.7 million and a decrease in trade and other payables of £2.3 million. This compares to a net outflow from working capital of £8.3 million in 2018.

Net cash generated from operating activities is also stated after tax paid in the year of £2.6 million (2018: £4.0 million), which is net of the cash received from two Patent Box claims, one of which was submitted (and the benefit recognised) in 2018.

The higher stock in 2019 reflects good growth, as well as the impact of our Brexit-related stock build. We have also improved stock availability in our branches, which was an important driver of strong like-for-like sales growth in the year.

Debtor days were 37 at year end, compared to 38 at the end of 2018. Lower payables reflect shorter payment terms for resin and post-consumer waste for the recycling operations, as well as an improvement in payables processes.

Other payments include acquisitions (including net debt acquired) of £0.4 million (2018: £8.3 million), deferred consideration of £0.7 million and capital investment of £15.2 million (2018: £8.7 million). Dividends paid represent the final dividend for 2018 of 6.2 pence per share (or £6.2 million) and the interim dividend for 2019 of 3.2 pence per share (or £3.2 million).

Finally, following the adoption of IFRS 16 Leases, we have recognised the discounted value of future lease liabilities within net debt with effect from 1 January 2019. As a result, net debt at 31 December 2019 increased by £34.1 million. The finance and principal elements of lease payments of £10.7 million are presented within cash flows arising from financing activities.

Taking all of these factors into account, net debt increased by £45.2 million during the year to £68.7 million at 31 December 2019. Excluding the impact of IFRS 16, underlying net debt increased by £11.1 million to £34.6 million (31 December 2018: £23.5 million).

Net debt

	2019 £m	2018 £m	Change £m
Cash	**4.9**	5.9	(1.0)
Lease liabilities	**(34.1)**	–	(34.1)
Borrowings	**(39.5)**	(29.4)	(10.1)
Net debt	**(68.7)**	(23.5)	(45.2)

New warehouse

The project to expand our warehousing capacity is described in the Chief Executive's Officer's Report. In fitting out the new warehouse we expect to incur capital expenditure of c.£8 million, all in 2020. This includes c.£3 million for racking, c.£3 million for picking equipment and c.£2 million for systems and project management.

Net operating costs for the new site in 2020 will be c.£2.5 million, comprising primarily rent, rates, depreciation and interest. We expect c.£1.5 million of these costs to be classified as non-underlying, as they will be incurred prior to the warehouse becoming operational. From 2021 onwards, the net operating cost for the new site will be c.£1 million per annum, inclusive of labour and other savings arising from more efficient picking and transport operations. From 2021 we expect this net cost will be more than offset by the impact of sales growth and operating efficiencies that are unlocked through this investment.

Bank facility

We have an unsecured, multi-currency revolving credit facility ('RCF'), provided by Barclays Bank plc and HSBC UK Bank plc. The facility was increased by £15 million up to £75 million in March 2020, in order to provide additional flexibility and options for the future. There were no changes to pricing or key items as a result of the uplift. However, we were very pleased to convert the facility into a Sustainable RCF, where modest adjustments to the margin will be applied based on our achievement against annual recycling targets.

We operate comfortably within the terms of the facility and related covenants, which are based upon accounting standards in effect at 8 December 2018 and are therefore not impacted by IFRS 16. The facility matures in 2023.

Michael Scott
Chief Financial Officer