CHIEF EXECUTIVE'S REPORT

Introduction

With demand softening towards the end of 2022, we completed a restructuring programme in Q4 of that year and entered 2023 prepared for tougher markets.

However, conditions in the first half of 2023 were more challenging than we had anticipated, with repair, maintenance and improvement ('RMI') activity impacted by low consumer confidence and higher costs of living. In addition, a steep decline in new build activity followed successive interest rate rises and falling house prices, with housebuilders reducing build rates in anticipation of falling sales. Thereafter, these trends continued for the remainder of 2023, with some further modest weakening in our key markets in H2.

Input cost inflation also continued through the first half, particularly for labour, electricity and recycling feedstock prices, which we offset with selling price increases where possible. As expected, we experienced some easing of input cost pricing in H2.

In response to lower sales volumes, we took further decisive action on costs, with a second restructuring programme implemented in Q2 2023. We also continued to focus on efficient cash and working capital management to drive a good cash flow performance for the year.

As reported in September, we have been reviewing our strategy. Through this work, we have identified a route to organic growth and a healthy improvement in operating margins over a five-year period. The headlines are summarised as follows, with full details set out in the Strategic Report on pages 18 to 29.

Financial results

Against the challenging market backdrop, we have delivered some resilience in the Group's sales performance. Revenues for the year were £364.5 million, down 4% on 2022, with volumes 6% lower against a strong 2022 comparative period.

As expected, adjusted profit before tax from continuing operations was £15.2 million, down £13.5 million on 2022, with the reduction driven by lower sales volumes, input cost inflation and margin pressure in the branches, partially offset by selling price increases, operational improvements and cost reduction.

Reported profit before tax was £11.7 million (2022: £26.2 million), after non-underlying costs totalling £3.5 million (2022: £2.5 million), reflecting the impact of a restructuring programme and cloud-based computing expenses.

Reflecting our focus on cash management, we delivered improved net cash generated from operations of £52.8 million, up 50% on 2022, including an inflow from working capital of £13.4 million, compared to an outflow of £13.1 million in the previous year.

Detailed information on our Group financial performance is set out in the Chief Financial Officer's Report. A summary of divisional financial performance is included below.

Operational performance

Production

Overall Equipment Effectiveness ('OEE', a measure which takes into account machine availability, performance and yield) was 78% in 2023, a significant improvement on the 71% reported for 2022, and ahead of our target of 75%, reflecting the benefit of improving manufacturing efficiencies and a tighter conformance to production planning. As a result, having built inventories to mitigate the impact of supply chain disruption in 2021/22, we delivered a reduction of c.£13 million in 2023, including the benefit of lower input costs.

Recycling

We are the leading UK-based recycler of PVC windows, now saving the equivalent of c.3 million window frames from landfill each year. We have made further progress in 2023, with usage increasing to 32% of materials consumed in production, compared to 29% in 2022, driving lower carbon emissions and cost savings compared to the use of virgin material.

A weaker RMI market and fewer window replacements restricted feedstock availability for our recycling business, resulting in a significant increase in purchase prices (21%) compared to 2022. However, the impact was most significant in the first half of the year and we are making good progress securing additional sources of feedstock, which, alongside reduced demand and lower virgin resin prices, saw prices beginning to ease in H2.

Furthermore, we are finding more ways of using all the waste product generated by our plants and expect to progressively reduce waste sent to landfill.

Health and safety

The safety and well-being of our employees, contractors and branch customers is our number one priority, and we have delivered a significantly improved safety performance in 2023. Our Lost Time Injury Frequency Rate[1] ('LTIFR') was 5.7 in 2023, compared to 10.0 in 2022. Our RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) performance remains better than the industry average. There were no major injuries and 11 minor accidents recorded under RIDDOR in the year (2022: no major injuries and 23 minor injuries).

Health and safety is now the first agenda item for key internal meetings. We have enhanced the reporting of near misses and unsafe acts and conditions, as part of a proactive approach to risk management, with the aim of reducing the likelihood of future workplace injuries. This, when combined with the effective and timely implementation of corrective and preventive action, supports our positive and improving safety culture.

1 Injuries per 1 million hours worked.

Divisional performance – Profiles

Profiles	2023 £m	2022 £m	Change %
Third-party revenue	**154.9**	161.7	(4)%
Inter-segmental revenue	**64.9**	72.3	(10)%
Total revenue	**219.8**	234.0	(6)%
Adjusted[1] operating profit	**11.9**	20.2	(41)%
Operating profit	**10.1**	19.3	(48)%

1 Adjusted performance measures are stated before non-underlying items.

Profiles third-party revenue for the year was £154.9 million, 4% lower than 2022, with reduced RMI activity and a significantly weaker new build market partially offset by market share gains, leaving volumes 7% below 2022.

Cost of living pressures, successive interest rate increases and falling house prices have all had a significant adverse impact on demand for our products.

However, we have continued to acquire new fabricator accounts, supported by a reduction in UK capacity following the closure of the Duraflex extrusion business in September. In addition, some of our existing fabricators have benefited from an increase in volume following the administration of Safestyle in October.

Profiles adjusted operating profit for 2023 of £11.9 million was 41% below the previous year (2022: £20.2 million), reflecting lower sales volumes and input cost inflation (particularly labour, recycling feedstock and electricity), partially offset by selling price increases, operational improvements and cost reduction.

Reported operating profit is stated after non-underlying restructuring costs totalling £1.8 million (2022: £0.9 million).

Further information on non-underlying items is included in the Chief Financial Officer's Report. A summary of our strategy for Profiles is set out overleaf.

Divisional performance – Building Plastics (Branch Network)

Building Plastics	2023 £m	2022 £m	Change %
Third-party revenue	**209.6**	219.5	(4)%
Inter-segmental revenue	**0.4**	0.3	33%
Total revenue	**210.0**	219.8	(4)%
Adjusted[1] operating profit	**8.9**	12.2	(27)%
Operating profit	**8.2**	10.9	(25)%

1 Adjusted performance measures are stated before non-underlying items.

Third-party revenues in the Branch Network were £209.6 million, 4% lower than 2022, with volume down 5%.

RMI volumes in the branches were subdued throughout the year, as homeowners have pulled back on discretionary expenditure, most likely in response to higher costs of living and interest rates.

However, we still see reasonable volumes of high-value project work (such as our roof lanterns, conservatory roofs, windows and bi-fold doors) and sales in our outdoor living range (fencing, decking and garden rooms) of £11.6 million remain broadly consistent with 2022.

Branch Network adjusted operating profit for 2023 was £8.9 million, 27% below the previous year (2022: £12.2 million), reflecting lower sales volumes and pressure on margins as a result of increased competition for limited demand, partially offset by selling price increases and cost reduction.

Reported operating profit is stated after non-underlying restructuring costs totalling £0.7 million (2022: £1.3 million).

Further information on non-underlying items is included in the Chief Financial Officer's Report. A summary of our strategy for the Branch Network is set out overleaf.

Strategy

We began a review of our strategy in the summer. The review is now complete, with the headlines summarised below and full detail set out in the Strategic Report on pages 18 to 29.

By way of context, since Eurocell listed on the London Stock Exchange in 2015, sales have more than doubled, through a mixture of branch expansion, market share gains and acquisitions. We have also significantly increased our use of recycled PVC in primary manufacturing operations.

Whilst the business has done well growing the top line, operating margins fell steadily down to 8% in 2022. This has been driven by operational issues, now fixed with investment, and our ability to recover the full margin impact of input cost increases with selling prices. Margins were lower again in 2023, driven by higher input costs and the operational gearing impact of declining volumes.

With this strategic review, we are resetting the ambition for the business. Our new strategy identifies a pathway to building a £500m revenue business, generating a 10% operating margin over a five-year period. This is an ambitious vision, but we believe it is an achievable target.

Our strategy is built around four strategic pillars: Customer Growth, Business Effectiveness, People First and ESG Leadership. The following paragraphs describe these pillars and the initiatives which support them.

Customer Growth

Our aim is to become the trade customer's preferred choice, in all markets and segments where we operate. We believe the biggest opportunity for growth will come from expansion of the branch network, including the sale of windows and doors, plus our extended living spaces range of garden rooms and extensions. This is all underpinned by an increased investment in digital, to raise awareness of our products and home improvement solutions and thereby acquire new customers.

Branch Network

We have concluded that the optimum branch network size is up to c.250 branches. Therefore, after a two-year break, we are planning to recommence opening new branches from Spring 2024 and expect to add c.30 new branches over the next three to four years. We will supplement this with a number of branch relocations, to optimise our existing footprint.

We are aiming to sell more doors, windows and conservatory roofs through the branches. Following an improvement in our window and door proposition, we ran a trial across six branches in Q4 and the results exceeded our expectations. We plan to add a further 24 branches progressively into the trial in 2024, and if successful, we will complete the roll-out across the remaining network through 2025.

Extended living spaces

Extended living spaces comprises garden rooms and extensions. With our strong customer proposition, experienced sales professionals and efficient end-to-end processes, we believe there is a good opportunity to gain market share and drive growth through this product range.

For example, since launching our garden room range three years ago, we have steadily built a strong market presence, competing well with the established market participants.

With our extensions range, we are using modern methods of construction that piece together in an innovative kit form, thereby creating a cost-effective, energy-efficient building solution for homeowners who are looking to convert and extend their properties, with installation times of weeks not months.

Profiles

In Profiles, following a period of strong growth, we believe we are now the leading supplier of rigid PVC profile to the UK market. With markets currently weak, we believe targeting further significant share gains would lead to price erosion, which would have a detrimental effect on our business.

Our strategy for Profiles is therefore to protect our existing business and maintain our value-added service propositions that support our customers. We will continue to leverage our leading position with housebuilders and commercial developers to ensure we maintain specifications to support a robust pipeline of work for our fabricator customers. We are recognised across the industry as the leading technical systems house, and we will continue to leverage this advantage too.

The planned growth in window sales through our branch network provides incremental growth opportunities for our fabricator partners, and we are proactively working with them to secure additional capacity.

Business Effectiveness

Our objective is to make Eurocell a lean and efficient business, therefore we are upgrading our business systems and streamlining processes to increase efficiencies and improve the customer experience.

As previously announced, we are in the process of replacing our Enterprise Resource Planning ('ERP') system. The first stage of this process is to implement a new trade counter system in the branch network. Having now selected a new system, we plan to transition at the beginning of 2025. This will transform the way we interact and transact with our customers in the branches.

The second stage is to select and implement an ERP system to support all other functions of the business, including manufacturing, recycling, warehousing, distribution and finance. For ERP, we expect to select a system later in 2024, with transition to be completed around mid-2026.

We are also embedding a continuous improvement philosophy, which is already highlighting significant opportunities for efficiencies, particularly in our manufacturing and recycling operations.

Our initiative to sell more doors and windows through our branches will utilise spare capacity that we have in our rigid extrusion manufacturing operations and composite door business, thereby making us more efficient.

People First

The objective of our People First strategic pillar is to make Eurocell a great place to work, through a relentless focus on health and safety, an enhanced employee value proposition, improved levels of engagement and effective talent management.

For health and safety, we are focused on improving relevant leadership skills and providing appropriate safety education. In terms of our employee value proposition, we are developing a wellbeing framework, recognition schemes and better induction and onboarding programmes. Key priorities for employee engagement include a new internal communications framework, colleague forums and stepping up community and charity work. Finally, effective talent management includes talent development, succession planning and an increasing use of apprenticeships.

ESG Leadership

We want to earn a reputation for being a truly responsible company. Eurocell is already a leader in PVC recycling, which is preventing millions of windows being sent to landfill. But that is just one aspect of ESG and, looking ahead, we aim to excel in all areas.

We are now working with CEN-ESG, a specialist ESG consultancy, to support the development of our ESG strategy and improve our ESG data and disclosures. The results of our work so far are set out in full in the Sustainability Report on pages 32 to 49 and in our Task Force on Climate-related Financial Disclosures ('TCFD') Report on pages 50 to 61. It includes:

- A materiality assessment, which helped us determine the most important sustainability topics to the business. With this analysis we have surveyed a selection of employees, suppliers, customers, banks and shareholders
- A baseline carbon footprint for the business (Scope 1, 2 and 3), identifying key decarbonisation levers.

We have used the outputs from this work to define ESG objectives and targets and develop a sustainability strategy, supported by appropriate governance and internal controls. Looking forward, a key focus for our work in 2024 will be to determine a path to reach Net Zero by our target date of 2045, albeit this will be heavily dependent on reduced emissions in our raw material supply chain.

Summary and outlook

The trends reported at our half year results in September continued for the remainder of 2023, with some further modest weakening in our key markets. Against this challenging backdrop, we are pleased to report profits for the year in line with expectations and strong cash flow generation.

We took early and decisive action on costs in response to lower volumes and have continued to focus on efficient working capital management, driving a good cash flow performance. Whilst the near-term outlook for our markets remains challenging, these actions leave us well placed to benefit from a market recovery when it comes.

Our review of strategy is now complete and I am very pleased with the outcome. Looking ahead, we have identified a clear pathway to building a £500m revenue business, generating a 10% operating margin over a five-year period, built around four pillars; Customer Growth, Business Effectiveness, People First and ESG Leadership. This is an ambitious vision, but when we aggregate the growth opportunities, and apply a degree of sensitivity, we believe it is an achievable target, with the potential to create significant shareholder value.

Darren Waters
Chief Executive