CHIEF FINANCIAL OFFICER'S REPORT

Group	2023 £m	2022 £m
Revenue	**364.5**	381.2
Gross profit	**173.8**	184.5
Gross margin %	**47.7%**	48.4%
Overheads	**(131.1)**	(130.4)
Other income[3]	**0.4**	1.1
Adjusted[2] EBITDA	**43.1**	55.2
Depreciation and amortisation	**(24.7)**	(23.9)
Adjusted[2] operating profit	**18.4**	31.3
Finance costs	**(3.2)**	(2.6)
Adjusted[2] profit before tax	**15.2**	28.7
Taxation	**(2.9)**	(4.7)
Adjusted[2] profit after tax	**12.3**	24.0
Adjusted[2] basic EPS (pence)	**11.0**	21.4
Non-underlying overheads	**(3.5)**	(2.2)
Non-underlying finance costs	**–**	(0.3)
Tax on non-underlying items	**0.8**	0.5
Reported operating profit	**14.9**	29.1
Reported profit before tax	**11.7**	26.2
Reported profit after tax	**9.6**	22.0
Loss after tax from discontinued operations	**–**	(2.3)
Profit for the year	**9.6**	19.7
Reported basic earnings per share (pence)	**8.6**	19.6

1 Results are stated on a continuing basis i.e. before discontinued operations (see below).

2 See alternative performance measures.

3 Other income is amounts received under the Group's cyber insurance policy, net of excess paid, in respect of business interruption to the Group's continuing trading activities as a result of a cyber incident in July and August 2022.

Introduction

Market conditions deteriorated progressively through the first half of the year, driven by ongoing cost inflation, successive base rate increases and falling real wages, all of which put unprecedented pressure on household budgets, resulting in lower levels of activity in the private housing RMI market and reduced demand for new build housing. These trends continued in the second half of the year, with some further weakening in our key markets. However, we also experienced some easing in input cost pricing in H2.

As expected, profits were down compared to 2022, reflecting lower sales volumes, input cost inflation and margin pressure in the branches, partially offset by selling price increases, operational improvements and cost reduction.

In response to lower sales volumes, we acted quickly to reduce our cost base, securing savings of £7 million for the year. We also continued to focus on efficient inventory management to drive good cash flow performance.

We believe that these actions leave us well placed to progress the strategic initiatives described in the Chief Executive's Report, as well as benefit from a market recovery when it comes.

Revenue

Revenue for 2023 was £364.5 million, 4% lower than 2022 (£381.2 million), with volumes down 6% against a strong 2022 comparative period, reflecting weak market conditions.

Gross margin

Gross margin for the year was 47.7%, down from 48.4% in 2022. Input cost inflation continued in the first half of 2023, particularly for labour, recycling feedstock and electricity (where we operate a rolling 12-month forward hedging policy, so were paying rates locked in during H1 2022, when wholesale energy prices peaked). We offset these higher costs with selling price increases where possible. We also experienced some progressive easing of input cost pricing throughout the second half of the year and continued to deliver operational improvements. As a result, gross margin increased to 49.5% in H2, compared to 46.0% for H1.

Distribution costs and administrative expenses (overheads) and other income

Underlying overheads were together £131.1 million, up 1% on 2022 (£130.4 million). We experienced general overhead and wage inflation in 2023, but this was also recovered via selling prices increases where possible, and further mitigated by operational improvements and our cost reduction initiatives.

We completed a restructuring programme in Q4 2022, which reduced operating costs by £5 million per annum from the start of 2023. With end markets continuing to weaken in the first half of 2023, and given the more challenging outlook for the remainder of the year, we completed a further headcount reduction in June, which reduced operating costs by c.£2 million in H2 and by c.£4 million per annum thereafter. Costs associated with this restructuring have been presented as non-underlying items (see overleaf).

Other income is amounts received under our cyber insurance policy in compensation for business interruption (lost sales) suffered due to the cyber incident in July and August 2022.

Depreciation and amortisation

Depreciation and amortisation was £24.7 million compared to £23.9 million in 2022.

Alternative performance measures

Alternative performance measures are used alongside statutory measures to facilitate a better understanding of financial performance and comparison with prior periods, and in order to provide audited financial information against which the Group's bank covenants, which are all measured on a pre-IFRS 16 basis, can be assessed.

Adjusted EBITDA, adjusted operating profit and adjusted profit before tax all exclude non-underlying items. Adjusted profit after tax and adjusted earnings per share exclude non-underlying items and the related tax effect.

Pre-IFRS 16 EBITDA is stated inclusive of operating lease rentals under IAS 17 Leases. Pre-IFRS 16 net debt is defined as total borrowings and lease liabilities less cash and cash equivalents, excluding the impact of IFRS 16 Leases.

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

"Despite a difficult trading year, net cash generated from operating activities was £52.8 million (2022: £35.1 million), reflecting our focus on efficient working capital management."

Michael Scott
Chief Financial Officer

Non-underlying items

Non-underlying items for 2023 of £3.5 million included restructuring costs of £2.7 million, comprising redundancy payments and related employee benefit termination costs. Also included are £0.8 million of cloud computing costs incurred on strategic IT projects involving 'Software as a Service' arrangements, which are expensed as incurred rather than being capitalised as intangible assets. Such items are considered to be non-underlying in nature because they relate to multi-year programmes to deliver strategic IT implementations which are material in size, with overall spend estimated to be in the region of £8-10 million over the next three years. Our strategic IT projects comprise a new customer-facing website, an employee management system and, most significantly, the replacement of our Enterprise Resource Planning ('ERP') system. We expect these projects will drive major improvements in our customers' experience and significantly increase the efficiency of our operations.

Non-underlying items of £2.5 million in 2022 include restructuring costs of £2.2 million (redundancy payments of £1.6 million and tangible and right-of-use asset impairment charges of £0.6 million) and £0.3 million of costs relating to the refinancing of the Group's £75 million Revolving Credit Facility.

Finance costs and taxation

Underlying finance costs for 2023 were £3.2 million, compared to £2.6 million in 2022. Total finance costs in 2022 of £2.9 million included £0.3 million of unamortised borrowing costs expensed to the Consolidated Income Statement following the refinancing of the Group's Revolving Credit Facility, which was classified as a non-underlying item.

The underlying tax charge for 2023 was £2.9 million (2022: £4.7 million). The total tax charge for 2023 was £2.1 million (2022: £4.2 million). The effective tax rate on underlying profit before tax for 2023 of 18.8% is lower than the standard rate of corporation tax of 23.5% due to Patent Box relief.

We were pleased to retain the Fair Tax Mark accreditation in 2023, reflecting our commitment to paying the right amount of tax at the right time.

Profit before tax and earnings per share

Adjusted profit before tax for the year was £15.2 million compared to £28.7 million in 2022, down £13.5 million, reflecting 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 in 2023 was £11.7 million (2022: £26.2 million), reflecting the above, and £3.5 million of non-underlying items (2022: £2.5 million).

Adjusted basic earnings per share for the year were 11.0 pence (2022: 21.4 pence). Adjusted diluted earnings per share for the year were 11.0 pence (2022: 21.3 pence). Total basic and diluted earnings per share were both 8.6 pence (2022: 19.6 pence and 19.5 pence respectively).

Dividends and share buyback programme

We paid an interim dividend of 2.0 pence per share in October 2023 (£2.2 million). The Board proposes a final dividend of 3.5 pence per share which results in total dividends for the year of 5.5 pence per share, or £6.0 million, down 49% (2022: 10.7 pence or £12.0 million). The dividend will be paid on 22 May 2024 to Shareholders registered at the close of business on 26 April 2024. The ex-dividend date will be 25 April 2024.

The retained earnings of Eurocell plc as at 31 December 2023 were £25.0 million (2022: £31.4 million). The Company takes steps to ensure distributable reserves are maintained at an appropriate level through intra-Group dividend flows.

The Board is focused on enhancing shareholder returns and recognises the importance of our ordinary dividend. We will also periodically consider supplementary distributions, whilst always seeking to maintain a strong financial position. Taking into account expected organic investment requirements and our successful cash flow management in 2023 (see below), we launched a £5 million share buyback programme in January 2024. As of 15 March 2024, we had purchased 2.0 million shares at a cash cost of £2.5 million under the programme.

Capital expenditure

Capital expenditure for 2023 was £8.9 million (2022: £12.3 million). 2023 includes £1.5 million for site refurbishments and improved staff welfare facilities across the branch network. Other capital expenditure in the period is largely maintenance capex.

Cash flow

Net cash generated from operating activities was £52.8 million (2022: £35.1 million), reflecting our focus on efficient working capital management. This includes a net inflow from working capital for 2023 of £13.4 million, comprised of a decrease in inventories (£13.2 million), and decreases in trade and other receivables (£6.0 million) and trade and other payables (£5.8 million). This compares to a net outflow from working capital of £13.1 million in 2022, which included a significant inflationary component (c.£8 million).

The significant reduction in inventories arose as a result of an optimisation programme, commenced in H2 2022, and includes c.£5 million as a result of lower raw material prices. The decreases in receivables and payables since December 2022 are primarily a result of lower sales and production volumes.

Other items include payments for capital investments of £9.1 million (2022: £12.4 million), including payments to capital creditors of £0.2 million, net proceeds from the disposal in December 2022 of Security Hardware of £0.8 million and financing costs paid of £1.4 million (2022: £1.2 million). Tax paid in the year was £1.4 million (2022: £3.6 million). Dividends paid in the year were £10.3 million (2022: £11.1 million).

The principal elements of lease payments of £13.8 million (2022: £13.3 million) are presented within cash flows arising from financing activities. The finance elements of lease payments were £1.8 million (2022: £1.4 million).

Net cash/debt

Net cash on a pre-IFRS 16 basis at 31 December 2023 was £0.4 million (31 December 2022: net debt of £14.4 million).

Lease liabilities decreased by £5.1 million. Reported net debt at 31 December 2023 was £58.2 million (31 December 2022: £78.1 million).

	2023 £m	2022 £m	Change £m
Cash	**0.4**	5.1	(4.7)
Deferred consideration	**–**	0.8	(0.8)
Borrowings	**–**	(20.3)	20.3
Net cash/(debt) (pre-IFRS 16)	**0.4**	(14.4)	14.8
Lease liabilities	**(58.6)**	(63.7)	5.1
Net debt (reported)	**(58.2)**	(78.1)	19.9

Bank facility

In May, we completed a one-year extension to our £75 million unsecured, sustainable Revolving Credit Facility, which now matures in 2027. The facility is provided by Barclays, NatWest and Bank of Ireland, and is competitively priced with the key terms remaining unchanged. In terms of sustainability, modest adjustments to the margin are applied based on our achievement against annual targets for usage of recycled material in our products, waste recycled and carbon emissions. We operate comfortably within the terms of the facility and in compliance with our financial covenants, which are measured on a pre-IFRS 16 basis.

Michael Scott
Chief Financial Officer