

**EUROCELL PLC**  
2017 Half Year Results

# AGENDA

## Business Review

**Mark Kelly**

Chief Executive

## Financial Review

**Michael Scott**

Chief Financial Officer

## Strategy and Outlook

**Mark Kelly**

**Manufacturer**



**Distributor**



**Recycler**



# OVERVIEW

Mark Kelly – Chief Executive

## Financial results

Gaining market share

Raw material price inflation

Robust cash flow

## Operational performance

Investment in 15 new branches

Driving growth in new build

Increased use of recycled material

## Strategy and outlook

Progress with strategic priorities

Some signs of market hesitancy

Expectations for the full year unchanged

## Revenue

**£108.1m**

▲ 11% (9% excluding acquisitions)

## Adjusted EBITDA

**£14.9m**

▲ 5% (H1 2016: £14.2m)

## Interim Dividend

**3.0p per share**

▲ 7% (H1 2016: 2.8p per share)

# MARKET BACKDROP

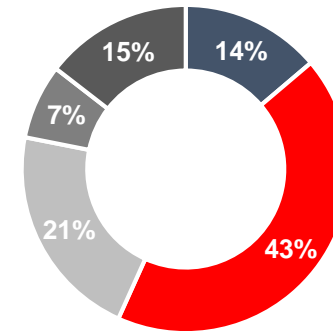
## Flat RMI Market

Driver	Description
<b>GDP</b>	UK GDP is forecast to grow by 1.9% in 2017 (2016: 2.2%)
<b>Consumer confidence</b>	Consumer confidence dropped sharply in the aftermath of the vote to leave the EU, but quickly recovered to pre-vote levels, although consumers now fear the weak pound could hit living standards
<b>Interest rates</b>	UK interest rates not forecast to increase until 2018
<b>Construction</b>	Housing construction activity remains below pre-recession peak, but is forecast to rise by 1% in 2017 and 2% in 2018
	Private housing starts are forecast to increase by 3% in 2017 and 3% in 2018
<b>Housing market</b>	Private housing RMI <sup>(1)</sup> market CAGR <sup>(2)</sup> forecast 2016-2019 is broadly flat

Sources: CPA: Construction Industry Forecasts 2016-19 (published April 2017)  
 Bank of England Inflation Report (published May 2017)  
 Oxford Economic Data (via Factset) (July 2017)

- (1) RMI is Repair, Maintenance and Improvement
- (2) CAGR is compound annual growth rate

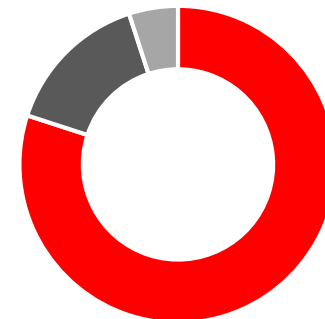
Total Window Units Supplied to Each Sector of the Market



**First time replacements**  
**Second time replacements**  
 Conservatories  
 Extensions  
 New Build

Source: D&G Consulting – 2016 Annual PVC Window Industry Report in the UK

Eurocell Revenue by Market (%)



**RMI > 80%**

**Newbuild > 10%**

**Public Sector (new build and RMI) < 5%**



# DIVISIONAL REVIEW

## Profiles

### ▶ Gaining share in a flat market

- 6% organic sales growth
- Strong growth in private new build

### ▶ Building customer prospect pipeline

- Moving new trade fabricators onto Eurocell systems in H2

### ▶ Larger fabricators growing strongly

- Increasing their capacity and taking share from smaller fabricators
- Tight specifications creating demand

### ▶ Gross margin down year on year

- Raw material price inflation
- Impact from growth in larger fabricators

### ▶ Increased use of recycled PVC in manufactured products

- 15%<sup>(3)</sup> in H1 2017 (H1 2016: 13%)
- Increasing supplies of in-feed stock

### Profiles Division P&L

£m	H1 2017	H1 2016	Change
<b>3<sup>rd</sup> Party Revenue</b>	<b>46.4</b>	<b>42.4</b>	<b>▲ 9%</b>
Organic	41.7	39.3	▲ 6%
Vista Panels <sup>(1)</sup>	4.7	3.1	▲ 52%
Inter-segment Revenue <sup>(2)</sup>	21.8	18.9	▲ 15%
<b>Total Revenue</b>	<b>68.2</b>	<b>61.3</b>	<b>▲ 11%</b>
<b>Adjusted EBITDA</b>	<b>11.7</b>	<b>11.4</b>	<b>▲ 3%</b>

(1) Vista Panels acquired in March 2016

(2) Inter-Segment Revenue

- Full manufacturing margin recorded in Profiles
- Division therefore benefits from pull through demand generated by branch expansion

(3) 3.7kt post-consumer recycled compound used in total consumption of 23.9kt

# INCREASING EXPOSURE TO NEW BUILD

## Driving Strong Growth

- ▶ **New build up >15% this year**
- ▶ **Increasing market share through dedicated team**
- ▶ **Supply Chain Sustainability School Silver Award**
- ▶ **New build fabricator forum delivering a consistent offering**
- ▶ **Comprehensive range includes:**
  - Aluminium bi-fold doors
  - Composite door supply – with first contracts agreed
  - Offsite construction hinge – now approved
  - The only 60 minute fire-rated cavity closure
  - Modus



The Supply Chain Sustainability School is backed by the UK's top house builders. The school helps sub-contractors and suppliers to meet the challenging house building and sustainability targets set by the Government.



# DIVISIONAL REVIEW

## Building Plastics

- ▶ **Continued market share growth**
- ▶ **Like for like<sup>(1)</sup> sales up 6%**
  - Driven by maturing branches – opened 2015 and prior
  - Bolstered by sales of windows through branches, Skypod and Equinox, up 23%
  - 500 new product lines in the branches in 2016
  - Vista supporting growth in sales of doors through branches, up 23%
- ▶ **15 new branches in H1 2017 (H1 2016: 7 branches)**
  - On track to open 30 new branches this year
- ▶ **Increased overheads**
  - Investment to accelerate branch expansion
- ▶ **Initiatives to drive volume and protect margin**
  - Peer Pricing
- ▶ **Security Hardware acquired in Feb 2017**
  - Roll-out of spares proposition for branches complete
  - Integration on track

### Building Plastics Division P&L

£m	H1 2017	H1 2016	Change
<b>3<sup>rd</sup> Party Revenue</b>	<b>61.8</b>	<b>54.8</b>	<b>▲ 13%</b>
Organic	60.7	54.8	▲ 11%
Security Hardware <sup>(2)</sup>	1.1	-	n/a
Inter-segment Revenue	0.3	0.3	-
<b>Total Revenue</b>	<b>62.1</b>	<b>55.1</b>	<b>▲ 13%</b>
<b>Adjusted EBITDA</b>	<b>3.2</b>	<b>2.7</b>	<b>▲ 19%</b>

### Indicative Branch Economics (Rounded)

	Branch Open		
	< 2 years	2-4 years	>4 years
No. of Branches	34	22	118
Average Sales per Branch (£000)	200	500	800
Return on Sales per Branch (%) <sup>(3)</sup>	Break-even	>10%	Mid-teen %

(1) Like for like excludes branches opened in 2016 and 2017

(2) Security Hardware acquired February 2017

(3) EBITDA as % of sales, before regional infrastructure and central costs

# FINANCIAL HIGHLIGHTS

Michael Scott – Chief Financial Officer

## Revenue

£108.1m

▲ 11% (9% excluding acquisitions)

## Gross Margin

51.4%

▼ 0.7% (H1 2016: 52.1%)

## Adjusted<sup>(2)</sup> EBITDA

£14.9m

▲ 5% (H1 2016: £14.2m)

## Adjusted<sup>(2)</sup> Basic EPS

9.4p

▲ 8% (H1 2016: 8.7p)

## Interim Dividend

3.0p per share

▲ 7% (H1 2016: 2.8p per share)

## Net Debt

£20.8m

▲ £0.5m (December 2016: £20.3m)

### ▶ Good sales growth

- Underlying<sup>(1)</sup> sales ▲ 6%

### ▶ Gross margin

- Raw material price inflation, with resin prices up 11% in 2017 (17% in last 12 months)
- Growth at larger fabricators

### ▶ Overheads

- Impact of acquisitions and investment in new branches
- Underlying<sup>(1)</sup> operating cost increase ▲ 4%

### ▶ Adjusted<sup>(2)</sup> EBITDA ▲ 5%, in line with expectations

### ▶ Interim dividend in line with distribution policy

### ▶ Robust cash flow

- Net cash generated from operating activities £10.3m  
▲ 6% (H1 2016: £9.7m)
- Net debt £10.5m lower than June 2016

(1) Underlying sales and operating costs exclude acquisitions and branches opened in 2016 and 2017

(2) Non-recurring costs of £0.5m (H1 2016: £0.5m)



# FINANCIAL PERFORMANCE

## Robust Financial Results

£m	H1 2017	H1 2016	Change
<b>Revenue</b>	<b>108.1</b>	<b>97.2</b>	▲ 11%
<i>Gross Margin %</i>	51.4%	52.1%	
Overheads	(40.7)	(36.4)	
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>14.9</b>	<b>14.2</b>	▲ 5%
Depreciation and Amortisation	(3.3)	(3.1)	
Finance Costs	(0.3)	(0.4)	
<b>Adjusted Profit Before Tax<sup>(2)</sup></b>	<b>11.3</b>	<b>10.7</b>	▲ 6%
Tax on Adjusted Profit	(1.9)	(2.0)	
<b>Adjusted Profit After Tax</b>	<b>9.4</b>	<b>8.7</b>	
<b>Adjusted Basic EPS (pence)<sup>(3)</sup></b>	<b>9.4</b>	<b>8.7</b>	▲ 8%
<b>Dividends per Share (pence)</b>	<b>3.0</b>	<b>2.8</b>	▲ 7%
<b>Reported Basic EPS (pence)<sup>(4)</sup></b>	<b>8.9</b>	<b>8.4</b>	▲ 6%

(1) Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and non-recurring costs of £0.5m (H1 2016: £0.5m)

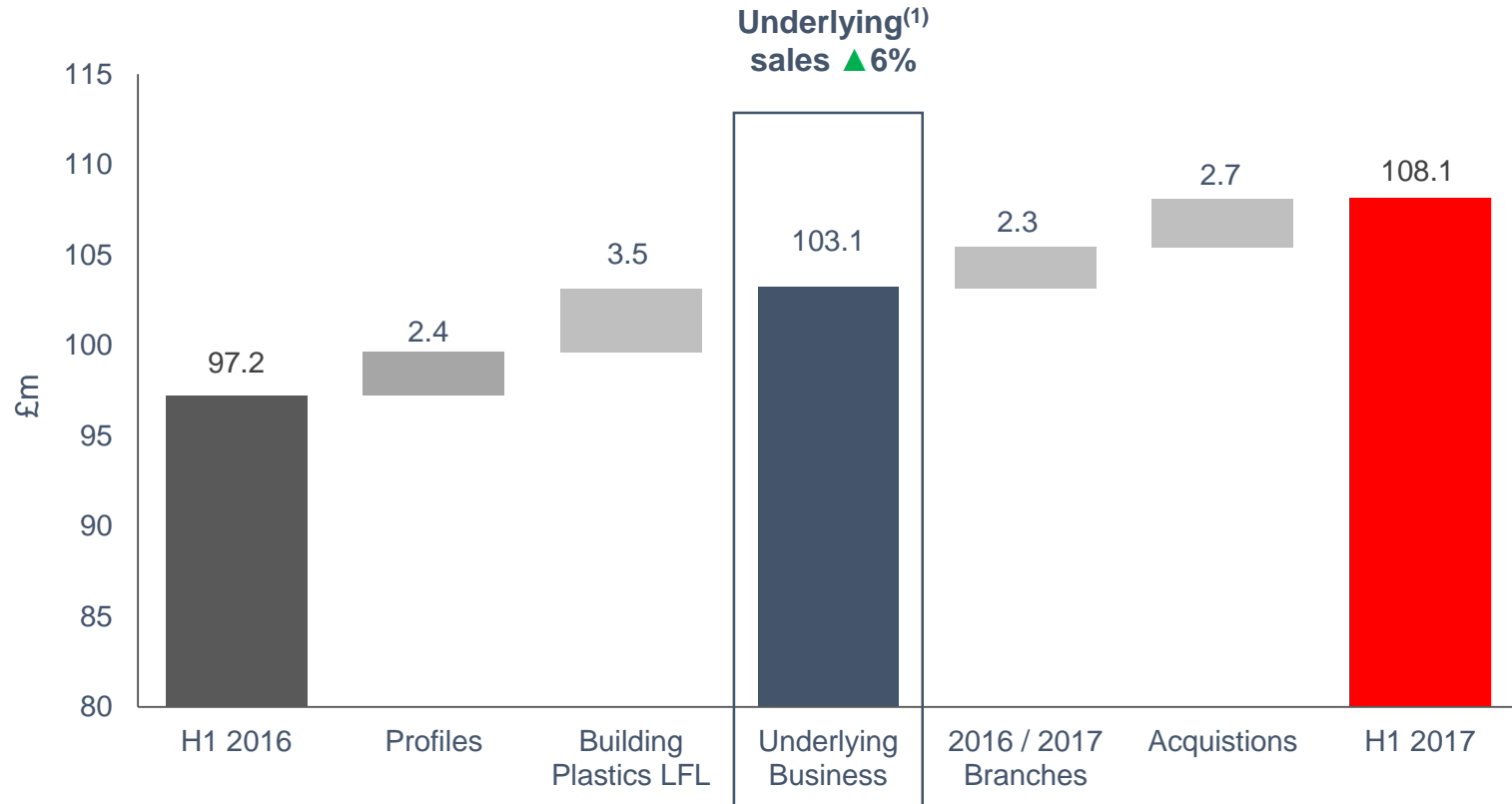
(2) Adjusted PBT represents profit before tax and non-recurring costs

(3) Adjusted EPS excludes non-recurring costs and the related tax effect

(4) Reported EPS includes non-recurring costs and the related tax effect

# SALES PERFORMANCE

Good Sales Growth



▶ Sales ▲ 9% excluding acquisitions

- Underlying<sup>(1)</sup> sales ▲ 6%

- Profiles: organic ▲ 6%

- Building Plastics: like for like ▲ 6%

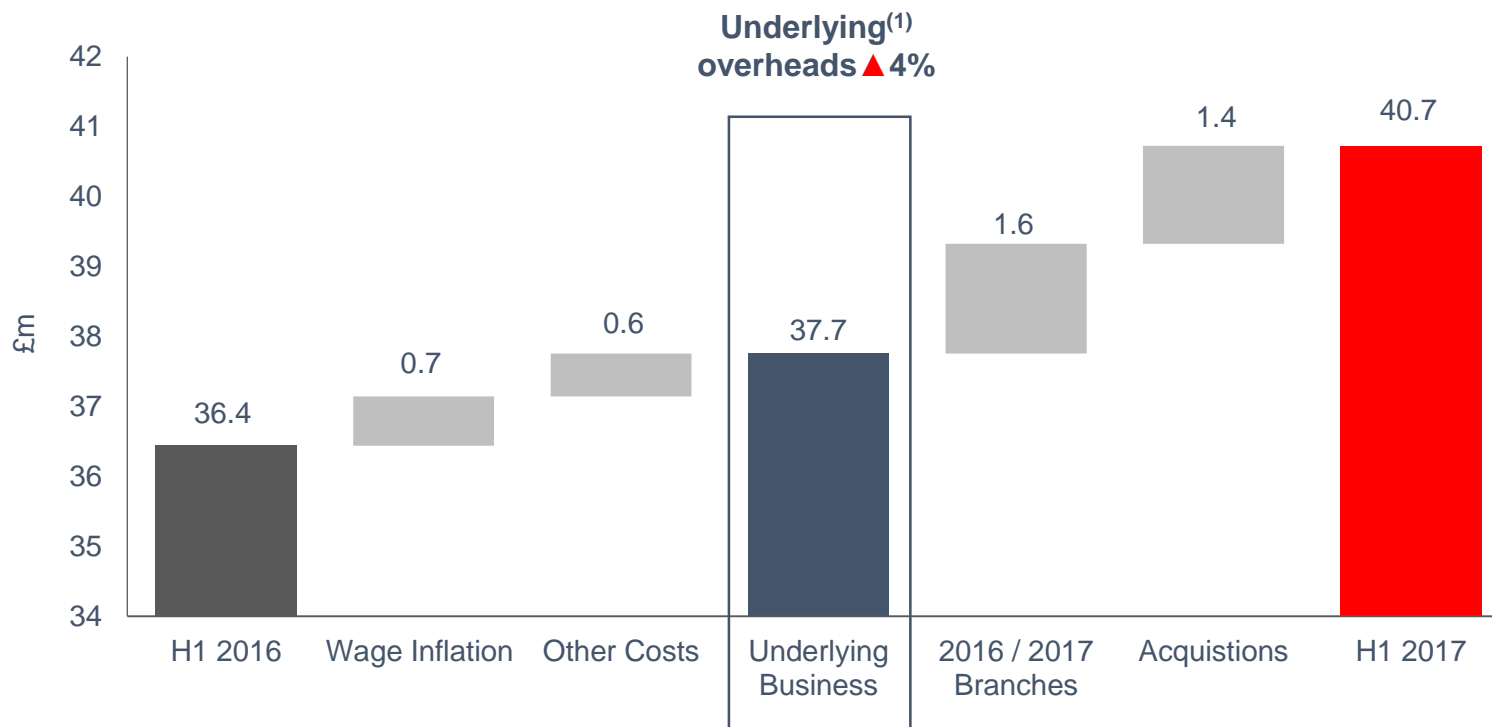
▶ Building Plastics: ▲ 4% from branches opened in 2016 / 2017

▶ Acquisitions: Vista (March 2016) and Security Hardware (February 2017)

(1) Underlying sales and overheads exclude acquisitions and branches opened in 2016 and 2017

# OVERHEADS

## Investment in Business Expansion



- ▶ Underlying<sup>(1)</sup> cost increase ▲ 4%
- Impact of minimum wage and distribution costs
- Underlying<sup>(1)</sup> sales ▲ 6%
- Careful control of underlying costs
- ▶ 33 new branches opened in 2016 / 2017
- ▶ Acquisitions: Vista and Security Hardware

(1) Underlying sales and overheads exclude acquisitions and branches opened in 2016 and 2017

# CAPEX

## Investment in Business Expansion

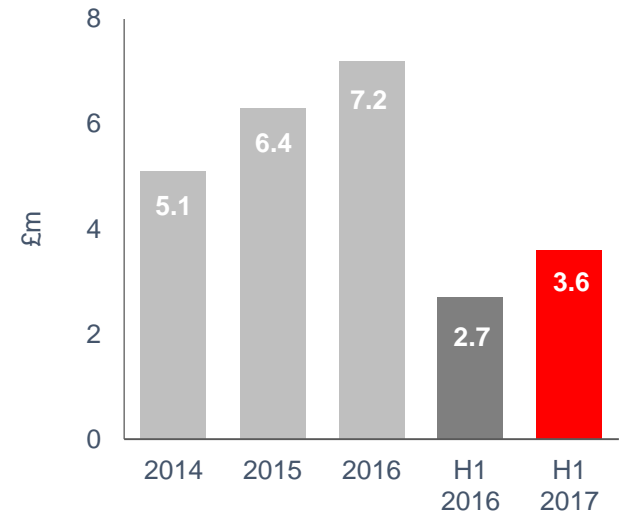
### ▶ H1 2017 capex £3.6m (H1 2016: £2.7m)

- Growth capex £1.6m
  - Increase recycling capacity £0.6m
  - New branches £1.0m
- Recurring / maintenance capex £2.0m
  - Operations £0.8m includes tooling costs
  - Other £1.2m includes IT costs and branch refurbishments

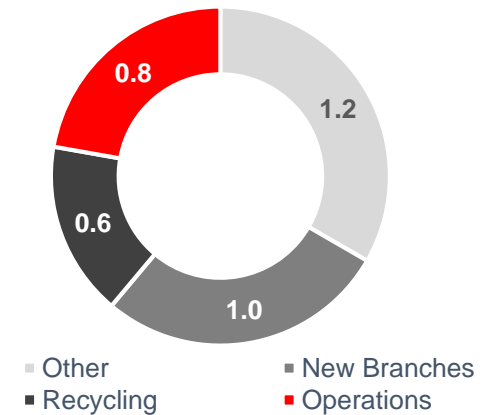
### ▶ 2017 capex guidance c.£7.5m

- Growth capex £2.8m
  - Increase recycling capacity £0.9m
  - New branches £1.9m
- Recurring / maintenance capex £4.7m
  - Operations, IT costs and branch refurbishment

Total Capital Expenditure



H1 2017 Capital Expenditure Allocation (£m)

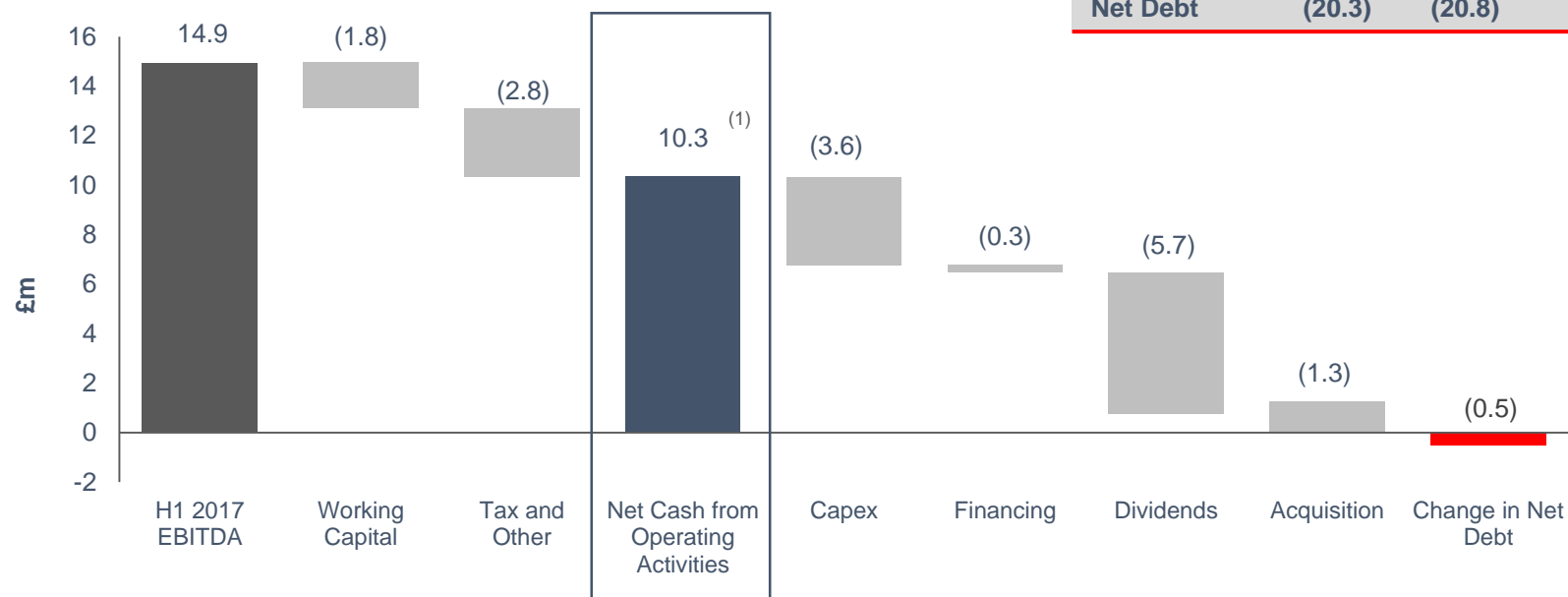


# CASH FLOW

## Robust Cash Flow Generation

### Reconciliation of Net Debt

£m	Dec 2016	June 2017	Change
Cash	5.5	5.0	(0.5)
Borrowing	(25.8)	(25.8)	-
<b>Net Debt</b>	<b>(20.3)</b>	<b>(20.8)</b>	<b>(0.5)</b>



▶ Outflow from working capital £1.8m

- ▲ Stocks £2.5m
- ▲ Receivables £5.8m
- ▲ Payables / provisions £6.5m

▶ Tax paid £2.6m

▶ Dividends

- Final 2016 £5.7m (5.7p per share)

▶ Acquisition of Security Hardware in February 2017

(1) Cash generated from underlying operations of £13.2m less tax and non-recurring costs paid



# WORKING CAPITAL

## Good Working Capital Management

### ▶ Stock days flat at 58 vs Dec 2016

- Stocks ▲ £2.5m
- New branches (£0.6m) and new product lines (£0.7m)
- Increased safety stocks to support new build

### ▶ Debtor days at 41 vs 36 at Dec 2016

- Receivables ▲ £5.8m
- Normal seasonality
  - Cash collection and December factory shutdown
- Business growth

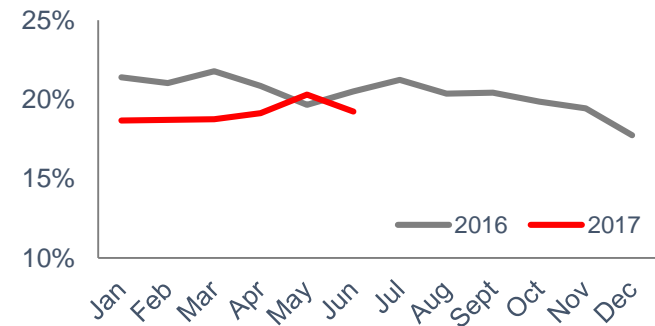
### ▶ Creditor days at 52 vs 40 at Dec 2016

- Payables ▲ £6.5m
- Normal seasonality
- Stock increase
- Business growth

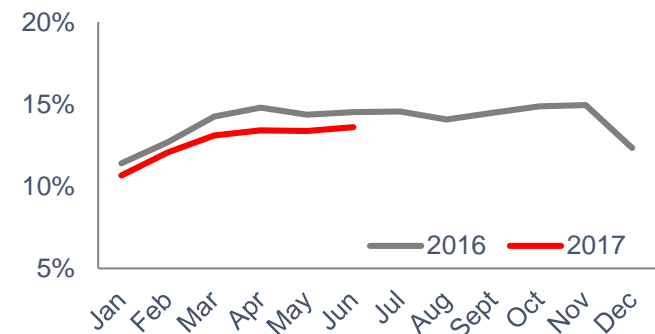
### Key Working Capital Metrics<sup>(1)</sup>

	Stock Days	Debtor Days	Creditor Days
June 2016	67	42	46
Dec 2016	58	36	40
June 2017	58	41	52

### Inventory as a % of LTM Cost of Sales<sup>(1)</sup>



### Trade Receivables as a % of LTM Sales<sup>(1)</sup>



(1) Excludes Security Hardware, acquired February 2017

# STRATEGIC PRIORITIES

Mark Kelly – Chief Executive

Continued confidence in strategy to create long term value

5 clear  
strategic  
priorities

Target growth in market share

Expand the branch network

Develop innovative new products

Increase use of recycled materials

Explore potential bolt-on acquisition opportunities

# STRATEGIC PRIORITIES

## Progress Report

### STRATEGIC PRIORITIES

### 2017 OBJECTIVES

### PROGRESS IN H1

#### TARGET GROWTH IN MARKET SHARE

- Target new build, commercial and public sector
- Pull through demand from branch network

- ✓ Gaining share – Profiles organic growth of 6%
- ✓ Trade fabricator wins, with conversion in H2
- ✓ Increasing new build exposure

#### EXPAND BRANCH NETWORK

- 30 new branches
- Growth in windows through branches
- Leverage Vista / Security Hardware acquisitions

- ✓ 15 new branches in H1
- ✓ Progressing initiatives to reduce start-up costs
- ✓ Windows through branches up 15%
- ✓ Skypod and Equinox up > 30%
- ✓ Vista doors through branches up 23%

#### DEVELOP INNOVATIVE NEW PRODUCTS

- Expansion of Modus range
- Further development of complementary products
- Shorten time to market for new products

- ✓ Modus and Skypod range extension
- ✓ Offsite construction hinge
- ✓ Coastline cladding board
- ✓ Aluminium bi-fold door

#### INCREASE USE OF RECYCLED MATERIALS

- Complete expansion project (further capex £1m)
- Increase collections from fabricators and branches

- ✓ Expansion on track with H1 capex £0.6m
- ✓ Waste collection up 26% yr on yr

#### EXPLORE POTENTIAL BOLT-ON ACQUISITION OPPORTUNITIES

- Integration of Security Hardware
- Develop acquisition pipeline

- ✓ Security Hardware integration on track
- ✓ Hardware stocks now available in every branch
- ✓ Acquisition pipeline developing

# SUMMARY

## And Outlook

### Financial results

Gaining market share

Raw material price inflation

Robust cash flow

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### Operational performance

Investment in 15 new branches

Driving growth in new build

Increased use of recycled material

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### Strategy and outlook

Progress with strategic priorities

Some signs of market hesitancy

Expectations for the full year unchanged



# Appendices





# PRODUCT RANGE



Ranges of window and door profile



Skypod pitched skylights



Aspect bi-folding doors



Conservatories and Equinox tiled roofs

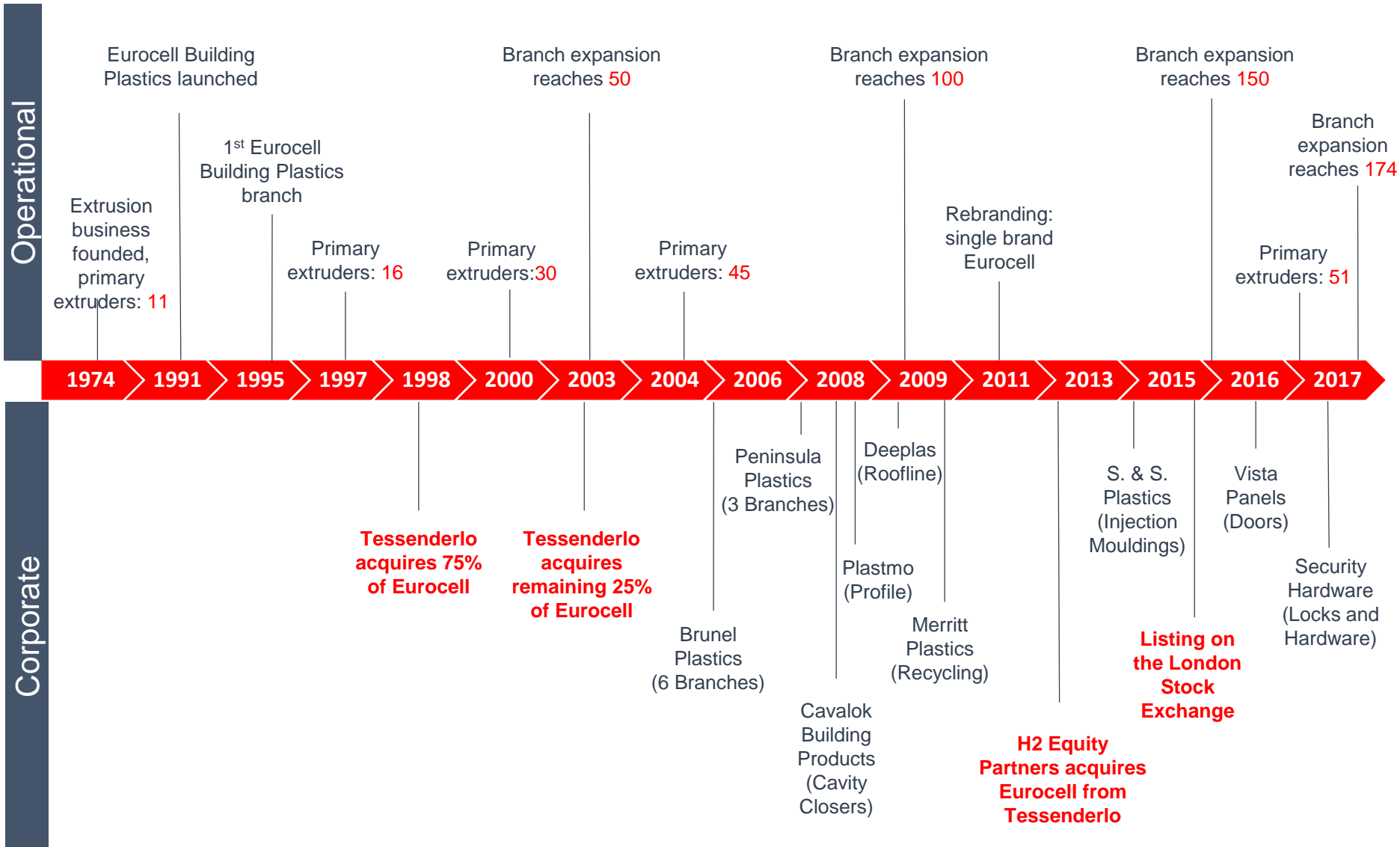


Fascias, soffits and guttering



Traded goods

# CORPORATE AND OPERATIONAL HISTORY



# LOCATIONS



## Centrally located

HQ, Manufacturing,  
Warehousing,  
Injection Moulding  
and Recycling



## Extrusion centre

140,000 sq ft  
51 extruders



## Secondary operations (foiling)

120,000 sq ft  
10 extruders



## Recycling Factory (Merritt)

75,000 sq ft  
12 extruders



## Warehousing & Conservatory Roofs

260,000 sq ft



## Injection Moulding

21,000 sq ft  
22 Machines



## Composite Door Manufacture

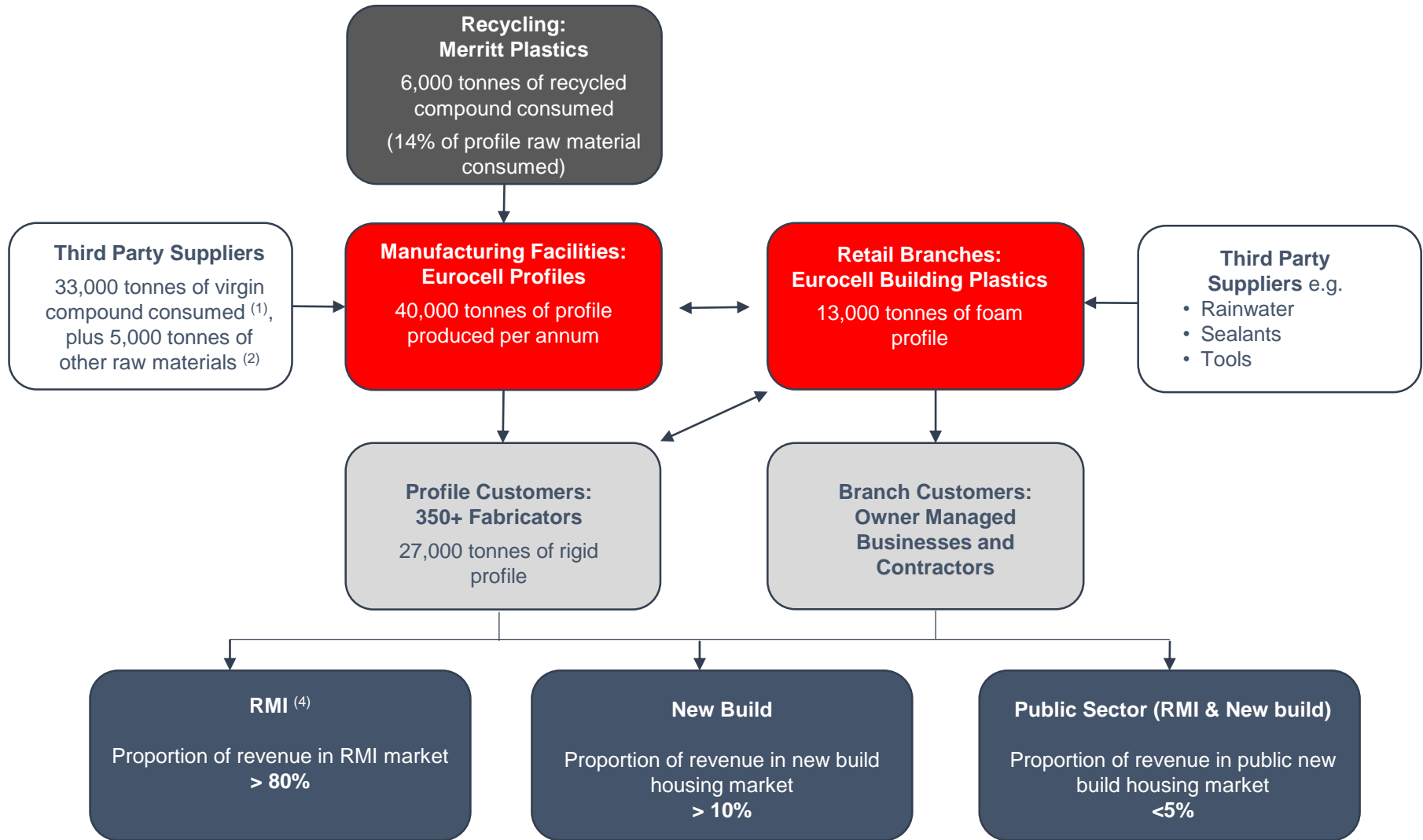
50,000 sq ft  
The Wirral



## Locks and hardware supplier

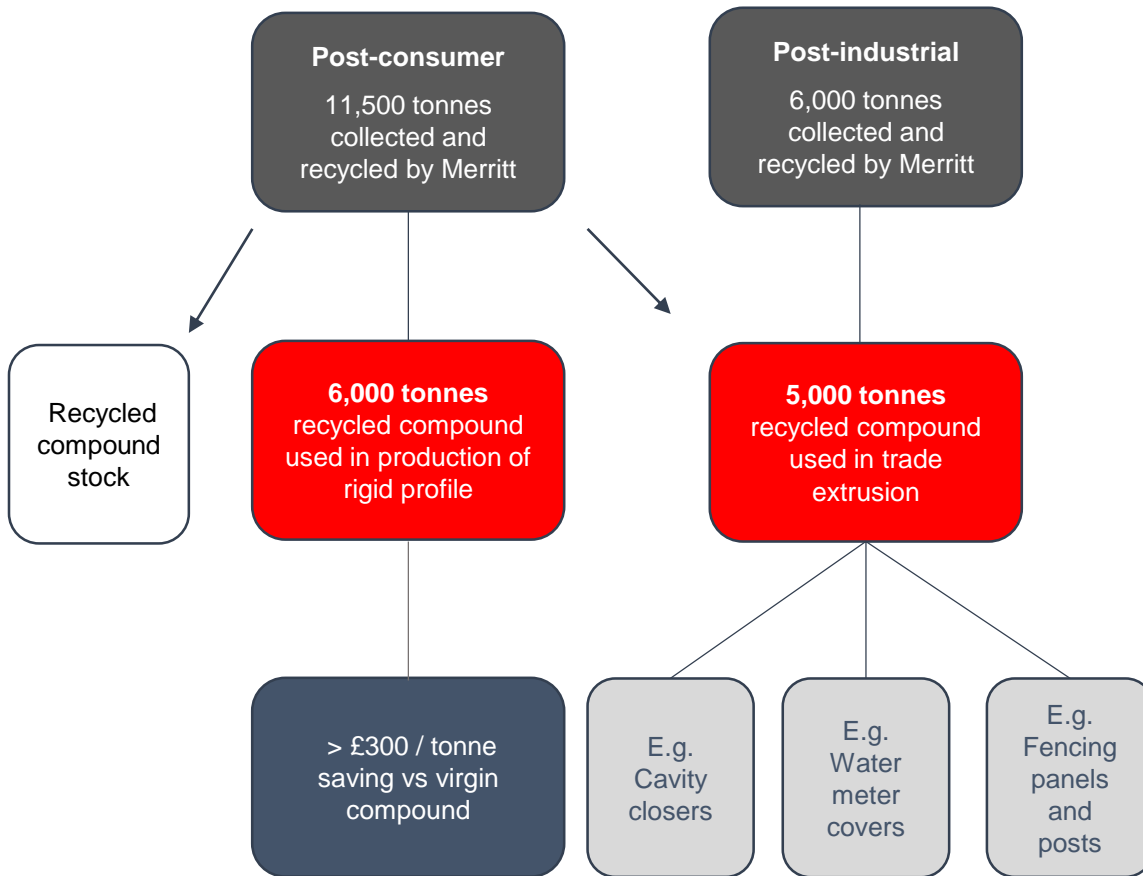
15,000 sq ft  
West Midlands

# ROUTE TO MARKET



(1) Rigid Virgin Resin: stabiliser, titanium dioxide, impact modifier, filler  
 (2) Other raw materials: e.g. skin and rubber flex  
 (3) Tonnages shown are approximate based on 2016 volumes  
 (4) Repairs, Maintenance and Improvements

# RECYCLING AT MERRITT PLASTICS



► **2016/17 Investment of £2m million to increase output capacity to 14,000 tonnes:**

- Capital equipment £1.8m
- Tooling £0.2m

(1) Tonnages shown are approximate based on 2016 volumes



# EUROCELL PROFILES

## ▶ Manufactures:

- Extruded rigid and foam PVC profiles
- Manufacturing margin recorded in Profiles – benefits from branch expansion

## ▶ Sells:

- Rigid PVC profiles to a network of > 350 third party fabricators and
- Foam PVC profiles to customers through our nationwide branch network in the Building Plastics Division

## ▶ Third party fabricators

- 250 produce windows, trims cavity closer systems for customers
- 100 make patio doors and conservatories

## ▶ Expansion through acquisitions

- the Profiles Division also includes S&S Plastics (injection moulding, acquired in 2015)
- and Vista Panels (composite and panel doors, acquired in 2016)



## Four types of fabricator:

- Commercial, retail, new build and trade frame
- Most of Eurocell's customers are trade frame fabricators
- New build is becoming increasingly important

# EUROCELL BUILDING PLASTICS

## ▶ Sells:

- Range of Eurocell manufactured and branded PVC foam roofline products
- Vista doors
- Third party manufactured ancillary products: sealants, tools and rainwater products
- Windows fabricated by third parties using products manufactured by the Profiles Division

## ▶ Distribution

- Through our nationwide network of > 170 branches

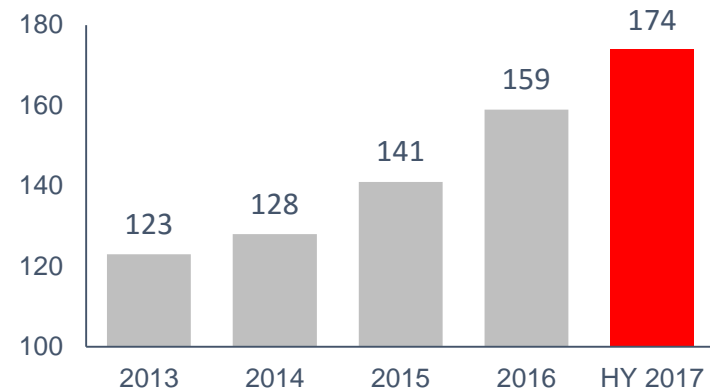
## ▶ Main customers

- Installers
- Small and independent builders, house builders
- Nationwide maintenance companies

## ▶ Expansion through acquisitions

- the Building Plastics Division also includes Security Hardware (hardware supplier to RMI market, acquired in 2017)

Number of branches



# DIFFERENTIATION



**eurocell**  
All together better

**B2B supplier**  
of innovative PVC  
building products



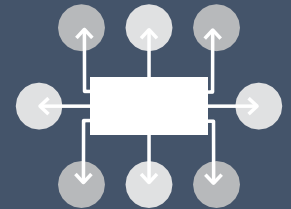
**Sustainability**  
In-house  
closed loop  
recycling facility



**Vertically  
integrated  
business model**  
Recycling,  
manufacturing  
and own branch  
network



**Stable ownership**  
Fresh focus, with  
new horizons



**Clear strategy**  
Grow market share,  
expand branch  
network, develop  
new products,  
increase use of  
recycled material,  
bolt-on  
acquisitions

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All together better