



# EUROCELL PLC

2019 Half Year Results



# AGENDA

## Business Review

Mark Kelly

Chief Executive Officer

## Financial Review

Michael Scott

Chief Financial Officer

## Summary and Outlook

Mark Kelly

Manufacturer



Distributor



Recycler



# OVERVIEW

Mark Kelly – Chief Executive

## Robust financial results

Strong sales growth

Gross margin improvement

EBITDA up

## Good progress with plans to improve operating efficiency

On track with investment in extrusion capacity

Investment in recycling now well advanced

Strengthened operational teams

### Revenue

**£136.3m**

▲ 15% (H1 2018: £118.8m)

### EBITDA<sup>(1)</sup>

**£14.8m**

▲ 4% (H1 2018: £14.2m)

### Interim Dividend

**3.2p per share**

▲ 3% (H1 2018: 3.1p per share)

(1) Pre-IFRS 16 results exclude the impact of the new accounting standard for leases.

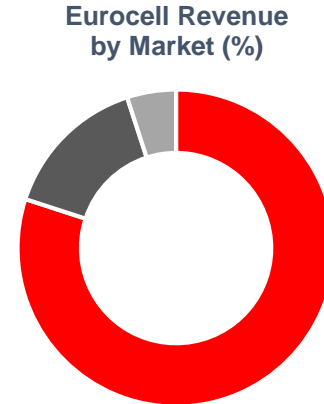
# SALES OVERVIEW

## Gaining Share in Subdued RMI Market

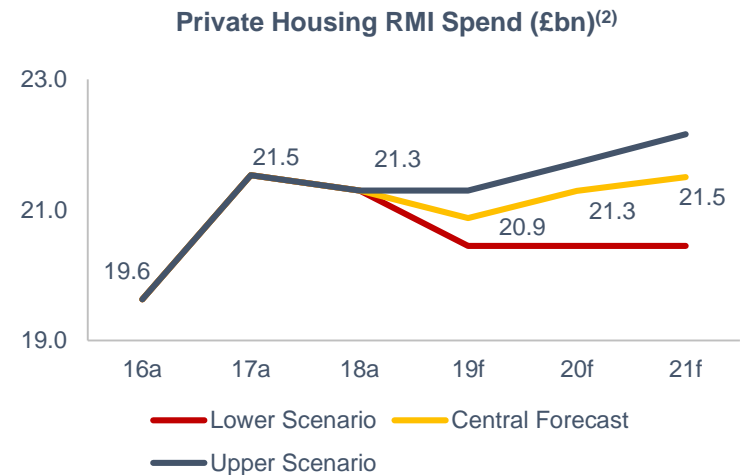
- ▶ Strong sales growth delivered across the whole business
- ▶ Weaker comparatives in H1 after bad weather in H1 2018
- ▶ CPA construction output forecasts – small decline in 2019<sup>(2)</sup>

Sales Growth (%)	H1 2018	H2 2018	FY 2018	H1 2019
<b>Group</b>				
Organic	10%	13%	12%	11%
Like-for-like <sup>(1)</sup>	5%	10%	8%	10%
<b>Profiles</b>				
Organic / like-for-like <sup>(1)</sup>	9%	15%	12%	9%
<b>Building Plastics</b>				
Organic	10%	12%	11%	12%
Like-for-like <sup>(1)</sup>	3%	6%	5%	11%

(1) Like-for-like excludes acquisitions and new branches opened in 2018 and 2019  
 (2) Source: CPA – Construction Industry Forecasts 2019-21 (published Spring 2019)



**RMI > 80%**  
**New Build > 10%**  
 Public Sector (New Build and RMI) < 5%



# DIVISIONAL REVIEW

## Profiles – Performance in H1 2019

### ▶ Gaining share – 9% like-for-like growth

- Includes benefit of selling price increases

### ▶ Growth in new build, trade and commercial fabricators, and Vista

- Specification and business development teams

### ▶ Benefit of new account wins and competitor weakness

- c.40 new accounts in 2017/18
- 20 small new trade accounts added selectively in H1 2019

### ▶ Gross margin % up

- Impact of selling price increases
- Use of recycled material increased to 6.4kt (H1 2018: 4.3kt)
- OEE<sup>(4)</sup> improved to 73% (FY 2018: 71%)

### ▶ EBITDA

- Increased overheads reflects impact on direct labour from higher production volumes
- Implementing plans to deliver further improvements in operating efficiency
- Expect Ecoplas performance to improve in H2

## Profiles Division P&L

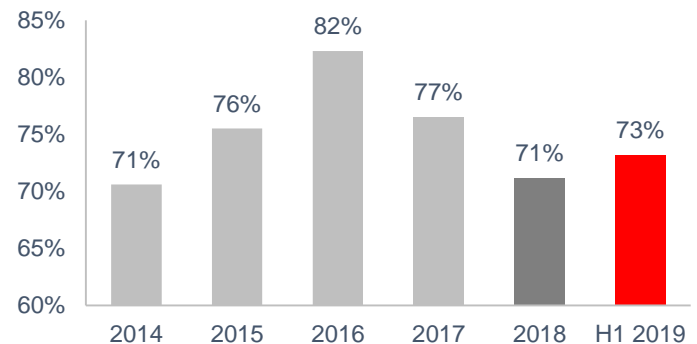
£m	H1 2018	H1 2019	Change
<b>3<sup>rd</sup> Party Revenue</b>	<b>50.5</b>	<b>57.6</b>	<b>▲ 14%</b>
Organic	50.5	55.1	▲ 9%
Ecoplas <sup>(1)</sup>	-	2.5	n/a
Inter-segmental Revenue <sup>(2)</sup>	23.6	26.7	▲ 13%
<b>Total Revenue</b>	<b>74.1</b>	<b>84.3</b>	<b>▲ 14%</b>
<b>EBITDA<sup>(3)</sup></b>	<b>11.5</b>	<b>11.6</b>	<b>▲ 1%</b>

(1) Ecoplas acquired in August 2018

(2) Sales of foam profile to Building Plastics at transfer price

(3) Pre-IFRS 16

## Overall Equipment Effectiveness (OEE)<sup>(4)</sup>



(4) OEE is a measure which takes into account machine availability, performance and yield

# DIVISIONAL REVIEW

## Profiles – Capacity and Operating Efficiency

- ▶ **Good progress with plans to expand capacity and improve operating efficiency**
- ▶ **Investment to expand extrusion capacity on track**
  - 30% new co-extrusion capacity in 2019 (5 new lines)
  - 15% new foam capacity in 2019 (3 new lines)
  - 4 new lines now in service, with remainder to be operational in Q3
  - Additional trained labour in foiling plant recruited in H1 2019
    - H1 2019: 18 teams vs H1 2018: 10 teams
- ▶ **Investment to expand recycling capacity**
  - Target incremental recycled material consumption of at least 3kt
  - Ilkeston and Ecoplas plants
    - Ilkeston on track
    - After some initial delays, Ecoplas now well advanced
  - Tooling for key products – delivery Q2 to Q3
- ▶ **Strengthened operational teams**
  - Chief Operating Officer – Mark Hemming joins in August
  - Planning and Logistics

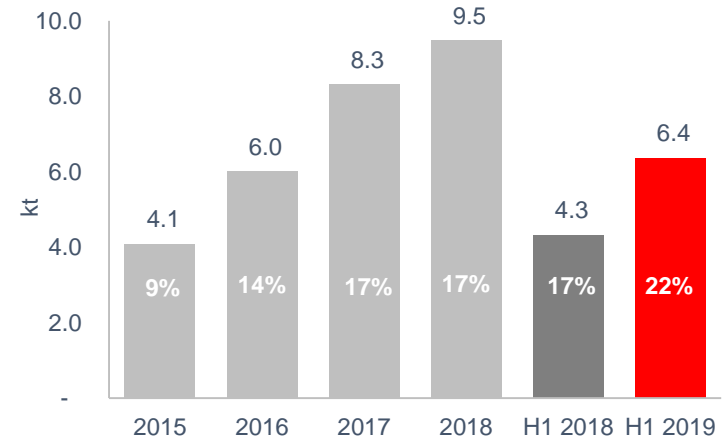
### 2017 - 2019 Extrusion Capacity Development

Number of lines at 31 December	2017	2018 <sup>(1)</sup>	2019 Planned <sup>(2)</sup>
Co-extrusion	12	17	22
Rigid PVC	15	12	12
Foam PVC	21	23	26
<b>Total</b>	<b>48</b>	<b>52</b>	<b>60</b>

(1) 2018: 4 new co-extrusion lines, plus conversion of 3 existing rigid PVC lines (1 to co-ex, 2 to foam)

(2) 2019: 5 new co-extrusion lines, 3 new foam lines

### Use of Recycled PVC in Manufacturing



# DIVISIONAL REVIEW

## Building Plastics – Performance in H1 2019

### ▶ Gaining share – 12% organic growth

- Includes benefit of selling price increases

### ▶ Like-for-like<sup>(1)</sup> sales up 11%

- Maturing of branches opened pre 2018
- Increased stock holding at branches
  - Improving availability key to growth
- Driving improvements in operating standards

### ▶ Network expansion – now 207 branches

- 43 branches added in 2017/18
- 3 new sites opened in H1 2019 (H1 2018: 5)
  - 2018/19 branches added c.£1m to organic sales
  - No incremental EBITDA drag in H1 2019
- 2 branches added via acquisition of Trimseal

### ▶ Gross margin % and EBITDA up

- Impact of selling price increases
- Benefit of profit improvement initiatives
  - More rigid pricing architecture
  - Improving stock availability
  - More consistent offering through training
  - Improvement plan for lowest performing branches

## Building Plastics Division P&L

£m	H1 2018	H1 2019	Change
<b>3<sup>rd</sup> Party Revenue</b>	<b>68.3</b>	<b>78.7</b>	<b>▲ 15%</b>
Organic	68.3	76.6	▲ 12%
Acquisitions <sup>(2)</sup>	-	2.1	n/a
Inter-segmental Revenue	0.7	0.7	Flat
<b>Total Revenue</b>	<b>69.0</b>	<b>79.4</b>	<b>▲ 15%</b>
<b>EBITDA<sup>(3)</sup></b>	<b>2.7</b>	<b>3.2</b>	<b>▲ 19%</b>

(1) Like-for-like excludes branches opened in 2018 and 2019

(2) Kent Building Plastics acquired December 2018 and Trimseal acquired March 2019

(3) Pre-IFRS 16

## Indicative Branch Economics (Rounded)

	Branches Opened		
	< 2 years	2-4 years	>4 years
No. of Branches <sup>(4)</sup>	27	42	132
Average Sales per Branch (£000)	350	500	900
Return on Sales per Branch (%) <sup>(5)</sup>	Break even	Up to 10%	Mid-teen %

(4) Excluding Kent Building Plastics and Trimseal

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

# DIVISIONAL REVIEW

## Building Plastics – Trial Format (Leeds)

### Trial Format – New Leeds Branch



- ▶ Opened in April – new 6k sq ft site, double average branch size
- ▶ Trade counter area – double average branch size
- ▶ Showroom displays – large MTOs<sup>(1)</sup> and interactive video wall to engage customers and drive big-ticket items
- ▶ Retail conversions being trialled through installers
- ▶ Significantly extended range – with wide range of stock to service the region
- ▶ 2 new markets targeted – outdoor living and splash panels

(1) MTOs is made-to-order products.



# FINANCIAL HIGHLIGHTS

Michael Scott – Chief Financial Officer

## Revenue

£136.3m

▲ 15% (H1 2018: £118.8m)

## Gross Margin

51.1%

▲ 1.1% (H1 2018: 50.0%)

## EBITDA<sup>(1)</sup>

£14.8m

▲ 4% (H1 2018: £14.2m)

## Basic EPS<sup>(1)</sup>

8.8p

Flat (H1 2018: 8.8p)

## Interim Dividend

3.2p per share

▲ 3% (H1 2018: 3.1p per share)

## Net Debt<sup>(1)</sup>

£36.7m

▲ £13.2m (December 2018: £23.5m)

- ▶ **Strong sales growth – like-for-like<sup>(2)</sup>** ▲ 10%
- ▶ **Gross margin improvement**
  - Impact of selling price increases
  - Increased use of recycled material
- ▶ **Overheads up 14% on a like-for-like basis<sup>(1)(2)</sup>**
  - Impact on direct labour from higher production volume

- ▶ **EBITDA<sup>(1)</sup> up 4%**
- ▶ **Interim dividend of 3.2p per share** ▲ 3%
- ▶ **Net debt increase<sup>(1)</sup>**
  - Acquisitions and major capex programme
  - Stock build ahead of Brexit and investment in branch inventory
  - Impact of growth on working capital

(1) Pre-IFRS 16

(2) Like-for-like sales and operating costs exclude acquisitions and branches opened in 2018 and 2019

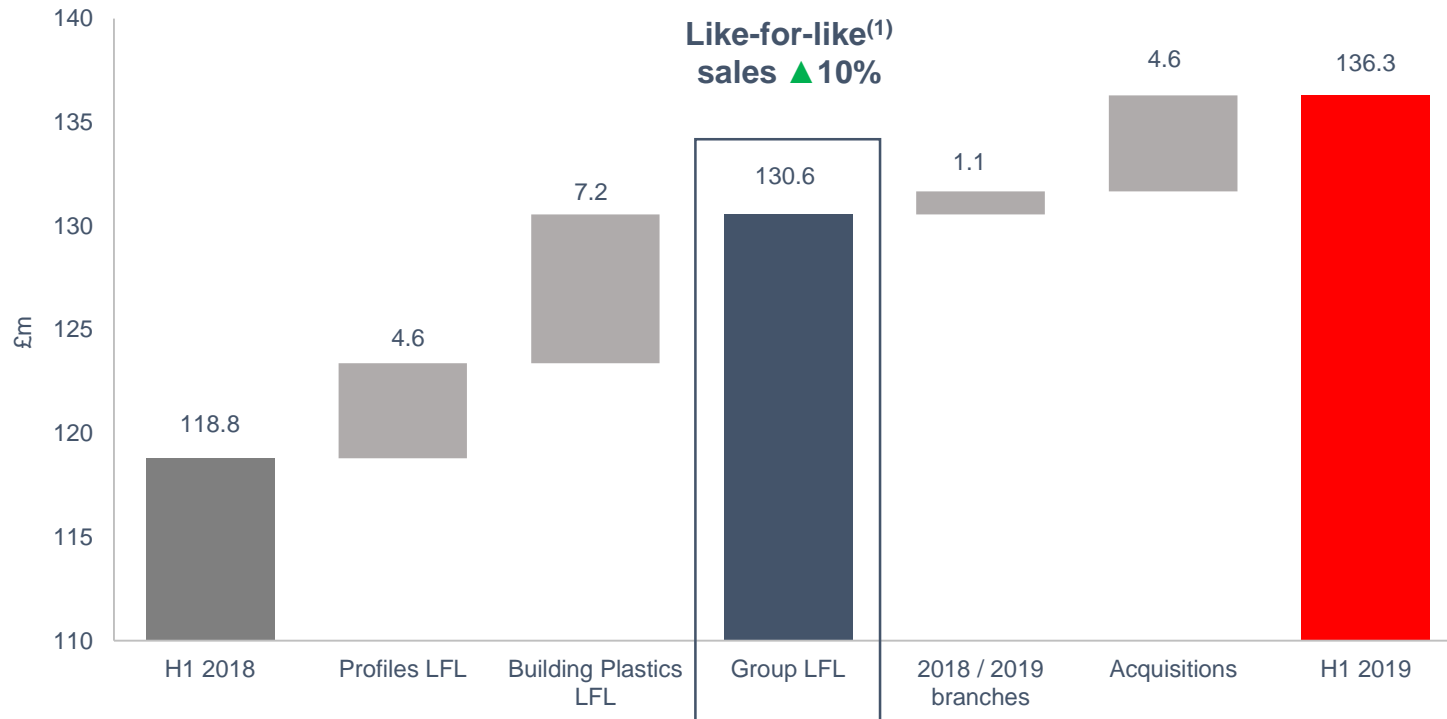
# FINANCIAL PERFORMANCE

## Group Income Statement

£m	H1 2018	H1 2019 (pre-IFRS 16)	Change	H1 2019 (Reported)
<b>Revenue</b>	<b>118.8</b>	<b>136.3</b>	▲ 15%	<b>136.3</b>
Gross Profit	59.4	69.7		69.7
<i>Gross Margin %</i>	<i>50.0%</i>	<i>51.1%</i>		<i>51.1%</i>
Overheads	(45.2)	(54.9)		(49.8)
<b>EBITDA</b>	<b>14.2</b>	<b>14.8</b>	▲ 4%	<b>19.9</b>
Depreciation and Amortisation	(3.4)	(3.7)		(8.6)
Finance Costs	(0.3)	(0.5)		(0.9)
<b>Profit Before Tax</b>	<b>10.5</b>	<b>10.6</b>		<b>10.4</b>
Tax on Adjusted Profit	(1.7)	(1.7)		(1.7)
<b>Profit After Tax</b>	<b>8.8</b>	<b>8.9</b>	▲ 1%	<b>8.7</b>
<b>Basic EPS (pence)</b>	<b>8.8</b>	<b>8.8</b>		<b>8.7</b>
<b>Dividends per Share (pence)</b>	<b>3.1</b>	<b>3.2</b>	▲ 3%	<b>3.2</b>

# SALES PERFORMANCE

## Strong Sales Growth



▶ Sales ▲ 15% (or 11% excluding acquisitions)

- Group like-for-like<sup>(1)</sup> sales ▲ 10%
- Profiles like-for-like<sup>(1)</sup> ▲ 9%
- Building Plastics like-for-like<sup>(1)</sup> ▲ 11%

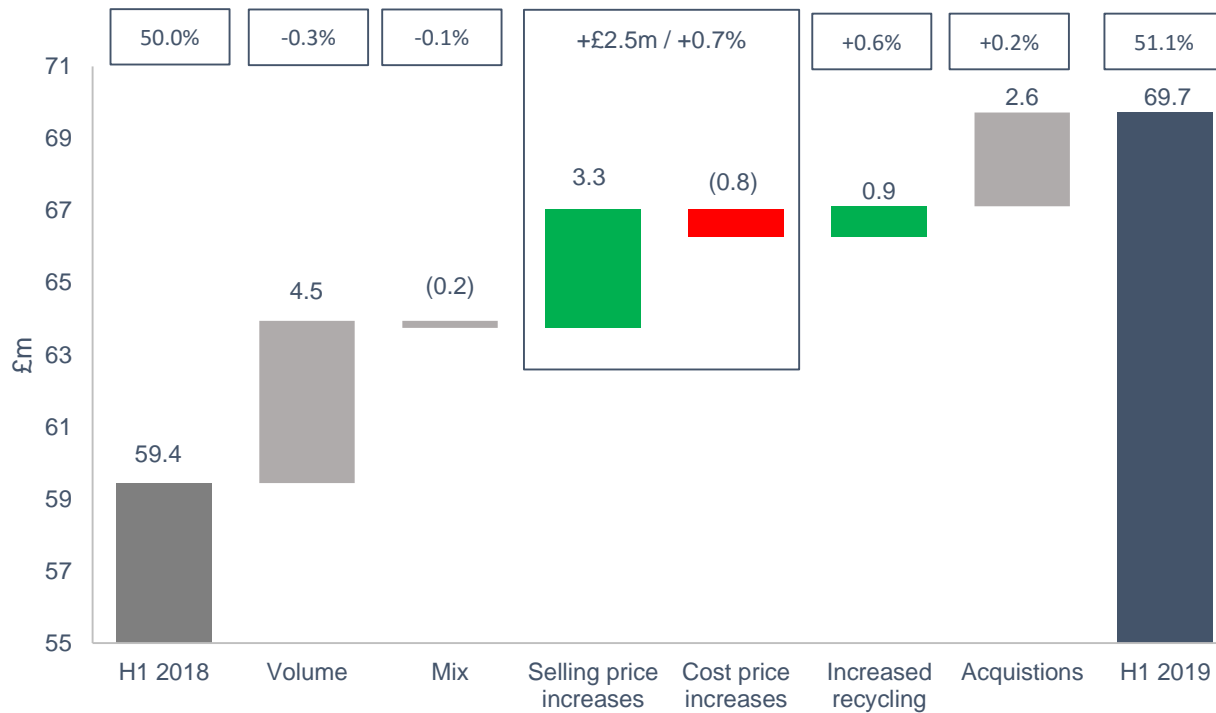
▶ Building Plastics ▲ £1.1m from 11 new branches opened in 2018/19

- ▶ Acquisitions – Ecoplas (Aug 2018), Kent Building Plastics (Dec 2018) and Trimseal (Mar 19)

(1) Like-for-like sales exclude acquisitions and branches opened in 2018 and 2019

# GROSS MARGIN

## Increasing Gross Margin



▶ Underlying volume (-30 bps), mix (-10 bps)

▶ Selling price increases and raw material inflation (+70 bps)

- Selling price increases implemented progressively through H1
- Cost increases driven by resin, electricity and traded goods

▶ Increased recycling (+60 bps)

- Benefit of additional 2kt recycled usage

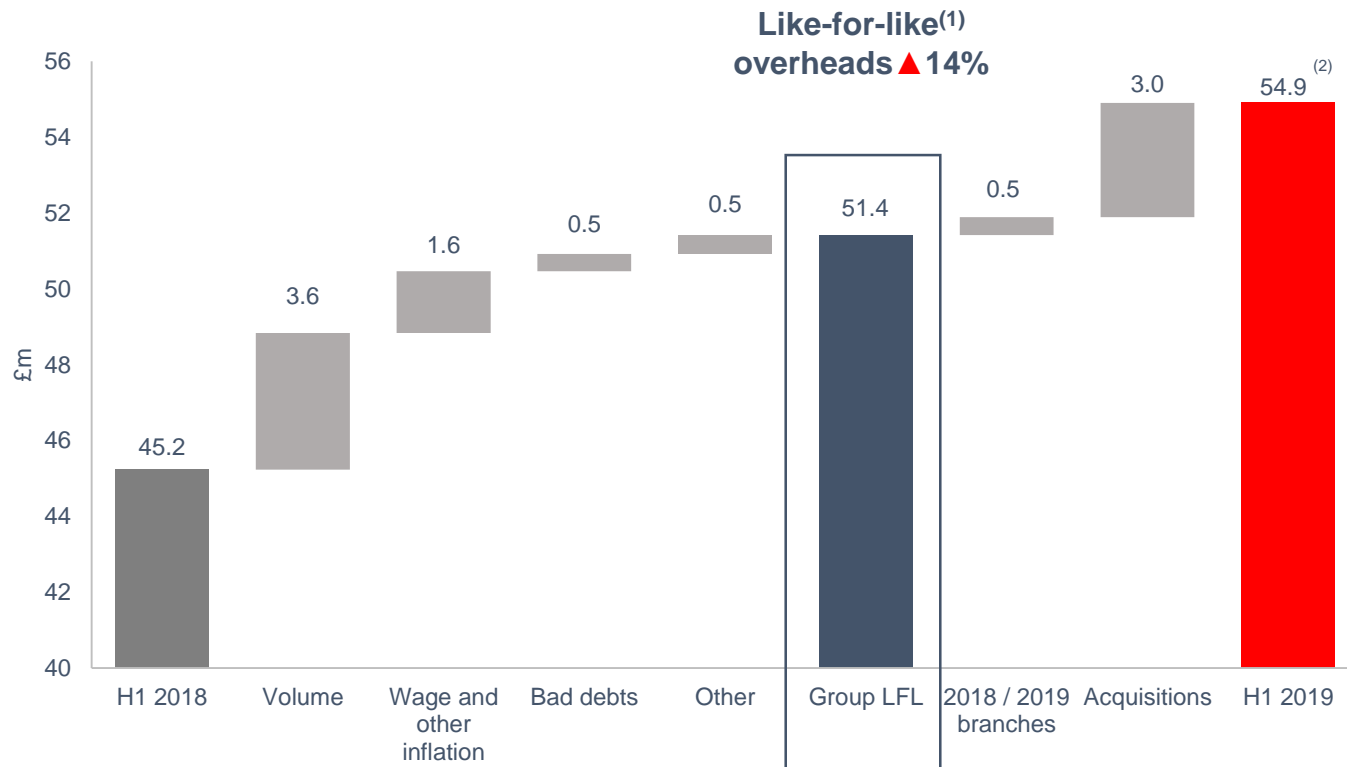
▶ Acquisitions (+20 bps)

- Relatively high gross margin at Ecoplas



# OVERHEADS

## Investment in Business Expansion



► Like-for-like<sup>(1)</sup> cost increase ▲ 14%

- Impact of direct labour due to higher production volumes (production ▲ 14%, like-for-like sales ▲ 10%)
- Minimum wage, auto-enrolment and pay award
- Increased bad debts and some residual inefficiency

► Impact of 11 new branches opened in 2018/19

- Acquisitions – Ecoplas (Aug 18), Kent Building Plastics (Dec 18) and Trimseal (Mar 19)

(1) Like-for-like overheads exclude acquisitions and branches opened in 2018 and 2019

(2) Pre-IFRS 16

# CAPEX

## Investment in Manufacturing Capacity

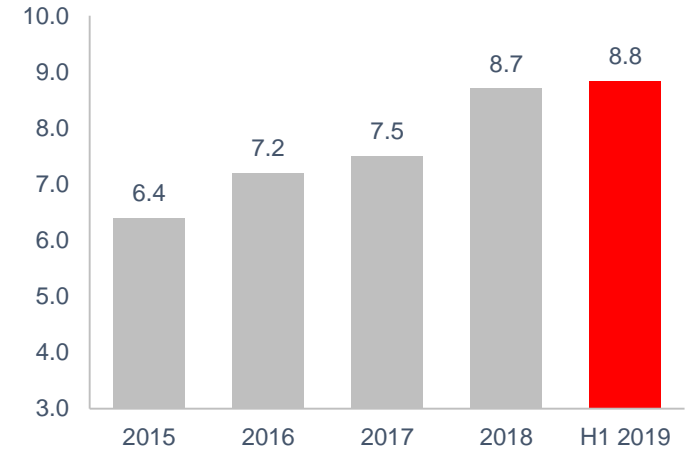
### ▶ H1 2019 capex £8.8m (H1 2018: £3.1m)

- Increase manufacturing capacity £2.5m
  - Expand production capacity and improve manufacturing efficiency
- Increase recycling capacity £3.5m
  - Ilkeston £0.7m and Ecoplas £2.1m
  - Tooling £0.7m
- Other £2.8m
  - Maintenance capex, new branches, branch refurbishments and IT

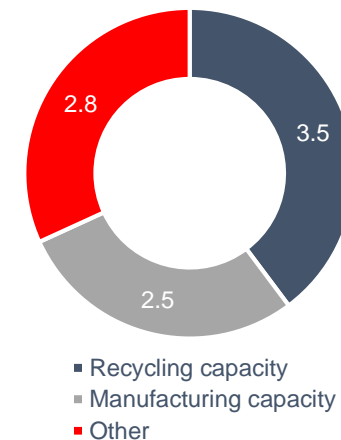
### ▶ 2019 capex guidance c.£16m

- Increase manufacturing capacity £5m
  - Includes 8 new extrusion lines
- Increase recycling capacity £5m
  - Ilkeston and Ecoplas plants, and tooling
  - Target incremental recycled material consumption of at least 3kt
- Other £6m
  - Maintenance capex, new branches, branch refurbishments and IT

Total Capital Expenditure



2019 Capital Expenditure Allocation (£m)



# WORKING CAPITAL

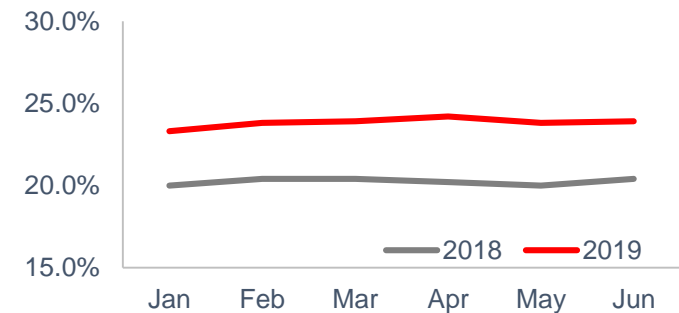
## Investment in Working Capital

- ▶ **Net outflow from working capital £10.4m**
  - Impact of stock build and business growth
- ▶ **Stock days at 67 vs 58 at June 2018**
  - Stocks ▲ £4.1m since December 2018
    - Stock build programme to improve availability at branches and protect against Brexit-related risks (c.£3m)
    - Increased stock holding at 2018/19 acquisitions (c.£1m)
- ▶ **Debtor days at 44 vs 43 at June 2018**
  - Receivables ▲ £8.0m
  - Growth, including increased sales to larger fabricators
- ▶ **Creditors ▲ £1.7m**
  - Shorter payment terms for resin and capex

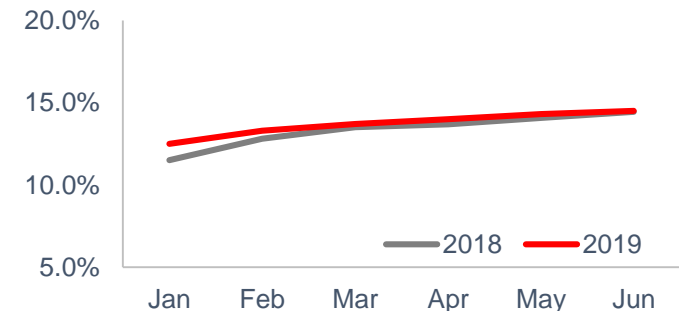
### Key Working Capital Metrics<sup>(1)</sup>

	Stock Days	Debtor Days
June 2018	58	43
December 2018	55	37
June 2019	67	44

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



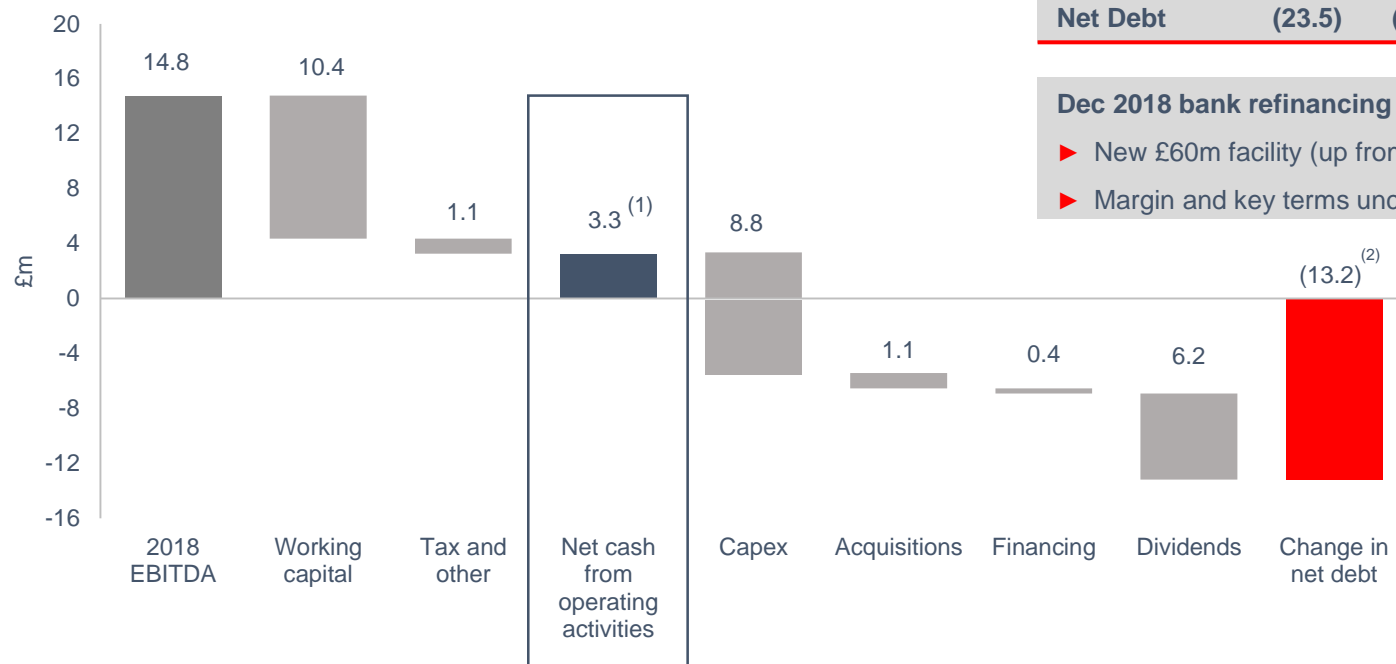
### Trade Receivables as a % of LTM Sales<sup>(1)</sup>



(1) Excludes all acquisitions

# CASH FLOW

## Cash Flow Generation



## Reconciliation of Net Debt

£m	Dec 2018	Jun 2019	Change
Cash	5.9	4.7	(1.2)
Borrowing	(29.4)	(41.4)	(12.0)
<b>Net Debt</b>	<b>(23.5)</b>	<b>(36.7)<sup>(2)</sup></b>	<b>(13.2)<sup>(2)</sup></b>

### Dec 2018 bank refinancing

- ▶ New £60m facility (up from £45m)
- ▶ Margin and key terms unchanged

### ▶ Outflow from working capital £10.4m

- ▲ Stocks £4.1m
- ▲ Receivables £8.0m
- ▲ Payables / provisions £1.7m

### ▶ Tax paid £1.0m

- Settlement of 2018 liability £2.0m
- Repayments received under Patent Box £1.0m

### ▶ Acquisitions

- Trimseal £0.5m
- Deferred consideration for Kent Building Plastics, Security Hardware and S&S Plastics

### ▶ Dividends

- Final 2018 £6.2m (6.2p per share)

(1) Cash generated from operations of £4.3m less tax paid  
 (2) Pre-IFRS 16



# 2019 FINANCIAL GUIDANCE

## IFRS 16 Leases – Reconciliation

### IFRS 16 Reconciliation

£m	H1 2019 Pre-IFRS 16	H1 2019 IFRS 16	H1 2019 Reported
<b>Revenue</b>	<b>136.3</b>	-	<b>136.3</b>
Gross margin	69.7	-	69.7
Operating expenses	(54.9)	5.1	(49.8)
<b>EBITDA</b>	<b>14.8</b>	<b>5.1</b>	<b>19.9</b>
Depreciation	(3.7)	(4.9)	(8.6)
Finance expenses	(0.5)	(0.4)	(0.9)
<b>Profit before tax</b>	<b>10.6</b>	<b>(0.2)</b>	<b>10.4</b>
<b>Basic earnings per share</b>	<b>8.8p</b>	<b>(0.1)p</b>	<b>8.7p</b>
<b>Net Debt</b>	<b>36.7</b>	<b>32.6</b>	<b>69.4</b>

### Other 2019 Financial Guidance

	2019 Guidance
<b>Income statement</b>	
Depreciation and amortisation (pre-IFRS 16)	£8.0m - £8.3m
Finance costs (pre-IFRS 16)	£0.8m - £1.0m
Effective tax rate	16.5%
<b>Balance sheet</b>	
Working capital outflow	£10m
Capex	£16m

▶ IFRS 16 applied from January 2019

- Operating leases capitalised on balance sheet
- Asset and liability initially recognised at present value of future lease payments
- Lease rentals replaced by depreciation and interest costs on leased assets

▶ Cash flows: no change

▶ P&L: £0.2m reduction in PBT for H1 2019

- Front loading of interest
- Reverses over remaining life of leases
- Full year estimate PBT reduction of up to £1.0m

▶ Fixed assets / lease liability increase £33m

# STRATEGIC PRIORITIES

Mark Kelly – Chief Executive

Clear strategy to create long term value

2019 focus on self-help initiatives to support delivery of near-term profit targets

## STRATEGIC PRIORITIES

## PROGRESS UP TO 2018

## FOCUS IN 2019

### INCREASE USE OF RECYCLED MATERIALS

- ✓ Increased use to 9.5kt via investment in Ilkeston site
- ✓ Acquisition of Ecoplas

- Investment in Ilkeston, Ecoplas and tooling (total c.£5m) to increase usage by at least c.3kt

### TARGET GROWTH IN MARKET SHARE

- ✓ Became largest supplier of rigid profile to UK market
- ✓ Recent growth from existing trade and new build fabricators and new account wins

- Execute capacity expansion investment (total £5m)
- Improvements in operating efficiency
- Increase stock holding at branches to improve availability

### EXPAND BRANCH NETWORK

- ✓ Reached 202 branches, with 43 new sites 2017-18
- ✓ New management team introduced in H2 2018

- Initiatives to improve profitability of existing estate
- Medium-term target remains up to 350 sites, but fewer openings expected in 2019

### DEVELOP INNOVATIVE NEW PRODUCTS

- ✓ Coastline – weatherproof composite cladding
- ✓ Skypod – range extension

- Eurologik – flush sash launch
- Patio door
- Further development of complementary products

### EXPLORE POTENTIAL BOLT-ON ACQUISITIONS

- ✓ Acquisitions of Ecoplas (Aug 2018) and Kent Building Plastics (Dec 2018)
- ✓ Several bolt-on opportunities reviewed

- Acquisition of Trimseal (Mar 2019)
- Integration of 2018 acquisitions
- Continue to develop acquisition pipeline and consider opportunities that arise

# SUMMARY

## And Outlook

### **Robust financial results**

Strong sales growth and gross margin improvement

EBITDA up

### **Good progress with plans to improve operating efficiency**

On track with investment in extrusion capacity

Investment in recycling now well advanced

Strengthened operational teams

### **Outlook**

Full year expectations 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 gutters



Traded goods

Products sold through two major trading divisions: Profiles and Building Plastics (branches)

# PROFILES DIVISION

## ▶ Manufactures:

- Extruded rigid and foam PVC profiles using virgin PVC compound
- Rigid products also include recycled compound

## ▶ Recycles:

- Factory offcuts (post-industrial) and old windows (post-consumer) waste

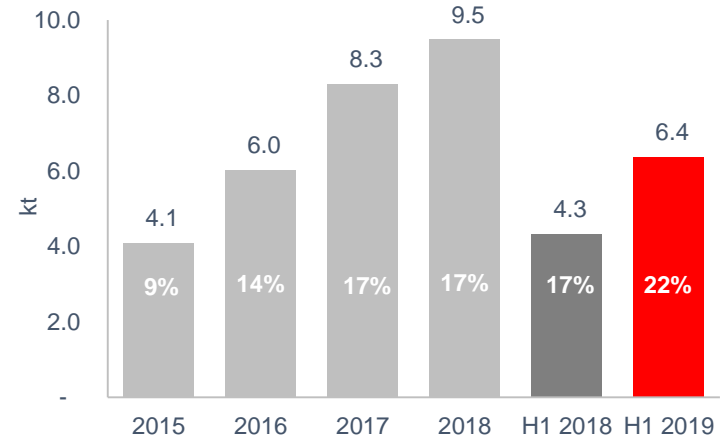
## ▶ Sells:

- Rigid PVC profiles to a network of > 390 third party fabricators
  - Principally trade fabricators, but with new build becoming increasingly important
  - 270 produce windows, trims cavity closer systems for customers
  - 100 make patio doors and conservatories
- Foam PVC profiles to Building Plastics division

## ▶ Acquisitions since IPO

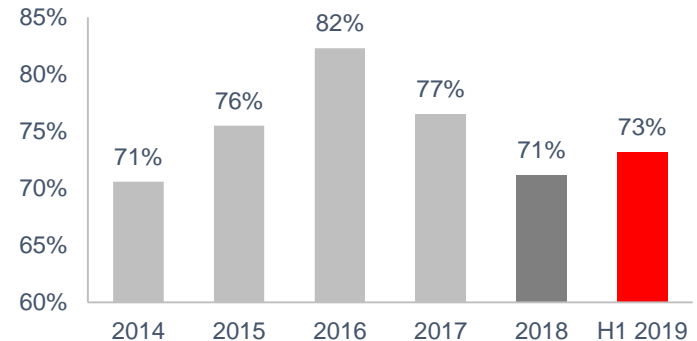
- S&S Plastics (injection moulding, acquired in 2015)
- Vista Panels (composite and panel doors, acquired in 2016)
- Ecoplas (PVC window recycler acquired in August 2018)

## Use of Recycled PVC in Manufacturing



- ▶ > 1.5m old windows recycled in 2018

## Overall Equipment Effectiveness (OEE)<sup>(1)</sup>



(1) OEE is a measure which takes into account machine availability, performance and yield

# BUILDING PLASTICS DIVISION

## ▶ Sells:

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

## ▶ Distribution

- Through our nationwide network of 207 branches

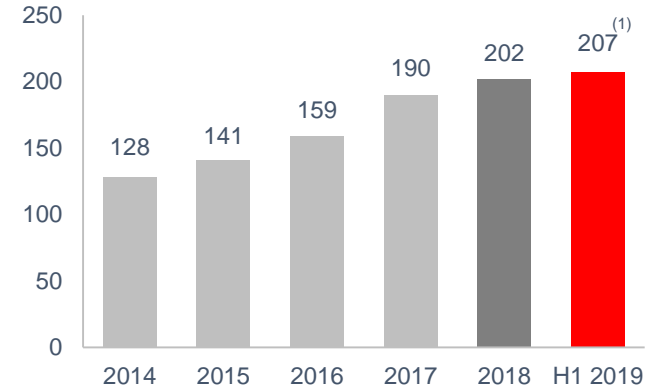
## ▶ Main customers

- Roofline and window installers
- Small and independent builders, house builders
- Nationwide maintenance companies

## ▶ Acquisitions since IPO

- Security Hardware (hardware supplier to RMI market, acquired in 2017)
- Kent Building Plastics (building plastics distributor, acquired in December 2018)
- Trimseal (building plastics distributor, acquired March 2018)

## Number of Branches



(1) Includes the acquisition of Kent Building Plastics and Trimseal (6 branches)

## 2019 Acquisition – Trimseal

Timing	Business and Transaction Summary
March 19	<ul style="list-style-type: none"> <li>✓ 2 branches in the South-east</li> <li>✓ Annual sales c.£1m</li> <li>✓ Consideration £0.5m</li> </ul>
<b>Expect financial returns in excess of organic alternative for region</b>	

# LOCATIONS



## Centrally located

HQ, Manufacturing,  
Warehousing,  
Injection Moulding  
and Recycling



## Extrusion centre

140,000 sq ft  
52 extruders



## Secondary operations (foiling)

120,000 sq ft  
10 foiling machines



## Recycling operations (Eurocell Recycle and Ecoplas)

280,000 sq ft



## Warehousing & Conservatory Roofs

260,000 sq ft



## Injection Moulding

21,000 sq ft  
22 Machines



## Composite Door Manufacture

50,000 sq ft  
The Wirral

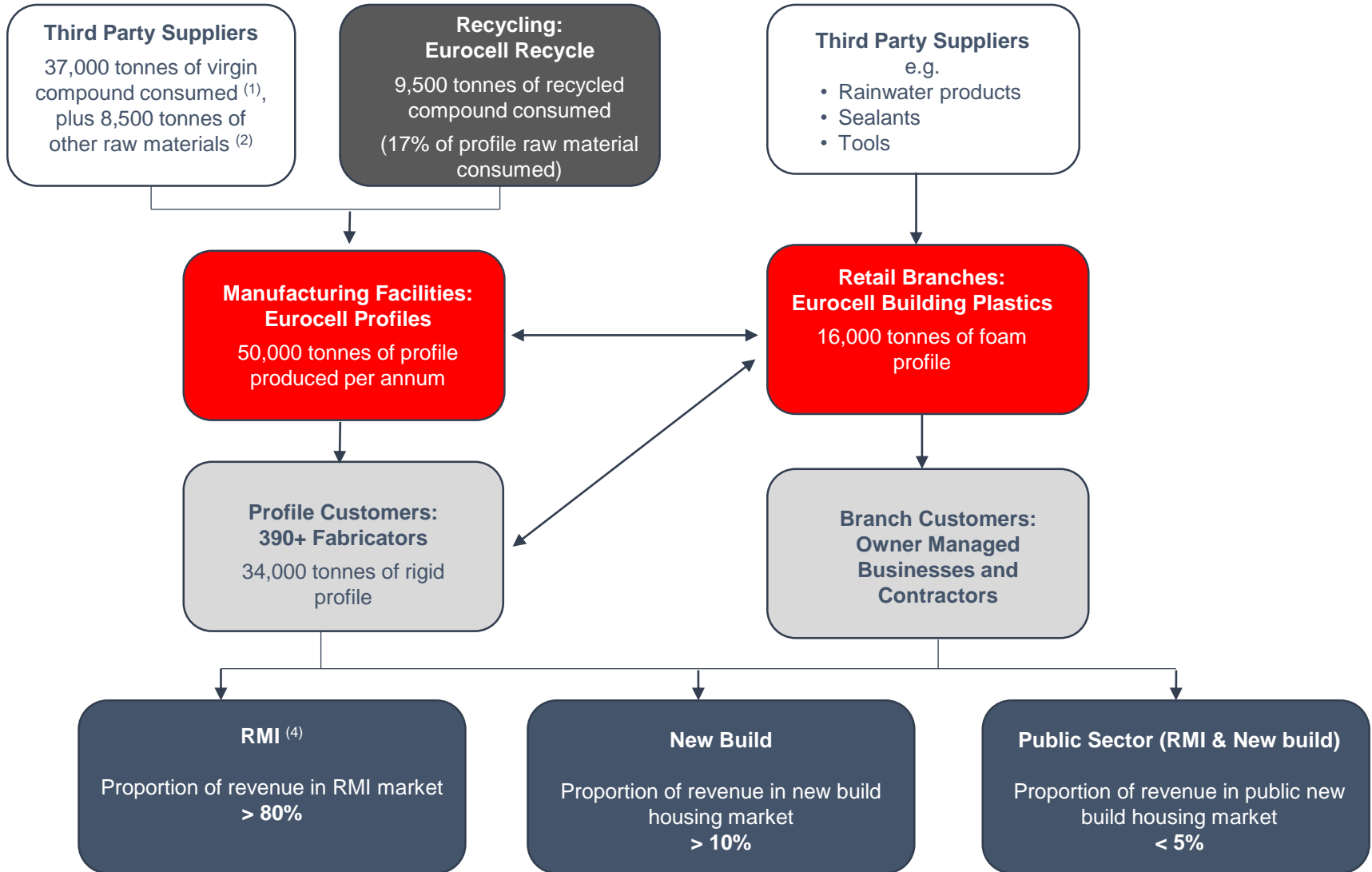


## Locks and hardware supplier

15,000 sq ft  
West Midlands

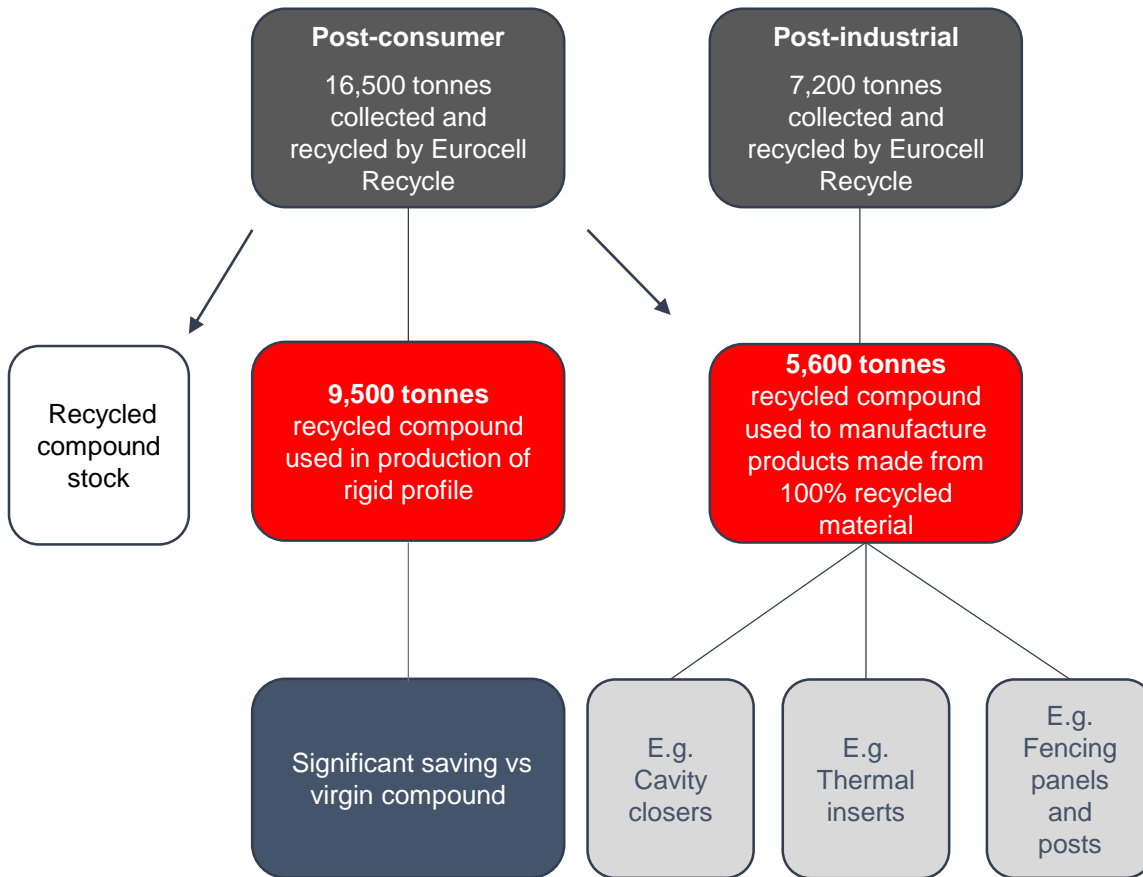


# ROUTE TO MARKET



(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 2018 volumes  
 (4) Repairs, Maintenance and Improvements

# RECYCLING AT EUROCELL RECYCLE (ILKESTON)



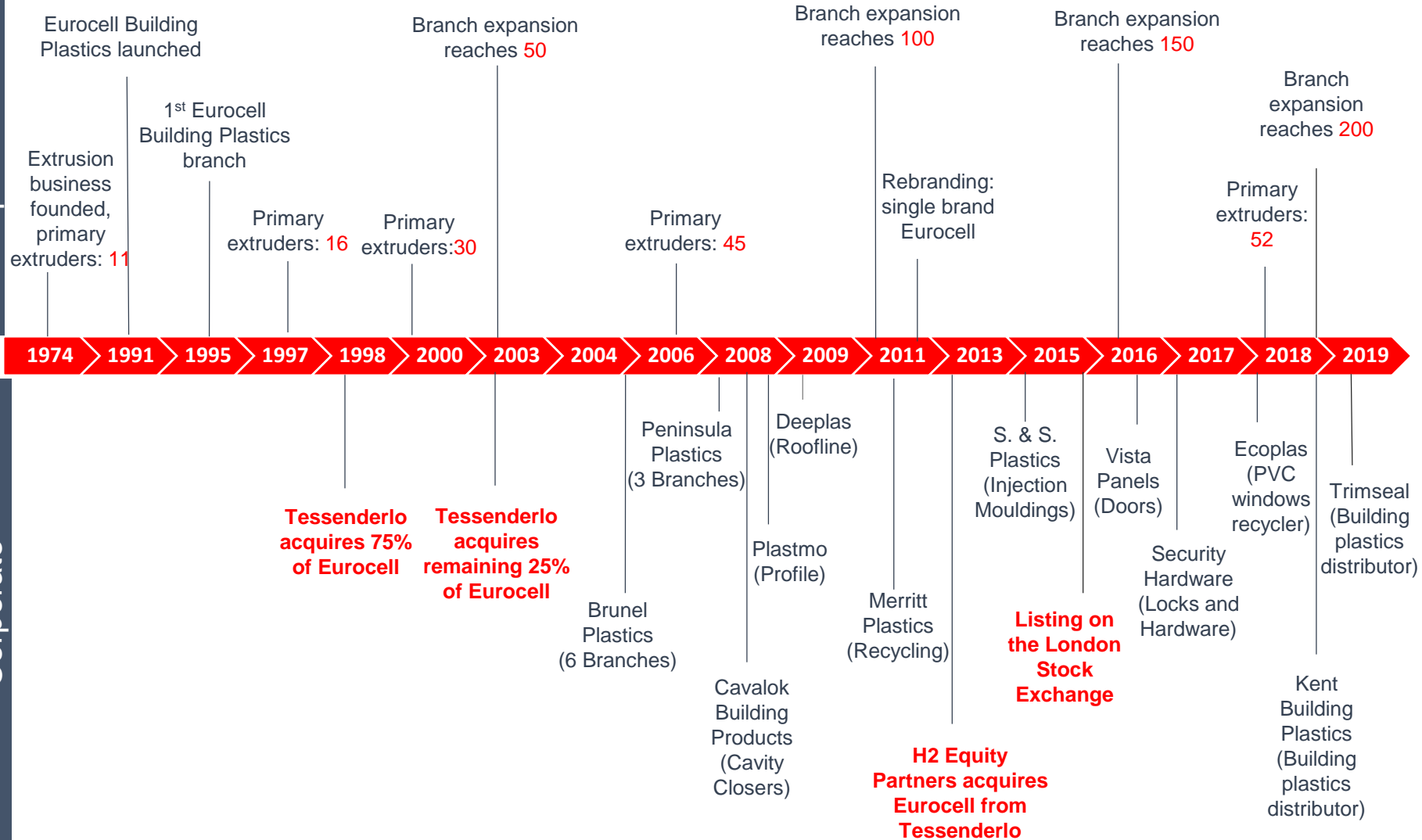
- ▶ Investment of c.£3 million 2016 - 2018
- ▶ Increased recycled material usage in primary extrusion from 4.1k tonnes in 2015 to 9.5k tonnes in 2018

(1) Tonnages shown are approximate based on 2018 volumes

# CORPORATE AND OPERATIONAL HISTORY

Operational

Corporate





# DISCLAIMER

This Presentation may contain forward-looking statements that involve substantial risks and uncertainties, and actual results and developments may differ materially from those expressed or implied by these statements.

These forward-looking statements are statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, the Company's results of operations, financial condition, prospects, growth, strategies and the industry in which the Company operates. By their nature,

forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

These forward-looking statements speak only as of the date of this Presentation and the Company does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Presentation. Neither the issue of this Presentation nor any part of its contents is to be taken as any

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