13 March 2020

EUROCELL PLC (Symbol: ECEL)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Strong sales growth and good progress with plans to drive operating efficiency

Eurocell plc is a market leading, vertically integrated UK manufacturer, distributor and recycler of innovative window, door and roofline PVC building products

	2019 (pre-IFRS 16[1])	2018	Change	2019 (Reported)
Key financial performance measures				
Revenue (£ million)	279.1	253.7	10%	279.1
Gross margin %	51.2	49.5	170bps	51.2
Adjusted EBITDA (3) (£ million) (2)	31.7	30.3	5%	42.4
Adjusted profit before tax (£ million) (2)	23.1	22.5	3%	22.7
Adjusted basic earnings per share (pence) (2)	19.7	19.1	3%	19.3
Other statutory accounting measures				
Profit before tax (£ million)	23.1	22.1	5%	22.7
Basic earnings per share (pence)	19.7	19.6	1%	19.3
Total dividends per share (pence)	9.6	9.3	3%	9.6
Capital investment (£ million)	15.2	8.7	6.5	15.2
Net debt (£ million) (4)	34.6	23.5	(11.1)	68.7

Financial Highlights

- Continuing successful deployment of commercial strategies:
  - Strong sales growth of 10% (8% excluding acquisitions)
  - Gross margin up 170bps, reflecting selling price increases and use of recycled material up 41%
- Overheads up 12% on a like-for-like basis(6) includes impact of higher volumes and extra warehousing / distribution costs
- EBITDA up 5% (pre-IFRS 16)
- Stock build programme implemented to protect against Brexit-related risks and improve availability in our branches
- Pre-IFRS 16 net debt £34.6m includes substantially increased capital expenditure, stock build and the impact of growth

Operational Highlights

- Strong on sustainability, with investment to expand recycling capacity very well advanced
- Good progress with planned actions to drive operating efficiency:
  - Mark Hemming joined the business in August as Chief Operating Officer
  - Investment to increase extrusion capacity complete
- New warehouse secured to facilitate future growth and the delivery of further operating efficiencies
  - Expect to be operational early in 2021, after fit-out capital investment of c.£8m

Mark Kelly, Chief Executive of Eurocell plc said:

"We have reported robust financial results for 2019 and, despite Brexit-related and political uncertainty, delivered another year of strong sales growth and a good improvement in gross margin.

“Over the last 4 years, successful deployment of our commercial strategies has led to sales substantially exceeding our expectations. However, profits have been impacted more recently as we build the operating capacity to service our sales and we have experienced inefficiencies and extra costs. With manufacturing constraints now resolved, our focus for 2020 will be on executing the warehouse transition successfully, thereby facilitating future growth and the delivery of further operating efficiencies. As a result, looking forward we see good potential to outperform our markets.

“As yet, there has been no discernible impact on our business from COVID-19, although we remain very alert to this possibility. We have a strong balance sheet, and in March 2020 we were pleased to increase our bank facility to £75 million. We maintain a conservative approach to debt, in order to ensure good liquidity and to manage any emerging risks.

“Despite the impact of very wet weather so far this year, we have made a good start to 2020. Sales and margins for the first two months are in line with our expectations, and notwithstanding macroeconomic and political uncertainty, we expect to deliver further progress this year.”

NOTES FOR ANALYSTS AND EDITORS

Financial Review

- Revenue growth of 10% (8% excluding acquisitions) includes:
  - Like-for-like(6) sales growth of 7%
    - Profiles division like-for-like(6) sales growth of 5%, including good contributions from both existing and new accounts, arising consistently from across our base of fabricators
    - Building Plastics division like-for-like(6) sales growth of 8%, reflecting the positive impact from better stock availability and improvements in operating standards
  - Sales from branches opened in 2018/19 of £2.2 million
    - 4 new sites in 2019, including the acquisition of Trimseal in March (2018: 12 new sites, including the acquisition of Kent Building Plastics in December)
  - Incremental sales from 2018/19 acquisitions of £6.2 million
- Gross margin up 170 bps to 51.2% (2018: 49.5%)
  - Selling price increases implemented to recover cost inflation
  - Increased use of recycled material to 13.4k tonnes or 23% of material consumption (2018: 9.5k tonnes, or 17%)
- Tax rate on pre-IFRS 16 adjusted profit before tax of 14.7% (2018: 14.7%) includes the benefit of Patent Box(7) relief
- Capex of £15.2 million (2018: £8.7 million) includes:
  - £4.8m to expand production capacity with additional co-extrusion and foam lines
  - £5.7m to increase recycling capability at our two plants (with associated tooling)
  - £4.7m of other planned and maintenance capex
- Final dividend of 6.4 pence per share (2018: 6.2 pence per share) up 3%
- IFRS 16 (leases) reduced profit before tax by £0.4 million in 2019
  - Net debt increased by c.£34 million to reflect present value of future lease payments

Notes:

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

(2) Adjusted profit and earnings measures are stated before non-underlying items(5).

(3) EBITDA represents earnings before interest, tax, depreciation and amortisation.

(4) Net debt is cash and cash equivalents less bank overdrafts, bank borrowings and lease liabilities.

(5) Non-underlying items for 2018 of £0.4 million included acquisition expenses, unamortised fees from our previous bank facility expensed following the refinancing in December 2018, the related tax effect and the benefit of a second Patent Box claim.

(6) Like-for-like sales and operating costs exclude acquisitions and branches opened in 2018/19.

(7) An HMRC approved scheme, allowing a 10% tax rate on profits derived from products that incorporate patents.

Analyst presentation

There will be an analyst presentation at 9am today at Canaccord Genuity, 88 Wood Street London, EC2V 7QR. The presentation will also be accessible via a live conference call for registered participants.

To register for the call please contact Teneo by email on eurocell@teneo.com.

CHAIRMAN'S STATEMENT

In 2019 we made good progress with our strategic priorities and, against generally weak or subdued end markets, continued to consolidate our strong market positions in both divisions. The substantial investments we have made in recycling leave Eurocell as the leading UK-based recycler of PVC windows, demonstrating clearly that sustainability sits right at the heart of our business.

Financial and operating performance

We delivered strong sales growth across the Group in 2019, with revenue up 10% (or 8% excluding acquisitions), together with a good improvement in gross margin.

Manufacturing performance was also better, following capital investment to improve manufacturing efficiency and increase extrusion capacity. However, we have continued to incur additional warehousing and distribution costs and, with the benefit of our new Chief Operating Officer's expertise, have identified new warehousing as essential to facilitate future growth and improve operating efficiency. We have therefore put plans in place to enable this (see below).

Adjusted EBITDA increased by 5% to £31.7 million (pre-IFRS 16). Adjusted profit before tax was £22.7 million, or £23.1 million on a pre-IFRS 16 basis (2018: £22.5 million). Adjusted basic earnings per share were 19.3 pence per share, or 19.7 pence per share on a pre-IFRS 16 basis (2018: 19.1 pence per share).

Cash conversion was impacted by a planned investment in working capital to support growth and a stock build programme to improve availability in our branches and help mitigate the risk of disruption from Brexit. Excluding the impact of IFRS 16, net debt at year end was £34.6 million (31 December 2018: £23.5 million). Reported net debt was £68.7 million. We have a strong balance sheet which provides flexibility and options for the future.

Strategy

In January 2020, we conducted our annual review of the Company's strategy, our markets and activities. At the conclusion of this process, we reaffirmed that our overall objective remains to deliver sustainable growth in shareholder value by increasing sales and profits at above our market level growth rates.

We have made good progress against our five strategic priorities in 2019, with the key aspects of our performance described in the Chief Executive's Review.

The successful deployment of our commercial strategies across the business has led to sales substantially exceeding our expectations over the last few years. Our excellent market share growth has been achieved without any meaningful gross margin erosion. However, profits have lagged more recently as we build operating capacity to service our sales and we have experienced inefficiencies and extra costs.

We have worked hard to resolve manufacturing issues through investment in new capacity, but warehousing remains a constraint.

However, I am very pleased to say that we have now secured a new state-of-the-art warehouse facility, located close to our primary operating sites near Alfreton. This will allow us to modernise our storage and picking solutions, providing a safer and more productive environment for employees and demonstrates our commitment to the locality. The new site will facilitate future growth and the delivery of further operating efficiencies. We expect it to be operational early in 2021. The costs associated with the new site are set out in the Group Financial Review.

With additional, efficient capacity, there is good potential to continue to outperform our markets in the medium-term.

Governance

As a Board, we are committed to the highest standards of corporate governance and ensuring effective communication with shareholders. We continue to comply with the UK Corporate Governance Code.

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, representing growth of 3%.

People

The progress we have made in 2019 is testament to the hard work and dedication of our teams in every part of our business. On behalf of shareholders and of the Board, I offer our sincere thanks.

Bob Lawson
Chairman

CHIEF EXECUTIVE'S REVIEW

INTRODUCTION

The Construction Products Association Winter 2019 update (published January 2020) reported on a weak Repairs, Maintenance and Improvements ('RMI') market and a decline in housing starts, with both sectors impacted by Brexit-related and political uncertainty.

Against this backdrop, we were very pleased to deliver another year of strong sales growth, with reported revenues up 10% (or 8% excluding acquisitions). Growth reflects good contributions from both existing and new accounts from across our fabricator base in Profiles, as well as strong like-for-like sales in Building Plastics, driven by better stock availability and improvements in operating standards.

It is also good to report that our gross margin improved by 170 bps to 51.2%, reflecting the benefit from selling price increases, implemented to recover cost inflation, and higher usage of recycled material.

The capital investment programme launched at the beginning of the year to improve manufacturing efficiency and increase extrusion capacity is now complete, leading to an improved manufacturing performance. However, we have continued to incur additional warehousing and distribution costs, particularly through peak periods.

Adjusted EBITDA increased by 5% to £31.7 million (pre-IFRS 16). Adjusted profit before tax was £22.7 million, or £23.1 million on a pre-IFRS 16 basis (2018: £22.5 million).

In line with our continued focus on improving operations, and to support future growth, we were delighted with the appointment of Mark Hemming to the position of Chief Operating Officer. Mark started with us in August and is proving to be an excellent addition to our operational management team. Prior to joining, Mark was Regional Director for Customer Fulfilment at Amazon UK. Before that, he has experience leading manufacturing plants in the automotive sector.

With Mark's input and expertise, we have identified new warehousing as essential to facilitating future growth and driving operating efficiency, and have commenced a project to expand our warehousing capacity significantly. Further details are included in Strategic Update below.

OPERATIONAL PERFORMANCE

Health and safety

The safety and well-being of our employees and contractors is our first operational priority and we continue to maintain good health and safety performance. Our Lost Time Injury Frequency Rate was 0.9 in 2019, in line with 2018. There were no major injuries and 17 minor accidents (2018: 9) recorded under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDOR').

Production

In 2019 we manufactured 54.6k tonnes of rigid and foam PVC profiles at our primary extrusion facilities, up from 49.8k tonnes in 2018, an increase of 10%.

This reflects the sales growth in the year, as well as a drive to increase stock availability at our branches. In addition, given the possibility for raw material supply interruption due to Brexit, we invested in a stock build programme. In total, we added approximately £5 million to finished goods for key product lines in 2019, which provides a good level of protection.

This record level of production was made possible through the execution of a substantial capex programme in 2019, costing c.£5 million, to improve manufacturing efficiency and increase co-extrusion and foam capacity by 30% and 15% respectively. All 7 new lines are now fully operational and working well, leading to a better manufacturing performance in 2019. Overall equipment effectiveness ('OEE', a measure which takes into account machine availability, performance and yield) in extrusion improved to 73%, compared to 71% for 2018 and scrap levels were down to 8%, compared to 9% in 2018.

As planned, the new extrusion lines were operational for the busy final few months of the year. During this period, factory utilisation did not exceed 80%, demonstrating that we have capacity for further growth. We have also recruited additional skilled labour for our foiling plant to support increasing demand.

Recycling

We used of 13.4k tonnes of recycled PVC compound alongside virgin resin in the manufacture of co-extruded rigid profiles, representing 23% of overall material consumption, up from 9.5k tonnes (or 17%) in 2018, an increase of 41% driving a substantial saving compared to the cost of using virgin material.

We have been investing to increase our recycling capability, in order to capture financial and sustainability benefits and to keep pace with our sales growth (see Strategic Update). This has been delivered through the expansion of Eurocell Recycle Midlands (based in Ilkeston and formerly ‘Merritt Plastics’), the acquisition of Eurocell Recycle North (based in Selby and formerly ‘Ecoplas’) and by investment in new co-extrusion tooling, which allows a greater proportion of recycled material to be used in our products.

We invested c.£3 million in Eurocell Recycle Midlands in 2019, to increase output and improve reliability, including new tooling.

We acquired Eurocell Recycle North in August 2018 for consideration of £6 million (including debt assumed). Output at acquisition was c.7k tonnes of recycled compound per annum, sold into a broad mix of trade extruders. As expected, investment was required to improve the operating environment and reliability of the plant, to eliminate bottlenecks from production processes and to expand capacity. Total investment post-acquisition stands at c.£3 million, mostly in 2019. Whilst we suffered some delays with our expansion plans for Ecoplas, the project is now well advanced and performance has improved.

STRATEGIC UPDATE

Our overall strategic objective remains to deliver sustainable growth in shareholder value by increasing sales and profits at above our market level growth rates. In 2016, we identified five clear strategic priorities to help us achieve this objective. Since then we have delivered significant progress in each of them as follows:

- Target growth in market share – now the largest supplier of rigid PVC profile to the UK market (>15% share)
- Expand the branch network – 206 sites in 2019 compared to 141 in 2015
- Increase the use of recycled materials – usage up from 4.1k tonnes in 2015 to 13.4k tonnes in 2019
- Develop innovative new products – sales from products introduced since 2017 were c.£33 million of 2019 revenue
- Explore potential bolt-on acquisition opportunities – six acquisitions completed since 2015

Successful implementation of our commercial strategies has driven a very strong compound annual growth rate in sales of 12% since 2015. However profits in the last two years have been impacted by sales running substantially ahead of our expectations, thereby exceeding the available operating capacity and leading to inefficiencies and extra costs.

As described above, manufacturing constraints experienced in 2018 have been largely resolved through investment in new extrusion capacity and skilled labour, resulting in an improved manufacturing performance.

We are confident that we can continue to outperform our markets in the medium-term, through the further progression of our strategic priorities. However, we have also concluded that additional warehousing capacity is needed to facilitate future growth and deliver further operating efficiencies. As a result, we have commenced a project to expand our warehousing capacity significantly and have outlined more on this below.

Target growth in market share in Profiles

In 2018 we became the leading supplier of rigid PVC profile to the UK market, with a share of >15%. Our objective is to consolidate this position and increase our share to c.20% over the next few years.

There is a compelling case for larger trade fabricators to switch to Eurocell. This includes: a strong product range and continued product development (e.g. flush windows, grey substrate and patio doors), the benefits of pull-through profile and hardware specifications and increasing opportunities to supply our branches, all delivered via best in class service.

Expanding our share of the new build market has been a key driver of recent growth and we believe favourable market dynamics, such as Help to Buy and low interest rates, are set to continue. We have strong relationships with large and medium-sized housebuilders, maintained by our specification and technical teams. In addition, with an increasing focus on sustainability, we believe our use of recycled material will become increasingly attractive to housebuilders.

In the commercial sector there is a strong case for the benefits of using PVC profile and thereby drive more value engineering away from aluminum, particularly in sub-sectors such as private rentals, build-to-rent, purpose-built student accommodation, education and local authority refurbishment – all habitual users of aluminum.

Expand the branch network

Our objective for Building Plastics is to achieve world class operations from a least 300 sites.

In the existing estate, we have plans to improve up-selling and cross-selling opportunities, to target lapsed customers, and to tighten margin controls. We also intend to enhance promotional activities with support from key suppliers. In terms of products, we will focus on improving conversion rates for high value made-to-order items and extend our range, including the introduction of new outdoor living products.

With our focus on executing the warehouse transition, we plan to open just 4 new sites in 2020. However, these will all be in a new, larger format store, with expanded trade counter and showroom-style displays designed to engage customers and drive big-ticket purchases such as windows and doors. This follows a successful trial in Leeds in 2019 and the new 2020 branches will complete the evaluation of this format. Thereafter, with additional warehousing capacity in place, we anticipate increasing branch openings, including large format branches where appropriate.

Finally, we see a significant opportunity to develop and implement a market-leading consumer online windows and doors proposition, using our branch network to provide infrastructure where needed (e.g. delivery point for installers). We will run a trial in the North West region in 2020.

Increase the use of recycled material

Expanding the use of recycled material increases our profits, because the cost of recycled compound is typically lower than the price of virgin material. It also improves product and business sustainability, with less plastic going to landfill and by reducing our exposure to volatile commodity prices.

In particular, closed-loop recycling (where windows being replaced are recycled into the new product) is attractive to decision makers such as local authorities and architects, which helps us develop tight specifications for our products. Recycling and sustainability also resonate strongly with consumers and other stakeholders.

Our total capital investment in recycling since the beginning of 2016 (including the acquisition consideration for Eurocell Recycle North) is c.£15 million. As a result, we have become the leading UK-based recycler of PVC windows and our use of recycled material increased from 4.1k tonnes (or 9% of materials consumed) in 2015 to 13.4k tonnes (or 23% of materials consumed) in 2019. In doing so, in 2019 we saved the equivalent of c.3.2 million window frames from landfill.

In the light of the potential for further good sales growth described above, we expect internal demand for recycled material to increase. We believe this incremental demand can be satisfied largely through the expansion of Eurocell Recycle North, with only limited additional investment plus maintenance capital expenditure across the recycling operations.

Develop innovative new products

We are committed to maintaining market leadership by offering the very latest in product improvement, both through development of existing products and the introduction of new ones. We work closely with our customers and technical advisors on development and to help maintain our product pipeline. Highlights in 2019 include the introduction of a flush window sash profile for our popular Eurologik profile range, a new patio door system (Syncro) and development of a through-colour grey substrate profile.

Explore potential bolt-on acquisitions

We have completed 6 acquisitions since our IPO, including in 2019 the acquisition of Trimseal, a building plastics distributor on the south coast of England, for total net consideration of £0.4 million. We will continue to assess and consider bolt-on acquisition opportunities in the markets in which we operate over the medium-term. However, our focus for 2020 will be delivering operating efficiencies from recent and on-going investment in manufacturing and warehousing capacity.

WAREHOUSING CAPACITY EXPANSION

We have concluded that our existing main warehouse is a major constraint to future growth and operating efficiency. In order to keep up with recent demand, we have exceeded the capacity of the site and the loading facilities, operating in peak periods well above the target of 85% utilisation for efficient operations. This has resulted in extra costs incurred to operate safely and maintain, so far as possible, customer service.

We therefore evaluated options to expand our warehousing capacity. I am pleased to say that we have now secured a new facility, located within 3 miles of our primary manufacturing site, existing main warehouse and head office. The new site has 260,000 ft^2 of high bay, state of the art warehouse accommodation, dedicated office space and car parking.

We intend to take this opportunity to modernise our storage solutions, using cantilever racking to store up to twelve stillages high (our current warehouse is restricted to seven); and mobile racking to allow high density storage, which will increase capacity by more than 60%. Similarly, we will modernise picking processes, with the use of mobile platforms to replace manual techniques, thereby providing a safer and more productive solution. We expect the new site to be operational early in 2021.

We will convert our existing warehouse to a specialist manufacturing site, relocating from 2021, our secondary operations including foiling, injection moulding and conservatory roofs. This will free up space to future-proof extrusion capacity.

We are very excited about the opportunities for growth opened up by this investment. The costs and financial implications of the new warehouse are included in the Group Financial review.

BREXIT

There remains significant uncertainty over the impact of Brexit, be it related to general macroeconomic factors or specific company risks. Key to understanding the medium-term impact on Eurocell will be the nature of the future trading relationship between the UK and the EU.

We have taken a number of steps to protect the business from any potential negative effects. In this context, it is worth noting that almost all of our sales are to UK-based customers and that the vast majority of our workforce has the right to remain and work in the UK.

Some of our key raw materials do originate from Europe, so any future disruption in supplies could impact our manufacturing operations. With that in mind, whilst we have only limited capacity to hold excess raw materials at our own sites, we completed a significant investment in additional stocks in 2019, adding c.£5 million to finished goods for key product lines. More generally, we increased our bank facilities in March 2020, securing additional funding with no change to pricing, and hold selective credit insurance for large customer accounts. We have also fixed electricity prices for the coming year at competitive prices.

Therefore, whilst we are not able to predict the impact of Brexit on our business, we have taken sensible steps to help mitigate known risks.

OUTLOOK

We have reported robust financial results for 2019 and, despite Brexit-related and political uncertainty, delivered another year of strong sales growth and a good improvement in gross margin.

Over the last 4 years, successful deployment of our commercial strategies has led to sales substantially exceeding our expectations. However, profits have been impacted more recently as we build the operating capacity to service our sales and we have experienced inefficiencies and extra costs. With manufacturing constraints now resolved, our focus for 2020 will be on executing the warehouse transition successfully, thereby facilitating future growth and the delivery of further operating efficiencies. As a result, looking forward we see good potential to outperform our markets.

As yet, there has been no discernible impact on our business from COVID-19, although we remain very alert to this possibility. We have a strong balance sheet, and in March 2020 we were pleased to increase our bank facility to £75 million. We maintain a conservative approach to debt, in order to ensure good liquidity and to manage any emerging risks.

Despite the impact of very wet weather so far this year, we have made a good start to 2020. Sales and margins for the first two months are in line with our expectations, and notwithstanding macroeconomic and political uncertainty, we expect to deliver further progress this year.

Mark Kelly
Chief Executive Officer

DIVISIONAL REVIEWS

PROFILES

The Profiles division manufactures extruded rigid and foam PVC profiles. We make rigid and foam products using virgin PVC compound, the largest component of which is resin. Our rigid products also include recycled PVC compound, produced at our market-leading recycling facilities.

Rigid PVC profiles are sold to third-party fabricators, who produce windows, trims, cavity closer systems, patio doors and conservatories for installers, retail outlets and house builders. Foam products are used for roofline and are supplied to customers through our nationwide branch network in the Building Plastics division.

As such, all of our manufacturing margin is recorded within the Profiles division, which therefore also benefits from expansion of the branch network.

The Profiles division also includes Vista Panels, S&S Plastics and Eurocell Recycle North (formerly ‘Ecoplas’).

	2019 £m	2018 £m	Change %
Third-party Revenue	**115.7**	**107.7**	**7%**
Organic	110.8	105.4	5%
Eurocell Recycle North(1)	4.9	2.3	113%
Inter-segmental Revenue	**59.5**	**51.8**	**15%**
Total Revenue	**175.2**	**159.5**	**10%**
Operating Profit pre-IFRS 16	**17.8**	**17.8**	**-%**
Operating Profit post-IFRS 16	**17.9**		

(1) Formerly Ecoplas, acquired August 2018

Revenue

Third-party revenue was up 7% in 2019 to £115.7 million (2018: £107.7 million), which includes a like-for-like sales increase of 5%. This growth includes the impact of selling price increases implemented to recover cost inflation. The remaining growth was driven by the full year effect of the acquisition of Eurocell Recycle North in August 2018.

Like-for-like sales growth reflects strong contributions from both existing and new accounts from across our fabricator base. It also includes a strong contribution from Vista Panels, where sales were up 20%, driven by higher sales of composite doors to new build. Across the Profiles division, new build represents approximately one-third of sales.

We have been pleased with recent market share gains and are now consolidating our position as the largest supplier of rigid profile to the UK market. Our specifications teams continue to be successful in generating demand, well supported by our ability to supply a comprehensive product range through the fabricator network. As well as windows, this includes composite doors, PVC and aluminium bi-fold doors, a cavity closure system and products to support off-site construction.

Following the introduction of c.40 new accounts in 2017/18, we have added selectively a small number of account wins in 2019 and our prospect pipeline remains very strong.

In terms of Eurocell Recycle North, as described above, we suffered some initial delays with our project to expand capacity, which led to a shortfall in external sales. However, the investment programme is now well advanced and performance is starting to meet expectations more consistently.

Operating profit

Operating profit for 2019 on a pre-IFRS 16 basis was £17.8 million (2018: £17.8 million).

Gross margin percentage in Profiles was ahead of 2018. As noted above, we implemented selling price increases to recover cost inflation and increased the use of recycled material in our primary extrusion processes.

Higher overheads in Profiles includes the impact on direct labour from higher production volumes and the acquisition of Eurocell Recycle North, as well as wage and other inflation. It also includes additional warehousing and distribution costs as described in the Chief Executive’s Review. As a result, return on sales percentage for 2019 was below 2018. However, we are implementing plans to improve operating efficiency, particularly the expansion of our warehousing capacity.

BUILDING PLASTICS

Building Plastics distributes a range of Eurocell manufactured and branded PVC foam roofline products and Vista doors, as well as third-party manufactured ancillary products. These include windows made by our fabricator customers using products manufactured by Profiles, sealants, tools and rainwater products.

Distribution is through our national network of 206 branches to installers, small and independent builders, house builders and nationwide maintenance companies. The branches also sell roofline products to independent wholesalers.

The Building Plastics division includes Security Hardware, Kent Building Plastics and Trimseal. Security Hardware is a supplier of locks and hardware, primarily to the RMI market, and Kent Building Plastics and Trimseal are both suppliers of building plastic materials.

	2019 £m	2018 £m	Change %
Third-party Revenue	**163.4**	**146.0**	**12%**
Organic	159.5	145.7	9%
Kent Building Plastics(1)	3.4	0.3	1033%
Trimseal(2)	0.5	-	n/a
Inter-segmental Revenue	**1.3**	**1.4**	**-**
Total Revenue	**164.7**	**147.4**	**12%**
Operating Profit pre-IFRS 16	**8.4**	**7.4**	**14%**
Operating Profit post-IFRS 16	**8.6**		

(1) Acquired December 2018
(2) Acquired March 2019

Revenue

Building Plastics third-party revenue was up 12% to £163.4m (2018: £146.0m), with growth comprising an increase in like-for-like sales of 8%, as well as the impact of branch openings and the acquisitions of Kent Building Plastics and Trimseal. This growth includes the impact of selling price increases implemented to recover cost inflation.

Like-for-like sales includes growth from branches opened in 2017 and prior, as the more recent sites from that vintage begin to mature. This growth also reflects the positive impact from better stock availability, particularly for manufactured products, and the management team driving improvements in operating standards.

In terms of new branches, there were 4 new sites in 2019 (including the acquisition of Trimseal), compared to 12 in 2018 (including the acquisition of Kent Building Plastics). We now have an estate of 206 branches providing national coverage across the UK, which offers a significant competitive advantage. Branches opened in 2018/19 (excluding the acquisitions) added £2.2 million to sales in 2019.

Operating profit

Operating profit for 2019 on a pre-IFRS 16 basis was £8.4 million (2018: £7.4 million), an increase of 14%.

Gross margin percentage and operating profit in Building Plastics have improved compared to 2018. As noted above, we implemented selling price increases in 2019 to recover cost inflation. Other initiatives implemented to improve profitability include the introduction of a more rigid pricing architecture, revised sales and account management structures and better stock availability.

Higher overheads in Building Plastics includes the impact of new branches and acquisitions in 2018/19, as well as wage and other inflation. It also includes the additional warehousing and distribution costs described in the Chief Executive’s Review.

We plan to open 4 new sites in 2020. New branches are a key driver of sales and profit growth in the medium-term, but they do create downward pressure on profitability in the short-term due to the investment in our teams at new sites and in supporting central infrastructure. However, our initiatives to reduce time to break-even have now driven this point below 24 months. We do not expect the 4 branches to be opened in 2020 to have a meaningful impact on profit for the year.

GROUP FINANCIAL REVIEW

	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

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 balance sheet. 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.

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 11.2% due to the recognition of a second Patent Box claim in the year.

During the year we were pleased to receive the Fair Trade Mark accreditation, reflecting our commitment to paying the right amount of tax at the right time.

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 totaling £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 Review. 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 terms 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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

		Year ended 31 December 2019			Year ended 31 December 2018		
	Note	Underlying £m	Non-underlying* £m	Total £m	Underlying £m	Non-underlying* £m	Total £m
Revenue	3	**279.1**	**–**	**279.1**	**253.7**	**–**	**253.7**
Cost of sales		(136.2)	–	(136.2)	(128.1)	–	(128.1)
Gross profit		**142.9**	**–**	**142.9**	**125.6**	**–**	**125.6**
Distribution costs		(20.2)	–	(20.2)	(18.5)	–	(18.5)
Administrative expenses		(98.1)	-	(98.1)	(83.9)	(0.3)	(84.2)
Operating profit		**24.6**	**-**	**24.6**	**23.2**	**(0.3)**	**22.9**
Finance expense		(1.9)	-	(1.9)	(0.7)	(0.1)	(0.8)
Profit before tax	3	**22.7**	**-**	**22.7**	**22.5**	**(0.4)**	**22.1**
Taxation	4	(3.4)	-	(3.4)	(3.3)	0.8	(2.5)
Profit for the year		**19.3**	**-**	**19.3**	**19.2**	**0.4**	**19.6**
Basic earnings per share	5	**19.3p**		**19.3p**	**19.1p**		**19.6p**
Diluted earnings per share	5	**19.2p**		**19.2p**	**19.1p**		**19.5p**

* Non-underlying items are detailed in Note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	2019 £m	2018 £m
Assets		
Non-current assets		
Property, plant and equipment	44.2	35.0
Right-of-use assets	35.3	-
Intangible assets	27.0	27.8
Total non-current assets	**106.5**	**62.8**
Current assets		
Inventories	37.3	28.3
Trade and other receivables	40.9	40.3
Cash and cash equivalents	4.9	5.9
Total current assets	**83.1**	**74.5**
Total assets	**189.6**	**137.3**
Liabilities		
Current liabilities		
Trade and other payables	(39.8)	(41.3)
Lease liabilities	(8.3)	-
Provisions	(0.2)	(0.5)
Corporation tax	(1.8)	(1.2)
Total current liabilities	**(50.1)**	**(43.0)**
Non-current liabilities		
Borrowings	(39.5)	(29.4)
Trade and other payables	(0.5)	(1.2)
Lease liabilities	(25.8)	-
Provisions	(0.6)	(1.1)
Deferred tax	(2.6)	(2.5)
Total non-current liabilities	**(69.0)**	**(34.2)**
Total liabilities	**(119.1)**	**(77.2)**
Net assets	**70.5**	**60.1**
Equity attributable to equity holders of the Parent		
Share capital	0.1	0.1
Share premium account	2.4	2.4
Share-based payment reserve	0.9	0.4
Retained earnings	67.1	57.2
Total equity	**70.5**	**60.1**

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2019

	Note	**Year ended 31 December 2019 £m**	Year ended 31 December 2018 £m
Cash generated from operations	7	**29.0**	**21.7**
Income taxes paid		(2.6)	(4.0)
Net cash generated from operating activities		**26.4**	**17.7**
Investing activities			
Acquisition of subsidiaries (net of cash acquired) and payment of deferred consideration	8	(1.1)	(7.2)
Purchase of property, plant and equipment		(15.1)	(8.4)
Sale of property, plant and equipment		-	0.1
Purchase of intangible assets		(0.1)	(0.4)
Net cash used in investing activities		**(16.3)**	**(15.9)**
Financing activities			
Proceeds from bank borrowings		10.0	30.0
Repayment of bank and other borrowings		(0.1)	(27.1)
Principal elements of lease payments		(9.8)	-
Finance elements of lease payments		(0.9)	-
Finance expense paid		(0.9)	(1.1)
Dividends paid to equity Shareholders	6	(9.4)	(9.1)
Net cash used in financing activities		**(11.1)**	**(7.3)**
Net decrease in cash and cash equivalents		**(1.0)**	**(5.5)**
Cash and cash equivalents at beginning of year		5.9	11.4
Cash and cash equivalents at end of year		**4.9**	**5.9**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2019	**0.1**	**2.4**	**0.4**	**57.2**	**60.1**
Comprehensive income for the year					
Profit for the year	–	–	–	19.3	19.3
Total comprehensive income for the year	**–**	**–**	**–**	**19.3**	**19.3**
Contributions by and distributions to owners					
Exercise of share options	–	–	–	–	–
Share-based payments	–	–	0.4	–	0.4
Deferred tax on share-based payments	–	–	0.1	–	0.1
Dividends paid	–	–	–	(9.4)	(9.4)
Total transactions with owners recognised directly in equity	**–**	**-**	**0.5**	**(9.4)**	**(8.9)**
Balance at 31 December 2019	**0.1**	**2.4**	**0.9**	**67.1**	**70.5**

	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2018	**0.1**	**2.1**	**0.5**	**46.7**	**49.4**
Comprehensive income for the year					
Profit for the year	–	–	–	19.6	19.6
Total comprehensive income for the year	**–**	**–**	**–**	**19.6**	**19.6**
Contributions by and distributions to owners					
Exercise of share options	–	0.3	(0.3)	–	–
Share-based payments	–	–	0.2	–	0.2
Deferred tax on share-based payments	–	–	-	–	-
Dividends paid	–	–	–	(9.1)	(9.1)
Total transactions with owners recognised directly in equity	**–**	**0.3**	**(0.1)**	**(9.1)**	**(8.9)**
Balance at 31 December 2018	**0.1**	**2.4**	**0.4**	**57.2**	**60.1**

1 BASIS OF PREPARATION

The financial information for the year ended 31 December 2019 was approved by the Board on 12 March 2020. This financial information does not constitute the statutory accounts of the Company within the meaning of Section 435 of the Companies Act 2006, but is derived from those accounts, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use by the European Union.

This information has been prepared under the historical cost method, using all standards and interpretations required for financial periods beginning 1 January 2019. No standards or interpretations have been adopted before the required implementation date.

Statutory accounts for the year ended 31 December 2018 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2019 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The auditors have reported on those accounts. Their reports were not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

New accounting standards

The Group has adopted IFRS 16 Leases from 1 January 2019.

The Group leases various warehouses, depots, offices and vehicles in conducting its business. Rental contracts are typically made for fixed periods ranging from 3 to 10 years, but may have break or extension clauses to maximise operational flexibility.

The Group has no leases previously classified as finance leases. From 1 January 2019 liabilities for leases previously classified as operating leases have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate.

The incremental borrowing rate is calculated based upon a combination of the risk-free rate, financing and asset-specific credit spreads, adjusted for the term of each lease. The weighted average borrowing rate applied to lease liabilities is 2.4%. If the borrowing rate were to decrease/increase by 0.5%, the impact upon the Consolidated Income Statement would be to increase/decrease profit before tax by £0.1 million.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise or not exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or change in circumstances brings into question management's earlier judgement.

Lease terms are negotiated on an individual basis and contain a wide variety of specific terms and conditions. These lease arrangements do not impose any covenants, nor do they contain variable lease payments. Leased assets may not be pledged as security for borrowing purposes.

The Group has elected to apply the Modified Retrospective approach to transition, thereby setting the value of right of use lease assets equal to the respective liabilities as at 1 January 2019, adjusted by the amount of any prepaid or accrued lease payments relating to that lease in the balance sheet as at 31 December 2018.

In applying IFRS 16 for the first time, the Group has taken advantage of a number of practical expedients permitted by the standard:

- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments as to whether leases are onerous;
- accounting for leases with a remaining term of less than 12 months as short-term leases; and
- the exclusion of initial direct costs in measuring the right-of-use asset at the date of initial application.

Leased assets with a value of less than £5,000 have been omitted on the basis of materiality.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

On 1 January 2019 the Group recognised right-of-use assets of £35.2 million and lease liabilities of £34.6 million (inclusive of prepaid rent). Right-of-use assets are stated after taking into account rent-free periods.

The lease liabilities reconcile to the operating lease commitments disclosed as at 31 December 2018 as follows:

	£m
Operating lease commitments as at 31 December 2018	**38.1**
Leases omitted from disclosure at 31 December 2018	2.2
Prepaid rent	(0.4)
Short-term and low-value leases	(2.7)
Impact of discounting of lease liabilities	(2.6)
Lease liabilities recognised at 1 January 2019	**34.6**
Current lease liabilities	9.4
Non-current lease liabilities	25.2
Total lease liabilities	**34.6**

The impact of adopting IFRS 16 on the Financial Statements for the year to 31 December 2019 is as follows:

	Pre-IFRS 16 £m	IFRS 16 Adjustment £m	Reported £m
Revenue	297.1	-	279.1
Gross profit	142.9	-	142.9
Operating expenses	(111.2)	10.7	(100.5)
EBITDA	**31.7**	**10.7**	**42.4**
Depreciation and amortisation	(7.6)	(10.2)	(17.8)
Finance expense	(1.0)	(0.9)	(1.9)
Profit before tax	**23.1**	**(0.4)**	**22.7**
Basic earnings per share	**19.7p**	**(0.4)p**	**19.3p**
Right-of-use assets	-	35.3	35.3
Net debt	**34.6**	**34.1**	**68.7**

The adoption of IFRS 16 has had no impact on actual cash flows. Cash flows arising from leases under IFRS 16 are now shown within financing cash flows, whereas leases falling outside of the scope of the new standard are presented within operating cash flows.

The following standard, which is not expected to have a material impact on the Group's future financial statements, was in issue but not yet effective (and not yet adopted by the EU):

- IFRS 17 Insurance Contracts (effective from 1 January 2021).

The Group does not intend to adopt any standard, revision or amendment before the required implementation date.

2 NON-UNDERLYING ITEMS

Amounts included in the Consolidated Statement of Comprehensive Income are as follows:

	2019 £m	2018 £m
Acquisition-related costs	**-**	(0.3)
Non-underlying operating expenses	**-**	(0.3)
Finance expense – unamortised prepaid arrangement fees	**-**	(0.1)
Total non-underlying expenses	**-**	(0.4)
Tax on non-underlying expenses	**-**	-
Benefit of second Patent Box claim in the year	**-**	0.8
Taxation	**-**	0.8
Impact on profit after tax	**-**	0.4

There were no non-underlying items in the current year.

3 SEGMENTAL INFORMATION

The Group organises itself into a number of operating segments that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Internal reporting provided to the chief operating decision-maker, which has been identified as the executive management team including the Chief Executive Officer and the Chief Financial Officer, reflects this structure.

The Group has aggregated its operating segments into two reported segments, as these business units have similar products, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics:

- Profiles – extrusion and sale of PVC window and building products to the new and replacement window market across the UK. This segment includes Vista Panels, S&S Plastics and Eurocell Recycle North (formerly Ecoplas).
- Building Plastics – sale of building plastic materials across the UK. This segment includes Security Hardware, Kent Building Plastics and Trimseal.

The Corporate segment includes amortisation in respect of acquired intangible assets.

	Profiles 2019 £m	**Building Plastics 2019 £m**	**Corporate 2019 £m**	**Total 2019 £m**
Revenue				
Total revenue	175.2	164.7	–	339.9
Inter-segmental revenue	(59.5)	(1.3)	–	(60.8)
Total revenue from external customers	**115.7**	**163.4**	**–**	**279.1**
Adjusted EBITDA	**24.7**	**15.2**	**2.5**	**42.4**
Amortisation of intangible assets	(0.1)	-	(1.7)	(1.8)
Depreciation of property, plant and equipment	(4.2)	(1.0)	(0.6)	(5.8)
Depreciation of right-of-use assets	(2.5)	(5.6)	(2.1)	(10.2)
Operating profit before non-underlying expenses	**17.9**	**8.6**	**(1.9)**	**24.6**
Finance expense				(1.9)
Profit before tax				**22.7**

	Profiles 2018 £m	Building Plastics 2018 £m	Corporate 2018 £m	Total 2018 £m
Revenue				
Total revenue	159.5	147.4	–	306.9
Inter-segmental revenue	(51.8)	(1.4)	–	(53.2)
Total revenue from external customers	**107.7**	**146.0**	**–**	**253.7**
Adjusted EBITDA	**22.0**	**8.4**	**(0.1)**	**30.3**
Amortisation of intangible assets	(0.1)	(0.1)	(1.4)	(1.6)
Depreciation of property, plant and equipment	(4.1)	(0.9)	(0.5)	(5.5)
Operating profit before non-underlying expenses	**17.8**	**7.4**	**(2.0)**	**23.2**
Non-underlying expenses				(0.3)
Finance expense				(0.8)
Profit before tax				**22.1**

	Profiles 2019 £m	Building Plastics 2019 £m	Corporate 2019 £m	Total 2019 £m
Additions to plant, property, equipment and intangible assets	**13.0**	**1.5**	**1.0**	**15.5**
Segment assets	**96.8**	**69.8**	**23.0**	**189.6**
Segment liabilities	(36.2)	(31.3)	(7.7)	(75.2)
Borrowings				(39.5)
Corporation tax payable				(1.8)
Deferred tax liability				(2.6)
Total liabilities				**(119.1)**
Total net assets				**70.5**

	Profiles 2018 £m	Building Plastics 2018 £m	Corporate 2018 £m	Total 2018 £m
Additions to plant, property, equipment and intangible assets	**6.2**	**1.0**	**1.4**	**8.6**
Segment assets	**75.0**	**46.2**	**16.1**	**137.3**
Segment liabilities	(25.0)	(17.2)	(1.9)	(44.1)
Borrowings				(29.4)
Corporation tax payable				(1.2)
Deferred tax liability				(2.5)
Total liabilities				**(77.2)**
Total net assets				**60.1**

4 TAXATION

	2019 £m	2018 £m
Current tax expense		
Current tax on profits for the year	3.4	2.6
Adjustment in respect of prior years	(0.2)	-
Total current tax	**3.2**	**2.6**
Deferred tax expense		
Origination and reversal of temporary differences	0.2	(0.2)
Adjustment in respect of change in rates	-	-
Adjustment in respect of prior years	-	0.1
Total deferred tax	**0.2**	**(0.1)**
Total tax expense	**3.4**	**2.5**

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2019 £m	2018 £m
Profit before tax	**22.7**	**22.1**
Expected tax charge based on the standard rate of corporation tax in the UK of 19.0%	4.3	4.2
Taxation effect of:		
Expenses not deductible for tax purposes	-	0.1
Patent Box claims	(0.8)	(1.8)
Adjustments to tax charge in respect of prior years	(0.2)	-
Tax on share-based payments recognised in equity	0.1	-
Adjustment in respect of change in rates	-	-
Total tax expense	**3.4**	**2.5**

Changes in tax rates and factors affecting the future tax charge

A reduction in the UK corporation tax rate from 19% to 17% from 1 April 2020 has been substantively enacted. Deferred taxes at the year-end date have been measured using these enacted tax rates and reflected in the Financial Statements.

On 11 March 2020 the UK Government announced that the rate reduction would be cancelled. Once enacted, this will increase the deferred tax liability by £0.3 million.

There are no material uncertain tax provisions.

Tax on non-underlying items

Non-underlying tax in the prior year includes a credit of £0.8 million, being the benefit of a second Patent Box claim in the year.

Tax included in Other Comprehensive Income

The tax credit arising on share-based payments within Other Comprehensive Income is £88,000 (2018: charge of £36,000).

Based on the current investment plans of the Group, and assuming the rates of capital allowances on capital expenditure continue into the future, there is little prospect of any significant part of the deferred tax liability becoming payable over the next three years.

5 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options. Adjusted earnings per share excludes the impact of non-underlying items.

	2019 £m	2018 £m
Profit attributable to ordinary shareholders	19.3	19.6
Profit attributable to ordinary shareholders excluding non-underlying items	19.3	19.2
	Number	**Number**
Weighted average number of shares – basic	100,316,692	100,278,663
Weighted average number of shares – diluted	100,720,559	100,627,058
	Pence	**Pence**
Basic earnings per share	19.3	19.6
Adjusted basic earnings per share	19.3	19.1
Diluted earnings per share	19.2	19.5
Adjusted diluted earnings per share	19.2	19.1

6 DIVIDENDS

	2019 £m	2018 £m
Dividends paid during the year		
Final dividend for 2018 of 6.2p per share (2017: 6.0p per share)	6.2	6.0
Interim dividend for 2019 of 3.2p per share (2018: 3.1p per share)	3.2	3.1
	9.4	**9.1**
Dividends proposed		
Final dividend for 2019 of 6.4p per share (2018: 6.2p per share)	6.4	6.2

7 RECONCILIATION OF PROFIT AFTER TAX TO CASH GENERATED FROM OPERATIONS

	2019 £m	2018 £m
Profit after tax	**19.3**	**19.6**
Taxation	3.4	2.5
Finance expense	1.9	0.8
Operating profit	**24.6**	**22.9**
Adjustments for:		
Depreciation of property, plant and equipment	5.8	5.5
Depreciation of right-of-use assets	10.2	-
Amortisation of intangible assets	1.8	1.6
Profit on sale of property, plant and equipment and intangible fixed assets	-	-
Share-based payments	0.4	0.2
Increase in inventories	(9.0)	(6.8)
Increase in trade and other receivables	(1.7)	(7.0)
(Decrease)/increase in trade and other payables	(2.3)	5.5
Decrease in provisions	(0.8)	(0.2)
Cash generated from operations	**29.0**	**21.7**

8 ACQUISITION OF SUBSIDIARIES

On 6 March 2019 the Group acquired 100% of the ordinary share capital of Trimseal Limited, a distributer of building plastic materials, for a cash consideration of £0.4 million. On acquisition, customer relationship intangible assets of £0.2 million and goodwill of £0.2 million were recognised. The fair value of the net assets acquired was not material.

Sales of £0.5 million were recognised in the Consolidated Income Statement in 2019, with no material impact on profit. Had the acquisition occurred on 1 January 2019, revenue and profits would be materially the same.

In 2019 the Group made payments of deferred consideration in respect of the acquisitions of S&S Plastics Limited, Security Hardware Limited and Kent Building Plastics Limited of £0.2 million, £0.1 million and £0.4 million respectively. Total cash flows in respect of acquisitions were therefore £1.1 million.

9 EVENTS AFTER THE BALANCE SHEET DATE

On 2 January 2020 the Group signed the lease for a new warehouse facility with annual rentals of £1.5 million and a lease term of 15 years. A right-of-use asset and lease liability of £17.2 million were recognised at this date.

On 10 March 2020 the Group increased its unsecured, multi-currency revolving credit facility, provided by Barclays Bank plc and HSBC UK Bank plc, by £15 million to £75 million.

The Directors are not aware of any other material events that have occurred after 31 December 2019 which would require disclosure under IAS 10.