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 facility.

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 and S&S Plastics.

Revenue

Profiles third-party revenue was up 8% in 2017 to £94.2 million (2016: £87.4 million), which includes an like-for-like sales increase of 6%. The remaining growth was driven by the acquisition of Vista Panels in March 2016.

We have continued to gain share, despite the RMI market (the most significant external driver of our performance) remaining subdued in 2017, particularly during the second half.

We have been pleased to see continued good growth in the private new build sector, where sales were up more than 15% in 2017. We believe we are now the largest supplier of window profile to this market. Our dedicated specifications teams have been successful in generating demand, well supported by our ability to supply a comprehensive product range through the new build fabricator network. As well as windows, this includes composite doors, PVC and aluminium bi-fold doors and the only sixty-minute fire rated cavity closure system. Further, our InSite construction hinge allows timber frame and modular home manufacturers to install fully glazed windows into wall panels in the factory for off-site construction.

Our new build forums have been successful, bringing fabricators together with Eurocell and the house builders. The objective is to agree consistent specifications, quality and prices across the fabricator network. This allows new build buyers to source consistent products from a wide supplier base, mitigating their delivery risk.

Our larger trade fabricators also performed well in 2017, taking a greater share of the available volume mix, albeit with lower growth rates in the second half. Generally, the larger trade fabricators have been increasing their capacity, by extending or adding factory units and investing in new plant and machinery. As such, they are benefiting from economies of scale and automation, which is allowing them to grow share at the expense of smaller fabricators.

Importantly, we also continue to build our prospect pipeline. In the fourth quarter, sales started to come through from customers who have recently moved on to our product systems, with more new accounts contracted for 2018.

Finally, Vista Panels continues to perform very well, with 39% of doors sales now channelled through our branch network.

Adjusted EBITDA

Adjusted EBITDA was £23.1 million (2016: £22.7 million), an increase of 2%.

Gross margin and return on sales in the Profiles division are lower in 2017, largely as a result of increasing raw material price pressure, particularly for resin. We have been implementing selling price increases to mitigate this where possible, but the market does lag supplier price rises. Further information in relation to the impact of increasing raw material prices is included in the Group Financial Review.

Profiles	2017 £m	2016 £m	Change %
Third-party Revenue	**94.2**	87.4	8%
Like-for-like / Organic	**84.5**	80.0	6%
Vista Panels[1]	**9.7**	7.4	31%
Inter-segmental Revenue	**45.4**	39.8	14%
Total Revenue	**139.6**	127.2	10%
Adjusted EBITDA	**23.1**	22.7	2%

(1) Acquired March 2016

In addition, margins have been impacted by a shift in sales mix towards larger fabricators at the expense of smaller customers as described above.

The increase in adjusted EBITDA is therefore primarily a function of sales growth.

Ian Kemp
Profiles Sales Director

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 190 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, acquired in February 2017. Security Hardware is a supplier of locks and hardware, primarily to the RMI market.

Revenue

Building Plastics revenue was up 11% to £130.7m (2016: £117.5m), which includes an increase in like-for-like sales of 3%, as well as the impact of branch openings and the acquisition of Security Hardware.

Like-for-like sales includes growth from branches opened in 2015 and prior, as the more recent sites from that vintage begin to mature. Growth was bolstered by increased sales of windows, Skypod and Equinox through the branch network, which were £15.6 million in 2017, compared to £13.3 million last year. We have implemented window configuration software across the network, using common pricing and specifications for windows supplied to all Eurocell branches. This is proving successful and we will develop the software to incorporate products such as Skypod and doors.

Like-for-like growth also includes some benefit from an initiative to improve our proposition as a one-stop shop for customers, via the roll-out of an additional 500 product lines in 2016. In addition, the acquisition of Vista Panels has supported growth in the sales of doors through the branches, which reached £6.6 million in 2017 (2016: £5.5 million).

In terms of new branches, we opened 31 in 2017, compared to 18 in 2016. We now have a total of 190 branches providing national coverage across the UK, which offers a significant competitive advantage. Branches opened in 2016/17 added £7.0 million to sales in 2017.

Security Hardware was acquired in February 2017 for consideration (net of cash acquired) of £1.3 million. Sales for the period of £2.5 million were in line with our expectations. As described in the Chief Executive's Review, the integration is now substantially complete and we look forward to the introduction of our own range of hardware later in 2018.

Adjusted EBITDA

Adjusted EBITDA for 2017 was £8.6 million (2016: £8.8 million), a decrease of 3%.

We maintained our gross margin in 2017. Although we continue to experience cost inflation, a good proportion of this has been mitigated with selling price increases implemented through the year.

Higher overheads in Building Plastics includes significant investment to accelerate the pace of expansion of our branch network described above. New branches are a key driver of future sales and profit growth, but they do create downward pressure on profitability in the short term due to investment in central infrastructure and in our teams at new sites. We estimate that investment in 18 new branches in 2016 and 31 in 2017 has together created a drag on EBITDA of approximately £2 million in 2017, compared to a drag of approximately £1 million in 2016.

Further information in relation to the impact of cost inflation and new branches is included in the Group Financial Review.

The reduction in adjusted EBITDA and return on sales is therefore a function of the significant investments made in accelerating the branch roll-out in 2017.

We are making progress with initiatives to support new branches reaching profitability sooner, which now include a more comprehensive and sustained marketing campaign and sharing resources with established sites in the same region. Whilst there is more work to do in this area, we are confident that, in future, new branches should reach a break-even run-rate before their two-year anniversary and be mature in 4-5 years.

Building Plastics	2017 £m	2016 £m	Change %
Third-party Revenue	**130.7**	117.5	11%
Organic	**128.2**	117.5	9%
Security Hardware[1]	**2.5**	–	n/a
Inter-segmental Revenue	**1.1**	0.7	56%
Total Revenue	**131.8**	118.2	12%
Adjusted EBITDA	**8.6**	8.8	(3%)

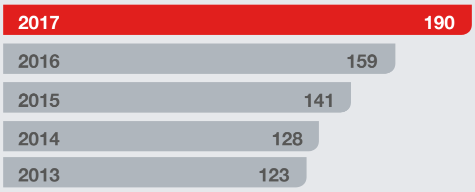
(1) Acquired February 2017

Indicative branch economics (rounded)

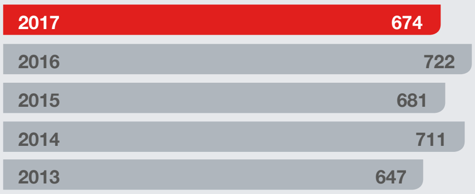
Branch open	< 2 years	2–4 years	> 4 years
Number of branches	50	22	118
Average sales per branch (£000)	150	500	800
Return on sales per branch (%)[1]	Small loss	> 10%	Mid-teen %

(1) EBITDA as % of revenue before regional infrastructure and central costs

No. of branches (at the end of the year)



Average revenue per branch (£000)



When the 49 branches opened in 2016/17 are mature, we expect a substantial improvement in performance for the division.

As described in the Chief Executive's Review, we expect to open up to 15 branches in 2018. This will allow the team to consolidate the existing estate, complete the work on reducing break-even times and ensure the sales of windows and other high-value products are maximised.

Tony Smith
Building Plastics Commercial Director