Group Financial Review

Revenue

Revenue for 2017 was £224.9 million (2016: £204.8 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 2016/17) was 4%.

As described in the Divisional Reviews, sales have been driven by good like-for-like growth in Profiles (£4.5 million, or 6% for the division), particularly in private new build, solid like-for-like growth in the branch network (£3.8 million, or 3% for the division) and the positive impact from branches opened in 2016/17 (£7.0 million, or 6% for the division). Together, the acquisitions of Vista Panels and Security Hardware added £4.8 million to sales in 2017.

Gross Margin

We have experienced higher price pressure for raw materials and traded goods. Resin was up 13% in 2017, representing an additional cost to the business of approximately £2.6 million. Inflation for other raw materials and traded goods increased costs by a further £1.7 million. In addition, margins have been impacted by the sales mix, with stronger growth in sales to larger fabricators relative to smaller customers.

As described in the Divisional Reviews, we continue to mitigate cost inflation via the implementation of selling price increases where possible. We recovered approximately £3.3 million of the £4.3 million cost inflation in 2017, which reflects the time lag in capturing the benefit.

We further offset the impact of cost inflation by increasing the use of recycled materials in our primary extrusion operations to 17% (2016: 14%). This resulted in a benefit of £1.1 million to gross margin.

Overall, these factors drove a reduction in gross margin from 52.0% in 2016 to 51.0% in 2017.

Distribution Costs and Administrative Expenses (Overheads)

Overheads for the year were £82.9 million (2016: £75.2 million), representing a similar percentage of sales for both periods. The increase includes £3.8 million as a result of new branches opened in 2016/17 and £2.3 million from acquisitions. The balance of £1.6 million relates to an increase of 2% in the like-for-like organic business, where sales growth was 4% as described above. We continue to focus on the tight control of underlying overheads, with the increase driven largely by the impact of the Minimum Wage legislation and higher volume related distribution costs.

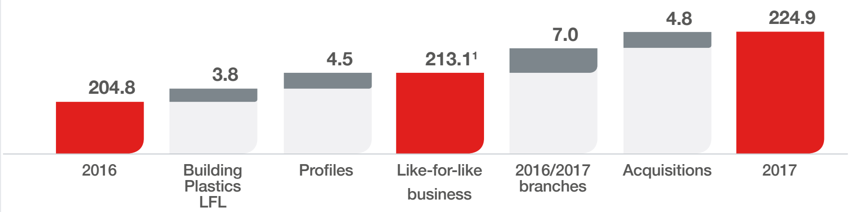
"We have made good progress with our strategic priorities and other self-help initiatives and delivered robust financial results in the process."

Michael Scott
Chief Financial Officer

Group	2017 £000	2016 £000
Revenue	**224,906**	204,816
Gross Profit	**114,624**	106,565
Gross Margin %	**51.0%**	52.0%
Overheads	**(82,890)**	(75,236)
Adjusted[1] EBITDA	**31,734**	31,329
Depreciation and Amortisation	**(6,677)**	(6,377)
Adjusted[1] Operating Profit	**25,057**	24,952
Finance Costs	**(553)**	(677)
Adjusted[1] Profit Before Tax	**24,504**	24,275
Tax	**(4,089)**	(4,299)
Adjusted[1] Profit After Tax	**20,415**	19,976
Adjusted[1] Basic EPS (pence per share)	**20.4**	20.0
Non-underlying Costs After Tax	**(773)**	(374)
Reported Profit After Tax	**19,642**	19,602
Reported Basic EPS (pence per share)	**19.6**	19.6

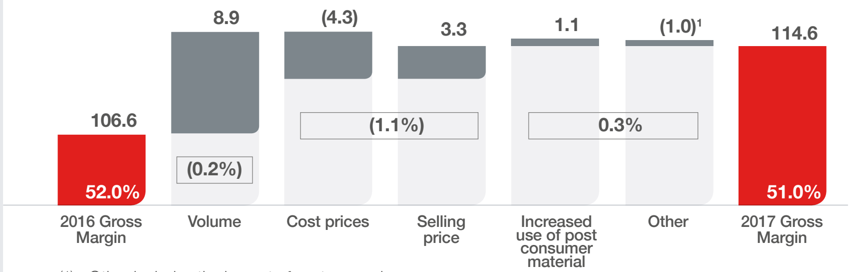
(1) See Adjusted Profit Measures on page 28

Revenue (£m)



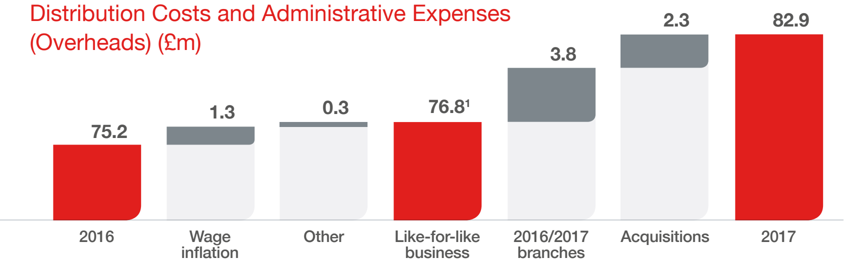
(1) Like-for-like sales and overheads exclude acquisitions and branches opened in 2016 and 2017; Like-for-like sales up 4%

Gross Profit (£m)



(1) Other includes the impact of customer mix

Distribution Costs and Administrative Expenses (Overheads) (£m)



(1) Like-for-like sales and overheads exclude acquisitions and branches opened in 2016 and 2017; Like-for-like overheads up 2%

Group Financial Review continued

Depreciation and Amortisation

Depreciation and amortisation for 2017 was £6.7 million (2016: £6.4 million), with the increase due to amortisation of acquired intangibles relating to the acquisitions of Vista Panels and Security Hardware, as well as recent capital investment.

Finance Costs

Finance costs for the year were £0.6 million (2016: £0.7 million), reflecting lower average net debt in 2017.

Adjusted Profit Measures

Adjusted EBITDA, adjusted operating profit and adjusted profit before tax all exclude non-underlying costs (see opposite). Adjusted profit after tax and adjusted earnings per share exclude non-underlying costs and the related tax effect.

Adjusted profit measures are used by management to assess business performance and are provided here in addition to statutory measures to help describe the underlying results of the Group.

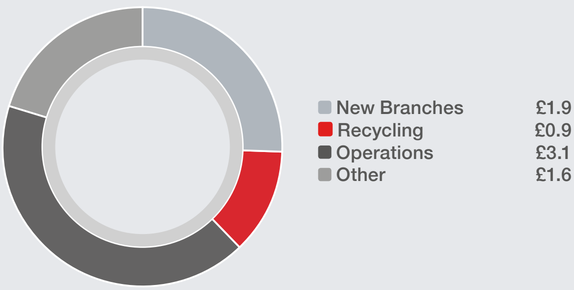
Non-underlying Costs

Non-underlying costs for 2017 of £0.8 million include professional fees and earn-out costs related to the acquisition of Security Hardware, as well as the redundancy and settlement costs of a staff reorganisation. Non-underlying costs for 2016 of £0.5 million comprise duplicated costs relating to the handover period during which the Company employed two CEO's, as well as professional fees related to the acquisition of Vista Panels.

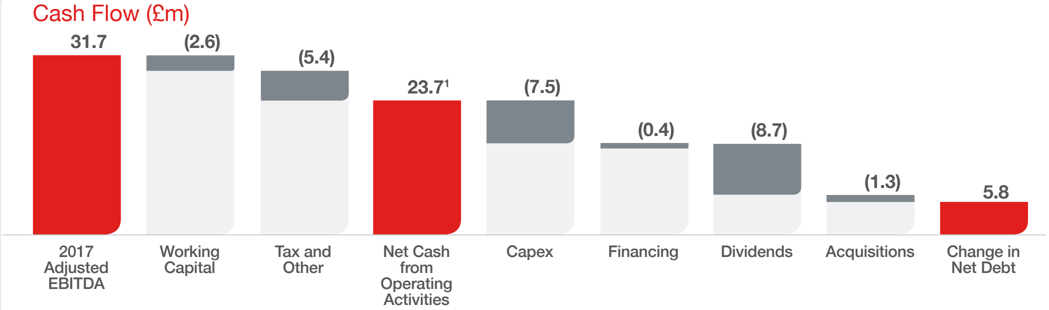
Tax

The effective tax rate on adjusted profit before tax for 2017 of 16.7% was lower than the standard corporation tax rate for the year due to the benefit of Patent Box relief. The effective rate on adjusted profit before tax for 2016 of 17.7% reflected the beneficial impact on deferred tax of reductions in the corporation tax rate enacted in the period, as well as adjustments to prior year taxes. The effective tax rate on reported profit before tax was 17.0% (2016: 17.7%).

Capital Expenditure (£m)



Cash Flow (£m)



(1) Cash generated from underlying operations of £28.8 million less tax and non-underlying costs paid.

Earnings Per Share

Taking into account all of the factors described above, adjusted basic earnings per share for 2017 was 20.4 pence per share (2016: 20.0 pence per share).

Reported basic earnings per share for 2017 was 19.6 pence per share (2016: 19.6 pence per share).

	2017 pence	2016 pence
Basic earnings per share	**19.6**	19.6
Adjusted basic earnings per share	**20.4**	20.0
Diluted earnings per share	**19.6**	19.6
Adjusted diluted earnings per share	**20.4**	19.9

Acquisitions

As previously described, we acquired Security Hardware in February 2017 for an initial consideration of £1.3 million (net of cash acquired). The impact of Security Hardware on Group earnings for 2017 was not material.

Dividends

We paid an interim dividend of 3.0 pence per share in October 2017. The Board proposes a final dividend of 6.0 pence per share, resulting in total dividends for the year of 9.0 pence (2016: 8.5 pence). This represents an increase of 6%.

The dividend will be paid on 23 May 2018 to Shareholders registered at the close of business on 27 April 2018. The ex-dividend date will be 26 April 2018.

Retained earnings as at 31 December 2017 were £46.7 million (2016: £35.8 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 2017 was £7.5 million (2016: £7.2 million).

Capital expenditure includes investment to increase our recycling capacity of £0.9 million and in new branches opened in 2017 of £1.9 million. Investment of £3.1 million in Operations includes new tooling costs and general maintenance capex. Other capital expenditure of £1.6 million includes branch refurbishments and various IT-related costs.

Cash Flow

Net cash generated from operating activities was £23.7 million, compared to £28.4 million in 2016.

This includes a net outflow from working capital for 2017 of £2.6 million, comprised of an increase in stocks (£2.8 million), trade and other receivables (£3.0 million) and in trade and other payables (£3.2 million). This compares to a net inflow from working capital of £0.8 million in 2016, which included a reduction in inventory of £1.6 million.

The increase in stocks has been driven largely by the 31 new branches, as well as the introduction of new product lines to the branch network. We have also built a higher level of safety stocks to ensure consistent on-time deliveries, particularly for our new build customers. Stock days were 55 at 31 December 2017, compared to 58 at 31 December 2016.

The changes to trade receivables and payables reflect normal business seasonality, alongside increased activity and growth in 2017. Debtor days were 37 at year end, compared to 36 at the end of 2016.

Net cash generated from operating activities also include tax paid in the year of £4.6 million (2016: £3.5 million).

Other payments include acquisitions of £1.3 million (2016: £6.3 million) and capital investment of £7.5 million (2016: £7.2 million).

Dividends paid represent the final dividend for 2016 of 5.7 pence per share (or £5.7 million) and the interim dividend for 2017 of 3.0 pence per share (or £3.0 million).

Taking all of these factors into account, net debt fell by £5.8 million during the year to £14.5 million at 31 December 2017 (31 December 2016: £20.3 million).

Net Debt (£000)

	2017	2016	Change
Cash	**11,361**	5,559	5,802
Borrowings	**(25,851)**	(25,827)	(24)
Net Debt	**(14,490)**	(20,268)	5,778

Bank Facilities

We have an unsecured, multi-currency, revolving credit facility of £45 million, provided by Barclays and Santander. The Group operates comfortably within the terms of the facility and related financial covenants. The facility matures in 2020.

Key Performance Indicators ('KPIs')

We utilise the financial highlights on page 1 to assess the financial performance and position of the Group. Pages 2 to 33 detail the performance of the Group using both financial and non-financial benchmarks.

Michael Scott
Chief Financial Officer