

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 Ecoplas.

Revenue

Third-party revenue was up 14% in 2018 to £107.7 million (2017: £94.2 million), which includes an organic sales increase of 12%. The remaining growth was driven by the acquisition of Ecoplas in August 2018.

Organic growth was delivered consistently across new build and trade fabricators, with new build continuing to represent approximately one-third of rigid profile sales. This growth includes strong contributions from both existing and new accounts. Following the introduction of 25 new accounts in 2017, we added 17 in 2018.

We have been pleased with recent market share gains and we believe that we are now the largest supplier of rigid profile to the UK market. Our dedicated specifications teams have been 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. We also offer the only 60-minute fire rated cavity closure system on the market, and 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.

Profiles	2018 £m	2017 £m	Change %
Third-party Revenue	107.7	94.2	14%
Organic	105.5	94.2	12%
Ecoplas ¹	2.2	–	n/a
Inter-segmental Revenue	51.8	45.4	14%
Total Revenue	159.5	139.6	14%
Adjusted EBITDA	22.0	23.1	(5)%

¹ Acquired August 2018.

For 2019 we have developed, through Security Hardware, a range of hardware to complement our window profile, to be launched shortly. This will enable our fabricator customers to offer a fully-certified common specification of window (including hardware), which will support our sales to the new build market and help grow sales of windows through branches.

Organic sales also includes a strong contribution from Vista Panels, where sales were up 21% on 2017. This was driven by a significant increase in sales of composite doors to the new build sector.

Ecoplas has traded in line with expectations since the acquisition in August.

Adjusted EBITDA

Adjusted EBITDA was £22.0 million (2017: £23.1 million), a decrease of 5%.

Gross margin and EBITDA in the Profiles division are lower in 2018, largely as a result of the manufacturing conditions described in the Chief Executive's Review, and rising input costs in some areas, including electricity.

In response we have already taken action to expand the capacity of our operations and improve production efficiency, with more to follow in 2019. In addition, with customer service now back to normal levels, we are implementing selling price increases in H1 2019.

Ian Kemp

Eurocell Profiles

MANUFACTURED PRODUCTS

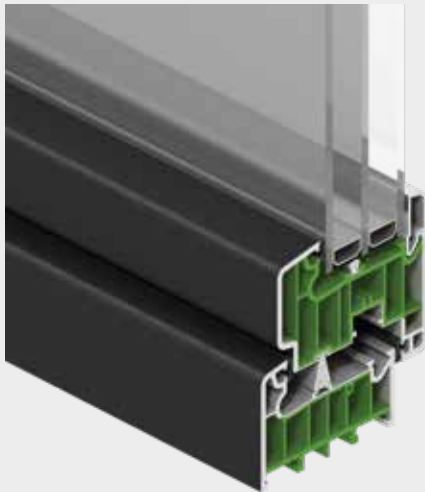
↓ PVC rigid products

Within the manufacture of PVC rigid profile, we look to include as much recycled content as possible. Our modus and Eurologik window systems contain approximately 44% of recycled material.



↓ Foiled products

All of our manufactured window systems are available in over 30 different colour options, with lead times of just 7 days.



↓ PVC foam products

We manufacture PVC foam profiles which are used for roofline, these are supplied to customers through the branch network.



YEAR OF GROWTH

In the Profiles division, sales growth reflects a good performance from new build and trade fabricators alike, as well as the positive impact of new account wins."



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 202 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, and Kent Building Plastics, acquired in December 2018. Security Hardware is a supplier of locks and hardware, primarily to the RMI market, and Kent Building Plastics is a supplier of building plastic materials in the south-west of England.

Revenue

Building Plastics third-party revenue was up 12% to £146.0m (2017: £130.7m). We have continued to gain market share with growth comprised of an increase in like-for-like sales of 5%, as well as the impact of branch openings and the acquisitions of Security Hardware and Kent Building Plastics.

Like-for-like sales includes growth from branches opened in 2016 and prior. Growth also includes the benefit of the initiative to improve our proposition as a one-stop shop for customers, via the roll-out of additional product lines, with like-for-like sales of traded goods up 9% in the period.

In terms of new branches, we opened 8 new sites in 2018, compared to 31 in 2017. We added a further 4 branches in December via the acquisition of Kent Building Plastics, making a total of 12 new sites for the year. We now have an estate of 202 branches providing national coverage across the UK, which offers a significant competitive advantage. Branches opened in 2017/18 added £8.8 million to sales in 2018.

Security Hardware is performing in line with our expectations. Kent Building Plastics was acquired in December 2018. The integration of both is progressing to plan.

Adjusted EBITDA

Adjusted EBITDA for 2018 was £8.4 million (2017: £8.6 million), a decrease of 2%.

Gross margin and EBITDA in the Building Plastics division are lower in 2018. We experienced cost inflation in certain areas last year, as well as some general margin erosion and a change in mix (e.g. higher sales growth in lower-margin traded goods). However, whilst we realised some selling price increases, because the manufacturing conditions described in the Chief Executive's Review impacted on customer service, we were unable to recover all of the cost inflation we experienced. With customer service now back to normal, we are implementing selling price increases in H1 2019.

Higher overheads in Building Plastics includes the impact of new branches in 2017/18. 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 our teams at new sites and in supporting central infrastructure.



YEAR OF GROWTH

In the Building Plastics division, sales growth is being driven by the increasing maturity of branches opened in the last three years. Like-for-like growth rates have also remained robust."



BRANCH NETWORK

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

2018	202
2017	190
2016	159
2015	141
2014	128

Note: 2018 includes the acquisition of 4 branches

Average revenue per branch (£000)

2018	679
2017	674
2016	722
2015	681
2014	711

Indicative branch economics (rounded)

Branch open	< 2 years	2-4 years	> 4 years
No. of Branches ¹	39	33	126
Average Sales per Branch (£000)	300	450	850
Return on Sales per Branch (%) ²	Small loss	Up to 10%	Mid-teen %

¹ Excluding Kent Building Plastics.

² EBITDA as % of revenue, before regional infrastructure and central costs.



Building Plastics	2018 £m	2017 £m	Change %
Third-party Revenue	146.0	130.7	12%
Organic	142.6	128.2	11%
Security Hardware ¹	3.1	2.5	21%
Kent Building Plastics ²	0.3	–	n/a
Inter-segmental Revenue	1.3	1.1	15%
Total Revenue	147.3	131.8	12%
Adjusted EBITDA	8.4	8.6	(2)%

¹ Acquired February 2017.

² Acquired December 2018.

We estimate that investment in 39 new branches in 2017/18 created a drag on EBITDA of approximately £1.5 million in 2018, which is a similar level to 2017.

When the branches opened in the last two years mature, we expect a good improvement in performance for the division. We continue to believe new branches should reach a break-even run rate before their second anniversary, and be mature in 4-5 years.

We are making progress with initiatives to improve profits in Building Plastics, including the introduction of a more rigid pricing architecture, revised sales and account management structures and better stock availability. We are also continuing the drive towards a more consistent offering across the stores, demonstrated with sales of made-to-order value added products (e.g. windows and doors) through branches up 16% in 2018.

Following the retirement of Tony Smith in 2018, we now have a new management team in Building Plastics. The team has reaffirmed that our overall strategic objective for the division remains to provide world-class operations from up to 350 sites. However, in 2019 our principal focus will be to improve the profitability of Building Plastics to support delivery of the near-term profit targets for the Group. Therefore, this year we expect the number of organic openings to be low.

Andy McDonnell

Eurocell Building Plastics