“We are in a strong financial position, which provides flexibility and options for the future.”

Revenue

Revenue for 2018 was £253.7 million (2017: £224.9 million), which represents growth of 13%, or 12% excluding acquisitions. Like-for-like sales growth (i.e. excluding the impact of acquisitions and branches opened in 2017/18) was 8%.

Sales have been driven by strong like-for-like growth in Profiles (£11.3 million, or 12% for the division), including the benefit of new fabricator account wins, solid like-for-like growth in the branch network (£5.6 million, or 5% for the division) and the positive impact from branches opened in 2017/18 (£8.8 million, or 7% for the division). Acquisitions added £3.1 million to sales in 2018.

Gross margin

Overall, our gross margin reduced by 150 bps from 51.0% in 2017 to 49.5% in 2018. The manufacturing conditions described in the Chief Executive’s Review are a significant driver of this reduction. We have already taken corrective action to increase production capacity and improve manufacturing efficiency, with more to follow in 2019.

In terms of input costs, we have also seen increases in the price of some raw materials (including resin), electricity and traded goods. We continue to mitigate cost inflation via the implementation of selling price increases where possible. However, the production capacity constraints in 2018 also impacted on customer service levels, thereby delaying our ability to realise selling price increases in the second half, resulting in a further reduction in gross margin. With service levels back to normal, we are implementing selling price increases in H1 2019.

These margin pressures were partially offset by a benefit from the increased use of recycled material in our manufactured goods to 9.5k tonnes (2017: 8.3k tonnes).

Group	2018 £000	2017 £000
Revenue	**253,691**	224,906
Gross profit	**125,583**	114,624
Gross margin %	**49.5%**	51.0%
Overheads	**(95,276)**	(82,890)
Adjusted EBITDA[1]	**30,307**	31,734
Depreciation and amortisation	**(7,095)**	(6,677)
Adjusted operating profit[1]	**23,212**	25,057
Finance costs	**(705)**	(553)
Adjusted profit before tax[1]	**22,507**	24,504
Tax	**(3,319)**	(4,089)
Adjusted profit after tax[1]	**19,188**	20,415
Adjusted basic EPS (pence per share)[1]	**19.1**	20.4
Non-underlying items	**431**	(773)
Reported profit after tax	**19,619**	19,642
Reported basic EPS (pence per share)	**19.6**	19.6

1 See adjusted profit measures on page 32.

Distribution costs and administrative expenses (overheads)

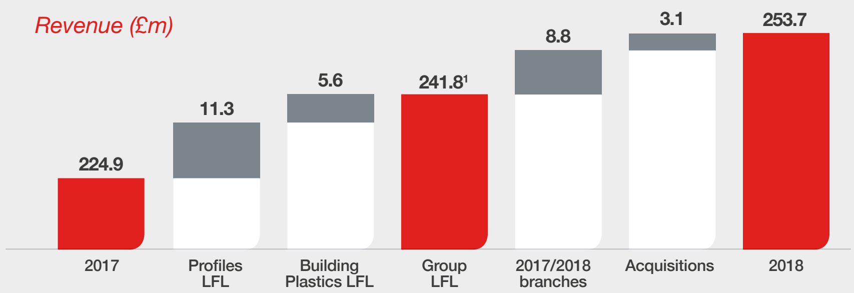
Overheads for the year were £95.3 million (2017: £82.9 million), representing a similar percentage of sales for both periods. The increase includes £3.3 million as a result of new branches opened in 2017/18 and £2.1 million from acquisitions. The balance of £7.0 million relates to an increase of 8% in the like-for-like organic business, where sales growth was strong at 8% as described above.

However, this balance of overheads also includes the impact of production capacity constraints, being primarily costs incurred to clear the sales order backlog. We estimate these costs were approximately £1.5 million, including overtime and weekend working, particularly in foiling, and higher warehouse and distribution costs, as we worked to minimise disruption to our customers by increasing the frequency of deliveries. The order backlog has now returned to normal levels.

Depreciation and amortisation

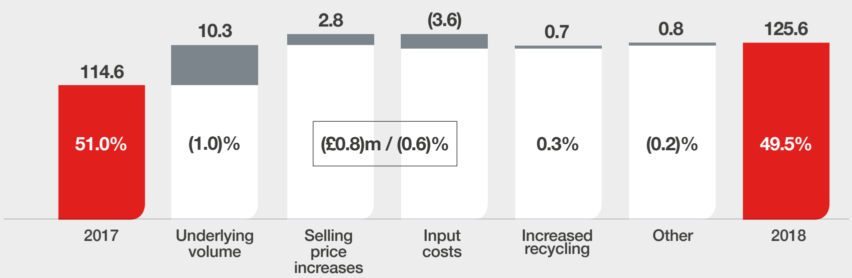
Depreciation and amortisation for 2018 was £7.1 million (2017: £6.7 million), with the increase due to amortisation of acquired intangibles relating to the acquisitions of Security Hardware and Ecoplas, as well as recent capital investment including expansion of our co-extrusion production capacity.

Revenue (£m)

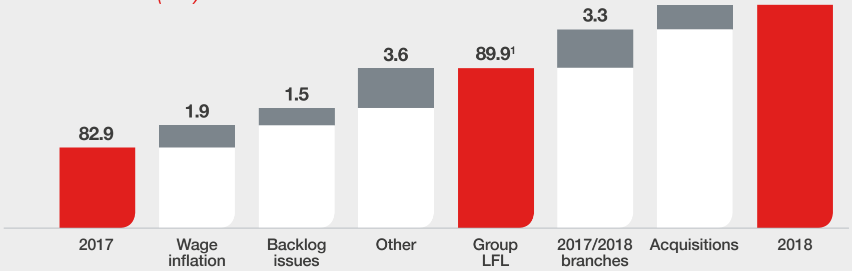


[1] Like-for-like sales up 8%.

Gross profit (£m)



Overheads[2] (£m)



1 Like-for-like overheads up 8%.
2 Distribution costs and adminstration expenses.

Finance costs

Finance costs for the year were £0.8 million (2017: £0.6 million), reflecting higher average net debt in 2018 (£0.6 million), interest on debt assumed on the acquisition of Ecoplas (£0.1 million) and unamortised arrangement fees expensed following the refinancing in December 2018, presented within non-underlying items (£0.1 million). All debt assumed on the acquisition of Ecoplas was repaid in full before the end of the year.

Adjusted profit measures

Adjusted EBITDA, adjusted operating profit and adjusted profit before tax all exclude non-underlying items (see below).

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

Non-underlying expenses for 2018 of £0.4 million include professional fees related to the acquisitions of Ecoplas and Kent Building Plastics, as well as unamortised arrangement fees from our previous bank facility now expensed following the refinancing in December 2018. Non-underlying expenses 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 tax for both years includes the tax associated with non-underlying expenses. Non-underlying tax for 2018 also includes the benefit of a second Patent Box claim in the period (£0.9m).

Patent Box is an HMRC approved scheme, allowing a 10% tax rate on profits derived from products that incorporate patents. This second claim in 2018 is presented as non-underlying because we would typically expect to make only one claim in each financial year.

Tax

The effective tax rates on adjusted profit before tax for 2018 and 2017 of 14.7% and 16.7% respectively were lower than the standard corporation tax rate for the year due to the benefit of one Patent Box claim recognised in each year.

The effective tax rate on reported profit before tax was 11.2% (2017: 17.0%) due to the recognition of a second Patent Box claim in 2018.

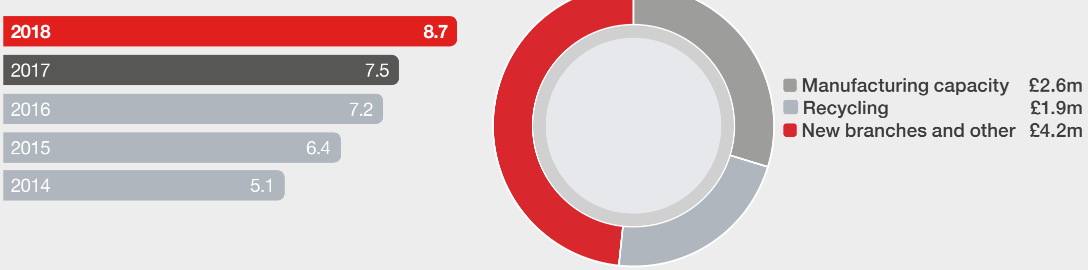
Earnings per share

Taking into account all of the factors described above, adjusted basic earnings per share for 2018 were 19.1 pence per share (2017: 20.4 pence per share).

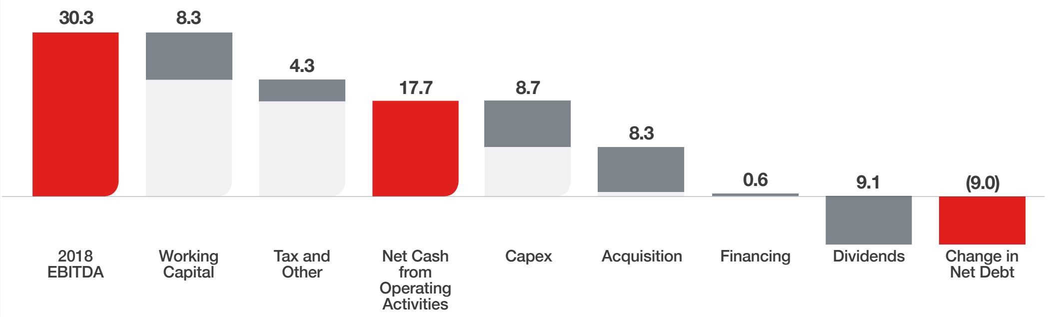
Reported basic earnings per share for 2018 were 19.6 pence per share (2017: 19.6 pence per share).

	2018 pence	2017 pence
Basic earnings per share	**19.6**	19.6
Adjusted basic earnings per share	**19.1**	20.4
Diluted earnings per share	**19.5**	19.6
Adjusted diluted earnings per share	**19.1**	20.4

Capital Expenditure (£m)



Cash Flow (£m)



Acquisitions

We acquired a 95% shareholding in Ecoplas in August 2018 for an initial consideration of £5.1 million. We expect to acquire the remaining 5% in three to five years' time for up to £1.0m based on business performance. We have recognised a liability equal to the present value of this amount in the balance sheet as at 31 December 2018.

We assumed debt of £1.1 million on acquisition (now repaid out of our bank facility) and have provided incremental working capital funding to the business also of around £1 million, primarily to ease the supply chain for waste material. We incurred capital investment of £0.3 million in 2018, with a further c.£2 million to follow in 2019, to expand capacity and improve the operating environment at the site.

We also acquired Kent Building Plastics in December 2018 for an initial consideration of £2.8m.

Both acquisitions were financed out of our existing bank facility. Their impact on Group earnings for 2018 was not material, but looking forward we expect returns for both to exceed our cost of capital and earnings to be accretive in their first full year.

Dividends

We paid an interim dividend of 3.1 pence per share in October 2018. The Board proposes a final dividend of 6.2 pence per share, resulting in total dividends for the year of 9.3 pence per share (2017: 9.0 pence per share). This represents an increase of 3%.

The dividend will be paid on 22 May 2019 to Shareholders registered at the close of business on 26 April 2019. The ex-dividend date will be 25 April 2019.

Retained earnings as at 31 December 2018 were £57.2 million (2017: £46.7 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 2018 was £8.7 million (2017: £7.5 million).

We incurred capital expenditure of £2.6 million to expand our manufacturing capacity, including 4 additional co-extrusion lines. We also invested £1.9 million to increase our recycling capacity, primarily at the Ilkeston plant and in the associated co-extrusion tooling. Other capex of £4.2 million includes new branches, as well as a general maintenance capex, a new product showroom, branch refurbishments and various IT-related costs.

We plan to invest c.£5 million in 2019 to expand production capacity and improve manufacturing efficiency in our primary extrusion facilities, including an additional 8 extrusion lines. We also expect to invest around £4 million to expand capacity and improve the environment at our two recycling plants and in the associated co-extrusion tooling. Inclusive of on-going maintenance capex, we therefore expect total capital investment for the Group in 2019 to be in the region of £15 million.

Cash flow

Net cash generated from operating activities was £17.7 million, compared to £23.7 million in 2017.

This includes a net outflow from working capital for 2018 of £8.3 million, comprising increases in stocks (£6.8 million), trade and other receivables (£7.0 million) offset by an increase in trade and other payables (£5.5 million). This compares to a net outflow from working capital of £2.3 million in 2017. The higher outflow in 2018 reflects the impact on working capital of the growth in our business and the support provided to Ecoplas.

More specifically, higher stocks includes an increase in raw materials, which were run down at the end of 2017, but not in 2018 in order to maintain customer service, and the start of a finished goods stock build to help mitigate Brexit risk.

The increases to trade receivables and payables are consistent with the level of growth in 2018. Debtor days were 38 at year end, compared to 37 at the end of 2017.

Net cash generated from operating activities is also stated after tax paid in the year of £4.0 million (2017: £4.6 million).

Other payments include acquisitions (including net debt acquired) of £8.3 million (2017: £1.3 million) and capital investment of £8.7 million (2017: £7.5 million).

Dividends paid represent the final dividend for 2017 of 6.0 pence per share (or £6.0 million) and the interim dividend for 2018 of 3.1 pence per share (or £3.1 million).

Taking all of these factors into account, net debt increased by £9.0 million during the year to £23.5 million at 31 December 2018 (31 December 2017: £14.5 million).

Net debt (£000)

	2018	2017	Change
Cash	**5,862**	11,361	(5,499)
Borrowings	**(29,376)**	(25,851)	(3,525)
Net debt	**(23,514)**	(14,490)	(9,024)

Bank facility

In December, we refinanced our unsecured, multi-currency revolving credit facility. The new £60 million facility (up from £45 million) is being provided by Barclays Bank plc and HSBC UK Bank plc and matures in December 2023. The Group operates comfortably within the terms of the facility.

Key Performance Indicators ('KPIs')

We utilise the financial highlights on the inside front cover 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
14 March 2019