Well positioned FOR 2021

> The actions we took at the outset of the pandemic secured our financial position. We have a strong balance sheet and significant headroom on our bank facility, providing flexibility and options for the future.

Michael Scott
Chief Financial Officer

Moving forward together

COVID-19

Our financial performance in 2020 reflects the major impact of COVID-19 on the business in the first half, followed by a strong recovery in H2, when the RMI market was better than we had anticipated. The decisive actions we took at the outset of the pandemic and subsequently to control costs, preserve cash and improve liquidity, secured our financial position. This continued focus, combined with an excellent operational and financial performance in H2, ensured the business is now ready to capitalise on opportunities as markets develop.

Revenue

Revenue for 2020 was down 8% to £257.9 million (2019: £279.1 million), comprised of H1 sales down 31%, reflecting the temporary closure from late March to mid-May, and a strong second half, with sales up 15% compared to H2 2019. This is equivalent to like-for-like sales growth of 6% for the year as follows:

	H1	H2	Full Year
Group like-for-like[1] sales growth	(4)%	16%	6%

1 Like-for-like excludes acquisitions and new branches opened in 2019/20, and is calculated by comparing average sales per trading day in 2020 (i.e. 212 days, excluding days closed) with average sales per trading day in 2019 (249 days).

Gross margin

Overall, our gross margin for the year was down 180 basis points to 49.4%. The margin was lower in H1 at 46.8%, reflecting reduced production volumes and therefore a lower recovery of direct costs. It improved to 50.9% in H2, as volumes and operating efficiencies increased. Gross margin for the year also includes an increase to the stock provision, following a range rationalisation to eliminate some of the least profitable and least popular products.

PVC resin prices began to increase towards the end of 2020 and this trend has continued into the new year. We are therefore implementing selling price increases, starting in February 2021, to recover this and other cost inflation.

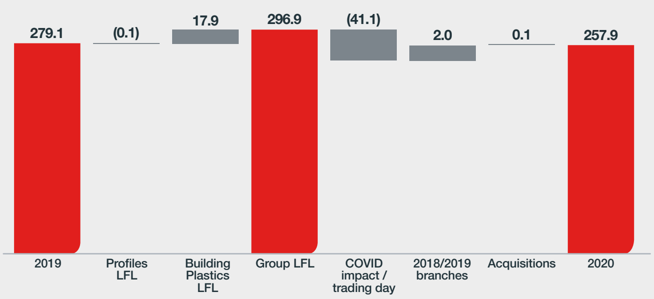
Distribution costs and administrative expenses (overheads)

Underlying overheads were £93.9 million compared to £99.0 million in 2019, a decrease of £5.1 million. The decrease includes COVID-related UK Government support of £8.3 million, comprising receipts under the Job Retention Scheme of £6.5 million (substantially H1), retail grants of £0.7 million (all H1) and retail rates relief of £1.1 million.

Group	2020 £m	2019 £m
Revenue	**257.9**	279.1
Gross profit	**127.4**	142.9
Gross margin %	**49.4%**	51.2%
Overheads	**(93.9)**	(99.0)
IFRS 9 impairments and bad debt charges	**(3.7)**	(1.5)
Adjusted[1] EBITDA	**29.8**	42.4
Depreciation and amortisation	**(19.5)**	(17.8)
Adjusted[1] operating profit	**10.3**	24.6
Finance costs	**(1.8)**	(1.9)
Adjusted[1] profit before tax	**8.5**	22.7
Tax	**(1.5)**	(3.4)
Adjusted[1] profit after tax	**7.0**	19.3
Adjusted[1] basic EPS (pence per share)	**6.5**	19.3
Non-underlying items	**(10.0)**	—
Tax on non-underlying items	**0.8**	—
Reported operating profit	**0.7**	24.6
Reported (loss)/profit before tax	**(1.5)**	22.7
Reported basic (loss)/profit after tax	**(2.2)**	19.3
Reported basic (losses)/earnings per share (pence)	**(2.0)**	19.3

1 See adjusted performance measures.

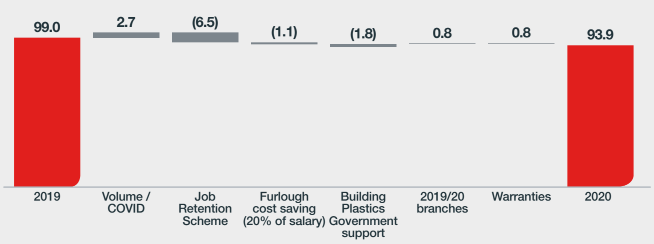
Revenue (£m)



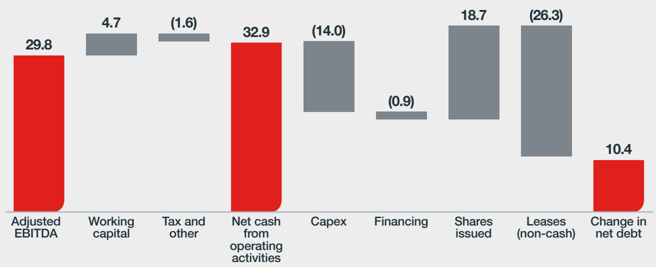
1 Like-for-like sales up 6%.

Gross profit (£m)

Overheads[2] (£m)



Cashflow (£m)



2 Distribution costs and administration expenses.

IFRS 9 impairments and bad debt charges

Our sector closed down abruptly in March, and consequently receipts from customers fell sharply in Q2. At the half year end, the sales ledger ageing profile for several accounts had deteriorated significantly compared to the pre-COVID period, and a number of customers were finding it difficult to bring their accounts into terms. We therefore assessed the level of credit risk to have increased materially as a direct impact of COVID and, as a result, IFRS 9 impairment charges of c.£3.5 million were reflected in the income statement for H1.

Whilst cash receipts from customers improved in H2, given current levels of uncertainty, we do not believe credit risk has changed materially, particularly given the prevailing uncertainty surrounding the timing and extent of the easing of COVID restrictions, and therefore the bad debt provision at 31 December 2020 remains at a similar level to the half year end.

Depreciation and amortisation

Depreciation and amortisation was £19.5 million on an underlying basis, and £20.8 million in total (2019: £17.8 million).

Adjusted performance measures

Alternative performance measures are used alongside statutory measures to facilitate a better understanding of financial performance and comparison with prior periods, and in order to provide audited financial information against which the Group's bank covenants, which are all measured on a pre-IFRS 16 basis, can be assessed.

Adjusted EBITDA, adjusted operating profit and adjusted profit before tax all exclude non-underlying items. Adjusted profit after tax and adjusted earnings per share exclude non-underlying items and the related tax effect.

Pre-IFRS 16 EBITDA is stated inclusive of operating lease rentals under IAS 17 Leases. Pre-IFRS 16 net debt is defined as total borrowings and lease liabilities less cash and cash equivalents, excluding the impact of IFRS 16 Leases.

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 items for 2020 of £10.0 million includes a non-cash goodwill impairment charge of £5.8 million, right-of use asset impairment charges of £0.9 million, restructuring costs of £0.6 million and warehouse dual-running costs of £2.7 million. The warehouse dual-running costs include £1.3 million right-of-use asset depreciation charges and £0.4 million of lease finance costs. No non-underlying items were recognised in 2019.

The non-cash goodwill impairment charge of £5.8 million relates to Eurocell Recycle North. This arises because, as a result of the pandemic, the increase in production volumes (and therefore profitability) of the site is now expected to occur later than previously planned and because of reduced demand in the short-term, as well as lower selling prices for recycled material at the time of the impairment test. However, the business is now running much closer to its capacity, and we expect to make further progress in 2021.

We have been investing heavily to increase our recycling capability, in order to capture financial and sustainability benefits and to keep pace with sales growth. As a result, we have become the leading UK-based recycler of PVC windows. Recycling and sustainability sit right at the heart of our business and we are totally committed to this critical strategic priority for the Group.

Finance costs and taxation

Finance costs for 2020 are £1.8m on an underlying basis, and £2.2 million in total (2019: £1.9 million), with £0.4 million of IFRS 16 lease interest classified as non-underlying as it relates to warehouse dual-running costs (see Non-underlying items).

The tax charge for 2020 was £1.5 million on an underlying basis and £0.7 million in total (2019: £3.4 million). The effective tax rate on underlying profit before tax for 2020 of 17.6% is lower than the standard corporation tax rate due to the benefit of Patent Box relief, partially offset by the impact of a change in the deferred tax rate from 17% to 19% (which follows cancellation of a reduction in the standard corporation tax rate, which had been due to come into effect during the year).

The effective tax rate on non-underlying items is 7.0% due to the £5.8 million goodwill impairment charge being non-deductible for tax purposes.

We were pleased to retain the Fair Tax Mark accreditation in 2020, reflecting our commitment to paying the right amount of tax at the right time.

(Loss)/profit before tax and (losses)/earnings per share

The adjusted profit before tax for the year was £8.5 million (2019: £22.7 million), comprised of a loss in H1, reflecting lower sales volumes and the impact of operational gearing, and a profit in the second half well up on H2 2019, driven by strong sales and good operating efficiencies.

The reported loss before tax for the year was £1.5 million (2019: profit of £22.7 million).

Adjusted basic earnings per share for the year were 6.5 pence (2019: 19.3 pence). Reported basic losses per share for the year were 2.0 pence (2019: earnings per share of 19.3 pence).
As a loss was recorded for the period, share options are not considered to have a dilutive effect.

Dividends

Due to the impact of COVID-19, the dividend declared in March 2020 was subsequently cancelled and no dividends will be paid in respect of 2020. However, it remains our intention to return to paying dividends in 2021.

Retained earnings as at 31 December 2020 were £65.5 million (2019: £67.1 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 2020 was £13.7 million (2019: £15.2 million). 2020 investment in the new warehouse was £8.0 million, which includes some extra costs incurred to implement COVID-19 protection measures and support social distancing. We expect further capital expenditure of c.£1 million in 2021 to complete the project. Other capital expenditure in 2020 of £5.7 million includes new / refurbished branches, IT and maintenance capex.

Cash flow

Cash flow and working capital management has continued to be a key priority for the business. The measures taken in 2020 to improve our cash position have been effective and we now have significant headroom on our bank facility. Notwithstanding the current level of uncertainty and credit risk, cash receipts from customers were good throughout the second half and, as at 31 December 2020, substantially all our suppliers and landlords had been paid in accordance with terms. We are also up to date with all VAT, corporation tax and other tax payments.

Net cash generated from operating activities was £32.9 million (2019: £26.4 million).

Effective cash flow management resulted in a net inflow from working capital for 2020 of £4.7 million, comprising an increase in stocks of £0.8 million, a decrease in trade and other receivables of £2.4 million and an increase in trade and other payables of £3.1 million. This compares to a net outflow from working capital of £13.0 million in 2019.

Other items include payments for capital investments of £14.0 million, including a December 2019 capital creditor of £0.3 million (2019: £16.3 million) and financing costs paid of £0.7 million (2019: £0.9 million). Tax paid in the year was £1.0 million (2019: £2.6 million). No dividends were paid in 2020.

In April we completed a share placing, with the net proceeds of £17.1 million to be used to ensure we retain headroom on our bank facility, even under an extended shut-down, and to provide sufficient liquidity to continue investment in the new warehouse. A further £1.6 million of cash proceeds were received during the year from employees in respect of vested Save As You Earn share options, which were settled via the issue of new shares.

The principal elements of lease payments of £10.7 million (2019: £9.8 million) are presented within cash flows arising from financing activities. The finance elements of lease payments were £1.3 million (2019: £0.9 million).

Net debt

Net debt on a pre-IFRS 16 basis at 31 December 2020 was £9.9 million (31 December 2019: £34.6 million).

Lease liabilities increased by £14.3 million, which includes £17.2 million for the new warehouse, offset by payments and other items of £2.9 million. Reported net debt at 31 December 2020 was £58.3 million (31 December 2019: £68.7 million).

	2020 £m	2019 £m	Change £m
Cash	**2.6**	4.9	(2.3)
Borrowings	**(12.5)**	(39.5)	27.0
Net debt (pre-IFRS 16)	**(9.9)**	(34.6)	(24.7)
Lease liabilities	**(48.4)**	(34.1)	(14.3)
Net debt (reported)	**(58.3)**	(68.7)	10.4

Bank facility

We have an unsecured revolving credit facility which matures in 2023. 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 in compliance with our financial covenants, which are measured on a pre-IFRS 16 basis.

Michael Scott
Chief Financial Officer