

Divisional Review

Profiles

The Profiles division manufactures extruded rigid and foam PVC profiles.

PROFILES HIGHLIGHTS

Market share

c.17%
(2015: c.12%)

Like-for-like² sales

↔ Flat

New accounts

14 (2017-2020: 74)

Total accounts

c.400 fabricators

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, cladding and window fitting and are supplied to customers through our nationwide branch network in the Building Plastics division.

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 Eurocell Recycle North (formerly 'Ecoplas').

Profiles	2020 £m	2019 £m	Change %
Third-party Revenue	99.7	115.7	(14)
Inter-segmental Revenue	56.4	59.5	(5)
Total Revenue	156.1	175.2	(11)
Adjusted operating profit¹	7.9	17.9	(56)
Operating (loss)/profit	(1.0)	17.9	n/a

1 Before non-underlying items.

Revenue

Profiles third-party revenue for the year was down 14% to £99.7 million (2019: £115.7 million). This is equivalent to a flat like-for-like sales performance as follows:

	H1	H2	Full Year
Profiles division like-for-like ² sales growth	(14)%	11%	Flat

2 Like-for-like excludes acquisitions (none in either period) 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).

H1 like-for-like sales down 14% reflects the impact of the first COVID-19 lockdown. However, sales increased progressively from re-opening, and like-for-like growth of 11% in H2 includes good contributions from trade fabricators, who are substantially focused on the RMI market. New build and commercial markets began the second half slowly, but run rates started to improve from September. Sales also include a very strong performance from Vista Panels, which finished the year 4% ahead of 2019 on a reported basis, driven by higher sales of composite doors to new build. Across the Profiles division, new build represents approximately 30% of sales.

Following the introduction of c.60 new accounts over the last three years, in 2020 we have selectively added a further 14 accounts (most in H2) and our prospect pipeline remains strong.

Operating profit

Adjusted operating profit for 2020 was £7.9 million (2019: £17.9 million), comprised of a loss in H1 and good profit growth in H2. The H1 loss reflects reduced sales volumes and the impact of operational gearing, and is stated net of support received under the Coronavirus Job Retention Scheme (c.£3.5 million), offset by an increase to the IFRS 9 impairment charge (bad debts) in respect of certain fabricator customers (£0.7 million). The profit in H2 represents good growth on H2 2019 and is driven by strong sales and good operating efficiencies.

The overall operating loss of £1.0 million (2019: profit of £17.9 million) is stated after non-underlying charges of £8.9 million, comprising the impairment of goodwill (£5.8 million), the impairment of right-of-use assets (£0.6 million), warehouse dual running costs (£2.3 million) and restructuring costs (£0.2 million). Further information on non-underlying charges is included in the Chief Financial Officer's Report.



Use of recycled material attractive to house builders:

- 12.4k tonnes of recycled material used to extrude our rigid profiles.
- 36.0k tonnes of carbon saved compared to the use of virgin PVC.
- A house builder constructing 2,500 semi-detached houses will save around 500 tonnes of CO₂ equivalent per year by using Eurocell windows and cavity closures, compared to a competitor using full virgin PVC windows.

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.



BUILDING PLASTICS HIGHLIGHTS

Market share

24% (2015: 20%)

Like-for-like³ sales

↑14%

New branches

4 (2017-2020: 51)

Total estate

208 branches

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 208 branches to window and roofline installers, small and independent builders, house builders and nationwide maintenance companies. The business also sells roofline products to independent wholesalers.

The Building Plastics division includes Security Hardware, Kent Building Plastics and Trimseal. Security Hardware is a supplier of locks and hardware, primarily to the RMI market, and Kent Building Plastics and Trimseal are both suppliers of building plastic materials.

Building Plastics	2020 £m	2019 £m	Change %
Third-party Revenue	158.2	163.4	(3)
Organic	157.5	162.9	(3)
Trimseal ¹	0.7	0.5	40
Inter-segmental Revenue	1.3	1.3	–
Total Revenue	159.5	164.7	(3)
Adjusted operating profit²	4.0	8.6	(53)
Operating Profit	3.4	8.6	(60)

¹ Acquired March 2019.

² Before non-underlying items.

Revenue

Building Plastics third-party revenue for the year was down 3% to £158.2 million (2019: £163.4 million). This is equivalent to like-for-like sales growth of 14% as follows:

	H1	H2	Full Year
Building Plastics division like-for-like ³ sales growth	3%	19%	14%

³ 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).

Like-for-like sales in H1 reflect the impact of the first COVID-19 lockdown. However, like-for-like growth of 19% for H2 includes a strong performance across our full range of own-manufactured products and traded goods, as well as a good start for the new outdoor living range.

In terms of new branches, we opened four sites in 2020 (2019: also four), of which three were the new large format store. Sales from this format (now five branches in total), continue to be encouraging. Branches opened in 2019/20 added £2.0 million to sales in 2020.

Two loss-making branches were closed during the year under the restructuring programme announced with our half-year results, with customers transferred to neighbouring locations. We now have a total of 208 branches providing national coverage across the UK.

Operating profit

Adjusted operating profit for 2020 was £4.0 million (2019: £8.6 million), comprised of a loss in H1 and strong profit growth in H2. The H1 loss reflects reduced sales volumes and the impact of operational gearing, and is stated net of support received, including the Coronavirus Job Retention Scheme (£3.0 million) and retail grants / business rates relief (£1.8 million), offset by an increase to the IFRS 9 impairment charge (bad debts) to reflect higher risk in the Building Plastics receivables book (£1.5 million). The profit in H2 represents excellent growth on H2 2019 and is driven by strong sales and good cost control.

Overall operating profit of £3.4 million (2019: £8.6 million) is stated after non-underlying costs of £0.6 million, comprising right-of-use asset impairment charges (£0.3 million) and restructuring costs (£0.3 million). Further information on non-underlying charges is included in the Chief Financial Officer's Report.

We plan to open up to 12 new sites in 2021, with the final number to be determined based on the economic environment and business performance, with up to six of these in the larger format. New branches are a driver of sales and profit growth in the medium term, but they can create downward pressure on profitability in the short term due to the investment in our teams at new sites and in supporting central infrastructure. However, our initiatives to reduce time to break-even have now driven this point below 24 months. We do not expect the branches to be opened in 2021 to have a meaningful impact on profit for the year.

Branch network

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

2020	208
2019	206
2018	202

Average revenue per branch (£000)

2020	701
2019	718
2018	679

Indicative branch economics (rounded)

Branch open	< 2 years	2–4 years	> 4 years
No. of Branches	15	50	143
Average Sales per Branch (£000)	380	480	700
Return on Sales per Branch (%) ¹	Small loss	Up to 10%	Mid-teen %

¹ EBITDA as % of revenue, before regional infrastructure and central costs, and IFRS 16 adjustments.