Delivering OPERATIONAL EXCELLENCE

Through 2016-19, the success of our commercial strategies resulted in a strong compound annual growth rate in sales of 12%. However, profits for that period were impacted by sales running substantially ahead of our expectations, thereby exceeding the available operating capacity and leading to inefficiencies and extra costs.

However, manufacturing and warehousing constraints have now been resolved through major investments in new capacity. We have therefore introduced a new strategic priority to 'deliver sustained operational excellence', which, looking ahead, we expect to result in the benefit of our sales growth flowing through to improved profits and margins.

Focus in 2020

Throughout 2020, our operational teams have been engaged in responding to the challenges posed by COVID-19. As described in Our COVID Response on pages 16 to 21, this included the design and on-going implementation of COVID protection measures and streamlining operational processes.

Alongside the COVID work, in Operations we have been focused on improving our execution in terms of efficiency and accuracy and on preparing the business for growth. This work has been concentrated in two key areas: (i) optimising the operational footprint and supply chain to support efficient growth; and (ii) developing our operational capability.

Optimising the operational footprint

At the centre of this aspect has been the project to fit-out our new warehouse, which unlocks the operational footprint of the business to support growth and deliver improvements in operating efficiencies.

2020 Capital Expenditure allocation

New warehouse

£8.0m

Manufacturing maintenance

£2.5m

Towards the end of 2019 we concluded that our existing main warehouse was a major constraint to future growth and operating efficiency. Early in 2020 we secured the new facility, located within 3 miles of our primary manufacturing site, existing main warehouse and head office. The new site has 260,000 square feet of high bay, state-of-the-art warehouse accommodation, dedicated office space and car parking.

The fit-out delivers high density storage using state of the art mobile cantilever racking, and efficient processing through GPS guided picking equipment with proximity and obstacle awareness sensors. With this racking we can store up to twelve stillages high (our existing warehouse is restricted to seven) and increase capacity by more than 60%. The mobile platforms replace manual techniques, thereby providing a safer and more productive solution. The warehouse management systems behind the physical attributes allow us to store product in the areas of the racking for optimal efficiency based on shipping velocity.

The fit-out project reached a major milestone in January 2021, with commercial operations beginning successfully from the new site. We have now proved the ability pick at 3x the efficiency of our traditional methods, with significantly more output capacity. Our intention is to 'turn' the operation fast, making it the cornerstone of our supply chain for many years of future growth.

In line with our plans, transition will continue over the coming weeks, with the final stages expected to complete in Q2 2021. The site has also become our new HQ, with the office fit-out described on page 49.

The new warehouse also unlocks the operational footprint for the whole group. We will convert our existing warehouse to a specialist manufacturing site, relocating, beginning later in 2021, secondary operations including foiling and conservatory roofs. This will free up space to future-proof extrusion capacity.

Developing our operational capability

In developing our operational capability in 2020, we have worked with our teams to ensure all colleagues are engaged in the overall business strategy deployment and understand what is important to our customers and other stakeholders.

We have developed our operational key performance indicators (KPI's) to be better aligned with our strategy and objectives and implemented a standard operating system across all operational sites.

"In Operations, we have been focused on improving our execution and on preparing the business for growth."

Mark Hemming
Chief Operating Officer

This work has been supported with investment in areas such as automated data gathering to support our KPI's for key processes and visual factory enhancements to empower employees.

We were very pleased to see this work begin to pay off in the second half of 2020, when operating efficiencies across the business were good at a time of very high demand. Most of our operational sites delivered record monthly and weekly output levels and efficiencies H2, demonstrating the strong foundation we have built.

In summary, we are developing a footprint, operational controls and a continual improvement culture which will support our growth and performance for years to come.

Moving forward together

260,000
square feet

Developing our APPROACH TO SUSTAINABILITY

As described in the Chief Executive Officer's Report, our intention in 2021 is to develop our existing strategic priority to increase the use of recycled material into a sustainability strategy for the whole business.

Developing our approach

We recognise increasingly the importance of a strategic, coordinated approach to the many elements and aspects that feed into the broader concepts of sustainability, corporate social responsibility (CSR) and environmental, social and corporate governance (ESG).

The Responsible business section on pages 36 to 51 describes the key aspects of our work on CSR and ESG.

We are working now to define long-term sustainability objectives, linked to the relevant UN Sustainable Development Goals and the UK Government's transition towards a net zero carbon economy, along with an implementation plan and appropriate KPIs against which to measure progress. Our strategic intent and actions under consideration are set out below. We will communicate further on sustainability later in 2021.

Leading UK-based recycler of PVC windows

Expanding our recycling operation will be at the heart of our sustainability strategy. Increasing the use of recycled material increases our profits, because the cost of recycled compound is typically lower through the cycle than the price of virgin material, and it reduces our exposure to volatile commodity prices. It also improves product and business sustainability, with less plastic going to landfill.

Closed-loop recycling (where windows being replaced are recycled into the new product) is attractive to decision makers such as local authorities and architects, which helps us develop tight specifications for our products.

We have been investing to increase capacity at our two our recycling plants and have become the leading UK-based recycler of PVC windows. Use of recycled material in our primary extrusion operations increased from 4.1k tonnes (or 9% of materials

RELEVANT U.N. SUSTAINABLE DEVELOPMENT GOALS

OUR STRATEGIC INTENT

- Progressive pay
- Incentive schemes
- Pension and benefits
- Health & safety priority
- Healthy work environment
- COVID-safe operations
- Learning opportunities for all colleagues
- Equal opportunities employer
- Promote female and minority applicants

ACTIONS

- Living wage
- Good pay awards
- Incentives shared widely
- Benefits scorecard
- Health & safety training
- In-work health check, and support
- Virtual queuing
- Training and development programme
- Apprentice and Kickstart schemes
- Close gender pay gap
- First-class facilities
- Flexible and home working

consumed) in 2015 to 13.4k tonnes (or 23% of consumption) in 2019 and 12.4k tonnes (or 25% of consumption) in 2020, with volumes in the latter reduced by the impact of COVID. In addition, in 2020 we produced a further 8.7k tonnes of recycled material (2019: 11.5k tonnes), which is used either for our products made from 100% recycled material, such as window cavity closers, or sold to a variety of trade extruders.

Our total output for recycled material in 2020 was 21.1k tonnes (2019: 24.9k tonnes) and as a result we saved the equivalent of c.3 million window frames (2019: c.3.2 million) from landfill.

Carbon savings

- An independent study by the University of Manchester[1] found that displacing 1 tonne of virgin PVC with 1 tonne of recycled window PVC results in a reduction of approximately 1.7 tonnes of CO_2 emissions. This calculation compares the full lifecycle carbon emissions associated with the production of virgin PVC with emissions from the window recycling process. As a result, we estimate that our recycling operation saved approximately 36k tonnes of carbon in 2020 (2019: 42k tonnes), compared to the use of virgin PVC.

What does 36k tonnes of CO_2 look like?

- Driving an average car 300 million kilometres[2] (to the moon and back 380 times).
- The CO_2 output of over 6,000 UK homes[3].
- The carbon sequestered by 600,000 tree seedlings grown for 10 years[4].

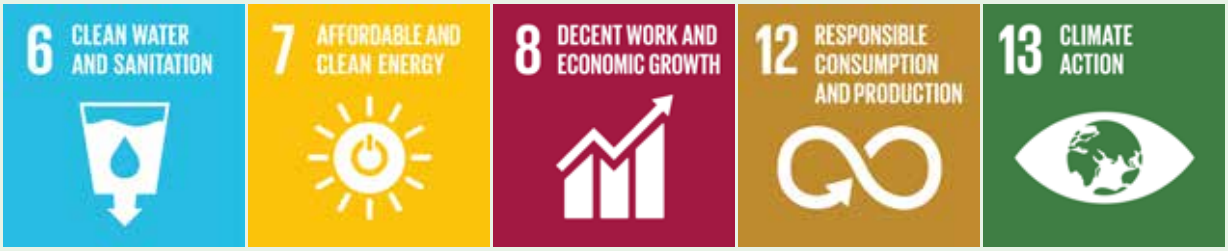
What does this mean for house builders and home owners?

A house builder constructing 2500 semi-detached houses will save around 500 tonnes of CO_2 equivalent per year by using Eurocell windows and cavity closures, compared to a competitor using full virgin PVC windows.

Home owners can rest safe in the knowledge that, as well benefiting from the thermally efficient properties of PVC compared to other materials, by using Eurocell windows they are helping to reduce carbon emissions.

OUR STRATEGIC INTENT

- Sustainable water management
- Increase use of clean energy
- Improve operational efficiency
- Sales and profit growth strategy
- Invest in local employees and communities
- Increase use of recycled material
- Reduce scrap materials
- Reduce carbon footprint reduction plan for all sites



ACTIONS

- Closed-loop cooling to recycle water at production sites
- Power sourcing
- Single-minute exchange of dies
- Scrap reduction
- LED lighting
- Invest in expansion
- Employer of choice
- Reduce reliance on agency staff
- Expand recycling
- Reduction plans
- Lower site waste
- Electric vehicles

1 "Life Cycle Assessment of Re-cycling PVC Window Frames", Heinz Sticchnothe, School of Chemical. Engineering and Analytical Science, University of Manchester.
2 Assumes vehicle emissions of 122gCO_2/km.
3 Based on 2017 UK national figures.
4 Source: US Environmental Protection Agency.
5 Based on typical semi-detached home with 7 windows and french doors.

New products RESONATED WELL WITH CUSTOMERS

Coastline Cladding

Our Coastline cladding product continues to grow in the new build and RMI markets. It can transform existing low-rise housing stock, giving it a modern, contemporary feel, or provide new properties with kerb appeal. It is versatile and can be installed on buildings up to three storeys high and benefits from BBA certification fire testing (conforming with BS EN 13501, Fire Classification for Construction Products).

Coastline is made from an innovative composite material, which guarantees up to 10 years of weatherproof performance, and offers minimal contraction and expansion whatever the weather conditions. Compared to cement boards, it is lightweight, easy-to-handle, fade-resistant, 100% recyclable and does not release harmful silica dust when cut to length.

Garden rooms

We expanded our range of outdoor living products in 2020, with the introduction of Kyube garden rooms. This product captured the imagination of customers and installers alike and meets the growing demand for affordable extra work and leisure spaces at home.

Kyube is a modular, bespoke building design that can be used as a summer house, playroom, fitness room or – as more and more people adjust to working from home – a dedicated office space. It comes in a variety of configurations and are finished off with our own Coastline cladding.

"Our products have resonated well with customers seeking, possibly as a result of the pandemic, to improve their homes and create more usable space, both inside and outside of their properties."

Envirotile

Envirotile expands our growing range of roof products. This innovative roofing system utilises polymer materials to create a tile that is just one-fifth of the weight of a traditional concrete tile, whilst providing improved foot grip for installers. These features mean it is one of the safest roofing tiles to work with, reducing carrying loads and slip risk. With no dust during cutting, this system can also help to eliminate the risk of lung-related health problems.

Envirotile also provides excellent green credentials; attractive to homeowners and housing providers. The unique polymer design is made from over 75% recycled materials.

Other outdoor living products

In 2020 we also introduced a new range of stylish and contemporary composite hollow decking products.

Hollow decking is perfect for gardens and patios. Its recycled wood / polymer construction makes it more durable than timber, with added resistance to damage from the common threats to decking appearance, such as colour degradation. Concealed fixings give the product a neat, flawless finish, which can be quickly and easily installed.