

2 August 2018

EUROCELL PLC (Symbol: ECEL)

HALF YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2018

Financial results in line with expectations and good progress with strategic priorities

Eurocell plc is a market leading, vertically integrated UK manufacturer, distributor and recycler of innovative window, door and roofline PVC products

	H1 2018	H1 2017	Change
Key financial performance measures			
Revenue (£ million)	118.8	108.1	10%
Gross profit (£ million)	59.4	55.6	7%
Gross margin %	50.0	51.4	(140bps)
Adjusted EBITDA (£ million) ^{(1) (4)}	14.2	14.9	(5%)
Adjusted profit before tax (£ million) ⁽²⁾	10.5	11.3	(7%)
Adjusted basic earnings per share (pence) ⁽³⁾	8.8	9.4	(6%)
Interim dividend per share (pence)	3.1	3.0	3%
Net debt (£ million) ⁽⁵⁾	16.4	20.8	(£4.4m)
Other statutory accounting measures			
Profit before tax (£ million)	10.5	10.8	(3%)
Basic earnings per share (pence)	8.8	8.9	(1%)

Financial Highlights

- Strong sales growth of 10%, with further gains in market share
- Gross profit in line with our expectations, albeit with lower gross margin %
 - Short-term increase in manufacturing costs, following sharp uplift in demand in Q2
- Adjusted EBITDA down as anticipated, reflecting phasing of branch opening programme

Operational Highlights

- On track for up to 15 new branches in 2018 (including acquisitions), with six new sites so far this year
- Use of recycled material increased to 4.3k tonnes, or 17% (H1 2017: 3.7k tonnes, or 15%)
- Acquisition of Ecoplas (a PVC windows recycling business) on 1 August 2018

Mark Kelly, Chief Executive of Eurocell plc said:

“We made good progress with our strategic priorities in the first half and continued to invest in the growth of our business. In particular, the acquisition of Ecoplas in August will allow us to increase significantly our recycling capability and consolidate our position as the leading recycler of PVC windows in the UK.

“We have also delivered strong sales growth, driven by new fabricator account wins and by the new branches opened last year. As anticipated, there will be a greater phasing of profit to H2, due largely to the timing of our branch opening programme and selling price increases implemented at the end of 2017.

“Our focus for 2018 remains on growing market share, optimising our existing branch network and expanding further our recycling capability. We are in a strong financial position and, notwithstanding the impact of difficult weather conditions in the first four months, look forward to delivering another year of good progress, in line with our expectations.”

NOTES FOR ANALYSTS AND EDITORS

Financial Review

- Revenue growth of 10% includes:
 - Like-for-like⁽⁶⁾ sales growth of 5%
 - Profiles division like-for-like⁽⁶⁾ sales growth of 9%, including benefit of new account wins
 - Building Plastics division like-for-like⁽⁶⁾ sales growth of 3%
 - Sales from branches opened in 2017 and 2018 of £4.5 million
- Gross margin 50.0% (H1 2017: 51.4%)
 - Short-term increase in manufacturing costs, following sharp uplift in demand in Q2
 - Cost of co-extrusion capacity constraints and unplanned production outages
 - Mitigating actions in progress, including addition of co-extrusion capacity
 - Raw material price inflation (c.£2 million compared to H1 2017) offset with selling price increases, but dilutive to gross margin %
- Operating costs include the impact of acquisitions and investment in new branches
 - Like-for-like⁽⁶⁾ operating cost increase of 4%, including incremental labour and distribution costs incurred to maintain customer service
- Tax rate on adjusted profit before tax of 16.0% includes the benefit of Patent Box⁽⁷⁾ relief
- Capital investment of £3.1 million (H1 2017: £3.6 million)
- Interim dividend of 3.1 pence per share (H1 2017: 3.0 pence per share) up 3%

Business Review

- New fabricator account wins in Profiles, along with strong performance in new build
- Good progress with initiatives to ensure a more consistent offering across the branch network
 - Sales of made-to-order value added products through branches up 9% to £14.9 million (H1 2017: £13.7 million)
- Ecoplas acquisition fulfils a key strategic priority, to increase the use of recycled materials
 - Recycler of PVC windows, with current output of approximately 7k tonnes of recycled compound per annum
 - Helps to mitigate raw material price inflation and enhances product and business sustainability
 - Initial consideration of £5.0 million for 95% of Ecoplas, funded through existing bank facility

Notes:

- (1) Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and non-underlying costs.
- (2) Adjusted profit before tax represents profit before tax and non-underlying costs.
- (3) Adjusted basic earnings per share excludes non-underlying costs and the related tax effect.
- (4) There are no non-underlying costs for H1 2018. Non-underlying costs for H1 2017 of £0.5 million comprise 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.
- (5) Net debt is cash and cash equivalents less bank overdrafts, bank borrowings and other borrowings.
- (6) Like-for-like sales and operating costs exclude acquisitions and branches opened in 2017 and 2018.
- (7) An HMRC approved scheme, allowing a 10% tax rate on profits derived from products that incorporate patents.

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## **CHIEF EXECUTIVE'S REVIEW**

We have continued to deliver strong sales growth, with reported revenues up 10%, a little better than we expected at the beginning of the year. A slow first four months caused by bad weather was made good by an over performance on sales in May and June. However, our gross margin % is down. We experienced a short-term increase in manufacturing costs following this sharp uplift in demand in Q2, leaving gross profit for the period in line with our expectations.

As anticipated, there will be a greater phasing of profit for 2018 to the second half. Adjusted EBITDA for H1 is down on last year, impacted by the phasing of our branch opening programme and the short-term manufacturing conditions, where mitigating action is in progress.

Further information on financial performance is provided in the Divisional and Group Financial Reviews.

## **STRATEGIC PRIORITIES**

Our overall objective remains to deliver sustainable growth in Shareholder value by increasing sales and profits at above our market level growth rates. We have five clear strategic priorities to help us achieve our overall objective:

- Target growth in market share
- Expand the branch network
- Increase the use of recycled materials
- Develop innovative new products
- Explore potential bolt-on acquisition opportunities

We made good progress with our strategic priorities in H1 and continued to invest in the growth of our business, with the key aspects described below. In particular, the acquisition of Ecoplas will allow us to increase significantly our recycling capability and consolidate our position as the leading recycler of PVC windows in the UK.

## **OPERATIONAL PERFORMANCE**

### **Health and safety**

The safety and well-being of our employees and contractors is our first operational priority and we continue to maintain good safety performance. Our Lost Time Injury Frequency Rate (LTIR) was 1.09 in H1 2018, compared to 1.42 for the whole of 2017. We reported four accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) in the period (H1 2017: 6).

### **Production**

In the first half of 2018 we manufactured approximately 23.3k tonnes of rigid and foam PVC profiles, up from 22.2k tonnes in H1 2017, an increase of 5%. This increase in tonnage includes a sharp uplift in demand in Q2 and a significant mix change, with sales of co-extruded products now well ahead of expectations. This resulted in the depletion of safety stocks and a shortage in co-extrusion capacity, particularly in Q2, compounded by two co-extrusion lines being out of service for an extended period.

The associated increase in manufacturing costs, which includes the impact of making products with 100% virgin resin that would ordinarily include recycled material and increased levels of scrap, was a significant driver of the reduction in our gross margin % in the period.

We have already taken action to address the co-extrusion capacity constraint and improve plant performance. Our original 2018 capital expenditure plans included two new co-extrusion lines which, following a period of commissioning, entered full service in July. In the light of on-going strong demand for co-extruded products, we have now placed orders for a further two machines, which we expect to be operational by the end of September. The additional co-extrusion capacity will also enable us to increase preventative maintenance on our plant and tooling, and thereby help to optimise Overall Equipment Effectiveness ("OEE") and scrap levels.

In addition we have secured further recycled material for use in the co-extrusion process through the acquisition of Ecoplas (see below).

## Recycling

In H1 2018 we used 4.3k tonnes of recycled PVC compound alongside virgin resin in the manufacture of co-extruded rigid profiles. This represents 17% of overall material consumption, up from 3.7k tonnes, or 15%) in H1 2017.

The project to expand the capacity of our recycling facility in Ilkeston continues. During the course of 2016/17 we invested approximately £1.8 million to boost usage in primary extrusion from 4.1k tonnes of material consumption in 2015 to 8.3k tonnes in 2017. With further investment in the Ilkeston site for 2018 on track, we expect usage to increase to approximately 10k tonnes this year, representing almost 20% of material consumption and driving a substantial saving compared to the cost of using virgin material.

## ACQUISITION OF ECOPLAS

One of our five key strategic priorities is to increase the use of recycled materials in our primary extrusion processes. The combination of planned growth in our business and developments in extrusion tooling indicate that our demand for recycled material could be greater than our existing in-house production capability within two years. We have also been keen to develop a larger presence in the recycling market in the face of increasing competition.

We were therefore very pleased to complete the acquisition of Ecoplas on 1 August 2018. Ecoplas is a recycler of PVC windows, operating from a single site near Selby, North Yorkshire. The operation is similar to our existing facility in Ilkeston. Current output is approximately 7k tonnes of recycled compound per annum, sold into the building trade (including windows). The initial consideration is £5.0 million. Further details on the financial aspects of the transaction are included in the Group Financial Review.

Significant raw material cost inflation, with average resin prices up by approximately £150 per tonne over the last two years, has resulted in a widening gap between the cost of virgin PVC compound and our recycled compound, making the case for further investment more compelling. As well as driving strong returns, investments in recycling also support the increasing demand for co-extruded profiles and improve the sustainability of our products and our business. As described above, we have made substantial investments in our existing recycling facility in Ilkeston over the last three years, which has increased our planned use of recycled materials for 2018 to approximately 10k tonnes (almost 20% of material consumption).

Capital investment will be required to improve the environment and reliability of the Ecoplas plant, to eliminate bottlenecks from production processes and to expand capacity. We will also need to accelerate investment in co-extrusion tooling at our primary manufacturing facility. This will begin immediately and take approximately 18 months to complete.

In terms of material usage, following these investments, with increased capacity we expect to consume approximately 2k tonnes of recycled compound from Ecoplas in our primary extrusion processes in 2019 and around 4k tonnes in 2020.

The acquisition of Ecoplas represents a significant step change in our recycling capability and also reduces our dependence on the Ilkeston plant. Recycling now sits demonstrably at the heart of our business and I am delighted to welcome the Ecoplas team into the Eurocell Group.

## PROFILES DIVISION REVIEW

|                                        | H1 2018     | H1 2017     | Change     |
|----------------------------------------|-------------|-------------|------------|
|                                        | £m          | £m          | %          |
| <b>Third-party Revenue</b>             | <b>50.5</b> | <b>46.4</b> | <b>9</b>   |
| Inter-segmental Revenue <sup>(1)</sup> | 23.6        | 21.8        | 8          |
| <b>Total Revenue</b>                   | <b>74.1</b> | <b>68.2</b> | <b>9</b>   |
| <b>Adjusted EBITDA</b>                 | <b>11.5</b> | <b>11.7</b> | <b>(2)</b> |

<sup>(1)</sup> Full manufacturing margin recorded in Profiles division (which therefore benefits from pull-through demand generated by branch expansion)

## Profiles revenue

Profiles third-party like-for-like revenue was up 9% in H1 to £50.5 million (H1 2017: £46.4 million). We have continued to gain share, with growth in the first half driven by sales to accounts won in 2017. We have contracted more new accounts in 2018 and our prospect pipeline remains good.

The underlying Profiles business has been supported by continued good growth in the private new build sector, where sales were up approximately 8% in H1 2018. This followed growth of more than 15% in 2017 and we believe we are now the largest supplier of window profile to this market. Our dedicated specifications teams have been successful in generating demand, well supported by our ability to supply a comprehensive product range through the new build fabricator network. As well as windows, this includes composite doors, PVC and aluminium bi-fold doors and the only sixty-minute fire rated cavity closure system. Further, 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 adjusted EBITDA

Adjusted EBITDA in H1 2018 was £11.5 million (H1 2017: £11.7 million), a decrease of 2%.

Gross margin and return on sales %'s in the Profiles division are lower in H1 2018, largely as a result of the manufacturing conditions described above and, as noted earlier, we are taking corrective action. We also incurred some incremental labour and distribution costs to maintain customer services during the period. Further information on our gross margin performance (including the impact of increasing raw material costs and selling prices) and EBITDA is included in the Group Financial Review.

The decrease in adjusted EBITDA is therefore a function of sales growth, offset by increased manufacturing costs and higher overheads.

## BUILDING PLASTICS DIVISION REVIEW

|                                  | H1 2018<br>£m | H1 2017<br>£m | Change<br>% |
|----------------------------------|---------------|---------------|-------------|
| <b>Third-party Revenue</b>       | <b>68.3</b>   | <b>61.8</b>   | <b>11</b>   |
| Organic                          | 66.7          | 60.7          | 10          |
| Security Hardware <sup>(1)</sup> | 1.6           | 1.1           | 45          |
| Inter-segmental Revenue          | 0.7           | 0.3           | 133         |
| <b>Total Revenue</b>             | <b>69.0</b>   | <b>62.1</b>   | <b>11</b>   |
| <b>Adjusted EBITDA</b>           | <b>2.7</b>    | <b>3.2</b>    | <b>(16)</b> |

<sup>(1)</sup> Acquired February 2017

## Building Plastics revenue

Building Plastics third-party revenue was up 11% to £68.3m (H1 2017: £61.8m). We have continued to gain share here too, with growth comprising an increase in like-for-like sales of 3%, as well as the impact of branch openings and the acquisition of Security Hardware in February 2017.

Like-for-like sales includes growth from branches opened in 2016 and prior, as the more recent sites from that vintage begin to mature. 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 have opened six new sites so far this year. We now have a total of 196 branches providing national coverage across the UK, which offers a significant competitive advantage. Sites opened in 2017/18 added £4.5 million to sales in H1 2018.

Expanding the branch network secures sales growth and delivers good returns in the medium-term, as new branches begin to mature. It also provides an increasing opportunity for sales of windows and other high-value products through the branch network, and pulls through demand for our manufactured products. It does however create downward pressure on profitability in the near-term, as new branches work towards a break-even position, which historically has taken more than two years.

We opened 31 branches in 2017, which is a record number of new sites introduced by Eurocell in a 12-month period and represents a significant investment in the expansion of our business. In order to allow our teams to optimise the existing estate and progress the work on reducing break-even times, at the

end of last year we set a target for 2018 at up to 15 new branches (including acquisitions), and we are on track to achieve that.

Initiatives to reduce start-up costs and shorten break-even times include more focused direct marketing campaigns, sharing resources with established sites in the same region and, importantly, ensuring a consistent product offering across the network. We have made good progress particularly in this area, with sales of made-to-order value added products (e.g. windows and doors) through branches up 9% to £14.9 million, as well as much improved participation in group-wide promotions. Whilst there is more work to do, we remain confident that, in future, new branches will reach a break-even run-rate before their two-year anniversary.

Our intention remains to develop an estate of approximately 250 branches in the medium-term. Subject to the success of the current programme, consideration of the sites available, potential branch maturity and sales saturation rates, we continue to believe that an estate of around 350 sites is a realistic long-term aspiration for Eurocell.

### **Building Plastics adjusted EBITDA**

Adjusted EBITDA for H1 2018 was £2.7 million (H1 2017: £3.2 million), a decrease of 16%.

We maintained our gross margin % in Building Plastics in H1 2018. Further information on our gross margin performance (including the impact of increasing raw material costs and selling prices) is included in the Group Financial Review.

Higher overheads in Building Plastics includes significant investments made to expand the branch network. As described above, new branches create downward pressure on profitability in the short term due to investment in our teams at new sites and in supporting central infrastructure. We have opened 37 branches since the beginning of last year, with 2017 additions weighted heavily towards the second half. We estimate this created an incremental drag on EBITDA of approximately £0.5 million in H1 2018.

The reduction in adjusted EBITDA and return on sales in H1 2018 is therefore a function of sales growth offset by the phasing impact of the branch roll-out programme. As noted above, we are making progress with initiatives to support new branches reaching profitability sooner. When the 37 branches opened in the last two years mature, we expect a good improvement in performance for the division.

Finally, Tony Smith, who has led the Building Plastics division for over 25 years has signalled his intention to retire from the business. Tony has made a huge contribution to the Group, having overseen a period of tremendous growth in Building Plastics, and he leaves with our very best wishes. I am delighted to report that Andy McDonnell has joined Eurocell and, after a handover period, will take over from Tony. Andy joins from Oak Furniture Land and, prior to that, B&Q where he was instrumental in the successful development of the TradePoint division. I am confident that, in Andy, we have the right person to deliver our strategic objectives for Building Plastics.

### **OUTLOOK**

Our focus for 2018 remains on growing market share, optimising our existing branch network and expanding further our recycling capability, including the integration of Ecoplas. We are in a strong financial position and, notwithstanding the impact of difficult weather conditions in the first four months, look forward to delivering another year of good progress, in line with our expectations.

### **Mark Kelly**

Chief Executive Officer

## GROUP FINANCIAL REVIEW

| Group                                                     | H1 2018<br>£000 | H1 2017<br>£000 |
|-----------------------------------------------------------|-----------------|-----------------|
| <b>Revenue</b>                                            | <b>118,793</b>  | <b>108,129</b>  |
| Gross profit                                              | 59,443          | 55,607          |
| <i>Gross margin %</i>                                     | <i>50.0%</i>    | <i>51.4%</i>    |
| Overheads                                                 | (45,231)        | (40,667)        |
| <b>Adjusted<sup>(1)</sup> EBITDA</b>                      | <b>14,212</b>   | <b>14,940</b>   |
| Depreciation and amortisation                             | (3,428)         | (3,312)         |
| <b>Adjusted<sup>(1)</sup> operating profit</b>            | <b>10,784</b>   | <b>11,628</b>   |
| Finance costs                                             | (270)           | (282)           |
| <b>Adjusted<sup>(1)</sup> profit before tax</b>           | <b>10,514</b>   | <b>11,346</b>   |
| Tax                                                       | (1,690)         | (1,949)         |
| <b>Adjusted<sup>(1)</sup> profit after tax</b>            | <b>8,824</b>    | <b>9,397</b>    |
| <b>Adjusted<sup>(1)</sup> basic EPS (pence per share)</b> | <b>8.8</b>      | <b>9.4</b>      |
| <hr/>                                                     |                 |                 |
| Non-underlying costs after tax                            | -               | (473)           |
| <b>Reported profit after tax</b>                          | <b>8,824</b>    | <b>8,924</b>    |
| <b>Reported basic EPS (pence per share)</b>               | <b>8.8</b>      | <b>8.9</b>      |

<sup>(1)</sup> See Adjusted Profit measures

### REVENUE

Revenue for H1 2018 was £118.8 million (H1 2017: £108.1 million), which represents growth of 10%, (also 10% excluding acquisitions). Like-for-like sales growth (i.e. excluding the impact of acquisitions and branches opened in 2017/18) was 5%.

As described in the Divisional Reviews, sales have been driven by good like-for-like growth in Profiles (£4.1 million, or 9% for the division, including benefit of new fabricator account wins and a strong performance in new build), solid like-for like growth in the branch network (£1.6 million, or 3% for the division) and the positive impact from branches opened in 2017/18 (£4.5 million, or 7% for the division). The acquisition of Security Hardware in 2017 added an incremental £0.5 million to sales in H1 2018.

### GROSS MARGIN

Overall, our gross margin reduced by 140 bps from 51.4% in H1 2017 to 50.0% in H1 2018. The manufacturing conditions described in the Chief Executive's Review are a significant driver of this reduction, and as noted earlier, we are taking corrective action.

In terms of raw material cost inflation, resin prices are up £50 per tonne (or 7%) on average compared to H1 2017. We continue to mitigate raw material and traded goods cost inflation via the implementation of selling price increases where possible. We believe we recovered all of the c.£2 million cost inflation experienced in H1 2018 compared to last year, however the effect of such increases remains dilutive to gross margin (-80 bps). This was offset by a benefit (+30 bps) from the increased use of recycled material in our manufactured goods to 4.3k tonnes, or 17% (H1 2017: 3.7k tonnes, or 15%).

### DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES (OVERHEADS)

Overheads for the half year were £45.2 million compared to £40.7 million in H1 2017, representing a consistent percentage of sales for both periods. The increase includes £2.2 million as a result of new branches opened in 2017/18 and an incremental £0.2 million from acquisitions. The balance of £2.1 million relates to an increase of 4% in the like-for-like business, where sales growth was 5% as described above.

We continue to focus on the tight control of underlying overheads, with the increase driven largely by the impact of the Minimum Wage legislation, higher volume related distribution costs and incremental central infrastructure required to support the Group as it grows. In addition, we have incurred some extra labour and distribution costs in order to maintain good customer service whilst our manufacturing challenges are resolved.

## **DEPRECIATION AND AMORTISATION**

Depreciation and amortisation for H1 2018 is £3.4 million (H1 2017: £3.3 million).

## **FINANCE COSTS**

Finance costs for H1 2018 of £0.3 million (H1 2017: £0.3 million).

## **ADJUSTED PROFIT MEASURES**

Adjusted EBITDA, adjusted operating profit and adjusted profit before tax all exclude non-underlying costs (see below). Adjusted profit after tax and adjusted earnings per share exclude non-underlying costs and the related tax effect.

Adjusted profit measures are used by management to assess business performance and are provided here in addition to statutory measures to help describe the underlying results of the Group.

## **NON-UNDERLYING COSTS**

There are no non-underlying costs for H1 2018. Non-underlying costs for H1 2017 of £0.5 million comprise 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.

## **TAX**

The effective tax rate on adjusted profit before tax for H1 2018 of 16.0% (H1 2017: 17.2%) was lower than the standard corporation tax rate for both half year periods due to the benefit of Patent Box relief.

The full year tax rate for 2017 of 17.0% was lower than the standard rate of 19.25%, also due to the benefit of Patent Box relief.

## **EARNINGS PER SHARE**

Taking into account all of the factors described above, adjusted basic earnings per share for the period was 8.8 pence (H1 2017: 9.4 pence). Reported basic earnings per share was 8.8 pence (H1 2017: 8.9 pence). The dilutive impact of outstanding share options is not significant.

## **ACQUISITIONS**

As previously noted, the Group acquired Ecoplas on 1 August 2018. The initial consideration for 95% the business is £5.0 million, with the remaining 5% to be acquired in three to five years' time for up to £1.0 million based on business performance. We assumed debt of c.£1 million on acquisition and will provide incremental working capital funding to the business also of around £1 million, primarily to ease the supply chain for waste material.

As described in the Chief Executive's Review, capital investment of approximately £3 million is required over the next 18 months to expand Ecoplas' capacity and purchase new co-extrusion tooling for our primary manufacturing site.

The consideration and other related investments described above are all being financed out of our existing debt facility. We expect the impact of the acquisition materially to exceed our cost of capital and to be earnings accretive in its first full year.

## **DIVIDENDS**

On 1 August 2018, the Board approved an interim dividend for the six months ended 30 June 2018 of 3.1 pence per share (£3.1 million), representing an increase of 3% on the corresponding period.

The interim dividend will be paid on or before 5 October 2018 and shares will be marked ex-dividend on 6 September 2018.

## **CAPITAL EXPENDITURE**

Capital expenditure for H1 2018 was £3.1 million (H1 2017: £3.6 million).

Capital expenditure in Operations includes £0.6 million general maintenance capex. We have also invested £1.2 million to increase our recycling capacity (including new co-extrusion lines and tooling)



and £0.4 million in new branches. Other capital expenditure of £0.9 million includes a new product showroom, branch refurbishments and various IT-related costs.

## **CASH FLOW**

Net cash generated from operating activities was £7.6 million for the period, compared to £10.3 million in H1 2017.

This includes a net outflow from working capital for H1 2018 of £4.7 million, comprised of an increase in stocks (£2.8 million), an increase in trade and other receivables (£8.7 million) and an increase in trade and other payables (£6.8 million). This compares to a net outflow from working capital of £1.9 million in H1 2017. It also includes tax paid of £2.1 million (H1 2017: £2.6 million).

A higher outflow in H1 2018 reflects the impact on working capital of growth and the changing customer mix in our business. The increase in stocks is driven largely by raw materials (rebuilt post December factory shut down), new branches and the continued introduction of new product lines to the branch network. Stock days were 58 at 30 June 2018, compared to 58 at 30 June 2017 and 55 at 31 December 2017.

Underlying increases in trade receivables and payables reflect normal business seasonality, alongside increased activity and growth in 2018. There is also an impact on receivables from increased sales to larger / new build fabricators, who tend to buy on better terms than smaller customers, and a timing difference with cash of approximately £2 million received in December 2017 that had been expected in January 2018.

Other payments include capital investment of £3.2 million (H1 2017: £3.6 million), financing costs of £0.2 million (H1 2017: £0.3 million) and an earn-out payment in respect of the acquisition of Security Hardware of £0.1m (H1 2017: initial consideration of £1.3 million).

Dividends paid in H1 2018 represent the final dividend for 2017 of 6.0 pence per share (or £6.0 million). (H1 2017: 2016 final dividend of £5.7 million).

Taking all of these factors into account, net debt increased by £1.9 million during the first half to £16.4 million at 30 June 2018 (31 December 2017: £14.5 million).

## **BANK FACILITIES**

We have an unsecured, multicurrency, revolving credit facility of £45 million, provided by Barclays and Santander. The Group operates comfortably within the terms of the facility and related financial covenants. The facility matures in 2020.

## **SEASONALITY OF TRADING**

The Group is affected by seasonality. Demand in the second half of the year is usually higher than in the first half, with September to November typically representing our peak sales period to the RMI market. In addition, our sales to the new build market are usually slower during the first quarter of the year.

As described earlier in this report, we expect there will be greater than normal phasing of profit for 2018 to the second half, due largely to the timing of our branch opening programme and selling price increases implemented at the end of last year.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks and uncertainties faced by the Group are set out in the 2017 Annual Report (pages 34-38). These risks remain unchanged and are as follows:

- Macro-economic conditions
- EU Referendum
- Raw material prices
- Raw material supply
- Unplanned plant downtime
- Corporate and regulatory risks
- Unsuccessful branch openings
- Customer credit risk

- Competitor activity
- Failure to develop new products
- Ability to attract and retain key personnel and highly skilled individuals
- Shortages or increased costs of appropriately skilled labour
- Cyber security
- Failure to identify, complete and integrate bolt-on acquisitions

**Michael Scott**  
Chief Financial Officer

## **RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF YEAR REPORT**

We confirm that to the best of the Directors' knowledge:

- The condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) as adopted by the EU and;
- The interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

By Order of the Board

**Mark Kelly**  
Chief Executive Officer  
1 August 2018

**Michael Scott**  
Chief Financial Officer  
1 August 2018

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ending 30 June 2018

|                                         | Note | Six months ended 30 June 2018     |                                            |                              | Six months ended 30 June 2017     |                                            |                              | Year ended 31 December 2017     |                                          |                            |
|-----------------------------------------|------|-----------------------------------|--------------------------------------------|------------------------------|-----------------------------------|--------------------------------------------|------------------------------|---------------------------------|------------------------------------------|----------------------------|
|                                         |      | Underlying<br>£000<br>(Unaudited) | Non-<br>underlying*<br>£000<br>(Unaudited) | Total<br>£000<br>(Unaudited) | Underlying<br>£000<br>(Unaudited) | Non-<br>underlying*<br>£000<br>(Unaudited) | Total<br>£000<br>(Unaudited) | Underlying<br>£000<br>(Audited) | Non-<br>underlying*<br>£000<br>(Audited) | Total<br>£000<br>(Audited) |
| Revenue                                 | 5    | 118,793                           | -                                          | 118,793                      | 108,129                           | -                                          | 108,129                      | 224,906                         | -                                        | 224,906                    |
| Cost of sales                           |      | (59,350)                          | -                                          | (59,350)                     | (52,522)                          | -                                          | (52,522)                     | (110,282)                       | -                                        | (110,282)                  |
| <b>Gross profit</b>                     |      | <b>59,443</b>                     | -                                          | <b>59,443</b>                | <b>55,607</b>                     | -                                          | <b>55,607</b>                | <b>114,624</b>                  | -                                        | <b>114,624</b>             |
| Distribution costs                      |      | (8,963)                           | -                                          | (8,963)                      | (8,158)                           | -                                          | (8,158)                      | (17,254)                        | -                                        | (17,254)                   |
| Administrative expenses                 |      | (39,696)                          | -                                          | (39,696)                     | (35,821)                          | (539)                                      | (36,360)                     | (72,313)                        | (843)                                    | (73,156)                   |
| <b>Operating profit</b>                 |      | <b>10,784</b>                     | -                                          | <b>10,784</b>                | <b>11,628</b>                     | <b>(539)</b>                               | <b>11,089</b>                | <b>25,057</b>                   | <b>(843)</b>                             | <b>24,214</b>              |
| Finance expense                         |      | (270)                             | -                                          | (270)                        | (282)                             | -                                          | (282)                        | (553)                           | -                                        | (553)                      |
| <b>Profit before tax</b>                |      | <b>10,514</b>                     | -                                          | <b>10,514</b>                | <b>11,346</b>                     | <b>(539)</b>                               | <b>10,807</b>                | <b>24,504</b>                   | <b>(843)</b>                             | <b>23,661</b>              |
| Taxation                                | 7    | (1,690)                           | -                                          | (1,690)                      | (1,949)                           | 66                                         | (1,883)                      | (4,089)                         | 70                                       | (4,019)                    |
| <b>Profit for the period</b>            |      | <b>8,824</b>                      | -                                          | <b>8,824</b>                 | <b>9,397</b>                      | <b>(473)</b>                               | <b>8,924</b>                 | <b>20,415</b>                   | <b>(773)</b>                             | <b>19,642</b>              |
| <b>Basic earnings per share (pence)</b> | 9    | <b>8.8</b>                        |                                            | <b>8.8</b>                   | <b>9.4</b>                        |                                            | <b>8.9</b>                   | <b>20.4</b>                     |                                          | <b>19.6</b>                |

\* Non-underlying items are detailed in Note 6.

The Group has no other comprehensive income in the current or prior year.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

|                                                            |      | 30 June<br>2018<br>£000<br>(Unaudited) | 30 June<br>2017<br>£000<br>(Unaudited) | 31 December<br>2017<br>£000<br>(Audited) |
|------------------------------------------------------------|------|----------------------------------------|----------------------------------------|------------------------------------------|
|                                                            | Note |                                        |                                        |                                          |
| <b>Assets</b>                                              |      |                                        |                                        |                                          |
| <b>Non-current assets</b>                                  |      |                                        |                                        |                                          |
| Property, plant and equipment                              | 10   | 31,108                                 | 29,876                                 | 31,167                                   |
| Intangible assets                                          | 10   | 19,200                                 | 20,151                                 | 19,431                                   |
| <b>Total non-current assets</b>                            |      | <b>50,308</b>                          | <b>50,027</b>                          | <b>50,598</b>                            |
| <b>Current assets</b>                                      |      |                                        |                                        |                                          |
| Inventories                                                |      | 23,903                                 | 20,846                                 | 21,094                                   |
| Trade and other receivables                                |      | 40,222                                 | 34,267                                 | 31,578                                   |
| Cash and cash equivalents                                  |      | 4,441                                  | 4,993                                  | 11,361                                   |
| <b>Total current assets</b>                                |      | <b>68,566</b>                          | <b>60,106</b>                          | <b>64,033</b>                            |
| <b>Total assets</b>                                        |      | <b>118,874</b>                         | <b>110,133</b>                         | <b>114,631</b>                           |
| <b>Liabilities</b>                                         |      |                                        |                                        |                                          |
| <b>Current liabilities</b>                                 |      |                                        |                                        |                                          |
| Borrowings                                                 |      | -                                      | (18)                                   | -                                        |
| Trade and other payables                                   |      | (39,630)                               | (36,478)                               | (33,011)                                 |
| Provisions                                                 |      | (405)                                  | (48)                                   | (405)                                    |
| Corporation tax                                            |      | (2,177)                                | (2,185)                                | (2,448)                                  |
| <b>Total current liabilities</b>                           |      | <b>(42,212)</b>                        | <b>(38,729)</b>                        | <b>(35,864)</b>                          |
| <b>Non-current liabilities</b>                             |      |                                        |                                        |                                          |
| Borrowings                                                 |      | (20,884)                               | (25,818)                               | (25,851)                                 |
| Trade and other payables                                   |      | (725)                                  | (350)                                  | (718)                                    |
| Provisions                                                 |      | (596)                                  | (1,351)                                | (654)                                    |
| Deferred tax                                               |      | (2,068)                                | (2,182)                                | (2,170)                                  |
| <b>Total non-current liabilities</b>                       |      | <b>(24,273)</b>                        | <b>(29,701)</b>                        | <b>(29,393)</b>                          |
| <b>Total liabilities</b>                                   |      | <b>(66,485)</b>                        | <b>(68,430)</b>                        | <b>(65,257)</b>                          |
| <b>Net assets</b>                                          |      | <b>52,389</b>                          | <b>41,703</b>                          | <b>49,374</b>                            |
| <b>Equity attributable to equity holders of the Parent</b> |      |                                        |                                        |                                          |
| Share capital                                              |      | 101                                    | 100                                    | 100                                      |
| Share premium account                                      |      | 2,381                                  | 1,926                                  | 2,104                                    |
| Share-based payment reserve                                |      | 401                                    | 701                                    | 480                                      |
| Retained earnings                                          |      | 49,506                                 | 38,976                                 | 46,690                                   |
| <b>Total equity</b>                                        |      | <b>52,389</b>                          | <b>41,703</b>                          | <b>49,374</b>                            |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ending 30 June 2018

|                                                             |      | Six months<br>ended<br>30 June<br>2018<br>£000 | Six months<br>ended<br>30 June<br>2017<br>£000 | Year<br>ended<br>31 December<br>2017<br>£000 |
|-------------------------------------------------------------|------|------------------------------------------------|------------------------------------------------|----------------------------------------------|
|                                                             | Note | (Unaudited)                                    | (Unaudited)                                    | (Audited)                                    |
| <b>Cash generated from operations</b>                       | 11   | <b>9,698</b>                                   | <b>12,677</b>                                  | <b>27,926</b>                                |
| Non-underlying costs                                        | 6    | -                                              | 539                                            | 843                                          |
| <b>Cash generated from underlying operations</b>            |      | <b>9,698</b>                                   | <b>13,216</b>                                  | <b>28,769</b>                                |
| Income taxes paid                                           |      | (2,063)                                        | (2,610)                                        | (4,557)                                      |
| Non-underlying costs paid                                   |      | (32)                                           | (332)                                          | (489)                                        |
| <b>Net cash generated from operating activities</b>         |      | <b>7,603</b>                                   | <b>10,274</b>                                  | <b>23,723</b>                                |
| <b>Investing activities</b>                                 |      |                                                |                                                |                                              |
| Acquisition of subsidiaries                                 |      | (103)                                          | (1,260)                                        | (1,260)                                      |
| Purchase of property, plant and equipment                   |      | (2,963)                                        | (3,046)                                        | (7,068)                                      |
| Sale of property, plant and equipment                       |      | 24                                             | -                                              | 15                                           |
| Purchase of intangible assets                               |      | (268)                                          | (535)                                          | (413)                                        |
| <b>Net cash used in investing activities</b>                |      | <b>(3,310)</b>                                 | <b>(4,841)</b>                                 | <b>(8,726)</b>                               |
| <b>Financing activities</b>                                 |      |                                                |                                                |                                              |
| Repayment of bank and other borrowings                      |      | (5,000)                                        | (24)                                           | (42)                                         |
| Finance expense paid                                        |      | (205)                                          | (275)                                          | (449)                                        |
| Dividends paid to equity shareholders                       | 8    | (6,008)                                        | (5,700)                                        | (8,704)                                      |
| <b>Net cash used in financing activities</b>                |      | <b>(11,213)</b>                                | <b>(5,999)</b>                                 | <b>(9,195)</b>                               |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |      | <b>(6,920)</b>                                 | <b>(566)</b>                                   | <b>5,802</b>                                 |
| Cash and cash equivalents at the beginning of the period    |      | 11,361                                         | 5,559                                          | 5,559                                        |
| <b>Cash and cash equivalents at the end of the period</b>   |      | <b>4,441</b>                                   | <b>4,993</b>                                   | <b>11,361</b>                                |
| <b>Net debt</b>                                             |      |                                                |                                                |                                              |
| Cash and cash equivalents                                   |      | 4,441                                          | 4,993                                          | 11,361                                       |
| Other borrowings                                            |      | -                                              | (18)                                           | -                                            |
| Bank borrowings                                             |      | (20,884)                                       | (25,818)                                       | (25,851)                                     |
|                                                             |      | <b>(16,443)</b>                                | <b>(20,843)</b>                                | <b>(14,490)</b>                              |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| For the six months ended<br>30 June 2018 (Unaudited)      | Share<br>capital<br>£000 | Share<br>premium<br>account<br>£000 | Share-<br>based<br>payment<br>reserve<br>£000 | Retained<br>earnings<br>£000 | Total<br>equity<br>£000 |
|-----------------------------------------------------------|--------------------------|-------------------------------------|-----------------------------------------------|------------------------------|-------------------------|
| <b>Balance at 1 January 2018</b>                          | 100                      | 2,104                               | 480                                           | 46,690                       | 49,374                  |
| <b>Comprehensive income for the period</b>                |                          |                                     |                                               |                              |                         |
| Profit for the period                                     | -                        | -                                   | -                                             | 8,824                        | 8,824                   |
| <b>Total comprehensive income for the period</b>          | -                        | -                                   | -                                             | 8,824                        | 8,824                   |
| <b>Contributions by and distributions to owners</b>       |                          |                                     |                                               |                              |                         |
| Exercise of share options                                 | 1                        | 277                                 | (278)                                         | -                            | -                       |
| Share-based payments                                      | -                        | -                                   | 199                                           | -                            | 199                     |
| Dividends paid                                            | -                        | -                                   | -                                             | (6,008)                      | (6,008)                 |
| <b>Total contributions by and distributions to owners</b> | 1                        | 277                                 | (79)                                          | (6,008)                      | (5,809)                 |
| <b>Balance at 30 June 2018</b>                            | 101                      | 2,381                               | 401                                           | 49,506                       | 52,389                  |

| For the six months ended<br>30 June 2017 (Unaudited)      | Share<br>capital<br>£000 | Share<br>premium<br>account<br>£000 | Share-<br>based<br>payment<br>reserve<br>£000 | Retained<br>earnings<br>£000 | Total<br>equity<br>£000 |
|-----------------------------------------------------------|--------------------------|-------------------------------------|-----------------------------------------------|------------------------------|-------------------------|
| <b>Balance at 1 January 2017</b>                          | 100                      | 1,926                               | 348                                           | 35,752                       | 38,126                  |
| <b>Comprehensive income for the period</b>                |                          |                                     |                                               |                              |                         |
| Profit for the period                                     | -                        | -                                   | -                                             | 8,924                        | 8,924                   |
| <b>Total comprehensive income for the period</b>          | -                        | -                                   | -                                             | 8,924                        | 8,924                   |
| <b>Contributions by and distributions to owners</b>       |                          |                                     |                                               |                              |                         |
| Share-based payments                                      | -                        | -                                   | 289                                           | -                            | 289                     |
| Deferred tax on share-based payments                      | -                        | -                                   | 64                                            | -                            | 64                      |
| Dividends paid                                            | -                        | -                                   | -                                             | (5,700)                      | (5,700)                 |
| <b>Total contributions by and distributions to owners</b> | -                        | -                                   | 353                                           | (5,700)                      | (5,347)                 |
| <b>Balance at 30 June 2017</b>                            | 100                      | 1,926                               | 701                                           | 38,976                       | 41,703                  |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(continued)**

| For the year ended<br>31 December 2017 (Audited)          | Share<br>capital<br>£000 | Share<br>premium<br>account<br>£000 | Share-<br>based<br>payment<br>reserve<br>£000 | Retained<br>earnings<br>£000 | Total<br>equity<br>£000 |
|-----------------------------------------------------------|--------------------------|-------------------------------------|-----------------------------------------------|------------------------------|-------------------------|
| <b>Balance at 1 January 2017</b>                          | <b>100</b>               | <b>1,926</b>                        | <b>348</b>                                    | <b>35,752</b>                | <b>38,126</b>           |
| <b>Comprehensive income for the year</b>                  |                          |                                     |                                               |                              |                         |
| Profit for the year                                       | -                        | -                                   | -                                             | 19,642                       | 19,642                  |
| <b>Total comprehensive income for the year</b>            | <b>-</b>                 | <b>-</b>                            | <b>-</b>                                      | <b>19,642</b>                | <b>19,642</b>           |
| <b>Contributions by and distributions to owners</b>       |                          |                                     |                                               |                              |                         |
| Exercise of share options                                 | -                        | 178                                 | (178)                                         | -                            | -                       |
| Share-based payments                                      | -                        | -                                   | 260                                           | -                            | 260                     |
| Deferred tax on share-based payments                      | -                        | -                                   | 50                                            | -                            | 50                      |
| Dividends paid                                            | -                        | -                                   | -                                             | (8,704)                      | (8,704)                 |
| <b>Total contributions by and distributions to owners</b> | <b>-</b>                 | <b>178</b>                          | <b>132</b>                                    | <b>(8,704)</b>               | <b>(8,394)</b>          |
| <b>Balance at 31 December 2017</b>                        | <b>100</b>               | <b>2,104</b>                        | <b>480</b>                                    | <b>46,690</b>                | <b>49,374</b>           |



## **1. BASIS OF PREPERATION**

The half year report for the six months ended 30 June 2018 reflects the results of the Company and its subsidiaries (together the 'Group'). It has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union and the Disclosure and Transparency rules of the Financial Conduct Authority, and includes the half year condensed consolidated financial statements (the 'interim financial statements').

The interim financial statements do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. They do not include all the information required for full financial statements and should be read in conjunction with the 2017 Annual Report.

The comparative figures for the year ended 31 December 2017 have been extracted from the Group's audited financial statements for that year. Those financial statements are included in the 2017 Annual Report and have been delivered to the Registrar of Companies. The auditor's report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their audit report, and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The interim financial statements are unaudited, but have been reviewed by the auditors in accordance with the Auditing Practices Board guidance on Review of Interim Financial Information.

The half year report was approved by the Board of Directors on 1 August 2018.

## **2. GOING CONCERN**

The interim financial statements have been prepared on a going concern basis. The Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future; a period of not less than 12 months from the date of this report.

## **3. ACCOUNTING POLICIES AND ESTIMATES**

The interim financial statements have been prepared in accordance with the accounting policies and presentation that were applied in the Group's audited financial statements for the year ended 31 December 2017.

A number of new standards, amendments or interpretations to published standards have been adopted by the Group since that date, none of which have had a material impact on the Group:

- IFRS 15 Revenue from Contracts with Customers;
- IFRS 9 Financial Instruments;
- IFRS 2 Share-based Payments;
- IFRS 4 Insurance Contracts;
- IAS 28 Investments in Associates and Joint Ventures;
- IAS 40 Investment Property; and
- IFRIC 22 Foreign Currency Transactions and Advanced Consideration.

IFRS 15 Revenue from Contracts with Customers became effective on 1 January 2018. The group manufactures and sells window, door and roofline PVC building products. Revenue is recognised when control of the products has transferred, being when products are delivered to, or collected by the customer. On taking receipt of the products, the customer is deemed to have accepted the terms of the sales contract and therefore assumed in full the risk of obsolescence and loss.

IFRS 9 Financial Instruments became effective on 1 January 2018. The Group has adopted the simplified expected credit loss model for its trade receivables, as required by IFRS 9.

There has been no material impact on the financial statements as a result of applying IFRS 9 and IFRS 15.

IFRS 16 Leases (effective from 1 January 2019) replaces IAS 17 Leases and related interpretations, and addresses the definitions of a lease, recognition and measurement of leases and establishes principles for reporting useful information to the users of financial statements about the leasing activities of both lessees and lessors.

An initial assessment of the impact of adopting IFRS 16 indicates that the Group would recognise additional non-current assets and lease liabilities of approximately £32.9 million on adoption of the standard, with additional depreciation of £9.9 million and finance costs of £1.9 million being incurred in the first year of adoption, offset by a corresponding reduction in administrative costs of £9.6 million. In making this assessment, management has assumed that the Group would apply the Modified Retrospective transition approach.

In addition to IFRS 16, the following standards, which are not expected to have a material impact on the Group's future financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 17 Insurance Contracts (effective from 1 January 2021);
- IAS 28 Investments in Associates and Joint Ventures (effective from 1 January 2019); and
- IFRIC 23 Uncertainty Over Income Tax Treatment (effective from 1 January 2019).

The Group does not intend to adopt any standard, revision or amendment before the required implementation date.

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The significant judgements, estimates and assumptions relevant to the preparation of the interim financial statements are consistent with those described on pages 80 to 85 of the 2017 Annual Report.

#### **4. FINANCIAL INSTRUMENTS**

The Group is exposed to financial risks through its use of the following financial instruments:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Bank overdrafts
- Floating-rate bank loans

The relevant financial risks are: credit risk, market risk, foreign exchange risk and liquidity risk. The Group estimates that the fair value of these financial assets and liabilities is approximate to their carrying amount. Further information in relation to the Group's exposure to financial risks is included on pages 85 to 88 of the 2017 Annual Report.

## 5. SEGMENT INFORMATION

The Group organises itself into a number of operating segments that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Internal reporting provided to the chief operating decision maker, which has been identified as the executive management team including the Chief Executive Officer and the Chief Financial Officer, reflects this structure.

The Group has aggregated its operations into two reported segments, as these business units have similar products, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics:

- Profiles – manufacture and sale of UPVC window and building products to the new and replacement window market across the UK.
- Building Plastics – sale of building plastic materials across the UK.

The Corporate segment includes amortisation in respect of acquired intangible assets.

| Six months ended 30 June 2018<br>(Unaudited)               | Profiles<br>£000 | Building<br>Plastics<br>£000 | Corporate<br>£000 | Total<br>£000  |
|------------------------------------------------------------|------------------|------------------------------|-------------------|----------------|
| <b>Revenue</b>                                             |                  |                              |                   |                |
| Total revenue                                              | 74,123           | 68,960                       | -                 | 143,083        |
| Inter-segmental revenue                                    | (23,607)         | (683)                        | -                 | (24,290)       |
| <b>Total revenue from external customers</b>               | <b>50,516</b>    | <b>68,277</b>                | <b>-</b>          | <b>118,793</b> |
| <b>Adjusted EBITDA</b>                                     | <b>11,468</b>    | <b>2,675</b>                 | <b>69</b>         | <b>14,212</b>  |
| Amortisation                                               | (79)             | (35)                         | (657)             | (771)          |
| Depreciation                                               | (1,959)          | (455)                        | (243)             | (2,657)        |
| <b>Operating profit/(loss)</b>                             | <b>9,430</b>     | <b>2,185</b>                 | <b>(831)</b>      | <b>10,784</b>  |
| Finance expense                                            |                  |                              |                   | (270)          |
| <b>Profit before tax</b>                                   |                  |                              |                   | <b>10,514</b>  |
| Six months ended 30 June 2017<br>(Unaudited)               | Profiles<br>£000 | Building<br>Plastics<br>£000 | Corporate<br>£000 | Total<br>£000  |
| <b>Revenue</b>                                             |                  |                              |                   |                |
| Total revenue                                              | 68,171           | 62,078                       | -                 | 130,249        |
| Inter-segmental revenue                                    | (21,807)         | (313)                        | -                 | (22,120)       |
| <b>Total revenue from external customers</b>               | <b>46,364</b>    | <b>61,765</b>                | <b>-</b>          | <b>108,129</b> |
| <b>Adjusted EBITDA</b>                                     | <b>11,660</b>    | <b>3,194</b>                 | <b>86</b>         | <b>14,940</b>  |
| Amortisation                                               | (80)             | (56)                         | (669)             | (805)          |
| Depreciation                                               | (1,915)          | (364)                        | (228)             | (2,507)        |
| <b>Operating profit/(loss) before non-underlying costs</b> | <b>9,665</b>     | <b>2,774</b>                 | <b>(811)</b>      | <b>11,628</b>  |
| Non-underlying costs                                       |                  |                              |                   | (539)          |
| Finance expense                                            |                  |                              |                   | (282)          |
| <b>Profit before tax</b>                                   |                  |                              |                   | <b>10,807</b>  |

## 5. SEGMENT INFORMATION (continued)

| Year ended 31 December 2017<br>(Audited)                       | Profiles<br>£000 | Building<br>Plastics<br>£000 | Corporate<br>£000 | Total<br>£000  |
|----------------------------------------------------------------|------------------|------------------------------|-------------------|----------------|
| <b>Revenue</b>                                                 |                  |                              |                   |                |
| Total revenue                                                  | 139,553          | 131,877                      | -                 | 271,430        |
| Inter-segmental revenue                                        | (45,377)         | (1,147)                      | -                 | (46,524)       |
| <b>Total revenue from external<br/>customers</b>               | <b>94,176</b>    | <b>130,730</b>               | <b>-</b>          | <b>224,906</b> |
| <b>Adjusted EBITDA</b>                                         |                  |                              |                   |                |
| Amortisation                                                   | (159)            | (112)                        | (1,287)           | (1,558)        |
| Depreciation                                                   | (3,859)          | (795)                        | (465)             | (5,119)        |
| <b>Operating profit/(loss) before<br/>non-underlying costs</b> | <b>19,148</b>    | <b>7,661</b>                 | <b>(1,752)</b>    | <b>25,057</b>  |
| Non-underlying costs                                           |                  |                              |                   | (843)          |
| Finance expense                                                |                  |                              |                   | (553)          |
| <b>Profit before tax</b>                                       |                  |                              |                   | <b>23,661</b>  |

## 6. NON-UNDERLYING COSTS

Amounts included in the Condensed Consolidated Statement of Comprehensive Income are as follows:

|                                 | Six months<br>ended<br>30 June<br>2018<br>£000<br>(Unaudited) | Six months<br>ended<br>30 June<br>2017<br>£000<br>(Unaudited) | Year<br>ended<br>31 December<br>2017<br>£000<br>(Audited) |
|---------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------|
| Acquisition related costs       | -                                                             | 194                                                           | 414                                                       |
| Redundancy and settlement costs | -                                                             | 345                                                           | 361                                                       |
| HSE penalty                     | -                                                             | -                                                             | 68                                                        |
|                                 | <b>-</b>                                                      | <b>539</b>                                                    | <b>843</b>                                                |

## 7. TAXATION

|                                                   | Six months<br>ended<br>30 June<br>2018<br>£000<br>(Unaudited) | Six months<br>ended<br>30 June<br>2017<br>£000<br>(Unaudited) | Year<br>ended<br>31 December<br>2017<br>£000<br>(Audited) |
|---------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------|
| <b>Current tax</b>                                |                                                               |                                                               |                                                           |
| Current tax on profits for the period             | 1,807                                                         | 1,998                                                         | 4,253                                                     |
| Adjustments in respect of prior years             | (15)                                                          | -                                                             | (170)                                                     |
| <b>Total current tax</b>                          | <b>1,792</b>                                                  | <b>1,998</b>                                                  | <b>4,083</b>                                              |
| <b>Deferred tax</b>                               |                                                               |                                                               |                                                           |
| Origination and reversal of temporary differences | (109)                                                         | (115)                                                         | 53                                                        |
| Adjustment in respect of change in rates          | 5                                                             | -                                                             | (15)                                                      |
| Adjustments in respect of prior years             | 2                                                             | -                                                             | (102)                                                     |
| <b>Total deferred tax</b>                         | <b>(102)</b>                                                  | <b>(115)</b>                                                  | <b>(64)</b>                                               |
| <b>Total tax expense</b>                          | <b>1,690</b>                                                  | <b>1,883</b>                                                  | <b>4,019</b>                                              |

The reason for the difference between the actual tax charge for the period and the standard rate of corporation tax in the United Kingdom applied to profits for the period are as follows:

|                                                                                                   | 10,514       | 10,807       | 23,661       |
|---------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
| <b>Profit before tax</b>                                                                          |              |              |              |
| Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2017: 19.25%) | 1,998        | 2,080        | 4,555        |
| Expenses not deductible for tax purposes                                                          | 56           | 110          | 439          |
| Patent Box claim in respect of prior years                                                        | (356)        | (307)        | (738)        |
| Adjustments in respect of prior years                                                             | (13)         | -            | (272)        |
| Tax on share-based payments recognised in equity                                                  | -            | -            | 50           |
| Adjustment in respect of change in rates                                                          | 5            | -            | (15)         |
| <b>Total tax expense</b>                                                                          | <b>1,690</b> | <b>1,883</b> | <b>4,019</b> |

### Changes in tax rates and factors affecting the future tax charge

The mainstream rate of UK corporation tax changed in April 2017 from 20% to 19%. This gave rise to an effective rate of 19.25% in 2017. A further reduction to 17% from April 2020 was enacted during 2016. Deferred taxes at the period end have been measured using these enacted rates and reflected in the interim financial statements.

## 8. DIVIDENDS

|                                                                           | Six months<br>ended<br>30 June<br>2018<br>£000<br>(Unaudited) | Six months<br>ended<br>30 June<br>2017<br>£000<br>(Unaudited) | Year<br>ended<br>31 December<br>2017<br>£000<br>(Audited) |
|---------------------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------|
| <b>Dividends paid during the period</b>                                   |                                                               |                                                               |                                                           |
| Interim dividend for H1 2017: 3.0p per share                              | -                                                             | -                                                             | 3,004                                                     |
| Final dividend for 2017: 6.0p per share<br>(2016: 5.7p per share)         | 6,008                                                         | 5,700                                                         | 5,700                                                     |
|                                                                           | <b>6,008</b>                                                  | <b>5,700</b>                                                  | <b>8,704</b>                                              |
| <b>Dividends proposed</b>                                                 |                                                               |                                                               |                                                           |
| Interim dividend for H1 2018: 3.1p per share<br>(H1 2017: 3.0p per share) | 3,110                                                         | 3,004                                                         | -                                                         |
| Final dividend for 2017: 6.0p per share                                   | -                                                             | -                                                             | 6,008                                                     |
|                                                                           | <b>3,110</b>                                                  | <b>3,004</b>                                                  | <b>6,008</b>                                              |

## 9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options. Adjusted earnings per share excludes non-underlying costs and the related tax effect from the calculations.

|                                                          | Six months<br>ended<br>30 June<br>2018<br>£000<br>(Unaudited) | Six months<br>ended<br>30 June<br>2017<br>£000<br>(Unaudited) | Year<br>ended<br>31 December<br>2017<br>£000<br>(Audited) |
|----------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------|
| Profit attributable to ordinary shareholders             | 8,824                                                         | 8,924                                                         | 19,642                                                    |
| Adjusted profit attributable to ordinary<br>shareholders | 8,824                                                         | 9,397                                                         | 20,415                                                    |
|                                                          | <b>Number</b>                                                 | <b>Number</b>                                                 | <b>Number</b>                                             |
| Weighted average number of shares- basic                 | 100,246,327                                                   | 100,000,000                                                   | 100,040,383                                               |
| Weighted average number of shares- diluted               | 100,521,447                                                   | 100,412,105                                                   | 100,301,071                                               |
|                                                          | <b>Pence</b>                                                  | <b>Pence</b>                                                  | <b>Pence</b>                                              |
| Basic earnings per share                                 | 8.8                                                           | 8.9                                                           | 19.6                                                      |
| Adjusted basic earnings per share                        | 8.8                                                           | 9.4                                                           | 20.4                                                      |
| Diluted earnings per share                               | 8.8                                                           | 8.9                                                           | 19.6                                                      |
| Adjusted diluted earnings per share                      | 8.8                                                           | 9.4                                                           | 20.4                                                      |

10. NON-CURRENT ASSETS (Unaudited)

|                                  | Property, plant and<br>equipment<br>£000 | Intangible assets<br>£000 |
|----------------------------------|------------------------------------------|---------------------------|
| <b>Balance at 1 January 2018</b> | <b>31,167</b>                            | <b>19,431</b>             |
| Additions                        | 2,963                                    | 175                       |
| Transfers                        | (365)                                    | 365                       |
| Depreciation and amortisation    | (2,657)                                  | (771)                     |
| <b>Balance at 30 June 2018</b>   | <b>31,108</b>                            | <b>19,200</b>             |

11. RECONCILIATION OF PROFIT AFTER TAX TO CASH GENERATED FROM OPERATIONS

|                                                 | Six months<br>ended<br>30 June<br>2018<br>£000<br>(Unaudited) | Six months<br>ended<br>30 June<br>2017<br>£000<br>(Unaudited) | Year<br>ended<br>31 December<br>2017<br>£000<br>(Audited) |
|-------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------|
| <b>Profit after tax</b>                         | <b>8,824</b>                                                  | <b>8,924</b>                                                  | <b>19,642</b>                                             |
| Taxation                                        | 1,690                                                         | 1,883                                                         | 4,019                                                     |
| Finance expense                                 | 270                                                           | 282                                                           | 553                                                       |
| <b>Operating profit</b>                         | <b>10,784</b>                                                 | <b>11,089</b>                                                 | <b>24,214</b>                                             |
| Adjustments for:                                |                                                               |                                                               |                                                           |
| Depreciation of property, plant and equipment   | 2,657                                                         | 2,507                                                         | 5,119                                                     |
| Amortisation of intangible assets               | 771                                                           | 805                                                           | 1,558                                                     |
| Profit on sale of property, plant and equipment | (24)                                                          | -                                                             | (51)                                                      |
| Share-based payments                            | 199                                                           | 289                                                           | 260                                                       |
| Increase in inventories                         | (2,809)                                                       | (2,541)                                                       | (2,789)                                                   |
| Increase in trade and other receivables         | (8,644)                                                       | (5,821)                                                       | (3,057)                                                   |
| Increase in trade and other payables            | 6,790                                                         | 6,461                                                         | 3,221                                                     |
| Decrease in provisions                          | (26)                                                          | (112)                                                         | (549)                                                     |
| <b>Cash generated from operations</b>           | <b>9,698</b>                                                  | <b>12,677</b>                                                 | <b>27,926</b>                                             |

## 12. RELATED PARTY TRANSACTIONS

The remuneration of Executive and Non-executive Directors is disclosed in the 2017 Annual Report.

### Transactions with key management personnel

Kalverboer Management UK LLP is controlled by P H L Kalverboer, a Director of Eurocell plc. Kellmann Recruitment Limited is controlled by T Kelly, a close family member of M Kelly who is a Director of Eurocell plc.

|                                                     | Six months<br>ended<br>30 June<br>2018<br>£000<br>(Unaudited) | Six months<br>ended<br>30 June<br>2017<br>£000<br>(Unaudited) | Year<br>ended<br>31 December<br>2017<br>£000<br>(Audited) |
|-----------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------|
| Kellmann Recruitment Limited – recruitment services | 10                                                            | -                                                             | 84                                                        |
| Kalverboer Management UK LLP – management services  | 20                                                            | 20                                                            | 40                                                        |

The following balances are outstanding at the period end:

|                                                     | Six months<br>ended<br>30 June<br>2018<br>£000<br>(Unaudited) | Six months<br>ended<br>30 June<br>2017<br>£000<br>(Unaudited) | Year<br>ended<br>31 December<br>2017<br>£000<br>(Audited) |
|-----------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------|
| Kellmann Recruitment Limited – recruitment services | 4                                                             | -                                                             | 13                                                        |
| Kalverboer Management UK LLP – management services  | 10                                                            | 10                                                            | 10                                                        |

## 13. EVENTS AFTER THE BALANCE SHEET DATE

On 1 August 2018 the Group acquired 95% of the ordinary share capital of Ecoplas, a recycler of PVC windows, for an initial consideration of £5.0m, satisfied in cash. Further consideration of up to £1.0m will be paid for the final 5% of the ordinary share capital of the company in three to five years' time, contingent upon future performance.

## 14. SEASONALITY

The Group is affected by seasonality. Demand in the second half of the year is usually higher than in the first half, with September to November typically representing the peak sales period for the Group in the RMI market. In addition, the Group's sales to the new build market are usually slower during the first quarter of the year.

The Group expects there will be greater than normal phasing of profit for 2018 to the second half, due largely to the timing of the branch opening programme and selling price increases implemented at the end of 2017.



## **INDEPENDENT REVIEW REPORT TO EUROCELL PLC REPORT ON THE HALF YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **Our conclusion**

We have reviewed Eurocell plc's half year condensed consolidated financial statements (the "interim financial statements") in the half-year report of Eurocell plc for the six month period ended 30 June 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

### **What we have reviewed**

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 30 June 2018;
- the condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated cash flow statement for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half-year report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### **Responsibilities for the interim financial statements and the review**

#### *Our responsibilities and those of the Directors*

The half-year report, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-year report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half-year report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### *What a review of interim financial statements involves*

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half-year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

### **PricewaterhouseCoopers LLP**

Chartered Accountants

Birmingham

1 August 2018