15 March 2019

EUROCELL PLC (Symbol: ECEL)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Good progress with strategic priorities and strong sales performance

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

	2018	2017	Change
Key financial performance measures			
Revenue (£ million)	253.7	224.9	13%
Gross margin %	49.5%	51.0%	(1.5)%
Adjusted EBITDA (£ million) (1) (4)	30.3	31.7	(4)%
Adjusted basic earnings per share (pence) (2)	19.1	20.4	(6)%
Total dividends per share (pence)	9.3	9.0	3%
Net debt (£ million) (3)	23.5	14.5	(£9.0)m
Other statutory accounting measures			
Profit before tax (£ million)	22.1	23.7	(7)%
Basic earnings per share (pence)	19.6	19.6	-%

Strategic Highlights

- Continuing to gain market share – now the largest supplier of rigid profile to the UK market
- Expanding branch network – now 202 sites
- Increasing use of recycled material – acquisition of Ecoplas consolidates position as leading UK recycler of PVC windows

Financial and Operational Highlights

- Strong sales growth of 13% (12% excluding acquisitions)
- Sales growth and mix changes exceeded capacity, impacting manufacturing efficiency and customer service
- Gross margin and EBITDA therefore down, as anticipated
- Action taken to expand production capacity and strengthen operational teams
- Customer service now normalised – implementing selling price increases in 2019

Mark Kelly, Chief Executive of Eurocell plc said:

"We made good progress with our strategic priorities in 2018, delivering further gains in market share and continued investment in the growth of our business, both organically and through acquisitions.

"Strong sales growth exceeded our manufacturing capacity, both in terms of volume and mix. This challenged our production and distribution activities, impacting on manufacturing efficiency in the short-term.

"We implemented mitigating actions in response to increased demand and to preserve customer service and we are pleased with the results. This included strengthening operational teams and launching a substantial capex programme to bring forward planned capacity increases.

"As a result of these actions, we are now well on track to build the capacity required for future growth, much earlier than previously planned. We have made a good start to 2019, with sales and margins for the first two months in line with expectations, and notwithstanding macroeconomic and political uncertainty, remain confident about the outlook for the year."

NOTES FOR ANALYSTS AND EDITORS

Financial Review

- Revenue growth of 12% (excluding acquisitions) includes:
  - Like-for-like(5) sales growth of 8%
    - Profiles division like-for-like growth of 12%
    - Building Plastics division like-for-like sales growth of 5%
  - Sales from branches opened in 2017 and 2018 of £8.8 million
- Gross margin 49.5% (2017: 51.0%)
  - Impact of capacity constraint on manufacturing efficiency and customer service
    - Increased production and distribution costs
    - Delay in recovering rising input costs via selling price increases until customer service normalised
  - Partially offset by further increased use of recycled material to 9.5kt (2017: 8.3kt)
- Operating costs include the impact of acquisitions and investment in new branches
  - Like-for-like(5) opex increase of 8% includes costs incurred to support customer service
- Tax rate on adjusted profit before tax of 14.7% (2017: 16.7%) includes the benefit of Patent Box(6) relief
- Capital investment of £8.7 million (2017: £7.5 million)
  - 2019 capex guidance of c.£15m, includes substantial investments to expand capacity in manufacturing and recycling
- Final dividend of 6.2 pence per share (2017: 6.0 pence per share)

Business Review

- Strong growth and mix changes in Profiles
  - 17 new fabricator account wins in Profiles (2017: 25), along with good performance in new build and trade fabricators
  - Co-extruded and foiled products up c.20% and c.30% year-on-year respectively
- Continued investment in branch network expansion
  - 8 new sites opened in 2018 (2017: 31)
  - 4 branches added via acquisition of Kent Building Plastics in December, for an initial consideration of £2.8 million
  - New management team driving operational standards
- 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 £5.1 million for 95% of shares; remaining 5% under option
- Strong balance sheet – bank refinancing completed in December
  - New £60 million facility (up from £45 million) – competitively priced with margin and key terms unchanged
  - Leverage at year end of 0.8x EBITDA

Notes:

(1) Adjusted EBITDA represents profit before interest, tax, depreciation and amortisation, and non-underlying expenses.

(2) Adjusted basic earnings per share excludes non-underlying expenses and the related tax effect, and other non-underlying tax items.

(3) Net debt is cash and cash equivalents less borrowings.

(4) Non-underlying expenses for 2018 of £0.4 million include professional fees related to completed acquisitions, as well as unamortised fees from our previous bank facility, expensed (as a finance cost) following the refinancing in December 2018. Non-underlying expenses for 2017 of £0.8 million include professional fees and earn out costs related to completed acquisitions, as well as the redundancy and settlement costs of a staff reorganisation.

The non-underlying tax credit for 2018 is £0.8 million (2017: £0.1 million). Non-underlying tax for both years includes the tax associated with non-underlying expenses and in 2018 includes the benefit of a second Patent Box claim in the period.

(5) Like-for-like sales and operating costs exclude acquisitions and branches opened in 2017 and 2018.

(6) An HMRC approved scheme, allowing a 10% tax rate on profits derived from products that incorporate patents.

Analyst presentation

There will be an analyst presentation at 9am today at Canaccord Genuity, 88 Wood Street London, EC2V 7QR. The presentation will also be accessible via a live conference call for registered participants.

To register for the call please contact Teneo by email on eurocell@teneo.com.

CHAIRMAN'S STATEMENT

In 2018 we made good progress with our strategic priorities. In particular, we continued to take market share in all areas of the business, and in so doing we believe we became the largest supplier of rigid PVC profile to the UK market. The acquisition of Ecoplas represents a major step forward in our plans to place recycling at the heart of our operation and enhance the sustainability of our business.

Financial and operating performance

We delivered strong sales growth across the Group, with revenue up 13% on last year (12% excluding acquisitions).

However, the combination of strong sales growth and larger than expected mix changes resulted in volumes above the immediately available manufacturing capacity. This impacted negatively on the efficiency of our manufacturing operations, leading to increased costs, and on customer service, thereby delaying our ability to recover input cost inflation with selling price increases.

As a result, despite strong sales growth, we delivered adjusted EBITDA of £30.3 million, down 4% on last year. Reported profit before tax of £22.1 million was down 7%. We have already taken action to address these matters, with more to follow in 2019.

Cash conversion was impacted by investment in working capital to support growth and a stock build programme to help mitigate the risk of disruption from Brexit. Operating cash flow was £21.7 million (2017: £28.3 million).

We completed two acquisitions in 2018 for total initial consideration of approximately £8 million. Ecoplas, a recycler of PVC windows, provides the foundation to continue increasing the use of recycled materials in our manufacturing operations. Kent Building Plastics, a distributor with 4 branches in the south-west, presents an opportunity to expand our presence in that important region. I am delighted to welcome both companies to the Group.

In December, we were pleased to execute a refinancing of our banking arrangements, with a new revolving credit facility of £60 million (up from £45 million). Net debt at year end was £23.5 million (31 December 2017: £14.5 million). We have a strong balance sheet which provides flexibility and options for the future.

Strategy

In January 2019, we conducted our annual review of the Company's strategy and the fundamental elements of our markets and activities. At the conclusion of this process, we reaffirmed that 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. We made good progress with each of these priorities during 2018, with the key aspects of our performance described in the Chief Executive's Review.

Looking forward, whilst we will continue to develop each of these areas, our primary focus in 2019 will be on self-help initiatives to support delivery of our near-term profit targets. This includes further capital investment to expand the capacity of our extrusion and recycling plants and to improve manufacturing efficiency, as well as implementing selling price increases to recover cost inflation.

Board changes

Patrick Kalverboer has advised of his intention to step down from the Board at the upcoming AGM. I would like to thank Patrick for his enormous contribution to the Group over the last five years, particularly for the important role he played in our successful IPO in 2015 and subsequently in shaping the strategy of the business.

I was delighted to welcome Sucheta Govil to the Board in October. Her wealth of commercial and marketing experience from a wide range of companies and industries will provide real value as we continue to progress our strategic priorities.

I am comfortable that the composition of the Board provides an appropriate balance of skills, experience, independence and knowledge to take the business through the next stages of its development.

Governance

As a Board, we are committed to the highest standards of corporate governance and ensuring effective communication with shareholders. We continue to comply with the UK Corporate Governance Code.

Dividends

We paid an interim dividend of 3.1 pence per share. The Board proposes a final dividend of 6.2 pence per share, resulting in total dividends for the year of 9.3 pence per share, representing growth of 3%.

People

The progress we have made in 2018 is a direct result of the hard work and dedication of our teams in every part of our business. On behalf of shareholders and of the Board, I offer our sincere thanks.

Bob Lawson
Chairman

CHIEF EXECUTIVE'S REVIEW

INTRODUCTION

We made good progress with our strategic priorities in 2018, delivering further gains in market share and continued investment in the growth of our business, both organically and through acquisitions.

Strong sales growth exceeded our manufacturing capacity, both in terms of volume and mix. This challenged our production and distribution activities, impacting on manufacturing efficiency in the short-term.

We implemented mitigating actions in response to increased demand and to preserve customer service and we are pleased with the results. This included strengthening operational teams and launching a substantial capex programme to bring forward planned capacity increases.

As a result of these actions, we are now well on track to build the capacity required for future growth, much earlier than previously planned.

FINANCIAL PERFORMANCE

The Construction Products Association Winter 2018 update (published January 2019) reported on a flat Repairs, Maintenance and Improvements ('RMI') market, with Brexit-related uncertainty intensifying. Against this backdrop, I am pleased to report that we delivered strong sales growth throughout all areas of the business, with revenue for the year up 12% (excluding acquisitions).

Growth reflects a good performance from the new build and trade frame fabricators alike, as well as the positive impact of new account wins in Profiles, and the increasing maturity of branches opened recently in Building Plastics. I should note that some of our market share gains arose through the ongoing weakness of specific competitors, and that none came through price leverage.

We have also experienced larger than expected changes in mix, particularly with sales of co-extruded and foiled products.

However, the combination of strong growth and significant mix changes resulted in production capacity constraints. This impacted negatively on manufacturing efficiency, leading to increased production and distribution costs. Customer service was also affected, with a high backlog of unfulfilled sales orders arising during the busy Autumn period. Therefore, whilst we experienced rising input costs in some areas, including electricity, we were unable to recover all of these through selling price increases until service levels returned to normal.

As a result, despite strong sales growth, adjusted EBITDA was lower at £30.3 million (2017: £31.7 million) and reported profit before tax was £22.1 million (2017: £23.7 million).

In response to these manufacturing conditions we have already taken action to expand the capacity of our operations and improve production efficiency, with more to follow in 2019. We have also strengthened the operational teams in key areas. In addition, with customer service now back to normal levels, we are implementing selling price increases across the business in H1 2019.

OPERATIONAL PERFORMANCE

Health and safety

The safety and well-being of our employees and contractors is our first operational priority. We continue to maintain good health and safety performance, with no major injuries and 9 minor accidents (2017: 16) recorded under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDOR').

Our Lost Time Injury Frequency Rate was 0.9 in 2018, compared to 1.4 in 2017.

Production

In 2018 we manufactured a record output of 49.8k tonnes of rigid and foam PVC profiles at our primary extrusion facilities, up from 44.4k tonnes in 2017, an increase of 12%.

This increase in tonnage included a sharp and sustained uplift in demand from Q2 onwards and a significant mix change towards co-extruded and foiled products. This resulted in the depletion of safety stocks and a shortage in co-extrusion production capacity, which was compounded by two co-extrusion lines being out of service for an extended period in Q2. Further, we were unable to quickly secure sufficient additional skilled labour to meet high demand in the foiling plant.

The associated increase in manufacturing costs was a significant driver of a reduction in our gross margin in 2018. This includes the impact of running the plant at very high levels of utilisation (thereby foregoing routine maintenance and driving down Overall Equipment Effectiveness ('OEE')), making products with 100% virgin resin that would ordinarily include recycled material and increased levels of scrap.

Overheads were also impacted, primarily by costs incurred to clear the sales order backlog. This included overtime and weekend working, particularly in foiling, and higher warehouse and distribution costs incurred to fulfil large quantities of low value overdue deliveries, as we worked to minimise disruption to our customers by increasing the frequency of deliveries.

We have already taken action to expand the capacity of our extrusion and recycling plants and to improve manufacturing efficiency.

In H2 2018 we increased co-extrusion capacity by c.25%, including capital investment in 4 new lines which all entered service in the second half. We also secured further recycled material for use in the co-extrusion process through the acquisition of Ecoplas in August (see below) and recruited additional trained labour resource for our foiling plant.

In the light of on-going strong demand for co-extruded products, our plans for 2019 include investment in a further 30% capacity (another 5 lines). We also intend to increase foam capacity by c.15% (3 new lines). Finally, we are investing in new co-extrusion and other tooling, to support the increased capacity on key products.

Together these 2019 investments are expected to cost in the region of £5 million. We believe they will secure production of planned 2019/20 volumes at improved levels of plant utilisation and much better factory efficiency. This will also enable increased preventative maintenance on plant and tooling, and thereby help to optimise OEE and scrap levels.

Recycling

I am pleased to report that in 2018 we used 9.5k tonnes of recycled PVC compound alongside virgin resin in the manufacture of co-extruded rigid profiles, up from 8.3k tonnes in 2017. This increase in usage has been delivered through the expansion of our recycling facility in Ilkeston.

Significant raw material cost inflation 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.

Therefore, the project to increase capacity at the Ilkeston site continues. Between 2016 and 2018 we invested approximately £3 million to more than double usage in primary extrusion from 4.1k tonnes of material consumption in 2015 to 9.5k tonnes in 2018, driving a substantial saving compared to the cost of using virgin material.

With the further investment to expand capacity at the site of approximately £1 million planned for 2019, we expect usage to increase by another 1k tonnes.

Acquisition of Ecoplas

We identified early in 2018 that the combination of planned growth in our business and developments in extrusion tooling could result in our demand for recycled material being greater than our 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 for waste material.

We were therefore very pleased to complete the acquisition of Ecoplas in August. Ecoplas is a recycler of PVC windows, operating from a single site near Selby, North Yorkshire. The operation is similar to our Ilkeston site. Output at the time of acquisition was approximately 7k tonnes of recycled compound per annum, sold into a broad mix of trade extruders. The initial net consideration was £5 million. Further details on the financial aspects of the transaction are included in the Group Financial Review.

As expected, capital investment is required to improve the operating environment and reliability of the Ecoplas plant, to eliminate bottlenecks from production processes and to expand capacity. We invested approximately £0.3 million in H2 2018, with a further c.£2 million to follow in 2019. We have also accelerated investment for co-extrusion tooling for our primary manufacturing facility.

In terms of material usage, following these investments, with increased capacity we should consume approximately 2k tonnes of recycled compound from Ecoplas in our primary extrusion processes in 2019. Combined with an additional 1k tonnes from Ilkeston in 2019, we expect total usage to increase to approximately 12.5k tonnes in 2019, representing more than 20% of material consumption.

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 at the heart of our business and I am delighted to welcome the Ecoplas team to the Group.

STRATEGIC PRIORITIES

Our overall strategic objective is 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 and we are making good progress with all of them. The key aspects are detailed below.

Increase the use of recycled materials

Our objective is for recycling to be at the heart of our operation. The work to increase the use of recycled materials in our primary extrusion manufacturing processes is becoming even more important. We realise cost savings from using recycled material instead of virgin compound, support the changing mix towards demand for co-extruded products and, importantly, improve the sustainability of our business. I was therefore delighted to see that in 2018, we recycled more than 1.5 million window frames.

For 2019, our immediate priorities are the projects to expand the capacity and improve the reliability at our two recycling plants. Beyond that, we will continue to evaluate opportunities to increase further our recycling capacity in the years ahead.

Target growth in market share

Our aim is to increase our share of the PVC profiles market.

In order to deliver the incremental volume, we have been targeting the new build, commercial and public sectors, as well as a number of larger trade fabricators. In doing so, we emphasise why Eurocell is different: we have a strong single brand, good customer service and a leading recycling capability, all of which are attractive to customers.

We have made increasingly good progress with this objective over the last three years, recording organic sales growth in the Profiles division of 4%, 6% and 12% for 2016, 2017 and 2018 respectively. New account wins have been key to this growth, and we were delighted to see D&G Consulting’s latest study (published December 2018) identifying Eurocell as the largest supplier of rigid PVC profile to the UK market.

Expand our branch network

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.

We have made good progress here too, with organic sales growth in the Building Plastics division of 15%, 9% and 11% for 2016, 2017 and 2018 respectively. This growth has been underpinned by new branches, with a total of 57 (excluding acquisitions) opened over the last three years and a total estate now in excess of 200 sites.

Tony Smith, who led the Building Plastics division for over 25 years, retired from the business last year. Tony made a huge contribution to the Group, having overseen a period of tremendous growth, and he leaves with our very best wishes. Andy McDonnell took over from Tony in September. Andy joined from Oak Furniture Land and, prior to that, B&Q where he was instrumental in the successful development of the TradePoint proposition and operating division.

Andy has brought a strong senior team with him. Following an initial review, the team has now reaffirmed that our overall strategic objective for Building Plastics remains to deliver world-class operations from up to 350 sites. Two key pillars of this strategy are to improve existing branch profitability and to grow market share profitably.

To improve existing profitability, we will introduce a more rigid pricing architecture, revised field sales and account management structures, better stock availability and trials of new front-of-house and product displays. We will continue the drive towards a more consistent offering across the stores, with enhanced training to ensure all staff have the ability to sell our full range of products. We are also implementing a profit improvement plan template for the lowest performing branches.

We expect to grow market share profitably through a combination of organic branch openings and acquisitions, underpinned by data-driven decision-making. For example, sites for new branches will be selected using location analysis tools and potential branch acquisitions identified by the opportunity to deliver superior financial returns compared to the organic alternative in specific regions.

In 2019 our principal focus in Building Plastics will be to improve the profitability of the division to support delivery of the near-term profit targets for the Group. Therefore, this year we expect the number of organic openings to be low.

In summary, the new team has made an excellent start, and I am confident that we have the right leadership to take Building Plastics through the next stage of its development.

Develop innovative new products

We are committed to maintaining market leadership by offering the very latest in product improvement, both through development of existing products and the introduction of new ones. We work closely with our customers on development and to help maintain our product pipeline.

Highlights include:

- ***Coastline*** – *A* weatherproof, lightweight composite cladding material for use primarily on coastal properties. Coastline is made from a unique new composite material, which undergoes minimal contraction/expansion in different weather conditions. It is very resilient, but still easy for fitters to work with.
- ***Skypod*** – Following the success of Skypod, we launched a number of improvements to the range in 2018. The improved product allows for easier assembly and fitting, and offers a wider choice of configurations.
- ***Eurologik flush sash*** – Development of a flush sash profile for our popular Eurologik window system, ready for launch early in 2019.

Explore potential bolt-on acquisitions

We completed two acquisitions in 2018 for total initial consideration of approximately £8 million. Ecoplas is described above. We also acquired Kent Building Plastics in December. Kent Building Plastics is a building plastics distributor with 4 branches in the important south-west region. The integration of both businesses is progressing to plan.

We will continue to assess and consider bolt-on acquisition opportunities in the markets in which we operate. Our primary focus is on businesses that add value through geographical or range extension, operational efficiencies, complementary products or to satisfy a make or buy decision.

BREXIT

There is significant uncertainty over the impact of Brexit, be it related to general macroeconomic factors or specific company risks. At Eurocell we have taken a number of steps to protect the business from potential negative effects. In this context, it is worth noting that almost all of our sales are to UK-based customers and that we expect the vast majority of our workforce will have the right to remain and work in the UK post Brexit.

However, some of our key raw materials do originate from Europe, so any disruption in supplies could impact our manufacturing operations. With that in mind, we have now concluded a 6-month PVC resin supply agreement for the period to 31 July 2019, to support continuity of supply for our most critical raw material. In addition, whilst we have only limited capacity to hold excess raw material stocks at our own sites, some of our suppliers have agreed to hold additional inventory on our behalf. We also began a finished stock build towards the end of last year, and have locked in electricity prices for the next 12 months at current market rates. More generally, we refinanced our bank facilities in December, securing additional funding at competitive rates, and have taken out selective credit insurance for large customer accounts.

Therefore, whilst we are not able to predict the impact of Brexit on our business, we have taken sensible steps to help mitigate known risks.

OUTLOOK

We made good progress with our strategic priorities in 2018, delivering further gains in market share and continued investment in the growth of our business. 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.

However, the impact of growth and mix changes on manufacturing efficiency and customer service led to increased costs and lower profits in 2018. We have already taken action, with investments in progress to expand production capacity and improve manufacturing efficiency. We have also strengthened our operational teams in key areas.

Looking ahead, our focus for 2019 will be on completing these investments and on implementing selling price increases. We have made a good start, with sales and margins for the first two months in line with expectations, and notwithstanding macroeconomic and political uncertainty, remain confident about the outlook for the year.

Mark Kelly
Chief Executive Officer

DIVISIONAL REVIEWS

PROFILES

The Profiles division manufactures extruded rigid and foam PVC profiles. We make rigid and foam products using virgin PVC compound, the largest component of which is resin. Our rigid products also include recycled PVC compound, produced at our market-leading recycling facilities.

Rigid PVC profiles are sold to third-party fabricators, who produce windows, trims, cavity closer systems, patio doors and conservatories for installers, retail outlets and house builders. Foam products are used for roofline and are supplied to customers through our nationwide branch network in the Building Plastics division.

As such, all of our manufacturing margin is recorded within the Profiles division, which therefore also benefits from expansion of the branch network.

The Profiles division also includes Vista Panels, S&S Plastics and Ecoplas.

	2018 £m	2017 £m	Change %
Third-party Revenue	**107.7**	**94.2**	**14%**
Organic	105.5	94.2	12%
Ecoplas(1)	2.2	-	n/a
Inter-segmental Revenue	**51.8**	**45.4**	**14%**
Total Revenue	**159.5**	**139.6**	**14%**
Adjusted EBITDA	**22.0**	**23.1**	**(5)%**

(1) Acquired August 2018

Revenue

Third-party revenue was up 14% in 2018 to £107.7 million (2017: £94.2 million), which includes an organic sales increase of 12%. The remaining growth was driven by the acquisition of Ecoplas in August 2018.

Organic growth was delivered consistently across new build and trade fabricators, with new build continuing to represent approximately one-third of rigid profile sales. This growth includes strong contributions from both existing and new accounts. Following the introduction of 25 new accounts in 2017, we added 17 in 2018.

We have been pleased with recent market share gains and we believe that we are now the largest supplier of rigid profile to the UK market. Our dedicated specifications teams have been successful in generating demand, well supported by our ability to supply a comprehensive product range through the fabricator network. As well as windows, this includes composite doors, PVC and aluminium bi-fold doors. We also offer the only 60-minute fire rated cavity closure system on the market, and 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.

For 2019 we have developed, through Security Hardware, a range of hardware to complement our window profile, to be launched shortly. This will enable our fabricator customers to offer a fully-certified common specification of window (including hardware), which will support our sales to the new build market and help grow sales of windows through branches.

Organic sales also includes a strong contribution from Vista Panels, where sales were up 21% on 2017. This was driven by a significant increase in sales of composite doors to the new build sector.

Ecoplas has traded in line with expectations since the acquisition in August.

Adjusted EBITDA

Adjusted EBITDA was £22.0 million (2017: £23.1 million), a decrease of 5%.

Gross margin and EBITDA in the Profiles division are lower in 2018, largely as a result of the manufacturing conditions described in the Chief Executive’s Review, and rising input costs in some areas, including electricity.

In response we have already taken action to expand the capacity of our operations and improve production efficiency, with more to follow in 2019. In addition, with customer service now back to normal levels, we are implementing selling price increases in H1 2019.

BUILDING PLASTICS

Building Plastics distributes a range of Eurocell manufactured and branded PVC foam roofline products and Vista doors, as well as third-party manufactured ancillary products. These include windows made by our fabricator customers using products manufactured by Profiles, sealants, tools and rainwater products.

Distribution is through our national network of 202 branches to installers, small and independent builders, house builders and nationwide maintenance companies. The branches also sell roofline products to independent wholesalers.

The Building Plastics division includes Security Hardware, acquired in February 2017, and Kent Building Plastics, acquired in December 2018. Security Hardware is a supplier of locks and hardware, primarily to the RMI market, and Kent Building Plastics is a supplier of building plastic materials in the south-west of England.

	2018 £m	2017 £m	Change %
Third-party Revenue	146.0	130.7	12%
Organic	142.6	128.2	11%
Security Hardware(1)	3.1	2.5	21%
Kent Building Plastics(2)	0.3	-	n/a
Inter-segmental Revenue	**1.3**	**1.1**	**15%**
Total Revenue	**147.3**	**131.8**	**12%**
Adjusted EBITDA	**8.4**	**8.6**	**(2)%**

(1) Acquired February 2017
(2) Acquired December 2018

Revenue

Building Plastics third-party revenue was up 12% to £146.0m (2017: £130.7m). We have continued to gain market share with growth comprised of an increase in like-for-like sales of 5%, as well as the impact of branch openings and the acquisitions of Security Hardware and Kent Building Plastics.

Like-for-like sales includes growth from branches opened in 2016 and prior. 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 opened 8 new sites in 2018, compared to 31 in 2017. We added a further 4 branches in December via the acquisition of Kent Building Plastics, making a total of 12 new sites for the year. We now have an estate of 202 branches providing national coverage across the UK, which offers a significant competitive advantage. Branches opened in 2017/18 added £8.8 million to sales in 2018.

Security Hardware is performing in line with our expectations. Kent Building Plastics was acquired in December 2018. The integration of both is progressing to plan.

Adjusted EBITDA

Adjusted EBITDA for 2018 was £8.4 million (2017: £8.6 million), a decrease of 2%.

Gross margin and EBITDA in the Building Plastics division are lower in 2018. We experienced cost inflation in certain areas last year, as well as some general margin erosion and a change in mix (e.g. higher sales growth in lower-margin traded goods). However, whilst we realised some selling price increases, because the manufacturing conditions described in the Chief Executive’s Review impacted on customer service, we were unable to recover all of the cost inflation we experienced. With customer service now back to normal, we are implementing selling price increases in H1 2019.

Higher overheads in Building Plastics includes the impact of new branches in 2017/18. New branches are a key driver of future sales and profit growth, but they do create downward pressure on profitability in the short-term due to investment in our teams at new sites and in supporting central infrastructure.

We estimate that the investment in 39 new branches in 2017/18 created a drag on EBITDA of approximately £1.5 million in 2018, which is a similar level to 2017.

When the branches opened in the last two years mature, we expect a good improvement in performance for the division. We continue to believe new branches should reach a break-even run rate before their second anniversary, and be mature in 4-5 years.

We are making progress with initiatives to improve profits in Building Plastics, including the introduction of a more rigid pricing architecture, revised sales and account management structures and better stock availability. We are also continuing the drive towards a more consistent offering across the stores, demonstrated with sales of made-to-order value added products (e.g. windows and doors) through branches up 16% in 2018.

Following the retirement of Tony Smith in 2018, we now have a new management team in Building Plastics. The team has reaffirmed that our overall strategic objective for the division remains to provide world-class operations from up to 350 sites. However, in 2019 our principal focus will be to improve the profitability of Building Plastics to support delivery of the near-term profit targets for the Group. Therefore, this year we expect the number of organic openings to be low.

GROUP FINANCIAL REVIEW

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

(1) See adjusted profit measures

Revenue

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

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

Gross margin

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

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

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

Distribution costs and administrative expenses (overheads)

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

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

Depreciation and amortisation

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

Finance costs

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

Adjusted profit measures

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

Adjusted profit after tax and adjusted earnings per share exclude non-underlying expenses, the related tax effect and any other non-underlying tax items.

We classify some material items of income and expense as non-underlying when the nature and infrequency merit separate presentation. Alongside statutory measures, this facilitates a better understanding of financial performance and comparison with prior periods.

Non-underlying items

Non-underlying expenses for 2018 of £0.4 million include professional fees related to the acquisitions of Ecoplas and Kent Building Plastics, as well as unamortised arrangement fees from our previous bank facility now expensed following the refinancing in December 2018. Non-underlying expenses for 2017 of £0.8 million include professional fees and earn-out costs related to the acquisition of Security Hardware, as well as the redundancy and settlement costs of a staff reorganisation.

Non-underlying tax for both years includes the tax associated with non-underlying expenses. Non-underlying tax for 2018 also includes the benefit of a second Patent Box claim in the period (£0.9m).

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

Tax

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

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

Earnings per share

Taking into account all of the factors described above, adjusted basic earnings per share for 2018 were 19.1 pence per share (2017: 20.4 pence per share). Reported basic earnings per share for 2018 were 19.6 pence per share (2016: 19.6 pence per share).

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

Acquisitions

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

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

We also acquired Kent Building Plastics in December 2018 for an initial consideration of £2.8 million. Both acquisitions were financed out of our existing bank facility. Their impact on Group earnings for 2018 was not material, but looking forward we expect returns for both to exceed our cost of capital and earnings to be accretive in their first full year.

Dividends

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

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

Retained earnings as at 31 December 2018 were £57.2 million (2017: £46.7 million). The Company takes steps to ensure distributable reserves are maintained at an appropriate level through intra-Group dividend flows.

Capital expenditure

Capital expenditure for 2018 was £8.7 million (2017: £7.5 million).

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

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

Cash flow

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

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

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

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

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

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

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

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

Net debt (£000)

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

Bank facility

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

Michael Scott
Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

		Year ended 31 December 2018			**Year ended 31 December 2017**		
	Note	**Underlying £000**	**Non-underlying* £000**	**Total £000**	**Underlying £000**	**Non-underlying* £000**	**Total £000**
Revenue	3	**253,691**	**–**	**253,691**	**224,906**	**–**	**224,906**
Cost of sales		(128,108)	–	(128,108)	(110,282)	–	(110,282)
Gross profit		**125,583**	**–**	**125,583**	**114,624**	**–**	**114,624**
Distribution costs		(18,507)	–	(18,507)	(17,254)	–	(17,254)
Administrative expenses		(83,864)	(326)	(84,190)	(72,313)	(843)	(73,156)
Operating profit		**23,212**	**(326)**	**22,886**	**25,057**	**(843)**	**24,214**
Finance expense		(705)	(88)	(793)	(553)	–	(553)
Profit before tax	3	**22,507**	**(414)**	**22,093**	**24,504**	**(843)**	**23,661**
Taxation	4	(3,319)	845	(2,474)	(4,089)	70	(4,019)
Profit for the year		**19,188**	**431**	**19,619**	**20,415**	**(773)**	**19,642**
Basic earnings per share	5	**19.1p**		**19.6p**	**20.4p**		**19.6p**
Diluted earnings per share	5	**19.1p**		**19.5p**	**20.4p**		**19.6p**

* Non-underlying items are detailed in Note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	2018 £000	2017 £000
Assets		
Non-current assets		
Property, plant and equipment	35,003	31,167
Intangible assets	27,795	19,431
Total non-current assets	**62,798**	**50,598**
Current assets		
Inventories	28,323	21,094
Trade and other receivables	40,311	31,578
Cash and cash equivalents	5,862	11,361
Total current assets	**74,496**	**64,033**
Total assets	**137,294**	**114,631**
Liabilities		
Current liabilities		
Trade and other payables	(41,303)	(33,011)
Provisions	(492)	(405)
Corporation tax	(1,162)	(2,448)
Total current liabilities	**(42,957)**	**(35,864)**
Non-current liabilities		
Borrowings	(29,376)	(25,851)
Trade and other payables	(1,230)	(718)
Provisions	(1,141)	(654)
Deferred tax	(2,502)	(2,170)
Total non-current liabilities	**(34,249)**	**(29,393)**
Total liabilities	**(77,206)**	**(65,257)**
Net assets	**60,088**	**49,374**
Equity attributable to equity holders of the Parent		
Share capital	100	100
Share premium account	2,381	2,104
Share-based payment reserve	416	480
Retained earnings	57,191	46,690
Total equity	**60,088**	**49,374**

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2018

	Note	**Year ended 31 December 2018 £000**	Year ended 31 December 2017 £000
Cash generated from operations	7	**21,676**	**28,280**
Income taxes paid		(3,981)	(4,557)
Net cash generated from operating activities		**17,695**	**23,723**
Investing activities			
Acquisition of subsidiaries (net of cash acquired)	8	(7,168)	(1,260)
Purchase of property, plant and equipment		(8,380)	(7,068)
Sale of property, plant and equipment		39	15
Purchase of intangible assets		(362)	(413)
Net cash used in investing activities		**(15,871)**	**(8,726)**
Financing activities			
Proceeds from bank borrowings		30,000	–
Repayment of bank and other borrowings		(27,126)	(42)
Finance expense paid		(1,079)	(449)
Dividends paid to equity Shareholders	6	(9,118)	(8,704)
Net cash used in financing activities		**(7,323)**	**(9,195)**
Net (decrease)/increase in cash and cash equivalents		**(5,499)**	**5,802**
Cash and cash equivalents at beginning of year		11,361	5,559
Cash and cash equivalents at end of year		**5,862**	**11,361**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital £000	Share premium account £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018	**100**	**2,104**	**480**	**46,690**	**49,374**
Comprehensive income for the year					
Profit for the year	–	–	–	19,619	19,619
Total comprehensive income for the year	**–**	**–**	**–**	**19,619**	**19,619**
Contributions by and distributions to owners					
Exercise of share options	–	277	(277)	–	–
Share-based payments	–	–	249	–	249
Deferred tax on share-based payments	–	–	(36)	–	(36)
Dividends paid	–	–	–	(9,118)	(9,118)
Total transactions with owners recognised directly in equity	**–**	**277**	**(64)**	**(9,118)**	**(8,905)**
Balance at 31 December 2018	**100**	**2,381**	**416**	**57,191**	**60,088**

	Share capital £000	Share premium account £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	**100**	**1,926**	**348**	**35,752**	**38,126**
Comprehensive income for the year					
Profit for the year	–	–	–	19,642	19,642
Total comprehensive income for the year	**–**	**–**	**–**	**19,642**	**19,642**
Contributions by and distributions to owners					
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)
Total transactions with owners recognised directly in equity	**–**	**178**	**132**	**(8,704)**	**(8,394)**
Balance at 31 December 2017	**100**	**2,104**	**480**	**46,690**	**49,374**

1 BASIS OF PREPARATION

The financial information for the year ended 31 December 2018 was approved by the Board on 14 March 2019. This financial information does not constitute the statutory accounts of the Company within the meaning of Section 435 of the Companies Act 2006, but is derived from those accounts, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use by the European Union.

This information has been prepared under the historical cost method, using all standards and interpretations required for financial periods beginning 1 January 2018. No standards or interpretations have been adopted before the required implementation date.

Statutory accounts for the year ended 31 December 2017 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2018 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The auditors have reported on those accounts. Their reports were not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

New accounting standards

In 2018 the Group changed its accounting policies in respect of revenue recognition and impairment of financial assets following the adoption of IFRS 9 and IFRS 15, with no material impact on the Financial Statements.

Certain new standards and interpretations have been issued but are not yet effective (and in some cases not yet approved by the EU) for the year ended 31 December 2018. With the exception of IFRS 16, none of these standards are expected to have a material impact on the Group's future Financial Statements.

IFRS 16 Leases (effective from 1 January 2019) removes the distinction between operating and finance leases, and requires most leases to be brought on to the balance sheet. The standard 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.

In adopting this standard the Group intends to apply the Modified Retrospective transition approach. As a result, on 1 January 2019 the Group will recognise additional non-current assets and lease liabilities of c.£35 million, with additional depreciation of c.£9 million and finance costs of c.£1m million being incurred in the first year of adoption, offset by a corresponding reduction in administrative costs of c.£9 million. Operating cash flows will increase, and financing cash flows decrease, by c.£8 million, due to the repayment of the principal portion of lease liabilities being classified as cash flows from financing activities.

2 NON-UNDERLYING ITEMS

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

	2018 £000	2017 £000
Acquisition-related costs	**326**	414
Redundancy and settlement costs	**–**	361
HSE penalty	**–**	68
Non-underlying operating expenses	**326**	843
Finance expense – unamortised prepaid arrangement fees	**88**	–
Total non-underlying expenses	**414**	843
Tax on non-underlying expenses	**7**	(70)
Benefit of second Patent Box claim in the year	**(852)**	–
Taxation	**(845)**	(70)
Impact on profit after tax	**(431)**	773

Operating expenses

Expenses arising from the acquisition of subsidiary undertakings are classified as non-underlying due to the fact that they relate solely to the transfer of ownership rather than ongoing operations. All of the £326,000 acquisition costs (2017: £92,000) relate to professional fees and transaction costs incurred in respect of completed acquisitions and none (2017: £322,000) relate to contingent consideration which is dependent upon continued employment.

In 2017, redundancy and settlement costs of £361,000 related to a reorganisation of the production function in the Profiles division and were classified as non-underlying because they related to termination costs for positions that no longer existed. The 2017 penalty of £68,000 related to a fine imposed by the Health and Safety Executive ('HSE') following their prosecution of the Company in respect of an accident incurred in August 2016. The penalty was classified as non-underlying because such costs are not in the normal course of business and were not expected to recur in the foreseeable future.

Finance expense

In December 2018 the Group refinanced, cancelling its £45 million Revolving Credit Facility ('RCF') and replacing it with a new £60 million RCF. As a result of this extinguishment, unamortised prepaid arrangement fees relating to the existing facility were expensed to the Consolidated Statement of Comprehensive Income. This gave rise to an additional finance expense of £88,000, which has been classified as non-underlying because it does not relate to the Group's ongoing financing arrangements.

Taxation

Non-underlying items includes a tax charge on non-underlying items of £7,000 (2017: credit of £70,000). It also includes the benefit of a second Patent Box claim. The Group makes annual claims for tax relief under HMRC's Patent Box legislation. In 2018, the Group filed claims in respect of the years ended 31 December 2016 and 31 December 2017, realising a total benefit of £1,820,000 in cash tax. The benefit of the second claim (£852,000) is presented as non-underlying because the Group typically makes only one claim in each financial year.

3 SEGMENTAL 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 operating segments 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 – extrusion and sale of PVC window and building products to the new and replacement window market across the UK. This segment includes Vista Panels, S&S Plastics and Ecoplas.
- Building Plastics – sale of building plastic materials across the UK. This segment includes Security Hardware and Kent Building Plastics.

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

	Profiles 2018 £000	Building Plastics 2018 £000	Corporate 2018 £000	Total 2018 £000
Revenue				
Total revenue	159,496	147,345	–	306,841
Inter-segmental revenue	(51,768)	(1,382)	–	(53,150)
Total revenue from external customers	**107,728**	**145,963**	**–**	**253,691**
Adjusted EBITDA	**22,008**	**8,394**	**(95)**	**30,307**
Amortisation	(158)	(53)	(1,403)	(1,614)
Depreciation	(4,074)	(908)	(499)	(5,481)
Operating profit before non-underlying expenses	**17,776**	**7,433**	**(1,997)**	**23,212**
Non-underlying expenses				(326)
Finance expense				(793)
Profit before tax				**22,093**

	Profiles 2017 £000	Building Plastics 2017 £000	Corporate 2017 £000	Total 2017 £000
Revenue				
Total revenue	139,553	131,877	–	271,430
Inter-segmental revenue	(45,377)	(1,147)	–	(46,524)
Total revenue from external customers	**94,176**	**130,730**	**–**	**224,906**
Adjusted EBITDA	**23,166**	**8,568**	**–**	**31,734**
Amortisation	(159)	(112)	(1,287)	(1,558)
Depreciation	(3,859)	(795)	(465)	(5,119)
Operating profit before non-underlying expenses	**19,148**	**7,661**	**(1,752)**	**25,057**
Non-underlying expenses				(843)
Finance expense				(553)
Profit before tax				**23,661**

	Profiles 2018 £000	Building Plastics 2018 £000	Corporate 2018 £000	Total 2018 £000
Additions to plant, property, equipment and intangible assets	**6,249**	**1,002**	**1,389**	**8,640**
Segment assets	**75,000**	**46,204**	**16,090**	**137,294**
Segment liabilities	(25,016)	(17,173)	(1,977)	(44,166)
Borrowings				(29,376)
Corporation tax payable				(1,162)
Deferred tax liability				(2,502)
Total liabilities				**(77,206)**
Total net assets				**60,088**

	Profiles 2017 £000	Building Plastics 2017 £000	Corporate 2017 £000	Total 2017 £000
Additions to plant, property, equipment and intangible assets	**4,044**	**2,423**	**1,116**	**7,583**
Segment assets	**58,861**	**39,965**	**15,805**	**114,631**
Segment liabilities	(19,274)	(13,974)	(1,540)	(34,788)
Borrowings				(25,851)
Corporation tax payable				(2,448)
Deferred tax liability				(2,170)
Total liabilities				**(65,257)**
Total net assets				**49,374**

4 TAXATION

	2018 £000	2017 £000
Current tax expense		
Current tax on profits for the year	2,643	4,253
Adjustment in respect of prior years	(40)	(170)
Total current tax	**2,603**	**4,083**
Deferred tax expense		
Origination and reversal of temporary differences	(165)	53
Adjustment in respect of change in rates	(21)	(15)
Adjustment in respect of prior years	57	(102)
Total deferred tax	**(129)**	**(64)**
Total tax expense	**2,474**	**4,019**

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

	2018 £000	2017 £000
Profit before tax	**22,093**	**23,661**
Expected tax charge based on the standard rate of corporation tax in the UK of 19.0% (2017: 19.25%)	4,198	4,555
Taxation effect of:		
Expenses not deductible for tax purposes	136	439
Patent Box claims	(1,820)	(738)
Adjustments to tax charge in respect of prior years	17	(272)
Tax on share-based payments recognised in equity	(36)	50
Adjustment in respect of change in rates	(21)	(15)
Total tax expense	**2,474**	**4,019**

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 gives rise to an effective rate of 19.0% (2017: 19.25%) for the year. A further reduction to 17% from 1 April 2020 has been substantively enacted. Deferred taxes at the year end date have been measured using these enacted tax rates and reflected in the Financial Statements.

There are no material uncertain tax provisions.

Tax on non-underlying items

The net tax charge arising on non-underlying items within the Comprehensive Income Statement is £7,000 (2017: credit of £70,000). Non-underlying tax also includes a credit of £852,000, being the benefit of a second Patent Box claim in the year.

Tax included in Other Comprehensive Income

The tax charge arising on share-based payments within Other Comprehensive Income is £36,000 (2017: credit of £50,000).

Based on the current investment plans of the Group, and assuming the rates of capital allowances on capital expenditure continue into the future, there is little prospect of any significant part of the deferred tax liability becoming payable over the next 3 years.

5 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. 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 the impact of non-underlying items.

	2018 £000	2017 £000
Profit attributable to ordinary shareholders	19,619	19,642
Profit attributable to ordinary shareholders excluding non-underlying items	19,188	20,415
	Number	**Number**
Weighted average number of shares – basic	100,278,663	100,040,383
Weighted average number of shares – diluted	100,627,058	100,301,071
	Pence	**Pence**
Basic earnings per share	19.6	19.6
Adjusted basic earnings per share	19.1	20.4
Diluted earnings per share	19.5	19.6
Adjusted diluted earnings per share	19.1	20.4

6 DIVIDENDS

	2018 £000	2017 £000
Dividends paid during the year		
Final dividend for 2017 of 6.0p per share (2016: 5.7p per share)	6,008	5,700
Interim dividend for 2018 of 3.1p per share (2017: 3.0p per share)	3,110	3,004
	9,118	**8,704**
Dividends proposed		
Final dividend for 2018 of 6.2p per share (2017: 6.0p per share)	6,219	6,008

7 RECONCILIATION OF PROFIT AFTER TAX TO CASH GENERATED FROM OPERATIONS

	2018 £000	2017 £000
Profit after tax	**19,619**	**19,642**
Taxation	2,474	4,019
Finance expense	793	553
Operating profit	**22,886**	**24,214**
Adjustments for:		
Depreciation of tangible fixed assets	5,481	5,119
Amortisation of intangible fixed assets	1,614	1,558
Profit on sale of property, plant and equipment and intangible fixed assets	(33)	(51)
Share-based payments	249	260
Increase in inventories	(6,798)	(2,789)
Increase in trade and other receivables	(7,051)	(3,057)
Increase in trade and other payables	5,547	3,575
Decrease in provisions	(219)	(549)
Cash generated from operations	**21,676**	**28,280**

8 ACQUISITION OF SUBSIDIARIES

The Group acquired two businesses in the year: Ecoplas Limited and Kent Building Plastics Limited.

On 1 August 2018, the Group acquired 95% of the ordinary share capital of Ecoplas Limited, a recycler of PVC windows, with annual sales of approximately £6.5 million. Initial consideration paid was £5.1 million (or £5.0 million net of cash acquired). Further consideration of up to £1.0 million 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.

On 8 December 2018, the Group acquired 100% of the ordinary share capital of Kent Building Plastics Limited, a distributer of building plastic materials, with annual sales of approximately £4.5 million. Initial consideration paid was £2.8 million, with a further £0.4 million payable in 2019 in relation to cash acquired taking total consideration to £3.2 million.

Goodwill represents potential synergies arising from the enlarged group. The amount of goodwill deductible for tax purposes is £nil. Goodwill has been calculated as follows:

Total acquired assets and liabilities	Book values on acquisition £000	Fair value adjustment £000	Recognised values on acquisition £000
Intangible assets	3	1,373	1,376
Property, plant and equipment	1,407	(18)	1,389
Inventories	443	(12)	431
Trade and other receivables	1,610	(5)	1,605
Cash and cash equivalents	766	-	766
Borrowings	(1,126)	-	(1,126)
Trade and other payables	(2,009)	(2)	(2,011)
Provisions	-	(772)	(772)
Corporation tax	(112)	-	(112)
Deferred tax	(191)	(234)	(425)
Identifiable assets and liabilities	**791**	**330**	**1,121**
Cash consideration paid			7,934
Cash consideration not yet paid			399
Present value of put and call option			784
Goodwill on acquisition			**7,996**

Cash flows arising on the acquisition were £7,168,000, comprising the consideration paid less cash acquired.

Fair value adjustments

- The adjustment to intangible assets is to recognise intangible assets in respect of customer relationships, and has been valued using discounted cash flows.
- The adjustment to inventories is to reflect the fair value of finished goods acquired.
- The adjustment to trade receivables is a bad debt provision which has been made as part of the fair value exercise.
- The adjustment to provisions is to recognise a dilapidations and environmental provision in respect of the leased premises.
- The adjustment to deferred taxation is to recognise the associated deferred tax liability arising on the intangible assets.

Subsequent payments

Under the terms of the acquisition agreement, the vendor of Ecoplas is entitled to cash consideration for their remaining 5% shareholding in the Company based on financial performance for the years ended 31 December 2020-23, via a put and call option (the ‘option’), provided they remain employed by the Group. The estimated total amount payable under the option is £1,000,000, and a liability for the present value of this amount (£784,000) has been recognised within non-current liabilities. The discount will be unwound through interest expense.

Acquisition-related costs

The Group incurred acquisition-related costs of £326,000 in relation to professional fees and transaction costs arising upon acquisition. These costs have been expensed to the Consolidated Statement of Comprehensive Income.

Impact of acquisitions on the Consolidated Statement of Comprehensive Income

Included within the Consolidated Statement of Comprehensive Income is revenue of £2.5 million and loss before tax of £0.1 million relating to Ecoplas Limited and Kent Building Plastics Limited. Had the acquisitions occurred on 1 January 2018, revenue of £10.8 million and profit before tax of £0.4 million would have been recognised in total by the Group.

9 EVENTS AFTER THE BALANCE SHEET DATE

The Directors are not aware of any material events that have occurred after the 31 December 2018 which would require disclosure under IAS 10. The Group completed the acquisition of Trimseal Limited for a total consideration of £0.4 million on 6 March 2019.