12 March 2021

EUROCELL PLC (Symbol: ECEL)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

Strong second half – well positioned for 2021

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

	2020	2019	Change
Key financial performance measures			
Revenue (£ million)	257.9	279.1	(8)%
Gross margin %	49.4	51.2	(180)bps
Adjusted profit before tax (£ million) (1)	8.5	22.7	(14.2)
Adjusted basic earnings per share (pence) (1)	6.5	19.3	(12.8)
Net debt, pre-IFRS 16 (£ million) (2)	9.9	34.6	24.7
Other statutory accounting measures			
(Loss)/profit before tax (£ million)	(1.5)	22.7	(24.2)
Basic (losses)/earnings per share (pence)	(2.0)	19.3	(21.3)
Total dividends per share (pence)	-	3.2	n/a
Capital investment (£ million)	13.7	15.2	(1.5)
Net debt (£ million) (2)	58.3	68.7	10.4

Operational Headlines

- Major impact of COVID-19 on the business in H1 2020, with decisive action taken in response
  - Closed all sites from late March to mid-May, in line with UK Government guidance
  - Health & safety, operational and financial measures taken to protect the business and stakeholders
  - Good operating performance and efficiencies in H2 2020, with all sites open since July
- Now operating from state-of-the-art new warehouse
  - Key to increasing capacity and delivering anticipated operating efficiencies in 2021 and beyond
  - Final stages of transition expected to complete in Q2
- Strong on sustainability, as the leading UK-based recycler of PVC windows
  - Use of recycled material increased to 25% of material consumption (2019: 23%)
  - Bank facility converted to a Sustainable RCF, with adjustments to the margin based on annual recycling targets

Financial Headlines

- Sales for the year 8% lower than 2019, comprised of:
  - H1 sales down 31%, reflecting business closed from late March to mid-May
  - Strong second half, with sales up 15% compared to H2 2019
  - Full year like-for-like(3) sales up 6%
- Gross margin down 180bps to 49.4%:
  - H1 gross margin of 46.8%, reflecting reduced production volumes and therefore lower recovery of direct costs
  - 50.9% in H2, with gross margins improving as volumes increased

- Underlying overheads down 3%, including support received under the Coronavirus Job Retention Scheme of £6.5 million and retail grants / rates relief of £1.8 million, partially offset by an increase to IFRS 9 impairment charges (bad debts) of £2.2 million (substantially incurred in H1)
- Adjusted[(1)] profit before tax of £8.5 million (2019: £22.7 million) reflecting:
  - H1 loss, driven by lower sales volumes and the impact of operational gearing
  - Strong sales and good operating efficiencies in the second half, with profits well up on H2 2019
- Reported loss before tax of £1.5 million includes non-cash goodwill impairment charge (£5.8 million) and dual running costs of the new warehouse (£2.7 million)
- Capex of £13.7 million (2019: £15.2 million), including £8.0 million in relation to fit-out of the new warehouse
- Strong balance sheet and liquidity, with pre-IFRS 16 net debt of £9.9 million (31 December 2019: £34.6 million), reflecting focus on cash flow management and benefit of April share placing (£17.1 million, net)

Mark Kelly, Chief Executive of Eurocell plc said:

"COVID-19 has created unprecedented challenges. Our first priority continues to be the health, safety and well-being of our employees. Through their hard work and dedication, we have implemented safe working practices in line with recommended guidelines, and I would like to thank them all again for their continued commitment and support.

"In response to the pandemic, we took a number of decisive actions to safeguard our future and ensure the business was well-placed to capitalise on opportunities as markets developed.

"The repair, maintenance and improvement ('RMI') market was stronger than we anticipated throughout the second half. Sales exceeded our expectations, particularly in the branch network, operating efficiencies were good and gross margins improved as volumes increased. As a result, we were very pleased to report strong profit growth for H2.

"Our focus now includes completing the warehouse transition successfully, thereby facilitating future growth and the delivery of anticipated operating efficiencies. Whilst the current levels of uncertainty mean it is difficult to predict the outcome for the year, 2021 has started well with sales to the end of February up 8% on 2020 and it remains our intention to return to paying dividends this year. We continue to see good potential to outperform our markets, take share and deliver further progress."

Notes

(1) Adjusted measures are stated before non-underlying items[(4)] and the related tax effect.

(2) Net debt is cash and cash equivalents less bank overdrafts, borrowings and lease liabilities. Pre-IFRS 16 net debt excludes lease liabilities.

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

(4) Non-underlying items for 2020 of £10.0 million includes a goodwill impairment charge of £5.8 million, right-of use asset impairment charges of £0.9 million, restructuring costs of £0.6 million and warehouse dual-running costs of £2.7 million. There were no non-underlying items in 2019.

Analyst presentation

There will be an audiocast presentation for analysts and investors at 9am today.

To register for the audiocast, please contact Teneo on eurocell@teneo.com.

Following the presentation, a recording of the audiocast will be made available on the Group's web site: https://investors.eurocell.co.uk/investors/

CHAIRMAN'S STATEMENT

Introduction

The business responded remarkably well to the unique challenges posed by COVID-19. So I start this year's report by offering, on behalf of shareholders and of the Board, my sincere thanks to our teams in every part of the Group. The progress we made during 2020 is testament to their commitment, hard work and dedication during a period of unprecedented uncertainty.

Our priority was to protect the business and ensure the safety of all our people, customers and suppliers by mandating COVID-safe working practices as detailed in the Chief Executive's Review. We also secured our financial position and substantially completed major investments in new operating capacity. This good work leaves the business well-placed for the future.

Financial and operating performance

The first half of the year was dominated by the impact of the first lockdown on our operational and financial performance, with the business closed from late March until mid-May. As a result, sales fell 31% in H1, and we reported an adjusted loss before tax.

However, we prepared well during this period for re-opening, designing, testing and implementing a range of COVID-safe working practices, to protect our employees, suppliers and customers. We also took the opportunity to review and revise our operating, support and management structures, to ensure that the business is as efficient as possible.

We were therefore ready to capitalise on a strong repair, maintenance and improvement ('RMI') market in the second half. We reported sales growth of 15%, and, thanks also to a good operational performance, delivered adjusted profit before tax well up on H2 2019, signalling that the inefficiencies experienced in 2018 and 2019 are now behind us.

Sales for the full year were £258 million, or 8% below 2019 and adjusted profit before tax was £8.5 million (2019: profit of £22.7 million).

The measures we took in the first half to conserve cash were effective and we were grateful to receive support from investors with a share placing in April. Thereafter, cash conversion in H2 was good. As a result, net debt at 31 December 2020 on a pre-IFRS 16 basis reduced to £9.9 million (31 December 2019: £34.6 million), demonstrating significant headroom on our bank facility. We also have a strong balance sheet, which provides flexibility and options for the future.

Dividends

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

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.

Strategy

Our overall strategic objective remains to deliver sustainable growth in shareholder value by increasing sales and profits above our market growth rates. Over the last five years, we have targeted five strategic priorities to deliver this objective. We have made good progress against each of them, with the key aspects of our performance described in the Chief Executive's Review.

Early in 2021 we conducted a review of the Group's strategy, our markets and activities. We decided that, whilst the five existing priorities remain relevant, we would refine one of them and introduce two new priorities, making seven in all.

It is therefore our intention in 2021 to develop our existing strategic priority to increase the use of recycled material, into a 'sustainability strategy' for the whole business, thereby linking our own objectives to the relevant UN Sustainable Development Goals and the UK Government's transition towards a net zero carbon economy. We will communicate further on sustainability later in 2021.

We will also introduce a new strategic priority to 'deliver sustained operational excellence'. The project to fit-out our new warehouse progressed well throughout 2020 and I was delighted to see we reached a major milestone in January 2021, with commercial operations beginning from the new site. With recent operational constraints now substantially resolved through major investments in new manufacturing and warehousing capacity, we expect sustained operational excellence to result in the benefit of our sales growth flowing through to improved profits and margins.

Finally, we intend to introduce a new strategic priority to 'develop a sector-leading digital proposition'. Offering an end-to-end digital solution is becoming increasingly important to our stakeholders and will act as an enabler to our other priorities. Our objective is to improve the supplier, customer and employee experience, making Eurocell an even better business partner all round.

Overall, we are confident that, through the successful progression of our strategic priorities, we will outperform our markets and deliver sustainable growth in shareholder value.

Bob Lawson

Chair

CHIEF EXECUTIVE'S REVIEW

INTRODUCTION

We started 2020 in a good position. With manufacturing constraints resolved through investment in 2019, our intended focus for the year was the delivery of operating efficiencies and the successful transition to our new warehouse. However, 2020 was shaped by the challenges posed by COVID-19.

The initial measures implemented by the UK Government to control the pandemic had a major impact on our operations and financial performance in the first half. However, we took decisive action to protect our employees, the business and our other stakeholders, leaving the Group well-placed to capitalise on opportunities as we emerged from the first lockdown towards the end of Q2. Since then, our operating performance has been strong.

The repair, maintenance and improvement ('RMI') market was stronger than we anticipated throughout the second half. House building activity has also been increasing, supported by high levels of mortgage approvals. Our products have resonated well with customers seeking, possibly as a result of the pandemic, to improve their homes and create more usable space, both inside and outside of their properties. Products such as conservatories, warm roofs and garden rooms have been particularly strong.

With H2 sales exceeding expectations and good operating efficiencies delivered throughout this period, we were very pleased to report good financial performance and strong profit growth for the second half.

ACTIONS IN RESPONSE TO COVID-19

Operational actions

In line with UK Government guidance issued towards the end of March 2020, we closed our manufacturing plants, branch network, distribution and recycling operations. The shut-down was carefully controlled, in order to leave the business ready to recommence operations and trading when appropriate to do so.

Following updated guidance from the Government in mid-May, which permits tradesmen to work in domestic dwellings so long as appropriate precautions are taken, we commenced a phased re-opening. This process was successful, with COVID protection measures working effectively. All sites have been open since July and operating efficiencies since then have been good.

Health and safety actions

Prior to re-opening, we conducted a thorough review of work practices and implemented a range of COVID protection measures. Extensive work was undertaken to examine how COVID risks would impact operational activities; to define more extensive standards for protection (referencing UK Government and HSE guidance); and to develop programmes for effective implementation. Our employees were very actively engaged in supporting this process. The approach addressed various aspects, including: social distancing, physical barriers, screen and other protections, workplace hygiene and cleaning, personal hygiene and handwashing, personal protective equipment and swift case/symptom reporting, response and post-case sanitisation.

The restart was carefully phased and controlled to ensure that our COVID protection measures were effective with rising employee numbers. Employees returning to work were provided with relevant training, and personal protective equipment where necessary, before re-entering their workplace.

Thereafter, we have continued to review and develop our protection measures in accordance with official guidance and emerging best practice. We continually monitor the effectiveness of and compliance with these measures.

Financial actions

We increased our bank facility from £60 million to £75 million in March 2020.

At the outset of the pandemic, we took several actions to conserve cash, including the deferral of non-essential capex and other discretionary expenditure and cancellation of the proposed final dividend for 2019. In April we raised £17.1 million (net) by way of a share placing, with the proceeds to be used to ensure we retain headroom on our bank facility, even under an extended shut-down, and to provide sufficient liquidity to continue investment in the new warehouse. We also utilised Government support measures, including the Job Retention Scheme, through which we received payments of £6.5 million.

Cash flow management has continued to be a key priority for the business and the measures taken in 2020 to improve our cash position have been effective, with net debt at 31 December 2020 on a pre-IFRS 16 basis reduced to £9.9 million (31 December 2019: £34.6 million), demonstrating significant headroom on our bank facility.

Cost savings and operating efficiency improvements

During the year, we performed a full review of our operating, support and management structures to ensure that the business is as efficient as possible. We identified several opportunities to streamline the organisation, which resulted in a small reduction in headcount. Approximately 50 positions (representing c.3% of our workforce) were impacted, although a significant proportion relate to vacancies that were not filled. As a result, non-underlying restructuring costs of £0.6 million were incurred in H2 (primarily redundancy). These changes result in a more efficient structure and deliver fixed cost savings, but have no impact on production capacity or our ability to satisfy customer demand.

We were concerned that COVID-safe working methods might impact on our operating efficiencies, but through careful management and with the full cooperation of our employees, we have seen no negative impact.

Our COO, Mark Hemming, is leading the work to continually improve operational efficiencies, which will be further enhanced as anticipated when the new warehouse is fully operational, expected to be in Q2 2021.

FINANCIAL RESULTS

Sales for the year were £258 million, or 8% below 2019. We reported an adjusted profit before tax of £8.5 million (2019: £22.7 million).

As described above, the first lockdown had a major impact on our H1 performance. Sales for the first six months of 2020, which includes the period from late-March to mid-May when the business was closed, were 31% below H1 2019, and we reported an adjusted loss before tax, driven by significantly lower sales volumes and the impact of operational gearing.

However, throughout the second half our markets were stronger than we had anticipated, we continued to gain share and our operational performance was good. Sales for the six months ended 31 December 2020 grew by 15% on H2 2019, and we reported an adjusted profit before tax for the period well up on H2 2019.

The statutory loss before tax for the year was £1.5 million, which includes a non-cash goodwill impairment charge of £5.8 million and dual running costs of the new warehouse of £2.7 million. Further information on our financial performance is included in the Chief Financial Officer’s Review and Divisional Reviews.

OPERATIONAL PERFORMANCE

Health and safety

The safety and well-being of our employees and contractors is always our first operational priority and we continue to maintain good health and safety performance. Our Lost Time Injury Frequency Rate (‘LTIR’) was 0.7 in 2020, compared to 0.9 in 2019. There were no major injuries and 19 minor accidents (2019: no major injuries, 17 minor injuries) recorded under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (‘RIDDOR’).

Production

In 2020 we manufactured 45.5k tonnes of rigid and foam PVC profiles at our primary extrusion facilities, down from 54.6k tonnes in 2019, a decrease of 17%. This reflects lower sales in H1 2020 as a result of the first COVID lockdown. In addition, 2019 production included a stock build programme to increase availability at our branches and mitigate the risk of raw material supply interruption due to Brexit.

Also in 2019, we completed a substantial capex programme, at a cost of c.£5 million, to improve manufacturing efficiency and increase co-extrusion and foam capacity by 30% and 15% respectively. In extrusion, Overall Equipment Effectiveness (‘OEE’), a measure which takes into account machine availability, performance and yield, improved to 75% in 2020 (2019: 73%).

Recycling

We used 12.4k tonnes of recycled PVC compound alongside virgin resin in the manufacture of co-extruded rigid profiles, representing 25% of overall material consumption, up from 23% (13.4k tonnes) in 2019, driving a substantial saving compared to the cost of using virgin material.

BREXIT AND SUPPLY CHAIN

We took several steps to protect the business from the potential negative effects of Brexit. In this context, it is worth noting that over 95% of our sales are to UK-based customers and that the vast majority of our workforce has the right to work in the UK.

Some of our key raw materials do originate from Europe, so any disruption in supplies could impact our manufacturing operations. With that in mind, whilst we have only limited capacity to hold additional raw materials at our own sites, we completed a significant investment in additional stocks in 2019, adding c.£5 million to finished goods for key product lines, most of which remained in place throughout 2020.

Now that the nature of the future trading relationship between the UK and the EU has been substantially defined, the risks relating to the imposition of import tariffs are largely behind us.

More generally, whilst the impact of increased demand, supplier production outages and new administrative requirements for EU imports have together put sector supply chains under pressure, we have continued to secure the raw materials we require. So far, we have not experienced any significant adverse effects from the delays at UK ports.

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

WAREHOUSING CAPACITY EXPANSION

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

In designing the new facility, we have taken the opportunity to modernise our storage solutions, using cantilever racking to store up to 12 stillages high (our existing warehouse is restricted to seven); and mobile racking to allow high density storage, which has increased capacity by more than 60%. Similarly, we have modernised picking processes, with the use of mobile platforms to replace manual techniques, thereby providing a safer and more productive solution.

The project to fit-out the new warehouse has progressed well and remains on track. We achieved a major milestone in January 2021, with commercial operations beginning successfully from the new site. In line with our plans, transition will continue over the coming weeks, with the final stages expected to complete in Q2 2021.

We will convert our existing warehouse to a specialist manufacturing site, relocating, beginning later in 2021, secondary operations including foiling and conservatory roofs. This will free up space to future-proof extrusion capacity.

We are excited about the opportunities for growth opened up by this investment. As well as being central to increasing capacity, the new warehouse is key to delivering anticipated improvements in operating efficiencies.

STRATEGY

Strategic priorities overview

Our overall strategic objective is to deliver sustainable growth in shareholder value by increasing sales and profits at or above market growth rates. Over the last five years we have targeted five strategic priorities to help us achieve this objective and have delivered significant progress in each of them as follows:

- Grow market share in Profiles – now the largest supplier of rigid PVC profile to the UK market (c.17% share)
- Expand the branch network – 208 sites in 2020 compared to 141 in 2015
- Increase the use of recycled materials – 25% of material consumption in 2020 compared to 9% in 2015
- Develop innovative new products – sales from products introduced since 2017 were c.£24 million of 2020 revenue
- Explore potential bolt-on acquisition opportunities – six acquisitions completed since 2015

Further information in relation to these priorities is set out in the following paragraphs. More recently, we have assessed whether they remain relevant for the next five years and our conclusions are also described below.

Grow market share in Profiles

In 2018 we became the leading supplier of rigid PVC profile to the UK market, with a share of c.15%. We continue to consolidate our position and believe we now have a share of around 17%. Our objective is to increase this to at least 20%.

In the Profiles division, trade fabrication currently represents c.60% of sales. There is a compelling case for larger trade fabricators to switch to Eurocell. This includes: a strong product range, continued product development, the benefits of pull-through profile and hardware specifications and the opportunity to supply our branches, all delivered via best-in-class service.

New build represents c.30% of Profiles sales. Expanding our share of the new build market has been a key driver of recent growth and we believe favourable market dynamics and low interest rates are set to continue. We have strong relationships with large and medium-sized housebuilders, maintained by our specification and technical teams. In addition, with a focus on sustainability, we believe our use of recycled material is becoming increasingly attractive to housebuilders.

In the commercial sector (c.10% of profiles sales), energy efficiency and lower cost underpin a strong case for the benefits of using PVC profile over aluminium, particularly in sub-sectors such as private rentals, build-to-rent, purpose-built student accommodation, education and local authority refurbishment – all habitual users of aluminium.

Expand the branch network

Our strategic objective for Building Plastics is to achieve sector-leading operations from 270 - 300 sites. The growth will come mostly at the expense of independent operators, who currently have more than 60% market share.

In the existing estate (208 branches at 31 December 2020), we are implementing plans to improve up-selling and cross-selling opportunities, to target lapsed customers, and to tighten margin controls. We also intend to enhance promotional activities with support from key suppliers. In terms of products, we are focusing on improving conversion rates for high value made-to-order items and extending our range, including the introduction of a new suite of outdoor living products.

With additional warehousing capacity now coming on line, we plan to open up to 12 new sites in 2021, with the final number to be determined based on the economic environment and business performance. Up to six of these will be in a new, larger format store, with expanded trade counter and showroom-style displays designed to engage customers and drive big-ticket purchases such as windows and doors. This follows successful trials of this format in 2019/20.

We continue to robustly test an opportunity to develop and implement a sector-leading consumer online windows and doors proposition, using our branch network to provide infrastructure where needed (e.g. delivery point for installers). We began a trial in the North West in Q3 2020 and will provide an update on our progress later in 2021. This proposition directly aligns with our commercial strategy of continuing to create pull-through demand for our products.

Increase the use of recycled material

Expanding the use of recycled material increases our profits, because the cost of recycled compound is typically lower through the cycle than the price of virgin material, and it reduces our exposure to volatile commodity prices. It also improves product and business sustainability, with less plastic going to landfill. Closed-loop recycling (where windows being replaced are recycled into the new product) is attractive to decision makers such as local authorities and architects, which helps us develop tight specifications for our products.

We have been investing to increase our recycling capability through the expansion of Eurocell Recycle Midlands, the acquisition of Eurocell Recycle North and by investment in new co-extrusion tooling, which allows a greater proportion of recycled material to be used in our products.

We have become the leading UK-based recycler of PVC windows. Our use of recycled material increased from 4.1k tonnes (or 9% of materials consumed) in 2015 to 13.4k tonnes (or 23% of consumption) in 2019 and 12.4k tonnes (or 25% of consumption) in 2020, with volumes in the latter reduced by the impact of COVID. In doing so, in both 2019 and 2020 we saved the equivalent of c.3 million window frames from landfill.

We expect internal demand for recycled material to increase. This can be satisfied largely through the expansion of Eurocell Recycle North.

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 and technical advisors on development and to help maintain our product pipeline. Recent highlights for Profiles include the introduction of a flush window sash for the popular Logik range, a new sliding patio door system (Syncro) and development of a through-colour grey substrate profile. In Building Plastics, the Equinox conservatory roof system has been developed to include a skylight (Vega) and our new suite of outdoor living products, including the Kyube garden room, has been very well received.

Explore potential bolt-on acquisitions

We have completed six acquisitions since our IPO in 2015. We will continue to assess and consider bolt-on acquisition opportunities in the markets in which we operate over the medium-term. However, our focus for 2021 will be delivering operating efficiencies from recent investments in manufacturing and warehousing capacity.

2021 strategy update

Early in 2021 we conducted a review of the Group's strategy, our markets and activities. We reaffirmed our overall strategic objective of sustainable growth in shareholder value. We also decided that, whilst the five priorities described above remain relevant, we would refine one of them and introduce two new priorities, making seven in all.

It is therefore our intention in 2021 to develop the existing recycling priority into a 'sustainability strategy' for the whole business. We are working now to define long-term sustainability objectives, linked to the relevant UN Sustainable Development Goals and the UK Government's transition towards a net zero carbon economy, along with an implementation plan and appropriate KPIs against which to measure progress. We will communicate further on sustainability later in 2021.

We will also introduce a new strategic priority to 'deliver sustained operational excellence'. Through 2016-19, the success of our commercial strategies resulted in a strong compound annual growth rate in sales of 12%. However, profits for that period were impacted by sales running substantially ahead of our expectations, thereby exceeding the available operating capacity thus leading to inefficiencies and extra costs. Manufacturing and warehousing constraints have now been resolved through major investments in new capacity. Looking ahead, we expect sustained operational excellence to result in the benefit of our sales growth flowing through to improved profits and margins.

Finally, we will introduce a new strategic priority to 'develop a sector-leading digital proposition'. Stakeholders in most organisations increasingly require full end-to-end digital solutions; a trend exacerbated by the COVID pandemic. We now intend to make the continued development of our digital proposition a strategic priority. We expect a sector-leading digital proposition to act as an enabler to our other priorities and improve the supplier, customer and employee experience, making Eurocell an even better business partner all round.

Overall, we are confident that, through the successful progression of our strategic priorities, we will outperform our markets and deliver sustainable growth in shareholder value.

OUTLOOK

COVID-19 has created unprecedented challenges. Our first priority continues to be the health, safety and well-being of our employees. Through their hard work and dedication, we have implemented safe working practices in line with recommended guidelines, and I would like to thank them all again for their continued commitment and support.

In response to the pandemic, we took a number of decisive actions to safeguard our future and ensure the business was well-placed to capitalise on opportunities as markets developed.

The RMI market was stronger than we anticipated throughout the second half. Sales exceeded our expectations, particularly in the branch network, operating efficiencies were good and gross margins improved as volumes increased. As a result, we were very pleased to report strong profit growth for H2.

Our focus now includes completing the warehouse transition successfully, thereby facilitating future growth and the delivery of anticipated operating efficiencies. Whilst the current levels of uncertainty mean it is difficult to predict the outcome for the year, 2021 has started well with sales to the end of February up 8% on 2020 and it remains our intention to return to paying dividends this year. We continue to see good potential to outperform our markets, take share and deliver further progress.

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

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

The Profiles division also includes Vista Panels, S&S Plastics and Eurocell Recycle North (formerly 'Ecoplas').

	2020 £m	2019 £m	Change %
Third-party revenue	**99.7**	**115.7**	**-14%**
Inter-segmental revenue	56.4	59.5	-5%
Total revenue	**156.1**	**175.2**	**-11%**
Adjusted operating profit(1)	**7.9**	**17.9**	**-56%**
Operating (loss)/profit	**(1.0)**	**17.9**	**n/a**

(1) Before non-underlying items.

Revenue

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

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

(2) Like-for-like excludes acquisitions (none in either period) and is calculated by comparing average sales per trading day in 2020 (i.e. 212 days, excluding days closed) with average sales per trading day in 2019 (249 days).

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

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

Operating profit

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

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

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

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

	2020 £m	2019 £m	Change %
Third-party revenue	**158.2**	**163.4**	**-3%**
Organic	157.5	162.9	-3%
Trimseal(1)	0.7	0.5	40%
Inter-segmental revenue	**1.3**	1.3	**–**
Total revenue	**159.5**	**164.7**	**-3%**
Adjusted operating profit(2)	**4.0**	**8.6**	**-53%**
Operating profit	**3.4**	**8.6**	**-60%**

(1) Acquired March 2019.
(2) Before non-underlying items.

Revenue

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

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

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

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

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

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

Operating profit

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

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

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

CHIEF FINANCIAL OFFICER'S REVIEW

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

(1) See adjusted performance measures.

COVID-19

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

REVENUE

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

	H1	H2	Full Year
Group like-for-like[(2)] sales growth	-4%	16%	6%

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

GROSS MARGIN

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

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

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES (OVERHEADS)

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

IFRS 9 IMPAIRMENTS AND BAD DEBT CHARGES

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

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

DEPRECIATION AND AMORTISATION

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

ADJUSTED PERFORMANCE MEASURES

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

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

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

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

NON-UNDERLYING ITEMS

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

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

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

FINANCE COSTS AND TAXATION

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

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

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

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

(LOSS)/PROFIT BEFORE TAX AND (LOSSES)/EARNINGS PER SHARE

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

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

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

DIVIDENDS

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

Retained earnings as at 31 December 2020 were £65.5 million (2019: £67.1 million). The Company takes steps to ensure distributable reserves are maintained at an appropriate level through intra-Group dividend flows.

CAPITAL EXPENDITURE

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

CASH FLOW

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

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

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

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

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

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

NET DEBT

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

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

BANK FACILITY

We have an unsecured revolving credit facility which matures in 2023. The facility was increased by £15 million up to £75 million in March 2020, in order to provide additional flexibility and options for the future. There were no changes to pricing or key terms as a result of the uplift. However, we were very pleased to convert the facility into a Sustainable RCF, where modest adjustments to the margin will be applied based on our achievement against annual recycling targets. We operate comfortably within the terms of the facility and in compliance with our financial covenants, which are measured on a pre-IFRS 16 basis.

Michael Scott

Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

		Year ended 31 December 2020			Year ended 31 December 2019		
	Note	Underlying £m	(1)Non-underlying £m	Total £m	Underlying £m	(1)Non-underlying £m	Total £m
Revenue	3	**257.9**	**–**	**257.9**	**279.1**	**–**	**279.1**
Cost of sales		(130.5)	–	(130.5)	(136.2)	–	(136.2)
Gross profit		**127.4**	**–**	**127.4**	**142.9**	**–**	**142.9**
Distribution costs		(15.8)	–	(15.8)	(18.7)	–	(18.7)
Administrative expenses		(97.6)	(3.8)	(101.4)	(98.1)	–	(98.1)
Impairment of goodwill(2)		–	(5.8)	(5.8)	–	–	–
IFRS 9 impairments and bad debt charges(2)		(3.7)	–	(3.7)	(1.5)	–	(1.5)
Operating profit		**10.3**	**(9.6)**	**0.7**	**24.6**	**–**	**24.6**
Finance expense		(1.8)	(0.4)	(2.2)	(1.9)	–	(1.9)
Profit/(loss) before tax	3	**8.5**	**(10.0)**	**(1.5)**	**22.7**	**–**	**22.7**
Taxation	4	(1.5)	0.8	(0.7)	(3.4)	–	(3.4)
Profit/(loss) for the year and total comprehensive (expense)/income		**7.0**	**(9.2)**	**(2.2)**	**19.3**	–	**19.3**
Basic earnings/(losses) per share	5	**6.5p**		**(2.0)p**	**19.3p**		**19.3p**
Diluted earnings/(losses) per share	5	**6.5p**		**(2.0)p**	**19.2p**		**19.2p**

(1) Non-underlying items are detailed in Note 2.

(2) The impairment of goodwill and IFRS 9 impairments have been disclosed on the face of the Consolidated Statement of Comprehensive Income due to the material nature of the charges in 2020.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	2020 £m	2019 £m
Assets		
Non-current assets		
Property, plant and equipment	50.8	44.2
Right-of-use assets	47.0	35.3
Intangible assets	19.9	27.0
Total non-current assets	**117.7**	**106.5**
Current assets		
Inventories	38.1	37.3
Trade and other receivables	38.5	40.9
Cash and cash equivalents	7.1	4.9
Total current assets	**83.7**	**83.1**
Total assets	**201.4**	**189.6**
Liabilities		
Current liabilities		
Trade and other payables	(42.8)	(39.8)
Lease liabilities	(8.9)	(8.3)
Bank overdrafts	(4.5)	–
Provisions	(0.8)	(0.2)
Corporation tax	(0.7)	(1.8)
Total current liabilities	**(57.7)**	**(50.1)**
Non-current liabilities		
Borrowings	(12.5)	(39.5)
Trade and other payables	(0.3)	(0.5)
Lease liabilities	(39.5)	(25.8)
Provisions	(0.7)	(0.6)
Deferred tax	(3.5)	(2.6)
Total non-current liabilities	**(56.5)**	**(69.0)**
Total liabilities	**(114.2)**	**(119.1)**
Net assets	**87.2**	**70.5**
Equity attributable to equity holders of the parent		
Share capital	0.1	0.1
Share premium account	21.1	2.4
Share-based payment reserve	0.5	0.9
Retained earnings	65.5	67.1
Total equity	**87.2**	**70.5**

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2020

	Note	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Cash generated from operations	8	33.9	29.0
Income taxes paid		(1.0)	(2.6)
Net cash generated from operating activities		**32.9**	**26.4**
Investing activities			
Acquisition of subsidiaries and payment of deferred consideration		–	(1.1)
Purchase of property, plant and equipment		(13.8)	(15.1)
Purchase of intangible assets		(0.2)	(0.1)
Net cash used in investing activities		**(14.0)**	**(16.3)**
Financing activities			
Proceeds from new share capital issued		19.2	–
Costs relating to the issuance of new shares		(0.5)	–
Proceeds from bank borrowings		–	10.0
Repayment of bank and other borrowings		(27.2)	(0.1)
Principal elements of lease payments		(10.7)	(9.8)
Finance elements of lease payments		(1.3)	(0.9)
Finance expense paid		(0.7)	(0.9)
Dividends paid to equity Shareholders	6	–	(9.4)
Net cash used in financing activities		**(21.2)**	**(11.1)**
Net decrease in cash and cash equivalents		**(2.3)**	**(1.0)**
Cash and cash equivalents at beginning of year		4.9	5.9
Cash and cash equivalents at end of year		**2.6**	**4.9**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2020	**0.1**	**2.4**	**0.9**	**67.1**	**70.5**
Comprehensive expense for the year					
Loss for the year	–	–	–	(2.2)	(2.2)
Total comprehensive expense for the year	**–**	**–**	**–**	**(2.2)**	**(2.2)**
Contributions by and distributions to owners					
Share capital issued	–	17.1	–	–	17.1
Exercise of share options	–	1.6	(0.6)	0.6	1.6
Share-based payments	–	–	0.3	–	0.3
Deferred tax on share-based payments	–	–	(0.1)	–	(0.1)
Total transactions with owners recognised directly in equity	**–**	**18.7**	**(0.4)**	**0.6**	**18.9**
Balance at 31 December 2020	**0.1**	**21.1**	**0.5**	**65.5**	**87.2**

	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2019	**0.1**	**2.4**	**0.4**	**57.2**	**60.1**
Comprehensive income for the year					
Profit for the year	–	–	–	19.3	19.3
Total comprehensive income for the year	**–**	**–**	**–**	**19.3**	**19.3**
Contributions by and distributions to owners					
Exercise of share options	–	–	–	–	–
Share-based payments	–	–	0.4	–	0.4
Deferred tax on share-based payments	–	–	0.1	–	0.1
Dividends paid	–	–	–	(9.4)	(9.4)
Total transactions with owners recognised directly in equity	**–**	**-**	**0.5**	**(9.4)**	**(8.9)**
Balance at 31 December 2019	**0.1**	**2.4**	**0.9**	**67.1**	**70.5**

1 BASIS OF PREPARATION

The financial information for the year ended 31 December 2020 was approved by the Board on 11 March 2021. 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 accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the accounts also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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 2020. The functional currency is Sterling, and the Financial Statements are presented in millions, unless otherwise stated. No standards or interpretations have been adopted before the required implementation date.

Statutory accounts for the year ended 31 December 2019 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2020 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.

Going concern

The Group funds its activities through a £75 million Revolving Credit Facility ('RCF'), provided by Barclays and HSBC, which matures in December 2023. The facility includes two key financial covenants, which are tested at 30 June and 31 December on a pre-IFRS 16 basis. These are that net debt should not exceed 3 times adjusted EBITDA (Leverage), and that adjusted EBITDA should be at least 4 times the interest charge on the debt (Interest Cover). Adjusted EBITDA is defined as operating profit before depreciation, amortisation and non-underlying items. See Alternative Performance Measures.

In advance of the 30 June 2020 reporting period, given the significant uncertainty related to the impact of COVID-19, the Group agreed a revised covenant with its banking partners, replacing Leverage and Interest Cover with a single undertaking that net debt should not exceed a maximum of £40.0 million at 30 June 2020. This covenant was comfortably met, with reported net debt at £23.5 million.

Had the original covenants been in place at 30 June, the Group would have complied with the relevant terms, with significant headroom. For the next measurement period, being 31 December 2020, and going forward, the Group has reverted to and expects to comply with the original covenants.

In assessing going concern, the Directors have considered financial projections for the period to December 2023, which is consistent with the Board's strategic planning horizons. These forecasts have been compiled based on the best estimates of our commercial and operational teams. This includes a "Downside" scenario, which reflects demand for our products being severely weakened, either by the impact of further COVID-19 disruption on consumer confidence, or by widened consumer choices when restrictions are lifted.

However, the business has remained open and trading as normal throughout 2021 to date, following guidance issued by the Department for Business, Energy & Industrial Strategy that the construction sector and its manufacturing supply chain should continue to operate, provided that safe working practices are maintained.

In all scenarios tested, the Group operates with significant headroom on its RCF facility and remains compliant with its original covenants.

After reviewing the Group's projected financial performance and financing arrangements, the Directors consider that the Group has adequate resources to continue operating and that it is therefore appropriate to continue to adopt the going concern basis in preparing these Financial Statements.

Significant changes in the year – including the impact of COVID-19

In line with official guidance from the UK Government on 23 March, the business temporarily closed. Following updated guidance, the business re-opened progressively from 11 May, with COVID protection measures operating throughout the Group. The closure had a significant impact on sales and profitability in the period to 30 June 2020, with only 88 days of trading in H1 2020, compared to 124 in H1 2019. However, although various Government restrictions were in effect between 1 July and 31 December 2020, there was no further significant disruption to our activities in H2.

In partial mitigation of the impact of COVID, the Group has taken advantage of several Government support schemes.

Job Retention Scheme

The Job Retention Scheme (‘JRS’) is a Government grant scheme that provides financial support for the wages of individuals who were furloughed. The Group received cash contributions under the JRS of £6.5 million in relation to the period to 31 December 2020 (mostly in H1). This contribution has been matched to the payroll cost incurred, and presented net within operating costs.

Business Rates Retail Discount

Business rates relief at 100% is available for certain retail properties for the 2020/21 tax year. The Group has successfully applied for this relief in respect of the majority of the branches within its estate. Where relief has been obtained, no rates have been charged to the Consolidated Statement of Comprehensive Income. The saving arising from this relief in 2020 is £1.1 million.

Retail, Hospitality and Leisure Grant Fund

Businesses with retail property that were eligible for the Rates Retail Discount are also eligible for grants of either £10,000 or £25,000 (depending on the rateable value of the property), up to an EU-mandated maximum total benefit of €0.8 million (£0.7 million) over a three-year period.

The Group has claimed and received grants up to the maximum amount of £0.7 million. This grant income has been recognised in full within operating expenses (all in H1).

VAT deferral

In April, the Government announced that all VAT payments between 20 March and 30 June 2020 could be deferred, with payment due on or before 31 March 2021.

The Group initially deferred VAT payments due during this period, but subsequently settled the outstanding amounts in December 2020. The Group continued to submit VAT returns as normal throughout the year.

Changes in accounting policies and disclosures applicable to the Company and the Group

The Company has applied the following new standards and guidance for the financial reporting period commencing 1 January 2020, with no material impact:

- IFRS 3, Definition of a Business;
- IAS 1 and IAS 8, Definition of Material;
- IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform (Phase 1);
- Revised Conceptual Framework; and
- Amendments to References to the Conceptual Framework in IFRS Standards.

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 not yet adopted by the EU):

- IAS 1 Presentation of Financial Statements (effective from 1 January 2022);
- IAS 16 Property, Plant and Equipment (effective from 1 January 2022);
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (effective from 1 January 2022);
- IFRS 3 Business Combinations (effective from 1 January 2022);
- IFRS 9 Financial Instruments (effective from 1 January 2022); and
- IFRS 17 Insurance Contracts (effective from 1 January 2022).

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

2 NON-UNDERLYING ITEMS

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

	2020 £m	2019 £m
Impairment of goodwill	5.8	–
Impairment of right-of-use assets	0.9	–
Warehouse dual-running costs	2.3	–
Restructuring actions	0.6	–
Non-underlying operating expenses	**9.6**	**–**
Finance expense	0.4	–
Total non-underlying expenses	**10.0**	**–**
Tax on non-underlying expenses	(0.8)	–
Impact on profit after tax	**9.2**	**–**

Impairment charges

The temporary closure of the business in the first half of 2020, alongside the on-going and potential medium to long-term impact of COVID-19 on the Group and its markets, were considered to be possible indicators of impairment for some of the Group's assets.

Following a review of projected discounted future cash flows for the Group's Cash Generating Units ('CGUs'), impairments to the carrying value of goodwill and right-of-use assets were recognised. In determining the carrying value of these various assets, estimates and judgements have been made as to expected future cash flows.

In the future, actual experience may deviate from these estimates and judgements, the modification of which might have a material impact on the Financial Statements. Any modifications will be made in the period in which the circumstances change, with the exception of the impairment of goodwill, which cannot be reversed.

Goodwill

The goodwill in respect of Eurocell Recycle North ('ERN', formerly Ecoplas) has been impaired in full, leading to a non-underlying charge of £5.8m. This charge arises as a result of lower projected short-term cash flows than previously expected, reflecting the impact of COVID-19 on selling prices, customer demand and production volumes (and therefore profitability) of the ERN CGU. The carrying value of all other intangible assets and property, plant and equipment in the Group remains supported.

Right-of-use assets

Right-of-use assets relating to property leases are subject to impairment testing, both within their respective CGUs, but also individually. The Group's branch network operates entirely from leased properties. The expected future profitability of each of the branches was considered in the light of the potential impact of COVID-19 on future sales. The projections identified a small number of potentially loss-making branches in the medium-term, against which an impairment charge of £0.3 million has been recognised to reduce the carrying value of the associated right-of-use assets to their value in use.

Additionally, a number of leased assets are no longer required following transition to the new warehouse (see below), and will be de-commissioned. Impairment charges of £0.6 million have been recognised to reduce the value of these right-of-use assets to nil.

In total, right-of-use asset impairment charges amount to £0.9 million.

Warehouse dual-running costs

In January 2020 the Group entered into a lease arrangement for a new warehouse and head office facility close to its primary manufacturing operations. The warehouse was fitted-out during the year, and was brought into active service in early 2021. Certain costs incurred during the fit-out process, such as IFRS 16 lease charges (including the related IFRS 16 finance expense), rates and other property-related costs have been classified as non-underlying, as the warehouse was not operational in 2020, and therefore not contributing to the underlying performance of the business in that period.

Restructuring costs

During the year the Group took the opportunity to review existing operating structures to ensure that they remained appropriate for the business in its current form. Following this review, a number of roles were identified as being potentially redundant, and a period of consultation followed. At the end of the consultation period 35 roles were made redundant, at a one-off cost of £0.6 million. These costs have been classified as non-underlying as they relate to roles that no longer exist within the organisation and therefore will not re-occur in future reporting periods.

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 three 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 Eurocell Recycle North.
- Building Plastics – sale of building plastic materials across the UK. This segment includes Security Hardware, Kent Building Plastics and Trimseal.
- Corporate – represents costs relating to the ultimate Parent company and includes amortisation in respect of acquired intangible assets.

Inter-segmental sales relate to manufactured products distributed by the Building Plastics division.

	Profiles 2020 £m	Building Plastics 2020 £m	Corporate 2020 £m	Total 2020 £m
Revenue				
Total revenue	156.1	159.5	–	315.6
Inter-segmental revenue	(56.4)	(1.3)	–	(57.7)
Total revenue from external customers	**99.7**	**158.2**	**–**	**257.9**
Adjusted EBITDA(1)	16.5	12.7	0.6	29.8
Amortisation of intangible assets	–	–	(1.6)	(1.6)
Depreciation of property, plant and equipment	(5.1)	(1.1)	(0.6)	(6.8)
Depreciation of right-of-use assets	(3.5)	(7.6)	–	(11.1)
Adjusted operating profit	**7.9**	**4.0**	**(1.6)**	**10.3**
Impairment of goodwill	(5.8)	–	–	(5.8)
Non-underlying operating expenses	(3.1)	(0.6)	(0.1)	(3.8)
Operating (loss)/profit	**(1.0)**	**3.4**	**(1.7)**	**0.7**
Finance expense				(2.2)
Loss before tax				**(1.5)**

(1) Included within adjusted EBITDA are IFRS 9 impairment and bad debt charges of £3.7 million (Profiles £1.7 million; Building Plastics £2.0 million).

	Profiles 2019 £m	Building Plastics 2019 £m	Corporate 2019 £m	Total 2019 £m
Revenue				
Total revenue	175.2	164.7	–	339.9
Inter-segmental revenue	(59.5)	(1.3)	–	(60.8)
Total revenue from external customers	**115.7**	**163.4**	**–**	**279.1**
Adjusted EBITDA[(2)]	**24.7**	**15.2**	**2.5**	**42.4**
Amortisation of intangible assets	(0.1)	-	(1.7)	(1.8)
Depreciation of property, plant and equipment	(4.2)	(1.0)	(0.6)	(5.8)
Depreciation of right-of-use assets	(2.5)	(5.6)	(2.1)	(10.2)
Operating profit	**17.9**	**8.6**	**(1.9)**	**24.6**
Finance expense				(1.9)
Profit before tax				**22.7**

(2) Included within adjusted EBITDA are IFRS 9 impairment and bad debt charges of £1.5 million (Profiles £1.0 million; Building Plastics £0.5 million).

	Profiles 2020 £m	Building Plastics 2020 £m	Corporate 2020 £m	Total 2020 £m
Additions to plant, property, equipment and intangible assets	**12.3**	**0.9**	**0.5**	**13.7**
Segment assets	**110.9**	**59.6**	**30.9**	**201.4**
Segment liabilities	(57.6)	(32.9)	(7.0)	(97.5)
Borrowings				(12.5)
Corporation tax payable				(0.7)
Deferred tax liability				(3.5)
Total liabilities				**(114.2)**
Total net assets				**87.2**

	Profiles 2019 £m	Building Plastics 2019 £m	Corporate 2019 £m	Total 2019 £m
Additions to plant, property, equipment and intangible assets	**13.0**	**1.5**	**1.0**	**15.5**
Segment assets	**96.8**	**69.8**	**23.0**	**189.6**
Segment liabilities	(36.2)	(31.3)	(7.7)	(75.2)
Borrowings				(39.5)
Corporation tax payable				(1.8)
Deferred tax liability				(2.6)
Total liabilities				**(119.1)**
Total net assets				**70.5**

Geographical information

	Revenue 2020 £m	Non-current assets 2020 £m	Revenue 2019 £m	Non-current assets 2019 £m
United Kingdom	256.3	117.7	277.7	106.5
Republic of Ireland	1.6	–	1.4	–
Total	**257.9**	**117.7**	**279.1**	**106.5**

4 TAXATION

	2020 £m	2019 £m
Current tax expense		
Current tax on (losses)/profits for the year	(0.1)	3.4
Adjustment in respect of prior years	–	(0.2)
Total current tax	**(0.1)**	**3.2**
Deferred tax expense		
Origination and reversal of temporary differences	0.5	0.2
Adjustment in respect of change in rates	0.1	–
Adjustment in respect of prior years	0.2	–
Total deferred tax	**0.8**	**0.2**
Total tax expense	**0.7**	**3.4**

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:

	2020 £m	2019 £m
(Loss)/profit before tax	**(1.5)**	**22.7**
Expected tax charge based on the standard rate of corporation tax in the UK of 19.0%	(0.3)	4.3
Taxation effect of:		
Expenses not deductible for tax purposes	0.4	–
Impairment of goodwill not deductible for tax purposes	1.1	–
Patent Box claims	(0.7)	(0.8)
Adjustments to tax charge in respect of prior years	0.2	(0.2)
Tax on share-based payments recognised in equity	(0.1)	0.1
Adjustment in respect of change in rates	0.1	–
Total tax expense	**0.7**	**3.4**

Changes in tax rates and factors affecting the future tax charge

A reduction in the mainstream rate of UK corporation tax from 19% to 17% from April 2020 was enacted during 2016. This reduction was cancelled in January 2020, and consequently deferred taxes at the period end have been re-measured using the mainstream rate of 19%.

On 3 March 2021 an increase in the mainstream rate of UK corporation tax from 19% to 25% was announced, effective from April 2023. The Group estimates that the impact of the resulting remeasurement of deferred taxes in 2021 will be approximately £1 million.

There are no material uncertain tax provisions.

Tax included in Other Comprehensive Income

The tax credit arising on share-based payments within Other Comprehensive Income is £110,000 (2019: £88,000).

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 three years.

Tax residency

Eurocell plc and its subsidiaries are all registered in England and Wales, and are resident in the UK for tax purposes.

The Group has two branches in the Republic of Ireland, with combined annual revenues of £1.6 million, total assets of less than £50,000 and 8 full time employees. For tax purposes these two trading locations form a single branch within Eurocell Building Plastics Limited, and therefore any profits generated are subject to tax in the Republic of Ireland. The tax charge in relation to the Group's Republic of Ireland operations in 2020 is €1,000, and tax payments of €1,000 were made during the year.

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. Adjusted earnings per share excludes the impact of non-underlying items.

Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options. In the event that a loss is recorded for the period, share options are not considered to have a dilutive effect.

	2020 **£m**	**2019** **£m**
(Loss)/profit attributable to ordinary shareholders	(2.2)	19.3
Profit attributable to ordinary shareholders excluding non-underlying items	7.0	19.3
	Number	**Number**
Weighted average number of shares – basic	108,218,827	100,316,692
Weighted average number of shares – diluted	108,218,827	100,720,559
	Pence	**Pence**
Basic (losses)/earnings per share	(2.0)	19.3
Adjusted basic earnings per share	6.5	19.3
Diluted (losses)/earnings per share	(2.0)	19.2
Adjusted diluted earnings per share	6.5	19.2

6 DIVIDENDS

Due to the impact of COVID-19, the final dividend for 2019 declared in March 2020 of 6.4p per share, was subsequently cancelled and no dividends will be paid in respect of 2020. It remains the Group's intention to return to paying dividends in 2021.

	2020 **£m**	**2019** **£m**
Dividends paid during the year		
Final dividend for 2018 of 6.2p per share	–	6.2
Interim dividend for 2019 of 3.2p per share	–	3.2
	–	**9.4**

7 IMPAIRMENT

For the purpose of impairment testing, goodwill is allocated to Cash Generating Units ('CGUs') as follows:

	2020 £m	2019 £m
Eurocell Recycle North (formerly Ecoplas)	–	5.8
Eurocell Building Plastics	5.1	5.1
Eurocell Profiles	3.3	3.3
Vista Panels	2.2	2.2
S&S Plastics	0.2	0.2
Security Hardware	0.2	0.2
	11.0	**16.8**

CGUs are determined with reference to the smallest identifiable groups of assets that generate cash flows independently of other groups of assets, with reference to the business or product sectors in which they operate.

The recoverable amounts of the CGUs have been determined from 'value-in-use' calculations which have been predicated on discounted pre-tax cash flow projections based on a three-year business plan approved by the Board. These projections are based on all available information and growth rates do not exceed growth rates achieved in prior periods.

The key assumptions in preparing these forecasts are in line with the Group's published strategy, which includes continuing to open new branches, developing new products and increasing the use of recycled materials.

All of the Group's CGUs operate principally in the UK Repair, Maintenance and Improvements market, and all are funded through a combination of retained earnings and the Group's Revolving Credit Facility. The strategic decision-making timeframe is also consistent across all CGUs. Consequently, the key assumptions detailed below are applied consistently across each CGU:

	2020	2019
Period on which management-approved forecasts are based (years)	3	3
Discount rate	11%	10%
Profit growth in perpetuity	2%	2%

The period on which management-approved forecasts are based is consistent with the Board's strategic planning timeframe. The discount rate reflects an estimate of the Group's pre-tax Weighted Average Cost of Capital, based on past experience and sector-weighted assumptions. The profit growth rate in perpetuity is consistent with the average annual growth in UK Gross Domestic Product between 1990 and 2019 (source: Office for National Statistics).

For CGUs with a higher risk profile due to their size or historical performance, management forecasts are risk-adjusted by applying a sales sensitivity of 5%. This adjustment has been made for all CGUs with the exception of Eurocell Building Plastics and Eurocell Profiles.

Goodwill is considered to have an indefinite useful life.

As described in Note 2, with the exception of Eurocell Recycle North ('ERN', formerly Ecoplas), the Group assessed the recoverable amount in respect of goodwill for each CGU to be greater than the carrying amount and therefore no impairment arises. No reasonably possible change in assumptions would result in an impairment for these CGUs.

Eurocell Recycle North (formerly Ecoplas)

In the case of ERN, the carrying value of goodwill was written down to nil at the Half Year, with a non-underlying charge of £5.8 million recorded within administrative expenses. The impairment reflected the temporary closure of the business at that time, and the resulting uncertainty surrounding short term future cash flows. The remaining non-current assets associated with the ERN CGU comprise intangible assets of £0.5 million and property, plant and equipment of £4.5 million.

At 31 December 2020 production run-rates were ahead of prior year, and future cash flows less uncertain. As a result, the latest financial projections imply headroom over the carrying value of the remaining assets. However, should revenues be 6% lower than currently forecast, further impairments may arise in the future.

A 1% increase/decrease in the perpetuity growth rate would lead to a £0.9 million increase/decrease in value-in-use. A 100 basis points increase/decrease in discount rate would lead to a decrease/increase in value-of-use of £0.8 million. No further impairments would arise in either scenario.

Sensitivities

The following sales and discount rate sensitivities would reduce headroom on each CGU to nil:

	Sales	Discount rate
Eurocell Recycle North (formerly Ecoplas)	6%	16%
Eurocell Building Plastics	76%	48%
Eurocell Profiles	70%	52%
Vista Panels	72%	41%
S&S Plastics	74%	45%
Security Hardware	38%	18%

8 RECONCILIATION OF (LOSS)/PROFIT AFTER TAX TO CASH GENERATED FROM OPERATIONS

	2020 £m	2019 £m
(Loss)/profit after tax	**(2.2)**	**19.3**
Taxation	0.7	3.4
Finance expense	2.2	1.9
Operating profit	**0.7**	**24.6**
Adjustments for:		
Depreciation of property, plant and equipment	6.8	5.8
Depreciation of right-of-use assets	12.4	10.2
Amortisation of intangible assets	1.6	1.8
Impairment of goodwill	5.8	–
Impairment of right-of-use assets	0.9	–
Share-based payments	0.3	0.4
Increase in inventories	(0.8)	(9.0)
Decrease/(increase) in trade and other receivables	2.4	(1.7)
Increase/(decrease) in trade and other payables	3.1	(2.3)
Increase/(decrease) in provisions	0.7	(0.8)
Cash generated from operations	**33.9**	**29.0**

9 NEW SHARE CAPITAL

On 1 April the Group issued 10,031,040 new shares via a placing, for a gross consideration of £17.6 million. The amount raised above the nominal value of the shares issued, less costs associated with the placing of £0.5 million, has been recorded as share premium.

The Group also issued 1,030,189 new shares in respect of its Save As You Earn sharesave scheme, in the process receiving consideration from employees of £1.6 million. The consideration received above the nominal value of the shares issued has been recorded as share premium.

During the year no shares were issued in respect of share-based payment transactions for Directors and 90,127 shares vested and were issued in respect of share-based payment transactions for other key management personnel.

10 EVENTS AFTER THE BALANCE SHEET DATE

The Directors are not aware of any material events that have occurred after 31 December 2020 which would require disclosure under IAS 10.