16 March 2023

EUROCELL PLC (Symbol: ECEL)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

Solid financial performance and continuing to gain market share

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

Key financial performance measures (1)	2022	2021	Change
Revenue (£ million)	381.2	339.8	12%
Underlying measures (2)			
Adjusted operating profit (£ million)	31.3	29.7	5%
Adjusted operating profit margin (%)	8.2%	8.7%	(0.5)%
Adjusted profit before tax (£ million)	28.7	27.7	4%
Adjusted basic earnings per share (pence)	21.4	19.4	10%
Reported measures			
Operating profit (£ million)	29.1	29.7	(2)%
Profit before tax (£ million)	26.2	27.7	(5)%
Loss after tax from discontinued operations	(2.3)	(0.5)	(1.8)
Basic earnings per share (pence)	19.6	19.4	1%
Capital investment (£ million)	12.3	16.7	(4.4)
Net debt (£ million) (3)	78.1	69.7	8.4
Net debt, pre-IFRS 16 (£ million) (3)	14.4	11.0	3.4
Total dividends per share for the year (pence)	10.7	9.6	11%

Financial headlines

- Delivered a solid financial performance against an increasingly challenging backdrop and strong 2021 comparatives
- Continued successful deployment of commercial strategies, with sales up 12% vs 2021, including:
  - Profiles up 15% and Building Plastics up 10%
  - New build, large contract and RMI(4) project work robust throughout the year
  - Slowdown in smaller discretionary RMI work experienced by trade fabricators and the branch network in H2
- Price was the significant driver of sales growth in 2022
  - Selling price increases and surcharges recovering unprecedented input cost inflation
  - H2 margins reflected lower volumes and not all cost inflation being fully recovered until early in 2023
- Cyber incident in July / August, resulted in temporary disruption and some financial impact
  - Incident efficiently resolved, with the business remaining operational throughout
  - Insurance claim partially resolved, with compensation income of £1.1 million recognised in 2022
  - Steps taken to implement further resilience and security measures
- Adjusted operating profit from continuing operations up 5% vs 2021
  - Adjusted operating profit margin of 8.2% (2021: 8.7%), reflecting the dilutive impact of inflation
- Adjusted profit before tax from continuing operations up 4% vs 2021, reflecting lower sales volumes, cost control, operating efficiencies and recovery of significant input cost inflation

- Investment in business growth and resilience, with capex of £12.3 million, including substantial completion of operating capacity expansion and the start of a programme to improve IT infrastructure
- Strong balance sheet and liquidity, with pre-IFRS 16 net debt of £14.4 million (31 December 2021: £11.0 million)
    - Average pre-IFRS 16 net debt of £17.0 million in 2022
    - £75 million unsecured sustainable revolving credit facility refinanced in May 2022
- Proposed final dividend of 7.2 pence per share (2021: 6.4 pence per share), resulting in total dividends for the year of 10.7 pence per share up 11%, reflecting solid financial performance and a lower tax rate in 2022

Operational headlines

- Increased run rate on Profiles fabricator wins, with 29 new accounts in 2022 (2017-21: average 15 per annum)
- In Building Plastics, 2023 focus on optimising performance from existing branch estate
- New warehouse and expanded manufacturing capacity now delivering improved operating efficiencies
- Decisive action taken on costs to prepare the business for 2023
    - Reduced operating costs by c.£5 million per annum from the beginning of 2023, with the related redundancy costs and asset impairment charges (together £2.2 million) included as a non-underlying item in the financial statements
    - Following a review, streamlined the business via the disposal of Security Hardware in December, with loss on sale and trading loss (together £2.3 million) presented as a discontinued operation in the financial statements

Sustainability headlines

- Strong on sustainability as the leading UK-based recycler of PVC windows:
    - Further improvement in proportion of recycled material used to 29% (2021: 27%)
    - 82% of waste recycled in 2022 (2021: 82%)
    - c.£1.5 million investment in solar panels to be installed at our primary manufacturing facilities

Mark Kelly, Chief Executive of Eurocell plc said:

“In 2022, the business responded well to major challenges to report solid financial results for the year, with progress in sales and adjusted profits against a very strong 2021.

“Looking ahead, in preparation for tougher market conditions, we completed a restructuring programme in Q4 2022 to reduce operating costs, and in December, to further simplify the business, we sold the trade and assets of Security Hardware.

“We continue to take market share and have increased the run rate on new fabricator account acquisitions, with our pipeline of other potential new customers remaining healthy. Market share gains are further supported by the impact of maturing branches and a widening product range, all underpinned by very high product availability and increasingly efficient operations.

“For the current year, the latest construction industry forecasts(5) recognise the currently challenging market conditions and ongoing macroeconomic uncertainty. However, we have acted swiftly on cost to prepare the business for 2023 and we expect our strategy to enable us to optimise performance in our markets.”

Notes

(1) Stated on a continuing basis i.e. excluding discontinued operations.

(2) Non-underlying items of £2.5 million in 2022 include restructuring costs of £2.2 million (redundancy payments of £1.6 million and tangible and right-of-use asset impairment charges of £0.6 million) and £0.3 million of costs relating to the refinancing of the Group’s £75 million Revolving Credit Facility. There were no non-underlying items in 2021.

(3) Net debt is bank overdrafts, borrowings and lease liabilities less cash and cash equivalents and deferred consideration. Pre-IFRS 16 net debt excludes lease liabilities and is provided as our financial covenants are measured on this basis.

(4) RMI is repair, maintenance and improvement.

(5) Construction Products Association Forecasts 2022-24, published January 2023, predicting declines in the RMI and new build markets of 9% and 11% respectively for 2023.

Analyst presentation

There will be an audiocast presentation for analysts and investors at 9am today. The presentation can be accessed remotely via a live audiocast link as follows: https://streamstudio.world-television.com/782-2007-35360/en

Alternatively, you can join via conference call as follows:

United Kingdom (local)	+44 20 3936 2999
United Kingdom (toll free)	+44 800 640 6441
United States	+1 646 664 1960
All other locations	https://www.netroadshow.com/events/global-numbers?confId=47959
Participant access code	352865

A copy of the presentation will be made available from 7am on 16 March on the Group's website: https://investors.eurocell.co.uk/investors/

Following the presentation, a recording of the audiocast will also be made available on the Group's website (link above).

CHAIRMAN'S STATEMENT

Introduction

The last twelve months have seen major changes and significant challenges for the Group and in our markets. The progress we made during 2022 is testament to the commitment, hard work and dedication of our teams in every part of the Company, so I start this year's report by offering, on behalf of shareholders and of the Board, my sincere thanks to them all.

Financial and operating performance

Against a backdrop of unprecedented levels of inflation and weakening markets, particularly in the second half of the year, the business has delivered a solid financial performance in 2022, keeping pace with an exceptionally strong comparative period.

Sales for the year were £381 million, up 12% compared to 2021, and adjusted profit before tax from continuing operations was up 4% at £28.7 million (2021: £27.7 million). Reported profit before tax, also on a continuing basis, was down 5% at £26.2 million (2021: £27.7 million), reflecting the cost of a restructuring programme, which will benefit our financial results in 2023.

We are mindful of the uncertain macroeconomic background and its impact on our markets and we have therefore taken steps to prepare the business for 2023 and beyond. This included a restructuring programme completed in the fourth quarter of 2022, which will reduce operating costs by c.£5 million per annum from the start of 2023. In December, following a review, and to further simplify the business, we completed the disposal of Security Hardware, a supplier of window hardware with sales of c.£3 million per annum. These actions leave the business better placed for 2023.

Net debt at 31 December 2022 on a pre-IFRS 16 basis stood at £14.4 million (31 December 2021: £11.0 million). We have significant headroom on our bank facility and a strong balance sheet, which provides flexibility and options for the future.

Dividends

We paid an interim dividend of 3.5 pence per share in October 2022. The Board proposes a final dividend of 7.2 pence per share (2021: 6.4 pence per share), which results in total dividends for the year of 10.7 pence per share, up 11% (2021: 9.6 pence per share), reflecting our solid financial performance and a lower tax rate in 2022.

Strategy

In November, the Board conducted a review of the Group's strategy, our markets and activities. We concluded that our overall strategic objective, to deliver sustainable growth in shareholder value by increasing sales and profits above our market growth rates, remains appropriate.

Over the last few years, we have targeted seven strategic priorities to deliver this objective. We agreed that, whilst the seven priorities remain relevant for the medium to long term, we will focus on certain specific aspects of the strategy in 2023. In particular, we have an opportunity to exploit our spare operational capacity and grow market share in Profiles by acquiring new fabricator customers. We also intend to temporarily pause our branch opening programme until the economic outlook is clearer, and will instead focus on optimising returns from the existing branch estate. We will also continue to develop and improve the rewards and other benefits of working for Eurocell for our employees. Finally, we agreed that acquisitions would not be a focus for 2023.

The key aspects of our performance against each of the seven priorities is described in the Chief Executive Officer's Review.

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

Board changes and governance

This has also been a period of transition for the Board.

I succeeded Bob Lawson as Chair, following his retirement in July 2022, and I would like to thank Bob for his tremendous contribution to the development of Eurocell since our IPO in 2015.

Kate Allum and Alison Littley joined the Board in July 2022 and Iraj Amiri joined in November, all as independent Non-executive Directors. Kate, Alison and Iraj bring valuable commercial insight and extensive board committee and ESG knowledge, as well as recent and relevant financial experience, and have strengthened the expertise of the Board in these areas.

Sucheta Govil left the Board in July and Martyn Coffey has indicated his intention to step down at our AGM in May. I would also like to thank Sucheta and Martyn for their contribution to the Group.

As previously announced, in January 2023, Mark Kelly, Chief Executive Officer, notified the Board of his intention to retire later this year. He will be succeeded as CEO by Darren Waters, currently Chief Operating Officer of Ibstock plc, who will join the Board as Chief Executive Designate in April.

Mark has led the Group successfully from 2016, overseeing positive change throughout the business, delivering on significant growth since then, as well as completing substantial investment to expand capacity and provide a strong platform for the future. We are extremely grateful to Mark for his immense contribution to the Group, and on behalf of the Board, I thank him for his significant achievements and we wish him all the very best for the future.

To ensure a smooth transition, Mark will remain in his role until a handover period has been completed, following which he will retire from the Board and the position of Chief Executive Officer at the Group's AGM in May.

Darren has extensive experience and knowledge of the building products and fenestration sectors in the UK, both from his current role at Ibstock and from his previous position at Tyman plc, where he was the Chief Executive of UK and Ireland from 2012 to 2020.

Whilst this has been a period of significant change, I am very pleased that we have been able to attract such high-calibre individuals into the Company.

Finally, I can confirm that we aim to comply with the UK Corporate Governance Code and that as a Board, we are committed to the highest standards of corporate governance and ensuring effective communication with shareholders.

Derek Mapp

Chair

CHIEF EXECUTIVE OFFICER'S REVIEW

INTRODUCTION

We entered 2022 well placed to take advantage of favourable conditions in our markets and delivered a strong first six months of the year. However, whilst new build, large contract and repair, maintenance and improvement (RMI) project work continued to be robust throughout the second half, this was offset by the impact of the previously reported cyber incident and a slow-down in smaller discretionary RMI work experienced by our branch network and trade fabricators in H2.

Price was the significant driver of sales growth in 2022. Whilst we continue to recover input cost inflation with selling price increases and surcharges, we experienced margin pressure in the second half, reflecting lower volumes and not all cost inflation being fully recovered until early in 2023.

Overall, despite these second half challenges, and against an exceptionally strong prior period, we reported progress in sales and adjusted profits for the year.

After a period of very strong demand, the Construction Product Association's latest forecast, published in January, predicts declines in the RMI and new build markets of 9% and 11% respectively for 2023, before starting to recover in 2024.

In anticipation of weaker markets in 2023, we completed a restructuring programme in Q4, which along with other measures will reduce operating costs by approximately £5 million per annum from the start of 2023. Following a review, and to further streamline the business, in December we completed the sale of Security Hardware, a supplier of window hardware to the RMI market with annual third-party sales of c.£3 million, to UAP Limited, a UK-based door hardware supplier, who will supply hardware to all our branches.

Looking ahead, we continue to take market share and have increased the run rate on new fabricator account acquisitions, with our pipeline of other potential new fabricator customers remaining healthy. Market share gains are further supported by the impact of maturing branches and a widening product range, all underpinned by good product availability and increasingly efficient operations, reflecting the benefit of our recent investments in operating capacity.

FINANCIAL RESULTS

We delivered a solid financial performance in 2022, against a very strong prior period.

Sales for the year were £381 million, or 12% above 2021 and adjusted profit before tax from continuing operations was £28.7 million, up 4% or £1.0 million on 2021 (£27.7 million).

Reported profit before tax was down 5% at £26.2 million (2021: £27.7 million), after non-underlying costs totalling £2.5 million, primarily reflecting the cost of our Q4 2022 restructuring programme. Following the sale of Security Hardware, we have presented the trading loss for the year and loss on disposal of that business (in total £2.3 million) as a discontinued operation.

Further information on our financial performance is included in the Chief Financial Officer's Review and Divisional Reviews.

SUSTAINABILITY

Our objective is to continue to improve the sustainability of the Group. We have a defined suite of environmental and social targets and KPIs against which to measure our progress.

Central to our environmental targets, which cover both the circular economy as well as emissions and energy management, is reducing the carbon footprint of the business and our products. Our social objectives are broad and cover areas such as health & safety, diversity and education. In addition to the matters covered by these KPIs, we are progressing similar work on related topics such as transport emissions, employee well-being and community engagement. Our objectives align well with several relevant UN Sustainable Development Goals, as well the UK's transition towards a net zero carbon economy. We report our progress against these KPIs on an annual basis.

Looking forward there are four key themes to our work on sustainable development:

- Carbon, energy and water – defining our pathway to carbon neutrality and net zero, which will be driven primarily by reducing Scope 1 and 2 emissions in extrusion and recycling;
- Waste minimisation and circularity – further strengthening materials recovery and process optimisation;
- People and places – becoming the regional employer of choice and stepping up community engagement; and
- Governance – reporting progress against published ESG targets and aligning with recognised sustainability indices.

As a measure of commitment to achieving our goals, our new £75 million sustainable Revolving Credit Facility (refinancing completed in May, see the Chief Financial Officer's Review) contains annual recycling, emissions and waste reduction targets, with modest adjustments to the margin based upon performance.

In May, we also approved a c.£1.5 million investment in solar panels to be installed at our primary manufacturing facilities, which will supply more than 5% of the energy used in the manufacture of our extruded products.

Towards the end of 2022, the Group's Social Values and ESG Committee was formed to provide formal and transparent oversight of the Group's ESG programme. This includes sustainability, employee welfare and responsible business practices, as well as our contribution to the societies we operate in. The committee also monitors progress against our sustainability KPIs. It is comprised of two independent Non-executive Directors; Alison Littley (Chair) and Iraj Amiri, as well as the Group's Sustainability Manager, Simon Drury, and Human Resources Director, Bruce Stephen.

OPERATIONAL PERFORMANCE

Health and safety

The safety and wellbeing of our employees and contractors is our first operational priority and we continue to maintain a good safety performance. Our Lost Time Injury Frequency Rate ('LTIR') was 1.0 in 2022, compared to 0.8 in 2021. Our RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) performance was better than the industry average. There were no major injuries and 23 minor accidents recorded under RIDDOR in the year (2021: no major injuries, 28 minor injuries). We have improved the reporting of near misses and unsafe acts and conditions, as part of a proactive approach to risk management, with the aim of reducing the likelihood of future workplace injuries. This improvement, when combined with the effective and timely implementation of corrective and preventive action, supports our positive safety culture and we are targeting an improvement in the LTIR in 2023.

Production

In 2022 we manufactured 54.1k tonnes of rigid and foam PVC profiles at our primary extrusion facilities, 5% lower than 2021. This reflects our work to start reducing inventories, after the very high levels of production in 2021, when we built stock to mitigate the risk of raw material supply interruption and volatile pricing.

Overall Equipment Effectiveness ('OEE', a measure which takes into account machine availability, performance and yield) increased to 71% in 2022 (2021: 68%) due to improved efficiency and labour availability across our operations. In addition, our initiatives to increase compliance with the production plan at a line-item level have been successful, which helped drive a reduction in manufactured stock of c.£5 million in the second half.

Recycling

We have made further progress in 2022, with the use of recycled material in our primary extrusion increasing to 29% (16.7k tonnes) of materials consumed, compared to 27% in 2021. This drives significant cost and carbon savings compared to the use of virgin material. In addition, substantially all scrap generated in extrusion is recycled back into our production processes, further reducing waste sent to landfill.

SUPPLY CHAIN AND INFLATION

Strong demand in our markets over the last two years put sector supply chains under pressure, and we experienced tighter supply and an inflationary environment, with prices of certain raw materials, particularly PVC resin, rising significantly over this period.

Throughout this period we have taken effective action to offset ongoing input cost inflation, including a dynamic approach to selling prices and surcharges. Higher resin costs were also partially offset by our market-leading recycling plants. In addition, our progressive forward hedging policy for electricity provided some protection from rising energy costs in 2022.

The cost of key raw materials does now appear to be stabilising, and in some cases beginning to fall. However, the delay on recovering some raw material cost increases from the second half of 2022, combined with continued significant increases in the cost of energy and labour, has resulted in the implementation of further selling price increases from the beginning of 2023.

STRATEGY

Strategic priorities

Our overall strategic objective remains to deliver sustainable growth in shareholder value, by increasing sales and profits above our market growth rates. We have seven strategic priorities to help us achieve this objective.

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 20%. Our objective is to increase this over the medium term.

We have a sector-led strategy, with initiatives focused primarily on the trade / retail and new build sectors. We aim to be recognised as the number one choice for the trade / retail fabricator, and to further consolidate our position as the leading supplier to the new build market. Central to our plans for 2023 is exploiting our spare operational capacity to acquire new fabricator customers in both sectors. See the Profiles Divisional Review.

Expand the branch network

Our medium term strategic objective for Building Plastics is to achieve sector-leading operations from 270-300 sites. The growth will come mostly by taking market share from independent operators, who currently have more than 60% market share. In 2022 we believe we continued to take market share, and estimate that we now have c.25% of the UK roofline market.

Our aim is to be the number one choice for relevant trades across the UK, by creating the market-leading proposition and becoming recognised as first for service to the tradesperson.

Given the uncertain macroeconomic outlook, we will for now pause our branch opening programme, and focus in 2023 on optimising returns from the existing estate. See the Building Plastics Divisional Review.

Increase the use of recycled material

Expanding recycling improves product and business sustainability, with less plastic going to landfill. Recycling also increases our profits, because the cost of recycled compound is typically lower through the cycle than the price of virgin material. This is very important at the moment, with the price of virgin resin reaching historic high levels in 2022.

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

We are now the leading UK-based recycler of PVC windows. As well as keeping pace with increased demand, we have continued to improve the proportion of recycled material consumed in our primary extrusion operations. Usage increased from 9% of materials consumed (or 4.1k tonnes) in 2015 to 29% of consumption (or 16.7k tonnes) in 2022, driving a significant cost saving compared to the use of virgin material. Our objective is to increase this to around 33% over the next few years.

In 2022, we estimate that our recycling operation saved the equivalent of c.3 million end-of-life window frames from landfill and c.47k tonnes of carbon compared to the use of virgin PVC (equivalent to the annual CO_2 output of over 7,000 UK homes). Furthermore, we are finding more ways of using all the product generated by our recycling plants and expect to progressively reduce waste sent to landfill to less than 5% in the near term.

A weaker RMI market and less window replacements restricted feedstock availability for our recycling business in the second half of 2022, leading to increased purchase prices. However, we are making good progress securing additional sources of feedstock for 2023.

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. Highlights for 2022 include:

- Improved conservatory and roof system range, including more contemporary styles and design features that rival the specialist conservatory companies, with a “fitter friendly” installation process;
- A new aluminium flat rooflight (Luma), with security accreditation and strong thermal characteristics;
- A premium garden room (Kyube Plus), with a canopy and additional glazing / cladding options; and
- Expansion of our outdoor living range to include premium pergolas and verandas (aluminium-clad and maintenance-free).

Looking forward to 2023, we will continue to work with housebuilders to further develop fit-for-purpose window and door solutions for the Future Homes Standard. In addition, reflecting the continuing strong demand for affordable extra work and leisure space at home, we are developing “extension kits”, which provide an alternative and affordable method to add space at a fraction of the cost, time and inconvenience compared to traditional extensions or moving house.

Deliver sustained operational excellence

Historical manufacturing and warehousing constraints have now been resolved through major investments in new capacity, thereby providing a strong platform for efficient future sales and market share growth.

With the addition of five new lines in 2022, we have now increased extrusion capacity by c.40% compared to 2018, thereby providing good headroom against current levels of demand. Transition to our new state-of-the-art warehouse, completed in 2021, was also central to increasing capacity and to delivering improvements in operational efficiencies. This new site also unlocked the operational footprint for the Group, via the conversion in 2021 of our old warehouse to a specialist manufacturing site, and the relocation of secondary operations, including foiling and conservatory roofs, providing a better environment to drive these businesses forward. In addition, this freed up space to future-proof extrusion capacity for the medium-term.

Operating efficiencies in 2022 were good, with OEE improving to 71% (2021: 68%). Our focus is now on delivering further efficiencies from the new warehouse and production facilities. Whilst the unprecedented level of inflation of the last 18 months has provided a major headwind to operating margin expansion, looking ahead, with constraints resolved, we expect the benefit of sales growth to flow through to improved margins.

Develop a sector-leading digital proposition

Stakeholders increasingly require full end-to-end digital solutions, a trend accelerated by the COVID pandemic. 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.

Having selected software for a new website (including an integrated product management system and e-commerce platform) and an employee management system in 2021, our focus in 2022 was on the development of these two key components of our digital strategy. These projects are now well advanced, with both systems due to be launched in 2023.

Following a full review in 2022, we believe that the age profile of our principal Enterprise Resource Planning (‘ERP’) operating system has become a limiting factor in the development of our business. This conclusion recognises that our current SAP system was implemented in 2006, when the Group was primarily a manufacturer of PVC profile, with no recycling and only a small branch operation. We are therefore starting a project to upgrade or replace our SAP system, with the principal tasks for 2023 being scoping and system selection. Thereafter, we anticipate implementation to be a 2-3 year process and, whilst it is very early in the process, we estimate the total capital costs of the project will be in the region of £6-8 million.

Explore potential bolt-on acquisitions

Exploring potential acquisitions in the markets in which we operate remains a medium to long term option for the Group, but will not be a priority in 2023.

SUMMARY AND OUTLOOK

In 2022, the business responded well to major challenges to report solid financial results for the year, with progress in sales and adjusted profits against a very strong 2021.

Looking ahead, in preparation for tougher market conditions, we completed a restructuring programme in Q4 2022 to reduce operating costs, and in December, to further simplify the business, we sold the trade and assets of Security Hardware.

We continue to take market share and have increased the run rate on new fabricator account acquisitions, with our pipeline of other potential new fabricator customers remaining healthy. Market share gains are further supported by the impact of maturing branches and a widening product range, all underpinned by very high product availability and increasingly efficient operations.

For the current year, the latest construction industry forecasts recognise the currently challenging market conditions and ongoing macroeconomic uncertainty. However, we have acted swiftly on cost to prepare the business for 2023 and we expect our strategy to enable us to optimise performance in our markets.

Mark Kelly

Chief Executive Officer

DIVISIONAL REVIEWS

PROFILES

Strategy

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 20%. Our strategic objective is to increase this over the medium term.

The demand created by our specification and marketing teams, together with continuing new product introductions, have supported growth for our existing fabricator customers over the last few years. We have also increased the run rate on new fabricator account acquisitions and our pipeline of other potential new fabricator customers remains healthy. Looking forward, there is an opportunity to capitalise on our recent investments in warehousing and production plant, to exploit spare operational capacity and continue to grow market share in Profiles.

Our plans to achieve this are sector-led, with initiatives focused primarily on the trade / retail and new build sectors, which together represent c.90% of Profiles sales (c.55% for trade and c.35% for new build).

There is a compelling case for larger trade fabricators to switch to Eurocell. This includes a strong product range and continued product development e.g. better aesthetics (such as flush windows), a more contemporary look to roofing and door products and improved environmental characteristics. In addition, the benefits of pull-through profile specifications and increasing opportunities to supply our branches, all delivered via improving service, remain attractive to prospective fabricator accounts.

Expanding our share of the new build market has been key to recent growth, driven by sales of cavity closures where we are the clear market leader. Looking forward, building regulations for windows are becoming increasingly complicated and our technical teams are working with our larger customers to enable them to conform, including development of new product applications to meet changing requirements.

This includes the Future Homes Standard, which will complement the existing Building Regulations to ensure new homes built from 2025 produce 75-80% less carbon emissions than homes delivered under the old regulations. The housebuilders have already taken significant steps to reduce emissions through walls, floors and roofs. However, to comply with the proposed new regulations, solutions to reduce emissions through windows and doors are likely to be required. This plays well to Eurocell’s technical expertise and we are working with the housebuilders and our customers to design a fit-for-purpose solution.

We have strong relationships with large and medium-sized housebuilders, maintained by our specification and technical teams. We now plan to target regional housebuilders to further consolidate our position of strength within the new build sector.

	2022 £m	2021 £m	Change %
Third-party revenue	**161.7**	**140.7**	**15%**
Inter-segmental revenue	72.3	63.9	13%
Total revenue	**234.0**	**204.6**	**14%**
Adjusted(1) operating profit	**20.2**	**20.7**	**(2)%**
Operating profit	**19.3**	**20.7**	**(7)%**

(1) Adjusted performance measures are stated before non-underlying items.

Profiles third-party revenue for the year was £161.7 million, 15% higher than 2021, with price the significant driver of higher sales.

As described above, we continue to take market share. During 2017-21 we added c.75 new accounts (an average of 15 per annum). A further 29 accounts were added in 2022, which are coming online progressively (typically 6 months from the point of signing) and will provide support for 2023, and our prospect pipeline remains healthy.

Adjusted operating profit for 2022 of £20.2 million was 2% below the previous year (2021: £20.7 million), reflecting flat volumes and cost control, but with not all cost inflation being fully recovered until early in 2023. Reported operating profit is stated after non-underlying restructuring costs and associated asset impairments totalling £0.9 million. Further information on non-underlying items is included in the Chief Financial Officer’s Review.

BUILDING PLASTICS

Strategy

Our overall medium term strategic objective for Building Plastics is to achieve sector-leading operations from 270-300 sites. Growth will come mostly by taking market share from independent operators, who currently have more than 60% market share (measured by number of sites). In 2022 we believe we continued to take market share, and estimate that we now have c.25% of the UK roofline market.

Our aim is to be the number one choice for relevant trades across the UK, by creating the market-leading proposition and being recognised as first for service to the tradesperson.

We are mindful of the uncertain macroeconomic background and its impact on our markets. We therefore intend to temporarily pause our branch opening programme until the economic outlook is clearer. However, this allows our team to review and focus on improvements we can make to the existing estate, which will also support the future expansion and growth of the network.

Our review is already in progress, and includes a deep dive to better understand the key characteristics of our best performing branches, with a view to replicating these across the network and improving returns on invested capital. This includes consideration of branch format, scale and infrastructure costs (including rent), product range and new product development, labour turnover (and other people metrics), value added services and operational efficiencies.

We have two branch formats: standard (209 branches), and large (10 branches), the latter with bigger display areas and a wider product range available. Both current and potential future formats are part of the review.

Customer centric new product development is also a fundamental pillar of our strategy to expand the branch network. In 2022 this included development of our conservatory and roofs proposition, launch of a new flat roof lantern and expansion of our outdoor living product range to include pergolas and verandas.

Our best performing branches are generally those with the lowest rates of labour turnover. Our initiatives to reduce labour attrition across the network are focused on four key drivers: systems and processes; environment and engagement; pay and reward; and training.

We believe we can drive further growth in the network by developing value added services for our customers. For example, we expect our recently established Select Installer scheme for conservatory roofs to create a nationwide network of Eurocell advocates, as we channel customer leads through the installer community.

Finally, we also expect to support profitability and returns in the network through a series of ongoing continuous improvement activities. These are focused on margin control, underperforming branches, asset protection, range simplification and stock optimisation.

	2022 £m	2021 £m	Change %
Third-party revenue	**219.5**	**199.1**	**10%**
Inter-segmental revenue	0.3	0.5	(40)%
Total revenue	**219.8**	**199.6**	**10%**
Adjusted(1) operating profit	**12.2**	**12.6**	**(3)%**
Operating profit	**10.9**	**12.6**	**(13)%**

(1) Adjusted performance measures are stated before non-underlying items.

Building Plastics third-party revenue for the year was £219.5 million, 10% higher than 2021, with price the significant driver of sales growth.

Adjusted operating profit for 2022 was £12.2 million, 3% below the previous year (2021: £12.6 million), reflecting lower volumes and cost control, but with not all cost inflation being fully recovered until early in 2023. Reported operating profit is stated after non-underlying restructuring costs and associated asset impairments totalling £1.3 million. As part of the restructuring exercise, we concluded that 5 underperforming branches would be closed in Q1 2023, leaving a network of 214 sites. These branches were selected based on performance, remaining lease duration and ability to transfer sales to other nearby sites.

Further information on non-underlying items is included in the Chief Financial Officer’s Review.

CHIEF FINANCIAL OFFICER’S REVIEW

	2022 £m	2021 £m
Revenue	**381.2**	**339.8**
Gross profit	184.5	172.1
Gross margin %	48.4%	50.6%
Overheads	(130.4)	(119.7)
Other income(3)	1.1	–
Adjusted(2) EBITDA	**55.2**	**52.4**
Depreciation and amortisation	(23.9)	(22.7)
Adjusted(2) operating profit	**31.3**	**29.7**
Finance costs	(2.6)	(2.0)
Adjusted(2) profit before tax	**28.7**	**27.7**
Taxation	(4.7)	(6.1)
Adjusted(2) profit after tax	**24.0**	**21.6**
Adjusted(2) basic earnings per share (pence)	**21.4**	**19.4**
Non-underlying overheads	(2.2)	–
Non-underlying finance costs	(0.3)	–
Tax on non-underlying items	0.5	–
Reported operating profit	**29.1**	**29.7**
Reported profit before tax	**26.2**	**27.7**
Reported profit after tax	**22.0**	**21.6**
Loss after tax from discontinued operations	(2.3)	(0.5)
Reported basic earnings per share (pence)	**19.6**	**19.4**
Profit for the year	**19.7**	**21.1**

(1) Results are stated on a continuing basis i.e. before discontinued operations (see below).
(2) See alternative performance measures.
(3) Other income is amounts received under the Group’s cyber insurance policy, net of excess paid, in respect of business interruption to the Group’s continuing trading activities as a result of a cyber incident in July and August 2022.

INTRODUCTION

The business overcame significant challenges in 2022 to deliver solid financial results for the year, with, on a continuing basis, sales of £381.2 million up 12% and adjusted profit before tax of £28.7 million up 4% on 2021. We also took decisive action to prepare the business for 2023, with the completion of a restructuring programme and disposal of Security Hardware. Reported profit before tax was £26.2 million (2021: £27.7 million), stated after the cost of the restructuring programme.

After a strong first half, our markets began to slow down in H2, particularly smaller discretionary RMI work. However, the inflationary environment continued throughout the year, and whilst we continued to offset input cost inflation with selling price increases and surcharges, we experienced margin pressure in the second half, reflecting lower volumes and not all cost inflation being fully recovered until early in 2023, when additional selling price increases were implemented.

As reported at the Half Year, we experienced a cyber incident towards the end of July, which resulted in some temporary disruption. The incident was efficiently resolved, with the business remaining operational throughout and trading normally from mid-August. We have now partially resolved our cyber insurance claim and recognised compensation of £1.1 million as underlying other income in our 2022 financial statements, primarily for business interruption. Work is ongoing with the insurer to resolve the remaining aspects of the claim.

In anticipation of weaker markets in 2023, we completed a restructuring programme in Q4 2022, which along with other cost saving measures, will reduce operating costs by approximately £5 million per annum from the start of 2023. The programme included a headcount reduction and closure of five underperforming branches. The costs associated with this restructuring have been classified as a non-underlying item.

Following a review, and to further streamline the business, in December 2022 we completed the sale of Security Hardware to UAP Limited for a total consideration of £1.2 million. Security Hardware has been classified as a discontinued operation, as it represents a major line of business, is material and was an operating segment (reported as part of the Building Plastics division). Discontinued operations are excluded from the results of continuing operations and are presented in the income statement as a single amount as profit or loss after tax from discontinued operations. The loss after tax from discontinued operations was £2.3 million, comprised of a trading loss of £1.1 million (inclusive of costs incurred to prepare the business for sale) and a loss on disposal of £1.2 million.

REVENUE

Revenue for 2022 was £381.2 million, 12% higher than 2021 (£339.8 million), with price the significant driver of sales growth.

GROSS MARGIN

Gross margin for the year was 48.4%, down from 50.6% in 2021. As described above, we experienced margin pressure in the second half, reflecting lower volumes and not all cost inflation being fully recovered until early in 2023. However, the cost of key raw materials does now appear to be stabilising, and in some cases beginning to fall.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES (OVERHEADS) AND OTHER INCOME

Underlying overheads were together £130.4 million, up 9% on 2021 (£119.7 million) reflecting the impact of inflation on our cost base.

Other income is the amount received under our cyber insurance policy in compensation for business interruption (lost sales) suffered due to the cyber incident in July and August.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation was £23.9 million compared to £22.7 million in 2021.

ALTERNATIVE 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 2022 of £2.5 million included restructuring costs of £2.2 million, comprising £1.6 million of redundancy payments and £0.6 million of asset impairment charges. Also included are finance costs of £0.3 million arising as a result of the refinancing of our Revolving Credit Facility in May (see below).

No non-underlying items were recognised in 2021.

FINANCE COSTS AND TAXATION

Underlying finance costs for 2022 were £2.6 million, compared to £2.0 million in 2021. Total finance costs of £2.9 million include £0.3 million of unamortised borrowing costs expensed to the Consolidated Income Statement following the refinancing of the Group's Revolving Credit Facility (see below).

The underlying tax charge for 2022 was £4.7 million (2021: £6.1 million). The effective tax rate on underlying profit before tax for 2022 of 16.4% is lower than the standard rate of corporation tax of 19% due to the benefit of Patent Box relief.

We were pleased to retain the Fair Tax Mark accreditation in 2022, reflecting our commitment to paying the right amount of tax at the right time.

PROFIT BEFORE TAX AND EARNINGS PER SHARE

Adjusted profit before tax for the year was £28.7 million compared to £27.7 million in 2021, up 4% reflecting lower sales volumes (including the impact of the cyber incident), cost control, operating efficiencies and the recovery of significant cost inflation.

Reported profit before tax in 2022 was £26.2 million (2021: £27.7 million), reflecting the above, and £2.5 million of non-underlying items.

Adjusted basic earnings per share for the year were 21.4 pence (2021: 19.4 pence), reflecting the increased profitability and lower tax charge. Adjusted diluted earnings per share for the year were 21.3 pence (2021: 19.3 pence). Total basic and diluted earnings per share were 19.6 pence and 19.5 pence respectively (2021: 19.4 pence and 19.3 pence respectively).

DIVIDENDS

We paid an interim dividend of 3.5 pence per share in October 2022 (£3.9 million). The Board proposes a final dividend of 7.2 pence per share (2021: 6.4 pence per share), which results in total dividends for the year of 10.7 pence per share, or £12.0 million, up 11% (2021: 9.6 pence or £10.8 million). This reflects our solid financial performance and a lower tax rate in 2022. The dividend will be paid on 17 May 2023 to Shareholders registered at the close of business on 21 April 2023. The ex-dividend date will be 20 April 2023.

Retained earnings as at 31 December 2022 were £91.7 million (2021: £83.1 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 2022 was £12.3 million (2021: £16.7 million). 2022 includes c.£4 million to expand manufacturing capacity across a number of key product lines and c.£2 million for IT infrastructure improvements, our new website and HR information system, both of which will be launched in the first half of 2023. The remaining c.£6 million relates mostly to maintenance capex, and includes warehouse improvements, branch refurbishments and critical spares in recycling, as well as solar panels for our primary manufacturing facilities.

CASH FLOW

Net cash generated from operating activities was £35.1 million (2021: £29.6 million).

A net outflow from working capital for 2022 of £13.1 million includes the substantial impact of inflation (c.£8 million net across all working capital components). The outflow is comprised of an increase in stocks of £5.7 million, an increase in trade and other receivables of £5.6 million and a decrease in trade and other payables of £1.8 million. For stocks, the inflation impact alone is c.£7 million. This compares to a net outflow from working capital of £19.4 million in 2021, which also included a significant inflationary component (c.£8 million).

Other items include payments for capital investments of £12.4 million (2021: £15.5 million), net proceeds from the disposal of Security Hardware of £0.3 million and financing costs paid of £1.2 million (2021: £0.6 million). Tax paid in the year was £3.6 million (2021: £3.5 million). Dividends of £11.1 million were paid in the year (2021: £3.6 million).

The principal elements of lease payments of £13.3 million (2021: £10.1 million) are presented within cash flows arising from financing activities. The finance elements of lease payments were £1.4 million (2021: £1.2 million).

NET DEBT

Net debt on a pre-IFRS 16 basis at 31 December 2022 was £14.4 million (31 December 2021: £11.0 million).

Lease liabilities increased by £5.0 million. Reported net debt at 31 December 2022 was £78.1 million (31 December 2021: £69.7 million).

	2022	**2021**	**Change**
	£m	**£m**	**£m**
Cash	5.1	6.6	(1.5)
Deferred consideration	0.8	–	0.8
Bank overdrafts	–	(5.9)	5.9
Borrowings	(20.3)	(11.7)	(8.6)
Net debt (pre-IFRS 16)	**(14.4)**	**(11.0)**	**(3.4)**
Lease liabilities	(63.7)	(58.7)	(5.0)
Net debt (reported)	**(78.1)**	**(69.7)**	**(8.4)**

BANK FACILITY

We have an unsecured multi-currency Revolving Credit Facility (‘RCF’) of £75 million. In May 2022 the Group refinanced this facility, with the key terms unchanged. The facility is held with Barclays Bank plc, NatWest Bank plc and Bank of Ireland, and expires in May 2026. The facility is a Sustainable RCF, where modest adjustments to the margin are applied based on our achievement against annual targets for usage of recycling in our products, waste recycled and carbon emissions.

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 2022

		Year ended 31 December 2022			Year ended 31 December 2021 (re-presented[3])		
	Note	Underlying £m	[1]Non-underlying £m	Total £m	Underlying £m	[1]Non-underlying £m	Total £m
Revenue	3	**381.2**	**–**	**381.2**	**339.8**	**–**	**339.8**
Cost of sales		(196.7)	–	(196.7)	(167.7)	–	(167.7)
Gross profit		**184.5**	**–**	**184.5**	**172.1**	**–**	**172.1**
Distribution costs		(23.9)	(0.4)	(24.3)	(23.0)	–	(23.0)
Administrative expenses		(130.4)	(1.8)	(132.2)	(119.4)	–	(119.4)
Other income[2]		1.1	–	1.1	–	–	–
Operating profit	3	**31.3**	**(2.2)**	**29.1**	**29.7**	–	**29.7**
Finance expense		(2.6)	(0.3)	(2.9)	(2.0)	–	(2.0)
Profit before tax from continuing operations	3	**28.7**	**(2.5)**	**26.2**	**27.7**	–	**27.7**
Taxation	4	(4.7)	0.5	(4.2)	(6.1)	–	(6.1)
Profit after tax from continuing operations		**24.0**	**(2.0)**	**22.0**	**21.6**	–	**21.6**
Discontinued operations							
Loss after tax from discontinued operations	5			(2.3)			(0.5)
Profit for the year and total comprehensive income				**19.7**			**21.1**
Basic earnings per share from continuing operations	6	**21.4p**		**19.6p**	**19.4p**		**19.4p**
Diluted earnings per share from continuing operations	6	**21.3p**		**19.5p**	**19.3p**		**19.3p**

(1) Non-underlying items in 2022 are detailed in Note 2.

(2) Other income is amounts received under the Group's cyber insurance policy, net of excess paid, in respect of business interruption to the Group's continuing trading activities as a result of a cyber incident in July and August 2022.

(3) The prior year comparatives have been re-presented to remove the results of Security Hardware, which have been presented as discontinued operations in both the current and prior year following the sale of the business on 2 December 2022.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	2022 £m	2021 £m
Assets		
Non-current assets		
Property, plant and equipment	61.7	59.2
Right-of-use assets	59.7	54.8
Intangible assets	16.9	18.6
Total non-current assets	**138.3**	**132.6**
Current assets		
Inventories	59.9	55.9
Trade and other receivables	50.0	44.5
Corporation tax	0.2	–
Deferred consideration	0.8	–
Cash and cash equivalents	5.1	6.6
Total current assets	**116.0**	**107.0**
Total assets	**254.3**	**239.6**
Liabilities		
Current liabilities		
Trade and other payables	(47.4)	(48.7)
Lease liabilities	(13.0)	(11.9)
Bank overdrafts	–	(5.9)
Provisions	(0.2)	(0.7)
Total current liabilities	**(60.6)**	**(67.2)**
Non-current liabilities		
Borrowings	(20.3)	(11.7)
Trade and other payables	–	(0.3)
Lease liabilities	(50.7)	(46.8)
Provisions	(1.0)	(0.8)
Deferred tax	(6.8)	(6.6)
Total non-current liabilities	**(78.8)**	**(66.2)**
Total liabilities	**(139.4)**	**(133.4)**
Net assets	**114.9**	**106.2**
Equity attributable to equity holders of the parent		
Share capital	0.1	0.1
Share premium account	22.2	21.9
Share-based payment reserve	0.9	1.1
Retained earnings	91.7	83.1
Total equity	**114.9**	**106.2**

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2022

	Note	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Cash generated from operations	8	38.7	33.1
Income taxes paid		(3.6)	(3.5)
Net cash generated from operating activities		**35.1**	**29.6**
Investing activities			
Purchase of property, plant and equipment		(11.9)	(15.1)
Purchase of intangible assets		(0.5)	(0.4)
Net cash flow arising on sale of business		0.3	–
Net cash used in investing activities		**(12.1)**	**(15.5)**
Financing activities			
Proceeds from new share capital issued		0.2	0.5
Repayment of bank and other borrowings		(22.0)	(1.0)
Proceeds from bank borrowings		31.0	–
Bank borrowings arrangement costs		(0.8)	–
Principal elements of lease payments		(13.3)	(10.1)
Finance elements of lease payments		(1.4)	(1.2)
Finance expense paid		(1.2)	(0.6)
Dividends paid to equity Shareholders	7	(11.1)	(3.6)
Net cash used in financing activities		**(18.6)**	**(16.0)**
Net increase/(decrease) in cash and cash equivalents[(1)]		**4.4**	**(1.9)**
Cash and cash equivalents[(1)] at beginning of year		0.7	2.6
Cash and cash equivalents[(1)] at end of year		**5.1**	**0.7**

(1) Cash and cash equivalents includes bank overdrafts.
(2) Cash flows arising on discontinued operations are outlined in Note 5.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2022	**0.1**	**21.9**	**1.1**	**83.1**	**106.2**
Comprehensive income for the year					
Profit for the year	–	–	–	19.7	19.7
Total comprehensive income for the year	**–**	**–**	**–**	**19.7**	**19.7**
Contributions by and distributions to owners					
Exercise of share options	–	0.3	–	–	0.3
Share-based payments	–	–	(0.2)	–	(0.2)
Dividends paid	–	–	–	(11.1)	(11.1)
Total transactions with owners recognised directly in equity	**–**	**0.3**	**(0.2)**	**(11.1)**	**(11.0)**
Balance at 31 December 2022	**0.1**	**22.2**	**0.9**	**91.7**	**114.9**

	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2021	**0.1**	**21.1**	**0.5**	**65.5**	**87.2**
Comprehensive income for the year					
Profit for the year	–	–	–	21.1	21.1
Total comprehensive income for the year	**–**	**–**	**–**	**21.1**	**21.1**
Contributions by and distributions to owners					
Exercise of share options	–	0.8	(0.6)	0.1	0.3
Share-based payments	–	–	1.2	–	1.2
Dividends paid	–	–	–	(3.6)	(3.6)
Total transactions with owners recognised directly in equity	**–**	**0.8**	**0.6**	**(3.5)**	**(2.1)**
Balance at 31 December 2021	**0.1**	**21.9**	**1.1**	**83.1**	**106.2**

1 BASIS OF PREPARATION

The financial information for the year ended 31 December 2022 was approved by the Board on 15 March 2023. 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 UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

This information has been prepared under the historical cost method, using all standards and interpretations required for financial periods beginning 1 January 2022. 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 2021 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2022 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, provided by Barclays, NatWest and Bank of Ireland, which matures in May 2026. The facility includes two key financial covenants, which are tested at 30 June and 31 December each year on a pre-IFRS 16 basis. These are that net debt should not exceed three times adjusted EBITDA (Leverage), and that adjusted EBITDA should be at least four 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 (see Chief Financial Officer's Review).

No covenants were breached during the year ended 31 December 2022. For the next measurement period, being 30 June 2023, and going forward, the Group expects to comply with its covenants.

In assessing going concern, the Directors have considered financial projections for the period to December 2024, 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 severe but plausible 'Downside' scenario, which reflects demand for our products being severely weakened.

In all scenarios tested, including sensitivities reducing sales forecasts to 10% below management's estimates for the period 2023-24, 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 the Financial Statements.

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

The Group has applied the following amendments for the first time for the financial reporting period commencing 1 January 2022, with no material impact:

- Property, Plant and Equipment: proceeds before intended use – amendments to IAS 16;
- Reference to the Conceptual Framework – amendments to IFRS 3;
- Onerous Contracts: cost of fulfilling a contract – amendments to IAS 37; and
- Annual Improvements to IFRS Standards 2018 – 20.

The following new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group:

- IFRS 17 Insurance Contracts;
- Classification of Liabilities as Current or Non-current – amendments to IAS 1;
- Disclosure of Accounting Policies – amendments to IAS 1 and IFRS Practice Statement 2;
- Definition of Accounting Estimates – amendments to IAS 8; and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to IAS 12.

These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 NON-UNDERLYING ITEMS

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

	2022 £m	2021 £m
Restructuring costs	1.6	–
Asset impairment charges	0.6	–
Non-underlying operating expenses	**2.2**	**–**
Finance expense	0.3	–
Total non-underlying expenses	**2.5**	**–**
Taxation	(0.5)	–
Impact on profit after tax	**2.0**	**–**

Restructuring costs

Restructuring costs relate to redundancies, with 63 roles impacted at a one-off cost of £1.6 million. These costs are classified as non-underlying as they relate to roles that no longer exist within the organisation and therefore would not re-occur in future reporting periods.

Assets impairment charges

Tangible fixed assets and right-of-use asset impairment charges amounting to £0.6 million were recognised in respect of five branches which, at 31 December 2022, the Group had announced its intention to close in early 2023.

Finance expense

The Group refinanced its Revolving Credit Facility in May 2022. Unamortised arrangement fees relating to the previous facility, which had been due to expire in December 2023, were expensed to the Consolidated Income Statement, and have been presented as non-underlying as the facility to which they relate no longer exists.

There were no non-underlying items in the prior year.

Of the £2.5 million non-underlying expenses, £1.1 million was settled in cash at 31 December 2022, and £0.5 million will be settled within 12 months of the balance sheet date. The remaining £0.9 million relates to non-cash asset impairment charges.

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 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.

2022	Profiles £m	Building Plastics £m	Corporate £m	Total £m
Revenue				
Total revenue	234.0	219.8	–	453.8
Inter-segmental revenue	(72.3)	(0.3)	–	(72.6)
Total revenue from external customers	**161.7**	**219.5**	**–**	**381.2**
Adjusted EBITDA	32.7	21.0	1.5	55.2
Amortisation of intangible assets	–	–	(1.8)	(1.8)
Depreciation of property, plant and equipment	(7.0)	(1.1)	(0.7)	(8.8)
Depreciation of right-of-use assets	(5.5)	(7.7)	(0.1)	(13.3)
Adjusted operating profit/(loss)	**20.2**	**12.2**	**(1.1)**	**31.3**
Non-underlying operating expenses	(0.9)	(1.3)	–	(2.2)
Operating profit/(loss)	**19.3**	**10.9**	**(1.1)**	**29.1**
Finance expense				(2.9)
Profit before tax from continuing operations				**26.2**

2021 (re-presented)	Profiles £m	Building Plastics £m	Corporate £m	Total £m
Revenue				
Total revenue	204.6	199.6	–	404.2
Inter-segmental revenue	(63.9)	(0.5)	–	(64.4)
Total revenue from external customers	**140.7**	**199.1**	**–**	**339.8**
EBITDA	**31.8**	**21.5**	**(0.9)**	**52.4**
Amortisation of intangible assets	–	–	(1.9)	(1.9)
Depreciation of property, plant and equipment	(6.0)	(1.0)	(0.7)	(7.7)
Depreciation of right-of-use assets	(5.1)	(7.9)	(0.1)	(13.1)
Operating profit/(loss)	**20.7**	**12.6**	**(3.6)**	**29.7**
Finance expense				(2.0)
Profit before tax from continuing operations				**27.7**

	Profiles 2022 £m	Building Plastics 2022 £m	Corporate 2022 £m	Total 2022 £m
Additions to plant, property, equipment and intangible assets	7.6	1.4	3.3	12.3
Segment assets	145.1	89.4	19.8	254.3
Segment liabilities	(61.3)	(43.2)	(7.8)	(112.3)
Borrowings				(20.3)
Deferred tax liability				(6.8)
Total liabilities				(139.4)
Total net assets				**114.9**

	Profiles 2021 £m	Building Plastics 2021 £m	Corporate 2021 £m	Total 2021 £m
Additions to plant, property, equipment and intangible assets	13.2	2.5	1.0	16.7
Segment assets	132.6	87.9	19.1	239.6
Segment liabilities	(61.2)	(45.0)	(8.9)	(115.1)
Borrowings				(11.7)
Deferred tax liability				(6.6)
Total liabilities				(133.4)
Total net assets				**106.2**

Geographical information

	Revenue 2022 £m	Non-current assets 2022 £m	Revenue 2021[2] £m	Non-current assets 2021 £m
United Kingdom	379.3	138.3	338.3	132.6
Republic of Ireland[1]	1.9	–	1.5	–
Total	**381.2**	**138.3**	**339.8**	**132.6**

[1] The net book value of non-current assets in the Republic of Ireland was less than £50,000 in both years.
[2] Re-presented.

4 TAXATION

	2022 £m	2021 £m
Current tax expense		
Current tax on profits for the year	3.2	2.7
Adjustment in respect of prior years	0.3	0.1
Total current tax	**3.5**	**2.8**
Deferred tax expense		
Origination and reversal of temporary differences	0.7	2.2
Adjustment in respect of change in rates	0.2	0.9
Adjustment in respect of prior years	(0.7)	–
Total deferred tax	**0.2**	**3.1**
Total tax expense	**3.7**	**5.9**

	2022 £m	2021 £m
Continuing operations	**4.2**	6.1
Discontinued operations	**(0.5)**	(0.2)
Total tax expense	**3.7**	**5.9**

The reasons for the difference between the actual current 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:

	2022 £m	2021 £m
Profit before tax from continuing operations	26.2	27.7
Loss before tax from discontinued operations	(2.8)	(0.7)
Profit before tax	**23.4**	**27.0**
Expected tax charge based on the standard rate of corporation tax in the UK of 19.0% (2021: 19.0%)	4.4	5.1
Taxation effect of:		
Expenses not deductible for tax purposes	0.4	0.5
Capital allowance super-deduction utilised	(0.3)	(0.7)
Patent Box claims	(0.4)	–
Deferred tax impact of share-based payments	–	0.2
Adjustments in respect of prior years	0.3	0.1
Tax effect of accelerated capital allowances	(0.9)	(2.4)
Current tax expense	**3.5**	**2.8**

The reasons for the difference between the total 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:

	2022 £m	2021 £m
Profit before tax from continuing operations	26.2	27.7
Loss before tax from discontinued operations	(2.8)	(0.7)
Profit before tax	**23.4**	**27.0**
Expected tax charge based on the standard rate of corporation tax in the UK of 19.0% (2021: 19.0%)	4.4	5.1
Taxation effect of:		
Expenses not deductible for tax purposes	0.2	0.5
Capital allowance super-deduction utilised	(0.3)	(0.7)
Patent Box claims	(0.4)	–
Adjustments in respect of prior years	(0.4)	0.1
Adjustment in respect of change in rates	0.2	0.9
Total tax expense	**3.7**	**5.9**

Changes in tax rates and factors affecting the future tax charge

An increase in the mainstream rate of UK corporation tax from 19% to 25% from April 2023 was enacted during 2021. Consequently, deferred taxes were re-measured using a higher rate based on expected reversal dates and reflected in the financial statements.

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 £nil (2021: £nil).

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 the United Kingdom and are resident in the UK for tax purposes, except as described below.

The Group has two branches in the Republic of Ireland, with combined annual revenues of £1.9 million (2021: £1.5 million), total assets of less than £50,000 (2021: less than £50,000) and eight full time employees (2021: eight 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 2022 is €nil (2021: €nil) and no tax payments were made during the year (2021: €nil). This is due to utilisation of losses brought forward. No deferred tax assets are recognised on unutilised losses due to the uncertainty of future profits.

5 LOSS AFTER TAX FROM DISCONTINUED OPERATIONS

As part of a restructuring exercise, on 2 December 2022 the Group completed the sale of the trade and assets of its Security Hardware business for a total consideration of £1.2 million. Security Hardware was a separate operating segment which had previously been aggregated and presented as part of the Building Plastics reported segment.

	2022 £m	**2021 £m**
Revenue	**2.9**	**3.3**
Cost of sales	(2.2)	(2.0)
Gross profit	**0.7**	**1.3**
Distribution costs	(0.8)	(0.8)
Administrative expenses	(1.2)	(1.2)
Operating loss	**(1.3)**	**(0.7)**
Finance expense	–	–
Loss before tax from discontinued operations	**(1.3)**	**(0.7)**
Taxation	0.2	0.2
Loss after tax from discontinued operations	**(1.1)**	**(0.5)**
Loss on sale of trade and assets after tax	(1.2)	–
Loss from discontinued operations	**(2.3)**	**(0.5)**

The loss on sale of £1.2 million is comprised of the following:

	2022 £m
Consideration received	
Cash	0.4
Deferred consideration	0.8
Total consideration	**1.2**
Carrying value of net assets sold	(2.6)
Transaction costs	(0.1)
Loss on sale before tax	**(1.5)**
Taxation	0.3
Loss on sale after tax	**(1.2)**

The carrying values of assets and liabilities as at 2 December 2022 were as follows:

	£m
Property, plant and equipment	0.4
Right-of-use assets	0.3
Intangible assets	0.3
Inventories	1.9
Lease liabilities	(0.3)
Carrying value of net assets sold	**2.6**

The net cash flows arising were as follows:

	2022 £m	2021 £m
Net cash outflow from operating activities	(0.2)	(0.6)
Net cash inflow from investing activities	0.1	–
Net cash outflow from financing activities	–	–
Net decrease in cash generated by discontinued operations	**(0.1)**	**(0.6)**

Losses per share were as follows:

	2022 Pence	2021 Pence
Basic losses per share from discontinued operations	(2.0)	(0.5)
Diluted losses per share from discontinued operations	(2.0)	(0.5)

6 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. Earnings per share from continuing operations excludes the impact of discontinued operations.

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.

	2022 £m	2021[1] £m
Profit from continuing operations attributable to ordinary shareholders excluding non-underlying items	24.0	21.6
Profit from continuing operations attributable to ordinary shareholders	22.0	21.6
Loss from discontinued operations	(2.3)	(0.5)
Profit attributable to ordinary shareholders	**19.7**	**21.1**

	Number	Number
Weighted average number of shares – basic	112,036,668	111,709,049
Dilutive impact of share options granted	747,137	510,270
Weighted average number of shares – diluted	112,783,805	112,219,319

	Pence	Pence
Continuing operations		
Basic earnings per share	19.6	19.4
Adjusted basic earnings per share	21.4	19.4
Diluted earnings per share	19.5	19.3
Adjusted diluted earnings per share	21.3	19.3
Discontinued operations		
Basic losses per share	(2.0)	(0.5)
Diluted losses per share	(2.0)	(0.5)
Total		
Basic earnings per share	17.6	18.9
Diluted earnings per share	17.5	18.8

(1) Re-presented.

7 DIVIDENDS

	2022 £m	2021 £m
Dividends paid during the year		
Interim dividend for 2022 of 3.5p per share (2021: 3.2p per share)	3.9	3.6
Final dividend for 2021 of 6.4p per share	7.2	–
	11.1	3.6
Dividends proposed		
Final dividend for 2022 of 7.2p per share	8.1	–
Final dividend for 2021 of 6.4p per share	–	7.2
	8.1	7.2

8 RECONCILIATION OF PROFIT AFTER TAX TO CASH GENERATED FROM OPERATIONS

	2022 £m	2021 £m
Profit after tax from continuing operations	22.0	21.6
Loss after tax from discontinued operations	(2.3)	(0.5)
Profit after tax	**19.7**	**21.1**
Taxation (Note 4)	3.7	5.9
Finance expense	2.9	2.0
Operating profit	**26.3**	**29.0**
Adjustments for:		
Depreciation of property, plant and equipment	8.8	7.7
Depreciation of right-of-use assets	13.3	13.1
Amortisation of intangible assets	1.8	1.9
Impairment/(reversal of impairment) of tangible and right-of-use assets	0.6	(0.4)
Loss on disposal of business	1.5	–
Share-based payments	(0.2)	1.2
Increase in inventories	(5.7)	(17.8)
Increase in trade and other receivables	(5.6)	(6.0)
(Decrease)/increase in trade and other payables	(1.8)	4.4
Decrease in provisions	(0.3)	–
Cash generated from operations	**38.7**	**33.1**

9 EVENTS AFTER THE BALANCE SHEET DATE

The Directors are not aware of any material events that have occurred after 31 December 2022 which would require disclosure under IAS 10.