

Eurocell plc

2015 Full Year Results

ROBUST PERFORMANCE, STRONG PROFITABILITY IN LINE WITH EXPECTATIONS

16 March 2016

Eurocell PLC, a market leading, vertically integrated UK manufacturer and distributor of innovative window, door and roofline PVC products, today announces its results for the year ended 31 December 2015

	2015 £'000	2014 £'000	% change
Revenue	175,947	173,093	1.6%
Gross margin %	51.7%	48.3%	3.4ppt
Adjusted EBITDA ⁽¹⁾	29,731	26,068	14.1%
Adjusted PBT ⁽²⁾	23,019	17,846	29.0%
PBT	19,696	16,743	17.6%
Adjusted basic EPS (pence) ⁽³⁾	18.60	12.97	43.3%
Basic EPS (pence)	15.51	11.91	30.2%
Interim dividend per share paid (pence)	2.7p	-	-
Recommended final dividend per share (pence)	5.2p	-	-
Cash generated from underlying operations	29,591	21,149	40.0%
Underlying operating cash conversion % ⁽⁴⁾	99.5%	81.1%	18.4ppt
Net debt	(25,871)	(35,522)	(27.2%)

Notes

- (1) Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and non-recurring costs
- (2) Adjusted PBT represents profit before tax and non-recurring costs
- (3) Adjusted basic EPS excludes non-recurring costs
- (4) Underlying operating cash conversion is cash generated from underlying operations as a % of adjusted EBITDA

Highlights

- Performance in-line with consensus forecasts with strong gross profit and EBITDA improvements
- Revenue growth of 1.6% despite the widely reported slow-down in Repair, Maintenance and Improvement ('RMI') market
- Strong margin and profit growth driven by improved manufacturing performance, enhanced procurement, increasing use of recycled materials and lower raw material prices
- Continued expansion of the branch network to 141, with an increase of 13 branches in the year
- Further innovation in new Modus, Skypod and Equinox product ranges
- Branch sales of higher margin Eurocell manufactured products increased by 6%
- Acquisition of injection moulding business completed in July 2015 performing well
- Appointment of Mark Kelly as CEO, following Patrick Bateman's retirement in June 2016
- Positive start to the current financial year

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Commenting on the Group's performance, Bob Lawson, Chairman of Eurocell, said:

"I am delighted to report a strong performance for our first full set of results as a listed company. Notwithstanding market conditions that have remained challenging throughout the year, we have reported higher revenues and, as a result of the cost and efficiency measures we have taken, profits that are well ahead of last year. We have also made firm progress with all of our strategic priorities – product innovation, expansion of our branch network and the acquisition of S and S Plastics.

"Looking forward, the new financial year has started positively. Whilst we are not anticipating a significant improvement in the markets we serve in the near term, we believe that our strategy combined with the proven capabilities of the company will enable Eurocell to continue to deliver significant value to customers and shareholders in the current year and beyond."

Bob Lawson
Chairman
16 March 2016

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Teneo Strategy

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Board developments

As previously announced, Patrick Bateman will be retiring from Eurocell this summer. The board undertook an extensive and rigorous process to find his replacement and are delighted that Mark Kelly joins the Company from Grafton Plc as Patrick's successor.

After 11 years with Eurocell, Matthew Edwards has informed the Board of his desire to seek new opportunities. The Board wishes to thank him for his excellent work in taking the Company into private equity and through to public ownership; they wish him well with his new endeavours. Matthew will continue in his role as CFO, if needed, up until the end of June 2016 and a search process to seek his successor is well underway.

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Chief Executive's Statement

I am pleased to report our maiden results as a public company following our successful IPO in March.

2015 was another year of strong progress for the group. Group revenues grew by 1.6%, ahead of a muted overall RMI market. At the same time, we improved our gross margin by 3.4 percentage points as a result of lower raw material costs, enhanced procurement measures and an improved manufacturing performance. This led to a significant improvement in profitability, with adjusted PBT ahead by 29%. The continuing investment in new branches and supporting structure together with the investment in factory operations to allow increased use of recycled product and lower scrap levels has supported this performance.

We are committed to a strategy of growing the business by expanding the branch network, continuing to bring innovative new products to market and by providing excellent customer service. I am pleased to report significant development in all of these areas in 2015.

The appointment of two additional major trade fabricators at the end of 2015 will bring revenue and margin in 2016, one being a major trade fabricator nationally in the UK and the other will provide a strong base in the commercial market.

Demand in the new build market remains strong and our ability to supply excellent products on time is supporting growth in this area. Our close working relationship with a number of the major house builders remains strong, nurtured through good technical support as well as our competitive pricing through the fabricator network. The continued expansion in the use of recycled PVC windows remains attractive to the new build market.

In July 2015 we successfully completed the small bolt-on acquisition of S and S Plastics Limited. S and S Plastics specialises in Injection Moulding in the windows market and other profitable sectors. The acquisition is allowing the Company to extend its customer base and also provide further cross-selling opportunities for the extended product range. Whilst the main core of the S and S business is window related, its work in other specialist areas such as healthcare, and electrical distribution introduces new markets to the wider business. The S and S leadership team has brought additional expertise to the Company.

The integration is proceeding to plan and the business is performing ahead of expectations.

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Operational review

Operational Review – Profiles Division

- RMI market buoyant in 2014 but cooled off from February 2015
- New Build sector 10% up on 2014
- New Build and public sector putting more emphasis on thermal efficiency
- Larger customers (>£1m revenue pa) have seen growth of c 10%
- Small customers have maintained their volumes
- Demand is increasing for higher value aspirational products, bifold doors, skypod, and a whole range of coloured windows and doors
- New product sales show encouraging growth, bringing sales and margin to both sides of the business
- Introduction of the BIM system for house builders and architects
- Improved use of Salesforce, and integrated CRM management package

Operational Review – Building Plastics Division

- 13 new branches opened in the year
- Improved management infrastructure to support future branch expansion
- Additional management training through the year
- Improved use of Sales force CRM System
- Month on month growth of website hits and sales leads

Current trading and outlook

In the first ten weeks of the current financial year, total sales in Profiles and Building plastics are +10.6% and like-for-like sales in our branch network are +8.8%.

On 9 March 2016, after the year end, we announced the acquisition of Vista Panels Limited a composite door manufacturing business with £13.7m Revenue and £1.6m EBITDA. This will provide further potential in the New Build Market.

Whilst we are not anticipating a significant improvement in the markets we serve in the near term, we believe that our strategy combined with the proven capabilities of the company will enable Eurocell to continue to deliver significant value to customers and shareholders in the current year and beyond.

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Financial review

Adjusted EBITDA for the period was up 14.1% to £29.7m (2014: £26.1m), driven by:

- Revenue growth (£1.2m gross margin);
- Improvements to gross margin of £5.7m (including saving on resin procurement of £2.8m);
- Logistics savings (£1.0m)
- Investment in support functions and people (£1.9m);
- Additional costs from new branches (£1.1m); and
- The ongoing costs of being a listed entity (£1.2m)

Revenue of £175.9m (2014: £173.1m) has been negatively impacted by the slowing of the RMI market, the delayed sign-on of a major new customer and has benefitted from new branch openings in the year. We will continue our current strategy and are confident that this will deliver growth ahead of the market in future years.

The margin is 51.7% (2014: 48.3%). We have benefitted from low PVC resin prices (through both market forces and improved procurement) and production efficiencies. The new supply contract for PVC resin gives the company improved prices but also secures planned requirements. The increased use of recycled material from our unique plant has further benefitted the margin by replacing more expensive virgin

The business continues to keep tight control of the overheads, with highlights being:

- Efficiencies in the factories have kept production overheads in line with management expectations
- Investment in the recycling plant has delivered increased recycled raw material at lower cost
- With the expansion of the branch network, overall Branch overheads have increased but only in line with the estate size
- The improvements to the management infrastructure relating to the branches will increase overhead but are necessary to support our plans in respect of the future expansion of the branch network
- Costs arising as a result of being a listed Company were £1.2m (2014: £nil)
- Non-recurring items of £3.3m (2014: £1.1m) related to professional fees and other costs incurred as a result of the IPO of the Company

Adjusted basic earnings per share have increased by 43.3% to 18.60 (2014: 12.97).

The Company continues to invest in its future with capital expenditure this year of £6.3m (2014: £5.1m). In addition the Company acquired S and S Plastics Limited at a cost of £2.5m

Inventory levels remain well controlled and provisioning remains prudent. Inventory at the year-end was £18.1m (2014: £14.7m).

The Company's trade accounts receivable remain in line with Management expectations. Provisioning remains prudent and consistent and there have been no material bad debts in the year.

Accounts payable have increased in 2015 as a result of more favourable terms from a major raw material supplier. The Company aims to negotiate the best terms possible but then ensures that suppliers are paid to terms.

The Board is pleased to recommend a final dividend of 5.2 pence per share for approval by shareholders at the Annual General Meeting. This represents a yield slightly above indications at the IPO. The shares will trade ex-dividend on 28 April 2016 and subject to shareholder approval, the dividend will be paid on 26 May 2016 to shareholders on the register at 29 April 2016.

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Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2015

	Note	Year ended 31 December 2015	Year ended 31 December 2015	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2014	Year ended 31 December 2014
		Recurring £000	Non-recurring £000	Total £000	Recurring £000	Non-recurring £000	Total £000
Revenue	2	175,947	0	175,947	173,093	0	173,093
Cost of Sales		(84,945)	0	(84,945)	(89,494)	0	(89,494)
Gross profit		91,002	0	91,002	83,599	0	83,599
Distribution costs		(12,310)	0	(12,310)	(10,830)	0	(10,830)
Administrative costs		(54,398)	(3,323)	(57,721)	(51,381)	(1,103)	(52,484)
Group operating profit		24,294	(3,323)	20,971	21,388	(1,103)	20,285
Finance expense		(1,275)	0	(1,275)	(3,542)	0	(3,542)
Profit before tax		23,019	(3,323)	19,696	17,846	(1,103)	16,743
Taxation	4	(4,454)	241	(4,213)	(5,014)	53	(4,961)
Profit for the year		18,565	(3,082)	15,483	12,832	(1,050)	11,782
Earnings per share (pence)	6	18.60		15.51	12.97		11.91

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

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Consolidated Statement of Financial Position
As at 31 December 2015

	Note	2015 £000	2014 £000
Assets			
Non-current assets			
Property, plant and equipment		27,635	25,672
Intangible assets		14,517	14,167
Total non-current assets		42,152	39,839
Current assets			
Inventories		18,054	14,730
Trade and other receivables		24,944	20,407
Cash and cash equivalents		1,176	2,751
Total current assets		44,174	37,888
Total assets		86,326	77,727
Liabilities			
Current liabilities			
Trade and other payables		(27,092)	(21,536)
Other interest bearing loans and borrowings		(1,327)	(12,897)
Provisions		(76)	-
Corporation tax		(1,196)	(3,752)
Total current liabilities		(29,691)	(38,185)
Non-current liabilities			
Borrowings		(25,720)	(25,376)
Trade and other payables		(500)	(122)
Provisions		(1,366)	(1,299)
Deferred tax		(2,493)	(1,227)
Total non-current liabilities		(30,079)	(28,024)
Total liabilities		(59,770)	(66,209)
Net assets		26,556	11,518
Equity attributable to equity holders of the parent			
Share capital		100	52
Share premium		1,926	99
Other reserves		380	0
Retained earnings		24,150	11,367
Equity attributable to equity holders of the parent		26,556	11,518

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**Consolidated Cash Flow Statement
for the year ended 31 December 2015**

	2015	2014
	£000	£000
Cash generated from operations	26,268	20,046
Non-recurring costs	3,323	1,103
	29,591	21,149
Income taxes paid	(5,729)	(1,179)
Non-recurring costs paid	(4,453)	(172)
	19,409	19,798
Investing activities		
Acquisition of subsidiary, net of cash acquired	(1,662)	-
Payment of deferred consideration	-	(8,821)
Purchase of property, plant and equipment	(6,267)	(5,060)
Sale of property, plant and equipment	75	3,563
Purchase of intangibles	(85)	(60)
	(7,939)	(10,378)
Financing activities		
Proceeds from the issue of shares	-	50
Redemption of preference shares	(50)	-
Proceeds from bank borrowings	41,000	-
Repayment of bank and other borrowings	(48,599)	(9,210)
Finance expense	(4,023)	(817)
Dividends paid to equity shareholders	(2,700)	-
	(14,372)	(9,977)
Net decrease in cash and cash equivalents	(2,902)	(557)
Cash and cash equivalents at beginning of year	2,751	3,308
	(151)	2,751

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**Consolidated Statement of Changes in Equity
for the year ended 31 December 2015**

	Note	Share capital £000	Share premium reserve £000	Retained earnings £000	Other reserves £000	Total attributable to equity holders of parent £000
Balance at 1 January 2015		52	99	11,367	0	11,518
Comprehensive income for the year						
Profit for the year		0	0	15,483	0	15,483
Total comprehensive income for the year		0	0	15,483	0	15,483
Contributions by and distribution to owners						
Preference shares redeemed in the period		(50)	0	0	0	(50)
Shares issued during the period		98	1,827	0	0	1,925
Share based payments		0	0	0	322	322
Deferred tax on share based payments		0	0	0	58	58
Dividends paid	5	0	0	(2,700)	0	(2,700)
Total contributions by and distributions to owners		48	1,827	(2,700)	380	(445)
Balance at 31 December 2015		100	1,926	24,150	380	26,556

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Consolidated Statement of Changes in Equity (continued)
For the year ended 31 December 2015

	Note	Share capital £000	Share premium reserve £000	Retained earnings £000	Other reserves £000	Total attributable to equity holders of parent £000
Balance at 1 January 2014		2	99	(415)	0	(314)
Comprehensive income for the year						
Profit for the year		0	0	11,782	0	11,782
Total comprehensive income for the year		0	0	11,782	0	11,782
Contributions by and distributions to owners						
Preference shares issued during the year		50	0	0	0	50
Total contributions by and distributions to owners		50	0	0	0	50
Balance at 31 December 2014		52	99	11,367	0	11,518

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Notes to the full year results For the year ended 31 December 2015

1. Basis of preparation

The financial information for the year ended 31 December 2015 was approved by the Board on 16 March 2016. This financial information does not constitute statutory accounts of the Company within the meaning of Section 435 of the Companies Act 2006, but is derived from those accounts, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use by the European Union.

This information has been prepared under the historical cost method, using all standards and interpretations required for financial periods beginning 1 January 2015. No standards or interpretations have been adopted before the required implementation date.

Statutory accounts for the year ended 31 December 2014 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2015 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.

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**Notes to the full year results
For the year ended 31 December 2015**

2. Segment information

The group has two reportable segments, Profiles and Building Plastics

	Profiles 2015 £000	Building Plastics 2015 £000	Corporate 2015 £000	Total 2015 £000
Revenue				
Total revenue	105,957	102,661	-	208,618
Inter-segmental revenue	(32,088)	(583)	-	(32,671)
Total revenue from external customers	73,869	102,078	-	175,947
Adjusted EBITDA				
Amortisation	(234)	(240)	(661)	(1,135)
Depreciation	(3,473)	(457)	(372)	(4,302)
Operating profit before non-recurring costs	17,901	7,687	(1,294)	24,294
Non-recurring (costs)/income				(3,323)
Finance expense				(1,275)
Profit before tax				19,696
2014				
	Profiles 2014 £000	Building Plastics 2014 £000	Corporate 2014 £000	Total 2014 £000
Revenue				
Total revenue	104,735	100,746	-	205,481
Inter-segmental revenue	(32,043)	(345)	-	(32,388)
Total revenue from external customers	72,692	100,401	-	173,093
Adjusted EBITDA				
Amortisation	(92)	(239)	(97)	(428)
Depreciation	(3,499)	(391)	(362)	(4,252)
Operating profit before non-recurring costs	13,373	8,038	(23)	21,388
Non-recurring (costs)/income				(1,103)
Finance expense				(3,542)
Profit before tax				16,743

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**Notes to the full year results
For the year ended 31 December 2015**

3. Non-recurring costs

Amounts included in the profit and loss statement are as follows:

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Professional fees and other costs relating to IPO	3,323	800
Restructuring costs	0	246
Profit on sale of tangible fixed assets	0	(239)
Stamp duty	0	(14)
Group recharge	0	(310)
	3,323	1,103

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**Notes to the full year results
For the year ended 31 December 2015**

4. Taxation

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Current tax		
Current tax on profits for the year	3,758	4,329
Adjustment for over provision in prior periods	(619)	228
Total current tax	3,139	4,557
Deferred tax expense		
Origination and reversal of temporary differences	1,129	404
Adjustment for over provision in prior year	(55)	-
Total deferred tax	1,074	404
Tax expense in the consolidated profit and loss statement	4,213	4,961

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:

	2015 £000	2014 £000
Profit before income tax	19,696	16,743
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 20.25% (2014:21.5%)	3,988	3,600
Expenses not deductible for tax purposes	450	650
Provisions	-	46
Difference between depreciation and capital allowances	(169)	(95)
Other short term timing differences	618	575
Adjustments to tax charge in respect of prior periods	(619)	228
Adjustments to deferred tax charge in respect of prior periods	(55)	(43)
Total tax expense	4,213	4,961

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Notes to the full year results For the year ended 31 December 2015

4. Taxation (continued)

Changes in tax rates and factors affecting the future tax charge

A reduction in the mainstream rate of UK corporation tax from 21% to 20% took effect from April 2015 which gives rise to an effective rate of 20.25% for the year. A further reduction to 19% from 1 April 2017 and 18% from 1 April 2020 have been substantively enacted. UK temporary differences are measured at the rate at which they are expected to reverse.

5. Dividends

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Interim dividend paid during the period		
2.7p per ordinary share (2014: £nil)	2,700	0

The Board is recommending a final dividend of 5.2 pence per share for approval by shareholders at the Annual General Meeting.

The Board has become aware of a technical issue in respect of the interim dividend paid in October 2015. The Companies Act 2006 provides that a public company may pay a dividend out of its distributable profits as shown in the last accounts circulated to members or, if interim accounts are used, those that have been filed at Companies House. The requirement for the relevant accounts to have been filed applies even if the Company in question has sufficient distributable profits at the relevant time.

The Company had sufficient distributable profits to pay the interim dividend but did not file interim accounts to satisfy the procedural requirements of the Act before making the distribution. The Board intends to propose resolutions at the AGM to put all affected parties so far as possible in the position in which they were always intended to be had the distribution been made in accordance with the procedural requirements of the Act.

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Notes to the full year results For the year ended 31 December 2015

6. Earnings per share

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

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Profit attributable to ordinary shareholders	15,483	11,782
Profit attributable to ordinary shareholders excluding non-recurring costs	18,565	12,832
	Number	Number
Weighted average number of shares - basic	99,816,141	98,899,860
Weighted average number of shares – diluted	99,816,141	98,899,860
	Pence	Pence
Basic earnings per share	15.51	11.91
Adjusted basic earnings per share	18.60	12.97
Diluted earnings per share	15.51	11.91
Adjusted diluted earnings per share	18.60	12.97

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Notes to the full year results For the year ended 31 December 2015

7. Reconciliation of profit after tax to net cash flows from operating activities

	2015	2014
	£000	£000
Profit after tax	15,483	11,782
Add back taxation	4,213	4,961
Finance expense	1,275	3,542
Adjustments for:		
Depreciation of tangible fixed assets	4,302	4,252
Amortisation of intangible fixed assets	1,135	428
(Profit)/loss on sale of property, plant and equipment	0	(425)
Impairment of fixed assets	234	0
Share based payments	322	0
(Increase)/decrease in trade and other receivables	(3,884)	436
(Increase)/decrease in inventories	(2,696)	515
Increase/(decrease) in trade and other payables	5,741	(5,445)
Increase in provisions	143	0
Cash generated from operations	26,268	20,046

8. Events occurring after the reporting period

On 9 March 2016 we completed the acquisition of Vista Panels Limited for £7.1m.