

Polypipe Group plc

Interim Results

6 months to 30 June 2016



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Agenda



Highlights

David Hall



Financial Review

Martin Payne



Business Review

David Hall

Presentation Team



David Hall

Chief Executive Officer



Martin Payne

Chief Financial Officer

- Record result with revenue up 31%, underlying EPS up 48%
- Following a strong start demand from all segments of our core UK market have remained robust
- Positive progress in all of our growth initiatives
- Nuaire performing well – some early success in specification of Nuaire systems with Polypipe duct
- First delivery from manufacturing plant in Dubai made during July
- Long term market fundamentals unchanged, balanced business spread - able to flex with short term fluctuations
- Order intake has remained consistent with the normal seasonal pattern

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Financial Review
Martin Payne



Business Review
David Hall



- Revenue 31% higher at £223.3m
- UK revenue 8.1% ahead excluding acquisitions
- Underlying operating profit 47% higher at £37.7m
- 180bps improvement in underlying operating margin to a record 16.9%
- Underlying earnings per share 48% higher at 13.6 pence per share
- Cash generated from operations 71% higher at £30.5m
- Net debt down to 2.3 times pro-forma LTM EBITDA
- Interim dividend increased 35% to 3.1 pence per share

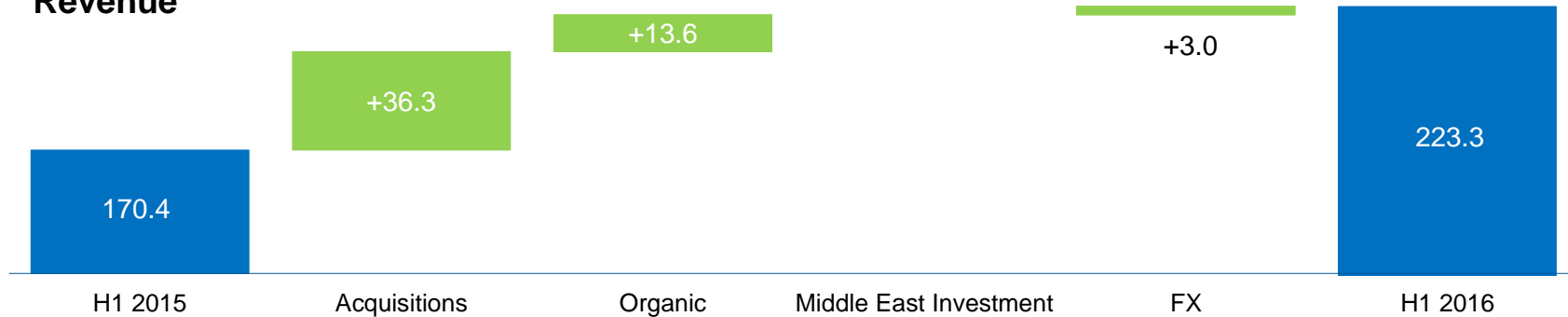
2016 H1 underlying results summary

£m	H1 2016	H1 2015	change	% change
Revenue	223.3	170.4	52.9	31%
Cost of sales	(129.8)	(102.3)		
Gross profit	93.5	68.1	25.4	37%
<i>Gross profit margin</i>	<i>41.9%</i>	<i>40.0%</i>		
Selling & distribution costs	(34.3)	(26.1)		
Administrative expenses	(21.5)	(16.3)		
Underlying operating profit	37.7	25.7	12.0	47%
<i>Operating profit margin</i>	<i>16.9%</i>	<i>15.1%</i>		
Net finance costs	(4.0)	(2.4)		
Underlying profit before tax	33.7	23.3		
Underlying tax	(6.6)	(5.0)		
Underlying profit after tax	27.1	18.3		
Underlying earnings per share (p)	13.6	9.2	4.4	48%
Interim dividend per share (p)	3.1	2.3	0.8	35%

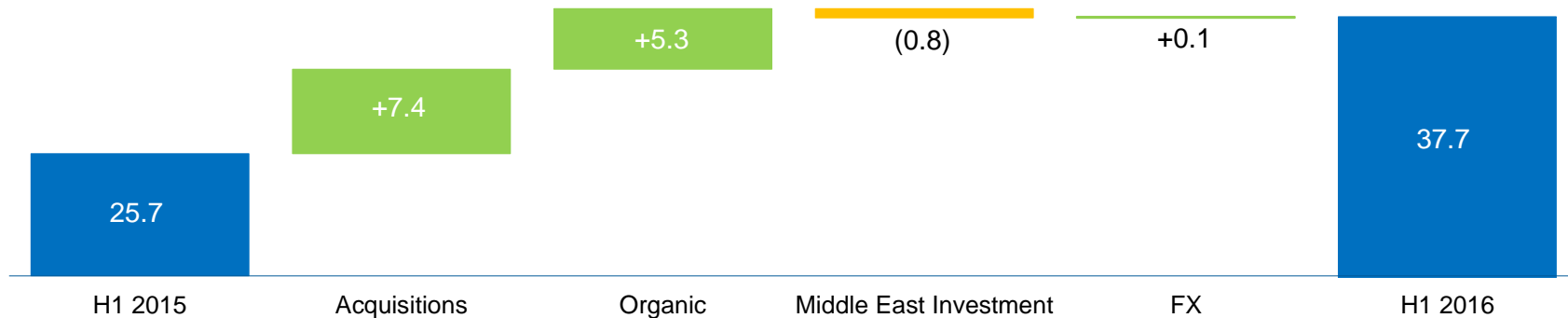
£m	Gross	Tax	Tax rate %
Underlying profit before tax and related tax	33.7	6.6	19.6
Non-underlying items	(3.8)	(0.7)	18.4
Profit before tax and related tax	29.9	5.9	19.7

Group revenue and underlying operating profit bridge (£m)

Revenue



Underlying operating profit



Balance sheet summary

£m	30 June 2016	30 June 2015	Change			30 December 2015
			Total	Organic	Acquisition	
Non Current Assets						
– property, plant & equipment	99.9	90.9	9.0	4.6	4.4	98.1
– goodwill	329.3	239.5	89.8	-	89.8	329.3
– other intangible assets	45.3	-	45.3	-	45.3	49.1
Net Working Capital	14.1	10.8	3.3	(3.6)	6.9	(2.3)
Net debt	(191.3)	(81.9)	(109.4)	43.8	(153.2)	(194.3)
Taxation	(15.7)	(6.2)	(9.5)	0.2	(9.7)	(14.7)
Other	(8.1)	(3.8)	(4.3)	(3.9)	(0.4)	(4.2)
Net Assets	273.5	249.3	24.2	41.1	(16.9)	261.0

Net working capital

£m	30 June 2016	30 June 2015	change	31 December 2015
Inventories	51.0	39.5	11.5	47.5
Trade & Other receivables	51.9	31.8	20.1	30.5
Trade & Other payables	(88.8)	(60.5)	(28.3)	(80.3)
Net operating working capital	14.1	10.8	3.3	(2.3)
Net operating working capital to revenue	6.3%	6.3%		-0.7%

Movement in the period comprised:

£m	
Acquisitions	6.9
Cashflow gains	(4.2)
Exchange movements	0.6
	3.3

Cashflow

£m	H1 2016	H1 2015	change	year to 31 December 2015
EBITDA	45.8	32.9	12.9	67.5
Less profit on sale of fixed assets	(0.1)	-	(0.1)	(0.2)
Working capital	(15.2)	(15.1)	(0.1)	5.3
Cash generated from operations	30.5	17.8	12.7	72.6
Capital expenditure	(8.4)	(9.3)	0.9	(19.3)
Operating cashflow after capital expenditure	22.1	8.5	13.6	53.3
Financing costs – net interest paid	(3.8)	(2.2)	(1.6)	(5.7)
Taxation	(4.3)	(1.9)	(2.4)	(5.2)
Dividend paid	(11.0)	(6.0)	(5.0)	(10.6)
Other non-underlying cash items	0.2	0.1	0.1	0.4
Cashflow before acquisitions	3.2	(1.5)	4.7	32.2
Acquisition of new businesses	-	(5.2)	5.2	(149.5)
Movement on unamortised debt issue costs	(0.2)	(0.3)	0.1	(0.4)
Refinancing costs	-	-	-	(1.7)
(Increase)/Decrease in net debt	3.0	(7.0)	10.0	(119.4)
Cash Conversion rate (operating cashflow after capex:EBIT)	58.6%	33.5%		102.0%

Banking facilities

Headroom at 30 June 2016:

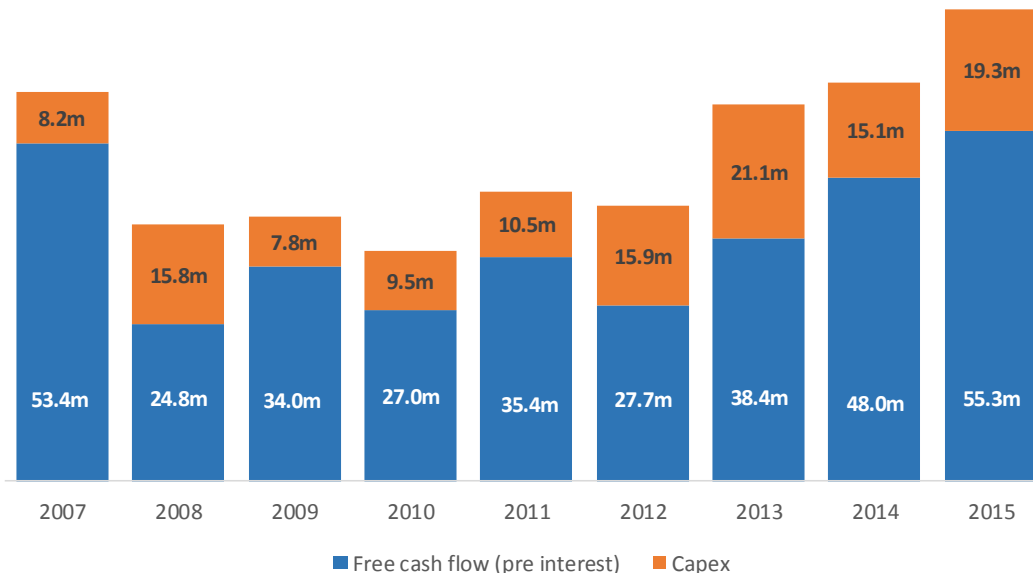
£m	At 30 June 2016	Facility	Headroom
Bank loan	223.0	300.0	77.0
Unamortised debt issue costs	<u>(1.4)</u>		=
Loans and borrowings	221.6		77.0
Cash and cash equivalents	(30.3)		30.3
Net debt	191.3		107.3

Covenants:

	Covenant requirement	Position at 30 June 2016	Position at 31 December 2015
Interest cover (EBIT : Net finance costs excluding debt issuance cost amortisation)	>4:1	8.6:1	7.6:1
Leverage (EBITDA : Net debt)	<3.5:1	2.3:1	2.5:1

Proven resilience through cycle

2007-2015 Free cash flow (pre interest)



Free cash flow defined as EBITDA less capital expenditure and tax

- Strong cash generation through cycle
- Lowest free cash flow pre interest of £25m in 2008, after £16m of capex
- Enough to cover current financing costs and dividends
- Group expanded since 2008 (Nuaire)

- Capital expenditure £20m
- Net debt on track to be 2 times EBITDA by year end
- Dividend policy maintained

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Operating segment review - Residential

Residential	H1 2016	H1 2015	% Growth
Revenue	£105.4m	£90.2m	up 16.9%
Underlying operating profit	£21.5m	£15.4m	up 39.6%
Underlying operating profit margin	20.4%	17.1%	

- 5% organic growth includes pull forward stocking offset by carry over polymer deflation pass through
- New build still skewed towards National housebuilders but greater regional spread
- Slight pick up in private RMI, public remained muted
- Legislative requirements and substitution delivering volume growth as newer projects start
- Operating margin improved by 330 BPS resulting from operational gearing and mix toward higher value products
- Underlying operating profit ahead by 39.6%

Operating segment review – C&I UK

Commercial & Infrastructure - UK	H1 2016	H1 2015	% Growth
Revenue	£92.7m	£59.1m	up 56.9%
Underlying operating profit	£15.2m	£9.4m	up 61.7%
Underlying operating profit margin	16.4%	15.9%	

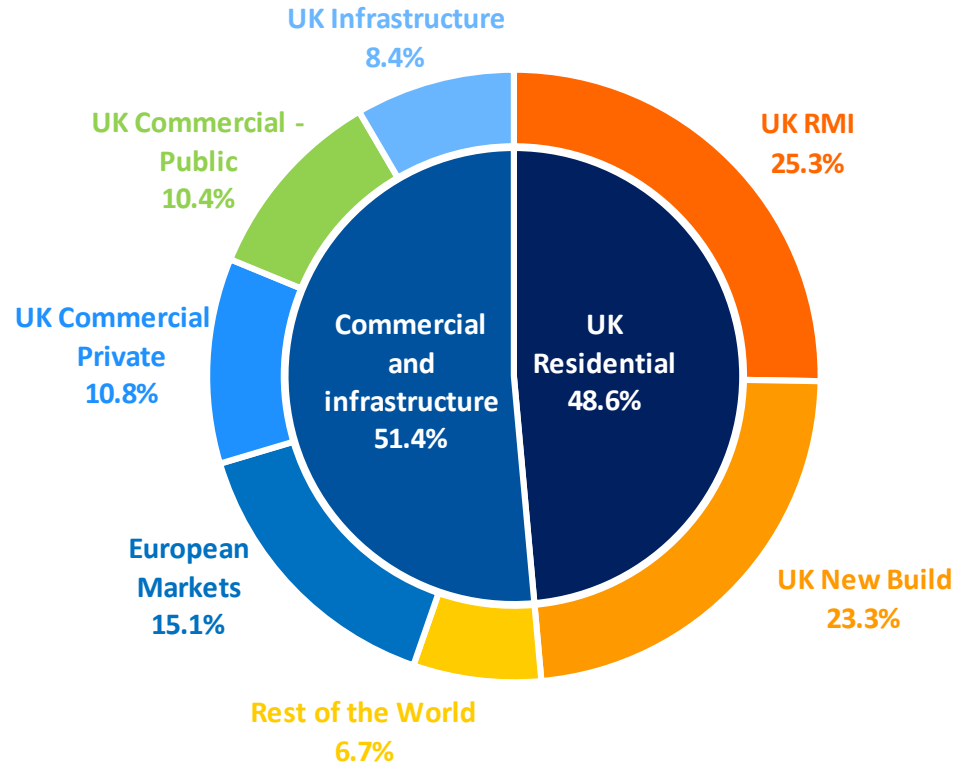
- Organic growth of 13.5% impacted by carry over of polymer pass through
- Good demand following Highways England starting to deliver 2015-20 Road Investment Strategy
- Strong growth in high rise developments continued in London and regional cities
- Strong growth in exports, mainly the Middle East (+17%)
- Initiatives to address legislative growth drivers delivering volume growth
- Underlying operating profit ahead by 61.7%

Operating segment review – C&I Mainland Europe

Commercial & Infrastructure – Mainland Europe	H1 2016	H1 2015	% Growth
Revenue	£31.5m	£26.5m	up 18.9%
Underlying operating profit	£1.0m	£0.9m	up 11.1%
Underlying operating profit margin	3.2%	3.4%	

- Revenue up 10.2% in local currency despite continuing weak conditions in our main French market
- Sales reflect some distributor pull forward resulting from incentives to secure volume
- Municipal spend remains constrained
- Steady progress in improvement initiatives
- Underlying operating profits ahead by 11.1%

Polypipe has a balanced portfolio across all construction markets



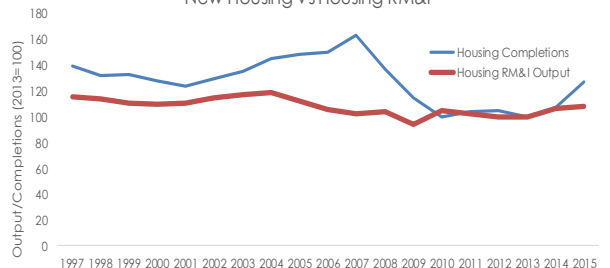
LTM to June 2016¹

1: Assuming 12-months ownership of Nuairé

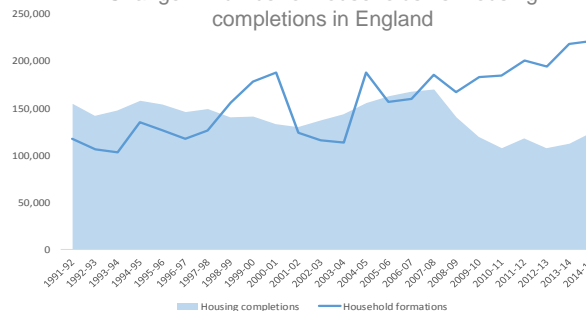
Long-term fundamental drivers remain robust

Residential

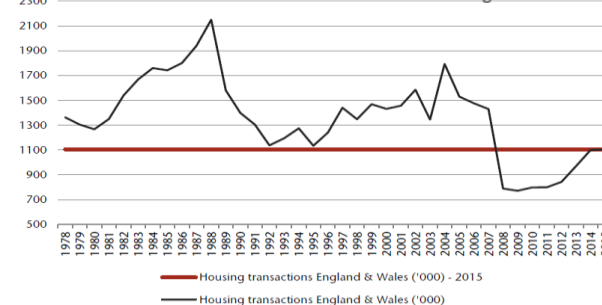
New Housing vs Housing RM&I



Change in number of households vs. housing completions in England

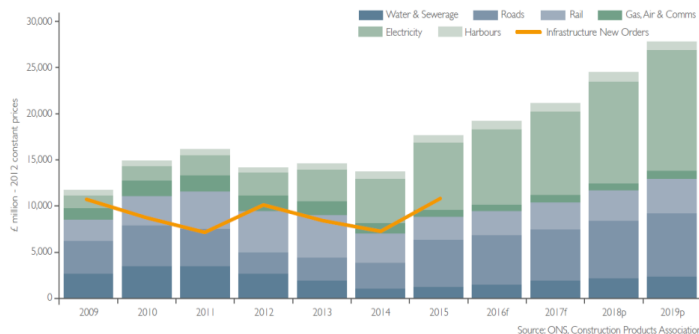


Housing Transactions, long-term trend
Current level is below the historic troughs



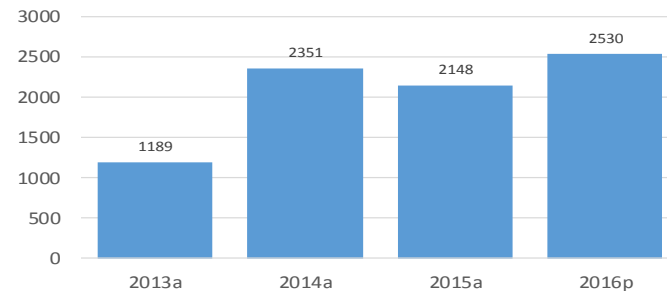
Infrastructure

Infrastructure Output by Sub-sector and New Orders



Commercial

Project starts



Target markets for Commercial defined as: Residential five storeys or more, social housing five storeys or more, offices, retail, health, hotels & leisure, education, industrial

- Record results – EPS growth of 48% above first half 2015
- Acquisitions bedded in and contributing as planned
- Order intake has remained robust to date
- Balanced business model across all sectors of construction
- Highly cash generative – on track to meet gearing target
- Continued focus on growth pillars of:
 - Substituting Legacy Materials
 - Water Management Solutions
 - Carbon Efficient Solutions
 - Export including new manufacturing facility in Dubai
- Economic uncertainty, but long term structural drivers of our business remain strong
- Flexible production process – proven resilience through last recession
- Encouraging comments from UK Government regarding housing and infrastructure

Questions & Answers

Appendix

Housing transactions

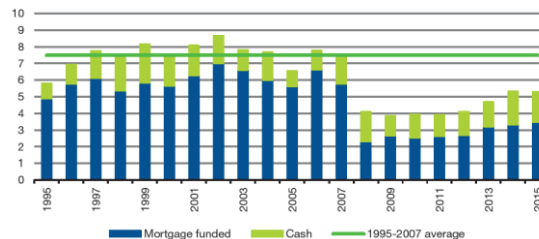
- Housing transactions may prove more resilient than in the past because the current level of transactions remains historically low
- In the two previous recessions, a lead indicator was housing transactions falling from a peak
- In addition, there is a relatively higher proportion of cash buyers (compared to the historic trend)

Quarterly UK Housing Transactions, last ten years



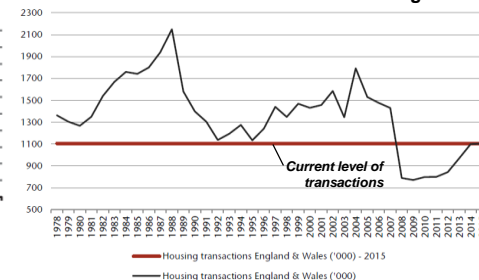
Source: ONS HMRC UK Property Transactions Count, July 2016

UK Housing Transactions, % of housing stock
Relatively high level of cash buyers



Source: ONS

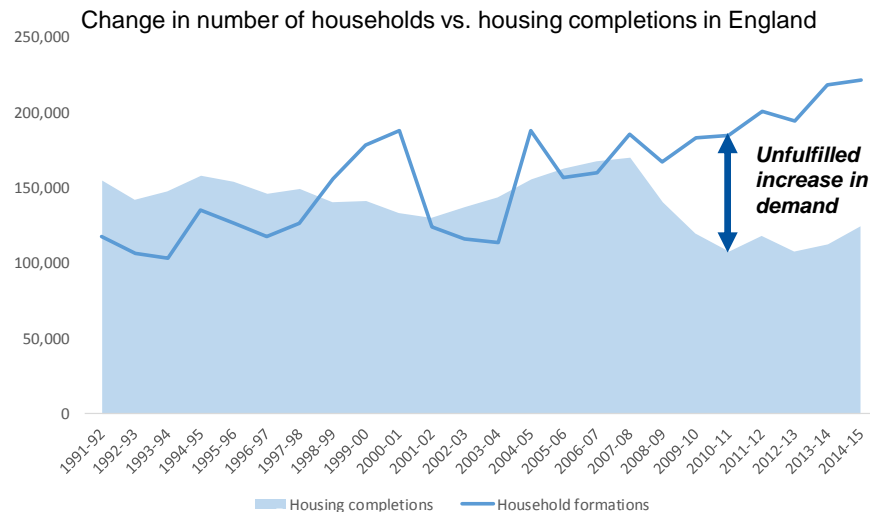
Housing Transactions, long-term trend
Current level is below the historic troughs



Source: ONS

Residential new build

- Pent-up demand remains, as new completions have failed to grow as fast as the number of new households in recent years
- Housebuilders had good order books ahead of the Referendum
- Mortgage rates are likely to remain low, and Help to Buy should help to sustain demand for new build properties
 - HTB is likely to remain a key part of the government's housing policy and so may even be enhanced
- Housebuilders will continue to open sites as returns and cash flows remain attractive



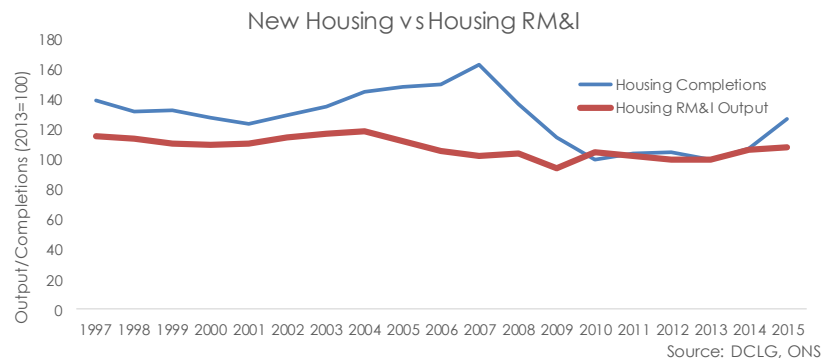
Source: Department for Communities and Local Government, 2012-based household projections, Permanent dwellings completed

- **Chairman's comments from the recent Lords report *Building More Homes* (July-16):**

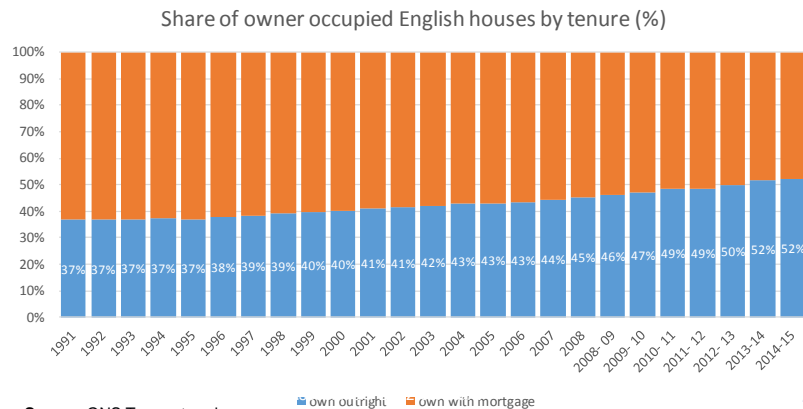
"The only way to address this is to increase supply. The country needs to build 300,000 homes a year for the foreseeable future. The private sector alone cannot deliver that. It has neither the ability nor motivation to do so. We need local government and housing associations to get back into the business of building."

Source: <http://www.parliament.uk/business/committees/committees-a-z/lords-select/economic-affairs-committee/news-parliament-2015/housing-report-publication/>

- Spending on RM&I remains relatively unaffected by shifts in market sentiment
- The UK housing stock is comparatively old on average, requiring ongoing repair and maintenance
- Planning permissions have been steadily increasing
- Re-mortgaging and house equity withdrawal rates have been picking up recently
- Banks are willing to lend, post-Referendum:
 - HSBC and Barclays recently both launched new 10-yr fixed rate mortgages at 2.79%
- Plus, more than half of house are owned outright, with no mortgage

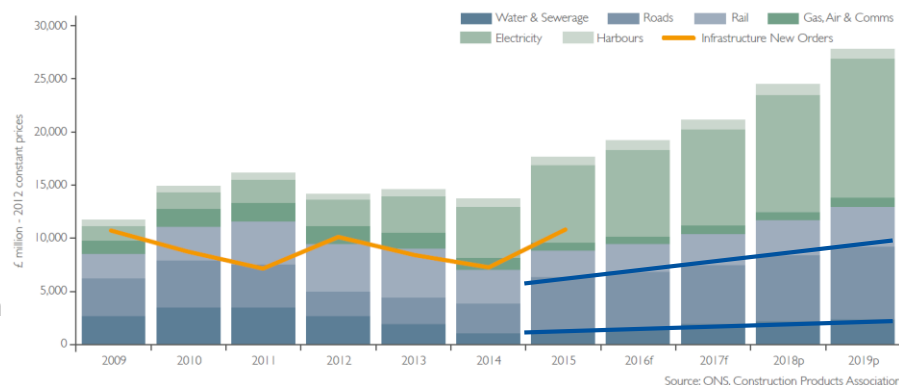


Source: DCLG, ONS



- Recent political commentary suggests that public spending on infrastructure projects may be allowed to rise to act as a stimulus to the UK economy
- The latest CPA forecast anticipates rises in infrastructure spending in Roads, Water & Sewerage and Electricity, in particular
 - Highways England is expected to bring forward finance from later years as part of its delivery plan to fulfil £15.2bn of investment before 2020.
 - Highlighted Road projects to be accelerated include:
 - improvement works on the M62
 - enhancements to the A66, A69 and M60
 - scoping work for a potential Trans-Pennine tunnel between Sheffield and Manchester

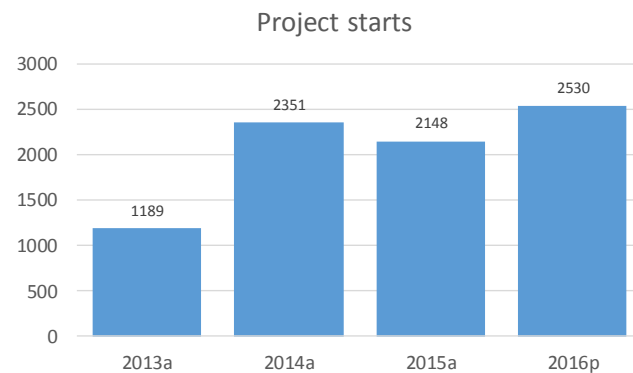
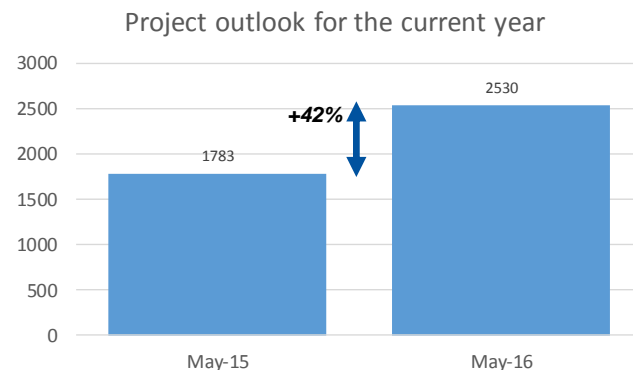
Infrastructure Output by Sub-sector and New Orders



Source: Extracted from CPA Construction Industry Forecasts 2016-2019, Spring 2016 Edition

- Penetration of Polypipe's solutions is particularly high in Roads projects

- Forward looking project bank was more robust in May-16 (pre-Referendum) than at the same point a year earlier
- Forecast activity level for 2016 and rate of starts were above the historic norm
 - Although timing of those starts may remain unclear for the time being, following the Referendum vote
- Regionally, we are well represented outside London and the South-East
 - In 2015, just 23% of Polypipe Terrain's actual projects¹ were in London, and 15% were in the home counties



Target markets for Commercial defined as: Residential five storeys or more, social housing five storeys or more, offices, retail, health, hotels & leisure, education, industrial

Recent public commentary remains positive

“...an energy policy that emphasises the reliability of supply, ...more Treasury-backed project bonds for new infrastructure projects. More housebuilding.” **Theresa May, 11th July**

“The fundamental reasons for investment in infrastructure – to boost productivity and improve quality of life – haven't changed as a result of the referendum.” architect and government adviser **Sadie Morgan 14th July**

“Unless we deal with the housing deficit, we will see house prices keep on rising, ...” **Theresa May 11th July**

“Highways England is business as usual and I am very confident that our delivery programme will remain intact through the next five years.” **Highways England chief executive, Jim O'Sullivan** responding to industry fears that Brexit would have an impact on roads contractors

Recent public commentary remains positive

“More importantly, the UK economy will actually benefit from increased infrastructure investment ... To actually grow strongly in the globalised economy the UK needs to invest, innovate and have more infrastructure.” **Gerard Lyons**, economist and former advisor to Boris Johnson, **1st July**

“Several of our clients have already reported a bounce in enquiries following the referendum.” Arcadis head of commercial development **Mark Cleverly**, **7th July**

Sheffield City Council has entered into a £1bn deal with a Chinese building firm, in the biggest deal of its kind outside London. **21st July**

In a meeting with the Home Builders Federation (HBF), Communities Secretary **Greg Clark** and Housing Minister **Brandon Lewis** said the Government remained committed to tackling the shortage of new homes and that the target for a million new homes was still a “top priority”. **1st July**

Recent public commentary remains positive

“We are facing an acute housing crisis with home ownership – and increasingly renting – being simply unaffordable for a great many people. The only way to address this is to increase supply. The country needs to build 300,000 homes a year for the foreseeable future. The private sector alone cannot deliver that. It has neither the ability nor motivation to do so. We need local government and housing associations to get back into the business of building.” ... “It makes no sense that a local authority is free to borrow to build a swimming pool but cannot do the same to build homes.” ... “If the housing crisis is to be tackled the government must allow local authorities to borrow to build and accelerate building on surplus public land.” Lords committee chairman, **Lord Hollick 15th July, *Building More Homes***

Government initiatives remain supportive

A non-exhaustive list of Government initiatives over recent years, to encourage construction activity

- NewBuy Mortgage Indemnity
- Increase in the Get Britain Building Fund
- Capital funding and loan guarantees for the Private rented sector
- 5,000 empty homes brought back into use through £300m investment
- Up to 70,000 new homes, including affordable housing
- Funding for Lending Scheme
- Loan Guarantees for infrastructure projects
- Green Investment Bank, funding waste-to-energy and energy-saving retrofit projects
- £20bn pension and sovereign wealth fund investment into infrastructure
- £4.96bn capital 'boost' across housing, schools and transport
- £1.275bn investment in transport infrastructure
- £1.475bn capital investment to fund 100 new free schools, academies and further education colleges
- Funding for FirstBuy
- Affordable Housing Programme
- Empty Homes Scheme
- Help To Buy initiatives:
 - Equity Loan, plus period extensions
 - Mortgage guarantee
 - Abolishment of Stamp Duty slab tax
 - Starter Homes Scheme
 - Shared ownership product
 - Help To Buy ISA
- Release of 160,000 plots of public land
- Announcement to directly commission affordable housing
- Establishment of a National Infrastructure Commission

Proven resilience through cycle

