Polypipe Group plc

Interim Results 2020

15 September 2020

Polypipe

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Polypipe

Introduction

- Our COVID-19 response has protected the wellbeing of our people, business and stakeholders
- Management made maximum efforts to preserve liquidity
- Actions included furloughing 60% of staff and reducing Board remuneration by 20%
- Operations continued throughout the crisis whilst ensuring on site safety, supporting the national effort, including:
  - Supplying space ventilation equipment for the Royal Marsden Hospital and several Nightingale Hospitals
  - Switching certain production capacity to PPE manufacturing for the NHS
  - Manufacturing special pipe for emergency medical use
- Revenue 22.3% lower than prior year but Group was still profitable for the first half with underlying EBIT at £10.5m (2019: £39.3m)
- Recovery in second quarter stronger than we had anticipated at end of April, continued through to July and August
- Safe work practices will be sustained as volumes recover

COVID-19 actions

Actions	September update
Health & safety measures	
- Social distancing	- Ongoing; maintaining 2 metre distance even at normal capacity
- PPE mandatory	- Ongoing
- Deep cleansing	- Ongoing
- Layout changes, including renting additional assembly space	- Ongoing; some impact on productivity
- Temperature testing at all sites	- Ongoing
- Proximity sensors at certain sites	- Ongoing
Cash actions	
- Utilisation of Government's Job Retention Scheme from April 2020	- Utilisation ceased 31 August 2020, Job Retention Bonus Scheme will not be utilised
- Restructuring – 250 jobs put at risk in July 2020	- Restructuring complete – 104 redundancies, 52 compulsory, JRS monies to be repaid
- Board pay reduced by 20% from April 2020	- Board pay returns to normal from September 2020
Funding actions	
- Extra £50m facility negotiated to May 2021	- Still in place
- Covid Corporate Financing Facility £100m drawn	- Repaid 10 September 2020
- Equity raise £120m	- Completed May 2020

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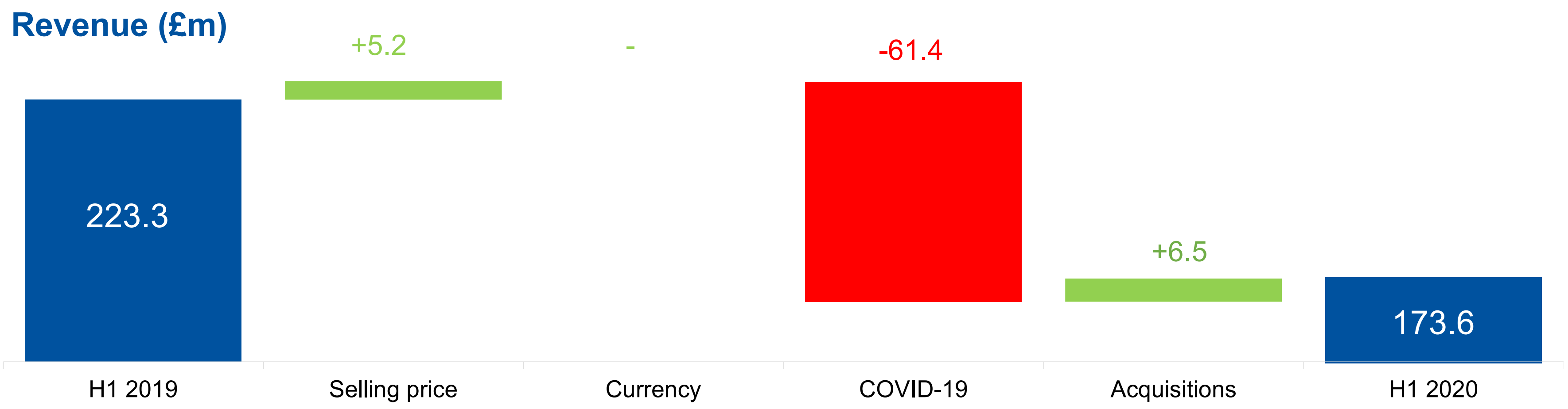
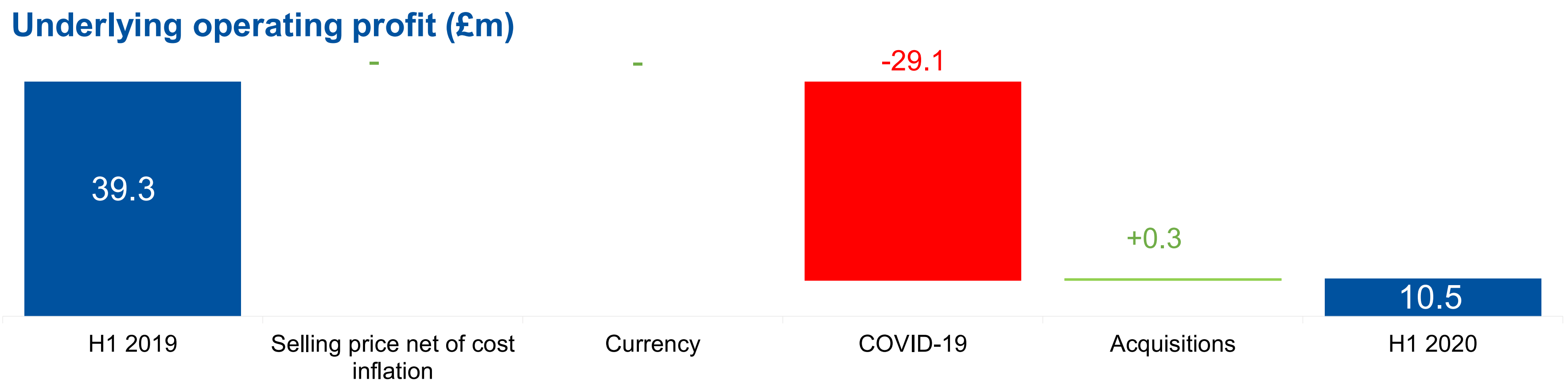
Financial highlights

- Immediate steps were taken to strengthen the balance sheet to weather the crisis including a newly negotiated £50m COVID-19 facility, deferral of some covenant testing and a successful £120m equity raise
- Resilient performance with a recovery so far stronger than expected, with July and August revenue 6% and 3% below 2019 levels respectively
- Net debt, excluding IFRS16, £71.2m (June 2019: £178.5m) with leverage at 1.1x EBITDA (June 2019: 1.8x)
- Bank of England's Covid Corporate Financing Facility £100m funds repaid early after the period end
- The Board recognises the importance of dividends to shareholders but, given the current economic uncertainty, is not recommending an interim dividend. However, the Board will consider paying a final dividend subject to continued performance ahead of the operating scenario set out at the time of the Group's equity raise in May 2020

Revenue and underlying operating profit bridge





- Price increase netting off cost inflation
- Currency effect negligible with significant UK revenues
- COVID-19 impact drop through high at 47% due to sudden loss of volume
- COVID-19 impact includes £6.7m of JRS furlough income and £0.6m COVID-19 specific costs

Underlying results summary

£m	H1 2020	H1 2019	Change	% Change
Revenue	**173.6**	**223.3**	**(49.7)**	**(22.3)%**
Cost of sales	(110.3)	(127.9)	17.6	13.8%
Gross profit	**63.3**	**95.4**	**(32.1)**	**(33.6)%**
Gross margin	*36.5%*	*42.7%*	*(620)bps*	n/a
Selling, distribution and administration costs	(52.8)	(56.1)	3.3	5.9%
Underlying operating profit	**10.5**	**39.3**	**(28.8)**	**(73.3)%**
Operating margin	*6.0%*	*17.6%*	*(1,160)bps*	*n/a*
Net finance costs	(3.9)	(3.7)	(0.2)	(5.4)%
Underlying profit before tax	**6.6**	**35.6**	**(29.0)**	**(81.5)%**
Underlying tax	(1.1)	(6.3)	5.2	82.5%
Underlying profit after tax	**5.5**	**29.3**	**(23.8)**	**(81.2)%**
Underlying basic earnings per share (p)	**2.6**	**14.7**	**(12.1)**	**(82.3)%**
Dividend per share (p)	**-**	**4.0**	**(4.0)**	**n/a**
Underlying tax rate	*16.7%*	*17.7%*	*(100)bps*	*n/a*

Statutory results

£m	H1 2020	H1 2019	31 December 2019
Underlying profit after tax	**5.5**	**29.3**	**58.9**
Non-underlying items:			
- Amortisation of intangible assets	(4.0)	(3.7)	(7.5)
- Acquisition costs and contingent consideration	(0.3)	(0.5)	(3.2)
Tax effect of non-underlying items	0.2	0.6	1.4
Profit for the year	**1.4**	**25.7**	**49.6**

- Amortisation of intangibles includes £0.3m relating to the acquisition of Alderburgh in October 2019
- Acquisition costs relate to the earn out of Permavoid
- Redundancy costs expected to be £1.5m

Balance sheet summary

£m	H1 2020	Alderburgh acquisition	H1 2020 (excl. acquisition)	H1 2019	Change (excl. acquisition)
Non-current assets					
▪ property, plant and equipment	126.9	5.9	121.0	119.0	2.0
▪ right-of-use assets	13.5	-	13.5	12.7	0.8
▪ goodwill	345.6	2.6	343.0	343.0	-
▪ other intangible assets	52.2	4.4	47.8	55.2	(7.4)
Net working capital	37.9	1.5	36.4	24.2	12.2
Net debt	(71.2)	1.0	(72.2)	(178.5)	106.3
Lease liabilities	(13.5)	-	(13.5)	(12.7)	(0.8)
Taxation	(8.5)	(0.5)	(8.0)	(16.7)	8.7
Other	(2.5)	(0.2)	(2.3)	(3.6)	1.3
Net assets	**480.4**	**14.7**	**465.7**	**342.6**	**123.1**

- No defined benefit pension scheme

Net working capital

£m	H1 2020 As reported	Alderburgh acquisition	H1 2020 (excl. acquisition)	H1 2019	Change (excl. acquisition)
Inventories	55.8	1.0	54.8	61.9	(7.1)
Trade and other receivables	60.2	2.9	57.3	57.7	(0.4)
Trade and other payables	(78.1)	(2.4)	(75.7)	(95.4)	19.7
Net working capital	**37.9**	**1.5**	**36.4**	**24.2**	**12.2**

- Inventories reduction consistent with reduction in manufacturing activity
- Minimal absolute movement in trade debtors' value
- Customer receipts have performed well through crisis
- Trade and other payables reduction consistent with slow down in activity and reduction in accrued rebates

Cash flows

£m	H1 2020	H1 2019	Change	31 December 2019
EBITDA (before non-underlying items)	**20.2**	**49.2**	**(29.0)**	**95.5**
Capital expenditure, net of disposals of property, plant and equipment	(8.3)	(8.7)	0.4	(18.0)
Movement in net working capital	(35.2)	(27.8)	(7.4)	(5.9)
Share-based payments	0.6	0.8	(0.2)	1.2
Operating cash flows after capital expenditure	**(22.7)**	**13.5**	**(36.2)**	**72.8**
Financing costs – net interest paid	(2.6)	(3.6)	1.0	(7.4)
Settlement of lease liabilities	(1.9)	(1.8)	(0.1)	(3.5)
Taxation	(7.3)	(6.0)	(1.3)	(12.4)
Dividends paid	-	(15.7)	15.7	(23.7)
Cash flows after interest, taxation and dividends	**(34.5)**	**(13.6)**	**(20.9)**	**25.8**
Non-underlying cash items	(1.3)	(0.5)	(0.8)	(1.4)
Acquisition of businesses	(1.8)	-	(1.8)	(12.2)
Proceeds from exercise of share options net of purchase of own shares	0.1	-	0.1	2.4
Net proceeds from issue of share capital	116.4	-	116.4	-
Movement in unamortised debt issue costs and foreign exchange	(0.3)	(0.2)	(0.1)	(0.4)
Decrease / (increase) in net debt	**78.6**	**(14.3)**	**92.9**	**14.2**
Cash conversion rate	(216%)	34%	n/a	93%

Banking facilities

Headroom at H1 2020:

£m	Drawn as at H1 2020	Facility	Headroom
Bank loan	174.8	300.0	125.2
COVID-19 facility[1]	-	50.0	50.0
CCFF[2]	99.5	99.5	-
Cash and cash equivalents	(201.7)	-	201.7
Net debt excluding unamortised debt issue costs	**72.6**	**449.5**	**376.9**
Unamortised debt issue costs	**(1.4)**		
Net debt including unamortised debt issue costs	**71.2**		
Lease liabilities	**13.5**		
Net debt	**84.7**		

[1] *Available for 12 months until May 2021*

[2] *Repaid 10 September 2020*

Covenant (pre-IFRS16)	Covenant requirement	Position at H1 2020
Interest cover (Underlying operating profit : Finance costs excluding debt issue cost amortisation)	>4.0:1	7.3:1
Leverage (Net debt : pro forma EBITDA[3])	<3.0:1	1.1:1

[3]Defined as underlying operating profit before depreciation for the twelve months preceding the balance sheet date adjusted where relevant to include a full year of EBITDA from acquisitions made during those twelve months.

Technical guidance for full year 2020

- Immediate capital expenditure circa £20m - £25m
- Financing costs circa £7m
- Effective tax rate circa 17%
- Restructuring costs £1.5m
- Savings from redundancies £3m on an annualised basis

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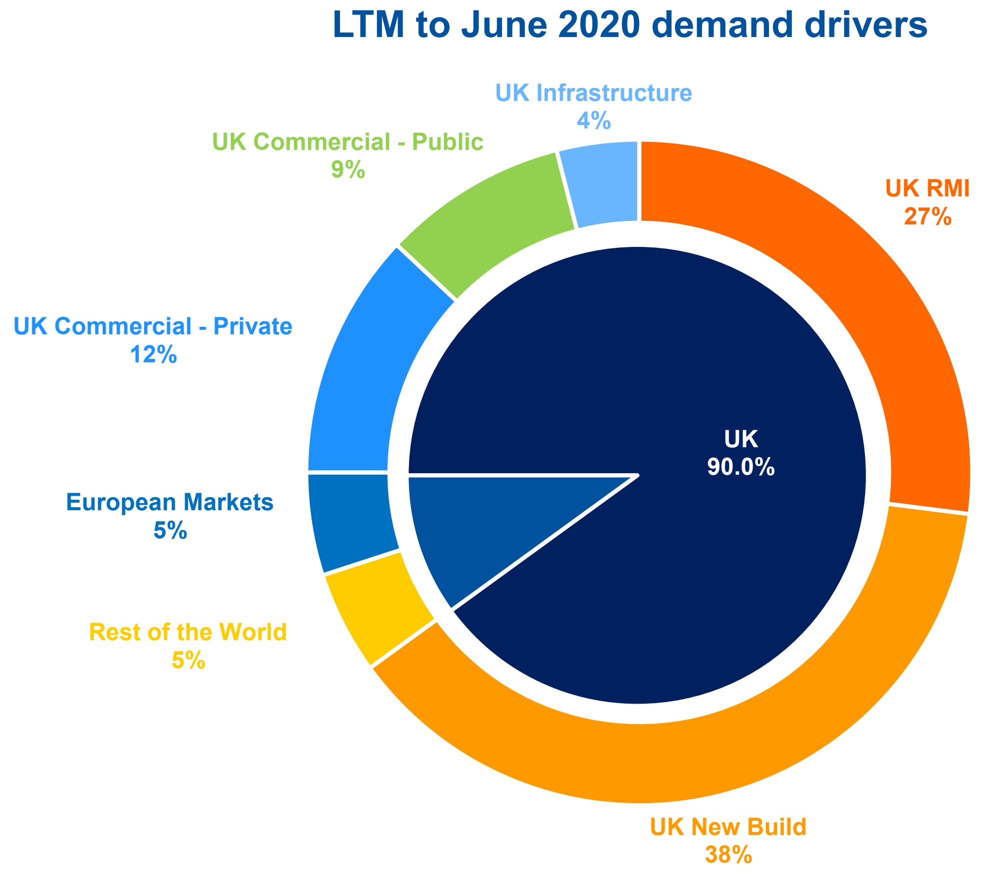
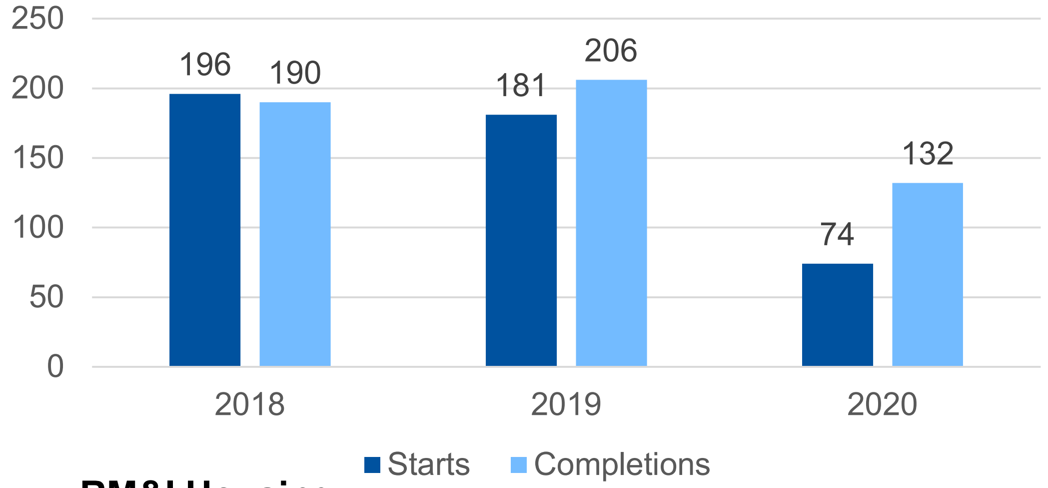
Demand drivers



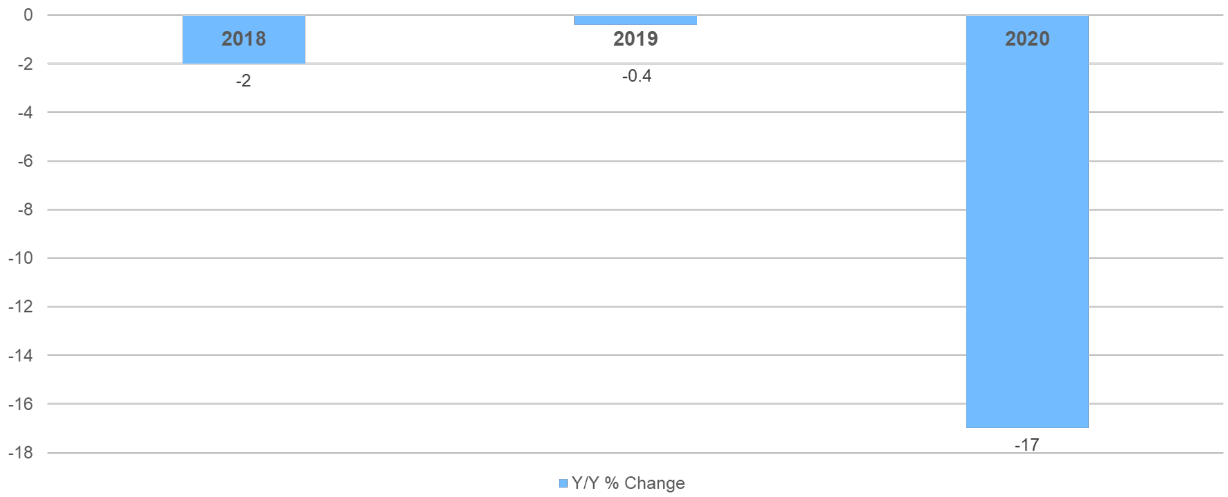
- 90% revenue derived from UK market
- Balanced exposure to different segments of UK Construction market
- Provides resilience through the cycle

UK Construction Market – Residential

New Housebuild 000s units



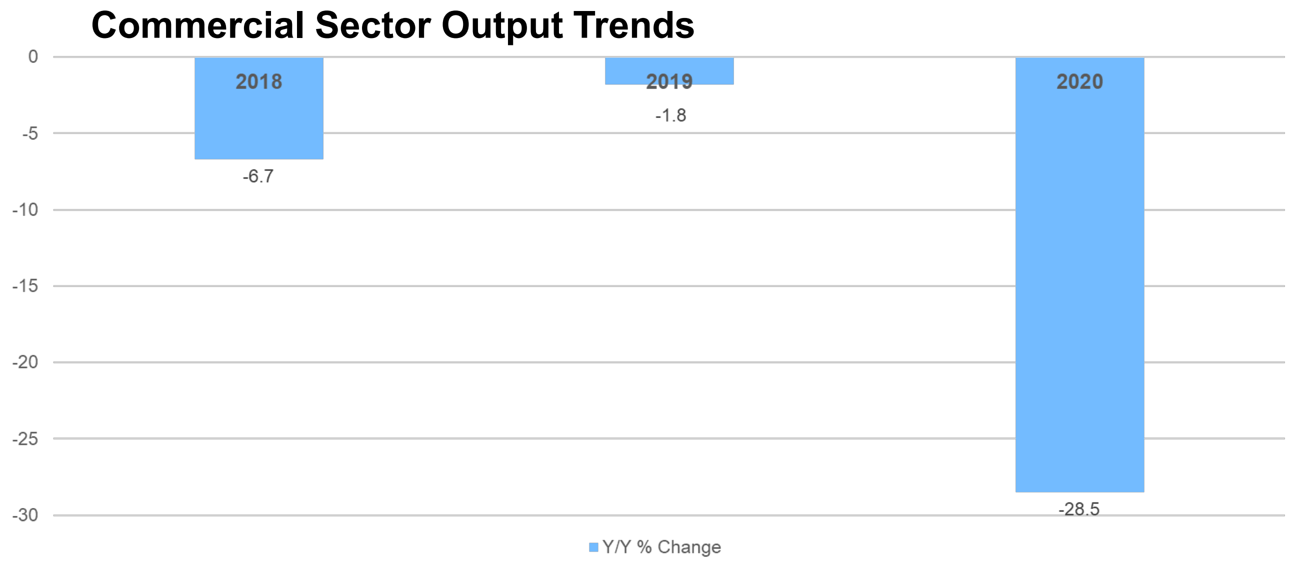
RM&I Housing

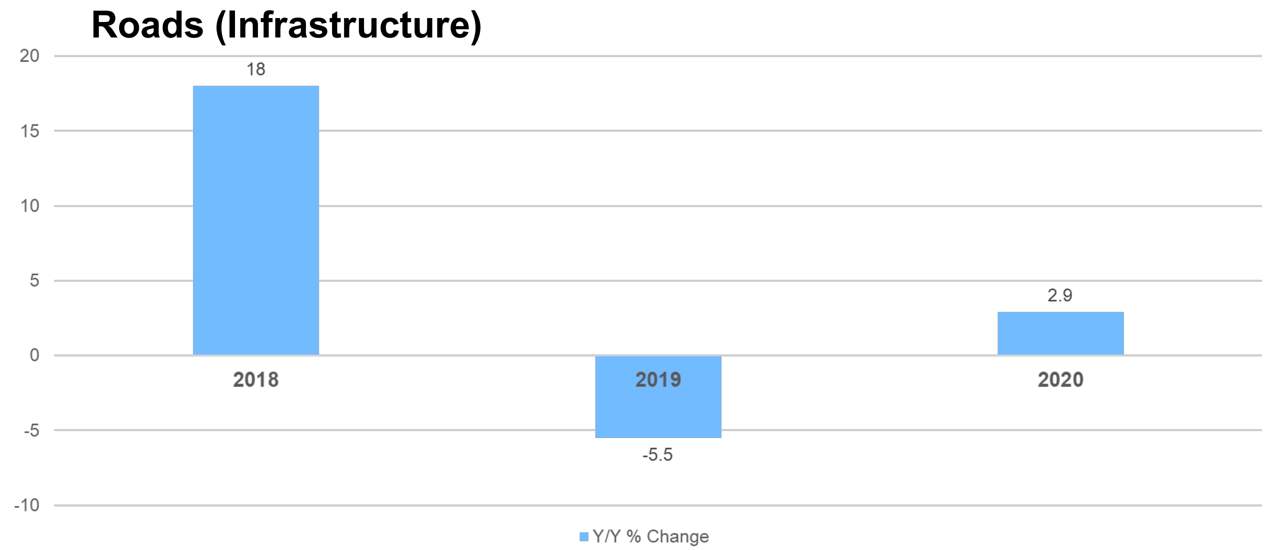


- New housebuild
  - New housebuilding in 2020 forecast to be 33% down vs 2019.
  - Government intervention helping:
    - Stamp duty
    - Extension of Help to Buy scheme to March 2021
- RMI
  - Remained resilient
    - DIY strong
      - Merchant cash sales
      - More garden, house decoration

Source: Construction Products Association (CPA) Summer forecast 2020 and MCHLG

UK Construction Market – Commercial and Infrastructure



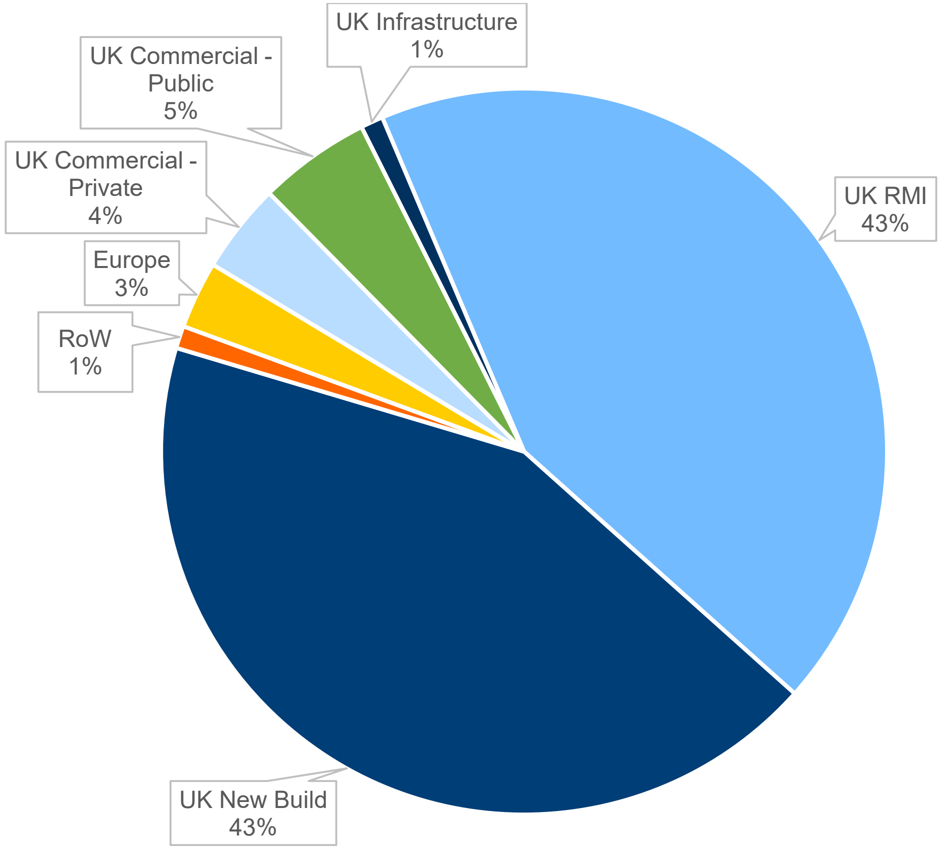


Source: Construction Products Association (CPA) Summer forecast 2020

- Market
  - Expectation of further decline in commercial sector in 2020 of 28.5%. In near term, projects continue to be completed, with large contractors addressing productivity challenges
  - Roads infrastructure market forecast to grow throughout the medium-term, as transport infrastructure is a key area for stimulus
- Fundamentals strong in infrastructure, with legacy issues still needing to be addressed, and the sector being a key focus of Government spending post COVID-19 including seminal projects, such as HS2

Operating segment review – Residential Systems

LTM to June 2020 demand drivers

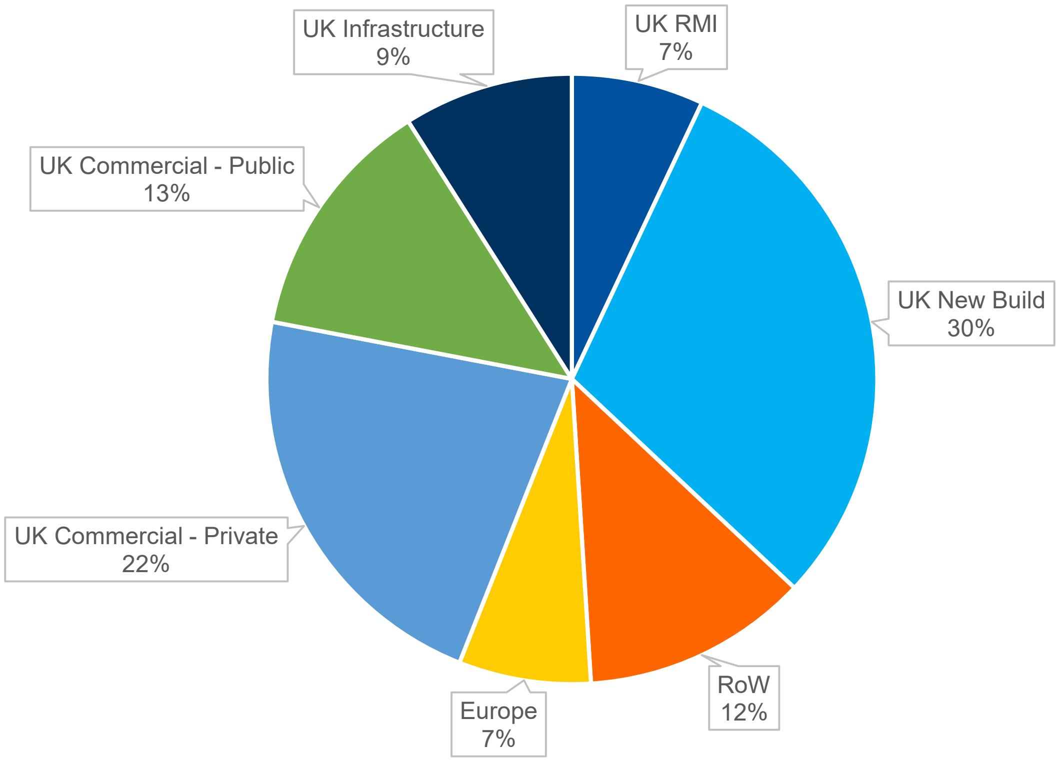


Residential Systems	H1 2020	H1 2019	% Growth
Revenue	£92.8m	£129.0m	(28.1)%
Underlying operating profit	£7.4m	£26.6m	(72.2)%
Underlying operating margin	8.0%	20.6%	

- 28.1% like-for-like revenue decline driven by COVID-19
- Underlying operating profit 72.2% lower, with margin impact of 1,260 basis points
- New housebuild markets shut completely, opened back in early May
- RMI market remained resilient
- Recovery surprisingly on the upside
- Operating margin of 8.0%
- Manthorpe wins prestigious Best Brand New Product with innovative Redshield Cavity Barriers
- Surestop wins prestigious Best Internal / Interior Product with i-water control product

Operating segment review – Commercial and Infrastructure Systems

LTM to June 2020 demand drivers



Commercial and Infrastructure Systems	H1 2020	H1 2019	% Growth
Revenue	£80.8m	£94.3m	(14.3)%
Underlying operating profit	£3.1m	£12.7m	(75.6)%
Underlying operating margin	3.8%	13.5%	

- Like-for-like revenue 21.2% lower, driven by COVID-19
- 14.3% revenue decline mitigated by Alderburgh acquisition in October 2019, integrating well but not immune to crisis
- Underlying operating profit 75.6% lower
- Operating margin of 3.8%
- Remained relatively resilient through crisis
- Recovering faster than expected due to Government investment in UK infrastructure
- Continued investment in innovative and sustainable projects, including next generation of Polysewer PVCu

Strategy reminder

- Growth will be ahead of the UK construction market over the cycle by:

1. Focusing on higher growth parts of the market driven by sustainable and environmental factors such as:
   a. Flood resilience, storm water management
   b. Green urbanisation
   c. Drive for low / zero carbon construction
   d. Legacy material substitution
   e. Selective development of export markets

2. Leveraging our customer relationships; filling product gaps and adjacencies that make us a ‘one-stop-shop’ for our customers

Strategy reminder and future opportunities

- More exposure to infrastructure given Government investment over next 3-5 years, including HS2
- Space ventilation and air quality more attractive in a post COVID-19 world
- Drive for low carbon heat source for residential low rise newbuild and implicit changes to distribution systems

CAPITAL MARKETS EVENT ON 17 NOVEMBER 2020

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Summary

- Prompt action by management ensured the safety of our staff and strength of the balance sheet
- Trading since the end of the first half has continued to recover with July and August revenue some 6% and 3% below 2019 levels respectively, tracking well-ahead of the operating scenario set out at the time of the Group’s equity raise
- While the Board is mindful of the risks to the overall pace and sustainability of the economic recovery, it is encouraged by the trajectory of the recovery of trading so far and is confident in the Group’s position as markets continue to recover
- The medium-term fundamentals in our markets remain as strong as ever, with the ongoing structural housing shortage and Government investment in infrastructure, and the Group has sufficient resources to invest in growth opportunities
- The Board recognises the importance of dividends to shareholders but, given the current economic uncertainty, is not recommending an interim dividend. However, the Board will consider paying a final dividend subject to continued performance ahead of the operating scenario set out at the time of the Group’s equity raise in May 2020
- A Capital Markets Event will be held on 17 November 2020

Q&A

To ask a question, please use the below conference line:

United Kingdom (Local): 020 3936 2999
All other locations: +44 20 3936 2999
Access Code: 832401

*To register a question, press *1 on phone keypad. To remove the question, press *2*

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