Polypipe Group plc

Full Year Results

Year ended 31 December 2016

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Agenda

Polypipe

Introduction
David Hall

Financial Review
Martin Payne

Business Review
David Hall

Presentation Team

David Hall
Chief Executive Officer

Martin Payne
Chief Financial Officer

Introduction

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- Excellent UK revenue growth – outpaced the market
- No discernible effect from EU Referendum
- Nuaire successfully integrated and performing well
- Middle East plant commissioned
- Significant growth in export
- Further year of progression ahead

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Financial highlights

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- Revenue 23.8% higher at £436.9m, 9.1% higher on a like for like basis
- UK revenue 10.5% ahead excluding acquisitions
- Underlying operating profit 28.0% higher at £69.4m
- 50bps improvement in underlying operating margin to a record 15.9%
- Underlying diluted earnings per share 28.9% higher at 25.0 pence per share
- Strong cash conversion rate maintained at 97.1%
- Net debt down to 1.9 times EBITDA
- Recommended final dividend of 7.0 pence per share giving a full year dividend of 10.1 pence per share, 29.5% higher

2016 underlying results summary

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£m	2016	2015	change	% change
Revenue	**436.9**	**352.9**	**84.0**	**23.8%**
Cost of sales	(256.8)	(210.0)	(46.8)	
Gross profit	**180.1**	**142.9**	**37.2**	**26.0%**
Gross margin	*41.2%*	*40.5%*		
Selling & distribution costs	(69.4)	(56.4)	(13.0)	
Administrative expenses	(41.3)	(32.3)	(9.0)	
Underlying operating profit	**69.4**	**54.2**	**15.2**	**28.0%**
Operating margin	*15.9%*	*15.4%*		
Net finance costs	(7.6)	(6.2)	(1.4)	
Underlying profit before tax	**61.8**	**48.0**	**13.8**	**28.8%**
Underlying tax	(11.8)	(9.2)	(2.6)	
Underlying profit after tax	**50.0**	**38.8**	**11.2**	**28.9%**
Underlying diluted earnings per share (p)	**25.0**	**19.4**		**28.9%**
Dividend per share (p)	**10.1**	**7.8**		**29.5%**
Underlying tax rate	*19.1%*	*19.2%*		

Revenue and underlying operating profit bridge

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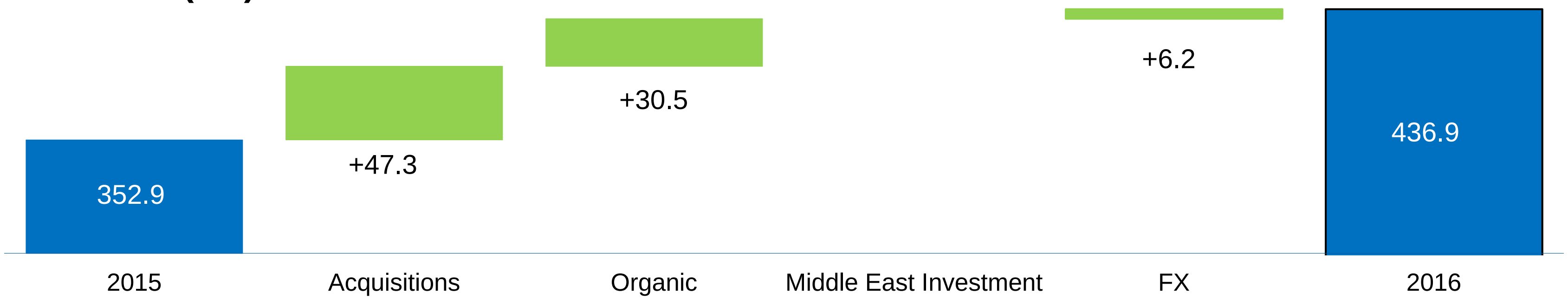
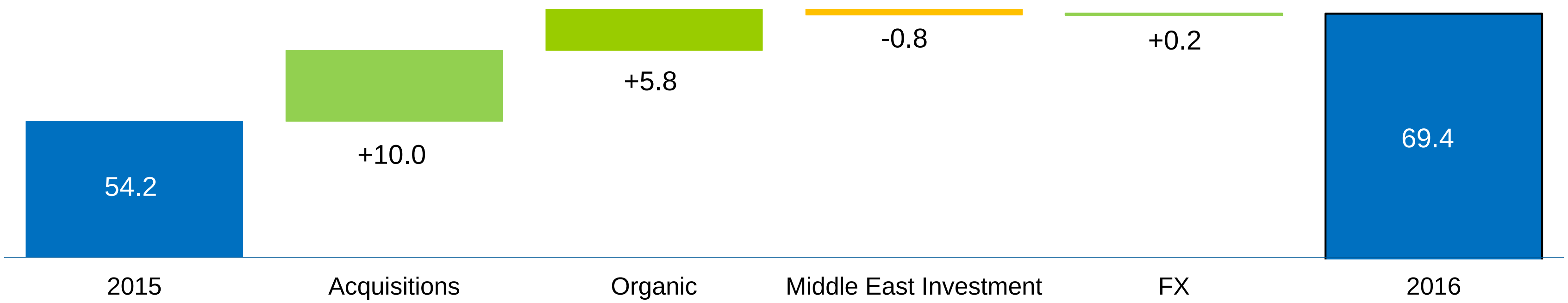
Revenue (£m)



Underlying operating profit (£m)



Cashflow

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£m	2016	2015	change
EBITDA (before non-underlying items)	**85.7**	**69.3**	**16.4**
Capital expenditure	(19.1)	(19.3)	0.2
Movement in net working capital	(0.2)	4.9	(5.1)
Share-based payments	1.0	0.4	0.6
Operating cashflow after capital expenditure	**67.4**	**55.3**	**12.1**
Financing costs – net interest paid	(7.3)	(5.7)	(1.6)
Taxation	(10.1)	(5.2)	(4.9)
Dividends paid	(17.1)	(10.6)	(6.5)
Proceeds from the disposal of property, plant & equipment	0.4	0.4	-
Cashflow before acquisition, financing, and share purchase costs	**33.3**	**34.2**	**(0.9)**
Acquisition of businesses	-	(151.5)	151.5
Refinancing costs	-	(1.7)	1.7
Purchase of own shares	(2.9)	-	(2.9)
Movement in unamortised debt issue costs	(0.4)	(0.4)	-
Decrease / (Increase) in net debt	**30.0**	**(119.4)**	**149.4**

Cash conversion rate **(Operating cashflow after capital expenditure : Underlying operating profit)**	**97.1%**	**102.0%**	

Balance sheet summary

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£m	31 December 2016	31 December 2015	Change
Non-current assets			
– property, plant & equipment	101.0	98.1	2.9
– goodwill	329.3	329.3	-
– other intangible assets	42.3	49.1	(6.8)
Net working capital	0.5	(2.3)	2.8
Net debt	(164.3)	(194.3)	30.0
Taxation	(14.3)	(14.7)	0.4
Other	(7.1)	(4.2)	(2.9)
Net Assets	**287.4**	**261.0**	**26.4**

- No defined benefit pension scheme

Net working capital

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£m	31 December 2016	31 December 2015	Change
Inventories	52.2	47.5	4.7
Trade and other receivables	40.1	30.5	9.6
Trade and other payables	(91.8)	(80.3)	(11.5)
Net working capital	**0.5**	**(2.3)**	**2.8**
Net working capital to revenue	0.1%	-0.7%	

Banking facilities

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Headroom at 31 December 2016:

£m	At 31 December 2016	Facility	Headroom
Bank loans	192.0	300.0	108.0
Cash and cash equivalents	(26.5)	-	26.5
Net debt excluding unamortised debt issue costs	**165.5**		**134.5**
Unamortised debt issue costs	(1.2)		
Net debt	164.3		

Covenant	Covenant requirement	Position at 31 December 2016
Interest cover (Underlying operating profit : Net finance costs excluding debt issue cost amortisation)	>4.00:1	9.7:1
Leverage (Net debt : EBITDA)	<3.25:1	1.9:1

Guidance summary 2017

- Margins more weighted towards second half compared to 2016 as H1 2017 price increases work through
- 2017 Capital expenditure £25m – confidence regained after EU Referendum
- Cash tax broadly in line with underlying tax P&L charge
- Dividend policy maintained

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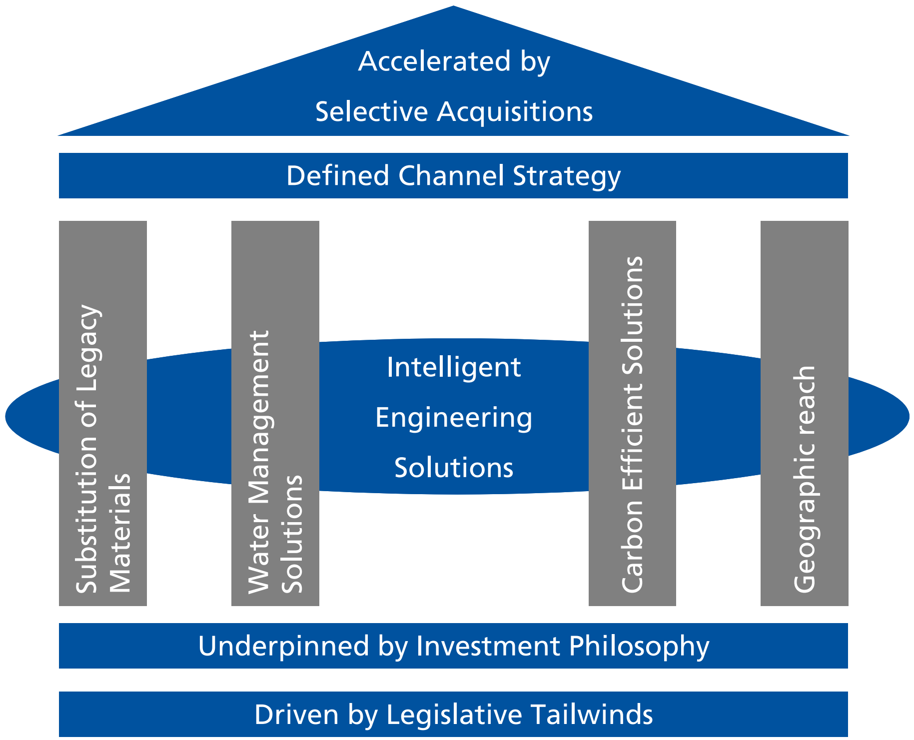
Our strategy



Our Strategic Objectives:

1. Retain agility to adapt to market movements
2. Leveraging brand position across all sectors of UK construction
3. Continued product development for sustainable construction and substitution of legacy materials
4. Continuous investment in processes and efficiency initiatives
5. Selective development in Export and the Middle East
6. Complementary acquisitions aligned to our strategic objectives

Seventh consecutive year of progress

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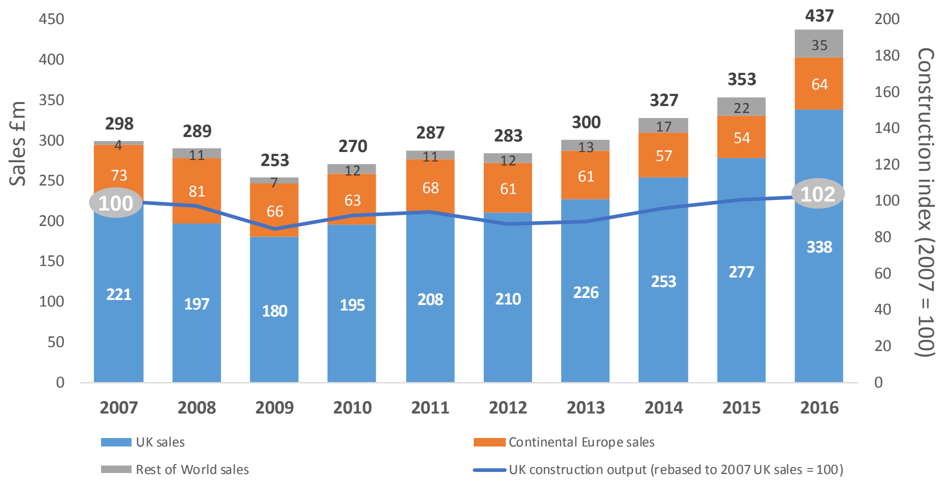
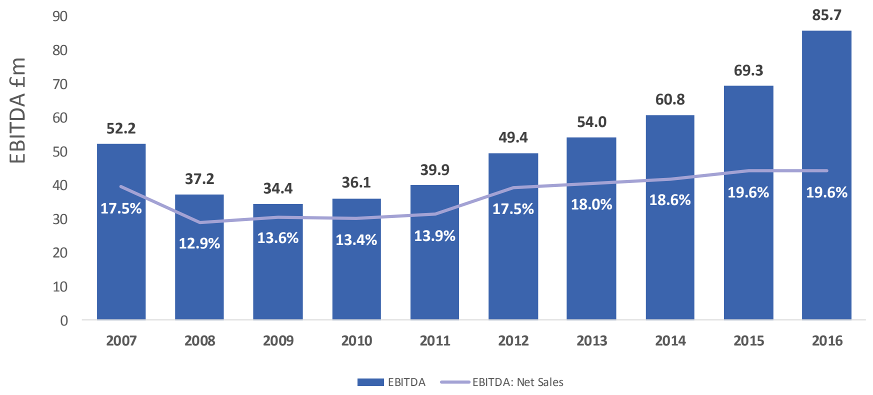
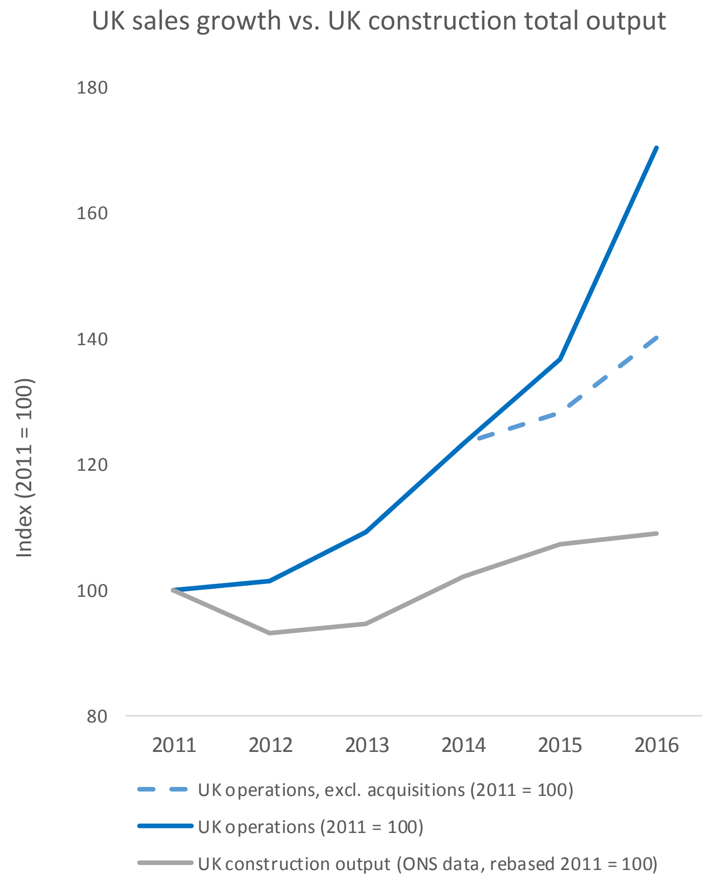
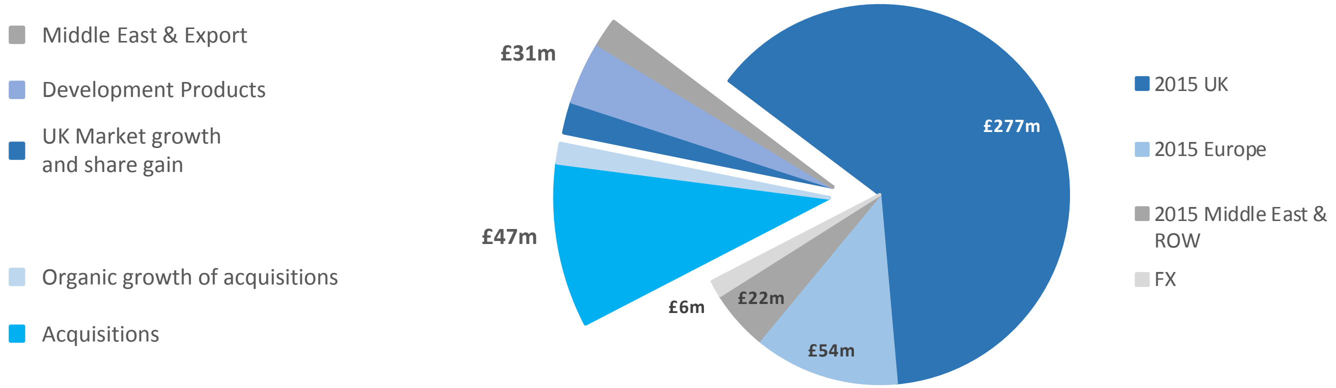


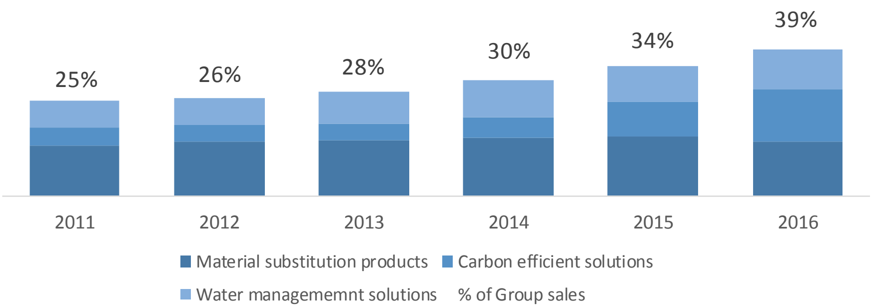




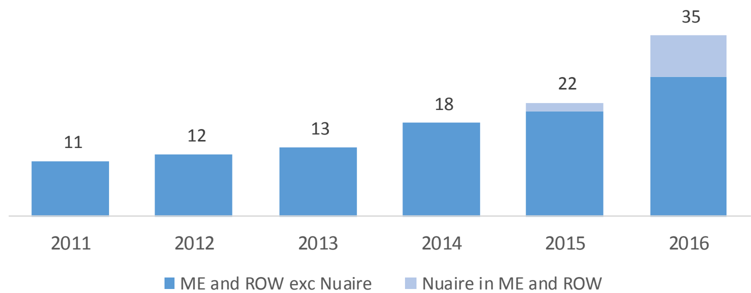
Drivers of sales growth



Development Products



Middle East and Rest Of World Sales



Successful integration of Nuaire

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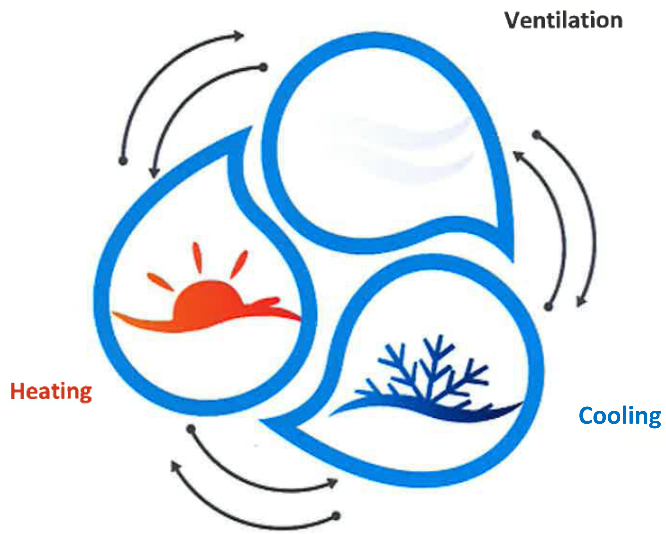
- All key personnel retained
- Growth trajectory maintained
- New product development boosted by alignment with broader Group
- Cross selling of in-house ducting
- Merger of product platforms with original ventilation business
- Rationalisation of some back-office, production, technical, NPD – brand and channel differentiation maintained
- Permanent base in Middle East training facility and office
- Merger of CRM data, UK and Middle East to optimise cross-selling and leverage project opportunities



Investment in manufacturing in the Middle East

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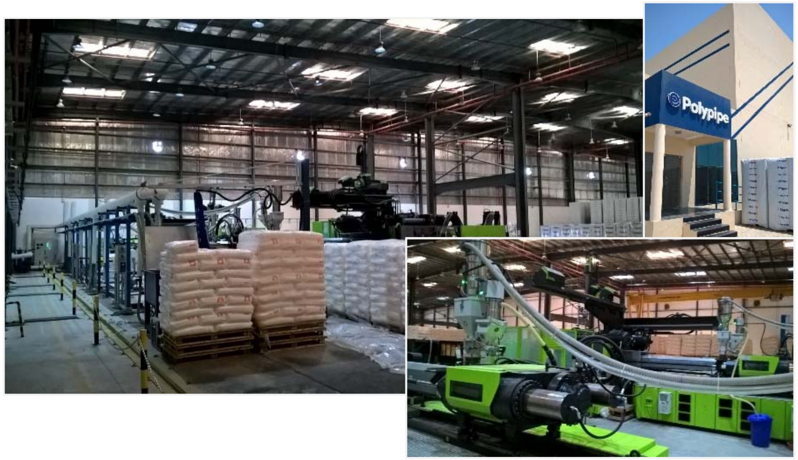
- Installed and commissioned Polystorm production capability in a new 72,000ft^2 manufacturing facility in Dubai
  - 100%-Polypipe owned and controlled in Jebel Ali Free Zone
  - Recruited and trained 35 staff
  - Achieved ISO 9001 Certification / BBA, local approvals / H&S Standards



- Continued to influence Government legislation with engagement at design-stage with consultants
  - Successful specification of Polystorm solutions, challenging traditional legacy materials
  - Jebel Ali Hills project alone, total installed tank capacity of 70,000,000 litres of water

Polypipe has a balanced portfolio across all construction markets

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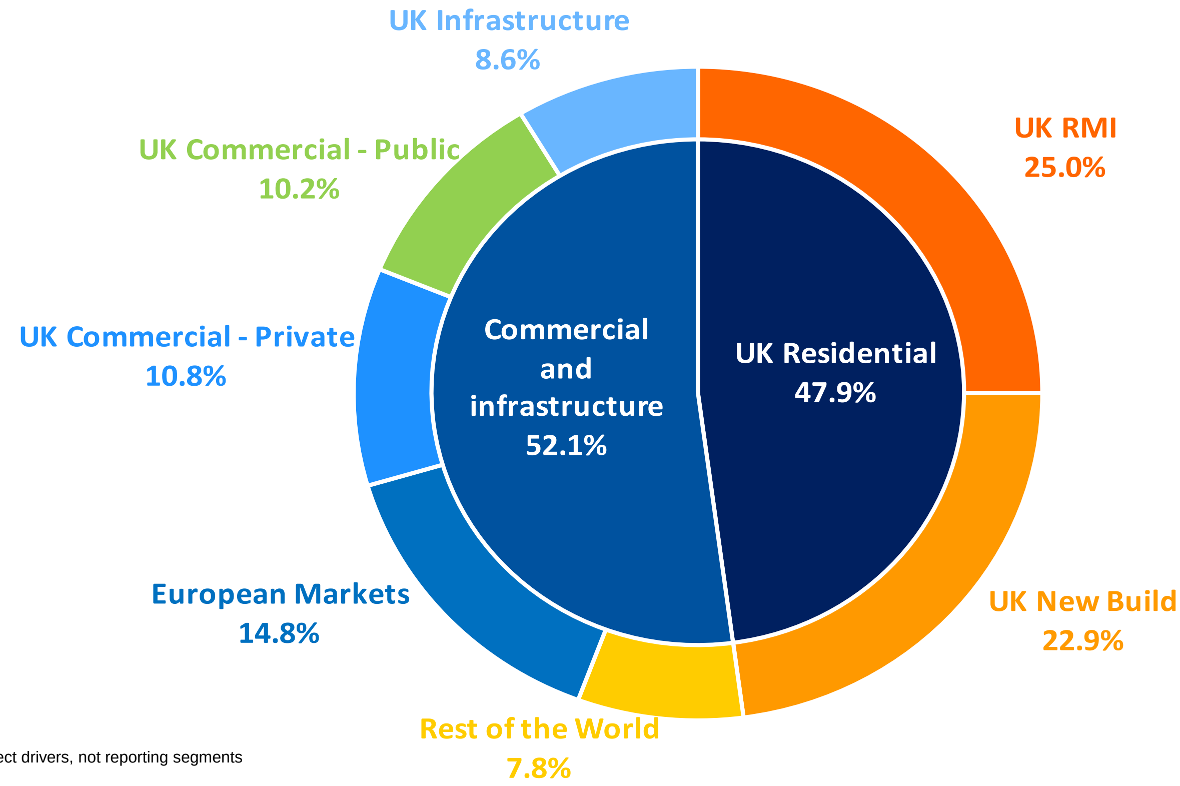

Note – based on project drivers, not reporting segments

Operating segment review - Residential

Residential	2016	2015	2014
Revenue	£207.6m	£182.6m	£173.3m
Underlying operating profit	£39.1m	£32.8m	£28.4m
Underlying operating margin	18.8%	18.0%	16.4%

- 6.6% like for like growth supported by new build activity
- Further skew to National Housebuilders
- Growth slowing in London but accelerated in regions
- Pace of private RMI growth remain muted
- Second hand housing sales still low
- Substitution and new product growth came through in residential as newer legislation bites
- No significant year on year impact of selling price increases which recovered previous pass-through of polymer cost deflation
- Polymer price increases in second half of 2016 to be recovered during H1 2017

Operating segment review – C&I UK

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Commercial & Infrastructure - UK	2016	2015	2014
Revenue	£184.2m	£131.5m	£111.1m
Underlying operating profit	£29.0m	£20.1m	£17.0m
Underlying operating margin	15.7%	15.3%	15.3%

- 16.1% like for like growth supported by strong demand from Roads sector
- Demand for water management/flood alleviation projects key driver of sales growth
- High rise developments in London and regions continued to grow
- Private commercial continued although dip in project awards during the year
- Strong growth in exports and some notable project wins
- Middle East sales growth in addition to sales of locally manufactured product
- Polymer price increases in second half of 2016 to be recovered during H1 2017

Operating segment review – C&I Mainland Europe

Commercial & Infrastructure – Mainland Europe	2016	2015	2014
Revenue	£57.9m	£50.4m	£53.9m
Underlying operating profit	£1.3m	£1.3m	£0.9m
Underlying operating margin	2.2%	2.6%	1.7%

- Revenue broadly flat (+2.4%) in local currency
- Distributor initiatives in H1 to stock up for market improvement which never came through, pulled forward sales into H1
- Self help improvement initiatives continuing to show slow but steady progress
- Increases in input costs in H2 had more impact on margins than the Group overall because of lower added value

Summary & outlook

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- Strategy continues to deliver record results - EPS growth of 28.9%
- Nuaire acquisition successfully integrated and performing well
- No discernible impact of EU Referendum on orders but we remain alert
- Increased Government focus on housing and infrastructure
- Addition of manufacturing capacity in Middle East
- Leverage back to less than 2 times EBITDA
- Focus on price recovery of input cost inflation
- 2017 has started well

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Questions & Answers