2022 Half Year Results

16 August 2022

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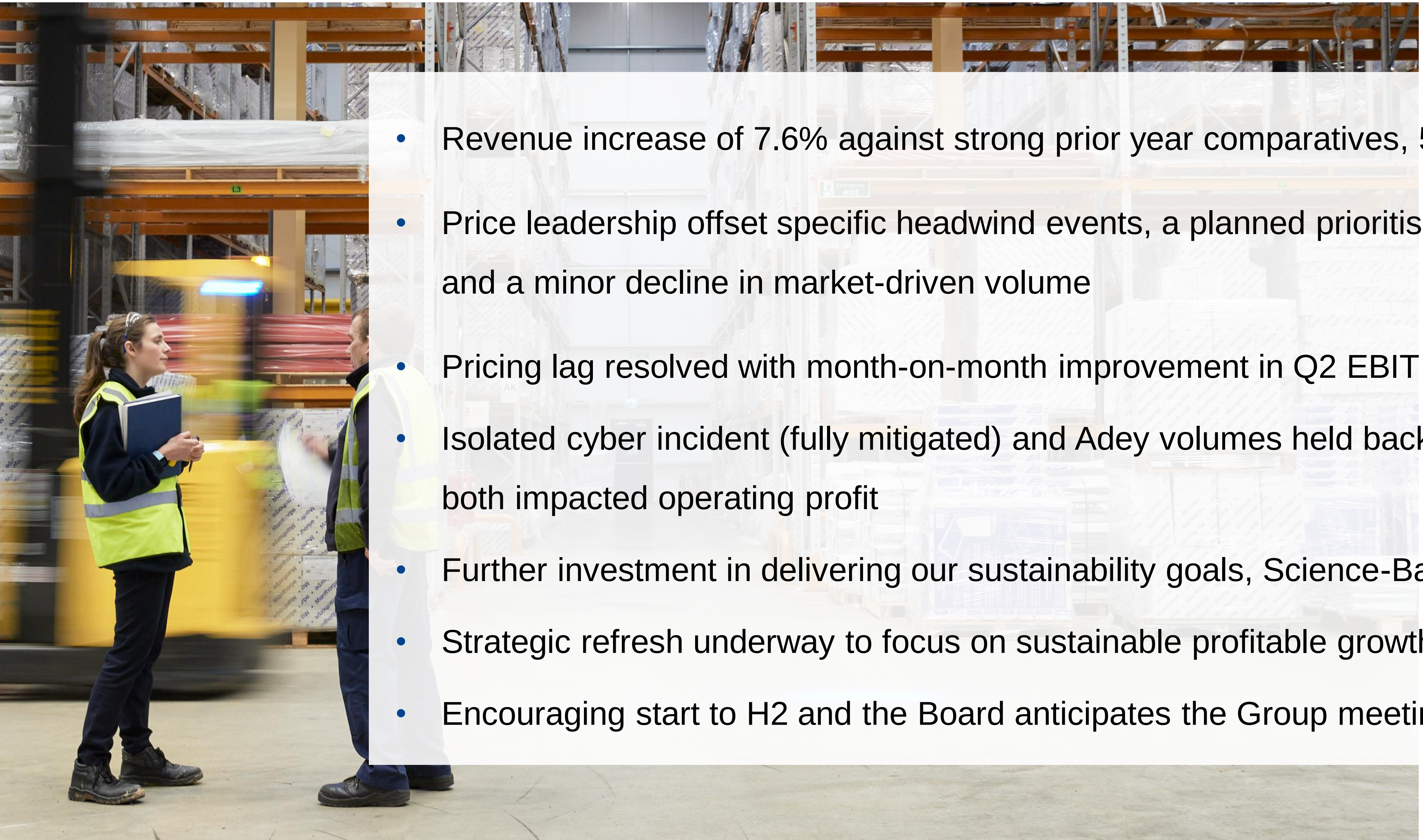
Agenda

Introduction



- Revenue increase of 7.6% against strong prior year comparatives, 5.7% higher on a like-for-like basis
- Price leadership offset specific headwind events, a planned prioritisation of higher margin business and a minor decline in market-driven volume
- Pricing lag resolved with month-on-month improvement in Q2 EBIT margin
- Isolated cyber incident (fully mitigated) and Adey volumes held back by nationwide boiler shortages – both impacted operating profit
- Further investment in delivering our sustainability goals, Science-Based Targets finalised for validation
- Strategic refresh underway to focus on sustainable profitable growth
- Encouraging start to H2 and the Board anticipates the Group meeting full year expectations

Financial Summary

- Underlying operating profit of £47.4m, a marginal decrease on prior year
- An isolated cyber incident and boiler supply chain issues affected second quarter revenue with an EBIT impact of c.£7.0m
- Strong order books and sequential month-on-month improvement in operating margin in second quarter provides confidence for the full year
- Net debt of 1.5 times pro forma EBITDA in line with expectations
- RCF of £350.0m renewed as a Sustainability Linked Loan until 2026 with a £25.0m private placement until 2029
- The Group intends to pay an interim dividend of 4.1p, an increase of 2.5%

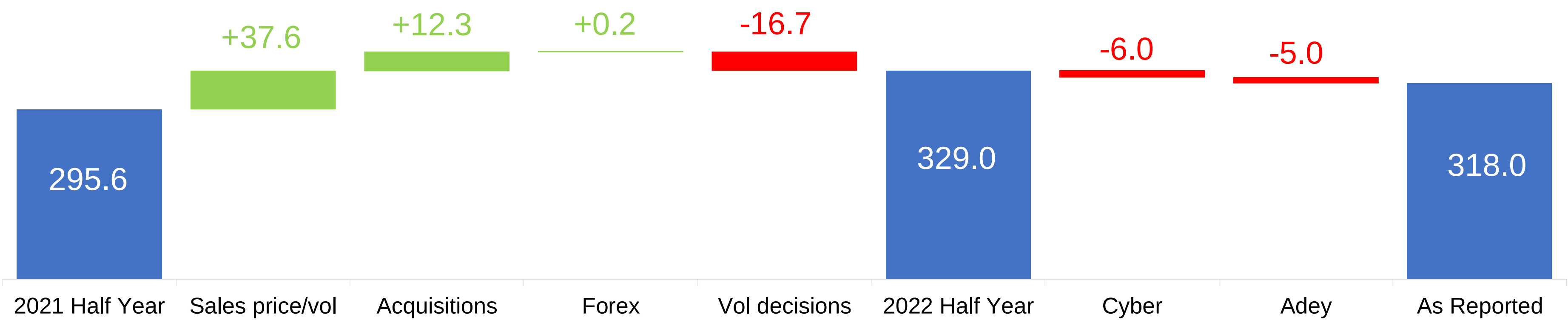
Underlying results summary

£m	H1 2022	H1 2021	Change
Revenue	**318.0**	**295.6**	**7.6%**
Cost of sales	(194.4)	(173.6)	12.0%
Gross profit	**123.6**	**122.0**	**1.3%**
Gross margin	***38.9%***	***41.3%***	***(240)bps***
Selling, distribution and administration costs	(76.2)	(73.4)	3.8%
Underlying operating profit	**47.4**	**48.6**	**(2.5)%**
Operating margin	***14.9%***	***16.4%***	***(150)bps***
Net finance costs	(2.8)	(2.1)	33.3%
Underlying profit before tax	**44.6**	**46.5**	**(4.1)%**
Underlying tax	(9.8)	(8.2)	19.5%
Underlying profit after tax	**34.8**	**38.3**	**(9.1)%**
Underlying basic earnings per share (p)	**14.0**	**15.8**	**(11.4)%**
Dividend per share (p)	**4.1**	**4.0**	**2.5%**

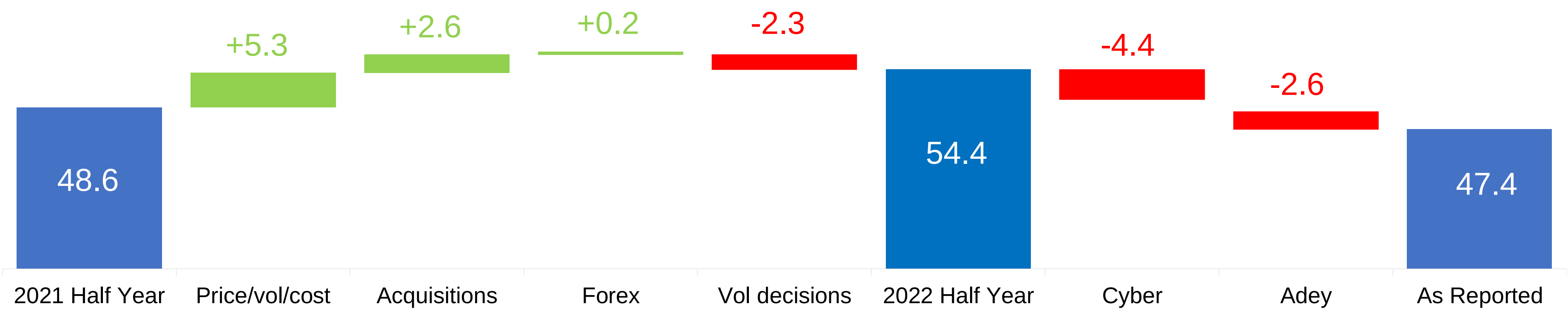
- Revenue growth driven by robust price leadership offset by a minor decline in volume against a strong comparative
- An isolated cyber incident and boiler supply chain issues impacted sales by c.£11.0m and EBIT by c.£7.0m
- Impact on SG&A alone from the cyber incident was c.£1.0m. Outside of this, growth in SG&A is limited to 2.5% in a major inflationary environment (broadly flat on a like-for-like basis).
- Second quarter monthly operating margins all above prior year showing sequential month-on-month growth
- The Group continues to rigorously challenge its cost base in order to enhance its resilience

Revenue and underlying operating profit bridge

Revenue (£m)



EBIT (£m)



16.4% 16.5% 14.9%

- Price leadership delivered on cost inflation and offset c.4% softer demand
- Exit from low margin volume to increase quality of the business
- Operating margin of 16.5% before cyber and Adey issues
- Cyber impact includes some recovery costs and impact of sudden stop of Nuaire operations
- Adey – upstream supply constraint on boiler manufacturing

Statutory results

£m	H1 2022	H1 2021
Underlying profit after tax	**34.8**	**38.3**
Non-underlying items:		
- Amortisation of intangible assets	(7.5)	(6.6)
- Acquisition costs and contingent consideration	(1.3)	(4.4)
- Severance costs	(1.2)	-
- Unwind of inventory fair value adjustment	-	(1.7)
- Other costs	(1.7)	-
Tax effect of non-underlying items	1.9	(6.5)
Profit for the period	**25.0**	**19.1**

- Amortisation increased due to full period of acquisitions made in H1 2021
- Acquisition costs and contingent consideration in H1 2022 relate to Plura deferred consideration
- Severance costs relate to selected management redundancies
- Other costs include expenses incurred in response to an isolated cyber incident at Nuaire

Cash flow

£m	HY 2022	HY 2021	Change
EBITDA (before non-underlying items)	**58.4**	**60.1**	**(1.7)**
Net capex	(7.4)	(15.0)	7.6
Working capital	(37.4)	(31.1)	(6.3)
Share-based payments	1.6	1.0	0.6
Operating cash flows	**15.2**	**15.0**	**0.2**
Interest	(2.2)	(1.2)	(1.0)
Leases	(3.3)	(2.5)	(0.8)
Taxation	(5.2)	(5.3)	0.1
Dividends	(20.3)	(11.9)	(8.4)
Net cash flows	**(15.8)**	**(5.9)**	**(9.9)**
Non-underlying cash items	(4.2)	(6.4)	2.2
Acquisitions	(2.6)	(236.2)	233.6
Equity raises	-	93.5	(93.5)
Other	(0.2)	0.2	(0.4)
Increase in net debt	**(22.8)**	**(154.8)**	**132.0**

- Capex net proceeds from sale and leaseback of car fleet, spend expected to increase in H2 as investment projects commence
- Capex for the year expected to be c.£40.0m
- Working capital increase driven by raw material inflation and some stock build to overcome supply chain constraints
- Final 2021 dividend of 8.2 pence per share (2020: 4.8 pence per share) settled in H1

Net working capital

£m	H1 2022	H1 2021
Inventories	97.4	64.4
Trade and other receivables	94.8	99.4
Trade and other payables	(132.4)	(129.0)
Net working capital	**59.8**	**34.8**

- Inventories increase driven by focus on improving customer service and overcoming material supply issues
  - Boiler supply chain issues
  - Isolated cyber incident
- Receivables and payables impacted by increase in demand

Banking facilities

£m	Drawn as at 30 June 2022	Facility	Headroom
Bank loan	218.0	300.0	82.0
Cash and cash equivalents	(49.7)	-	49.7
Net debt excluding unamortised debt issue costs	**168.3**	**300.0**	**131.7**
Unamortised debt issue costs	**(0.4)**		
Net debt including unamortised debt issue costs	**167.9**		
Lease liabilities	**21.9**		
Net debt	**189.8**		

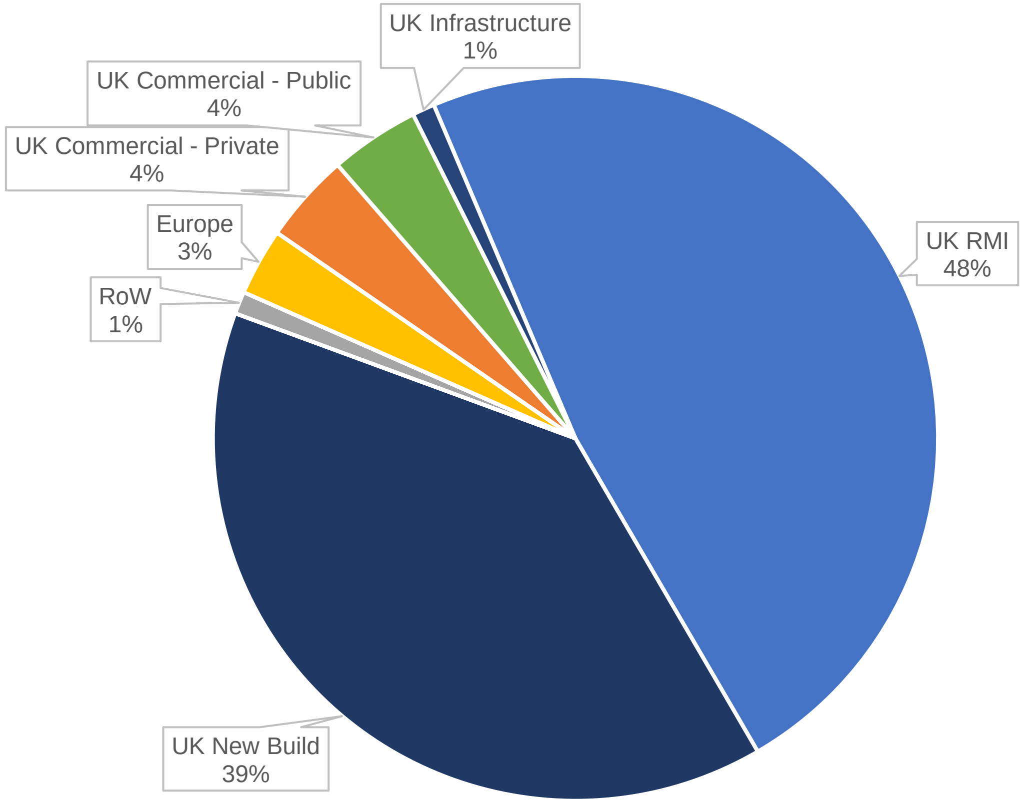
- Well within covenant requirements with significant headroom
- In H2, the Revolving Credit Facility was renewed for four years as a Sustainability Linked Loan at £350m with a seven year £25m private placement
- Uncommitted £50m accordion facility with banks and a £125m uncommitted shelf facility with the private placement lender

Covenant (pre-IFRS 16)	Covenant requirement	Position at 30 June 2022
Interest cover (Underlying operating profit ÷ Finance costs excluding debt issue cost amortisation)	>4.0:1	25.2:1
Leverage (Net debt ÷ pro forma EBITDA[1])	<3.0:1	1.5:1

[1] *Defined as underlying operating profit before depreciation for the 12 months preceding the balance sheet date, adjusted, where relevant, to include a full year of EBITDA from acquisitions made during those 12 months.*

Operating segment review – Residential Systems

LTM to June 2022 demand drivers

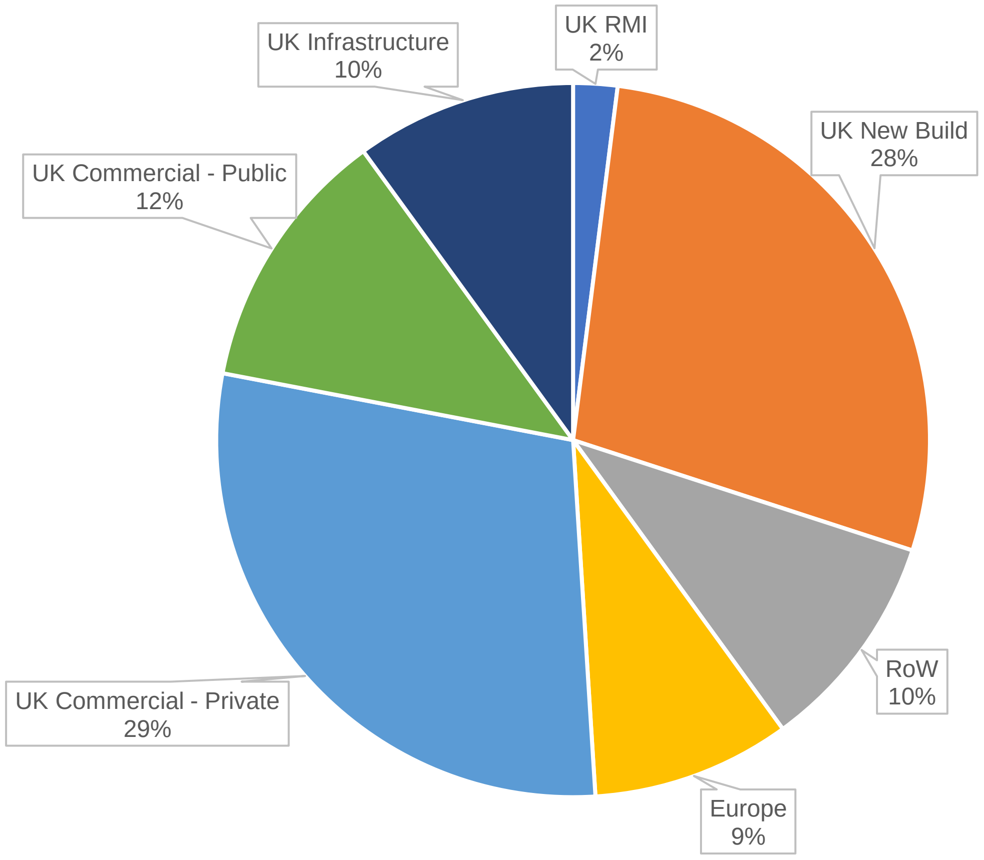


	H1 2022	H1 2021	Growth vs H1 2021
Revenue	£198.9m	£183.8m	8.2%
Underlying operating profit	£37.3m	£35.8m	4.2%
Underlying operating margin	18.8%	19.5%	

- 6.1% like-for-like revenue growth versus 2021 driven by robust price leadership offset by c.3% volume decline versus a strong comparative
- Sequentially improving EBIT margin in Q2, now at levels expected to be sustained in the second half
- Excluding the impact of boiler supply chain issues affecting Adey and the cyber incident, segment EBIT margin would have been 19.7% for the period
- CPA full year 2022 estimate for housing output to be 1% above 2021 and RMI full year output estimated at 3% lower than 2021
- Relentless focus on mitigating the effects of inflation and navigating supply chain constraints

Operating segment review – Commercial and Infrastructure Systems

LTM to June 2022 demand drivers



	H1 2022	H1 2021	Growth vs H1 2021
Revenue	£119.1m	£111.8m	6.5%
Underlying operating profit	£10.1m	£12.8m	(21.1)%
Underlying operating margin	8.5%	11.4%	

- Like-for-like revenue 5.2% higher than 2021
- Price leadership offset by c.6% volume decline against a strong comparative
- Improvement in Q2 margins expected to be sustained in H2
- Operating margin would have been 11.5% before impact of the cyber incident
- Good demand for water management systems
- CPA forecasting commercial output 3.5% above 2021 this year
- Infrastructure positive – CPA forecasting 2022 levels 8.5% ahead of 2021
- Keytec acquisition strengthens the Group’s installation proposition and dovetails well with Alderburgh business

Our market leading capabilities drive outperformance

Delivering growth ahead of the UK construction market over the cycle

- Leading positions in structural growth markets
- Strong brands in climate and water management sectors
- Selective organic and inorganic opportunities
- Legacy material substitution
- Targeted moves into overseas markets

Growth drivers

Climate change poses challenges to the built environment

The increasing demand for resilient drainage

The requirement for clean, fresh, healthy air

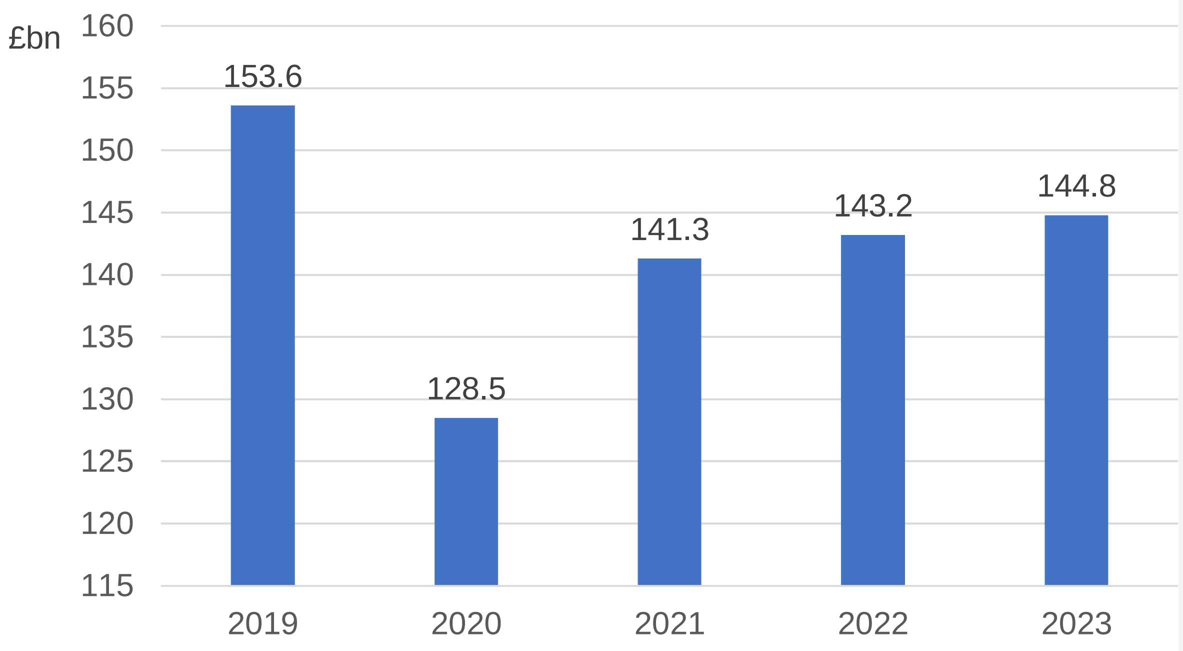
The trend towards green urbanisation

The move towards low/zero carbon heating & construction

These issues need new solutions

CPA forecast indicates construction market resilience despite uncertain economic outlook

Total UK Construction (excluding Infrastructure)



Construction market overview

- Recent CPA Summer forecast suggests 1.3% growth for 2022, though there is clearly an uncertain outlook
- Construction continues to have strong fundamental drivers, and, post the temporary headwinds faced by the wider economy, is expected to return to above historical average growth of 2.7% in 2024
- Within the total market, there remain sectors which outperform:
  - increased RMI expenditure on efficient heating systems
  - office refurbishment/repurposing post Covid, requiring ventilation upgrades
  - flooding/water management in urban planning and development

Source: Construction Products Association (CPA) Summer forecast 2022 and MCHLG

Highlights from across the Group

Delivering growth, underpinned by continued investment

Retrofit market growth

- Nu-Heat UFH sales +15% in H1
- Lead generation +20% in H1

Growth in home energy efficiency

- ADEY Pro Check helping homeowners to improve the efficiency of their central heating

International sales growth

- Polypipe Middle East +40% in H1
- ADEY International growth +6% in Europe and +22% in the US in H1

Direct installation growth

- Alderburgh attenuation systems at record sales and enquiry levels
- Keytec acquisition exceeding expectations

Highlights from across the Group

Delivering growth, underpinned by continued investment

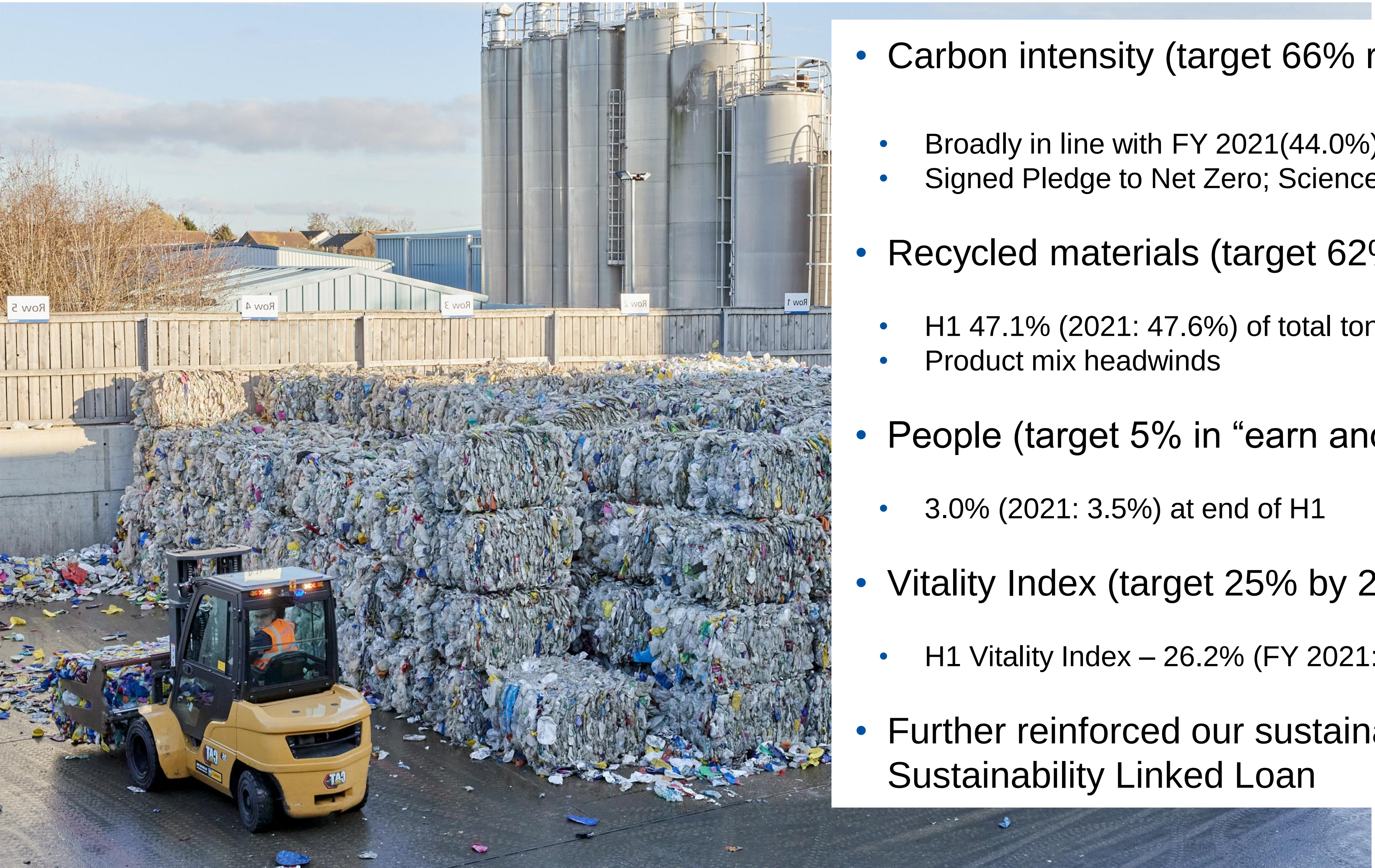
Further Investment in recycled content

- New generation of PVC pipe extrusion at Aylesford
- Enables up to 65% post industrial waste to be incorporated

Investment in our core

- £18m capex investment in new machinery at Polypipe Building Products in Doncaster

Sustainability is at the heart of our growth strategy and the way we operate our businesses



- Carbon intensity (target 66% reduction by 2025)
  - Broadly in line with FY 2021(44.0%) in H1; renewable energy sources
  - Signed Pledge to Net Zero; Science-Based Targets in 2022
- Recycled materials (target 62% by 2025)
  - H1 47.1% (2021: 47.6%) of total tonnage from recycled materials
  - Product mix headwinds
- People (target 5% in “earn and learn” by 2025)
  - 3.0% (2021: 3.5%) at end of H1
- Vitality Index (target 25% by 2025)
  - H1 Vitality Index – 26.2% (FY 2021: 20.2%)
- Further reinforced our sustainability credentials with Sustainability Linked Loan

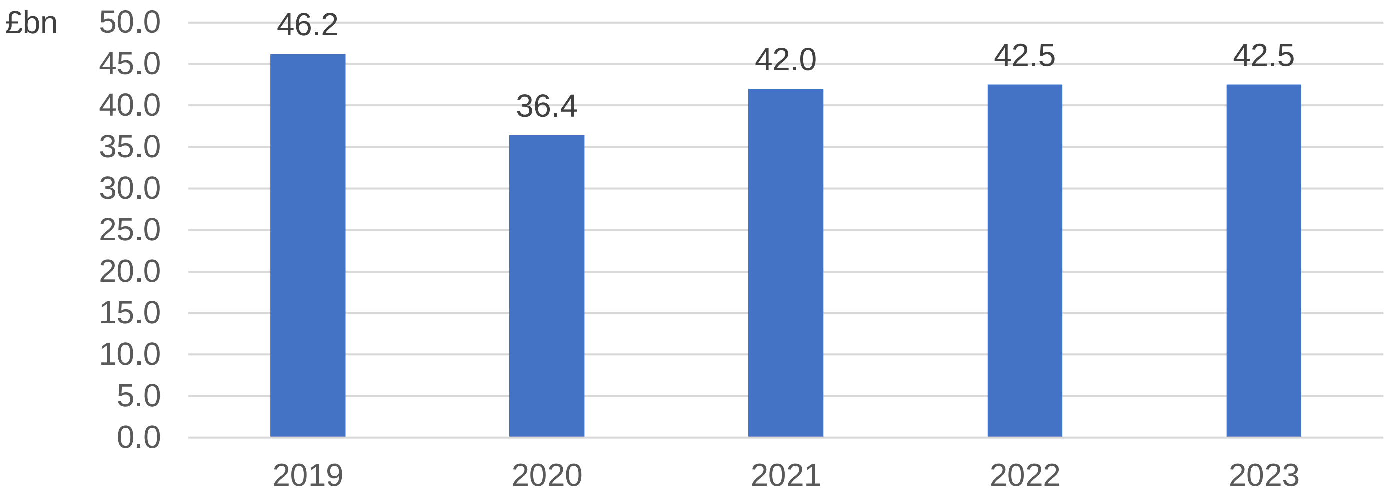
Outlook and summary

- The Group has a balanced exposure to and should continue to outperform the construction market through the cycle
- Despite the short term headwinds in the residential sector (including ongoing boiler supply constraints), the fundamentals continue to be strong, driven by the structural housing shortage and increased interest in energy efficiency
- Robust price leadership and a greater focus on operational efficiency continue to strengthen the Group
- Whilst mindful of the uncertain macroeconomic and geopolitical environment, our order books remain strong and the Board anticipates the Group will meet full year expectations
- Further, we will complete a strategy refresh in H2 and plan a Capital Markets Day this Autumn, details to follow

Q&A

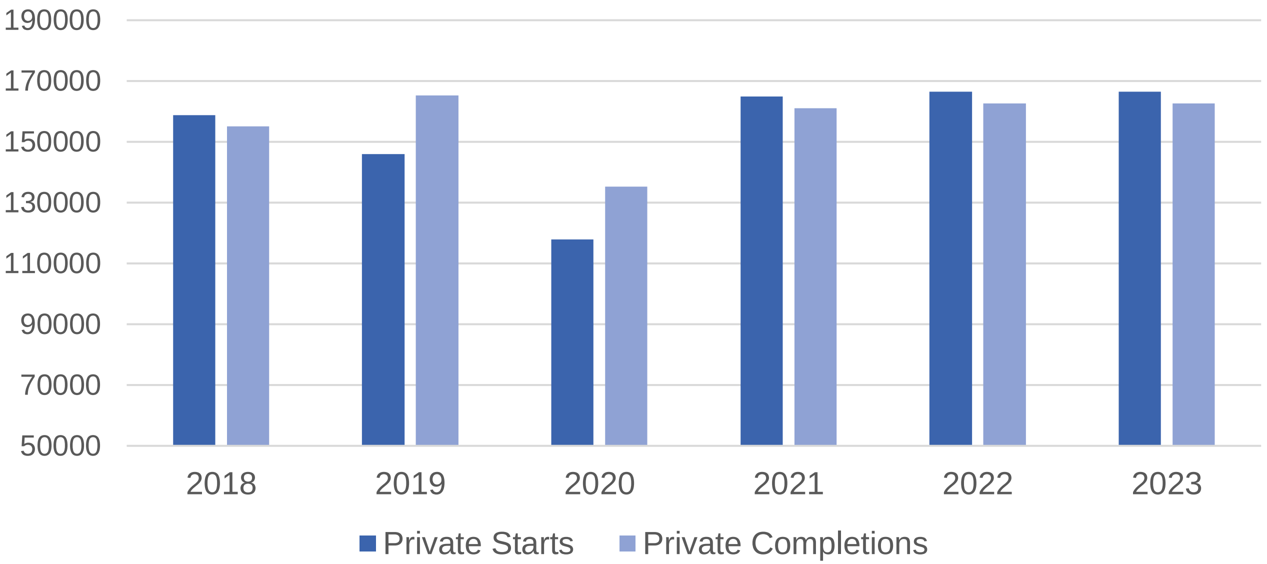
APPENDIX

UK Construction Market – Residential remains resilient



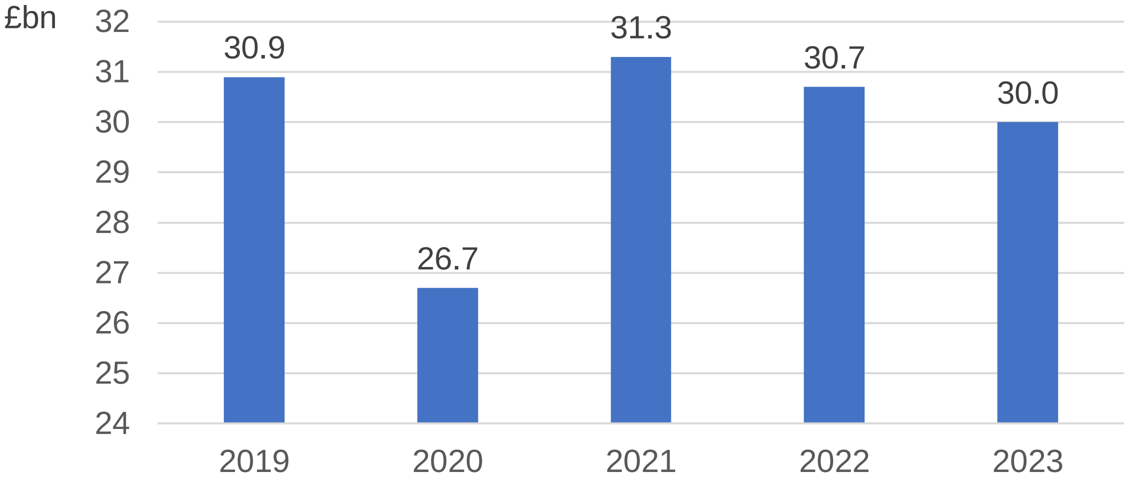
- Momentum of post pandemic recovery slightly faltered, though private new housebuilding remains in line with forecast from Spring
- After the rapid recovery in starts in 2021, growth is still forecast to continue at 1.0% which means 2022 is expected to see the highest number of starts since 2007

Starts v Completions - Units



- The starts/completions relationship is now expected to return to a more balanced level, following Covid and government stimulus distortions

UK Construction Market – Residential RMI remains at high levels with key sectors providing ongoing growth



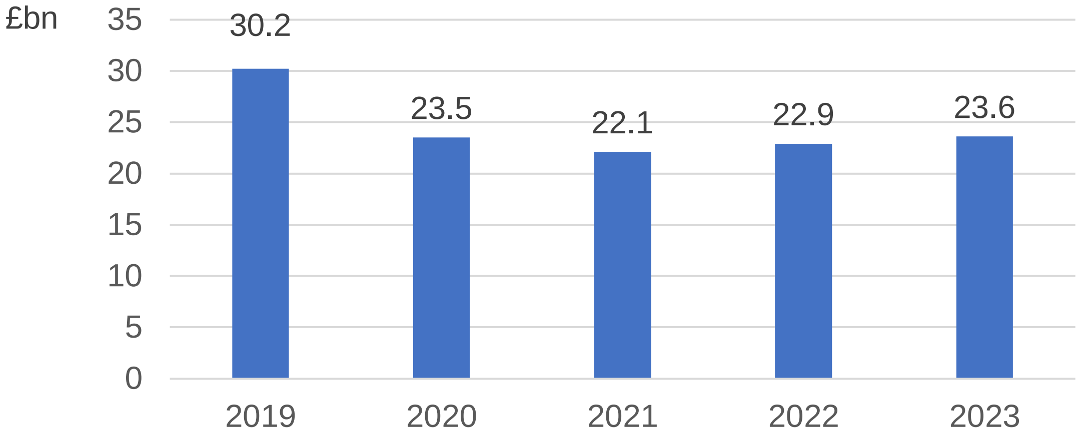
Source: Construction Products Association (CPA) Summer forecast 2022, ONS and MCHLG

- Private housing RMI is still forecast to remain relatively resilient, with no recent change in outlook to the slight reduction vs the record expenditure levels of 2021. High levels of housing transactions and the fact upper quartile incomes represent around 50% of RMI spend give some protection against short term headwinds

- RMI is not a homogenous sector, with subsectors such as lower carbon heating, or energy efficiency products continuing to see strong growth e.g planning relating to solar grew 66% 2019-21

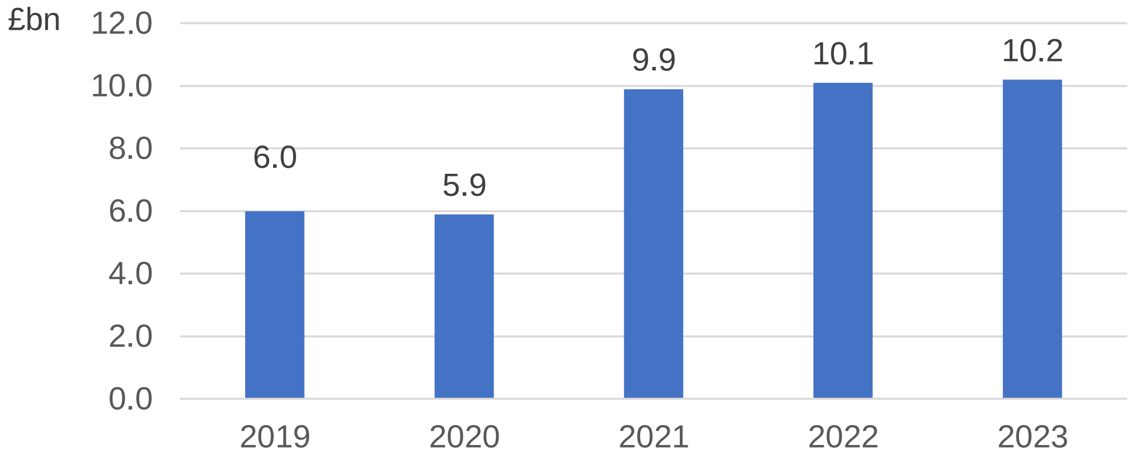
UK Construction Market – Commercial and Infrastructure

Commercial Sector Output Trends



- The sector declined by 33.3% between 2017 to 2021 before returning to a meaningful growth trajectory.
- All subsectors are forecast to continue to grow, led by health and education, both forecast to grow 7% in 2022
- Offices also show growth, 2.0% in 2022 and 3.0% in 2023, much of it RMI related as buildings are re-formatted post-Covid

Roads (Infrastructure)



- Infrastructure has grown to 17.6% of total construction in 2022 compared to a share of 13.0% in 2019, much of which has related to marquee projects such as Hinckley Point and HS2
- Roads has also been an expansive area via Highways England, and is currently most relevant for our product portfolio

Source: Construction Products Association (CPA) Summer forecast 2022/ONS