Genuit Group plc 2023 Half Year Results Presentation

15 August 2023

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Agenda

Operational progress in challenging markets

Our Results

- Underlying operating margin up 50 basis points, driven by self-help initiatives and balanced price and cost management.
- Revenue down by 4.2% driven by a volume decline of 14.5% offset broadly in line with the market.
- Sustainable Building Solutions ("SBS") underlying operating margin 220 basis points higher countering 10.7% revenue decline.
- Water Management Solutions ("WMS") outperformed the market and with self-help, grew underlying operating margin 180 basis points.
- Climate Management Solutions ("CMS") revenue grew by 8.9%, recovering from last year's isolated cyber incident and benefitting from stronger demand for residential ventilation. This step up in costs plus short term boiler market weakness contributed to an operating margin that was 400 basis points below last year, underlying trend is positive.
- Net debt reduced from 1.5 times to 1.3 times pro forma EBITDA in line with expectations.
- The Group intends to pay an interim dividend of 4.1 pence per share (2022: 4.1 pence per share).

Good progress on our strategy

Realising benefits from deployment of Sustainable Solutions for Growth strategy

Well prepared for challenging market conditions in the short term, and greater efficiencies in the longer term

- Simpler, better aligned model – Operating as three Business Units since 1st January 2023; enabling synergy sales and group wide benefits of scale.
- More integrated portfolio – Cross selling launched in CMS.
- Genuit Business System lean transformation process deployed at two sites – Polypipe Building Products and Adey.
- Restructuring and purchasing initiatives delivered savings of £3.7m in H1 2023, with more projects in process.

Investing for higher growth

- Strengthening talent, individual goal deployment and inclusion and diversity training - all commenced in first half.
- Successful new product and service launches included the MRXBOX Hybrid Cooling System, SubTerra CT and Polypipe Advantage.
- Maintain and expand leadership as the lowest carbon choice supplier.

ESG highlights

Our Path to Net Zero

The Group continues to make progress on operating sustainably, in order to be the lowest carbon supplier of choice for our customers:

- Recycled materials formed 48.4% of our polymer inputs (2022: 47.1%). We remain the European leader in the use of recyclate.
- The Group's carbon intensity on a rolling twelve-month basis is broadly in line with the last year end, despite the impact of lower volumes.
- Sales of new products was £146.8m resulting in a Vitality Index of 24.1%, on track to achieve the 25% 2025 target.
- 3.2% of the Group's workforce were in accredited work and learning programmes with plans in place to progress to 5% (as in annual report).

Agenda

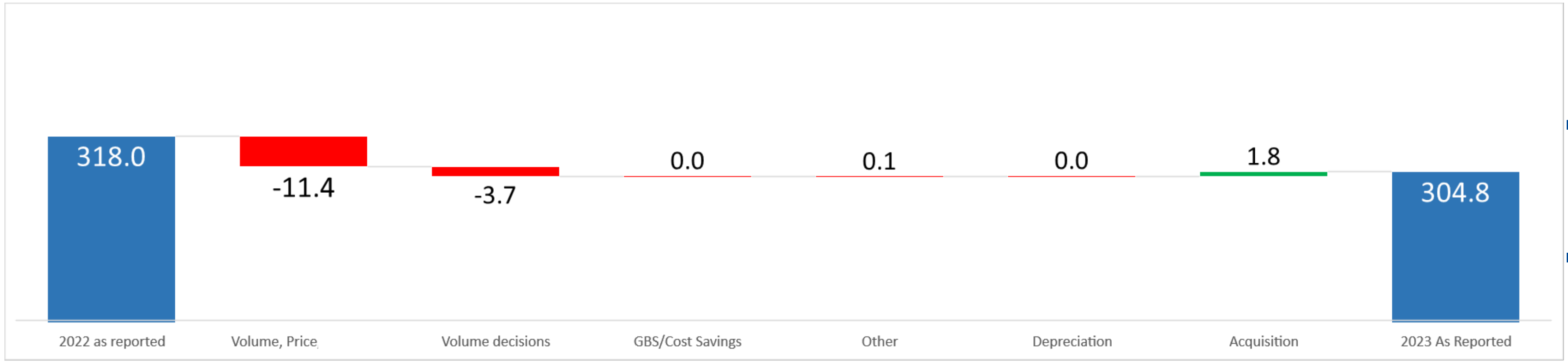
Financial Results

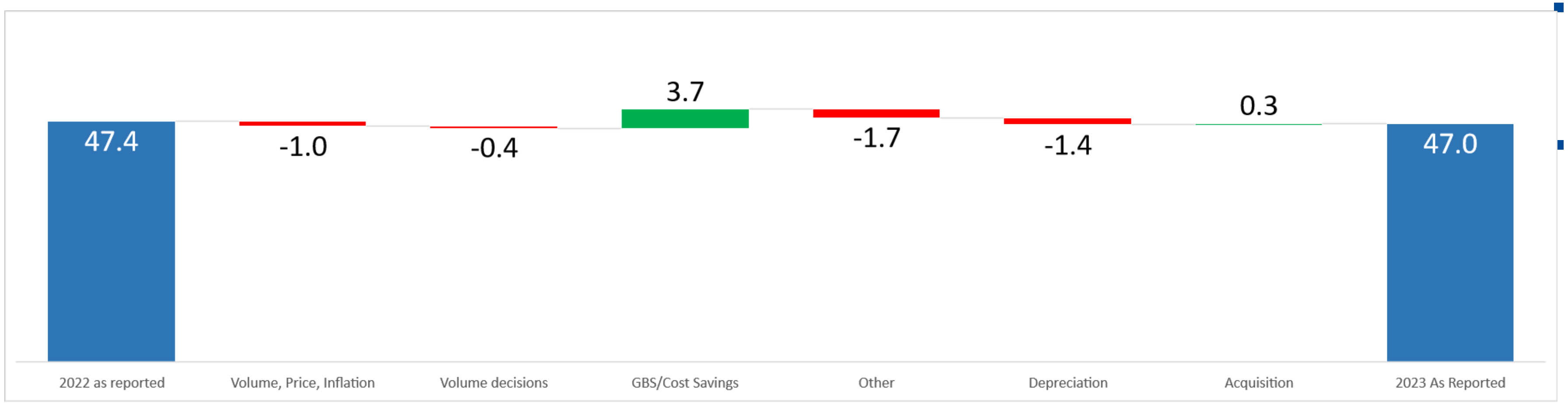
Delivering a strong foundation for future growth

£m	H1 2023	H1 2022	Change
Revenue	304.8	318.0	(4.2%)
Cost of sales	(168.4)	(182.9)	(7.9%)
Gross profit	136.4	135.1	0.9%
Gross margin	44.7%	42.5%	220 bps
Selling, distribution and administration costs	(89.4)	(87.7)	2.0%
Underlying operating profit	47.0	47.4	(0.9%)
Operating margin	15.4%	14.9%	50 bps
Net finance costs	(6.7)	(2.8)	137.6%
Underlying profit before tax	40.3	44.6	(9.7%)
Underlying basic earnings per share (pence)	12.4	14.0	(11.4%)
Dividend per share (pence)	4.1	4.1	0.0%

- Revenue decrease of 4.2%, 5.0% lower on a like-for-like basis.
- The Group demonstrated 220 basis points gross margin improvement versus 2022 H1.
- Underlying operating margin of 15.4% in the period, an improvement of 50 basis points on the prior year.
- Sequential month-on-month improvement in margins from the second quarter.
- Underlying profit after tax was lower than the prior year due to significantly increased borrowing costs.
- Interim dividend of 4.1 pence per share.

Revenue And Underlying Operating Profit Bridge





- Cost Savings of £3.7m achieved.
- Planned exit from low margin volume.
- Full recovery from isolated 2022 cyber incident.
- Significant improvement in gross margin of 220 basis points as we continue to focus on business margin mix improvements.

Sustainable Building Solutions

Performed better than expectations

£m	H1 2023	H1 2022	Growth
Revenue	127.5	142.8	(10.7%)
Underlying operating profit	26.2	26.1	0.4%
Underlying operating margin	20.5%	18.3%	220 bps

- Market volume decline in the UK residential new build sector and planned exit of low margin business within SBS, was offset with continued balanced price management in the market.
- Underlying operating profit margin improved by 220 basis points, driven primarily by effective cost management.
- Management has launched an operating footprint consolidation plan and has completed the sale of the Glasgow distribution centre and exit of the Kirk Sandall warehouse site, both of which have been integrated into the remaining Doncaster facilities.
- Deployment of GBS at Building Products (Doncaster) in progress, alongside the completion of a significant equipment refresh programme.

Water Management Solutions

Strengthening performance

£m	H1 2023	H1 2022	Growth
Revenue	88.1	91.8	(4.0%)
Underlying operating profit	8.8	7.5	17.3%
Underlying operating margin	10.0%	8.2%	180 bps

- Trading activity for the first six months was relatively strong considering the difficult UK economic dynamics, particularly in residential, and WMS outperformed the market overall.
- Underpinning this level of activity was the launch of new products to the USA and expansion into further territories in the Middle East, exploiting joint opportunities across the business unit and wider Group and an increased focus on product family specification.
- Margins for the period improved as expected with cost and efficiency initiatives offsetting general inflationary pressures and foreign exchange impacts.
- Capital investment projects in the first half were focused on site and product development to underpin future growth.

Climate Management Solutions

Revenue growth in challenging markets

£m	H1 2023	H1 2022	Growth
Revenue	84.7	77.8	8.9%
Underlying operating profit	11.4	13.5	(15.6%)
Underlying operating margin	13.5%	17.5%	(400) bps

- CMS recovered lost volume following the 2022 isolated cyber incident (fully remediated) and normalising for this event, growth was 1.2%.
- The boiler market remains subdued, but we expect improvement in time, as pent-up demand is released.
- The Group has invested heavily in cyber defence and insurance for this business to bring it up to Group standards. This step up in costs plus boiler market weakness contributed an operating margin that was 400 basis points below last year, but this investment masked sequential underlying operating profit margin improvement since the second half of last year and which management expect to continue.
- Progress on self-help cost reductions has not yet taken full effect, but management expect this to improve into the second half of the year.

Non-underlying Items

Uptick in restructuring costs offset with gain on sale of property

£m	H1 2023	H1 2022
Non-underlying items:		
Amortisation of intangible assets	(7.4)	(7.5)
Restructuring costs	(5.0)	(1.1)
Contingent consideration on Plura acquisition	(1.4)	(1.3)
Other	(1.0)	(1.8)
Gain on sale of property	4.1	-
Non-underlying items before taxation	(10.6)	(11.7)
Tax effect of non-underlying items	3.1	1.9
Total non-underlying items	(7.5)	(9.8)

- Net cash impact before tax £1.6m.
- Restructuring costs driven by closure of three facilities and ongoing simplification of the business offset with the gain on sale of property.
- Non-cash impact before tax £9.0m.

Cashflow

Strong working capital management and strategic capital investment

£m	H1 2023	H1 2022	Change
EBITDA (before non-underlying items)	60.2	58.4	1.8
Capex (net of proceeds)	(6.7)	(7.4)	0.7
Working capital	(23.1)	(37.4)	14.3
Share-based payments	1.6	1.6	0.0
Operating cash flows	32.0	15.2	16.8
Interest	(7.0)	(2.2)	(4.8)
Leases	(2.8)	(3.3)	0.5
Taxation	(5.2)	(5.2)	0.0
Dividends	(20.4)	(20.3)	(0.1)
Net cash flows	(3.4)	(15.8)	12.4
Non-underlying cash items	(5.5)	(4.2)	(1.3)
Acquisitions	(0.6)	(2.6)	2.0
Other	(2.0)	(0.2)	(1.8)
(Increase) in net debt since 31 December	(11.5)	(22.8)	11.3

- Continued strategic capital investment in the business.
- Improving working capital through ongoing inventory reduction and utilising Genuit Business System.
- Full-year dividend inline 2022, 40% pay-out ratio of net income.
- Leverage improved on the prior year towards the Group expectation of c.1.0 times and was in line with expectations at 1.3 times pro forma EBITDA.

Financing

Well within covenants and significant headroom

£m	Drawn at 30/06/23	Facility	Headroom
Sustainability Linked Loan	160.0	350.0	190.0
Cash and cash equivalents	(27.9)	-	27.9
Net debt excluding unamortised debt issue costs	132.1	350.0	217.9
Private placement loan notes	25.0		
Unamortised debt issue costs	(2.5)		
Net debt excluding leased liabilities	154.6		
Lease liabilities	24.3		
Net debt	178.9		

- Well within covenant requirements.
- Sustainability Linked Loan Re-Fi committed through to August 2027 and entered into a 7 year £25m private placement loan notes, part of a £150m private placement facility, of which £125m is uncommitted.
- Uncommitted Accordion of £50m and remaining £125m shelf facility in place.

Covenant (pre-IFRS16)	Covenant requirement	Position at 30 June 2023
Interest cover (Underlying operating profit – Finance costs excluding debt issue cost amortisation)	➢ 4.0:1	➢ 10.0:1
Leverage (Net debt ÷ pro forma EBITDA[1])	➢ 3.0:1	➢ 1.3:1

[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.*

Technical Guidance Update
Full Year 2023

- Capex below £40m.
- Operating cashflow conversion approximately 70%.
- Net finance costs circa £14m.
- Leverage at or around 1x by the year end.

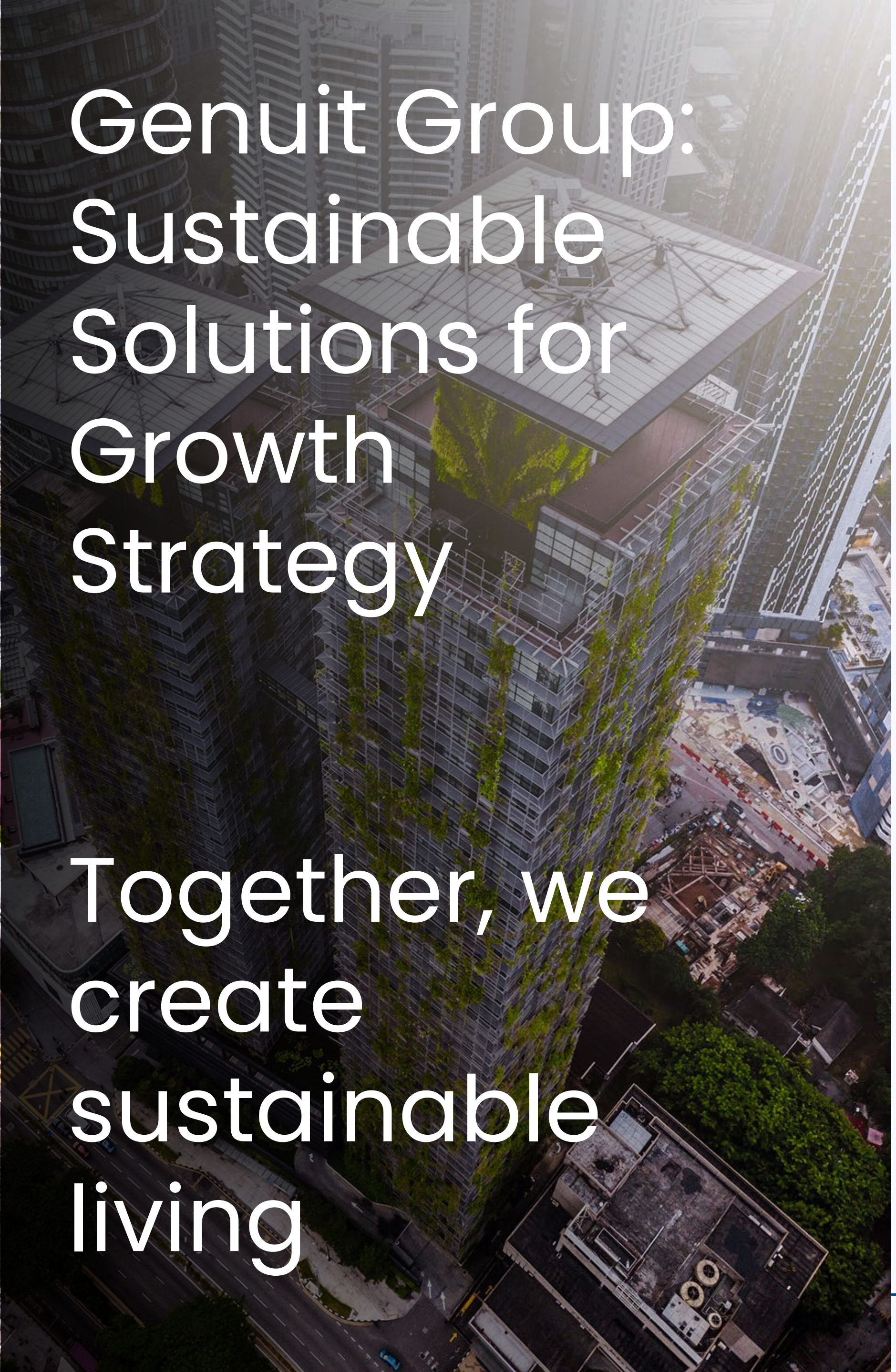
Agenda

1 Key Highlights

2 Financial Results

3 **Business Review**

4 Outlook



Genuit Group: Sustainable Solutions for Growth Strategy

Together, we create sustainable living

Growth

Focus on higher growth, sustainability-driven markets, via organic growth and disciplined M&A opportunities

Sustainability

Continually improve the sustainability of our operation to be the lowest carbon choice for our customers

Genuit Business System

Create value through lean transformation and operational excellence

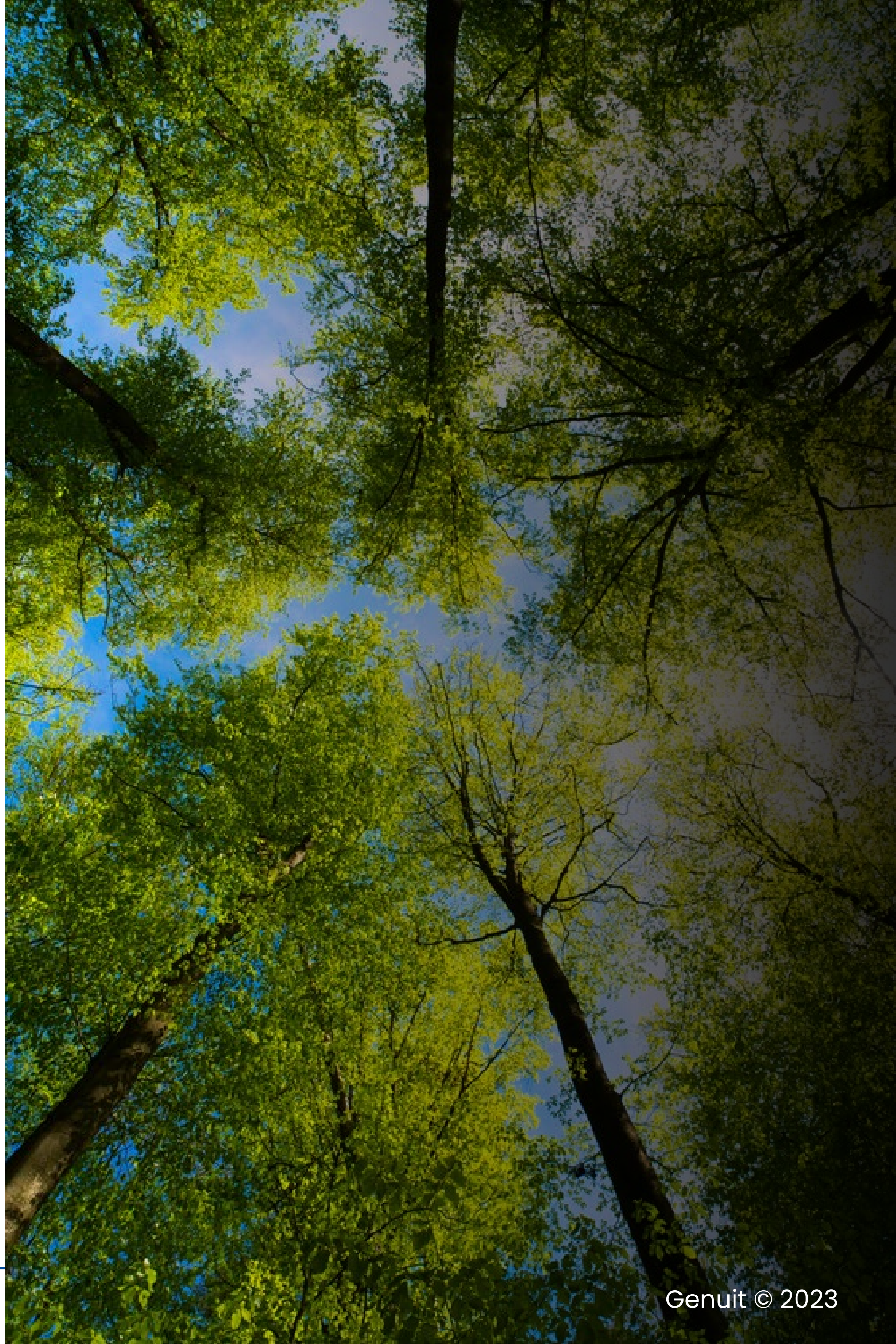
People And Culture

Create value and enable growth through the capability, expertise and development of our employees

Climate Management Solutions

Highlights

- Strengthened senior leadership team.
- Five key priorities identified for tactical execution in 2023, Including collaborations between all five brands.
- Decision made to merge the Surestop brand into our ADEY business. This will help us grow our sales by leveraging ADEY's strength in Sales and Marketing in the residential plumbing and heating market.
- A 'Lean Lighthouse' project has been running at ADEY since the start of the year with excellent results. In assembly areas we have demonstrated the ability to use 49% less space and seen a 25% productivity improvement.
- 6S and 'Daily Management' being rolled out across the business in the second half of 2023.



Water Management Solutions

Highlights

- Geographical expansion in the Middle East.
- Growth in exports to USA via new SubTerra CT product range.
- Increased specification focus on a wider range of products which has led to an increase in multi-product quotations and orders.
- Business rationalisation is underway with significant synergies identified.
- Margin improvement through increased specification, tight cost control and commercial focus.

Sustainable Building Solutions

Highlights

- Deployment of solution sales strategy showing growth in sales of “Advantage” drainage and commercial water systems.
- Lean lighthouse programme deployment on track and starting to yield efficiency and service improvements with past due orders reaching a record low. Improvements to workplace organisation and daily management are having positive impacts on safety and agility.
- Acceleration of the sustainability activity with successful development trials completed for PVC extrusion in Building Services and Building Products.
- Building Products future state product strategy gathering pace with recent launches of tiered product ranges and next generation plumbing products scheduled for launch later in 2023.

Genuit Business System

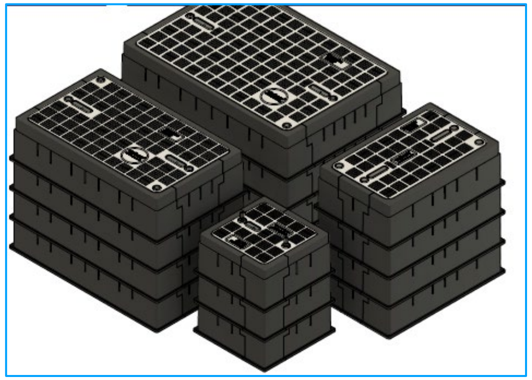
GBS is our methodology for deploying lean techniques across the Group

- Genuit Business System is a key enabler for expanding our operating margins to 20% (2022: 15.8%), whilst improving customer service.
- It provides a flywheel to facilitate the release of unrealised synergies in our existing business and more rapidly integrate future acquisitions.
- The roll out of GBS embeds standardised processes to allow us to benefit from our scale.
- It is a powerful way of engaging our people in improving the business.

Innovation at the heart of organic growth

- The MRXBOX Hybrid Cooling System from Nuaire combines the benefits of MVHR with the ability to lower the temperature of fresh air entering the building. Orders received to date >£1.7m, with a strong project funnel.

- With its body made from 100% recycled material, the SubTerra CT telecoms box from Plura provides a sustainable alternative to traditional steel and concrete. To date, we have received >£5m of orders.



- Our Polypipe Advantage offering has been upgraded and orders are 29% ahead of prior year as customers increasingly value the proposition of optimised design, reduced waste and factory-assured quality.

Pathway to Shareholder Value Creation

Sustainable Growth in Free Cashflow	Capital Allocation		Outcomes
Market outperformance of 2-4%	Disciplined investment for future growth	• Investment in innovation • Investment in efficiency gains • Investment in sustainability	ROCE 15%+
Operating margin to over 20%	Accretive acquisitions	• ROIC ahead of WACC • EPS accretion	Dividend cover 2.5x
Cash conversion to >90%	Shareholder returns	• Stable dividend policy	Leverage 1.0 – 2.0x EBITDA
	Balance sheet optimisation	• Funding diversity from RCF and PP	

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Outlook

2023 operating profit at top-end of expectations

- H1 performance is better than management expectations - self-help, simplification, purchasing and early GBS wins all played a role.
- Market remains challenging - industry outlook lowered since start of year with improvement in 2023 unlikely.
- Group resilience and focus on factors we control delivered improvement with continued scope to outperform.
- CMS should improve as pent-up boiler and heating system demand returns with consumer confidence.
- Strong mid-term tailwinds remain:

  Increased demand for more efficient heating and ventilation.

  Increased need for more resilient stormwater management.

  Increased focus on lower-carbon building material solutions.
- The Group's self-help momentum increases our confidence in delivering performance at the top end of current expectations.

Q&A