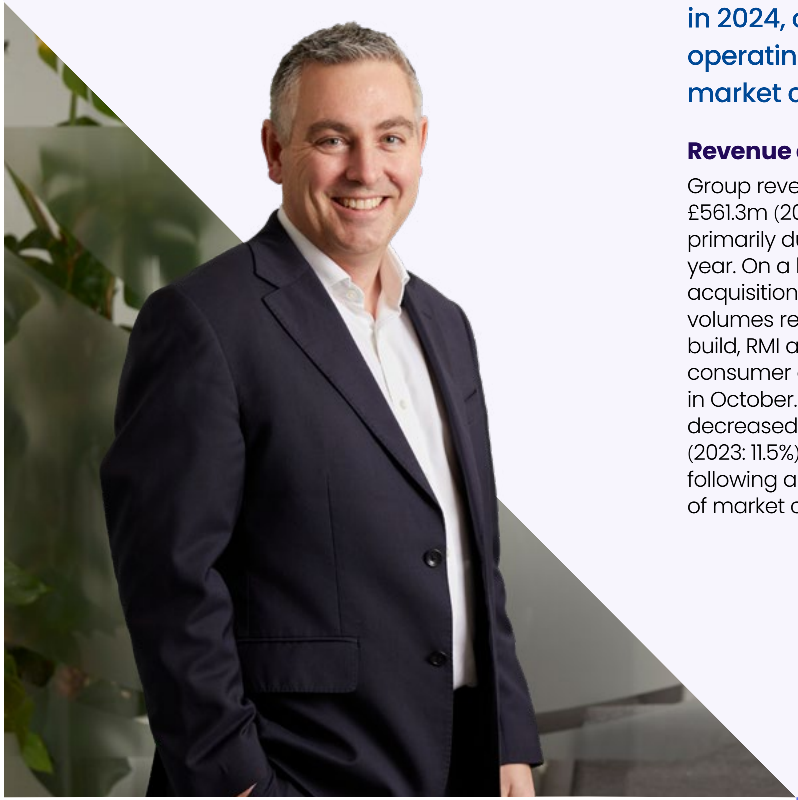
Chief Financial Officer's Report



Tim Pullen
Chief Financial Officer

A resilient performance in 2024

The Group delivered a resilient performance in 2024, continuing to improve underlying operating margin despite ongoing subdued market conditions.

Revenue and Profitability

Group revenue for the year ended 31 December 2024 was £561.3m (2023: £586.5m), which was lower by 4.3% year-on-year, primarily due to an overall volume reduction of 4.1% year-on-year. On a like-for-like basis, excluding the impact of acquisitions, revenue was 5.3% lower than prior year. Market volumes remained subdued due to ongoing weakness in new build, RMI and commercial markets and lower business and consumer confidence surrounding the UK Government Budget in October. UK revenue declined 3.8% and international revenue decreased by 8.0%, representing 11.0% of revenue in the year (2023: 11.5%). Second-half revenue increased 2.5% year-on-year following a 10.6% decline in the first half, reflecting a stabilisation of market conditions.

Underlying operating profit was £92.2m (2023: £94.1m), a decrease of 2.0%, primarily due to the reduction in volumes. However, the Group increased underlying operating margin by 40 basis points to 16.4% (2023: 16.0%), demonstrating progress towards medium-term margin targets despite the prevailing market softness. The primary contributors to the increase in margin were procurement savings generated by improved centralised buying, and productivity improvements generated by Genuit Business System improvement projects.

Profit before tax was £46.3m (2023: £48.4m), a decrease of 4.3%. The Group continued to invest in product development and innovation throughout the year. In 2024, operating profit benefited from £1.5m of HMRC approved Research and Development expenditure credit (2023: £1.5m).

Underlying profit after tax was lower than the prior year at £61.1m (2023: £62.6m). Underlying basic earnings per share was 24.6 pence (2023: 25.2 pence).

Including non-underlying items, profit after tax was £33.5m (2023: £38.5m), and basic earnings per share was 13.5 pence (2023: 15.5 pence).

Revenue and operating margin	2024 £m	2023 £m	Change %
Revenue	**561.3**	586.5	**(4.3)**
Underlying operating profit	**92.2**	94.1	**(2.0)**
Underlying operating margin	**16.4%**	16.0%	**40bps**

Revenue by geographic destination	2024 £m	2023 £m	Change %
UK	**499.3**	519.1	**(3.8)**
Rest of Europe	**32.9**	33.4	**(1.5)**
Rest of World	**29.1**	34.0	**(14.4)**
Group	**561.3**	586.5	**(4.3)**

Business Review

Revenue	2024 £m	2023 £m	Change %	LFL Change %
Climate Management Solutions	**161.6**	165.9	**(2.6)**	(4.1)
Water Management Solutions	**160.9**	170.4	**(5.6)**	(7.5)
Sustainable Building Solutions	**231.7**	242.8	**(4.6)**	(4.6)
	554.2	579.1	**(4.3)**	(5.3)
Other*	**7.1**	7.4	**(4.1)**	(4.1)
Total Group	**561.3**	586.5	**(4.3)**	(5.3)

* Relates to sites which are not reported as part of the Group's Strategic Business Units.

Underlying operating profit	2024 £m	ROS %*	2023 £m	ROS %*	Change bps
Climate Management Solutions	**24.0**	**14.9**	22.7	13.7	**120**
Water Management Solutions	**13.6**	**8.5**	17.7	10.4	**(190)**
Sustainable Building Solutions	**54.4**	**23.5**	53.1	21.9	**160**
	92.0	**16.6**	93.5	16.1	**50**
Other**	**0.2**	**2.8**	0.6	8.1	**(530)**
Total Group	**92.2**	**16.4**	94.1	16.0	**40**

* Return on sales (ROS) is equivalent to underlying operating margin (underlying operating profit/revenue).
** Relates to sites which are not reported as part of the Group's Strategic Business Units.

Climate Management Solutions

The Climate Management Solutions (CMS) Business Unit is focused on addressing the need for clean healthy air and low carbon heating and cooling.

Revenue of £161.6m (2023: £165.9m) in CMS decreased by 2.6% versus 2023 (4.1% on a like-for-like basis). The year finished strongly for Adey and Nuaire residential sectors, however, not offsetting the headwinds within the residential boiler market and commercial ventilation sector. The Business Unit remained flat, (0.8%) like-for-like, in the second half of the year reflecting the stabilisation of market conditions.

CMS reported an underlying operating margin of 14.9% in 2024, 120 basis points higher than 2023, resulting from productivity improvements through the deployment of the Genuit Business System. Integration of the Omnie & Timoleon underfloor heating business (acquired August 2024) is proceeding well with a focus on go-to-market strategy and operational synergies The Business Unit remains well placed to capitalise on regulatory and structural drivers related to renewable heating, energy efficiency and cleaner, healthier air.

Water Management Solutions

The Water Management Solutions (WMS) Business Unit is enabling the upgrade of the stormwater and wastewater infrastructure to adapt to the increasingly challenging impacts of climate change.

Revenue of £160.9m (2023: £170.4m) in WMS decreased by 5.6% versus 2023 (7.5% on a like-for-like basis). Revenue was adversely affected by project delays, including the impact of prolonged wet weather and low business confidence.

WMS reported an underlying operating margin of 8.5% during the year, representing a 190-basis points decline versus prior year, impacted by lower volumes. Management are accelerating a strong pipeline of GBS projects to improve efficiency and profitability in 2025. Integration of the acquired Sky Garden business is proceeding well, with focus a on growth and improving profitability through vertical solution selling and increasing scale.

The WMS medium-term growth strategy is underpinned by focused commercial activity and product solutions, and the Business Unit expects to benefit from changes in water management, biodiversity legislation, more effective rainwater collection and reuse, and attenuation of flooding and storm runoff which is now more prevalent than ever.

Sustainable Building Solutions

The Sustainable Building Solutions (SBS) Business Unit provides its customers with a range of market-leading products in plumbing and water supply, drainage and other building accessories which reduce labour requirements to help address shortages and reduce the carbon footprint of the built environment.

Trading in SBS was resilient in 2024 with revenue of £231.7m (2023: £242.8m), 4.6% lower than prior year in line with subdued market volumes.

Despite volume challenges, underlying operating profit margin improved by 160 basis points, driven primarily by effective cost management, including purchasing savings from aggregated buying and the impact of GBS projects on productivity and efficiency.

The Business Unit is well placed to capitalise on structural trends in the industry over the medium term, including the transitions to labour-efficient solutions, use of off-site pre-fabrication and modular building, reductions in carbon intensity and adherence to legislation such as the Future Homes Standard.

Acquisitions

Sky Garden

On 5 August 2024, the Group acquired 100% of the voting rights and shares in Sky Garden Limited for cash consideration of £2.6m, which included an amount for net cash and working capital commitments on completion. Sky Garden is a leader in green-roof technologies providing design, supply, installation and maintenance services for green and bio-solar roofs, podium decks and green walls.

No material intangible assets were identified. The goodwill arising on the acquisition primarily represented the assembled workforce, technical expertise, synergies with companies offering both supply and install services and market share in markets Genuit currently does not operate in from the acquisition. The goodwill is allocated entirely to the Infrastructure & Landscape CGU.

Sky Garden contributed £3.3m of revenue and £0.1m loss of EBITDA to the reported results of the Group over five months of trading.

Omnie & Timoleon

On 6 August 2024, the Group acquired the trade and assets of Ridgespear Group, including the Omnie & Timoleon brands and its Polish subsidiary Timoleon Sp.z o.o for cash consideration of £2.7m. Omnie & Timoleon are leaders in underfloor heating (UFH) board technologies and providers of full UFH system design and supply services. Integration of the acquired operations into the Group's Nu-Heat UFH business is underway.

No material intangible assets were identified. The goodwill arising on the acquisition primarily represented the assembled workforce, technical expertise and synergies with Group companies offering underfloor heating solutions. The goodwill has been allocated to the Nu-Heat CGU.

Omnie & Timoleon contributed £2.5m of revenue and £0.6m loss of EBITDA to the reported results of the Group over five months of trading.

Non-underlying items

Non-underlying items marginally increased to £33.0m (2023: £32.1m) before tax. These included non-cash amortisation of £14.4m (2023: £14.8m) and non-cash impairment charges of £12.4m (2023: £2.5m) reported in H1 financials, in respect of the Adey business which has encountered prolonged delays to recovery in market conditions. In addition, the Group incurred one off costs of £4.3m in respect of a dispute with a third party back-office software supplier that was recognised in H1 and fully settled in the second half of the year.

Non-underlying items	2024 £m	2023 £m
Amortisation of intangible assets	**14.4**	14.8
Impairment of goodwill	**12.4**	–
Impairment of intangible assets	**–**	2.5
Restructuring costs	**1.8**	15.3
Employment matters	**(1.1)**	2.0
Contingent consideration on acquisitions	**–**	1.8
Workday/CRM configuration (SaaS)	**1.1**	1.2
Acquisition costs	**1.1**	0.4
Software supplier dispute	**4.3**	–
Profit on disposal of property, plant and equipment	**(1.1)**	(4.7)
Product liability claim	**0.1**	(1.2)
Non-underlying items before taxation	**33.0**	32.1
Tax effect on non-underlying items	**(5.4)**	(8.0)
Non-underlying items after taxation	**27.6**	24.1

Exchange Rates

The Group trades predominantly in Sterling but has some revenue and costs in other currencies, mainly the US Dollar and the Euro, and takes appropriate forward cover on these cash flows using forward currency derivative contracts in accordance with its hedging policy.

Finance Costs

Underlying finance costs decreased to £12.9m (2023: £13.6m) primarily due to a lower level of borrowings. Group net debt excluding lease liabilities reduced from £128.0m as at 31 December 2023 to £102.9m as at 31 December 2024, with a corresponding reduction in debt to EBITDA leverage from 1.1x to 0.9x. Interest cover was 8.3x for the year (2023: 8.2x).

Interest was payable on the RCF at SONIA plus an interest rate margin ranging from 0.90% to 2.75%. The interest rate margin at 31 December 2024 was 1.63% (2023: 1.65%). During the year an interest rate hedging strategy was implemented to provide greater certainty over interest costs and reduce the risk of potential volatility.

Pensions

The Group does not have any defined benefit pension schemes and only has defined contribution pension arrangements in place. Pension costs for the year amounted to £6.3m (2023: £5.4m) reflecting the introduction of a salary sacrifice scheme and increased up take enhancing our employee value proposition.

Taxation

Underlying taxation

The underlying tax charge in 2024 was £18.2m (2023: £17.9m) representing an effective tax rate of 23.0% (2023: 22.2%). This was below the composite UK standard tax rate of 25.0% (2023: 23.5%).

Taxation on non-underlying items

The non-underlying taxation credit of £5.4m (2023: £8.0m) represents an effective rate of 16.4% (2023: 24.8%).

Earnings Per Share

The Directors consider that the underlying basic earnings per share (EPS) measure provides a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in our financial performance.

Underlying basic EPS decreased by 2.4% in 2024.

Earnings per share	**2024 £m**	2023 £m
Pence per share:		
Basic	**13.5**	15.5
Underlying basic	**24.6**	25.2
Diluted	**13.3**	15.4
Underlying diluted	**24.3**	25.1

Dividend

The final dividend of 8.4 pence (2023: 8.3 pence) per share is being recommended for payment on 4 June 2025 to shareholders on the register at the close of business on 2 May 2025, in line with the Group's progressive dividend policy. The ex-dividend date will be 1 May 2025. The full year dividend of 12.5p is marginally higher than the prior year 12.4p per share, reflecting the strength of the balance sheet and the Board's confidence in the Group's medium-term strategy.

The Group aims to pay a progressive dividend, based on dividend cover of 2.0x or greater over the business cycle. The Directors intend that the Group will pay the total annual dividend in two tranches, an interim dividend and a final dividend, announced at the time of publication of the interim and preliminary results.

Balance Sheet

The Group's balance sheet is summarised below.

	2024 £m	2023 £m
Property, plant and equipment	**183.7**	176.4
Right-of-use assets	**27.0**	22.9
Goodwill	**451.5**	454.1
Other intangible assets	**128.7**	142.7
Net working capital	**27.3**	28.3
Taxation	**(45.8)**	(44.7)
Other current and non-current assets and liabilities	**(0.2)**	6.2
Net debt (loans and borrowings, and lease liabilities, net of cash and cash equivalents)	**(129.2)**	(149.3)
Net assets	**643.0**	636.6

The net value of property, plant and equipment has increased by £7.3m following the continued focus on investing in targeted capital expenditure offset by the sale of two additional sites.

Cash flow and net debt

The Group's cash flow statement is summarised below.

	2024 £m	2023 £m
Operating cash flows before movement in net working capital	**106.5**	105.6
Add back non-underlying cash items	**12.7**	14.2
Underlying operating cash flows before movement in net working capital	**119.2**	119.8
Movement in net working capital	**9.0**	4.1
Net capital expenditure excluding non-underlying proceeds of sale	**(26.0)**	(33.8)
Settlement of lease liabilities	**(10.6)**	(7.6)
Underlying cash generated from operations after net capital expenditure excluding non-underlying proceeds of sale	**91.6**	82.5
Income tax paid	**(10.4)**	(12.1)
Interest paid	**(11.4)**	(13.4)
Non-underlying proceeds of sale	**4.9**	6.9
Other non-underlying cash items	**(12.7)**	(14.2)
Settlement of deferred and contingent consideration	**(1.6)**	(1.6)
Acquisition of businesses	**(5.2)**	–
Dividends paid	**(30.8)**	(30.5)
Proceeds from exercise of share options net of purchase of own shares	**0.8**	0.3
Other	**(0.9)**	(0.7)
Movement in net debt – excluding IFRS 16	**24.3**	17.2
Movement in IFRS 16	**(3.3)**	(0.3)
Movement in net debt – including IFRS 16	**21.0**	16.9

Delivery of strong cash generation remains core to the Group's strategy. The Group's post-capex underlying operating cash conversion was 99.3% (2023: 87.7%) calculated as underlying operating cash flow (after payments for capital expenditure excluding non-underlying proceeds of sale and lease liabilities) divided by underlying operating profit. The Group's pre-capex underlying operating cash conversion was 107.6% (2023: 103.4%) calculated as underlying operating cash flow (before payments for capital expenditure excluding non-underlying proceeds of sale and lease liabilities) divided by underlying EBITDA.

A positive working capital movement in the year was achieved through lower levels of inventory and improved creditor position, both achieved through purchasing projects of aggregating spend with buying strategically and improvements generated by GBS. In 2025 the Group will focus on continuing to achieve over 90% operating cash flow conversion.

Net capital expenditure investment (excluding non-underlying proceeds from sale) decreased to £26.0m (2023: £33.8m). The Group has continued to focus on investing in targeted manufacturing facility development, capacity and key, strategic and innovative projects.

Net debt of £129.2m (2023: £149.3m) comprised:

	2024 £m	2023 £m
Bank loans	**(146.5)**	(145.0)
Cash and cash equivalents	**43.6**	17.0
Net debt (excluding unamortised debt issue costs)	**(102.9)**	(128.0)
Unamortised debt issue costs	**1.3**	2.1
IFRS 16	**(27.6)**	(23.4)
Net debt	**(129.2)**	(149.3)
Net debt (excluding unamortised deal issue costs): pro-forma EBITDA	**0.9**	1.1

Financing

The Group has a Sustainability-Linked Loan (SLL) committed through to August 2027 with one further uncommitted annual renewal through to August 2028. The current facility limit is £350.0m with an additional uncommitted 'accordion' facility of up to £50.0m, at 31 December 2024, £121.5m of the RCF was drawn down. Additionally, in 2022 the Group entered a fixed rate £25.0m seven-year private placement loan note until August 2029 with an uncommitted shelf facility of an additional £125.0m.

The Group is subject to two financial covenants. At 31 December 2024, there was significant headroom and facility interest cover and net debt to EBITDA covenants were comfortably achieved:

Covenant	Covenant requirement	Position at 31 December 2024
Interest cover	**>4.0:1**	8.3:1
Leverage	**<3.0:1**	0.9:1

Going Concern

The Group continues to meet its day-to-day working capital and other funding requirements through a combination of long-term funding and cash deposits. The Group's bank financing facilities consist of a £350.0m Sustainability-Linked Loan with an uncommitted 'accordion' facility of up to £50.0m and a seven-year private placement loan note of £25.0m with an uncommitted £125.0m shelf facility. At 31 December 2024, liquidity headroom (cash and undrawn committed banking facilities) was £272.1m (2023: £247.0m).

The Group's focus will continue to be on deleveraging, and its net debt to EBITDA ratio stood at 0.9x pro-forma EBITDA at 31 December 2024 (2023: 1.1x). This headroom means the Group is well-positioned with a strong balance sheet.

As a result, the Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for a period of at least the next 21 months to 31 December 2026. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Forward-Looking Statements

This report contains various forward-looking statements that reflect management's current views with respect to future events and financial and operational performance. These forward-looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other factors, which may be beyond the Group's control, and which may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. All statements (including forward-looking statements) contained herein are made and reflect knowledge and information available as of the date of preparation of this report and the Group disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein. Nothing in this report should be construed as a profit forecast.

Tim Pullen
Chief Financial Officer

11 March 2025