Polypipe Group plc

Interim Results

6 months to 30 June 2017

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Agenda

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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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- Continued strong performance, in line with management expectations
- Market outperformance in both UK segments
- UK Residential +9.2% growth driven by new house build
- Successfully implemented price increases and cost reductions to mitigate materials cost inflation
- Middle East factory ceases production temporarily
- David Hall to retire, Martin Payne appointed CEO from 2 October 2017
- Further progression anticipated

Agenda

Introduction
David Hall

Financial Review
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Business Review
David Hall

Financial highlights

- Performance in line with management expectations
- Revenue 8.4% higher at £242.0m, 6.9% higher on a like for like basis
- UK revenue 6.8% ahead
- Underlying operating profit 3.1% higher at £38.9m
- Underlying operating margin at 16.1% - pricing actions progressively implemented in the period
- Underlying diluted earnings per share 5.9% higher at 14.3 pence per share
- Net debt 2.0 times LTM EBITDA (30 June 2016: 2.3 times) – on track to achieve management expectations for the year
- Interim dividend increased 16.1% to 3.6 pence per share

2017 H1 underlying results summary

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£m	H1 2017	H1 2016	change	% change
Revenue	**242.0**	**223.3**	**18.7**	**8.4%**
Cost of sales	(144.1)	(129.8)	(14.3)	
Gross profit	**97.9**	**93.5**	**4.4**	**4.7%**
Gross margin	*40.5%*	*41.9%*		
Selling & distribution costs	(37.9)	(34.3)	(3.6)	
Administrative expenses	(21.1)	(21.5)	0.4	
Underlying operating profit	**38.9**	**37.7**	**1.2**	**3.1%**
Operating margin	*16.1%*	*16.9%*		
Net finance costs	(3.4)	(4.0)	0.6	
Underlying profit before tax	**35.5**	**33.7**	**1.8**	**5.3%**
Underlying tax	(6.9)	(6.6)	(0.3)	
Underlying profit after tax	**28.6**	**27.1**	**1.5**	**5.5%**
Underlying diluted earnings per share (p)	**14.3**	**13.5**		**5.9%**
Dividend per share (p)	**3.6**	**3.1**		**16.1%**
Underlying tax rate	*19.4%*	*19.6%*		

Revenue and underlying operating profit bridge

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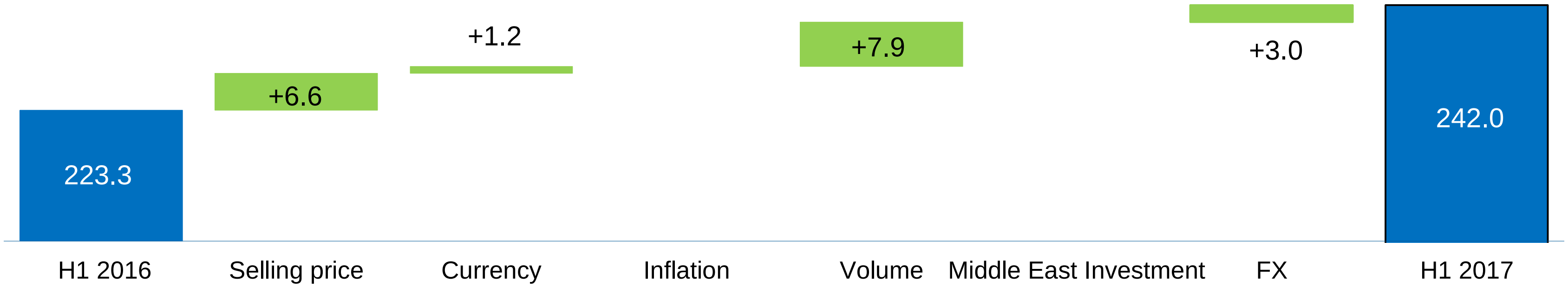
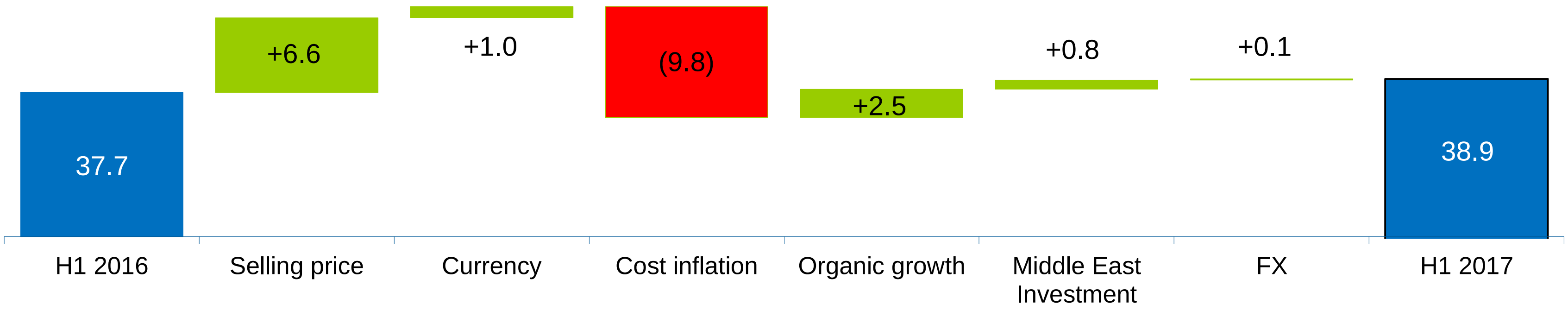
Revenue (£m)



Underlying operating profit (£m)



Cashflow

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£m	H1 2017	H1 2016	change	Year ended 31 December 2016
EBITDA (before non-underlying items)	**47.0**	**45.7**	**1.3**	**85.7**
Capital expenditure	(11.3)	(8.4)	(2.9)	(19.1)
Profit on disposal of property, plant & equipment	(0.1)	-	(0.1)	-
Movement in net working capital	(26.1)	(15.5)	(10.6)	(0.2)
Share-based payments	0.6	0.3	0.3	1.0
Operating cashflow after capital expenditure	**10.1**	**22.1**	**(12.0)**	**67.4**
Financing costs – net interest paid	(3.2)	(3.8)	0.6	(7.3)
Taxation	(6.4)	(4.3)	(2.1)	(10.1)
Dividends paid	(13.9)	(11.0)	(2.9)	(17.1)
Proceeds from the disposal of property, plant & equipment	0.2	0.2	-	0.4
Cashflow before non-underlying items, share purchases	**(13.2)**	**3.2**	**(16.4)**	**33.3**
Restructuring costs	(0.3)	-	(0.3)	-
Purchase of own shares	-	-	-	(2.9)
Movement in unamortised debt issue costs	(0.2)	(0.2)	-	(0.4)
(Increase) / Decrease in net debt	**(13.7)**	**3.0**	**(16.7)**	**30.0**

Balance sheet summary

£m	30 June 2017	30 June 2016	Change	31 December 2016
Non-current assets				
– property, plant & equipment	104.2	99.9	4.3	101.0
– goodwill	329.3	329.3	-	329.3
– other intangible assets	39.5	45.3	(5.8)	42.3
Net working capital	24.4	14.1	10.3	0.5
Net debt	(178.0)	(191.3)	13.3	(164.3)
Taxation	(14.1)	(15.7)	1.6	(14.3)
Other	(4.7)	(8.1)	3.4	(7.1)
Net Assets	**300.6**	**273.5**	**27.1**	**287.4**

- No defined benefit pension scheme

Net working capital

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£m	30 June 2017	30 June 2016	Change	31 December 2016
Inventories	58.3	51.0	7.3	52.2
Trade and other receivables	59.2	51.9	7.3	40.1
Trade and other payables	(93.1)	(88.8)	(4.3)	(91.8)
Net working capital	**24.4**	**14.1**	**10.3**	**0.5**
Net working capital to LTM revenue	5.4%	3.5%		0.1%

- First half working capital increase part of normal working capital cycle
- Working capital days all broadly in line with 31 December 2016 and 30 June 2016
- Effects of pre price increase merchant pull forward in 2017 affecting phasing in lead up to half year
- Stock increase likely to be a permanent feature going forward, debtor / creditor movements temporary

Banking facilities

Headroom at 30 June 2017:

£m	At 30 June 2017	Facility	Headroom
Bank loan	208.0	300.0	92.0
Cash and cash equivalents	(29.0)	-	29.0
Net debt excluding unamortised debt issue costs	**179.0**		**121.0**
Unamortised debt issue costs	(1.0)		
Net debt	178.0		

Covenant	Covenant requirement	Position at 30 June 2017
Interest cover (Underlying operating profit : Net finance costs excluding debt issue cost amortisation)	>4.00:1	10.8:1
Leverage (Net debt : EBITDA)	<3.25:1	2.0:1

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Polypipe has a balanced portfolio across all construction markets

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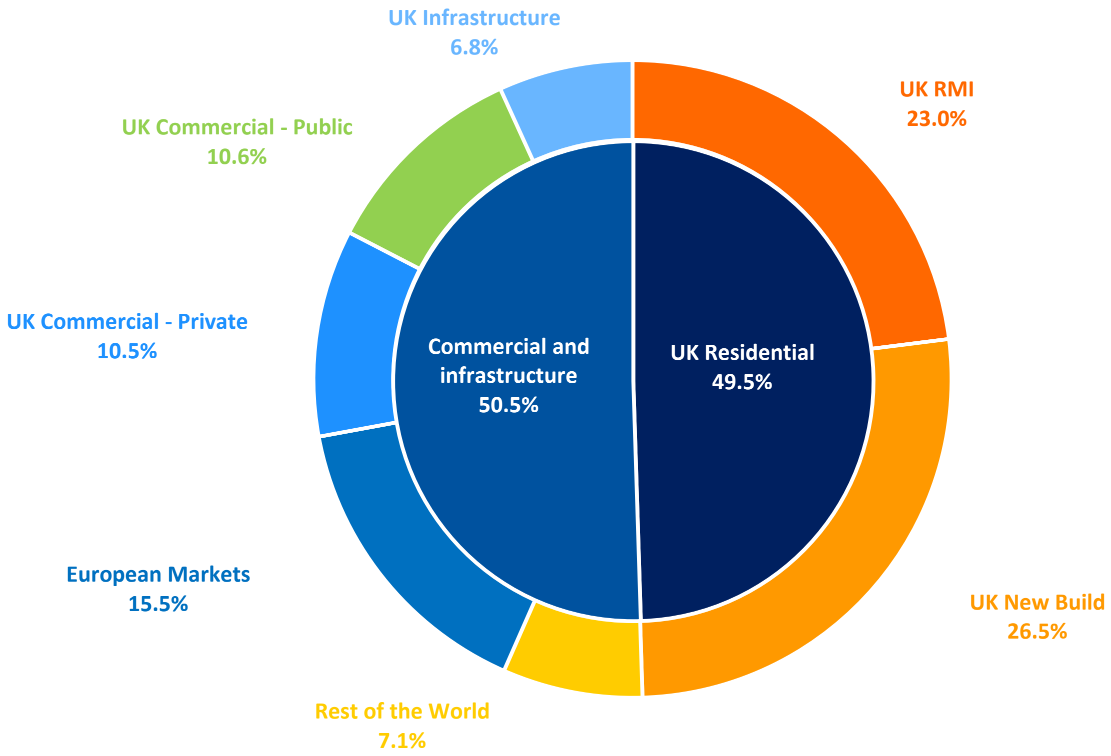

Note – LTM revenues based on project drivers, not reporting segments

Operating segment review - Residential

Residential	H1 2017	H1 2016	% Growth
Revenue	£115.0m	£105.4m	9.2%
Underlying operating profit	£22.9m	£21.5m	6.5%
Underlying operating margin	19.9%	20.4%	

- 9.2% growth driven by new house build activity
- Activity still strong in national house builders
- Strong demand in underground product, as new sites open and new legislation bites
- Selling price increases progressively benefitting results during the period
- Underlying performance stronger due to pre price increase pull forward into December 2016
- RMI markets remain slow
- Secondary housing market continues to experience low transaction volumes

Operating segment review – C&I UK

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Commercial & Infrastructure - UK	H1 2017	H1 2016	% Growth
Revenue	£97.7m	£92.7m	5.4%
Underlying operating profit	£14.5m	£15.2m	(3.9)%
Underlying operating margin	14.9%	16.4%	

- 5.4% growth against strong comparatives
- Demand for water management/flood alleviation and ventilation projects key driver of sales growth
- A14 road upgrade project delayed but started subsequent to period end
- Selling price increases progressively benefitting results during the period
- Export demand, mainly to higher margin Middle East markets, below last year due to project funding issues and Qatar situation
- Dubai manufacturing temporarily ceased

Operating segment review – C&I Mainland Europe

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Commercial & Infrastructure – Mainland Europe	H1 2017	H1 2016	% Growth
Revenue	£37.4m	£31.5m	18.9%
Underlying operating profit	£1.5m	£1.0m	32.4%
Underlying operating margin	3.9%	3.4%	

- Revenue 8.6% higher on a constant currency basis
- French market showing encouraging signs of growth
- Utilities sector driving growth – potable water, irrigation and gas pipes
- Margins ahead of prior year at 3.9%

Summary & outlook

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- Strong first half performance in line with management expectations
- Selling price and cost reduction actions successfully implemented to mitigate second half 2016 material cost inflation
- Good outlook for UK housebuilding and infrastructure
- More difficult outlook for UK RMI and Middle East manufacturing/export
- Balanced exposure to different sectors within the UK construction market
- CEO succession and CFO recruitment process progressing well
- Group well placed to make further progress in second half in line with management expectations

Questions & Answers