Polypipe Group PLC

Full Year Results

Year ended 31 December 2017

Agenda

Polypipe

Introduction

- Record performance in 2017 in line with management expectations
- Group revenue 6.3% higher, driven by strong UK performance 8.1% higher
- Margins robust despite continued cost inflation
- Disposal of Polypipe France expected to be complete H1 2018
- Decisive action taken to close Dubai factory and pursue alternative manufacturing strategy in the Middle East
- Management succession completed. Paul James joined as CFO on 5 March 2018

Agenda

Polypipe

Financial highlights

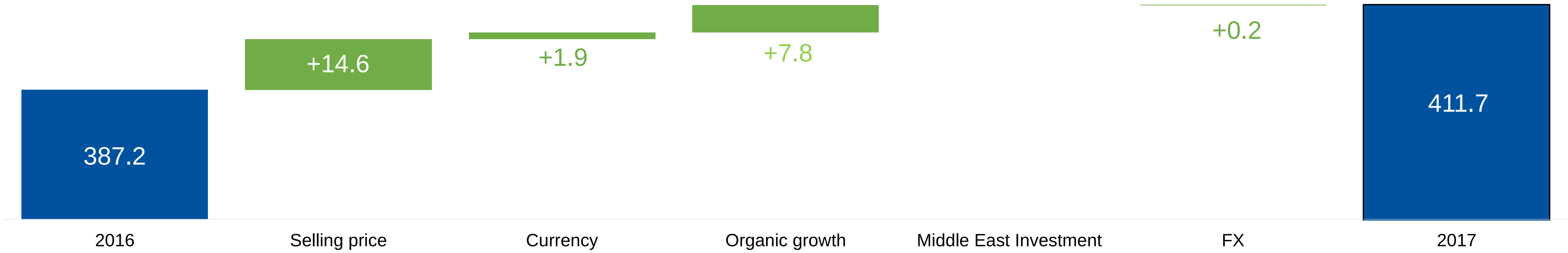
- Polypipe France treated as discontinued due to announced disposal process
- Revenue 6.3% higher at £411.7m
- Underlying operating profit 6.0% higher at £72.6m
- Underlying operating margin robust at 17.6% despite continued input cost inflation
- Underlying basic earnings per share from continuing operations 10.1% higher at 27.2 pence per share
- Net debt down to 1.6 times EBITDA
- Recommended final dividend of 7.5 pence per share giving a full year dividend of 11.1 pence per share, 9.9% higher

2017 underlying results summary – continuing operations

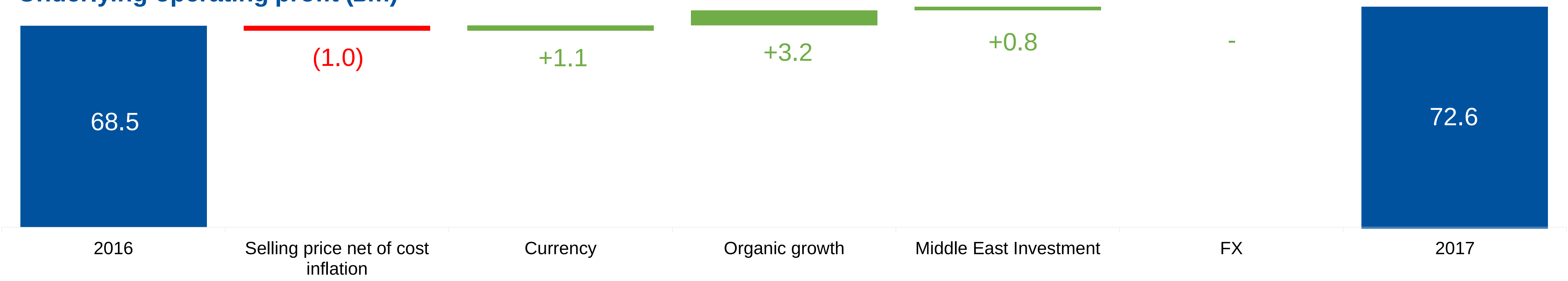
£m	Year ended 31 December 2017	Year ended 31 December 2016	Change	Change
Revenue	**411.7**	**387.2**	**24.5**	**6.3%**
Cost of sales	(236.0)	(219.1)	(16.9)	
Gross profit	**175.7**	**168.1**	**7.6**	**4.5%**
Gross margin	*42.7%*	*43.4%*		
Selling & distribution costs	(68.7)	(64.4)	(4.3)	
Administrative expenses	(34.4)	(35.2)	0.8	
Underlying operating profit	**72.6**	**68.5**	**4.1**	**6.0%**
Operating margin	*17.6%*	*17.7%*		
Finance costs	(6.9)	(7.6)	0.7	
Underlying profit before tax	**65.7**	**60.9**	**4.8**	**7.9%**
Underlying tax	(11.8)	(11.7)	(0.1)	
Underlying profit after tax	**53.9**	**49.2**	**4.7**	**9.6%**
Underlying basic earnings per share (p)	**27.2**	**24.7**		**10.1%**
Dividend per share (p)	**11.1**	**10.1**		**9.9%**
Underlying tax rate	*18.0%*	*19.2%*		

Revenue and underlying operating profit bridge

Revenue (£m)



Underlying operating profit (£m)



2017 proforma results including Polypipe France

£m (unless stated)	31 December 2017 As reported	31 December 2017 France	31 December 2017 inc France	31 December 2016 As reported	31 December 2016 France	31 December 2016 inc France
Revenue	**411.7**	58.4	470.1	**387.2**	49.7	436.9
Underlying operating profit	**72.6**	1.4	74.0	**68.5**	0.9	69.4
Underlying EBITDA	**87.5**	2.7	90.2	**83.5**	2.2	85.7
Underlying profit before tax	**65.7**	1.4	67.1	**60.9**	0.9	61.8
Underlying profit after tax	**53.9**	1.2	55.1	**49.2**	0.8	50.0
Underlying earnings per share (p)						
Basic	**27.2**	0.6	27.8	**24.7**	0.4	25.1
Diluted	**26.9**	0.6	27.5	**24.6**	0.4	25.0

2017 statutory results

£m	31 December 2017	31 December 2016
Underlying profit after tax	**53.9**	**49.2**
Non-underlying items:		
- Middle East closure and other projects	(4.6)	(0.6)
- Amortisation of intangible assets	(5.5)	(6.8)
Tax effect of non-underlying items	1.2	1.6
Profit/(loss) from discontinued operations	(11.3)	0.8
Profit for the year	**33.7**	**44.2**

- Dubai factory closure costs £4.0m of which £1.7m is non-cash
- Polypipe France treated as discontinued operations / assets held-for-sale
  - Impairment loss £12.5m (2016: nil)
  - Post-tax profit from discontinued operations £1.2m (2016: £0.8m)

Balance sheet summary

£m	31 December 2017 As reported	Polypipe France	31 December 2017 Including Polypipe France	31 December 2016	Change
Non-current assets					
▪ property, plant & equipment	98.6	6.3	104.9	101.0	3.9
▪ goodwill	319.7	-	319.7	329.3	(9.6)
▪ other intangible assets	36.8	-	36.8	42.3	(5.5)
Net assets classified as held-for-sale	13.1	(12.4)	0.7	0.7	-
Net working capital	0.4	7.2	7.6	0.5	7.1
Net debt	(148.4)	-	(148.4)	(164.3)	15.9
Taxation	(12.6)	0.1	(12.5)	(14.3)	1.8
Other	(5.6)	(1.2)	(6.8)	(7.8)	1.0
Net assets	**302.0**	**-**	**302.0**	**287.4**	**14.6**

- No defined benefit pension scheme

Net working capital

£m	31 December 2017 As reported	Polypipe France	31 December 2017 Including Polypipe France	31 December 2016	Change (based on including held-for-sale)
Inventories	53.5	7.7	61.2	52.2	9.0
Trade and other receivables	34.5	9.0	43.5	40.1	3.4
Trade and other payables	(87.6)	(9.5)	(97.1)	(91.8)	(5.3)
Net working capital	**0.4**	**7.2**	**7.6**	**0.5**	**7.1**
Net working capital to LTM revenue			**1.6%**	**0.1%**	

- Inventories impacted by higher material costs and normalisation of finished goods stock levels
  - Stock levels at 31 December 2016 lowered by pre-price increase buying-in
  - Stock levels at 31 December 2017 built in anticipation of 2018 pre price increase buying-in

- Stock days at 31 December 2017 consistent with 31 December 2015

Cash flows

£m	31 December 2017	31 December 2016	Change
EBITDA (before non-underlying items) [1]	**90.2**	**85.7**	**4.5**
Capital expenditure, net of disposals of property, plant & equipment	(23.2)	(18.7)	(4.5)
Profit on disposal of property, plant & equipment	(0.1)	-	(0.1)
Movement in net working capital	(10.0)	(0.2)	(9.8)
Share-based payments	0.8	1.0	(0.2)
Operating cash flows after capital expenditure	**57.7**	**67.8**	**(10.1)**
Interest paid	(6.6)	(7.3)	0.7
Income tax paid	(12.6)	(10.1)	(2.5)
Dividends paid	(21.0)	(17.1)	(3.9)
Cash flows before non-underlying cash items, share purchases	**17.5**	**33.3**	**(15.8)**
Non-underlying cash items	(0.5)	-	(0.5)
Purchase of own shares, net of option exercise proceeds	(0.7)	(2.9)	2.2
Movement in unamortised debt issue costs & foreign exchange	(0.4)	(0.4)	-
Decrease / (increase) in net debt	**15.9**	**30.0**	**(14.1)**
Cash conversion rate	78%	97%	

[1] Including EBITDA from discontinued operations (Polypipe France)

Banking facilities

Headroom at 31 December 2017:

£m	Drawn as at 31 December 2017	Facility	Headroom
Bank loan	185.0	290.0	105.0
Cash and cash equivalents	(35.7)	-	35.7
Net debt excluding unamortised debt issue costs	**149.3**		**140.7**
Unamortised debt issue costs	**(0.9)**		
Net debt	**148.4**		

Covenant	Covenant requirement	Position at 31 December 2017
Interest cover (Underlying operating profit : Finance costs excluding debt issue cost amortisation)	>4.0:1	11.5:1
Leverage (Net debt : EBITDA)	<3.0:1	1.6:1

- Net debt does not reflect the net proceeds which will be received on the completion of the disposal of Polypipe France

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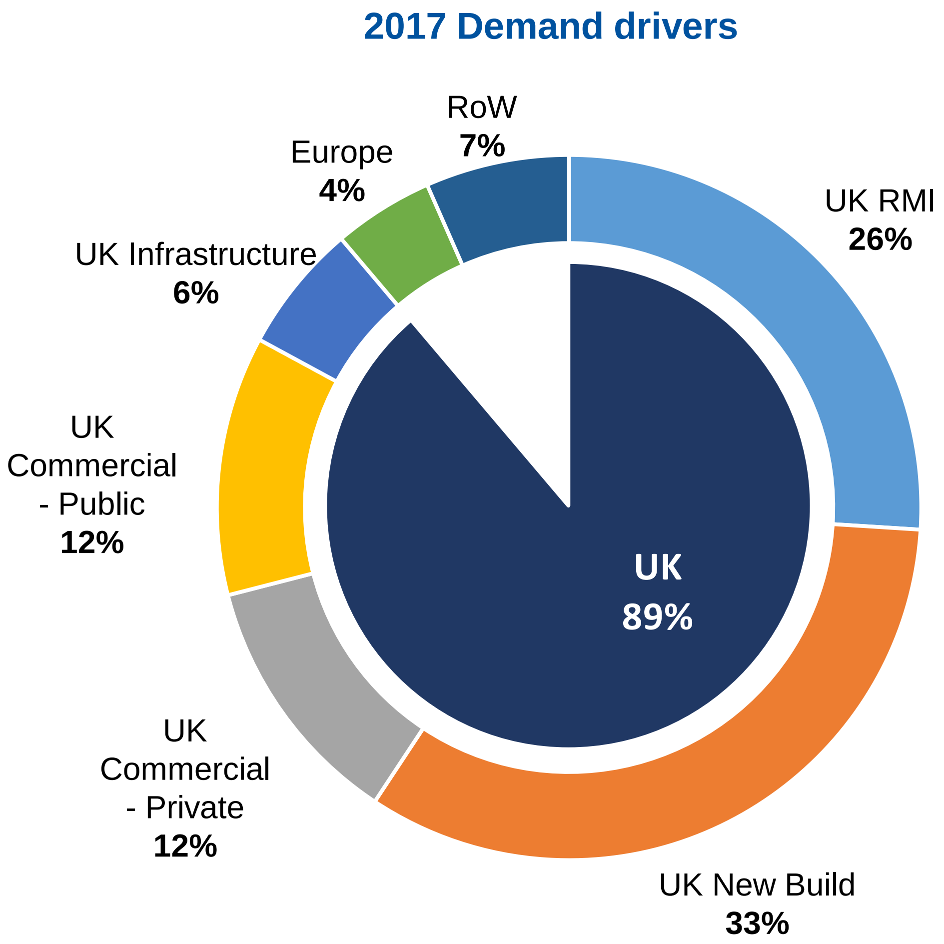
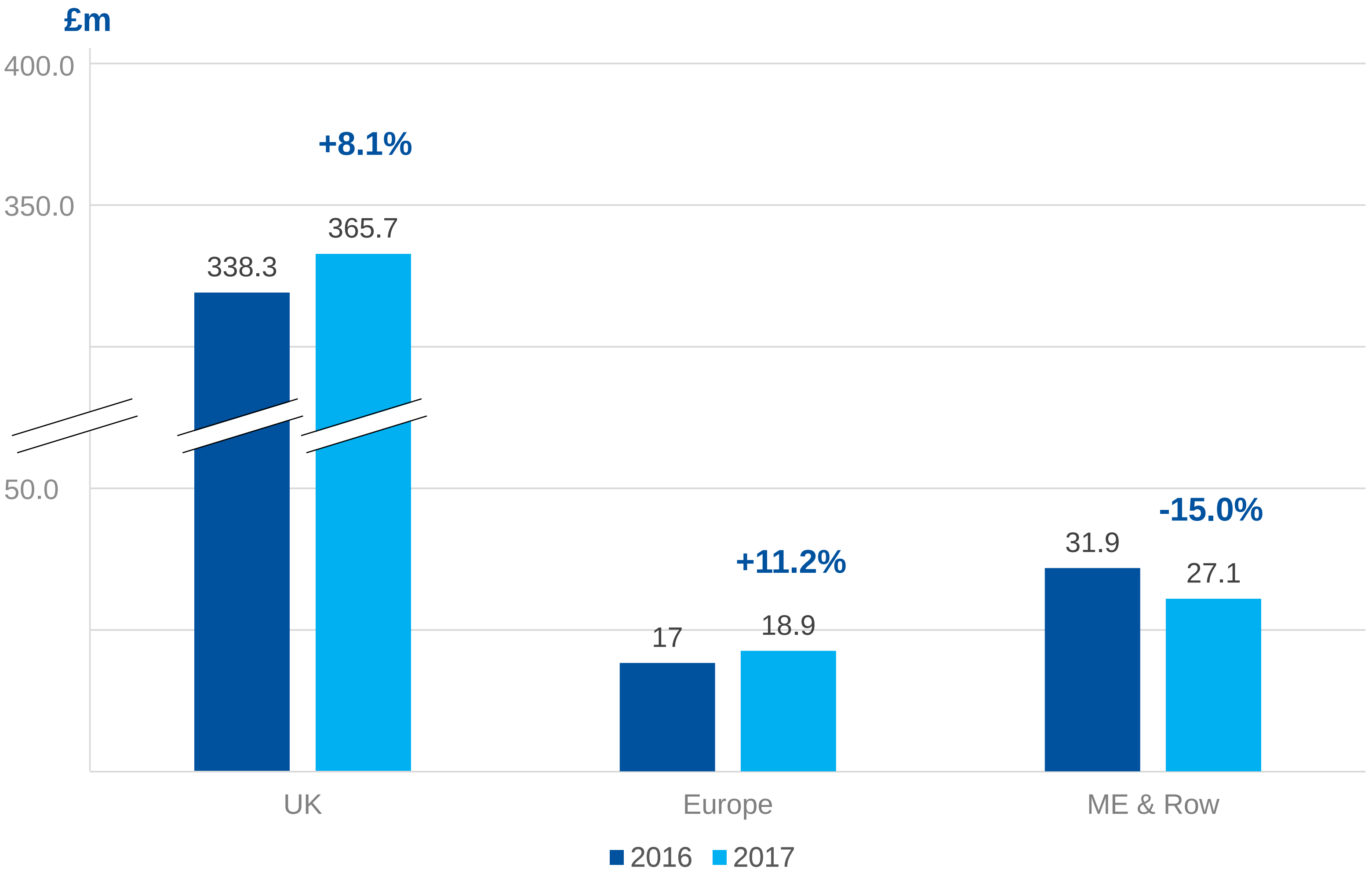
Polypipe

Balanced portfolio across UK construction market



Revenue from continuing operations (ie. excluding Polypipe France)

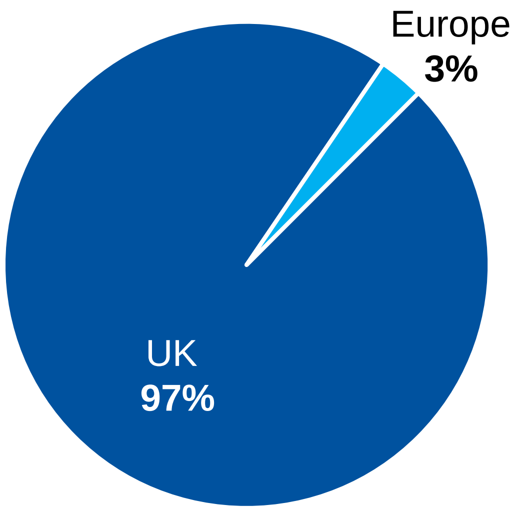
Strong performance in UK



Revenue from continuing operations (ie. excluding Polypipe France)

Operating segment review – Residential Systems

2017 Geographic revenue split

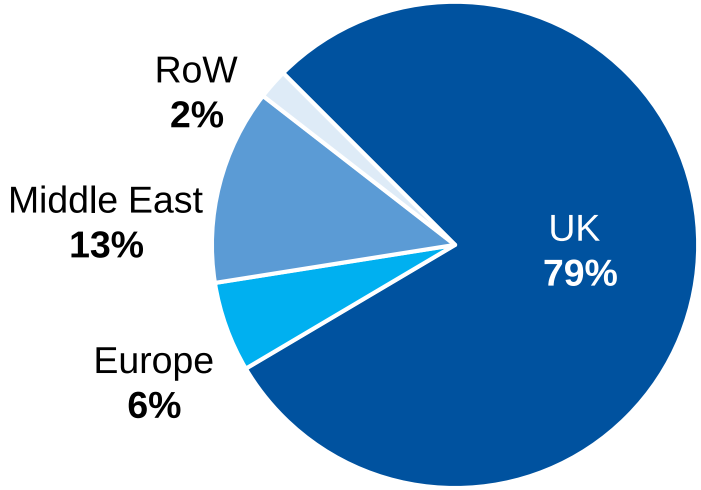


Residential Systems	2017	2016	% Growth
Segmental revenue	£228.8m	£207.6m	
Inter segment revenue	(£5.3m)	(£4.9m)	
Revenue	£223.5m	£202.7m	10.3%
Underlying operating profit	£44.3m	£39.1m	13.3%
Underlying operating margin	19.8%	19.3%	

- 10.3% revenue growth driven by buoyant UK new housebuild market
- Activity still strong in national house builders supported by Government's "Help to Buy" scheme
- Secondary housing market continues to experience low transaction volumes
- RMI markets remain subdued
- Underlying operating margin increased despite dilutive effect of increasing selling prices in early 2017 to recover absolute cost inflation
- Price increase implemented February 2018 to recover further cost inflation
- £2.2m multi-layer extrusion line operational, increasing use of recycled material

Operating segment review – Commercial & Infrastructure Systems

2017 Geographic revenue split



Commercial and Infrastructure Systems	2017	2016	% Growth
Segmental revenue	£196.0m	£190.6m	
Inter segment revenue	(£7.8m)	(£6.1m)	
Revenue	£188.2m	£184.5m	2.0%
Underlying operating profit	£28.3m	£29.4m	(3.7)%
Underlying operating margin	15.0%	15.9%	

- Segment now restated to include Italy following review of segmentation
- 2.0% revenue growth against strong comparatives (Aberdeen bypass, Jebel Ali Hills)
- UK revenue 4.1% higher with strong demand from the new housebuild sector offset partially by A14 road upgrade and other project delays
- £5m large diameter continuous corrugator installed – operational Q1 2018
- Price increase implemented February 2018 to recover further cost inflation
- Overseas revenue 5.4% lower due to continuing Middle East project funding issues and Qatar trade embargo
- Decisive action taken to close Dubai factory and pursue alternative flexible Middle East manufacturing strategy

Polypipe France disposal

- Commodity market, outside our core strategic product areas
- Fragmented supply base
- Geographic disadvantage to serve the key market of Ile de France
- Low margin business
- Disposal proceeds of €16.5m, represents excellent shareholder value
- Anticipate completion in H1 2018
- Allows Group to focus on higher margin product areas

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1 INTRODUCTION

2 FINANCIAL REVIEW

3 BUSINESS REVIEW

4 STRATEGY

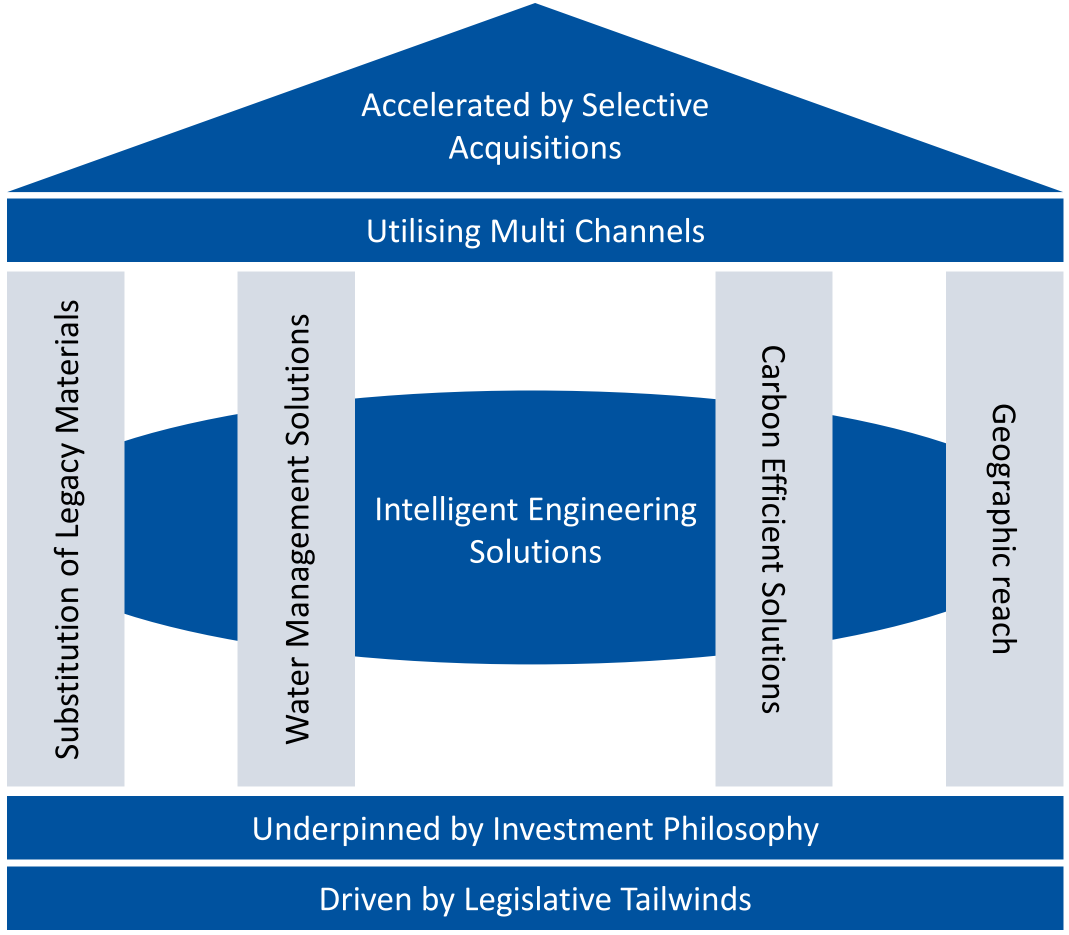
5 SUMMARY & OUTLOOK

Polypipe

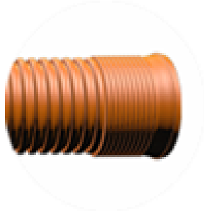
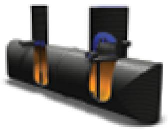
Strategy to date

Our Strategic Objectives:

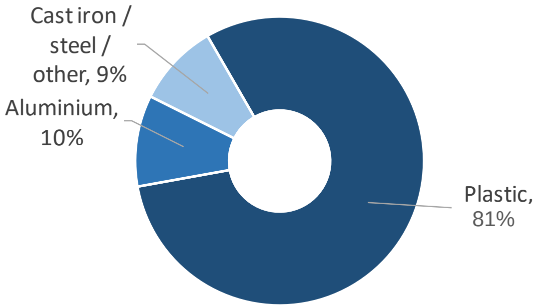
- Benefit from market recovery and leveraging brand position
- Continued product development for sustainable construction and substitution of legacy materials
- Continuous investment in processes and efficiency initiatives
- Selective development in high-growth international markets
- Complementary acquisitions



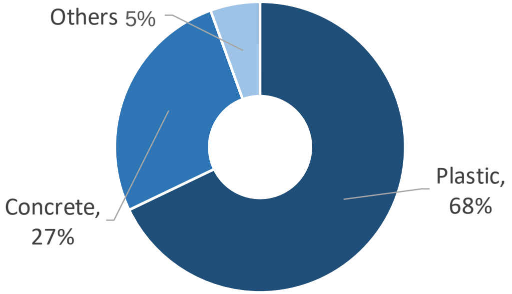
Substitution of legacy materials by plastic piping – rationale still strong

Copper	Steel radiators	Cast iron	Clay	Concrete	GRP
					
					

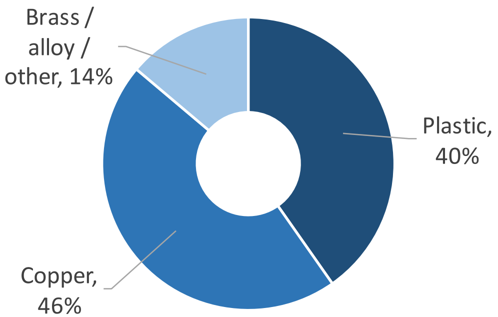
Above ground drainage
(by value 2015)



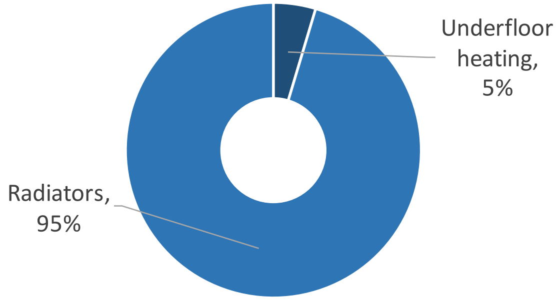
Below ground piping systems
(by value 2014)



Plumbing and heating supply
(by value 2015)

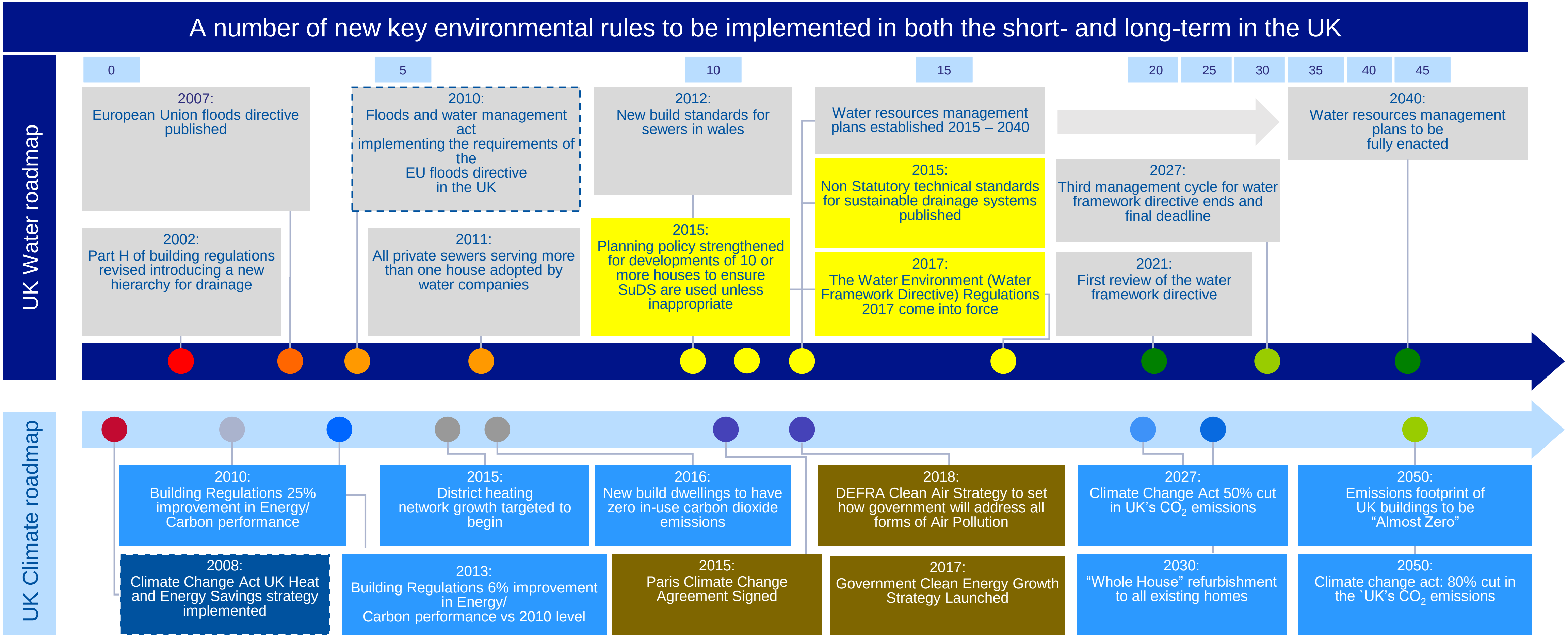


Underfloor heating
(by vol 2016)



Source: Based on AMA Research (Pipes and Fittings UK, 2016-2020 Analysis from Feb-16) and MBD (Underground pipes - UK; Dec-15). UFH from AMA report April 2016, Underfloor heating market report UK 2016-2020

Tailwinds from the UK Water & Climate legislation still strong



Note: Climate Change Act targets are set against 1990 base year
The current date for implementation of the Mandatory Build Standard by DEFRA is currently under review and is intended for implementation at the "earliest possible opportunity" (Source: DEFRA)
Source: Carbon Plan 2011, Zero Carbon Hub, Building Regulations Building Regs, 2007 Flood Directive. Floods Water Management Act. DEFRA, Welsh Assembly Government. DEFRA SUDS. Water Framework Directive. Water Companies Resource Plans, The Future of Heating, HM Government

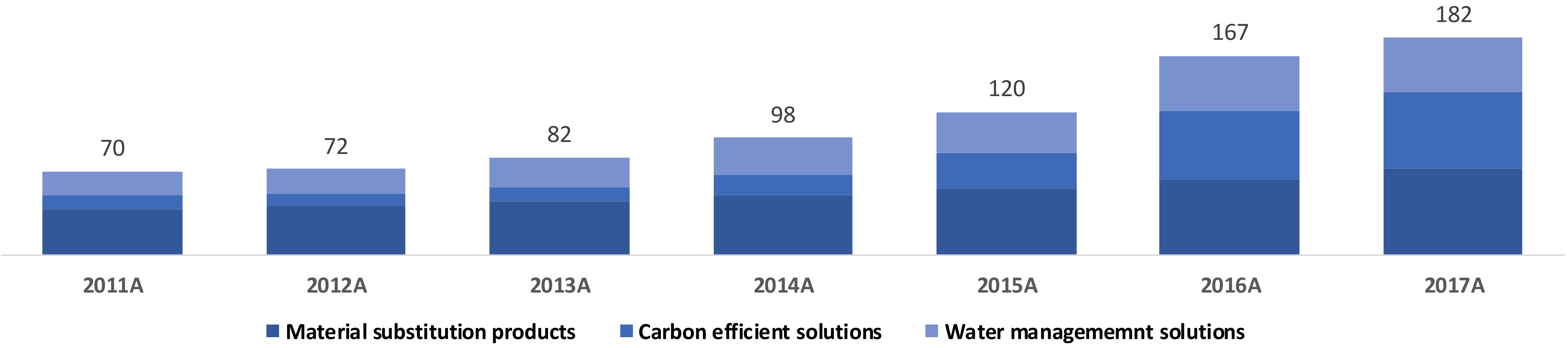
Continued growth in products developed to exploit these drivers

Growth of ‘development products’ to 44% share of Group net turnover in 2017

These ‘development products’ cover:

- Material substitution
- Water management solutions
- Carbon efficient solutions

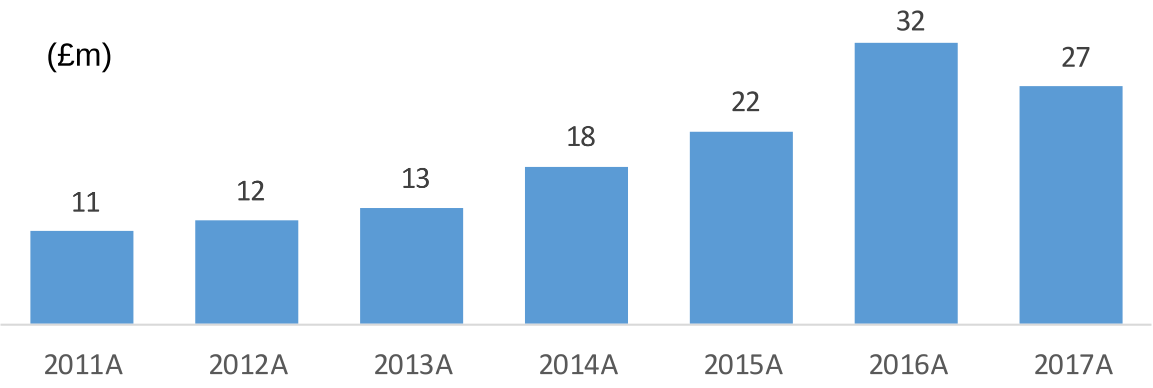
Sales contribution of key growth product areas (2011A – 2017A) (£m)



Source: Management analysis based on statutory accounts; excl. Polypipe France from history

Geographic reach – historically strong but weaker last year

Middle East and Rest Of World revenue[1]



Middle East manufacturing difficult

- Qatar trade embargo
- Project credit issues constraining demand
- Still represents a strong opportunity for the Group
- Machines to be brought back to UK and pursue alternative manufacturing strategy

Limited export markets with UK manufactured products

- Metric vs. imperial
- Transport costs

1 *Negligible impact of Polypipe France on historic numbers for Middle East and RoW*

For your diaries

Capital Markets Day

3pm Wednesday 9 May 2018

Numis Offices

London

Agenda

Polypipe

Summary & outlook

- Record performance in 2017 in line with management expectations
- Good outlook for UK new housebuild; more difficult UK RMI
- Commercial and infrastructure show good pipeline orders, but delays evident in short term
- Decisive action taken in Middle East and France
- Core strategy working in UK; geographic reach challenging
- 2018 will be another year of progress for the Group and our expectations for the year remain unchanged


Questions & Answers
Polypipe

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