Polypipe Group PLC

Polypipe

Full Year Results

Year ended 31 December 2018

Sustainable water and climate management solutions for the built environment

Agenda

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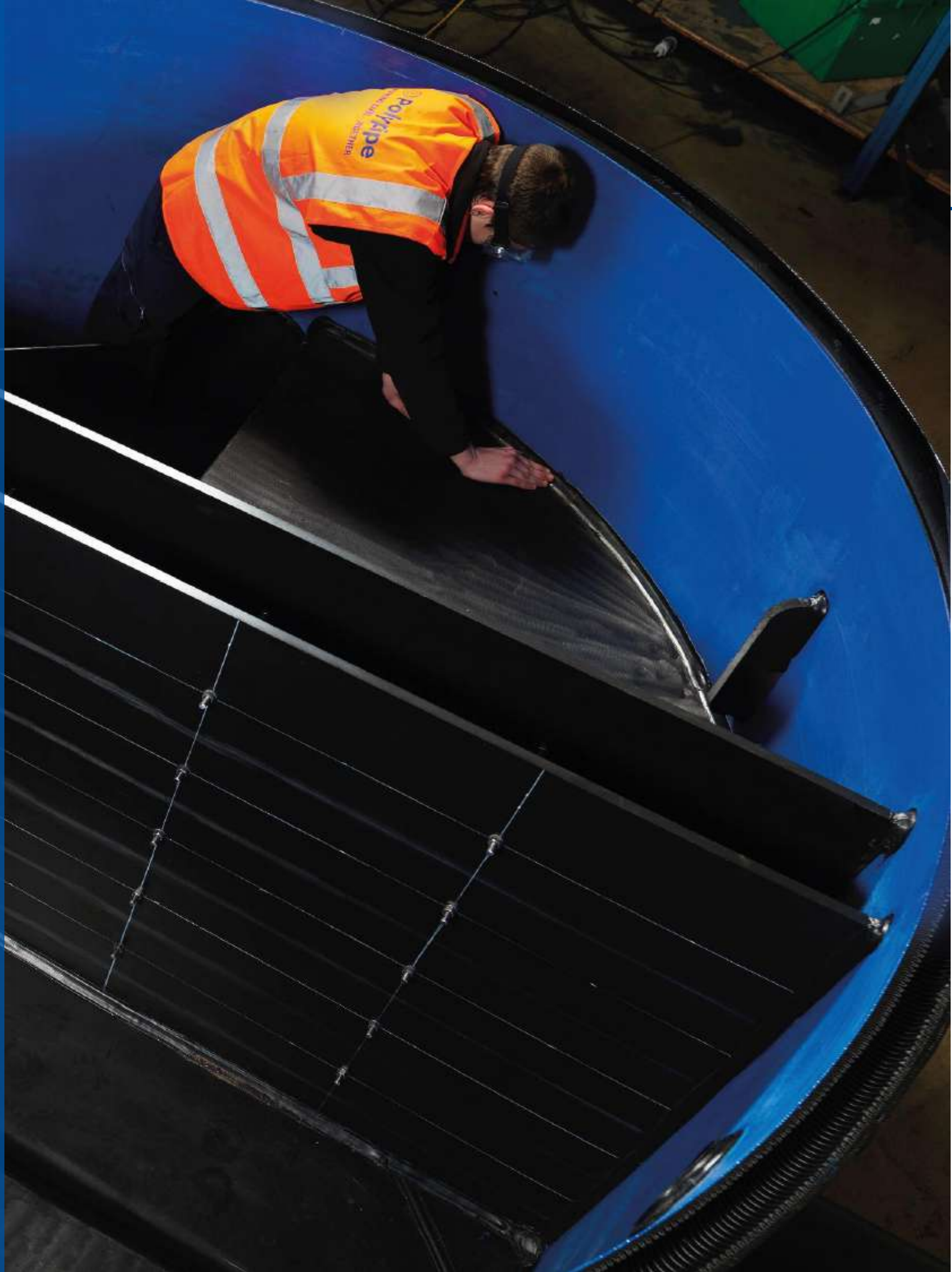


Introduction

- Another strong performance
- Revenue 5.2% higher, despite mixed conditions in the UK construction market
- Underlying basic earnings per share 4.4% higher
- Balance sheet strong with leverage of 1.7x EBITDA
- Permavoid acquired August 2018, followed by Manthorpe October 2018 – both performing in line our with expectations
- Polypipe France disposed of in March 2018
- Middle East alternative manufacturing strategy delivered
- Continued focus on product and system innovation
- Increased use of recycled material – now at 40% of total material usage (2017: 34%)

Agenda

1 INTRODUCTION

2 **FINANCIAL SUMMARY**

3 MARKET CONTEXT

4 BUSINESS REVIEW

5 STRATEGY

6 SUMMARY & OUTLOOK

Polypipe

Financial highlights

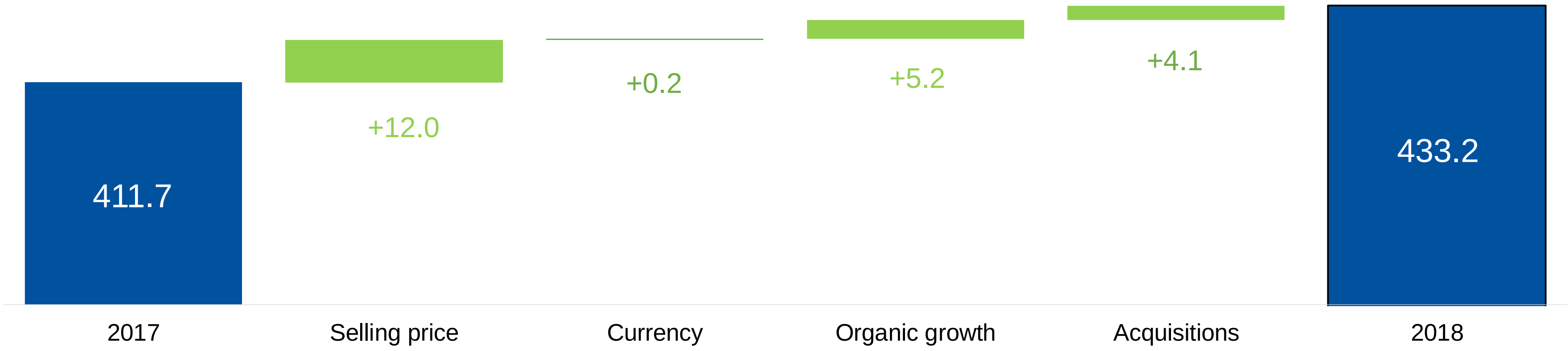
- Revenue growth of 5.2% despite mixed market conditions demonstrating strength of diversified business model
- Underlying operating profit 1.9% higher and underlying profit before tax 2.1% higher
- Resilient margin at 17.1%
- Underlying basic earnings per share 4.4% higher
- Robust balance sheet and continued strong operational cash generation. Group pro forma leverage of 1.7x (2017: 1.6x) despite £42.5m invested in acquisitions, net of disposals
- Proposed final dividend of 7.9p, bringing the total for the year to 11.6p, 4.5% ahead of last year

2018 underlying results summary – continuing operations

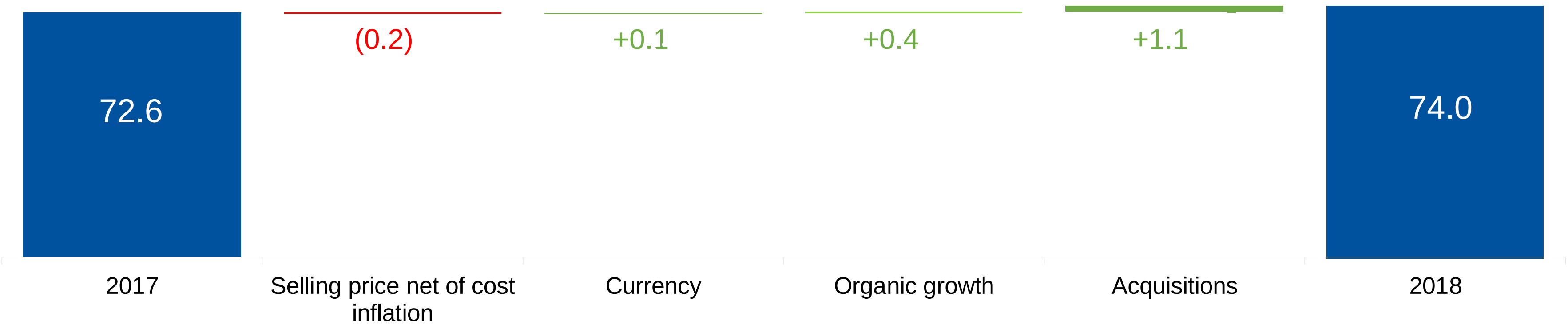
£m	Year ended 31 December 2018	Year ended 31 December 2017	Change	Change
Revenue	**433.2**	**411.7**	**21.5**	**5.2%**
Cost of sales	(251.8)	(236.0)	(15.8)	
Gross profit	**181.4**	**175.7**	**5.7**	**3.2%**
Gross margin	*41.9%*	*42.7%*		
Selling, distribution and administration costs	(107.4)	(103.1)	(4.3)	**4.2%**
Underlying operating profit	**74.0**	**72.6**	**1.4**	**1.9%**
Operating margin	*17.1%*	*17.6%*		
Net finance costs	(6.9)	(6.9)	-	
Underlying profit before tax	**67.1**	**65.7**	**1.4**	**2.1%**
Underlying tax	(10.5)	(11.8)	1.3	
Underlying profit after tax	**56.6**	**53.9**	**2.7**	**5.0%**
Underlying basic earnings per share (p)	**28.4**	**27.2**		**4.4%**
Dividend per share (p)	**11.6**	**11.1**		**4.5%**
Underlying tax rate	*15.6%*	*18.0%*		

Revenue and underlying operating profit bridge

Revenue (£m)



Underlying operating profit (£m)



- Organic growth: normal drop-through of 30-35% compares to 8% in 2018
- Relative growth in housebuilders and capacity constraints causing increased costs towards the end of the year
- Capex to resolve bottlenecks implemented in H1 2019

2018 statutory results

£m	31 December 2018	31 December 2017
Underlying profit after tax	**56.6**	**53.9**
Non-underlying items:		
- Acquisition costs and contingent consideration	(2.3)	(0.3)
- Unamortised debt issue costs written off	(0.6)	-
- Middle East closure and other costs	(0.1)	(4.3)
- Amortisation of intangible assets	(5.9)	(5.5)
Tax effect of non-underlying items	1.1	1.2
Profit/(loss) from discontinued operations	0.3	(11.3)
Profit for the year	**49.1**	**33.7**

- Acquisition costs for the purchase of Manthorpe Building Products and Permavoid includes an accrued £0.3m for contingent consideration under IFRS 3 for Permavoid
- Unamortised debt issue costs from 2015 written-off following the successful refinancing of the Group in 2018
- Amortisation of intangibles includes £0.4m from the two 2018 acquisitions
- Discontinued operations is post-tax profit of Polypipe France up to the date of disposal in March 2018

Balance sheet summary

£m	31 December 2018 As reported	Permavoid / Manthorpe acquisitions	31 December 2018 (excluding acquisitions)	31 December 2017	Change (excluding acquisitions)
Non-current assets					
▪ property, plant and equipment	118.4	10.8	107.6	98.6	9.0
▪ goodwill	343.0	23.3	319.7	319.7	0.0
▪ other intangible assets	58.9	27.7	31.2	36.8	(5.6)
Net assets classified as held-for-sale	-	-	-	13.1	(13.1)
Net working capital	(4.1)	0.4	(4.5)	0.4	(4.9)
Net debt	(164.2)	(56.6)	(107.6)	(148.4)	40.8
Taxation	(17.3)	(6.0)	(11.3)	(12.6)	1.3
Other	(3.5)	(1.7)	(1.8)	(5.6)	3.8
Net assets	**331.2**	**(2.1)**	**333.3**	**302.0**	**31.3**

- No defined benefit pension scheme

Net working capital

£m	31 December 2018 As reported	Permavoid / Manthorpe acquisitions	31 December 2018 (excluding acquisitions)	31 December 2017	Change (excluding acquisitions)
Inventories	58.1	1.2	56.9	53.5	3.4
Trade and other receivables	37.4	3.3	34.1	34.5	(0.4)
Trade and other payables	(99.6)	(4.1)	(95.5)	(87.6)	(7.9)
Net working capital	**(4.1)**	**0.4**	**(4.5)**	**0.4**	**(4.9)**
Net working capital to LTM revenue			**(1.0)%**	**0.1%**	

- Inventories impacted by higher material costs and both years' year end stock levels reflect anticipation of pre-price increase buying-in
- Stock days at 31 December 2018 marginally better than at 31 December 2017
- Little absolute movement in trade debtors value although given growth in the business over the year, debtor days have improved
- Increase in trade creditors at year end also impacted by pre-price increase buying-in

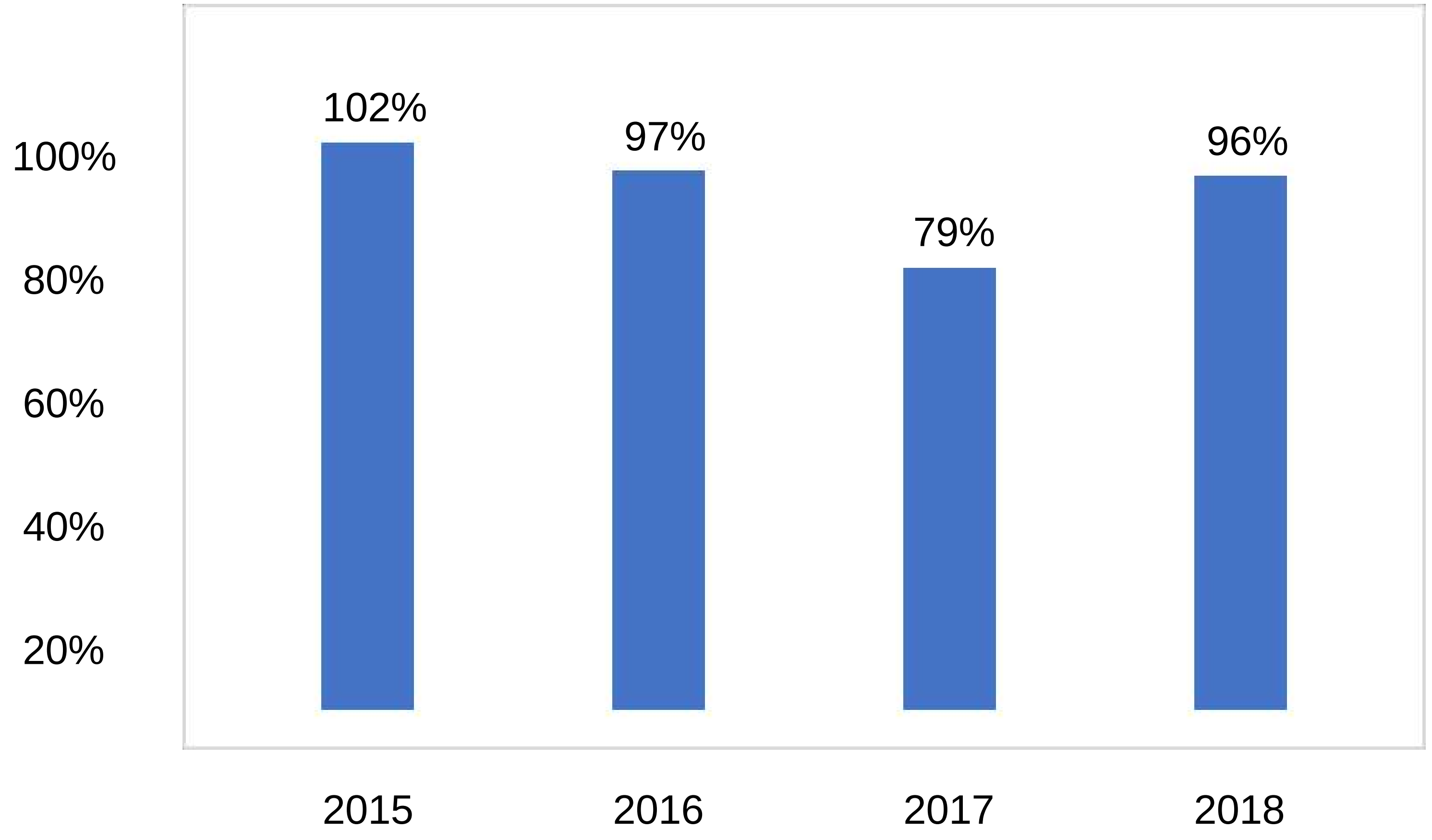
Cash flows

£m	31 December 2018	31 December 2017	Change
EBITDA (before non-underlying items) [1]	**89.6**	**90.1**	**(0.5)**
Capital expenditure, net of disposals of property, plant and equipment	(23.2)	(23.2)	(0.0)
Movement in net working capital	3.8	(10.0)	13.8
Share-based payments	1.0	0.8	0.2
Operating cash flows after capital expenditure	**71.2**	**57.7**	**13.5**
Financing costs – net interest paid	(6.1)	(6.6)	0.5
Taxation	(11.2)	(12.6)	1.4
Dividends paid	(22.3)	(21.0)	(1.3)
Cash flows after interest, taxation and dividends	**31.6**	**17.5**	**14.1**
Non-underlying cash items	(4.4)	(0.5)	(3.9)
Acquisition / disposal of businesses	(42.5)	-	(42.5)
Proceeds from exercise of share options net of purchase of own shares	0.3	(0.7)	1.0
Movement in unamortised debt issue costs and foreign exchange	(0.8)	(0.4)	(0.4)
Decrease / (increase) in net debt	**(15.8)**	**15.9**	**(31.7)**
Cash conversion rate	96%	79%	

- Maintaining a disciplined approach to capital allocation

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

Consistently strong cash conversion



- Cash conversion* typically over 90%
- 2017 temporarily impacted by the need to stock build after pre-price increase pull-forward demand at the end of 2016

** Operating cash flows after capital expenditure as a percentage of underlying operating profit*

Banking facilities

Headroom at 31 December 2018:

£m	Drawn as at 31 December 2018	Facility	Headroom
Bank loan	212.0	300.0	88.0
Cash and cash equivalents	(46.2)	-	46.2
Net debt excluding unamortised debt issue costs	**165.8**		**134.2**
Unamortised debt issue costs	**(1.6)**		
Net debt	**164.2**		

- Uncommitted "accordion" facility of up to £50m available in addition to the £300m facility

Covenant	Covenant requirement	Position at 31 December 2018
Interest cover (Underlying operating profit : Finance costs excluding debt issue cost amortisation)	>4.0:1	11.3:1
Leverage (Net debt : pro forma EBITDA)	<3.0:1	1.7:1

Refinancing

- Renewal of the Group’s secured Revolving Credit Facility (RCF) brought forward from mid-2019
- RCF increased from £290m to £300m, and renewed for a period of five years to November 2023
- Two further uncommitted annual renewals through to November 2025 possible
- New uncommitted “accordion” facility of up to £50m added
- Refinancing fees of £1.7m to be amortised over the life of the RCF
- Unamortised fees of £0.6m from the previous refinancing written off within non-underlying items
- Margin payable under the renewed RCF 10 basis points lower than the previous agreement for gearing levels up to 2.0x EBITDA at 1.65%

IFRS 16 (Leases)

- Adoption of “simplified approach” will be applied to 2019 interim and full year results
- Group holds circa 290 leases, including cars, forklift trucks and some property
- No change to cash flow delivery or investing decisions
- Capitalisation of so-called “Right-of-use” assets
- Recognition of future lease payments as debt
- IAS 17 lease cost replaced by depreciation charge and an interest cost
- EBITDA will increase (IAS lease cost removed)
- Impact on Polypipe EBIT and PBT negligible
- Covenants in new RCF are on a “frozen GAAP” basis – so no impact on lending or interest margin

IFRS 16 (Leases)

- Immaterial impact on reporting and covenants

IFRS 16 – balance sheet impact

£m	31 December 2018 As reported	IFRS 16 adjustments	31 December 2018 including IFRS 16
Total assets	662.0	12.0-14.0	674.0 – 676.0
Total liabilities	(330.8)	(12.0) – (14.0)	(342.8) – (344.8)
Net assets	**331.2**	**-**	**331.2**

IFRS 16 – profit and loss impact

£m	31 December 2018 As reported	IFRS 16 adjustments	31 December 2018 including IFRS 16
Underlying EBITDA	**89.3**	3.9	93.2
Underlying operating profit (EBIT)	**74.0**	0.2 – 0.4	74.2 – 74.4
Underlying profit before tax	**67.1**	(0.1) – (0.3)	66.8 – 67.0
Impact on covenant ratios			
Leverage (net debt : pro forma EBITDA)	1.7x	0.1x	1.8x
Interest cover (operating profit : finance costs)	11.3x	(0.5x)	10.8x

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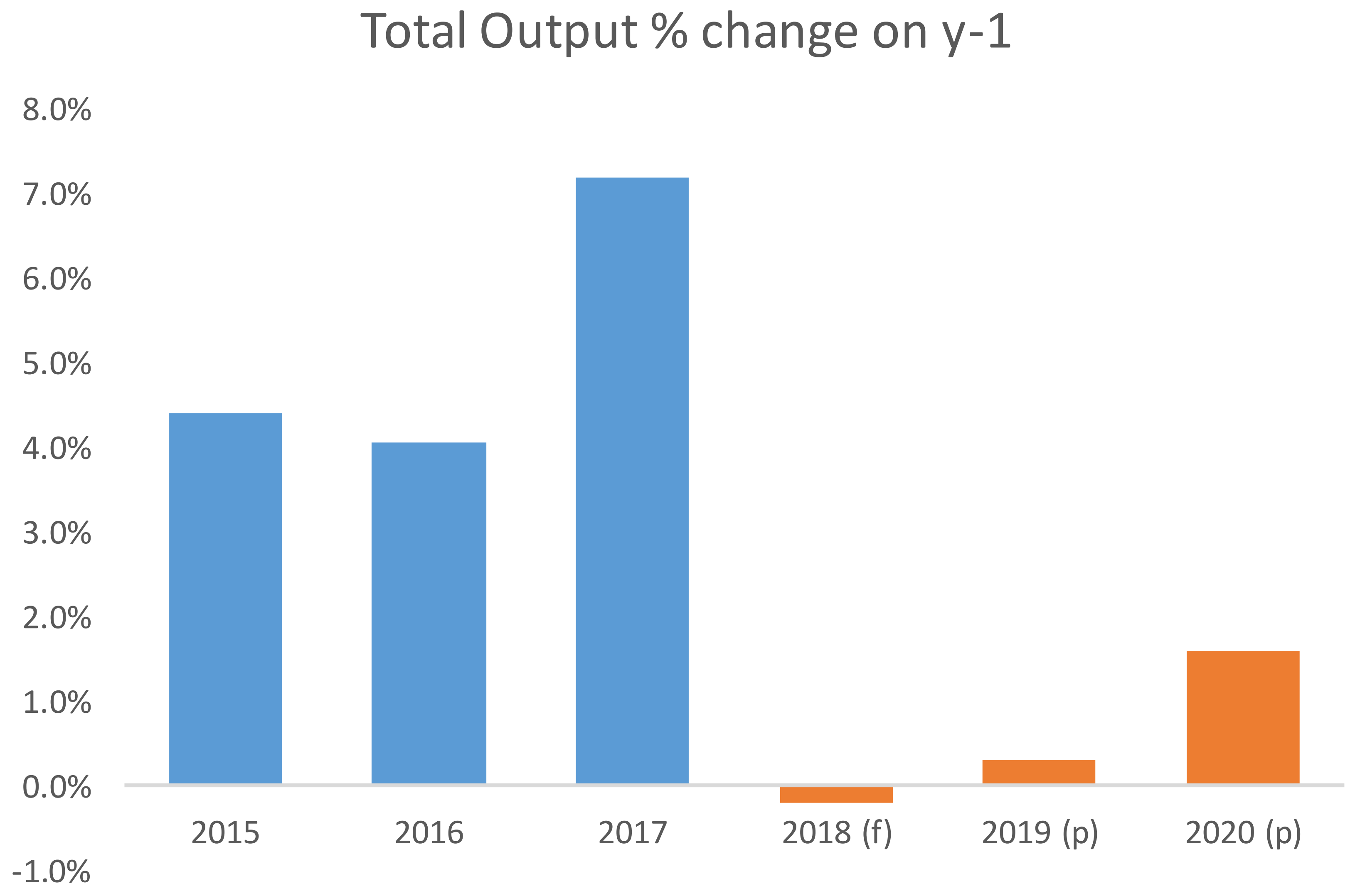
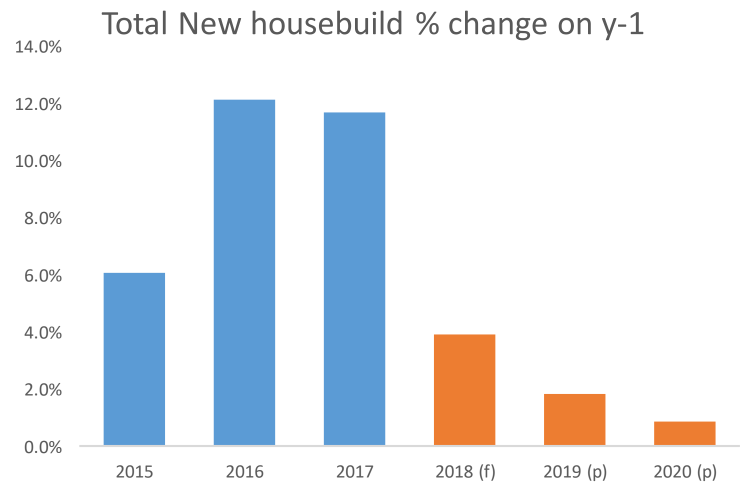
UK Construction Market



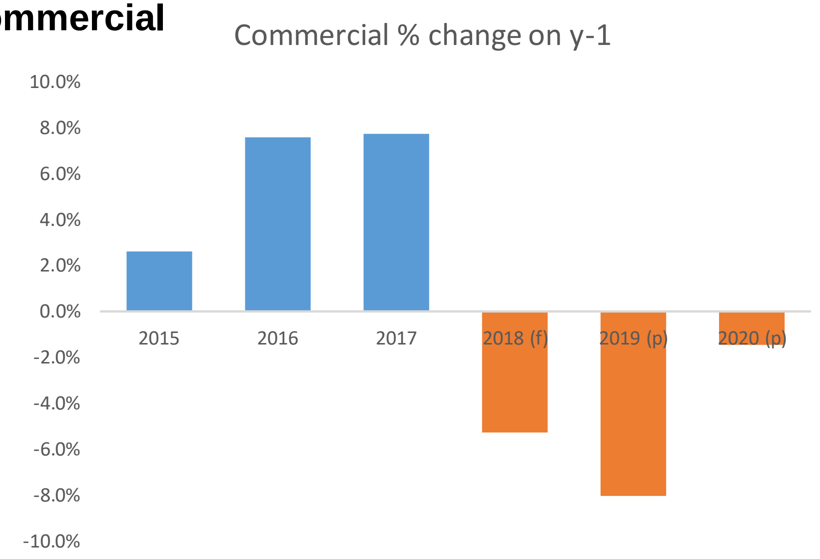
Source: Construction Products Association (CPA) Winter forecast January 2019

UK Construction Market

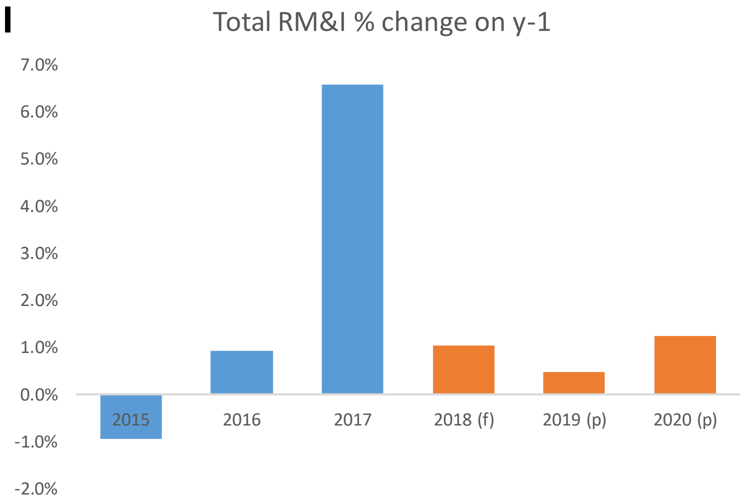
New housebuild



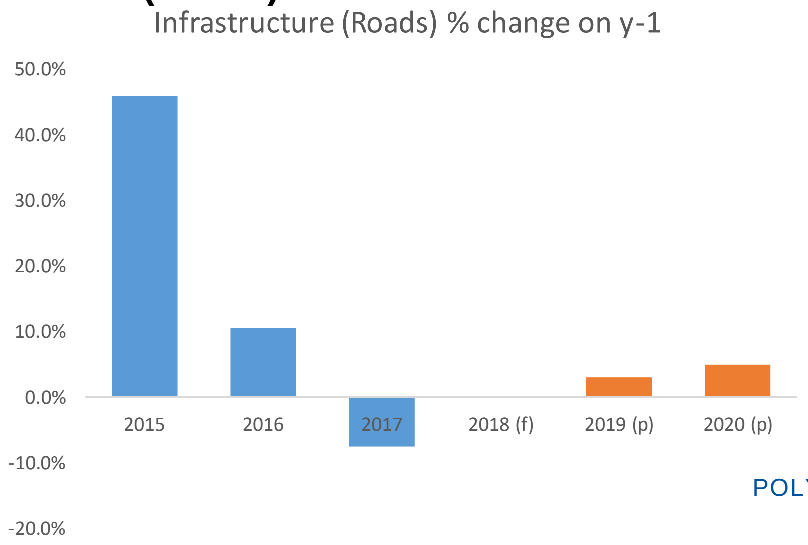
Commercial



RMI



Infrastructure (Roads)



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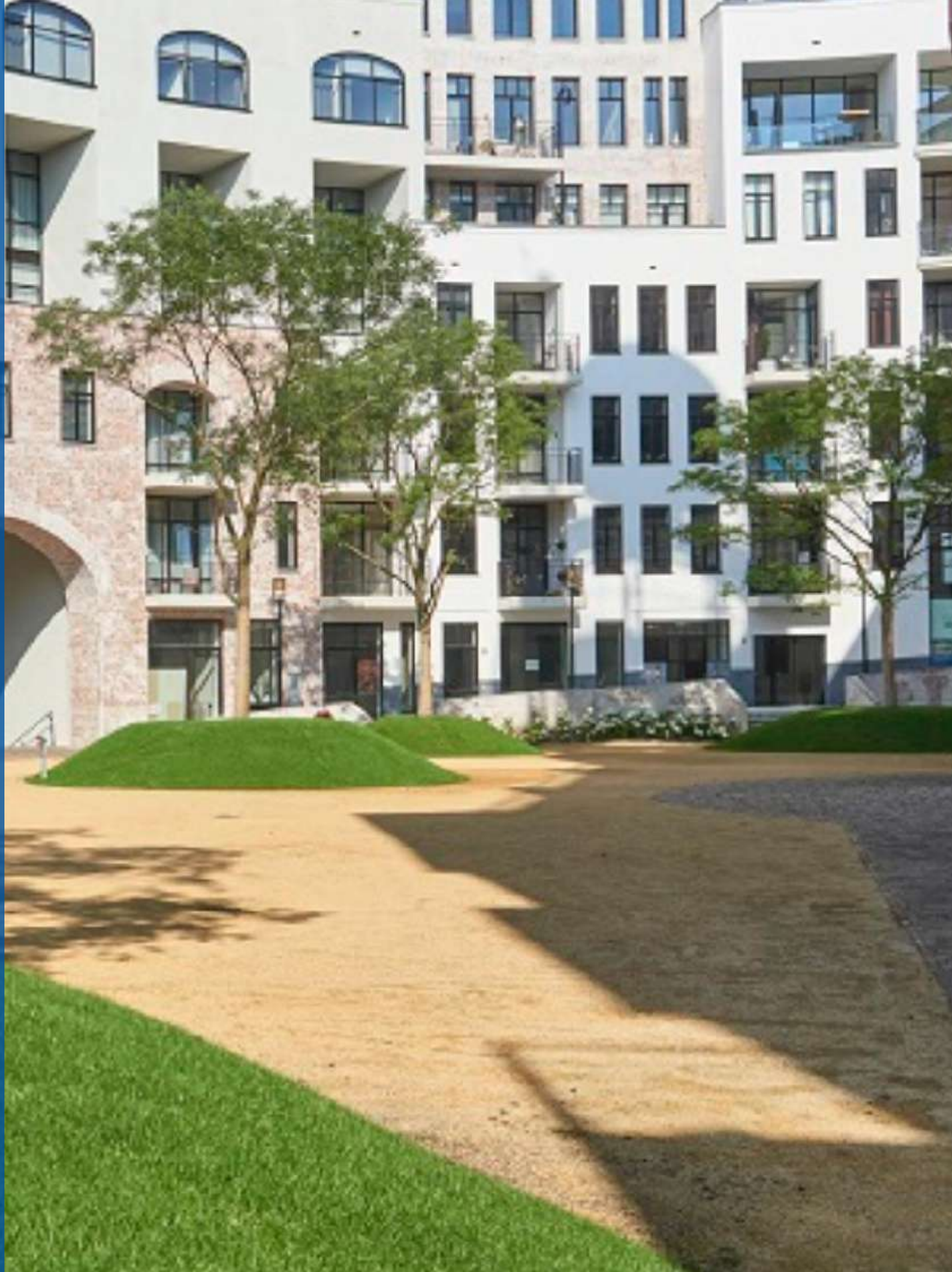
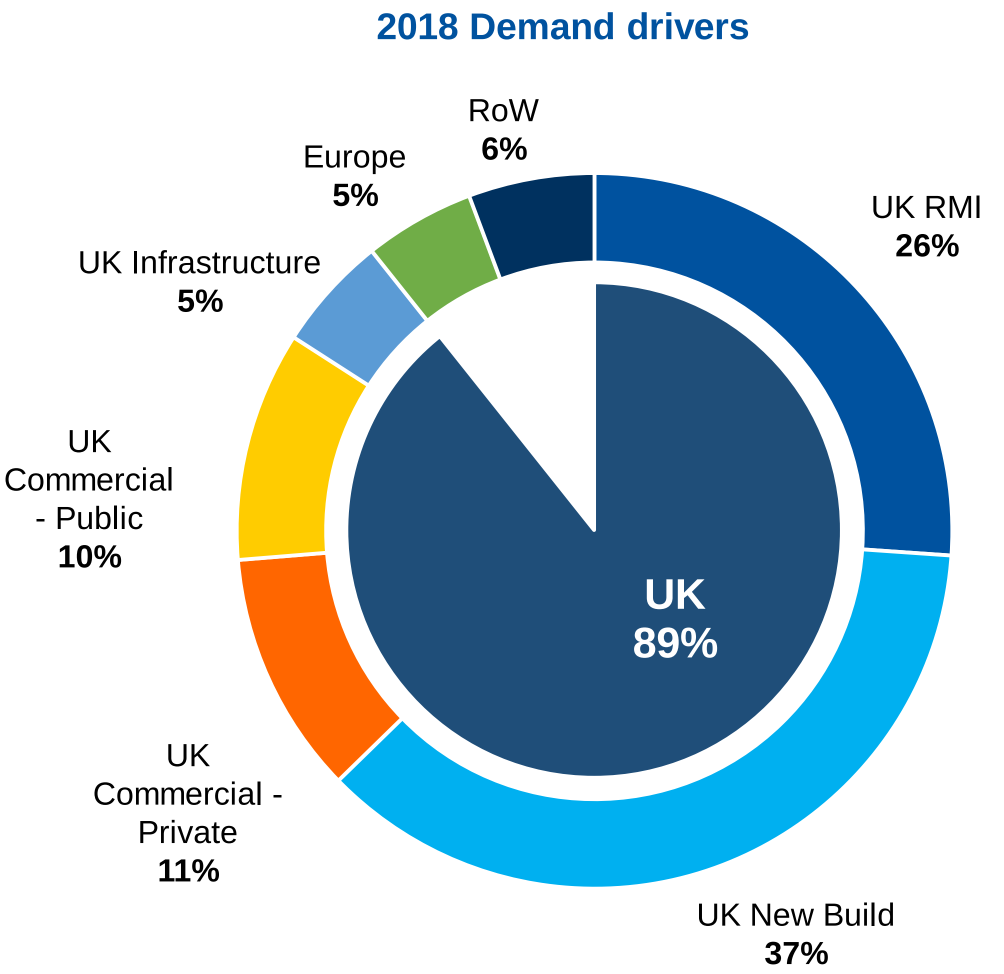
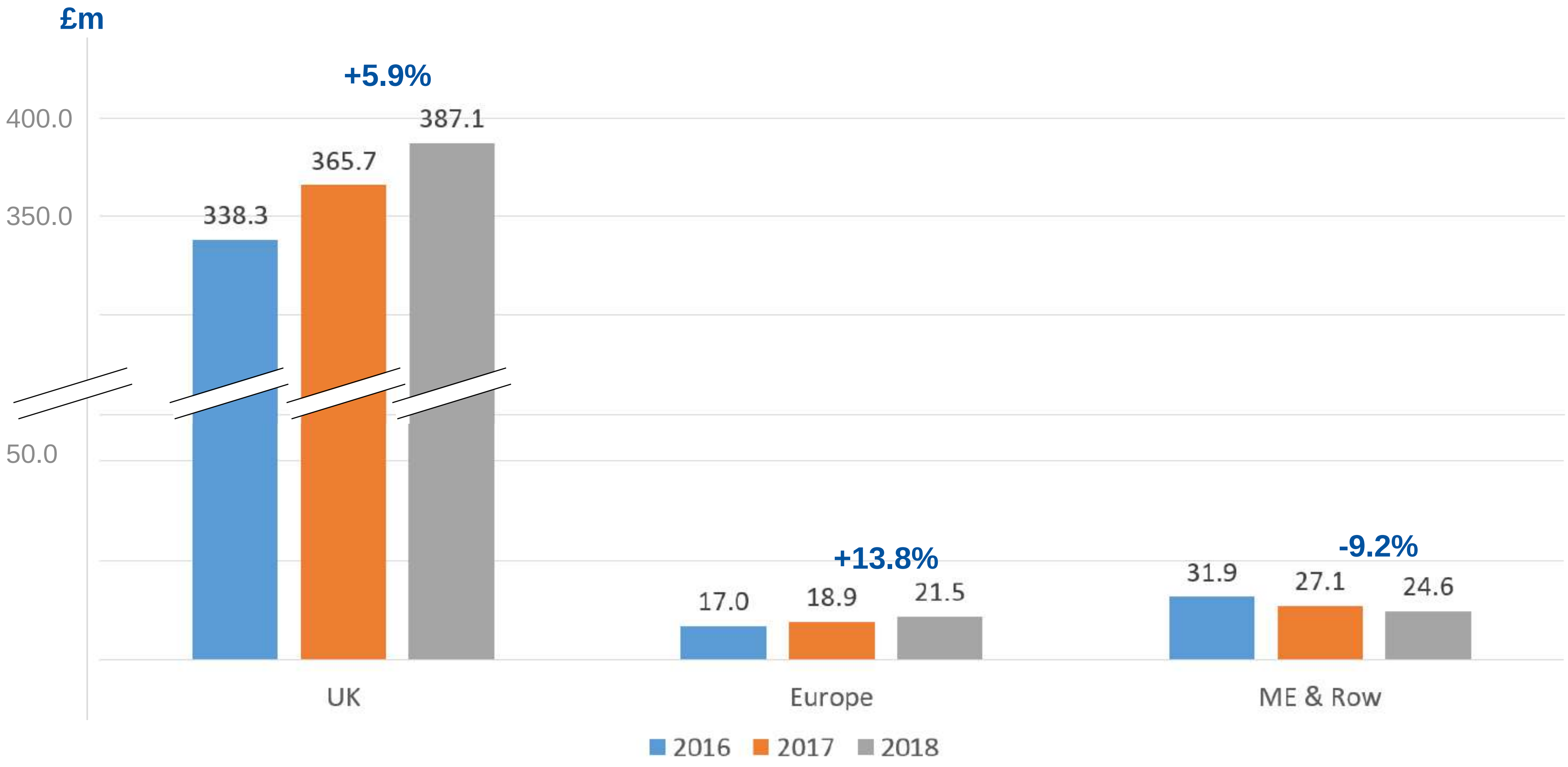


Balanced portfolio across UK construction market



Revenue as reported (including Permavoid and Manthorpe under the periods of ownership)

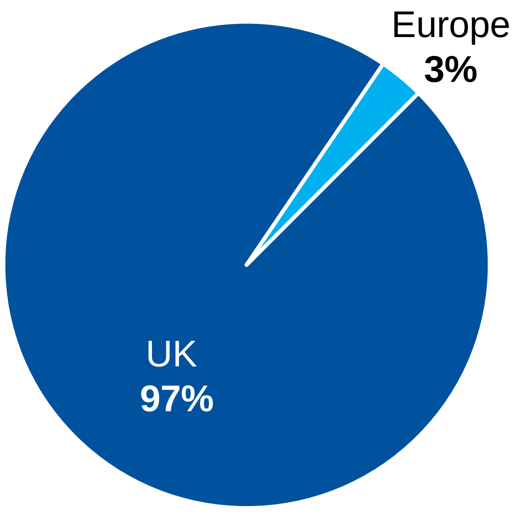
Strong performance in UK



As reported revenue from continuing operations (i.e., excluding Polypipe France for 2016 and 2017, but including Permavoid and Manthorpe under the periods of ownership)

Operating segment review – Residential Systems

2018 Geographic revenue split

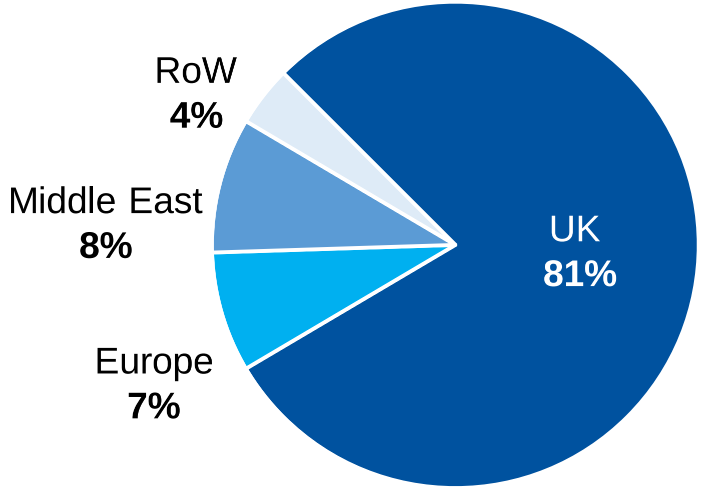


Residential Systems	2018	2017	% Growth
Segmental revenue	£249.9m	£228.8m	
Inter segment revenue	(£4.6m)	(£5.3m)	
Revenue	£245.3m	£223.5m	9.8%
Underlying operating profit	£46.3m	£44.3m	4.5%
Underlying operating margin	18.9%	19.8%	

- Strong performance with revenue 9.8% higher than prior year despite adverse weather impact in Q1
- New housebuild markets strong; RMI market flat – spend diverted to fire protection
- Manthorpe acquired in October 2018 for £52.1m, strong strategic and cultural fit, performing to expectations
- Like-for-like revenue growth at 8.5%, strong second half. Near full capacity in some areas
- Price increases again successfully implemented to mitigate cost inflation
- Healthy margins at 18.9%, 90 basis points lower than prior year due to dilutive effect of price increases, new housebuild mix, and increased costs caused by operating near capacity towards the end of the year
- Selective investment in tooling, machinery and land development to remove capacity bottlenecks will progressively come on stream in 2019

Operating segment review – Commercial & Infrastructure Systems

2018 Geographic revenue split



Commercial and Infrastructure Systems	2018	2017	% Growth
Segmental revenue	£197.2m	£196.0m	
Inter segment revenue	(£9.3m)	(£7.8m)	
Revenue	£187.9m	£188.2m	(0.2)%
Underlying operating profit	£27.7m	£28.3m	(2.1)%
Underlying operating margin	14.7%	15.0%	

- Strong growth of 6.7% in the second half leaves full year revenue 0.2% lower than prior year
- UK revenue growth of 0.2%, with Export revenue 1.6% lower, with Middle East decline and Continental Europe growth
- First half impacted by adverse weather in Q1 and soft commercial and infrastructure markets
- Fuze HDPE soil stack launch, IAQ-Valve carbon filter ventilation, and large diameter continuous corrugator helped drive second half growth
- Permavoid acquired in August 2018, strong strategic fit and unique product IP in WMS space
- Alternative manufacturing strategy delivered in Middle East
- Margins at 14.7% are marginally lower than prior year, with the Middle East restructuring improvement offset by weather related inefficiencies

Sustainability – increasing use of recycled materials

- Recycled plastic now represents 40% of all material consumption compared to 34% in 2017

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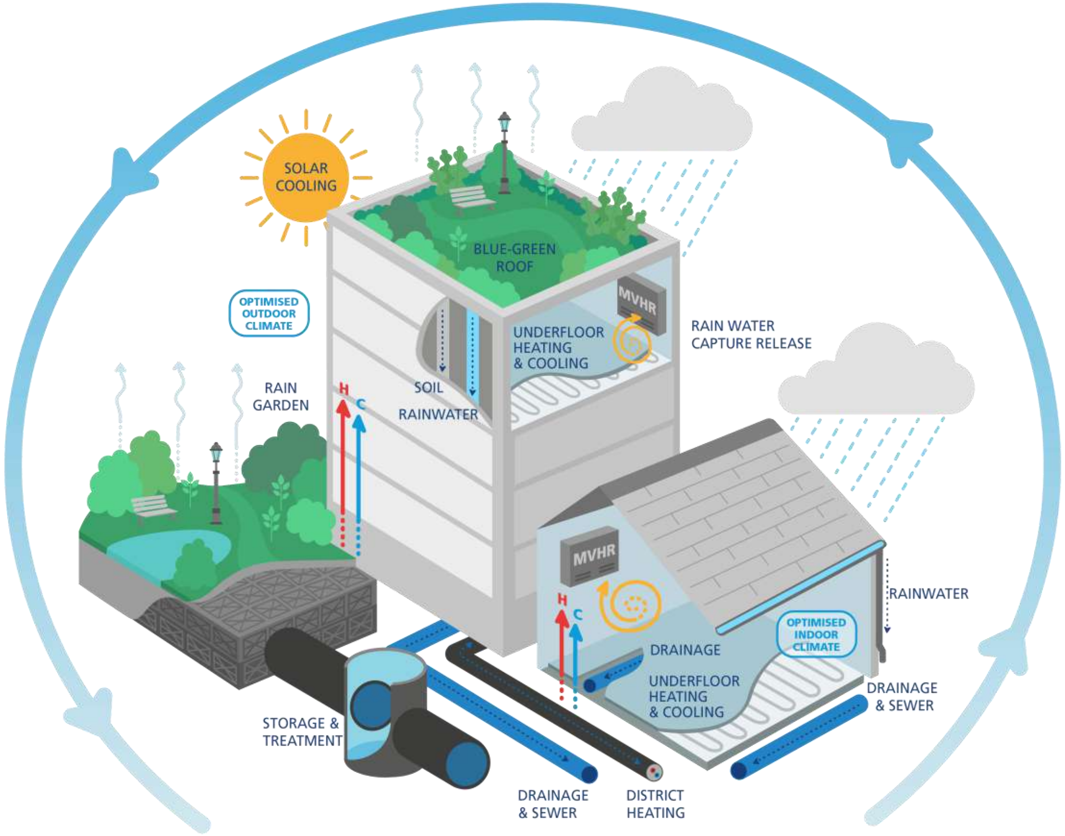
Vision

- To be the leading provider of sustainable water and climate management solutions for the built environment

- We will do this by:
  - Building a world class sustainable business
  - Developing cost efficient solutions to substitute legacy materials
  - Leveraging our core UK competencies across key markets around the world



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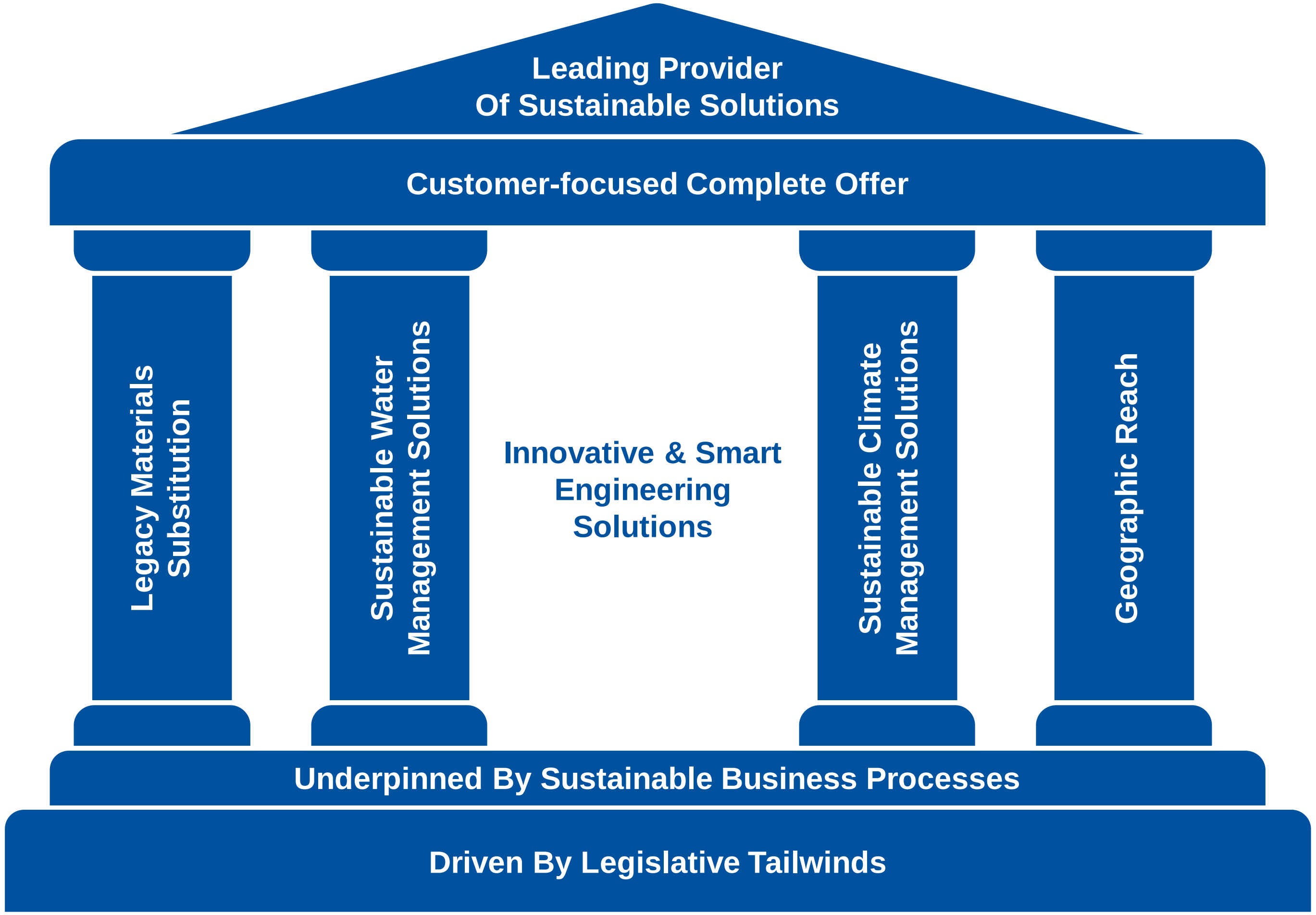
Our strategy



- Fill gaps to provide “One Stop Shop” solutions (not just plastic)
- Water and Climate solutions ahead of legislation (e.g. Roof to River)
- Continuous innovation in products and processes
- Sustainability throughout our activities (people, processes, products)
- Leverage our expertise across wider geographies

Fuze soil stack

▪ Substitution

- Fuze HDPE soil stack system, with fabrication service
- Substitution of cast iron soil stack systems
- Offsite fabrication takes complexity away from site

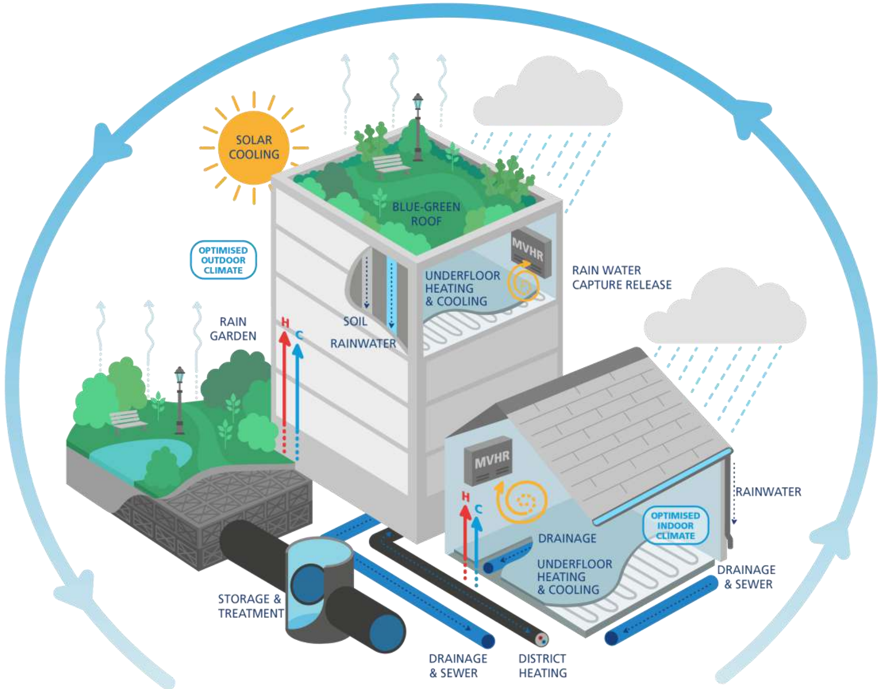
Large diameter continuous corrugator

- Substitution

- Production technology : Drossbach continuous corrugator
  - Reduced cost per unit length than existing Krah technology
- Enables a competitive proposition against concrete for 750mm and 900mm diameter
- Legacy material substitution
- Sustainability – made from recycled PE bottles

- Complete offer

Our strategic priorities – focus for M&A



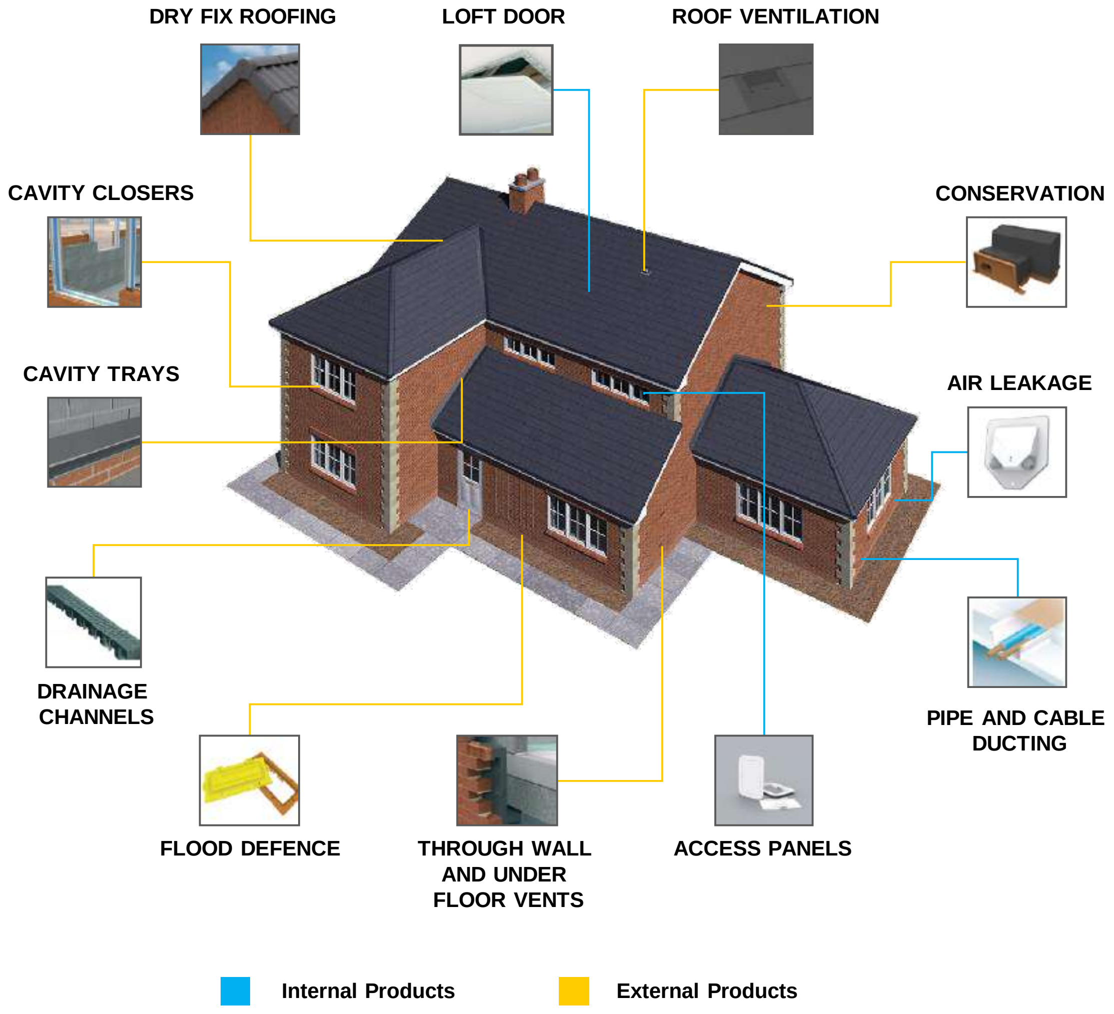
- Plastic is our primary objective
  - Continue with legacy material substitution
  - Limited UK consolidation opportunity
- Need to provide the “full” offer to our UK customers, as a “one stop shop”
  - Some elements where plastic may not be the best solution
    - Blue / Green Roof
    - Channel drainage
    - Large warehouse rainwater capture
    - High pressure / High temperature water distribution (District Heating)
    - Flow control, to meet SuDs legislation
    - Runoff treatment (removal of hydrocarbons)
    - Integrated climate control
    - Indoor air quality to clean air standards (NOx, particulate removal)
    - High quality architectural buildings
  - Expands the pool of potential acquisitions; provides focus for near-term M&A
- Geographic Reach
- Ongoing disciplined approach to acquisitions

Acquisitions - Manthorpe Building Products

- Leading UK producer of a range of moulded and extruded plastic and metal products
- Attractive product portfolio and strong cultural fit, with emphasis on innovation and superior solutions for customers

- Strong strategic rationale
  - Product offer extension into gap-filling adjacencies in the water management and climate management space
  - Differentiated, specifiable, value-adding product solutions
  - Legacy material substitution, with moulded and extruded plastic alternative solutions in materials where Polypipe has market-leading expertise
  - Common end users (house developers and RMI) and routes to market (via merchants and specialist distributors)

- Financially attractive investment
  - Acquired for EV of £52.1m
  - Acquisition expected to be earnings accretive in the first full financial year of ownership
  - Potential cost and revenue synergies identified
  - Attractive return on investment, in excess of cost of capital



Acquisitions - Manthorpe strategic fit

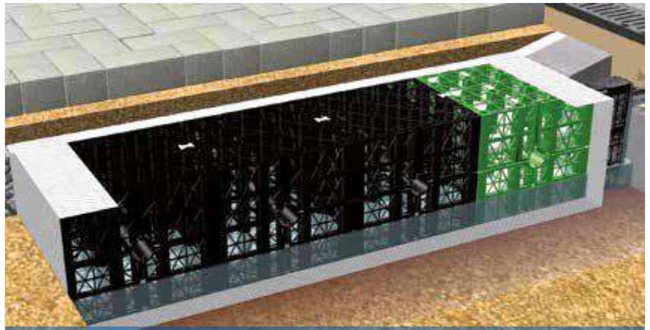
Target Product Sector	1	Sustainable Water Management Solutions	✓
	2	Sustainable Climate Management Solutions	✓
Strategic Growth Drivers	3	Legacy Material Substitution	✓
	4	Legislative Tailwinds	✓
	5	Geographic Reach	
	6	Customer “One Stop Shop”	✓
	7	Continuous Process and Efficiency Improvement	✓

Acquisitions - Permavoid

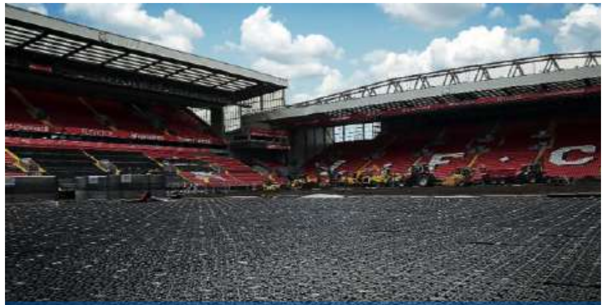
- Permavoid system of modular cells, of 85mm or 150mm, that clip together to form a raft structure suitable for sub-base replacement
  - Plus components that incorporate silt / oil treatment, shallow flow controls, and irrigation through capillary wicking
- Serving various sectors such as sustainable drainage in urban developments, blue/green roofs, sports pitches, equestrian, farming
- With an extensive international network of cooperating partners

- Strong strategic rationale
  - Consolidation of our license arrangement for the UK (since 2013), where we have seen the value of this differentiated technology in the market
  - Permavoid now provides a bridgehead proposition for our WMS solutions into target growth markets:
    - export markets around the world;
    - Blue-Green infrastructure and sustainable urban development projects
  - Differentiated, specifiable, value-adding technology and product solutions

- Financially attractive investment
  - Acquired for an initial consideration of £4.0m on a debt and cash free, normalised working capital basis, and further contingent consideration of up to £12.5m depending on EBITDA performance in the two years to 30 September 2020
  - Acquisition expected to be earnings accretive in the first full financial year of ownership



Complete solution: core IP plus wrap-around value-adding components



During installation at Anfield football ground

During installation in Arundel Gardens, London, to reduce the pressure on the combined sewer system

After installation at Orly Square, Amsterdam

Acquisitions - Permavoid strategic fit

Target Product Sector	1	Sustainable Water Management Solutions	✓
	2	Sustainable Climate Management Solutions	✓
Strategic Growth Drivers	3	Legacy Material Substitution	
	4	Legislative Tailwinds	✓
	5	Geographic Reach	✓
	6	Customer “One Stop Shop”	✓
	7	Continuous Process and Efficiency Improvement	

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Summary & outlook

- Strong performance despite adverse weather in Q1
- Good momentum in second half in both segments
- Cost inflation successfully passed through in price increases
- Alternative Middle East manufacturing strategy successfully implemented
- Significant strategic progress
- Continued focus on product and system innovation
- Fundamentals of our markets remain robust
- We remain vigilant to the impacts of uncertainty on our markets but look forward to another year of progress in 2019

Questions & Answers

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The information contained in this presentation has not been independently verified and this presentation contains various forward-looking statements that reflect management's current views with respect to future events and financial and operational performance. The words "growing", "scope", "platform", "future", "expected", "estimated", "accelerating", "expanding", "continuing", "potential" and "sustainable" and similar expressions or variations on such expressions identify certain of these forward-looking statements. Others can be identified from the context in which the statements are made.

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