

**Norcros plc**  
**Year ending March 2016**  
**Preliminary Results**

# Introduction Martin Towers *Chairman*



# Highlights

- Seventh consecutive year of growth
- Underlying operating profit up 25.7% at £21.3m
- Underlying EPS up 31.8% at 27.8p
- Underlying ROCE at 18.3% - ahead of strategic target
- Acquisitions of Croydex and Abode in line with strategy
- Full year dividend increased by 17.9%

Revenue<sup>1</sup>

**£235.9m** +11.0%

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Underlying operating profit

**£21.3m** +25.7%

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Underlying EPS

**27.8p** +31.8%

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Underlying operating cash flow

**£20.4m** -10.9%

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Underlying ROCE %

**18.3%** + 200bp

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Dividend

**6.6p** +17.9%

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<sup>1</sup> On a constant currency basis – continuing operations

**Financial Review**  
**Shaun Smith**  
***Group Finance***  
***Director***



# Income Statement – continuing operations

	2016 £m	2015 £m	+/- Reported	+/- Constant Currency
Revenue	235.9	222.1	+6.3%	+11.0%
Underlying <sup>1</sup> operating profit	21.3	17.0	+25.7%	+30.7%
<i>Margin</i>	9.0%	7.6%		
Finance charges – cash	(0.9)	(1.2)	(18.7%)	
Underlying <sup>1</sup> PBT	20.4	15.8	+29.1%	
Exceptional operating items <sup>3</sup>	2.3	(2.5)		
IAS19R admin expenses	(1.7)	(1.7)		
Acquisition related costs <sup>3</sup>	(5.2)	(2.2)		
Finance charges – non cash <sup>2</sup>	(0.4)	1.6		
PBT as reported	15.4	11.0	+40.2%	

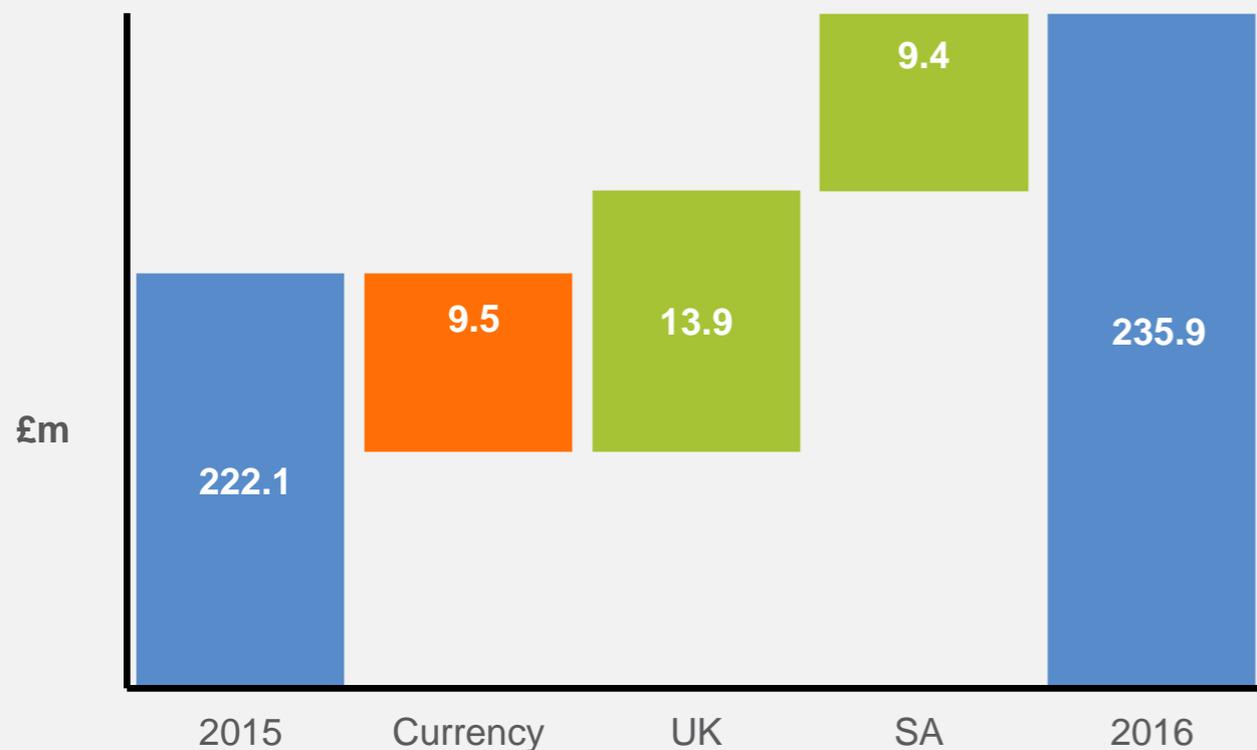
1 Underlying means before exceptional operating items, IAS19R admin costs, acquisition related costs and where relevant, non-cash finance costs

2 Includes £2.1m reduction in income relating to “mark to market” on FX forward contracts

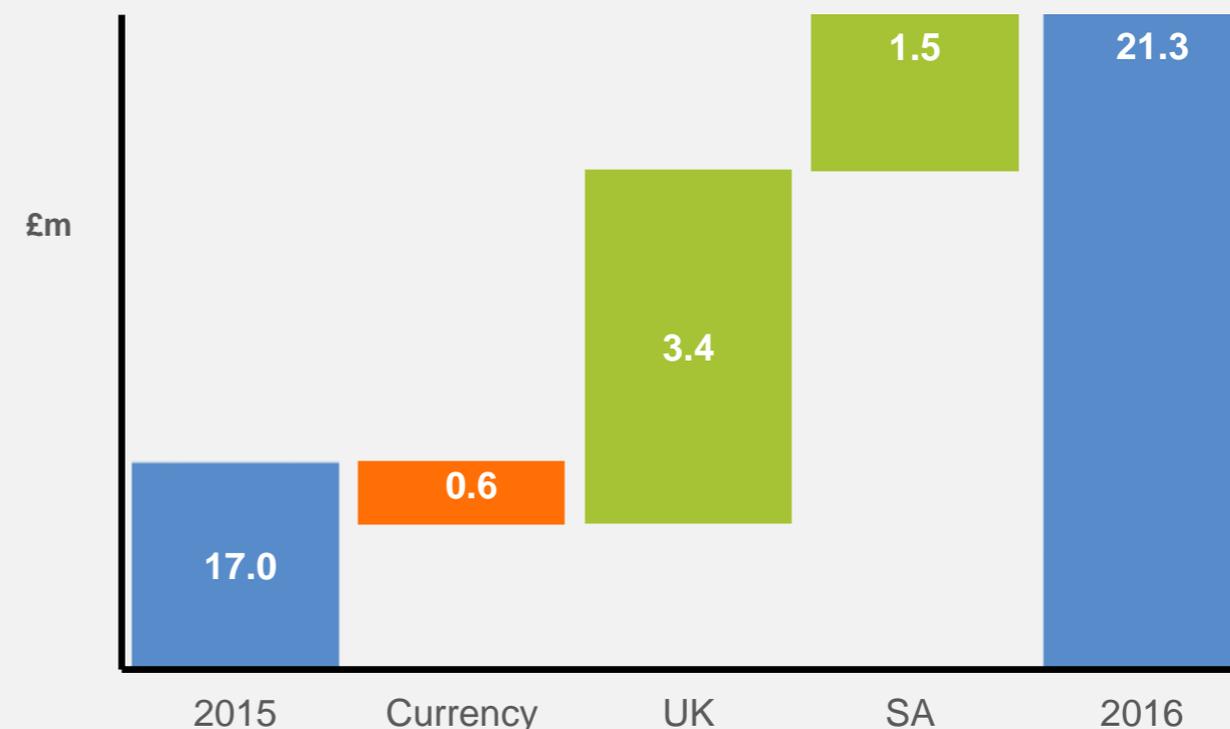
3 See Page 32 for details

# Income Statement – key bridges

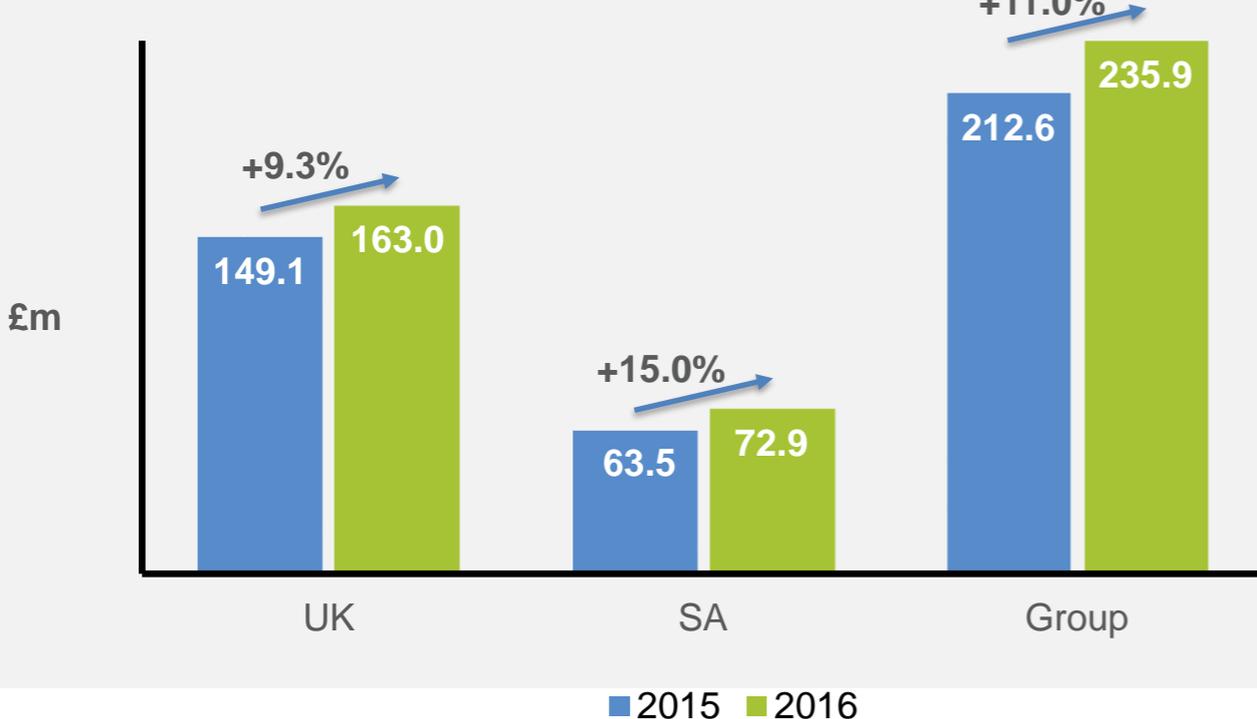
Revenue <sup>1</sup>



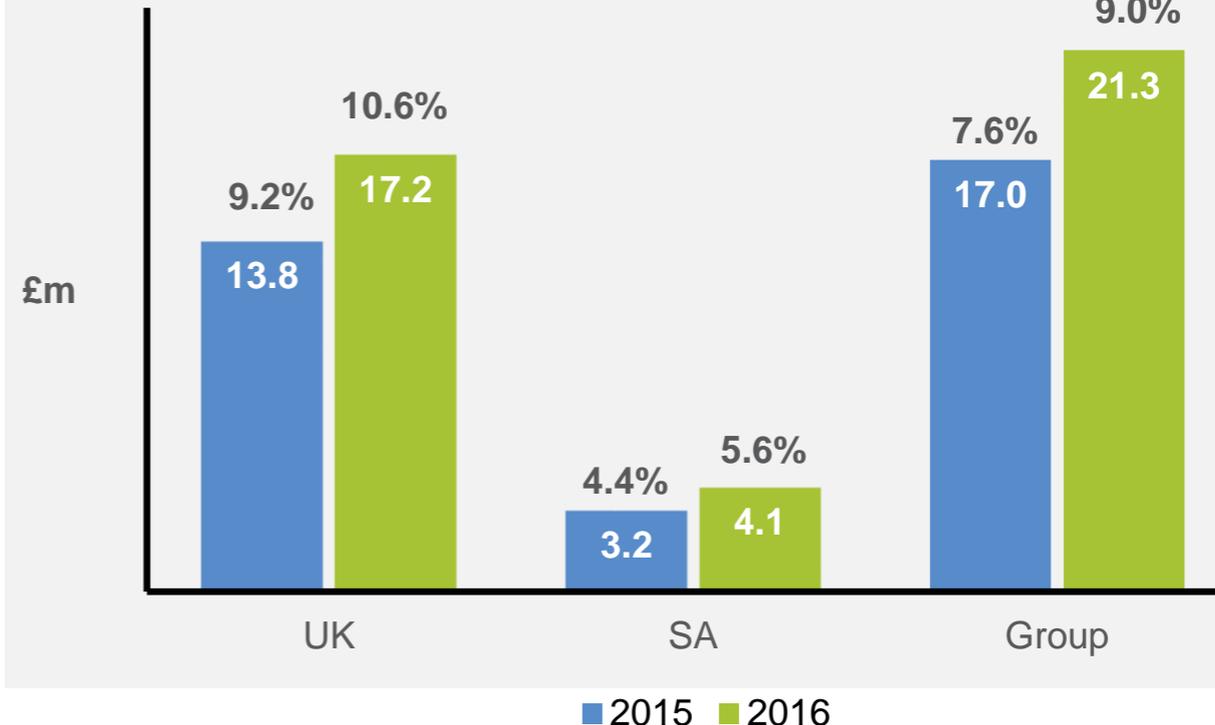
Underlying operating profit



Y-o-Y Total Revenue <sup>1, 2</sup>



Underlying operating profit / ROS%



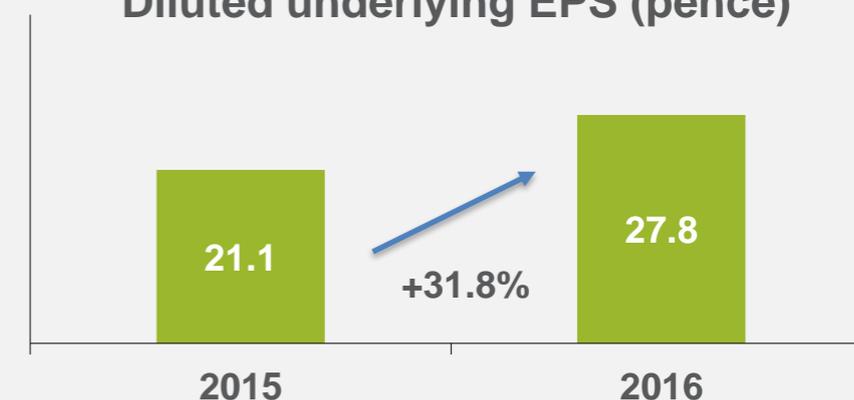
# Tax, Earnings and Dividends

	Underlying <sup>1</sup>		Reported <sup>2</sup>	
	2016 £m	2015 £m	2016 £m	2015 £m
Profit before tax	20.4	15.8	15.4	11.0
Tax charge	(3.1)	(2.8)	(2.4)	(2.9)
Earnings	17.3	13.0	13.0	8.1
Effective tax rate	15.1%	17.7%	15.5%	26.6%

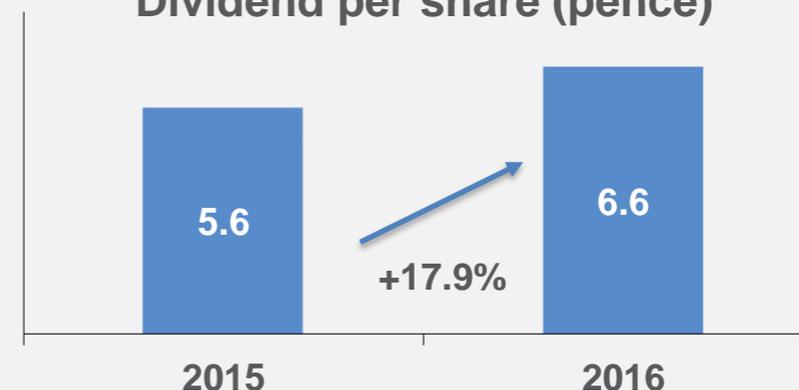
➤ Diluted underlying<sup>1</sup> EPS at 27.8p (2015: 21.1p)

➤ Full year dividend up 17.9%

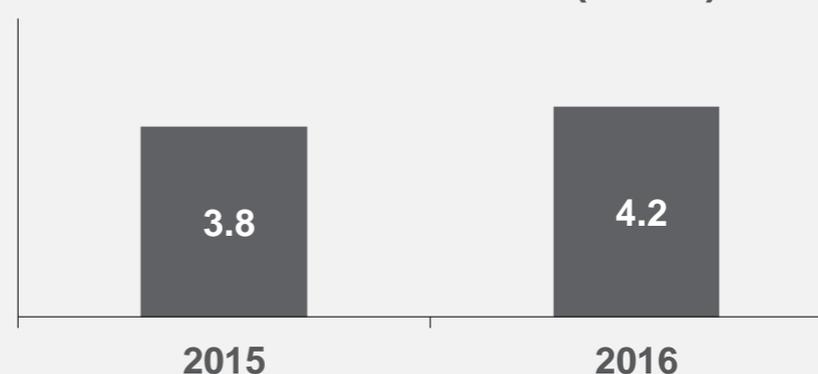
Diluted underlying EPS (pence)



Dividend per share (pence)



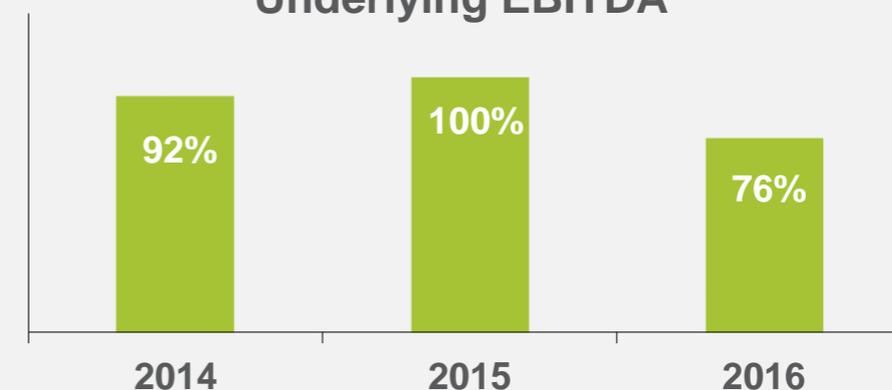
Dividend cover (times)



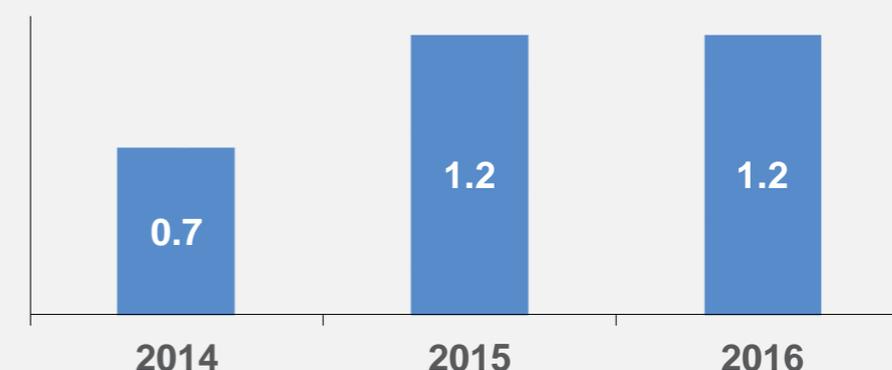
# Cash Flow

	2016 £m	2015 £m
<b>Underlying EBITDA</b>	<b>26.8</b>	<b>23.0</b>
Working capital	(7.7)	(1.5)
Other	1.3	1.4
<b>Underlying operating cashflow</b>	<b>20.4</b>	<b>22.9</b>
Capital expenditure	(6.6)	(7.0)
Sheffield freehold purchase	-	(0.9)
Proceeds from property disposal	-	6.5
Pension deficit recovery	(2.1)	(2.1)
Tax	(1.0)	(0.5)
<b>Underlying free cash flow pre financing and dividends</b>	<b>10.7</b>	<b>18.9</b>
Exceptional and acquisition related costs	0.2	(4.7)
Interest	(0.9)	(1.3)
Dividends	(3.6)	(3.1)
Net proceeds from sale of business	-	3.8
Acquisition of subsidiaries	(23.6)	(0.5)
Other items	0.1	(0.4)
<b>Net Cash Flow</b>	<b>(17.1)</b>	<b>12.7</b>

**Underlying Operating Cash Flow / Underlying EBITDA**

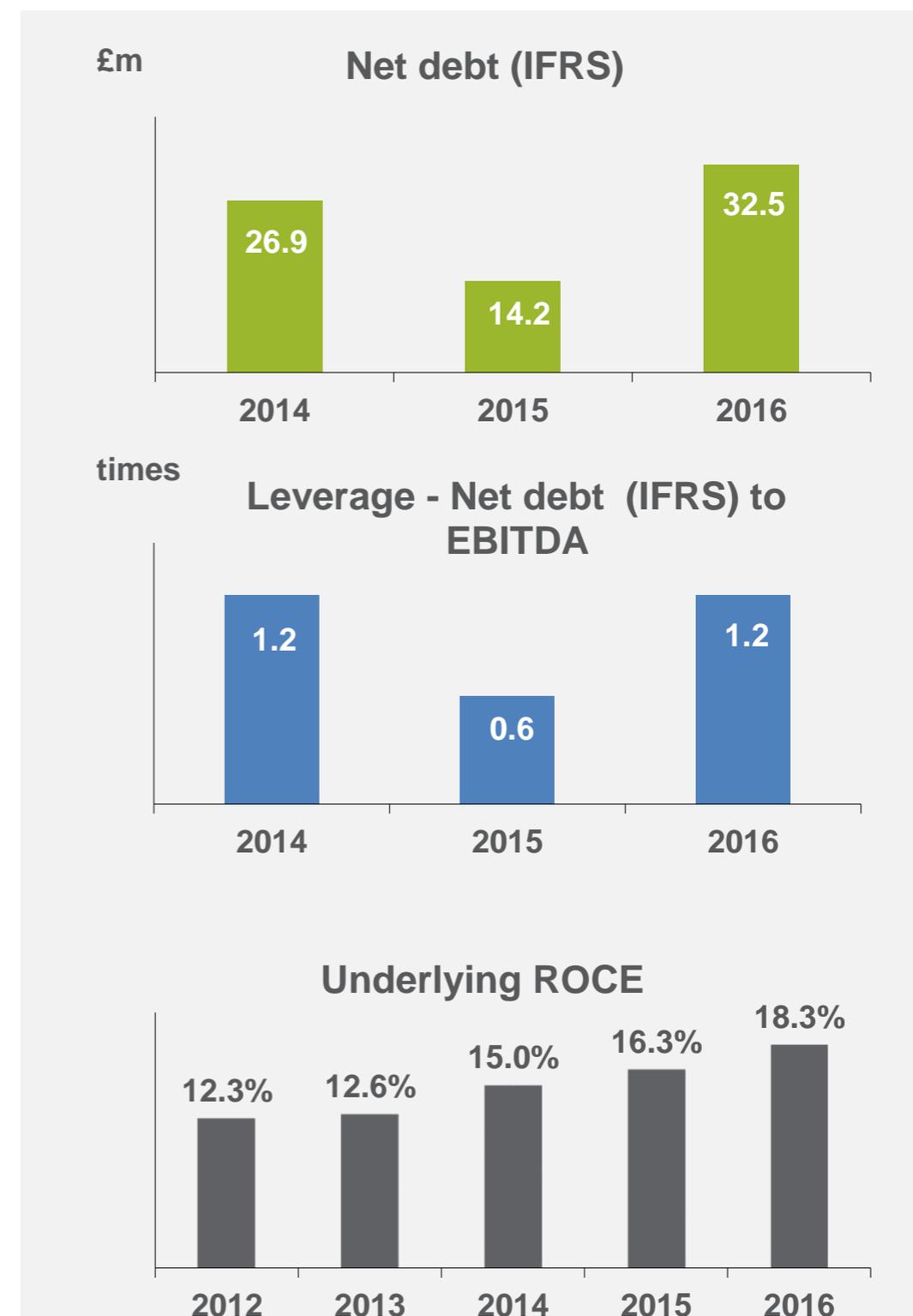


**Capex / Depreciation (times)**



# Balance Sheet

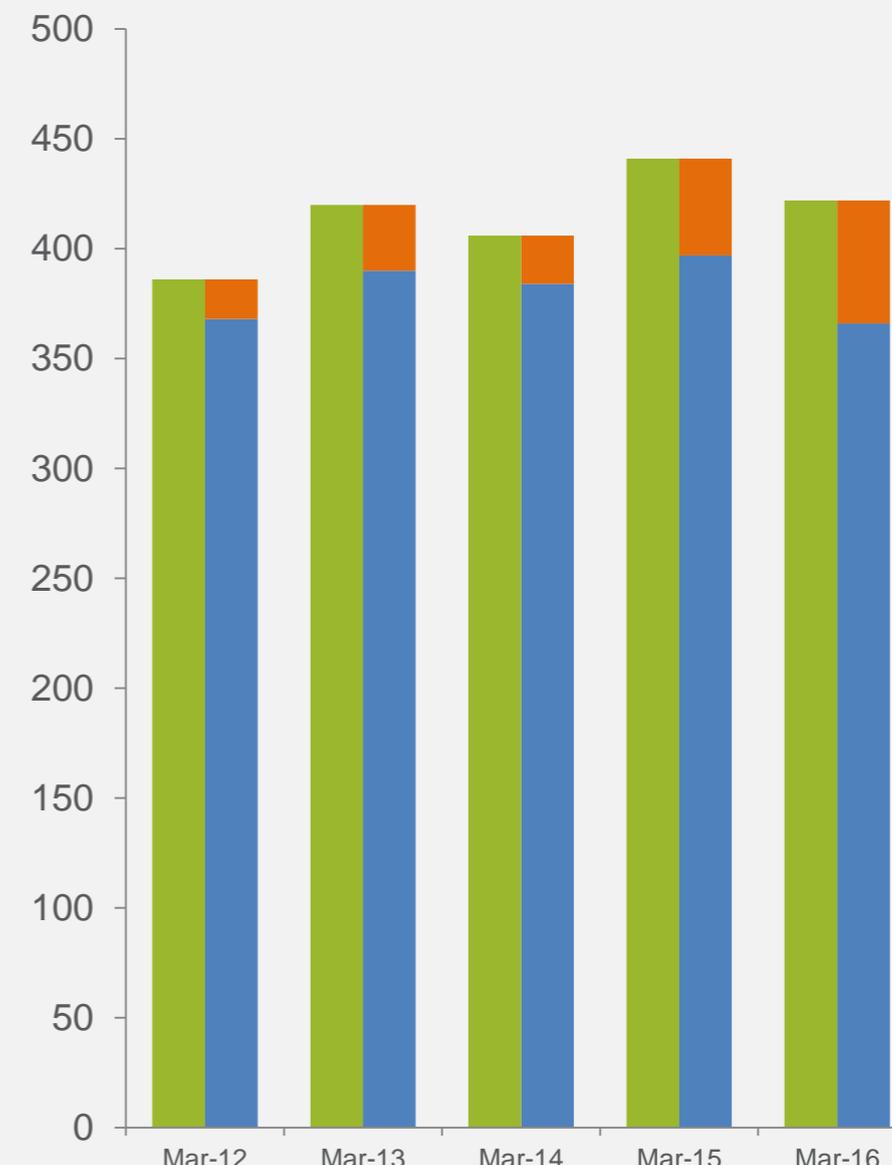
- Strong cash generation leaves net debt at £32.5m after the acquisitions of Croydex and Abode
- Leverage 1.2x underlying EBITDA on a pro-forma basis
- Underlying ROCE at 18.3% above our medium term strategic target of 12-15%



# UK Pension Scheme

- Super-mature scheme
  - 7,973 members (2015:8,492). 66% pensioners with average age 77
  - Annual pensioner payroll near peak at £20m per annum
- Actions taken to date
  - April 2013 - scheme closed to new entrants and future accrual
  - 2014/15 – Liability management initiatives reduced liabilities by £6.8m and deficit by £1.7m
  - 2015/16 – Further reduction in liabilities by £2.0m and deficit by £0.4m
- March 16 IAS19R deficit £55.7m (2015: £44.3m)
  - Liabilities reduced by the higher discount rate – offset by lower asset values
- Recovery plan agreed following completion of the March 2015 triennial valuation
  - 10 years at £2.5m per annum +CPI from April 16

UK Pension IAS 19R Assets & Liabilities



Liabilities	386	420	406	441	422
Assets	368	390	384	397	366
Deficit	18	30	22	44	56
Disc Rate	4.95%	4.20%	4.30%	3.30%	3.55%
RPI	3.2%	3.2%	3.2%	2.9%	2.9%



**Operating Review**  
**Nick Kelsall**  
***Group Chief Executive***

# Business Overview

	UK	SA	Group
<b>Group Revenue (continuing operations): £ 235.9m</b>	<b>£ 163.0m</b>	<b>£ 72.9m</b>	<b>£ 235.9m</b>
 Triton	£ 50.6m		
Vado	£ 33.1m		
Croydex	£ 17.2m		
Johnson Tiles	£ 54.1m		
Norcross Adhesives	£ 8.0m		
 Johnson Tiles		£ 9.8m	
TAL		£ 17.9m	
Tile Africa		£ 45.2m	
<b>Revenue Growth (constant currency):</b>	<b>+9.3%</b>	<b>+15.0%</b>	<b>+11.0%</b>

- Overall Revenue
  - UK - 2.8%
  - Exports - 3.4%
  - UK - 0.8%
- UK market marginally down - decline in DIY sector impacting branded electric shower volumes
- Triton increased its market leading position in the UK branded shower market
- UK retail challenging:
  - Volume impact of move from 'Promotions' to 'Every Day Low Prices'
- UK trade encouraging – strong growth in electrics
- Revenue growth in new export markets – Triton now selling in Latin America (LATAM) markets
- New product drive maintained:
  - Dene mixer range well received
  - Low pressure model for LATAM markets
- Margins and profits remain strong; highly cash generative



# Continued growth momentum

- Overall Revenue + 8.4%
  - UK + 13.7%
  - Exports - 2.0%
  
- Further strong progress in UK retail and trade:
  - Additional resource delivering growth with retail & merchants
  - Significant growth in specification (house builders & hotel sector)
  
- Export revenue stronger in H2 (+2.9%) – Middle East & RoW
  
- Further investment for growth via warehouse expansion
  
- Leveraging Triton's service engineers for Vado customers
  
- Vado & 'Evox' ranges launched into Tile Africa
  
- Profits ahead of prior year and good cash generation



# Excellent performance post acquisition

## Acquired June 2015

- Overall Revenue      £17.2m (9 months to March 2016) ; +6.5% (LTM)
- Further growth in UK and export markets
- Sustained focus on new product introductions
- Further extension of Flexi Fix and Stick N Lock technologies to new categories
- Integration completed smoothly – business as usual
- Synergy momentum:
  - Range launched in South Africa
  - Expanded Vado accessory offering
- Strong profit and cash generation marginally ahead of expectations



**Acquired March 2016**

**Market Position**

- Leading innovative designer/distributor of high quality taps, sinks and bathroom products
- Strong positions in UK branded and own label segments
- Focus on design, quality and service

**Products**

- Kitchen taps, sinks and hot water taps
- Bathroom taps and thermostatic showers

**Channels**

- Well established positions with leading blue chip customers
- Merchants and specialist distributors

**Operations**

- Located in Barnsley
- Low capital intensity, flexible capacity
- Components sourced from Europe



- Historic revenue & ebitda of £9.9m & £0.6m respectively  
(12 months to June 2015)
- Attractive purchase price – earnings accretive immediately
- Integration progressing - business as usual
- Recent launch of 'PRONTEAU' hot water tap well received
- Growth momentum via recent customer wins
- Synergies being pursued; sourcing/customer introductions/  
specification
- Potential to launch Abode into Norcros export markets



# JOHNSON TILES Significant improvement in profitability

- Overall Revenue - 9.4%
  - UK - 7.8%
  - Exports - 20.2%
  
- UK market - trade continues to outperform retail
- UK trade +0.5% (excluding FY15 “Poppy” revenue) - H2 impact of decline in social housing refurbishment markets
- UK retail -12.5% - weak performance in DIY sector offset gains in specialist retail
- Export – ongoing soft French market; change in Middle East distributor
- Improvement in manufacturing performance sustained & stable – in line with historic efficiency
- Solid full year operating profit despite challenging UK retail environment

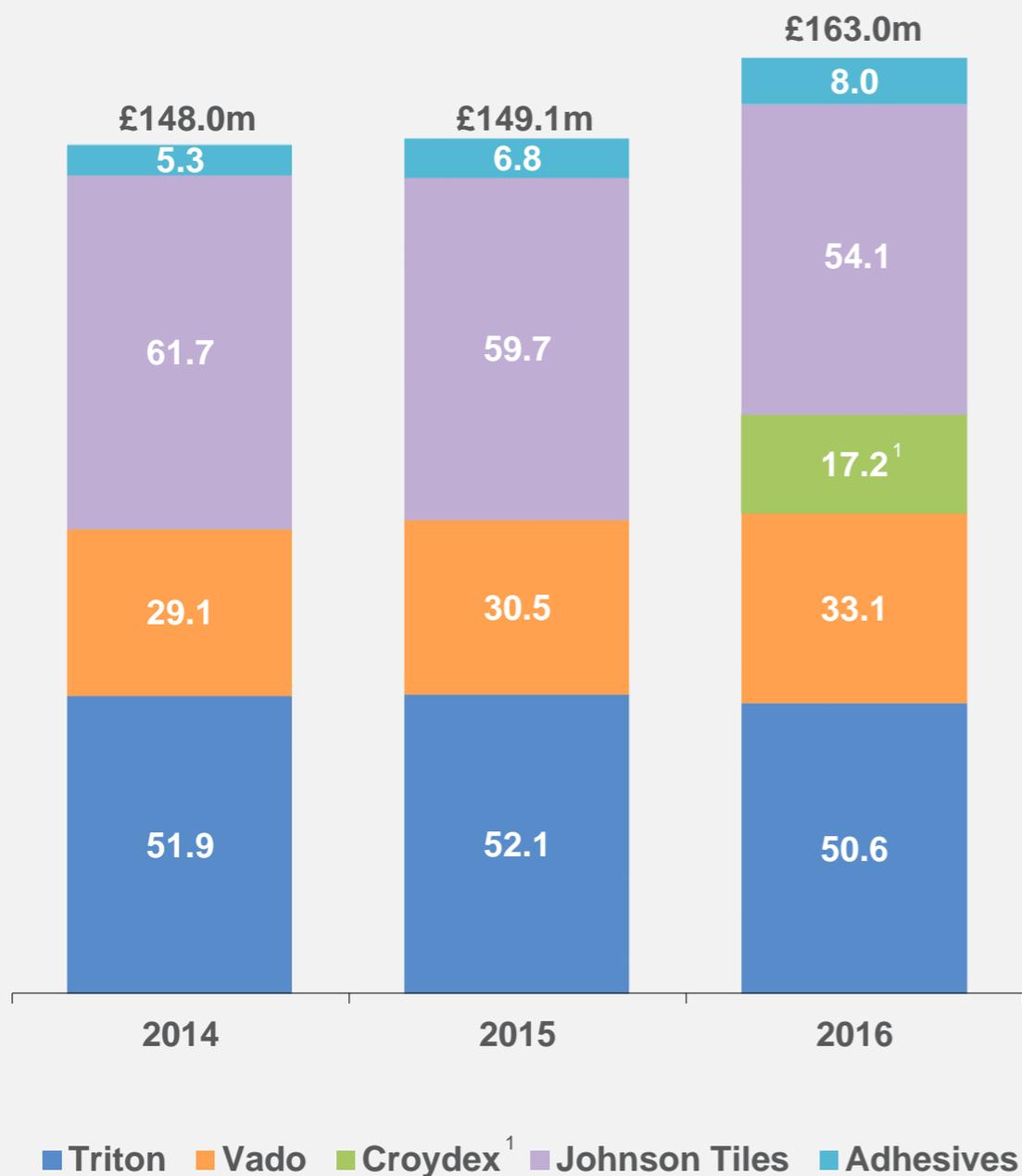


- Overall Revenue + 18.5%
- Increase in market share – progress in UK retail and trade
- Further development of key accounts in DIY and distribution
- New product development investment sustained:
  - Fast track levelling system, 'Pro 30 Fast',
  - Ultim8 B+ for bituminous surfaces
- Small sales operation in Middle East gaining revenue traction
- Sustained UK growth momentum & initial Middle East specification gains
- Profits marginally behind prior year - investment in the Middle East



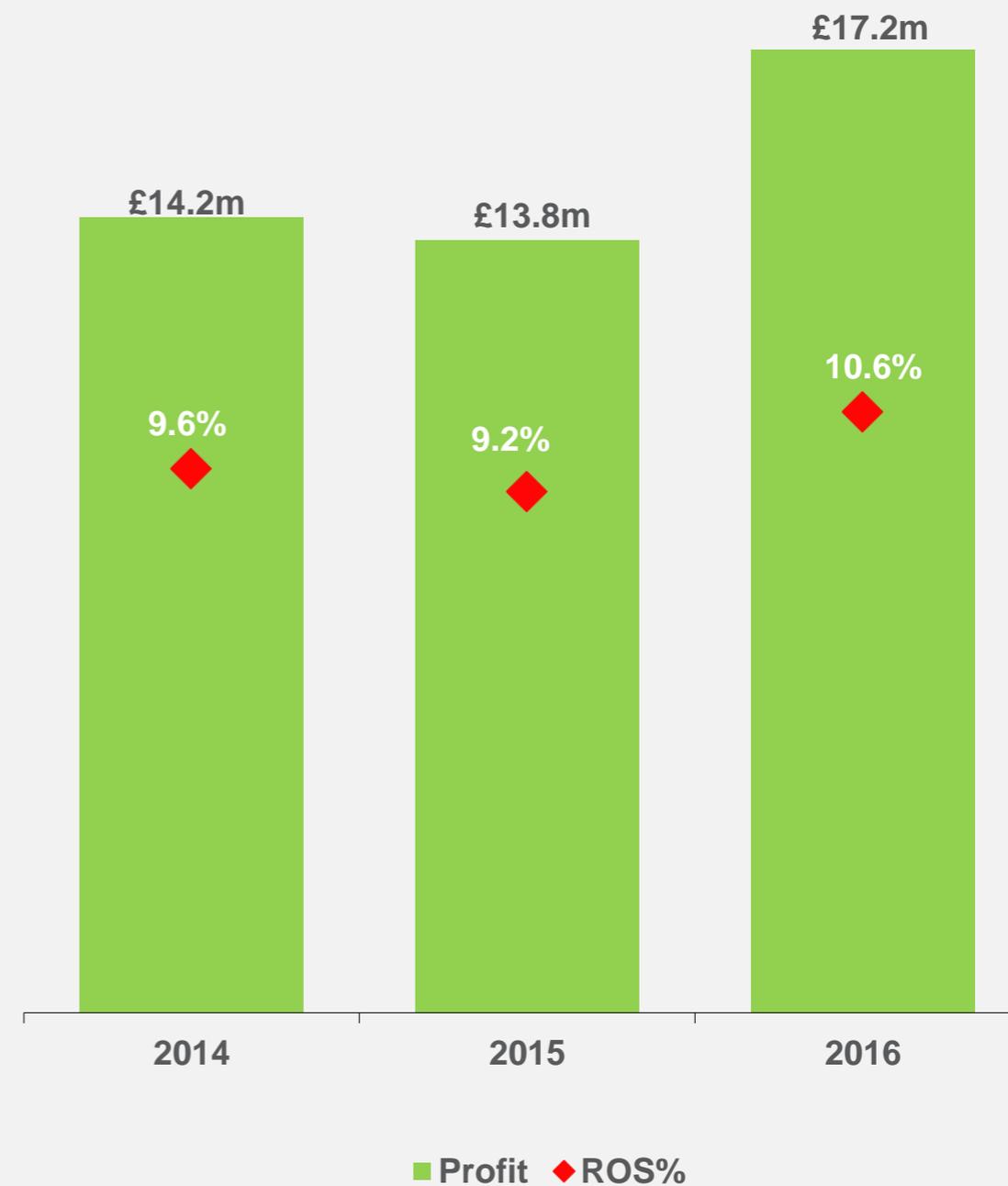
# UK Operations - Solid profit performance in challenging markets

## Revenue



<sup>1</sup> 9 months

## Underlying operating profit

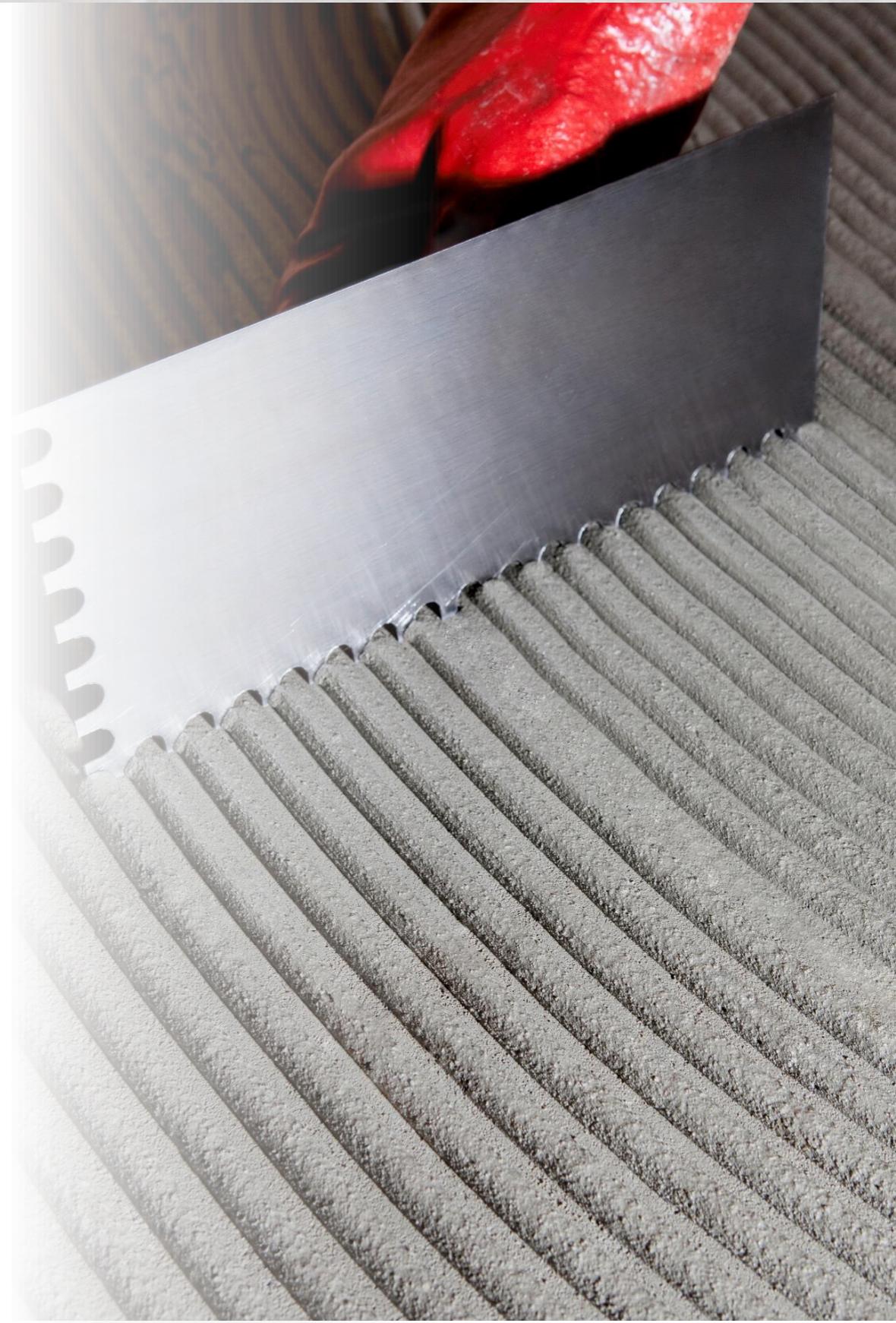


- Overall revenue + 9.6% at cc
- Good growth across key customers
- Growth driven through NPD – higher value added + new sizes
- Strong manufacturing performance sustained
- Cost increases in raw materials mitigated by process improvements
- Continuing to sell 100% of production - capacity increase options being considered
- Further improvement in financial performance - business firmly back in profit, cash generative and resilient



## Strong progress driven by share gain

- Overall revenue + 19.9% at cc
- Share gain in domestic market supported by export growth
- Tile adhesives growth reflecting investment in NPD programme
- Building and construction products – strong performance in flooring offer
- Opportunities being sought to drive growth in sub-Saharan Africa
- Ongoing investment in plant driving increased efficiencies
- Higher raw material cost offset by procurement and production efficiencies
- Higher underlying profit and strong cash generation



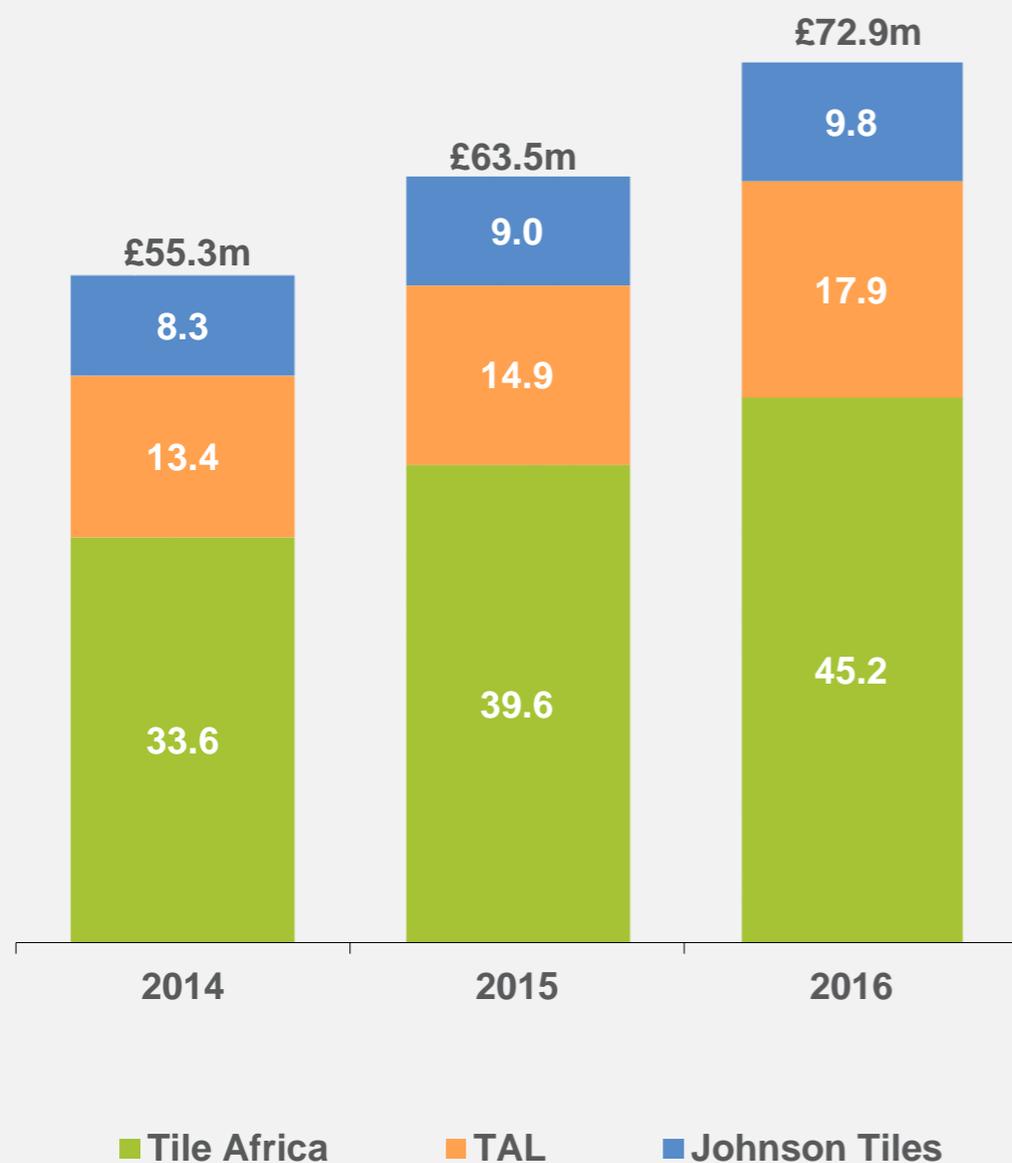
## Share gain driven by improved store offering

- Overall revenue + 14.4% at cc
- Improved product range offering & on display and in stock
- Continued investment in store presentation and consistency of offer
- Further success of store upgrade model and new CX store format (bathroom store-within-store)
- Launch of Vado & 'Evox' own label brassware ranges
- Boksburg store opened in March 2016 - now 30 owned stores and 4 franchises
- New store opening in Southgate, Johannesburg in FY17
- Underlying operating profits higher

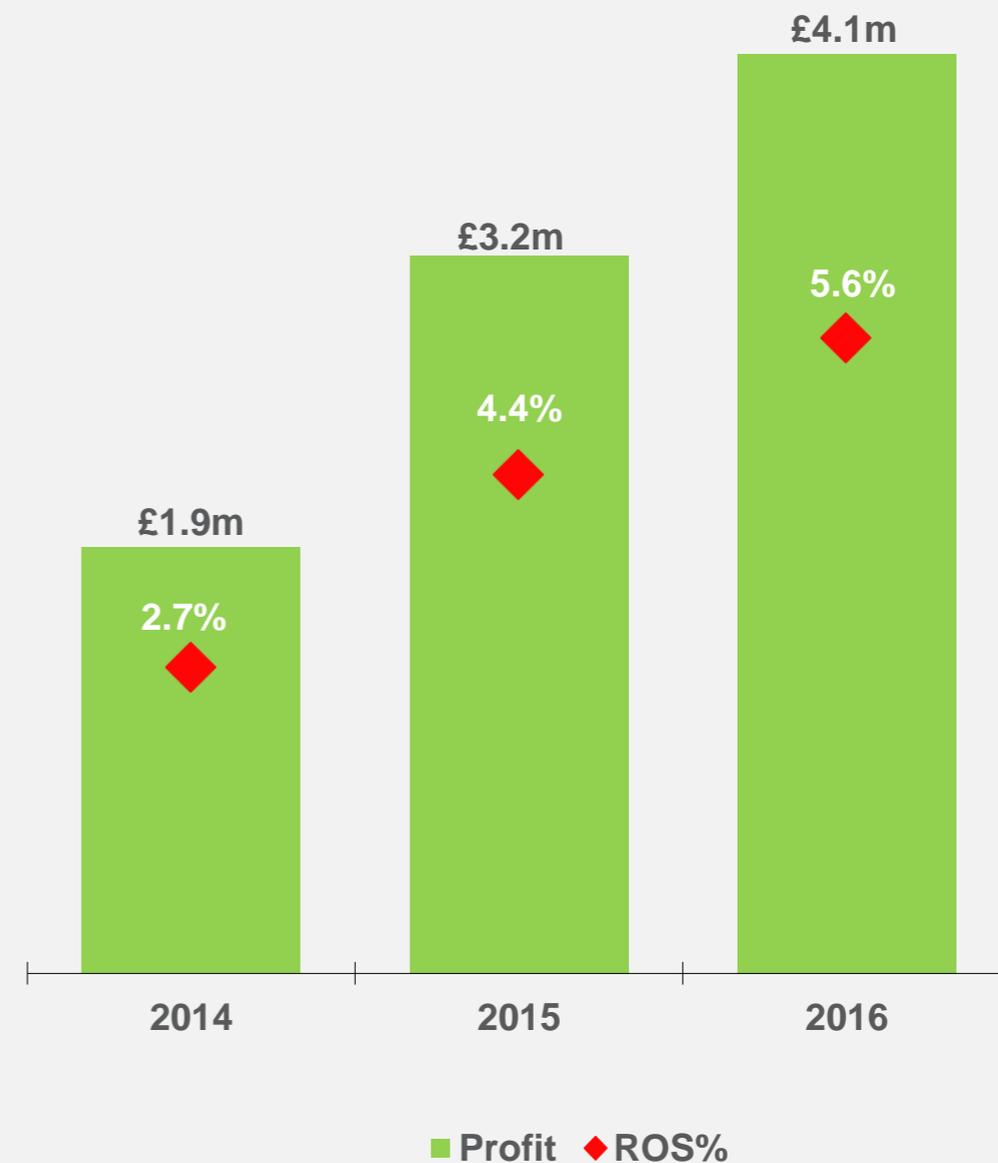


# South Africa Operations – Further year of strong progress

Revenue<sup>1</sup>



Underlying operating profit



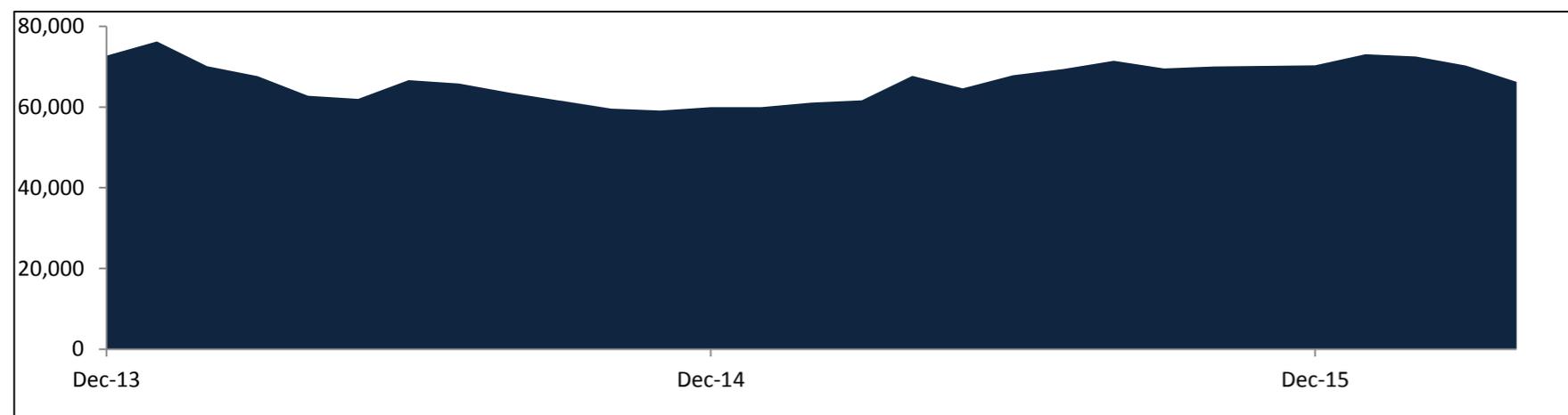
<sup>1</sup> On a constant currency basis



**Group Outlook  
& Strategy  
Nick Kelsall  
Group Chief  
Executive**

# Lead UK indicators – A sluggish recovery

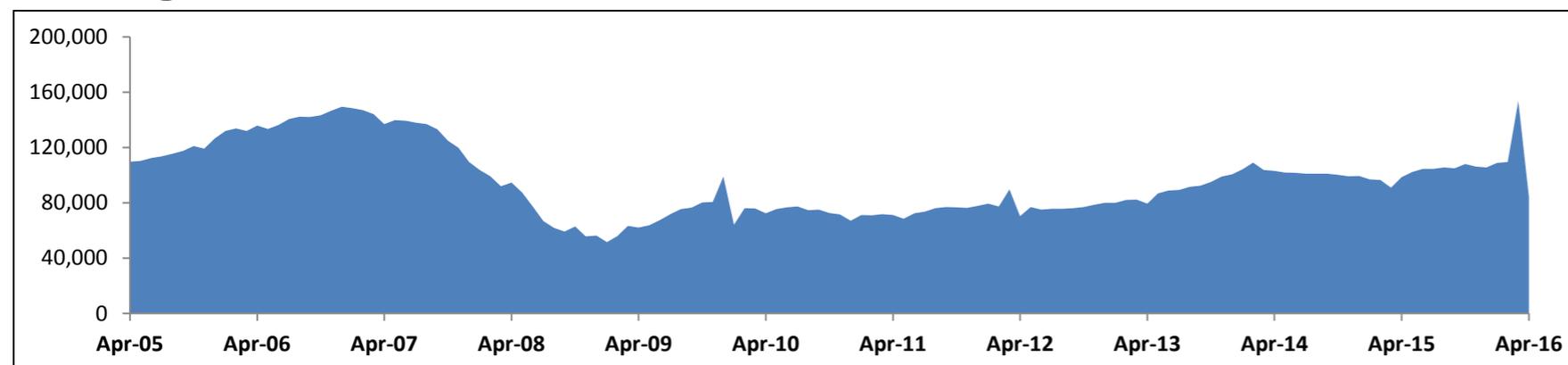
**Mortgage Loan Approvals** (seasonally adjusted)



Source: Bank of England

Loan approvals remain relatively static

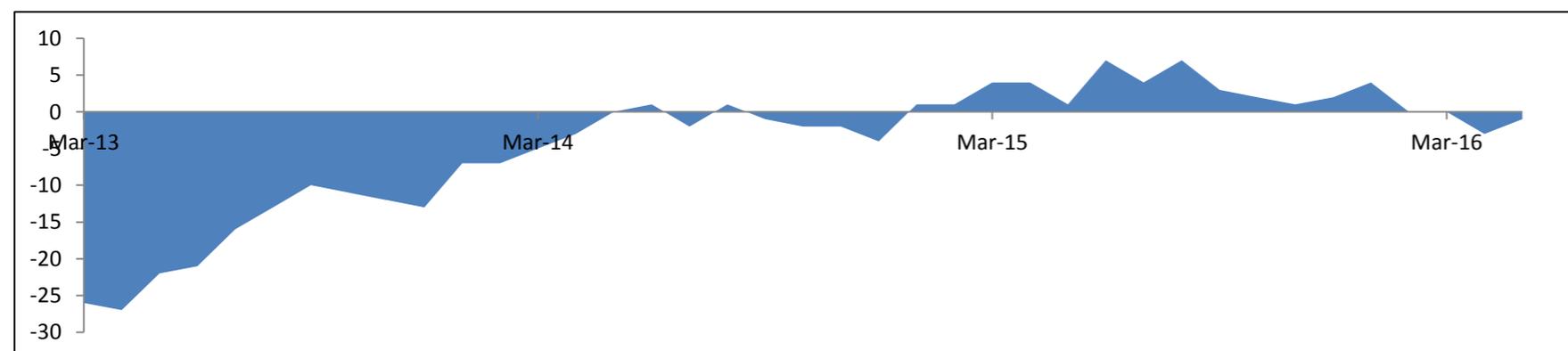
**Housing Transactions**



Source: HMRC

Stamp duty increases for buy-to-let caused short term lending spike in March

**GfK Consumer Confidence**

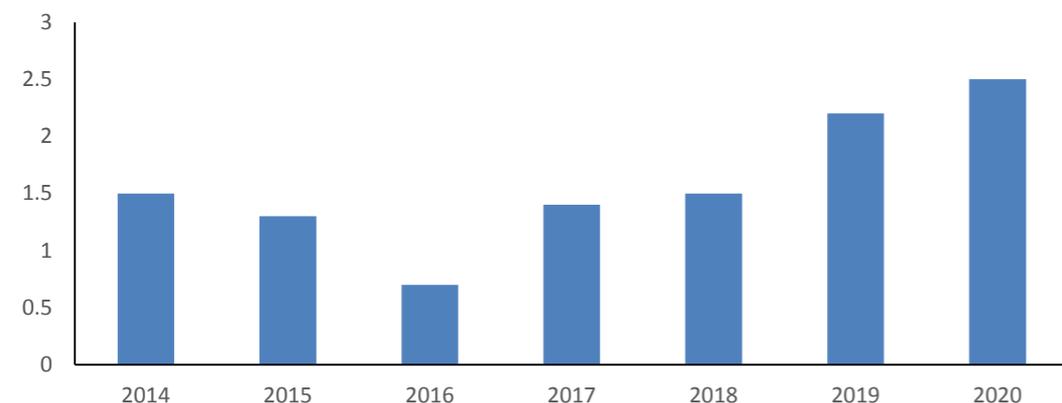


Source: GfK

Index decreasing over recent months amid economic uncertainty and potential Brexit

# Lead SA indicators – Moderate medium term outlook

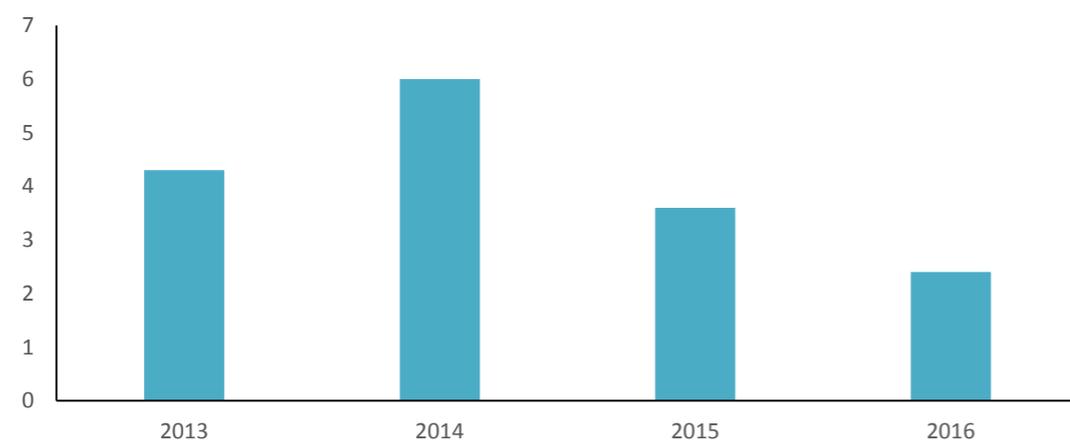
## GDP (% change)



Source: Investec

GDP downgraded in the short term due to low commodity prices and weakened trade growth. Long term growth forecasts remain above the UK

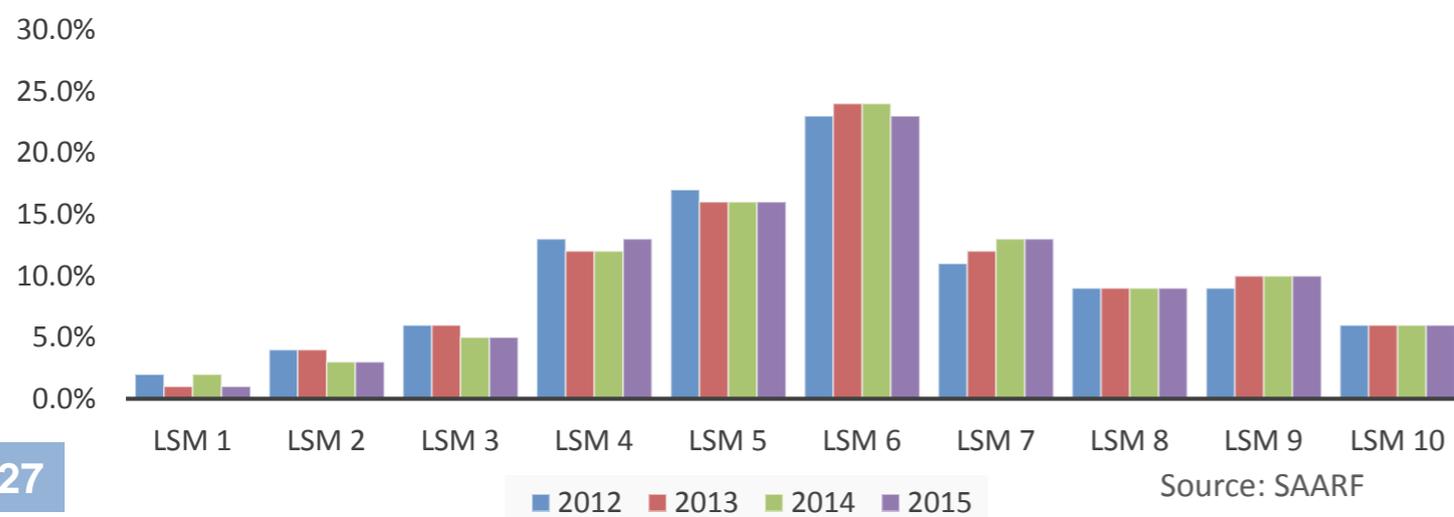
## Hardware/Paint/Glass Retail Sales (% change)



Source: Stats SA

Key indicator for RMI. Index ahead of other macro economic indicators

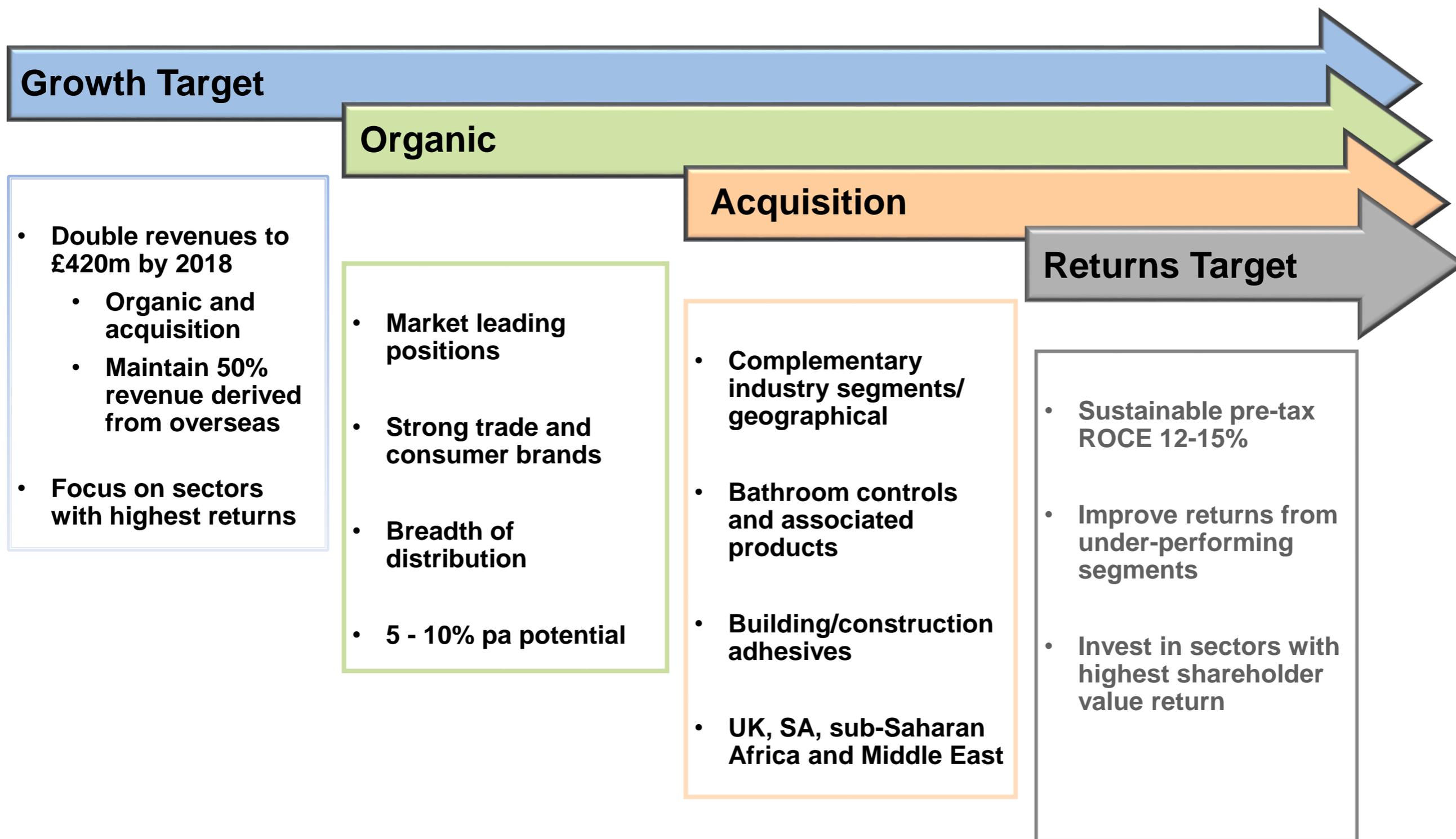
## South Africa LSM Trends (Living Standard Measure)



Source: SAARF

Ongoing growth trends in the emerging middle class

# Group Strategy – Key Targets Retained



## Group Strategy – Year of further strong progress

- Clear, consistent, and focused growth strategy
- Croydex acquisition integrated and performing well
- Abode acquisition – excellent strategic fit
- Organic growth and Group synergies remain a key focus
- Well developed and focused acquisition pipeline
- Seventh consecutive year of revenue and underlying operating profit growth
- Confident of further progress this year



# Summary

Solid Full Year Results

Organic Growth Opportunities

Focused Pipeline of Acquisition Opportunities

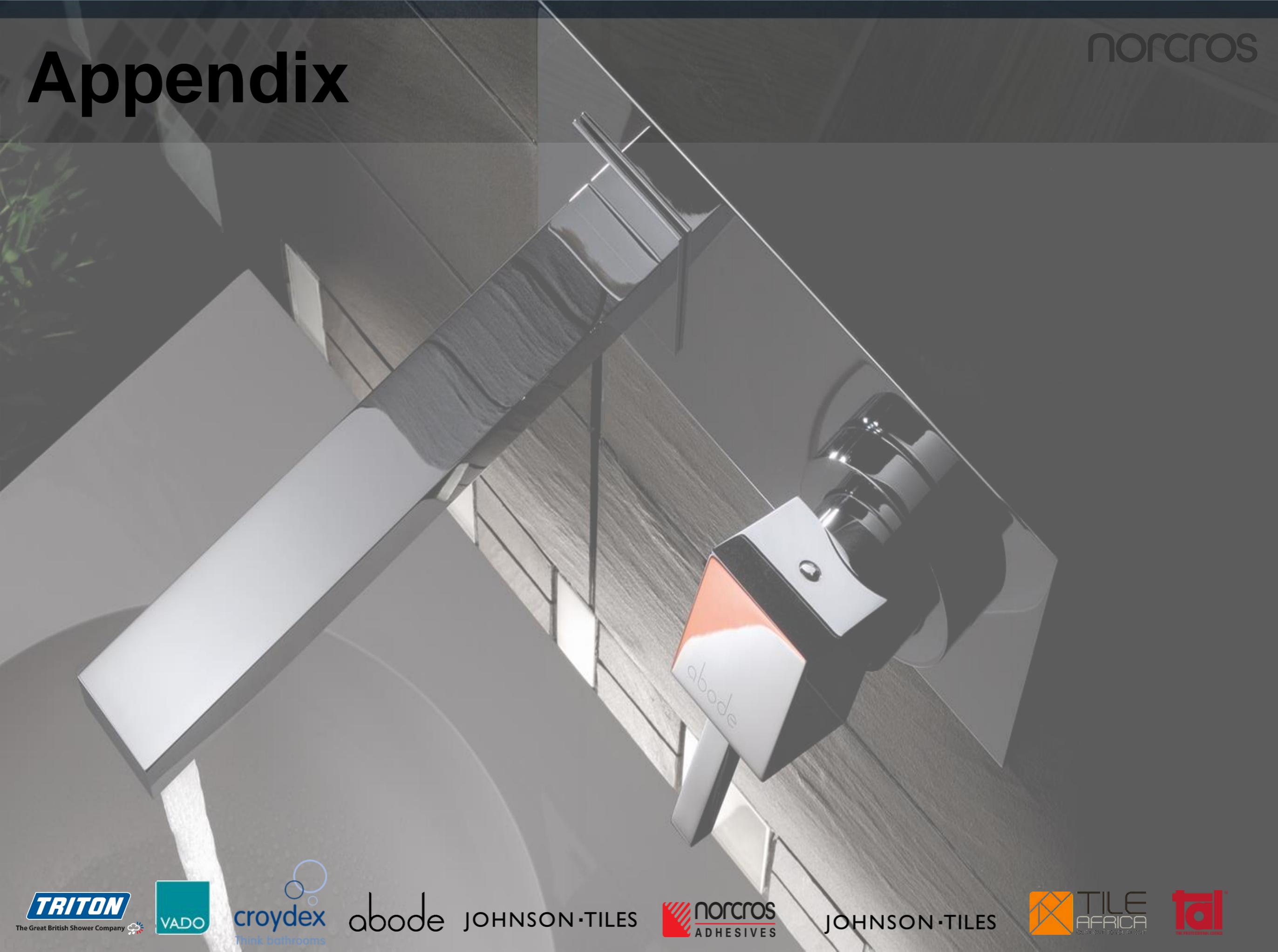
Medium Term Indicators Favourable

Clear & Focused Growth Strategy



# Appendix

norcros



## Exceptional items and acquisition related costs

	2016 £m	2015 £m
<b>Exceptional operating items</b>		
Pension settlement gain	0.4	1.7
Exit of Sheffield lease	-	(2.5)
Loss on disposal of freehold property portfolio	-	(1.5)
Business unit restructuring	-	(0.3)
Profit on disposal of residual property at Braintree	-	0.4
Highgate Park – legal costs	(0.1)	(0.3)
Highgate settlement	2.0	-
	<b>2.3</b>	<b>(2.5)</b>
<b>Acquisition related costs</b>		
Acquisition related deferred remuneration (earn out)	(2.5)	(1.1)
Intangible amortisation	(0.9)	(0.3)
Acquisition related costs - other	(1.8)	(0.8)
	<b>(5.2)</b>	<b>(2.2)</b>

# Net debt reconciliation

	2016 £m	2015 £m
Net debt (IFRS) – opening	(14.2)	(26.9)
Net cash flow	(17.1)	12.7
Other non cash movements	(0.2)	0.1
Foreign exchange	(1.0)	(0.1)
Net debt (IFRS) - closing	<b>(32.5)</b>	<b>(14.2)</b>