

norcross

Interim Results

Six Months to
30 September 2018

SMART SHOWERS

SENSORI

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Introduction

Martin Towers
Chairman

SMART SHOWERS

IDENTITY



- Revenue increased by 13.3% on a constant currency basis (+12.1% reported)
- Underlying operating profit increased by 29.9% to £15.2m
- Merlyn performed strongly, in line with our expectations
- Triton's strong momentum sustained
- Johnson Tiles returned to profit following restructuring
- South Africa revenue increased by 7.1% on a constant currency basis
- Return on sales increased to 9.3% (2017: 8.1%)
- Interim dividend increased by 7.7% to 2.8p per share

Revenue¹
£162.6m +13.3%

Underlying operating profit
£15.2m +29.9%

Underlying profit before tax
£14.2m +23.5%

Underlying diluted EPS
13.9p -0.7%

Dividend per share
2.8p +7.7%

¹ On a constant currency basis

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Financial Review

Shaun Smith
Group Finance
Director



SMART TAPS

Income Statement

	H1 Sept 2018 £m	H1 Sept 2017 £m	+/- Reported	+/- Constant Currency	FY Mar 2018 £m
Revenue	162.6	145.0	+12.1%	+13.3%	300.1
Underlying ¹ operating profit	15.2	11.7	+29.9%		27.4
<i>Margin</i>	9.3%	8.1%			9.1%
Finance charges – cash	(1.0)	(0.2)			(1.1)
Underlying ¹ PBT	14.2	11.5	+23.5%		26.3
Exceptional operating items ²	-	-			(2.1)
IAS19R admin expenses	(0.7)	(0.7)			(1.4)
Acquisition related costs ³	(1.9)	(1.2)			(4.3)
Finance income/(charge) – non cash ⁴	3.6	(2.2)			(5.0)
PBT as reported	15.2	7.4	+105%		13.5

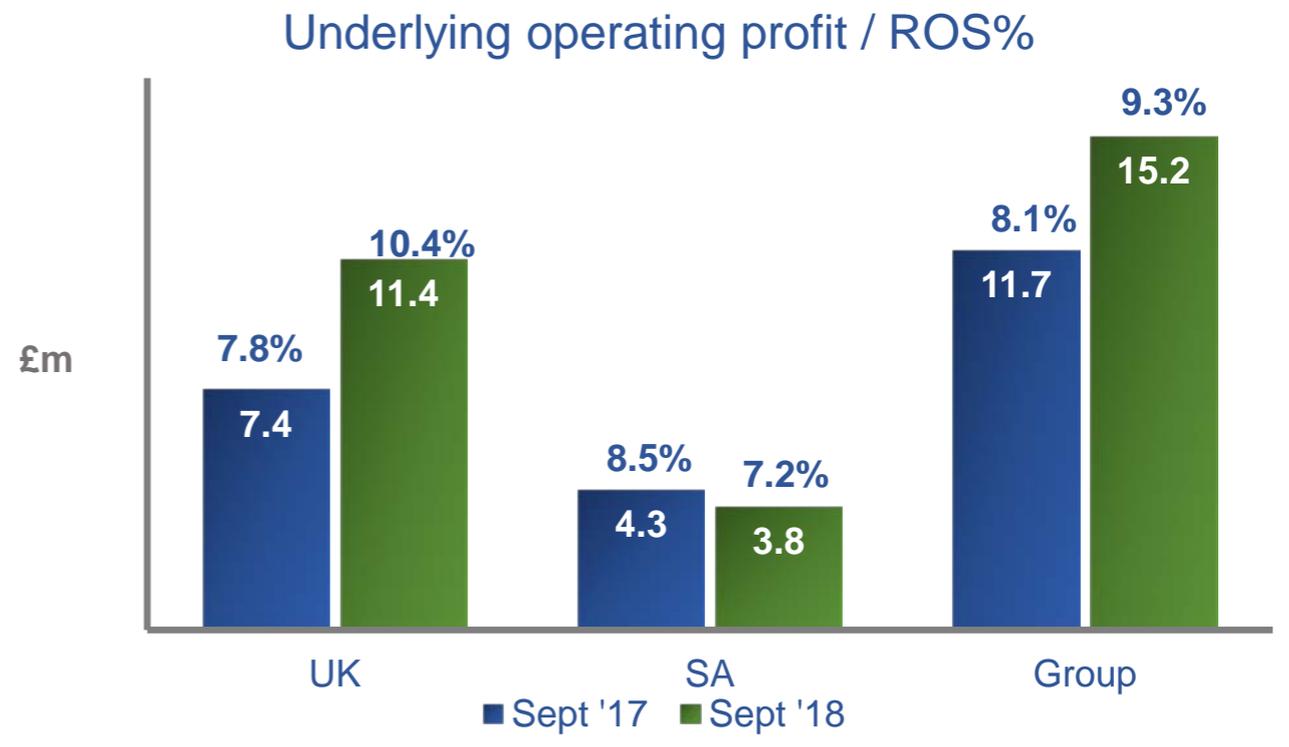
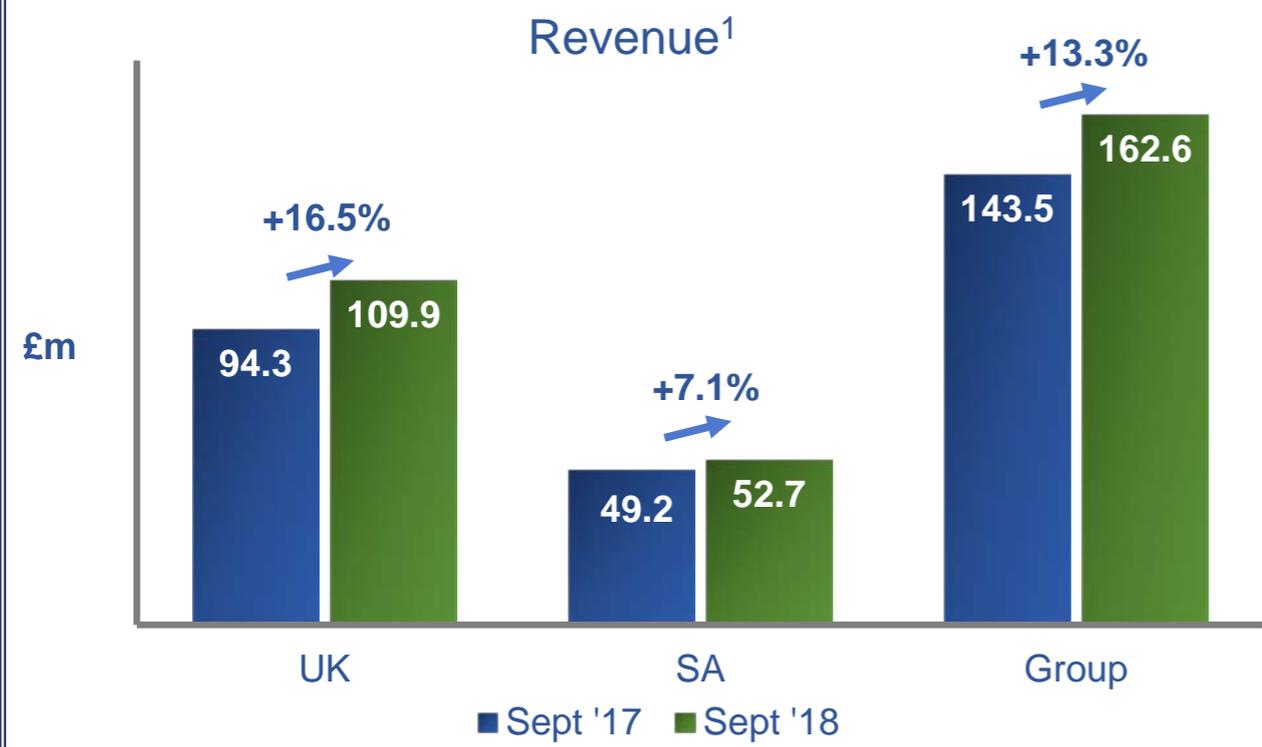
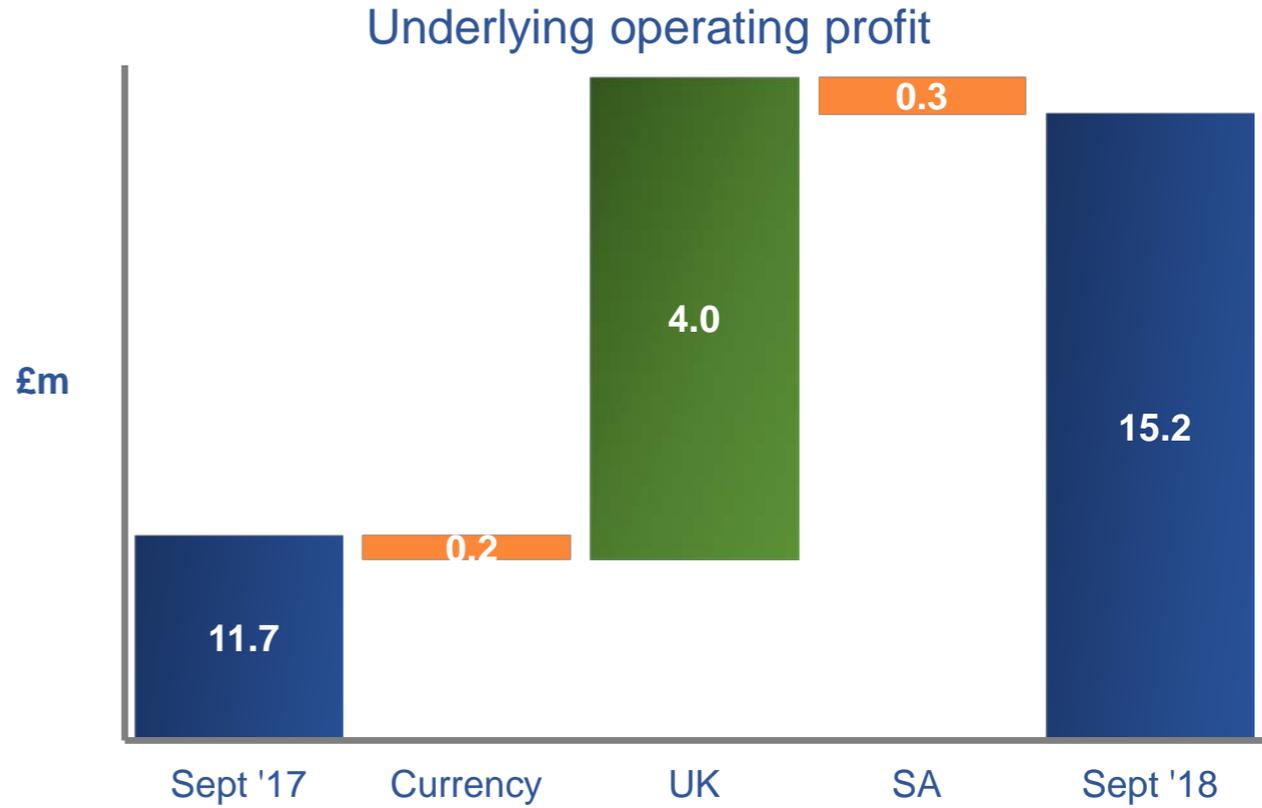
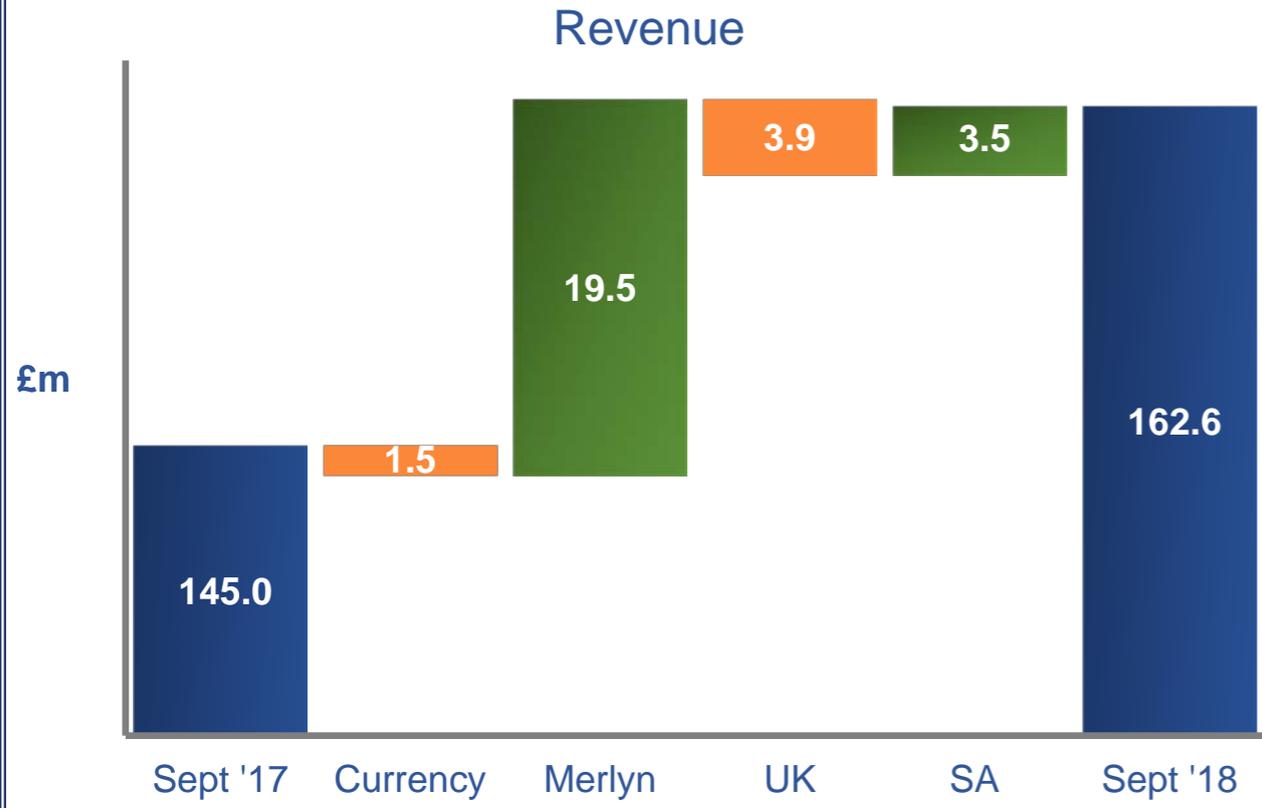
1 Underlying means before exceptional operating items, IAS19R admin costs, acquisition related costs and where relevant, non-cash finance costs

2 Business unit restructuring

3 See page 32 for details

4 Includes £5.6m non-cash movement relating to “mark to market” on FX forward contracts

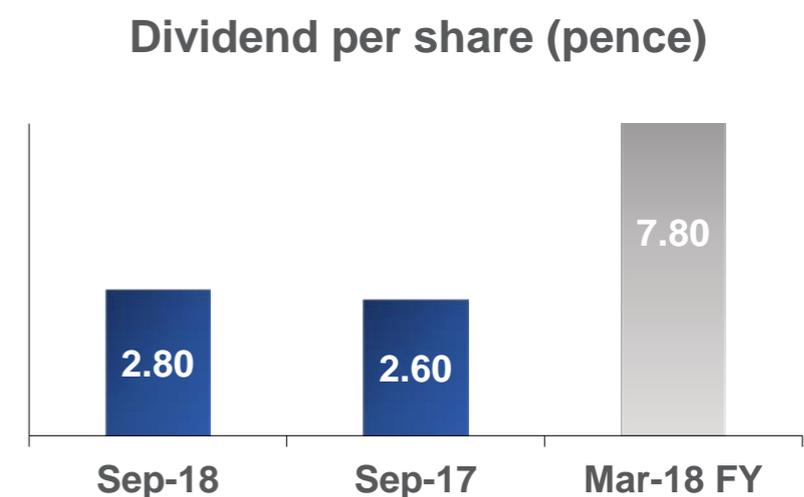
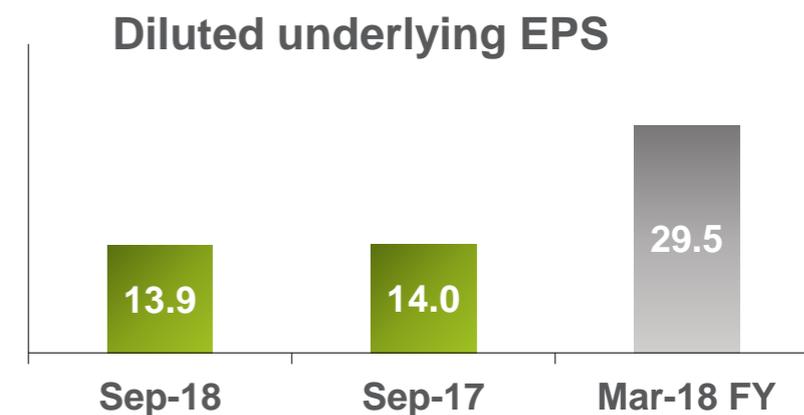
Income Statement – Key Bridges



¹ Constant currency basis

Tax, Earnings and Dividends

	Underlying ¹			Reported		
	H1 Sept 2018 £m	H1 Sept 2017 £m	FY Mar 2018 £m	H1 Sept 2018 £m	H1 Sept 2017 £m	FY Mar 2018 £m
Profit before Tax	14.2	11.5	26.3	15.2	7.4	13.5
Tax charge	(3.0)	(2.6)	(5.7)	(3.2)	(1.9)	(3.6)
Earnings	11.2	8.9	20.6	12.0	5.5	9.9
Effective Tax rate	21.1%	22.6%	21.7%	21.1%	25.7%	26.7%

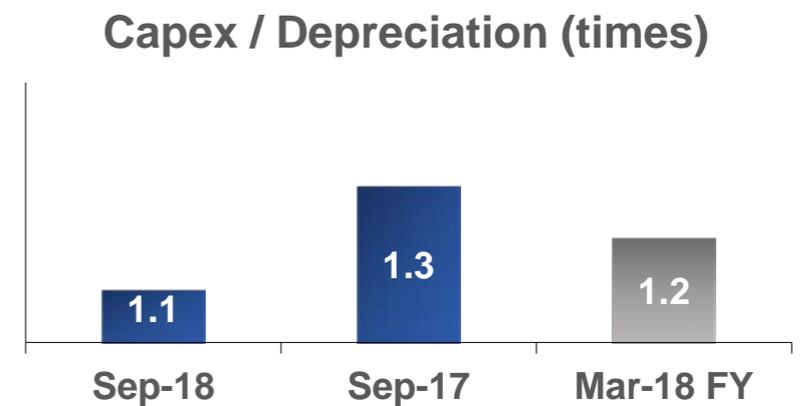
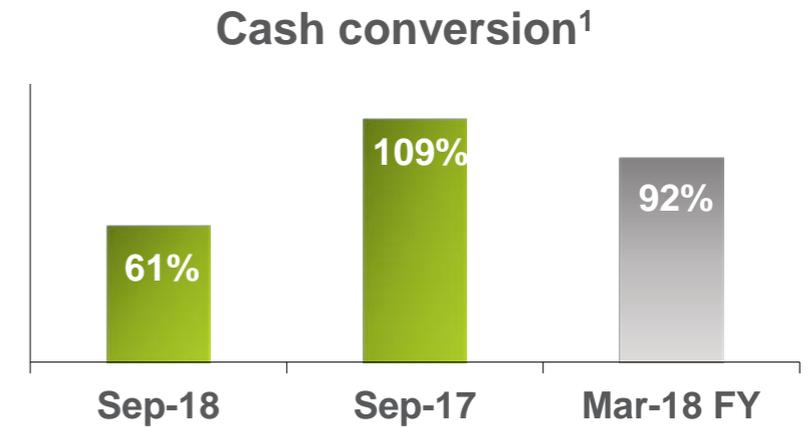


- Effective underlying tax rate of 21.1% (2017:22.6%)
- Underlying¹ earnings up 25.8% to £11.2m (2017:£8.9m)
- Interim dividend up 7.7% to 2.8p (2017:2.6p)

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

Cash Flow

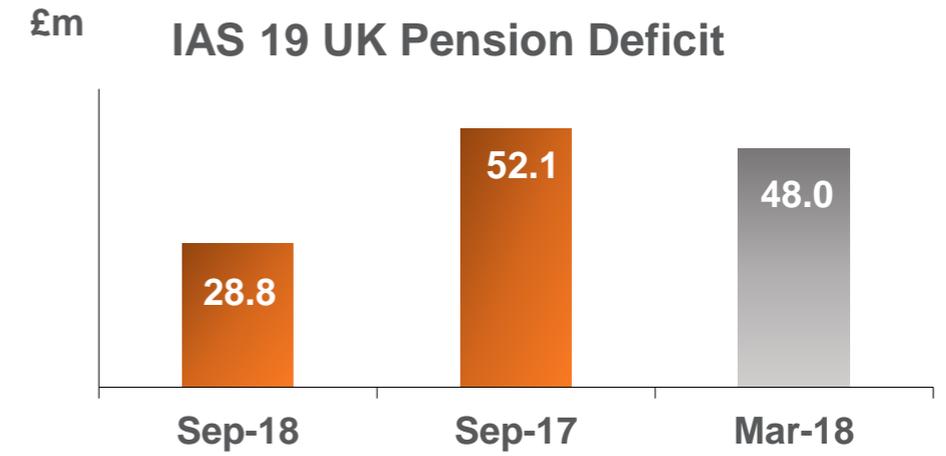
	H1 Sept 2018 £m	H1 Sept 2017 £m	FY Mar 2018 £m
Underlying EBITDA	18.6	14.8	33.8
Working capital	(7.9)	0.7	(2.8)
Other	0.7	0.7	-
Underlying operating cashflow	11.4	16.2	31.0
Net capital expenditure	(3.5)	(4.1)	(7.7)
Pension deficit recovery	(1.3)	(1.3)	(2.5)
Tax	(1.9)	(2.5)	(4.9)
Underlying free cash flow pre-financing & dividends	4.7	8.3	15.9
Exceptional and acquisition related costs	(1.4)	(2.0)	(5.0)
Interest	(1.1)	(0.2)	(1.1)
Dividends	(4.1)	(3.0)	(5.0)
Acquisition of subsidiaries	(2.0)	-	(59.1)
Purchase of treasury / issue of new shares	(1.1)	0.4	30.1
Net Cash Flow	(5.0)	3.5	(24.2)



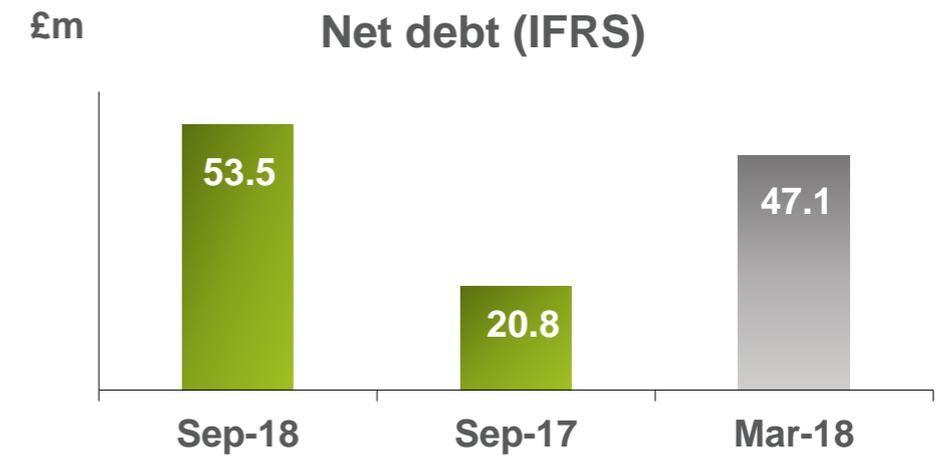
¹ Underlying operating cashflow / Underlying EBITDA

Balance Sheet

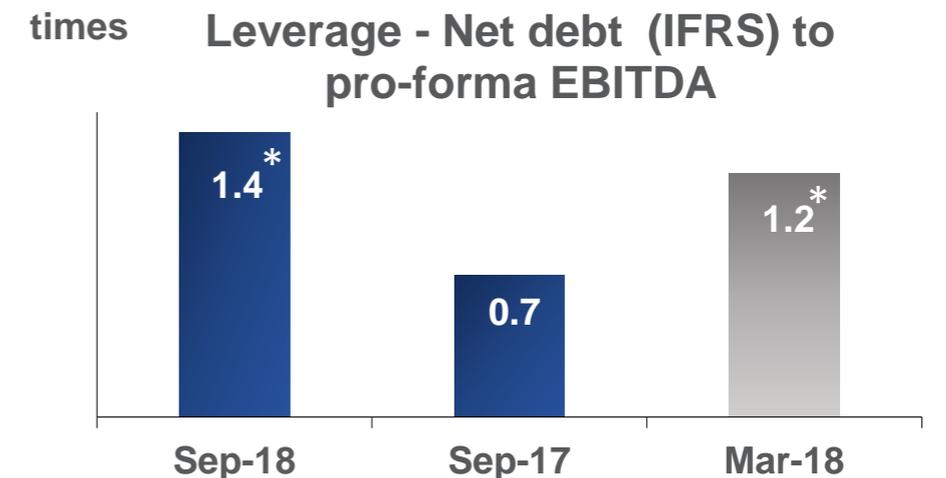
➤ IAS19R deficit £28.8m (March 18: £48.0m, Sept 17: £52.1m)



➤ Net debt £53.5m (March 18: £47.1m, Sept 17: £20.8m)



➤ Leverage 1.4 times underlying EBITDA

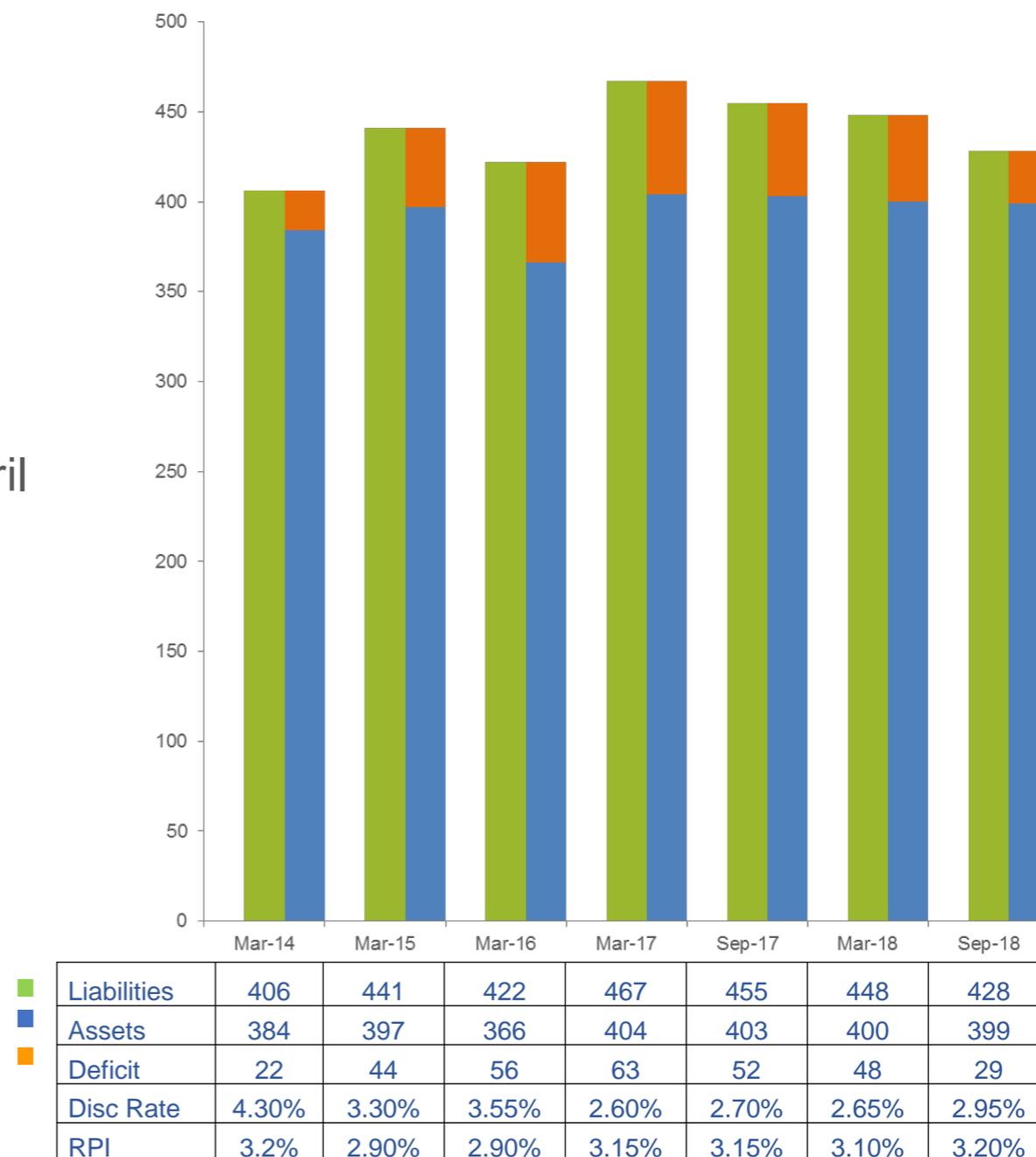


* Pro forma EBITDA includes full year EBITDA for Merlyn

UK Pension Scheme

- IAS19R deficit £28.8m (March 18: £48.0m, Sept 17: £52.1m)
 - Assets reduced by £0.7m to £398.9m
 - Liabilities reduced by £19.9m to £427.7m as a result of a higher discount rate of 2.95% (March 2018: 2.65%)
- Super-mature scheme
 - 7,184 members (March 2018: 7,309). 68% of pensioners with average age 77
 - Annual pensioner payroll near peak at £20m pa
- Scheme closed to new entrants and future accrual in April 2013
- Recovery plan in place since April 2016
 - 10 years at £2.5m per annum + CPI
- Next triennial valuation as at 1 April 2018 underway
 - New recovery plan to be agreed
 - Update to be provided in due course
- Company focused on covenant improvement
 - Beneficial to all stakeholders

UK Pension IAS 19R Assets & Liabilities



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Operating Review

Nick Kelsall
Group Chief
Executive



Key Messages

➤ Overview

- Robust first half performance
- Leading market positions & strong brands
- Success of multi channel approach & broad product offering
- Financial resilience
- Strategy continues to drive outperformance

➤ UK

- Solid UK sales growth
- Growth momentum in trade and specification
- Merlyn contribution, Triton momentum & Johnson Tiles return to profit

➤ South Africa

- Sustained revenue growth despite economic headwinds
- Forecast recovery from agriculture driven recession

➤ Acquisition Pipeline

- Well developed opportunities across the UK and SA
- Meaningful synergy opportunities

➤ 2023 Strategic Vision

- £600m revenue target by 2023
- 50% revenues derived from overseas
- Sustainable ROCE of >15%



Business Overview

Group H1¹
Revenue

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%

UK		Market leader in the manufacture and marketing of showers in the UK	£ 26.9m	16.6
		Market leading supplier of shower enclosures and trays	£ 19.5m	12.0
		Leading manufacturer and supplier of taps, mixer showers, bathroom accessories and valves	£ 19.7m	12.1
		Market leading, innovative designer, manufacturer and distributor of high quality bathroom furnishings and accessories	£ 10.8m	6.6
		Leading niche designer and distributor of high quality kitchen taps, bathroom taps and kitchen sinks	£ 7.3m	4.5
		Leading manufacturer and supplier of ceramic tiles in the UK	£ 20.2m	12.4
		Manufacturer of tile and stone adhesives, grouts and related products	£ 5.5m	3.4

UK Revenue Growth (6 months to 30 th September 2018)	+16.5%	£ 109.9m	67.6%
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SOUTH AFRICA		Leading chain of retail stores focused on ceramic and porcelain tiles, and associated products, such as sanitary ware, showers and adhesives	£ 32.2m	19.8
		Leading manufacturer of ceramic and building adhesives	£ 12.6m	7.7
		Leading manufacturer of ceramic and porcelain tiles	£ 7.9m	4.9

South Africa Revenue Growth (constant currency 6 months to 30 th September 2018)	+7.1%	£ 52.7m	32.4%
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Group Revenue Growth (constant currency 6 months to 30 th September 2018)	+13.3%	£ 162.6m	100%
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¹ Reported – 6 months to 30th September 2018



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UK Operations

**Nick Kelsall
Group Chief
Executive**

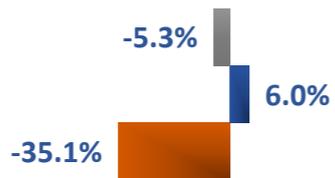
UK Revenue – Strong UK Growth; Export Mixed



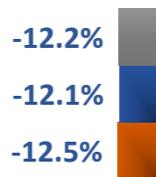
➤ Continuing excellent UK growth. Momentum in Ireland maintained



➤ Further robust growth across all channels



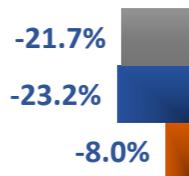
➤ Excellent growth in trade. Export performance mixed



➤ Trade performing well. Retail stable (*excluding Homebase*). Export revenue down against strong comparator



➤ Strong all round growth driven by new account wins



➤ Kingfisher unified impact & exit of low margin business in Middle East



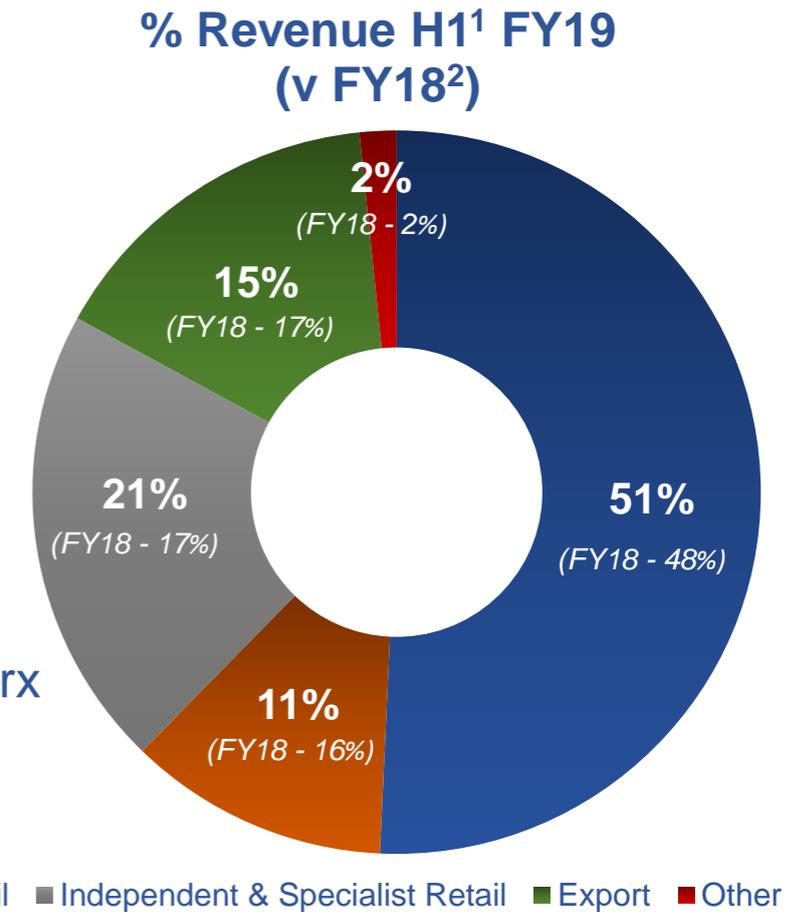
➤ Significant growth momentum in the UK and the Middle East

¹ Acquired 23rd November 2017, pro-forma % growth for half-year revenues to 30th September 2018

UK Channels – Strong Performance in Trade & Independents

➤ Trade

- Increasing Group trade orientation - >50% revenues
- Continued Screwfix growth – Triton and Adhesives
- Vado – significant specification growth & key contract renewals
- Merlyn – strong momentum & contract wins e.g. Bloor Homes
- Johnson Tiles – housebuilder growth e.g. Barratt, Persimmon, Cala & St Modwen
- Abode – branded offer expanded & growth in new accounts e.g. Benchmarx



➤ Independent & Specialist Retail

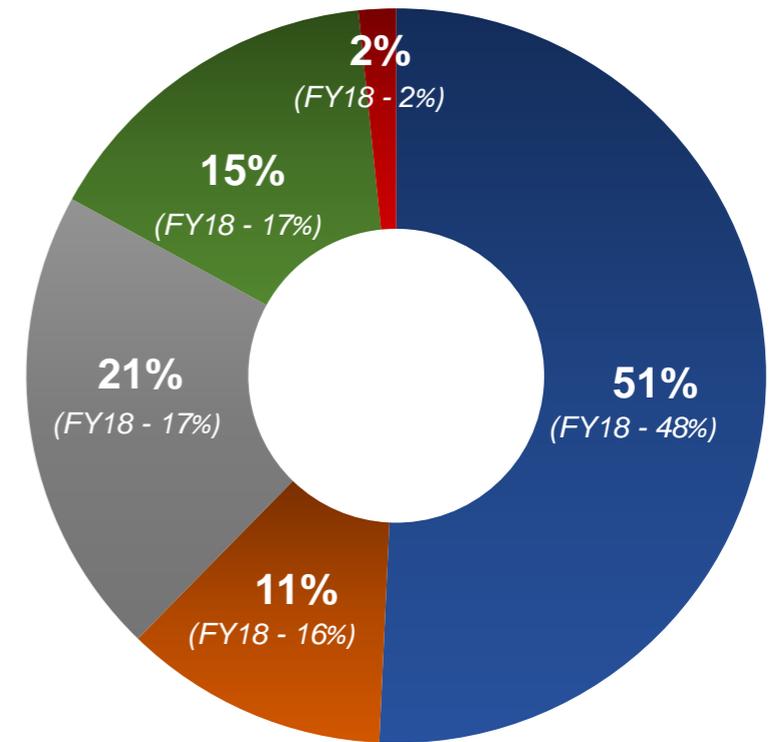
- Channel focus further enhanced by Merlyn acquisition
- Triton – growth across electrical wholesalers, smaller independent merchants and distributors
- Merlyn – excellent growth in independents – increasing share of wallet
- Vado – taking share with new account wins
- Abode – further momentum in Pronteau, branded & OEM ranges; greater exposure in retail displays

UK Channels – Reduced DIY Exposure; Export Mixed

➤ DIY Retail

- Triton – strong growth in key accounts; Homebase impact minimal
- Croydex – Homebase impact significant
- Abode – Wickes trading well
- Johnson Tiles – managed B&Q decline; Wickes growth
- Adhesives – robust Wickes and B&Q performance

**% Revenue H1¹ FY19
(v FY18²)**



■ Trade ■ DIY Retail ■ Independent & Specialist Retail ■ Export ■ Other

➤ Export

- Triton – sustained growth in Ireland
- Johnson Tiles – soft French market; exit low margin business in Middle East
- Adhesives – doubled Middle East revenues – major projects secured & strong pipeline
- Vado – reduced sales in specific products/markets – actions to support H2 recovery
- Croydex – momentum maintained in USA and Germany; further European opportunities

¹ Reported – 6 months to 30th September 2018

² Reported – 12 months to 31st March 2018

UK NPD – Differentiation Through Product Development

- Key driver of differentiation and market leading positions
- Strong new product vitality – driving revenue and profit growth

Triton & Vado

- Launch of digital shower range
- Triton “**H₂OST**” & “**H₂OME**” – strong market approval
 - Home & Living Awards (*Daily and Sunday Express*)
 - Nominated for Best Bathroom Innovation (*Essential Kitchen Bedroom & Bathrooms*)
- Vado “**Sensori**” – consumer feedback extremely positive

Merlyn

- Merlyn Black, Series 6 Frameless and Arysto Six & Eight – well received

Vado

- Horizon shower range launched innovative cross spray technology

Abode

- Comprehensive sink range refresh – 24 new sink models at KBB
- Hot water tap range extension – ‘Pronteau ProUno’, ‘Pronteau ProDuo’ & ‘Professional 3-in-1’

Croydex

- “Help ‘N’ Hang” enhancement of “Hang ‘N’ Lock” technology

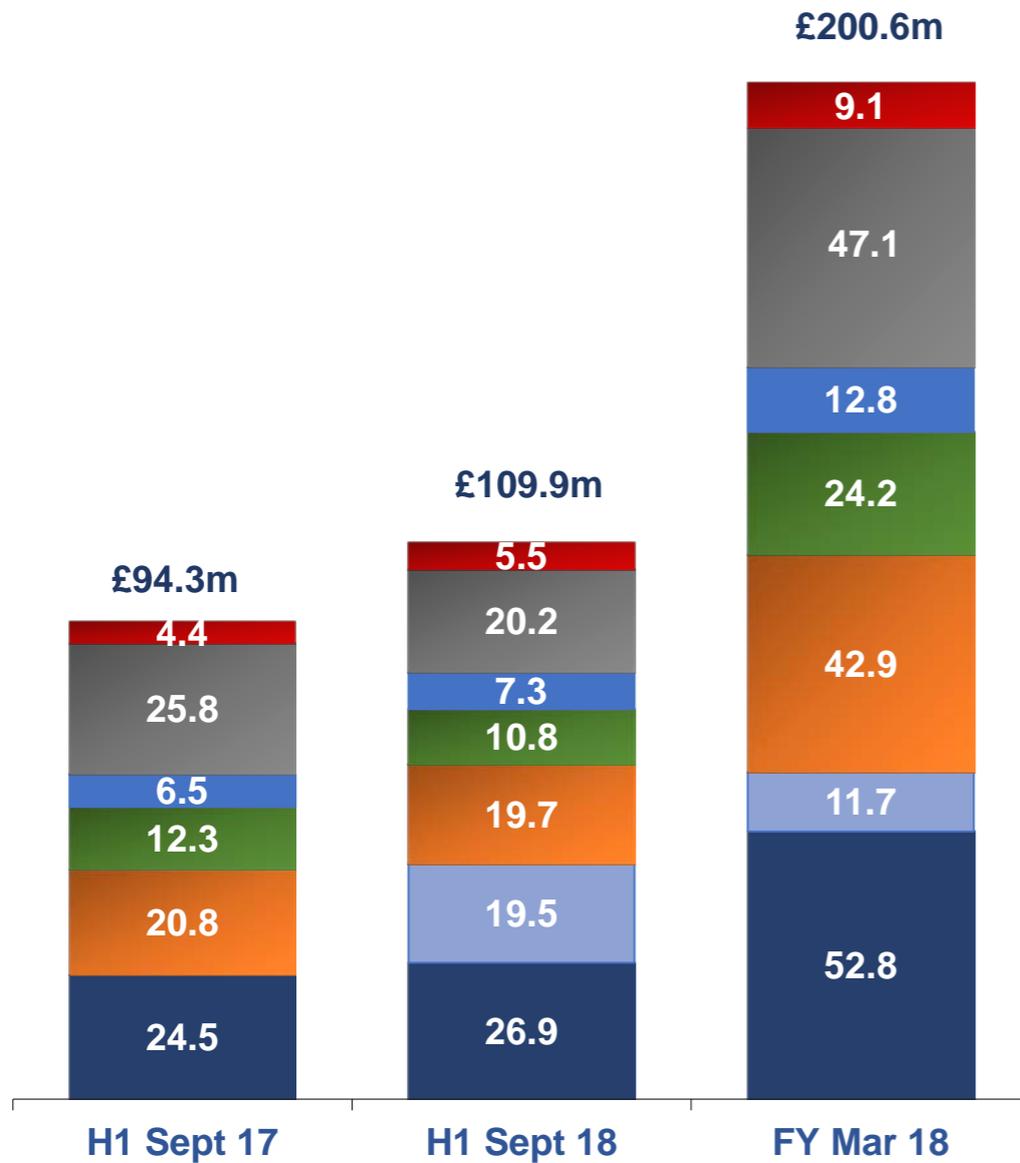
Adhesives

- Launch of “No Nonsense” grouts into Screwfix

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Revenue



Underlying Operating Profit



- Triton
- Merlyn¹
- Vado
- Croydex
- Abode
- Johnson Tiles
- Adhesives

- Underlying Operating Profit
- Return on Sales %

¹ Acquired 23rd November 2017

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SA Operations

Nick Kelsall
Group Chief
Executive

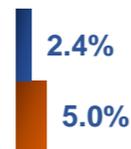
South Africa Revenue – Share Gains in a Tough Market



➤ Solid H1 growth in challenging market



➤ Resilient performance – driven by new product ranges



➤ Robust overall performance despite continued headwinds into key Zimbabwean market



➤ Benefit of strong NPD and re-focus on independent customer base

Channels – Solid Performance in Challenging Markets



Retail

Families, interior Designers & Small Private Builder

- **TAF**
 - Sustained growth in bathroom & tap category
 - Successfully trialled VFM store concept - feedback positive
 - Group purchasing synergies delivering exclusive ranges & driving sales
- **TAL**
 - Growth driven by targeting smaller independent retail accounts
- **JTSA**
 - NPD driving increased demand; manufacturing capacity increased & key plant upgraded

Specification

Commercial Specifications and Supply & Fit

- Good progress despite lower levels of public & private sector investment
 - TAL - prestigious projects including Acornhoek Mall (*Mpumalanga*) and Mams Mall (*Gauteng*)
 - JTSA – growth into commercial housebuilders e.g. Balwin Properties and M&T Projects
 - TAF – one stop shop for bathroom & kitchen floors driving growth

Export

- Continued slowdown in Zimbabwe, main export market
- TAL - first shipment to Tanzania; important opportunity

South Africa – NPD Highlights

New Product Development

➤ TAF

- Excellent tap category growth – benefiting from Group supply chain
- Launch of free-standing baths – driving above market bath category growth
- Latest exclusive retail offerings Hessian, Porta Nuova & Signature ranges well received

➤ Johnson Tiles SA

- Strong NPD programme – 32 new SKUs launched in H1
- > 60% of revenue being generated from products launched in the last 36 months

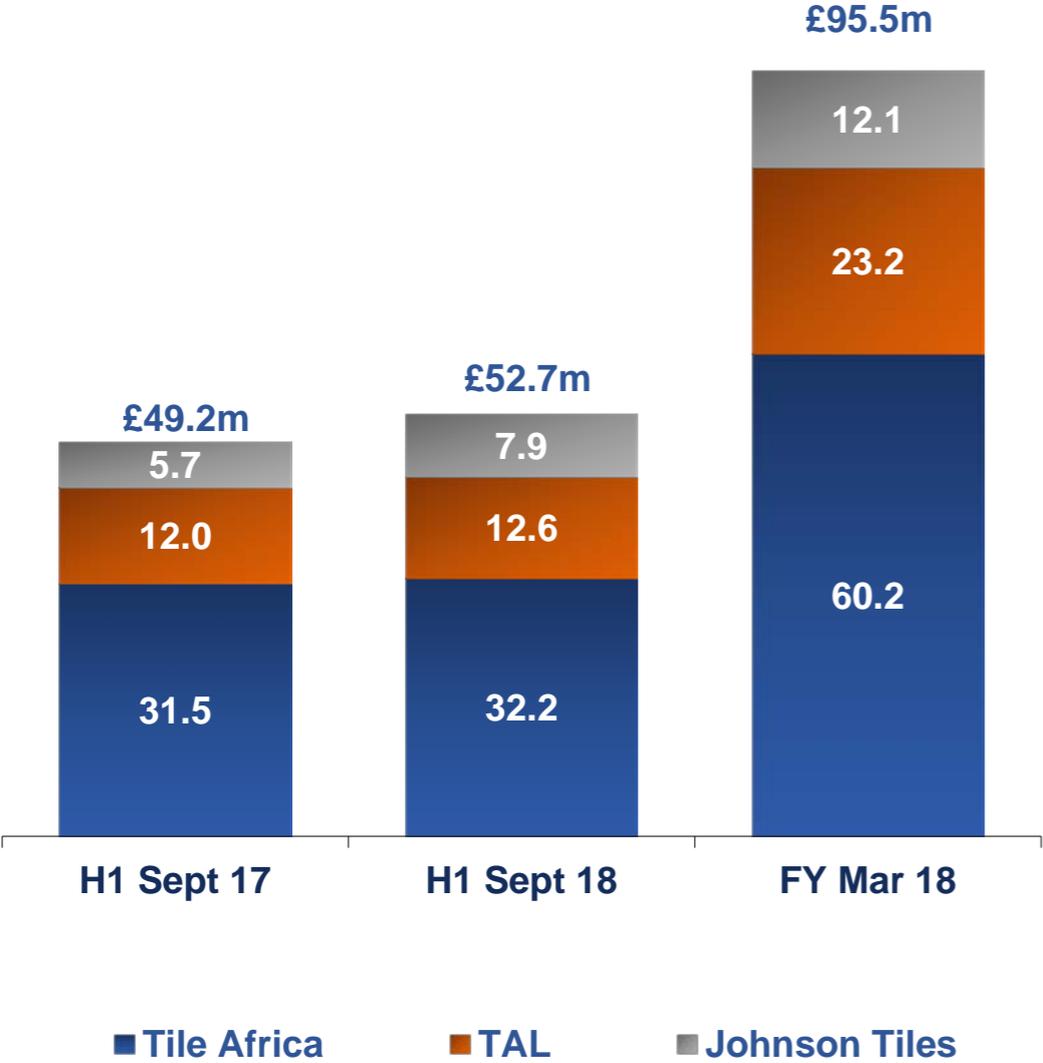
➤ TAL

- Progress driven by “systems” approach for specific floor and wall applications
- 18-Hour Rapid Set range - driving strong market share growth
- Super Screed improved formulation for ease of use - enhancing category growth

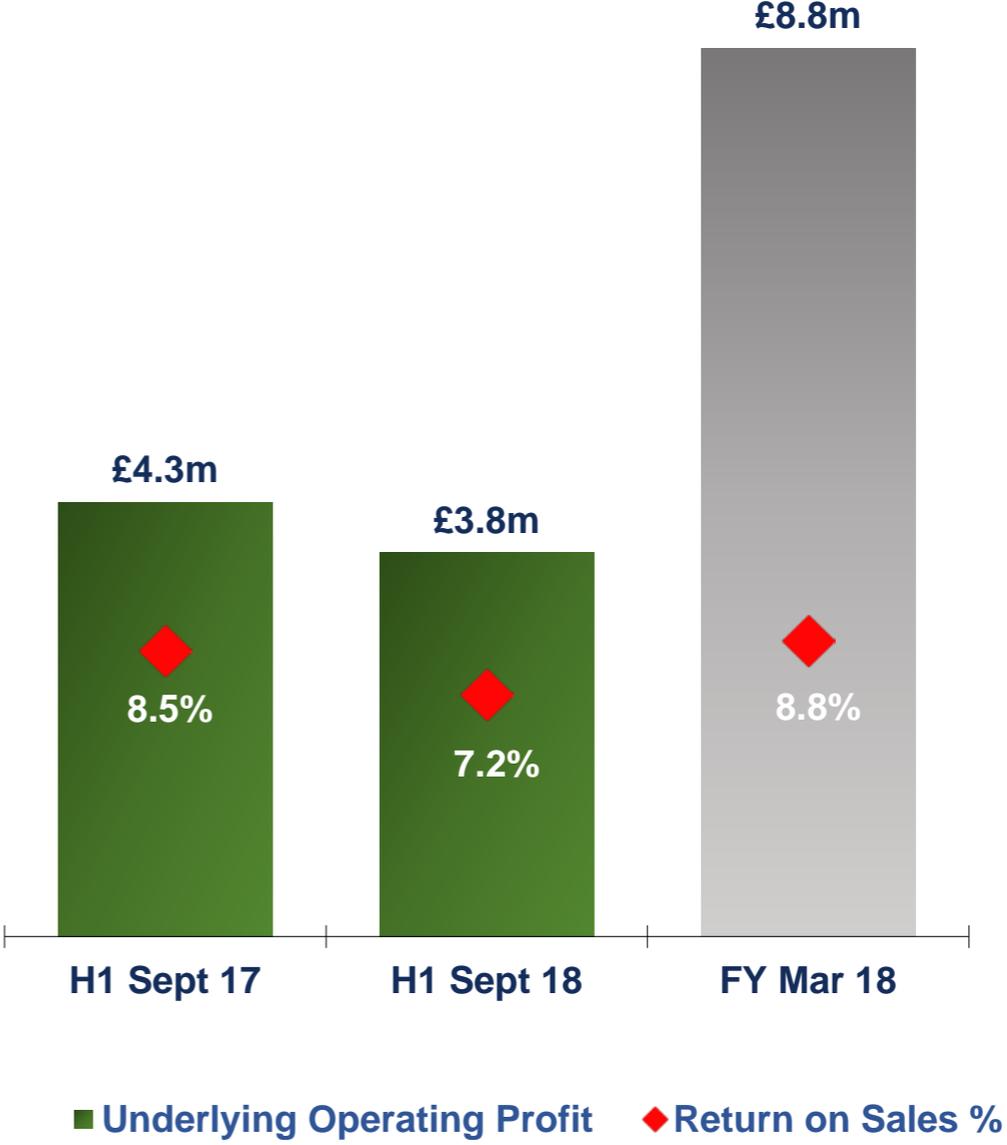


South Africa – Robust Profit Performance

Revenue ¹



Underlying Operating Profit ²



¹ On a constant currency basis

² On a reported basis

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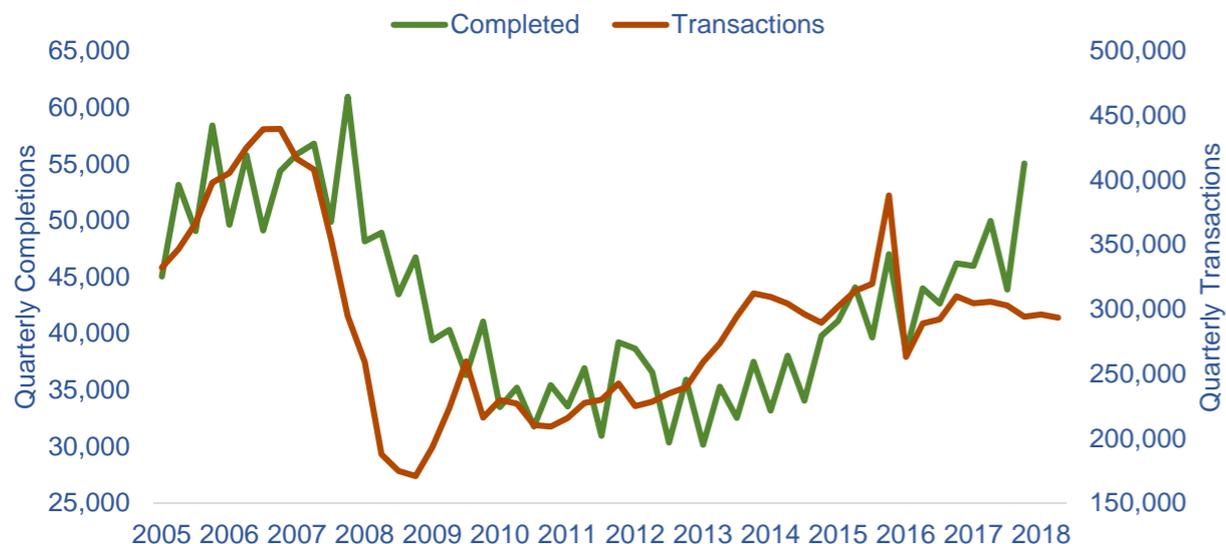
Group Outlook & Strategy

**Nick Kelsall
Group Chief
Executive**

UK House Building Growth; Weak Consumer

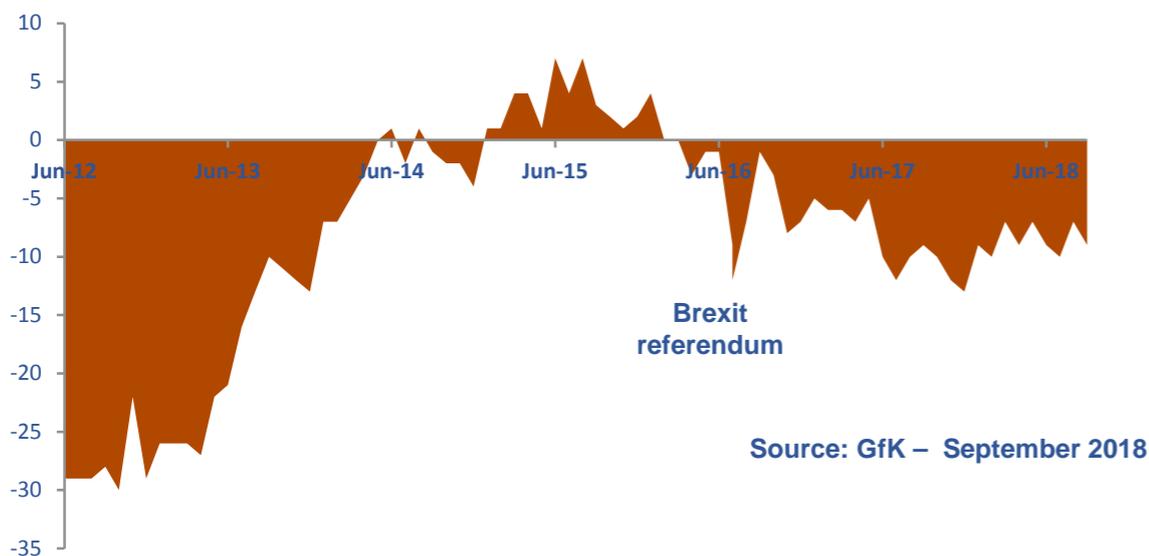
Key Housing Stats

Sources: GOV.UK & HMRC Q3, October 2018



Completions nearing pre-crisis levels; transactions remain flat

GfK Consumer Confidence

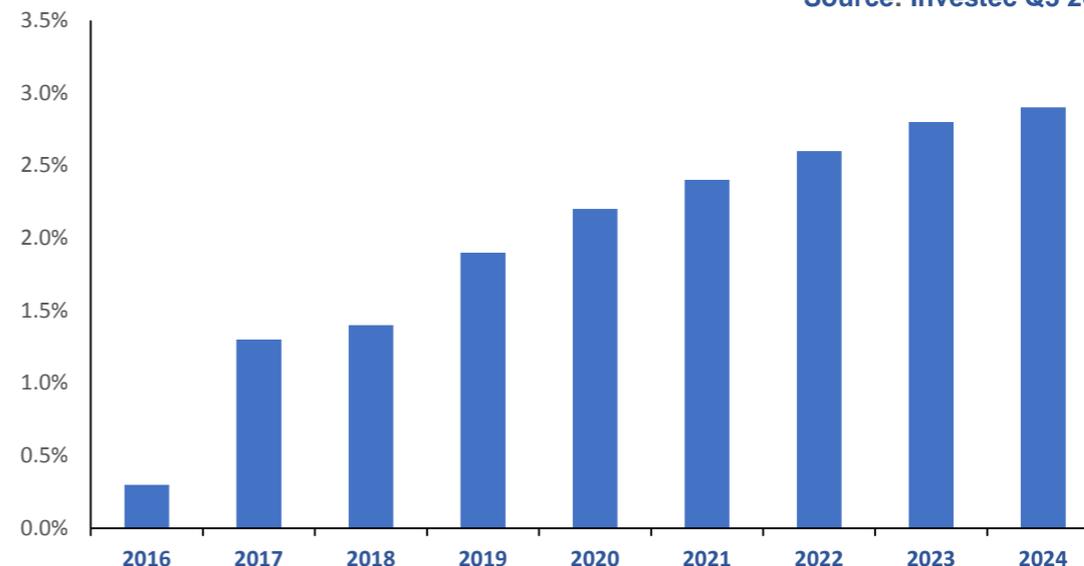


Fragile consumer confidence post Brexit referendum

South Africa Cautious Outlook

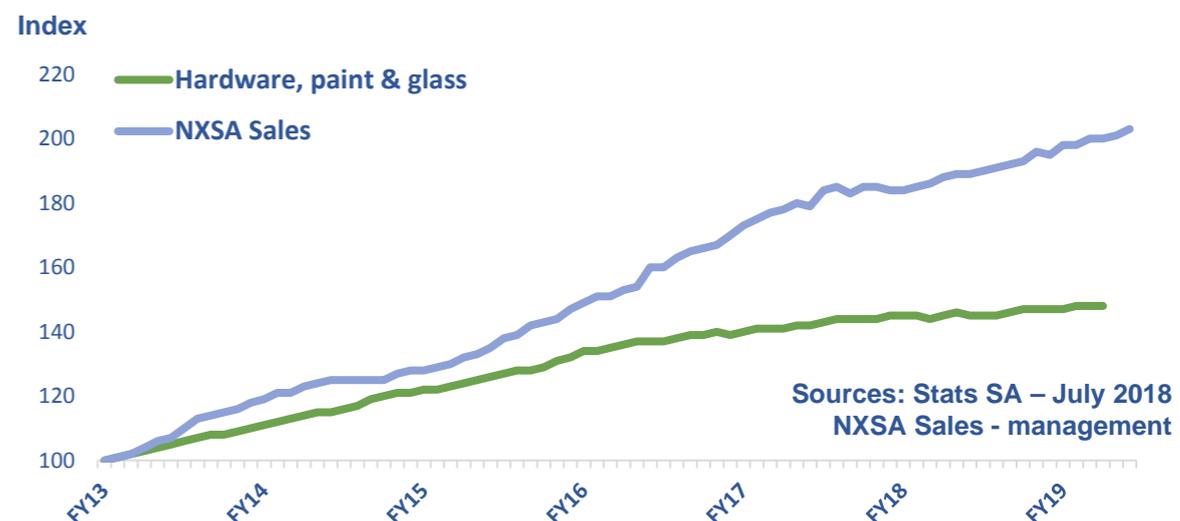
% GDP growth

Source: Investec Q3 2018



Forecast growth from agriculture driven recession

NXSA Sales (Rand) v RMI Indicator (Index March 2013=100)



NXSA outperforming RMI indicator

2023 VISION

“A leading supplier of bathroom and kitchen products in selected geographies, offering strong brands, contemporary designs, trusted quality, outstanding service, innovation and a wide product range.”

STRATEGIC TARGETS

£600m revenue by 2023

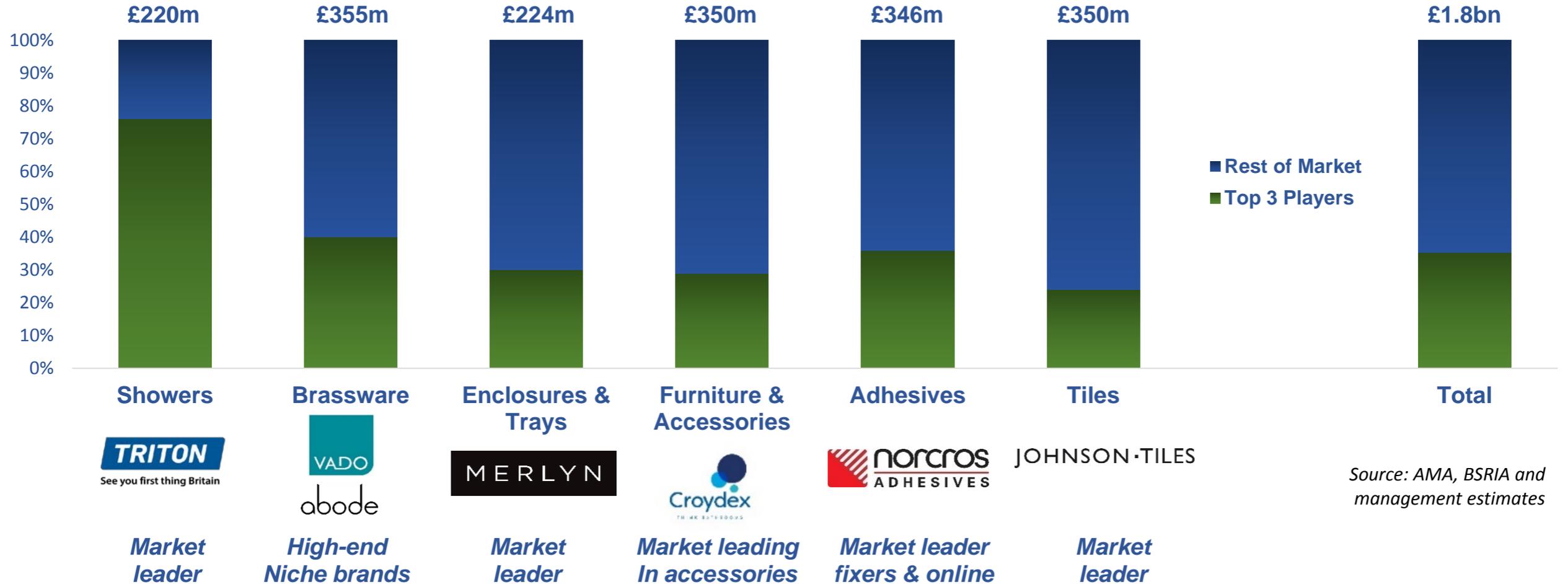
Organic & Acquisitions

50% revenues derived
from overseas

Sustainable ROCE
of >15%

Strategy - Industry Fragmentation + Consolidation Opportunity

UK Bathroom – Selective Markets @ MSP



Source: AMA, BSRIA and management estimates

- Overall bathroom market – highly fragmented – no dominant player
- Sub-market segments are also are highly fragmented
- Numerous specialist brands within sub-markets – channel focus
- No one company serves all segments and channels – significant consolidation opportunity
- Norcros focus on attractive sub-market segments and channels
- Norcros current channel and product position – excellent platform to implement consolidation strategy

Selective Acquisitions – Value Adding Approach

Consolidator in Large Highly Fragmented Markets

- Numerous opportunities across product sub sectors & channels
- Well developed pipeline

Acquisition Criteria

- Complementary to Norcross DNA
- Market leading positions and strong brands
- Strong organic sales growth and potential to drive synergies
- Preferred channels & operating in selective geographies
- Capital light; cash generative business models
- Experienced management

Synergies

- Collaborative approach across all channels
- Export market potential
- Improving best practice e.g. customer service, inbound logistics

Track Record

- **Vado** (acq. 2013) – strong market share gains
- **Croydex** (acq. 2015) – growth across all channels (*excl. Homebase*)
- **Abode** (acq. 2016) - significant momentum; blue-chip account wins
- **Merlyn** (acq. 2017) - accelerating growth; specification progress



Summary

Robust Half Year Results

2023 Vision – Strategy Delivering

Organic Growth and Synergy Opportunities

Medium Term Indicators Remain Favourable

Well Developed Pipeline of Acquisition Opportunities



Acquisition Related Costs

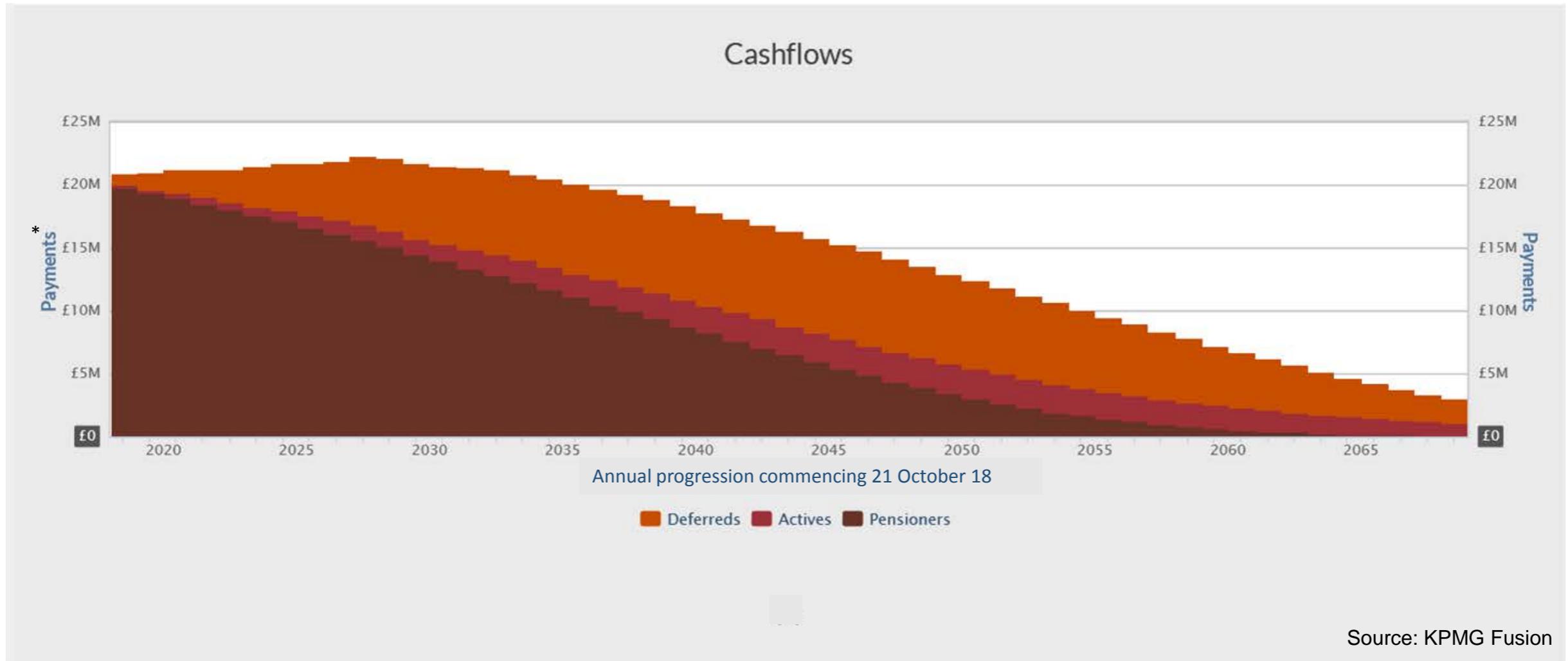
Acquisition related costs	H1 Sept 2018 £m	H1 Sept 2017 £m	FY Mar 2018 £m
Acquisition related deferred remuneration (earn out)	-	(0.2)	0.3
Intangible asset amortisation	(1.8)	(0.6)	(2.2)
Staff costs and advisory fees	(0.1)	(0.4)	(2.4)
	(1.9)	(1.2)	(4.3)

Net Debt Reconciliation

	H1 Sept 2018 £m	H1 Sept 2017 £m	FY Mar 2018 £m
Net debt (IFRS) – opening	(47.1)	(23.2)	(23.2)
Net cash flow	(5.0)	3.5	(24.2)
Other non cash movements	(0.1)	(0.1)	(0.2)
Foreign exchange	(1.3)	(1.0)	0.5
Net debt (IFRS) - closing	(53.5)	(20.8)	(47.1)

UK Pension Scheme Cashflows

- Cash outflow close to peak



* Annual pensioner payroll, excludes non-predicted costs such as transfer out and early retirement payments